BUILT TO DELIVER

FIRST CAPITAL REALTY INC.

2016

ANNUAL REPORT

Shopping for Everyday Life

Well Defined Strategy

CORPORATE PROFILE

First Capital Realty (TSX: FCR) is one of Canada's largest owners, developers and managers of grocery-anchored, retail-focused urban properties where people live and shop for everyday life. As at December 31, 2016, the Company owned interests in 160 properties, totaling approximately 25.3 million square feet of gross leasable area. At December 31, 2016, First Capital Realty had an enterprise value of $9.2 billion. The common shares of the Company trade on the Toronto Stock Exchange.

BUSINESS STRATEGY

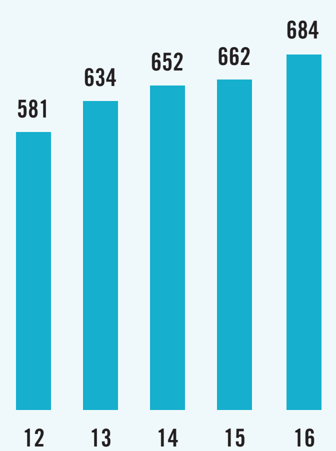
First Capital Realty's primary strategy is the creation of value over the long term by generating sustainable growth in cash flow and capital appreciation of its portfolio. To achieve the Company's strategic objectives, Management continues to:

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

PROPERTY RENTAL REVENUE

($ millions)

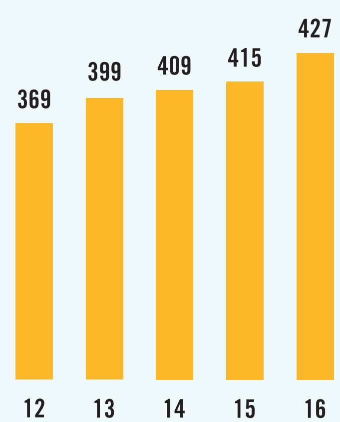
CAGR 5.4%



TOTAL NOI

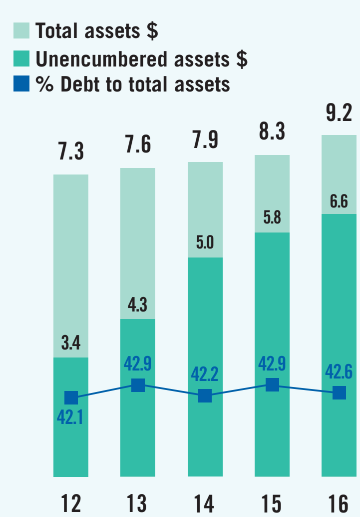
($ millions)

CAGR 4.7%



TOTAL ASSETS

($ billions)

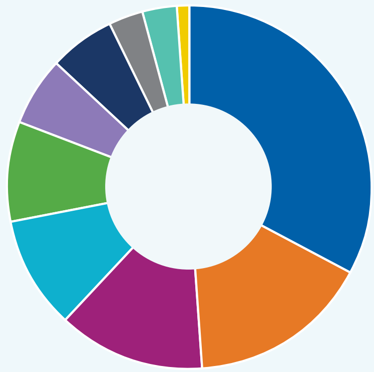


Best in Class Properties

URBAN MARKETS

High-quality portfolio of Canadian urban retail assets

Over 95% of the Company's annual minimum rent is derived from urban markets with high barriers to entry

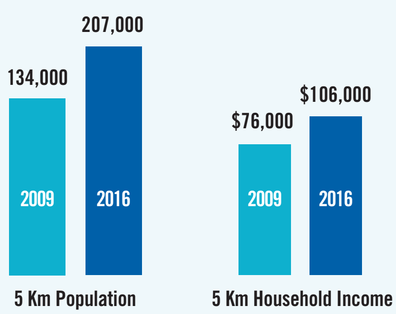


Greater Toronto Area	33%
Greater Montreal Area	15%
Greater Calgary Area	12%
Greater Vancouver Area	11%
Greater Edmonton Area	10%
Greater Ottawa Area	6%
Golden Horseshoe Area	6%
London Area	3%
Quebec City	2%
Red Deer and Other	2%
Total	100%

Annual Minimum Rents as of December 31, 2016

PORTFOLIO DEMOGRAPHICS

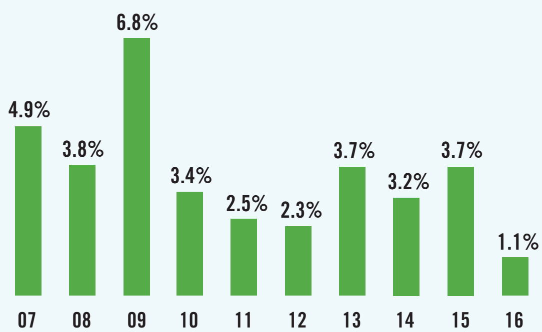
Industry-leading demographic profile



FCR Portfolio Demographics

INDUSTRY-LEADING PERFORMANCE

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

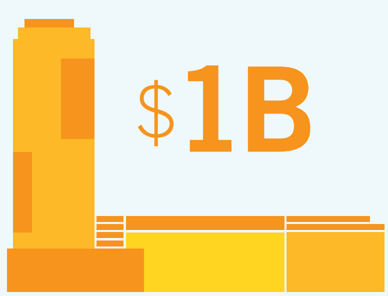


5 year average – 2.8%
10 year average – 3.5%

Total Same Property NOI Growth

INVESTMENT

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



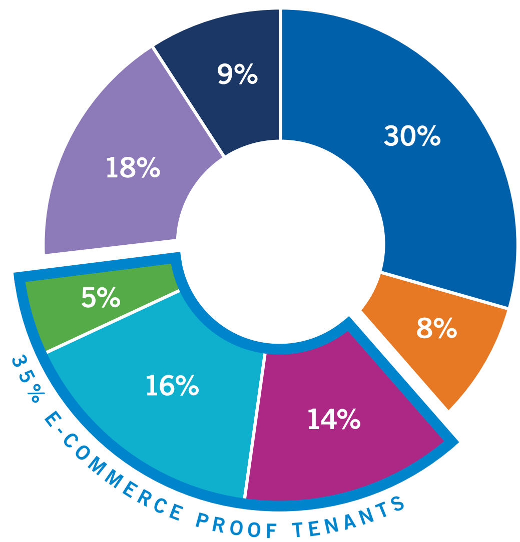
Sustainable Cash Flow

HIGHLIGHTS

- 143 of 160 properties, or 95% of the portfolio fair value is supermarket and/or drugstore anchored
- Over 90% of revenue comes from necessity-based retail (~35% from e-commerce proof categories)
- 9 of the top 10 tenants have investment-grade credit ratings
- Track record of consistently high occupancy
- Investment-grade credit ratings from Moody's: Baa(2) and DBRS: BBB (high)
- 23 consecutive years of paying dividends
- Focused sustainability program – listed on Corporate Knights Future 40 Responsible Corporate Leaders in Canada in 2014, 2015 and 2016

TENANT PROFILE

Annual minimum rents

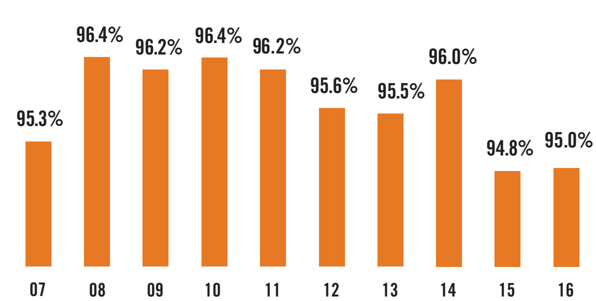


Supermarkets, drugstores and liquor stores	30%
Banks & Credit Unions	8%
Restaurants & Cafes	14%
Medical, Professional & Personal Services	16%
Fitness Facilities, Daycare & Learning Centres	5%
Other Necessity-based Retailers	18%
Other Tenants	9%
Total	100%

TOP 10 TENANTS

TOTAL PORTFOLIO OCCUPANCY

5 year average – 95.4%
10 Year average – 95.6%



Financial Highlights

As at December 31 Reflects joint ventures proportionately consolidated. *(millions of dollars, except per share amounts)*	**2016**	2015
Total assets	**$ 9,171**	$ 8,284
Total equity market capitalization[1]	**$ 5,033**	$ 4,139
Enterprise value[1]	**$ 9,162**	$ 8,031
Net debt to total assets	**42.6%**	42.9%
Annual dividend per common share	**$ 0.86**	$ 0.86

Operating Highlights

As at December 31 Reflects joint ventures proportionately consolidated. *(millions of dollars, except per share amounts)*	**2016**	2015
Property Rental Revenue	**$ 684**	$ 662
Net Operating Income ("NOI")[1]	**$ 427**	$ 415
Funds from Operations ("FFO")[1]		
Operating FFO	**$ 261**	$ 236
Operating FFO per diluted share	**$ 1.10**	$ 1.05
FFO	**$ 263**	$ 221
FFO per diluted share	**$ 1.11**	$ 0.99
Adjusted Funds from Operations ("AFFO")[1]		
Operating AFFO	**$ 261**	$ 243
Operating AFFO per diluted share	**$ 1.07**	$ 1.02
AFFO	**$ 265**	$ 244
AFFO per diluted share	**$ 1.08**	$ 1.03

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

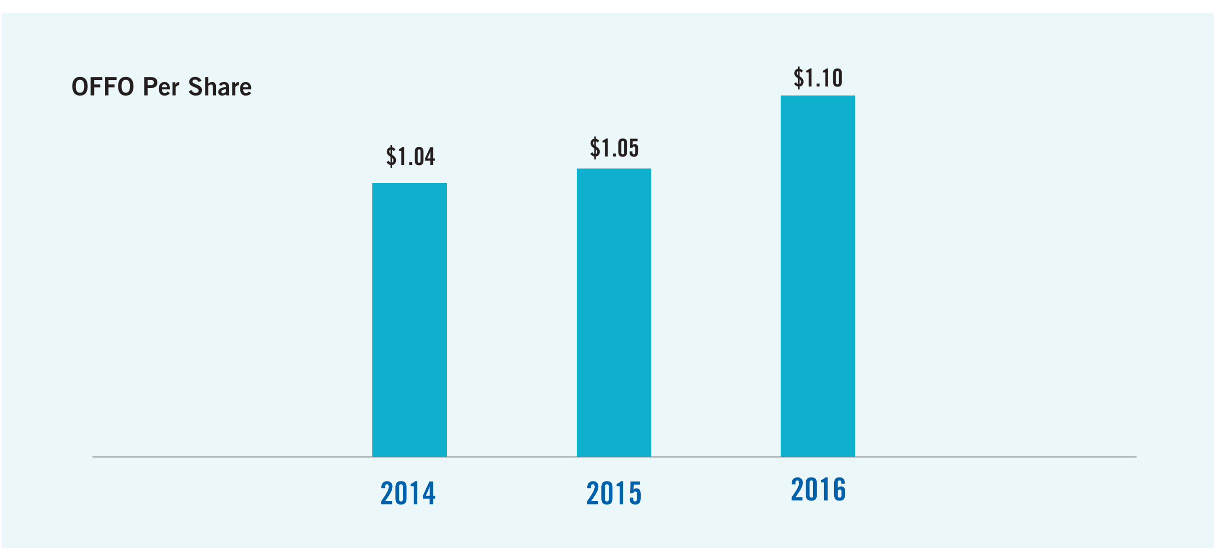
Message from the President & CEO

Dear Fellow Shareholder,

In my first letter to you last year, I noted that 2015 would likely be remembered as a year of transition. Notwithstanding that the business was and continues to be in excellent shape, we made several changes in order to maximize our performance as we looked ahead to our next phase of growth. Our 2016 results were positively impacted by the traction we now have from these changes, which I expect will be carried into 2017 and beyond.

In order for a publicly listed real estate company to be successful, it must deliver both Net Asset Value (NAV) growth and Funds from Operations (FFO) growth, both measured on a per-share basis, of course. Our track record of creating value through growth in NAV per share is something we are very proud of. While we have a history of growing our FFO per-share as well, I will be frank by saying our historical FFO growth, considering our industry-leading property-level performance, has not met expectations (including our own). Therefore, growing our FFO per-share was a metric that we identified as a top priority.

In 2016, we were pleased with our progress. We translated our property-level performance into FFO growth that exceeded the expectations we had at the beginning of the year. FFO per diluted share increased to $1.11 in 2016 from $0.99 in 2015, representing an increase of 12%. We had several one-time items that impacted these figures. Accordingly, we also continued to focus on Operating Funds from Operations (OFFO), a more normalized metric. The result however, was similar. We reported OFFO per share equal to $1.10 in 2016, which is the highest in FCR's history, representing an increase of 4.7% over the prior year.



Continuing Strong Performance

We continued to perform very well at the property level in 2016. Despite several macro headwinds, as always, we remained focused on the micro factors, which resulted in high occupancy levels, above-industry-average rental-rate increases on lease renewals, and growth in same-property NOI.

It was another active year on the leasing front with a total of 2.6 million square feet of completed lease transactions. This resulted in a 20 bps increase to occupancy, which stood at 95.0% at year-end with the opportunity for further improvement before we reach our historical long-term average occupancy.

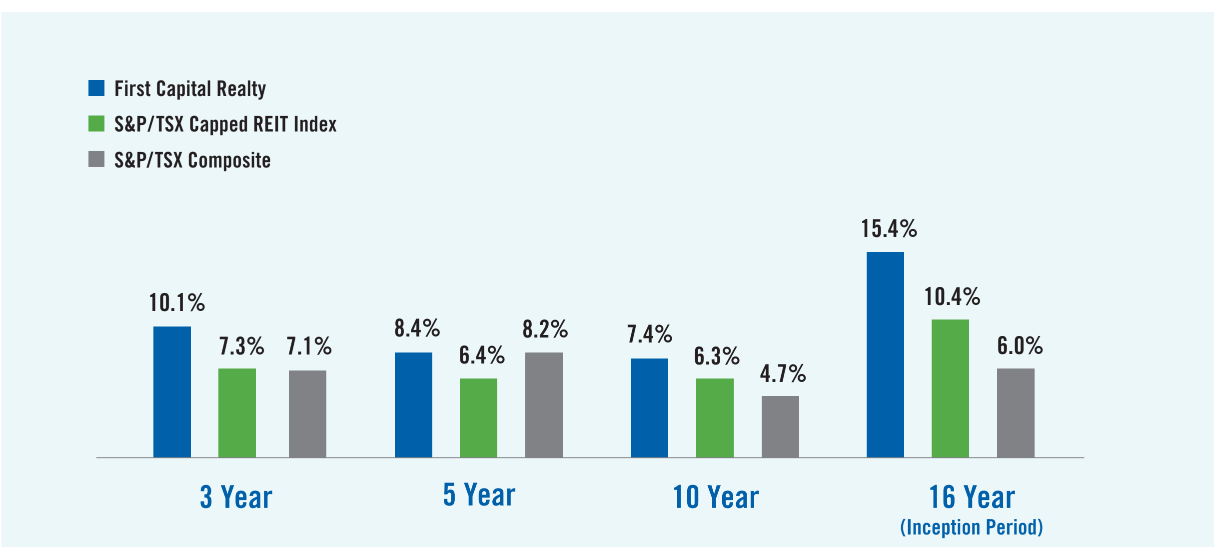
We achieved a rental rate increase on 1.6 million square feet of lease renewals equal to 7.5% (8.2% on 1.5 million square feet in our same property portfolio). Together with new space completed from our development program (average net rental rate of $31.96 per square foot) and new leasing in the balance of the portfolio where market rental rates are well in excess of those in-place, our total average net rental rate increased by 2.9% to $19.39 per square foot, up from $18.84 per square foot in 2015.

A key measure of a real estate portfolio's year-over-year performance is same-property NOI. In 2016, same property NOI rose 1.1%. While it was below our historical average, we were pleased as 2016 was not a typical year. First, we had above-average lease-termination-fee income of $3.0 million in the second quarter of 2015, which would not repeat in 2016. Second, we were transitioning an above-average amount of anchor tenant space, most notably Target. This anchor space created a significant value-creating opportunity for us as we entered into new leases at higher current market rents. This is great news, but much of this space was not income-generating in 2016 as the space was being prepared for our new tenants to open. Many of these tenants are now operating and paying rent. Therefore we expect our 2017 same-property NOI growth to resume to a level that is more typical for FCR.

From a balance sheet perspective, we maintained a strong and flexible financial position at year-end with a conservative debt-to-asset ratio. In total, we raised $1.0 billion of equity and debt capital to fund our growth and satisfy our obligations in 2016. We continued to maintain a well-staggered debt maturity profile with a weighted average term of 5.5 years. We also reduced our weighted average interest rate to 4.5% at the end of 2016 from 4.7% in 2015. Our unencumbered assets grew by $800 million to $6.6 billion, which represented 72% of our total assets at the end of 2016 and provides us with tremendous financial flexibility going forward.

While we are comfortable with our financial position today, our goal is to reduce our leverage over time, specifically our debt-to-EBITDA ratio. We would also like to reduce our OFFO payout ratio in order to retain even more operating cash flow, after the payment of dividends, to more efficiently fund our growth. In 2016, our OFFO payout ratio improved by 400 bps to 78% versus 2015.

In 2016, First Capital shareholders received a total return equal to 17.3%. However, our focus continues to be on long-term returns and we are proud that we have outperformed the TSX Capped REIT Index and the TSX Composite Index over each of the last 3, 5, 10 and 16 years (the inception period from which we measure ourselves).



KING HIGH LINE, TORONTO

MOUNT ROYAL VILLAGE, CALGARY

3080 YONGE STREET, TORONTO

High-Quality Portfolio

Our high-quality property portfolio is clearly one of our competitive advantages, which consisted of interests in 160 retail properties at year-end, totaling 25.3 million square feet of gross leasable area with an IFRS fair value of $8.7 billion. Our properties are well located in Canada's large urban growth markets. The population and household income within five kilometres of our properties average 207,000 and $106,000 respectively, which have increased significantly from 134,000 and $76,000 just a few years ago. We are a true leader amongst our Canadian retail peers when it comes to portfolio demographics and we will continue to pay close attention to these important metrics by investing our capital in markets where the population is expanding at a rate that exceeds the ability to add new retail space. Over time, this will increase sales per square foot in our properties, which in turn will increase rents at a pace that exceeds the industry average. We strongly believe over the long term that the demographic profile of our portfolio will be one of our most significant competitive advantages.

Our shopping centres are occupied by Canada's leading retailers who provide necessity-based goods and services, meaning those that consumers generally buy regardless of the economic environment. At December 31, 2016, our portfolio included 132 grocery stores, 135 pharmacies, 96 liquor stores, 82 fitness facilities, 89 daycare and learning centres and 965 cafes and restaurants, amongst many other retailers that consumers frequent as part of their everyday life. Notably, nearly 35% of our total rent is now earned from retailers whose businesses are e-commerce-proof, including fitness centres, medical service providers, nail and hair salons, restaurants, child-care centres and numerous others with the balance being largely e-commerce-resistant.

It is the quality of our tenant base, as well as our focus on necessity-based retail in the best urban locations, that has generated such strong operating performance through both robust and challenging economic times and that will lead to continued growth and stability in the years ahead.

In 2016, we further improved our already high-quality portfolio of retail assets. In total, we invested $655 million in development, re-development, acquisitions and intensification initiatives. During the year, we transferred 182,000 square feet of new urban retail space in our key Toronto, Montreal, Edmonton, Calgary and Vancouver markets from development to our income-producing portfolio at a cost of $189 million.

Development, re-development and asset re-positioning have been core competencies at First Capital since inception and is now another one of our key competitive advantages. We currently have an active development program that will continue to add exceptional urban retail assets to our portfolio for years to come, assets that we simply cannot buy today.

We are well underway with a number of large development projects that will be completed over the next two years, including Yorkville Village, King High Line and 3080 Yonge Street in downtown or midtown Toronto, as well as the Brewery District in downtown Edmonton and Mount Royal Village in downtown Calgary. We made significant advances in all of these projects during 2016 and each will meaningfully contribute to our existing high-quality portfolio of income-producing urban retail assets. At completion, these five assets will comprise 1.3 million square feet at a total estimated cost of approximately $1.0 billion at First Capital's share.

We have also identified some of the next properties we plan to re-develop, which include the former Christie Cookie Factory we acquired in 2016. Our team is very excited about this specific acquisition and the opportunity to oversee the development of a 27-acre mixed-use community with a high-quality urban design. The redevelopment of this important site will integrate a range of uses and densities near Toronto's waterfront, including a significant retail component where we can apply the best of what we've learned over many years in urban retail development.

YORKVILLE VILLAGE, TORONTO

New Avenue Road façade

The Oval

The Lane (new Yorkville entrance)

One of the unique attributes of First Capital Realty is the depth of our pipeline of development and re-development opportunities in the portfolio of properties we own. To date, we have identified 3 million square feet of retail density and 11 million square feet of residential density that can be incrementally added to our existing properties. Even without any external acquisitions, our current pipeline will keep us busy creating value for many years to come. That said, I do expect we will periodically add to this pipeline through the selective acquisition of properties with future development potential when appropriate as we did in 2016.

Outlook

Like many industries, real estate, and retail specifically, is undergoing a great deal of change. One of the things we are most proud of is our track record of recognizing evolving trends and creating opportunities out of them. There are dozens of examples I can point to, but a review of our current tenant roster highlights this point. The majority of our tenants and the retail categories they operate within are performing well while those tenants who are facing significant challenges in today's climate, are scarce in our portfolio. As well, it is largely by design, not accident, that such a high component of our income (and growing) comes from e-commerce-proof businesses (~35%).

The retail landscape will continue to evolve at a rapid pace. The location and quality of our portfolio, including the demographic profile of our properties and the barriers to entry for new supply, give us a lot of comfort that our real estate will continue to be in high demand. As we apply the capabilities of our platform to this irreplaceable portfolio, we are positioned to experience continued escalation in rental rates and portfolio value over the long term. What's more, with the stability of our high-quality covenant and necessity-based retail tenants, we should achieve this with relatively less volatility.

I am personally very optimistic about our future. I believe we have all of the right ingredients for success. It starts with the right strategy for the road that lies ahead and extends to having the right people, properties, tenant base, brand and balance sheet.

Real estate is a long-term business and First Capital is best suited for investors with an investment horizon that extends over many years. In 2016, we continued to build on our solid foundation and made many decisions with the next decade and beyond in mind.

I will conclude by thanking the First Capital team for their tireless efforts executing our strategy in what was a very successful year, our Board of Directors for their ongoing guidance and support, our tenants for collaboratively working with us to mutually achieve our respective objectives, our partners and service providers for their contributions and confidence in us, the communities in which we operate for supporting our properties and, most important, our shareholders for the privilege of managing your great Company.

Respectfully,

Adam Paul
President and Chief Executive Officer

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table of Contents

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 years ended December 31, 2016 and 2015. It should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015. 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 14, 2017.

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

FORWARD-LOOKING STATEMENT ADVISORY

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

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

Factors that could cause actual results or events to differ materially from those expressed, implied or projected by forward-looking statements, in addition to those factors referenced above, include, but are not limited to: general economic conditions; real property ownership; tenant financial difficulties; defaults and bankruptcies; the relative illiquidity of real property; increases in operating costs and property taxes; First Capital Realty's ability to maintain occupancy and to lease or re-lease space at current or anticipated rents; the availability and cost of equity and debt capital to finance the Company's business, including the repayment of existing indebtedness as well as development, intensification and acquisition activities; changes in interest rates and credit spreads; changes to credit ratings; the availability of a new competitive supply of retail properties which may become available either through construction, lease or sublease; unexpected costs or liabilities related to acquisitions, development and construction; geographic and tenant concentration; residential development, sales and leasing; compliance with financial covenants; changes in governmental regulation; environmental liability and compliance costs; unexpected costs or liabilities related to dispositions; challenges associated with the integration of acquisitions into the Company; uninsured losses and First Capital Realty's ability to *obtain insurance coverage at a reasonable cost; risks in joint ventures; matters associated with significant shareholders; investments subject to credit and market risk; loss of key personnel; and the ability of tenants to maintain necessary licenses, certifications and accreditations.*

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

All forward-looking statements in this MD&A are made as of February 14, 2017 and are qualified by these cautionary statements.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (TSX : FCR) is one of Canada's largest owners, developers and managers of grocery anchored, retail-focused urban properties where people live and shop for everyday life. As at December 31, 2016, the Company owned interests in 160 properties, totaling approximately 25.3 million square feet of gross leasable area ("GLA").

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

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

Shopping for Everyday Life®

The Company primarily owns, develops and manages properties that provide consumers with products and services that are considered to be daily necessities or non-discretionary expenditures. Currently, over 90% of the Company's revenues come from tenants who provide these essential products and services, including grocery stores, pharmacies, liquor stores, banks, restaurants, cafés, fitness centres, medical, childcare facilities and other professional and personal services.

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

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

Shopping for Everyday Life®

	# OF STORES	% OF RENT	TENANTS
Grocery Stores	132	17.3%	Loblaws, Sobeys, metro, save on foods, Whole Foods Market, Longo's
Pharmacies	135	9.2%	Shoppers Drug Mart, Rexall, London Drugs, Jean Coutu, uniprix, Brunet
Liquor Stores	96	3.4%	LCBO, Beer Store, BC Liquor Store, SAQ, Liquor Depot
Banks and Credit Unions	221	8.6%	TD, RBC, CIBC, BMO, Desjardins, National Bank of Canada
Restaurants and Cafes	965	13.9%	Tim Hortons, Subway, Cara, aroma espresso bar
Medical, Professional and Personal Services	1544	15.6%	Alberta Health Services, ups, Allstate, H&R Block, First Choice Haircutters
Fitness Facilities	82	3.5%	GoodLife Fitness, Equinox Fitness Clubs, LA Fitness, Orangetheory Fitness, Anytime Fitness, Gold's Gym
Daycare and Learning Centres	89	1.2%	Kumon, brightpath, Oxford Learning, kids & company
Other Necessity-Based Retailers	566	18.2%	Canadian Tire, Walmart, Dollarama, GNC Live Well, Winners, PetSmart
Other Tenants	579	9.1%	Cineplex Entertainment, west elm, Sleep Country Canada, Sherwin-Williams, Anthropologie

As of December 31, 2016

Urban Focus

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

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

Urban Markets*

Greater Toronto Area	33%
Greater Montreal Area	15%
Greater Calgary Area	12%
Greater Vancouver Area	11%
Greater Edmonton Area	10%
Greater Ottawa Area	6%
Golden Horseshoe Area	6%
London Area	3%
Quebec City	2%
Red Deer and Other	2%
Total	100%

* Annual Minimum Rents as of Dec 31, 2016

Real Estate Investments

Acquisitions

Management seeks to acquire well-located, high quality retail properties and sites in the Company's target urban markets. These properties are acquired when they complement or add value to the existing portfolio or provide opportunity for redevelopment or repositioning. Once the Company has acquired a property in a specific retail trade area, Management will look to acquire properties in close proximity. These properties allow the Company to provide maximum flexibility to its tenant base to meet changing formats and size requirements over the long term. Adjacent properties also allow the Company to expand or intensify its existing property. They also provide more flexibility to offer the appropriate merchandising mix, providing a better overall retail product and service offering for consumers in the property's trade area. Management believes that its adjacent site acquisitions result in a stronger retail offering and, ultimately, a better long-term return on investment, with a lower level of risk.

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

Dispositions

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

Development, Redevelopment and Land Use Intensification

The Company pursues selective development and redevelopment activities including land use intensification projects, primarily on its own, but also with partners. Redevelopment activities are focused primarily on older, well-located shopping centres that the Company owns. These properties are redeveloped and expanded over time in conjunction with anchor tenant repositioning and changing retail environments. Redevelopment of existing properties generally carries a lower market risk due to the urban locations in which they are situated, an existing tenant base and the ability to increase density through land use intensification. Redevelopment projects are carefully managed to minimize tenant downtime.

When possible, tenants continue to operate during the planning, zoning and leasing phases of the project with modest "holdover" income from tenants operating during this period. The Company will sometimes carry vacant space in a property for a planned future expansion of tenants or reconfiguration of a property.

Management believes that the Company's shopping centres, along with its portfolio of adjacent sites, give it a unique opportunity to participate in urban land use intensification in its various markets. The land use intensification trend in the Company's target urban markets is driven by the costs for municipalities to expand infrastructure beyond existing urban boundaries, the desire by municipalities to increase their tax base, environmental considerations and the migration of people to vibrant urban centres, a secular trend that is occurring in most major cities around the world. The Company's land use intensification activities are focused primarily on increasing retail space on a property and, to a lesser degree, 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. 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 acquisitions, development and redevelopment, leasing, and construction are executed through local teams located in the Company's offices in Toronto, Montreal, and Calgary in order to effectively serve the major urban markets where First Capital Realty operates. In addition, the Company's management team possesses significant retail experience, which contributes to the Company's in-depth knowledge of its tenants and market trends.

Cost of Capital

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

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

OUTLOOK AND CURRENT BUSINESS ENVIRONMENT

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

Changing Consumer Habits

The Company continues to observe several demographic and other trends that may affect demand for retail goods and services, including an increasing reliance by consumers on online information to influence their purchasing decisions and an increasing desire to purchase products online, as well as an aging population which is increasingly focused on convenience and health-related goods and services. There is also a shift in consumer demand driven by an increasing number of ethnic consumers as a result of Canada’s immigration policies. Another trend that Management observes is a desire for consumers to live in urban markets and to connect with others through daily or frequent trips to grocery stores, fitness centres, cafés and/or restaurants. Management is proactively responding to these consumer changes through its tenant mix, unit sizes and 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 Walmart, Marshalls, 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 Mexx, Future Shop, Aeropostale, Black's, Nine West, Target, Danier Leather, Le Château and HMV. Although the Company’s exposure to these retailers is limited, these store closures will, in the short term, result 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, 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

For the year ended December 31, 2016, the Same Property portfolio delivered net operating income growth of 2.0% compared to the prior year excluding the effect of two significant lease surrender fees earned in the second quarter of 2015 (1.1% including the impact of these fees). The growth in Same Property net operating income was primarily due to rental rate step-ups and lease renewals at higher rates. Total portfolio occupancy improved to 95.0% as at December 31, 2016, from 94.8% as at December 31, 2015 primarily due to re-leasing a portion of the space vacated by the closure of two Target stores in the second quarter of 2015 and a Canadian Tire store in the third quarter of 2015.

Urban municipalities where the Company operates continue to focus on increasing density within the existing boundaries of infrastructure. This provides the Company with multiple development and redevelopment opportunities in its existing portfolio of urban properties, which includes an inventory of adjacent land sites and development land. As at December 31, 2016, the Company had identified approximately 13.8 million square feet of incremental density available in the portfolio for future development (including 3.0 million square feet of retail and 10.9 million square feet of residential space), of which approximately 0.5 million square feet of development projects are currently underway.

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

During the year, the Company transferred 288,000 square feet of new urban retail space from development to income-producing properties at a cost of $165.3 million. Approximately 264,000 square feet of the new space was occupied at an average net rental rate of $31.96 per square foot, well above the average rent for the entire portfolio of $19.39, thus realizing on the growth potential through development and redevelopment activities.

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 Operating FFO over the long term. Therefore, the Company expects to focus on development and redevelopment of existing assets as the primary means to grow the portfolio while continuing to make selective acquisitions that complement the existing portfolio.

During the year, the Company acquired nine income-producing properties for $268.5 million in close proximity to the Company's existing shopping centres, adding a total of 621,400 square feet of gross leasable area to the portfolio. The Company also acquired four development properties for $51.7 million, including a 50% interest in the former Christie Cookie site comprising 27 acres of prime land in the southwest part of Toronto. Additionally, the Company invested $145.9 million in development and redevelopment activities during the year.

In the third quarter of 2016, the Company advanced $189.2 million as a deposit on the acquisition of an investment property, located at One Bloor Street in Toronto, that is currently under construction. The deposit earns interest of 4.5% until the purchase closing date which is estimated to be in the fourth quarter of 2017.

The Company continues to evaluate its properties and will occasionally dispose of non-core properties. This allows the Company to redeploy capital into its core urban redevelopment projects where population, rent growth and consumer trends present the opportunity for better long-term growth. During the year, the Company disposed of six properties and four land parcels for gross proceeds of $137.1 million.

Financing Activity

During the year, the Company repaid $155.6 million of mortgages with a weighted average effective interest rate of 4.0% and secured $203.4 million of new mortgages with a weighted average effective interest rate of 3.2% and a weighted average term of 10.1 years.

In April 2016, the Company redeemed its remaining 5.25% Series G and 4.95% Series H convertible debentures at par and satisfied its principal and accrued interest owing on each series 50% by the issuance of common shares and 50% in cash.

In May 2016, the Company completed the issuance of a $150.0 million principal amount of Series T senior unsecured debentures. The debentures have an effective interest rate of 3.7%, and mature on May 6, 2026 which represented a term to maturity of 10.0 years at the time of issuance. Subsequently, in September 2016, the Company completed the issuance of an additional $150.0 million, which was a re-opening of the series T debentures, with an effective interest rate of 3.4%.

In May 2016, the Company also issued 5.5 million common shares at a price of $21.10 for gross proceeds of $115.0 million. In August 2016, the Company issued an additional 7.6 million common shares at a price of $22.60 for gross proceeds of $172.6 million.

The proceeds raised in the debt and equity offerings were primarily used to fund investment activities.

Outlook

Management is focused on the following five areas to achieve its objectives through 2017 and into 2018:

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

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

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

The Company builds value by creating and managing high quality properties with long-term appeal in neighbourhoods and communities that the Company believes will have a good and growing customer base well into the future. The Company also takes a highly disciplined approach to the development and redevelopment of the Company's properties across Canada. In 2006, the Company embarked on the path towards sustainability with a commitment to build all new developments to Leadership in Energy and Environmental Design ("LEED") standards subject to tenant acceptance. In 2009, the Company published its first Corporate Sustainability Report identifying five long-term goals. Since 2011, the Company has published annual Corporate Responsibility and Sustainability ("CRS") Reports. These CRS reports comply with the Global Reporting Initiative ("GRI"), an international non-profit organization whose mandate is to establish guidelines for CRS reports. The Company is proud to be Canada's first publicly traded real estate company to have issued a GRI-compliant and externally assured CRS report.

In March 2016, the Company was named by Corporate Knights as one of the Future 40 Responsible Corporate Leaders in Canada. This ranking evaluated all Canadian companies with revenues of under $2.0 billion dollars or maintaining fewer than 2,000 employees in 2015 for their sustainability and disclosure practices. In June 2016, the Company responded to the 2015 Carbon Disclosure Project Information Request, disclosing information on the Company's greenhouse gas emissions, energy use, and risks and opportunities from climate change.

On the environmental front, the Company continues to develop its properties to LEED standards subject to tenant acceptance. As at December 31, 2016, 114 projects comprising 3.4 million square feet of GLA were certified to LEED standards. Another 31 projects comprising 1.3 million square feet of GLA are registered for LEED certification.

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

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.

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

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

As at December 31	2016	2015	2014
Operations Information			
Number of properties	**160**	158	158
GLA (square feet) – at 100%	**25,278,000**	24,431,000	24,331,000
Occupancy – Same Property – stable (1)	**96.4%**	96.3%	96.8%
Total portfolio occupancy	**95.0%**	94.8%	96.0%
Development pipeline and adjacent land (GLA) (2)			
Retail pipeline	**2,993,000**	3,326,000	2,421,000
Residential pipeline (3)	**10,856,000**	10,612,000	N/A
Average rate per occupied square foot	**$ 19.39**	$ 18.84	$ 18.42
GLA developed and brought online – at 100%	**288,000**	248,000	289,000
Same Property – stable NOI – increase over prior year (1) (4)	**0.8%**	4.1%	2.8%
Total Same Property NOI – increase over prior year (1) (4)	**1.1%**	3.7%	3.2%
Financial Information			
Investment properties – shopping centres (5)	**$ 8,453,348**	$ 7,870,719	$ 7,474,329
Investment properties – development land (5)	**$ 67,149**	$ 36,353	$ 35,462
Total assets	**$ 9,104,553**	$ 8,278,526	$ 7,908,184
Mortgages (5)	**$ 997,165**	$ 1,024,002	$ 1,165,625
Credit facilities	**$ 251,481**	$ 224,635	$ 7,785
Senior unsecured debentures	**$ 2,546,442**	$ 2,244,091	$ 2,149,174
Convertible debentures	**$ 207,633**	$ 327,343	$ 373,277
Shareholders' equity	**$ 4,195,263**	$ 3,639,952	$ 3,470,271
Capitalization and Leverage			
Shares outstanding (in thousands)	**243,507**	225,538	216,374
Enterprise value (6)	**$ 9,162,000**	$ 8,031,000	$ 7,762,000
Net debt to total assets (6) (7) (8)	**42.6%**	42.9%	42.2%
Weighted average term to maturity on mortgages and senior unsecured debentures (years)	**5.3**	5.5	5.9

Year ended December 31		2016		2015		2014
Revenues, Income and Cash Flows						
Revenues and other income [9]	**$**	**695,925**	$	672,494	$	661,438
Net operating income ("NOI") [9] [10]	**$**	**421,997**	$	409,892	$	403,548
Increase (decrease) in value of investment properties, net [9]	**$**	**218,078**	$	37,773	$	42,078
Net income attributable to common shareholders	**$**	**382,714**	$	203,865	$	196,748
Net income per share attributable to common shareholders (diluted)	**$**	**1.59**	$	0.91	$	0.92
Cash provided by operating activities	**$**	**256,598**	$	244,433	$	271,861
Adjusted cash flow from operating activities [6]	**$**	**265,304**	$	243,922	$	236,293
Dividends						
Dividends	**$**	**204,233**	$	192,781	$	181,317
Dividends per common share	**$**	**0.86**	$	0.86	$	0.85
Weighted average number of common shares – diluted (in thousands)		**246,428**		235,870		230,533
Funds from Operations ("FFO") [10]						
Operating FFO [10]	**$**	**260,731**	$	236,069	$	220,299
Operating FFO per diluted share	**$**	**1.10**	$	1.05	$	1.04
Operating FFO payout ratio		**78.2%**		81.9%		81.7%
FFO	**$**	**262,544**	$	221,265	$	208,977
FFO per diluted share	**$**	**1.11**	$	0.99	$	0.98
FFO payout ratio		**77.5%**		86.9%		86.7%
Adjusted Funds from Operations ("AFFO") [10]						
Operating AFFO [10]	**$**	**260,977**	$	242,808	$	228,617
Operating AFFO per diluted share	**$**	**1.07**	$	1.02	$	1.00
Operating AFFO payout ratio		**80.4%**		84.3%		85.0%
AFFO	**$**	**264,869**	$	243,592	$	229,770
AFFO per diluted share	**$**	**1.08**	$	1.03	$	1.01
AFFO payout ratio		**79.6%**		83.5%		84.2%

(1) Same Property – stable NOI and Total Same Property NOI are measures of operating performance not defined by International Financial Reporting Standards ("IFRS"). Refer to the "Business and Operations Review – Real Estate Investments – Investment Property Categories" section of this MD&A.

(2) At the Company's proportionate interest. Square footage does not include potential development on properties held by the Company's Main and Main Developments LP ("Main and Main Developments") joint venture. Refer to the "Business and Operations Review – Properties Under Development – Main and Main Developments" section of this MD&A.

(3) 2014 amount has not been disclosed.

(4) Calculated based on the year-to-date NOI.

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

(6) Enterprise value, Net debt to total assets and Adjusted cash flow from operating activities are measures not defined by IFRS. Refer to the "Capital Structure and Liquidity – Total Capital Employed" section of this MD&A.

(7) Calculated with joint ventures accounted for on the equity basis under IFRS, proportionately consolidated.

(8) Calculated net of cash balances as at the end of the period.

(9) Calculated excluding the Company's proportionate share of joint ventures accounted for on an equity basis under IFRS.

(10) NOI, FFO, Operating FFO, AFFO and Operating AFFO are measures of operating performance not defined by IFRS. Refer to the "Results of Operations – Net Operating Income" and "Results of Operations – Non-IFRS Supplemental Financial Measures" sections of this MD&A.

BUSINESS AND OPERATIONS REVIEW

Real Estate Investments

Investment Property Categories

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

Investment properties **–** *shopping centres* **–** *Same Property consisting of:*

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

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

Proportionate interest is not an IFRS measure, but is defined by Management as the Company's proportionate share of revenues, expenses, assets and liabilities in all of its real estate investments. This presentation is reflected throughout this MD&A to include the Company's two equity accounted joint ventures, net of non-controlling interests, and its share of revenues, expenses, assets and liabilities at the Company's ownership interest.

Management presents the proportionate share of the Company's interests in its two joint ventures in the determination of many key performance measures. Management views this method as relevant in demonstrating the Company's ability to manage and monitor the underlying financial performance and cash flows of the related investments. This presentation also depicts the extent to which the underlying assets are leveraged, which are included in the Company's debt metrics.

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, 2016**	December 31, 2015
	Consolidated Balance Sheet [1]	Adjustments for Proportionate Interest	**Proportionate Interest**	Proportionate Interest
ASSETS				
Investment properties – shopping centres	$ 8,370,298	$ 111,087	**$ 8,481,385**	$ 7,884,623
Investment properties – development land	67,149	88,878	**156,027**	80,555
Investment in joint ventures	146,422	(146,422)	**—**	—
Investment properties classified as held for sale	83,050	—	**83,050**	97,737
Other	437,634	12,596	**450,230**	221,391
Total assets	$ 9,104,553	$ 66,139	**$ 9,170,692**	$ 8,284,306
LIABILITIES				
Mortgages	$ 997,165	$ 45,373	**$ 1,042,538**	$ 1,026,664
Credit facilities	251,481	56,798	**308,279**	255,588
Other	3,622,824	1,788	**3,624,612**	3,362,102
Total liabilities	4,871,470	103,959	**4,975,429**	4,644,354
EQUITY				
Shareholders' equity	4,195,263	—	**4,195,263**	3,639,952
Non-controlling interest	37,820	(37,820)	**—**	—
Total equity	4,233,083	(37,820)	**4,195,263**	3,639,952
Total liabilities and equity	$ 9,104,553	$ 66,139	**$ 9,170,692**	$ 8,284,306

(1) Certain assets and liabilities have been grouped for purposes of this reconciliation.

Portfolio Overview

As at December 31, 2016, the Company had interests in 160 investment properties – shopping centres, which were 95.0% occupied with a total GLA of 25.3 million square feet and a fair value of $8.6 billion. This compares to 158 investment properties – shopping centres, which were 94.8% occupied with a total GLA of 24.4 million square feet and a fair value of $8.0 billion as at December 31, 2015. As at December 31, 2016, the average size of the shopping centres is approximately 158,000 square feet, ranging from approximately 9,200 to over 574,000 square feet.

The Same Property portfolio includes shopping centres sub-categorized in Same Property – stable and Same Property with redevelopment. The Same Property portfolio is comprised of 143 properties with a GLA of 21.3 million square feet and a fair value of $6.7 billion. These properties represent 89.4% of the Company's property count, 84.4% of its GLA and 78.4% of its fair value and generated $360.1 million in NOI for the year ended December 31, 2016 or 84.3% of the Company's total NOI.

The balance of the Company’s real estate assets consists of shopping centres with significant value enhancement opportunities which are in various stages of redevelopment, shopping centres acquired in 2016 or 2015 and properties in close proximity to them, as well as properties held for sale.

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

As at	**December 31, 2016**					December 31, 2015				
(millions of dollars, except other data)	**Number of Properties**	**GLA (000s sq. ft.)**	**Fair Value [1]**	**Occupancy**	**Weighted Average Rate per Occupied Square Foot**	Number of Properties	GLA (000s sq. ft.)	Fair Value [1]	Occupancy	Weighted Average Rate per Occupied Square Foot
Same Property – stable	**129**	**18,454**	**$ 5,857**	**96.4%**	**$ 18.84**	129	18,454	$ 5,623	96.3%	$ 18.61
Same Property with redevelopment	**14**	**2,890**	**854**	**95.4%**	**19.51**	14	2,830	782	93.6%	18.69
Total Same Property	**143**	**21,344**	**6,711**	**96.3%**	**18.93**	143	21,284	6,405	96.0%	18.62
Major redevelopment	**8**	**1,939**	**1,004**	**83.4%**	**23.08**	8	1,933	930	83.6%	22.95
Ground-up development	**3**	**767**	**358**	**96.9%**	**21.93**	3	601	308	93.2%	17.84
Acquisitions – 2016 [2]	**4**	**835**	**283**	**91.3%**	**20.16**	—	—	—	—%	—
Acquisitions – 2015	**—**	**98**	**125**	**87.1%**	**36.42**	—	98	129	87.1%	35.99
Investment properties classified as held for sale [3]	**2**	**295**	**83**	**88.0%**	**17.59**	2	293	79	88.2%	17.32
Dispositions – 2016	**—**	**—**	**—**	**—%**	**—**	2	222	125	96.4%	6.91
Total	**160**	**25,278**	**$ 8,564**	**95.0%**	**$ 19.39**	158	24,431	$ 7,976	94.8%	$ 18.84

(1) At the Company's proportionate interest.
(2) Properties in close proximity to existing properties.
(3) The number of properties and GLA exclude a shopping centre that was 50% held for sale as at December 31, 2015. The GLA and property count for this shopping centre was included in Same Property with redevelopment. 2015 fair value excludes development land held for sale of $6.5 million.

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

As at				December 31, 2016						December 31, 2015		
(millions of dollars, except other data)	**Number of Properties**	**GLA (000s sq. ft.)**	**Fair Value [1]**	**Occupancy**	**Weighted Average Rate per Occupied Square Foot**	**% of Annual Minimum Rent**	Number of Properties	GLA (000s sq. ft.)	Fair Value [1]	Occupancy	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent
Central Region												
Greater Toronto Area	**46**	**7,111**	**$ 3,134**	**96.2%**	**$ 21.92**	**33%**	44	6,601	$ 2,825	96.4%	$ 21.96	33%
Golden Horseshoe Area	**8**	**1,569**	**405**	**95.7%**	**15.94**	**6%**	8	1,570	383	97.1%	15.64	6%
London Area	**7**	**784**	**173**	**93.7%**	**15.17**	**3%**	7	777	163	96.3%	14.82	3%
	61	**9,464**	**3,712**	**95.9%**	**20.39**	**42%**	59	8,948	3,371	96.5%	20.23	42%
Eastern Region												
Greater Montreal Area	**32**	**4,782**	**1,189**	**90.8%**	**16.41**	**15%**	34	4,891	1,199	90.8%	15.33	16%
Greater Ottawa Area	**11**	**1,994**	**473**	**97.1%**	**17.11**	**6%**	11	1,990	465	95.9%	16.72	6%
Quebec City	**5**	**1,011**	**175**	**93.6%**	**11.19**	**2%**	5	1,011	175	95.6%	10.82	3%
Other	**2**	**220**	**44**	**99.2%**	**13.78**	**1%**	2	215	37	100.0%	12.94	—%
	50	**8,007**	**1,881**	**93.0%**	**15.85**	**24%**	52	8,107	1,876	92.9%	15.04	25%
Western Region												
Greater Calgary Area	**16**	**2,622**	**1,041**	**95.4%**	**22.89**	**12%**	15	2,553	977	97.6%	22.54	13%
Greater Vancouver Area	**20**	**2,370**	**1,054**	**95.6%**	**22.59**	**11%**	19	2,177	927	94.5%	22.26	10%
Greater Edmonton Area	**12**	**2,571**	**794**	**97.2%**	**19.82**	**10%**	12	2,402	752	92.1%	18.91	9%
Red Deer	**1**	**244**	**82**	**93.1%**	**20.25**	**1%**	1	244	73	95.2%	20.17	1%
	49	**7,807**	**2,971**	**96.0%**	**21.70**	**34%**	47	7,376	2,729	94.8%	21.23	33%
Total	**160**	**25,278**	**$ 8,564**	**95.0%**	**$ 19.39**	**100%**	158	24,431	$ 7,976	94.8%	$ 18.84	100%

(1) At the Company's proportionate interest.

Among the Company's real estate investment portfolio are thirty-four (2015 - twenty-nine) retail assets each with a value greater than $85 million or size greater than 300,000 square feet. Together, these thirty-four retail assets comprise $4.2 billion (2015 - $3.7 billion) or 49% (2015 - 46%) of the Company's aggregate $8.6 billion value (2015 - $8.0 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 proportionate interest in investments in its shopping centre acquisitions, dispositions, development and portfolio improvement activities is as follows:

	Year ended December 31	
(millions of dollars)	**2016**	2015
Balance at beginning of year	**$ 7,871**	$ 7,474
Acquisitions		
Shopping centres and additional adjacent spaces	**269**	95
Shopping centres acquired for redevelopment	**17**	—
Land parcels in close proximity to existing properties	**—**	1
Development activities and property improvements	**216**	275
Reclassifications from development land	**—**	2
Reclassification to residential development inventory	**(5)**	—
Increase (decrease) in value of investment properties, net	**218**	40
Dispositions	**(133)**	(23)
Other changes	**—**	7
Balance at end of year	**$ 8,453**	$ 7,871
Investment in joint ventures – shopping centres (1)	**111**	105
Proportionate interest end of year (2)	**$ 8,564**	$ 7,976

(1) At the Company's proportionate interest.

(2) Includes investment properties classified as held for sale as at December 31, 2016 and 2015 totaling $83 million and $91 million, respectively.

2016 Acquisitions

Income-producing properties – Shopping Centres and Additional Adjacent Spaces

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

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

(1) At the Company's proportionate interest.

Development Properties

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

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	Acreage[1]		Acquisition Cost (in millions)
	Shopping centres acquired for redevelopment						
1.	101 Yorkville Ave. (Yorkville Village)	Toronto, ON	Q3	50%	0.5	$	15.5
2.	2520 Chemin Bates (Wilderton)	Montreal, QC	Q4	100%	0.3		1.7
	Total shopping centres acquired for redevelopment				**0.8**	**$**	**17.2**
	Development lands						
1.	1071 King Street West (remaining 50% interest)	Toronto, ON	Q1	50%	0.3	$	7.7
2.	2150 Lake Shore Blvd. West (former Christie Cookie site)	Toronto, ON	Q2	50%	13.5		26.8
	Total development lands				**13.8**	**$**	**34.5**
	Total				**14.6**	**$**	**51.7**

[1] At the Company's proportionate interest.

2015 Acquisitions

Income-producing Properties – Shopping Centres and Additional Adjacent Spaces

During the year ended December 31, 2015, the Company acquired ten properties in close proximity to existing shopping centres, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	GLA (sq. ft.) [1]		Acquisition Cost (in millions)
1.	880-16th Ave., 1508-8th Street (Mount Royal Village)	Calgary, AB	Q1	100%	42,400	$	23.4
2.	Yorkville Village adjacent properties	Toronto, ON	Q1-Q3	100%	—		2.3
3.	1030 King St. West (Shops at King Liberty)	Toronto, ON	Q2	100%	17,900		25.7
4.	930, 932-17th Ave. SW (Mount Royal Village)	Calgary, AB	Q2	100%	9,600		6.0
5.	43 Hanna Ave. (Shops at King Liberty)	Toronto, ON	Q3	100%	1,200		0.8
6.	97 McKenzie Town Blvd. (McKenzie Towne Centre)	Calgary, AB	Q3	100%	7,900		7.5
7.	850-16th Avenue (Mount Royal Village)	Calgary, AB	Q3	100%	10,600		6.2
8.	3270 Rue Langelier (Centre Commercial Domaine)	Montreal, QC	Q4	100%	16,600		2.8
9.	1000 Wellington (Griffintown)	Montreal, QC	Q4	100%	22,400		14.3
10.	3903-3945, 34 St. NW (Meadowbrook II) (remaining 50% interest)	Edmonton, AB	Q4	50%	14,300		6.3
	Total				142,900	$	95.3

[1] At the Company's proportionate interest.

Development Properties

During the year ended December 31, 2015, the Company acquired two development properties, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	Acreage		Acquisition Cost (in millions)
1.	3009 Blvd. St-Charles (Centre Kirkland-St. Charles)	Kirkland, QC	Q2	100%	0.2	$	0.9
2.	1200 Block of Marine Drive (Pemberton Plaza)	North Vancouver, BC	Q2	100%	—		0.5
	Total				0.2	$	1.4

2016 Dispositions

During the year ended December 31, 2016, the Company disposed of ten properties, three of which were 50% interests and four land parcels, as summarized in the table below:

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

(1) At the Company's proportionate interest.

2015 Dispositions

During the year ended December 31, 2015, the Company disposed of three properties, as summarized in the table below:

Count	Property Name	City/Province	Quarter Sold	Interest Sold	GLA (square feet)	Acreage		Gross Sales Price (in millions)
1.	Plaza Delson	Delson, QC	Q1	100%	136,700	—		
2.	717 Hillsdale Ave.	Toronto, ON	Q2	100%	—	0.1		
3.	497-501 Wellington Rd.	London, ON	Q3	100%	—	0.6		
	Total				136,700	0.7	$	23.1

Impact of Acquisitions and Dispositions

The annualized NOI of properties acquired and disposed, at the time of acquisition or disposition, during the years ended December 31, 2016 and 2015 is summarized in the table below:

	Acquired				Disposed			
For the year ended December 31		**2016**		2015		**2016**		2015
Central Region	**$**	**6,081**	$	902	**$**	**1,040**	$	—
Eastern Region		**2,693**		615		**5,181**		1,510
Western Region		**4,516**		2,340		**66**		—
Total	**$**	**13,290**	$	3,857	**$**	**6,287**	$	1,510

Capital Expenditures

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

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

Revenue enhancing capital expenditures are those expenditures that increase the revenue generating ability of the Company's shopping centres. Revenue enhancing capital expenditures are incurred in conjunction with or in contemplation of a development or redevelopment strategy, a strategic repositioning after an acquisition, or in advance of a planned disposition to maximize the potential sale price. The Company owns and actively seeks to acquire older, well-located shopping centres in urban locations, where expenditures tend to be higher when they are subsequently repaired or redeveloped to meet the Company's standards. The Company also considers property age, the potential effects on occupancy and future rent per square foot, the time leasable space has been vacant and other factors when assessing whether a capital expenditure is revenue enhancing or sustaining.

Capital expenditures incurred in development and redevelopment projects include pre-development costs, direct construction costs, leasing costs, tenant improvements, borrowing costs, and overhead including applicable salaries and other 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			2016	2015
	Total Same Property	Other Property Categories	Total	Total
Revenue sustaining	$ 13,915	$ —	$ 13,915	$ 18,394
Revenue enhancing	33,332	10,956	44,288	46,875
Expenditures recoverable from tenants	10,048	4,009	14,057	10,268
Development expenditures	22,116	123,742	145,858	200,439
Total	$ 79,411	$ 138,707	$ 218,118	$ 275,976

During the year ended December 31, 2016, capital expenditures totaled $218.1 million compared to $276.0 million for the prior year. The $57.9 million decrease was primarily the result of lower development expenditures related to the large ground-up and major redevelopment projects currently underway including Yorkville Village, King High Line and The Edmonton Brewery District. In addition, revenue sustaining expenditures decreased by $4.5 million over the prior year primarily as a result of a major infrastructure project that was undertaken and completed in 2015.

Valuation of Investment Properties

During the year ended December 31, 2016, the weighted average stabilized capitalization rate of the Company's investment property portfolio decreased from 5.7% as at December 31, 2015 to 5.5%, primarily due to overall compression in capitalization rates and the impact of acquisitions during the period. The Company's proportionate interest in the net increase in value of investment properties was $222.9 million for the year ended December 31, 2016.

The values of the Company's proportionate interest in its shopping centres and associated capitalization rates by region were as follows as at December 31, 2016 and December 31, 2015:

As at December 31, 2016		Capitalization Rate			
(millions of dollars)	Number of Properties	Weighted Average	Median	Range	Fair Value
Central Region	61	5.3%	5.5%	4.1%-7.0%	$ 3,712
Eastern Region	50	5.9%	6.0%	5.0%-7.0%	1,881
Western Region	49	5.3%	5.5%	4.3%-6.5%	2,971
Total or Weighted Average	160	5.5%	5.8%	4.1%-7.0%	$ 8,564

As at December 31, 2015		Capitalization Rate			
(millions of dollars)	Number of Properties	Weighted Average	Median	Range	Fair Value
Central Region	59	5.5%	5.8%	4.5%-7.5%	$ 3,371
Eastern Region	52	6.1%	6.0%	5.3%-7.5%	1,876
Western Region	47	5.5%	5.8%	4.5%-6.5%	2,729
Total or Weighted Average	158	5.7%	5.8%	4.5%-7.5%	$ 7,976

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 on 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

The Company has identified approximately 13.8 million square feet of incremental density available in the portfolio for future development of which 0.5 million square feet is currently under development.

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

As at December 31, 2016	Square feet (in thousands) [1]		
	Retail	Residential	Total
Active Development			
Same Property with redevelopment	42	—	42
Major redevelopment	223	—	223
Ground-up development	128	156	284
	393	**156**	**549**
Future uncommitted incremental density			
Medium term	1,500	5,700	7,200
Long term	1,100	5,000	6,100
	2,600	**10,700**	**13,300**
Total development pipeline	**2,993**	**10,856**	**13,849**

(1) At the Company's proportionate interest.

The Company determines its course of action with respect to the 10.7 million square feet of uncommitted potential residential density on a case by case basis given the specifics of each property. The Company's course of action for each property may include selling the property, selling the residential density rights, entering into a joint venture with a partner to develop the property or undertaking the development of the property on its own. The majority of this density is expected to commence development over the medium term (within approximately seven years).

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

Invested Cost of Properties Under Development

As at December 31, 2016, the Company had $541.0 million of properties under development and development land parcels at invested cost, representing approximately 6.2% of the value of the total portfolio.

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

As at December 31, 2016			Invested Cost (in millions) [3]		
	Number of Projects	Square Feet [1] [2] (in thousands)	Active Development	Pre-Development	Total
Same Property with redevelopment	3	42	$ 10	$ —	$ 10
Major redevelopment	3	223	144	100	244
Ground-up development	2	568	121	—	121
Total development and redevelopment activities	**8**	**833**	**$ 275**	**$ 100**	**$ 375**
Total development land and adjacent land parcels				$ 166	$ 166
Total				**$ 266**	**$ 541**

[1] Includes 312,000 square feet of residential rental apartments.
[2] Square footage relates to active development only and represents 100% of the space under development.
[3] At the Company's proportionate interest.

2016 Development and Redevelopment Coming Online and Space Going Offline

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

During the year ended December 31, 2016, the Company completed the transfer of 288,000 square feet of new urban retail space from development to the income-producing portfolio at a cost of $165.3 million. Of the space transfered, 264,000 square feet became occupied at an average rental rate of $31.96 per square foot, well above the average rate for the portfolio of $19.39, thus realizing on the growth potential through development and redevelopment activities. The remainder of the space transferred is expected to be leased in the next 12 months. In addition, the Company transferred $24.0 million of space from development to income producing property related to Yorkville Village for which the Company did not attribute any GLA. The Company expects to earn ancillary revenue from these common areas, through several initiatives, including kiosks, pop-up shops and events held in this space. Included in this space is "The Lane" (the new entrance from Yorkville Avenue into the property), the food hall, as well as other common areas.

For the year ended December 31, 2016, the Company had tenant closures for redevelopment of 48,000 square feet at an average rental rate of $17.54 per square foot. Of the 48,000 square feet, 22,000 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 5.3% upon completion. This yield is derived from the expected going-in run rate based on stabilized leasing and operations following completion of the development, and includes all building cost, land cost, interest and other carrying costs, as well as capitalized staff compensation and other expenses. However, actual rates of return could differ if development costs are higher than current forecasted costs, if final lease terms are lower than forecasted base rent, operating cost or property tax recoveries, or if there are other unforeseen events that cause actual results to differ from assumptions. The quality of the Company’s construction is consistent with its strategy of long-term ownership and value creation, and factors in the Company's high standards in construction, 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 at 100% of the space under development and invested cost at the Company's proportionate share.

Same Property with Redevelopment

The Company currently has three projects under active development in the Same Property with redevelopment property category. Of the approximately 42,000 square feet under active redevelopment, 32,600 square feet is subject to committed leases at a weighted average rate of $30.91 per square foot. The Company is currently in various stages of negotiations for the remaining planned space.

Highlights of the Company's Same Property with redevelopment projects as at December 31, 2016 are as follows:

As at December 31, 2016				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.	Kingsway Mews, Edmonton, AB	5	H1 2017	$ 3	$ 2	$ 1
	(Freshii)					
2.	South Park Centre, Edmonton, AB	5	H1 2017	3	—	3
	(Boardwalk Fries & Burger)					
3.	685 Fairway Road, Kitchener, ON	32	H1 2018	19	8	11
	(MEC)					
	Total Same Property with redevelopment	**42**		**$ 25**	**$ 10**	**$ 15**

(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 223,400 square feet under active redevelopment, 93,600 square feet is subject to committed leases at a weighted average rate of $33.79 per square foot. As construction on redevelopment projects occurs in phases, there continues to be ongoing negotiations in various stages with certain retailers for the remaining planned retail space.

Highlights of the Company's major redevelopment projects underway as at December 31, 2016, including costs for completed phases, are as follows:

As at December 31, 2016		Square feet (in thousands)				Invested Cost (in millions)			
Count / Property and Major Tenant(s)		Planned Upon Completion	Completed or Existing [1]	Under Development	Target Completion Date [2]	Total Estimated incl. Land	Under Development	Income-producing property	Estimated Cost to Complete
	Active development								
1.	Yorkville Village Assets, Toronto, ON	285	230	55	H2 2017 [3]	$ 390	$ 70	$ 302	$ 18
	(Whole Foods Market, Equinox Fitness)								
2.	3080 Yonge Street, Toronto, ON	245	170	75	H1 2018	121	41	61	19
	(Loblaws)								
3.	Mount Royal West, Calgary, AB	93	—	93	H2 2018	72	33	—	39
	(Urban Fare, Canadian Tire)								
	Total Major Redevelopment	**623**	**400**	**223**		**$ 583**	**$ 144**	**$ 363**	**$ 76**

(1) Includes vacant units held for redevelopment.

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

(3) Mall completion is H2 2017; partial redevelopment of street assets is 2018 and beyond.

Ground-up Development

The Company has two projects under active development in the ground-up development property category. These projects are comprised of approximately 568,000 square feet of space currently under development, of which 256,000 square feet is retail space and 312,000 square feet is residential rental apartments. A total of 60,900 square feet of the retail space currently under development is subject to committed leases at a weighted average rate of $30.32 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 remaining planned space.

Highlights of the Company's ground-up projects underway as at December 31, 2016, including costs for completed phases, are as follows:

As at December 31, 2016	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 [3]	Total Estimated incl. Land	Under Development	Income-producing property	Estimated Cost to Complete
Active development								
1. The Brewery District, Edmonton, AB [1] [4]	309	210	99	H2 2017	$ 92	$ 21	$ 62	$ 9
(Loblaws City Market, Shoppers Drug Mart, GoodLife Fitness, MEC, Winners)								
2. King High Line (Shops at King Liberty), Toronto, ON [1] [2]	469	—	469	H2 2018	159	100	—	59
Total Ground-up Development	**778**	**210**	**568**		**$ 251**	**$ 121**	**$ 62**	**$ 68**

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

(2) The square feet under development comprises 157,000 square feet of retail and 312,000 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.

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

(4) Target completion date relates to buildings currently under construction. Total estimated costs include buildings not yet started.

Other - Current Year Acquisition

In addition to the projects listed above, the Company has also commenced a project at Cliffcrest Plaza, a property acquired in the second quarter of 2016. The project is for an 8,000 square foot pad to be occupied by an LCBO for a total cost of approximately $3.4 million. The costs to complete the project are $2.0 million and the project is expected to be completed in the first half of 2017.

Costs to Complete Active and Redevelopment Activities

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately $161 million. Costs to complete Same Property related developments and Cliffcrest Plaza are planned at $17 million. Costs to complete major redevelopments and ground-up developments, are both planned at $50 million each in 2017, and $26 million and $18 million, respectively, thereafter.

Main and Main Developments

The Company has an interest in a Toronto and Ottawa urban development partnership (known as M+M Urban Realty LP ("Main and Main Urban Realty")) between the Company, Main and Main Developments (itself, a joint venture between the Company and a private developer) and a prominent Canadian institutional investor. The partners of Main and Main Urban Realty have collectively committed a total of $320.0 million of equity capital for current and future growth and the development of the Main and Main Urban Realty portfolio, of which First Capital Realty's direct and indirect commitment is approximately $167.0 million (of which $120.3 million has been invested as at December 31, 2016). Main and Main Developments was retained to provide asset and property management services for the real estate portfolio.

The Main and Main Developments management team brings a skill set and focus to the assembly and redevelopment of sites that are much smaller than the Company's typical properties and are normally acquired or assembled via multiple adjacent parcel acquisitions, often from private individuals. Main and Main Developments' core business strategy is to create value in the Main and Main Urban Realty portfolio through the strategic acquisition of assets in under-serviced, transit-oriented urban retail nodes and then reposition, rezone and/or redevelop (including through mixed use development) these assets to their highest and best use, with a view to creating and owning new urban retail formats in high-demand locations. Each of Main and Main Urban Realty's 22 assembly projects are located on a major street in Toronto or Ottawa. Two projects are in the active development phase and nine projects are in the pre-development planning stage. As at December 31, 2016, the fair value of the Main and Main Urban Realty real estate property portfolio was approximately $366.2 million.

Main and Main Urban Realty has identified a total of approximately 1.8 million square feet of additional GLA available in its portfolio, comprised of 0.3 million square feet for future retail and 1.6 million square feet for future residential development. The Company's proportionate interest in Main and Main Urban Realty is 37.7%.

Leasing and Occupancy

Total Same Property occupancy increased from 96.0% as at December 31, 2015 to 96.3% as at December 31, 2016, primarily as a result of new tenants taking occupancy across the portfolio. Total portfolio occupancy increased from 94.8% as at December 31, 2015 to 95.0% as at December 31, 2016, primarily due to re-leasing a portion of the space vacated by the closure of two Target stores in the second quarter of 2015 and a Canadian Tire store in the third quarter of 2015.

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

As at	**December 31, 2016**			December 31, 2015		
(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	**17,794**	**96.4%**	**$ 18.84**	17,777	96.3%	$ 18.61
Same Property with redevelopment	**2,756**	**95.4%**	**19.51**	2,648	93.6%	18.69
Total Same Property	**20,550**	**96.3%**	**18.93**	20,425	96.0%	18.62
Major redevelopment	**1,616**	**83.4%**	**23.08**	1,615	83.6%	22.95
Ground-up development	**744**	**96.9%**	**21.93**	560	93.2%	17.84
Investment properties classified as held for sale	**260**	**88.0%**	**17.59**	258	88.2%	17.32
Total portfolio before acquisitions and dispositions	**23,170**	**95.2%**	**19.30**	22,858	94.8%	18.89
Acquisitions – 2016	**763**	**91.3%**	**20.16**	—	—%	—
Acquisitions – 2015	**86**	**87.1%**	**36.42**	85	87.1%	35.99
Dispositions – 2016	**—**	**—%**	**—**	216	96.4%	6.91
Total	**24,019**	**95.0%**	**$ 19.39**	23,159	94.8%	$ 18.84

During the three months ended December 31, 2016, the Company achieved an 8.0% overall rate increase per occupied square foot on 635,000 square feet of renewal leases over the expiring lease rates, of which the rate increase for the Same Property portfolio was 8.7% on 585,000 square feet of renewals.

The average rental rate per occupied square foot for the total portfolio increased from $19.18 as at September 30, 2016 to $19.39 as at December 31, 2016 primarily due to rent escalations. Management believes that the weighted average rental rate per square foot for the portfolio would be in the range of $25.00 to $27.00, if the portfolio were at market.

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

Three months ended December 31, 2016	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions			Vacancy				Total Portfolio		
	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, 2016 [1]	**20,533**	**96.3%**	**$ 18.84**	**3,342**	**87.6%**	**$ 21.27**	**187**	**0.7%**	**1,075**	**4.3%**	**25,137**	**95.0%**	**$ 19.18**
Tenant possession	162		21.68	42		20.28	—		(204)		—		21.39
Tenant closures	(150)		(17.99)	(35)		(27.64)	—		185		—		(19.83)
Tenant closures for redevelopment	(3)		(38.50)	(1)		(18.42)	4		—		—		(32.46)
Developments – tenants coming online [2]	4		41.79	65		45.93	—		(1)		68		45.67
Demolitions	—		—	—		—	(7)		—		(7)		—
Reclassification	4		—	(2)		—	10		7		19		—
Total portfolio before 2016 acquisitions and dispositions	20,550	96.3%	$ 18.93	3,411	88.0%	$ 21.70	194	0.8%	1,062	4.2%	25,217	95.0%	$ 19.32
Acquisitions (at date of acquisition)	—		—	58	95.1%	46.15	—		3		61	95.1%	46.15
Dispositions (at date of disposition)	—		—	—	—%	—	—		—		—	—%	—
December 31, 2016	**20,550**	**96.3%**	**$ 18.93**	**3,469**	**88.1%**	**$ 22.11**	**194**	**0.8%**	**1,065**	**4.2%**	**25,278**	**95.0%**	**$ 19.39**
Renewals	585		$ 16.76	50		$ 24.11					635		$ 17.33
Renewals – expired	(585)		$ (15.42)	(50)		$ (23.36)					(635)		$ (16.04)
Net change per square foot from renewals			$ 1.34			$ 0.75							$ 1.29
% Increase on renewal of expiring rents			8.7%			3.2 %							8.0%

(1) Opening balance is revised to reflect property categories consistent with current period status.

(2) For further discussion of development and redevelopment coming online and under development vacancy, refer to the "Properties Under Development – 2016 Development and Redevelopment Coming Online and Space Going Offline" section of this MD&A.

During the year ended December 31, 2016, the Company achieved a 7.5% overall rate increase per occupied square foot on 1,637,000 square feet of renewal leases over the expiring lease rates. The rate increase for the Same Property portfolio was 8.2% on 1,481,000 square feet of renewals.

The average rental rate per occupied square foot for the total portfolio increased from $18.84 as at December 31, 2015 to $19.39 as at December 31, 2016 primarily due to rent escalations.

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

Year ended December 31, 2016	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions			Vacancy				Total Portfolio		
	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Under Redevelopment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	Total Square Feet (thousands)	Occupied Square Feet %	Weighted Average Rate per Occupied Square Foot
December 31, 2015 [1]	**20,425**	**96.0%**	**$ 18.62**	**2,734**	**86.9%**	**$ 20.52**	**133**	**0.5%**	**1,139**	**4.7%**	**24,431**	**94.8%**	**$ 18.84**
Tenant possession	518		20.99	158		24.36	—		(676)		—		21.78
Tenant closures	(460)		(19.16)	(115)		(27.30)	—		575		—		(20.79)
Tenant closures for redevelopment	(23)		(19.66)	(25)		(15.62)	48		—		—		(17.54)
Developments – tenants coming online [2]	79		29.71	185		32.92	—		24		288		31.96
Redevelopments – tenant possession	—		—	5		5.30	(5)		—		—		5.30
Demolitions	—		—	—		—	(22)		—		(22)		—
Reclassifications	11		—	(17)		—	30		(56)		(32)		—
Total portfolio before 2016 acquisitions and dispositions	20,550	96.3%	$ 18.93	2,925	88.0%	$ 21.33	184	0.7%	1,006	4.1%	24,665	95.2%	$ 19.23
Acquisitions (at date of acquisition)	—		—	759	91.0%	20.64	10		65		834	91.0%	20.64
Dispositions (at date of disposition)	—		—	(215)	97.3%	(6.35)	—		(6)		(221)	97.3%	(6.35)
December 31, 2016	**20,550**	**96.3%**	**$ 18.93**	**3,469**	**88.1%**	**$ 22.11**	**194**	**0.8%**	**1,065**	**4.2%**	**25,278**	**95.0%**	**$ 19.39**
Renewals	1,481		$ 17.35	156		$ 24.33					1,637		$ 18.01
Renewals – expired	(1,481)		$ (16.03)	(156)		$ (23.57)					(1,637)		$ (16.75)
Net change per square foot from renewals			$ 1.32			$ 0.76							$ 1.26
% Increase on renewal of expiring rents			8.2%			3.2 %							7.5%
% Increase in rate per square foot – openings versus all closures			9.4%			(5.5%)							5.5%

[1] Opening balance is revised to reflect property categories consistent with current period status.

[2] For further discussion of development and redevelopment coming online and under development vacancy, refer to the "Properties Under Development – 2016 Development and Redevelopment Coming Online and Space Going Offline" section of this MD&A.

Top Forty Tenants

As at December 31, 2016, 54.7% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2015 – 54.9%). Of these rents, 77.9% came from tenants that have investment grade credit ratings and who represent many of Canada's leading grocery stores, pharmacies, national and discount retailers, financial institutions and other familiar shopping destinations. The weighted average remaining lease term for the Company's top 10 tenants was 6.0 years as at December 31, 2016, 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")	98	2,487	10.4%	10.2%	BBB	BBB	
2.	Sobeys	57	2,052	8.5%	6.6%	BBB (low)	BB+	
3.	Metro	35	1,212	5.0%	3.4%	BBB	BBB	
4.	Walmart	15	1,486	6.2%	2.8%	AA	AA	Aa2
5.	Canadian Tire	26	878	3.7%	2.8%	BBB (high)	BBB+	
6.	TD Canada Trust	50	263	1.1%	2.2%	AA	AA-	Aa1
7.	RBC Royal Bank	46	250	1.0%	1.9%	AA	AA-	Aa3
8.	GoodLife Fitness	26	606	2.5%	1.8%			
9.	Dollarama	53	515	2.1%	1.8%	BBB		
10.	CIBC	37	207	0.9%	1.5%	AA	A+	Aa3
Top 10 Tenants Total		443	9,956	41.4%	35.0%			
11.	LCBO	22	215	0.9%	1.2%	AA (low)	A+	Aa2
12.	Lowes	4	421	1.8%	1.2%	A (low)	A-	A3
13.	Rexall	19	173	0.7%	1.1%			
14.	BMO	32	145	0.6%	1.1%	AA	A+	Aa3
15.	London Drugs	10	259	1.1%	1.0%			
16.	Restaurant Brands International	53	141	0.6%	1.0%		B+	B1
17.	Scotiabank	24	126	0.5%	0.9%	AA	A+	Aa3
18.	Staples	11	278	1.2%	0.9%		BBB-	Baa2
19.	Save-On-Foods	6	263	1.1%	0.8%			
20.	Whole Foods Market	3	133	0.6%	0.7%		BBB-	Baa3
21.	Longo's	4	170	0.7%	0.7%			
22.	Winners	9	262	1.1%	0.7%		A+	A2
23.	SAQ	21	104	0.4%	0.7%	A (high)	A+	Aa2
24.	Starbucks	43	72	0.3%	0.7%		A	A2
25.	Jean Coutu	13	175	0.7%	0.7%			
26.	Cara	24	112	0.5%	0.6%			
27.	Michaels	5	110	0.5%	0.6%		B+	B1
28.	Subway	71	84	0.3%	0.6%			
29.	McDonald's	23	94	0.4%	0.5%		BBB+	Baa1
30.	Pusateri's	1	35	0.1%	0.5%			
31.	The Beer Store	12	73	0.3%	0.5%	AA (low)	A+	Aa2
32.	Toys "R" Us	3	127	0.5%	0.4%		B-	B3
33.	Yum! Brands	28	53	0.2%	0.4%		BB	Ba3
34.	The Home Depot	2	219	0.9%	0.4%	A	A	A2
35.	Williams-Sonoma	2	38	0.2%	0.3%			
36.	Liquor Stores	14	54	0.2%	0.3%			
37.	Pet Valu	19	54	0.2%	0.3%			
38.	Reitmans	18	101	0.4%	0.3%			
39.	Hudson's Bay Company	2	73	0.3%	0.3%		B+	B1
40.	Bulk Barn	11	54	0.2%	0.3%			
Top 40 Tenants Total		**952**	**14,174**	**58.9%**	**54.7%**			

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

Lease Maturity Profile

The Company's lease maturity profile for its shopping centre portfolio as at December 31, 2016, 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)	177	358	1.4%	$ 6,346	1.3%	$ 17.73
2017	649	2,575	10.2%	44,411	9.0%	17.25
2018	656	3,047	12.0%	55,074	11.2%	18.07
2019	665	2,873	11.4%	58,033	11.8%	20.20
2020	584	2,820	11.2%	54,889	11.2%	19.46
2021	501	2,554	10.1%	50,568	10.3%	19.80
2022	299	2,266	9.0%	49,611	10.1%	21.89
2023	193	1,595	6.3%	31,637	6.4%	19.84
2024	173	1,115	4.4%	24,108	4.9%	21.62
2025	184	1,008	4.0%	25,266	5.2%	25.07
2026	165	948	3.7%	25,720	5.2%	27.12
2027	73	631	2.5%	15,915	3.2%	25.21
Thereafter	92	2,229	8.8%	49,409	10.2%	22.18
Total or Weighted Average	4,411	24,019	95.0%	$ 490,987	100.0%	$ 20.44

(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.

The weighted average remaining lease term for the portfolio was 5.3 years as at December 31, 2016, excluding contractual renewal options, but including month-to-month and other short-term leases with tenants in properties with pre-development activities underway.

Loans, Mortgages and Other Real Estate Assets

As at		December 31, 2016		December 31, 2015
Non-current				
Loans and mortgages receivable (a)	**$**	**131,955**	$	120,173
Available-for-sale ("AFS") investment in limited partnership		**3,824**		4,269
Deposit on investment property (b)		**189,200**		—
Total non-current	**$**	**324,979**	$	124,442
Current				
Loans and mortgages receivable (a)		**15,281**		23,499
Fair value through profit or loss ("FVTPL") investments in securities (c)		**12,969**		11,907
Other receivable		**66**		70
Total current	**$**	**28,316**	$	35,476
Total	**$**	**353,295**	$	159,918

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

(b) In the third quarter of 2016, the Company advanced $189.2 million as a deposit on the acquisition of an investment property, located at One Bloor Street in Toronto, that is currently under construction. The deposit earns interest of 4.5% annually until the purchase closing date which is estimated to be in the fourth quarter of 2017.

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

RESULTS OF OPERATIONS

Net Income

	Three months ended December 31				Year ended December 31			
		2016		2015		**2016**		2015
Net income attributable to common shareholders	**$**	**57,739**	$	38,947	**$**	**382,714**	$	203,865
Net income per share attributable to common shareholders (diluted)	**$**	**0.24**	$	0.17	**$**	**1.59**	$	0.91
Weighted average number of common shares – diluted (in thousands)		**252,602**		226,537		**246,428**		235,870

For the three months ended December 31, 2016, net income attributable to common shareholders was $57.7 million or $0.24 per diluted share compared to $38.9 million or $0.17 per diluted share for the prior year. The $18.8 million increase in net income attributable to common shareholders was primarily due to an increase in the fair value of investment properties of $12.7 million on a proportionate basis compared to a decrease of $9.2 million for the fourth quarter of 2015.

For the year ended December 31, 2016, net income attributable to common shareholders was $382.7 million or $1.59 per diluted share compared to $203.9 million or $0.91 per diluted share for the prior year. The $178.8 million increase in net income attributable to common shareholders was primarily due to an increase in the fair value of investment properties of $222.9 million on a proportionate basis compared to an increase of $45.0 million in the prior year.

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

The following table provides a reconciliation of the Company's consolidated statements of income for the three months ended December 31, 2016, to its proportionate interest.

Three months ended December 31			**2016**			2015
	Consolidated Statements of Income	**Adjustment to proportionate interest**	**Proportionate interest**	Consolidated Statements of Income	Adjustment to proportionate interest	Proportionate interest
Property rental revenue	**$ 172,731**	**$ 2,185**	**$ 174,916**	$ 164,244	$ 1,947	$ 166,191
Property operating costs	**66,425**	**737**	**67,162**	60,949	584	61,533
Net operating income	**106,306**	**1,448**	**107,754**	103,295	1,363	104,658
Other income and expenses						
Interest and other income	**7,153**	**(123)**	**7,030**	3,697	258	3,955
Interest expense	**(40,406)**	**(538)**	**(40,944)**	(41,631)	(146)	(41,777)
Corporate expenses	**(10,051)**	**289**	**(9,762)**	(8,558)	238	(8,320)
Abandoned transaction costs	**(160)**	**—**	**(160)**	(71)	—	(71)
Amortization expense	**(369)**	**—**	**(369)**	(708)	(15)	(723)
Share of profit from joint ventures	**2,983**	**(2,983)**	**—**	2,012	(2,012)	—
Other gains (losses) and (expenses)	**312**	**319**	**631**	387	(27)	360
Increase (decrease) in value of investment properties, net	**12,092**	**651**	**12,743**	(9,541)	387	(9,154)
	(28,446)	**(2,385)**	**(30,831)**	(54,413)	(1,317)	(55,730)
Income before income taxes	**77,860**	**(937)**	**76,923**	48,882	46	48,928
Deferred income taxes	**19,177**	**7**	**19,184**	9,981	—	9,981
Net income	**$ 58,683**	**$ (944)**	**$ 57,739**	$ 38,901	$ 46	$ 38,947
Net income attributable to:						
Common shareholders	**$ 57,739**	**$ —**	**$ 57,739**	$ 38,947	$ —	$ 38,947
Non-controlling interest	**944**	**(944)**	**—**	(46)	46	—
	$ 58,683	**$ (944)**	**$ 57,739**	$ 38,901	$ 46	$ 38,947
Net income per share attributable to common shareholders:						
Basic	**$ 0.24**			$ 0.17		
Diluted	**$ 0.24**			$ 0.17		

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

Year ended December 31			2016			2015
	Consolidated Statements of Income	**Adjustment for proportionate interest**	**Proportionate interest**	Consolidated Statements of Income	Adjustment for proportionate interest	Proportionate interest
Property rental revenue	**$ 676,284**	**$ 7,938**	**$ 684,222**	$ 654,792	$ 7,401	$ 662,193
Property operating costs	**254,287**	**2,632**	**256,919**	244,900	2,277	247,177
Net operating income	**421,997**	**5,306**	**427,303**	409,892	5,124	415,016
Other income and expenses						
Interest and other income	**19,641**	**(223)**	**19,418**	17,702	(62)	17,640
Interest expense	**(158,687)**	**(1,985)**	**(160,672)**	(163,481)	(706)	(164,187)
Corporate expenses	**(34,910)**	**1,069**	**(33,841)**	(35,660)	955	(34,705)
Abandoned transaction costs	**(321)**	**(6)**	**(327)**	(786)	—	(786)
Amortization expense	**(1,287)**	**—**	**(1,287)**	(2,892)	(26)	(2,918)
Share of profit from joint ventures	**12,437**	**(12,437)**	**—**	12,178	(12,178)	—
Other gains (losses) and (expenses)	**(586)**	**369**	**(217)**	(15,155)	(188)	(15,343)
Increase (decrease) in value of investment properties, net	**218,078**	**4,831**	**222,909**	37,773	7,226	44,999
	54,365	**(8,382)**	**45,983**	(150,321)	(4,979)	(155,300)
Income before income taxes	**476,362**	**(3,076)**	**473,286**	259,571	145	259,716
Deferred income taxes	**90,570**	**2**	**90,572**	55,843	8	55,851
Net income	**$ 385,792**	**$ (3,078)**	**$ 382,714**	$ 203,728	$ 137	$ 203,865
Net income attributable to:						
Common shareholders	**$ 382,714**	**$ —**	**$ 382,714**	$ 203,865	$ —	$ 203,865
Non-controlling interest	**3,078**	**(3,078)**	**—**	(137)	137	—
	$ 385,792	**$ (3,078)**	**$ 382,714**	$ 203,728	$ 137	$ 203,865
Net income per share attributable to common shareholders:						
Basic	**$ 1.62**			$ 0.91		
Diluted	**$ 1.59**			$ 0.91		

Net Operating Income

NOI is defined as property rental revenue less property operating costs. NOI is commonly used as a primary method for analyzing real estate performance in Canada and, in Management's opinion, is useful in analyzing the operating performance of the Company's shopping centre portfolio. NOI is not a measure defined by IFRS and as such, there is no standard definition. As a result, NOI may not be comparable with similar measures presented by other entities. NOI is not to be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

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

	Three months ended December 31			Year ended December 31		
	% change	**2016**	2015	**% change**	**2016**	2015
Property rental revenue						
Base rent		**$ 91,066**	$ 89,558		**$ 361,587**	$ 356,437
Operating cost recoveries		**21,448**	19,987		**80,032**	78,116
Realty tax recoveries		**27,334**	25,000		**109,196**	106,166
Lease surrender fees		**309**	625		**1,859**	4,146
Percentage rent		**1,102**	1,079		**2,108**	2,377
Prior year operating cost and tax recovery adjustments		**(99)**	84		**(289)**	461
Temporary tenants, storage, parking and other		**3,008**	3,081		**10,909**	10,603
Total Same Property rental revenue		**144,168**	139,414		**565,402**	558,306
Property operating costs						
Recoverable operating expenses		**23,800**	22,236		**88,265**	86,684
Recoverable realty tax expenses		**29,554**	27,413		**118,050**	114,612
Other operating costs and adjustments		**(241)**	665		**(1,019)**	970
Total Same Property operating costs		**53,113**	50,314		**205,296**	202,266
Total Same Property NOI	**2.2%**	**$ 91,055**	$ 89,100	**1.1%**	**$ 360,106**	$ 356,040
Major redevelopment		**7,549**	8,374		**32,118**	33,107
Ground-up development		**2,638**	1,999		**9,527**	6,396
Acquisitions – 2016		**2,964**	—		**8,105**	—
Acquisitions – 2015		**1,131**	1,152		**4,582**	3,348
Investment properties classified as held for sale		**1,096**	1,027		**4,025**	4,165
Dispositions – 2016		**115**	1,506		**1,929**	5,885
Dispositions – 2015		**(29)**	18		**34**	453
Straight-line rent adjustment		**910**	1,313		**5,861**	4,927
Development land		**325**	169		**1,016**	695
NOI	**3.0%**	**$ 107,754**	104,658	**3.0%**	**$ 427,303**	$ 415,016
NOI margin		**61.6%**	63.0%		**62.5%**	62.7%

For the three months and year ended December 31, 2016, Same Property – stable NOI increased 1.1% and 0.8%, respectively, compared to the prior years.

For the three months ended December 31, 2016, Total Same Property NOI increased by $2.0 million or 2.2% to $91.1 million from $89.1 million primarily due to rent escalations, increased occupancy driving higher rents and lower other operating costs. For the year ended December 31, 2016, Total Same Property NOI increased by $4.1 million or 1.1% to $360.1 million from $356.0 million primarily due to rent escalations, lease renewals at higher rates, and lower other operating costs, partially offset by lower lease surrender fees compared to the prior year.

For the three months and year ended December 31, 2016, total NOI increased by $3.1 million and $12.3 million, respectively, compared to prior year periods primarily due to the net contribution from acquisitions and dispositions completed, Same Property NOI growth as well as the impact of developments coming online in the current year.

NOI by Region

NOI by segment at the Company's proportionate interest is as follows:

Three months ended December 31, 2016	Central Region	Eastern Region	Western Region	Subtotal	Other [(1)]	Total
Property rental revenue	**$ 73,128**	**$ 45,759**	**$ 56,826**	**$ 175,713**	**$ (797)**	**$ 174,916**
Property operating costs	**29,739**	**19,466**	**18,967**	**68,172**	**(1,010)**	**67,162**
NOI	**$ 43,389**	**$ 26,293**	**$ 37,859**	**$ 107,541**	**$ 213**	**$ 107,754**

Three months ended December 31, 2015	Central Region	Eastern Region	Western Region	Subtotal	Other [(1)]	Total
Property rental revenue	$ 69,520	$ 45,629	$ 51,519	$ 166,668	$ (477)	$ 166,191
Property operating costs	27,280	19,171	15,715	62,166	(633)	61,533
NOI	$ 42,240	$ 26,458	$ 35,804	$ 104,502	$ 156	$ 104,658

Year ended December 31, 2016	Central Region	Eastern Region	Western Region	Subtotal	Other [(1)]	Total
Property rental revenue	**$ 283,923**	**$ 181,886**	**$ 221,480**	**$ 687,289**	**$ (3,067)**	**$ 684,222**
Property operating costs	**109,874**	**78,353**	**73,010**	**261,237**	**(4,318)**	**256,919**
NOI	**$ 174,049**	**$ 103,533**	**$ 148,470**	**$ 426,052**	**$ 1,251**	**$ 427,303**

Year ended December 31, 2015	Central Region	Eastern Region	Western Region	Subtotal	Other [(1)]	Total
Property rental revenue	$ 278,185	$ 178,105	$ 208,527	$ 664,817	$ (2,624)	$ 662,193
Property operating costs	106,525	76,155	67,224	249,904	(2,727)	247,177
NOI	$ 171,660	$ 101,950	$ 141,303	$ 414,913	$ 103	$ 415,016

(1) Other items principally consist of intercompany eliminations.

Interest and Other Income

For the three months and year ended December 31, 2016, the Company's proportionate share of interest and other income totaled $7.0 million and $19.4 million, compared to $4.0 million and $17.6 million, respectively, for the same prior year periods. The increase of $1.8 million over the prior year is primarily due to interest earned on the Company's outstanding loans, deposits and mortgages, offset by lower interest and dividends earned on the Company's marketable securities.

Interest Expense

The Company's proportionate share of interest expense by type is as follows:

	Three months ended December 31		Year ended December 31	
	2016	2015	**2016**	2015
Mortgages	**$ 12,130**	$ 12,330	**$ 48,965**	$ 51,654
Credit facilities	**1,584**	1,874	**7,385**	4,410
Senior unsecured debentures	**29,602**	26,999	**112,023**	106,844
Convertible debentures (non-cash)	**3,192**	5,177	**14,603**	22,118
Interest capitalized	**(5,564)**	(4,603)	**(22,304)**	(20,839)
Interest expense	**$ 40,944**	$ 41,777	**$ 160,672**	$ 164,187

For the three months and year ended December 31, 2016, interest expense decreased by $0.8 million and $3.5 million, respectively, primarily due to the early redemption of higher rate convertible debentures in the current and prior years, partially offset by the impact of new lower rate senior unsecured debenture issuances.

During the year ended December 31, 2016 and 2015, approximately 12.2% and 11.3% of interest expense was capitalized to real estate investments for properties undergoing development or redevelopment projects. Amounts capitalized are dependent on interest expense paid, on the phase and magnitude of development and redevelopment projects actively underway as well as the portfolio weighted average interest rate. The increase in capitalized interest over the prior year is due to higher cumulative development expenditure.

Corporate Expenses

The Company's proportionate share of corporate expenses is as follows:

	Three months ended December 31		Year ended December 31	
	2016	2015	**2016**	2015
Salaries, wages and benefits	**$ 7,391**	$ 6,645	**$ 26,593**	$ 28,513
Non-cash compensation	**1,004**	673	**3,469**	2,941
Other corporate costs	**3,031**	3,057	**10,216**	11,182
Total corporate expenses	**11,426**	10,375	**40,278**	42,636
Amounts capitalized to investment properties under development	**(1,664)**	(2,055)	**(6,437)**	(7,931)
Corporate expenses	**$ 9,762**	$ 8,320	**$ 33,841**	$ 34,705

For the year ended December 31, 2016, corporate expenses decreased by $0.9 million to $33.8 million compared to the prior year primarily due to lower employee compensation expense of $1.9 million as a result of the organizational restructuring completed in 2015. Other corporate costs were also lower by $1.0 million over the prior year as a result of the restructuring, and certain non-recurring costs incurred in 2015.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development, including salaries and related costs for planning, zoning, construction and so forth, are capitalized in accordance with IFRS to development projects as incurred. During the year ended December 31, 2016 and 2015, approximately 17.5% and 20.0%, respectively, of compensation-related and other corporate expenses were capitalized to real estate investments for properties undergoing development or redevelopment projects. Amounts capitalized are based on development and pre-development projects underway. Changes in capitalized corporate expenses are primarily the result of timing of completion of development and redevelopment projects and the Company's current level of pre-development and early redevelopment activity.

Other Gains (Losses) and (Expenses)

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

	Three months ended December 31					
	2016			2015		
	Proportionate Statement of Income	**Included in FFO**	**Included in AFFO**	Proportionate Statement of Income	Included in FFO	Included in AFFO
Unrealized gain (loss) on marketable securities classified as FVTPL	**$ (123)**	**$ (123)**	**$ —**	$ 636	$ 636	$ —
Net gain (loss) on prepayments of debt	**(10)**	**(10)**	**—**	(71)	(71)	—
Proceeds from Target	**663**	**663**	**663**	—	—	—
Investment properties selling costs	**46**	**—**	**—**	(64)	—	—
Restructuring costs	**—**	**—**	**—**	(126)	(126)	—
Other	**55**	**55**	**—**	(15)	(15)	—
Total	**$ 631**	**$ 585**	**$ 663**	$ 360	$ 424	$ —

	Year ended December 31					
	2016			2015		
	Proportionate Statement of Income	**Included in FFO**	**Included in AFFO**	Proportionate Statement of Income	Included in FFO	Included in AFFO
Realized gain (loss) on sale of marketable securities	**$ 79**	**$ 79**	**$ 79**	$ 784	$ 784	$ 784
Unrealized gain (loss) on marketable securities classified as FVTPL	**1,071**	**1,071**	**—**	(2,022)	(2,022)	—
Net gain (loss) on prepayments of debt	**(1,119)**	**(1,119)**	**—**	(310)	(310)	—
Proceeds from Target	**3,813**	**3,813**	**3,813**	—	—	—
Investment properties selling costs	**(2,030)**	**—**	**—**	(539)	—	—
Restructuring costs	**(1,988)**	**(1,988)**	**—**	(13,085)	(13,085)	—
Other	**(43)**	**(43)**	**—**	(171)	(171)	—
Total	**$ (217)**	**$ 1,813**	**$ 3,892**	$ (15,343)	$ (14,804)	$ 784

For the three months ended December 31, 2016, the Company recognized a $0.6 million gain in its proportionate statement of income compared to a $0.4 million gain in 2015. For the year ended December 31, 2016, the Company recognized a $0.2 million loss in its proportionate statement of income compared to a $15.3 million loss in the prior year. The lower loss over prior year was primarily due to lower restructuring costs of $11.1 million, related to the organizational restructuring undertaken in 2015, as well as the recognition of proceeds totaling $3.8 million under Target Canada's CCAA plan of arrangement related to the closure of two Target stores in the Company's portfolio.

Income Taxes

For the three months ended December 31, 2016, deferred income tax expense totaled $19.2 million compared to $10.0 million for the prior year. For the year ended December 31, 2016, deferred income tax expense totaled $90.6 million compared to $55.9 million for the prior year. The increase of $9.2 million and $34.7 million over the same prior year periods, respectively, is primarily due to the tax impact of a higher increase in fair value of investment properties over prior periods.

Non-IFRS Supplemental Financial Measures

In Management's view, FFO and AFFO are commonly accepted and meaningful indicators of financial performance in the real estate industry. These measures are the primary metrics used in analyzing real estate organizations in Canada. FFO and AFFO are not measures defined by IFRS and, as such, neither of them has a standard definition. The Company's method of calculating FFO and AFFO may be different from methods used by other corporations or REITs (real estate investment trusts) and, accordingly, may not be comparable to such other corporations or REITs. FFO and AFFO: (i) do not represent cash flow from operating activities as defined by IFRS, (ii) are not indicative of cash available to fund all liquidity requirements, including payment of dividends and capital for growth, and (iii) are not to be considered as alternatives to IFRS net income for the purpose of evaluating operating performance.

Funds from Operations

The Company calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("REALpac"). The use of FFO has been included for the purpose of improving the understanding of the operating results of the Company. FFO is considered a meaningful additional financial measure of operating performance, as it excludes fair value gains and losses on investment properties as well as certain other items included in the Company's net income that may not be the most appropriate determinants of the long-term operating performance of the Company, such as investment property selling costs and deferred income taxes. FFO provides a perspective on the financial performance of the Company that is not immediately apparent from net income determined in accordance with IFRS.

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

	Three months ended December 31		Year ended December 31	
	2016	2015	**2016**	2015
Net income attributable to common shareholders	**$ 57,739**	$ 38,947	**$ 382,714**	$ 203,865
Add (deduct):				
(Increase) decrease in value of investment properties	**(12,743)**	9,154	**(222,909)**	(44,999)
Incremental leasing costs	**1,671**	674	**6,657**	3,373
Investment properties selling costs	**(46)**	64	**2,030**	539
Adjustment for equity accounted joint ventures	**1,019**	28	**3,480**	2,636
Deferred income taxes	**19,184**	9,981	**90,572**	55,851
FFO	**$ 66,824**	$ 58,848	**$ 262,544**	$ 221,265

Operating FFO

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

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

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

	Three months ended December 31			Year ended December 31		
	% change	**2016**	2015	% change	**2016**	2015
Net operating income		**$ 107,754**	$ 104,658		**$ 427,303**	$ 415,016
Interest and other income		**7,030**	3,955		**19,418**	17,640
Interest expense [(1)]		**(39,925)**	(41,048)		**(157,192)**	(161,551)
Corporate expenses [(2)]		**(8,091)**	(8,347)		**(27,184)**	(31,332)
Abandoned transaction costs		**(160)**	(71)		**(327)**	(786)
Amortization expense		**(369)**	(723)		**(1,287)**	(2,918)
Operating FFO	13.4%	**66,239**	58,424	10.4%	**260,731**	236,069
Other gains (losses) and (expenses) [(3)]		**585**	424		**1,813**	(14,804)
FFO	13.6%	**$ 66,824**	$ 58,848	18.7%	**$ 262,544**	$ 221,265
Operating FFO per diluted share	5.0%	**$ 0.27**	$ 0.26	4.7%	**$ 1.10**	$ 1.05
FFO per diluted share	5.0%	**$ 0.27**	$ 0.26	12.6%	**$ 1.11**	$ 0.99
Weighted average number of common shares – diluted – FFO (in thousands)	8.0%	**244,554**	226,537	5.4%	**236,243**	224,069

(1) Includes an adjustment to capitalize interest related to the Company's equity accounted joint ventures in accordance with the recommendations of REALpac.
(2) Includes an adjustment to capitalize incremental leasing costs in accordance with the recommendations of REALpac.
(3) Refer to the "Results of Operations – Other Gains (Losses) and (Expenses)" section of this MD&A.

For the three months ended December 31, 2016, Operating FFO totaled $66.2 million or $0.27 per diluted share compared to $58.4 million or $0.26 per diluted share in the same prior year period. The 5.0% or $0.01 per diluted share increase was primarily due to higher NOI and interest and other income, and lower interest expense. For the three months ended December 31, 2016, FFO totaled $66.8 million or $0.27 per diluted share compared to $58.8 million or $0.26 per diluted share in the same prior year period. The 5.0% or $0.01 per diluted share increase in FFO was due to higher Operating FFO compared to the same prior year period.

For the year ended December 31, 2016, Operating FFO totaled $260.7 million or $1.10 per diluted share compared to $236.1 million or $1.05 per diluted share for the prior year. The 4.7% or $0.05 per diluted share increase was primarily due to higher NOI and lower interest and corporate expenses. For the year ended December 31, 2016, FFO totaled $262.5 million or $1.11 per diluted share compared to $221.3 million or $0.99 per diluted share for the prior year. The 12.6% or $0.12 per diluted share increase in FFO was primarily due to higher Operating FFO of $24.7 million, lower restructuring costs of $11.1 million and the recognition of the proceeds from Target of $3.8 million compared to the prior year.

Adjusted Funds from Operations and Operating AFFO

AFFO is a supplementary measure that the Company uses to measure operating cash flow generated from the business. In calculating AFFO, the Company adjusts FFO for non-cash and other items including interest payable in shares, straight-line rent adjustment, non-cash compensation expense, Same Property capital expenditures and leasing costs for maintaining shopping centre infrastructures and certain other gains or losses. Residential inventory pre-sale costs are recognized in AFFO when the Company recognizes revenue from the sale of residential units. In addition, the Company calculates Operating AFFO by excluding from AFFO the effects of certain other gains (losses) and (expenses) that are not deemed part of the Company's on-going core operations. The weighted average number of diluted shares outstanding for AFFO is adjusted to assume conversion of all the outstanding convertible debentures, calculated using the holders’ contractual conversion price to be consistent with the treatment of the interest expense payable in shares in AFFO.

Operating AFFO and AFFO are calculated as follows:

	Three months ended December 31			Year ended December 31		
	% change	**2016**	2015	% change	**2016**	2015
Operating FFO		**$ 66,239**	$ 58,424		**$ 260,731**	$ 236,069
Add (deduct):						
Interest expense payable in shares		**3,192**	5,177		**14,603**	22,118
Straight-line rent adjustment		**(910)**	(1,313)		**(5,861)**	(4,927)
Non-cash compensation expense		**1,069**	730		**3,698**	3,098
Same Property revenue sustaining capital expenditures [(1)]		**(3,381)**	(4,097)		**(16,838)**	(17,574)
Costs not capitalized during development period [(2)]		**1,145**	643		**5,010**	4,317
Other adjustments		**(77)**	(66)		**(366)**	(293)
Operating AFFO	13.1%	**$ 67,277**	$ 59,498	7.5%	**$ 260,977**	$ 242,808
Other gains (losses) and (expenses) [(3)]		**663**	—		**3,892**	784
AFFO	14.2%	**$ 67,940**	$ 59,498	8.7%	**$ 264,869**	$ 243,592
Operating AFFO per diluted share	7.7%	**$ 0.27**	$ 0.25	4.4%	**$ 1.07**	$ 1.02
AFFO per diluted share	8.5%	**$ 0.27**	$ 0.25	5.7%	**$ 1.08**	$ 1.03
Weighted average number of common shares – diluted – AFFO (in thousands)	5.3%	**253,119**	240,409	2.9%	**244,623**	237,633

(1) Estimated at $0.79 per square foot per annum (2015 – $0.85) on average gross leasable area of same properties (based on an estimated three-year weighted average).

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

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

For the three months ended December 31, 2016, Operating AFFO increased by 7.7% or $0.02 per diluted share. For the year ended December 31, 2016, Operating AFFO increased 4.4% or $0.05 per diluted share. The increase was primarily due to higher Operating FFO partially offset by a lower adjustment for interest expense payable in shares as a result of the convertible debenture redemptions in the current and prior years.

For the three months and year ended December 31, 2016, AFFO per share increased primarily due to higher Operating AFFO and the recognition of the proceeds from Target in the second and fourth quarters.

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

	Three months ended December 31		Year ended December 31	
	2016	2015	**2016**	2015
Cash provided by operating activities	**$ 96,950**	$ 84,757	**$ 256,598**	$ 244,433
Adjustments for equity accounted joint ventures	**2,060**	801	**7,034**	5,287
Realized gain (loss) on sale of marketable securities	**—**	—	**79**	784
Incremental leasing costs	**1,671**	674	**6,657**	3,373
Net change in non-cash operating items	**(27,475)**	(17,554)	**8,706**	(563)
Adjustments for residential inventory	**—**	—	**18**	208
Amortization expense	**(369)**	(708)	**(1,287)**	(2,892)
Non-cash interest expense	**(2,637)**	(5,023)	**(2,758)**	539
Costs not capitalized during development period	**1,145**	643	**5,010**	4,317
Same Property revenue sustaining capital expenditures	**(3,381)**	(4,097)	**(16,838)**	(17,574)
Cash component of restructuring costs	**—**	68	**1,988**	5,972
Other adjustments	**(24)**	(63)	**(338)**	(292)
AFFO	**$ 67,940**	$ 59,498	**$ 264,869**	$ 243,592

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, 2016**	December 31, 2015
Liabilities (principal amounts outstanding)		
Bank indebtedness	**$ 15,914**	$ 26,200
Mortgages	**995,925**	1,020,358
Credit facilities	**251,481**	224,635
Mortgages under equity accounted joint ventures (at the Company's proportionate interest)	**45,612**	2,749
Credit facilities under equity accounted joint venture (at the Company's proportionate interest)	**56,798**	30,953
Senior unsecured debentures	**2,550,000**	2,250,000
Convertible debentures	**212,635**	337,271
Equity capitalization [1]		
Common shares (based on closing per share price of $20.67; December 31, 2015 – $18.35)	**5,033,286**	4,138,622
Enterprise value [1]	**$ 9,161,651**	$ 8,030,788

[1] These measures are not defined by IFRS, do not have a standard definition and, as such, may not be comparable to similar measures disclosed by other issuers. Equity capitalization is the market value of the Company's shares outstanding at a point in time. Enterprise value is the sum of the Company's total debt on a proportionate basis and its equity capitalization.

Key Metrics

The ratios below include measures not specifically defined by IFRS:

As at	**December 31, 2016**	December 31, 2015
Weighted average effective interest rate on mortgages and senior unsecured debentures	**4.5%**	4.7%
Weighted average maturity on mortgages and senior unsecured debentures (years)	**5.3**	5.5
Net debt to total assets [(1)]	**42.6%**	42.9%
Net debt to EBITDA [(1)]	**9.1**	8.7
Unencumbered aggregate assets	**6,627,091**	5,783,452
Unencumbered aggregate assets to unsecured debt, based on fair value	**2.4**	2.3
EBITDA interest coverage [(1)]	**2.5**	2.5

(1) Calculated with all joint ventures proportionately consolidated.

Measures used in these ratios are defined below:

- Debt consists of principal amounts outstanding on credit facilities and mortgages, and the par value of senior unsecured debentures. Convertible debentures are excluded as the Company has the option to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares;
- Net debt is calculated as Debt, as defined above, reduced by cash balances at the end of the period;
- EBITDA, as adjusted, is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the value of investment properties, other gains (losses) and (expenses) and other non-cash or non-recurring items. The Company also adjusts for incremental leasing costs and costs not capitalized during the development period, which are recognized adjustments to FFO and AFFO, respectively.
- 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.

Consolidated Debt and Principal Maturity Profile

The maturity profile of the Company's proportionate share of its mortgages and credit facilities as well as its senior unsecured debentures as at December 31, 2016 is summarized in the table below:

	Mortgages	Credit Facilities/Bank Indebtedness	Senior Unsecured Debentures	Total	% Due
2017	$ 111,112	$ 58,160	$ 250,000	$ 419,272	10.7%
2018	151,418	54,793	150,000	356,211	9.1%
2019	128,380	11,875	150,000	290,255	7.4%
2020	65,914	153,451	175,000	394,365	10.1%
2021	91,719	45,914	175,000	312,633	8.0%
2022	161,270	—	450,000	611,270	15.5%
2023	11,440	—	300,000	311,440	8.0%
2024	72,152	—	300,000	372,152	9.5%
2025	64,166	—	300,000	364,166	9.3%
2026	183,966	—	300,000	483,966	12.4%
	1,041,537	324,193	2,550,000	3,915,730	100.0%
Add (deduct): unamortized deferred financing costs, premiums and discounts, net	996	—	(3,558)	(2,562)	
Total	$ 1,042,533	$ 324,193	$ 2,546,442	$ 3,913,168	

The Company's strategy is to manage its long-term debt by staggering maturity dates in order to mitigate risk associated with short-term volatility in the debt markets. The Company also intends to maintain financial strength to achieve a reasonable cost of debt and equity capital over the long term. When it is deemed appropriate, the Company will raise equity as a source of financing and may strategically sell non-core assets to best redeploy capital and take advantage of market opportunities.

Mortgages

The changes in the Company's mortgages during the year ended December 31, 2016, including its proportionate share of mortgages in equity accounted joint ventures, are set out below:

Year ended December 31, 2016	Amount	Weighted Average Effective Interest Rate
Balance at beginning of year	$ 1,026,752	4.5%
Mortgage borrowings	203,400	3.2%
Mortgage repayments	(155,645)	4.0%
Scheduled amortization on mortgages	(29,325)	—
Amortization of financing costs and net premium	(2,649)	—
Balance at end of year	$ 1,042,533	4.3%

As at December 31, 2016, 100% (December 31, 2015 – 100%) of the outstanding mortgages bore interest at fixed interest rates. The average remaining term of mortgages outstanding increased from 4.1 years as at December 31, 2015 on $1.0 billion of mortgages to 4.6 years as at December 31, 2016 on $1.0 billion of mortgages after reflecting borrowing activity and repayments during the period.

Mortgage Maturity Profile

The maturity profile of the Company's proportionate share of mortgages as at December 31, 2016 is summarized in the table below:

As at December 31, 2016	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2017	$ 28,210	$ 82,902	$ 111,112	4.1%
2018	24,348	127,070	151,418	5.4%
2019	21,666	106,714	128,380	6.5%
2020	20,056	45,858	65,914	5.3%
2021	18,322	73,397	91,719	4.4%
2022	13,316	147,954	161,270	3.9%
2023	11,440	—	11,440	—
2024	10,882	61,270	72,152	4.0%
2025	8,271	55,895	64,166	3.6%
2026	2,783	181,183	183,966	3.3%
	$ 159,294	$ 882,243	$ 1,041,537	4.3%
Add: unamortized deferred financing costs and premiums and discounts, net			996	
Total			$ 1,042,533	

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, 2016, the Company had drawn CAD$30.0 million and US$114.3 million, as well as CAD$15.9 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, the Company completed an extension of one of its secured construction facilities from March 31, 2016 to March 31, 2017 and effective June 30, 2016, the Company extended the maturity of its $800 million unsecured facility to June 30, 2021 on substantially the same terms.

In September 2016, the Company entered into two secured facilities totaling $19.4 million, at the Company's proportionate interest, maturing between 2018 and 2019.

In the fourth quarter, the Company entered into a new unsecured facility with a borrowing capacity of CAD$150 million, key terms of which are presented in the table below.

The Company's credit facilities, including its proportionate share of facilities under the equity accounted joint ventures, as at December 31, 2016 are summarized in the table below:

As at December 31, 2016	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 2021	$ 800,000	$ (30,000)	$ (46,615)	$ 723,385	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	June 30, 2021
Non-revolving facility maturing 2020 (1)	150,000	(153,451)	—	—	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	October 30, 2020
Secured construction facilities						
Maturing 2018	115,000	(40,870)	(1,475)	72,655	BA + 1.125% or Prime + 0.125%	February 13, 2018
Maturing 2017	7,953	(7,785)	—	168	BA + 1.125% or Prime + 0.125%	March 31, 2017
Credit facilities under equity accounted joint ventures	69,114	(56,798)	—	12,316	Between Prime - 0.15% and Prime + 1.5%	Between January 2017 and March 2018
Secured Facilities						
Maturing 2019	11,875	(11,875)	—	—	BA + 1.125% or Prime + 0.125%	September 27, 2019
Maturing 2018	7,500	(7,500)	—	—	BA + 1.125% or Prime + 0.125%	September 6, 2018
Total	$ 1,161,442	$ (308,279)	$ (48,090)	$ 808,524		

(1) The Company had drawn in US dollars the equivalent of CAD$150.0 million which was revalued at CAD$153.5 million as at December 31, 2016, as such the Company is in compliance with its borrowing capacity.

Senior Unsecured Debentures

As at December 31, 2016			Interest Rate		Remaining Term to Maturity	Principal Outstanding
Series	Maturity Date	Interest Payment Dates	Coupon	Effective	(years)	
H	January 31, 2017	January 31, July 31	5.85%	5.99%	0.1	$ 125,000
I	November 30, 2017	May 30, November 30	5.70%	5.79%	0.9	125,000
J	August 30, 2018	February 28, August 30	5.25%	5.66%	1.7	50,000
K	November 30, 2018	May 31, November 30	4.95%	5.17%	1.9	100,000
L	July 30, 2019	January 30, July 30	5.48%	5.61%	2.6	150,000
M	April 30, 2020	April 30, October 30	5.60%	5.60%	3.3	175,000
N	March 1, 2021	March 1, September 1	4.50%	4.63%	4.2	175,000
O	January 31, 2022	January 31, July 31	4.43%	4.59%	5.1	200,000
P	December 5, 2022	June 5, December 5	3.95%	4.18%	5.9	250,000
Q	October 30, 2023	April 30, October 30	3.90%	3.97%	6.8	300,000
R	August 30, 2024	August 30, February 28	4.79%	4.72%	7.7	300,000
S	July 31, 2025	January 31, July 31	4.32%	4.24%	8.6	300,000
T	May 6, 2026	November 5, May 5	3.60%	3.56%	9.4	300,000
	Weighted Average or Total		4.57%	4.63%	5.6	$ 2,550,000

On May 6, 2016 the Company completed the issuance of $150.0 million principal amount of Series T senior unsecured debentures due May 6, 2026. These debentures bear interest at a coupon rate of 3.604% per annum and an effective interest rate of 3.7%, payable semi-annually commencing November 6, 2016.

On September 29, 2016, the Company completed the issuance of an additional $150.0 million principal amount of Series T senior unsecured debentures, which was a re-opening of this series of debentures, with an effective interest rate of 3.4%.

Convertible Debentures

As at December 31, 2016									
			Interest Rate						
Series	Maturity Date	Interest Payment Dates	Coupon	Effective	Remaining Term to Maturity (yrs)	Principal at Issue Date	**Principal**	**Liability**	**Equity**
E	January 31, 2019	March 31 September 30	5.40%	6.90%	2.1	$ 57,500	$ 54,666	$ 53,095	$ 2,084
F	January 31, 2019	March 31 September 30	5.25%	6.07%	2.1	57,500	51,584	50,773	351
I	July 31, 2019	March 31 September 30	4.75%	6.19%	2.6	52,500	51,210	49,822	1,403
J	February 28, 2020	March 31 September 30	4.45%	5.34%	3.2	57,500	55,175	53,943	386
	Weighted Average or Total		4.96%	6.12%	2.5	$ 225,000	$ 212,635	$ 207,633	$ 4,224

(i) Principal and Interest

During the year ended December 31, 2016, 0.7 million common shares (year ended December 31, 2015 – 1.0 million common shares) were issued totaling $13.6 million (year ended December 31, 2015 – $18.9 million) to pay interest to holders of convertible debentures.

(ii) Principal Redemption

On April 1, 2016, the Company redeemed its remaining 5.25% Series G and 4.95% Series H convertible debentures at par. The full redemption price and any accrued interest owing on each series of convertible debentures was satisfied 50% by the issuance of common shares and 50% in cash.

On December 22, 2016, the Company provided a notice of redemption to the holders of the remaining 5.40% Series E and 5.25% Series F convertible debentures that the entire principal amount outstanding plus accrued interest would be redeemed in cash on January 31, 2017.

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

Effective August 29, 2016, the Company renewed its NCIB for all of its then outstanding series of convertible debentures. The NCIB will expire on August 28, 2017 or such earlier date as First Capital Realty completes its purchases pursuant to the NCIB. All purchases made under the NCIB are at market prices prevailing at the time of purchase.

For the year ended December 31, 2016 and 2015, principal amounts of convertible debentures purchased and amounts paid for the purchases are summarized in the table below:

Year ended December 31		**2016**		2015
	Principal Amount Purchased	**Amount Paid**	Principal Amount Purchased	Amount Paid
Total	**$ 4,048**	**$ 4,102**	$ 12,289	$ 12,436

Shareholders’ Equity

Shareholders’ equity amounted to $4.2 billion as at December 31, 2016, compared to $3.6 billion as at December 31, 2015.

As at December 31, 2016, the Company had 243.5 million (December 31, 2015 – 225.5 million) issued and outstanding common shares with a stated capital of $3.1 billion (December 31, 2015 – $2.8 billion). During the year ended December 31, 2016, a total of 18.0 million common shares were issued as follows: 13.1 million from public offerings, 3.1 million shares from the redemption of the series G and H convertible debentures, 1.1 million shares from the exercise of common share options and 0.7 million shares for interest payments on convertible debentures.

As at February 13, 2017, there were 243.5 million common shares outstanding.

Share Purchase Options

As at December 31, 2016, the Company had 4.2 million share purchase options outstanding, with an average exercise price of $18.15, which, if exercised, would result in the Company receiving proceeds of $76.3 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, 2016**		December 31, 2015
Total available under credit facilities	**$**	**809**	$	673
Cash and cash equivalents	**$**	**12**	$	9
Unencumbered aggregate assets	**$**	**6,627**	$	5,783

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 in 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 in various markets.

Planned and completed financings subsequent to December 31, 2016, and availability on existing credit facilities, address substantially all of the contractual 2017 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			
		2016		2015		**2016**		2015
Cash provided by operating activities	**$**	**96,950**	$	84,757	**$**	**256,598**	$	244,433
Cash provided by (used in) financing activities		**(80,571)**		3,913		**326,958**		63,572
Cash used in investing activities		**(101,475)**		(99,197)		**(570,217)**		(342,392)
Net change in cash and cash equivalents	**$**	**(85,096)**	$	(10,527)	**$**	**13,339**	$	(34,387)

Adjusted cash flow from operating activities is not a measure defined by IFRS. Management defines this measure as cash flow from operating activities adjusted for the net change in non-cash operating items, receipt of proceeds from sales of residential inventory and expenditures on residential development inventory.

	Three months ended December 31		Year ended December 31	
	2016	2015	**2016**	2015
Cash provided by operating activities	**$ 96,950**	$ 84,757	**$ 256,598**	$ 244,433
Net change in non-cash operating items	**(27,475)**	(17,554)	**8,706**	(563)
Expenditures on residential development inventory	**—**	—	**—**	52
Adjusted cash flow from operating activities	**$ 69,475**	$ 67,203	**$ 265,304**	$ 243,922

For the year ended December 31, 2016, adjusted cash flow from operating activities improved by $21.4 million primarily due to higher NOI of $12.1 million, lower cash restructuring costs of $4.0 million and higher interest and other income of $1.9 million.

Contractual Obligations

An analysis of the Company's contractual maturities of its material financial liabilities and other contractual commitments, at its proportionate share, as at December 31, 2016 is set out below:

	Payments due by period				
	2017	2018 to 2019	2020 to 2021	Thereafter	Total
Scheduled mortgage principal amortization	$ 28,210	$ 46,014	$ 38,378	$ 46,692	$ 159,294
Mortgage principal repayments on maturity	82,902	233,784	119,255	446,302	882,243
Credit facilities and bank indebtedness	63,510	61,318	199,365	—	324,193
Senior unsecured debentures	250,000	300,000	350,000	1,650,000	2,550,000
Convertible debentures	108,147	—	—	—	108,147
Interest obligations (1)	161,771	268,151	199,463	206,467	835,852
Land leases (expiring between 2023 and 2061)	964	1,958	1,968	15,219	20,109
Contractually committed costs to complete current development projects	59,802	5,818	—	—	65,620
Other committed costs	—	15,806	—	—	15,806
Total contractual obligations (2)	$ 755,306	$ 932,849	$ 908,429	$ 2,364,680	$ 4,961,264

(1) Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2016 (assuming balances remain outstanding through to maturity) and senior unsecured debentures, as well as standby credit facility fees.

(2) The Company has the option to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares and, as such, convertible debentures have been excluded from this table unless the Company has disclosed its intention to settle in cash.

The Company has $48.2 million of bank overdrafts and outstanding letters of credit issued by financial institutions to support certain of the Company's contractual obligations.

The Company's estimated cost to complete properties currently under development is $167.5 million, of which $65.6 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 $108.1 million (December 31, 2015 – $78.4 million) to various lenders in connection with certain obligations, including loans advanced to its partners secured by the partners' interest in the entity and underlying assets.

DIVIDENDS

The Company has paid regular quarterly dividends to common shareholders since it commenced operations as a public company in 1994. Dividends on the common shares 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)	**2016**	2015	**2016**	2015
Dividend per common share	**$ 0.215**	$ 0.215	**$ 0.86**	$ 0.86

SUMMARY OF FINANCIAL RESULTS OF LONG-TERM DEBT GUARANTORS

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

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

(millions of dollars)										Year ended December 31
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	FCR [1]		Guarantors [2]		Non-Guarantors [3]		Consolidation Adjustments [4]		Total Consolidated	
Property rental revenue	**$ 285**	$ 267	**$ 407**	$ 403	**$ 9**	$ 8	**$ (25)**	$ (23)	**$ 676**	$ 655
NOI	**178**	170	**224**	224	**4**	5	**16**	11	**422**	410
Net income attributable to common shareholders	**383**	203	**324**	268	**15**	16	**(339)**	(283)	**383**	204

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

(1) This column accounts for investments in all subsidiaries of FCR under the equity method.
(2) This column accounts for investments in subsidiaries of FCR other than the guarantors under the equity method.
(3) This column accounts for investments in all subsidiaries of FCR other than guarantors on a combined basis.
(4) This column includes the necessary amounts to eliminate the inter-company balances between FCR, the guarantors, and other subsidiaries to arrive at the information for the Company on a consolidated basis.

(millions of dollars)					As at December 31, 2015
	FCR [1]	Guarantors [2]	Non-Guarantors [3]	Consolidation Adjustments [4]	Total Consolidated
Current assets	$ 135	$ 230	$ 23	$ (218)	$ 170
Non-current assets	7,715	4,910	334	(4,851)	8,108
Current liabilities	559	210	263	(584)	448
Non-current liabilities	3,623	589	89	(138)	4,163

(1) This column accounts for investments in all subsidiaries of FCR under the equity method.
(2) This column accounts for investments in subsidiaries of FCR other than the guarantors under the equity method.
(3) This column accounts for investments in all subsidiaries of FCR other than guarantors on a combined basis.
(4) This column includes the necessary amounts to eliminate the inter-company balances between FCR, the guarantors, and other subsidiaries to arrive at the information for the Company on a consolidated basis.

RELATED PARTY TRANSACTIONS

Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company, and, as of December 31, 2016, beneficially owned 36.4% (December 31, 2015 – 42.2%) 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.

Effective April 3, 2016, a shareholders' agreement between Gazit and Alony-Hetz Properties and Investments Ltd. (''Alony-Hetz'') was terminated and Mr. Nathan Hetz, the Chief Executive Officer and a director of Alony-Hetz, stepped down from the Board of Directors of First Capital Realty on April 4, 2016. As of March 31, 2016, the last date that Alony-Hetz reported its shareholdings to First Capital Realty, it beneficially owned 6.2% of the common shares of the Company. Pursuant to the terminated shareholders' agreement, among other terms, (i) Gazit agreed to vote its common shares of the Company in favour of the election of up to two representatives of Alony-Hetz to the Board of Directors of the Company, and (ii) Alony-Hetz agreed to vote its common shares of the Company as directed by Gazit with respect to the election of the remaining directors of the Company.

Joint Venture

During the three months and year ended December 31, 2016, a subsidiary of Main and Main Developments earned property-related and asset management fees from Main and Main Urban Realty, which are included in interest and other income on a proportionate basis in the amount of $1.2 million and $2.6 million (December 31, 2015 – $0.8 million and $1.7 million).

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

Redemption of Convertible Debentures

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

First Quarter Dividend

The Company announced that it will pay a first quarter dividend of $0.215 per common share on April 11, 2017 to shareholders of record on March 29, 2017.

QUARTERLY FINANCIAL INFORMATION

	2016				2015			
(share counts in thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property rental revenue	**$ 172,731**	$ 167,877	$ 167,576	$ 168,100	$ 164,244	$ 160,639	$ 166,249	$ 163,661
Net operating income	**106,306**	107,612	105,083	102,996	103,295	102,585	104,233	99,780
Net income attributable to common shareholders	**57,739**	88,464	169,556	66,957	38,947	24,750	94,267	45,901
Net income per share attributable to common shareholders:								
Basic	**$ 0.24**	$ 0.37	$ 0.73	$ 0.30	$ 0.17	$ 0.11	$ 0.42	$ 0.21
Diluted	**$ 0.24**	$ 0.36	$ 0.71	$ 0.29	$ 0.17	$ 0.11	$ 0.41	$ 0.21
Weighted average number of diluted common shares outstanding – IFRS	**252,602**	250,596	243,235	243,467	226,537	225,536	241,494	223,652
Cash provided by operating activities	**$ 96,950**	$ 68,607	$ 42,704	$ 48,339	$ 84,757	$ 59,811	$ 62,172	$ 37,696
Operating FFO	**$ 66,239**	$ 68,789	$ 64,200	$ 61,504	$ 58,424	$ 61,651	$ 60,940	$ 55,054
Operating FFO per diluted share	**$ 0.27**	$ 0.29	$ 0.28	$ 0.27	$ 0.26	$ 0.27	$ 0.27	$ 0.25
FFO	**$ 66,824**	$ 67,451	$ 66,368	$ 61,902	$ 58,848	$ 47,477	$ 59,509	$ 55,432
FFO per diluted share	**$ 0.27**	$ 0.28	$ 0.29	$ 0.27	$ 0.26	$ 0.21	$ 0.27	$ 0.25
Weighted average number of diluted common shares outstanding – FFO	**244,554**	240,708	233,014	226,692	226,537	225,537	223,298	220,861
Operating AFFO	**$ 67,277**	$ 67,756	$ 63,383	$ 62,563	$ 59,498	$ 62,306	$ 63,905	$ 57,095
Operating AFFO per diluted share	**$ 0.27**	$ 0.27	$ 0.28	$ 0.26	$ 0.25	$ 0.26	$ 0.27	$ 0.24
AFFO	**$ 67,940**	$ 67,756	$ 66,533	$ 62,642	$ 59,498	$ 62,306	$ 63,824	$ 57,960
AFFO per diluted share	**$ 0.27**	$ 0.27	$ 0.28	$ 0.26	$ 0.25	$ 0.26	$ 0.27	$ 0.24
Weighted average number of diluted shares outstanding – AFFO	**253,119**	249,282	241,598	240,440	240,409	239,504	237,381	237,315
Dividend	**$ 0.215**	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215	$ 0.215
Total assets	**$ 9,104,553**	$ 9,068,841	$ 8,690,655	$ 8,387,567	$ 8,278,526	$ 8,212,411	$ 8,124,267	$ 8,022,510
Total mortgages and credit facilities	**1,248,646**	1,277,697	1,272,977	1,322,909	1,248,637	1,201,018	1,094,150	1,093,808
Shareholders' equity	**4,195,263**	4,171,426	3,961,179	3,666,239	3,639,952	3,645,911	3,660,290	3,566,144
Other								
Number of properties	**160**	159	161	160	158	158	157	157
Gross leasable area (in thousands)	**25,278**	25,137	25,238	24,800	24,431	24,256	24,270	24,238
Total portfolio occupancy %	**95.0%**	95.0%	95.2%	95.0%	94.8%	94.7%	94.7%	95.6%

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. Judgment is also applied in determining the extent and frequency of external and internal appraisals in order to estimate fair values and value updates.

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 fair value of investment properties is determined by Management using the following three approaches at the end of each reporting period:

1. External appraisals – by an independent national appraisal firm, in accordance with professional appraisal standards and IFRS. On an annual basis, the Company has a minimum threshold of approximately 25% (as measured by fair value) of the property portfolio requiring external appraisal. Consequently, the entire portfolio is externally appraised at least once within a four-year cycle.
2. Internal appraisals – by certified staff appraisers employed by the Company, in accordance with professional appraisal standards and IFRS.
3. Value updates – primarily consisting of management's review of the key assumptions from previous appraisals and updating the value for changes in the property cash flow, physical condition and changes in market conditions.

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. External and internal appraisals are conducted using and placing reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition). Value updates use the direct capitalization method.

Properties undergoing development, redevelopment or expansion are valued either (i) using the stabilized net operating income expected upon completion, with a deduction for costs to complete the project, or (ii) using the discounted cash flow method. Capitalization rates, discount rates and terminal 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, 2016 for further information on the estimates and assumptions made by Management in connection with the fair values of investment properties.

Valuation of Financial Instruments

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

- Mortgages and credit facilities are calculated based on market interest rates plus a risk-adjusted spread on discounted cash flows.

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

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

Income Taxes

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

Additional critical accounting estimates and assumptions include those used for determining the allocation of convertible debentures liability and equity components, assessing the allowance for doubtful accounts on trade receivables, and estimating the fair value of share-based compensation.

FUTURE ACCOUNTING POLICY CHANGES

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

Financial instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued in July 2014, and replaces IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39 and introduced a new expected credit loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss ("FVTPL") and to measure equity-based financial assets as either held-for-trading or fair value through other comprehensive income ("FVTOCI"). No amounts are reclassified out of other comprehensive income ("OCI") if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9.

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

IFRS 9 is required for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

Revenue from contracts with customers

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

IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

Leases

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

IFRS 16 is required for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted. The Company does not expect any significant impact on its consolidated financial statements.

Investment property

The amendments to IAS 40, "Investment Property", clarify the accounting guidance and evidence required when an entity transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company does not expect any significant impact on its consolidated financial statements.

CONTROLS AND PROCEDURES

As at December 31, 2016, 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, 2016, 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, 2016 that have had, or are reasonably likely to have, a material effect on the Company's internal controls over financial reporting. On an ongoing basis, the Company will continue to analyze its controls and procedures for potential areas of improvement.

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

RISKS AND UNCERTAINTIES

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

Economic Conditions and Ownership of Real Estate

Real property investments are affected by various factors including changes in general economic conditions (such as the availability of long-term mortgage financings, fluctuations in interest rates and unemployment levels) and in local market conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from other real estate developers, managers and owners in seeking tenants, the ability of the owner to provide adequate maintenance at an economic cost, and various other factors. The economic conditions in the markets in which the Company operates can also have a significant impact on the Company's tenants and, in turn, the Company's financial success. Adverse changes in general or local economic conditions can result in some retailers being unable to sustain viable businesses and meet their lease obligations to the Company, and may also limit the Company's ability to attract new or replacement tenants.

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

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

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

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

Lease Renewals and Rental Increases

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

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

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

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

Interest rates have a significant effect on the profitability of commercial properties as interest represents a significant cost in the ownership of real property where debt financing is used as a source of capital. The Company has a total of $1,024.0 million principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between January 1, 2017 and December 31, 2019 at a weighted average coupon interest rate of 5.5%. 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 $10.2 million. In addition, as at December 31, 2016, the Company had $324.2 million principal amount of debt (or 8% of the Company's aggregate debt as of such date) at floating interest rates.

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

Credit Ratings

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

Acquisition, Expansion, Development, Redevelopment and Strategic Dispositions

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

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

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

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

Competition

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

Residential Development Sales and Leasing

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

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

Environmental Matters

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

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

Partnerships

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

Significant Shareholders

As of December 31, 2016, Chaim Katzman, a director (formerly the Chairman of the Board of the Company), and several of the Company's shareholders affiliated with Mr. Katzman (the "Gazit Group"), including Gazit-Globe and related entities, beneficially owned approximately 36.4% of the outstanding Common Shares. Gazit-Globe is a public company listed on the Toronto Stock Exchange, the New York Stock Exchange and the Tel-Aviv Stock Exchange. Additional information concerning Gazit-Globe is available in its public disclosure. Dori J. Segal, the Chairman of the Board of the Company, is also the Vice Chairman and Chief Executive Officer of each of Gazit-Globe and its controlling shareholder, Norstar Holdings Inc., a corporation listed on the Tel-Aviv Stock Exchange ("Norstar"). Mr. Katzman as well as Mr. Segal and his spouse, directly and indirectly, own shares of Norstar and they have entered into a shareholders' agreement with Mr. Katzman under which they have agreed, among other things, to vote for certain nominees to, and to constitute, the board of Norstar in an agreed manner.

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 would trigger an effective change of control of First Capital Realty, even when such a change may not be in the best interests of the shareholders of the Company or may have a material adverse effect on the Company.

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

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CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

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 14, 2017.

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
Toronto, Ontario
February 14, 2017

Kay Brekken
Executive Vice President and Chief Financial Officer

Independent Auditors' Report

To the Shareholders of
First Capital Realty Inc.

We have audited the accompanying consolidated financial statements of First Capital Realty Inc., which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of First Capital Realty Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
February 14, 2017

Consolidated Balance Sheets

As at *(thousands of dollars)*	Note	**December 31, 2016**	December 31, 2015
ASSETS			
Non-current Assets			
Real Estate Investments			
Investment properties – shopping centres	4	**$ 8,370,298**	$ 7,779,482
Investment properties – development land	4	**67,149**	29,853
Investment in joint ventures	23	**146,422**	160,119
Loans, mortgages and other real estate assets	5	**324,979**	124,442
Total real estate investments		**8,908,848**	8,093,896
Other non-current assets	7	**21,997**	14,284
Total non-current assets		**8,930,845**	8,108,180
Current Assets			
Cash and cash equivalents	27(d)	**12,217**	9,164
Loans, mortgages and other real estate assets	5	**28,316**	35,476
Residential development inventory		**5,010**	—
Amounts receivable	6	**21,175**	17,705
Other assets	7	**23,940**	10,264
		90,658	72,609
Investment properties classified as held for sale	4(d)	**83,050**	97,737
Total current assets		**173,708**	170,346
Total assets		**$ 9,104,553**	$ 8,278,526
LIABILITIES			
Non-current Liabilities			
Mortgages	9	**$ 878,008**	$ 839,891
Credit facilities	9	**243,696**	216,850
Senior unsecured debentures	10	**2,296,551**	2,244,091
Convertible debentures	11	**103,765**	327,343
Other liabilities	12	**27,076**	29,685
Deferred tax liabilities	19	**593,293**	504,701
Total non-current liabilities		**4,142,389**	4,162,561
Current Liabilities			
Bank indebtedness	27(d)	**15,914**	26,200
Mortgages	9	**109,167**	184,111
Credit facilities	9	**7,785**	7,785
Senior unsecured debentures	10	**249,891**	—
Convertible debentures	11	**103,868**	—
Accounts payable and other liabilities	12	**232,466**	229,555
		719,091	447,651
Mortgages on investment properties classified as held for sale	4(d), 9	**9,990**	—
Total current liabilities		**729,081**	447,651
Total liabilities		**4,871,470**	4,610,212
EQUITY			
Shareholders' equity	13	**4,195,263**	3,639,952
Non-controlling interest	24	**37,820**	28,362
Total equity		**4,233,083**	3,668,314
Total liabilities and equity		**$ 9,104,553**	$ 8,278,526

Refer to accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

Jon Hagan
Director

Adam E. Paul
Director

Consolidated Statements of Income

		Year ended December 31	
(thousands of dollars, except per share amounts)	**Note**	**2016**	2015
Property rental revenue		**$ 676,284**	$ 654,792
Property operating costs		**254,287**	244,900
Net operating income	14	**421,997**	409,892
Other income and expenses			
Interest and other income	15	**19,641**	17,702
Interest expense	16	**(158,687)**	(163,481)
Corporate expenses	17	**(34,910)**	(35,660)
Abandoned transaction costs		**(321)**	(786)
Amortization expense		**(1,287)**	(2,892)
Share of profit from joint ventures		**12,437**	12,178
Other gains (losses) and (expenses)	18	**(586)**	(15,155)
Increase (decrease) in value of investment properties, net	4	**218,078**	37,773
		54,365	(150,321)
Income before income taxes		**476,362**	259,571
Deferred income taxes	19	**90,570**	55,843
Net income		**$ 385,792**	$ 203,728
Net income attributable to:			
Common shareholders		**$ 382,714**	$ 203,865
Non-controlling interest	24	**3,078**	(137)
		$ 385,792	$ 203,728
Net income per share attributable to common shareholders:			
Basic	20	**$ 1.62**	$ 0.91
Diluted	20	**$ 1.59**	$ 0.91

Refer to accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

			Year ended December 31
(thousands of dollars)	**Note**	**2016**	2015
Net income		**$ 385,792**	$ 203,728
Other comprehensive income (loss)			
Unrealized gain (loss) on available-for-sale marketable securities [1]	26	**—**	(34)
Reclassification of gain (loss) on available-for-sale marketable securities to net income	26	**—**	147
Unrealized gain (loss) on cash flow hedges [1]	26	**5,790**	(12,232)
Reclassification of net losses on cash flow hedges to net income	26	**1,518**	1,101
		7,308	(11,018)
Deferred tax expense (recovery)	26	**1,944**	(3,026)
Other comprehensive income (loss)		**5,364**	(7,992)
Comprehensive income		**$ 391,156**	$ 195,736
Comprehensive income attributable to:			
Common shareholders		**$ 388,078**	$ 195,873
Non-controlling interest	24	**3,078**	(137)
		$ 391,156	$ 195,736

[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 Loss	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
		(Note 26(a))	*(Note 13(a))*	*(Note 13(b))*			
December 31, 2015	**$ 844,382**	**$ (17,062)**	**$ 2,768,983**	**$ 43,649**	**$ 3,639,952**	**$ 28,362**	**$ 3,668,314**
Changes during the year:							
Net income	382,714	—	—	—	382,714	3,078	385,792
Issuance of common shares	—	—	287,589	—	287,589	—	287,589
Issue costs, net of tax	—	—	(9,036)	—	(9,036)	—	(9,036)
Dividends	(204,233)	—	—	—	(204,233)	—	(204,233)
Interest on convertible debentures paid in common shares	—	—	13,645	—	13,645	—	13,645
Redemption of convertible debentures	—	—	60,294	(1,187)	59,107	—	59,107
Options, deferred share units, restricted share units, and performance share units, net	—	—	20,924	(763)	20,161	—	20,161
Other comprehensive gain (loss)	—	5,364	—	—	5,364	—	5,364
Contributions from (distributions to) non-controlling interest, net	—	—	—	—	—	6,380	6,380
December 31, 2016	**$ 1,022,863**	**$ (11,698)**	**$ 3,142,399**	**$ 41,699**	**$ 4,195,263**	**$ 37,820**	**$ 4,233,083**

(thousands of dollars)	Retained Earnings	Accumulated Other Comprehensive Loss	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
December 31, 2014	$ 833,298	$ (9,070)	$ 2,600,605	$ 45,438	$ 3,470,271	$ 27,570	$ 3,497,841
Changes during the year:							
Net income	203,865	—	—	—	203,865	(137)	203,728
Issuance of common shares	—	—	87,277	—	87,277	—	87,277
Issue costs, net of tax and other	—	—	(2,749)	—	(2,749)	—	(2,749)
Dividends	(192,781)	—	—	—	(192,781)	—	(192,781)
Interest on convertible debentures paid in common shares	—	—	18,857	—	18,857	—	18,857
Redemption and conversion of convertible debentures	—	—	38,614	(891)	37,723	—	37,723
Options, deferred share units and restricted share units, net	—	—	26,379	(898)	25,481	—	25,481
Other comprehensive gain (loss)	—	(7,992)	—	—	(7,992)	—	(7,992)
Contributions from (distributions to) non-controlling interest, net	—	—	—	—	—	929	929
December 31, 2015	$ 844,382	$ (17,062)	$ 2,768,983	$ 43,649	$ 3,639,952	$ 28,362	$ 3,668,314

Refer to accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

		Year ended December 31	
(thousands of dollars)	**Note**	**2016**	2015
OPERATING ACTIVITIES			
Net income		**$ 385,792**	$ 203,728
Adjustments for:			
(Increase) decrease in value of investment properties, net	4	**(218,078)**	(37,773)
Interest expense	16	**158,687**	163,481
Amortization expense		**1,287**	2,892
Share of profit of joint ventures		**(12,437)**	(12,178)
Distributions from joint ventures		**573**	2,505
Cash interest paid associated with operating activities	16	**(141,326)**	(141,900)
Items not affecting cash and other items	27(a)	**90,806**	63,167
Net change in non-cash operating items	27(b)	**(8,706)**	563
Expenditures on residential development inventory		**—**	(52)
Cash provided by operating activities		**256,598**	244,433
FINANCING ACTIVITIES			
Mortgages and credit facilities			
Borrowings, net of financing costs	9	**295,017**	325,274
Principal instalment payments	9	**(28,685)**	(30,817)
Repayments		**(267,879)**	(218,535)
Repayment of loans on residential development inventory		**—**	(3,572)
Issuance of senior unsecured debentures, net of issue costs	10	**300,922**	93,573
Settlement of hedges		**(5,664)**	(5,363)
Repayment of convertible debentures		**(60,294)**	—
Repurchase of convertible debentures	11(c)	**(4,102)**	(12,436)
Issuance of common shares, net of issue costs		**291,052**	104,727
Payment of dividends		**(199,789)**	(190,208)
Net contributions from (distributions to) non-controlling interest		**6,380**	929
Cash provided by (used in) financing activities		**326,958**	63,572
INVESTING ACTIVITIES			
Acquisition of shopping centres	4(c)	**(286,220)**	(96,246)
Acquisition of development land	4(c)	**(34,728)**	—
Net proceeds from property dispositions	4(d)	**130,215**	22,615
Distributions from joint ventures		**51,948**	45,098
Contributions to joint ventures		**(24,952)**	(56,967)
Capital expenditures on investment properties		**(218,118)**	(275,976)
Changes in investing-related prepaid expenses and other liabilities		**(4,526)**	2,570
Changes in loans, mortgages and other real estate assets	27(c)	**(183,836)**	16,514
Cash used in investing activities		**(570,217)**	(342,392)
Net increase (decrease) in cash and cash equivalents (bank indebtedness)		**13,339**	(34,387)
Cash and cash equivalents (bank indebtedness), beginning of year		**(17,036)**	17,351
Cash and cash equivalents (bank indebtedness), end of year	27(d)	**$ (3,697)**	$ (17,036)

Refer to accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE COMPANY

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of presentation

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

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

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

These audited annual consolidated financial statements were approved by the Board of Directors and authorized for issue on February 14, 2017.

(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.

(f) Investment properties

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

(i) Shopping centres

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

(ii) Development land

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

(iii) Investment properties classified as held for sale

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

Valuation method

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

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

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

1. External appraisals – by an independent national appraisal firm, in accordance with professional appraisal standards and IFRS. On an annual basis, the Company has a minimum threshold of approximately 25% (as measured by fair value) of the property portfolio requiring external appraisal. Consequently, the entire portfolio is externally appraised at least once within a four-year cycle.
2. Internal appraisals – by certified staff appraisers employed by the Company, in accordance with professional appraisal standards and IFRS.
3. Value updates – primarily consisting of management's review of the key assumptions from previous appraisals and updating the value for changes in the property cash flow, physical condition and changes in market conditions.

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

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

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.
- Capitalization rates, discount rates and terminal rates, which are based on location, size and quality of the properties and taking into account market data at the valuation date. Capitalization rates are used for the direct capitalization method and discount and terminal 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. External and internal appraisals are conducted using and placing reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition). Value updates use the direct capitalization method.

(ii) Properties under development

Properties undergoing development, redevelopment or expansion are valued either (i) using the stabilized net operating income expected upon completion, with a deduction for costs to complete the project, or (ii) using the discounted cash flow method. Capitalization rates, discount rates and terminal rates, as applicable, are adjusted to reflect lease-up assumptions and construction risk, when appropriate. Adjacent land parcels held for future development are valued based on comparable sales of commercial land.

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

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

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

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

(g) Residential development inventory

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

The cost of residential development inventory includes borrowing costs directly attributable to projects under active development. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average capitalization rate for the Company's other borrowings to eligible expenditures. Borrowing costs are not capitalized on residential development inventory where no development activity is taking place. Residential development inventory is presented separately on the consolidated balance sheets as current assets. Residential development inventory is classified as current because the Company intends to sell this asset in the normal operating cycle.

(h) Taxation

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

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

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

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

(i) Provisions

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

(j) Share-based payments

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

(k) Revenue recognition

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

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

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

Rental revenue also includes percentage rents based on tenant sales, and recoveries of operating expenses and property taxes. Percentage rents are recognized when the sales thresholds set out in the leases have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(l) Financial instruments and derivatives

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss (“FVTPL”), available-for-sale (“AFS”), held-to-maturity, loans and receivables or other liabilities.

Derivative instruments are recorded in the consolidated balance sheets at fair value, including those derivatives that are embedded in financial or non-financial contracts and which are not closely related to the host contract.

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

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

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

	Classification	Measurement
Financial assets		
Investments designated as AFS	AFS	Fair value
Derivative assets	FVTPL	Fair value
Loans and mortgages receivable	Loans and receivables	Amortized cost
Equity securities designated as FVTPL	FVTPL	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Financial liabilities		
Bank indebtedness	Other liabilities	Amortized cost
Mortgages	Other liabilities	Amortized cost
Credit facilities	Other liabilities	Amortized cost
Senior unsecured debentures	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost
Accounts payable and other liabilities	Other liabilities	Amortized cost
Derivative liabilities	FVTPL	Fair value

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

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

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

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

(iii) Level 3 Inputs – inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the Company's own assumptions about the data that market participants would use in pricing the asset or liability, and are developed based on the best information available, including the Company's own data.

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

(m) Cash and cash equivalents

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

(n) Critical judgments in applying accounting policies

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

(i) Investment properties

In applying the Company's policy with respect to investment properties, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which capitalization of borrowing and other costs ceases. Judgment is also applied in determining the extent and frequency of external and internal appraisals in order to estimate fair values.

(ii) Hedge accounting

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

(iii) Income taxes

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

(o) Critical accounting estimates and assumptions

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

Additional critical accounting estimates and assumptions include those used for determining the values of financial instruments for disclosure purposes (Note 22), estimating deferred taxes, allocation of convertible debentures liability and equity components, assessing the allowance for doubtful accounts on trade receivables, and estimating the fair value of share-based compensation (Note 13).

3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

(a) IFRS Amendments

The Company has adopted the amended International Financial Reporting Standards ("IFRS") pronouncement listed below as of January 1, 2016, in accordance with its transitional provisions.

Joint Arrangements

The amendments to IFRS 11, "Joint Arrangement" ("IFRS 11") are effective for annual periods beginning on or after January 1, 2016. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, "Business Combinations". The Company adopted the amendments effective January 1, 2016 which have not had a material effect on its consolidated financial statements.

(b) Recent Accounting Pronouncements Not Yet Adopted

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

Financial instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued in July 2014, and replaces IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39 and introduced a new expected credit loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss ("FVTPL") and to measure equity-based financial assets as either held-for-trading or fair value through other comprehensive income ("FVTOCI"). No amounts are reclassified out of other comprehensive income ("OCI") if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9.

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

IFRS 9 is required for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

Revenue from contracts with customers

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

IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

Leases

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

IFRS 16 is required for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted. The Company does not expect any significant impact on its consolidated financial statements.

Investment property

The amendments to IAS 40, "Investment Property", clarify the accounting guidance and evidence required when an entity transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company does not expect any significant impact on its consolidated financial statements.

4. INVESTMENT PROPERTIES

(a) Activity

The following tables summarize the changes in the Company's investment properties for the years ended December 31, 2016 and 2015:

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

					Year ended December 31, 2015	
	Central Region	Eastern Region	Western Region	Total	Shopping Centres	Development Land
Balance at beginning of year	$ 3,207,544	$ 1,744,533	$ 2,557,714	$ 7,509,791	$ 7,474,329	$ 35,462
Acquisitions	29,030	18,539	50,130	97,699	97,699	—
Capital expenditures	115,596	69,091	91,289	275,976	275,133	843
Reclassifications between shopping centres and development land	—	—	—	—	1,546	(1,546)
Reclassification from residential development inventory	4,016	—	—	4,016	—	4,016
Increase (decrease) in value of investment properties, net	(20,100)	12,705	45,168	37,773	40,195	(2,422)
Straight-line rent and other changes	3,383	(2,374)	3,945	4,954	4,954	—
Dispositions	(1,610)	(21,527)	—	(23,137)	(23,137)	—
Balance at end of year	$ 3,337,859	$ 1,820,967	$ 2,748,246	$ 7,907,072	$ 7,870,719	$ 36,353
Investment properties					$ 7,779,482	$ 29,853
Investment properties classified as held for sale					91,237	6,500
Total					$ 7,870,719	$ 36,353

Investment properties with a fair value of $2.4 billion (December 31, 2015 – $2.4 billion) are pledged as security for $1.2 billion in mortgages and credit facilities.

(b) Investment property valuation

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

As at			December 31, 2016			December 31, 2015
($ millions)		**Fair Value**	**Weighted Average Capitalization Rate**		Fair Value	Weighted Average Capitalization Rate
Central Region	**$**	**3,663**	**5.3%**	$	3,328	5.5%
Eastern Region		**1,819**	**6.0%**		1,814	6.1%
Western Region		**2,971**	**5.3%**		2,729	5.5%
Total or Weighted Average	**$**	**8,453**	**5.5%**	$	7,871	5.7%

The sensitivity of the fair values of shopping centres to capitalization rates as at December 31, 2016 is set out in the table below:

As at December 31, 2016		*(millions of dollars)*
(Decrease) Increase in capitalization rate		Resulting increase (decrease) in value of shopping centres
(0.75%)	$	1,251
(0.50%)	$	794
(0.25%)	$	380
0.25%	$	(338)
0.50%	$	(652)
0.75%	$	(941)

Additionally, a 1% increase or decrease in stabilized net operating income ("SNOI") would result in a $83 million increase or a $74 million decrease, respectively, in the fair value of shopping centres. SNOI is not a measure defined by IFRS. SNOI reflects long-term, stable property operations, assuming a certain level of vacancy, capital and operating expenditures required to maintain a stable occupancy rate. The average vacancy rates used in determining SNOI for non-anchor tenants generally range from 2% to 5%. A 1% increase in SNOI coupled with a 0.25% decrease in capitalization rate would result in an increase in the fair value of shopping centres of $462 million, and a 1% decrease in SNOI coupled with a 0.25% increase in capitalization rate would result in a decrease in the fair value of shopping centres of $413 million.

(c) Investment properties – Acquisitions

During the year ended December 31, 2016 and 2015, the Company acquired shopping centres and development land for rental income and future development and redevelopment opportunities as follows:

Year ended December 31				2016				2015
		Shopping Centres		**Development Land**		Shopping Centres		Development Land
Total purchase price, including acquisition costs	**$**	**286,220**	**$**	**34,728**	$	97,699	$	—
Mortgage assumption on acquisition		**—**		**—**		(1,453)		—
Total cash paid	**$**	**286,220**	**$**	**34,728**	$	96,246	$	—

(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, 2016**	December 31, 2015
Aggregate fair value	**$ 83,050**	$ 97,737
Mortgages secured by investment properties classified as held for sale	**$ 9,990**	$ —
Weighted average effective interest rate of mortgages secured by investment properties classified as held for sale	**4.1%**	—%

The decrease of $14.7 million in investment properties classified as held for sale from December 31, 2015, arose primarily from dispositions completed this year as well as a change in the mix of properties classified as held for sale.

For the year ended December 31, 2016 and 2015, the Company sold shopping centres and development land as follows:

	Year ended December 31	
	2016	2015
Total selling price	**$ 139,600**	$ 23,137
Vendor take-back mortgage on sale	**(6,950)**	—
Property selling costs	**(2,435)**	(522)
Total cash proceeds	**$ 130,215**	$ 22,615

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

As at December 31, 2015	Central Region	Eastern Region	Western Region	Total
Total shopping centres and development land [1]	$ 3,337,859	$ 1,820,967	$ 2,748,246	$ 7,907,072
Cash and cash equivalents				9,164
Loans, mortgages and other real estate assets				159,918
Other assets				24,548
Amounts receivable				17,705
Investment in joint ventures				160,119
Total assets				$ 8,278,526

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

5. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS

As at		December 31, 2016		December 31, 2015
Non-current				
Loans and mortgages receivable (a)	**$**	**131,955**	$	120,173
Available-for-sale (“AFS”) investment in limited partnership		**3,824**		4,269
Deposit on investment property (b)		**189,200**		—
Total non-current	**$**	**324,979**	$	124,442
Current				
Loans and mortgages receivable (a)	**$**	**15,281**	$	23,499
Fair value through profit or loss ("FVTPL") investments in securities (c)		**12,969**		11,907
Other receivable		**66**		70
Total current	**$**	**28,316**	$	35,476
Total	**$**	**353,295**	$	159,918

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties. As at December 31, 2016, these receivables bear interest at weighted average effective interest rates of 6.9% (December 31, 2015 – 6.3%) and mature between 2016 and 2023.

(b) In the third quarter of 2016, the Company advanced $189.2 million as a deposit on the acquisition of an investment property, located at One Bloor Street in Toronto, that is currently under construction. The deposit earns interest of 4.5% until the purchase closing date which is estimated to be the fourth quarter of 2017.

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

Scheduled principal receipts of loans and mortgages receivable as at December 31, 2016 are as follows:

		Scheduled Receipts	Weighted Average Effective Interest Rate
2017	$	13,646	12.3%
2018		4,816	8.4%
2019		73,663	6.8%
2020		—	—%
2021		4,950	5.2%
2022 to 2023		47,303	5.5%
	$	144,378	6.9%
Unamortized deferred financing fees and accrued interest		2,858	
	$	147,236	
Current	$	15,281	12.3%
Non-current		131,955	6.3%
Total	$	147,236	6.9%

6. AMOUNTS RECEIVABLE

As at	December 31, 2016	December 31, 2015
Trade receivables (net of allowances for doubtful accounts of $3.6 million; December 31, 2015 – $2.8 million)	$ 19,291	$ 16,844
Corporate and other amounts receivable	1,884	861
Total	$ 21,175	$ 17,705

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

7. OTHER ASSETS

As at	Note	December 31, 2016	December 31, 2015
Non-current			
Fixtures, equipment and computer hardware and software (net of accumulated amortization of $5.1 million; December 31, 2015 - $3.9 million)		$ 9,986	$ 3,153
Deferred financing costs on credit facilities (net of accumulated amortization of $3.5 million; December 31, 2015 - $3.1 million)		2,453	2,172
Environmental indemnity and insurance proceeds receivable	12(a)	6,875	8,274
Held-to-maturity investment in bond		—	685
Derivatives at fair value	22	2,683	—
Total non-current		$ 21,997	$ 14,284
Current			
Deposits and costs on investment properties under option		$ 2,668	$ 3,824
Prepaid expenses		6,719	4,457
Other deposits		1,074	1,924
Restricted cash		3,724	59
Derivatives at fair value	22	9,755	—
Total current		$ 23,940	$ 10,264
Total		$ 45,937	$ 24,548

8. CAPITAL MANAGEMENT

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

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

As at	December 31, 2016	December 31, 2015
Liabilities (principal amounts outstanding)		
Bank indebtedness	**$ 15,914**	$ 26,200
Mortgages	**995,925**	1,020,358
Credit facilities	**251,481**	224,635
Mortgages under equity accounted joint ventures (at the Company's interest)	**46,741**	3,878
Credit facilities under equity accounted joint venture (at the Company's interest)	**80,131**	43,669
Senior unsecured debentures	**2,550,000**	2,250,000
Convertible debentures	**212,635**	337,271
Equity Capitalization		
Common shares (based on closing per share price of $20.67; December 31, 2015 – $18.35)	**5,033,286**	4,138,622
Total Capital Employed	**$ 9,186,113**	$ 8,044,633

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, 2016, 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, 2016	December 31, 2015
Net debt to total assets		**42.6%**	42.9%
Unencumbered aggregate assets to unsecured debt, using 10 quarter average capitalization rate [(1)]	≥1.3	**2.0**	2.2
Shareholders' equity, using four quarter average (billions) [(1)]	>$1.6B	**$ 4.0**	$ 3.6
Secured indebtedness to total assets [(1)]	<35%	**12.7%**	13.1%
For the rolling four quarters ended			
Interest coverage (EBITDA to interest expense) [(1)]	>1.65	**2.5**	2.5
Fixed charge coverage (EBITDA to debt service) [(1)]	>1.50	**2.2**	2.1

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

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

- Debt consists of principal amounts outstanding on credit facilities and mortgages, and the par value of senior unsecured debentures. Convertible debentures are excluded for the net debt to total assets ratio, as the Company has the option to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares;
- Net debt is calculated as Debt, as defined above, reduced by cash balances at the end of the period;
- Secured indebtedness includes mortgages and any draws under the secured facilities that are collateralized against investment property.
- EBITDA, as adjusted, is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the value of investment properties, other gains (losses) and (expenses) and other non-cash or non-recurring items. The Company also adjusts for incremental leasing costs and costs not capitalized during the development period.
- Fixed charges include regular principal and interest payments and capitalized interest in the calculation of interest expense and do not include non-cash interest on convertible debentures.

- Unencumbered assets include the value of assets that have not been pledged as security under any credit agreement or mortgage. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt, which consists of the bank indebtedness, unsecured credit facilities, senior unsecured debentures and convertible debentures.

9. MORTGAGES AND CREDIT FACILITIES

As at	**December 31, 2016**	December 31, 2015
Fixed rate mortgages	**$ 997,165**	$ 1,024,002
Unsecured facilities	**183,451**	195,000
Secured facilities	**68,030**	29,635
Mortgages and credit facilities	**$ 1,248,646**	$ 1,248,637
Current	**$ 116,952**	$ 191,896
Mortgages on investment properties classified as held for sale	**9,990**	—
Non-current	**1,121,704**	1,056,741
Total	**$ 1,248,646**	$ 1,248,637

Mortgages and secured facilities are secured by the Company's investment properties. As at December 31, 2016, approximately $2.4 billion (December 31, 2015 – $2.4 billion) of investment properties out of $8.5 billion (December 31, 2015 – $7.9 billion) had been pledged as security under the mortgages and the secured facilities (Note 4 (a)).

As at December 31, 2016, mortgages bear coupon interest at a weighted average coupon rate of 4.5% (December 31, 2015 – 4.8%) and mature in the years ranging from 2017 to 2026. The weighted average effective interest rate on all mortgages as at December 31, 2016 is 4.4% (December 31, 2015 – 4.5%).

Principal repayments of mortgages outstanding as at December 31, 2016 are as follows:

	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2017	$ 27,335	$ 82,902	$ 110,237	4.1%
2018	23,442	124,321	147,763	5.4%
2019	20,730	106,714	127,444	6.5%
2020	19,087	45,858	64,945	5.3%
2021	17,320	73,397	90,717	4.4%
2022 to 2026	41,643	413,176	454,819	3.6%
	$ 149,557	$ 846,368	$ 995,925	4.4%
Unamortized deferred financing costs and premiums, net			1,240	
Total			$ 997,165	

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, 2016, the Company had drawn CAD$30.0 million and US $114.3 million, as well as CAD$15.9 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.

Effective June 30, 2016, the Company extended the maturity of its $800 million unsecured facility to June 30, 2021 on substantially the same terms.

In September 2016, the Company entered into two secured facilities totaling $19.4 million, at the Company's proportionate interest, maturing between 2018 and 2019.

In the fourth quarter, the Company entered into a new unsecured facility with a borrowing capacity of CAD$150 million, key terms of which are presented in the table below.

The Company's credit facilities as at December 31, 2016 are summarized in the table below:

As at December 31, 2016	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 2021	$ 800,000	$ (30,000)	$ (46,615)	$ 723,385	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	June 30, 2021
Non-revolving facility maturing 2020 (1)	150,000	(153,451)	—	—	BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20%	October 30, 2020
Secured Construction Facilities						
Maturing 2018	115,000	(40,870)	(1,475)	72,655	BA + 1.125% or Prime + 0.125%	February 13, 2018
Maturing 2017	7,953	(7,785)	—	168	BA + 1.125% or Prime + 0.125%	March 31, 2017
Secured Facilities						
Maturing 2019	11,875	(11,875)	—	—	BA + 1.125% or Prime + 0.125%	September 27, 2019
Maturing 2018	7,500	(7,500)	—	—	BA + 1.125% or Prime + 0.125%	September 6, 2018
Total	$ 1,092,328	$ (251,481)	$ (48,090)	$ 796,208		

(1) The Company had drawn in US dollars the equivalent of CAD$150.0 million which was revalued at CAD$153.5 million as at December 31, 2016, as such the Company is in compliance with its borrowing capacity.

10. SENIOR UNSECURED DEBENTURES

As at				**December 31, 2016**		December 31, 2015
		Interest Rate				
Series	Maturity Date	Coupon	Effective	**Principal Outstanding**	**Liability**	Liability
H	January 31, 2017	5.85%	5.99%	**$ 125,000**	**$ 124,985**	$ 124,814
I	November 30, 2017	5.70%	5.79%	**125,000**	**124,906**	124,809
J	August 30, 2018	5.25%	5.66%	**50,000**	**49,761**	49,678
K	November 30, 2018	4.95%	5.17%	**100,000**	**99,602**	99,411
L	July 30, 2019	5.48%	5.61%	**150,000**	**149,542**	149,382
M	April 30, 2020	5.60%	5.60%	**175,000**	**174,988**	174,985
N	March 1, 2021	4.50%	4.63%	**175,000**	**174,177**	174,002
O	January 31, 2022	4.43%	4.59%	**200,000**	**198,567**	198,323
P	December 5, 2022	3.95%	4.18%	**250,000**	**247,066**	246,637
Q	October 30, 2023	3.90%	3.97%	**300,000**	**298,794**	298,643
R	August 30, 2024	4.79%	4.72%	**300,000**	**301,323**	301,466
S	July 31, 2025	4.32%	4.24%	**300,000**	**301,768**	301,941
T	May 6, 2026	3.60%	3.56%	**300,000**	**300,963**	—
Weighted Average or Total		4.57%	4.63%	**$ 2,550,000**	**$ 2,546,442**	$ 2,244,091
Current				**250,000**	**249,891**	—
Non-current				**2,300,000**	**2,296,551**	2,244,091
Total				**$ 2,550,000**	**$ 2,546,442**	$ 2,244,091

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

On May 6, 2016 the Company completed the issuance of $150.0 million principal amount of Series T senior unsecured debentures due May 6, 2026. These debentures bear interest at a coupon rate of 3.6% per annum and an effective interest rate of 3.7%, payable semi-annually commencing November 6, 2016.

On September 29, 2016, the Company completed the issuance of an additional $150.0 million principal amount of Series T senior unsecured debentures, which was a re-opening of this series of debentures, with an effective interest rate of 3.4%.

11. CONVERTIBLE DEBENTURES

As at				**December 31, 2016**			December 31, 2015		
		Interest Rate							
Series	Maturity Date	Coupon	Effective	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
H	March 31, 2017	4.95%	6.51%	—	—	—	71,006	69,697	1,415
G	March 31, 2018	5.25%	6.66%	—	—	—	49,582	48,144	1,146
E	January 31, 2019	5.40%	6.90%	**54,666**	**53,095**	**2,084**	55,060	52,793	2,099
F	January 31, 2019	5.25%	6.07%	**51,584**	**50,773**	**351**	53,720	52,506	365
I	July 31, 2019	4.75%	6.19%	**51,210**	**49,822**	**1,403**	51,604	49,579	1,414
J	February 28, 2020	4.45%	5.34%	**55,175**	**53,943**	**386**	56,299	54,624	394
	Weighted Average or Total	4.96%	6.12%	**$ 212,635**	**$ 207,633**	**$ 4,224**	$ 337,271	$ 327,343	$ 6,833
	Current			**106,250**	**103,868**		—	—	
	Non-current			**106,385**	**103,765**		337,271	327,343	
	Total			**$ 212,635**	**$ 207,633**	**$ 4,224**	$ 337,271	$ 327,343	$ 6,833

(a) Principal and interest

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

During the year ended December 31, 2016, 0.7 million common shares (year ended December 31, 2015 – 1.0 million common shares) were issued for $13.6 million (year ended December 31, 2015 – $18.9 million) to pay interest to holders of the convertible debentures. Each series of the Company's convertible debentures bears interest payable semi-annually and is convertible at the option of the holders in the conversion periods into common shares of the Company at the conversion prices indicated below.

Maturity Date	Coupon Rate	TSX	Holder Option to Convert at the Conversion Price	Company Option to Redeem at Principal Amount (conditional [1])	Company Option to Redeem at Principal Amount [2]	Conversion Price
January 31, 2019	5.40%	FCR.DB.E	2011-2019	Jan 31, 2015 - Jan 30, 2017	Jan 31, 2017 - Jan 31, 2019	$22.62
January 31, 2019	5.25%	FCR.DB.F	2011-2019	Jan 31, 2015 - Jan 30, 2017	Jan 31, 2017 - Jan 31, 2019	$23.77
July 31, 2019	4.75%	FCR.DB.I	2012-2019	Jul 31, 2015 - Jul 30, 2017	Jul 31, 2017 - Jul 31, 2019	$26.75; $27.75 [3]
February 28, 2020	4.45%	FCR.DB.J	2013-2020	Feb 28, 2016 - Feb 27, 2018	Feb 28, 2018 - Feb 28, 2020	$26.75; $27.75 [4]

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

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

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

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

(b) Principal redemption

On April 1, 2016, the Company redeemed its remaining 5.25% Series G and 4.95% Series H convertible debentures at par. The full redemption price and any accrued interest owing on each series of convertible debentures was satisfied 50% by the issuance of common shares and 50% in cash.

On December 22, 2016, the Company provided a notice of redemption to the holders of the remaining 5.40% Series E and 5.25% Series F convertible debentures that the entire principal amount outstanding plus accrued interest would be redeemed in cash on January 31, 2017.

(c) Normal course issuer bid

Effective August 29, 2016, the Company renewed its normal course issuer bid ("NCIB") for all of its then outstanding series of convertible debentures. The NCIB will expire on August 28, 2017 or such earlier date as the Company completes its purchases pursuant to the NCIB. All purchases made under the NCIB are at market prices prevailing at the time of purchase determined by or on behalf of the Company.

For the year ended December 31, 2016 and 2015, principal amounts of convertible debentures purchased and amounts paid for the purchases are represented in the table below:

Year ended December 31	**2016**		2015	
	Principal Amount Purchased	**Amount Paid**	Principal Amount Purchased	Amount Paid
Total	**$ 4,048**	**$ 4,102**	$ 12,289	$ 12,436

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at	Note	December 31, 2016	December 31, 2015
Non-current			
Asset retirement obligations (a)		**$ 7,815**	$ 8,353
Ground leases payable		**9,423**	9,789
Derivatives at fair value	22	**6,469**	8,171
Deferred purchase price of investment property – shopping centre		**1,763**	1,699
Deferred income		**1,606**	1,673
Total non-current		**$ 27,076**	$ 29,685
Current			
Trade payables and accruals		**$ 66,343**	$ 59,222
Construction and development payables		**49,204**	49,593
Dividends payable		**52,330**	48,491
Interest payable		**38,016**	38,537
Tenant deposits		**26,573**	23,391
Derivatives at fair value	22	**—**	788
Deferred purchase price of investment property – shopping centre		**—**	9,533
Total current		**$ 232,466**	$ 229,555
Total		**$ 259,542**	$ 259,240

(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 in other assets (Note 7).

13. SHAREHOLDERS' EQUITY

(a) Share capital

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

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

Year ended December 31		**2016**		2015	
	Note	**Number of Common Shares**	**Stated Capital**	Number of Common Shares	Stated Capital
Issued and outstanding at beginning of year		**225,538**	**$ 2,768,983**	216,374	$ 2,600,605
Payment of interest on convertible debentures	11	**673**	**13,645**	1,024	18,857
Redemption and conversion of convertible debentures	11	**3,080**	**60,294**	2,152	38,614
Exercise of options and restricted and deferred share units		**1,129**	**20,924**	1,577	26,379
Issuance of common shares		**13,087**	**287,589**	4,411	87,277
Share issue costs and other, net of tax effect		**—**	**(9,036)**	—	(2,749)
Issued and outstanding at end of year		**243,507**	**$ 3,142,399**	225,538	$ 2,768,983

On May 26, 2016, the Company issued 5.5 million common shares at a price of $21.10 for gross proceeds of $115.0 million. Additionally, on August 17, 2016, the Company issued 7.6 million common shares at a price of $22.60 for gross proceeds of $172.6 million.

Dividends declared per common share were $0.86 for the year ended December 31, 2016 (year ended December 31, 2015 – $0.86).

(b) Contributed surplus and other equity items

Contributed surplus and other equity items comprise the following:

Year ended December 31			**2016**					2015
	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	**$ 19,532**	**$ 6,833**	**$ 17,284**	**$ 43,649**	$ 19,292	$ 7,964	$ 18,182	$ 45,438
Redemption of convertible debentures in common shares	**1,386**	**(2,561)**	**—**	**(1,175)**	—	(885)	—	(885)
Repurchase of convertible debentures	**36**	**(48)**	**—**	**(12)**	240	(246)	—	(6)
Options vested	**—**	**—**	**833**	**833**	—	—	652	652
Exercise of options	**—**	**—**	**(1,540)**	**(1,540)**	—	—	(1,280)	(1,280)
Deferred share units	**—**	**—**	**820**	**820**	—	—	984	984
Restricted share units	**—**	**—**	**2,102**	**2,102**	—	—	2,617	2,617
Performance share units	**—**	**—**	**547**	**547**	—	—	—	—
Exercise of restricted and deferred share units	**—**	**—**	**(3,525)**	**(3,525)**	—	—	(3,871)	(3,871)
Balance at end of year	**$ 20,954**	**$ 4,224**	**$ 16,521**	**$ 41,699**	$ 19,532	$ 6,833	$ 17,284	$ 43,649

(c) Stock options

As of December 31, 2016, the Company is authorized to grant up to 15.2 million (December 31, 2015 – 15.2 million) common share options to the employees, officers and directors of the Company. As of December 31, 2016, 1.7 million (December 31, 2015 – 2.7 million) common share options are available to be granted to the employees, officers and directors of the Company. In addition, as at December 31, 2016, 4.2 million common share options were outstanding. Options granted by the Company generally expire 10 years from the date of grant and vest over five years.

The outstanding options as at December 31, 2016 have exercise prices ranging from $9.81 – $20.24 (December 31, 2015 – $9.81 – $19.96).

As at	**December 31, 2016**					December 31, 2015				
	Outstanding Options			**Vested Options**		Outstanding Options			Vested Options	
Exercise Price Range ($)	**Number of Common Shares Issuable (in thousands)**	**Weighted Average Exercise Price per Common Share**	**Weighted Average Remaining Life (years)**	**Number of Common Shares Issuable (in thousands)**	**Weighted Average Exercise Price per Common Share**	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share	Weighted Average Remaining Life (years)	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share
9.81 – 17.36	**967**	**$ 15.67**	**2.3**	**967**	**$ 15.67**	1,660	$ 16.07	2.6	1,546	$ 16.10
17.37 – 18.40	**1,203**	**$ 18.10**	**7.2**	**461**	**$ 17.98**	1,373	$ 18.07	8.1	307	$ 17.87
18.41 – 19.31	**817**	**$ 18.80**	**6.8**	**400**	**$ 18.83**	921	$ 18.82	7.8	293	$ 18.88
19.32 – 20.24	**1,219**	**$ 19.74**	**9.0**	**42**	**$ 19.96**	245	$ 19.96	9.2	—	$ —
9.81 – 20.24	**4,206**	**$ 18.15**	**6.5**	**1,870**	**$ 17.01**	4,199	$ 17.55	5.9	2,146	$ 16.73

During the year ended December 31, 2016, $0.7 million (year ended December 31, 2015 – $0.4 million) was recorded as an expense related to stock options.

Year ended December 31	**2016**		2015	
	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	**4,199**	**$ 17.56**	4,956	$ 16.89
Granted (a)	**1,000**	**19.69**	907	18.93
Exercised (b)	**(931)**	**17.13**	(1,359)	15.84
Forfeited	**(60)**	**18.98**	(305)	18.46
Expired	**(2)**	**15.47**	—	—
Outstanding at end of year	**4,206**	**$ 18.15**	4,199	$ 17.55

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

Year ended December 31	**2016**	2015
Share options granted (thousands)	**1,000**	907
Term to expiry	**10 years**	10 years
Exercise price	**$19.69**	$18.93
Weighted average volatility rate	**15.0%**	15.0%
Weighted average expected option life	**6 years**	6 years
Weighted average dividend yield	**4.35%**	4.56%
Weighted average risk free interest rate	**0.78%**	1.20%
Fair value (thousands)	**$1,082**	$920

(b) The weighted average market share price at which options were exercised for the year ended December 31, 2016 was $21.14 (year ended December 31, 2015 – $19.17).

(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		**2016**		2015
(in thousands)	**DSUs**	**RSUs / PSUs**	DSUs	RSUs
Outstanding at beginning of year	**349**	**374**	452	328
Granted (a)	**24**	**171**	29	121
Dividends declared	**14**	**16**	17	16
Exercised	**(112)**	**(90)**	(149)	(88)
Forfeited	**—**	**—**	—	(3)
Outstanding at end of year	**275**	**471**	349	374
Share units available to be granted based on the current reserve [(1)]	**220**	**156**	258	343
Expense recorded for the year	**$530**	**$2,335**	$670	$1,888

[(1)] Common shares required under the DSU plan or the RSU plan may be issued from treasury or acquired in the secondary market through an intermediary.

(a) The fair value of the DSUs granted during the year ended December 31, 2016 was $0.5 million (year ended December 31, 2015 – $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, 2016 was $1.3 million (year ended December 31, 2015 – $1.8 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, 2016 was $2.2 million. The fair value is calculated using the Monte-Carlo simulation model based on the assumptions below as well as a market adjustment factor based on the total shareholder return of the Company's common shares relative to the S&P/TSX Capped REIT Index.

Year ended December 31	**2016**
PSUs granted (thousands)	**106**
Term to expiry	**3 years**
Weighted average volatility rate	**13.4%**
Weighted average correlation	**41.9%**
Weighted average total shareholder return	**8.8%**
Weighted average risk free interest rate	**0.6%**
Fair value (thousands)	**$2,197**

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

14. NET OPERATING INCOME

Net operating income is presented by segment as follows:

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

Year ended December 31, 2015	Central Region	Eastern Region	Western Region	Subtotal	Other [(1)]	Total
Property rental revenue	$ 275,312	$ 173,577	$ 208,527	$ 657,416	$ (2,624)	$ 654,792
Property operating costs	105,602	74,802	67,224	247,628	(2,728)	244,900
Net operating income	$ 169,710	$ 98,775	$ 141,303	$ 409,788	$ 104	$ 409,892

(1) Other items principally consist of intercompany eliminations.

For the year ended December 31, 2016, property operating costs include $21.6 million (year ended December 31, 2015 – $21.9 million) related to employee compensation.

15. INTEREST AND OTHER INCOME

		Year ended December 31	
	Note	2016	2015
Interest, dividend and distribution income from marketable securities and cash investments	5	$ 1,129	$ 1,605
Interest income from loans, deposit and mortgages receivable	5	11,759	9,366
Fees and other income		6,753	6,731
Total		$ 19,641	$ 17,702

16. INTEREST EXPENSE

		Year ended December 31	
	Note	2016	2015
Mortgages	9	$ 47,724	$ 51,327
Credit facilities	9	6,641	4,031
Senior unsecured debentures	10	112,023	106,844
Convertible debentures (non-cash)	11	14,603	22,118
Total interest expense		180,991	184,320
Interest capitalized to investment properties under development		(22,304)	(20,839)
Interest expense		$ 158,687	$ 163,481
Convertible debenture interest paid in common shares	11	(13,645)	(18,857)
Change in accrued interest		521	655
Effective interest rate less than (in excess of) coupon interest rate on senior unsecured and convertible debentures		(76)	(788)
Coupon interest rate in excess of effective interest rate on assumed mortgages		2,232	3,692
Amortization of deferred financing costs		(6,393)	(6,283)
Cash interest paid associated with operating activities		$ 141,326	$ 141,900

17. CORPORATE EXPENSES

	Year ended December 31	
	2016	2015
Salaries, wages and benefits	**$ 27,251**	$ 29,164
Non-cash compensation	**3,469**	2,941
Other corporate costs	**10,627**	11,486
Total corporate expenses	**41,347**	43,591
Amounts capitalized to investment properties under development	**(6,437)**	(7,931)
Corporate expenses	**$ 34,910**	$ 35,660

18. OTHER GAINS (LOSSES) AND (EXPENSES)

	Year ended December 31	
	2016	2015
Realized gain (loss) on sale of marketable securities	**$ 79**	$ 784
Unrealized gain (loss) on marketable securities classified as FVTPL	**1,071**	(2,022)
Net gain (loss) on prepayments of debt	**(1,119)**	(310)
Proceeds from Target	**3,813**	—
Investment properties selling costs	**(2,435)**	(522)
Restructuring costs	**(1,988)**	(13,085)
Other	**(7)**	—
Total	**$ (586)**	$ (15,155)

During the second quarter, the Company recognized a $1.2 million loss on prepayment of debt related to the redemption of series G and H convertible debentures. During the year, the Company recognized $3.8 million in proceeds under Target Canada's CCAA plan of arrangement related to the closure of two Target stores in the Company's portfolio in 2015.

19. INCOME TAXES

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

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

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

	December 31, 2014	Net income	Recognized in OCI	Equity and other	December 31, 2015
Deferred taxes related to non-capital losses	$ (21,388)	$ (14,157)	$ (1,421)	$ (1,028)	$ (37,994)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	475,291	70,000	(1,605)	(991)	542,695
Net deferred taxes	$ 453,903	$ 55,843	$ (3,026)	$ (2,019)	$ 504,701

As at December 31, 2015, the Company had approximately $143.8 million of non-capital losses which expire between 2016 and 2035.

The following reconciles the Company's expected tax expense computed at the statutory tax rate to its actual tax expense for the year ended December 31, 2016 and 2015:

	Year ended December 31	
	2016	2015
Income tax expense at the Canadian federal and provincial income tax rate of 26.6% (2015 – 26.4%)	**$ 126,712**	$ 68,527
Increase (decrease) in income taxes due to:		
Non-taxable portion of capital gains and other	**(38,883)**	(19,574)
Impact of change in statutory income tax rate	**(1,207)**	7,375
Other	**3,948**	(485)
Deferred income taxes	**$ 90,570**	$ 55,843

The current Canadian federal and provincial tax rate of 26.6% increased from 26.4% primarily due to an increase in the general corporate income tax rate in the Province of Alberta during the second quarter of 2015.

During the fourth quarter of 2016, the Province of Quebec reduced its general corporate income tax rate, which impacted the measurement of the Company's deferred taxes.

20. PER SHARE CALCULATIONS

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

	Year ended December 31	
	2016	2015
Net income attributable to common shareholders	**$ 382,714**	$ 203,865
Adjustment for dilutive effect of convertible debentures, net of tax	**9,276**	10,037
Income for diluted per share amounts	**$ 391,990**	$ 213,902
(in thousands)		
Weighted average number of shares outstanding for basic per share amounts	**235,671**	223,644
Options	**572**	424
Convertible debentures	**10,185**	11,802
Weighted average diluted share amounts	**246,428**	235,870

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 shares in thousands)	Exercise Price	**2016**	2015
Common share options	$19.96	—	246
Convertible debentures - Series E - 5.40%	$22.62	—	2,795
Convertible debentures - Series G - 5.25%	$23.25	N/A	2,491

21. RISK MANAGEMENT

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

(a) Interest rate risk

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

Interest represents a significant cost in financing the ownership of real property. The Company has a total of $1.0 billion principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between January 1, 2017 and December 31, 2019 at a weighted average coupon interest rate of 5.5%. 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 $10.2 million.

The Company's loans and mortgages receivable earn interest at fixed rates. If the loans were refinanced at 100 basis points higher or lower than the existing rate, the Company's annual interest income would increase or decrease by approximately $1.4 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, 2016, Loblaw Companies Limited ("Loblaw") accounts for 10.2% of the Company's annualized minimum rent and has an investment grade credit rating. Other than Loblaw, no other tenant accounts for more than 10% of the annualized minimum rent. A tenant's success over the term of its lease and its ability to fulfill its lease obligations is subject to many factors. There can be no assurance that a tenant will be able to fulfill all of its existing commitments and leases up to the expiry date. The Company typically mitigates the risk of credit loss from debtors by obtaining registered mortgage charges on real estate properties.

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

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

As at December 31, 2016	
Within 1 year	**$ 417,917**
After 1 year, but not more than 5 years	**1,146,685**
More than 5 years	**763,076**
	$ 2,327,678

(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, 2016 is set out below:

As at December 31, 2016	Payments Due by Period				
	2017	2018 to 2019	2020 to 2021	Thereafter	Total
Scheduled mortgage principal amortization	$ 27,335	$ 44,172	$ 36,407	$ 41,643	$ 149,557
Mortgage principal repayments on maturity	82,902	231,035	119,255	413,176	846,368
Credit facilities and bank indebtedness	7,785	60,245	199,365	—	267,395
Senior unsecured debentures	250,000	300,000	350,000	1,650,000	2,550,000
Convertible debentures	108,147	—	—	—	108,147
Interest obligations [1]	158,927	265,319	196,824	201,044	822,114
Land leases (expiring between 2023 and 2061)	964	1,958	1,968	15,219	20,109
Contractual committed costs to complete current development projects	61,560	5,818	—	—	67,378
Other committed costs	—	16,703	—	—	16,703
Total contractual obligations [2]	$ 697,620	$ 925,250	$ 903,819	$ 2,321,082	$ 4,847,771

(1) Interest obligations include expected interest payments on mortgages and credit facilities as at December 31, 2016 (assuming balances remain outstanding through to maturity), and senior unsecured debentures, as well as standby credit facility fees.

(2) The Company has the option to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares, and as such, convertible debentures have been excluded from this table unless the Company has disclosed its intention to settle in cash.

The Company manages its liquidity risk by staggering debt maturities; renegotiating expiring credit arrangements proactively; using revolving credit facilities; and issuing equity when considered appropriate. As at December 31, 2016, there was $183.5 million (December 31, 2015 – $195.0 million) of cash advances drawn against the Company's revolving credit facilities.

In addition, as at December 31, 2016, the Company has $48.2 million (December 31, 2015 – $55.6 million) of bank overdrafts and outstanding letters of credit issued by financial institutions primarily to support certain of the Company's contractual obligations.

22. FAIR VALUE MEASUREMENT

Fair value

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

As at December 31		Carrying Amount		Fair Value	
	Notes	**2016**	2015	**2016**	2015
Financial assets					
FVTPL investments in equity securities	6	**$ 12,969**	$ 11,907	**$ 12,969**	$ 11,907
AFS investments in equity securities	6	**3,824**	4,269	**3,824**	4,269
Loans and mortgages receivable	6	**147,236**	143,672	**144,379**	141,354
Derivatives at fair value	8	**12,438**	—	**12,438**	—
Financial liabilities					
Mortgages	10	**$ 997,165**	$ 1,024,002	**$ 996,835**	$ 1,048,090
Credit facilities	10	**251,481**	224,635	**251,481**	224,635
Senior unsecured debentures	11	**2,546,442**	2,244,091	**2,691,059**	2,414,392
Convertible debentures	12	**207,633**	327,343	**214,423**	341,874
Derivatives at fair value	13	**6,469**	8,959	**6,469**	8,959

The fair values of the Company's cash and cash equivalents, amounts receivable, restricted cash and accounts payable and other liabilities approximate their carrying values as at December 31, 2016 and 2015 due to their short term nature.

The fair values of the Company's investments in FVTPL as well as any short positions in marketable securities, are based on quoted market prices. The Company has an investment in a fund classified as Level 3 AFS equity securities, for which the fair value is based on the fair value of the properties held in the fund.

The fair value of the Company's loans and mortgages receivable classified as Level 3, are calculated based on current market rates plus borrower level risk-adjusted spreads on discounted cash flows, adjusted for allowances for non-payment and collateral related risk. As at December 31, 2016, the risk-adjusted interest rates ranged from 4.0% to 15.0% (December 31, 2015 – 4.0% to 10.0%).

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, 2016, these rates ranged from 2.3% to 3.6% (December 31, 2015 – 2.3% to 3.3%).

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, 2016, these rates ranged from 1.1% to 3.7% (December 31, 2015 – 1.7% 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, 2016**			December 31, 2015		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Measured at fair value						
Financial Assets						
FVTPL investments in equity securities	**$ 12,969**	**$ —**	**$ —**	$ 11,907	$ —	$ —
AFS investments in limited partnership	**—**	**—**	**3,824**	—	—	4,269
Derivatives at fair value – assets	**—**	**12,438**	**—**	—	—	—
Financial Liabilities						
Derivatives at fair value – liabilities	**—**	**6,469**	**—**	—	8,959	—
Measured at amortized cost						
Financial Assets						
Loans and mortgages receivable	**$ —**	**$ —**	**$ 144,379**	$ —	$ —	$ 141,354
Financial Liabilities						
Mortgages	**—**	**996,835**	**—**	—	1,048,090	—
Credit facilities	**—**	**251,481**	**—**	—	224,635	—
Senior unsecured debentures	**—**	**2,691,059**	**—**	—	2,414,392	—
Convertible debentures	**214,423**	**—**	**—**	341,874	—	—

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, 2016, the interest rates ranged from 1.7% to 3.3% (December 31, 2015 – 1.5% to 3.2%).

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

	Designated as Hedging Instrument	Maturity as at December 31, 2016	**December 31, 2016**	December 31, 2015
Derivative assets				
Bond forward contracts	Yes	February 2017	**$ 6,279**	$ —
Interest rate swaps	Yes	January 2026 - September 2026	**2,683**	—
Cross currency swaps	No	January 2017	**3,476**	—
Total			**$ 12,438**	$ —
Derivative liabilities				
Bond forward contracts	Yes	February 2017	**$ —**	$ 788
Interest rate swaps	Yes	March 2022 - June 2025	**6,469**	8,171
Total			**$ 6,469**	$ 8,959

23. INVESTMENT IN JOINT VENTURES

As at December 31, 2016, the Company had interests in two joint ventures that it accounts for using the equity method. The Company, through direct and indirect investment, owns on a consolidated basis a 53.1% interest in M+M Urban Realty LP ("Main and Main Urban Realty"), a joint venture between the Company, Main and Main Developments LP ("MMLP", further described in Note 24) and an institutional investor. The Company has determined that Main and Main Urban Realty is a joint venture as all decisions regarding its activities are made unanimously as between MMLP and the Company on one hand, and the institutional investor on the other hand. In addition, the Company has a 50% interest in a joint venture that operates a shopping centre known as "College Square" located in Ottawa, Ontario.

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

As at	**December 31, 2016**	December 31, 2015
Total assets	**$ 526,284**	$ 399,759
Total liabilities	**220,371**	93,649
Net assets at 100%	**305,913**	306,110
The Company's investment in equity accounted joint ventures	**$ 146,422**	$ 160,119

For the year ended	**December 31, 2016**	December 31, 2015
Revenue	**$ 18,407**	$ 16,940
Expenses	**9,740**	7,865
Increase in value of investment properties, net	**9,072**	9,545
Income before income taxes	**17,739**	18,620
Current income tax expense (recovery)	**$ (11)**	$ 15
Net income and total comprehensive income at 100%	**$ 17,750**	$ 18,605
The Company's share of income in equity accounted joint ventures	**$ 12,437**	$ 12,178

As at December 31, 2016, MMLP and its joint venture partners have collectively committed a total of $320.0 million of equity capital for the current growth and the future development of the Main and Main Urban Realty portfolio. As at December 31, 2016, the Company's direct and indirect commitment was approximately $167.0 million, of which $120.3 million had been invested as at December 31, 2016 (December 31, 2015 – $96.7 million).

During 2016, the Company received distributions from its joint ventures of $52.5 million (2015 - $47.6 million) and made contributions to its joint ventures of $25.0 million (2015 - $57.0 million).

As at December 31, 2016, 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 $17.2 million. There were no outstanding commitments for College Square as at December 31, 2016. The Company's share of these outstanding commitments relating to its joint ventures at its interest is $9.1 million. Main and Main Urban Realty and College Square did not have any contingent liabilities as at December 31, 2016 and 2015.

24. SUBSIDIARY WITH NON-CONTROLLING INTEREST

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

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

	December 31, 2016	December 31, 2015
Non-current assets	**$ 111,865**	$ 84,724
Current assets	**3,471**	1,746
Total assets	**$ 115,336**	$ 86,470
Non-current liabilities	**—**	—
Current liabilities	**729**	502
Total liabilities	**729**	502
Net assets	**$ 114,607**	$ 85,968
Non-controlling interests	**$ 37,820**	$ 28,362

	Year ended December 31	
	2016	2015
Revenue	**$ 3,341**	$ 2,168
Share of profit from joint ventures	**9,258**	602
Expenses	**3,274**	3,189
Increase in value of investment properties, net	**—**	—
Net income	**$ 9,325**	$ (419)
Non-controlling interests	**$ 3,078**	$ (137)

	Year ended December 31	
	2016	2015
Cash provided by operating activities	**$ 310**	$ (940)
Cash provided by financing activities	**19,314**	2,813
Cash used in investing activities	**(17,883)**	(706)
Net decrease in cash and cash equivalents	**$ 1,741**	$ 1,167

25. CO-OWNERSHIP INTERESTS

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

		Ownership Interest	
Property	**Location**	**December 31, 2016**	December 31, 2015
101 Yorkville Avenue	Toronto, ON	**50%**	—%
2150 Lake Shore Blvd. West	Toronto, ON	**50%**	—%
816-838 11th Ave. (Glenbow)	Calgary, AB	**50%**	—%
King High Line	Toronto, ON	**50%**	50%
McLaughlin Corners	Brampton, ON	**50%**	50%
Midland (land)	Midland, ON	**50%**	50%
Rutherford Marketplace (land)	Vaughan, ON	**50%**	100%
Hunt Club – Petrocan	Ottawa, ON	**50%**	50%
Kanata Terry Fox (land)	Ottawa, ON	**50%**	50%
Hunt Club Marketplace	Ottawa, ON	**33%**	33%
Lachenaie Properties	Lachenaie, QC	**50%**	100%
South Oakville Properties [1]	Oakville, ON	**50%**	50%
Whitby Mall	Whitby, ON	**50%**	—%
Thickson Mall	Whitby, ON	**50%**	100%
Bow Valley Crossing (land)	Calgary, AB	**75%**	75%
Seton Gateway	Calgary, AB	**50%**	50%
Sherwood Park	Sherwood Park, AB	**50%**	50%
The Edmonton Brewery District	Edmonton, AB	**50%**	50%
West Oaks Mall	Abbotsford, BC	**50%**	50%
West Springs Village	Calgary, AB	**50%**	50%

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

26. SUPPLEMENTAL OTHER COMPREHENSIVE INCOME (LOSS) INFORMATION

(a) Accumulated other comprehensive loss

Year ended December 31			**2016**			2015
	Opening Balance January 1	**Net Change During the Year**	**Closing Balance December 31**	Opening Balance January 1	Net Change During the Year	Closing Balance December 31
Unrealized gains (losses) on AFS investments in equity securities	**$ 45**	**$ —**	**$ 45**	$ (53)	$ 98	$ 45
Unrealized gains (losses) on cash flow hedges	**(17,107)**	**5,364**	**(11,743)**	(9,017)	(8,090)	(17,107)
Accumulated other comprehensive loss	**$ (17,062)**	**$ 5,364**	**$ (11,698)**	$ (9,070)	$ (7,992)	$ (17,062)

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

Year ended December 31			2016			2015
	Before-Tax Amount	**Tax (Expense) Recovery**	**Net of Tax Amount**	Before-Tax Amount	Tax (Expense) Recovery	Net of Tax Amount
Unrealized gains (losses) on AFS investments in equity securities	**$ —**	**$ —**	**$ —**	$ (34)	$ 5	$ (29)
Reclassification of losses on AFS equity securities to net income	**—**	**—**	**—**	147	(20)	127
Unrealized gains (losses) on cash flow hedges	**5,790**	**(1,540)**	**4,250**	(12,232)	3,334	(8,898)
Reclassification of losses on cash flow hedges to net income	**1,518**	**(404)**	**1,114**	1,101	(293)	808
Other comprehensive (loss) income	**$ 7,308**	**$ (1,944)**	**$ 5,364**	$ (11,018)	$ 3,026	$ (7,992)

27. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash and other items

		Year ended December 31	
	Note	**2016**	2015
Straight-line rent adjustment		**$ (5,848)**	$ (4,957)
Investment properties selling costs	18	**2,435**	522
Realized (gain) loss on sale of marketable securities	18	**(79)**	(784)
Unrealized (gain) loss on marketable securities classified as FVTPL	18	**(1,071)**	2,022
Net (gain) loss on prepayments of debt	18	**1,119**	310
Non-cash compensation expense		**3,698**	3,098
Deferred income taxes	19	**90,570**	55,843
Other non-cash items		**(18)**	7,113
Total		**$ 90,806**	$ 63,167

(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	
	2016	2015
Amounts receivable	**$ (3,470)**	$ (1,124)
Prepaid expenses	**(2,307)**	1,237
Trade payables and accruals	**(2,396)**	2,173
Tenant security and other deposits	**3,167**	1,749
Other working capital changes	**(3,700)**	(3,472)
Total	**$ (8,706)**	$ 563

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

	Year ended December 31	
	2016	2015
Advances of loans and mortgages receivable	**$ (54,521)**	$ (48,349)
Repayments of loans and mortgages receivable	**59,797**	43,445
Deposit on investment property	**(189,200)**	—
Investment in marketable securities, net	**(742)**	(3,154)
Proceeds from disposition of marketable securities	**830**	24,572
Total	**$ (183,836)**	$ 16,514

(d) Cash and cash equivalents (bank indebtedness)

As at	**December 31, 2016**	December 31, 2015
Cash (1)	**$ 12,217**	$ 9,164
Bank indebtedness	**(15,914)**	(26,200)
Total	**$ (3,697)**	$ (17,036)

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

28. COMMITMENTS AND CONTINGENCIES

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

(b) The Company is contingently liable, jointly and severally or as guarantor, for approximately $108.1 million (December 31, 2015 – $78.4 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 $32.3 million (December 31, 2015 – $29.4 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 $1.0 million (December 31, 2015 – $0.9 million) with a total obligation of $20.1 million (December 31, 2015 – $21.1 million).

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

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

29. RELATED PARTY TRANSACTIONS

(a) Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company and, as of December 31, 2016, beneficially owns 36.4% (December 31, 2015 – 42.2%) 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	
	2016	2015
Reimbursements for professional services	**$ 189**	$ 213

As at December 31, 2016, amounts due from Gazit were $0.1 million (December 31, 2015 – $0.1 million).

Effective April 3, 2016, a shareholders' agreement between Gazit and Alony-Hetz Properties and Investments Ltd. (''Alony-Hetz'') was terminated and Mr. Nathan Hetz, the Chief Executive Officer and a director of Alony-Hetz, stepped down from the Board of Directors of First Capital Realty on April 4, 2016. As of March 31, 2016, the last date that Alony-Hetz reported its shareholdings to First Capital Realty, it beneficially owned 6.2% of the common shares of the Company. Pursuant to the terminated shareholders' agreement, among other terms, (i) Gazit agreed to vote its common shares of the Company in favour of the election of up to two representatives of Alony-Hetz to the Board of Directors of the Company, and (ii) Alony-Hetz agreed to vote its common shares of the Company as directed by Gazit with respect to the election of the remaining directors of the Company.

(b) Joint venture

During the year ended December 31, 2016, a subsidiary of Main and Main Developments LP earned property-related and asset management fees from M+M Urban Realty LP, which are included in the Company's consolidated fees and other income in the amount of $2.9 million, (December 31, 2015 – $1.9 million).

(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 [(1)] included in corporate expenses is as follows:

	Year ended December 31	
	2016	2015
Salaries and short-term employee benefits	**$ 3,805**	$ 3,225
Share-based compensation (non-cash compensation expense)	**2,315**	1,661
	$ 6,120	$ 4,886

(1) Chief Operating Officer joined FCR effective June 1, 2016.

30. SUBSEQUENT EVENTS

Redemption of Convertible Debentures

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

First Quarter Dividend

The Company announced that it will pay a first quarter dividend of $0.215 per common share on April 11, 2017 to shareholders of record on March 29, 2017.

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FCR.DB.I
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FCR.DB.J

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