



YORKVILLE VILLAGE

2018

FIRST QUARTER

FIRST CAPITAL REALTY INC.

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, 2018, the Company owned interests in 161 properties, totaling approximately 25.3 million square feet of gross leasable area. First Capital Realty has an enterprise value of approximately \$9.4 billion and its common shares trade on the Toronto Stock Exchange.

Financial Highlights

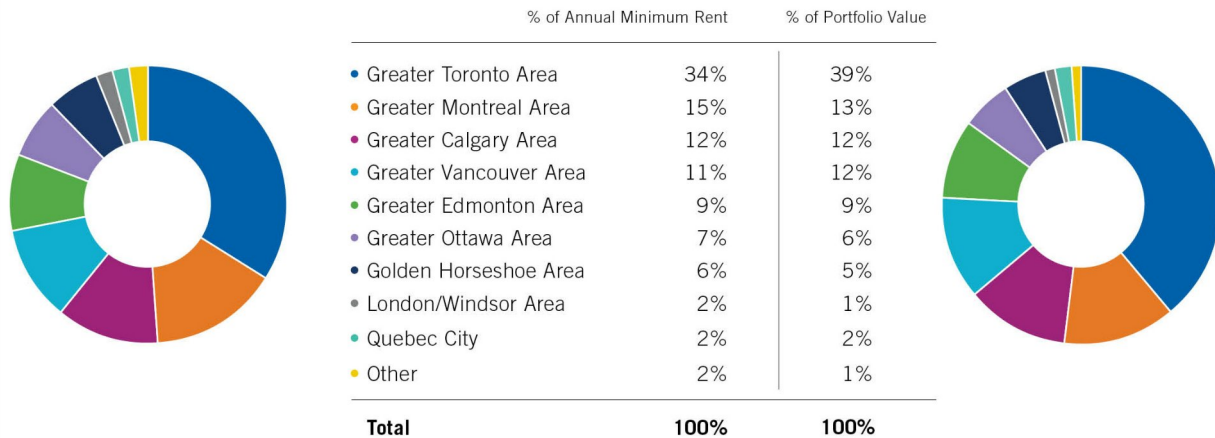
As at	March 31, 2018	December 31, 2017
<i>(millions of dollars, except per share amounts)</i>		
Total assets	\$ 9,980	\$ 9,969
Total equity market capitalization ⁽¹⁾	\$ 4,982	\$ 5,065
Enterprise value ⁽¹⁾	\$ 9,366	\$ 9,480
Net debt to total assets	43.6%	43.4%
Quarterly dividend per common share	\$ 0.215	\$ 0.215

Operating Highlights

Three months ended March 31	2018	2017
<i>(millions of dollars, except per share amounts)</i>		
Property rental revenue	\$ 181	\$ 175
Net operating income ("NOI") ⁽¹⁾	\$ 112	\$ 107
Net income attributable to common shareholders	\$ 66	\$ 204
Funds from Operations ("FFO") ⁽¹⁾		
FFO	\$ 74	\$ 67
FFO per diluted share	\$ 0.301	\$ 0.272
FFO payout ratio	71.4%	79.0%
Cash provided by operating activities	\$ 45	\$ 46
Adjusted Cash Flow from Operations ("ACFO") ⁽¹⁾		
ACFO	\$ 50	\$ 50
ACFO payout ratio	85.9%	86.9%

⁽¹⁾ 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*



*as at March 31, 2018

Shopping For Everyday Life®

	# OF STORES	% OF RENT	TENANTS
Grocery Stores	135	17.7%	Loblaws, Sobeys, metro, save on foods, Whole Foods Market, Longo's
Pharmacies	133	9.2%	Shoppers Drug Mart, Rexall, London Drugs, Jean Coutu, uniprix, Brunet
Liquor Stores	101	3.4%	LCBO, Beer Store, BC Liquor Store, SAO, Liquor Depot, Western Cellars
Banks & Credit Unions	216	8.6%	TD, RBC, CIBC, BMO, Desjardins, National Bank
Restaurants and Cafes	978	13.6 %	Tim Hortons, Starbucks, CARA, freshii, McDonald's, aroma
Medical, Professional & Personal Services	1484	14.7%	Alberta Health Services, UPS, Allstate, H&R Block, First Choice
Fitness Facilities	84	3.6%	GoodLife Fitness, Equinox, LA Fitness, Orangetheory Fitness, Anytime Fitness, Gold's Gym
Daycare & Learning Centres	95	1.2%	E-Commerce Proof ~33%, Kumon, BrightPath, OXFORD Learning, Kids & Company
Other Necessity-Based Retailers	573	18.6%	Walmart, Dollarama, GNC Live Well, Winners, PetSmart
Other Tenants	591	9.4%	Cineplex, West Elm, SleepCountry, Nordstrom, Sherwin Williams, Anthropologie

As at March 31, 2018

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of First Capital Realty Inc. ("First Capital Realty", "FCR" or the "Company") is intended to provide readers with an assessment of performance and summarize the financial position and results of operations for the three months ended March 31, 2018 and 2017. It should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2017 and 2016. 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 8, 2018.

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, the Company's ability to complete dispositions and the timing, terms and anticipated benefits of any such dispositions, the Company's ability to redevelop, sell or enter into partnerships with respect to the future uncommitted incremental density it has identified in its portfolio, 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 8, 2018 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, 2018, the Company owned interests in 161 properties, totaling approximately 25.3 million square feet of gross leasable area ("GLA").

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

- undertake selective development, redevelopment and repositioning activities on its properties, including land use intensification;
- be focused and disciplined in acquiring well-located properties, primarily where there are value creation opportunities, including sites in close proximity to existing properties in the Company's target urban markets;
- proactively manage its existing shopping centre portfolio to drive rent growth;
- increase efficiency and productivity of operations; and
- maintain financial strength and flexibility to support 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 growth in funds from operations, while reducing leverage and achieving an investment grade credit rating. The Company expects to continue to grow its portfolio of high quality properties in urban markets in Canada in line with its long-term value creation strategy. The Company defines a high quality property primarily by its location, taking into consideration the local demographics, the 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. In addition, the retail market is experiencing a change in the consumer mindset with a growing emphasis on customer experience driven by recent advances in technology, allowing for more integration and connection between retailers and consumers through smartphones. Another trend that Management continues to observe is a desire for consumers to live in urban markets and to connect with others through daily or frequent trips to grocery stores, fitness centres, cafés and/or restaurants. Retailers have responded to these changes with a renewed focus on improving the overall customer experience both online and in-store by leveraging technology and by the use of show rooms and pop-up stores. Management is proactively responding to these consumer changes through its tenant mix, unit sizes, shopping centre locations and designs.

Evolving Retail Landscape

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

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

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

Growth

For the three months ended March 31, 2018, the Same Property portfolio delivered net operating income growth of 2.6% compared to the same prior year period. The growth in Same Property net operating income was primarily due to rent escalations and increased occupancy. As at March 31, 2018, total portfolio occupancy increased 1.7% to 96.2% compared to 94.5% as at March 31, 2017. For the three months ended March 31, 2018, the monthly average occupancy for the total portfolio was 96.0% compared to 94.6%, while the monthly average Same Property portfolio occupancy was 96.7% compared to 95.3% for the same prior year period, respectively.

Urban municipalities where the Company operates continue to focus on increasing density within the existing boundaries of infrastructure. This provides the Company with multiple development and redevelopment opportunities in its existing portfolio of urban properties, which includes an inventory of adjacent land sites and development land. Management has identified meaningful incremental density available for future redevelopment within its portfolio. As at March 31, 2018, the Company had identified approximately 21.7 million square feet of incremental density available in the portfolio for future development (including 2.8 million square feet of commercial and 18.9 million square feet of residential space).

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 42,000 square feet of new urban retail space as well as common areas from development to income-producing properties at a cost of \$59.7 million. All of the space transferred was occupied at an average net rental rate of \$49.25 per square foot, well above the average rate for the entire portfolio of \$19.84.

Transaction Activity

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

development and redevelopment of existing assets as the primary means to grow the portfolio while continuing to make selective acquisitions that complement the existing portfolio.

During the quarter, the Company acquired three adjacent buildings and one land parcel for \$18.0 million, adding a total of 20,400 square feet of gross leasable area to the portfolio. Additionally, the Company invested \$50.5 million in development and redevelopment activities during this time period.

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 a 50.5% non-managing interest in a portfolio of six properties in London, Ontario as well as two land parcels for \$72.1 million. In addition, the Company also completed the sale of 18 properties the Company owns through its joint venture interest in Main and Main Urban Realty for approximately \$112.0 million at the Company's interest.

Financing Activity

During the quarter, the Company repaid \$89.2 million of mortgages with a weighted average effective interest rate of 5.5% and secured \$68.0 million of new mortgages with a weighted average effective interest rate of 3.7% and a weighted average term of 10.0 years.

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

Outlook

Management is focused on the following five areas to achieve its objectives through 2018 and into 2019:

- 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 support 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 its financial performance.

Proportionate Interest

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

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

Where noted, certain sections of this MD&A exclude the Company's proportionate share of Main and Main Urban Realty's ("MMUR") financial information to enhance the relevance of the information presented, as MMUR's business operations are not focused on operating stable income-producing properties at this time. Additionally, in the first quarter of 2018, MMUR completed the sale of the majority of its portfolio (18 of 23 properties) for approximately \$112.0 million at the Company's interest.

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

Net Operating Income

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

Total Same Property NOI

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

Same Property — Stable NOI

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

Funds from Operations

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

Adjusted Cash Flow from Operations

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

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

Weighted average share count for FFO

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

FFO and ACFO Payout Ratios

FFO and ACFO payout ratios are supplementary non-IFRS measures used by Management to assess the sustainability of the Company's dividend payments. The FFO payout ratio is calculated using dividends declared per share divided by FFO

per share. The ACFO payout ratio is calculated on a rolling four quarter basis by dividing total cash dividends paid by ACFO over the same period. Management considers a rolling four quarter ACFO payout ratio more relevant than a payout ratio in any given quarter due to the impact of seasonal fluctuations in ACFO period over period.

Enterprise Value

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

Net Debt

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

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization

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

Unencumbered Aggregate Assets

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

OPERATING METRICS

The Company presents certain operating metrics and portfolio statistics in the MD&A, which include property count, property category, GLA, occupancy, weighted average rate per occupied square foot, top 40 tenants, development pipeline, and renewal activities. The Company uses these operating metrics to monitor and measure operational performance period over period. To align the Company's GLA reporting with its ownership interest in its properties, unless otherwise noted, all GLA is presented at the Company's ownership interest (23.6 million square feet at its ownership interest compared to 25.3 million square feet at 100% as at March 31, 2018). These metrics exclude the operating metrics related to the Company's interest in MMUR as its business operations are not focused on operating stable income-producing properties at this time. Furthermore, in the first quarter of 2018, MMUR completed the sale of the majority of its portfolio (18 of 23 properties) for approximately \$112.0 million at the Company's interest.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

As at March 31	2018	2017
Revenues, Income and Cash Flows ⁽¹⁾		
Revenues and other income	\$ 187,117	\$ 180,890
NOI ⁽²⁾	\$ 111,642	\$ 106,884
Increase (decrease) in value of investment properties, net	\$ 10,439	\$ 177,234
Net income attributable to common shareholders	\$ 65,944	\$ 203,671
Net income per share attributable to common shareholders (diluted)	\$ 0.27	\$ 0.82
Weighted average number of common shares – diluted – IFRS (in thousands)	247,044	250,232
Cash provided by operating activities	\$ 45,479	\$ 45,970
Financial Information ⁽¹⁾		
Investment properties – shopping centres ⁽³⁾	\$ 9,324,598	\$ 8,661,352
Investment properties – development land ⁽³⁾	\$ 90,178	\$ 67,153
Total assets	\$ 9,980,267	\$ 9,334,216
Mortgages ⁽³⁾	\$ 1,031,962	\$ 1,091,294
Credit facilities	\$ 662,770	\$ 435,885
Senior unsecured debentures	\$ 2,596,307	\$ 2,421,730
Convertible debentures	\$ —	\$ 103,934
Shareholders' equity	\$ 4,669,877	\$ 4,352,882
Capitalization and Leverage		
Shares outstanding (in thousands)	244,821	243,831
Enterprise value ⁽²⁾	\$ 9,366,000	\$ 9,055,000
Net debt to total assets ^{(2) (4)}	43.6%	43.1%
Weighted average term to maturity on mortgages and senior unsecured debentures (years)	5.4	5.4

Three months ended March 31	2018	2017
Dividends		
Dividends	\$ 52,787	\$ 52,473
Dividends per common share	\$ 0.215	\$ 0.215
Operational Information		
Number of properties	161	160
GLA (square feet) – at 100%	25,267,000	25,215,000
GLA (square feet) – at ownership interest	23,648,000	23,791,000
Occupancy – Same Property – stable ⁽²⁾	96.8%	95.2%
Total portfolio occupancy	96.2%	94.5%
Development pipeline and adjacent land (GLA) ^{(5) (6)}		
Commercial pipeline (primarily retail)	2,831,000	2,993,000
Residential pipeline	18,862,000	11,156,000
Average rate per occupied square foot	\$ 19.84	\$ 19.36
GLA developed and brought online - at ownership interest	42,000	44,000
Same Property – stable NOI – increase (decrease) over prior period ^{(2) (7)}	2.7%	1.8%
Total Same Property NOI – increase (decrease) over prior period ^{(2) (7)}	2.6%	2.4%
Funds from Operations ^{(2) (4)}		
FFO	\$ 73,933	\$ 66,625
FFO per diluted share	\$ 0.30	\$ 0.27
FFO payout ratio	71.4%	79.0%
Weighted average number of common shares – diluted – FFO (in thousands)	245,717	244,820
Adjusted Cash Flow from Operations ^{(2) (4)}		
ACFO	\$ 50,302	\$ 49,680
ACFO payout ratio on a rolling four quarter basis	85.9%	86.9%

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

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

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

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

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

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

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

BUSINESS AND OPERATIONS REVIEW

Real Estate Investments

Investment Property Categories

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

Total Same Property consisting of:

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

Same Property with redevelopment – includes properties that are largely stable, including adjacent parcels of land, but are undergoing incremental redevelopment or expansion activities (pads or building extensions) which intensify the land use. Such redevelopment activities often include façade, parking, lighting and building upgrades.

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

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

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

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

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

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

Portfolio Overview

As at March 31, 2018, the Company had interests in 161 investment properties – shopping centres, which were 96.2% occupied with a total GLA of 25.3 million square feet (23.6 million square feet at the Company's ownership interest) and a fair value of \$9.3 billion. This compares to 161 investment properties – shopping centres, which were 96.1% occupied with a total GLA of \$25.4 million square feet (24.0 million square feet at the Company's ownership interest) and a fair value of \$9.3 billion as at December 31, 2017. As at March 31, 2018, the average size of the shopping centres is approximately 157,000 square feet, ranging from approximately 9,200 to over 575,000 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 148 properties with a GLA of 22.3 million square feet (20.8 million square feet at the Company's ownership interest) and a fair value of \$7.7 billion. These properties represent 91.9% of the Company's property count, 87.9% of its GLA and 82.4% of its fair value as at March 31, 2018.

The balance of the Company's real estate assets consists of shopping centres which are in various stages of redevelopment, shopping centres acquired in 2018 or 2017 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, 2018				December 31, 2017			
	Number of Properties	GLA (000s sq. ft.)	Occupancy	Weighted Average Rate per Occupied Square Foot	Number of Properties	GLA (000s sq. ft.)	Occupancy	Weighted Average Rate per Occupied Square Foot
<i>(millions of dollars, except other data)</i>								
Same Property – stable	138	18,722	96.8%	\$ 19.34	138	18,720	96.7%	\$ 19.32
Same Property with redevelopment	10	2,076	96.8%	19.83	10	2,073	97.1%	19.84
Total Same Property	148	20,798	96.8%	19.39	148	20,793	96.7%	19.37
Major redevelopment	9	2,076	90.9%	23.87	9	2,143	90.8%	23.48
Ground-up development	1	128	97.7%	31.02	1	112	97.4%	29.70
Acquisitions – 2018	—	15	69.9%	28.99	—	—	—%	—
Acquisitions – 2017	2	287	94.1%	32.01	2	269	93.7%	29.99
Investment properties classified as held for sale	1	344	98.1%	10.50	1	386	90.6%	10.67
Dispositions – 2018	—	—	—%	—	—	288	99.2%	14.70
Total	161	23,648	96.2%	\$ 19.84	161	23,991	96.1%	\$ 19.69

MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

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

As at	March 31, 2018								December 31, 2017						
<i>(millions of dollars, except other data)</i>	Number of Properties	GLA (000s sq. ft.)	Fair Value ⁽¹⁾	% of Total Fair Value	Occupancy	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent	Number of Properties	GLA (000s sq. ft.)	Fair Value ⁽¹⁾	% of Total Fair Value	Occupancy	Weighted Average Rate per Occupied Square Foot	% of Annual Minimum Rent	
Central Region															
Greater Toronto Area	47	6,802	\$ 3,635	39%	97.1%	\$ 23.30	34%	47	6,806	\$ 3,593	38%	97.2%	\$ 22.97	34%	
Golden Horseshoe Area	8	1,601	448	5%	99.0%	16.21	6%	8	1,601	446	5%	99.0%	16.21	6%	
London/Windsor Area ⁽²⁾	7	506	119	1%	98.5%	13.90	2%	7	733	179	2%	94.6%	15.49	2%	
	62	8,909	4,202	45%	97.5%	21.47	42%	62	9,140	4,218	45%	97.3%	21.18	42%	
Eastern Region															
Greater Montreal Area	32	4,417	1,235	13%	93.2%	16.42	15%	32	4,441	1,235	13%	93.0%	16.37	15%	
Greater Ottawa Area	12	1,887	570	6%	96.6%	17.85	7%	12	1,990	569	6%	97.1%	17.17	7%	
Quebec City	5	994	188	2%	93.8%	11.07	2%	5	994	190	2%	93.6%	11.10	2%	
Other	2	220	44	—%	94.6%	13.72	1%	2	220	44	—%	94.6%	13.93	1%	
	51	7,518	2,037	21%	94.2%	16.00	25%	51	7,645	2,038	21%	94.2%	15.78	25%	
Western Region															
Greater Calgary Area	16	2,518	1,139	12%	97.0%	22.60	12%	16	2,505	1,119	12%	96.9%	22.71	12%	
Greater Vancouver Area	19	2,145	1,114	12%	96.4%	23.49	11%	19	2,145	1,111	12%	96.1%	23.44	11%	
Greater Edmonton Area	12	2,314	834	9%	97.4%	19.18	9%	12	2,312	830	9%	97.1%	19.39	9%	
Red Deer	1	244	80	1%	91.5%	21.26	1%	1	244	80	1%	92.0%	20.28	1%	
	48	7,221	3,167	34%	96.8%	21.72	33%	48	7,206	3,140	34%	96.6%	21.78	33%	
Total	161	23,648	\$ 9,406	100%	96.2%	\$ 19.84	100%	161	23,991	\$ 9,396	100%	96.1%	\$ 19.69	100%	

⁽¹⁾ At the Company's proportionate interest, excluding the fair value of MMUR's investment properties of \$34 million as at March 31, 2018 and \$58 million as at December 31, 2017.

⁽²⁾ During the three months ended March 31, 2018, The Company disposed of a 50.5% non-managing interest in a portfolio of six properties in London, Ontario.

Investment Properties – Shopping Centres

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

	Three months ended March 31	
(millions of dollars)	2018	2017
Balance at beginning of period	\$ 9,317	\$ 8,453
Acquisitions		
Shopping centres and additional adjacent spaces	16	—
Development activities and property improvements	57	41
Increase (decrease) in value of investment properties, net	3	179
Dispositions	(72)	(12)
Other changes	4	—
Balance at end of period ⁽¹⁾	\$ 9,325	\$ 8,661

⁽¹⁾ Includes investment properties classified as held for sale as at March 31, 2018 and 2017 totaling \$68 million and \$78 million, respectively.

2018 Acquisitions

Income-producing properties – Shopping Centres and Additional Adjacent Spaces

During the three months ended March 31, 2018, the Company acquired three adjacent buildings in close proximity to existing shopping centres, as summarized in the table below:

Count	Property Name	City/Province	Quarter Acquired	Interest Acquired	GLA (sq. ft.)	Acquisition Cost (in millions)
1.	121 Scollard St. (Yorkville Village)	Toronto, ON	Q1	100%	4,500	\$ 8.4
2.	731, 739 - 10th Avenue SW (GM Glenbow)	Calgary, AB	Q1	50%	10,400	6.0
3.	812 - 11th Avenue SW (GM Glenbow)	Calgary, AB	Q1	50%	5,500	1.8
	Total				20,400	\$ 16.2

Development Properties

During the three months ended March 31, 2018, the Company acquired one adjacent land parcel, as summarized in the table below:

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

2018 Dispositions

During the three months ended March 31, 2018, the Company disposed of a 50.5% non-managing interest in a portfolio of six properties in London, Ontario as well as two land parcels for \$72.1 million, as summarized in the table below:

Count	Property Name	City/Province	Quarter Sold	Interest Sold	GLA (sq. ft.)	Acreage	Gross Sales Price (in millions)
1.	Eagleson Cope Drive (land)	Ottawa, ON	Q1	100%	102,900	11.2	
2.	Wellington Corners	London, ON	Q1	50.5%	40,800	7.0	
3.	Sunningdale Village	London, ON	Q1	50.5%	36,600	6.0	
4.	Byron Village	London, ON	Q1	50.5%	44,000	6.0	
5.	Hyde Park Plaza	London, ON	Q1	50.5%	26,100	5.0	
6.	Stoneybrook Plaza	London, ON	Q1	50.5%	27,900	4.9	
7.	Adelaide Shoppers	London, ON	Q1	50.5%	9,700	1.7	
8.	130 Michael Cowpland Drive (land)	Ottawa, ON	Q1	100%	—	1.4	
Total					288,000	43.2	\$ 72.1

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, 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			2018		2017
	Total Same Property	Other Property Categories	Total		Total
Revenue sustaining	\$ 3,333	\$ —	\$ 3,333	\$	2,893
Revenue enhancing	2,700	1,692	4,392		5,058
Expenditures recoverable from tenants	296	175	471		136
Development expenditures	9,332	41,195	50,527		34,374
Total	\$ 15,661	\$ 43,062	\$ 58,723	\$	42,461

During the three months ended March 31, 2018, capital expenditures totaled \$58.7 million compared to \$42.5 million for the same prior year period. The \$16.3 million increase was primarily due to increased development spend related to the King High Line and Mount Royal West development projects.

Valuation of Investment Properties

During the three months ended March 31, 2018, the weighted average stabilized capitalization rate of the Company's investment property portfolio remained unchanged from 5.3% as at December 31, 2017. The net increase in the fair value of investment properties was \$10.4 million primarily due to the revaluation of development land and stabilized NOI growth across the portfolio for the three months ended March 31, 2018.

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

As at March 31, 2018					
(millions of dollars)	Number of Properties	Stabilized Capitalization Rate			Fair Value
		Weighted Average	Median	Range	
Central Region	62	5.0%	5.3%	3.8%-7.0%	\$ 4,188
Eastern Region	51	6.0%	6.0%	5.0%-7.0%	1,970
Western Region	48	5.2%	5.3%	3.8%-6.0%	3,167
Total or Weighted Average	161	5.3%	5.5%	3.8%-7.0%	\$ 9,325

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

Properties Under Development

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

Development Pipeline

As at March 31, 2018, the Company's portfolio is comprised of 23.6 million square feet of GLA at the Company's ownership interest. Substantially all of this GLA is located in Canada's six largest urban growth markets which are undergoing significant land use intensification. As such, Management has identified meaningful incremental density available for future development within its existing portfolio. As at March 31, 2018, Management had identified approximately 21.7 million square feet of incremental density. This 21.7 million square feet represents a potential opportunity that is very significant relative to the size of the Company's existing portfolio.

During the fourth quarter of 2017, Management undertook a detailed review of its entire portfolio and updated all of its future uncommitted incremental density. Additionally, Management has now further stratified the density by adding a very long term expected project commencement time frame. Medium term includes project commencement expected within the next 7 years, long term between 8 and 15 years and very long term beyond 15 years. The Company's incremental density is classified by type between commercial and residential. Commercial density primarily consists of retail density.

MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

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

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

As at March 31, 2018	Square feet (in thousands)		
	Commercial	Residential	Total
Active Development			
Same Property with redevelopment	29	—	29
Major redevelopment	194	—	194
Ground-up development	108	162	270
	331	162	493
Future uncommitted incremental density			
Medium term	1,100	2,200	3,300
Long term	1,200	11,800	13,000
Very long term	200	4,700	4,900
	2,500	18,700	21,200
Total development pipeline	2,831	18,862	21,693

The Company determines its course of action with respect to the 18.7 million square feet of uncommitted potential residential density on a case by case basis given the specifics of each property. The Company's course of action for each property may include selling the property, selling the residential density rights, entering into a joint venture with a partner to develop the property or undertaking the development of the property on its own. Approximately 3.1 million of the Company's 21.7 million square feet of identified incremental density has been included as part of the fair value of investment properties on the consolidated balance sheet. The 3.1 million square feet is comprised of 0.5 million square feet in active development which is valued as part of the overall property and 2.6 million of uncommitted incremental density valued at approximately \$160 million. The remaining 18.6 million square feet of identified incremental density is expected to be included in the future, based on certain factors including zoning approvals and the expiry or removal of tenant encumbrances. The majority of the incremental residential density is located above income producing shopping centers or their parking areas. As such, the Company takes a measured approach with a view to maximizing long term value when obtaining zoning approvals based on the redevelopment plans for its portfolio as a whole.

In addition to the Company's development pipeline, information regarding the 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, 2018, the Company had \$680.0 million of properties under development and development land parcels at invested cost, representing approximately 7.2% of the value of the total portfolio.

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

As at March 31, 2018	Number of Projects	Square Feet ^{(1) (2)} (in thousands)	Invested Cost (in millions)		
			Active Development	Pre-Development	Total
Same Property with redevelopment	3	29	\$ 11	\$ —	\$ 11
Major redevelopment	4	194	146	101	247
Ground-up development	2	270	144	—	144
Total development and redevelopment activities	9	493	\$ 301	\$ 101	\$ 402
Total development land, adjacent land parcels, and other ⁽³⁾				\$ 278	\$ 278
Total				\$ 379	\$ 680

⁽¹⁾ Includes 162,000 square feet of residential rental apartments.

⁽²⁾ Square footage relates to active development only.

⁽³⁾ Includes all other property categories.

2018 Development and Redevelopment Coming Online and Space Going Offline

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

During the three months ended March 31, 2018, the Company completed the transfer of 42,000 square feet of new urban retail space as well as common areas from development to the income-producing portfolio at a cost of \$59.7 million. Of the space transferred, 42,000 square feet became occupied at an average rental rate of \$49.25 per square foot, well above the average rate for the portfolio of \$19.84.

For the three months ended March 31, 2018, the Company had tenant closures for redevelopment of 62,000 square feet at an average rental rate of \$5.37 per square foot.

Active Development and Redevelopment Activities

The Company's properties with development and redevelopment activities currently in progress are expected to have a weighted average going-in NOI yield of 5.1% upon completion. This yield is derived from the expected going-in run rate based on stabilized leasing and operations following completion of the development, and includes all building cost, land cost, 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, materials, architecture, lighting, parking, access, pedestrian amenities, accessibility, as well as development to LEED standards.

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

Same Property with Redevelopment

The Company currently has three projects under active development in the Same Property with redevelopment property category. The 29,000 square feet under active redevelopment is subject to committed leases at a weighted average rate of \$31.14 per square foot.

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

As at March 31, 2018			Invested Cost (in millions)			
Count/Project and Major Tenant(s)	Square Feet Under Development (in thousands)	Target Completion Date ⁽¹⁾	Estimated incl. Land	Under Development	Estimated Cost to Complete	
Active development						
1. 3959 Shelbourne, Victoria, BC (CIBC)	8	H1 2018	\$ 6	\$ 5	\$ 1	
2. Brampton Corners, Brampton, ON (PetSmart)	19	H2 2018	9	4	5	
3. Bayview Lane Plaza, Markham, ON (Starbucks)	2	H2 2018	3	2	1	
Total Same Property with redevelopment	29		\$ 18	\$ 11	\$ 7	

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

Major Redevelopment

The Company has four projects under active development in the major redevelopment property category. Of the approximately 194,000 square feet under active redevelopment, 72,900 square feet is subject to committed leases at a weighted average rate of \$41.29 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, 2018, including costs for completed phases, are as follows:

As at March 31, 2018										
		Square feet (in thousands)			Target Completion Date ⁽¹⁾	Invested Cost (in millions)				
		Planned Upon Completion	Completed or Existing	Under Development		Total Estimated incl. Land	Under Development	Income-producing property	Estimated Cost to Complete	
Count / Property and Major Tenant(s)										
Active development										
1.	Yorkville Village Assets, Toronto, ON <i>(Whole Foods Market, Equinox Fitness)</i>	265	235	30	H1 2018 ⁽²⁾	\$ 407	\$ 27	\$ 359		21
2.	3080 Yonge Street, Toronto, ON <i>(Loblaws, Tim Horton's)</i>	245	196	49	H1 2018	132	34	91		7
3.	Mount Royal West, Calgary, AB <i>(Urban Fare, Canadian Tire)</i>	94	—	94	H2 2018	70	52	—		18
4.	102 - 108 Yorkville, Toronto, ON <i>(Jimmy Choo, Brunello Cucinelli, Her Majesty's Pleasure (Salon))</i>	21	—	21	H2 2018	48	33	—		15
Total Major Redevelopment		625	431	194		\$ 657	\$ 146	\$ 450		61

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

⁽²⁾ Mall completion is H1 2018; 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 270,000 square feet of space currently under development, of which 108,000 square feet is retail space and 162,000 square feet is residential rental apartments. A total of 32,800 square feet of the retail space currently under development is subject to committed leases at a weighted average rate of \$28.14 per square foot. As construction on ground-up developments occurs in phases, there continues to be ongoing negotiations in various stages with retailers for the planned space. Leasing of the residential space is expected to occur in mid-2018.

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

As at March 31, 2018									
Count/Project and Major Tenant(s)	Square feet (in thousands)			Target Completion Date ⁽¹⁾	Invested Cost (in millions)				
	Planned Upon Completion	Completed or Existing	Under Development		Estimated Total incl. Land	Under Development	Income-producing property	Estimated Cost to Complete	
Active development									
1. The Brewery District, Edmonton, AB ^{(2) (3)} <i>(Loblaws City Market, Shoppers Drug Mart, GoodLife Fitness, MEC, Winners)</i>	159	112	47	H2 2019	\$ 96	\$ 20	\$ 72	\$	4
2. King High Line (Shops at King Liberty), Toronto, ON ^{(2) (4)} <i>(Longo's, Canadian Tire, Shoppers Drug Mart, Kids & Company)</i>	239	16	223	H1 2019	183	124	18		41
Total Ground-up Development	398	128	270		\$ 279	\$ 144	\$ 90	\$	45

⁽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 square feet and invested cost include buildings not yet started.

⁽⁴⁾ The square feet under development comprises 61,000 square feet of retail and 162,000 square feet of residential space. The Company and its development partner have entered into a binding agreement to sell, upon substantial completion, a 1/3 managing interest in the residential component of the property to Canadian Apartment Properties REIT.

Costs to Complete Active and Redevelopment Activities

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately \$133 million. Costs to complete Same Property related developments are planned at \$7 million. Costs to complete major redevelopments and ground-up developments, respectively, are planned at \$55 million and \$27 million in 2018, and \$6 million and \$18 million thereafter. Costs to complete developments in other property categories are planned at \$20 million for 2018.

Main and Main Urban Realty

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

In the first quarter of 2018, MMUR completed the sale of 18 of its 23 properties for approximately \$112.0 million at the Company's interest, and a portion of the loan to one of its joint venture partners was repaid. As at March 31, 2018, MMUR has two properties classified as held for sale with expected closing dates within the next 9 months.

As at March 31, 2018 the Company's total investment in MMUR is approximately \$25.7 million via its direct and indirect interests which includes a loan to one of its joint venture partners.

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

As at	March 31, 2018	December 31, 2017
Number of assemblies	5	23
Number of income-producing properties	1	8
Projects in active development / pre-development phase	2 / 2	2 / 13
GLA (square feet) ⁽¹⁾	26,300	156,100
Development pipeline and adjacent land (GLA) ⁽¹⁾		
Retail pipeline ⁽¹⁾	32,983	32,983
Residential pipeline ⁽¹⁾	244,946	244,946
Total investment properties - shopping centres ⁽¹⁾	\$ —	\$ —
Total investment properties - development ⁽¹⁾	\$ 29,010	\$ 27,240
Total investment properties - held for sale ⁽¹⁾	\$ 38,138	\$ 150,107
Residential development inventory ⁽¹⁾	\$ 11,307	\$ 10,219
Total assets ⁽¹⁾	\$ 84,274	\$ 194,249
Mortgages ⁽¹⁾	\$ —	\$ —
Credit facilities ⁽¹⁾	\$ 13,403	\$ 12,195
Credit facilities secured by investment properties held for sale ⁽¹⁾	\$ 20,191	\$ 60,635

Three months ended	March 31, 2018	March 31, 2017
Revenue and other income ⁽¹⁾	\$ 1,174	\$ 1,535
Expenses and property selling costs ⁽¹⁾	\$ 2,232	\$ 751
Increase (decrease) in value of investment properties ⁽¹⁾	\$ 1,208	\$ —
Development expenditures ⁽¹⁾	\$ 2,209	\$ 2,857
Other capital expenditures ⁽¹⁾	\$ 118	\$ 75

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

Leasing and Occupancy

As at March 31, 2018, total portfolio occupancy and Same Property portfolio occupancy were up 1.7% compared to March 31, 2017. The increase was primarily related to significant leasing activity over the last twelve months resulting from tenants taking possession of approximately 1.0 million square feet of space. Total portfolio occupancy increased 0.1% to 96.2% while the Same Property portfolio occupancy was up 0.1% to 96.8% compared to December 31, 2017.

For the three months ended March 31, 2018, the monthly average occupancy for the total portfolio was 96.0% compared to 94.6%, and the Same Property portfolio occupancy was 96.7% compared to 95.3% for the same prior year period, respectively.

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

As at	March 31, 2018			December 31, 2017		
<i>(square feet in thousands)</i>	Total Occupied Square Feet	% Occupied	Weighted Average Rate per Occupied Square Foot	Total Occupied Square Feet	% Occupied	Weighted Average Rate per Occupied Square Foot
Same Property – stable	18,117	96.8%	\$ 19.34	18,101	96.7%	\$ 19.32
Same Property with redevelopment	2,008	96.8%	19.83	2,013	97.1%	19.84
Total Same Property	20,125	96.8%	19.39	20,114	96.7%	19.37
Major redevelopment	1,888	90.9%	23.87	1,947	90.8%	23.48
Ground-up development	125	97.7%	31.02	109	97.4%	29.70
Investment properties classified as held for sale	338	98.1%	10.50	350	90.6%	10.67
Total portfolio before acquisitions and dispositions	22,476	96.3%	19.69	22,520	96.1%	19.64
Acquisitions – 2018	10	69.9%	28.99	—	—%	—
Acquisitions – 2017	270	94.1%	32.01	252	93.7%	29.99
Dispositions – 2018	—	—%	—	285	99.2%	14.70
Total ⁽¹⁾	22,756	96.2%	\$ 19.84	23,057	96.1%	\$ 19.69

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

During the three months ended March 31, 2018, the Company completed 353,000 square feet of lease renewals across the portfolio. The Company achieved a 7.6% lease renewal rate increase when comparing the per square foot net rental rate in the last year of the expiring term to the per square foot net rental rate in the first year of the renewal term. The Company achieved a 9.1% lease renewal rate increase when comparing the net rental rate in the last year of the expiring term to the *average* net rental rate over the renewal term.

The average rental rate per occupied square foot for the total portfolio increased from \$19.69 as at December 31, 2017 to \$19.84 as at March 31, 2018 primarily due to rent escalations and acquisitions. Total portfolio average rental rate was up \$0.48 or 2.5% compared to March 31, 2017 primarily due to rent escalations.

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

Three months ended March 31, 2018	Total Same Property			Major redevelopment, ground-up, acquisitions and dispositions			Vacancy				Total Portfolio ⁽¹⁾		
	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Occupied Square Feet (thousands)	%	Weighted Average Rate per Occupied Square Foot	Under Redevelop- ment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	Total Square Feet (thousands)	Occupied Square Feet %	Weighted Average Rate per Occupied Square Foot
December 31, 2017 ⁽²⁾	20,114	96.7%	\$ 19.37	2,943	92.0%	\$ 21.89	151	0.6%	783	3.3%	23,991	96.1%	\$ 19.69
Tenant possession	115		19.65	33		17.39	—		(148)		—		19.15
Tenant closures	(117)		(18.16)	(53)		(20.68)	—		170		—		(18.95)
Tenant closures for redevelopment	—		—	(62)		(5.37)	62		—		—		(5.37)
Developments – tenants coming online ⁽³⁾	3		42.00	39		49.88	—		—		42		49.25
Redevelopments – tenant possession	—		—	4		10.00	(4)		—		—		10.00
Reclassifications	5		—	1		—	(87)		(36)		(117)		—
Total portfolio before 2018 acquisitions and dispositions	20,120	96.8%	\$ 19.39	2,905	93.0%	\$ 22.50	122	0.5%	769	3.2%	23,916	96.3%	\$ 19.78
Acquisitions (at date of acquisition)	5	100%	18.00	10	69.9%	28.99	—	—%	5		20	78.0%	25.20
Dispositions (at date of disposition)	—	99.0%	—	(284)	98.6%	14.79	—	—%	(4)		(288)	98.6%	14.79
March 31, 2018	20,125	96.8%	\$ 19.39	2,631	92.3%	\$ 23.35	122	0.5%	770	3.3%	23,648	96.2%	\$ 19.84
Renewals	330		\$ 24.19	23		\$ 22.83					353		\$ 24.10
Renewals – expired	(330)		\$ (22.49)	(23)		\$ (21.06)					(353)		\$ (22.39)
Net change per square foot from renewals			\$ 1.70			\$ 1.77							\$ 1.71
% Increase on renewal of expiring rents (first year of renewal term)			7.6%			8.4 %							7.6%
% increase on renewal of expiring rents (average rate in renewal term)													9.1%

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

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

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

Top Forty Tenants

As at March 31, 2018, 54.8% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2017 – 55.1%). Of these rents, 63.0% came from tenants that have investment grade credit ratings and who represent many of Canada's leading grocery stores, pharmacies, national and discount retailers, financial institutions and other familiar retailers. The weighted average remaining lease term for the Company's top 10 tenants was 6.9 years as at March 31, 2018, excluding contractual renewal options.

Rank	Tenant ^{(1) (2)}	Number of Stores	Square Feet (thousands)	Percent of Total Gross Leasable Area	Percent of Total Annualized Minimum Rent	DBRS Credit Rating	S&P Credit Rating	Moody's Credit Rating
1.	Loblaw Companies Limited ("Loblaw")	97	2,210	9.3%	10.0%	BBB	BBB	
2.	Sobeys	56	1,924	8.1%	6.2%	BB (high)	BB+	
3.	Metro	35	1,159	4.9%	3.3%	BBB	BBB	
4.	Walmart	15	1,491	6.3%	2.8%	AA	AA	Aa2
5.	Canadian Tire	26	858	3.6%	2.7%	BBB (high)	BBB+	
6.	TD Canada Trust	50	249	1.1%	2.1%	AA	AA-	Aa2
7.	RBC Royal Bank	45	241	1.0%	1.9%	AA	AA-	A1
8.	GoodLife Fitness	26	565	2.4%	1.8%			
9.	Dollarama	53	504	2.1%	1.7%	BBB		
10.	CIBC	37	199	0.8%	1.5%	AA	A+	A1
Top 10 Tenants Total		440	9,400	39.6%	34.0%			
11.	Save-On-Foods	8	298	1.3%	1.2%			
12.	LCBO	23	209	0.9%	1.2%	AA (low)	A+	Aa2
13.	Lowes	4	361	1.5%	1.2%	A (low)	A-	A3
14.	Restaurant Brands International	63	154	0.6%	1.1%		B+	B1
15.	London Drugs	10	233	1.0%	1.1%			
16.	Rexall	17	156	0.7%	1.0%			
17.	BMO	30	127	0.5%	1.0%	AA	A+	A1
18.	Scotiabank	25	128	0.5%	1.0%	AA	A+	A1
19.	Staples	11	252	1.1%	0.9%		B+	B1
20.	Winners	11	274	1.2%	0.9%		A+	A2
21.	Longo's	5	178	0.8%	0.9%			
22.	Nordstrom	1	40	0.2%	0.8%			
23.	Jean Coutu	13	175	0.7%	0.7%			
24.	Starbucks	44	66	0.3%	0.7%		A-	A3
25.	Michaels	5	88	0.4%	0.6%		BB-	Ba2
26.	Cara	25	102	0.4%	0.6%			
27.	SAQ	21	102	0.4%	0.6%	A (high)	AA-	Aa2
28.	Subway	71	80	0.3%	0.6%			
29.	Whole Foods Market	2	90	0.4%	0.5%		A+	Baa1
30.	McDonald's	23	88	0.4%	0.5%		BBB+	Baa1
31.	Pusateri's	1	35	0.1%	0.5%			
32.	The Beer Store	12	69	0.3%	0.5%	AA (low)	A+	Aa2
33.	Toys "R" Us	3	127	0.5%	0.4%			
34.	Yum! Brands	30	50	0.2%	0.4%		BB	Ba3
35.	The Home Depot	2	153	0.6%	0.4%	A	A	A2
36.	Liquor Stores	14	51	0.2%	0.3%			
37.	Williams-Sonoma	2	38	0.2%	0.3%			
38.	Pet Valu	19	55	0.2%	0.3%			
39.	Bulk Barn	12	58	0.2%	0.3%			
40.	Uniprix	6	63	0.3%	0.3%			
Top 40 Tenants Total		953	13,300	56.0%	54.8%			

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

⁽²⁾ Tenants noted include all banners of the respective retailer.

Lease Maturity Profile

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

Maturity Date	Number of Stores	Occupied Square Feet (thousands)	Percent of Total Square Feet	Annualized Minimum Rent at Expiration (thousands)	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
Month-to-month tenants ⁽¹⁾	143	285	1.2%	\$ 5,333	1.1%	\$ 18.69
2018	487	1,751	7.4%	30,550	6.5%	17.45
2019	689	2,822	11.9%	52,215	11.1%	18.51
2020	621	2,676	11.3%	52,080	11.0%	19.46
2021	535	2,526	10.7%	50,481	10.7%	19.98
2022	618	3,083	13.0%	67,233	14.3%	21.81
2023	397	2,631	11.1%	49,003	10.4%	18.63
2024	186	1,125	4.8%	24,072	5.1%	21.40
2025	194	1,000	4.2%	24,460	5.2%	24.47
2026	164	934	3.9%	24,553	5.2%	26.30
2027	175	1,149	4.9%	26,858	5.7%	23.37
2028	99	818	3.5%	20,598	4.4%	25.19
Thereafter	92	1,956	8.3%	44,098	9.3%	22.52
Total or Weighted Average ⁽²⁾	4,400	22,756	96.2%	\$ 471,534	100.0%	\$ 20.72

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

⁽²⁾ At the Company's ownership interest, excluding MMUR.

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

Loans, Mortgages and Other Assets

As at	March 31, 2018	December 31, 2017
Non-current		
Loans and mortgages receivable classified as FVTPL (a)	\$ 47,243	\$ —
Loans and mortgages receivable classified as amortized cost (a)	22,022	130,576
Investment in limited partnership	6,129	2,587
Total non-current	\$ 75,394	\$ 133,163
Current		
Loans and mortgages receivable classified as FVTPL (a)	\$ 64,374	\$ —
Loans and mortgages receivable classified as amortized cost (a)	104,712	125,265
FVTPL investments in securities (b)	93,595	21,720
Total current	\$ 262,681	\$ 146,985
Total	\$ 338,075	\$ 280,148

- (a) Loans and mortgages receivable are primarily secured by interests in investment properties or shares of entities owning investment properties. Effective January 1, 2018, the Company reclassified certain loans and mortgages receivable to FVTPL from amortized cost upon adoption of IFRS 9.
- (b) From time to time, the Company invests in publicly traded real estate and related securities. These securities are recorded at market value. Realized and unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses).

RESULTS OF OPERATIONS

Net Operating Income

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

	Three months ended March 31		
	% change	2018	2017
Property rental revenue			
Base rent		\$ 97,162	\$ 94,936
Operating cost recoveries		23,225	23,191
Realty tax recoveries		30,823	29,707
Lease surrender fees		751	201
Percentage rent		501	339
Prior year operating cost and tax recovery adjustments		(1,961)	(573)
Temporary tenants, storage, parking and other		2,424	2,860
Total Same Property rental revenue		152,925	150,661
Property operating costs			
Recoverable operating expenses		25,801	25,334
Recoverable realty tax expense		33,459	31,975
Prior year realty tax expense		(2,691)	(743)
Other operating costs and adjustments		219	404
Total Same Property operating costs		56,788	56,970
Total Same Property NOI ⁽¹⁾	2.6%	\$ 96,137	\$ 93,691
Major redevelopment		10,317	10,041
Ground-up development		758	458
Acquisitions – 2018		51	—
Acquisitions – 2017		1,092	—
Investment properties classified as held for sale		732	984
Dispositions – 2018		86	131
Dispositions – 2017		—	918
Straight-line rent adjustment		2,462	653
Development land		7	8
NOI ⁽¹⁾	4.5%	\$ 111,642	\$ 106,884
NOI margin		61.8%	61.1%

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

For the three months ended March 31, 2018, total NOI increased by \$4.8 million primarily due to SP NOI growth of \$2.4 million, and an increase in straight-line rent of \$1.8 million due to an increase in the number of tenants in fixturing over the same prior year period. The increased number of tenants in fixturing was due to a higher occupancy rate and recent development completions. NOI margins have increased by 0.7%, for the three months ended March 31, 2018 compared to the same prior year period primarily due to higher base rent and straight-line rent.

Same Property NOI Growth

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

	Three months ended March 31	
	2018	2017 ⁽¹⁾
Same Property – Stable	2.7%	1.8%
Same Property with redevelopment	2.0%	8.8%
Total Same Property NOI Growth	2.6%	2.4%

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

For the three months ended March 31, 2018, SP NOI increased 2.6% or \$2.4 million, primarily due to rent escalations and increased occupancy.

NOI by Region

NOI is presented by region as follows:

Three months ended March 31, 2018	Central Region	Eastern Region	Western Region	Other ⁽¹⁾	Total
Property rental revenue	\$ 73,567	\$ 49,011	\$ 58,867	\$ (660)	\$ 180,785
Property operating costs	27,645	22,307	20,229	(1,038)	69,143
NOI	\$ 45,922	\$ 26,704	\$ 38,638	\$ 378	\$ 111,642

Three months ended March 31, 2017	Central Region	Eastern Region	Western Region	Other ⁽¹⁾	Total
Property rental revenue	\$ 72,302	\$ 45,921	\$ 57,403	\$ (773)	\$ 174,853
Property operating costs	28,057	21,378	19,500	(966)	67,969
NOI	\$ 44,245	\$ 24,543	\$ 37,903	\$ 193	\$ 106,884

⁽¹⁾ Other items principally consist of intercompany eliminations.

Interest and Other Income

For the three months ended March 31, 2018, the Company's interest and other income totaled \$6.3 million, compared to \$6.0 million, for the same prior year period. The increase of \$0.3 million over prior year was primarily due to higher fee income earned from joint venture partners.

Interest Expense

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

	Three months ended March 31	
	2018	2017
Mortgages	\$ 10,947	\$ 11,540
Credit facilities	4,505	2,725
Senior unsecured debentures	28,278	27,794
Convertible debentures	446	2,021
Interest capitalized	(6,735)	(5,097)
Interest expense	\$ 37,441	\$ 38,983

For the three months ended March 31, 2018, interest expense decreased by \$1.5 million primarily due to the early redemption of higher rate convertible debentures.

During the three months ended March 31, 2018 and 2017, approximately 15.2% or \$6.7 million, and 11.6% or \$5.1 million, respectively, of interest expense was capitalized to real estate investments for properties undergoing development or redevelopment projects. The increase in capitalized interest of \$1.6 million is due to additional development projects having commenced since the first quarter of 2017, including 102-108 Yorkville and the development at 1 Bloor East. Amounts capitalized are dependent on interest expense paid, on the phase and magnitude of development and redevelopment projects actively underway as well as the portfolio weighted average interest rate.

Corporate Expenses

The Company's corporate expenses is as follows:

	Three months ended March 31	
	2018	2017
Salaries, wages and benefits	\$ 7,511	\$ 7,140
Non-cash compensation	1,124	931
Other corporate costs	3,603	2,780
Total corporate expenses	12,238	10,851
Amounts capitalized to investment properties under development	(2,023)	(1,587)
Corporate expenses	\$ 10,215	\$ 9,264

For the three months ended March 31, 2018, corporate expenses increased by \$1.0 million to \$10.2 million compared to the same prior year period primarily due to higher other corporate costs related to legal and professional fees.

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, 2018 and 2017, approximately 16.5% or \$2.0 million and 14.6% or \$1.6 million, respectively, of compensation-related and other corporate expenses were capitalized to real estate investments for properties undergoing development or redevelopment projects. Amounts capitalized are based on development and pre-development projects underway, and have increased due to a greater number of development projects having commenced over the prior year.

Other Gains (Losses) and (Expenses)

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

Three months ended March 31	2018		2017	
	Consolidated Statement of Income	Included in FFO	Consolidated Statement of Income	Included in FFO
Unrealized gain (loss) on marketable securities	\$ 1,603	\$ 1,603	\$ 299	\$ 299
Net gain (loss) on prepayments of debt (non-cash)	(726)	(726)	(2,333)	(2,333)
Investment properties selling costs	(475)	—	(502)	—
Other	(49)	(49)	(27)	(27)
Total	\$ 353	\$ 828	\$ (2,563)	\$ (2,061)

For the three months ended March 31, 2018, the Company recognized \$0.4 million in other gains in its consolidated statement of income compared to \$2.6 million in other losses and expenses in the same prior year period. The gain for the three months ended March 31, 2018 compared to the \$2.6 million loss in the same prior year period was primarily due to lower non-cash losses of \$1.6 million on the early redemption of the Series E and F convertible debentures in 2017 compared to the early redemption of the Series J convertible debenture in 2018, as well as higher unrealized gains on marketable securities of \$1.3 million.

Income Taxes

For the three months ended March 31, 2018, deferred income tax expense totaled \$18.0 million, compared to \$37.0 million for the same prior year period. The decrease of \$19.1 million over the prior year is primarily due to a lower tax expense on a smaller fair value gain on investment properties over the prior year.

Net Income Attributable to Common Shareholders

For the three months ended March 31, 2018, net income attributable to common shareholders was \$65.9 million or \$0.27 per diluted share compared to \$203.7 million or \$0.82 per diluted share for the same prior year period. The \$137.7 million decrease in net income attributable to common shareholders was primarily due to lower fair value gains of \$166.8 million offset by lower deferred taxes of \$19.1 million.

CAPITAL STRUCTURE AND LIQUIDITY

Total Capital Employed

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

As at	March 31, 2018	December 31, 2017
Liabilities (principal amounts outstanding)		
Bank indebtedness	\$ 13,636	\$ 3,144
Mortgages	1,032,118	1,060,342
Credit facilities	662,770	581,627
Mortgages under equity accounted joint ventures (at the Company's proportionate interest) ⁽¹⁾	41,763	41,987
Credit facilities under equity accounted joint venture (at the Company's proportionate interest) ⁽¹⁾	33,592	72,830
Senior unsecured debentures	2,600,000	2,600,000
Convertible debentures	—	55,093
Equity capitalization ⁽²⁾		
Common shares (based on closing per share price of \$20.35; December 31, 2017 – \$20.72)	4,982,119	5,064,612
Enterprise value ⁽¹⁾	\$ 9,365,998	\$ 9,479,635

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

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

Key Metrics

The ratios below include measures not specifically defined in IFRS.

As at	March 31, 2018	December 31, 2017
Weighted average effective interest rate on mortgages and senior unsecured debentures	4.3%	4.4%
Weighted average maturity on mortgages and senior unsecured debentures (years)	5.4	5.4
Net debt to total assets ⁽¹⁾	43.6%	43.4%
Net debt to Adjusted EBITDA ⁽¹⁾	9.7	9.7
Unencumbered aggregate assets ⁽¹⁾	\$ 7,347,418	\$ 7,374,086
Unencumbered aggregate assets to unsecured debt, based on fair value ⁽¹⁾	2.3	2.4
Adjusted EBITDA interest coverage ⁽¹⁾	2.5	2.5

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

Credit Ratings

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

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

Outstanding Debt and Principal Maturity Profile

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

	Mortgages	Credit Facilities/Bank Indebtedness	Senior Unsecured Debentures	Total	% Due
2018 (remainder of the year)	\$ 55,305	\$ 7,500	\$ 150,000	\$ 212,805	4.9%
2019	131,333	88,400	150,000	369,733	8.6%
2020	90,318	200,179	175,000	465,497	10.8%
2021	94,980	—	175,000	269,980	6.3%
2022	164,972	380,327	450,000	995,299	23.1%
2023	15,275	—	300,000	315,275	7.3%
2024	76,126	—	300,000	376,126	8.7%
2025	68,283	—	300,000	368,283	8.6%
2026	155,607	—	300,000	455,607	10.6%
2027	83,473	—	300,000	383,473	8.9%
2028	96,446	—	—	96,446	2.2%
	1,032,118	676,406	2,600,000	4,308,524	100.0%
Add (deduct): unamortized deferred financing costs, premiums and discounts, net	(156)	—	(3,693)	(3,849)	
Total	\$ 1,031,962	\$ 676,406	\$ 2,596,307	\$ 4,304,675	

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 support 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, 2018 are set out below:

Three months ended March 31, 2018	Amount	Weighted Average Effective Interest Rate
Balance at beginning of period	\$ 1,060,339	4.3%
Mortgage borrowings	68,000	3.7%
Mortgage repayments	(89,192)	5.5%
Scheduled amortization on mortgages	(7,038)	—%
Amortization of financing costs and net premium	(147)	—%
Balance at end of period	\$ 1,031,962	4.1%

As at March 31, 2018, 100% (December 31, 2017 – 100%) of the outstanding mortgages bore interest at fixed interest rates. The average remaining term of mortgages outstanding increased from 4.7 years as at December 31, 2017 on \$1.1 billion of mortgages to 5.2 years as at March 31, 2018 on \$1.0 billion of mortgages after reflecting borrowing activity and repayments during the period.

Mortgage Maturity Profile

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

As at March 31, 2018	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2018 (remainder of the year)	\$ 20,079	\$ 35,226	\$ 55,305	5.4%
2019	24,619	106,714	131,333	6.5%
2020	22,425	67,893	90,318	4.4%
2021	21,583	73,397	94,980	4.6%
2022	17,017	147,955	164,972	3.9%
2023	15,275	—	15,275	N/A
2024	14,857	61,269	76,126	4.0%
2025	12,389	55,894	68,283	3.5%
2026	7,548	148,059	155,607	3.2%
2027	3,609	79,864	83,473	3.6%
2028	645	95,801	96,446	3.7%
	\$ 160,046	\$ 872,072	\$ 1,032,118	4.1%
Add: unamortized deferred financing costs and premiums and discounts, net			(156)	
Total			\$ 1,031,962	

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, 2018, the Company had drawn CAD\$25.0 million and US \$420.3 million, as well as CAD\$13.6 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 entered into a new borrowing tranche under an existing credit facility with a borrowing capacity of CAD\$50 million, key terms of which are presented in the table below.

The Company also extended the maturity of its \$15.9 million secured facility to March 31, 2019 on substantially the same terms.

MANAGEMENT'S DISCUSSION AND ANALYSIS – continued

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

As at March 31, 2018	Borrowing Capacity	Amounts Drawn	Bank Indebtedness and Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Unsecured operating facilities						
Revolving facility maturing 2022 ⁽¹⁾	\$ 800,000	\$ (366,691)	\$ (32,635)	\$ 400,674	BA + 1.20% or Prime + 0.20% or US\$ LIBOR + 1.20%	June 30, 2022
Non-revolving facility maturing 2020 ⁽²⁾	150,000	(149,893)	(14,990)	—	BA + 1.20% or Prime + 0.20% or US\$ LIBOR + 1.20%	October 31, 2020
Additional Tranche ⁽³⁾	50,000	(50,286)	—	—	BA + 1.10% or Prime + 0.10% or US\$ LIBOR + 1.20%	October 31, 2020
Secured construction facilities						
Maturing 2019	115,000	(60,953)	(668)	53,379	BA + 1.125% or Prime + 0.125%	February 13, 2019
Maturing 2019	15,907	(15,572)	—	335	BA + 1.125% or Prime + 0.125%	March 31, 2019
Credit facilities under equity accounted joint ventures	44,084	(33,592)	—	10,492	Between Prime - 0.15% and Prime + 1.5%	Between December 2018 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	\$ 1,194,366	\$ (696,362)	\$ (48,293)	\$ 464,880		

⁽¹⁾ The Company had drawn in U.S. dollars the equivalent of CAD\$336.1 million which was revalued at CAD\$341.7 million, in addition to CAD\$25.0 million drawn as at March 31, 2018.

⁽²⁾ The Company had drawn in U.S. dollars the equivalent of CAD\$150.0 million which was revalued at CAD\$149.9 million as at March 31, 2018.

⁽³⁾ The Company had drawn in U.S. dollars the equivalent of CAD\$50.0 million which was revalued at CAD\$50.3 million as at March 31, 2018.

Senior Unsecured Debentures

As at March 31, 2018			Interest Rate		Remaining Term to Maturity	Principal Outstanding
Series	Maturity Date	Interest Payment Dates	Coupon	Effective	(years)	
J	August 30, 2018	February 28, August 30	5.25%	5.66%	0.4	\$ 50,000
K	November 30, 2018	May 31, November 30	4.95%	5.17%	0.7	100,000
L	July 30, 2019	January 30, July 30	5.48%	5.61%	1.3	150,000
M	April 30, 2020	April 30, October 30	5.60%	5.60%	2.1	175,000
N	March 1, 2021	March 1, September 1	4.50%	4.63%	2.9	175,000
O	January 31, 2022	January 31, July 31	4.43%	4.59%	3.8	200,000
P	December 5, 2022	June 5, December 5	3.95%	4.18%	4.7	250,000
Q	October 30, 2023	April 30, October 30	3.90%	3.97%	5.6	300,000
R	August 30, 2024	August 30, February 28	4.79%	4.72%	6.4	300,000
S	July 31, 2025	January 31, July 31	4.32%	4.24%	7.3	300,000
T	May 6, 2026	November 5, May 5	3.60%	3.56%	8.1	300,000
U	July 12, 2027	January 12, July 12	3.75%	3.82%	9.3	300,000
Weighted Average or Total			4.36%	4.42%	5.4	\$ 2,600,000

Convertible Debentures

(i) Interest

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

During the three months ended March 31, 2018, the Company paid \$1.0 million (three months ended March 31, 2017 – \$1.9 million) in cash to pay accrued interest to holders of convertible debentures.

(ii) Principal Redemption

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

Shareholders' Equity

Shareholders' equity amounted to \$4.7 billion as at March 31, 2018, compared to \$4.6 billion as at December 31, 2017. During the three months ended March 31, 2018, a total of 0.4 million common shares were issued from the exercise of common share options and settlement of restricted, and deferred share units.

As at May 7, 2018, there were 244.8 million common shares outstanding.

Share Purchase Options

As at March 31, 2018, the Company had 4.9 million share purchase options outstanding, with an average exercise price of \$19.22, which, if exercised, would result in the Company receiving proceeds of \$94.9 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, 2018	December 31, 2017
Total available under credit facilities	\$ 465	\$ 504
Cash and cash equivalents	\$ 13	\$ 12
Unencumbered aggregate assets	\$ 7,347	\$ 7,374

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

Planned and completed financings subsequent to March 31, 2018, and availability on existing credit facilities, address substantially all of the contractual 2018 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	
	2018	2017
Cash provided by operating activities	\$ 45,479	\$ 45,970
Cash provided by financing activities	(64,748)	5,119
Cash used in investing activities	10,689	(38,561)
Net change in cash and cash equivalents	\$ (8,580)	\$ 12,528

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

	Three months ended March 31	
	2018	2017
Cash provided by operating activities	\$ 45,479	\$ 45,970
Dividends declared	(52,787)	(52,473)
Excess (shortfall) of cash provided by operating activities over dividends declared	(7,308)	(6,503)

For the three months ended March 31, 2018 and 2017, dividends declared exceeded cash flows provided by operating activities by \$7.3 million and \$6.5 million, respectively, representing a return of capital. This shortfall was financed through the use of existing debt and proceeds from investing activities. During the first quarter of 2018 and 2017, substantial interim realty tax bills were received and paid which gave rise to the shortfall presented above.

Management does not believe that a shortfall in any given quarter is indicative of the Company's sustainable cash flows due to the impact of seasonal fluctuations in its cash flows period over period. Please refer to Management's discussion on ACFO, a supplemental non-IFRS financial measure used to evaluate and monitor the Company's sustainable cash available to pay dividends to shareholders.

Contractual Obligations

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

As at March 31, 2018	Payments due by period				
	Remainder of 2018	2019 to 2020	2021 to 2022	Thereafter	Total
Scheduled mortgage principal amortization	\$ 20,079	\$ 47,044	\$ 38,600	\$ 54,323	\$ 160,046
Mortgage principal repayments on maturity	35,226	174,607	221,352	440,887	872,072
Credit facilities and bank indebtedness	7,500	288,579	380,327	—	676,406
Senior unsecured debentures	150,000	325,000	625,000	1,500,000	2,600,000
Interest obligations ⁽¹⁾	131,463	293,750	197,086	212,143	834,442
Land leases (expiring between 2023 and 2061)	873	2,024	1,942	19,000	23,839
Contractually committed costs to complete current development projects	60,036	391	—	—	60,427
Other committed costs	31,155	—	—	—	31,155
Total contractual obligations	\$ 436,332	\$ 1,131,395	\$ 1,464,307	\$ 2,226,353	\$ 5,258,387

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

The Company has \$34.8 million of outstanding letters of credit issued by financial institutions to support certain of the Company's contractual obligations and \$13.6 million of bank overdrafts.

The Company's estimated cost to complete properties currently under development is \$132.7 million, of which \$60.4 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 \$119.9 million (December 31, 2017 – \$119.1 million) to various lenders in connection with certain obligations, including loans advanced to its partners secured by the partners' interest in the entity and underlying assets.

NON-IFRS RECONCILIATIONS AND FINANCIAL MEASURES

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

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

As at	March 31, 2018			December 31, 2017		
	Consolidated Balance Sheet ⁽¹⁾	Adjustments for Proportionate Interest	Proportionate Interest ⁽²⁾	Consolidated Balance Sheet ⁽¹⁾	Adjustments for Proportionate Interest	Proportionate Interest ⁽²⁾
ASSETS						
Investment properties – shopping centres	\$ 9,256,948	\$ 80,775	\$ 9,337,723	\$ 9,226,206	\$ 78,775	\$ 9,304,981
Investment properties – development land	57,541	29,010	86,551	72,041	27,240	99,281
Residential development inventory	5,483	11,307	16,790	5,483	10,219	15,702
Loans, mortgages and other assets	338,075	2,956	341,031	280,148	2,849	282,997
Cash and cash equivalents	13,419	954	14,373	11,507	1,753	13,260
Amounts receivable	34,082	214	34,296	25,437	376	25,813
Other assets	70,144	1,486	71,630	47,387	1,570	48,957
Investment in joint ventures	104,288	(104,288)	—	202,231	(202,231)	—
Investment properties classified as held for sale	100,287	38,138	138,425	98,112	150,107	248,219
Total assets	\$ 9,980,267	\$ 60,552	\$ 10,040,819	\$ 9,968,552	\$ 70,658	\$ 10,039,210
LIABILITIES						
Mortgages	\$ 1,031,962	\$ 41,628	\$ 1,073,590	\$ 1,053,260	\$ 41,772	\$ 1,095,032
Credit facilities	662,770	13,403	676,173	581,627	12,195	593,822
Bank indebtedness	13,636	—	13,636	3,144	—	3,144
Senior unsecured debentures	2,596,307	—	2,596,307	2,595,966	—	2,595,966
Convertible debentures	—	—	—	54,293	—	54,293
Deferred tax liabilities	738,614	—	738,614	720,431	—	720,431
Debt secured by investment properties held for sale	—	20,191	20,191	7,079	60,635	67,714
Accounts payable and other liabilities	247,490	4,941	252,431	257,068	4,669	261,737
Total liabilities	5,290,779	80,163	5,370,942	5,272,868	119,271	5,392,139
EQUITY						
Shareholders' equity	4,669,877	—	4,669,877	4,647,071	—	4,647,071
Non-controlling interest	19,611	(19,611)	—	48,613	(48,613)	—
Total equity	4,689,488	(19,611)	4,669,877	4,695,684	(48,613)	4,647,071
Total liabilities and equity	\$ 9,980,267	\$ 60,552	\$ 10,040,819	\$ 9,968,552	\$ 70,658	\$ 10,039,210

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

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

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

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

Three months ended March 31	2018						2017
	Consolidated Statements of Income	Adjustment for proportionate interest	Proportionate interest ⁽¹⁾	Consolidated Statements of Income	Adjustment for proportionate interest	Proportionate interest ⁽¹⁾	
Property rental revenue	\$ 180,785	\$ 2,531	\$ 183,316	\$ 174,853	\$ 2,078	\$ 176,931	
Property operating costs	69,143	1,052	70,195	67,969	842	68,811	
Net operating income	111,642	1,479	113,121	106,884	1,236	108,120	
Other income and expenses							
Interest and other income	6,332	(36)	6,296	6,037	562	6,599	
Interest expense	(37,441)	(735)	(38,176)	(38,983)	(582)	(39,565)	
Corporate expenses	(10,215)	374	(9,841)	(9,264)	320	(8,944)	
Abandoned transaction costs	(59)	(1)	(60)	(24)	(10)	(34)	
Amortization expense	(533)	—	(533)	(470)	—	(470)	
Share of profit from joint ventures	3,634	(3,634)	—	2,246	(2,246)	—	
Other gains (losses) and (expenses)	353	(1,067)	(714)	(2,563)	—	(2,563)	
Increase (decrease) in value of investment properties, net	10,439	3,368	13,807	177,234	335	177,569	
	(27,490)	(1,731)	(29,221)	134,213	(1,621)	132,592	
Income before income taxes	84,152	(252)	83,900	241,097	(385)	240,712	
Deferred income taxes	17,956	—	17,956	37,041	—	37,041	
Net income	\$ 66,196	\$ (252)	\$ 65,944	\$ 204,056	\$ (385)	\$ 203,671	
Net income attributable to:							
Common shareholders	\$ 65,944	\$ —	\$ 65,944	\$ 203,671	\$ —	\$ 203,671	
Non-controlling interest	252	(252)	—	385	(385)	—	
	\$ 66,196	\$ (252)	\$ 65,944	\$ 204,056	\$ (385)	\$ 203,671	
Net income per share attributable to common shareholders:							
Basic	\$ 0.27			\$ 0.83			
Diluted	\$ 0.27			\$ 0.82			

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

FFO and ACFO

Funds from Operations

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

	Three months ended March 31	
	2018	2017
Net income attributable to common shareholders	\$ 65,944	\$ 203,671
Add (deduct):		
(Increase) decrease in value of investment properties ⁽¹⁾	(13,807)	(177,569)
Incremental leasing costs ⁽²⁾	1,640	1,780
Investment properties selling costs ⁽¹⁾	1,542	502
Adjustment for equity accounted joint ventures ⁽³⁾	658	1,200
Deferred income taxes ⁽¹⁾	17,956	37,041
FFO ⁽⁴⁾	\$ 73,933	\$ 66,625

⁽¹⁾ At the Company's proportionate interest.

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

⁽³⁾ Adjustment to capitalize interest related to the Company's equity accounted joint ventures in accordance with the recommendations of REALPAC.

⁽⁴⁾ Refer to the "Non-IFRS Financial Measures" section of this MD&A.

The components of FFO at proportionate interest are as follows:

	% change	Three months ended March 31	
		2018	2017
Net operating income		\$ 113,121	\$ 108,120
Interest and other income		6,296	6,599
Interest expense ⁽¹⁾		(37,518)	(38,365)
Corporate expenses ⁽²⁾		(8,201)	(7,164)
Abandoned transaction costs		(60)	(34)
Amortization expense		(533)	(470)
Other gains (losses) and (expenses) ⁽³⁾		828	(2,061)
FFO ⁽⁴⁾	11.0%	\$ 73,933	\$ 66,625
FFO per diluted share	10.7%	\$ 0.30	\$ 0.27
Weighted average number of common shares – diluted – FFO (in thousands)	0.4%	245,717	244,820

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

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

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

⁽⁴⁾ Refer to the "Non-IFRS Financial Measures" section of this MD&A.

For the three months ended March 31, 2018, FFO totaled \$73.9 million or \$0.30 per diluted share compared to \$66.6 million or \$0.27 per diluted share for the same prior year period. The \$7.3 million increase in FFO was due to NOI increasing by \$5.0 million primarily due to growth in SP NOI and an increase in straight-line rent due to a greater number of tenants in fixturing over the prior year, lower interest expense of \$0.8 million, and a year over year decrease of \$1.6 million in non-cash losses on the early redemptions of the Company's convertible debentures.

Adjusted Cash Flow from Operations

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

	Three months ended March 31	
	2018	2017
Cash provided by operating activities	\$ 45,479	\$ 45,970
Add (deduct):		
Working capital adjustments ⁽¹⁾	7,146	4,212
Adjustment for equity accounted joint ventures	1,101	1,974
Revenue sustaining capital expenditures	(3,333)	(2,893)
Recoverable capital expenditures	(471)	(136)
Leasing costs on properties under development	410	445
Non-controlling interest	(30)	108
ACFO ⁽²⁾	\$ 50,302	\$ 49,680

⁽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, 2018, ACFO totaled \$50.3 million compared to \$49.7 million for the same prior year period. The increase in ACFO was primarily due to higher NOI and higher interest and other income, partially offset by higher corporate expenses and higher capital expenditures compared to same prior year period.

ACFO Payout Ratio

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

	Twelve months ended March 31, 2018		Q1 2018	Q4 2017	Q3 2017	Q2 2017
ACFO ⁽¹⁾	\$	244,265	\$ 50,302	\$ 63,001	\$ 72,221	\$ 58,741
Cash dividends paid		209,843	52,553	52,452	52,443	52,395
ACFO payout ratio ⁽¹⁾		85.9%				

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

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

	Twelve months ended March 31, 2017		Q1 2017	Q4 2016	Q3 2016	Q2 2016
ACFO ⁽¹⁾	\$	234,419	\$ 49,680	\$ 53,470	\$ 67,507	\$ 63,762
Cash dividends paid		203,628	52,330	52,214	50,554	48,530
ACFO payout ratio ⁽¹⁾		86.9%				

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

The Company considers a rolling four quarter payout ratio (cash dividends / ACFO) to be more relevant than a payout ratio in any given quarter due to seasonal fluctuations in ACFO. For the four quarters ended March 31, 2018, the ACFO payout ratio was 85.9% (March 31, 2017 – 86.9%).

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)	2018		2017	
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.

		Three months ended March 31									
(millions of dollars)		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
		FCR ⁽¹⁾		Guarantors ⁽²⁾		Non-Guarantors ⁽³⁾		Consolidation Adjustments ⁽⁴⁾		Total Consolidated	
Property rental revenue	\$	76	\$ 74	\$ 105	\$ 102	\$ 2	\$ 1	\$ (2)	\$ (2)	\$ 181	\$ 175
NOI ⁽⁵⁾		50	48	62	59	1	1	(1)	(1)	112	107
Net income attributable to common shareholders		66	204	52	162	3	2	(55)	(164)	66	204

		As at March 31, 2018					
(millions of dollars)		FCR ⁽¹⁾	Guarantors ⁽²⁾	Non-Guarantors ⁽³⁾	Consolidation Adjustments ⁽⁴⁾	Total Consolidated	
Current assets	\$	316	\$ 157	\$ 74	\$ (96)	\$ 451	
Non-current assets		9,019	4,861	45	(4,396)	9,529	
Current liabilities		401	143	6	7	557	
Non-current liabilities		4,244	526	47	(83)	4,734	

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company, and, as of March 31, 2018, beneficially owned 32.5% (December 31, 2017 – 32.6%) of the common shares of the Company. Norstar Holdings Inc. is the ultimate controlling party of Gazit.

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

Joint Ventures

During the three months ended March 31, 2018, the Company earned fee income of \$0.7 million (March 31, 2017 – \$0.5 million), from its joint ventures. Also during the three months ended March 31, 2018, the Company advanced \$0.7 million (March 31, 2017 – \$nil) to one of its joint ventures.

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 18, 2018 to shareholders of record on June 29, 2018.

QUARTERLY FINANCIAL INFORMATION

	2018	2017				2016		
(share counts in thousands)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Property rental revenue	\$ 180,785	\$ 177,206	\$ 170,670	\$ 171,729	\$ 174,853	\$ 172,731	\$ 167,877	\$ 167,576
Net operating income ⁽¹⁾	\$ 111,642	\$ 111,337	\$ 110,610	\$ 108,678	\$ 106,884	\$ 106,306	\$ 107,612	\$ 105,083
Net income attributable to common shareholders	\$ 65,944	\$ 74,833	\$ 83,046	\$ 271,539	\$ 203,671	\$ 57,739	\$ 88,464	\$ 169,556
Net income per share attributable to common shareholders:								
Basic	\$ 0.27	\$ 0.31	\$ 0.34	\$ 1.11	\$ 0.83	\$ 0.24	\$ 0.37	\$ 0.73
Diluted	\$ 0.27	\$ 0.30	\$ 0.34	\$ 1.09	\$ 0.82	\$ 0.24	\$ 0.36	\$ 0.71
Weighted average number of diluted common shares outstanding – IFRS	247,044	248,266	248,626	250,516	250,232	252,602	250,596	243,235
FFO ⁽¹⁾	\$ 73,933	\$ 73,185	\$ 73,720	\$ 70,580	\$ 66,625	\$ 66,824	\$ 67,451	\$ 66,368
FFO per diluted share ⁽¹⁾	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.29	\$ 0.27	\$ 0.27	\$ 0.28	\$ 0.29
Weighted average number of diluted common shares outstanding – FFO	245,717	245,422	245,137	245,186	244,820	244,554	240,708	233,014
Cash provided by operating activities	\$ 45,479	\$ 107,364	\$ 85,956	\$ 30,867	\$ 45,970	\$ 96,950	\$ 68,607	\$ 42,704
ACFO ⁽¹⁾	\$ 50,302	\$ 63,001	\$ 72,221	\$ 58,741	\$ 49,680	\$ 53,470	\$ 67,507	\$ 63,762
Dividend per common share	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215	\$ 0.215
Total assets	\$ 9,980,267	\$ 9,968,552	\$ 9,861,267	\$ 9,688,357	\$ 9,334,216	\$ 9,104,553	\$ 9,068,841	\$ 8,690,655
Total mortgages and credit facilities	\$ 1,694,732	\$ 1,641,966	\$ 1,456,226	\$ 1,609,827	\$ 1,527,179	\$ 1,248,646	\$ 1,277,697	\$ 1,272,977
Shareholders' equity	\$ 4,669,877	\$ 4,647,071	\$ 4,618,170	\$ 4,577,648	\$ 4,352,882	\$ 4,195,263	\$ 4,171,426	\$ 3,961,179
Other								
Number of properties	161	161	159	160	160	160	159	161
GLA - at 100% (in thousands)	25,267	25,390	25,168	25,217	25,215	25,278	25,137	25,238
GLA - at ownership interest (in thousands)	23,648	23,991	23,751	23,798	23,791	23,820	23,721	23,911
Monthly average occupancy %	96.0%	95.4%	95.0%	94.8%	94.6%	94.9%	95.0%	95.0%
Total portfolio occupancy %	96.2%	96.1%	95.3%	95.0%	94.5%	94.9%	94.9%	95.1%

⁽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, 2018 and 2017 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 2017 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 impact of new accounting standards discussed in Note 3 of the unaudited interim condensed consolidated financial statements, Management determined that as at March 31, 2018, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the Company's 2017 Annual Report.

ACCOUNTING POLICY CHANGES

Refer to Note 3 of the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2018 for details on the impact of accounting policy changes related to the adoption of new and amended IFRS pronouncements, as well as future accounting changes.

CONTROLS AND PROCEDURES

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

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

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

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

RISKS AND UNCERTAINTIES

First Capital Realty, as an owner of income-producing properties and development properties, is exposed to numerous business risks in the normal course of its business that can impact both short- and long-term performance. Income-producing and development properties are affected by general economic conditions and local market conditions such as oversupply of similar properties or a reduction in tenant demand. It is the responsibility of Management, under the supervision of the Board of Directors, to identify and, to the extent possible, mitigate or minimize the impact of all such business risks. The major categories of risk the Company encounters in conducting its business and some of the actions it takes to mitigate these risks are in the Company's 2017 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.



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Interim Condensed Consolidated Balance Sheets

As at (thousands of dollars)	Note	March 31, 2018 (unaudited)	December 31, 2017 (audited)
ASSETS			
Non-current Assets			
Real Estate Investments			
Investment properties – shopping centres	4	\$ 9,256,948	\$ 9,226,206
Investment properties – development land	4	57,541	72,041
Investment in joint ventures		104,288	202,231
Loans, mortgages and other assets	5	75,394	133,163
Total real estate investments		9,494,171	9,633,641
Other non-current assets	7	34,669	32,008
Total non-current assets		9,528,840	9,665,649
Current Assets			
Cash and cash equivalents	24(d)	13,419	11,507
Loans, mortgages and other assets	5	262,681	146,985
Residential development inventory		5,483	5,483
Amounts receivable	6	34,082	25,437
Other assets	7	35,475	15,379
		351,140	204,791
Investment properties classified as held for sale	4(d)	100,287	98,112
Total current assets		451,427	302,903
Total assets		\$ 9,980,267	\$ 9,968,552
LIABILITIES			
Non-current Liabilities			
Mortgages	9	\$ 952,073	\$ 903,807
Credit facilities	9	578,745	558,555
Senior unsecured debentures	10	2,446,531	2,446,291
Convertible debentures	11	—	54,293
Other liabilities	12	17,717	16,914
Deferred tax liabilities	19	738,614	720,431
Total non-current liabilities		4,733,680	4,700,291
Current Liabilities			
Bank indebtedness	24(d)	13,636	3,144
Mortgages	9	79,889	149,453
Credit facilities	9	84,025	23,072
Senior unsecured debentures	10	149,776	149,675
Accounts payable and other liabilities	12	229,773	240,154
		557,099	565,498
Mortgages on investment properties classified as held for sale	4(d), 9	—	7,079
Total current liabilities		557,099	572,577
Total liabilities		5,290,779	5,272,868
EQUITY			
Shareholders' equity	13	4,669,877	4,647,071
Non-controlling interest	23	19,611	48,613
Total equity		4,689,488	4,695,684
Total liabilities and equity		\$ 9,980,267	\$ 9,968,552

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

<i>(unaudited)</i>		Three months ended March 31	
<i>(thousands of dollars, except per share amounts)</i>	Note	2018	2017
Property rental revenue	\$	180,785	\$ 174,853
Property operating costs		69,143	67,969
Net operating income	14	111,642	106,884
Other income and expenses			
Interest and other income	15	6,332	6,037
Interest expense	16	(37,441)	(38,983)
Corporate expenses	17	(10,215)	(9,264)
Abandoned transaction costs		(59)	(24)
Amortization expense		(533)	(470)
Share of profit from joint ventures		3,634	2,246
Other gains (losses) and (expenses)	18	353	(2,563)
Increase (decrease) in value of investment properties, net	4	10,439	177,234
		(27,490)	134,213
Income before income taxes		84,152	241,097
Deferred income taxes	19	17,956	37,041
Net income	\$	66,196	\$ 204,056
Net income attributable to:			
Common shareholders	\$	65,944	\$ 203,671
Non-controlling interest	23	252	385
	\$	66,196	\$ 204,056
Net income per share attributable to common shareholders:			
Basic	20	\$ 0.27	\$ 0.83
Diluted	20	\$ 0.27	\$ 0.82

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

Interim Condensed Consolidated Statements of Comprehensive Income

<i>(unaudited)</i>		Three months ended March 31	
<i>(thousands of dollars)</i>	Note	2018	2017
Net income		\$ 66,196	\$ 204,056
Other comprehensive income (loss)			
Unrealized gain (loss) on cash flow hedges ⁽¹⁾		2,411	(1,040)
Reclassification of net losses on cash flow hedges to net income		401	478
		2,812	(562)
Deferred tax expense (recovery)		748	(150)
Other comprehensive income (loss)		2,064	(412)
Comprehensive income		\$ 68,260	\$ 203,644
Comprehensive income attributable to:			
Common shareholders		\$ 68,008	\$ 203,259
Non-controlling interest	23	252	385
		\$ 68,260	\$ 203,644

⁽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

<i>(unaudited)</i> <i>(thousands of dollars)</i>	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital <i>(Note 13(a))</i>	Contributed Surplus and Other Equity Items <i>(Note 13(b))</i>	Total Shareholders' Equity	Non-Controlling Interest <i>(Note 23)</i>	Total Equity
December 31, 2017	\$ 1,445,519	\$ 40	\$ 3,159,542	\$ 41,970	\$ 4,647,071	\$ 48,613	\$ 4,695,684
Changes during the period:							
Net income	65,944	—	—	—	65,944	252	66,196
Dividends	(52,787)	—	—	—	(52,787)	—	(52,787)
Options, deferred share units, restricted share units, and performance share units, net	—	—	6,989	596	7,585	—	7,585
Other comprehensive gain (loss)	—	2,064	—	—	2,064	—	2,064
Contributions from (distributions to) non-controlling interest, net	—	—	—	—	—	(29,254)	(29,254)
March 31, 2018	\$ 1,458,676	\$ 2,104	\$ 3,166,531	\$ 42,566	\$ 4,669,877	\$ 19,611	\$ 4,689,488

<i>(unaudited)</i> <i>(thousands of dollars)</i>	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Share Capital	Contributed Surplus and Other Equity Items	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
December 31, 2016	\$ 1,022,863	\$ (11,698)	\$ 3,142,399	\$ 41,699	\$ 4,195,263	\$ 37,820	\$ 4,233,083
Changes during the 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
Redemption 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

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

Interim Condensed Consolidated Statements of Cash Flows

<i>(unaudited)</i>		Three months ended March 31	
<i>(thousands of dollars)</i>	Note	2018	2017
OPERATING ACTIVITIES			
Net income		\$ 66,196	\$ 204,056
Adjustments for:			
(Increase) decrease in value of investment properties, net	4	(10,439)	(177,234)
Interest expense	16	37,441	38,983
Amortization expense		533	470
Share of profit of joint ventures		(3,634)	(2,246)
Cash interest paid associated with operating activities	16	(41,944)	(41,579)
Items not affecting cash and other items	24(a)	15,833	39,889
Net change in non-cash operating items	24(b)	(18,507)	(16,369)
Cash provided by (used in) operating activities		45,479	45,970
FINANCING ACTIVITIES			
Mortgage borrowings, net of financing costs	9	67,900	103,419
Mortgage principal instalment payments	9	(6,991)	(6,935)
Mortgage repayments	9	(89,192)	(1,404)
Credit facilities, net advances (repayments)	9	64,972	190,374
Repayment of senior unsecured debentures	10	—	(125,000)
Settlement of hedges		(8)	—
Repayment of convertible debentures	11(b)	(55,092)	(106,136)
Repurchase of convertible debentures		—	(102)
Issuance of common shares, net of issue costs		6,216	3,233
Payment of dividends		(52,553)	(52,330)
Cash provided by (used in) financing activities		(64,748)	5,119
INVESTING ACTIVITIES			
Acquisition of shopping centres	4(c)	(16,140)	—
Acquisition of development land	4(c)	(1,794)	—
Net proceeds from property dispositions	4(d)	71,600	11,839
Distributions from joint ventures		102,684	1,522
Contributions to joint ventures		(1,107)	(576)
Net contributions from (distributions to) non-controlling interest		(29,254)	—
Capital expenditures on investment properties		(58,723)	(42,461)
Changes in investing-related prepaid expenses and other liabilities		(1,508)	(1,886)
Changes in loans, mortgages and other assets	24(c)	(55,069)	(6,999)
Cash provided by (used in) investing activities		10,689	(38,561)
Net increase in cash and cash equivalents (bank indebtedness)		(8,580)	12,528
Cash and cash equivalents (bank indebtedness), beginning of period		8,363	(3,697)
Cash and cash equivalents (bank indebtedness), end of period	24(d)	\$ (217)	\$ 8,831

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, 2017 and 2016.

(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, except for those described in Note 3 – "Adoption of New and Amended IFRS Pronouncements".

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 8, 2018.

3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

(a) IFRS Amendments

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

Financial instruments

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

Financial Assets

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

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

Allowance for Credit Losses

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

Recognition and Measurement

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

Hedge Accounting

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

Impact upon adoption of IFRS 9

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

The adoption of the standard did not have an impact on the carrying amount of the Company's financial assets or liabilities. Additional disclosures required upon adoption of the standard are included in Note 5 and 22. The table below summarizes the impact of IFRS 9 on the classification and measurement on the Company's financial assets and liabilities.

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

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

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

Revenue from contracts with customers

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

The majority of the Company's revenues are earned from lease contracts with tenants and are accounted for under IAS 17. Base rent, straight-line rent, realty tax recoveries, lease surrender fees and percentage rent are considered lease components and revenue recognition remains consistent with the accounting policies outlined in the most recent audited annual consolidated financial statements.

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

Impact upon adoption of IFRS 15

The Company has applied the new standard using the full retrospective method. Upon adoption, the pattern of revenue recognition remains unchanged, as noted above, and the impact to the interim condensed consolidated financial statements is limited to additional disclosure on the disaggregation of the Company's various revenue streams. Additional disclosures required upon adoption of the standard are included in Note 14.

Investment property

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

(b) Recent Accounting Pronouncements Not Yet Adopted

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

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 is currently assessing the impact of IFRS 16 to its consolidated financial statements. Based on a preliminary assessment of the standard, the Company does not expect this standard to have a significant impact on its consolidated financial statements as leases with tenants are expected to be accounted for as operating leases in the same manner they are currently being applied. The Company is expected to complete its evaluation by the third quarter of 2018.

Uncertainty over income tax treatments

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017 as a clarification to requirements under IAS 12 "Income Taxes". IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the process of assessing the impact of IFRIC 23 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, 2018 and year ended December 31, 2017:

Three months ended March 31, 2018						
	Central Region	Eastern Region	Western Region	Total	Shopping Centres	Development Land
Balance at beginning of period	\$ 4,263,757	\$ 1,980,077	\$ 3,152,525	\$ 9,396,359	\$ 9,317,306	\$ 79,053
Acquisitions	10,200	—	7,734	17,934	16,140	1,794
Capital expenditures	39,092	3,948	15,683	58,723	56,788	1,935
Increase (decrease) in value of investment properties, net	11,267	(3,812)	2,984	10,439	3,043	7,396
Straight-line rent and other changes	160	2,587	649	3,396	3,396	—
Dispositions	(66,000)	(6,075)	—	(72,075)	(72,075)	—
Balance at end of period	\$ 4,258,476	\$ 1,976,725	\$ 3,179,575	\$ 9,414,776	\$ 9,324,598	\$ 90,178
Investment properties					\$ 9,256,948	\$ 57,541
Investment properties classified as held for sale					67,650	32,637
Total					\$ 9,324,598	\$ 90,178

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

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

Investment properties with a fair value of \$2.5 billion (December 31, 2017 – \$2.6 billion) are pledged as security for \$1.7 billion in mortgages and credit facilities.

(b) Investment property valuation

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

As at	March 31, 2018				December 31, 2017			
	Weighted Average				Weighted Average			
(\$ millions)	Central Region	Eastern Region	Western Region	Total	Central Region	Eastern Region	Western Region	Total
Overall Capitalization Rate	5.0%	6.0%	5.2%	5.3%	5.1%	5.9%	5.2%	5.3%
Terminal Capitalization Rate	5.1%	6.0%	5.3%	5.4%	5.1%	6.0%	5.3%	5.4%
Discount Rate	5.7%	6.6%	5.8%	5.9%	5.8%	6.6%	5.8%	6.0%
Fair Value	\$ 4,188	\$ 1,970	\$ 3,167	\$ 9,325	\$ 4,204	\$ 1,973	\$ 3,140	\$ 9,317

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

As at March 31, 2018	(millions of dollars)
(Decrease) Increase in stabilized overall capitalization rate	Resulting increase (decrease) in fair value of shopping centres
(0.75%)	\$ 1,403
(0.50%)	\$ 886
(0.25%)	\$ 420
0.25%	\$ (385)
0.50%	\$ (735)
0.75%	\$ (1,057)

Additionally, a 1% increase or decrease in stabilized net operating income ("SNOI") would result in an \$84 million increase or a \$86 million decrease, respectively, in the fair value of shopping centres. SNOI is not a measure defined by IFRS. SNOI reflects stable property operations, assuming a certain level of vacancy, capital and operating expenditures required to maintain a stable occupancy rate. The average vacancy rates used in determining SNOI for non-anchor tenants generally range from 2% to 5%. A 1% increase in SNOI coupled with a 0.25% decrease in the stabilized capitalization rate would result in an increase in the fair value of shopping centres of \$510 million, and a 1% decrease in SNOI coupled with a 0.25% increase in the stabilized capitalization rate would result in a decrease in the fair value of shopping centres of \$466 million.

(c) Investment properties – Acquisitions

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

Three months ended March 31	2018		2017	
	Shopping Centres	Development Land	Shopping Centres	Development Land
Total purchase price, including acquisition costs	\$ 16,140	\$ 1,794	\$ —	\$ —
Total cash paid	\$ 16,140	\$ 1,794	\$ —	\$ —

(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:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

As at	March 31, 2018	December 31, 2017
Aggregate fair value	\$ 100,287	\$ 98,112
Mortgages secured by investment properties classified as held for sale	\$ —	\$ 7,079
Weighted average effective interest rate of mortgages secured by investment properties classified as held for sale	N/A	6.7%

The increase of \$2.2 million in investment properties classified as held for sale from December 31, 2017, primarily arose from new investment properties classified as held for sale, offset by dispositions completed in the period and changes in fair value.

For the three months ended March 31, 2018 and 2017, the Company sold shopping centres and development land as follows:

	Three months ended March 31	
	2018	2017
Total selling price	\$ 72,075	\$ 12,341
Property selling costs	(475)	(502)
Total cash proceeds	\$ 71,600	\$ 11,839

(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, 2018	Central Region	Eastern Region	Western Region	Total
Total shopping centres and development land ⁽¹⁾	\$ 4,258,476	\$ 1,976,725	\$ 3,179,575	\$ 9,414,776
Cash and cash equivalents				13,419
Loans, mortgages and other assets				338,075
Other assets				70,144
Amounts receivable				34,082
Investment in joint ventures				104,288
Residential development inventory				5,483
Total assets				\$ 9,980,267

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

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

5. LOANS, MORTGAGES AND OTHER ASSETS

As at	March 31, 2018	December 31, 2017
Non-current		
Loans and mortgages receivable classified as FVTPL (a)	\$ 47,243	\$ —
Loans and mortgages receivable classified as amortized cost (a)	22,022	130,576
Investment in limited partnership	6,129	2,587
Total non-current	\$ 75,394	\$ 133,163
Current		
Loans and mortgages receivable classified as FVTPL (a)	\$ 64,374	\$ —
Loans and mortgages receivable classified as amortized cost (a)	104,712	125,265
FVTPL investments in securities (b)	93,595	21,720
Total current	\$ 262,681	\$ 146,985
Total	\$ 338,075	\$ 280,148

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties. As at March 31, 2018, these receivables bear interest at weighted average effective interest rates of 8.4% (December 31, 2017 – 7.9%) and mature between 2018 and 2023. Effective January 1, 2018, the Company reclassified certain loans and mortgages receivable to FVTPL from amortized cost upon adoption of IFRS 9.

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

6. AMOUNTS RECEIVABLE

As at	March 31, 2018	December 31, 2017
Trade receivables (net of allowances for doubtful accounts of \$2.7 million; December 31, 2017 – \$2.6 million)	\$ 31,666	\$ 23,698
Corporate and other amounts receivable	2,416	1,739
Total	\$ 34,082	\$ 25,437

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

7. OTHER ASSETS

As at	Note	March 31, 2018	December 31, 2017
Non-current			
Fixtures, equipment and computer hardware and software (net of accumulated amortization of \$7.7 million; December 31, 2017 - \$7.2 million)		\$ 13,548	\$ 12,686
Deferred financing costs on credit facilities (net of accumulated amortization of \$4.1 million; December 31, 2017 - \$3.9 million)		2,304	2,379
Environmental indemnity and insurance proceeds receivable	12(a)	6,364	6,247
Derivatives at fair value	22	12,453	10,696
Total non-current		\$ 34,669	\$ 32,008
Current			
Deposits and costs on investment properties under option		\$ 3,470	\$ 1,587
Prepaid expenses		19,877	7,654
Other deposits		265	349
Restricted cash		50	50
Derivatives at fair value	22	11,813	5,739
Total current		\$ 35,475	\$ 15,379
Total		\$ 70,144	\$ 47,387

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, 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, 2018	December 31, 2017
Liabilities (principal amounts outstanding)		
Bank indebtedness	\$ 13,636	\$ 3,144
Mortgages	1,032,118	1,060,342
Credit facilities	662,770	581,627
Mortgages under equity accounted joint ventures (at the Company's interest)	41,763	41,987
Credit facilities under equity accounted joint venture (at the Company's interest)	47,394	102,748
Senior unsecured debentures	2,600,000	2,600,000
Convertible debentures	—	55,093
Equity Capitalization		
Common shares (based on closing per share price of \$20.35; December 31, 2017 – \$20.72)	4,982,119	5,064,612
Total capital employed	\$ 9,379,800	\$ 9,509,553

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

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

As at	Measure/ Covenant	March 31, 2018	December 31, 2017
Net debt to total assets		43.6%	43.4%
Unencumbered aggregate assets to unsecured debt, using 10 quarter average capitalization rate ⁽¹⁾	≥1.3	2.1	2.1
Shareholders' equity, using four quarter average (billions) ⁽¹⁾	>\$1.8B	\$ 4.6	\$ 4.5
Secured indebtedness to total assets ⁽¹⁾	<35%	12.0%	12.7%
For the rolling four quarters ended			
Interest coverage (Adjusted EBITDA to interest expense) ⁽¹⁾	>1.65	2.5	2.5
Fixed charge coverage (Adjusted EBITDA to debt service) ⁽¹⁾	>1.50	2.1	2.1

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

The above ratios include measures not specifically defined in IFRS. Certain calculations are required pursuant to debt covenants and are meaningful measures for this reason. Measures used in these ratios are defined in the Company's audited annual consolidated financial statements for the years ended December 31, 2017 and 2016.

9. MORTGAGES AND CREDIT FACILITIES

As at	March 31, 2018	December 31, 2017
Fixed rate mortgages	\$ 1,031,962	\$ 1,060,339
Unsecured facilities	566,870	485,727
Secured facilities	95,900	95,900
Mortgages and credit facilities	\$ 1,694,732	\$ 1,641,966
Current	\$ 163,914	\$ 172,525
Mortgages on investment properties classified as held for sale	—	7,079
Non-current	1,530,818	1,462,362
Total	\$ 1,694,732	\$ 1,641,966

Mortgages and secured facilities are secured by the Company's investment properties. As at March 31, 2018, approximately \$2.5 billion (December 31, 2017 – \$2.6 billion) of investment properties out of \$9.4 billion (December 31, 2017 – \$9.4 billion) (Note 4(a)) had been pledged as security under the mortgages and the secured facilities.

As at March 31, 2018, mortgages bear coupon interest at a weighted average coupon rate of 4.2% (December 31, 2017 – 4.3%) and mature in the years ranging from 2018 to 2028. The weighted average effective interest rate on all mortgages as at March 31, 2018 is 4.1% (December 31, 2017 – 4.3%).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

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

	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Effective Interest Rate
2018 (remainder of the year)	\$ 20,079	\$ 35,226	\$ 55,305	5.4%
2019	24,619	106,714	131,333	6.5%
2020	22,425	67,893	90,318	4.4%
2021	21,583	73,397	94,980	4.6%
2022	17,017	147,955	164,972	3.9%
2023 to 2028	54,323	440,887	495,210	3.5%
	\$ 160,046	\$ 872,072	\$ 1,032,118	4.1%
Unamortized deferred financing costs and premiums, net			(156)	
Total			\$ 1,031,962	

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, 2018, the Company had drawn CAD\$25.0 million and US \$420.3 million, as well as CAD\$13.6 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 entered into a new borrowing tranche under an existing credit facility with a borrowing capacity of CAD\$50 million, key terms of which are presented in the table below. The Company also extended the maturity of its \$15.9 million secured facility to March 31, 2019 on substantially the same terms.

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

As at March 31, 2018	Borrowing Capacity	Amounts Drawn	Bank Indebtedness and Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Unsecured Operating Facilities						
Revolving facility maturing 2022 ⁽¹⁾	\$ 800,000	\$ (366,691)	\$ (32,635)	\$ 400,674	BA + 1.20% or Prime + 0.20% or US\$ LIBOR + 1.20%	June 30, 2022
Non-revolving facility maturing 2020 ⁽²⁾	150,000	(149,893)	(14,990)	—	BA + 1.20% or Prime + 0.20% or US\$ LIBOR + 1.20%	October 31, 2020
Additional Tranche ⁽³⁾	50,000	(50,286)	—	—	BA + 1.10% or Prime + 0.10% or US\$ LIBOR + 1.20%	October 31, 2020
Secured Construction Facilities						
Maturing 2019	115,000	(60,953)	(668)	53,379	BA + 1.125% or Prime + 0.125%	February 13, 2019
Maturing 2019	15,907	(15,572)	—	335	BA + 1.125% or Prime + 0.125%	March 31, 2019
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	\$ 1,150,282	\$ (662,770)	\$ (48,293)	\$ 454,388		

⁽¹⁾ The Company had drawn in U.S. dollars the equivalent of CAD\$336.1 million which was revalued at CAD\$341.7 million, in addition to CAD\$25.0 million drawn as at March 31, 2018.

⁽²⁾ The Company had drawn in U.S. dollars the equivalent of CAD\$150.0 million which was revalued at CAD\$149.9 million as at March 31, 2018.

⁽³⁾ The Company had drawn in U.S. dollars the equivalent of CAD\$50 million which was revalued at CAD\$50.3 million as at March 31, 2018.

10. SENIOR UNSECURED DEBENTURES

As at				March 31, 2018		December 31, 2017	
Series	Maturity Date	Interest Rate		Principal Outstanding	Liability	Liability	
		Coupon	Effective				
J	August 30, 2018	5.25%	5.66%	\$ 50,000	\$ 49,917	\$ 49,868	
K	November 30, 2018	4.95%	5.17%	100,000	99,859	99,807	
L	July 30, 2019	5.48%	5.61%	150,000	149,756	149,712	
M	April 30, 2020	5.60%	5.60%	175,000	174,991	174,991	
N	March 1, 2021	4.50%	4.63%	175,000	174,408	174,361	
O	January 31, 2022	4.43%	4.59%	200,000	198,889	198,824	
P	December 5, 2022	3.95%	4.18%	250,000	247,625	247,512	
Q	October 30, 2023	3.90%	3.97%	300,000	298,990	298,951	
R	August 30, 2024	4.79%	4.72%	300,000	301,135	301,172	
S	July 31, 2025	4.32%	4.24%	300,000	301,542	301,587	
T	May 6, 2026	3.60%	3.56%	300,000	300,843	300,865	
U	July 12, 2027	3.75%	3.82%	300,000	298,352	298,316	
Weighted Average or Total		4.36%	4.42%	\$ 2,600,000	\$ 2,596,307	\$ 2,595,966	
Current				150,000	149,776	149,675	
Non-current				2,450,000	2,446,531	2,446,291	
Total				\$ 2,600,000	\$ 2,596,307	\$ 2,595,966	

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

11. CONVERTIBLE DEBENTURES

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

(a) Principal and interest

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

During the three months ended March 31, 2018, the Company paid \$1.0 million (three months ended March 31, 2017 – \$1.9 million) in cash to pay accrued interest to holders of convertible debentures.

(b) Principal redemption

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

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at	Note	March 31, 2018	December 31, 2017
Non-current			
Asset retirement obligations (a)		\$ 4,879	\$ 5,179
Ground leases payable		10,768	9,010
Derivatives at fair value	22	284	844
Deferred purchase price of investment property – shopping centre		1,786	1,783
Deferred income		—	98
Total non-current		\$ 17,717	\$ 16,914
Current			
Trade payables and accruals		\$ 70,026	\$ 61,538
Construction and development payables		49,494	47,603
Dividends payable		52,637	52,553
Interest payable		31,728	37,145
Tenant deposits		25,452	30,816
Derivatives at fair value	22	436	10,499
Total current		\$ 229,773	\$ 240,154
Total		\$ 247,490	\$ 257,068

- (a) The Company has obligations for environmental remediation at certain sites within its property portfolio. The Company has also recognized a related environmental indemnity and insurance proceeds receivable totaling \$6.4 million 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	2018			2017	
	Note	Number of Common Shares	Stated Capital	Number of Common Shares	Stated Capital
Issued and outstanding at beginning of period		244,431	\$ 3,159,542	243,507	\$ 3,142,399
Payment of interest on convertible debentures	11	—	—	124	2,442
Conversion of convertible debentures	11	—	—	4	107
Exercise of options, and settlement of any restricted, performance and deferred share units		390	6,989	196	3,630
Share issue costs and other, net of tax effect		—	—	—	(5)
Issued and outstanding at end of period		244,821	\$ 3,166,531	243,831	\$ 3,148,573

Quarterly dividends declared per common share were \$0.215 for the three months ended March 31, 2018 (three months ended March 31, 2017 – \$0.215).

(b) Contributed surplus and other equity items

Contributed surplus and other equity items comprise the following:

Three months ended March 31	2018				2017			
	Contributed Surplus	Convertible Debentures Equity Component	Stock-based Compensation Plan Awards	Total	Contributed Surplus	Convertible Debentures Equity Component	Stock-based Compensation Plan Awards	Total
Balance at beginning of period	\$ 24,517	\$ 386	\$ 17,067	\$ 41,970	\$ 20,954	\$ 4,224	\$ 16,521	\$ 41,699
Redemption of convertible debentures	386	(386)	—	—	2,431	(2,434)	—	(3)
Repurchase of convertible debentures	—	—	—	—	1	(1)	—	—
Options vested	—	—	255	255	—	—	213	213
Exercise of options	—	—	(531)	(531)	—	—	(259)	(259)
Deferred share units	—	—	196	196	—	—	136	136
Restricted share units	—	—	434	434	—	—	634	634
Performance share units	—	—	482	482	—	—	275	275
Settlement of any restricted, performance and deferred share units	—	—	(240)	(240)	—	—	(337)	(337)
Balance at end of period	\$ 24,903	\$ —	\$ 17,663	\$ 42,566	\$ 23,386	\$ 1,789	\$ 17,183	\$ 42,358

(c) Stock options

As of March 31, 2018, the Company is authorized to grant up to 19.7 million (December 31, 2017 – 19.7 million) common share options to the employees, officers and directors of the Company. As of March 31, 2018, 4.3 million (December 31, 2017 – 5.5 million) common share options are available to be granted to the employees, officers and directors of the Company. In addition, as at March 31, 2018, 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, 2018 have exercise prices ranging from \$9.81 – \$20.24 (December 31, 2017 – \$9.81 – \$20.24).

During the three months ended March 31, 2018, \$0.2 million (three months ended March 31, 2017 – \$0.2 million) was recorded as an expense related to stock options.

Three months ended March 31	2018		2017	
	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price
Outstanding at beginning of period	4,133	\$ 18.74	4,206	\$ 18.15
Granted (a)	1,197	20.03	869	20.07
Exercised (b)	(375)	16.56	(177)	17.06
Forfeited	(18)	19.07	(28)	18.72
Expired	—	—	(1)	17.67
Outstanding at end of period	4,937	\$ 19.22	4,869	\$ 18.53

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

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

- (b) The weighted average market share price at which options were exercised for the three months ended March 31, 2018 was \$19.97 (three months ended March 31, 2017 – \$20.18).

(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	2018		2017	
(in thousands)	DSUs	RSUs / PSUs	DSUs	RSUs / PSUs
Outstanding at beginning of period	301	478	275	471
Granted (a) (b)	7	221	7	191
Dividends declared	3	12	3	9
Exercised	(15)	—	—	(19)
Forfeited	—	(3)	—	(3)
Outstanding at end of period	296	708	285	649
Expense recorded for the period	\$135	\$912	\$136	\$831

- (a) The fair value of the DSUs granted during the three months ended March 31, 2018 was \$0.1 million (three months ended March 31, 2017 – \$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, 2018 was \$1.6 million (three months ended March 31, 2017 – \$1.6 million), measured based on the Company's share price on the date of grant.
- (b) The fair value of the PSUs granted during the three months ended March 31, 2018 was \$2.9 million (three months ended March 31, 2017 – \$2.2 million). The fair value is calculated using the Monte-Carlo simulation model based on the assumptions below as well as a market adjustment factor based on the total shareholder return of the Company's common shares relative to the S&P/TSX Capped REIT Index.

Three months ended March 31	2018	2017
PSUs granted (thousands)	140	112
Term to expiry	3 years	3 years
Weighted average volatility rate	14.7%	14.3%
Weighted average correlation	37.3%	40.4%
Weighted average total shareholder return	-3.3%	0.5%
Weighted average risk free interest rate	1.87%	0.95%
Fair value (thousands)	\$2,866	\$2,238

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

14. NET OPERATING INCOME

Net Operating Income by Component

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

	Three months ended March 31	
	2018	2017
Property rental revenue		
Base rent	\$ 111,432	\$ 108,264
Operating cost recoveries	27,965	27,589
Realty tax recoveries	35,788	34,519
Lease surrender fees	763	201
Percentage rent	912	476
Straight-line rent adjustment	2,462	653
Prior year operating cost and tax recovery adjustments	(2,012)	(580)
Temporary tenants, storage, parking and other	3,475	3,731
Total Property rental revenue	180,785	174,853
Property operating costs		
Recoverable operating expenses	31,845	31,088
Recoverable realty tax expense	40,518	38,056
Prior year realty tax expense	(2,710)	(783)
Other operating costs and adjustments	(510)	(392)
Total Property operating costs	69,143	67,969
Total NOI	\$ 111,642	\$ 106,884
NOI margin	61.8%	61.1%

Net Operating Income by Segment

Net operating income is presented by segment as follows:

Three months ended March 31, 2018	Central Region	Eastern Region	Western Region	Subtotal	Other ⁽¹⁾	Total
Property rental revenue	\$ 73,567	\$ 49,011	\$ 58,867	\$ 181,445	\$ (660)	\$ 180,785
Property operating costs	27,645	22,307	20,229	70,181	(1,038)	69,143
Net operating income	\$ 45,922	\$ 26,704	\$ 38,638	\$ 111,264	\$ 378	\$ 111,642

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

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

⁽¹⁾ Other items principally consist of intercompany eliminations.

For the three months ended March 31, 2018, property operating costs include \$5.6 million (three months ended March 31, 2017 – \$5.7 million) related to employee compensation.

15. INTEREST AND OTHER INCOME

		Three months ended March 31	
	Note	2018	2017
Interest, dividend and distribution income from marketable securities	5	\$ 537	\$ 263
Interest income from loans and mortgages receivable classified as FVTPL	5	1,300	—
Interest income from loans, deposit and mortgages receivable at amortized cost	5	2,998	4,213
Fees and other income		1,497	1,561
Total		\$ 6,332	\$ 6,037

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

16. INTEREST EXPENSE

		Three months ended March 31	
	Note	2018	2017
Mortgages	9	\$ 10,947	\$ 11,540
Credit facilities	9	4,505	2,725
Senior unsecured debentures	10	28,278	27,794
Convertible debentures	11	446	2,021
Total interest expense		44,176	44,080
Interest capitalized to investment properties under development		(6,735)	(5,097)
Interest expense		\$ 37,441	\$ 38,983
Convertible debenture interest paid in common shares	11	—	(2,442)
Change in accrued interest		5,417	6,021
Effective interest rate less than (in excess of) coupon interest rate on senior unsecured and convertible debentures		266	161
Coupon interest rate in excess of effective interest rate on assumed mortgages		258	447
Amortization of deferred financing costs		(1,438)	(1,591)
Cash interest paid associated with operating activities		\$ 41,944	\$ 41,579

17. CORPORATE EXPENSES

	Three months ended March 31	
	2018	2017
Salaries, wages and benefits	\$ 7,511	\$ 7,140
Non-cash compensation	1,124	931
Other corporate costs	3,603	2,780
Total corporate expenses	12,238	10,851
Amounts capitalized to investment properties under development	(2,023)	(1,587)
Corporate expenses	\$ 10,215	\$ 9,264

18. OTHER GAINS (LOSSES) AND (EXPENSES)

	Three months ended March 31	
	2018	2017
Unrealized gain (loss) on marketable securities	\$ 1,603	\$ 299
Net gain (loss) on prepayments of debt (non-cash)	(726)	(2,333)
Investment properties selling costs	(475)	(502)
Other	(49)	(27)
Total	\$ 353	\$ (2,563)

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, 2018 and 2017:

	Three months ended March 31	
	2018	2017
Income tax expense at the Canadian federal and provincial income tax rate of 26.6%	\$ 22,384	\$ 64,131
Increase (decrease) in income taxes due to:		
Non-taxable portion of capital gains and other	(4,894)	(25,737)
Non-controlling interests in income of consolidated limited partnership	(67)	—
Other	533	(1,353)
Deferred income taxes	\$ 17,956	\$ 37,041

20. PER SHARE CALCULATIONS

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

	Three months ended March 31	
	2018	2017
Net income attributable to common shareholders	\$ 65,944	\$ 203,671
Adjustment for dilutive effect of convertible debentures, net of tax	328	1,078
Income for diluted per share amounts	\$ 66,272	\$ 204,749
<i>(in thousands)</i>		
Weighted average number of shares outstanding for basic per share amounts	245,419	244,317
Options	298	502
Convertible debentures	1,327	5,413
Weighted average diluted share amounts	247,044	250,232

There were no options or convertible debentures that were determined to be anti-dilutive.

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, 2018, Loblaw Companies Limited ("Loblaw") accounts for 10.0% 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, 2018 is set out below:

As at March 31, 2018	Payments Due by Period				
	Remainder of 2018	2019 to 2020	2021 to 2022	Thereafter	Total
Scheduled mortgage principal amortization	\$ 20,079	\$ 47,044	\$ 38,600	\$ 54,323	\$ 160,046
Mortgage principal repayments on maturity	35,226	174,607	221,352	440,887	872,072
Credit facilities and bank indebtedness	7,500	288,579	380,327	—	676,406
Senior unsecured debentures	150,000	325,000	625,000	1,500,000	2,600,000
Interest obligations ⁽¹⁾	131,463	293,750	197,086	212,143	834,442
Land leases (expiring between 2023 and 2061)	873	2,024	1,942	19,000	23,839
Contractual committed costs to complete current development projects	60,036	391	—	—	60,427
Other committed costs	31,155	—	—	—	31,155
Total contractual obligations	\$ 436,332	\$ 1,131,395	\$ 1,464,307	\$ 2,226,353	\$ 5,258,387

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

The Company manages its liquidity risk by staggering debt maturities; renegotiating expiring credit arrangements proactively; using unsecured credit facilities; and issuing equity when considered appropriate. As at March 31, 2018, there was \$566.9 million (December 31, 2017 – \$485.7 million) of cash advances drawn against the Company's unsecured credit facilities.

In addition, as at March 31, 2018, the Company has \$34.8 million (December 31, 2017 – \$34.9 million) of outstanding letters of credit issued by financial institutions primarily to support certain of the Company's contractual obligations and \$13.6 million of bank overdrafts.

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, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Measured at fair value						
Financial Assets						
FVTPL investments in securities	\$ 93,595	\$ —	\$ —	\$ 21,720	\$ —	\$ —
Loans and mortgages receivable	—	—	111,617	—	—	—
Investments in limited partnership	—	—	6,129	—	—	2,587
Derivatives at fair value – assets	—	24,266	—	—	16,435	—
Financial Liabilities						
Derivatives at fair value – liabilities	—	720	—	—	11,343	—
Measured at amortized cost						
Financial Assets						
Loans and mortgages receivable	\$ —	\$ —	\$ 126,370	\$ —	\$ —	\$ 255,447
Financial Liabilities						
Mortgages	—	1,042,977	—	—	1,072,212	—
Credit facilities	—	662,770	—	—	581,627	—
Senior unsecured debentures	—	2,677,820	—	—	2,696,511	—
Convertible debentures	—	—	—	55,644	—	—

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

The fair value of derivative instruments is determined using present value forward pricing and swap calculations at interest rates that reflect current market conditions. The models also take into consideration the credit quality of counterparties, interest rate curves and forward rate curves. As at March 31, 2018, the interest rates ranged from 2.1% to 4.1% (December 31, 2017 – 2.0% to 4.0%). The fair values of the Company's asset (liability) hedging instruments are as follows:

	Designated as Hedging Instrument	Maturity as at March 31, 2018	March 31, 2018	December 31, 2017
Derivative assets				
Bond forward contracts	Yes	April 2018	\$ 5,816	\$ 5,739
Interest rate swaps	Yes	March 2022 - March 2027	12,453	10,696
Cross currency swaps	No	April 2018	5,997	—
Total			\$ 24,266	\$ 16,435
Derivative liabilities				
Bond forward contracts	Yes	April 2018	\$ 341	\$ 365
Interest rate swaps	Yes	July 2024	284	844
Cross currency swaps	No	April 2018	95	10,134
Total			\$ 720	\$ 11,343

23. SUBSIDIARY WITH NON-CONTROLLING INTEREST

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

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

In the first quarter of 2018, MMUR completed the sale of the majority of its portfolio (18 of 23 properties) for approximately \$298 million. The net proceeds from the sale, after repayment of debt were distributed to the joint venture partners, including MMLP, which was then distributed to the Company and to the non-controlling interest. As a result, the Company received net distributions of \$71.6 million representing its direct and indirect interests while the non-controlling interest partner received \$29.3 million.

24. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash and other items

		Three months ended March 31	
	Note	2018	2017
Straight-line rent adjustment		\$ (2,462)	\$ (653)
Investment properties selling costs	18	475	502
Unrealized (gain) loss on marketable securities classified as FVTPL	18	(1,603)	(299)
Net (gain) loss on prepayments of debt	18	726	2,293
Non-cash compensation expense		1,213	977
Deferred income taxes	19	17,436	37,041
Other non-cash items		48	28
Total		\$ 15,833	\$ 39,889

(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	
		2018	2017
Amounts receivable	\$	(8,645)	\$ (6,310)
Prepaid expenses		(12,223)	(11,880)
Trade payables and accruals		5,272	3,104
Tenant security and other deposits		(5,280)	570
Other working capital changes		2,369	(1,853)
Total	\$	(18,507)	\$ (16,369)

(c) Changes in loans, mortgages and other assets

		Three months ended March 31	
		2018	2017
Advances of loans and mortgages receivable	\$	(9,448)	\$ (8,169)
Repayments of loans and mortgages receivable and deposits		24,652	1,170
Investment in marketable securities, net		(70,273)	—
Total	\$	(55,069)	\$ (6,999)

(d) Cash and cash equivalents (bank indebtedness)

As at	March 31, 2018	December 31, 2017
Cash and cash equivalents ⁽¹⁾	\$ 13,419	\$ 11,507
Bank indebtedness	(13,636)	(3,144)
Total	\$ (217)	\$ 8,363

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

25. 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 \$119.9 million (December 31, 2017 – \$119.1 million) to various lenders in connection with certain third-party obligations, including, without limitation, loans advanced to its joint arrangement partners secured by the partners' interest in the joint arrangements and underlying assets.
- (c) The Company is contingently liable by way of letters of credit in the amount of \$34.8 million (December 31, 2017 – \$34.9 million), issued by financial institutions on the Company's behalf in the ordinary course of business.
- (d) The Company has obligations as lessee under long-term leases for land. Annual commitments under these ground leases are approximately \$0.9 million (December 31, 2017 – \$1.2 million) with a total obligation of \$23.8 million (December 31, 2017 – \$24.1 million).
- (e) The Company is involved, in the normal course of business, in discussions, and has various agreements, with respect to possible acquisitions of new properties and dispositions of existing properties in its portfolio. None of these commitments or contingencies, individually or in aggregate, would have a significant impact on the financial position of the Company.
- (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.

26. RELATED PARTY TRANSACTIONS

(a) Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company and, as of March 31, 2018, beneficially owns 32.5% (December 31, 2017 – 32.6%) of the common shares of the Company. Norstar Holdings Inc. is the ultimate controlling party of Gazit.

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

	Three months ended March 31	
	2018	2017
Reimbursements for professional services	\$ 30	\$ 97

As at March 31, 2018, amounts due from Gazit was \$0.1 million (December 31, 2017 – \$nil).

(b) Joint ventures

During the three months ended March 31, 2018, the Company earned fee income of \$0.7 million (March 31, 2017 – \$0.5 million) from its joint ventures. Also during the three months ended March 31, 2018, the Company advanced \$0.7 million (March 31, 2017 – \$nil) to one of its joint ventures.

(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.

27. SUBSEQUENT EVENTS

Second Quarter Dividend

The Company announced that it will pay a second quarter dividend of \$0.215 per common share on July 18, 2018 to shareholders of record on June 29, 2018.

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