First Capital Realty Inc.


# 2018
# Second Quarter

# 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 June 30, 2018, the Company owned interests in 162 properties, totaling approximately 25.3 million square feet of gross leasable area. First Capital Realty has an enterprise value of approximately $9.5 billion and its common shares trade on the Toronto Stock Exchange.

# Financial Highlights

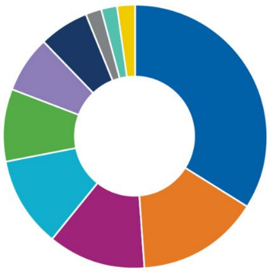
| As at<br>*(millions of dollars, except per share amounts)* | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Total assets | **$ 10,070** | $ 9,969 |
| Total equity market capitalization [1] | **$ 5,062** | $ 5,065 |
| Enterprise value [1] | **$ 9,457** | $ 9,480 |
| Net debt to total assets | **43.3%** | 43.4% |
| Quarterly dividend per common share | **$ 0.215** | $ 0.215 |

# Operating Highlights

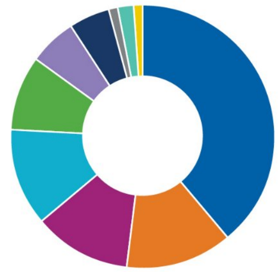
| Six months ended June 30<br>*(millions of dollars, except per share amounts)* | **2018** | 2017 |
|---|---|---|
| Property rental revenue | **$ 363** | $ 347 |
| Net operating income ("NOI") [1] | **$ 225** | $ 216 |
| Net income attributable to common shareholders | **$ 148** | $ 475 |
| **Funds from Operations ("FFO") [1]** | | |
| FFO | **$ 153** | $ 137 |
| FFO per diluted share | **$ 0.622** | $ 0.560 |
| FFO payout ratio | **69.1%** | 76.8% |
| Cash provided by operating activities | **$ 97** | $ 77 |
| **Adjusted Cash Flow from Operations ("ACFO") [1]** | | |
| ACFO | **$ 124** | $ 108 |
| ACFO payout ratio | **80.9%** | 90.5% |

[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*



| | % of Annual Minimum Rent | % of Portfolio Value |
|---|---|---|
| Greater Toronto Area | 34% | 39% |
| Greater Montreal Area | 15% | 13% |
| Greater Calgary Area | 12% | 12% |
| Greater Vancouver Area | 11% | 12% |
| Greater Edmonton Area | 9% | 9% |
| Greater Ottawa Area | 7% | 6% |
| Golden Horseshoe Area | 6% | 5% |
| London / Windsor Area | 2% | 1% |
| Quebec City | 2% | 2% |
| Red Deer and Other | 2% | 1% |
| **Total** | **100%** | **100%** |



*as at June 30, 2018

# Shopping For Everyday Life®

| | # OF STORES | % OF RENT | TENANTS |
|---|---|---|---|
| **Grocery Stores** | 137 | 17.9% | Loblaws, Sobeys, metro, save on foods, Whole Foods Market, Longo's |
| **Pharmacies** | 134 | 9.1% | Shoppers Drug Mart, Rexall, London Drugs, Jean Coutu, McKesson, Brunet |
| **Liquor Stores** | 102 | 3.4% | LCBO, Beer Store, BC Liquor Store, SAQ, Alcanna, Western Cellars |
| **Banks & Credit Unions** | 216 | 8.6% | TD, RBC, CIBC, BMO, Scotiabank, Desjardins, National Bank |
| **Restaurants and Cafes** | 976 | 13.6 % | Tim Hortons, Starbucks, Cara, freshii, McDonald's, aroma espresso bar |
| **Medical, Professional & Personal Services** | 1477 | 14.6% | Alberta Health Services, UPS, Allstate You're in good hands., H&R Block, First Choice Haircutters |
| **Fitness Facilities** | 86 | 3.6% | GoodLife Fitness, Equinox Fitness Clubs, LA Fitness, Orangetheory Fitness, Anytime Fitness, Gold's Gym |
| **Daycare & Learning Centres** | 95 | 1.3% | E-Commerce Proof ~33%; Kumon Math. Reading. Success., brightpath, Oxford Learning Since 1984, kids & company |
| **Other Necessity-Based Retailers** | 575 | 18.6% | Canadian Tire, Walmart, Dollarama, GNC Live Well, Winners, PetSmart |
| **Other Tenants** | 585 | 9.3% | Cineplex Entertainment, west elm, Sleep Country, Nordstrom, Sherwin Williams, Anthropologie |

*As at June 30, 2018*

# MD&A

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## Table of Contents

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

## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of First Capital Realty Inc. ("First Capital Realty", "FCR" or the "Company") is intended to provide readers with an assessment of performance and summarize the financial position and results of operations for the three and six months ended June 30, 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 August 1, 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 August 1, 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 June 30, 2018, the Company owned interests in 162 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 urban portfolio. To achieve the Company's strategic objectives, Management continues to:

- undertake selective development, redevelopment and repositioning activities on its properties, including land use intensification;
- be focused and disciplined in acquiring well-located properties, primarily where there are value creation opportunities, including sites in close proximity to existing properties in the Company's target urban markets;
- proactively manage its existing portfolio to drive rent growth;
- increase efficiency and productivity of operations; and
- maintain financial strength and flexibility to 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 supply and demand factors in each property trade area, and the ability to grow the property's cash flow.

## Changing Consumer Habits

The Company continues to observe several demographic and other trends that may affect demand for retail goods and services, including an increasing reliance by consumers on online information to influence their purchasing decisions and an increasing desire to purchase products online, as well as an aging population which is increasingly focused on convenience and health-related goods and services. There is also a shift in consumer demand driven by an increasing number of ethnic consumers as a result of Canada's immigration policies. Another trend that Management continues to observe is a desire for consumers to live in urban markets and to connect with others through daily or frequent trips to grocery stores, fitness centres, cafés, restaurants as well as other tenant categories in the Company's portfolio. In addition, the retail market is experiencing a change in the consumer mindset with a growing emphasis on customer experience through events, digital innovation, sampling demonstrations and personalized premium service, allowing for more integration and connection between retailers and consumers. Retailers have responded to these changes with a renewed focus on improving the overall customer experience both online and in-store by leveraging technology. Management is proactively responding to these consumer changes through its tenant mix, unit sizes, shopping centre locations and designs.

## Evolving Retail Landscape

Over the past several years, the Company has observed an increase in entry and/or expansion into the Canadian marketplace by several major U.S. and international retailers including Marshalls, Top Shop, Nordstrom, Saks Fifth Avenue, Uniqlo and others. Although such repositioning resulted in new opportunities for the Company, it also resulted in an increasingly competitive retail landscape in Canada. In addition, many retailers have announced store closures and/or bankruptcies, including 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 six months ended June 30, 2018, the Same Property portfolio delivered net operating income growth of 3.5% 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 June 30, 2018, total portfolio occupancy increased 1.3% to 96.3% compared to 95.0% as at June 30, 2017. For the six months ended June 30, 2018, the monthly average occupancy for the total portfolio was 96.1% compared to 94.7%, while the monthly average Same Property portfolio occupancy was 96.7% compared to 95.4% 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 June 30, 2018, the Company had identified approximately 21.6 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 first half of the year, the Company transferred 121,000 square feet of new urban retail space as well as common areas from development to income-producing properties at a cost of $110.5 million. All of the space transferred was occupied at an average net rental rate of $36.76 per square foot, well above the average rate for the entire portfolio of $19.96.

## 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 first half of the year, the Company acquired three adjacent buildings in close proximity to existing shopping centres, a partial interest in a new property, and one land parcel for $23.4 million, adding a total of 33,200 square feet of gross leasable area to the portfolio. The Company has also entered into separate binding agreements to purchase several properties, primarily in urban markets, for approximately $212.9 million. Additionally, the Company invested $109.5 million in development and redevelopment activities.

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 first half of the year, 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 first half of the year, the Company repaid $89.2 million of mortgages with a weighted average effective interest rate of 5.5% and secured $126.0 million of new mortgages with a weighted average effective interest rate of 3.8% 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.

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

## 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 is financial performance.

## *Proportionate Interest*

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

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

Where noted, certain sections of this MD&A exclude the Company's proportionate share of Main and Main Urban Realty's ("MMUR") financial information to enhance the relevance of the information presented, as MMUR's business operations are not focused on operating stable income-producing properties at this time. Additionally, 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 (23.7 million square feet at its ownership interest compared to 25.3 million square feet at 100% as at June 30, 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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Revenues, Income and Cash Flows** [1] | | | | |
| Revenues and other income | **$ 187,528** | $ 177,814 | **$ 374,645** | $ 358,704 |
| NOI [2] | **$ 113,816** | $ 108,678 | **$ 225,458** | $ 215,562 |
| Increase (decrease) in value of investment properties, net | **$ 12,450** | $ 246,213 | **$ 22,889** | $ 423,447 |
| Net income attributable to common shareholders | **$ 81,929** | $ 271,539 | **$ 147,873** | $ 475,210 |
| Net income per share attributable to common shareholders (diluted) | **$ 0.33** | $ 1.09 | **$ 0.60** | $ 1.91 |
| Weighted average number of common shares – diluted – IFRS (in thousands) | **$ 246,196** | $ 250,516 | **246,611** | 250,377 |
| Cash provided by operating activities | **$ 51,356** | $ 30,867 | **$ 96,835** | $ 76,837 |
| **Dividends** | | | | |
| Dividends | **$ 52,846** | $ 52,648 | **$ 105,633** | $ 105,121 |
| Dividends per common share | **$ 0.215** | $ 0.215 | **$ 0.430** | $ 0.430 |

| As at June 30 | **2018** | 2017 |
|---|---|---|
| **Financial Information** [1] | | |
| Investment properties – shopping centres [3] | **$ 9,414,691** | $ 8,961,018 |
| Investment properties – development land [3] | **$ 91,871** | $ 79,053 |
| Total assets | **$ 10,070,477** | $ 9,688,357 |
| Mortgages [3] | **$ 1,082,830** | $ 1,052,048 |
| Credit facilities | **$ 608,557** | $ 557,779 |
| Senior unsecured debentures | **$ 2,596,653** | $ 2,422,021 |
| Convertible debentures | **$ —** | $ 104,200 |
| Shareholders' equity | **$ 4,703,593** | $ 4,577,648 |
| **Capitalization and Leverage** | | |
| Shares outstanding (in thousands) | **245,020** | 243,922 |
| Enterprise value [2] | **$ 9,457,000** | $ 9,080,000 |
| Net debt to total assets [2] [4] | **43.3%** | 42.5% |
| Weighted average term to maturity on mortgages and senior unsecured debentures (years) | **5.2** | 5.3 |

| As at June 30 | | 2018 | | 2017 |
|---|---|---|---|---|
| **Operational Information** | | | | |
| Number of properties | | **162** | | 160 |
| GLA (square feet) – at 100% | | **25,327,000** | | 25,217,000 |
| GLA (square feet) – at ownership interest | | **23,700,000** | | 23,798,000 |
| Occupancy – Same Property – stable (2) | | **96.8%** | | 96.0% |
| Total portfolio occupancy | | **96.3%** | | 95.0% |
| Development pipeline and adjacent land (GLA) (5) (6) | | | | |
| Commercial pipeline (primarily retail) | | **2,782,000** | | 2,799,000 |
| Residential pipeline | | **18,862,000** | | 11,256,000 |
| Average rate per occupied square foot | **$** | **19.96** | $ | 19.39 |
| GLA developed and brought online - at ownership interest | | **121,000** | | 62,000 |
| Same Property – stable NOI – increase (decrease) over prior period (2) (7) | | **3.5%** | | 1.8% |
| Total Same Property NOI – increase (decrease) over prior period (2) (7) | | **3.5%** | | 2.5% |

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2018** | | 2017 | | **2018** | | 2017 |
| **Funds from Operations (2) (4)** | | | | | | | | |
| FFO | **$** | **79,148** | $ | 70,580 | **$** | **153,081** | $ | 137,205 |
| FFO per diluted share | **$** | **0.32** | $ | 0.29 | **$** | **0.62** | $ | 0.56 |
| FFO payout ratio | | **67.0%** | | 74.7% | | **69.1%** | | 76.8% |
| Weighted average number of common shares – diluted – FFO (in thousands) | | **246,196** | | 245,186 | | **245,951** | | 245,006 |
| **Adjusted Cash Flow from Operations (2) (4)** | | | | | | | | |
| ACFO | **$** | **74,030** | $ | 58,741 | **$** | **124,332** | $ | 108,421 |
| ACFO payout ratio on a rolling four quarter basis | | | | | | **80.9%** | | 90.5% |

(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 June 30, 2018, the Company had interests in 162 investment properties – shopping centres, which were 96.3% occupied with a total GLA of 25.3 million square feet (23.7 million square feet at the Company's ownership interest) and a fair value of $9.4 billion. This compares to 161 investment properties – shopping centres, which were 96.1% occupied with a total GLA of $25.3 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 June 30, 2018, the average size of the properties is approximately 156,000 square feet, ranging from approximately 9,200 to over 575,100 square feet.

The Same Property portfolio includes properties sub-categorized in Same Property – stable and Same Property with redevelopment. The Same Property portfolio is comprised of 147 properties with a GLA of 22.1 million square feet (20.7 million square feet at the Company's ownership interest) and a fair value of $7.4 billion. These properties represent 90.7% of the Company's property count, 87.2% of its GLA and 79.1% of its fair value as at June 30, 2018.

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

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

| As at | **June 30, 2018** | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| *(millions of dollars, except other data)* | **Number of Properties** | **GLA (000s sq. ft.)** | **Occupancy** | **Weighted Average Rate per Occupied Square Foot** | Number of Properties | GLA (000s sq. ft.) | Occupancy | Weighted Average Rate per Occupied Square Foot |
| Same Property – stable | **136** | **18,443** | **96.8%** | **$ 19.44** | 136 | 18,437 | 96.8% | $ 19.36 |
| Same Property with redevelopment | **11** | **2,222** | **97.0%** | **19.82** | 11 | 2,212 | 97.3% | 19.56 |
| Total Same Property | **147** | **20,665** | **96.8%** | **19.48** | 147 | 20,649 | 96.8% | 19.38 |
| Major redevelopment | **10** | **2,249** | **91.4%** | **23.80** | 10 | 2,287 | 90.3% | 23.15 |
| Ground-up development | **1** | **129** | **97.7%** | **30.98** | 1 | 112 | 97.4% | 29.70 |
| Acquisitions – 2018 | **1** | **28** | **81.1%** | **26.85** | — | — | —% | — |
| Acquisitions – 2017 | **2** | **287** | **94.1%** | **31.87** | 2 | 269 | 93.7% | 29.99 |
| Investment properties classified as held for sale | **1** | **342** | **97.2%** | **10.93** | 1 | 386 | 90.6% | 10.67 |
| Dispositions – 2018 | **—** | **—** | **—%** | **—** | — | 288 | 99.2% | 14.70 |
| Total | **162** | **23,700** | **96.3%** | **$ 19.96** | 161 | 23,991 | 96.1% | $ 19.69 |

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

| As at | June 30, 2018 | | | | | | | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(millions of dollars, except other data)* | **Number of Properties** | **GLA (000s sq. ft.)** | **Fair Value[1]** | **% of Total Fair Value** | **Occupancy** | **Weighted Average Rate per Occupied Square Foot** | **% of Annual Minimum Rent** | Number of Properties | GLA (000s sq. ft.) | Fair Value[1] | % of Total Fair Value | Occupancy | Weighted Average Rate per Occupied Square Foot | % of Annual Minimum Rent |
| **Central Region** | | | | | | | | | | | | | | |
| Greater Toronto Area | **47** | **6,770** | **$ 3,690** | **39%** | **97.3%** | **$ 23.39** | **34%** | 47 | 6,806 | $ 3,593 | 38% | 97.2% | $ 22.97 | 34% |
| Golden Horseshoe Area | **8** | **1,601** | **448** | **5%** | **99.0%** | **16.31** | **6%** | 8 | 1,601 | 446 | 5% | 99.0% | 16.21 | 6% |
| London/Windsor Area [2] | **7** | **504** | **119** | **1%** | **97.9%** | **14.25** | **2%** | 7 | 733 | 179 | 2% | 94.6% | 15.49 | 2% |
| | **62** | **8,875** | **4,257** | **45%** | **97.7%** | **21.58** | **42%** | 62 | 9,140 | 4,218 | 45% | 97.3% | 21.18 | 42% |
| **Eastern Region** | | | | | | | | | | | | | | |
| Greater Montreal Area | **32** | **4,419** | **1,248** | **13%** | **92.8%** | **16.57** | **15%** | 32 | 4,441 | 1,235 | 13% | 93.0% | 16.37 | 15% |
| Greater Ottawa Area | **12** | **1,887** | **569** | **6%** | **96.5%** | **17.91** | **7%** | 12 | 1,990 | 569 | 6% | 97.1% | 17.17 | 7% |
| Quebec City | **5** | **995** | **188** | **2%** | **94.0%** | **11.00** | **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** | **7,521** | **2,049** | **21%** | **93.9%** | **16.10** | **25%** | 51 | 7,645 | 2,038 | 21% | 94.2% | 15.78 | 25% |
| **Western Region** | | | | | | | | | | | | | | |
| Greater Calgary Area | **17** | **2,591** | **1,153** | **12%** | **97.0%** | **22.79** | **12%** | 16 | 2,505 | 1,119 | 12% | 96.9% | 22.71 | 12% |
| Greater Vancouver Area | **19** | **2,154** | **1,115** | **12%** | **96.7%** | **23.67** | **11%** | 19 | 2,145 | 1,111 | 12% | 96.1% | 23.44 | 11% |
| Greater Edmonton Area | **12** | **2,315** | **842** | **9%** | **97.7%** | **19.20** | **9%** | 12 | 2,312 | 830 | 9% | 97.1% | 19.39 | 9% |
| Red Deer | **1** | **244** | **80** | **1%** | **91.5%** | **21.24** | **1%** | 1 | 244 | 80 | 1% | 92.0% | 20.28 | 1% |
| | **49** | **7,304** | **3,190** | **34%** | **97.0%** | **21.85** | **33%** | 48 | 7,206 | 3,140 | 34% | 96.6% | 21.78 | 33% |
| Total | **162** | **23,700** | **$ 9,496** | **100%** | **96.3%** | **$ 19.96** | **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 $43 million as at June 30, 2018 and $58 million as at December 31, 2017.

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

## 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 June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| *(millions of dollars)* | **2018** | 2017 | **2018** | 2017 |
| Balance at beginning of period | **$ 9,325** | $ 8,661 | **$ 9,317** | $ 8,453 |
| Acquisitions | | | | |
| Shopping centres and additional adjacent spaces | **5** | 11 | **22** | 11 |
| Development activities and property improvements | **72** | 58 | **129** | 98 |
| Increase (decrease) in value of investment properties, net | **12** | 235 | **15** | 415 |
| Dispositions | **—** | (4) | **(72)** | (16) |
| Other changes | **1** | — | **4** | — |
| Balance at end of period [1] | **$ 9,415** | $ 8,961 | **$ 9,415** | $ 8,961 |

[1] Includes investment properties classified as held for sale as at June 30, 2018 and 2017 totaling $68 million and $78 million, respectively.

## 2018 Acquisitions

### *Income-producing properties and Additional Adjacent Spaces*

During the six months ended June 30, 2018, the Company acquired four properties, as summarized in the table below:

| Count | Property Name | City/Province | Quarter Acquired | Interest Acquired | GLA (sq. ft.) | Acquisition Cost (in millions) |
|---|---|---|---|---|---|---|
| 1. | 121 Scollard St. (Yorkville Village) | Toronto, ON | Q1 | 100% | 4,500 | $ 8.4 |
| 2. | 731, 739 - 10th Avenue SW (GM Glenbow) | Calgary, AB | Q1 | 50% | 10,400 | 6.0 |
| 3. | 812 - 11th Avenue SW (GM Glenbow) | Calgary, AB | Q1 | 50% | 5,500 | 1.8 |
| 4. | Molson Building | Calgary, AB | Q2 | 75% | 12,800 | 5.4 |
| | Total | | | | 33,200 | $ 21.6 |

### *Development Properties*

During the six months ended June 30, 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 six months ended June 30, 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 properties. In addition, the Company also incurs expenditures for the purposes of expansion, redevelopment and development activities.

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

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

| Six months ended June 30 | | | **2018** | 2017 |
|---|---|---|---|---|
| | **Total Same Property** | **Other Property Categories** | **Total** | Total |
| Revenue sustaining | **$ 6,506** | **$ —** | **$ 6,506** | $ 8,182 |
| Revenue enhancing | **10,127** | **4,447** | **14,574** | 18,015 |
| Expenditures recoverable from tenants | **649** | **281** | **930** | 1,953 |
| Development expenditures | **10,850** | **98,604** | **109,454** | 72,704 |
| Total | **$ 28,132** | **$ 103,332** | **$ 131,464** | $ 100,854 |

During the six months ended June 30, 2018, capital expenditures totaled $131.5 million compared to $100.9 million for the same prior year period. The $30.6 million increase was primarily due to increased development spend related to the King High Line and Mount Royal West development projects, offset by lower spend on revenue enhancing and revenue sustaining expenditures.

## Valuation of Investment Properties

During the six months ended June 30, 2018, the weighted average stabilized capitalization rate of the Company's investment property portfolio remained unchanged from 5.3% as at December 31, 2017. The net increase in the fair value of investment properties of $22.9 million was primarily due to the revaluation of development land and stabilized NOI growth across the portfolio for the six months ended June 30, 2018.

The values of the Company's shopping centres and associated stabilized capitalization rates by region were as follows as at June 30, 2018 and December 31, 2017:

| As at June 30, 2018 | | **Stabilized Capitalization Rate** | | | |
|---|---|---|---|---|---|
| *(millions of dollars)* | **Number of Properties** | **Weighted Average** | **Median** | **Range** | **Fair Value** |
| Central Region | **62** | **5.0%** | **5.3%** | **3.8%-7.0%** | **$ 4,243** |
| Eastern Region | **51** | **5.9%** | **6.0%** | **5.0%-7.0%** | **1,982** |
| Western Region | **49** | **5.2%** | **5.3%** | **3.8%-6.1%** | **3,190** |
| Total or Weighted Average | **162** | **5.3%** | **5.5%** | **3.8%-7.0%** | **$ 9,415** |

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

## Properties Under Development

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

### *Development Pipeline*

As at June 30, 2018, the Company's portfolio is comprised of 23.7 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 June 30, 2018, Management had identified approximately 21.6 million square feet of incremental density. This incremental density represents an opportunity that is almost as large as 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 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.

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 June 30, 2018 | Square feet (in thousands) | | |
|---|---|---|---|
| | Commercial | Residential | Total |
| **Active Development** | | | |
| Same Property with redevelopment | 22 | — | 22 |
| Major redevelopment | 153 | — | 153 |
| Ground-up development | 107 | 162 | 269 |
| | **282** | **162** | **444** |
| **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** | **2,782** | **18,862** | **21,644** |

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 3.0 million of the Company's 21.6 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 3.0 million square feet is comprised of 0.4 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 $161 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 the expiry or removal of tenant encumbrances and zoning approvals. The majority of the incremental residential density is located above income producing shopping centers or their parking areas. As such, the Company takes a measured approach with a view to maximizing long term value when obtaining zoning approvals based on the redevelopment plans for its portfolio as a whole.

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

### *Invested Cost of Properties Under Development*

As at June 30, 2018, the Company had $693.0 million of properties under development and development land parcels at invested cost, representing approximately 7.3% of the value of the total portfolio.

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

| As at June 30, 2018 | | | Invested Cost (in millions) | | |
|---|---|---|---|---|---|
| | Number of Projects | Square Feet [1] [2] (in thousands) | Active Development | Pre-Development | Total |
| Same Property with redevelopment | 3 | 22 | $ 9 | $ — | $ 9 |
| Major redevelopment | 5 | 153 | 142 | 100 | 242 |
| Ground-up development | 2 | 269 | 158 | — | 158 |
| **Total development and redevelopment activities** | **10** | **444** | **$ 309** | **$ 100** | **$ 409** |
| Total development land, adjacent land parcels, and other [3] | | | | $ 284 | $ 284 |
| **Total** | | | | **$ 384** | **$ 693** |

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

(2) Square footage relates to active development only.

(3) Includes all other property categories.

### *2018 Development and Redevelopment Coming Online and Space Going Offline*

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

During the six months ended June 30, 2018, the Company completed the transfer of 121,000 square feet of new urban retail space as well as common areas from development to the income-producing portfolio at a cost of $110.5 million. Of the space transferred, 121,000 square feet became occupied at an average rental rate of $36.76 per square foot, well above the average rate for the portfolio of $19.96.

For the six months ended June 30, 2018, the Company had tenant closures for redevelopment of 93,000 square feet at an average rental rate of $8.43 per square foot. Of the 93,000 square feet, 42,000 square feet was demolished.

### *Active Development and Redevelopment Activities*

The Company’s properties with development and redevelopment activities currently in progress are expected to have a weighted average going-in NOI yield of 5.1% upon completion. This yield is derived from the expected going-in run rate based on stabilized leasing and operations following completion of the development, and includes all building cost, land cost, 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 22,000 square feet under active redevelopment is subject to committed leases at a weighted average rate of $31.34 per square foot.

Highlights of the Company's Same Property with redevelopment projects as at June 30, 2018 are as follows:

| As at June 30, 2018 | | | | | |
|---|---|---|---|---|---|
| | | | Invested Cost (in millions) | | |
| Count/Project and Major Tenant(s) | Square Feet Under Development (in thousands) | Target Completion Date [1] | Total Estimated incl. Land | Under Development | Estimated Cost to Complete |
| **Active development** | | | | | |
| 1. Brampton Corners, Brampton, ON *(PetSmart)* | 18 | H2 2018 | $ 8 | $ 5 | $ 3 |
| 2. Loblaws Plaza, Ottawa, ON *(A&W)* | 2 | H2 2018 | 2 | 1 | 1 |
| 3. Bayview Lane Plaza, Markham, ON *(Starbucks)* | 2 | H2 2018 | 4 | 3 | 1 |
| **Total Same Property with redevelopment** | **22** | | **$ 14** | **$ 9** | **$ 5** |

[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 five projects under active development in the major redevelopment property category. Of the approximately 153,000 square feet under active redevelopment, 74,800 square feet is subject to committed leases at a weighted average rate of $46.05 per square foot. As construction on redevelopment projects occurs in phases, there continues to be ongoing negotiations in various stages with certain retailers for the remaining planned space.

Highlights of the Company's major redevelopment projects underway as at June 30, 2018, including costs for completed phases, are as follows:

| As at June 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Square feet (in thousands) | | | | Invested Cost (in millions) | | | |
| Count / Property and Major Tenant(s) | Planned Upon Completion | Completed or Existing | Under Development | Target Completion Date [1] | Total Estimated incl. Land | Under Development | Income-producing property | Estimated Cost to Complete |
| **Active development** | | | | | | | | |
| 1. Yorkville Village Assets, Toronto, ON *(Whole Foods Market, Equinox Fitness)* | 265 | 235 | 30 | H2 2018 [2] | $ 409 | $ 37 | $ 359 | 13 |
| 2. 3080 Yonge Street, Toronto, ON *(Loblaws, Tim Horton's)* | 245 | 203 | 42 | H2 2018 | 133 | 34 | 94 | 5 |
| 3. Mount Royal West, Calgary, AB *(Urban Fare, Canadian Tire)* | 94 | 61 | 33 | H2 2018 | 70 | 21 | 39 | 10 |
| 4. 102 - 108 Yorkville, Toronto, ON *(Jimmy Choo, Brunello Cucinelli, Versace, Her Majesty's Pleasure (Salon))* | 21 | — | 21 | H2 2018 | 49 | 39 | — | 10 |
| 5. Wilderton, Montreal, QC *{Metro, Pharmaprix, Tim Hortons, SAQ)* | 132 | 105 | 27 | H2 2022 | 58 | 11 | 11 | 36 |
| **Total Major Redevelopment** | **757** | **604** | **153** | | **$ 719** | **$ 142** | **$ 503** | **$ 74** |

[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 H2 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 269,000 square feet of space currently under development, of which 107,000 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 the second half of 2018 and in 2019.

Highlights of the Company's ground-up projects underway as at June 30, 2018, including costs for completed phases, are as follows:

| As at June 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Square feet (in thousands) | | | | Invested Cost (in millions) | | | |
| Count/Project and Major Tenant(s) | Planned Upon Completion | Completed or Existing | Under Development | Target Completion Date [1] | Total Estimated incl. Land | Under Development | Income-producing property | Estimated Cost to Complete |
| **Active development** | | | | | | | | |
| 1. The Brewery District, Edmonton, AB [2] [3] | 159 | 113 | 46 | H2 2019 | $ 96 | $ 21 | $ 73 | $ 2 |
| *(Loblaws City Market, Shoppers Drug Mart, GoodLife Fitness, MEC, Winners)* | | | | | | | | |
| 2. King High Line (Shops at King Liberty), Toronto, ON [2] [4] | 239 | 16 | 223 | H2 2019 | 183 | 137 | 18 | 28 |
| *(Longo's, Canadian Tire, Shoppers Drug Mart, Kids & Company)* | | | | | | | | |
| **Total Ground-up Development** | **398** | **129** | **269** | | **$ 279** | **$ 158** | **$ 91** | **$ 30** |

[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 $126 million. Costs to complete Same Property related developments are planned at $5 million. Costs to complete major redevelopments and ground-up developments, respectively, are planned at $46 million and $16 million in 2018, and $28 million and $14 million thereafter. Costs to complete developments in other property categories are planned at $17 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 June 30, 2018, MMUR has two properties classified as held for sale with expected closing dates within the next several months.

As at June 30, 2018 the Company's total investment in MMUR is approximately $26.0 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 | | June 30, 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) | | **26,100** | | 156,100 |
| Development pipeline and adjacent land (GLA) (1) | | | | |
| Retail pipeline (1) | | **32,983** | | 32,983 |
| Residential pipeline (1) | | **244,946** | | 244,946 |
| Total investment properties - development (1) | **$** | **36,765** | $ | 27,240 |
| Total investment properties - held for sale (1) (2) | **$** | **48,125** | $ | 150,107 |
| Residential development inventory (1) | **$** | **1,186** | $ | 10,219 |
| Total assets (1) | **$** | **103,302** | $ | 194,249 |
| Credit facilities (1) | **$** | **13,846** | $ | 12,195 |
| Credit facilities secured by investment properties held for sale (1) | **$** | **20,191** | $ | 60,635 |

| Six months ended | | June 30, 2018 | | June 30, 2017 |
|---|---|---|---|---|
| Revenue and other income (1) | **$** | **4,198** | $ | 2,750 |
| Expenses and property selling costs (1) | **$** | **1,877** | $ | 1,335 |
| Increase (decrease) in value of investment properties (1) | **$** | **15,535** | $ | 5,738 |
| Development expenditures (1) | **$** | **6,172** | $ | 5,811 |
| Other capital expenditures (1) | **$** | **119** | $ | 224 |

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

(2) Two properties are held for sale and include one income-producing property and one in pre-development.

Through the Company's ownership interest in MMUR, the Company has commenced construction of a 40-storey residential rental tower and retail podium at Dundas and Aukland in Toronto, with a total expected GLA of 347,000 square feet, of which 295,000 is residential space and 52,000 is retail space.

## Leasing and Occupancy

As at June 30, 2018, total portfolio occupancy increased 1.3% to 96.3% while the Same Property portfolio occupancy was up 1.0% compared to June 30, 2017. The increase was primarily related to significant leasing activity over the last twelve months resulting from tenants taking possession of approximately 0.8 million square feet of space. Total portfolio occupancy increased 0.2% to 96.3% while the Same Property portfolio occupancy remained unchanged at 96.8% compared to December 31, 2017.

For the six months ended June 30, 2018, the monthly average occupancy for the total portfolio was 96.1% compared to 94.7%, and the Same Property portfolio occupancy was 96.7% compared to 95.4% for the same prior year period, respectively.

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

| As at | | **June 30, 2018** | | | December 31, 2017 | |
|---|---|---|---|---|---|---|
| *(square feet in thousands)* | **Total Occupied Square Feet** | **% Occupied** | **Weighted Average Rate per Occupied Square Foot** | Total Occupied Square Feet | % Occupied | Weighted Average Rate per Occupied Square Foot |
| Same Property – stable | **17,850** | **96.8%** | **$ 19.44** | 17,843 | 96.8% | $ 19.36 |
| Same Property with redevelopment | **2,156** | **97.0%** | **19.82** | 2,152 | 97.3% | 19.56 |
| Total Same Property | **20,006** | **96.8%** | **19.48** | 19,995 | 96.8% | 19.38 |
| Major redevelopment | **2,056** | **91.4%** | **23.80** | 2,066 | 90.3% | 23.15 |
| Ground-up development | **126** | **97.7%** | **30.98** | 109 | 97.4% | 29.70 |
| Investment properties classified as held for sale | **332** | **97.2%** | **10.93** | 350 | 90.6% | 10.67 |
| Total portfolio before acquisitions and dispositions | **22,520** | **96.3%** | **19.82** | 22,520 | 96.1% | 19.64 |
| Acquisitions – 2018 | **22** | **81.1%** | **26.85** | — | —% | — |
| Acquisitions – 2017 | **270** | **94.1%** | **31.87** | 252 | 93.7% | 29.99 |
| Dispositions – 2018 | **—** | **—%** | **—** | 285 | 99.2% | 14.70 |
| Total [1] | **22,812** | **96.3%** | **$ 19.96** | 23,057 | 96.1% | $ 19.69 |

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

During the three months ended June 30, 2018, the Company completed 1,045,000 square feet of renewals across the portfolio. The Company achieved a 7.8% lease renewal rate increase when comparing the per square foot net rental rate in the last year of the expiring term to the per square foot net rental rate in the first year of the renewal term. For the three months ended June 30, 2018, the Company achieved a 10.4% 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 $19.84 as at March 31, 2018 to $19.96 as at June 30, 2018 primarily due to renewal lifts and developments coming online. Management believes that the weighted average rental rate per square foot for the portfolio would be in the range of $25.00 to $27.00, if the portfolio were at market.

Changes in the Company's gross leasable area and occupancy for the total portfolio for the three months ended June 30, 2018 are set out below:

| *Three months ended June 30, 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 Redevelopment Square Feet (thousands) | % | Vacant Square Feet (thousands) | % | Total Square Feet (thousands) | Occupied Square Feet % | Weighted Average Rate per Occupied Square Foot |
| **March 31, 2018 [2]** | **20,006** | **96.9%** | **$ 19.38** | **2,750** | **91.8%** | **$ 23.18** | **122** | **0.5%** | **770** | **3.3%** | **23,648** | **96.2%** | **$ 19.84** |
| Tenant possession | 90 | | 22.68 | 20 | | 20.30 | — | | (110) | | — | | 22.25 |
| Tenant closures | (105) | | (15.10) | (17) | | (24.30) | — | | 122 | | — | | (16.39) |
| Tenant closures for redevelopment | — | | — | (31) | | (14.52) | 31 | | — | | — | | (14.52) |
| Developments – tenants coming online [3] | 10 | | 34.23 | 68 | | 29.24 | — | | — | | 78 | | 29.86 |
| Redevelopments – tenant possession | — | | — | 6 | | 5.38 | (6) | | — | | — | | 5.38 |
| Demolitions | — | | — | — | | — | (42) | | — | | (42) | | — |
| Reclassification | 5 | | — | (2) | | — | 5 | | (5) | | 3 | | — |
| Total portfolio before Q2 2018 acquisitions and dispositions | 20,006 | 96.8% | $ 19.48 | 2,794 | 92.5% | $ 23.39 | 110 | 0.5% | 777 | 3.3% | 23,687 | 96.3% | $ 19.96 |
| Acquisitions (at date of acquisition) | — | —% | — | 12 | 94.1% | 25.00 | — | | 1 | | 13 | 94.1% | 25.00 |
| Dispositions (at date of disposition) | — | —% | — | — | —% | — | — | | — | | — | —% | — |
| **June 30, 2018** | **20,006** | **96.8%** | **$ 19.48** | **2,806** | **92.5%** | **$ 23.40** | **110** | **0.5%** | **778** | **3.3%** | **23,700** | **96.3%** | **$ 19.96** |
| Renewals | 861 | | $ 17.50 | 184 | | $ 18.98 | | | | | 1,045 | | $ 17.76 |
| Renewals – expired | (861) | | $ (16.38) | (184) | | $ (16.90) | | | | | (1,045) | | $ (16.47) |
| Net change per square foot from renewals | | | $ 1.12 | | | $ 2.08 | | | | | | | $ 1.29 |
| % Increase on renewal of expiring rents (first year of renewal term) | | | 6.8% | | | 12.3% | | | | | | | 7.8% |
| % increase on renewal of expiring rents (average rate in renewal term) | | | | | | | | | | | | | 10.4% |

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

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

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

During the six months ended June 30, 2018, the Company completed 1,398,000 square feet of lease renewals across the portfolio. The Company achieved a 7.7% lease renewal rate increase when comparing the per square foot net rental rate in the last year of the expiring term to the per square foot net rental rate in the first year of the renewal term. For the six months ended June 30, 2018, the Company achieved a 10.0% 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 $19.96 as at June 30, 2018 primarily due to renewal lifts and developments coming online. Total portfolio average rental rate was up $0.57 or 2.9% compared to June 30, 2017 primarily due to rent escalations.

Changes in the Company's gross leasable area and occupancy for the total portfolio for the six months ended June 30, 2018 are set out below:

| *Six months ended June 30, 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 Redevelopment Square Feet (thousands) | % | Vacant Square Feet (thousands) | % | Total Square Feet (thousands) | Occupied Square Feet % | Weighted Average Rate per Occupied Square Foot |
| **December 31, 2017** [2] | **19,995** | **96.8%** | **$ 19.38** | **3,062** | **91.6%** | **$ 21.73** | **151** | **0.6%** | **783** | **3.3%** | **23,991** | **96.1%** | **$ 19.69** |
| Tenant possession | 205 | | 21.00 | 53 | | 18.45 | — | | (258) | | — | | 20.48 |
| Tenant closures | (222) | | (16.72) | (71) | | (21.56) | — | | 293 | | — | | (17.88) |
| Tenant closures for redevelopment | — | | — | (93) | | (8.43) | 93 | | — | | — | | (8.43) |
| Developments – tenants coming online [3] | 13 | | 36.29 | 108 | | 36.81 | — | | — | | 121 | | 36.76 |
| Redevelopments – tenant possession | — | | — | 10 | | 7.20 | (10) | | — | | — | | 7.20 |
| Demolitions | — | | — | — | | — | (42) | | — | | (42) | | — |
| Reclassifications | 10 | | — | (1) | | — | (82) | | (42) | | (115) | | — |
| Total portfolio before 2018 acquisitions and dispositions | 20,001 | 96.8% | $ 19.48 | 3,068 | 93.1% | $ 22.58 | 110 | 0.5% | 776 | 3.2% | 23,955 | 96.3% | $ 19.89 |
| Acquisitions (at date of acquisition) | 5 | 100% | 18.00 | 22 | 81.1% | — | — | —% | 6 | | 33 | 84.2% | 25.12 |
| Dispositions (at date of disposition) | — | 99.0% | — | (284) | 98.6% | 14.79 | — | —% | (4) | | (288) | 98.6% | 14.79 |
| **June 30, 2018** | **20,006** | **96.8%** | **$ 19.48** | **2,806** | **92.5%** | **$ 23.40** | **110** | **0.5%** | **778** | **3.3%** | **23,700** | **96.3%** | **$ 19.96** |
| Renewals | 1,191 | | $ 19.36 | 207 | | $ 19.40 | | | | | 1,398 | | $ 19.36 |
| Renewals – expired | (1,191) | | $ (18.07) | (207) | | $ (17.36) | | | | | (1,398) | | $ (17.97) |
| Net change per square foot from renewals | | | $ 1.29 | | | $ 2.04 | | | | | | | $ 1.39 |
| % Increase on renewal of expiring rents (first year of renewal term) | | | 7.1% | | | 11.8 % | | | | | | | 7.7% |
| % increase on renewal of expiring rents (average rate in renewal term) | | | | | | | | | | | | | 10.0% |

(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 June 30, 2018, 55.5% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2017 – 55.1%). Of these rents, 65.7% 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 7.2 years as at June 30, 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% | 9.9% | BBB | BBB | |
| 2. | Sobeys | 56 | 1,924 | 8.1% | 6.2% | BB (high) | BB+ | |
| 3. | Metro | 48 | 1,327 | 5.6% | 4.0% | BBB | BBB | |
| 4. | Canadian Tire | 27 | 892 | 3.8% | 2.9% | BBB (high) | BBB+ | |
| 5. | Walmart | 15 | 1,491 | 6.3% | 2.7% | AA | AA | Aa2 |
| 6. | TD Canada Trust | 50 | 249 | 1.1% | 2.1% | AA | AA- | Aa1 |
| 7. | RBC Royal Bank | 45 | 241 | 1.0% | 1.9% | AA | AA- | Aa2 |
| 8. | GoodLife Fitness | 26 | 565 | 2.4% | 1.8% | | | |
| 9. | Dollarama | 53 | 504 | 2.1% | 1.7% | BBB | | |
| 10. | CIBC | 38 | 207 | 0.9% | 1.5% | AA | A+ | Aa2 |
| Top 10 Tenants Total | | 455 | 9,610 | 40.6% | 34.7% | | | |
| 11. | Save-On-Foods | 9 | 325 | 1.4% | 1.4% | | | |
| 12. | McKesson | 26 | 230 | 1.0% | 1.3% | | BBB+ | Baa2 |
| 13. | LCBO | 23 | 209 | 0.9% | 1.2% | AA (low) | A+ | Aa2 |
| 14. | Lowes | 4 | 361 | 1.5% | 1.2% | A (low) | A- | A3 |
| 15. | Restaurant Brands International | 61 | 152 | 0.6% | 1.1% | | B+ | B1 |
| 16. | London Drugs | 10 | 233 | 1.0% | 1.1% | | | |
| 17. | BMO | 30 | 127 | 0.5% | 1.0% | AA | A+ | Aa2 |
| 18. | Scotiabank | 25 | 128 | 0.5% | 1.0% | AA | A+ | Aa2 |
| 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 | 0.7% | 0.9% | | | |
| 22. | Nordstrom | 1 | 40 | 0.2% | 0.8% | | | |
| 23. | Starbucks | 43 | 64 | 0.3% | 0.6% | | BBB+ | Baa1 |
| 24. | Michaels | 5 | 88 | 0.4% | 0.6% | | BB- | Ba2 |
| 25. | Recipe Unlimited | 25 | 102 | 0.4% | 0.6% | | | |
| 26. | SAQ | 21 | 102 | 0.4% | 0.6% | A (high) | AA- | Aa2 |
| 27. | Subway | 70 | 78 | 0.3% | 0.5% | | | |
| 28. | Whole Foods Market | 2 | 90 | 0.4% | 0.5% | | A+ | Baa1 |
| 29. | McDonald's | 23 | 88 | 0.4% | 0.5% | | BBB+ | Baa1 |
| 30. | Pusateri's | 1 | 35 | 0.1% | 0.5% | | | |
| 31. | The Beer Store | 12 | 69 | 0.3% | 0.5% | AA (low) | A+ | Aa2 |
| 32. | Toys "R" Us | 3 | 127 | 0.5% | 0.4% | | | |
| 33. | Yum! Brands | 30 | 50 | 0.2% | 0.4% | | BB | Ba3 |
| 34. | Alcanna Inc. | 15 | 56 | 0.2% | 0.4% | | | |
| 35. | The Home Depot | 2 | 153 | 0.6% | 0.4% | A | A | A2 |
| 36. | Williams-Sonoma | 2 | 38 | 0.2% | 0.3% | | | |
| 37. | Pet Valu | 19 | 53 | 0.2% | 0.3% | | | |
| 38. | Equinox | 2 | 38 | 0.2% | 0.3% | | | |
| 39. | Bulk Barn | 12 | 58 | 0.2% | 0.3% | | | |
| 40. | Reitmans | 14 | 56 | 0.2% | 0.3% | | | |
| **Top 40 Tenants Total** | | **972** | **13,464** | **56.7%** | **55.5%** | | | |

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

## Lease Maturity Profile

The Company’s lease maturity profile for its portfolio as at June 30, 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] | 118 | 251 | 1.1% | $ 5,035 | 1.0% | $ 20.08 |
| 2018 | 322 | 1,079 | 4.6% | 19,558 | 4.0% | 18.12 |
| 2019 | 700 | 2,815 | 11.9% | 54,577 | 11.2% | 19.39 |
| 2020 | 636 | 2,708 | 11.4% | 54,864 | 11.2% | 20.26 |
| 2021 | 537 | 2,514 | 10.6% | 51,683 | 10.6% | 20.56 |
| 2022 | 624 | 3,107 | 13.1% | 69,326 | 14.2% | 22.32 |
| 2023 | 495 | 3,097 | 13.1% | 59,256 | 12.1% | 19.13 |
| 2024 | 195 | 1,182 | 5.0% | 26,945 | 5.5% | 22.80 |
| 2025 | 197 | 1,014 | 4.3% | 25,242 | 5.2% | 24.89 |
| 2026 | 165 | 956 | 4.0% | 25,358 | 5.2% | 26.51 |
| 2027 | 179 | 1,195 | 5.0% | 27,378 | 5.6% | 22.90 |
| 2028 | 130 | 889 | 3.7% | 23,339 | 4.8% | 26.26 |
| Thereafter | 94 | 2,005 | 8.5% | 46,325 | 9.4% | 23.11 |
| Total or Weighted Average [2] | 4,392 | 22,812 | 96.3% | $ 488,886 | 100.0% | $ 21.43 |

[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 6.7 years as at June 30, 2018, excluding contractual renewal options, but including month-to-month and other short-term leases.

## Loans, Mortgages and Other Assets

| As at | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| **Non-current** | | |
| Loans and mortgages receivable classified as FVTPL (a) | **$ 1,588** | $ — |
| Loans and mortgages receivable classified as amortized cost (a) | **21,141** | 130,576 |
| Other investments | **12,112** | 2,587 |
| Total non-current | **$ 34,841** | $ 133,163 |
| **Current** | | |
| Loans and mortgages receivable classified as FVTPL (a) | **$ 122,829** | $ — |
| Loans and mortgages receivable classified as amortized cost (a) | **105,754** | 125,265 |
| FVTPL investments in securities (b) | **16,088** | 21,720 |
| Total current | **$ 244,671** | $ 146,985 |
| Total | **$ 279,512** | $ 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 its portfolio is presented below:

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **% change** | **2018** | 2017 | **% change** | **2018** | 2017 |
| Property rental revenue | | | | | | |
| Base rent | | **$ 97,022** | $ 93,613 | | **$ 192,748** | $ 187,074 |
| Operating cost recoveries | | **21,621** | 20,845 | | **44,468** | 43,656 |
| Realty tax recoveries | | **29,007** | 28,323 | | **59,275** | 57,517 |
| Lease surrender fees | | **1,141** | 218 | | **1,892** | 419 |
| Percentage rent | | **620** | 572 | | **1,112** | 905 |
| Prior year operating cost and tax recovery adjustments | | **874** | 329 | | **(1,097)** | (247) |
| Temporary tenants, storage, parking and other | | **3,155** | 2,553 | | **5,678** | 5,380 |
| Total Same Property rental revenue | | **153,440** | 146,453 | | **304,076** | 294,704 |
| Property operating costs | | | | | | |
| Recoverable operating expenses | | **24,059** | 23,262 | | **49,406** | 48,164 |
| Recoverable realty tax expense | | **31,543** | 30,854 | | **64,412** | 62,256 |
| Prior year realty tax expense | | **930** | (194) | | **(1,752)** | (937) |
| Other operating costs and adjustments | | **(508)** | (989) | | **(281)** | (609) |
| Total Same Property operating costs | | **56,024** | 52,933 | | **111,785** | 108,874 |
| **Total Same Property NOI [(1)]** | **4.2%** | **$ 97,416** | $ 93,520 | **3.5%** | **$ 192,291** | $ 185,830 |
| Major redevelopment | | **10,994** | 11,456 | | **21,798** | 21,972 |
| Ground-up development | | **738** | 614 | | **1,495** | 1,072 |
| Acquisitions – 2018 | | **84** | — | | **135** | — |
| Acquisitions – 2017 | | **1,612** | 58 | | **2,699** | 58 |
| Investment properties classified as held for sale | | **809** | 889 | | **1,541** | 1,873 |
| Dispositions – 2018 | | **12** | 1,033 | | **880** | 2,071 |
| Dispositions – 2017 | | **61** | 800 | | **61** | 1,717 |
| Straight-line rent adjustment | | **2,082** | 301 | | **4,543** | 954 |
| Development land | | **8** | 7 | | **15** | 15 |
| **NOI [(1)]** | **4.7%** | **$ 113,816** | 108,678 | **4.6%** | **$ 225,458** | $ 215,562 |
| NOI margin | | **62.6%** | 63.3% | | **62.2%** | 62.2% |

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

For the three and six months ended June 30, 2018, total NOI increased by $5.1 million and $9.9 million, respectively, compared to the same prior year periods primarily due to SP NOI growth and increases in straight-line rent. NOI margin decreased by 0.7% for the three months ended June 30, 2018 compared to the same prior year period primarily due to higher operating costs and higher property tax refunds received on vacant space in the second quarter of 2017. NOI margin for the six months ended June 30, 2018 remained unchanged compared to the same prior year period.

### *Same Property NOI Growth*

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 [1] | **2018** | 2017 [1] |
| Same Property – Stable | **4.1%** | 2.1% | **3.5%** | 1.8% |
| Same Property with redevelopment | **5.1%** | 9.5% | **3.6%** | 9.2% |
| Total Same Property NOI Growth | **4.2%** | 2.8% | **3.5%** | 2.5% |

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

For the three and six months ended June 30, 2018, SP NOI increased by $3.9 million and $6.5 million, or 4.2% and 3.5%, respectively, primarily due to rent escalations, higher lease surrender fees, and pad developments coming online.

### *NOI by Region*

NOI is presented by region as follows:

| Three months ended June 30, 2018 | **Central Region** | **Eastern Region** | **Western Region** | **Other [1]** | **Total** |
|---|---|---|---|---|---|
| Property rental revenue | **$ 75,531** | **$ 48,696** | **$ 58,282** | **$ (657)** | **$ 181,852** |
| Property operating costs | **30,147** | **20,219** | **19,279** | **(1,609)** | **68,036** |
| NOI | **$ 45,384** | **$ 28,477** | **$ 39,003** | **$ 952** | **$ 113,816** |

| Three months ended June 30, 2017 | Central Region | Eastern Region | Western Region | Other [1] | Total |
|---|---|---|---|---|---|
| Property rental revenue | $ 71,212 | $ 44,791 | $ 56,423 | $ (697) | $ 171,729 |
| Property operating costs | 25,813 | 19,271 | 19,389 | (1,422) | 63,051 |
| NOI | $ 45,399 | $ 25,520 | $ 37,034 | $ 725 | $ 108,678 |

| Six months ended June 30, 2018 | **Central Region** | **Eastern Region** | **Western Region** | **Other [1]** | **Total** |
|---|---|---|---|---|---|
| Property rental revenue | **$ 149,098** | **$ 97,707** | **$ 117,149** | **$ (1,317)** | **$ 362,637** |
| Property operating costs | **57,792** | **42,525** | **39,508** | **(2,646)** | **137,179** |
| NOI | **$ 91,306** | **$ 55,182** | **$ 77,641** | **$ 1,329** | **$ 225,458** |

| Six months ended June 30, 2017 | Central Region | Eastern Region | Western Region | Other [1] | Total |
|---|---|---|---|---|---|
| Property rental revenue | $ 143,514 | $ 90,712 | $ 113,826 | $ (1,470) | $ 346,582 |
| Property operating costs | 53,870 | 40,649 | 38,889 | (2,388) | 131,020 |
| NOI | $ 89,644 | $ 50,063 | $ 74,937 | $ 918 | $ 215,562 |

(1) Other items principally consist of intercompany eliminations.

## Interest and Other Income

For the three and six months ended June 30, 2018, the Company's interest and other income totaled $5.7 million and $12.0 million, compared to $6.1 million and $12.1 million, respectively, for the same prior year periods. The decrease of $0.4 million for the three months ended June 30, 2018 was primarily due to lower fees earned on loans and mortgages receivable compared to the same prior year period.

## Interest Expense

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Mortgages | **$ 11,224** | $ 12,300 | **$ 22,171** | $ 23,840 |
| Credit facilities | **4,567** | 2,635 | **9,072** | 5,360 |
| Senior unsecured debentures | **28,591** | 27,512 | **56,869** | 55,306 |
| Convertible debentures | **—** | 1,416 | **446** | 3,437 |
| Interest capitalized | **(6,174)** | (5,179) | **(12,909)** | (10,276) |
| Interest expense | **$ 38,208** | $ 38,684 | **$ 75,649** | $ 77,667 |

For the three months ended June 30, 2018, interest expense decreased by $0.5 million primarily due to the early redemption of higher rate convertible debentures in the current and prior years, partially offset by the impact of new lower rate senior unsecured debenture issuances.

For the six months ended June 30, 2018, interest expense decreased by $2.0 million primarily due to the early redemption of higher rate convertible debentures, higher capitalized interest, partially offset by higher interest on credit facility borrowings.

During the six months ended June 30, 2018 and 2017, approximately 14.6% or $12.9 million, and 11.7% or $10.3 million, respectively, of interest expense was capitalized to real estate investments for properties undergoing development or redevelopment projects. The increase in capitalized interest of $2.6 million is due to higher cumulative development expenditures over the same prior year periods. Amounts capitalized are dependent on interest expense paid, on the phase and magnitude of development and redevelopment projects actively underway as well as the portfolio weighted average interest rate.

## Corporate Expenses

The Company's corporate expenses is as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Salaries, wages and benefits | **$ 6,580** | $ 7,066 | **$ 14,091** | $ 14,206 |
| Non-cash compensation | **1,407** | 1,108 | **2,531** | 2,039 |
| Other corporate costs | **3,507** | 3,043 | **7,110** | 5,823 |
| Total corporate expenses | **11,494** | 11,217 | **23,732** | 22,068 |
| Amounts capitalized to investment properties under development | **(1,911)** | (2,003) | **(3,934)** | (3,590) |
| Corporate expenses | **$ 9,583** | $ 9,214 | **$ 19,798** | $ 18,478 |

For the three and six months ended June 30, 2018, corporate expenses increased by $0.4 million and $1.3 million compared to the same prior year period primarily due to higher non-cash compensation and other corporate costs related to legal and professional fees, as well as higher information technology costs.

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 six months ended June 30, 2018 and 2017, approximately 16.6% or $3.9 million and 16.3% or $3.6 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 June 30* | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Consolidated Statement of Income** | **Included in FFO** | Consolidated Statement of Income | Included in FFO |
| Realized gain (loss) on sale of marketable securities | **$ 4,123** | **$ 4,123** | $ — | $ — |
| Unrealized gain (loss) on marketable securities | **$ (1,420)** | **$ (1,420)** | $ 194 | $ 194 |
| Investment properties selling costs | **(1,024)** | **—** | (129) | — |
| Other | **(72)** | **(72)** | (87) | (87) |
| Total | **$ 1,607** | **$ 2,631** | $ (22) | $ 107 |

| *Six months ended June 30* | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Consolidated Statement of Income** | **Included in FFO** | Consolidated Statement of Income | Included in FFO |
| Realized gain (loss) on sale of marketable securities | **$ 4,123** | **$ 4,123** | $ — | $ — |
| Unrealized gain (loss) on marketable securities | **$ 183** | **$ 183** | $ 493 | $ 493 |
| Net gain (loss) on prepayments of debt (non-cash) | **(726)** | **(726)** | (2,333) | (2,333) |
| Investment properties selling costs | **(1,499)** | **—** | (631) | — |
| Other | **(121)** | **(121)** | (114) | (114) |
| Total | **$ 1,960** | **$ 3,459** | $ (2,585) | $ (1,954) |

For the three months ended June 30, 2018, the Company recognized $1.6 million in other gains and expenses in its consolidated statement of income compared to $22 thousand in other losses and expenses in 2017. The gain in the quarter was primarily due to net gains on marketable securities of $2.7 million, offset by investment property selling costs of $1.0 million. For the six months ended June 30, 2018, the Company recognized $2.0 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 six months ended June 30, 2018 was primarily due to net gains on marketable securities of $4.3 million, partially offset by investment property selling costs of $1.5 million and a $0.7 million non-cash loss on the early redemption of the Series J convertible debentures.

## Income Taxes

For the three and six months ended June 30, 2018, deferred income tax expense totaled $21.9 million and $39.9 million, compared to $50.7 million and $87.7 million respectively, over the same prior year periods. The decrease of $28.8 million and $47.9 million in deferred taxes was primarily due to lower increases in the fair value of investment properties over the same prior year periods.

## Net Income Attributable to Common Shareholders

For the three months ended June 30, 2018, net income attributable to common shareholders was $81.9 million or $0.33 per diluted share compared to $271.5 million or $1.09 per diluted share for the same prior year period. The $189.6 million decrease in net income attributable to common shareholders was primarily due to lower fair value gains of $233.8 million, partially offset by lower deferred taxes of $28.8 million, and a higher share of profit from joint ventures of $13.5 million.

For the six months ended June 30, 2018, net income attributable to common shareholders was $147.9 million or $0.60 per diluted share compared to $475.2 million or $1.91 per diluted share for the same prior year period. The $327.3 million decrease in net income attributable to common shareholders was primarily due to lower fair value gains of $400.6 million, partially offset by lower deferred taxes of $47.9 million, and a higher share of profit from joint ventures of $14.9 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 | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Liabilities (principal amounts outstanding) | | |
| Bank indebtedness | **$ 27,422** | $ 3,144 |
| Mortgages | **1,083,435** | 1,060,342 |
| Credit facilities | **608,557** | 581,627 |
| Mortgages under equity accounted joint ventures (at the Company's proportionate interest) (1) | **41,538** | 41,987 |
| Credit facilities under equity accounted joint venture (at the Company's proportionate interest) (1) | **34,036** | 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 $20.66; December 31, 2017 – $20.72) | **5,062,119** | 5,064,612 |
| Enterprise value (1) | **$ 9,457,107** | $ 9,479,635 |

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

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

### *Key Metrics*

The ratios below include measures not specifically defined in IFRS.

| As at | June 30, 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) | **5.2** | 5.4 |
| Net debt to total assets (1) | **43.3%** | 43.4% |
| Net debt to Adjusted EBITDA (1) | **9.6** | 9.7 |
| Unencumbered aggregate assets (1) | **$ 7,331,964** | $ 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 June 30, 2018 is summarized in the table below:

| | Mortgages | Credit Facilities/Bank Indebtedness | Senior Unsecured Debentures | Total | % Due |
|---|---|---|---|---|---|
| 2018 (remainder of the year) | $ 48,623 | $ — | $ 150,000 | $ 198,623 | 4.6% |
| 2019 | 131,333 | 95,900 | 150,000 | 377,233 | 8.7% |
| 2020 | 90,318 | 199,066 | 175,000 | 464,384 | 10.8% |
| 2021 | 95,302 | — | 175,000 | 270,302 | 6.3% |
| 2022 | 166,026 | — | 450,000 | 616,026 | 14.3% |
| 2023 | 16,371 | 341,013 | 300,000 | 657,384 | 15.2% |
| 2024 | 77,265 | — | 300,000 | 377,265 | 8.7% |
| 2025 | 69,468 | — | 300,000 | 369,468 | 8.6% |
| 2026 | 156,838 | — | 300,000 | 456,838 | 10.6% |
| 2027 | 84,753 | — | 300,000 | 384,753 | 8.9% |
| 2028 | 147,138 | — | — | 147,138 | 3.3% |
| | 1,083,435 | 635,979 | 2,600,000 | 4,319,414 | 100.0% |
| Add (deduct): unamortized deferred financing costs, premiums and discounts, net | (605) | — | (3,347) | (3,952) | |
| Total | $ 1,082,830 | $ 635,979 | $ 2,596,653 | $ 4,315,462 | |

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 six months ended June 30, 2018 are set out below:

| Six months ended June 30, 2018 | Amount | Weighted Average Effective Interest Rate |
|---|---|---|
| Balance at beginning of period | $ 1,060,339 | 4.3% |
| Mortgage borrowings | 126,000 | 3.8% |
| Mortgage repayments | (89,192) | 5.5% |
| Scheduled amortization on mortgages | (13,720) | —% |
| Amortization of financing costs and net premium | (597) | —% |
| Balance at end of period | $ 1,082,830 | 4.1% |

As at June 30, 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 June 30, 2018 on $1.1 billion of mortgages after reflecting borrowing activity and repayments during the period.

### *Mortgage Maturity Profile*

The maturity profile of the Company's mortgages as at June 30, 2018 is summarized in the table below:

| As at June 30, 2018 | Scheduled Amortization | Payments on Maturity | Total | Weighted Average Effective Interest Rate |
|---|---|---|---|---|
| 2018 (remainder of the year) | $ 13,397 | $ 35,226 | $ 48,623 | 5.4% |
| 2019 | 24,619 | 106,714 | 131,333 | 6.5% |
| 2020 | 22,425 | 67,893 | 90,318 | 4.4% |
| 2021 | 21,905 | 73,397 | 95,302 | 4.6% |
| 2022 | 18,072 | 147,954 | 166,026 | 3.9% |
| 2023 | 16,371 | — | 16,371 | N/A |
| 2024 | 15,996 | 61,269 | 77,265 | 4.0% |
| 2025 | 13,573 | 55,895 | 69,468 | 3.5% |
| 2026 | 8,780 | 148,058 | 156,838 | 3.2% |
| 2027 | 4,889 | 79,864 | 84,753 | 3.6% |
| 2028 | 1,416 | 145,722 | 147,138 | 3.8% |
| | $ 161,443 | $ 921,992 | $ 1,083,435 | 4.1% |
| Add: unamortized deferred financing costs and premiums and discounts, net | | | (605) | |
| Total | | | $ 1,082,830 | |

## 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 June 30, 2018, the Company had drawn CAD$228.0 million and US $216.2 million, as well as CAD$27.4 million in bank indebtedness on its unsecured credit facilities. Concurrently with the U.S. dollar draws, the Company entered into cross currency swaps to exchange its U.S. dollar borrowings into Canadian dollar borrowings.

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

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

The Company's credit facilities, including its proportionate share of facilities under the equity accounted joint ventures, as at June 30, 2018 are summarized in the table below:

| As at June 30, 2018 | Borrowing Capacity | Amounts Drawn | Bank Indebtedness and Outstanding Letters of Credit | Available to be Drawn | Interest Rates | Maturity Date |
|---|---|---|---|---|---|---|
| **Unsecured operating facilities** | | | | | | |
| Revolving facility maturing 2023 (1) | $ 800,000 | $ (313,591) | $ (45,978) | $ 440,431 | BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20% | June 30, 2023 |
| Non-revolving facility maturing 2020 (2) | 150,000 | (148,400) | (15,955) | — | BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20% | October 31, 2020 |
| Additional Tranche (3) | 50,000 | (50,666) | — | — | BA + 1.10% or Prime + 0.10% or US$ LIBOR + 1.10% | 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 | 44,096 | (34,036) | — | 10,060 | 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 2019 | 7,500 | (7,500) | — | — | BA + 1.125% or Prime + 0.125% | April 30, 2019 |
| Total | $ 1,194,378 | $ (642,593) | $ (62,601) | $ 504,205 | | |

(1) The Company had drawn in U.S. dollars the equivalent of CAD$84.3 million which was revalued at CAD$85.6 million, in addition to CAD228.0 million drawn as at June 30, 2018.

(2) The Company had drawn in U.S. dollars the equivalent of CAD$150.0 million which was revalued at CAD$148.4 million as at June 30, 2018.

(3) The Company had drawn in U.S. dollars the equivalent of CAD$50.0 million which was revalued at CAD$50.7 million as at June 30, 2018.

## Senior Unsecured Debentures

| As at June 30, 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% | 0.2 | $ 50,000 |
| K | November 30, 2018 | May 31, November 30 | 4.95% | 5.17% | 0.4 | 100,000 |
| L | July 30, 2019 | January 30, July 30 | 5.48% | 5.61% | 1.1 | 150,000 |
| M | April 30, 2020 | April 30, October 30 | 5.60% | 5.60% | 1.8 | 175,000 |
| N | March 1, 2021 | March 1, September 1 | 4.50% | 4.63% | 2.7 | 175,000 |
| O | January 31, 2022 | January 31, July 31 | 4.43% | 4.59% | 3.6 | 200,000 |
| P | December 5, 2022 | June 5, December 5 | 3.95% | 4.18% | 4.4 | 250,000 |
| Q | October 30, 2023 | April 30, October 30 | 3.90% | 3.97% | 5.3 | 300,000 |
| R | August 30, 2024 | August 30, February 28 | 4.79% | 4.72% | 6.2 | 300,000 |
| S | July 31, 2025 | January 31, July 31 | 4.32% | 4.24% | 7.1 | 300,000 |
| T | May 6, 2026 | November 5, May 5 | 3.60% | 3.56% | 7.9 | 300,000 |
| U | July 12, 2027 | January 12, July 12 | 3.75% | 3.82% | 9.0 | 300,000 |
| | Weighted Average or Total | | 4.36% | 4.42% | 5.2 | $ 2,600,000 |

## Convertible Debentures

### *(i) Interest*

During the six months ended June 30, 2018, no common shares (six months ended June 30, 2017 – 0.1 million common shares) were issued to pay accrued interest to holders of the convertible debentures (six months ended June 30, 2017 – $2.4 million).

During the six months ended June 30, 2018, the Company paid $1.0 million (six months ended June 30, 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 June 30, 2018, compared to $4.6 billion as at December 31, 2017. During the six months ended June 30, 2018, a total of 0.6 million common shares were issued from the exercise of common share options and settlement of restricted, and deferred share units.

As at July 31, 2018, there were 254.8 million common shares outstanding.

### *Share Purchase Options*

As at June 30, 2018, the Company had 4.8 million share purchase options outstanding, with an average exercise price of $19.27, which, if exercised, would result in the Company receiving proceeds of $93.1 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) | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Total available under credit facilities | **$ 504** | $ 504 |
| Cash and cash equivalents | **$ 12** | $ 12 |
| Unencumbered aggregate assets | **$ 7,332** | $ 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 June 30, 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 June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Cash provided by operating activities | **$ 51,356** | $ 30,867 | **$ 96,835** | $ 76,837 |
| Cash provided by financing activities | **(35,369)** | 36,134 | **(89,625)** | 27,740 |
| Cash used in investing activities | **(17,770)** | (67,514) | **(7,081)** | (106,075) |
| Net change in cash and cash equivalents | **$ (1,783)** | $ (513) | **$ 129** | $ (1,498) |

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Cash provided by operating activities | **$ 51,356** | $ 30,867 | **$ 96,835** | $ 76,837 |
| Dividends declared | **(52,846)** | (52,648) | **(105,633)** | (105,121) |
| Excess (shortfall) of cash provided by operating activities over dividends declared | **(1,490)** | (21,781) | **(8,798)** | (28,284) |

For the three and six months ended June 30, 2018, dividends declared exceeded cash flows provided by operating activities by $1.5 million and $8.8 million, respectively, representing a return of capital (three and six months ended June 30, 2017 - $21.8 million and $28.3 million, respectively). This shortfall was financed through the use of existing debt and proceeds from investing activities. During the first half of 2018 and 2017, substantial interim realty tax bills were received and paid which gave rise to the shortfall presented above. Cash inflows related to these realty tax bills typically occur in the latter half of the year as tax recoveries are collected from tenants.

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 June 30, 2018 is set out below:

| As at June 30, 2018 | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Remainder of 2018 | 2019 to 2020 | 2021 to 2022 | Thereafter | Total |
| Scheduled mortgage principal amortization | $ 13,397 | $ 47,044 | $ 39,977 | $ 61,025 | $ 161,443 |
| Mortgage principal repayments on maturity | 35,226 | 174,607 | 221,351 | 490,808 | 921,992 |
| Credit facilities and bank indebtedness | — | 294,966 | — | 341,013 | 635,979 |
| Senior unsecured debentures | 150,000 | 325,000 | 625,000 | 1,500,000 | 2,600,000 |
| Interest obligations [(1)] | 87,525 | 298,516 | 219,948 | 223,749 | 829,738 |
| Land leases (expiring between 2023 and 2061) | 535 | 2,024 | 1,942 | 19,051 | 23,552 |
| Contractually committed costs to complete current development projects | 55,021 | 1,820 | — | — | 56,841 |
| Other committed costs | 71,908 | 82,955 | — | — | 154,863 |
| Total contractual obligations | $ 413,612 | $ 1,226,932 | $ 1,108,218 | $ 2,635,646 | $ 5,384,408 |

(1) Interest obligations include expected interest payments on mortgages and credit facilities as at June 30, 2018 (assuming balances remain outstanding through to maturity) and senior unsecured debentures, as well as standby credit facility fees.

The Company has $35.3 million of outstanding letters of credit issued by financial institutions to support certain of the Company's contractual obligations and $27.4 million of bank overdrafts.

The Company's estimated cost to complete properties currently under development is $126.0 million, of which $56.8 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 $119.5 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 Condensed Consolidated Balance Sheets to the Company's Proportionate Interest

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

| *As at* | | | **June 30, 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 | **$ 9,347,041** | **$ 80,775** | **$ 9,427,816** | $ 9,226,206 | $ 78,775 | $ 9,304,981 |
| Investment properties – development land | **59,234** | **36,765** | **95,999** | 72,041 | 27,240 | 99,281 |
| Residential development inventory | **5,483** | **1,186** | **6,669** | 5,483 | 10,219 | 15,702 |
| Loans, mortgages and other assets | **279,512** | **3,137** | **282,649** | 280,148 | 2,849 | 282,997 |
| Cash and cash equivalents | **11,636** | **230** | **11,866** | 11,507 | 1,753 | 13,260 |
| Amounts receivable | **36,226** | **11,570** | **47,796** | 25,437 | 376 | 25,813 |
| Other assets | **94,785** | **8,588** | **103,373** | 47,387 | 1,570 | 48,957 |
| Investment in joint ventures | **136,273** | **(136,273)** | **—** | 202,231 | (202,231) | — |
| Investment properties classified as held for sale | **100,287** | **48,125** | **148,412** | 98,112 | 150,107 | 248,219 |
| Total assets | **$ 10,070,477** | **$ 54,103** | **$10,124,580** | $ 9,968,552 | $ 70,658 | $10,039,210 |
| **LIABILITIES** | | | | | | |
| Mortgages | **$ 1,082,830** | **$ 41,406** | **$ 1,124,236** | $ 1,053,260 | $ 41,772 | $ 1,095,032 |
| Credit facilities | **608,557** | **13,846** | **622,403** | 581,627 | 12,195 | 593,822 |
| Bank indebtedness | **27,422** | **—** | **27,422** | 3,144 | — | 3,144 |
| Senior unsecured debentures | **2,596,653** | **—** | **2,596,653** | 2,595,966 | — | 2,595,966 |
| Convertible debentures | **—** | **—** | **—** | 54,293 | — | 54,293 |
| Deferred tax liabilities | **760,497** | **—** | **760,497** | 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 | **263,921** | **5,664** | **269,585** | 257,068 | 4,669 | 261,737 |
| Total liabilities | **5,339,880** | **81,107** | **5,420,987** | 5,272,868 | 119,271 | 5,392,139 |
| **EQUITY** | | | | | | |
| Shareholders' equity | **4,703,593** | **—** | **4,703,593** | 4,647,071 | — | 4,647,071 |
| Non-controlling interest | **27,004** | **(27,004)** | **—** | 48,613 | (48,613) | — |
| Total equity | **4,730,597** | **(27,004)** | **4,703,593** | 4,695,684 | (48,613) | 4,647,071 |
| Total liabilities and equity | **$ 10,070,477** | **$ 54,103** | **$10,124,580** | $ 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 Condensed Consolidated Statements of Income to the Company's Proportionate Interest

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

| Three months ended June 30 | | | 2018 | | | 2017 |
|---|---|---|---|---|---|---|
| | **Consolidated Statements of Income** | **Adjustment to proportionate interest** | **Proportionate interest** [1] | Consolidated Statements of Income | Adjustment to proportionate interest | Proportionate interest [1] |
| Property rental revenue | **$ 181,852** | **$ 1,731** | **$ 183,583** | $ 171,729 | $ 2,378 | $ 174,107 |
| Property operating costs | **68,036** | **508** | **68,544** | 63,051 | 596 | 63,647 |
| Net operating income | **113,816** | **1,223** | **115,039** | 108,678 | 1,782 | 110,460 |
| Other income and expenses | | | | | | |
| Interest and other income | **5,676** | **2,659** | **8,335** | 6,085 | (40) | 6,045 |
| Interest expense | **(38,208)** | **(471)** | **(38,679)** | (38,684) | (623) | (39,307) |
| Corporate expenses | **(9,583)** | **209** | **(9,374)** | (9,214) | 333 | (8,881) |
| Abandoned transaction costs | **(5)** | **—** | **(5)** | (78) | (1) | (79) |
| Amortization expense | **(595)** | **—** | **(595)** | (498) | — | (498) |
| Share of profit from joint ventures | **26,022** | **(26,022)** | **—** | 12,503 | (12,503) | — |
| Other gains (losses) and (expenses) | **1,607** | **582** | **2,189** | (22) | — | (22) |
| Increase (decrease) in value of investment properties, net | **12,450** | **14,512** | **26,962** | 246,213 | 8,330 | 254,543 |
| | **(2,636)** | **(8,531)** | **(11,167)** | 216,305 | (4,504) | 211,801 |
| Income before income taxes | **111,180** | **(7,308)** | **103,872** | 324,983 | (2,722) | 322,261 |
| Deferred income taxes | **21,943** | **—** | **21,943** | 50,708 | 14 | 50,722 |
| Net income | **$ 89,237** | **$ (7,308)** | **$ 81,929** | $ 274,275 | $ (2,736) | $ 271,539 |
| Net income attributable to: | | | | | | |
| Common shareholders | **$ 81,929** | **$ —** | **$ 81,929** | $ 271,539 | $ — | $ 271,539 |
| Non-controlling interest | **7,308** | **(7,308)** | **—** | 2,736 | (2,736) | — |
| | **$ 89,237** | **$ (7,308)** | **$ 81,929** | $ 274,275 | $ (2,736) | $ 271,539 |
| Net income per share attributable to common shareholders: | | | | | | |
| Basic | **$ 0.33** | | | $ 1.11 | | |
| Diluted | **$ 0.33** | | | $ 1.09 | | |

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

| Six months ended June 30 | | | 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 | **$ 362,637** | **$ 4,262** | **$ 366,899** | $ 346,582 | $ 4,456 | $ 351,038 |
| Property operating costs | **137,179** | **1,560** | **138,739** | 131,020 | 1,438 | 132,458 |
| Net operating income | **225,458** | **2,702** | **228,160** | 215,562 | 3,018 | 218,580 |
| Other income and expenses | | | | | | |
| Interest and other income | **12,008** | **2,623** | **14,631** | 12,122 | 522 | 12,644 |
| Interest expense | **(75,649)** | **(1,206)** | **(76,855)** | (77,667) | (1,205) | (78,872) |
| Corporate expenses | **(19,798)** | **583** | **(19,215)** | (18,478) | 653 | (17,825) |
| Abandoned transaction costs | **(64)** | **(1)** | **(65)** | (102) | (11) | (113) |
| Amortization expense | **(1,128)** | **—** | **(1,128)** | (968) | — | (968) |
| Share of profit from joint ventures | **29,656** | **(29,656)** | **—** | 14,749 | (14,749) | — |
| Other gains (losses) and (expenses) | **1,960** | **(485)** | **1,475** | (2,585) | — | (2,585) |
| Increase (decrease) in value of investment properties, net | **22,889** | **17,880** | **40,769** | 423,447 | 8,665 | 432,112 |
| | **(30,126)** | **(10,262)** | **(40,388)** | 350,518 | (6,125) | 344,393 |
| Income before income taxes | **195,332** | **(7,560)** | **187,772** | 566,080 | (3,107) | 562,973 |
| Deferred income taxes | **39,899** | **—** | **39,899** | 87,749 | 14 | 87,763 |
| Net income | **$ 155,433** | **$ (7,560)** | **$ 147,873** | $ 478,331 | $ (3,121) | $ 475,210 |
| Net income attributable to: | | | | | | |
| Common shareholders | **$ 147,873** | **$ —** | **$ 147,873** | $ 475,210 | $ — | $ 475,210 |
| Non-controlling interest | **7,560** | **(7,560)** | **—** | 3,121 | (3,121) | — |
| | **$ 155,433** | **$ (7,560)** | **$ 147,873** | $ 478,331 | $ (3,121) | $ 475,210 |
| Net income per share attributable to common shareholders: | | | | | | |
| Basic | **$ 0.60** | | | $ 1.94 | | |
| Diluted | **$ 0.60** | | | $ 1.91 | | |

(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 June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Net income attributable to common shareholders | **$ 81,929** | $ 271,539 | **$ 147,873** | $ 475,210 |
| Add (deduct): | | | | |
| (Increase) decrease in value of investment properties (1) | **(26,962)** | (254,543) | **(40,769)** | (432,112) |
| Incremental leasing costs (2) | **1,543** | 1,773 | **3,183** | 3,553 |
| Investment properties selling costs (1) | **442** | 129 | **1,984** | 631 |
| Adjustment for equity accounted joint ventures (3) | **253** | 960 | **911** | 2,160 |
| Deferred income taxes (1) | **21,943** | 50,722 | **39,899** | 87,763 |
| FFO (4) | **$ 79,148** | $ 70,580 | **$ 153,081** | $ 137,205 |

(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:

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | % change | **2018** | 2017 | % change | **2018** | 2017 |
| Net operating income | | **$ 115,039** | $ 110,460 | | **$ 228,160** | $ 218,580 |
| Interest and other income | | **8,335** | 6,045 | | **14,631** | 12,644 |
| Interest expense (1) | | **(38,426)** | (38,347) | | **(75,944)** | (76,712) |
| Corporate expenses (2) | | **(7,831)** | (7,108) | | **(16,032)** | (14,272) |
| Abandoned transaction costs | | **(5)** | (79) | | **(65)** | (113) |
| Amortization expense | | **(595)** | (498) | | **(1,128)** | (968) |
| Other gains (losses) and (expenses) (3) | | **2,631** | 107 | | **3,459** | (1,954) |
| FFO (4) | 12.1% | **$ 79,148** | $ 70,580 | 11.6% | **$ 153,081** | $ 137,205 |
| FFO per diluted share | 11.5% | **$ 0.32** | $ 0.29 | 11.1% | **$ 0.62** | $ 0.56 |
| Weighted average number of common shares – diluted – FFO (in thousands) | 0.4% | **246,196** | 245,186 | 0.4% | **245,951** | 245,006 |

(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 June 30, 2018, FFO totaled $79.1 million or $0.32 per diluted share compared to $70.6 million or $0.29 per diluted share in the same prior year period. The $8.6 million increase in FFO over the prior year period is primarily due to NOI increasing by $4.6 million largely 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, as well as higher other gains of $2.5 million due to net gains on marketable securities.

For the six months ended June 30, 2018, FFO totaled $153.1 million or $0.62 per diluted share compared to $137.2 million or $0.56 per diluted share for the same prior year period. The $15.9 million increase in FFO was due to NOI increasing by $9.6 million primarily due to growth in SP NOI and an increase in straight-line rent due to a greater number of tenants in fixturing over the prior year. In addition, FFO also increased due to a $5.4 million increase in other gains primarily due to higher net gains on marketable securities of $3.8 million and lower non-cash losses of $1.6 million on early redemptions of convertible debentures over the prior year.

### *Adjusted Cash Flow from Operations*

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Cash provided by operating activities | **$ 51,356** | $ 30,867 | **$ 96,835** | $ 76,837 |
| Add (deduct): | | | | |
| Working capital adjustments [1] | **20,714** | 32,995 | **27,860** | 37,207 |
| Adjustment for equity accounted joint ventures | **1,097** | 1,472 | **2,198** | 3,446 |
| Revenue sustaining capital expenditures | **(3,173)** | (5,289) | **(6,506)** | (8,182) |
| Recoverable capital expenditures | **(459)** | (1,817) | **(930)** | (1,953) |
| Leasing costs on properties under development | **386** | 445 | **796** | 890 |
| Realized gain (loss) on sale of marketable securities | **4,123** | — | **4,123** | — |
| Non-controlling interest | **(14)** | 68 | **(44)** | 176 |
| ACFO [2] | **$ 74,030** | $ 58,741 | **$ 124,332** | $ 108,421 |

[1] Working capital adjustments primarily include adjustments for prepaid as well as accrued property taxes as their levels vary considerably over the course of the year as well as certain other adjustments as specified in the most recent REALPAC whitepaper on ACFO issued in February 2018.
[2] Refer to the "Non-IFRS Financial Measures" section of this MD&A.

For the three and six months ended June 30, 2018, ACFO totaled $74.0 million and $124.3 million compared to $58.7 million and $108.4 million for the same prior year period periods, respectively. The increase in ACFO was primarily due to higher NOI, realized gains on the sale of the Company's marketable securities, and lower capital expenditures compared to the same prior year periods.

### *ACFO Payout Ratio*

The Company's ACFO payout ratio for the four quarters ended June 30, 2018 is calculated as follow:

| | **Twelve months ended June 30, 2018** | **Q2 2018** | **Q1 2018** | **Q4 2017** | **Q3 2017** |
|---|---|---|---|---|---|
| ACFO [1] | **$ 259,554** | $ 74,030 | $ 50,302 | $ 63,001 | $ 72,221 |
| Cash dividends paid | **210,084** | 52,636 | 52,553 | 52,452 | 52,443 |
| ACFO payout ratio [1] | **80.9%** | | | | |

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

The Company's ACFO payout ratio for the four quarters ended June 30, 2017 is calculated as follow:

| | **Twelve months ended June 30, 2017** | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|---|---|---|---|---|---|
| ACFO [1] | $ 229,398 | $ 58,741 | $ 49,680 | $ 53,470 | $ 67,507 |
| Cash dividends paid | 207,493 | 52,395 | 52,330 | 52,214 | 50,554 |
| ACFO payout ratio [1] | 90.5% | | | | |

[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 June 30, 2018, the ACFO payout ratio was 80.9% (June 30, 2017 – 90.5%).

# 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 June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| *(in dollars)* | **2018** | 2017 | **2018** | 2017 |
| Dividend per common share | **$ 0.215** | $ 0.215 | **$ 0.430** | $ 0.430 |

# SUMMARY OF FINANCIAL RESULTS OF LONG-TERM DEBT GUARANTORS

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

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

| *(millions of dollars)* | | | | | | | | | | Three months ended June 30 |
|---|---|---|---|---|---|---|---|---|---|---|
| | **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 | **$ 77** | $ 71 | **$ 106** | $ 101 | **$ (2)** | $ 2 | **$ 1** | $ (2) | **$ 182** | $ 172 |
| NOI [5] | **51** | 48 | **63** | 61 | **(1)** | 1 | **1** | (1) | **114** | 109 |
| Net income attributable to common shareholders | **82** | 272 | **43** | 220 | **15** | 11 | **(58)** | (231) | **82** | 272 |

| *(millions of dollars)* | | | | | | | | | | Six months ended June 30 |
|---|---|---|---|---|---|---|---|---|---|---|
| | **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 | **$ 153** | $ 145 | **$ 211** | $ 203 | **$ —** | $ 3 | **$ (1)** | $ (4) | **$ 363** | $ 347 |
| NOI [5] | **101** | 96 | **125** | 120 | **—** | 2 | **(1)** | (2) | **225** | 216 |
| Net income attributable to common shareholders | **148** | 475 | **95** | 382 | **18** | 13 | **(113)** | (395) | **148** | 475 |

| *(millions of dollars)* | | | | | As at June 30, 2018 |
|---|---|---|---|---|---|
| | FCR [1] | Guarantors [2] | Non-Guarantors [3] | Consolidation Adjustments [4] | Total Consolidated |
| Current assets | **$ 326** | **$ 143** | **$ 1** | **$ (10)** | **$ 460** |
| Non-current assets | **9,086** | **4,878** | **46** | **(4,399)** | **9,611** |
| Current liabilities | **446** | **151** | **—** | **28** | **625** |
| Non-current liabilities | **4,236** | **519** | **—** | **(40)** | **4,715** |

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

(1) This column represents FCR and all of its subsidiaries; FCR's subsidiaries are presented under the equity method.
(2) This column represents the aggregate of all Guarantor subsidiaries.
(3) This column represents the aggregate of all Non-Guarantor subsidiaries.
(4) This column includes the necessary amounts to eliminate the inter-company balances between FCR, the Guarantors, and Non-Guarantors to arrive at the information for the Company on a consolidated basis.
(5) Refer to the "Non-IFRS Financial Measures" section of this MD&A.

# RELATED PARTY TRANSACTIONS

## Significant Shareholder

Gazit-Globe Ltd. ("Gazit") is a significant shareholder of the Company, and, as of June 30, 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 and six months ended June 30, 2018, the Company earned fee income of $0.5 million (June 30, 2017 – $0.7 million) and $1.2 million (June 30, 2017 – $1.2 million), respectively, from its joint ventures. Also during the six months ended June 30, 2018, the Company advanced $0.8 million (June 30, 2017 – $0.2 million) 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

### *Third Quarter Dividend*

The Company announced that it will pay a third quarter dividend of $0.215 per common share on October 17, 2018 to shareholders of record on September 28, 2018.

### *Equity Offering*

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

### *Changes to Board of Directors*

On August 1, 2018, (i) Mia Stark resigned from the Board due to personal commitments, and (ii) the Board appointed Jeff Mooallem as a director of the Company, effective immediately.

# QUARTERLY FINANCIAL INFORMATION

| | 2018 | | 2017 | | | | 2016 | |
|---|---|---|---|---|---|---|---|---|
| *(share counts in thousands)* | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Property rental revenue | **$ 181,852** | $ 180,785 | $ 177,206 | $ 170,670 | $ 171,729 | $ 174,853 | $ 172,731 | $ 167,877 |
| Net operating income [1] | **$ 113,816** | $ 111,642 | $ 111,337 | $ 110,610 | $ 108,678 | $ 106,884 | $ 106,306 | $ 107,612 |
| Net income attributable to common shareholders | **$ 81,929** | $ 65,944 | $ 74,833 | $ 83,046 | $ 271,539 | $ 203,671 | $ 57,739 | $ 88,464 |
| Net income per share attributable to common shareholders: | | | | | | | | |
| Basic | **$ 0.33** | $ 0.27 | $ 0.31 | $ 0.34 | $ 1.11 | $ 0.83 | $ 0.24 | $ 0.37 |
| Diluted | **$ 0.33** | $ 0.27 | $ 0.30 | $ 0.34 | $ 1.09 | $ 0.82 | $ 0.24 | $ 0.36 |
| Weighted average number of diluted common shares outstanding – IFRS | **246,196** | 247,044 | 248,266 | 248,626 | 250,516 | 250,232 | 252,602 | 250,596 |
| FFO [1] | **$ 79,148** | $ 73,933 | $ 73,185 | $ 73,720 | $ 70,580 | $ 66,625 | $ 66,824 | $ 67,451 |
| FFO per diluted share [1] | **$ 0.32** | $ 0.30 | $ 0.30 | $ 0.30 | $ 0.29 | $ 0.27 | $ 0.27 | $ 0.28 |
| Weighted average number of diluted common shares outstanding – FFO | **246,196** | 245,717 | 245,422 | 245,137 | 245,186 | 244,820 | 244,554 | 240,708 |
| Cash provided by operating activities | **$ 51,356** | $ 45,479 | $ 107,364 | $ 85,956 | $ 30,867 | $ 45,970 | $ 96,950 | $ 68,607 |
| ACFO [1] | **$ 74,030** | $ 50,302 | $ 63,001 | $ 72,221 | $ 58,741 | $ 49,680 | $ 53,470 | $ 67,507 |
| Dividend per common share | **$ 0.215** | $ 0.215 | $ 0.215 | $ 0.215 | $ 0.215 | $ 0.215 | $ 0.215 | $ 0.215 |
| Total assets | **$10,070,477** | $ 9,980,267 | $ 9,968,552 | $ 9,861,267 | $ 9,688,357 | $ 9,334,216 | $ 9,104,553 | $ 9,068,841 |
| Total mortgages and credit facilities | **$ 1,691,387** | $ 1,694,732 | $ 1,641,966 | $ 1,456,226 | $ 1,609,827 | $ 1,527,179 | $ 1,248,646 | $ 1,277,697 |
| Shareholders' equity | **$ 4,703,593** | $ 4,669,877 | $ 4,647,071 | $ 4,618,170 | $ 4,577,648 | $ 4,352,882 | $ 4,195,263 | $ 4,171,426 |
| **Other** | | | | | | | | |
| Number of properties | **162** | 161 | 161 | 159 | 160 | 160 | 160 | 159 |
| GLA - at 100% (in thousands) | **25,327** | 25,267 | 25,390 | 25,168 | 25,217 | 25,215 | 25,278 | 25,137 |
| GLA - at ownership interest (in thousands) | **23,700** | 23,648 | 23,991 | 23,751 | 23,798 | 23,791 | 23,820 | 23,721 |
| Monthly average occupancy % | **96.2%** | 96.0% | 95.4% | 95.0% | 94.8% | 94.6% | 94.9% | 95.0% |
| Total portfolio occupancy % | **96.3%** | 96.2% | 96.1% | 95.3% | 95.0% | 94.5% | 94.9% | 94.9% |

[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 and six months ended June 30, 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 June 30, 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 and six months ended June 30, 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 June 30, 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 June 30, 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.

# FS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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# Interim Condensed Consolidated Balance Sheets

| As at<br>*(thousands of dollars)* | Note | **June 30, 2018**<br>**(unaudited)** | December 31, 2017<br>(audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current Assets** | | | |
| **Real Estate Investments** | | | |
| Investment properties – shopping centres | 4 | **$ 9,347,041** | $ 9,226,206 |
| Investment properties – development land | 4 | **59,234** | 72,041 |
| Investment in joint ventures | | **136,273** | 202,231 |
| Loans, mortgages and other assets | 5 | **34,841** | 133,163 |
| Total real estate investments | | **9,577,389** | 9,633,641 |
| Other non-current assets | 7 | **33,580** | 32,008 |
| Total non-current assets | | **9,610,969** | 9,665,649 |
| **Current Assets** | | | |
| Cash and cash equivalents | 24(d) | **11,636** | 11,507 |
| Loans, mortgages and other assets | 5 | **244,671** | 146,985 |
| Residential development inventory | | **5,483** | 5,483 |
| Amounts receivable | 6 | **36,226** | 25,437 |
| Other assets | 7 | **61,205** | 15,379 |
| | | **359,221** | 204,791 |
| Investment properties classified as held for sale | 4(d) | **100,287** | 98,112 |
| Total current assets | | **459,508** | 302,903 |
| Total assets | | **$ 10,070,477** | $ 9,968,552 |
| **LIABILITIES** | | | |
| **Non-current Liabilities** | | | |
| Mortgages | 9 | **$ 965,715** | $ 903,807 |
| Credit facilities | 9 | **524,532** | 558,555 |
| Senior unsecured debentures | 10 | **2,446,774** | 2,446,291 |
| Convertible debentures | 11 | **—** | 54,293 |
| Other liabilities | 12 | **17,154** | 16,914 |
| Deferred tax liabilities | 19 | **760,497** | 720,431 |
| Total non-current liabilities | | **4,714,672** | 4,700,291 |
| **Current Liabilities** | | | |
| Bank indebtedness | | **27,422** | 3,144 |
| Mortgages | 9 | **117,115** | 149,453 |
| Credit facilities | 9 | **84,025** | 23,072 |
| Senior unsecured debentures | 10 | **149,879** | 149,675 |
| Accounts payable and other liabilities | 12 | **246,767** | 240,154 |
| | | **625,208** | 565,498 |
| Mortgages on investment properties classified as held for sale | 4(d), 9 | **—** | 7,079 |
| Total current liabilities | | **625,208** | 572,577 |
| Total liabilities | | **5,339,880** | 5,272,868 |
| **EQUITY** | | | |
| Shareholders' equity | 13 | **4,703,593** | 4,647,071 |
| Non-controlling interest | 23 | **27,004** | 48,613 |
| Total equity | | **4,730,597** | 4,695,684 |
| Total liabilities and equity | | **$ 10,070,477** | $ 9,968,552 |

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

Approved by the Board of Directors:

Al Mawani

Adam Paul

Aladin (AL) W. Mawani
*Director*

Adam E. Paul
*Director*

# Interim Condensed Consolidated Statements of Income

| *(unaudited)* | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| *(thousands of dollars, except per share amounts)* | **Note** | **2018** | 2017 | **2018** | 2017 |
| Property rental revenue | | **$ 181,852** | $ 171,729 | **$ 362,637** | $ 346,582 |
| Property operating costs | | **68,036** | 63,051 | **137,179** | 131,020 |
| **Net operating income** | 14 | **113,816** | 108,678 | **225,458** | 215,562 |
| | | | | | |
| **Other income and expenses** | | | | | |
| Interest and other income | 15 | **5,676** | 6,085 | **12,008** | 12,122 |
| Interest expense | 16 | **(38,208)** | (38,684) | **(75,649)** | (77,667) |
| Corporate expenses | 17 | **(9,583)** | (9,214) | **(19,798)** | (18,478) |
| Abandoned transaction costs | | **(5)** | (78) | **(64)** | (102) |
| Amortization expense | | **(595)** | (498) | **(1,128)** | (968) |
| Share of profit from joint ventures | | **26,022** | 12,503 | **29,656** | 14,749 |
| Other gains (losses) and (expenses) | 18 | **1,607** | (22) | **1,960** | (2,585) |
| Increase (decrease) in value of investment properties, net | 4 | **12,450** | 246,213 | **22,889** | 423,447 |
| | | **(2,636)** | 216,305 | **(30,126)** | 350,518 |
| **Income before income taxes** | | **111,180** | 324,983 | **195,332** | 566,080 |
| Deferred income taxes | 19 | **21,943** | 50,708 | **39,899** | 87,749 |
| **Net income** | | **$ 89,237** | $ 274,275 | **$ 155,433** | $ 478,331 |
| Net income attributable to: | | | | | |
| Common shareholders | | **$ 81,929** | $ 271,539 | **$ 147,873** | $ 475,210 |
| Non-controlling interest | 23 | **7,308** | 2,736 | **7,560** | 3,121 |
| | | **$ 89,237** | $ 274,275 | **$ 155,433** | $ 478,331 |
| Net income per share attributable to common shareholders: | | | | | |
| Basic | 20 | **$ 0.33** | $ 1.11 | **$ 0.60** | $ 1.94 |
| Diluted | 20 | **$ 0.33** | $ 1.09 | **$ 0.60** | $ 1.91 |

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

# Interim Condensed Consolidated Statements of Comprehensive Income

| *(unaudited)* | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| *(thousands of dollars)* | **Note** | **2018** | 2017 | **2018** | 2017 |
| **Net income** | | **$ 89,237** | $ 274,275 | **$ 155,433** | $ 478,331 |
| **Other comprehensive income (loss)** | | | | | |
| Unrealized gain (loss) on cash flow hedges [1] | | **1,277** | 4,773 | **3,688** | 3,733 |
| Reclassification of net losses on cash flow hedges to net income | | **368** | 426 | **769** | 904 |
| | | **1,645** | 5,199 | **4,457** | 4,637 |
| Deferred tax expense (recovery) | | **438** | 1,383 | **1,186** | 1,233 |
| Other comprehensive income (loss) | | **1,207** | 3,816 | **3,271** | 3,404 |
| **Comprehensive income** | | **$ 90,444** | $ 278,091 | **$ 158,704** | $ 481,735 |
| Comprehensive income attributable to: | | | | | |
| Common shareholders | | **$ 83,136** | $ 275,355 | **$ 151,144** | $ 478,614 |
| Non-controlling interest | 23 | **7,308** | 2,736 | **7,560** | 3,121 |
| | | **$ 90,444** | $ 278,091 | **$ 158,704** | $ 481,735 |

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

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

# Interim Condensed Consolidated Statements of Changes in Equity

| (unaudited)<br>(thousands of dollars) | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Share Capital | Contributed Surplus and Other Equity Items | Total Shareholders' Equity | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | | | *(Note 13(a))* | *(Note 13(b))* | | *(Note 23)* | |
| **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 | 147,873 | — | — | — | 147,873 | 7,560 | 155,433 |
| Dividends | (105,633) | — | — | — | (105,633) | — | (105,633) |
| Options, deferred share units, restricted share units, and performance share units, net | — | — | 10,795 | 216 | 11,011 | — | 11,011 |
| Other comprehensive gain (loss) | — | 3,271 | — | — | 3,271 | — | 3,271 |
| Contributions from (distributions to) non-controlling interest, net | — | — | — | — | — | (29,169) | (29,169) |
| **June 30, 2018** | **$ 1,487,759** | **$ 3,311** | **$ 3,170,337** | **$ 42,186** | **$ 4,703,593** | **$ 27,004** | **$ 4,730,597** |

| (unaudited)<br>(thousands of dollars) | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Share Capital | Contributed Surplus and Other Equity Items | Total Shareholders' Equity | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| December 31, 2016 | $ 1,022,863 | $ (11,698) | $ 3,142,399 | $ 41,699 | $ 4,195,263 | $ 37,820 | $ 4,233,083 |
| Changes during the period: | | | | | | | |
| Net income | 475,210 | — | — | — | 475,210 | 3,121 | 478,331 |
| Issue costs, net of tax | — | — | (176) | — | (176) | — | (176) |
| Dividends | (105,121) | — | — | — | (105,121) | — | (105,121) |
| Interest on convertible debentures paid in common shares | — | — | 2,442 | — | 2,442 | — | 2,442 |
| Conversion of convertible debentures | — | — | 107 | (3) | 104 | — | 104 |
| Options, deferred share units, restricted share units, and performance share units, net | — | — | 5,320 | 1,202 | 6,522 | — | 6,522 |
| Other comprehensive gain (loss) | — | 3,404 | — | — | 3,404 | — | 3,404 |
| June 30, 2017 | $ 1,392,952 | $ (8,294) | $ 3,150,092 | $ 42,898 | $ 4,577,648 | $ 40,941 | $ 4,618,589 |

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

# Interim Condensed Consolidated Statements of Cash Flows

| *(unaudited)* | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| *(thousands of dollars)* | **Note** | **2018** | 2017 | **2018** | 2017 |
| **OPERATING ACTIVITIES** | | | | | |
| Net income | | **$ 89,237** | $ 274,275 | **$ 155,433** | $ 478,331 |
| Adjustments for: | | | | | |
| (Increase) decrease in value of investment properties, net | 4 | **(12,450)** | (246,213) | **(22,889)** | (423,447) |
| Interest expense | 16 | **38,208** | 38,684 | **75,649** | 77,667 |
| Amortization expense | | **595** | 498 | **1,128** | 968 |
| Share of profit of joint ventures | | **(26,022)** | (12,503) | **(29,656)** | (14,749) |
| Cash interest paid associated with operating activities | 16 | **(32,878)** | (36,619) | **(74,822)** | (78,198) |
| Items not affecting cash and other items | 24(a) | **19,274** | 49,683 | **35,107** | 89,572 |
| Net change in non-cash operating items | 24(b) | **(24,608)** | (36,938) | **(43,115)** | (53,307) |
| Cash provided by (used in) operating activities | | **51,356** | 30,867 | **96,835** | 76,837 |
| **FINANCING ACTIVITIES** | | | | | |
| Mortgage borrowings, net of financing costs | 9 | **57,676** | — | **125,576** | 103,356 |
| Mortgage principal instalment payments | 9 | **(6,682)** | (7,376) | **(13,673)** | (14,311) |
| Mortgage repayments | 9 | **—** | (31,507) | **(89,192)** | (32,911) |
| Credit facilities, net advances (repayments) | 9 | **(35,469)** | 127,016 | **39,995** | 303,940 |
| 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 | | **—** | (5) | **—** | (107) |
| Issuance of common shares, net of issue costs | | **1,742** | 401 | **7,958** | 3,634 |
| Payment of dividends | | **(52,636)** | (52,395) | **(105,189)** | (104,725) |
| Cash provided by (used in) financing activities | | **(35,369)** | 36,134 | **(89,625)** | 27,740 |
| **INVESTING ACTIVITIES** | | | | | |
| Acquisition of shopping centres | 4(c) | **(5,420)** | (10,760) | **(21,560)** | (10,760) |
| Acquisition of development land | 4(c) | **—** | — | **(1,794)** | — |
| Net proceeds from property dispositions | 4(d) | **(1,024)** | 3,971 | **70,576** | 15,810 |
| Distributions from joint ventures | | **1,205** | 1,560 | **103,889** | 3,082 |
| Contributions to joint ventures | | **(7,168)** | (576) | **(8,275)** | (1,152) |
| Net contributions from (distributions to) non-controlling interest | | **85** | — | **(29,169)** | — |
| Capital expenditures on investment properties | | **(72,739)** | (58,393) | **(131,462)** | (100,854) |
| Changes in investing-related prepaid expenses and other liabilities | | **5,907** | (1,025) | **7,941** | (2,911) |
| Changes in loans, mortgages and other assets | 24(c) | **61,384** | (2,291) | **2,773** | (9,290) |
| Cash provided by (used in) investing activities | | **(17,770)** | (67,514) | **(7,081)** | (106,075) |
| Net increase (decrease) in cash and cash equivalents | | **(1,783)** | (513) | **129** | (1,498) |
| Cash and cash equivalents, beginning of period | | **13,419** | 11,232 | **11,507** | 12,217 |
| Cash and cash equivalents, end of period | 24(d) | **$ 11,636** | $ 10,719 | **$ 11,636** | $ 10,719 |

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 August 1, 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"*

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

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

### *Revenue from contracts with customers*

IFR5 15 "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.

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

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

## (b) Recent Accounting Pronouncements Not Yet Adopted

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Company and 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 six months ended June 30, 2018 and year ended December 31, 2017:

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | **Six months ended June 30, 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** | | **—** | | **13,154** | | **23,354** | **21,560** | **1,794** |
| Capital expenditures | | **88,263** | | **12,575** | | **30,624** | | **131,462** | **128,600** | **2,862** |
| Increase (decrease) in value of investment properties, net | | **19,444** | | **(1,214)** | | **4,659** | | **22,889** | **14,727** | **8,162** |
| Straight-line rent and other changes | | **(382)** | | **3,267** | | **1,688** | | **4,573** | **4,573** | **—** |
| Dispositions | | **(66,000)** | | **(6,075)** | | **—** | | **(72,075)** | **(72,075)** | **—** |
| Balance at end of period | **$** | **4,315,282** | **$** | **1,988,630** | **$** | **3,202,650** | **$** | **9,506,562** | **$ 9,414,691** | **$ 91,871** |
| Investment properties | | | | | | | | | **$ 9,347,041** | **$ 59,234** |
| Investment properties classified as held for sale | | | | | | | | | **67,650** | **32,637** |
| Total | | | | | | | | | **$ 9,414,691** | **$ 91,871** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | 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 $2.6 billion (December 31, 2017 – $2.6 billion) are pledged as security for $1.7 billion (December 31, 2017 – $1.6 billion) in mortgages and credit facilities.

## (b) Investment property valuation

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

| As at | | | | **June 30, 2018** | | | | December 31, 2017 |
|---|---|---|---|---|---|---|---|---|
| | **Weighted Average** | | | | Weighted Average | | | |
| *($ millions)* | **Central Region** | **Eastern Region** | **Western Region** | **Total** | Central Region | Eastern Region | Western Region | Total |
| Overall Capitalization Rate | **5.0%** | **5.9%** | **5.2%** | **5.3%** | 5.1% | 5.9% | 5.2% | 5.3% |
| Terminal Capitalization Rate | **5.1%** | **6.0%** | **5.3%** | **5.3%** | 5.1% | 6.0% | 5.3% | 5.4% |
| Discount Rate | **5.7%** | **6.5%** | **5.8%** | **5.9%** | 5.8% | 6.6% | 5.8% | 6.0% |
| Fair Value | **$ 4,243** | **$ 1,982** | **$ 3,190** | **$ 9,415** | $ 4,204 | $ 1,973 | $ 3,140 | $ 9,317 |

The sensitivity of the fair values of shopping centres to stabilized overall capitalization rates as at June 30, 2018 is set out in the table below:

| As at June 30, 2018 | *(millions of dollars)* |
|---|---|
| (Decrease) Increase in stabilized overall capitalization rate | Resulting increase (decrease) in fair value of shopping centres |
| (0.75%) | $ 1,417 |
| (0.50%) | $ 898 |
| (0.25%) | $ 430 |
| 0.25% | $ (377) |
| 0.50% | $ (729) |
| 0.75% | $ (1,051) |

Additionally, a 1% increase or decrease in stabilized net operating income ("SNOI") would result in a $93 million increase or a $78 million decrease, respectively, in the fair value of shopping centres. SNOI is not a measure defined by IFRS. SNOI reflects 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 $520 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 $459 million.

## (c) Investment properties – Acquisitions

During the six months ended June 30, 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 June 30 | | **2018** | | 2017 |
|---|---|---|---|---|
| | **Shopping Centres** | **Development Land** | Shopping Centres | Development Land |
| Total purchase price, including acquisition costs | **$ 5,420** | **$ —** | $ 10,760 | $ — |
| Total cash paid | **$ 5,420** | **$ —** | $ 10,760 | $ — |

| Six months ended June 30 | | **2018** | | 2017 |
|---|---|---|---|---|
| | **Shopping Centres** | **Development Land** | Shopping Centres | Development Land |
| Total purchase price, including acquisition costs | **$ 21,560** | **$ 1,794** | $ 10,760 | $ — |
| Total cash paid | **$ 21,560** | **$ 1,794** | $ 10,760 | $ — |

## (d) Investment properties classified as held for sale

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

| As at | | **June 30, 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 and six months ended June 30, 2018 and 2017, the Company sold shopping centres and development land as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Total selling price | **$ —** | $ 4,100 | **$ 72,075** | $ 16,441 |
| Property selling costs | **(1,024)** | (129) | **(1,499)** | (631) |
| Total cash proceeds | **$ (1,024)** | $ 3,971 | **$ 70,576** | $ 15,810 |

## (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 June 30, 2018 | **Central Region** | **Eastern Region** | **Western Region** | **Total** |
|---|---|---|---|---|
| Total shopping centres and development land [1] | **$ 4,315,282** | **$ 1,988,630** | **$ 3,202,650** | **$ 9,506,562** |
| Cash and cash equivalents | | | | **11,636** |
| Loans, mortgages and other assets | | | | **279,512** |
| Other assets | | | | **94,785** |
| Amounts receivable | | | | **36,226** |
| Investment in joint ventures | | | | **136,273** |
| Residential development inventory | | | | **5,483** |
| Total assets | | | | **$ 10,070,477** |

| 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 | June 30, 2018 | December 31, 2017 |
|---|---|---|
| **Non-current** | | |
| Loans and mortgages receivable classified as FVTPL (a) | **$ 1,588** | $ — |
| Loans and mortgages receivable classified as amortized cost (a) | **21,141** | 130,576 |
| Other investments | **12,112** | 2,587 |
| Total non-current | **$ 34,841** | $ 133,163 |
| **Current** | | |
| Loans and mortgages receivable classified as FVTPL (a) | **$ 122,829** | $ — |
| Loans and mortgages receivable classified as amortized cost (a) | **105,754** | 125,265 |
| FVTPL investments in securities (b) | **16,088** | 21,720 |
| Total current | **$ 244,671** | $ 146,985 |
| Total | **$ 279,512** | $ 280,148 |

(a) Loans and mortgages receivable are secured by interests in investment properties or shares of entities owning investment properties. As at June 30, 2018, these receivables bear interest at weighted average effective interest rates of 8.6% (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 | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Trade receivables (net of allowances for doubtful accounts of $2.4 million; December 31, 2017 – $2.6 million) | **$ 33,799** | $ 23,698 |
| Corporate and other amounts receivable | **2,427** | 1,739 |
| Total | **$ 36,226** | $ 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 | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| **Non-current** | | | |
| Fixtures, equipment and computer hardware and software (net of accumulated amortization of $8.4 million; December 31, 2017 - $7.2 million) | | **$ 13,248** | $ 12,686 |
| Deferred financing costs on credit facilities (net of accumulated amortization of $4.2 million; December 31, 2017 - $3.9 million) | | **2,609** | 2,379 |
| Environmental indemnity and insurance proceeds receivable | 12(a) | **4,298** | 6,247 |
| Derivatives at fair value | 22 | **13,425** | 10,696 |
| Total non-current | | **$ 33,580** | $ 32,008 |
| **Current** | | | |
| Deposits and costs on investment properties under option | | **$ 8,349** | $ 1,587 |
| Prepaid expenses | | **44,479** | 7,654 |
| Other deposits | | **265** | 349 |
| Restricted cash | | **50** | 50 |
| Derivatives at fair value | 22 | **8,062** | 5,739 |
| Total current | | **$ 61,205** | $ 15,379 |
| Total | | **$ 94,785** | $ 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 | June 30, 2018 | December 31, 2017 |
|---|---|---|
| **Liabilities (principal amounts outstanding)** | | |
| Bank indebtedness | **$ 27,422** | $ 3,144 |
| Mortgages | **1,083,435** | 1,060,342 |
| Credit facilities | **608,557** | 581,627 |
| Mortgages under equity accounted joint ventures (at the Company's interest) | **41,538** | 41,987 |
| Credit facilities under equity accounted joint venture (at the Company's interest) | **48,019** | 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 $20.66; December 31, 2017 – $20.72) | **5,062,119** | 5,064,612 |
| Total capital employed | **$ 9,471,090** | $ 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 June 30, 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 | **June 30, 2018** | December 31, 2017 |
|---|---|---|---|
| Net debt to total assets | | **43.3%** | 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] | >$1.8B | **$ 4.7** | $ 4.5 |
| Secured indebtedness to total assets [1] | <35% | **12.4%** | 12.7% |
| ***For the rolling four quarters ended*** | | | |
| Interest coverage (Adjusted EBITDA to interest expense) [1] | >1.65 | **2.5** | 2.5 |
| Fixed charge coverage (Adjusted EBITDA to debt service) [1] | >1.50 | **2.2** | 2.1 |

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

The above ratios include measures not specifically defined in IFRS. Certain calculations are required pursuant to debt covenants and are meaningful measures for this reason. Measures used in these ratios are defined 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 | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Fixed rate mortgages | **$ 1,082,830** | $ 1,060,339 |
| Unsecured facilities | **512,657** | 485,727 |
| Secured facilities | **95,900** | 95,900 |
| Mortgages and credit facilities | **$ 1,691,387** | $ 1,641,966 |
| Current | **$ 201,140** | $ 172,525 |
| Mortgages on investment properties classified as held for sale | **—** | 7,079 |
| Non-current | **1,490,247** | 1,462,362 |
| Total | **$ 1,691,387** | $ 1,641,966 |

Mortgages and secured facilities are secured by the Company's investment properties. As at June 30, 2018, approximately $2.6 billion (December 31, 2017 – $2.6 billion) of investment properties out of $9.5 billion (December 31, 2017 – $9.4 billion) (Note 4(a)) had been pledged as security under the mortgages and the secured facilities.

As at June 30, 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 June 30, 2018 is 4.1% (December 31, 2017 – 4.3%).

Principal repayments of mortgages outstanding as at June 30, 2018 are as follows:

| | Scheduled Amortization | Payments on Maturity | Total | Weighted Average Effective Interest Rate |
|---|---|---|---|---|
| 2018 (remainder of the year) | $ 13,397 | $ 35,226 | $ 48,623 | 5.4% |
| 2019 | 24,619 | 106,714 | 131,333 | 6.5% |
| 2020 | 22,425 | 67,893 | 90,318 | 4.4% |
| 2021 | 21,905 | 73,397 | 95,302 | 4.6% |
| 2022 | 18,072 | 147,954 | 166,026 | 3.9% |
| 2023 to 2028 | 61,025 | 490,808 | 551,833 | 3.6% |
| | $ 161,443 | $ 921,992 | $ 1,083,435 | 4.1% |
| Unamortized deferred financing costs and premiums, net | | | (605) | |
| Total | | | $ 1,082,830 | |

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 June 30, 2018, the Company had drawn CAD$228.0 million and US $216.2 million, as well as CAD$27.4 million in bank indebtedness on its unsecured credit facilities. Concurrently with the U.S. dollar draws, the Company entered into cross currency swaps to exchange its U.S. dollar borrowings into Canadian dollar borrowings.

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

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

The Company's credit facilities as at June 30, 2018 are summarized in the table below:

| As at June 30, 2018 | Borrowing Capacity | Amounts Drawn | Bank Indebtedness and Outstanding Letters of Credit | Available to be Drawn | Interest Rates | Maturity Date |
|---|---|---|---|---|---|---|
| **Unsecured Operating Facilities** | | | | | | |
| Revolving facility maturing 2023 (1) | $ 800,000 | $ (313,591) | $ (45,978) | $ 440,431 | BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20% | June 30, 2023 |
| Non-revolving facility maturing 2020 (2) | 150,000 | (148,400) | (15,955) | — | BA + 1.20% or Prime + 0.20% or US$ LIBOR + 1.20% | October 31, 2020 |
| Additional Tranche (3) | 50,000 | (50,666) | — | — | BA + 1.10% or Prime + 0.10% or US$ LIBOR + 1.10% | 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 2019 | 7,500 | (7,500) | — | — | BA + 1.125% or Prime + 0.125% | April 30, 2019 |
| Total | $ 1,150,282 | $ (608,557) | $ (62,601) | $ 494,145 | | |

(1) The Company had drawn in U.S. dollars the equivalent of CAD$84.3 million which was revalued at CAD$85.6 million, in addition to CAD$228.0 million drawn as at June 30, 2018.

(2) The Company had drawn in U.S. dollars the equivalent of CAD$150.0 million which was revalued at CAD$148.4 million as at June 30, 2018.

(3) The Company had drawn in U.S. dollars the equivalent of CAD$50 million which was revalued at CAD$50.7 million as at June 30, 2018.

# 10. SENIOR UNSECURED DEBENTURES

| As at | | | | | **June 30, 2018** | December 31, 2017 |
|---|---|---|---|---|---|---|
| | | Interest Rate | | | | |
| Series | Maturity Date | Coupon | Effective | **Principal Outstanding** | **Liability** | Liability |
| J | August 30, 2018 | 5.25% | 5.66% | **$ 50,000** | **$ 49,967** | $ 49,868 |
| K | November 30, 2018 | 4.95% | 5.17% | **100,000** | **99,912** | 99,807 |
| L | July 30, 2019 | 5.48% | 5.61% | **150,000** | **149,800** | 149,712 |
| M | April 30, 2020 | 5.60% | 5.60% | **175,000** | **174,993** | 174,991 |
| N | March 1, 2021 | 4.50% | 4.63% | **175,000** | **174,455** | 174,361 |
| O | January 31, 2022 | 4.43% | 4.59% | **200,000** | **198,955** | 198,824 |
| P | December 5, 2022 | 3.95% | 4.18% | **250,000** | **247,740** | 247,512 |
| Q | October 30, 2023 | 3.90% | 3.97% | **300,000** | **299,031** | 298,951 |
| R | August 30, 2024 | 4.79% | 4.72% | **300,000** | **301,096** | 301,172 |
| S | July 31, 2025 | 4.32% | 4.24% | **300,000** | **301,495** | 301,587 |
| T | May 6, 2026 | 3.60% | 3.56% | **300,000** | **300,820** | 300,865 |
| U | July 12, 2027 | 3.75% | 3.82% | **300,000** | **298,389** | 298,316 |
| Weighted Average or Total | | 4.36% | 4.42% | **$ 2,600,000** | **$ 2,596,653** | $ 2,595,966 |
| Current | | | | **150,000** | **149,879** | 149,675 |
| Non-current | | | | **2,450,000** | **2,446,774** | 2,446,291 |
| Total | | | | **$ 2,600,000** | **$ 2,596,653** | $ 2,595,966 |

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

# 11. CONVERTIBLE DEBENTURES

| As at | | | | | **June 30, 2018** | | | December 31, 2017 | |
|---|---|---|---|---|---|---|---|---|---|
| | | Interest Rate | | | | | | | |
| Series | Maturity Date | Coupon | Effective | **Principal** | **Liability** | **Equity** | Principal | Liability | Equity |
| J | February 28, 2020 | 4.45% | 5.34% | **—** | **—** | **—** | 55,093 | 54,293 | 386 |
| | Weighted Average or Total | 4.45% | 5.34% | **$ —** | **$ —** | **$ —** | $ 55,093 | $ 54,293 | $ 386 |
| | Current | | | **—** | **—** | | — | — | |
| | Non-current | | | **—** | **—** | | 55,093 | 54,293 | |
| | Total | | | **$ —** | **$ —** | **$ —** | $ 55,093 | $ 54,293 | $ 386 |

## (a) Principal and interest

During the six months ended June 30, 2018, no common shares (six months ended June 30, 2017 – 0.1 million common shares) were issued to pay accrued interest to holders of the convertible debentures (six months ended June 30, 2017 – $2.4 million).

During the six months ended June 30, 2018, the Company paid $1.0 million (six months ended June 30, 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 | | June 30, 2018 | | December 31, 2017 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Asset retirement obligations (a) | | $ | 4,639 | $ | 5,179 |
| Ground leases payable | | | 10,601 | | 9,010 |
| Derivatives at fair value | 22 | | 118 | | 844 |
| Deferred purchase price of investment property – shopping centre | | | 1,796 | | 1,783 |
| Deferred income | | | — | | 98 |
| Total non-current | | $ | 17,154 | $ | 16,914 |
| **Current** | | | | | |
| Trade payables and accruals | | $ | 63,591 | $ | 61,538 |
| Construction and development payables | | | 58,409 | | 47,603 |
| Dividends payable | | | 52,679 | | 52,553 |
| Interest payable | | | 36,325 | | 37,145 |
| Tenant deposits | | | 33,761 | | 30,816 |
| Derivatives at fair value | 22 | | 2,002 | | 10,499 |
| Total current | | $ | 246,767 | $ | 240,154 |
| Total | | $ | 263,921 | $ | 257,068 |

(a) The Company has obligations for environmental remediation at certain sites within its property portfolio. The Company has also recognized a related environmental indemnity and insurance proceeds receivable totaling $4.3 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:

| Six months ended June 30 | | 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 | | 589 | | 10,795 | 287 | | 5,320 |
| Share issue costs and other, net of tax effect | | — | | — | — | | (176) |
| Issued and outstanding at end of period | | 245,020 | $ | 3,170,337 | 243,922 | $ | 3,150,092 |

Quarterly dividends declared per common share were $0.430 for the six months ended June 30, 2018 (six months ended June 30, 2017 – $0.430).

## (b) Contributed surplus and other equity items

Contributed surplus and other equity items comprise the following:

| Six months ended June 30 | | | **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 | **—** | **—** | **558** | **558** | — | — | 428 | 428 |
| Exercise of options | **—** | **—** | **(680)** | **(680)** | (272) | — | (831) | (1,103) |
| Deferred share units | **—** | **—** | **411** | **411** | — | — | 390 | 390 |
| Restricted share units | **—** | **—** | **946** | **946** | — | — | 1,169 | 1,169 |
| Performance share units | **—** | **—** | **1,132** | **1,132** | — | — | 655 | 655 |
| Settlement of any restricted, performance and deferred share units | **—** | **—** | **(2,151)** | **(2,151)** | — | — | (337) | (337) |
| Balance at end of period | **$ 24,903** | **$ —** | **$ 17,283** | **$ 42,186** | $ 23,114 | $ 1,789 | $ 17,995 | $ 42,898 |

## (c) Stock options

As of June 30, 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 June 30, 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 June 30, 2018, 4.8 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 June 30, 2018 have exercise prices ranging from $9.81 – $20.24 (December 31, 2017 – $9.81 – $20.24).

During the six months ended June 30, 2018, $0.6 million (six months ended June 30, 2017 – $0.4 million) was recorded as an expense related to stock options.

| Six months ended June 30 | | **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) | **(479)** | **16.61** | (490) | 17.05 |
| Forfeited | **(21)** | **19.14** | (92) | 18.78 |
| Expired | **—** | **—** | (1) | 17.67 |
| Outstanding at end of period | **4,830** | **$ 19.27** | 4,492 | $ 18.63 |

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

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

(b) The weighted average market share price at which options were exercised for the six months ended June 30, 2018 was $20.19 (six months ended June 30, 2017 – $20.16).

## (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.

| Six months ended June 30 | | **2018** | | 2017 |
|---|---|---|---|---|
| *(in thousands)* | **DSUs** | **RSUs / PSUs** | DSUs | RSUs / PSUs |
| Outstanding at beginning of period | **301** | **478** | 275 | 471 |
| Granted (a) (b) | **14** | **221** | 16 | 191 |
| Dividends declared | **6** | **18** | 6 | 16 |
| Exercised | **(51)** | **(68)** | — | (19) |
| Forfeited | **—** | **(6)** | — | (17) |
| Outstanding at end of period | **270** | **643** | 297 | 642 |
| Expense recorded for the period | **$293** | **$1,879** | $269 | $1,661 |

(a) The fair value of the DSUs granted during the six months ended June 30, 2018 was $0.3 million (six months ended June 30, 2017 – $0.3 million), measured based on the Company’s prevailing share price on the date of grant. The fair value of the RSUs granted during the six months ended June 30, 2018 was $1.6 million (six months ended June 30, 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 six months ended June 30, 2018 was $2.9 million (six months ended June 30, 2017 – $2.2 million). The fair value is calculated using the Monte-Carlo simulation model based on the assumptions below as well as a market adjustment factor based on the total shareholder return of the Company's common shares relative to the S&P/TSX Capped REIT Index.

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

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

# 14. NET OPERATING INCOME

## Net Operating Income by Component

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

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | **% change** | **2018** | 2017 | **% change** | **2018** | 2017 |
| Property rental revenue | | | | | | |
| Base rent | | **$ 112,466** | $ 108,166 | | **$ 223,898** | $ 216,430 |
| Operating cost recoveries | | **26,504** | 25,578 | | **54,469** | 53,167 |
| Realty tax recoveries | | **34,064** | 33,101 | | **69,852** | 67,620 |
| Lease surrender fees | | **1,154** | 218 | | **1,916** | 419 |
| Percentage rent | | **615** | 714 | | **1,527** | 1,190 |
| Straight-line rent adjustment | | **2,082** | 301 | | **4,543** | 954 |
| Prior year operating cost and tax recovery adjustments | | **757** | 236 | | **(1,252)** | (343) |
| Temporary tenants, storage, parking and other | | **4,210** | 3,415 | | **7,684** | 7,145 |
| Total Property rental revenue | **5.9%** | **181,852** | 171,729 | **4.6%** | **362,637** | 346,582 |
| Property operating costs | | | | | | |
| Recoverable operating expenses | | **30,163** | 29,130 | | **62,008** | 60,218 |
| Recoverable realty tax expense | | **38,562** | 36,980 | | **79,080** | 75,036 |
| Prior year realty tax expense | | **932** | (197) | | **(1,778)** | (980) |
| Other operating costs and adjustments | | **(1,621)** | (2,862) | | **(2,131)** | (3,254) |
| Total Property operating costs | | **68,036** | 63,051 | | **137,179** | 131,020 |
| **Total NOI** | **4.7%** | **$ 113,816** | $ 108,678 | **4.6%** | **$ 225,458** | $ 215,562 |
| NOI margin | | **62.6%** | 63.3% | | **62.2%** | 62.2% |

## Net Operating Income by Segment

Net operating income is presented by segment as follows:

| Three months ended June 30, 2018 | | Central Region | | Eastern Region | | Western Region | | Subtotal | | Other [1] | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property rental revenue | $ | 75,531 | $ | 48,696 | $ | 58,282 | $ | 182,509 | $ | (657) | $ | 181,852 |
| Property operating costs | | 30,147 | | 20,219 | | 19,279 | | 69,645 | | (1,609) | | 68,036 |
| Net operating income | $ | 45,384 | $ | 28,477 | $ | 39,003 | $ | 112,864 | $ | 952 | $ | 113,816 |

| Three months ended June 30, 2017 | | Central Region | | Eastern Region | | Western Region | | Subtotal | | Other [1] | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property rental revenue | $ | 71,212 | $ | 44,791 | $ | 56,423 | $ | 172,426 | $ | (697) | $ | 171,729 |
| Property operating costs | | 25,813 | | 19,271 | | 19,389 | | 64,473 | | (1,422) | | 63,051 |
| Net operating income | $ | 45,399 | $ | 25,520 | $ | 37,034 | $ | 107,953 | $ | 725 | $ | 108,678 |

| Six months ended June 30, 2018 | | Central Region | | Eastern Region | | Western Region | | Subtotal | | Other [1] | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property rental revenue | $ | 149,098 | $ | 97,707 | $ | 117,149 | $ | 363,954 | $ | (1,317) | $ | 362,637 |
| Property operating costs | | 57,792 | | 42,525 | | 39,508 | | 139,825 | | (2,646) | | 137,179 |
| Net operating income | $ | 91,306 | $ | 55,182 | $ | 77,641 | $ | 224,129 | $ | 1,329 | $ | 225,458 |

| Six months ended June 30, 2017 | | Central Region | | Eastern Region | | Western Region | | Subtotal | | Other [1] | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property rental revenue | $ | 143,514 | $ | 90,712 | $ | 113,826 | $ | 348,052 | $ | (1,470) | $ | 346,582 |
| Property operating costs | | 53,870 | | 40,649 | | 38,889 | | 133,408 | | (2,388) | | 131,020 |
| Net operating income | $ | 89,644 | $ | 50,063 | $ | 74,937 | $ | 214,644 | $ | 918 | $ | 215,562 |

[1] Other items principally consist of intercompany eliminations.

For the three and six months ended June 30, 2018, property operating costs include $5.3 million and $10.8 million, respectively, (three and six months ended June 30, 2017 – $5.1 million and $10.8 million, respectively) related to employee compensation.

# 15. INTEREST AND OTHER INCOME

| | Note | | Three months ended June 30 2018 | | 2017 | | Six months ended June 30 2018 | | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Interest, dividend and distribution income from marketable securities | 5 | **$** | **499** | $ | 273 | **$** | **1,036** | $ | 536 |
| Interest income from loans and mortgages receivable classified as FVTPL [1] | 5 | | **1,396** | | — | | **2,696** | | — |
| Interest income from loans, deposit and mortgages receivable at amortized cost | 5 | | **2,641** | | 4,287 | | **5,639** | | 8,500 |
| Fees and other income | | | **1,140** | | 1,525 | | **2,637** | | 3,086 |
| Total | | **$** | **5,676** | $ | 6,085 | **$** | **12,008** | $ | 12,122 |

(1) 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

| | Note | | Three months ended June 30 2018 | | 2017 | | Six months ended June 30 2018 | | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Mortgages | 9 | **$** | **11,224** | $ | 12,300 | **$** | **22,171** | $ | 23,840 |
| Credit facilities | 9 | | **4,567** | | 2,635 | | **9,072** | | 5,360 |
| Senior unsecured debentures | 10 | | **28,591** | | 27,512 | | **56,869** | | 55,306 |
| Convertible debentures | 11 | | **—** | | 1,416 | | **446** | | 3,437 |
| Total interest expense | | | **44,382** | | 43,863 | | **88,558** | | 87,943 |
| Interest capitalized to investment properties under development | | | **(6,174)** | | (5,179) | | **(12,909)** | | (10,276) |
| Interest expense | | **$** | **38,208** | $ | 38,684 | **$** | **75,649** | $ | 77,667 |
| Convertible debenture interest paid in common shares | 11 | | **—** | | — | | **—** | | (2,442) |
| Change in accrued interest | | | **(4,597)** | | (1,198) | | **820** | | 4,823 |
| Effective interest rate less than (in excess of) coupon interest rate on senior unsecured and convertible debentures | | | **289** | | 204 | | **555** | | 365 |
| Coupon interest rate in excess of effective interest rate on assumed mortgages | | | **257** | | 399 | | **515** | | 846 |
| Amortization of deferred financing costs | | | **(1,279)** | | (1,470) | | **(2,717)** | | (3,061) |
| Cash interest paid associated with operating activities | | **$** | **32,878** | $ | 36,619 | **$** | **74,822** | $ | 78,198 |

# 17. CORPORATE EXPENSES

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Salaries, wages and benefits | **$ 6,580** | $ 7,066 | **$ 14,091** | $ 14,206 |
| Non-cash compensation | **1,407** | 1,108 | **2,531** | 2,039 |
| Other corporate costs | **3,507** | 3,043 | **7,110** | 5,823 |
| Total corporate expenses | **11,494** | 11,217 | **23,732** | 22,068 |
| Amounts capitalized to investment properties under development | **(1,911)** | (2,003) | **(3,934)** | (3,590) |
| Corporate expenses | **$ 9,583** | $ 9,214 | **$ 19,798** | $ 18,478 |

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Realized gain (loss) on sale of marketable securities | **$ 4,123** | $ — | **$ 4,123** | $ — |
| Unrealized gain (loss) on marketable securities | **(1,420)** | 194 | **$ 183** | $ 493 |
| Net gain (loss) on prepayments of debt (non-cash) | **—** | — | **(726)** | (2,333) |
| Investment properties selling costs | **(1,024)** | (129) | **(1,499)** | (631) |
| Other | **(72)** | (87) | **(121)** | (114) |
| Total | **$ 1,607** | $ (22) | **$ 1,960** | $ (2,585) |

# 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 and six months ended June 30, 2018 and 2017:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Income tax expense at the Canadian federal and provincial income tax rate of 26.6% | **$ 29,574** | $ 86,445 | **$ 51,958** | $ 150,577 |
| Increase (decrease) in income taxes due to: | | | | |
| Non-taxable portion of capital gains and other | **(6,953)** | (37,181) | **(11,847)** | (62,918) |
| Non-controlling interests in income of consolidated limited partnership | **(1,947)** | — | **(2,014)** | — |
| Other | **1,269** | 1,444 | **1,802** | 90 |
| Deferred income taxes | **$ 21,943** | $ 50,708 | **$ 39,899** | $ 87,749 |

## 20. PER SHARE CALCULATIONS

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Net income attributable to common shareholders | **$ 81,929** | $ 271,539 | **$ 147,873** | $ 475,210 |
| Adjustment for dilutive effect of convertible debentures, net of tax | **—** | 1,092 | **328** | 2,170 |
| Income for diluted per share amounts | **$ 81,929** | $ 272,631 | **$ 148,201** | $ 477,380 |
| *(in thousands)* | | | | |
| Weighted average number of shares outstanding for basic per share amounts | **245,850** | 244,809 | **245,636** | 244,565 |
| Options | **346** | 377 | **315** | 441 |
| Convertible debentures | **—** | 5,330 | **660** | 5,371 |
| Weighted average diluted share amounts | **246,196** | 250,516 | **246,611** | 250,377 |

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 June 30, 2018, Loblaw Companies Limited ("Loblaw") is the Company's largest tenant and accounts for 9.9% of the Company's annualized minimum rent and has an investment grade credit rating. A tenant's success over the term of its lease and its ability to fulfill its lease obligations is subject to many factors. There can be no assurance that a tenant will be able to fulfill all of its existing commitments and leases up to the expiry date. The Company 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 June 30, 2018 is set out below:

| As at June 30, 2018 | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Remainder of 2018 | 2019 to 2020 | 2021 to 2022 | Thereafter | Total |
| Scheduled mortgage principal amortization | $ 13,397 | $ 47,044 | $ 39,977 | $ 61,025 | $ 161,443 |
| Mortgage principal repayments on maturity | 35,226 | 174,607 | 221,351 | 490,808 | 921,992 |
| Credit facilities and bank indebtedness | — | 294,966 | — | 341,013 | 635,979 |
| Senior unsecured debentures | 150,000 | 325,000 | 625,000 | 1,500,000 | 2,600,000 |
| Interest obligations [1] | 87,525 | 298,516 | 219,948 | 223,749 | 829,738 |
| Land leases (expiring between 2023 and 2061) | 535 | 2,024 | 1,942 | 19,051 | 23,552 |
| Contractual committed costs to complete current development projects | 55,021 | 1,820 | — | — | 56,841 |
| Other committed costs | 71,908 | 82,955 | — | — | 154,863 |
| Total contractual obligations | $ 413,612 | $ 1,226,932 | $ 1,108,218 | $ 2,635,646 | $ 5,384,408 |

[1] Interest obligations include expected interest payments on mortgages and credit facilities as at June 30, 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 June 30, 2018, there was $512.7 million (December 31, 2017 – $485.7 million) of cash advances drawn against the Company's unsecured credit facilities.

In addition, as at June 30, 2018, the Company has $35.3 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 $27.4 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 | **June 30, 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 | **$ 16,088** | **$ —** | **$ —** | $ 21,720 | $ — | $ — |
| Loans and mortgages receivable | **—** | **—** | **124,417** | — | — | — |
| Other investments | **—** | **—** | **12,112** | — | — | 2,587 |
| Derivatives at fair value – assets | **—** | **21,487** | **—** | — | 16,435 | — |
| **Financial Liabilities** | | | | | | |
| Derivatives at fair value – liabilities | **—** | **2,120** | **—** | — | 11,343 | — |
| **Measured at amortized cost** | | | | | | |
| **Financial Assets** | | | | | | |
| Loans and mortgages receivable | **$ —** | **$ —** | **$ 126,577** | $ — | $ — | $ 255,447 |
| **Financial Liabilities** | | | | | | |
| Mortgages | **—** | **1,101,983** | **—** | — | 1,072,212 | — |
| Credit facilities | **—** | **608,557** | **—** | — | 581,627 | — |
| Senior unsecured debentures | **—** | **2,659,864** | **—** | — | 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 June 30, 2018, the interest rates ranged from 2.2% 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 June 30, 2018 | **June 30, 2018** | December 31, 2017 |
|---|---|---|---|---|
| **Derivative assets** | | | | |
| Bond forward contracts | Yes | September 2018 | **$ 6,020** | $ 5,739 |
| Interest rate swaps | Yes | March 2022 - March 2027 | **13,425** | 10,696 |
| Cross currency swaps | No | July 2018 | **2,042** | — |
| Total | | | **$ 21,487** | $ 16,435 |
| **Derivative liabilities** | | | | |
| Bond forward contracts | Yes | July 2018 - September 2018 | **$ 405** | $ 365 |
| Interest rate swaps | Yes | July 2024 | **118** | 844 |
| Cross currency swaps | No | July 2018 | **1,597** | 10,134 |
| Total | | | **$ 2,120** | $ 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 $29.2 million.

# 24. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | Note | **2018** | 2017 | **2018** | 2017 |
| Straight-line rent adjustment | | **$ (2,081)** | $ (301) | **$ (4,543)** | $ (954) |
| Investment properties selling costs | 18 | **1,024** | 129 | **1,499** | 631 |
| Realized (gain) loss on sale of marketable securities | 18 | **(4,123)** | — | **(4,123)** | — |
| Unrealized (gain) loss on marketable securities classified as FVTPL | 18 | **1,420** | (194) | **(183)** | (493) |
| Net (gain) loss on prepayments of debt | 18 | **—** | — | **726** | 2,293 |
| Non-cash compensation expense | | **1,517** | 1,177 | **2,730** | 2,155 |
| Deferred income taxes | 19 | **21,445** | 48,785 | **38,881** | 85,826 |
| Other non-cash items | | **72** | 87 | **120** | 114 |
| Total | | **$ 19,274** | $ 49,683 | **$ 35,107** | $ 89,572 |

## (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 June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Amounts receivable | **$ (2,144)** | $ (1,230) | **$ (10,789)** | $ (7,540) |
| Prepaid expenses | **(24,601)** | (25,734) | **(36,824)** | (37,614) |
| Trade payables and accruals | **(5,710)** | (9,922) | **(438)** | (6,818) |
| Tenant security and other deposits | **8,309** | (529) | **3,029** | 41 |
| Other working capital changes | **(462)** | 477 | **1,907** | (1,376) |
| Total | **$ (24,608)** | $ (36,938) | **$ (43,115)** | $ (53,307) |

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Advances of loans and mortgages receivable | **$ (13,459)** | $ (3,100) | **$ (22,907)** | $ (11,269) |
| Repayments of loans and mortgages receivable and deposits | **616** | 809 | **25,268** | 1,979 |
| Other investments, net | **(5,983)** | — | **(9,525)** | — |
| Investment in marketable securities, net | **(12,384)** | — | **(82,657)** | — |
| Proceeds from disposition of marketable securities | **92,594** | — | **92,594** | — |
| Total | **$ 61,384** | $ (2,291) | **$ 2,773** | $ (9,290) |

## (d) Cash and cash equivalents

| As at | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents [1] | **$ 11,636** | $ 11,507 |

[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 $119.5 million (December 31, 2017 – $119.1 million) to various lenders in connection with certain third-party obligations, including, without limitation, loans advanced to its joint arrangement partners secured by the partners' interest in the joint arrangements and underlying assets.

(c) The Company is contingently liable by way of letters of credit in the amount of $35.3 million (December 31, 2017 – $34.9 million), issued by financial institutions on the Company's behalf in the ordinary course of business.

(d) The Company has obligations as lessee under long-term leases for land. Annual commitments under these ground leases are approximately $1.1 million (December 31, 2017 – $1.2 million) with a total obligation of $23.6 million (December 31, 2017 – $24.1 million).

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

(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 June 30, 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 June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Reimbursements for professional services | **$ 62** | $ — | **$ 92** | $ 97 |

As at June 30, 2018, amounts due from Gazit were $48 thousand (December 31, 2017 – $30 thousand).

### (b) Joint ventures

During the three and six months ended June 30, 2018, the Company earned fee income of $0.5 million (June 30, 2017 – $0.7 million) and $1.2 million (June 30, 2017 – $1.2 million), respectively, from its joint ventures.

During the six months ended June 30, 2018, the Company also advanced $0.8 million (June 30, 2017 – $0.2 million) 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

***Third Quarter Dividend***

The Company announced that it will pay a third quarter dividend of $0.215 per common share on October 17, 2018 to shareholders of record on September 28, 2018.

***Equity Offering***

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

***Changes to Board of Directors***

On August 1, 2018, (i) Mia Stark resigned from the Board due to personal commitments, and (ii) the Board appointed Jeff Mooallem as a director of the Company, effective immediately.

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*Chief Operating Officer*

Gareth Burton
*Senior Vice President, Construction*

Carmine Francella
*Senior Vice President, Leasing*

Alison Harnick
*General Counsel and Corporate Secretary*

Maryanne McDougald
*Senior Vice President, Operations*

Gregory J. Menzies
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Jodi M. Shpigel
*Senior Vice President, Development*

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