# BUILT TO DELIVER

FIRST CAPITAL REALTY INC.

FIRST QUARTER 2017

Shopping for Everyday Life

# 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 March 31, 2017, the Company owned interests in 160 properties, totaling approximately 25.2 million square feet of gross leasable area. First Capital Realty has an enterprise value of approximately $9.1 billion and its common shares trade on the Toronto Stock Exchange.

# Financial Highlights

| As at<br>*(millions of dollars, except per share amounts)* | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Total assets [1] | **$ 9,408** | $ 9,171 |
| Total equity market capitalization [2] | **$ 4,884** | $ 5,033 |
| Enterprise value [2] | **$ 9,055** | $ 9,162 |
| Net debt to total assets [1][2] | **43.1%** | 42.6% |
| Quarterly dividend per common share | **$ 0.215** | $ 0.215 |

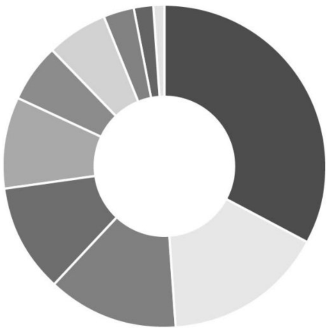
# Operating Highlights

| Three months ended March 31<br>*(millions of dollars, except per share amounts)* | **2017** | 2016 |
|---|---|---|
| Net income attributable to common shareholders | **$ 204** | $ 67 |
| Net income per share attributable to common shareholders (diluted) | **$ 0.82** | $ 0.29 |
| Property rental revenue [1] | **$ 177** | $ 170 |
| Net Operating Income [1] [2] | **$ 108** | $ 104 |
| **Funds from Operations ("FFO") [1] [2]** | | |
| Operating FFO | **$ 69** | $ 62 |
| Operating FFO per diluted share | **$ 0.28** | $ 0.27 |
| FFO | **$ 67** | $ 62 |
| FFO per diluted share | **$ 0.27** | $ 0.27 |
| **Adjusted Cash Flow from Operations ("ACFO") [1] [2]** | | |
| ACFO | **$ 50** | $ 47 |

(1) Reflects joint ventures proportionately consolidated.

(2) These measures are not defined by IFRS. Refer to the "Non-IFRS Financial Measures" section of the Company's Management's Discussion & Analysis for further information.

# 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 March 31, 2017

# Shopping For Everyday Life®

| | # OF STORES | % OF RENT | TENANTS |
|---|---|---|---|
| Grocery Stores | 132 | 17.6% | Loblaws, Sobeys, metro, save on foods, Whole Foods, Longo's |
| Pharmacies | 135 | 9.4% | Shoppers Drug Mart, Rexall, London Drugs, Jean Coutu, Uniprix, Brunet |
| Liquor Stores | 97 | 3.4% | LCBO, Beer Store, BC Liquor Store, SAQ, Liquor Depot |
| Banks and Credit Unions | 216 | 8.7% | TD, RBC, CIBC, BMO, Desjardins, National Bank of Canada |
| Restaurants and Cafes | 958 | 13.8% | Tim Hortons, Cara, Subway, aroma espresso bar |
| Medical, Professional and Personal Services | 1524 | 15.7% | Alberta Health Services, ups, Allstate, H&R Block, First Choice Haircutters |
| Fitness Facilities | 81 | 3.5% | GoodLife Fitness, Equinox Fitness Clubs, LA Fitness, Orangetheory Fitness, Anytime Fitness, Gold's Gym |
| Daycare and Learning Centres | 88 | 1.2% | Kumon, brightpath, Oxford Learning, kids & company |
| Other Necessity-Based Retailers | 553 | 17.9% | Canadian Tire, Walmart, Dollarama, GNC Live Well, Winners, PetSmart |
| Other Tenants | 578 | 8.8% | Cineplex Entertainment, west elm, Sleep Country Canada, Sherwin-Williams, Anthropologie |

*As of March 31, 2017*

# 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 three months ended March 31, 2017 and 2016. It should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 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 May 9, 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 May 9, 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 March 31, 2017, the Company owned interests in 160 properties, totaling approximately 25.2 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.

# 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 Express, Bebe, BCBG Max Azria, HMV, Mexx, Future Shop, Black's, Nine West, Target and Danier

Leather. 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 three months ended March 31, 2017, the Same Property portfolio delivered net operating income growth of 2.4% compared to the same prior year period. The growth in Same Property net operating income was primarily due to rent escalations, lease renewals at higher rates and redevelopments coming online. For the three months ended March 31, 2017, the monthly average total portfolio occupancy was 94.6% compared to 94.7% while the monthly average Same Property portfolio occupancy was unchanged at 95.9%.

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 March 31, 2017, the Company had identified, approximately 14.1 million square feet of incremental density available in the portfolio for future development (including 3.0 million square feet of retail and 11.2 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 quarter, the Company transferred 44,000 square feet of new urban retail space from development to income-producing properties at a cost of $15.4 million. Approximately 41,000 square feet of the new space was occupied at an average net rental rate of $29.65 per square foot, well above the average rent for the entire portfolio of $19.36, 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.

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 quarter, the Company disposed of three properties, including one land parcel, for gross proceeds of $12.3 million.

### Financing Activity

During the quarter, the Company secured $103.3 million of new mortgages with a weighted average effective interest rate of 3.6% and a weighted average term of 10.0 years. Also during the quarter, the Company redeemed its remaining 5.40% Series E and 5.25% Series F convertible debentures, totaling $106.1 million, at par and repaid its 5.85% Series H senior unsecured debentures totaling $125.0 million.

### 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.

## NON-IFRS FINANCIAL MEASURES

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

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

### *Proportionate Interest*

Proportionate interest 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.

In addition, to align the Company's GLA reporting with the presentation of financial information on a proportionate interest basis, effective January 1, 2017, unless otherwise noted, all GLA is now presented at the Company's proportionate interest (23.8 million square feet at proportionate interest compared to 25.2 million square feet at 100% as at March 31, 2017). Comparative amounts and certain metrics such as occupancy and weighted average rates per occupied square foot have been restated to conform with the current presentation. These changes had minimal impact on the Company's previously disclosed metrics.

Where noted, certain sections of this MDA exclude the Company's share of Main and Main Urban Realty ("MMUR") to enhance the relevance of the information presented, as MMUR's business operations are not focused on operating stable income-producing properties at this time. Select financial information for MMUR is presented in the "Main & Main Urban Realty" section of this MD&A.

A reconciliation from the balance sheet under IFRS to the balance sheet on a proportionate basis can be found in the "Real Estate Investments — Reconciliation of Condensed Consolidated Balance Sheets" section of this MD&A. A reconciliation from the income statement under IFRS to the income statement on a proportionate basis can be found in the "Results of Operations — Reconciliation of Condensed Consolidated Statements of Income" section of this MD&A.

### *Net Operating Income*

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

### *Total Same Property NOI*

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

### *Same Property — Stable NOI*

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

### *Funds from Operations*

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

### *Operating Funds from Operations*

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

### *Adjusted Cash Flow from Operations*

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

Management considers ACFO a meaningful metric to measure operating cash flows as it represents sustainable cash available to pay dividends to shareholders. ACFO includes a number of adjustments to cash flow from operations under

IFRS including, eliminating seasonal and non-recurring fluctuations in working capital, adding cash flows associated with equity accounted joint ventures and deducting revenue sustaining capital expenditures and capital expenditures recoverable from tenants. A reconciliation of cash flow from operations under IFRS to ACFO can be found in the "Results of Operations — FFO, Operating FFO and ACFO" section of this MD&A.

### *Weighted average share count for FFO and Operating FFO*

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

### *Enterprise Value*

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

### *Net Debt*

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

### *Earnings Before Interest, Taxes, Depreciation and Amortization*

Earnings Before Interest, Taxes, Depreciation and Amortization, as adjusted, ("EBITDA") is a measure used by Management in the computation of certain debt metrics. 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, which is a recognized adjustment to FFO.

### *Unencumbered Assets*

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

# SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

| As at March 31 | 2017 | 2016 |
|---|---|---|
| **Operations Information** | | |
| Number of properties | **160** | 160 |
| GLA (square feet) - at 100% | **25,215,000** | 24,800,000 |
| GLA (square feet) - at proportionate interest | **23,791,000** | 23,667,000 |
| Occupancy – Same Property – stable (1) | **96.1%** | 96.2% |
| Total portfolio occupancy | **94.5%** | 95.0% |
| Development pipeline and adjacent land (GLA) (2) | | |
| Retail pipeline | **2,993,000** | 2,949,000 |
| Residential pipeline | **11,156,000** | 9,756,000 |
| Average rate per occupied square foot | **$ 19.36** | $ 19.08 |
| GLA developed and brought online - at proportionate interest | **44,000** | 57,000 |
| Same Property – stable NOI – increase over prior period (1) (3) | **1.8%** | 2.1% |
| Total Same Property NOI – increase over prior period (1) (3) | **2.4%** | 2.3% |
| **Financial Information (4)** | | |
| Investment properties – shopping centres (5) | **$ 8,661,352** | $ 8,016,359 |
| Investment properties – development land (5) | **$ 67,153** | $ 47,887 |
| Total assets | **$ 9,334,216** | $ 8,387,567 |
| Mortgages (5) | **$ 1,091,294** | $ 1,012,810 |
| Credit facilities | **$ 435,885** | $ 310,099 |
| Senior unsecured debentures | **$ 2,421,730** | $ 2,244,445 |
| Convertible debentures | **$ 103,934** | $ 325,155 |
| Shareholders' equity | **$ 4,352,882** | $ 3,666,239 |
| **Capitalization and Leverage** | | |
| Shares outstanding (in thousands) | **243,831** | 226,152 |
| Enterprise value (1) | **$ 9,055,000** | $ 8,685,000 |
| Net debt to total assets (1) (6) | **43.1%** | 43.6% |
| Weighted average term to maturity on mortgages and senior unsecured debentures (years) | **5.4** | 5.5 |

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| | | **2017** | | 2016 |
| **Revenues, Income and Cash Flows** [4] | | | | |
| Revenues and other income | **$** | **180,890** | $ | 171,750 |
| NOI [1] | **$** | **106,884** | $ | 102,996 |
| Increase (decrease) in value of investment properties, net | **$** | **177,234** | $ | 24,869 |
| Net income attributable to common shareholders | **$** | **203,671** | $ | 66,957 |
| Net income per share attributable to common shareholders (diluted) | **$** | **0.82** | $ | 0.29 |
| Weighted average number of common shares – diluted – IFRS (in thousands) | | **250,232** | | 243,467 |
| Cash provided by operating activities | **$** | **45,970** | $ | 48,339 |
| **Dividends** | | | | |
| Dividends | **$** | **52,473** | $ | 48,679 |
| Dividends per common share | **$** | **0.215** | $ | 0.215 |
| **Funds from Operations** [1] [6] | | | | |
| Operating FFO | **$** | **68,686** | $ | 61,504 |
| Operating FFO per diluted share | **$** | **0.28** | $ | 0.27 |
| Operating FFO payout ratio | | **76.8%** | | 79.6% |
| FFO | **$** | **66,625** | $ | 61,902 |
| FFO per diluted share | **$** | **0.27** | $ | 0.27 |
| FFO payout ratio | | **79.6%** | | 79.6% |
| Weighted average number of common shares – diluted – FFO (in thousands) | | **244,820** | | 226,692 |
| **Adjusted Cash Flow from Operations** [1] [6] | | | | |
| ACFO | **$** | **49,680** | $ | 47,125 |
| ACFO payout ratio on a rolling four quarter basis | | **86.9%** | | N/A |

(1) Refer to the "Non-IFRS Financial Measures" 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 MMUR joint venture. Refer to the "Business and Operations Review – Properties Under Development – Main and Main Urban Realty" section of this MD&A.

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

(4) Presented in accordance with IFRS.

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

(6) Reflects joint ventures proportionately consolidated.

# 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 Condensed Consolidated Balance Sheets to the Company's Proportionate Interest*

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

| *As at* | | | **March 31, 2017** | December 31, 2016 |
|---|---|---|---|---|
| | Condensed Consolidated Balance Sheet [1] | Adjustments for Proportionate Interest | **Proportionate Interest** | Proportionate Interest |
| **ASSETS** | | | | |
| Investment properties – shopping centres | $ 8,583,852 | $ 111,186 | **$ 8,695,038** | $ 8,481,385 |
| Investment properties – development land | 67,153 | 92,185 | **159,338** | 156,027 |
| Residential development inventory | 5,047 | 7,054 | **12,101** | 11,127 |
| Investment in joint ventures | 147,723 | (147,723) | **—** | — |
| Investment properties classified as held for sale | 77,500 | — | **77,500** | 83,050 |
| Other | 452,941 | 10,780 | **463,721** | 439,103 |
| Total assets | $ 9,334,216 | $ 73,482 | **$ 9,407,698** | $ 9,170,692 |
| **LIABILITIES** | | | | |
| Mortgages | $ 1,091,294 | $ 44,027 | **$ 1,135,321** | $ 1,042,538 |
| Credit facilities | 435,885 | 66,022 | **501,907** | 308,279 |
| Other | 3,415,950 | 1,638 | **3,417,588** | 3,624,612 |
| Total liabilities | 4,943,129 | 111,687 | **5,054,816** | 4,975,429 |
| **EQUITY** | | | | |
| Shareholders' equity | 4,352,882 | — | **4,352,882** | 4,195,263 |
| Non-controlling interest | 38,205 | (38,205) | **—** | — |
| Total equity | 4,391,087 | (38,205) | **4,352,882** | 4,195,263 |
| Total liabilities and equity | $ 9,334,216 | $ 73,482 | **$ 9,407,698** | $ 9,170,692 |

[1] Certain assets and liabilities have been grouped for purposes of this reconciliation.

### *Portfolio Overview*

As at March 31, 2017, the Company had interests in 160 investment properties – shopping centres, which were 94.5% occupied with a total GLA of 25.2 million square feet (23.8 million square feet at the Company's proportionate interest) and a fair value of $8.7 billion. This compares to 160 investment properties – shopping centres, which were 94.9% occupied with a total GLA of 25.3 million square feet (23.8 million square feet at the Company's proportionate share) and a fair value of $8.5 billion as at December 31, 2016. As at March 31, 2017, 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 145 properties with a GLA of 22.0 million square feet (20.9 million square feet at the Company's proportionate interest) and a fair value of $7.1 billion. These properties represent 90.6% of the Company's property count, 87.7% of its GLA and 81.5% of its fair value and generated $93.6 million in NOI for the three months ended March 31, 2017 or 86.6% 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 2017 or 2016 and properties in close proximity to them, as well as properties held for sale.

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

| As at | | | | | **March 31, 2017** | | | | | December 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| *(millions of dollars, except other data)* | **Number of Properties** | **GLA (000s sq. ft.)** | **Fair Value** | **Occupancy** | **Weighted Average Rate per Occupied Square Foot** | Number of Properties | GLA (000s sq. ft.) | Fair Value | Occupancy | Weighted Average Rate per Occupied Square Foot |
| Same Property – stable | **136** | **18,865** | **$ 6,385** | **96.1%** | **$ 18.70** | 136 | 18,864 | $ 6,233 | 96.3% | $ 18.66 |
| Same Property with redevelopment | **9** | **1,991** | **726** | **93.5%** | **20.59** | 9 | 1,958 | 701 | 94.6% | 20.43 |
| Total Same Property | **145** | **20,856** | **7,111** | **95.9%** | **18.88** | 145 | 20,822 | 6,934 | 96.2% | 18.83 |
| Major redevelopment | **8** | **1,970** | **1,073** | **81.4%** | **23.72** | 8 | 1,987 | 1,037 | 83.5% | 23.33 |
| Ground-up development | **1** | **105** | **175** | **99.4%** | **29.18** | 1 | 105 | 176 | 99.4% | 32.18 |
| Acquisitions – 2016 | **4** | **625** | **286** | **93.5%** | **22.87** | 4 | 617 | 282 | 93.1% | 22.54 |
| Investment properties classified as held for sale | **2** | **235** | **78** | **84.6%** | **17.77** | 2 | 234 | 74 | 88.5% | 17.87 |
| Dispositions – 2017 | **—** | **—** | **—** | **—%** | **—** | — | 55 | 12 | 80.2% | 15.72 |
| Total [(1)] | **160** | **23,791** | **$ 8,723** | **94.5%** | **$ 19.36** | 160 | 23,820 | $ 8,515 | 94.9% | $ 19.30 |

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

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

| As at | | | **March 31, 2017** | | | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(millions of dollars, except other data)* | **Number of Properties** | **GLA (000s sq. ft.)** | **Fair Value** | **Occupancy** | **Weighted Average Rate per Occupied Square Foot** | **% of Annual Minimum Rent** | Number of Properties | GLA (000s sq. ft.) | Fair Value | Occupancy | Weighted Average Rate per Occupied Square Foot | % of Annual Minimum Rent |
| **Central Region** | | | | | | | | | | | | |
| Greater Toronto Area | **46** | **6,740** | **$ 3,163** | **96.5%** | **$ 22.11** | **33%** | 46 | 6,757 | $ 3,085 | 96.5% | $ 22.11 | 33% |
| Golden Horseshoe Area | **8** | **1,589** | **413** | **97.3%** | **16.09** | **6%** | 8 | 1,570 | 405 | 95.7% | 15.91 | 6% |
| London Area | **7** | **735** | **174** | **95.2%** | **15.29** | **3%** | 7 | 783 | 173 | 93.7% | 15.16 | 3% |
| | **61** | **9,064** | **3,750** | **96.5%** | **20.50** | **42%** | 61 | 9,110 | 3,663 | 96.1% | 20.46 | 42% |
| **Eastern Region** | | | | | | | | | | | | |
| Greater Montreal Area | **32** | **4,500** | **1,199** | **89.3%** | **16.58** | **15%** | 32 | 4,491 | 1,189 | 90.3% | 16.43 | 15% |
| Greater Ottawa Area | **11** | **1,728** | **470** | **96.7%** | **16.69** | **6%** | 11 | 1,728 | 474 | 96.9% | 16.69 | 6% |
| Quebec City | **5** | **994** | **178** | **92.7%** | **11.19** | **2%** | 5 | 989 | 175 | 93.5% | 11.29 | 2% |
| Other | **2** | **219** | **43** | **99.2%** | **13.63** | **1%** | 2 | 218 | 43 | 100.0% | 13.43 | 1% |
| | **50** | **7,441** | **1,890** | **91.8%** | **15.78** | **24%** | 50 | 7,426 | 1,881 | 92.5% | 15.71 | 24% |
| **Western Region** | | | | | | | | | | | | |
| Greater Calgary Area | **16** | **2,500** | **1,068** | **95.2%** | **22.48** | **12%** | 16 | 2,500 | 1,041 | 95.5% | 22.46 | 12% |
| Greater Vancouver Area | **20** | **2,241** | **1,136** | **94.9%** | **22.78** | **11%** | 20 | 2,241 | 1,054 | 95.5% | 22.64 | 11% |
| Greater Edmonton Area | **12** | **2,301** | **797** | **94.6%** | **19.17** | **10%** | 12 | 2,299 | 794 | 97.0% | 19.11 | 10% |
| Red Deer | **1** | **244** | **82** | **93.1%** | **20.26** | **1%** | 1 | 244 | 82 | 93.1% | 20.25 | 1% |
| | **49** | **7,286** | **3,083** | **94.9%** | **21.46** | **34%** | 49 | 7,284 | 2,971 | 95.9% | 21.37 | 34% |
| Total [1] | **160** | **23,791** | **$ 8,723** | **94.5%** | **$ 19.36** | **100%** | 160 | 23,820 | $ 8,515 | 94.9% | $ 19.30 | 100% |

(1) At the Company's proportionate interest, excluding MMUR of $49 million for 2017 and 2016, respectively.

## 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:

| | Three months ended March 31 | |
|---|---|---|
| *(millions of dollars)* | **2017** | 2016 |
| Balance at beginning of period | **$ 8,453** | $ 7,871 |
| Acquisitions | | |
| Shopping centres and additional adjacent spaces | **—** | 146 |
| Development activities and property improvements | **41** | 51 |
| Increase (decrease) in value of investment properties, net | **179** | 21 |
| Dispositions | **(12)** | (73) |
| Balance at end of period | **$ 8,661** | $ 8,016 |
| Investment in joint ventures – shopping centres [1] | **111** | 111 |
| At the Company's proportionate interest end of period | **$ 8,772** | $ 8,127 |

[1] Includes investment properties classified as held for sale as at March 31, 2017 and 2016 totaling $78 million and $20 million, respectively.

## 2017 Acquisitions

During the three months ended March 31, 2017, no acquisitions were completed by the Company.

## 2017 Dispositions

During the three months ended March 31, 2017, the Company disposed of interests in three properties, including one land parcel, 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. | 746 Baseline Rd. | London, ON | Q1 | 100% | 48,600 | 2.0 | |
| 2. | McLaughlin Corners East | Mississauga, ON | Q1 | 50% | 7,800 | 1.5 | |
| 3. | Carrefour St. Hubert | Longueuil, QC | Q1 | 100% | — | 2.2 | |
| | Total | | | | 56,400 | 5.7 | $ 12.3 |

[1] At the Company's proportionate interest.

## 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, overhead including applicable salaries and direct costs of internal staff directly attributable to the projects under active development.

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

| Three months ended March 31 | | | | **2017** | 2016 |
|---|---|---|---|---|---|
| | | **Total Same Property** | **Other Property Categories** | **Total** | Total [1] |
| Revenue sustaining | **$** | **2,893** | **$ —** | **$ 2,893** | $ 3,528 |
| Revenue enhancing | | **2,546** | **2,512** | **5,058** | 14,018 |
| Expenditures recoverable from tenants | | **131** | **5** | **136** | 2,072 |
| Development expenditures | | **2,933** | **31,441** | **34,374** | 31,137 |
| Total [2] | **$** | **8,503** | **$ 33,958** | **$ 42,461** | $ 50,755 |

[1] Prior period not restated for current period property categories.
[2] At the Company's proportionate interest, excluding MMUR.

During the three months ended March 31, 2017, capital expenditures totaled $42.5 million compared to $50.8 million for the same prior year period. The $8.3 million decrease was primarily the result of timing of scheduled infrastructure work during the quarter for revenue enhancing capital expenditures. Development expenditures increased by $3.2 million over the same prior year period primarily related to the major redevelopment projects currently underway including Yorkville Village, King High Line and 3080 Yonge Street.

## Valuation of Investment Properties

During the three months ended March 31, 2017, the weighted average stabilized capitalization rate of the Company's investment property portfolio decreased from 5.5% as at December 31, 2016 to 5.4%, primarily due to an overall compression in capitalization rates in the Western region. The Company's proportionate interest in the net increase in value of investment properties was $177.6 million for the three months ended March 31, 2017.

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

| As at March 31, 2017 | | **Capitalization Rate** | | | |
|---|---|---|---|---|---|
| *(millions of dollars)* | **Number of Properties** | **Weighted Average** | **Median** | **Range** | **Fair Value** |
| Central Region | **61** | **5.3%** | **5.5%** | **3.8%-7.0%** | **$ 3,750** |
| Eastern Region | **50** | **5.9%** | **6.0%** | **5.0%-7.0%** | **1,890** |
| Western Region | **49** | **5.2%** | **5.3%** | **3.8%-6.0%** | **3,083** |
| Total or Weighted Average [1] | **160** | **5.4%** | **5.6%** | **3.8%-7.0%** | **$ 8,723** |

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

| As at December 31, 2016 | | Capitalization Rate | | | |
|---|---|---|---|---|---|
| *(millions of dollars)* | Number of Properties | Weighted Average | Median | Range | Fair Value |
| Central Region | 61 | 5.3% | 5.5% | 4.1%-7.0% | $ 3,663 |
| Eastern Region | 50 | 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 [1] | 160 | 5.5% | 5.8% | 4.1%-7.0% | $ 8,515 |

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

## Properties Under Development

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

### *Development Pipeline*

The Company has identified approximately 14.1 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 March 31, 2017 | Square feet (in thousands) (1) | | |
|---|---|---|---|
| | Retail | Residential | Total |
| **Active Development** | | | |
| Same Property with redevelopment | 17 | — | 17 |
| Major redevelopment | 245 | — | 245 |
| Ground-up development | 131 | 156 | 287 |
| | **393** | **156** | **549** |
| **Future uncommitted incremental density** | | | |
| Medium term | 1,100 | 4,400 | 5,500 |
| Long term | 1,500 | 6,600 | 8,100 |
| | **2,600** | **11,000** | **13,600** |
| **Total development pipeline** | **2,993** | **11,156** | **14,149** |

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

The Company determines its course of action with respect to the 11.0 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 Urban Realty" section of this MD&A.

### *Invested Cost of Properties Under Development*

As at March 31, 2017, the Company had $563.0 million of properties under development and development land parcels at invested cost, representing approximately 6.3% of the value of the total portfolio.

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

| As at March 31, 2017 | | | Invested Cost (in millions) | | |
|---|---|---|---|---|---|
| | Number of Projects | Square Feet [1] [2] (in thousands) | Active Development | Pre-Development | Total [3] |
| Same Property with redevelopment | 2 | 17 | $ 7 | $ — | $ 7 |
| Major redevelopment | 3 | 245 | 156 | 102 | 258 |
| Ground-up development | 2 | 287 | 131 | — | 131 |
| **Total development and redevelopment activities** | **7** | **549** | **$ 294** | **$ 102** | **$ 396** |
| Total development land and adjacent land parcels | | | | $ 167 | $ 167 |
| **Total** | | | | **$ 269** | **$ 563** |

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

(2) Square footage relates to active development only.

(3) At the Company's proportionate interest, excluding MMUR.

### *2017 Development and Redevelopment Coming Online and Space Going Offline*

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

During the three months ended March 31, 2017, the Company completed the transfer of 44,000 square feet of new urban retail space from development to the income-producing portfolio at a cost of $15.4 million. Of the space transfered, 41,000 square feet became occupied at an average rental rate of $29.65 per square foot, well above the average rate for the portfolio of $19.36, 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.

For the three months ended March 31, 2017, the Company had tenant closures for redevelopment of 10,000 square feet at an average rental rate of $34.27 per square foot. All of the 10,000 square feet was demolished in addition to 8,000 square feet of space previously held for redevelopment.

### *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 currently forecasted costs, if final lease terms are lower than forecasted base rent, operating cost or property tax recoveries, or if there are other unforeseen events that cause actual results to differ from assumptions. The quality of the Company's construction is consistent with its strategy of long-term ownership and value creation, and factors in the Company's high standards in construction, lighting, parking, access, pedestrian amenities, accessibility, as well as development to LEED standards.

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

## *Same Property with Redevelopment*

The Company currently has two projects under active development in the Same Property with redevelopment property category. Of the approximately 17,000 square feet under active redevelopment, 2,000 square feet is subject to committed leases at a weighted average rate of $44.00 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 March 31, 2017 are as follows:

| As at March 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Invested Cost (in millions) | | |
| Count/Project and Major Tenant(s) | | Square Feet Under Development (in thousands) | Target Completion Date [1] | Total Estimated incl. Land | Under Development | Estimated Cost to Complete |
| | **Active development** | | | | | |
| 1. | South Park Centre, Edmonton, AB | 5 | H2 2017 | $ 3 | $ 1 | $ 2 |
| | *(Boardwalk Fries & Burger)* | | | | | |
| 2. | 685 Fairway Road, Kitchener, ON [2] | 12 | H2 2017 | 16 | 6 | 10 |
| | *(MEC, TD Canada Trust)* | | | | | |
| | **Total Same Property with redevelopment** | **17** | | **$ 19** | **$ 7** | **$ 12** |

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

(2) Approximately 24,000 square feet and $6 million of invested cost has been transferred to income-producing properties related to this project.

## *Major Redevelopment*

The Company has three projects under active development in the major redevelopment property category. Of the approximately 245,000 square feet under active redevelopment, 105,000 square feet is subject to committed leases at a weighted average rate of $35.83 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 March 31, 2017, including costs for completed phases, are as follows:

| As at March 31, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Square feet (in thousands) | | | | Invested Cost (in millions) | | | |
| Count / Property and Major Tenant(s) | | Planned Upon Completion | Completed or Existing [1] | Under Development | Target Completion Date [2] | Total Estimated incl. Land | Under Development | Income-producing property | Estimated Cost to Complete |
| | **Active development** | | | | | | | | |
| 1. | Yorkville Village Assets, Toronto, ON | 285 | 209 | 76 | H2 2017 [3] | $ 393 | $ 75 | $ 306 | $ 12 |
| | *(Whole Foods Market, Equinox Fitness)* | | | | | | | | |
| 2. | 3080 Yonge Street, Toronto, ON | 245 | 169 | 76 | H1 2018 | 129 | 45 | 62 | 22 |
| | *(Loblaws)* | | | | | | | | |
| 3. | Mount Royal West, Calgary, AB | 93 | — | 93 | H2 2018 | 71 | 36 | — | 35 |
| | *(Urban Fare, Canadian Tire)* | | | | | | | | |
| | **Total Major Redevelopment** | **623** | **378** | **245** | | **$ 593** | **$ 156** | **$ 368** | **$ 69** |

(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 287,000 square feet of space currently under development, of which 131,000 square feet is retail space and 156,000 square feet is residential rental apartments. Currently, the residential space and the majority of the retail space is not subject to committed leases. As construction on ground-up developments occurs in phases, there continues to be ongoing negotiations in various stages with retailers for the planned space. Leasing of the residential space is expected to occur in mid-2018.

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

| As at March 31, 2017 | Square feet (in thousands) | | | | Invested Cost (in millions) | | | |
|---|---|---|---|---|---|---|---|---|
| Count/Project and Major Tenant(s) | Planned Upon Completion | Completed or Existing | Under Development | Target Completion Date (1) | Total Estimated incl. Land | Under Development | Income-producing property | Estimated Cost to Complete |
| **Active development** | | | | | | | | |
| 1. The Brewery District, Edmonton, AB [2] [3] | 157 | 105 | 52 | H2 2017 | $ 95 | $ 23 | $ 62 | $ 10 |
| *(Loblaws City Market, Shoppers Drug Mart, GoodLife Fitness, MEC, Winners)* | | | | | | | | |
| 2. King High Line (Shops at King Liberty), Toronto, ON [2] [4] | 235 | — | 235 | H2 2018 | 159 | 108 | — | 51 |
| **Total Ground-up Development** | **392** | **105** | **287** | | **$ 254** | **$ 131** | **$ 62** | **$ 61** |

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

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

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

(4) The square feet under development comprises 78,500 square feet of retail and 156,000 square feet of residential space. The Company and its development partner have entered into a binding agreement to sell, upon substantial completion, a 1/3 managing interest in the residential component of the property to Canadian Apartment Properties REIT.

## ***Costs to Complete Active and Redevelopment Activities***

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately $142 million. Costs to complete Same Property related developments are planned at $12 million. Costs to complete major redevelopments and ground-up developments, respectively, are planned at $43 million and $23 million in 2017, and $26 million and $38 million thereafter.

## Main and Main Urban Realty

Main and Main Urban Realty is a Toronto and Ottawa urban development partnership between the Company, Main and Main Developments (itself, a joint venture between the Company and a private developer) and a prominent Canadian institutional investor. Each of Main and Main Urban Realty's assembly projects are located on a major street in Toronto or Ottawa. 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 March 31, 2017). Main and Main Developments was retained to provide asset and property management services for the real estate portfolio. The Company's proportionate interest in Main and Main Urban Realty is 37.7%.

The following table summarizes key information about Main and Main Urban Realty's portfolio.

| As at March 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Number of assemblies | | **23** | | 23 |
| Number of income-producing properties | | **11** | | 9 |
| Projects in active development / pre-development phase | | **2 / 9** | | 2 / 7 |
| GLA (square feet) [1] | | **103,800** | | 88,100 |
| Development expenditures year-to-date [1] | **$** | **2,857** | $ | 2,774 |
| Other capital expenditures year-to-date [1] | **$** | **75** | $ | 84 |
| Development pipeline and adjacent land (GLA) [1] | | | | |
| Retail pipeline [1] | | **106,000** | | 195,000 |
| Residential pipeline [1] | | **554,000** | | 682,000 |
| Total investment properties - shopping centres [1] | **$** | **48,754** | $ | 47,917 |
| Total investment properties - development [1] | **$** | **92,185** | $ | 56,026 |
| Total assets [1] | **$** | **159,530** | $ | 114,387 |
| Mortgages [1] | **$** | **1,605** | $ | 2,749 |
| Credit facilities [1] | **$** | **66,022** | $ | 56,798 |

| Three months ended March 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Revenue [1] | **$** | **1,535** | $ | 796 |
| Expenses [1] | **$** | **751** | $ | 463 |
| Increase (decrease) in value of investment properties [1] | **$** | **—** | $ | — |

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

## Leasing and Occupancy

Monthly average occupancy for the first quarter of 2017 was relatively consistent with the first quarter of 2016 for both the total portfolio and the Same Property portfolio. For the three months ended March 31, 2017, the monthly average total portfolio occupancy was 94.6% compared to 94.7% for the same prior year period while the monthly average Same Property portfolio occupancy was unchanged at 95.9%.

As at March 31, 2017, total portfolio occupancy was down 0.5% to 94.5% while the Same Property portfolio occupancy was down 0.2% to 95.9% compared to March 31, 2016. The decline was due to tenant closures exceeding tenant openings by 111,000 square feet. In the second quarter, higher performing retailers paying higher rents will take possession of approximately 108,000 square feet of space in the two properties that had the largest increases in available space.

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

| As at | | **March 31, 2017** | | | December 31, 2016 | |
|---|---|---|---|---|---|---|
| *(square feet in thousands)* | **Total Occupied Square Feet** | **% Occupied** | **Weighted Average Rate per Occupied Square Foot** | Total Occupied Square Feet | % Occupied | Weighted Average Rate per Occupied Square Foot |
| Same Property – stable | **18,138** | **96.1%** | **$ 18.70** | 18,174 | 96.3% | $ 18.66 |
| Same Property with redevelopment | **1,861** | **93.5%** | **20.59** | 1,852 | 94.6% | 20.43 |
| Total Same Property | **19,999** | **95.9%** | **18.88** | 20,026 | 96.2% | 18.82 |
| Major redevelopment | **1,605** | **81.4%** | **23.72** | 1,660 | 83.5% | 23.33 |
| Ground-up development | **104** | **99.4%** | **29.18** | 104 | 99.4% | 32.18 |
| Investment properties classified as held for sale | **199** | **84.6%** | **17.77** | 207 | 88.5% | 17.87 |
| Total portfolio before acquisitions and dispositions | **21,907** | **94.6%** | **19.27** | 21,997 | 95.0% | 19.22 |
| Acquisitions – 2016 | **584** | **93.5%** | **22.87** | 574 | 93.1% | 22.54 |
| Dispositions – 2017 | **—** | **—%** | **—** | 45 | 80.2% | 15.72 |
| Total [(1)] | **22,491** | **94.5%** | **$ 19.36** | 22,616 | 94.9% | $ 19.30 |

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

During the three months ended March 31, 2017, the Company achieved a 6.2% overall rate increase per occupied square foot on 303,000 square feet of renewal leases over the expiring lease rates. The rate increase for the Same Property portfolio was 8.0% on 228,000 square feet of renewals.

The average rental rate per occupied square foot for the total portfolio increased from $19.30 as at December 31, 2016 to $19.36 as at March 31, 2017 primarily due to rent escalations.

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

| *Three months ended March 31, 2017* | Total Same Property | | | Major redevelopment, ground-up, acquisitions and dispositions | | | Vacancy | | | | Total Portfolio [1] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Occupied Square Feet (thousands) | % | Weighted Average Rate per Occupied Square Foot | Occupied Square Feet (thousands) | % | Weighted Average Rate per Occupied Square Foot | Under Redevelop-ment Square Feet (thousands) | % | Vacant Square Feet (thousands) | % | Total Square Feet (thousands) | Occupied Square Feet % | Weighted Average Rate per Occupied Square Foot |
| **December 31, 2016** [2] | **20,026** | **96.2%** | **$ 18.83** | **2,590** | **86.3%** | **$ 22.94** | **188** | **0.8%** | **1,016** | **4.3%** | **23,820** | **94.9%** | **$ 19.30** |
| Tenant possession | 143 | | 13.70 | 17 | | 17.96 | — | | (160) | | — | | 14.15 |
| Tenant closures | (203) | | (15.37) | (68) | | (10.59) | — | | 271 | | — | | (14.17) |
| Tenant closures for redevelopment | — | | — | (10) | | (34.27) | 10 | | — | | — | | (34.27) |
| Developments – tenants coming online [3] | 32 | | 28.79 | 9 | | 32.67 | — | | 3 | | 44 | | 29.65 |
| Demolitions | — | | — | — | | — | (18) | | — | | (18) | | — |
| Reclassifications | 1 | | — | (1) | | — | (2) | | 3 | | 1 | | — |
| Total portfolio before 2017 acquisitions and dispositions | 19,999 | 95.9% | $ 18.88 | 2,537 | 84.8% | $ 23.13 | 178 | 0.7% | 1,133 | 4.8% | 23,847 | 94.5% | $ 19.35 |
| Dispositions (at date of disposition) | — | — | — | (45) | 80.4% | 15.25 | — | | (11) | | (56) | 80.4% | 15.25 |
| **March 31, 2017** | **19,999** | **95.9%** | **$ 18.88** | **2,492** | **84.9%** | **$ 23.28** | **178** | **0.7%** | **1,122** | **4.7%** | **23,791** | **94.5%** | **$ 19.36** |
| Renewals | 228 | | $ 21.72 | 75 | | $ 20.26 | | | | | 303 | | $ 21.36 |
| Renewals – expired | (228) | | $ (20.12) | (75) | | $ (20.13) | | | | | (303) | | $ (20.12) |
| Net change per square foot from renewals | | | $ 1.60 | | | $ 0.13 | | | | | | | $ 1.24 |
| % Increase on renewal of expiring rents | | | 8.0% | | | 0.6% | | | | | | | 6.2% |

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

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

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

## Top Forty Tenants

As at March 31, 2017, 55.0% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2016 – 54.9%). Of these rents, 65.5% 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 6.2 years as at March 31, 2017, excluding contractual renewal options.

| Rank | Tenant [(1) (2)] | Number of Stores | Square Feet (thousands) | Percent of Total Gross Leasable Area | Percent of Total Annualized Minimum Rent | DBRS Credit Rating | S&P Credit Rating | Moody's Credit Rating |
|---|---|---|---|---|---|---|---|---|
| 1. | Loblaw Companies Limited ("Loblaw") | 98 | 2,339 | 9.8% | 10.3% | BBB | BBB | |
| 2. | Sobeys | 57 | 2,007 | 8.4% | 6.6% | BB (high) | BB+ | |
| 3. | Metro | 35 | 1,188 | 5.0% | 3.5% | BBB | BBB | |
| 4. | Walmart | 15 | 1,491 | 6.3% | 2.9% | AA | AA | Aa2 |
| 5. | Canadian Tire | 25 | 830 | 3.5% | 2.7% | BBB (high) | BBB+ | |
| 6. | TD Canada Trust | 49 | 245 | 1.0% | 2.1% | AA | AA- | Aa1 |
| 7. | RBC Royal Bank | 45 | 241 | 1.0% | 1.9% | AA | AA- | Aa3 |
| 8. | GoodLife Fitness | 26 | 565 | 2.4% | 1.8% | | | |
| 9. | Dollarama | 53 | 501 | 2.1% | 1.8% | BBB | | |
| 10. | CIBC | 37 | 198 | 0.8% | 1.5% | AA | A+ | Aa3 |
| Top 10 Tenants Total | | 440 | 9,605 | 40.3% | 35.1% | | | |
| 11. | LCBO | 22 | 205 | 0.9% | 1.2% | AA (low) | A+ | Aa2 |
| 12. | Lowes | 4 | 361 | 1.5% | 1.2% | A (low) | A- | A3 |
| 13. | Restaurant Brands International | 62 | 153 | 0.6% | 1.1% | | B+ | B1 |
| 14. | Rexall | 19 | 169 | 0.7% | 1.1% | | | |
| 15. | BMO | 31 | 133 | 0.6% | 1.1% | AA | A+ | Aa3 |
| 16. | London Drugs | 10 | 233 | 1.0% | 1.1% | | | |
| 17. | Scotiabank | 24 | 120 | 0.5% | 0.9% | AA | A+ | Aa3 |
| 18. | Staples | 11 | 252 | 1.1% | 0.9% | | BBB- | Baa2 |
| 19. | Save-On-Foods | 6 | 211 | 0.9% | 0.9% | | | |
| 20. | Whole Foods Market | 3 | 133 | 0.6% | 0.7% | | BBB- | Baa3 |
| 21. | Longo's | 4 | 162 | 0.7% | 0.7% | | | |
| 22. | Winners | 9 | 225 | 0.9% | 0.7% | | A+ | A2 |
| 23. | Jean Coutu | 13 | 173 | 0.7% | 0.7% | | | |
| 24. | Starbucks | 43 | 67 | 0.3% | 0.7% | | A | A2 |
| 25. | SAQ | 21 | 103 | 0.4% | 0.6% | A (high) | A+ | Aa2 |
| 26. | Michaels | 5 | 88 | 0.4% | 0.6% | | BB- | B1 |
| 27. | Cara | 24 | 101 | 0.4% | 0.6% | | | |
| 28. | Subway | 71 | 80 | 0.3% | 0.6% | | | |
| 29. | Pusateri's | 1 | 35 | 0.1% | 0.5% | | | |
| 30. | McDonald's | 23 | 87 | 0.4% | 0.5% | | BBB+ | Baa1 |
| 31. | The Beer Store | 12 | 69 | 0.3% | 0.5% | AA (low) | A+ | Aa2 |
| 32. | Toys "R" Us | 3 | 127 | 0.5% | 0.4% | | B- | B3 |
| 33. | Yum! Brands | 29 | 49 | 0.2% | 0.4% | | BB | Ba3 |
| 34. | The Home Depot | 2 | 153 | 0.6% | 0.4% | A | A | A2 |
| 35. | Liquor Stores | 14 | 50 | 0.2% | 0.3% | | | |
| 36. | Williams-Sonoma | 2 | 38 | 0.2% | 0.3% | | | |
| 37. | Pet Valu | 19 | 54 | 0.2% | 0.3% | | | |
| 38. | Reitmans | 15 | 59 | 0.2% | 0.3% | | | |
| 39. | Hudson's Bay Company | 2 | 73 | 0.3% | 0.3% | | B+ | B1 |
| 40. | Uniprix | 6 | 63 | 0.3% | 0.3% | | | |
| **Top 40 Tenants Total [(3)]** | | **950** | **13,431** | **56.3%** | **55.0%** | | | |

(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.
(3) At the Company's proportionate interest, excluding MMUR.

## Lease Maturity Profile

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

| Maturity Date | Number of Stores | Occupied Square Feet (thousands) | Percent of Total Square Feet | | Annualized Minimum Rent at Expiration (thousands) | Percent of Total Annualized Minimum Rent | | Average Annual Minimum Rent per Square Foot at Expiration |
|---|---|---|---|---|---|---|---|---|
| Month-to-month tenants [1] | 166 | 439 | 1.8% | $ | 7,429 | 1.6% | $ | 16.91 |
| 2017 | 474 | 1,451 | 6.1% | | 26,023 | 5.7% | | 17.93 |
| 2018 | 662 | 2,930 | 12.3% | | 51,556 | 11.3% | | 17.60 |
| 2019 | 666 | 2,808 | 11.8% | | 55,187 | 12.1% | | 19.66 |
| 2020 | 589 | 2,674 | 11.2% | | 52,255 | 11.5% | | 19.54 |
| 2021 | 512 | 2,494 | 10.5% | | 49,195 | 10.8% | | 19.72 |
| 2022 | 384 | 2,500 | 10.5% | | 53,501 | 11.8% | | 21.40 |
| 2023 | 197 | 1,551 | 6.5% | | 29,364 | 6.5% | | 18.93 |
| 2024 | 173 | 1,038 | 4.4% | | 22,221 | 4.9% | | 21.41 |
| 2025 | 183 | 966 | 4.1% | | 23,967 | 5.3% | | 24.80 |
| 2026 | 170 | 866 | 3.6% | | 23,624 | 5.2% | | 27.29 |
| 2027 | 94 | 673 | 2.8% | | 15,658 | 3.4% | | 23.26 |
| Thereafter | 96 | 2,101 | 8.9% | | 44,701 | 9.9% | | 21.28 |
| Total or Weighted Average [2] | 4,366 | 22,491 | 94.5% | $ | 454,681 | 100.0% | $ | 20.22 |

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

The weighted average remaining lease term for the portfolio was 5.5 years as at March 31, 2017, excluding contractual renewal options, but including month-to-month and other short-term leases with tenants in properties with pre-development activities underway.

## Loans, Mortgages and Other Real Estate Assets

| As at | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| **Non-current** | | | | |
| Loans and mortgages receivable (a) | **$** | **131,009** | $ | 131,955 |
| Available-for-sale investment in limited partnership | | **3,824** | | 3,824 |
| Deposit on investment property (b) | | **189,200** | | 189,200 |
| Total non-current | **$** | **324,033** | $ | 324,979 |
| **Current** | | | | |
| Loans and mortgages receivable (a) | | **24,244** | | 15,281 |
| Fair value through profit or loss ("FVTPL") investments in securities (c) | | **13,268** | | 12,969 |
| Other receivable | | **63** | | 66 |
| Total current | **$** | **37,575** | $ | 28,316 |
| Total | **$** | **361,608** | $ | 353,295 |

(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 March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Net income attributable to common shareholders | **$ 203,671** | $ 66,957 |
| Net income per share attributable to common shareholders (diluted) | **$ 0.82** | $ 0.29 |
| Weighted average number of common shares – diluted (in thousands) | **250,232** | 243,467 |

For the three months ended March 31, 2017, net income attributable to common shareholders was $203.7 million or $0.82 per diluted share compared to $67.0 million or $0.29 per diluted share for the same prior year period. The $136.7 million increase in net income attributable to common shareholders, in accordance with IFRS, was primarily due to an increase of $131.4 million in the fair value of investment properties, net of the $20.9 million change in deferred income taxes, higher NOI of $3.9 million and higher interest and other income of $2.4 million compared to the same prior year period.

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

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

| Three months ended March 31 | | | **2017** | | | 2016 |
|---|---|---|---|---|---|---|
| | **Condensed Consolidated Statements of Income** | **Adjustment for proportionate interest** | **Proportionate interest [1]** | Condensed Consolidated Statements of Income | Adjustment for proportionate interest | Proportionate interest [1] |
| Property rental revenue | **$ 174,853** | **$ 2,078** | **$ 176,931** | $ 168,100 | $ 1,924 | $ 170,024 |
| Property operating costs | **67,969** | **842** | **68,811** | 65,104 | 573 | 65,677 |
| Net operating income | **106,884** | **1,236** | **108,120** | 102,996 | 1,351 | 104,347 |
| Other income and expenses | | | | | | |
| Interest and other income | **6,037** | **562** | **6,599** | 3,650 | (28) | 3,622 |
| Interest expense | **(38,983)** | **(582)** | **(39,565)** | (40,461) | (321) | (40,782) |
| Corporate expenses | **(9,264)** | **320** | **(8,944)** | (8,010) | 233 | (7,777) |
| Abandoned transaction costs | **(24)** | **(10)** | **(34)** | (112) | — | (112) |
| Amortization expense | **(470)** | **—** | **(470)** | (220) | — | (220) |
| Share of profit from joint ventures | **2,246** | **(2,246)** | **—** | 1,599 | (1,599) | — |
| Other gains (losses) and (expenses) | **(2,563)** | **—** | **(2,563)** | (1,023) | (18) | (1,041) |
| Increase (decrease) in value of investment properties, net | **177,234** | **335** | **177,569** | 24,869 | 170 | 25,039 |
| | **134,213** | **(1,621)** | **132,592** | (19,708) | (1,563) | (21,271) |
| Income before income taxes | **241,097** | **(385)** | **240,712** | 83,288 | (212) | 83,076 |
| Deferred income taxes | **37,041** | **—** | **37,041** | 16,119 | — | 16,119 |
| Net income | **$ 204,056** | **$ (385)** | **$ 203,671** | $ 67,169 | $ (212) | $ 66,957 |
| Net income attributable to: | | | | | | |
| Common shareholders | **$ 203,671** | **$ —** | **$ 203,671** | $ 66,957 | $ — | $ 66,957 |
| Non-controlling interest | **385** | **(385)** | **—** | 212 | (212) | — |
| | **$ 204,056** | **$ (385)** | **$ 203,671** | $ 67,169 | $ (212) | $ 66,957 |
| Net income per share attributable to common shareholders: | | | | | | |
| Basic | **$ 0.83** | | | $ 0.30 | | |
| Diluted | **$ 0.82** | | | $ 0.29 | | |

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

## Net Operating Income

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

| | Three months ended March 31 | | |
|---|---|---|---|
| | **% change** | **2017** | 2016 |
| Property rental revenue | | | |
| Base rent | | **$ 94,467** | $ 92,895 |
| Operating cost recoveries | | **23,106** | 21,661 |
| Realty tax recoveries | | **30,064** | 28,912 |
| Lease surrender fees | | **201** | 648 |
| Percentage rent | | **363** | 396 |
| Prior year operating cost and tax recovery adjustments | | **(606)** | 161 |
| Temporary tenants, storage, parking and other | | **2,962** | 2,508 |
| Total Same Property rental revenue | | **150,557** | 147,181 |
| Property operating costs | | | |
| Recoverable operating expenses | | **25,106** | 23,938 |
| Recoverable realty tax expense | | **32,197** | 31,293 |
| Prior year realty tax expense | | **(744)** | 31 |
| Other operating costs and adjustments | | **369** | 526 |
| Total Same Property operating costs | | **56,928** | 55,788 |
| **Total Same Property NOI [1]** | **2.4%** | **$ 93,629** | $ 91,393 |
| Major redevelopment | | **8,523** | 8,228 |
| Ground-up development | | **458** | (81) |
| Acquisitions – 2016 | | **3,204** | 742 |
| Investment properties classified as held for sale | | **900** | 837 |
| Dispositions – 2017 | | **102** | 124 |
| Dispositions – 2016 | | **—** | 874 |
| Straight-line rent adjustment | | **638** | 1,340 |
| Development land | | **248** | 336 |
| Main and Main Urban Realty | | **418** | 554 |
| **NOI [1]** | **3.6%** | **$ 108,120** | $ 104,347 |
| NOI margin | | **61.1%** | 61.4% |

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

For the three months ended March 31, 2017, total NOI increased by $3.8 million or 3.6% compared to same prior year period primarily due to SP NOI growth and the net contribution from acquisitions completed in 2016. For the three months ended March 31, 2017, NOI margin was 61.1%, compared to 61.4% for the same prior year period. The decrease over the prior year was primarily due to a lower straight-line rent adjustment.

### *Same Property NOI Growth*

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 (1) |
| Same Property – Stable | **1.8%** | 2.1% |
| Same Property with redevelopment | **8.8%** | 5.2% |
| Total Same Property NOI Growth | **2.4%** | 2.3% |

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

For the three months ended March 31, 2017, SP NOI increased by $2.2 million or 2.4% to $93.6 million primarily due to rent escalations, lease renewals at higher rates, redevelopments coming online, partially offset by lower lease surrender fees of $0.4 million compared to the same prior year period.

### *NOI by Region*

NOI by region and for MMUR at the Company's proportionate interest is as follows:

| Three months ended March 31, 2017 | **Central Region** | **Eastern Region** | **Western Region** | **MMUR** | **Other (1)** | **Total** |
|---|---|---|---|---|---|---|
| Property rental revenue | **$ 72,302** | **$ 47,086** | **$ 57,403** | **$ 913** | **$ (773)** | **$ 176,931** |
| Property operating costs | **28,056** | **21,726** | **19,500** | **495** | **(966)** | **68,811** |
| NOI | **$ 44,246** | **$ 25,360** | **$ 37,903** | **$ 418** | **$ 193** | **$ 108,120** |

| Three months ended March 31, 2016 | Central Region | Eastern Region | Western Region | MMUR | Other (1) | Total |
|---|---|---|---|---|---|---|
| Property rental revenue | $ 69,391 | $ 46,294 | $ 54,277 | $ 788 | $ (726) | $ 170,024 |
| Property operating costs | 27,371 | 20,534 | 18,451 | 234 | (913) | 65,677 |
| NOI | $ 42,020 | $ 25,760 | $ 35,826 | $ 554 | $ 187 | $ 104,347 |

(1) Other items principally consist of intercompany eliminations.

## Interest and Other Income

For the three months ended March 31, 2017, the Company's proportionate share of interest and other income totaled $6.6 million, compared to $3.6 million for the same prior year period. The increase of $3.0 million over the prior year was primarily due to higher loans, deposits and mortgages outstanding as well as a non-recurring assignment fee earned by MMUR.

## Interest Expense

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Mortgages | **$ 11,904** | $ 12,196 |
| Credit facilities | **2,943** | 2,221 |
| Senior unsecured debentures | **27,794** | 26,629 |
| Convertible debentures (non-cash) | **2,021** | 5,109 |
| Interest capitalized | **(5,097)** | (5,373) |
| Interest expense | **$ 39,565** | $ 40,782 |

For the three months ended March 31, 2017, interest expense decreased by $1.2 million over the same prior year period, primarily due to the early redemption of higher rate convertible debentures, partially offset by the impact of new lower rate senior unsecured debenture issuances and higher draws on the Company's credit facilities.

During the three months ended March 31, 2017 and 2016, approximately 11.4% and 11.6% 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 decrease in capitalized interest over the same prior year period is primarily due to lower cumulative development expenditure.

## Corporate Expenses

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Salaries, wages and benefits | **$ 7,032** | $ 6,714 |
| Non-cash compensation | **931** | 639 |
| Other corporate costs | **2,568** | 1,876 |
| Total corporate expenses | **10,531** | 9,229 |
| Amounts capitalized to investment properties under development | **(1,587)** | (1,452) |
| Corporate expenses | **$ 8,944** | $ 7,777 |

For the three months ended March 31, 2017, corporate expenses increased by $1.2 million to $8.9 million compared to the same prior year period primarily due to higher employee compensation expense of $0.6 million related to vacant roles being filled. Other corporate costs were higher by $0.7 million over the same prior year period primarily due to higher informational technology costs and professional fees and timing of certain costs incurred compared to the same prior year period.

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 three months ended March 31, 2017 and 2016, approximately 16.5% and 16.9%, 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 March 31 | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | **Proportionate Statement of Income** | **Included in FFO** | Proportionate Statement of Income | Included in FFO |
| Realized gain (loss) on sale of marketable securities | **$ —** | **$ —** | $ 79 | $ 79 |
| Unrealized gain (loss) on marketable securities classified as FVTPL | **299** | **299** | 341 | 341 |
| Net gain (loss) on prepayments of debt | **(2,333)** | **(2,333)** | 88 | 88 |
| Investment properties selling costs | **(502)** | **—** | (1,439) | — |
| Restructuring costs | **—** | **—** | (59) | (59) |
| Other | **(27)** | **(27)** | (51) | (51) |
| Total | **$ (2,563)** | **$ (2,061)** | $ (1,041) | $ 398 |

For the three months ended March 31, 2017, the Company recognized a $2.6 million loss in its proportionate statement of income compared to a $1.0 million loss in the same prior year period. The higher loss over the same prior year period was primarily due to a non-cash loss on the early redemption of the 5.40% Series E and 5.25% Series F convertible debentures.

## Income Taxes

For the three months ended March 31, 2017, deferred income tax expense totaled $37.0 million compared to $16.1 million for the same prior year period. The increase of $20.9 million over the same prior year period is primarily due to the tax impact of a higher increase in fair value of investment properties over the same prior year period.

## FFO, Operating FFO and ACFO

### *Funds from Operations*

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Net income attributable to common shareholders | **$ 203,671** | $ 66,957 |
| Add (deduct): | | |
| (Increase) decrease in value of investment properties | **(177,569)** | (25,039) |
| Incremental leasing costs | **1,780** | 1,671 |
| Investment properties selling costs | **502** | 1,439 |
| Adjustment for equity accounted joint ventures | **1,200** | 755 |
| Deferred income taxes | **37,041** | 16,119 |
| FFO [1] | **$ 66,625** | $ 61,902 |

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

### *Operating FFO*

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

| | | Three months ended March 31 | |
|---|---|---|---|
| | % change | **2017** | 2016 |
| Net operating income | | **$ 108,120** | $ 104,347 |
| Interest and other income | | **6,599** | 3,622 |
| Interest expense (1) | | **(38,365)** | (40,027) |
| Corporate expenses (2) | | **(7,164)** | (6,106) |
| Abandoned transaction costs | | **(34)** | (112) |
| Amortization expense | | **(470)** | (220) |
| Operating FFO (3) | 11.7 % | **68,686** | 61,504 |
| Other gains (losses) and (expenses) (4) | | **(2,061)** | 398 |
| FFO (3) | 7.6 % | **$ 66,625** | $ 61,902 |
| Operating FFO per diluted share | 3.7 % | **$ 0.28** | $ 0.27 |
| FFO per diluted share | (0.4)% | **$ 0.27** | $ 0.27 |
| Weighted average number of common shares – diluted – FFO (in thousands) | 8.0 % | **244,820** | 226,692 |

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

For the three months ended March 31, 2017, Operating FFO totaled $68.7 million or $0.28 per diluted share compared to $61.5 million or $0.27 per diluted share for the same prior year period. The 3.7% or $0.01 per diluted share increase was primarily due to higher NOI and interest and other income.

For the three months ended March 31, 2017, FFO totaled $66.6 million or $0.27 per diluted share compared to $61.9 million or $0.27 per diluted share for the same prior year period. The $4.7 million increase in FFO was primarily due to higher Operating FFO compared to the same prior year period, partially offset by the $2.3 million non-cash loss on the redemption of convertible debentures in the quarter.

### *Adjusted Cash Flow from Operations*

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Cash provided by operating activities | **$ 45,970** | $ 48,339 |
| Add (deduct): | | |
| Working capital adjustments (1) | **4,212** | 3,098 |
| Adjustment for equity accounted joint ventures | **1,974** | 817 |
| Revenue sustaining capital expenditures | **(2,893)** | (3,528) |
| Recoverable capital expenditures | **(136)** | (2,072) |
| Leasing costs on properties under development | **445** | 418 |
| Realized gain (loss) on sale of marketable securities | **—** | 79 |
| Non-controlling interest | **108** | (26) |
| ACFO (2) | **$ 49,680** | $ 47,125 |

(1) Working capital adjustments primarily include adjustments for prepaid as well as accrued property taxes as their levels vary considerably over the course of the year as well as certain other adjustments as specified by the REALPAC whitepaper on ACFO issued in February 2017.
(2) Refer to the "Non-IFRS Financial Measures" section of this MD&A.

For the three months ended March 31, 2017, ACFO totaled $49.7 million compared to $47.1 million for the same prior year period. The $2.6 million or 5.4% increase in ACFO was primarily due to lower capital expenditures compared to the same prior year period. The Company considers a rolling four quarter payout ratio to be more relevant than a payout ratio in any given quarter. For the four quarters ended March 31, 2017, the ACFO payout ratio was 86.9%.

# 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 | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Liabilities (principal amounts outstanding) | | |
| Bank indebtedness | **$ 2,401** | $ 15,914 |
| Mortgages | **1,090,944** | 995,925 |
| Credit facilities | **435,885** | 251,481 |
| Mortgages under equity accounted joint ventures (at the Company's proportionate interest) | **44,252** | 45,612 |
| Credit facilities under equity accounted joint venture (at the Company's proportionate interest) | **66,022** | 56,798 |
| Senior unsecured debentures | **2,425,000** | 2,550,000 |
| Convertible debentures | **106,292** | 212,635 |
| Equity capitalization [(1)] | | |
| Common shares (based on closing per share price of $20.03; December 31, 2016 – $20.67) | **4,883,941** | 5,033,286 |
| Enterprise value | **$ 9,054,737** | $ 9,161,651 |

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

### *Key Metrics*

The ratios below include measures not specifically defined in IFRS.

| As at | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Weighted average effective interest rate on mortgages and senior unsecured debentures | **4.5%** | 4.5% |
| Weighted average maturity on mortgages and senior unsecured debentures (years) | **5.4** | 5.3 |
| Net debt to total assets [(1)] | **43.1%** | 42.6% |
| Net debt to EBITDA [(1)] | **9.4** | 9.1 |
| Unencumbered aggregate assets | **6,805,143** | 6,627,091 |
| Unencumbered aggregate assets to unsecured debt, based on fair value | **2.4** | 2.4 |
| EBITDA interest coverage [(1)] | **2.5** | 2.5 |

(1) Calculated with all joint ventures proportionately consolidated.

## Credit Ratings

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

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

## Outstanding Debt and Principal Maturity Profile

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

| | Mortgages | Credit Facilities/Bank Indebtedness | Senior Unsecured Debentures | Total | % Due |
|---|---|---|---|---|---|
| 2017 (remainder of the year) | $ 104,084 | $ 67,189 | $ 125,000 | $ 296,273 | 7.3% |
| 2018 | 152,318 | 59,987 | 150,000 | 362,305 | 8.9% |
| 2019 | 130,497 | 11,875 | 150,000 | 292,372 | 7.2% |
| 2020 | 68,105 | 148,371 | 175,000 | 391,476 | 9.6% |
| 2021 | 93,987 | 214,485 | 175,000 | 483,472 | 11.9% |
| 2022 | 163,618 | — | 450,000 | 613,618 | 15.2% |
| 2023 | 13,870 | — | 300,000 | 313,870 | 7.7% |
| 2024 | 74,668 | — | 300,000 | 374,668 | 9.2% |
| 2025 | 66,770 | — | 300,000 | 366,770 | 9.0% |
| 2026 | 186,662 | — | 300,000 | 486,662 | 12.0% |
| 2027 | 80,617 | — | — | 80,617 | 2.0% |
| | 1,135,196 | 501,907 | 2,425,000 | 4,062,103 | 100.0% |
| Add (deduct): unamortized deferred financing costs, premiums and discounts, net | 127 | — | (3,270) | (3,143) | |
| Total | $ 1,135,323 | $ 501,907 | $ 2,421,730 | $ 4,058,960 | |

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 three months ended March 31, 2017, including its proportionate share of mortgages in equity accounted joint ventures, are set out below:

| Three months ended March 31, 2017 | Amount | Weighted Average Effective Interest Rate |
|---|---|---|
| Balance at beginning of period | $ 1,042,533 | 4.3% |
| Mortgage borrowings | 103,273 | 3.6% |
| Mortgage repayments | (1,364) | 5.7% |
| Scheduled amortization on mortgages | (8,250) | — |
| Amortization of financing costs and net premium | (869) | — |
| Balance at end of period | $ 1,135,323 | 4.3% |

As at March 31, 2017, 100% (December 31, 2016 – 100%) of the outstanding mortgages bore interest at fixed interest rates. The average remaining term of mortgages outstanding increased from 4.6 years as at December 31, 2016 on $1.0 billion of mortgages to 4.8 years as at March 31, 2017 on $1.1 billion of mortgages after reflecting borrowing activity and repayments during the period.

### *Mortgage Maturity Profile*

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

| As at March 31, 2017 | Scheduled Amortization | Payments on Maturity | Total | Weighted Average Effective Interest Rate |
|---|---|---|---|---|
| 2017 (remainder of the year) | $ 22,522 | $ 81,562 | $ 104,084 | 4.0% |
| 2018 | 26,392 | 125,926 | 152,318 | 5.4% |
| 2019 | 23,783 | 106,714 | 130,497 | 6.5% |
| 2020 | 22,247 | 45,858 | 68,105 | 5.3% |
| 2021 | 20,590 | 73,397 | 93,987 | 4.4% |
| 2022 | 15,664 | 147,954 | 163,618 | 3.9% |
| 2023 | 13,870 | — | 13,870 | — |
| 2024 | 13,398 | 61,270 | 74,668 | 4.0% |
| 2025 | 10,875 | 55,895 | 66,770 | 3.6% |
| 2026 | 5,479 | 181,183 | 186,662 | 3.3% |
| 2027 | 753 | 79,864 | 80,617 | 3.6% |
| | $ 175,573 | $ 959,623 | $ 1,135,196 | 4.3% |
| Add: unamortized deferred financing costs and premiums and discounts, net | | | 127 | |
| Total | | | $ 1,135,323 | |

## 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 March 31, 2017, the Company had drawn CAD$15.0 million and US$261.6 million, as well as CAD$2.4 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, 2017 to September 29, 2017.

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

| As at March 31, 2017 | Borrowing Capacity | Amounts Drawn | Bank Indebtedness and Outstanding Letters of Credit | Available to be Drawn | Interest Rates | Maturity Date |
|---|---|---|---|---|---|---|
| **Unsecured operating facilities** | | | | | | |
| Revolving facility maturing 2021 [(1)] | $ 800,000 | $ (214,485) | $ (33,753) | $ 551,762 | BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20% | June 30, 2021 |
| Non-revolving facility maturing 2020 [(2)] | 150,000 | (148,371) | — | — | BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20% | October 30, 2020 |
| **Secured construction facilities** | | | | | | |
| Maturing 2018 | 115,000 | (45,869) | (1,475) | 67,656 | BA + 1.125% or Prime + 0.125% | February 13, 2018 |
| Maturing 2017 | 7,953 | (7,785) | — | 168 | BA + 1.125% or Prime + 0.125% | September 29, 2017 |
| Credit facilities under equity accounted joint ventures | 89,776 | (66,022) | (98) | 23,656 | Between Prime - 0.15% and Prime + 1.5% | Between April 2017 and February 2020 |
| **Secured Facilities** | | | | | | |
| Maturing 2019 | 11,875 | (11,875) | — | — | BA + 1.125% or Prime + 0.125% | September 27, 2019 |
| Maturing 2018 | 7,500 | (7,500) | — | — | BA + 1.125% or Prime + 0.125% | September 6, 2018 |
| Total | $ 1,182,104 | $ (501,907) | $ (35,326) | $ 643,242 | | |

(1) The Company had drawn in U.S. dollars the equivalent of CAD$200.4 million which was revalued at CAD$199.5 million, in addition to CAD$15.0 million drawn as at March 31, 2017.

(2) The Company had drawn in U.S. dollars the equivalent of CAD$150.0 million which was revalued at CAD$148.4 million as at March 31, 2017.

## Senior Unsecured Debentures

| As at March 31, 2017 | | | Interest Rate | | Remaining Term to Maturity | Principal Outstanding |
|---|---|---|---|---|---|---|
| Series | Maturity Date | Interest Payment Dates | Coupon | Effective | (years) | |
| I | November 30, 2017 | May 30, November 30 | 5.70% | 5.79% | 0.7 | 125,000 |
| J | August 30, 2018 | February 28, August 30 | 5.25% | 5.66% | 1.4 | 50,000 |
| K | November 30, 2018 | May 31, November 30 | 4.95% | 5.17% | 1.7 | 100,000 |
| L | July 30, 2019 | January 30, July 30 | 5.48% | 5.61% | 2.3 | 150,000 |
| M | April 30, 2020 | April 30, October 30 | 5.60% | 5.60% | 3.1 | 175,000 |
| N | March 1, 2021 | March 1, September 1 | 4.50% | 4.63% | 3.9 | 175,000 |
| O | January 31, 2022 | January 31, July 31 | 4.43% | 4.59% | 4.8 | 200,000 |
| P | December 5, 2022 | June 5, December 5 | 3.95% | 4.18% | 5.7 | 250,000 |
| Q | October 30, 2023 | April 30, October 30 | 3.90% | 3.97% | 6.6 | 300,000 |
| R | August 30, 2024 | August 30, February 28 | 4.79% | 4.72% | 7.4 | 300,000 |
| S | July 31, 2025 | January 31, July 31 | 4.32% | 4.24% | 8.3 | 300,000 |
| T | May 6, 2026 | November 5, May 5 | 3.60% | 3.56% | 9.1 | 300,000 |
| | Weighted Average or Total | | 4.50% | 4.56% | 5.7 | $ 2,425,000 |

## Convertible Debentures

| As at March 31, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Interest Rate | | | | | | |
| Series | Maturity Date | Interest Payment Dates | Coupon | Effective | Remaining Term to Maturity (yrs) | Principal at Issue Date | **Principal** | **Liability** | **Equity** |
| I | July 31, 2019 | March 31<br>September 30 | 4.75% | 6.19% | 2.3 | 52,500 | 51,189 | 49,959 | 1,403 |
| J | February 28, 2020 | March 31<br>September 30 | 4.45% | 5.34% | 2.9 | 57,500 | 55,103 | 53,975 | 386 |
| | Weighted Average or Total | | 4.59% | 5.75% | 2.6 | $ 110,000 | $ 106,292 | $ 103,934 | $ 1,789 |

### *(i) Principal and Interest*

During the three months ended March 31, 2017, 0.1 million common shares (three months ended March 31, 2016 – 0.4 million common shares) were issued totaling $2.4 million (three months ended March 31, 2016 – $8.4 million) to pay interest to holders of convertible debentures.

### *(ii) Principal Redemption*

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

### *(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 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.

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

| Three months ended March 31 | | **2017** | | 2016 |
|---|---|---|---|---|
| | **Principal Amount Purchased** | **Amount Paid** | Principal Amount Purchased | Amount Paid |
| Total | **$ 100** | **$ 102** | $ 3,173 | $ 3,209 |

## Shareholders' Equity

Shareholders' equity amounted to $4.4 billion as at March 31, 2017, compared to $4.2 billion as at December 31, 2016. During the three months ended March 31, 2017, a total of 0.3 million common shares were issued as follows: 0.2 million shares from the exercise of common share options and settlement of restricted, performance, and deferred share units, and 0.1 million shares for interest payments on convertible debentures.

As at May 8, 2017, there were 243.9 million common shares outstanding.

### *Share Purchase Options*

As at March 31, 2017, the Company had 4.9 million share purchase options outstanding, with an average exercise price of $18.53, which, if exercised, would result in the Company receiving proceeds of $90.2 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) | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| Total available under credit facilities | **$** | **643** | $ | 809 |
| Cash and cash equivalents | **$** | **11** | $ | 12 |
| Unencumbered aggregate assets | **$** | **6,805** | $ | 6,627 |

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

Planned and completed financings subsequent to March 31, 2017, 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 March 31 | | | |
|---|---|---|---|---|
| | | **2017** | | 2016 |
| Cash provided by operating activities | **$** | **45,970** | $ | 48,339 |
| Cash provided by financing activities | | **5,119** | | 26,491 |
| Cash used in investing activities | | **(38,561)** | | (78,772) |
| Net change in cash and cash equivalents | **$** | **12,528** | $ | (3,942) |

## 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 March 31, 2017 is set out below:

| As at March 31, 2017 | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Remainder of 2017 | 2018 to 2019 | 2020 to 2021 | Thereafter | Total |
| Scheduled mortgage principal amortization | $ 22,522 | $ 50,175 | $ 42,837 | $ 60,039 | $ 175,573 |
| Mortgage principal repayments on maturity | 81,562 | 232,640 | 119,255 | 526,166 | 959,623 |
| Credit facilities and bank indebtedness | 56,654 | 71,861 | 375,792 | — | 504,307 |
| Senior unsecured debentures | 125,000 | 300,000 | 350,000 | 1,650,000 | 2,425,000 |
| Interest obligations (1) | 121,988 | 281,491 | 209,261 | 224,367 | 837,107 |
| Land leases (expiring between 2023 and 2061) | 769 | 2,019 | 2,030 | 15,457 | 20,275 |
| Contractually committed costs to complete current development projects | 50,211 | 4,895 | — | — | 55,106 |
| Other committed costs | 28,633 | 490 | — | — | 29,123 |
| Total contractual obligations (2) | $ 487,339 | $ 943,571 | $ 1,099,175 | $ 2,476,029 | $ 5,006,114 |

(1) Interest obligations include expected interest payments on mortgages and credit facilities as at March 31, 2017 (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 $35.3 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 $154.8 million, of which $55.1 million is contractually committed. The balance of the costs to complete will only be committed once leases are signed and/or construction is underway. These contractual and potential obligations primarily consist of construction contracts and additional planned development expenditures and are expected to be funded in the normal course as the work is completed.

## Contingencies

The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of Management, none of these contingencies, individually or in the aggregate, would result in a liability that would have a material adverse effect on the financial position of the Company. The Company is contingently liable, jointly and severally, for approximately $112.7 million (December 31, 2016 – $108.1 million) to various lenders in connection with certain obligations, including loans advanced to its partners secured by the partners' interest in the entity and underlying assets.

# 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 March 31 | |
|---|---|---|
| *(in dollars)* | **2017** | 2016 |
| Dividend per common share | **$ 0.215** | $ 0.215 |

# SUMMARY OF FINANCIAL RESULTS OF LONG-TERM DEBT GUARANTORS

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

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

| *(millions of dollars)* | | | | | | | | | | Three months ended March 31 |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | FCR [1] | | Guarantors [2] | | Non-Guarantors [3] | | Consolidation Adjustments [4] | | Total Consolidated | |
| Property rental revenue | **$ 74** | $ 70 | **$ 102** | $ 102 | **$ 1** | $ 2 | **$ (2)** | $ (6) | **$ 175** | $ 168 |
| NOI [5] | **48** | 43 | **59** | 56 | **1** | 1 | **(1)** | 3 | **107** | 103 |
| Net income attributable to common shareholders | **204** | 67 | **162** | 57 | **2** | 2 | **(164)** | (59) | **204** | 67 |

| *(millions of dollars)* | | | | | As at March 31, 2017 |
|---|---|---|---|---|---|
| | FCR [1] | Guarantors [2] | Non-Guarantors [3] | Consolidation Adjustments [4] | Total Consolidated |
| Current assets | **$ 133** | **$ 54** | **$ 23** | **$ (20)** | **$ 190** |
| Non-current assets | **8,575** | **4,731** | **203** | **(4,365)** | **9,144** |
| Current liabilities | **488** | **124** | **2** | **—** | **614** |
| Non-current liabilities | **3,829** | **536** | **95** | **(130)** | **4,330** |

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

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

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

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

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

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

# RELATED PARTY TRANSACTIONS

## Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company, and, as of March 31, 2017, beneficially owned 32.7% (December 31, 2016 – 36.4%) of the common shares of the Company. Norstar Holdings Inc. is the ultimate controlling party of Gazit. In the first quarter of 2017, Gazit disposed of 9,000,000 common shares of the Company.

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

### Joint Venture

During the three months ended March 31, 2017, a subsidiary of Main and Main Developments earned property-related and asset management fees from MMUR, which are included in interest and other income on a proportionate basis in the amount of $1.0 million (March 31, 2016 – $0.4 million).

### Subsidiaries of the Company

The unaudited interim condensed 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

***Second Quarter Dividend***

The Company announced that it will pay a second quarter dividend of $0.215 per common share on July 11, 2017 to shareholders of record on June 30, 2017.

## QUARTERLY FINANCIAL INFORMATION

| | **2017** | 2016 | | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|
| *(share counts in thousands)* | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Property rental revenue | **$ 174,853** | $ 172,731 | $ 167,877 | $ 167,576 | $ 168,100 | $ 164,244 | $ 160,639 | $ 166,249 |
| Net operating income [1] | **$ 106,884** | $ 106,306 | $ 107,612 | $ 105,083 | $ 102,996 | $ 103,295 | $ 102,585 | $ 104,233 |
| Net income attributable to common shareholders | **$ 203,671** | $ 57,739 | $ 88,464 | $ 169,556 | $ 66,957 | $ 38,947 | $ 24,750 | $ 94,267 |
| Net income per share attributable to common shareholders: | | | | | | | | |
| Basic | **$ 0.83** | $ 0.24 | $ 0.37 | $ 0.73 | $ 0.30 | $ 0.17 | $ 0.11 | $ 0.42 |
| Diluted | **$ 0.82** | $ 0.24 | $ 0.36 | $ 0.71 | $ 0.29 | $ 0.17 | $ 0.11 | $ 0.41 |
| Weighted average number of diluted common shares outstanding – IFRS | **250,232** | 252,602 | 250,596 | 243,235 | 243,467 | 226,537 | 225,536 | 241,494 |
| Operating FFO [1] | **$ 68,686** | $ 66,239 | $ 68,789 | $ 64,200 | $ 61,504 | $ 58,424 | $ 61,651 | $ 60,940 |
| Operating FFO per diluted share [1] | **$ 0.28** | $ 0.27 | $ 0.29 | $ 0.28 | $ 0.27 | $ 0.26 | $ 0.27 | $ 0.27 |
| FFO [1] | **$ 66,625** | $ 66.824 | $ 67,451 | $ 66,368 | $ 61,902 | $ 58,848 | $ 47,477 | $ 59,509 |
| FFO per diluted share [1] | **$ 0.27** | $ 0.27 | $ 0.28 | $ 0.29 | $ 0.27 | $ 0.26 | $ 0.21 | $ 0.27 |
| Weighted average number of diluted common shares outstanding – FFO | **244,820** | 244,554 | 240,708 | 233,014 | 226,692 | 226,537 | 225,537 | 223,298 |
| Cash provided by operating activities | **$ 45,970** | $ 96,950 | $ 68,607 | $ 42,704 | $ 48,339 | $ 84,757 | $ 59,811 | $ 62,172 |
| ACFO [1] | **$ 49,680** | $ 53,470 | $ 67,507 | $ 63,762 | $ 47,246 | N/A | N/A | N/A |
| Dividend per common share | **$ 0.215** | $ 0.215 | $ 0.215 | $ 0.215 | $ 0.215 | $ 0.215 | $ 0.215 | $ 0.215 |
| Total assets | **$9,334,216** | $9,104,553 | $9,068,841 | $8,690,655 | $8,387,567 | $8,278,526 | $8,212,411 | $8,124,267 |
| Total mortgages and credit facilities | **$1,527,179** | $1,248,646 | $1,277,697 | $1,272,977 | $1,322,909 | $1,248,637 | $1,201,018 | $1,094,150 |
| Shareholders' equity | **$4,352,882** | $4,195,263 | $4,171,426 | $3,961,179 | $3,666,239 | $3,639,952 | $3,645,911 | $3,660,290 |
| **Other** | | | | | | | | |
| Number of properties | **160** | 160 | 159 | 161 | 160 | 158 | 158 | 157 |
| GLA - at 100% (in thousands) | **25,215** | 25,278 | 25,137 | 25,238 | 24,800 | 24,431 | 24,256 | 24,270 |
| GLA - at proportionate interest (in thousands) | **23,791** | 23,820 | 23,721 | 23,911 | 23,667 | 23,615 | 23,438 | 23,459 |
| Monthly average occupancy % | **94.6%** | 94.9% | 94.9% | 95.0% | 94.7% | 94.6% | 94.7% | 95.0% |
| Total portfolio occupancy % | **94.5%** | 94.9% | 94.9% | 95.1% | 95.0% | 94.7% | 94.6% | 94.7% |

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

# CRITICAL ACCOUNTING ESTIMATES

The Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2017 and 2016 have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. The unaudited interim condensed consolidated financial statements have been prepared by applying the same accounting policies and methods of computation as compared with the most recent audited annual consolidated financial statements.

The Company's 2016 Annual Report contains a discussion of the significant accounting policies most affected by estimates and judgments used in the preparation of the consolidated financial statements, being the accounting policies relating to estimates of fair values of investment properties, valuation of financial instruments both for disclosure and measurement purposes, and estimating deferred tax assets and liabilities. With the exception of the note below, Management determined that as at March 31, 2017, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the Company's 2016 Annual Report.

### Revised Approach to Investment Property Valuations

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

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

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

# FUTURE ACCOUNTING POLICY CHANGES

Refer to Note 3 of the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2017 for details on future accounting policy changes.

# CONTROLS AND PROCEDURES

As at March 31, 2017, the Chief Executive Officer and the Chief Financial Officer of the Company, with the assistance of other staff and Management of the Company to the extent deemed necessary, have designed the Company's disclosure controls and procedures to provide reasonable assurance that information required to be disclosed in the various reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

The Company did not make any changes in its internal controls over financial reporting during the quarter ended March 31, 2017 that have had, or are reasonably likely to have, a material effect on the Company's internal controls over financial reporting. On an ongoing basis, the Company will continue to analyze its controls and procedures for potential areas of improvement.

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

# RISKS AND UNCERTAINTIES

First Capital Realty, as an owner of income-producing properties and development properties, is exposed to numerous business risks in the normal course of its business that can impact both short- and long-term performance. Income-producing and development properties are affected by general economic conditions and local market conditions such as oversupply of similar properties or a reduction in tenant demand. It is the responsibility of Management, under the supervision of the Board of Directors, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk the Company encounters in conducting its business and some of the actions it takes to mitigate these risks are outlined in the Company's 2016 Annual Report. 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.

# FS

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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# Interim Condensed Consolidated Balance Sheets

| As at<br>*(thousands of dollars)* | Note | | **March 31, 2017**<br>**(unaudited)** | | December 31, 2016<br>(audited) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current Assets** | | | | | |
| **Real Estate Investments** | | | | | |
| Investment properties – shopping centres | 4 | **$** | **8,583,852** | $ | 8,370,298 |
| Investment properties – development land | 4 | | **67,153** | | 67,149 |
| Investment in joint ventures | | | **147,723** | | 146,422 |
| Loans, mortgages and other real estate assets | 5 | | **324,033** | | 324,979 |
| Total real estate investments | | | **9,122,761** | | 8,908,848 |
| Other non-current assets | 7 | | **21,468** | | 21,997 |
| Total non-current assets | | | **9,144,229** | | 8,930,845 |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 23(d) | | **11,232** | | 12,217 |
| Loans, mortgages and other real estate assets | 5 | | **37,575** | | 28,316 |
| Residential development inventory | | | **5,047** | | 5,010 |
| Amounts receivable | 6 | | **27,485** | | 21,175 |
| Other assets | 7 | | **31,148** | | 23,940 |
| | | | **112,487** | | 90,658 |
| Investment properties classified as held for sale | 4(d) | | **77,500** | | 83,050 |
| Total current assets | | | **189,987** | | 173,708 |
| Total assets | | **$** | **9,334,216** | $ | 9,104,553 |
| **LIABILITIES** | | | | | |
| **Non-current Liabilities** | | | | | |
| Mortgages | 9 | **$** | **889,213** | $ | 878,008 |
| Credit facilities | 9 | | **382,231** | | 243,696 |
| Senior unsecured debentures | 10 | | **2,296,798** | | 2,296,551 |
| Convertible debentures | 11 | | **103,934** | | 103,765 |
| Other liabilities | 12 | | **27,321** | | 27,076 |
| Deferred tax liabilities | 19 | | **630,043** | | 593,293 |
| Total non-current liabilities | | | **4,329,540** | | 4,142,389 |
| **Current Liabilities** | | | | | |
| Bank indebtedness | 23(d) | | **2,401** | | 15,914 |
| Mortgages | 9 | | **193,542** | | 109,167 |
| Credit facilities | 9 | | **53,654** | | 7,785 |
| Senior unsecured debentures | 10 | | **124,932** | | 249,891 |
| Convertible debentures | 11 | | **—** | | 103,868 |
| Accounts payable and other liabilities | 12 | | **230,521** | | 232,466 |
| | | | **605,050** | | 719,091 |
| Mortgages on investment properties classified as held for sale | 4(d), 9 | | **8,539** | | 9,990 |
| Total current liabilities | | | **613,589** | | 729,081 |
| Total liabilities | | | **4,943,129** | | 4,871,470 |
| **EQUITY** | | | | | |
| Shareholders' equity | 13 | | **4,352,882** | | 4,195,263 |
| Non-controlling interest | | | **38,205** | | 37,820 |
| Total equity | | | **4,391,087** | | 4,233,083 |
| Total liabilities and equity | | **$** | **9,334,216** | $ | 9,104,553 |

Refer to accompanying notes to the unaudited interim condensed consolidated financial statements.

Approved by the Board of Directors:

Jon Hagan
*Director*

Adam E. Paul
*Director*

# Interim Condensed Consolidated Statements of Income

| *(unaudited)* | | Three months ended March 31 | |
|---|---|---|---|
| *(thousands of dollars, except per share amounts)* | **Note** | **2017** | 2016 |
| Property rental revenue | | **$ 174,853** | $ 168,100 |
| Property operating costs | | **67,969** | 65,104 |
| **Net operating income** | 14 | **106,884** | 102,996 |
| | | | |
| **Other income and expenses** | | | |
| Interest and other income | 15 | **6,037** | 3,650 |
| Interest expense | 16 | **(38,983)** | (40,461) |
| Corporate expenses | 17 | **(9,264)** | (8,010) |
| Abandoned transaction costs | | **(24)** | (112) |
| Amortization expense | | **(470)** | (220) |
| Share of profit from joint ventures | | **2,246** | 1,599 |
| Other gains (losses) and (expenses) | 18 | **(2,563)** | (1,023) |
| Increase (decrease) in value of investment properties, net | 4 | **177,234** | 24,869 |
| | | **134,213** | (19,708) |
| **Income before income taxes** | | **241,097** | 83,288 |
| Deferred income taxes | 19 | **37,041** | 16,119 |
| **Net income** | | **$ 204,056** | $ 67,169 |
| Net income attributable to: | | | |
| Common shareholders | | **$ 203,671** | $ 66,957 |
| Non-controlling interest | | **385** | 212 |
| | | **$ 204,056** | $ 67,169 |
| Net income per share attributable to common shareholders: | | | |
| Basic | 20 | **$ 0.83** | $ 0.30 |
| Diluted | 20 | **$ 0.82** | $ 0.29 |

Refer to accompanying notes to the unaudited interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Comprehensive Income

| *(unaudited)* | | Three months ended March 31 | |
|---|---|---|---|
| *(thousands of dollars)* | **Note** | **2017** | 2016 |
| **Net income** | | **$ 204,056** | $ 67,169 |
| **Other comprehensive income (loss)** | | | |
| Unrealized gain (loss) on cash flow hedges [1] | | **(1,040)** | (6,400) |
| Reclassification of net losses on cash flow hedges to net income | | **478** | 309 |
| | | **(562)** | (6,091) |
| Deferred tax expense (recovery) | 19 | **(150)** | (1,705) |
| Other comprehensive income (loss) | | **(412)** | (4,386) |
| **Comprehensive income** | | **$ 203,644** | $ 62,783 |
| Comprehensive income attributable to: | | | |
| Common shareholders | | **$ 203,259** | $ 62,571 |
| Non-controlling interest | | **385** | 212 |
| | | **$ 203,644** | $ 62,783 |

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

Refer to accompanying notes to the unaudited interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Changes in Equity

| *(unaudited)* *(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 13(a))* | *(Note 13(b))* | | | |
| **December 31, 2016** | **$ 1,022,863** | **$ (11,698)** | **$ 3,142,399** | **$ 41,699** | **$ 4,195,263** | **$ 37,820** | **$ 4,233,083** |
| Changes during the period: | | | | | | | |
| Net income | 203,671 | — | — | — | 203,671 | 385 | 204,056 |
| Issue costs, net of tax | — | — | (5) | — | (5) | — | (5) |
| Dividends | (52,473) | — | — | — | (52,473) | — | (52,473) |
| Interest on convertible debentures paid in common shares | — | — | 2,442 | — | 2,442 | — | 2,442 |
| Conversion of convertible debentures | — | — | 107 | (3) | 104 | — | 104 |
| Options, deferred share units, restricted share units, and performance share units, net | — | — | 3,630 | 662 | 4,292 | — | 4,292 |
| Other comprehensive gain (loss) | — | (412) | — | — | (412) | — | (412) |
| **March 31, 2017** | **$ 1,174,061** | **$ (12,110)** | **$ 3,148,573** | **$ 42,358** | **$ 4,352,882** | **$ 38,205** | **$ 4,391,087** |

| *(unaudited)* *(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, 2015 | $ 844,382 | $ (17,062) | $ 2,768,983 | $ 43,649 | $ 3,639,952 | $ 28,362 | $ 3,668,314 |
| Changes during the period: | | | | | | | |
| Net income | 66,957 | — | — | — | 66,957 | 212 | 67,169 |
| Issue costs, net of tax and other | — | — | (2) | — | (2) | — | (2) |
| Dividends | (48,679) | — | — | — | (48,679) | — | (48,679) |
| Interest on convertible debentures paid in common shares | — | — | 8,355 | — | 8,355 | — | 8,355 |
| Options, deferred share units and restricted share units, net | — | — | 3,422 | 620 | 4,042 | — | 4,042 |
| Other comprehensive gain (loss) | — | (4,386) | — | — | (4,386) | — | (4,386) |
| March 31, 2016 | $ 862,660 | $ (21,448) | $ 2,780,758 | $ 44,269 | $ 3,666,239 | $ 28,574 | $ 3,694,813 |

Refer to accompanying notes to the unaudited interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Cash Flows

| *(unaudited)* | | Three months ended March 31 | |
|---|---|---|---|
| *(thousands of dollars)* | **Note** | **2017** | 2016 |
| **OPERATING ACTIVITIES** | | | |
| Net income | | **$ 204,056** | $ 67,169 |
| Adjustments for: | | | |
| (Increase) decrease in value of investment properties, net | 4 | **(177,234)** | (24,869) |
| Interest expense | 16 | **38,983** | 40,461 |
| Amortization expense | | **470** | 220 |
| Share of profit of joint ventures | | **(2,246)** | (1,599) |
| Distributions from joint ventures | | **—** | 573 |
| Cash interest paid associated with operating activities | 16 | **(41,579)** | (40,367) |
| Items not affecting cash and other items | 23(a) | **39,889** | 16,385 |
| Net change in non-cash operating items | 23(b) | **(16,369)** | (9,634) |
| Cash provided by operating activities | | **45,970** | 48,339 |
| **FINANCING ACTIVITIES** | | | |
| Mortgages and credit facilities | | | |
| Borrowings, net of financing costs | 9 | **293,793** | 160,961 |
| Principal instalment payments | 9 | **(6,935)** | (7,452) |
| Repayments | | **(1,404)** | (77,704) |
| Repayment of senior unsecured debentures | 10 | **(125,000)** | — |
| Settlement of hedges | | **—** | (818) |
| Repayment of convertible debentures | | **(106,136)** | — |
| Repurchase of convertible debentures | 11(c) | **(102)** | (3,209) |
| Issuance of common shares, net of issue costs | | **3,233** | 3,204 |
| Payment of dividends | | **(52,330)** | (48,491) |
| Cash provided by financing activities | | **5,119** | 26,491 |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of shopping centres | 4(c) | **—** | (145,786) |
| Acquisition of development land | 4(c) | **—** | (7,717) |
| Net proceeds from property dispositions | 4(d) | **11,839** | 69,864 |
| Distributions from joint ventures | | **1,522** | 45,162 |
| Contributions to joint ventures | | **(576)** | — |
| Capital expenditures on investment properties | | **(42,461)** | (50,755) |
| Changes in investing-related prepaid expenses and other liabilities | | **(1,886)** | (8,508) |
| Changes in loans, mortgages and other real estate assets | 23(c) | **(6,999)** | 18,968 |
| Cash used in investing activities | | **(38,561)** | (78,772) |
| Net increase (decrease) in cash and cash equivalents (bank indebtedness) | | **12,528** | (3,942) |
| Cash and cash equivalents (bank indebtedness), beginning of period | | **(3,697)** | (17,036) |
| Cash and cash equivalents (bank indebtedness), end of period | 23(d) | **$ 8,831** | $ (20,978) |

Refer to accompanying notes to the unaudited interim condensed consolidated financial statements.

# Notes to the Interim Condensed 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 unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"), and as such, do not include all of the disclosures that would be included in audited annual consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015.

### (b) Basis of presentation

These unaudited interim condensed 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. These unaudited interim condensed consolidated financial statements have been prepared by applying the same accounting policies, assessments of estimates and judgments, and methods of computation as compared with the most recent audited annual consolidated financial statements.

Comparative information in the unaudited interim condensed consolidated 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 unaudited interim condensed consolidated 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 the Greater Ottawa Area; Central, which includes the Company's Ontario operations excluding the Greater Ottawa Area; and Western, which includes operations in Alberta and British Columbia. Operating segments are reported in a manner consistent with internal reporting provided to the President and Chief Executive Officer, who is the chief operating decision maker.

### (c) Approval of unaudited interim condensed consolidated financial statements

These unaudited interim condensed consolidated financial statements were approved by the Board of Directors and authorized for issue on May 9, 2017.

## 3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

### (a) 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. The Company does not expect any significant impact 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. The Company continues to assess the full impact of IFRS 15 on its consolidated financial statements. However, the Company does not expect IFRS 15 to have a significant impact on the recognition of revenue on the consolidated financial statements as a whole.

### *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 three months ended March 31, 2017 and year ended December 31, 2016:

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | **Three months ended March 31, 2017** | | |
| | **Central Region** | **Eastern Region** | **Western Region** | **Total** | **Shopping Centres** | **Development Land** |
| Balance at beginning of period | **$ 3,711,238** | **$ 1,825,533** | **$ 2,983,726** | **$ 8,520,497** | **$ 8,453,348** | **$ 67,149** |
| Capital expenditures | **28,714** | **3,532** | **10,215** | **42,461** | **40,508** | **1,953** |
| Increase (decrease) in value of investment properties, net | **68,126** | **7,905** | **101,203** | **177,234** | **179,183** | **(1,949)** |
| Straight-line rent and other changes | **(32)** | **33** | **653** | **654** | **654** | **—** |
| Dispositions | **(10,625)** | **(1,716)** | **—** | **(12,341)** | **(12,341)** | **—** |
| Balance at end of period | **$ 3,797,421** | **$ 1,835,287** | **$ 3,095,797** | **$ 8,728,505** | **$ 8,661,352** | **$ 67,153** |
| Investment properties | | | | | **$ 8,583,852** | **$ 67,153** |
| Investment properties classified as held for sale | | | | | **77,500** | **—** |
| Total | | | | | **$ 8,661,352** | **$ 67,153** |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | Year ended December 31, 2016 | | |
| | Central Region | Eastern Region | Western Region | Total | Shopping Centres | Development Land |
| Balance at beginning of period | $ 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 period | $ 3,711,238 | $ 1,825,533 | $ 2,983,726 | $ 8,520,497 | $ 8,453,348 | $ 67,149 |
| Investment properties | | | | | $ 8,370,298 | $ 67,149 |
| Investment properties classified as held for sale | | | | | 83,050 | — |
| Total | | | | | $ 8,453,348 | $ 67,149 |

Investment properties with a fair value of $2.6 billion (December 31, 2016 – $2.4 billion) are pledged as security for $1.5 billion in mortgages and credit facilities.

## (b) Investment property valuation

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

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

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

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

| As at | | **March 31, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| *($ millions)* | **Fair Value** | **Weighted Average Capitalization Rate** | Fair Value | Weighted Average Capitalization Rate |
| Central Region | **$ 3,750** | **5.3%** | $ 3,663 | 5.3% |
| Eastern Region | **1,828** | **6.0%** | 1,819 | 6.0% |
| Western Region | **3,083** | **5.2%** | 2,971 | 5.3% |
| Total or Weighted Average | **$ 8,661** | **5.4%** | $ 8,453 | 5.5% |

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

| As at March 31, 2017 | *(millions of dollars)* |
|---|---|
| (Decrease) Increase in capitalization rate | Resulting increase (decrease) in value of shopping centres |
| (0.75%) | $ 1,297 |
| (0.50%) | $ 822 |
| (0.25%) | $ 392 |
| 0.25% | $ (352) |
| 0.50% | $ (677) |
| 0.75% | $ (976) |

Additionally, a 1% increase or decrease in stabilized net operating income ("SNOI") would result in an $83 million increase or a $78 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 the capitalization rate would result in an increase in the fair value of shopping centres of $476 million, and a 1% decrease in SNOI coupled with a 0.25% increase in the capitalization rate would result in a decrease in the fair value of shopping centres of $429 million.

### (c) Investment properties – Acquisitions

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

| Three months ended March 31 | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Shopping Centres** | **Development Land** | Shopping Centres | Development Land |
| Total purchase price, including acquisition costs | **$ —** | **$ —** | $ 145,786 | $ 7,717 |
| Total cash paid | **$ —** | **$ —** | $ 145,786 | $ 7,717 |

### (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 | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Aggregate fair value | **$ 77,500** | $ 83,050 |
| Mortgages secured by investment properties classified as held for sale | **$ 8,539** | $ 9,990 |
| Weighted average effective interest rate of mortgages secured by investment properties classified as held for sale | **3.9%** | 4.1% |

The decrease of $5.6 million in investment properties classified as held for sale from December 31, 2016, primarily arose from dispositions completed in the period, offset by new investment properties classified as held for sale and changes in fair value.

For the three months ended March 31, 2017 and 2016, the Company sold shopping centres as follows:

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Total selling price | **$ 12,341** | $ 73,303 |
| Vendor take-back mortgage on sale | **—** | (2,000) |
| Property selling costs | **(502)** | (1,439) |
| Total cash proceeds | **$ 11,839** | $ 69,864 |

### (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 March 31, 2017 | **Central Region** | **Eastern Region** | **Western Region** | **Total** |
|---|---|---|---|---|
| Total shopping centres and development land [(1)] | **$ 3,797,421** | **$ 1,835,287** | **$ 3,095,797** | **$ 8,728,505** |
| Cash and cash equivalents | | | | **11,232** |
| Loans, mortgages and other real estate assets | | | | **361,608** |
| Other assets | | | | **52,616** |
| Amounts receivable | | | | **27,485** |
| Investment in joint ventures | | | | **147,723** |
| Residential development inventory | | | | **5,047** |
| Total assets | | | | **$ 9,334,216** |

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

[1] Includes investment properties classified as held for sale.

# 5. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS

| As at | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| **Non-current** | | |
| Loans and mortgages receivable (a) | **$ 131,009** | $ 131,955 |
| Available-for-sale investment in limited partnership | **3,824** | 3,824 |
| Deposit on investment property (b) | **189,200** | 189,200 |
| Total non-current | **$ 324,033** | $ 324,979 |
| **Current** | | |
| Loans and mortgages receivable (a) | **$ 24,244** | $ 15,281 |
| Fair value through profit or loss ("FVTPL") investments in securities (c) | **13,268** | 12,969 |
| Other receivable | **63** | 66 |
| Total current | **$ 37,575** | $ 28,316 |
| Total | **$ 361,608** | $ 353,295 |

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties. As at March 31, 2017, these receivables bear interest at weighted average effective interest rates of 6.8% (December 31, 2016 – 6.9% ) and mature between 2017 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).

# 6. AMOUNTS RECEIVABLE

| As at | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Trade receivables (net of allowances for doubtful accounts of $4.2 million; December 31, 2016 – $3.6 million) | **$ 25,495** | $ 19,291 |
| Corporate and other amounts receivable | **1,990** | 1,884 |
| Total | **$ 27,485** | $ 21,175 |

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

# 7. OTHER ASSETS

| As at | Note | March 31, 2017 | December 31, 2016 |
|---|---|---|---|
| **Non-current** | | | |
| Fixtures, equipment and computer hardware and software (net of accumulated amortization of $5.7 million; December 31, 2016 - $5.1 million) | | **$ 10,730** | $ 9,986 |
| Deferred financing costs on credit facilities (net of accumulated amortization of $3.7 million; December 31, 2016 - $3.5 million) | | **2,336** | 2,453 |
| Environmental indemnity and insurance proceeds receivable | 12(a) | **6,004** | 6,875 |
| Derivatives at fair value | 22 | **2,398** | 2,683 |
| Total non-current | | **$ 21,468** | $ 21,997 |
| **Current** | | | |
| Deposits and costs on investment properties under option | | **$ 6,200** | $ 2,668 |
| Prepaid expenses | | **18,599** | 6,719 |
| Other deposits | | **291** | 1,074 |
| Restricted cash | | **50** | 3,724 |
| Derivatives at fair value | 22 | **6,008** | 9,755 |
| Total current | | **$ 31,148** | $ 23,940 |
| Total | | **$ 52,616** | $ 45,937 |

# 8. CAPITAL MANAGEMENT

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

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

| As at | March 31, 2017 | December 31, 2016 |
|---|---|---|
| **Liabilities (principal amounts outstanding)** | | |
| Bank indebtedness | **$ 2,401** | $ 15,914 |
| Mortgages | **1,090,944** | 995,925 |
| Credit facilities | **435,885** | 251,481 |
| Mortgages under equity accounted joint ventures (at the Company's interest) | **44,911** | 46,741 |
| Credit facilities under equity accounted joint venture (at the Company's interest) | **93,142** | 80,131 |
| Senior unsecured debentures | **2,425,000** | 2,550,000 |
| Convertible debentures | **106,292** | 212,635 |
| **Equity Capitalization** | | |
| Common shares (based on closing per share price of $20.03; December 31, 2016 – $20.67) | **4,883,941** | 5,033,286 |
| Total capital employed | **$ 9,082,516** | $ 9,186,113 |

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

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

| As at | Measure/ Covenant | **March 31, 2017** | December 31, 2016 |
|---|---|---|---|
| Net debt to total assets | | **43.1%** | 42.6% |
| Unencumbered aggregate assets to unsecured debt, using 10 quarter average capitalization rate [1] | ≥1.3 | **2.1** | 2.0 |
| Shareholders' equity, using four quarter average (billions) [1] | >$1.6B | **$ 4.2** | $ 4.0 |
| Secured indebtedness to total assets [1] | <35% | **13.5%** | 12.7% |
| ***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** | 2.2 |

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

The above ratios include measures not specifically defined in IFRS. Certain calculations are required pursuant to debt covenants and are meaningful measures for this reason. Measures used in these ratios are defined in the Company's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015.

# 9. MORTGAGES AND CREDIT FACILITIES

| As at | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Fixed rate mortgages | **$ 1,091,294** | $ 997,165 |
| Unsecured facilities | **362,856** | 183,451 |
| Secured facilities | **73,029** | 68,030 |
| Mortgages and credit facilities | **$ 1,527,179** | $ 1,248,646 |
| Current | **$ 247,196** | $ 116,952 |
| Mortgages on investment properties classified as held for sale | **8,539** | 9,990 |
| Non-current | **1,271,444** | 1,121,704 |
| Total | **$ 1,527,179** | $ 1,248,646 |

Mortgages and secured facilities are secured by the Company's investment properties. As at March 31, 2017, approximately $2.6 billion (December 31, 2016 – $2.4 billion) of investment properties out of $8.7 billion (December 31, 2016 – $8.5 billion) (Note 4(a)) had been pledged as security under the mortgages and the secured facilities.

As at March 31, 2017, mortgages bear coupon interest at a weighted average coupon rate of 4.4% (December 31, 2016 – 4.5%) and mature in the years ranging from 2017 to 2027. The weighted average effective interest rate on all mortgages as at March 31, 2017 is 4.3% (December 31, 2016 – 4.4%).

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

| | Scheduled Amortization | Payments on Maturity | Total | Weighted Average Effective Interest Rate |
|---|---|---|---|---|
| 2017 (remainder of the year) | $ 21,864 | $ 81,562 | $ 103,426 | 4.0% |
| 2018 | 25,486 | 124,321 | 149,807 | 5.4% |
| 2019 | 22,846 | 106,714 | 129,560 | 6.5% |
| 2020 | 21,278 | 45,858 | 67,136 | 5.3% |
| 2021 | 19,588 | 73,397 | 92,985 | 4.4% |
| 2022 to 2027 | 54,990 | 493,040 | 548,030 | 3.6% |
| | $ 166,052 | $ 924,892 | $ 1,090,944 | 4.3% |
| Unamortized deferred financing costs and premiums, net | | | 350 | |
| Total | | | $ 1,091,294 | |

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 March 31, 2017, the Company had drawn CAD$15.0 million and US $261.6 million, as well as CAD$2.4 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.

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

| As at March 31, 2017 | Borrowing Capacity | Amounts Drawn | Bank Indebtedness and Outstanding Letters of Credit | Available to be Drawn | Interest Rates | Maturity Date |
|---|---|---|---|---|---|---|
| **Unsecured Operating Facilities** | | | | | | |
| Revolving facility maturing 2021 [(1)] | $ 800,000 | $ (214,485) | $ (33,753) | $ 551,762 | BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20% | June 30, 2021 |
| Non-revolving facility maturing 2020 [(2)] | 150,000 | (148,371) | — | — | BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20% | October 30, 2020 |
| **Secured Construction Facilities** | | | | | | |
| Maturing 2018 | 115,000 | (45,869) | (1,475) | 67,656 | BA + 1.125% or Prime + 0.125% | February 13, 2018 |
| Maturing 2017 | 7,953 | (7,785) | — | 168 | BA + 1.125% or Prime + 0.125% | September 29, 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 | $ (435,885) | $ (35,228) | $ 619,586 | | |

(1) The Company had drawn in U.S. dollars the equivalent of CAD$200.4 million which was revalued at CAD$199.5 million, in addition to CAD$15.0 million drawn as at March 31, 2017.

(2) The Company had drawn in U.S. dollars the equivalent of CAD$150.0 million which was revalued at CAD$148.4 million as at March 31, 2017.

# 10. SENIOR UNSECURED DEBENTURES

| As at | | | | | March 31, 2017 | December 31, 2016 |
|---|---|---|---|---|---|---|
| | | Interest Rate | | | | |
| Series | Maturity Date | Coupon | Effective | Principal Outstanding | Liability | Liability |
| H | January 31, 2017 | 5.85% | 5.99% | $ — | $ — | $ 124,985 |
| I | November 30, 2017 | 5.70% | 5.79% | **125,000** | **124,932** | 124,906 |
| J | August 30, 2018 | 5.25% | 5.66% | **50,000** | **49,776** | 49,761 |
| K | November 30, 2018 | 4.95% | 5.17% | **100,000** | **99,654** | 99,602 |
| L | July 30, 2019 | 5.48% | 5.61% | **150,000** | **149,584** | 149,542 |
| M | April 30, 2020 | 5.60% | 5.60% | **175,000** | **174,988** | 174,988 |
| N | March 1, 2021 | 4.50% | 4.63% | **175,000** | **174,222** | 174,177 |
| O | January 31, 2022 | 4.43% | 4.59% | **200,000** | **198,630** | 198,567 |
| P | December 5, 2022 | 3.95% | 4.18% | **250,000** | **247,174** | 247,066 |
| Q | October 30, 2023 | 3.90% | 3.97% | **300,000** | **298,832** | 298,794 |
| R | August 30, 2024 | 4.79% | 4.72% | **300,000** | **301,286** | 301,323 |
| S | July 31, 2025 | 4.32% | 4.24% | **300,000** | **301,723** | 301,768 |
| T | May 6, 2026 | 3.60% | 3.56% | **300,000** | **300,929** | 300,963 |
| Weighted Average or Total | | 4.50% | 4.56% | **$ 2,425,000** | **$ 2,421,730** | $ 2,546,442 |
| Current | | | | **125,000** | **124,932** | 249,891 |
| Non-current | | | | **2,300,000** | **2,296,798** | 2,296,551 |
| Total | | | | **$ 2,425,000** | **$ 2,421,730** | $ 2,546,442 |

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

# 11. CONVERTIBLE DEBENTURES

| As at | | | | March 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Interest Rate | | | | | | | |
| Series | Maturity Date | Coupon | Effective | Principal | Liability | Equity | Principal | Liability | Equity |
| E | January 31, 2019 | 5.40% | 6.90% | — | — | — | 54,666 | 53,095 | 2,084 |
| F | January 31, 2019 | 5.25% | 6.07% | — | — | — | 51,584 | 50,773 | 351 |
| I | July 31, 2019 | 4.75% | 6.19% | **51,189** | **49,959** | **1,403** | 51,210 | 49,822 | 1,403 |
| J | February 28, 2020 | 4.45% | 5.34% | **55,103** | **53,975** | **386** | 55,175 | 53,943 | 386 |
| | Weighted Average or Total | 4.59% | 5.75% | **$ 106,292** | **$ 103,934** | **$ 1,789** | $ 212,635 | $ 207,633 | $ 4,224 |
| | Current | | | — | — | | 106,250 | 103,868 | |
| | Non-current | | | **106,292** | **103,934** | | 106,385 | 103,765 | |
| | Total | | | **$ 106,292** | **$ 103,934** | **$ 1,789** | $ 212,635 | $ 207,633 | $ 4,224 |

## (a) Principal and interest

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

During the three months ended March 31, 2017, 0.1 million common shares (three months ended March 31, 2016 – 0.4 million common shares) were issued for $2.4 million (three months ended March 31, 2016 – $8.4 million) to pay interest to holders of the convertible debentures.

Each series of the Company's convertible debentures pays interest semi-annually and is convertible at the option of the holders in the conversion periods into common shares of the Company at the conversion prices indicated below.

| Maturity Date | Coupon Rate | TSX | Holder Option to Convert at the Conversion Price | Company Option to Redeem at Principal Amount (conditional [1]) | Company Option to Redeem at Principal Amount [2] | Conversion Price |
|---|---|---|---|---|---|---|
| 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 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.

## (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 three months ended March 31, 2017 and 2016, principal amounts of convertible debentures purchased and amounts paid for the purchases are represented in the table below:

| Three months ended March 31 | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Principal Amount Purchased** | **Amount Paid** | Principal Amount Purchased | Amount Paid |
| Total | **$ 100** | **$ 102** | $ 3,173 | $ 3,209 |

# 12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

| As at | Note | | March 31, 2017 | | December 31, 2016 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Asset retirement obligations (a) | | **$** | **8,117** | $ | 7,815 |
| Ground leases payable | | | **9,344** | | 9,423 |
| Derivatives at fair value | 22 | | **6,706** | | 6,469 |
| Deferred purchase price of investment property – shopping centre | | | **1,768** | | 1,763 |
| Deferred income | | | **1,386** | | 1,606 |
| Total non-current | | **$** | **27,321** | $ | 27,076 |
| **Current** | | | | | |
| Trade payables and accruals | | **$** | **69,157** | $ | 66,343 |
| Construction and development payables | | | **47,069** | | 49,204 |
| Dividends payable | | | **52,394** | | 52,330 |
| Interest payable | | | **31,995** | | 38,016 |
| Tenant deposits | | | **27,113** | | 26,573 |
| Derivatives at fair value | 22 | | **2,793** | | — |
| Total current | | **$** | **230,521** | $ | 232,466 |
| Total | | **$** | **257,842** | $ | 259,542 |

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

# 13. SHAREHOLDERS' EQUITY

## (a) Share capital

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

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

| Three months ended March 31 | | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | Note | **Number of Common Shares** | | **Stated Capital** | Number of Common Shares | | Stated Capital |
| Issued and outstanding at beginning of period | | **243,507** | **$** | **3,142,399** | 225,538 | $ | 2,768,983 |
| Payment of interest on convertible debentures | 11 | **124** | | **2,442** | 427 | | 8,355 |
| Conversion of convertible debentures | 11 | **4** | | **107** | — | | — |
| Exercise of options, and settlement of any restricted, performance and deferred share units | | **196** | | **3,630** | 187 | | 3,422 |
| Share issue costs and other, net of tax effect | | **—** | | **(5)** | — | | (2) |
| Issued and outstanding at end of period | | **243,831** | **$** | **3,148,573** | 226,152 | $ | 2,780,758 |

Quarterly dividends declared per common share were $0.215 for the three months ended March 31, 2017 (three months ended March 31, 2016 – $0.215).

## (b) Contributed surplus and other equity items

Contributed surplus and other equity items comprise the following:

| Three months ended March 31 | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Contributed Surplus** | **Convertible Debentures Equity Component** | **Stock-based Compensation Plan Awards** | **Total** | Contributed Surplus | Convertible Debentures Equity Component | Stock-based Compensation Plan Awards | Total |
| Balance at beginning of period | **$ 20,954** | **$ 4,224** | **$ 16,521** | **$ 41,699** | $ 19,532 | $ 6,833 | $ 17,284 | $ 43,649 |
| Redemption of convertible debentures in common shares | **2,431** | **(2,434)** | **—** | **(3)** | — | — | — | — |
| Repurchase of convertible debentures | **1** | **(1)** | **—** | **—** | 41 | (41) | — | — |
| Options vested | **—** | **—** | **213** | **213** | — | — | 183 | 183 |
| Exercise of options | **—** | **—** | **(259)** | **(259)** | — | — | (217) | (217) |
| Deferred share units | **—** | **—** | **136** | **136** | — | — | 189 | 189 |
| Restricted share units | **—** | **—** | **634** | **634** | — | — | 465 | 465 |
| Performance share units | **—** | **—** | **275** | **275** | — | — | — | — |
| Settlement of any restricted, performance and deferred share units | **—** | **—** | **(337)** | **(337)** | — | — | — | — |
| Balance at end of period | **$ 23,386** | **$ 1,789** | **$ 17,183** | **$ 42,358** | $ 19,573 | $ 6,792 | $ 17,904 | $ 44,269 |

## (c) Stock options

As of March 31, 2017, the Company is authorized to grant up to 15.2 million (December 31, 2016 – 15.2 million) common share options to the employees, officers and directors of the Company. As of March 31, 2017, 0.9 million (December 31, 2016 – 1.7 million) common share options are available to be granted to the employees, officers and directors of the Company. In addition, as at March 31, 2017, 4.9 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 March 31, 2017 have exercise prices ranging from $9.81 – $20.24 (December 31, 2016 – $9.81 – $20.24).

During the three months ended March 31, 2017, $0.2 million (three months ended March 31, 2016 – $0.1 million) was recorded as an expense related to stock options.

| Three months ended March 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Number of Common Shares Issuable (in thousands)** | **Weighted Average Exercise Price** | Number of Common Shares Issuable (in thousands) | Weighted Average Exercise Price |
| Outstanding at beginning of period | **4,206** | **$ 18.15** | 4,199 | $ 17.56 |
| Granted (a) | **869** | **20.07** | 855 | 19.60 |
| Exercised (b) | **(177)** | **17.06** | (187) | 17.13 |
| Forfeited | **(28)** | **18.72** | — | — |
| Expired | **(1)** | **17.67** | — | — |
| Outstanding at end of period | **4,869** | **$ 18.53** | 4,867 | $ 17.93 |

(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.

| Three months ended March 31 | **2017** | 2016 |
|---|---|---|
| Share options granted (thousands) | **869** | 855 |
| Term to expiry | **10 years** | 10 years |
| Exercise price | **$20.07** | $19.60 |
| Weighted average volatility rate | **15.0%** | 15.0% |
| Weighted average expected option life | **6 years** | 6 years |
| Weighted average dividend yield | **4.26%** | 4.37% |
| Weighted average risk free interest rate | **1.31%** | 0.76% |
| Fair value (thousands) | **$1,125** | $915 |

(b) The weighted average market share price at which options were exercised for the three months ended March 31, 2017 was $20.18 (three months ended March 31, 2016 – $19.83).

## (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.

| Three months ended March 31 | | **2017** | | 2016 |
|---|---|---|---|---|
| *(in thousands)* | **DSUs** | **RSUs / PSUs** | DSUs | RSUs / PSUs |
| Outstanding at beginning of period | **275** | **471** | 349 | 374 |
| Granted (a) (b) | **7** | **191** | 5 | — |
| Dividends declared | **3** | **9** | 4 | 3 |
| Exercised | **—** | **(19)** | — | — |
| Forfeited | **—** | **(3)** | — | — |
| Outstanding at end of period | **285** | **649** | 358 | 377 |
| Expense recorded for the period | **$136** | **$831** | $114 | $392 |

(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 three months ended March 31, 2017 was $0.1 million (three months ended March 31, 2016 – $0.1 million), measured based on the Company's prevailing share price on the date of grant. The fair value of the RSUs granted during the three months ended March 31, 2017 was $1.6 million (three months ended March 31, 2016 – nil), measured based on the Company's share price on the date of grant.

(b) The fair value of the PSUs granted during the three months ended March 31, 2017 was $2.2 million (three months ended March 31, 2016 – nil). 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.

| Three months ended March 31 | **2017** | 2016 |
|---|---|---|
| PSUs granted (thousands) | **112** | — |
| Term to expiry | **3 years** | — |
| Weighted average volatility rate | **14.3%** | — |
| Weighted average correlation | **40.4%** | — |
| Weighted average total shareholder return | **0.5%** | — |
| Weighted average risk free interest rate | **0.95%** | — |
| Fair value (thousands) | **$2,238** | — |

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:

| Three months ended March 31, 2017 | | **Central Region** | | **Eastern Region** | | **Western Region** | | **Subtotal** | | **Other (1)** | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property rental revenue | **$** | **72,302** | **$** | **45,921** | **$** | **57,403** | **$** | **175,626** | **$** | **(773)** | **$** | **174,853** |
| Property operating costs | | **28,057** | | **21,378** | | **19,500** | | **68,935** | | **(966)** | | **67,969** |
| Net operating income | **$** | **44,245** | **$** | **24,543** | **$** | **37,903** | **$** | **106,691** | **$** | **193** | **$** | **106,884** |

| Three months ended March 31, 2016 | | Central Region | | Eastern Region | | Western Region | | Subtotal | | Other (1) | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property rental revenue | $ | 69,391 | $ | 45,158 | $ | 54,277 | $ | 168,826 | $ | (726) | $ | 168,100 |
| Property operating costs | | 27,371 | | 20,195 | | 18,451 | | 66,017 | | (913) | | 65,104 |
| Net operating income | $ | 42,020 | $ | 24,963 | $ | 35,826 | $ | 102,809 | $ | 187 | $ | 102,996 |

(1) Other items principally consist of intercompany eliminations.

For the three months ended March 31, 2017, property operating costs include $5.7 million (three months ended March 31, 2016 – $5.5 million) related to employee compensation.

# 15. INTEREST AND OTHER INCOME

| | | Three months ended March 31 | | | |
|---|---|---|---|---|---|
| | **Note** | | **2017** | | 2016 |
| Interest, dividend and distribution income from marketable securities | 5 | **$** | **263** | $ | 315 |
| Interest income from loans, deposit and mortgages receivable | 5 | | **4,213** | | 2,096 |
| Fees and other income | | | **1,561** | | 1,239 |
| Total | | **$** | **6,037** | $ | 3,650 |

# 16. INTEREST EXPENSE

| | | Three months ended March 31 | |
|---|---|---|---|
| | Note | **2017** | 2016 |
| Mortgages | 9 | **$ 11,540** | $ 12,072 |
| Credit facilities | 9 | **2,725** | 2,024 |
| Senior unsecured debentures | 10 | **27,794** | 26,629 |
| Convertible debentures (non-cash) | 11 | **2,021** | 5,109 |
| Total interest expense | | **44,080** | 45,834 |
| Interest capitalized to investment properties under development | | **(5,097)** | (5,373) |
| Interest expense | | **$ 38,983** | $ 40,461 |
| Convertible debenture interest paid in common shares | 11 | **(2,442)** | (8,355) |
| Change in accrued interest | | **6,021** | 9,372 |
| Effective interest rate less than (in excess of) coupon interest rate on senior unsecured and convertible debentures | | **161** | (170) |
| Coupon interest rate in excess of effective interest rate on assumed mortgages | | **447** | 720 |
| Amortization of deferred financing costs | | **(1,591)** | (1,661) |
| Cash interest paid associated with operating activities | | **$ 41,579** | $ 40,367 |

# 17. CORPORATE EXPENSES

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Salaries, wages and benefits | **$ 7,224** | $ 6,849 |
| Non-cash compensation | **931** | 639 |
| Other corporate costs | **2,696** | 1,974 |
| Total corporate expenses | **10,851** | 9,462 |
| Amounts capitalized to investment properties under development | **(1,587)** | (1,452) |
| Corporate expenses | **$ 9,264** | $ 8,010 |

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Realized gain (loss) on sale of marketable securities | **$ —** | $ 79 |
| Unrealized gain (loss) on marketable securities classified as FVTPL | **299** | 341 |
| Net gain (loss) on prepayments of debt | **(2,333)** | 88 |
| Investment properties selling costs | **(502)** | (1,439) |
| Restructuring costs | **—** | (59) |
| Other | **(27)** | (33) |
| Total | **$ (2,563)** | $ (1,023) |

## 19. INCOME TAXES

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Income tax expense at the Canadian federal and provincial income tax rate of 26.6% | **$ 64,131** | $ 22,155 |
| Increase (decrease) in income taxes due to: | | |
| Non-taxable portion of capital gains and other | **(25,737)** | (5,752) |
| Other | **(1,353)** | (284) |
| Deferred income taxes | **$ 37,041** | $ 16,119 |

## 20. PER SHARE CALCULATIONS

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Net income attributable to common shareholders | **$ 203,671** | $ 66,957 |
| Adjustment for dilutive effect of convertible debentures, net of tax | **1,078** | 3,700 |
| Income for diluted per share amounts | **$ 204,749** | $ 70,657 |
| *(in thousands)* | | |
| Weighted average number of shares outstanding for basic per share amounts | **244,317** | 226,320 |
| Options | **502** | 372 |
| Convertible debentures | **5,413** | 16,775 |
| Weighted average diluted share amounts | **250,232** | 243,467 |

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

| Three months ended March 31 | | Number of Shares if Exercised | |
|---|---|---|---|
| *(in dollars, number of shares in thousands)* | Exercise Price | **2017** | 2016 |
| Common share options | $19.60 | — | 855 |
| Common share options | $19.96 | — | 245 |

## 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.

## (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 March 31, 2017, Loblaw Companies Limited ("Loblaw") accounts for 10.3% 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.

## (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 March 31, 2017 is set out below:

| As at March 31, 2017 | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Remainder of 2017 | 2018 to 2019 | 2020 to 2021 | Thereafter | Total |
| Scheduled mortgage principal amortization | $ 21,864 | $ 48,332 | $ 40,866 | $ 54,990 | $ 166,052 |
| Mortgage principal repayments on maturity | 81,562 | 231,035 | 119,255 | 493,040 | 924,892 |
| Credit facilities and bank indebtedness | 7,785 | 65,243 | 365,257 | — | 438,285 |
| Senior unsecured debentures | 125,000 | 300,000 | 350,000 | 1,650,000 | 2,425,000 |
| Interest obligations (1) | 120,366 | 277,991 | 206,594 | 218,944 | 823,895 |
| Land leases (expiring between 2023 and 2061) | 769 | 2,019 | 2,030 | 15,457 | 20,275 |
| Contractual committed costs to complete current development projects | 53,088 | 4,895 | — | — | 57,983 |
| Other committed costs | 30,799 | 691 | — | — | 31,490 |
| Total contractual obligations (2) | $ 441,233 | $ 930,206 | $ 1,084,002 | $ 2,432,431 | $ 4,887,872 |

(1) Interest obligations include expected interest payments on mortgages and credit facilities as at March 31, 2017 (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 March 31, 2017, there was $362.9 million (December 31, 2016 – $183.5 million) of cash advances drawn against the Company's revolving credit facilities.

In addition, as at March 31, 2017, the Company has $35.3 million (December 31, 2016 – $48.2 million) of bank overdrafts and outstanding letters of credit issued by financial institutions primarily to support certain of the Company's contractual obligations.

## 22. FAIR VALUE MEASUREMENT

The fair value hierarchy of financial instruments on the unaudited interim condensed consolidated balance sheets is as follows:

| As at | | | March 31, 2017 | | | December 31, 2016 |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | Level 1 | Level 2 | Level 3 |
| **Measured at fair value** | | | | | | |
| **Financial Assets** | | | | | | |
| FVTPL investments in equity securities | **$ 13,268** | **$ —** | **$ —** | $ 12,969 | $ — | $ — |
| AFS investments in limited partnership | **—** | **—** | **3,824** | — | — | 3,824 |
| Derivatives at fair value – assets | **—** | **8,406** | **—** | — | 12,438 | — |
| **Financial Liabilities** | | | | | | |
| Derivatives at fair value – liabilities | **—** | **9,499** | **—** | — | 6,469 | — |
| **Measured at amortized cost** | | | | | | |
| **Financial Assets** | | | | | | |
| Loans and mortgages receivable | **$ —** | **$ —** | **$ 153,365** | $ — | $ — | $ 144,379 |
| **Financial Liabilities** | | | | | | |
| Mortgages | **—** | **1,049,776** | **—** | — | 996,835 | — |
| Credit facilities | **—** | **435,885** | **—** | — | 251,481 | — |
| Senior unsecured debentures | **—** | **2,593,274** | **—** | — | 2,691,059 | — |
| Convertible debentures | **108,996** | **—** | **—** | 214,423 | — | — |

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

The fair value of derivative instruments is determined using present value forward pricing and swap calculations at interest rates that reflect current market conditions. The models also take into consideration the credit quality of counterparties, interest rate curves and forward rate curves. As at March 31, 2017, the interest rates ranged from 1.6% to 3.5% (December 31, 2016 – 1.7% to 3.3%). The fair values of the Company's asset (liability) hedging instruments are as follows:

| | Designated as Hedging Instrument | Maturity as at March 31, 2017 | **March 31, 2017** | December 31, 2016 |
|---|---|---|---|---|
| **Derivative assets** | | | | |
| Bond forward contracts | Yes | April 2017 | **$ 6,008** | $ 6,279 |
| Interest rate swaps | Yes | January 2026 - September 2026 | **2,398** | 2,683 |
| Cross currency swaps | No | N/A | **—** | 3,476 |
| Total | | | **$ 8,406** | $ 12,438 |
| **Derivative liabilities** | | | | |
| Bond forward contracts | Yes | April 2017 | **$ 246** | $ — |
| Interest rate swaps | Yes | March 2022 - June 2025 | **6,706** | 6,469 |
| Cross currency swaps | No | April 2017 | **2,547** | — |
| Total | | | **$ 9,499** | $ 6,469 |

# 23. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | | Three months ended March 31 | |
|---|---|---|---|
| | **Note** | **2017** | 2016 |
| Straight-line rent adjustment | | **$ (653)** | $ (1,350) |
| Investment properties selling costs | 18 | **502** | 1,439 |
| Realized (gain) loss on sale of marketable securities | 18 | **—** | (79) |
| Unrealized (gain) loss on marketable securities classified as FVTPL | 18 | **(299)** | (341) |
| Net (gain) loss on prepayments of debt | 18 | **2,293** | (88) |
| Non-cash compensation expense | | **977** | 685 |
| Deferred income taxes | 19 | **37,041** | 16,119 |
| Other non-cash items | | **28** | — |
| Total | | **$ 39,889** | $ 16,385 |

## (b) Net change in non-cash operating items

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Amounts receivable | **$ (6,310)** | $ (3,533) |
| Prepaid expenses | **(11,880)** | (12,052) |
| Trade payables and accruals | **3,104** | 7,108 |
| Tenant security and other deposits | **570** | (2,037) |
| Other working capital changes | **(1,853)** | 880 |
| Total | **$ (16,369)** | $ (9,634) |

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Advances of loans and mortgages receivable | **$ (8,169)** | $ — |
| Repayments of loans and mortgages receivable | **1,170** | 18,880 |
| Investment in marketable securities, net | **—** | (742) |
| Proceeds from disposition of marketable securities | **—** | 830 |
| Total | **$ (6,999)** | $ 18,968 |

## (d) Cash and cash equivalents (bank indebtedness)

| As at | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Cash [(1)] | **$ 11,232** | $ 12,217 |
| Bank indebtedness | **(2,401)** | (15,914) |
| Total | **$ 8,831** | $ (3,697) |

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

# 24. 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 $112.7 million (December 31, 2016 – $108.1 million) to various lenders in connection with certain third-party obligations, including, without limitation, loans advanced to its joint arrangement partners secured by the partners' interest in the joint arrangements and underlying assets.

(c) The Company is contingently liable by way of letters of credit in the amount of $32.9 million (December 31, 2016 – $32.3 million), issued by financial institutions on the Company's behalf in the ordinary course of business.

(d) The Company has obligations as lessee under long-term leases for land. Annual commitments under these ground leases are approximately $1.0 million (December 31, 2016 – $1.0 million) with a total obligation of $20.3 million (December 31, 2016 – $20.1 million).

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

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

# 25. RELATED PARTY TRANSACTIONS

## (a) Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company and, as of March 31, 2017, beneficially owns 32.7% (December 31, 2016 – 36.4%) of the common shares of the Company. Norstar Holdings Inc. is the ultimate controlling party of Gazit. In the first quarter of 2017, Gazit disposed of 9,000,000 common shares of the Company.

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | 2016 |
| Reimbursements for professional services | **$ 97** | $ 75 |

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

## (b) Joint venture

During the three months ended March 31, 2017, 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 $0.5 million (March 31, 2016 – $0.4 million).

## (c) Subsidiaries of the Company

These unaudited interim condensed 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.

# 26. SUBSEQUENT EVENTS

***Second Quarter Dividend***

The Company announced that it will pay a second quarter dividend of $0.215 per common share on July 11, 2017 to shareholders of record on June 30, 2017.

# Shareholder Information

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**TORONTO STOCK EXCHANGE LISTINGS**
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FCR.DB.I
4.45% Convertible Debentures:
FCR.DB.J

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Jordan Robins
*Executive Vice President and Chief Operating Officer*

Gareth Burton
*Senior Vice President, Construction*

Roger J. Chouinard
*General Counsel and Corporate Secretary*

Carmine Francella
*Senior Vice President, Leasing*

Sandra Levy
*Vice President, People and Corporate Affairs*

Maryanne McDougald
*Senior Vice President, Operations*

Gregory J. Menzies
*Project Lead, Yorkville Village*

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