LOCATION LOCATION LOCATION.®

The power of location.

FIRST CAPITAL®

Shopping *Green* For Everyday Life®

A Proven Formula

CORPORATE PROFILE

First Capital Realty (TSX: FCR) is Canada's leading owner, developer and operator of supermarket and drugstore-anchored neighbourhood and community shopping centres located predominantly in growing urban markets. The Company currently owns interests in 175 properties, including five ground-up development projects, totalling approximately 25.0 million square feet of gross leasable area and four landsites in the planning stage for future retail development. First Capital Realty has an enterprise value of over $7.3 billion and trades on the Toronto Stock Exchange.

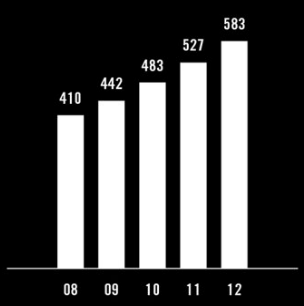
BUSINESS STRATEGY

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

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

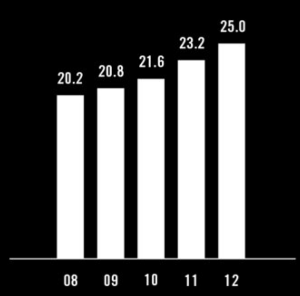
PROPERTY RENTAL REVENUE

($ millions)
For the year[(1)]



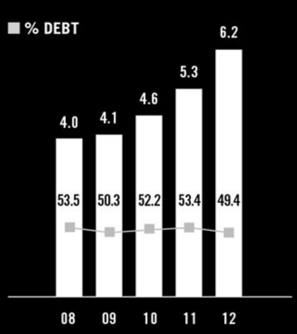
GROSS LEASABLE AREA

(millions of sq. ft.)
At December 31



DEBT TO TOTAL ASSETS[(2)]

($ billions)
At December 31[(1)]



(1) 2010 amounts have been restated for the effects of International Financial Reporting Standards ("IFRS"). Amounts previous to 2010 are stated under Canadian GAAP ("GAAP")
(2) At invested cost.

Building Value

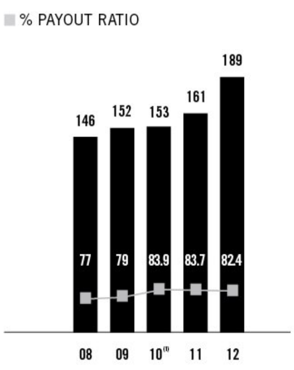
($ millions)	2012	2011
Total equity market capitalization	**$ 3,889**	$ 3,083
Enterprise value	**$ 7,316**	$ 6,215
Debt to total assets (at IFRS value)	**42.1%**	46.6%
Debt to total assets (at invested cost)	**49.4%**	53.6%
Debt to market capitalization	**41.8%**	45.5%
Property rental revenue	**$ 583.1**	$ 526.7
Net operating income	**$ 371.5**	$ 340.1

	2012 ($ millions)	2011 ($ millions)	**2012** ($ per share)	2011 ($ per share)
Funds from operations (FFO)	**$ 188.9**	$ 161.3	**$ 1.00**	$ 0.96
FFO excluding other gains (losses) and (expenses)[1]	**$ 189.7**	$ 162.4	**$ 1.00**	$ 0.96
Weighted average diluted shares for FFO (thousands)			**189,876**	168,632
Adjusted funds from operations (AFFO)	**$ 192.6**	$ 172.0	**$ 0.93**	$ 0.91
AFFO excluding other gains (losses) and (expenses)[1]	**$ 189.1**	$ 167.4	**$ 0.92**	$ 0.88
Weighted average diluted shares for AFFO (thousands)			**206,573**	189,132

[1] See Management's Discussion and Analysis.

FUNDS FROM OPERATIONS

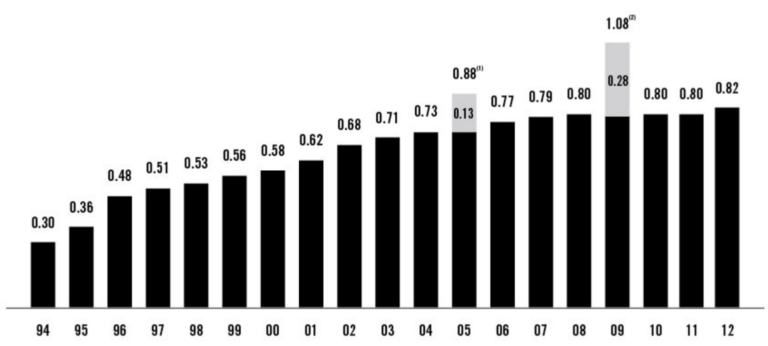
($ millions)



[1] 2010 amounts have been restated under IFRS. Amounts previous to 2010 are stated under GAAP.

19 YEARS OF DIVIDENDS

($ per share)



[1] Includes special dividend of $0.13 paid on April 6, 2005.
[2] Includes Gazit America dividend-in-kind of $0.28 distributed on August 14, 2009.

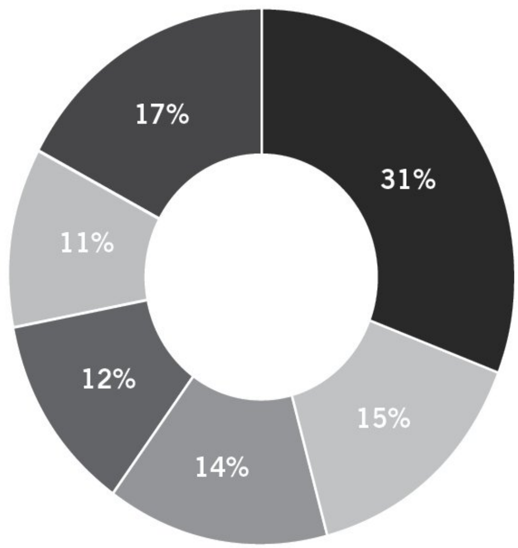
Strength in Numbers

A GROWTH STRATEGY APPLIED TO A STABLE BUSINESS

OPERATING HIGHLIGHTS

583	Property rental revenue increased 10.7% to $583 million
372	Net operating income increased 9.2% to $372 million
1,154	Invested $1,154 million in development activities, property improvements and acquisitions
17.51	Average rent per occupied square foot increased by 4.2% to $17.51
2.3	Same-property growth including expansion and redevelopment space increased by 2.3%
97.5	Occupancy percent of stable properties at December 31, 2012

TENANT PROFILE



Supermarkets, drugstores and liquor stores	31%
National and discount retailers	15%
Medical, gyms, daycare and other personal uses	14%
Restaurants, fast food and coffee shops	12%
Banks and governments	11%
Other retailers	17%
	100%

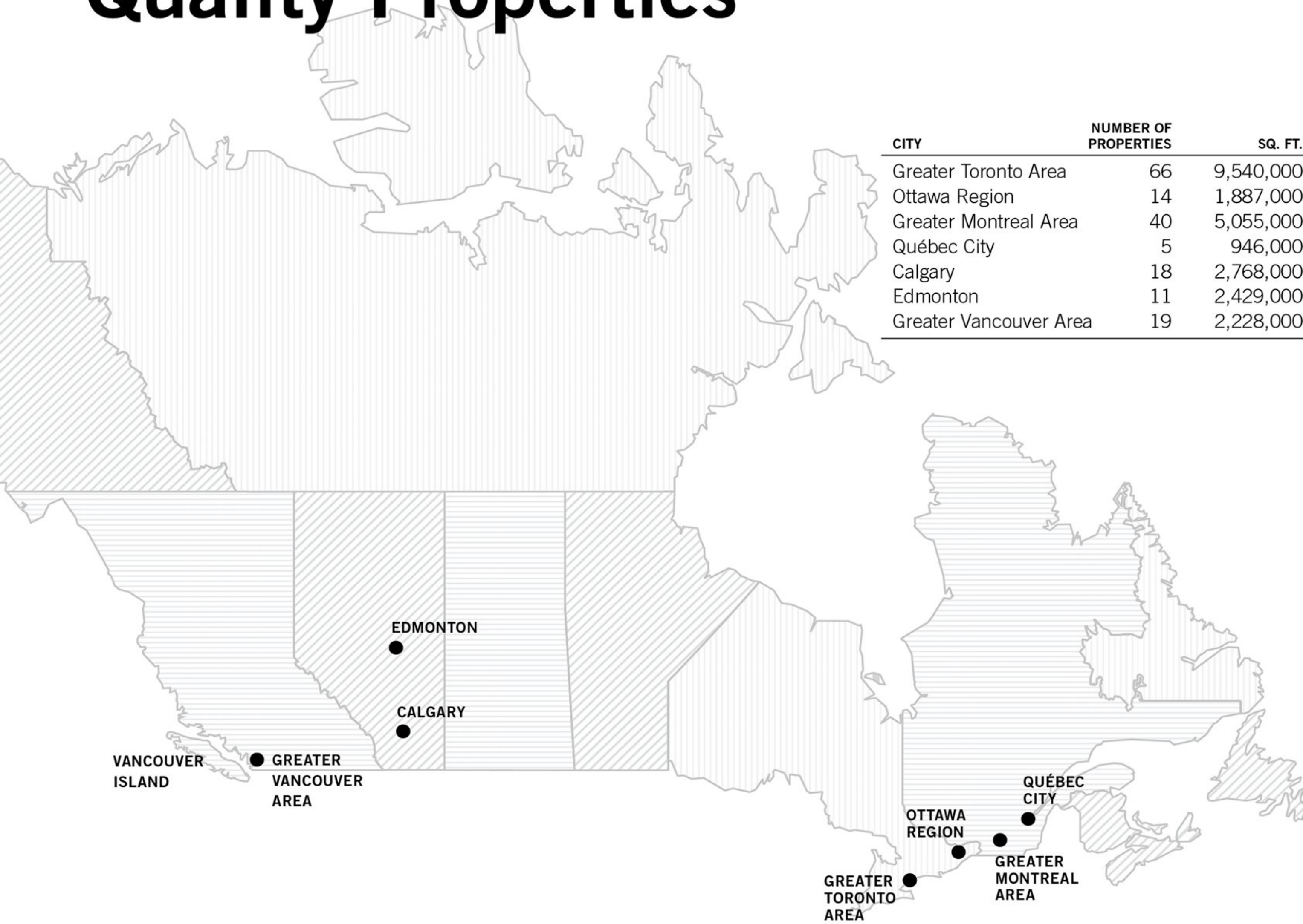
SUSTAINABLE CASH FLOW

25	Million square feet of gross leasable area
90	Over 90% of our rents are from urban markets
92	Over 92% of our rents are from shopping centres anchored by supermarkets and/or drugstores
44	Approximately 44.4% of all annual minimum rents are from tenants with investment-grade credit ratings
40	Top 40 tenants provide 54.4% of annual minimum rents and occupy 56.1% of the gross leasable area
10	Top 10 tenants provide 33% of annual minimum rents and are all investment-grade rated

TOP 10 TENANTS

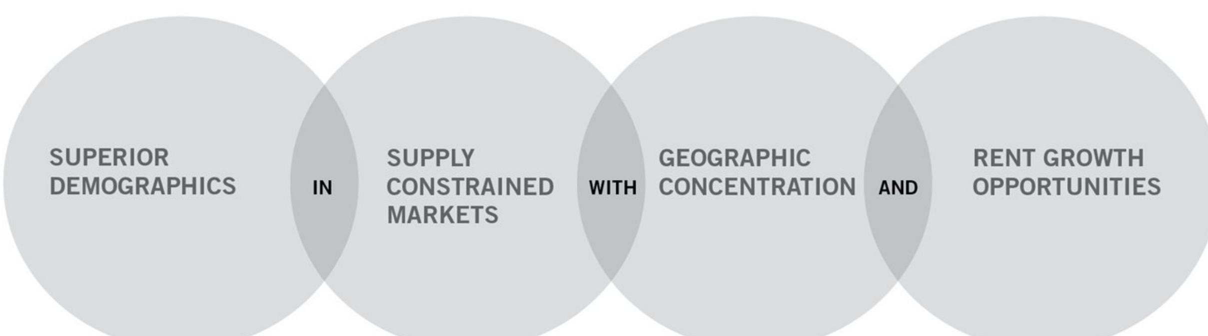
Shoppers Drug Mart · Sobeys · Loblaws · Metro · Canadian Tire · Walmart · TD Canada Trust · RBC · CIBC · RONA

Quality Properties



CITY	NUMBER OF PROPERTIES	SQ. FT.
Greater Toronto Area	66	9,540,000
Ottawa Region	14	1,887,000
Greater Montreal Area	40	5,055,000
Québec City	5	946,000
Calgary	18	2,768,000
Edmonton	11	2,429,000
Greater Vancouver Area	19	2,228,000

QUALITY PROPERTIES =



= LOCATION LOCATION LOCATION®

Message from the President

2012 was the busiest year in the history of our company. We invested over $1.1 billion in acquisitions, development, redevelopment and property expansion programs and disposed of $340 million in non-core assets, resulting in a total net investment of approximately $800 million for the year. We raised net $300 million of long term debt capital, as well as more than $500 million in equity and we extended our average debt maturity from 4.5 to 5.3 years.

However, behind these numbers lies the real story. We continue to position First Capital Realty as the best neighbourhood and community shopping centre owner in the country. Our business has gradually evolved over the last decade. Although these changes may not be apparent, they are clear to us.

WHAT ARE THE CHANGES WE SEE IN OUR BUSINESS ENVIRONMENT?

- The most fundamental change is the slow shift of demographics into more urban markets along public transportation lines and major roads;
- Increased retail competition by both domestic and foreign retailers who see the Canadian economy as a growth opportunity;
- Gradual changes in retail format and distribution; bigger may not be necessarily better;
- Increase in personal services desired by consumers with more emphasis on essentials and convenience;
- Online sales and smart phones use are gradually changing how consumers shop; and
- The consolidation that has occurred in the retail landlord landscape.

WHAT DOES THIS MEAN FOR FIRST CAPITAL REALTY?

Many of these changes will create significant opportunities for us, provided we also understand the risk imbedded in the change. We have three simple solutions to protect and grow our business and a few other strategies that are more complex. The simple solutions have been, are, and will always be, Location! Location! Location! The other, more complex strategies require expertise, focus, excellence in execution, hard work and financial strength. This is First Capital's DNA. We believe the combination of these key attributes is helping us adapt and meet the needs of the changing retail environment in the years ahead.

THE BEST PORTFOLIO

The growth and repositioning of our property portfolio over the last decade has been strategically focused on geographically concentrating our properties in supply constrained markets with superior demographics and opportunities to generate rental rate growth.

We have consciously focused on building our presence in major growth neighbourhoods and communities where demographic and economic trends ensure that our best-in-class retail properties will attract high-value consumers. Approximately 75% of Canada's total population lives within our targeted markets, and we aim for all of them to look to First Capital properties as their destination of choice for everyday shopping. Within five kilometers of each one of our properties, the average population density is approximately 180,000 people. Clearly, our properties are located in the neighbourhoods where Canadians want to live and bring up their families.

Our portfolio is also positioned in densely populated urban areas with little land available for significant new retail development. As the country's population continues to grow, and our supply-constrained markets continue to exceed the potential to develop new retail space, we believe we will see further improvement in the performance of our tenants and our properties.

Another important attribute of our portfolio is its concentration within Canada's seven key urban growth markets. We are the largest and best-positioned retail landlord of neighbourhood and community shopping centres in each of our targeted regions, with the majority of our properties located close to each other. Such concentration in high barrier-to-entry markets, allows for operational synergies and enables us to meet the demands of our tenants as they grow and adapt to the changing needs of consumers.

Our well-positioned portfolio also provides First Capital with a number of opportunities to grow our rents. In addition to contractual rental rate increases, we believe our revenues will increase over time by partnering with anchor tenants to meet their changing needs, attracting new high-value tenants to our properties, expanding existing centres based on tenant demand, acquiring and developing adjacent lands for expansion, and renovating all or part of an existing property. These activities have generated significant value in the past, and will continue to boost revenues in the years ahead.

FROM LEFT TO RIGHT
Lynne Brejak, *Vice President, Human Resources,*
Ralph Huizinga, *VP Acquisitions & Development, Western Canada,*
Gordon Driedger, *EVP, Central Canada,* Brian Kozak, *EVP, Western Canada,*
Karen H. Weaver, *EVP & CFO,* Dori J. Segal, *President & CEO,*
Gregory Menzies, *EVP, Eastern Canada,* Maryanne McDougald, *VP, Property Management,*
Roger Chouinard, *General Counsel & Corporate Secretary,* John Todd, *SVP Finance*

THE BEST TENANT MIX

We have also carefully and strategically planned the tenant mix in our properties. Today more than 80% of our total revenues are derived from tenants providing consumers with their daily necessities, including supermarkets, drug stores, banks and financial institutions, national and discount retailers, liquor stores, coffee shops and restaurants, as well as personal services providers such as medical and professional services, fitness centres and daycare facilities. This mix of financially strong and sophisticated tenants includes the who's who of Canadian retailing, with almost 45% of our total rents coming from investment grade companies. In our opinion, because our tenant mix is so focused on meeting the everyday needs of consumers, we believe our properties and tenants are much less sensitive to economic cycles and the changes coming from online and smart phone shopping.

THE BEST BALANCE SHEET

Another key strength at First Capital is our ability to readily access a number of different sources of capital to fund our growth. The strength of our balance sheet allows us the flexibility to choose the best financing at any particular time. In November 2012, we received upgraded credit ratings from both the Dominion Bond Rating Service and Moody's Investor Services, making First Capital Realty the highest rated real estate entity in Canada.

In addition, of our total $7.3 billion in total assets, approximately $3.4 billion are unencumbered. First Capital is the only real estate issuer in Canada with a covenant requiring unencumbered assets, which serves our bondholders very well.

THE BEST PEOPLE

It takes a great team of people to have achieved everything we have, and at First Capital we have one of the finest management and operating teams in the business. We have the right people in the right positions, people who truly enjoy working together, and I am confident we have the team and the support systems to meet the challenges we face and to continue to build value for our investors in the years to come. Our team members across the country led by our senior management, Karen, Brian, Greg, Gord, Maryanne, Ralph, John, Roger and Lynne are experienced, hardworking and highly motivated. They all know, agree and are great believers in our strategy and for the most part have been with us for quite some time. We also believe that it is critical for our senior management team to be aligned with our shareholders, which is why the senior team has ownership of First Capital stock as a substantial part of their personal net worth.

THE BEST FUTURE

As I said at the outset, there is no doubt the retail landscape will continue to evolve. We have successfully identified and managed such change in the past, and we are in as strong a position as ever before to meet the opportunities and challenges we will face in the future. Our property portfolio, our balance sheet, our tenant mix and our people are all perfectly positioned to thrive and prosper, and we are excited about what the future will bring.

In terms of growth, we will continue to evaluate potential acquisitions, but any future purchases must further strengthen our portfolio and meet our stringent criteria. We will also be investing approximately $1.0 billion over the next five years in redevelopment and repositioning at about a dozen of our properties, ensuring we generate strong revenue growth regardless of whether or not we are successful in acquiring additional properties.

In closing, I want to thank everyone on the First Capital team for their hard work and dedication. Managing the record growth we have achieved has not been easy, but our people have risen to the challenge to make First Capital into what we believe is the best neighbourhood and community shopping centre owner, developer and operator in the country. I also express my sincere appreciation to our tenants, service providers and partners, our investors for their continued trust, and our Board of Directors, under the leadership of our Chairman, Chaim Katzman, for their counsel and guidance.

Dori J. Segal
President and Chief Executive Officer
February 20, 2013

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 for First Capital Realty Inc. ("First Capital Realty" or the "Company") is intended to provide readers with an assessment of performance and summarize the results of operations and financial position for the years ended December 31, 2012 and 2011. It should be read in conjunction with the Company's Audited Consolidated Financial Statements for the years ended December 31, 2012 and 2011. 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.firstcapitalrealty.ca.

All amounts are in Canadian dollars unless otherwise noted. Historical results and percentage relationships contained in the Company's interim and annual consolidated financial statements and MD&A, including trends which might appear, should not be taken as indicative of its future operations. The information contained in this MD&A is based on information available to Management, and is dated as of February 20, 2013.

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

FORWARD-LOOKING STATEMENT ADVISORY

Certain statements contained in the "Business Overview and Strategy", "Business and Operations Review", "Results of Operations", "Capital Structure and Liquidity", "Outlook and Current Business Environment", "Summary of Significant Accounting Estimates and Policies" and "Controls and Procedures" sections of 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 on line 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 corporate expenses, level and timing of acquisitions of income-producing properties, number of shares outstanding and numerous other factors. Moreover, the assumptions underlying the Company's forward-looking statements contained in the "Outlook and Current Business Environment" section of this MD&A also include that consumer demand will remain stable, demographic trends will continue and there will continue to be barriers to entry in the markets in which the Company operates.

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 under "Risks and Uncertainties" 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; the availability of new competitive supply of retail properties which may become available either through construction, lease or sublease; First Capital Realty's ability to maintain occupancy and to lease or re-lease space at current or anticipated rents; repayment of indebtedness and the availability of debt and equity financing; changes in interest rates and credit spreads; changes to credit ratings; tenant financial difficulties, defaults and bankruptcies; the relative illiquidity of real property; unexpected costs or liabilities related to acquisitions, development and construction; increases in operating costs and property taxes; changes in governmental regulation; environmental liability and compliance costs; residential development, sales and leasing; 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; compliance with financial covenants; risks in joint ventures; matters associated with significant shareholders; geographic concentration of assets; investments subject to credit and market risk; and loss of key personnel.

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

All forward-looking statements in this MD&A are made as of February 20, 2013 and are qualified by these cautionary statements.

BUSINESS OVERVIEW AND STRATEGY

First Capital Realty (TSX:FCR) is Canada's leading owner, developer and operator of supermarket and drugstore – anchored neighbourhood and community shopping centres located predominantly in growing urban markets. As at December 31, 2012, the Company owned interests in 175 properties, including six ground-up development projects, totalling approximately 25.0 million square feet of gross leasable area ("GLA") and four land sites in the planning stage for future retail development.

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

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

Shopping for Everyday Life®

The Company looks to own and operate properties that provide consumers with products and services that are considered to be daily necessities or non-discretionary expenditures. Currently, over 80% of the Company's revenues come from tenants providing these daily necessity products and services, including supermarkets, drugstores, banks, liquor stores, national discount retailers, quick service restaurants, fitness, medical and other personal services. Management looks to implement a specific complementary tenant offering at each of its properties to best serve the needs of the local community. The Company is highly focussed on ensuring the competitive position of its assets in various urban and retail trade areas and closely follows demographics and shopping trends for both goods and services.

Tenant Profile*

* Gross Leasable Area

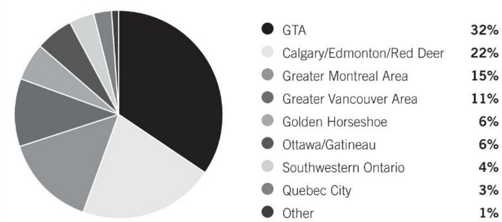
The Company continues to observe two demographic trends that may affect retail goods and service needs: firstly, a new and younger generation of consumers whose shopping patterns are influenced by wireless communications and internet business and information; secondly, an aging population whose needs will increasingly focus on convenience and health related goods and services. In Management's view, shopping centres and mixed-use properties located in urban markets with tenants providing daily necessities including non-discretionary services and other personal services, will be less sensitive to both economic cycles and the current demographic trends, thus providing stable and growing cash flow over the long term.

Urban Focus

The Company targets specific urban markets with stable and/or growing populations. Specifically, the Company intends to continue to operate primarily in and around its target urban markets of the greater Toronto area, including the Golden Horseshoe area and London; the Calgary and Edmonton area; the greater Vancouver area, including Vancouver Island; the greater Montreal area; the Ottawa and Gatineau region, and Québec City. Over 90% of the Company's annual minimum rent is derived from these urban markets.

The Company has achieved critical mass in its target markets, which helps generate economies of scale and operating synergies, as well as real-time local knowledge of its properties, tenants, neighbourhoods and the markets in which it operates. Within each of these markets, the Company targets well-located properties with strong demographics that Management expects will attract quality tenants with long lease terms. First Capital Realty assesses the quality of locations based on a number of factors in the trade area of a property, including demographic trends, potential for competitive retail space and existing and potential tenants in the market.

Markets*



* Annual Minimum Rent

Acquisitions

Management seeks to acquire well-located neighbourhood and community shopping centres and mixed-use properties in the Company's target urban markets focussing on the quality, sustainability and growth potential of rental income. These properties are acquired where they complement or add value to the existing portfolio or provide opportunity for redevelopment or repositioning. Once the Company has acquired a property in a specific retail trade area, it will look to acquire adjacent or nearby properties. These adjacent properties allow the Company to provide maximum flexibility to its tenant base to meet changing formats and size requirements over the long term. Adjacent properties also allow the Company to expand or intensify its existing property, providing a better retail product and service offering for consumers. Management believes that its adjacent site acquisitions result in a better mix of goods and services offered and, ultimately, a long term return on investment, with a lower level of risk.

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

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

Development, Redevelopment and Land Use Intensification

The Company pursues selective development and redevelopment activities including land use intensification projects, primarily on its own, but also with joint venture partners, in order to achieve a better return on its portfolio over the long term. The redevelopment activities are focussed primarily on the older, well-located shopping centres that the Company owns and actively seeks to acquire. These properties are redeveloped and expanded, over time, in conjunction with anchor tenant repositioning and changing retail environments. Redevelopment of existing properties generally carries a lower market risk due to the urban locations, existing tenant base and the intensification opportunities. Redevelopment projects are carefully managed to minimize tenant downtime. Typically, tenants continue to operate during the planning, zoning and leasing phases of the project with modest "holdover" income from tenants operating during this period. The Company will sometimes carry vacant space in a property for a planned future expansion of tenants or reconfiguration of a property.

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

To a lesser degree, the Company develops new properties on ground-up sites and typically has at least one ground-up development project in the planning stage or underway in each region. At December 31, 2012, the Company has a total of six ground-up projects in progress at various stages, from planning to near completion.

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

These development and intensification activities provide the Company with an opportunity to use its existing platform to sustain and improve cash flows and realize capital appreciation over the long term through its ownership and development activities.

Proactive Management

The Company views proactive management of its existing portfolio and newly acquired properties as a core competency and an important part of its strategy. Proactive management means the Company continues to invest in properties to ensure it remains competitive by attracting quality retail tenants and their customers over the long term. Specifically, Management strives to create and maintain the highest standards in lighting, parking, access and general appearance of the Company's properties. The Company's proactive management strategies have historically contributed to improvements in occupancy levels and average lease rates throughout the portfolio.

The Company is fully internalized and all value creation activities, including development management, leasing, property management, lease administration and legal, construction management and tenant co-ordination functions, are directly managed and executed by experienced real estate professionals. Employees with these real estate capabilities are located in the Company's offices in Toronto, Montreal, Ottawa, Calgary, Edmonton and Vancouver in order to effectively serve the major urban markets where First Capital Realty operates. In addition, a number of the Company's management team members possess significant retail experience which contributes to the Company's in-depth knowledge of its tenants and market trends.

The Company operates solely in Canada, in three operating regions: Eastern region, which primarily includes operations in Québec; Central region, which includes the Company's Ontario operations; and Western region, which includes operations in Alberta and British Columbia.

Increasing Efficiency and Productivity of Operations

The Company continues to focus on operating efficiency as it grows its business. Management is implementing new processes and systems necessary to capture, record and report both operating and financial results, and effectively manage business execution while achieving higher levels of efficiency.

Cost of Capital

The Company seeks to maintain financial strength to achieve the lowest cost of debt and equity capital over the long term. The Company's capital structure is key to financing growth and providing sustainable cash dividends to its shareholders. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that First Capital Realty's composition of senior unsecured debt, mortgage debt, convertible debentures and equity in its capital base provides financing flexibility and reduces risks, while generating an acceptable return on investment, taking into account the long-term business strategy of the Company. The Company uses convertible debentures where both the interest and principal is payable in shares. The Company also recycles capital through selective disposition of full or partial interests in properties. Where it is deemed appropriate, the Company will raise equity to finance its growth and strengthen its financial position.

As of December 31, 2012, the Company has DBRS Limited ("DBRS") and Moody's Investors Service ("Moody's") ratings of BBB(high) and Baa2, respectively, making it the highest rated real estate entity in Canada. This is a key factor, along with the quality of the portfolio and other business attributes that contribute to reducing the cost of capital. Refer to the Leverage discussion in this section for further discussion.

Company Key Performance Measures

There are many factors that contribute to the successful operation of First Capital Realty's business including rental rates, renewal rates, occupancy rates, tenant quality, availability of properties and development sites that meet the Company's acquisition criteria, financing rates, tenant inducements, maintenance and general capital expenditure requirements, development costs and the broader economic environment. The Company quantifies the collective results of all of these factors into key measures: funds from operations and adjusted funds from operations ("FFO" and "AFFO" respectively) per diluted share and the overall leverage level. FFO and AFFO are measures of operating performance that are not defined by IFRS and are reconciled to relevant IFRS measures in the "Results of Operations" section of this MD&A.

FFO and AFFO

The Company's FFO and AFFO have shown consistent performance, resulting primarily from growth in net operating income. FFO and AFFO for the years ended December 31, 2012 and 2011 are as follows:

Year ended December 31		**2012**		2011
FFO per diluted share [1]	**$**	**1.00**	$	0.96
FFO per diluted share excluding other gains (losses) and (expenses)	**$**	**1.00**	$	0.96
AFFO per diluted share [1]	**$**	**0.93**	$	0.91
AFFO per diluted share excluding gains (losses) and (expenses)	**$**	**0.92**	$	0.88

[1] FFO and AFFO are measures of operating performance that are not defined by IFRS. See the "Results of Operations" section of this MD&A.

The Company achieved growth in FFO and AFFO while continuing disciplined execution of its strategy, including:

- acquiring properties in quality urban locations that are well-located that added strategic value and/or operating synergies, however, typically do not provide material accretion in the immediate term;
- capital recycling from dispositions of non-core assets where properties sold typically had higher short-term yields than those in the Company's core urban portfolio;
- development and redevelopment, which sometimes results in lower going-in yields in order to best position properties for the long term;
- the Company's unsecured debt strategy and commitment to extending its maturities, which historically tends to increase interest costs compared to secured and short-term financing; and
- investing in the business infrastructure, to increase the Company's efficiency of operations and quality of the management platform to facilitate growth.

Management believes these activities are fundamental to a long-term strategy of a best-in-class shopping centre company and will maximize shareholder value by generating sustainable cash flow and capital appreciation in its shopping centre portfolio.

Leverage

The key leverage ratios demonstrate that the Company has continued to maintain a conservative balance sheet while growing the portfolio. Management believes that maintaining financial strength will continue to provide the Company with financial flexibility which is critical against a backdrop of changing debt and equity markets.

On November 14, 2012, DBRS upgraded the senior unsecured debenture rating of First Capital Realty to BBB (high), from BBB, and changed the trend to stable, from positive. The rating upgrade acknowledges the Company's progress in terms of enhancing the quality, size and market position of its portfolio of supermarket- and drugstore-anchored shopping centres in high barrier-to-entry major urban markets across Canada. In addition, according to DBRS, the Company has meaningfully reduced the proportion of debt in its capital structure and improved key credit metrics to levels that are more in line with the BBB (high) rating category.

On November 20, 2012, Moody's upgraded the senior unsecured debenture rating of First Capital Realty to Baa2 (from Baa3) and revised the rating outlook to stable, from positive. This action follows the Moody's December 8, 2011 outlook change to positive on the Company's senior unsecured debenture rating. According to Moody's, the upgrade reflects the Company's steady growth in its shopping centre franchise throughout Canada's major markets while improving its financial profile with key metrics such as secured debt, unencumbered assets and fixed charge coverage moving solidly into the mid-Baa range.

For further discussion refer to the "Capital Structure and Liquidity" section of this MD&A.

Year ended December 31	**2012**	2011
Debt to total assets – at year end	**42.1%**	46.6%
Debt to total assets (based on debt covenants)	**45.3%**	51.3%
Debt to market capitalization – at year end	**41.8%**	45.5%
Debt/EBITDA [(1)]	**8.50**	8.59
Debt/EBITDA - run rate [(1) (2)]	**7.81**	8.08

[(1)] EBITDA is calculated as net income, adding back income tax expense, interest expense, amortization expense and excluding the impact of increases in value of investment properties, gains and losses and other non-cash items. EBITDA is used in analyzing the Company's compliance with the senior unsecured debentures indenture. EBITDA is not a measure defined by IFRS and as such there is no standard definition. As a result, EBITDA may not be comparable with similar measures presented by other entities. EBITDA is not to be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS. EBITDA is calculated on a trailing four quarter basis.

[(2)] Run rate is an annualized net operating income for a property based upon the existing tenants in place at the period end and current operating cost profile for the property.

In addition to these annual metrics, FFO, AFFO and leverage, the Company looked to achieve its long term objectives through the following in 2011 and 2012:

- selective acquisitions of strategic assets and adjacent sites;
- development, redevelopment and repositioning activities including land use intensification;
- proactive portfolio management that results in higher rent growth;
- selective dispositions of non-core assets;
- increasing efficiency and productivity of operations; and
- maintain financial strength to achieve the lowest cost of capital.

The Company's activities in 2012 and 2011 for each of the above are summarized below:

Selective acquisitions

In 2012, the Company invested $799 million in acquisitions compared to $444 million in 2011. The increase reflects the increase in opportunities in the market to acquire properties that fit the Company's criteria. The Company expanded within its urban markets to new retail nodes thereby increasing its overall footprint by 16 properties. The Company has also increased its footprint in many of its retail nodes where it already has a property through the acquisition of 28 adjacent sites and an increased interest in one existing property.

Year ended December 31	**2012**	2011
Total investment in acquisitions (millions)	**$ 799**	$ 444
Income-producing properties		
Number of properties in new retail trade areas	**16**	7
Square feet (thousands)	**1,494**	1,359
Additional space and adjacent land parcels in existing properties		
Number of acquisitions	**28**	15
Square feet (thousands)	**903**	316
Acres	**7.4**	3.6
Additional interests in the existing portfolio		
Number of additional interests	**1**	—
Square feet (thousands)	**150**	—
Development lands		
Number of parcels	**12**	6
Acres	**8.0**	3.0

Development, redevelopment and intensification activities

The Company continued to invest in development, redevelopment and repositioning of its existing properties, residential inventories, as well as ongoing portfolio capital improvements, which include access, facades, lighting, signage, roofing, parking lots, bike racks and pedestrian amenities. The investments during 2012 and 2011 totalled $355 million and $244 million, respectively. Development investments have increased in 2012 due to the number of projects underway during the year. The Company's development activities are typically on existing or adjacent properties rather than on ground-up sites and may include additional retail use, ancillary office uses and, in certain projects, residential density. Currently, the Company has two residential density projects underway, and three more in the entitlements process with municipalities. The residential density projects are ancillary to the Company's retail projects and are typically completed with a joint venture partner.

The Company completed and brought on line gross leasable area of 853,000 square feet and 514,000 square feet during 2012 and 2011, respectively. As at December 31, 2012, 813,000 square feet was under development.

Dispositions

During 2012 the Company recycled capital through the dispositions of 13 assets comprising 1.2 million square feet and one term loan receivable for gross proceeds of $340 million. The proceeds were used to fund further investment in the Company's projects in core urban markets. The 2011 dispositions totalled $52.8 million. This capital recycling program is expected to continue into 2013.

Increasing efficiency and productivity of operations

Measures currently used to monitor the Company's operating efficiencies are as follows:

Year ended December 31		**2012**		2011
GLA (weighted average) per average full time employee		**63,000**		68,000
Net operating income per employee - run rate (thousands of dollars)	**$**	**1,014**	$	1,105
Corporate expenses, excluding non-cash compensation				
As a percent of rental revenue		**3.9%**		3.5%
As a percent of total assets		**0.31%**		0.30%

The 2012 productivity measures as compared to 2011 reflect the impact of an increasing investment in development activities, which are not yet income producing and the increase in staff involved in the management and execution of these activities. The costs related to development activities are typically capitalized until such activities are complete. These productivity measures are expected to fluctuate based on the Company's level of development activity.

Capital access and cost

The Company utilized multiple sources of debt and equity capital to finance its growth and replace maturing debt financings in the year, demonstrating its successes in ensuring access to capital to fund its growth. The pricing reduction on the spread component, was a result of a combination of market factors and internal factors, such as the continued quality growth of the Company and higher credit ratings on the Company's unsecured debentures.

Year ended December 31		**2012**					2011
Sources of capital		**Amount (millions of dollars)**		**Pricing (weighted average)**		Amount (millions of dollars)	Pricing (weighted average)
Canadian credit facility capacity – unsecured	**$**	**500**		**BA + 1.50%**	$	500	BA + 2.00% / BA + 1.75%
Canadian credit facilities capacity – secured	**$**	**75**		**BA + 1.50%**	$	50	BA + 1.75%
New ten-year mortgage financings in the year	**$**	**181**		**3.86%**	$	84	4.44%
Senior unsecured debentures issued	**$**	**475**		**4.31%**	$	325	5.54%
Convertible debentures issued	**$**	**128**		**4.87%**	$	165	5.30%
Equity [(1)]	**$**	**498**	**$**	**17.59**	$	240	$ 16.22

(1) Includes issuance of common shares, payment of interest on convertible debentures, conversion of convertible debentures and exercises of options and warrants and including share issue costs.

OUTLOOK AND CURRENT BUSINESS ENVIRONMENT

The forward-looking statements contained in this section and elsewhere in this MD&A 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. See the "Forward-Looking Statement Advisory" section of this MD&A.

Over the last decade, First Capital Realty has successfully grown its business across the country, focussing on key urban markets, reducing leverage and achieving the highest credit rating of a real estate entity in Canada, while dramatically enhancing the quality of its portfolio and generating modest accretion in funds from operations. The Company will continue to grow its business and property portfolio in the context of the acquisition, financing, tenant dynamics and demographic and shopping trends in Canada and its long-term value creation strategy.

The urban property acquisition environment remains competitive for assets of similar quality to those the Company owns. The transaction activity in all classes of commercial real estate is high with many bids on quality properties, and asset valuations reflect this strong demand for well-located income-producing assets.

Urban municipalities where the Company operates continue to focus on increasing density within the existing boundaries of infrastructure. This provides the Company with multiple density development and redevelopment opportunities in its existing portfolio of urban properties, which includes an inventory of adjacent land sites and development land. Development activities continue to provide the Company with growth within its existing portfolio of assets. These activities also typically generate higher returns on investment over the long term and improve the quality and increase sustainable growth of property rental income.

The Company is now seeing a surge in entry and expansion into the Canadian retail landscape from major U.S. retailers, including Whole Foods, Target, Marshalls, Dollar Tree and others, which is serving as a catalyst for growth and repositioning of retail tenants and space in most of the Company's markets. This typically will result in new opportunities for the Company, but also brings increased competition. The Company is also focussed on changes it sees occurring in its industry first with a new and younger generation of consumers whose shopping patterns will be more difficult to predict and that are significantly influenced by wireless communications and internet business and information. Secondly, with an aging population whose needs will increasingly focus on convenience and health related goods and services. As a result, the Company is highly focussed on ensuring the competitive position of its assets in various retail trade areas and continues to closely follow demographics and goods and services shopping trends. The Company's property leasing strategy takes these factors into consideration in each trade area. In addition, the Company's proactive management strategy helps ensure its properties remain attractive to high quality tenants and their customers.

Canada's economy is growing at a relatively moderate pace and uncertainty remains due to ongoing sluggish growth and high levels of debt in many of the world's major economies. However, on a relative basis, Canada currently has a healthier economy than Europe. The ongoing uncertainty with respect to sovereign and consumer debt issues in the United States and Europe also continues to contribute to the maintenance of a low interest rate environment. Both the equity and long-term debt markets are accessible but sometimes volatile from a price perspective, primarily due to the aforementioned factors external to the Company and the Canadian economy. In this environment, the Company will continue to focus on maintaining access to all sources of long-term capital at the lowest possible cost. In particular, the Company is focussed on continuing to extend the term, and staggering the maturity of its debt.

Currently, financing availability in Canada from both financial institutions and the capital markets is robust, particularly for entities with better credit and larger real estate companies. However, relative to pricing currently sought by vendors of high quality, well-located urban properties that meet the Company's criteria, spreads also continue to be very tight. In addition, well-located urban properties rarely trade in the market and attract significant competition. 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 over the long term, and that equity and long-term debt capital can be priced and committed to maintain conservative leverage. The Company is also recycling its capital by selling assets in certain markets that are no longer aligned with our core strategies.

With respect to acquisitions of both income-producing and development properties, as well as in its existing portfolio, the Company will continue to focus on the quality, sustainability and growth potential of rental income. Consistent with First Capital Realty's past practices and in the normal course of business, the Company is engaged in discussions, and has various agreements, with respect to possible acquisitions of new properties and dispositions of existing properties in its portfolio. However, there can be no assurance that these discussions or agreements will result in acquisitions or dispositions, or if they do, what the final terms or timing of such acquisitions or dispositions would be. The Company expects to continue current discussions and actively pursue other acquisition, investment and disposition opportunities.

Specifically, Management is focussed on the following six areas to achieve its objectives through 2013 and into 2014:

- selective acquisitions of strategic properties and adjacent sites;
- development, redevelopment and repositioning activities including land use intensification;
- selective dispositions of non-core assets;
- continued focus on proactive asset management that results in higher rent growth;
- increasing efficiency and productivity of operations; and
- maintain financial strength to achieve the lowest cost of capital.

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

Guidance

Readers should refer to the Company's 2012 year end press release dated February 20, 2013, as filed on SEDAR at www.sedar.com, for a discussion of the Company's 2013 specific guidance.

The purpose of the Company's guidance is to provide readers with Management's view as to the expected financial performance of the Company, using factors that are commonly accepted and viewed as meaningful indicators of financial performance in the real estate industry.

Corporate Responsibility and Sustainability

First Capital Realty builds value by creating and managing high-quality properties with long-term appeal in neighbourhoods and communities that the Company believes will have a good and growing customer base well into the future. The Company also takes a highly disciplined approach to the development and redevelopment of the Company's properties across Canada. In May 2006, the Company embarked on the path towards sustainability with a commitment to develop all future properties to Leadership in Energy and Environmental Design ("LEED") standards. In 2009, the Company published its first Corporate Sustainability Report identifying five long-term goals. Since then, the Company published its Corporate Responsibility and Sustainability ("CSR") Report for each of the years 2010 and 2011. These CSR reports comply with the Global Reporting Initiative ("GRI"), an international non-profit organization whose mandate is to establish guidelines for CSR reports. The Company is proud to be Canada's first publicly traded real estate company to issue a GRI-compliant and externally assured CSR report.

On the environmental front, the Company continues to develop its properties to LEED standards. As of December 31, 2012, 28 projects at 19 properties comprising 603,000 square feet of gross leasable area ("GLA") were certified to LEED standards. Another 78 projects at 45 properties comprising over 2.2 million square feet of GLA are under development, in the process of construction or awaiting LEED certification. Reducing energy consumption is also key, and the Company has implemented several energy conservation measures, such as retrofitting lighting to more efficient technology. The Company entered the Barrymore and 85 Hanna Avenue buildings into Race to Reduce, a Greening Greater Toronto initiative aimed at reducing total energy use by 10% in participating office buildings in the Greater Toronto Area. The Company also installed geothermal technology at three properties during 2012: Broadmoor Shopping Centre in Richmond, British Columbia, Leaside Village in Toronto, Ontario and Fuzion condominium, a residential and retail property in Toronto, Ontario. Geothermal technology typically uses heat pumps to transfer heat from the ground to a building during the winter season. Conversely, in the summer season this cycle is reversed, with the heat being transferred from a building and rejected into the ground. Finally, the Company implemented water conservation measures, such as installing sensors and retrofitting sprinklers, at several properties. All of these initiatives enhance the Company's environmental performance, and many of them reduce operating costs, benefitting the Company's tenants and shareholders.

The people at First Capital Realty remain the most important asset, and Management of the Company continues to build a culture that is committed to treating people with respect and providing them with the opportunity to grow their capabilities. This approach has been fundamental to delivering economic success to the Company's investors, tenants, employees and the communities it serves. The Company promotes respect in the workplace since Management believes that it is the right thing to do, because when people feel valued, they care more about their work and contribute immeasurably to strong financial performance.

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

For more information on the Company's Corporate Responsibility and Sustainability, refer to the full report at www.firstcapitalrealty.ca.

SUMMARY CONSOLIDATED INFORMATION AND HIGHLIGHTS

As at December 31 *(thousands of dollars, except other financial data)*	**2012**	2011	2010
Operations Information			
Number of properties [2]	**175**	169	162
GLA (square feet)	**24,969,000**	23,227,000	21,624,000
Total portfolio occupancy	**95.6%**	96.2%	96.4%
Occupancy – same property – stable	**97.5%**	97.3%	n/a
Pipeline of development and adjacent land (GLA) [3]	**4,329,000**	3,938,000	3,388,000
Average rate per occupied square foot	**$ 17.51**	$ 16.81	$ 16.35
GLA developed and brought on line for the year (square feet)	**853,000**	514,000	384,000
Same property – stable net operating income (“NOI”) [4]			
– increase over prior year-to-date	**1.4%**	2.0%	3.0%
Total same property NOI			
– increase over prior year-to-date	**2.3%**	2.5%	3.4%
Financial Information			
Investment properties – shopping centres	**$ 6,903,340**	$ 5,811,288	$ 4,734,574
Investment properties – development land	**$ 135,466**	$ 100,845	$ 88,859
Total assets	**$ 7,318,792**	$ 6,111,144	$ 4,988,017
Mortgages, loans and credit facilities	**$ 1,623,340**	$ 1,584,168	$ 1,318,341
Senior unsecured debentures payable	**$ 1,469,073**	$ 1,240,594	$ 1,114,031
Convertible debentures	**$ 318,794**	$ 282,328	$ 324,535
Shareholders’ equity	**$ 3,245,612**	$ 2,511,848	$ 1,875,407
Capitalization and Leverage			
Shares outstanding (in thousands)	**206,546**	178,225	163,456
Enterprise value [5]	**$ 7,315,810**	$ 6,215,230	$ 5,252,706
Debt to total assets [6]	**42.1%**	46.6%	48.4%
Debt to total assets (based on debt covenants)	**45.3%**	51.3%	n/a
Debt to total market capitalization	**41.8%**	45.5%	46.0%

Year ended December 31 *(thousands of dollars, except per share and other financial data)*	**2012**	2011	2010
Revenues, Income and Cash Flow			
Revenues	**$ 591,560**	$ 534,219	$ 487,495
Net operating income [4]	**$ 371,537**	$ 340,088	$ 314,015
Corporate expenses, excluding non-cash compensation			
As a percentage of rental revenue	**3.9%**	3.5%	3.9%
As a percentage of total assets	**0.31%**	0.30%	0.37%
Increase in value of investment properties, net	**$ 291,851**	$ 466,214	$ 178,078
Net income attributable to common shareholders [1]	**$ 392,959**	$ 548,932	$ 249,497
Net income per share attributable to common shareholders (diluted) [1]	**$ 1.98**	$ 3.00	$ 1.47
Adjusted cash flow from operating activities [7]	**$ 192,695**	$ 179,249	$ 164,228
Dividends			
Regular dividends	**$ 159,157**	$ 136,186	$ 127,768
Regular dividends per common share	**$ 0.82**	$ 0.80	$ 0.80
Funds from Operations ("FFO") [4]			
FFO	**$ 188,938**	$ 161,302	$ 152,717
FFO per diluted share	**$ 1.00**	$ 0.96	$ 0.95
FFO excluding other gains (losses) and (expenses)	**$ 189,679**	$ 162,424	$ 148,408
FFO per diluted share excluding other gains (losses) and (expenses)	**$ 1.00**	$ 0.96	$ 0.93
Weighted average number of common shares (diluted) – FFO (in thousands)	**189,876**	168,632	160,031
Adjusted Funds from Operations ("AFFO") [4]			
AFFO	**$ 192,591**	$ 171,957	$ 160,578
AFFO per diluted share	**$ 0.93**	$ 0.91	$ 0.89
AFFO excluding other gains (losses) and (expenses)	**$ 189,112**	$ 167,369	$ 152,857
AFFO per diluted share excluding other gains (losses) and (expenses)	**$ 0.92**	$ 0.88	$ 0.85
Weighted average number of common shares (diluted) – AFFO (in thousands)	**206,573**	189,132	180,917

(1) Prior period comparative information has been restated, where applicable, for the effects of the adoption of IAS 12, "Income Taxes" ("IAS 12"). Refer to Note 3 to the consolidated financial statements for the year ended December 31, 2012 and the "Results of Operations - Income Taxes" section of this MD&A for further information.

(2) Includes properties currently under development.

(3) Net of co-ownership interests. Refer to the "Investment Property Development and Redevelopment Activities" section of this MD&A.

(4) NOI, FFO and AFFO and adjusted cash flow from operating activities are measures of operating performance that are not defined by IFRS. See the "Results of Operations" section of this MD&A.

(5) Enterprise value is a non-IFRS measure and is calculated as equity market capitalization plus the book value of mortgages and credit facilities, and the principal amount of unsecured debentures and convertible debentures outstanding.

(6) Calculated with all joint ventures proportionately consolidated and cash balances reducing debt.

(7) Adjusted for the net change in non-cash operating items and expenditures on residential development inventory.

BUSINESS AND OPERATIONS REVIEW

Real Estate Investments

The Company's portfolio is summarized as follows:

December 31				2012				2011
	Number of Properties	**Gross Leasable Area (000's sq. ft.)**	**Percent Occupied**	**% of Annual Minimum Rent**	Number of Properties	Gross Leasable Area (000's sq. ft.)	Percent Occupied	% of Annual Minimum Rent
Central Region								
Ontario	**74**	**10,921**	**96.4%**	**46%**	70	10,283	97.3%	45%
Eastern Region								
Québec	**51**	**6,506**	**95.7%**	**22%**	49	5,847	95.5%	21%
Other provinces	**2**	**116**	**65.3%**	**—**	2	91	71.6%	—
Western Region								
Alberta	**29**	**5,198**	**95.7%**	**22%**	27	4,877	95.6%	23%
British Columbia	**19**	**2,228**	**93.1%**	**10%**	21	2,129	95.8%	11%
Total	**175**	**24,969**	**95.6%**	**100%**	169	23,227	96.2%	100%

As at December 31, 2012, the Company had interests in 175 income-producing properties, which were 95.6% occupied with a total GLA of 24,969,000 square feet. This compares to 96.2% occupied and 23,227,000 square feet at December 31, 2011. The occupancy in the portfolio is discussed in more detail under the "Leasing and Occupancy" section of this MD&A. The average size of the shopping centres is approximately 143,000 square feet, with sizes ranging from 20,000 to over 500,000 square feet.

Investment Properties

Effective in 2012 the Company modified its categories for its properties for the purposes of evaluating operating performance including same property NOI. This reflects its increased development, redevelopment and repositioning activities on its properties, including land use intensification, and its planned disposition activities. The property categories are as follows:

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 and have 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 incremental redevelopment or expansion activities or to major redevelopment.

Same property with incremental redevelopment and expansion – includes properties that are largely stable but are undergoing incremental redevelopment or expansions including facade, parking or lighting upgrades, building upgrades or have expansion pads or building extensions underway which intensify the land use.

Major redevelopment – includes properties 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 or on a land site with conversion of an existing vacant building to retail use.

Acquisitions and dispositions – includes properties acquired or divested during the period including adjacent buildings or sites.

Investment properties classified as held for sale – represent those properties classified on the balance sheet which meet the criteria as described in the "Investment Properties Classified As Held For Sale" section of this MD&A.

Development land – comprised of land sites and adjacent parcels of land where there are no development activities underway.

The Company has applied the above property categorization to the fair value, and capital expenditures, leasing and occupancy activity on its shopping centre portfolio, and to its same property NOI analysis.

Prior to 2012, the same property analysis was completed on a unit basis, segregating expansion or development space for each property. Management is now segregating entire properties owned in the comparative period into the above classifications for the purposes of evaluating same property performance.

This revised method of classifying and reporting on properties, their income, leasing operations, and investing activities provides more information on the Company's properties given the extent of expansion, redevelopment and development activities and the planned disposition activities.

The Company's shopping centre portfolio by category based on property categorization as at December 31, 2012 is summarized as follows:

	December 31, 2012				December 31, 2011			
(millions of dollars, except other data)	**Number of Properties**	**Gross Leasable Area 000s sq. ft.)**	**Fair Value**	**Occupancy %**	Number of Properties	Gross Leasable Area (000s sq. ft.)	Fair Value	Occupancy %
Same property – stable	**96**	**12,046**	**$ 3,143**	**97.5%**	96	12,006	$ 2,954	97.3%
Same property with incremental redevelopment and expansion	**24**	**4,976**	**1,355**	**95.6%**	23	4,697	1,177	96.1%
Total same property	**120**	**17,022**	**4,498**	**96.9%**	119	16,703	4,131	96.9%
Major redevelopment	**13**	**1,565**	**543**	**93.4%**	13	1,566	461	91.1%
Ground-up development	**6**	**867**	**402**	**95.2%**	6	547	269	97.3%
Acquisitions – 2012	**16**	**2,367**	**739**	**91.5%**	—	—	—	—
Acquisitions – 2011	**7**	**1,618**	**440**	**92.4%**	7	1,648	405	94.6%
Investment properties classified as held for sale	**13**	**1,530**	**281**	**93.2%**	15	1,518	266	94.7%
Dispositions – 2012	**—**	**—**	**—**	**—**	9	1,245	279	96.9%
Total	**175**	**24,969**	**$ 6,903**	**95.6%**	169	23,227	$ 5,811	96.2%

The Company's investments in its shopping centre acquisition, development and portfolio improvement activities are summarized below:

Investment Properties – Shopping Centres

	2012		2011	
(millions of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Balance at beginning of year	**$ 5,811**	**$ 4,931**	$ 4,735	$ 4,307
Acquisitions				
Income-producing properties	**426**	**426**	326	326
Additional space adjacent to existing properties	**255**	**255**	86	86
Additional interest in existing property	**42**	**42**	—	—
Additional land parcels adjacent to existing properties	**32**	**32**	1	1
Development activities and portfolio improvements	**315**	**315**	215	215
Reclassifications from development land	**13**	**9**	35	44
Reclassification to residential development inventory	**—**	**—**	(3)	(2)
Fair value increase	**293**	**—**	459	—
Dispositions	**(297)**	**(232)**	(53)	(35)
Other changes	**13**	**(1)**	10	(11)
Balance at end of year	**$ 6,903**	**$ 5,777**	$ 5,811	$ 4,931

Investment Properties – Development Land

	2012		2011	
(millions of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Balance at beginning of year	**$ 101**	**$ 91**	$ 89	$ 95
Acquisitions	**44**	**44**	30	30
Development activities and portfolio improvements	**11**	**11**	12	12
Dispositions	**(6)**	**(7)**	(2)	(2)
Reclassifications to shopping centres	**(13)**	**(9)**	(35)	(44)
Fair value (decrease) increase	**(1)**	**—**	7	—
Other	**—**	**1**	—	—
Balance at end of year	**$ 136**	**$ 131**	$ 101	$ 91

Residential Development Inventory

(millions of dollars)	**2012**	2011
Balance at beginning of year	**$ 37**	$ 17
Expenditures	**29**	17
Reclassification from shopping centres	**—**	3
Balance at end of year	**$ 66**	$ 37

Valuation of Investment Properties Under IFRS

The Company continues to see increases in the fair value of its investment properties as the weighted average stabilized capitalization rates declined from 6.34% to 6.00% during the year ended December 31, 2012. The fair value of the Company's investment properties increased by $292 million (shopping centres – increase of $293 million; development land – decrease of $1 million) from December 31, 2011 to December 31, 2012.

The values of shopping centres and associated capitalization rates by region are as follows for the years ended December 31, 2012 and 2011:

December 31, 2012		Capitalization Rate					Weighted Average Yield		
	Number of Properties	**Weighted Average**	**Median**	**Range**	**Fair Value (millions of dollars)**	**Revaluation Gains (millions of dollars) (1)**	**Actual NOI to Fair Value Yields (2)**	**Run Rate to Fair Value Yield (3)**	**Run rate to Cost Yield (4)**
Central Region	**74**	**5.93%**	**6.00%**	**5.50%-8.50%**	**$ 3,147.6**	**$ 149**	**5.29%**	**5.64%**	**6.79%**
Eastern Region	**53**	**6.55%**	**6.50%**	**5.75%-10.00%**	**1,371.0**	**31**	**5.92%**	**6.10%**	**7.11%**
Western Region	**48**	**5.80%**	**6.00%**	**5.00%-6.50%**	**2,384.7**	**113**	**5.31%**	**5.37%**	**6.66%**
	175	**6.00%**	**6.00%**	**5.00%-10.00%**	**$ 6,903.3**	**$ 293**	**5.41%**	**5.63%**	**6.81%**

December 31, 2011		Capitalization Rate					Weighted Average Yield		
	Number of Properties	Weighted Average	Median	Range	Fair Value (millions of dollars)	Revaluation Gains (millions of dollars) (1)	Actual NOI to Fair Value Yields (2)	Run Rate to Fair Value Yield (3)	Run rate to Cost Yield (4)
Central Region	70	6.27%	6.25%	5.53%-9.50%	$ 2,713.1	$ 190	5.86%	6.12%	7.09%
Eastern Region	51	6.80%	6.75%	6.00%-10.00%	1,098.3	52	6.29%	6.53%	7.50%
Western Region	48	6.19%	6.25%	5.00%-7.50%	1,999.9	217	5.68%	5.92%	7.23%
	169	6.34%	6.25%	5.00%-10.00%	$ 5,811.3	$ 459	5.87%	6.12%	7.21%

(1) As reported in the consolidated statements of income.

(2) Calculated as normalized NOI divided by the fair value of investment property. Normalized NOI is calculated on the basis that all acquisitions and dispositions occurred at the beginning of the reporting period (assuming a run rate), and does not include the ground-up development projects discussed in the "2012 Investment Property Development and Redevelopment Activities" section of this MD&A. Run rate is an annualized NOI for a property based upon the existing tenants in place and current operating cost profile for the property.

(3) Calculated as run rate NOI divided by the fair value of investment property.

(4) Calculated as run rate NOI divided by cost of investment property.

The sensitivity of the fair values of shopping centres to capitalization rates as at December 31, 2012 is set out in the table below:

Capitalization rate (decrease) increase	Resulting increase (decrease) in value of shopping centres ($ millions)
(0.75)%	$ 961
(0.50)%	$ 611
(0.25)%	$ 292
0.25%	$ (269)
0.50%	$ (517)
0.75%	$ (747)

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

As a result of changes in IFRS with respect to the fair value of investment properties that are effective in January 1, 2013, and the ongoing review by Management of industry practices, the Company refined its risk-based approach to determining which properties will be selected for external appraisal, and which will be internally appraised. This refined policy was adopted with effect for the fourth quarter of 2012. In previous periods, properties were selected for external appraisal based upon a fixed rotation plan, taking into account factors such as property size, local market conditions and geography. The previous policy also included specific size thresholds to be met. The key components of the refined risk-based approach are set out below.

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

1. External appraisals – by an independent national appraisal firm, according to professional appraisal standards and IFRS;
2. Internal appraisals – by certified staff appraisers employed by the Company, according to professional appraisal standards and IFRS;
3. Value updates – performed by certified staff appraisers and primarily consisting of reviewing the key assumptions from previous appraisals and updating the value for changes in the property cash flow, physical condition and changes in market conditions.

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

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

- Minimum thresholds for the proportion of the portfolio valued using external appraisals.

The Company makes no adjustments for portfolio premiums and discounts, nor for any value attributable to the Company's management platform, consistent with IFRS requirements.

Shopping Centres Valuation Method

Shopping centres are appraised primarily using stabilized cash flows from existing tenants with the property in its existing state, since purchasers typically focus on expected income. External and internal appraisals conduct and place reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition). Value updates use the direct capitalization method.

Properties undergoing development, redevelopment or expansion are valued using the stabilized cash flows expected upon completion, with a deduction for costs to complete the project; capitalization rates are adjusted to reflect lease-up assumptions and construction risk, when appropriate. Adjacent land parcels held for future development are valued based on comparable sales of commercial land.

During the year ended December 31, 2012, approximately 35% (year ended December 31, 2011 – approximately 45%) of the total fair value of shopping centres was determined through external appraisals.

Development Land Valuation Method

The primary method of appraisal for development land is the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets to estimate a value on either a per acre basis or on a basis of per square foot buildable. Such values are applied to the Company's properties after adjusting for factors specific to the site, including its location, zoning, servicing and configuration. During 2012, approximately 17% (year ended December 31, 2011 – approximately 23%) of the total fair value of development land was determined through external appraisals.

2012 Acquisitions

Total acquisitions of investment properties amounted to $798.8 million, adding 2.4 million square feet of gross leasable area and 15.4 acres of land for future development.

Management will continue to be selective and take a highly disciplined approach to increasing the size and quality of the Company's property portfolio, seeking acquisitions that are operationally, financially and qualitatively accretive over the long term. Management looks for benefits from economies of scale and operating synergies in order to strengthen the Company's competitive position in its target urban markets. As well, Management seeks to enhance the tenant and geographic diversification of the portfolio.

On August 8, 2012, a court-approved plan of arrangement for Gazit America Inc. ("Gazit America") was completed involving First Capital Realty and Gazit-Globe Ltd. ("Gazit"). Under the plan of arrangement, First Capital Realty acquired the shares of Gazit America's subsidiaries, ProMed Properties (CA) Inc. and ProMed Asset Management Inc., which together owned and managed all of the medical office and retail properties of Gazit America, and certain property related inter-company indebtedness owing to Gazit America (hereinafter referred to as the "First Medical acquisition").

The acquired subsidiaries include the portfolio of real estate properties, property management contracts and leasing and management personnel and represent a business. The transaction was accounted for as a common control business combination using the acquisition method.

The reason for First Capital Realty to complete this transaction was to acquire from Gazit America 12 medical office and retail properties generally adjacent to existing First Capital Realty properties and a 50% interest in a thirteenth property jointly owned with First Capital Realty. As consideration for the acquisition of these assets and liabilities, the Company issued 5,461,786 common shares and assumed certain property-related indebtedness. The common shares issued were valued at their quoted trading price at the time of issue.

The allocation of the purchase price to the assets acquired and liabilities assumed is as follows:

(thousands of dollars)	Assets (Liabilities)
Investment property	$ 225,664
Other assets	3,843
Secured mortgage debt	(122,804)
Other liabilities	(3,639)
Total share consideration paid	$ 103,064

Had the transaction occurred as at January 1, 2012, First Capital Realty's property rental revenue and net income for the year ended December 31, 2012 would have increased by $14.5 million and $6.7 million, respectively.

Property rental revenue and net income of the acquired business since the acquisition date included in the consolidated statements of income is not significant to the Company.

As at December 31, 2011, the acquired business's total assets and total liabilities were approximately $224.4 million and $130.9 million, respectively (January 1, 2011 – approximately $34.4 million and $12.5 million, respectively). The acquired business's property rental revenue and net income for the year ended December 31, 2011 were $15.3 million and $1.0 million, respectively, and were not significant to the Company.

Shopping Centres – Income-Producing Properties

In 2012, the Company invested $425.7 million in the acquisition of 10 shopping centres and six medical office and retail properties, comprising 1,494,000 square feet. These acquisitions are in new trade areas in the Company's target urban markets and demonstrate the Company's continuing focus on acquiring well-located retail and mixed-use properties in these urban markets. The acquisitions are summarized in the table below:

Property Name	Note	City	Province	Quarter Acquired	New Trade Area	Supermarket-Anchored	Drugstore-Anchored	Gross Leasable Area (square feet)	Acquisition Cost (in millions)
Central Region									
3080 Yonge Street		Toronto	ON	Q2	✓	—	—	226,000	$ 58.3
Belmont Professional Centre	(1)	Kitchener	ON	Q3	✓	—	—	46,000	10.5
71 King Street West	(1)	Mississauga	ON	Q3	✓	—	—	42,000	12.0
Nepean Medical Centre	(1)	Ottawa	ON	Q3	✓	—	—	47,000	18.1
1670 Bayview Avenue	(1)	Toronto	ON	Q3	✓	—	—	40,000	12.5
Queen Street	(2)	Toronto	ON	Q3	✓	—	—	13,000	11.7
King Street	(2)	Toronto	ON	Q3	✓	—	—	9,000	9.1
895 Lawrence Avenue East		Toronto	ON	Q4	✓	—	—	30,000	11.2
Eastern Region									
Place des Quatre-Bourgeois		Québec City	QC	Q2	✓	✓	✓	243,000	33.0
Jardins Millen	(3)	Montreal	QC	Q3	✓	✓	✓	56,000	16.0
Les Galeries Charlesbourg		Québec City	QC	Q4	✓	✓	—	255,000	35.1
2600 Daniel Johnson Blvd		Laval	QC	Q4	✓	—	—	68,000	16.0
Western Region									
Shops at New West Station	(4)	New Westminster	BC	Q2	✓	✓	✓	193,000	119.3
31 Sunpark Plaza	(1)	Calgary	AB	Q3	✓	—	—	125,000	36.1
Kingway Mews	(1)	Edmonton	AB	Q3	✓	—	—	42,000	11.1
West Springs Village	(5)	Calgary	AB	Q4	✓	—	✓	59,000	15.7
Total								1,494,000	$ 425.7

(1) Acquired in the First Medical acquisition.

(2) Acquired in the Company's Main & Main Developments joint venture.

(3) Costs to complete are estimated at $3 million. Approximately 51,000 square feet was under construction at acquisition and was not included in the Company's gross leasable area. This space came on line in the three months ended December 31, 2012.

(4) At acquisition, approximately 45,000 square feet was under development and was not included in the Company's gross leasable area. This space came on line in the three months ended December 31, 2012.

(5) The property was acquired on a 50% co-ownership basis. The acquisition cost represents the Company's proportionate participation in this property and the square footage is at 100%.

In addition, as part of the First Medical acquisition, the Company acquired the remaining 50% interest in an existing property as set out in the table below:

Property Name	City	Province	Quarter Acquired	New Trade Area	Supermarket-Anchored	Drugstore-Anchored	Gross Leasable Area (square feet)	Acquisition Cost (in millions)
Meadowlark	Edmonton	AB	Q3	—	✓	✓	150,000	$ 41.8

Shopping Centres – Additional Space and Adjacent Land Parcels

In 2012, the Company acquired 28 properties adjacent to existing shopping centres adding 903,000 square feet of gross leasable area and 7.4 acres adjacent to existing properties in established retail nodes. Total expenditures on these adjacent parcels amounted to $286.9 million. These acquisitions are set out in the table below:

Property Name	Note	City	Province	Quarter Acquired	Gross Leasable Area (square feet)	Acreage	Acquisition Cost (in millions)
Central Region							
Loblaws Plaza (1450 Merivale Road)		Ottawa	ON	Q1	—	0.6	$ 2.4
Hazelton Lanes (Yorkville Avenue)		Toronto	ON	Q2	18,000	—	15.8
Morningside Crossing (West Hill Shopping Centre)		Toronto	ON	Q3	43,000	—	7.2
Delta Centre (Coronation Medical Centre)	(1)	Cambridge	ON	Q3	64,000	—	8.9
Wellington Corners (Base Line Medical Centre)	(1)	London	ON	Q3	49,000	—	7.7
Wellington Corners (Westminster Centre)	(1)	London	ON	Q3	109,000	—	14.3
216 Elgin Street (Kent Professional Building)	(1)	Ottawa	ON	Q3	39,000	—	11.1
Parkway Mall (Victoria Park Centres)		Toronto	ON	Q4	234,000	—	61.1
Other		Toronto	ON	Q1/Q3/Q4	—	—	5.8
Eastern Region							
Carrefour St. David (Boston Pizza)		Québec City	QC	Q2	7,000	—	1.9
Place Viau		Montreal	QC	Q2	—	1.4	1.7
Cole Harbour Shopping Centre (Cumberland Court)		Cole Harbour	NS	Q3	21,000	—	3.0
Place Fleury (10370-10372 Papineau)		Montreal	QC	Q3	—	0.1	0.8
Place des Quatre-Bourgeois (Place Naviles)		Québec City	QC	Q3	21,000	—	4.7
Place Roland Therrien (Place Adoncour)	(1)	Longueuil	QC	Q3	58,000	—	15.7
Centre Commercial Van Horne (5700 Cote-des-Neiges)	(1)	Montreal	QC	Q3	92,000	—	25.7
Jardins Millen (Jardins Millen II)		Montreal	QC	Q3	—	0.1	0.3
Place Fleury (10360-10362 Papineau)		Montreal	QC	Q4	—	0.1	0.9
Place Nelligan		Gatineau	QC	Q4	—	0.8	0.1
Western Region							
Mount Royal Village (The Devenish)	(2)	Calgary	AB	Q1	43,000	—	22.2
Langford Centre (2800 Bryn Maur Road)		Langford	BC	Q1	16,000	—	3.9
Macleod Trail (9206 Macleod Trail)		Calgary	AB	Q2	—	2.6	11.0
Mount Royal Village (1515 - 8th Street)		Calgary	AB	Q2	—	1.2	6.0
Mount Royal Village (815 - 17th Avenue)		Calgary	AB	Q3	50,000	—	39.4
Time Marketplace (Empire Theatre, 200 West Esplanade)		Vancouver	BC	Q3	39,000	—	12.5
Broadmoor Shopping Centre (9900 No. 3 Road)		Richmond	BC	Q4	—	0.5	2.8
Total					903,000	7.4	$ 286.9

(1) Acquired in the First Medical acquisition.

(2) The Company also acquired a residential component of approximately 13,000 square feet, which is not included in the Company's gross leasable area.

Development Lands

In 2012, the Company invested $44.4 million in the acquisition of 12 development land parcels, comprising 8 acres for future development of retail and mixed-use space. See the "2012 Investment Property Development and Redevelopment Activities" section of this MD&A for further discussion.

Property Name	Note	City	Province	Quarter Acquired	Acreage		Acquisition Cost (in millions)
Main & Main	(1)	Toronto/Ottawa	ON	Q1, Q2, Q3, Q4	2.4	$	30.2
5500 Dundas Street West		Toronto	ON	Q1	2.4		6.2
Crosstown	(2)	Edmonton	AB	Q3	3.2		8.0
Total					8.0	$	44.4

(1) Acquired through the Company's Main & Main Developments joint venture. In 2012, the joint venture completed the acquisition of ten land parcels in two existing assembly projects and five new assembly projects.

(2) The property was acquired on a 50% co-ownership basis. The acquisition cost and acreage represents the Company's proportionate participation in this property. The property is adjacent to the Company's existing Longstreet Shopping Centre.

2012 Dispositions

In 2012, the Company sold nine shopping centres and 50% interests in two shopping centres representing 1,206,000 square feet of gross leasable area and two land parcels adjacent to a shopping centre of 2.9 acres. Gross proceeds of these dispositions were $302.8 million.

Property Name	Note	City	Province	Quarter Sold	Gross Leasable Area (square feet)	Acreage		Gross Sales Price (in millions)
Central Region								
Orleans Gardens	(1)	Ottawa	ON	Q1	55,000	—		
Brantford Commons		Brantford	ON	Q2	315,000	—		
Chemong Park Plaza		Peterborough	ON	Q3	75,000	—		
Parkway Centre		Peterborough	ON	Q3	264,000	—		
2255 Dundas St.		Mississauga	ON	Q4	—	2.6		
Eastern Region								
Place des Cormiers & Place de la Colline		Sept-Iles & Chicoutimi	QC	Q2	125,000	—		
Carré Normandie (Galeries Normandies)		Montreal	QC	Q2	—	0.3		
Western Region								
Woodgrove Crossing		Nanaimo	BC	Q1	59,000	—		
Woolridge Building		Coquitlam	BC	Q1	37,000	—		
Village Market & Sherwood Towne Square	(2)	Sherwood Park	AB	Q2	173,000	—		
Dickson Trail		Airdrie	AB	Q3	52,000	—		
Coronation Mall		Duncan	BC	Q4	51,000	—		
Total					1,206,000	2.9	$	302.8

(1) The Company sold its 50% interest in this shopping centre.

(2) The Company has retained a 50% interest in this shopping centre and provides asset and property management services.

In aggregate, the gross sales price on the 2012 sales have exceeded invested cost by approximately $64.0 million. Total mortgages assumed by the purchasers aggregated $37.8 million, with a weighted average cash interest rate of 6.36%. The 2012 dispositions were in line with the Company's ongoing strategy of increasing the portfolio's focus on core urban markets.

In addition, the Company received payment of the US$36 million non-revolving unsecured term loan from Gazit America on August 14, 2012.

Impact of Acquisitions and Dispositions on Continuing Operations

The 2012 acquisitions are in line with the Company's business strategy based on their locations, tenancies and redevelopment, repositioning or expansion opportunities.

The NOI effect of properties acquired and sold, based on the run rate, for the years ended December 31, 2012 and 2011 is set out in the table below:

	Run rate NOI of properties acquired		Run rate NOI at date of sale	
(thousands of dollars)	**2012**	2011	**2012**	2011
Central Region	**$ 14,432**	$ 7,466	**$ 9,386**	$ —
Eastern Region	**8,618**	5,148	**1,144**	—
Western Region	**15,006**	8,717	**7,437**	2,743
Total	**$ 38,056**	$ 21,331	**$ 17,967**	$ 2,743

Investment Properties Classified As Held For Sale

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

Included in investment properties at December 31, 2012 are 13 shopping centres and four development land parcels with an approximate value of $283.5 million that meet the financial reporting criteria to be classified as held for sale. These properties are considered to be non-core assets. Disposition of these investment properties will provide the Company with the opportunity to redeploy capital to uses more aligned with the Company's urban focus.

Acquisitions and Dispositions Subsequent to December 31, 2012

Consistent with past practices and in the normal course of business, the Company is engaged in discussions, and has various agreements, with respect to possible acquisitions of new properties and dispositions of existing properties in its portfolio. However, there can be no assurance that these discussions or agreements will result in acquisitions or dispositions or, if they do, what the final terms or timing of such acquisitions or dispositions would be. First Capital Realty expects to continue current discussions and actively pursue other acquisition, investment and disposition opportunities.

2011 Acquisitions

Total acquisitions of investment properties in 2011 amounted to $444 million, adding 1.7 million square feet of gross leasable area and 6.6 acres of development land to the portfolio.

Shopping Centres – Income-Producing Properties

In 2011, the Company invested $326.4 million in the acquisition of seven income-producing shopping centres, comprising 1,358,500 square feet. These acquisitions are in the Company's target urban markets and demonstrate the Company's continuing focus on increasing its presence in these urban markets. The acquisitions, each of which was acquired from a different vendor, are summarized in the table below:

Property Name	Note	City	Province	Quarter Acquired	New Trade Area	Supermarket-Anchored	Drugstore-Anchored	Gross Leasable Area (square feet)	Acquisition Cost (in millions)
Central Region									
Tomken Plaza		Mississauga	ON	Q1	✓	✓	✓	88,500	$ 22.0
Rona Stockyards		Toronto	ON	Q3	✓	—	—	84,000	18.7
Hazelton Lanes		Toronto	ON	Q4	✓	✓	—	213,500	117.9
Eastern Region									
Place Portobello		Brossard	QC	Q1	—	✓	✓	505,000	73.6
Western Region									
Meadowlark	(1)	Edmonton	AB	Q3	—	✓	✓	305,000	42.1
Longstreet		Edmonton	AB	Q3	✓	—	—	44,500	17.0
Mount Royal Village		Calgary	AB	Q4	✓	—	✓	118,000	35.1
Total								1,358,500	$ 326.4

(1) The property was originally acquired on a 50% co-ownership basis. The acquisition cost represents the Company's proportionate participation in this property and the square footage is at 100%.

Shopping Centres – Additional Space and Adjacent Land Parcels

In 2011, the Company acquired 15 properties adjacent to existing shopping centres adding 316,000 square feet of gross leasable area and 3.6 acres adjacent to existing properties. Total expenditures on these additional interests amount to $87.3 million. These acquisitions are set out in the table below:

Property Name	City	Province	Quarter Acquired	Gross Leasable Area (square feet)	Acreage	Acquisition Cost (in millions)
Central Region						
Queensway	Toronto	ON	Q2	11,000	—	$ 4.5
Queensway	Toronto	ON	Q2	2,000	—	1.8
Fairway Plaza (685 Fairway Road)	Kitchener	ON	Q2	27,000	—	7.6
Shops at King Liberty (116 Atlantic)	Toronto	ON	Q4	4,000	—	1.3
Eastern Region						
Queen Mary (5150-5164 Queen Mary)	Montreal	QC	Q1	35,000	—	6.5
Carrefour du Plateau Grives	Gatineau	QC	Q2	—	1.7	0.5
Centre Kirkland (Place Hymus)	Kirkland	QC	Q3	—	0.5	0.7
Centre St. Hubert	Longueuil	QC	Q4	—	1.0	1.0
Western Region						
Macleod Plaza (9250 MacLeod Trail)	Calgary	AB	Q3	124,000	—	35.2
Langford Centre (Langford Plaza)	Langford	BC	Q1	33,000	—	6.4
Coronation Mall (Robertson Street)	Duncan	BC	Q1	—	0.4	0.1
Langford Centre (Millstream Centre)	Langford	BC	Q2	19,000	—	3.7
Langford Centre (Goldstream Station Mall)	Langford	BC	Q3	10,000	—	2.4
Semiahmoo Shopping Centre (1706-1717 152nd Street)	Surrey	BC	Q3	7,000	—	2.6
Tuscany Village (McKenzie Professional Centre)	Victoria	BC	Q4	44,000	—	13.0
Total				316,000	3.6	$ 87.3

Development Lands

In 2011, the Company through its Main & Main Developments joint venture invested $29.3 million in the acquisition of six assembly projects, comprising three acres of land in Toronto, Ontario for future development of retail and mixed-use space. See "Development and Redevelopment Activities" section of this MD&A for further discussion.

2011 Dispositions

The Company completed the sale of the 103,000 square foot West Lethbridge Towne Centre in Lethbridge, Alberta. The sale price of the property was $42.6 million, which was satisfied by a combination of cash and the assumption of the mortgage payable aggregating $8.0 million.

The Company also completed the sale of the 30,000 square foot Terminal Park Shopping Centre in Nanaimo, British Columbia for $10.2 million, which was satisfied in cash.

2012 Investment Property Development and Redevelopment Activities

Development and redevelopment activities are completed selectively, based on opportunities in the markets where the Company operates. The Company's development projects are comprised of ground-up projects, major redevelopment and other incremental redevelopment and expansions on stable same properties. All development activities are strategically managed to reduce risk and properties are generally developed after obtaining anchor lease commitments.

In 2012, development of 731,000 square feet was brought on line with 600,000 square feet leased at an average rate of $25.24 per square foot. Development and redevelopment coming on line in 2012 included the following:

Property Name	Note	City	Province	Square Feet (1)	Major Tenants of Developed Space
Same property with incremental redevelopment and expansion					
Brooklin Towne Centre	(2)	Whitby	ON	7,000	The Beer Store
Cedarbrae Mall		Toronto	ON	19,000	Shoppers Drug Mart, Scarborough Centre For Healthy Communities
Gloucester City Centre	(2)	Ottawa	ON	12,000	LCBO
Queenston Place		St Catharines	ON	5,000	Kelsey's
Shops at King Liberty	(2)	Toronto	ON	21,000	RBC, EQ3, Pearl Vision
Thickson Place	(2)	Whitby	ON	12,000	Starbucks, LCBO
Carrefour du Versant	(2)	Gatineau	QC	17,000	CIBC, Dollarama, Second Cup
Carrefour St. Hubert	(2)	Longueuil	QC	14,000	RBC, Magicuts, and space with leasing underway
Carrefour Charlemagne	(2)	Charlemagne	QC	8,000	Leasing underway
Place Nelligan		Gatineau	QC	5,000	Sobeys
Centre commercial Beaconsfield	(2)	Beaconsfield	QC	5,000	TD Bank
Centre Kirkland	(2)	Kirkland	QC	7,000	SAQ, Second Cup
Westmount Shopping Centre	(2)	Edmonton	AB	25,000	Rexall, Wind Mobile, Calwood Medical Clinic, Medicine Shoppe Pharmacy, Woodcroft Medical Centre
Red Deer Village	(2)	Red Deer	AB	19,000	Canadian Tire
McKenzie Towne Centre	(2)	Calgary	AB	13,000	McKenzie Ortho, Servus Credit Union, various other tenants
Other				31,000	
Major redevelopment					
Chartwell Shopping Centre	(2)	Toronto	ON	85,000	Bestco Food, CIBC, Dollarama, various other tenants
Appleby Village	(2)	Burlington	ON	49,000	Harvey's, Womens Fitness Clubs of Canada, Great Clips, various other tenants and space with leasing underway
5051-5061 Yonge Street		Toronto	ON	34,000	Jack Astor's Bar and Grill, Michael's
134, 146-150 Lakeshore Road W.	(2)	Oakville	ON	16,000	Starbucks, Pizza Hut, Royal Cleaners, Bark n Fitz
Carrefour Soumande	(2)	Québec City	QC	42,000	Metro
Deer Valley Shopping Centre	(2)	Calgary	AB	10,000	CIBC, Deer Valley Health Foods, Medical Clinic and space with leasing underway
Port Place Shopping Centre		Nanaimo	BC	6,000	Starbucks and space with leasing underway
Place Pointe-aux-Trembles		Montreal	QC	7,000	Tim Hortons
Other				4,000	

Development and redevelopment coming on line in 2012, continued:

Property Name	Note	City	Province	Square Feet [1]	Major Tenants of Developed Space
Ground-up development					
Leaside Village	(2)	Toronto	ON	104,000	CIBC, Longo's, Bulk Barn, Linen Chest, Pet Valu,Tim Hortons, The Beer Store, 5 Guys Burgers, various other tenants
Clairfield Commons (Pergola Commons)	(2)	Guelph	ON	113,000	Bank of Montreal, RBC, Cineplex, Goodlife Fitness, Dollarama, various other tenants
Rutherford Market Place	(2)	Toronto	ON	5,000	Booster Juice, My Sushi and space with leasing underway
Carrefour St-David	(2)	Québec City	QC	15,000	The Co-Operators, Optometrist and space with leasing underway
Carrefour du Plateau-Grives	(2)	Gatineau	QC	10,000	National Bank
Acquisitions – 2012					
Shops at New West Station		Vancouver	BC	38,000	Various tenants and space with leasing underway
Jardins Millen	(2)	Montreal	QC	50,000	IGA and other leasing underway
Acquisitions – 2011					
9630 Macleod Trail		Calgary	AB	13,000	Fit 4 Less
Other				1,000	
Assets Held For Sale				31,000	Various tenants
Total				853,000	
Total development brought on line				731,000	
Total other redevelopment brought on line				122,000	
				853,000	

(1) Includes new space in development projects.

(2) Constructed in accordance with LEED standards.

Total development and redevelopment of 853,000 square feet was completed in 2012 compared with 514,000 square feet developed in 2011. The occupied space when transferred to income-producing shopping centres was leased at an average rental rate of $23.88 per square foot. These successfully completed development projects illustrate the potential future value of investments in ongoing development initiatives that are not yet generating income, but are expected to contribute to the growth of the Company. The balance of the space brought on line is expected to be leased in the next 12 months.

Highlights of the Company's current development projects underway include:

As at December 31, 2012 *(thousands of dollars, except for other data)*							
Property	Note	Major Tenants	Square Feet Under Development	Target Completion Date	Est. Cost incl. Land Total (1)	Investment Cost (4)	Cost to Complete
Same property with incremental redevelopment and expansion							
Gloucester City Centre, Gloucester, ON		Various tenants	21,048	Q4, 2013	$ 7,452	$ 2,439	$ 5,013
Eagleson Place, Ottawa, ON	(2)	Goodlife Fitness, The Beer Store	26,500	Q2, 2013	9,488	7,675	1,813
Carrefour du Versant, Gatineau, QC	(2)	CIBC, Second Cup, Dollarama	6,900	Q2, 2014	2,085	295	1,790
Place Nelligan, Gatineau, QC		IGA	11,408	Q3, 2013	8,305	4,114	4,191
Hunt Club Place, Ottawa, ON	(2), (3)	T&T Supermarket, TD Bank, Second Cup, Dollarama	27,950	Q4, 2013	2,450	1,381	1,069
Plaza Actuel/ Carrefour St. Hubert, Longueuil, QC		St-Hubert BBQ	12,200	Q3, 2014	5,861	858	5,003
Total same property with redevelopment and expansion			106,006		$ 35,641	$ 16,762	$ 18,879

As at December 31, 2012 *(thousands of dollars, except for other data)*										
Property	Note	Major Tenants	Total Square Feet	Completed Square Feet	Square Feet Under Development	Target Completion Date	Total Est. Cost incl. Land (1)	Investment Cost (1)	Estimated Cost to Complete	Fair Value
Major Redevelopment										
Chartwell Shopping Centre, Toronto, ON	(2)	Bestco Food, CIBC, BMO	181,792	141,732	40,060	Q1, 2014	$ 55,117	$ 47,562	$ 7,555	
5051-5061 Yonge St., Toronto, ON		Michael's, Jack Astor's	37,279	33,659	3,620	Q1, 2013	27,246	25,154	2,092	
Carrefour Soumande, Québec City, QC	(2)	Super C, Bouclair	121,568	114,451	7,117	Q2, 2015	21,331	19,877	1,454	
Centre Ville Mont-Royal, Montreal, QC	(5)	Provigo, Shoppers Drug Mart	103,952	103,952	—	Q3, 2015	20,482	20,482	—	
Broadmoor Shopping Centre & Residential, Richmond, BC	(2)	Shoppers Drug Mart, RBC, Coast Capital	115,167	47,043	68,124	Q1, 2013	57,065	55,119	1,946	
Deer Valley Shopping Centre, Calgary, AB	(2)	Walmart, Shoppers Drug Mart, RBC, CIBC, Liquor Depot	211,352	190,763	20,589	Q1, 2013	52,319	48,944	3,375	
Port Place Shopping Centre, Nanaimo, BC	(2)	London Drugs, CIBC, TD Bank	154,945	104,025	50,920	Q3, 2013	56,608	46,548	10,060	
Properties near completion and pre-development projects			504,002	453,730	50,272	—	250,337	246,747	3,590	
Total major redevelopment			1,430,057	1,189,355	240,702		$ 540,505	$ 510,433	$ 30,072	$ 543,184

As at December 31, 2012										
(thousands of dollars, except for other data)										
Property	Note	Major Tenants	Total Square Feet	Completed Square Feet	Square Feet Under Development	Target Completion Date	Total Est. Cost incl. Land (1)	Investment Cost (1)	Estimated Cost to Complete	Fair Value
Ground-up Development										
Clairfield Commons (Pergola Commons), Guelph, ON	(2)	Cineplex, BMO, RBC, GoodLife Fitness, Dollarama, JYSK, Scotiabank, Shoppers Drug Mart, Shoeless Joe's, Food Basics	232,708	213,168	19,540	Q1, 2014	$ 66,522	$ 62,565	$ 3,957	
Leaside Village, Toronto, ON	(2)	Longo's, The Beer Store, CIBC, Pet Valu, Linen Chest	112,157	104,690	7,467	Q1, 2013	48,240	45,626	2,614	
Carrefour St. David, Beauport, QC	(2)	Metro, CIBC, TD Bank, National Bank, Starbucks, Uniprix	180,077	170,341	9,736	Q2, 2014	43,654	40,583	3,071	
Carrefour du Plateau Grives, Gatineau, QC	(2)	IGA, Jean-Coutu, Royal Bank	146,641	88,984	57,657	Q2, 2015	40,010	28,925	11,085	
Place Viau Montreal, QC	(2)	Walmart	468,544	106,864	361,680	Q4, 2015	143,840	65,803	78,037	
Property near completion and other			213,864	203,864	10,000	—	116,655	115,723	932	
Total ground-up development (6)			1,353,991	887,911	466,080	—	$ 458,921	$ 359,225	$ 99,696	$401,783

(1) Includes costs for completed phases.

(2) Constructed in accordance with LEED standards.

(3) 33% interest owned by First Capital Realty. Costs include the Company's percentage only.

(4) Information included is for the current phase only. May also include facade, parking lot, lighting and signage upgrades completed concurrent with expansion activities.

(5) In pre-development phase, therefore no cost estimate is available at December 31, 2012.

Costs to complete the development, redevelopment and expansion activities underway are estimated to be approximately $160.1 million including $11.4 million related to the residential development inventory (at 100%). In the management of its development and expansion program, the Company utilizes dedicated internal professional staff. Direct and incremental costs of development, including applicable salaries and other direct costs of internal staff, are capitalized to the cost of the property under development.

The Company has residential development underway at Broadmoor Shopping Centre in Richmond, British Columbia where it is constructing 68 luxury residential rental units above and adjacent to its retail space. The project is substantially complete with rental income expected to start in Q2 2013.

The Company currently has 813,000 square feet of retail and parking space that is planned with some buildings under construction. Individual buildings within a development are constructed only after obtaining commitments on a substantial portion of the space to be brought on line. 168,000 square feet of this planned space is subject to committed leases at a weighted average rate of $20.76 per square foot. The Company is underway on a number of lease negotiations for the remaining planned space.

Main and Main Developments

The Company has a joint venture ("Main and Main Developments") with a private developer (who is currently a partner in other joint ventures with the Company) to assemble urban sites primarily within the Cities of Toronto and Ottawa and to develop and operate them for retail and/or mixed-use. The private developer's team brings a skill set and focus to the assembly of sites which are much smaller than the Company's typical properties and are normally assembled via multiple adjacent parcel acquisitions often from private individuals. The Company has a 67% equity interest in and consolidates the activities of the joint venture in its consolidated financial statements. During 2012, Main and Main Developments completed the acquisition of two income producing properties with retail tenants and ten development land parcels in five new assembly projects and two existing assembly projects for $51 million. Since inception, the joint venture has completed acquisitions in fourteen assembly projects which have a fair value of approximately $97.8 million and has additional acquisitions underway. Each of the fourteen existing assemblies is located on a major street in the core of Toronto or Ottawa. The first development on one assembly in Toronto is currently in the predevelopment planning stage.

Main and Main developments generally expects to partner with residential developers in executing value creation opportunities on sites with residential density and intends to retain the retail component on completion. The joint venture agreement currently contemplates up to approximately $125 million of acquisitions and development sites investment, including senior and mezzanine debt financing which the Company has agreed to provide to the joint venture.

A summary of the Company's total investment properties at December 31, 2012, by component, is as follows:

	Number of Sites/ Properties (2)	Square Feet (1) (3) (in thousands)	Cost (in millions)	Fair Value (in millions)
Shopping centres – income-producing	175	24,969	$ 5,444	
Shopping centres with development activities (4)				
Same property with incremental redevelopment and expansion	6	106	17	
Major redevelopment	13	241	83	
Ground-up development	6	466	80	
Land parcels				
Land parcels adjacent to/part of existing properties	33	839	87	
Land parcels adjacent to/part of existing properties available for expansion	3	27	—	
Property held for redevelopment	4	331	55	
Other development related costs	—	—	11	
Total shopping centres with development activities or potential development activities	65	2,010	333	—
Total shopping centres			$ 5,777	$ 6,903
Development land	23	2,329	131	135
Total			$ 5,908	$ 7,038

(1) Square feet is net of co-ownership interests for shopping centres with development activities and development land.

(2) Property counts of shopping centres undergoing development activities are included in the total property count for income-producing shopping-centres of 175.

(3) Includes both municipally approved developable square feet and square feet the Company expects to be approved.

(4) Includes cost for phases under development only. Aggregate cost of the Company's investment under development are approximately $530 million, which includes shopping centres with development activities or potential of approximately $333 million, development land of approximately $131 million and residential development inventory of approximately $66 million (see below).

Residential Development Inventory

As at December 31, 2012

(thousands of dollars, except for other data)

Property	Note	Number of Units being Constructed	Number of Units Pre-sold	% of Units Pre-sold	Target Completion Date	Total Est. Cost incl. Land	Investment Cost [5]	Estimated Costs to Complete	Debt Funded by Third Parties [4]
Shops at King Liberty (Fuzion)	(1) (2) (6)	249	249	100.0%	Q1, 2013	$52,547	$ 41,104	$ 11,443	$ 39,070
Shops at King Liberty (KingsClub)	(3)	TBD	184	TBD	2015/2016	—	18,944	—	7,145
Land held as inventory						—	5,843	—	—
							$ 65,891		

(1) The development includes 10,000 square feet of retail space. Estimated cost and investment cost excludes the retail space, which is accounted for as investment property.

(2) Under development.

(3) Site preparation and pre-sale phase.

(4) The Company has a construction facility with a Canadian chartered bank which provides for up to $45 million of construction costs, maturing December 31, 2013, with a per annum interest rate of either (i) prime plus 1.15%, or (ii) banker's acceptance rate plus 2.15%, against which $29.7 million has been drawn at December 31, 2012. In addition, the Company has a $16.5 million loan bearing interest at an effective rate of 1% per annum relating to residential development inventory.

(5) The Company's residential development inventory comprises the construction and sale of residential condominium units. The Company will recognize revenue from the sale of residential units upon substantial completion. The Company considers substantial completion for each residential unit to be the point in which the purchaser has paid all amounts due on interim closing has the right to occupy the premises, has demonstrated collectability of the balance due at closing, and has received an undertaking from the Company to be assigned title in due course, or when title has transferred.

(6) Includes four non-sellable guest suites.

The Company has a joint venture with a Toronto-based condominium developer to develop its residential density project at Shops at King Liberty in Toronto. The Company has a 50% interest in the joint venture and consolidates the activities of the joint venture in its financial results. The project includes two phases: Fuzion and KingsClub. Fuzion consists of 249 residential units (245 sellable and 4 non-sellable guest suites) in a condominium tower and approximately 10,000 square feet of retail based on First Capital Realty's entitlements. The Company has the option to acquire the retail space from the joint venture. Occupancy for the Fuzion residential units is scheduled to start in Q1 2013 and registration and closing is expected by Q4 2013. The second phase, KingsClub, was launched to the market in the fourth quarter of 2011. Management expects that there will be approximately 130,000 square feet of retail in this phase and more than 650 residential units for sale or rental once entitlements are completed, based on current market and site conditions. The expected timing for occupancy is estimated to be 2015 with unit closings in 2016. Site preparation and excavation has started for KingsClub and a new sales centre has opened at 1071 King Street that will serve the project.

2011 Investment Property Development and Redevelopment Activities

In 2011, development of 471,000 square feet was brought on line with 411,000 square feet leased at an average rate of $25.63 per square foot; 43,000 square feet was re-opened following redevelopment at an average rate of $21.39 per square foot. Development and redevelopment in 2011 included the following:

Property Name	Note	City	Province	Square Feet [1]	Major tenants of Developed Space
Same property with incremental redevelopment and expansion					
York Mills Gardens	(2)	Toronto	ON	22,500	Shoppers Drug Mart
Loblaws Plaza		Ottawa	ON	13,950	Dollar Giant
Hunt Club Place	(2) (3)	Ottawa	ON	11,500	Various tenants
Burlingwood Shopping Centre		Burlington	ON	6,150	Pharma Plus
Cedarbrae Mall	(2)	Toronto	ON	5,600	Royal Bank of Canada
La Porte de Gatineau	(2)	Gatineau	QC	10,800	Tim Hortons
Galeries de Repentigny	(2)	Repentigny	QC	6,800	Laurentian Bank
Plaza Delson		Delson	QC	6,600	Loblaws, Pharmaprix
Carrefour St-Hubert	(2)	St-Hubert	QC	5,000	CIBC
Other space – various properties				82,350	
Major redevelopment					
Appleby Village	(2)	Burlington	ON	63,400	LCBO, Home Hardware, Dollarama
Carrefour Soumande		Quebec	QC	7,800	Bouclair
Deer Valley Shopping Centre	(2)	Calgary	AB	14,600	Royal Bank of Canada, Liquor Barn
Port Place Shopping Centre	(2)	Nanaimo	BC	28,200	CIBC
Broadmoor Shopping Centre & Residential	(2)	Richmond	BC	26,700	Shoppers Drug Mart
Semiahmoo Shopping Centre		Surrey	BC	18,400	Shoppers Drug Mart
Ground-up development					
Rutherford Marketplace	(2)	Vaughan	ON	47,800	LA Fitness
Clairfield Commons	(2)	Guelph	ON	9,500	Royal Bank of Canada
Carrefour du Plateau Grives	(2)	Gatineau	QC	50,000	IGA (Sobeys)
Carrefour St. David	(2)	Beauport	QC	18,500	SAQ, Banque Nationale
Dispositions					
Brantford Commons	(2)	Brantford	ON	18,150	Beer Store, Shoeless Joe's
West Lethbridge Town Centre	(2)	Lethbridge	AB	6,300	CIBC
Coronation Mall	(2)	Duncan	BC	4,800	Vancouver Island Health Authority
Assets Held For Sale					
Bowmanville Mall		Bowmanville	ON	5,300	Royal Bank of Canada
Carrefour des Forges	(2)	Drummondville	QC	16,000	Dollarama, Banque Nationale
Cole Harbour		Cole Harbour	NS	7,300	Various tenants
				514,000	

(1) Includes new space in development projects and redevelopment and expansion projects.

(2) Constructed in accordance with LEED certification standards.

(3) 33% interest owned by the Company.

Expenditures on Investment Properties

Revenue sustaining and enhancing expenditures on investment properties are as follows:

	Year ended December 31	
(thousands of dollars)	**2012**	2011
Revenue sustaining	**$ 19,933**	$ 17,240
Revenue enhancing	**51,089**	25,038
Expenditures recoverable from tenants	**8,706**	4,796
Property repositioning and other items	**6,073**	1,952
Development expenditures	**239,809**	178,359
Total	**$ 325,610**	$ 227,385

Expenditures on investment properties by property categorization are as follows:

	Year ended December 31	
(thousands of dollars)	**2012**	2011
Same property - stable	**$ 38,131**	$ 25,524
Same property with incremental redevelopment and expansion	**80,206**	60,349
Major redevelopment	**69,111**	64,595
Ground-up development	**94,246**	57,132
Acquisitions – 2012	**8,022**	2,159
Acquisitions – 2011	**14,204**	5,661
Investment properties classified as held for sale	**13,350**	1,473
Dispositions – 2012	**1,556**	5,983
Development land	**6,784**	4,509
Total	**$ 325,610**	$ 227,385

Revenue sustaining capital expenditures are expenditures required for maintaining shopping centre infrastructure and revenues from current leases. Typically, these expenditures range from $0.74 to $0.83 per square foot per annum over a longer term with a three-year weighted average of $0.78 per square foot, for the three years ended December 31, 2012. Revenue sustaining costs for the year ended December 31, 2012 totalled $0.83 per square foot on an annualized basis compared to $0.77 per square foot on an annualized basis for 2011. Over the past three years the Company increased its expenditures on roof and parking lot replacements at several of its shopping centres, which will reduce its ongoing maintenance expenditures at these centres going forward.

Revenue enhancing including repositioning expenditures are those expenditures which increase the revenue generating ability of the Company's shopping centres. Management considers the potential effects on occupancy and future rents per square foot, development activities, the time leasable space has been vacant and other factors when assessing whether an expenditure is revenue enhancing or sustaining. Revenue enhancing expenditures increased from the prior year due to facade work performed on several of the Company's shopping centres.

2012 Leasing and Occupancy

Occupancy comparing the Company's properties by their categorization as at December 31, 2012 for the periods is as follows:

	December 31, 2012			December 31, 2011		
(square feet in thousands, except other data)	**Total Occupied Square Feet**	**% Occupied**	**Rate per Occupied Square Foot**	Total Occupied Square Feet	% Occupied	Rate per Occupied Square Foot
Same property – stable	**11,742**	**97.5%**	**$ 17.42**	11,678	97.3%	$ 17.01
Same property with incremental redevelopment and expansion	**4,756**	**95.6%**	**$ 17.81**	4,513	96.1%	$ 17.19
Major redevelopment	**1,462**	**93.4%**	**$ 19.29**	1,426	91.1%	$ 17.19
Ground-up development	**826**	**95.2%**	**$ 22.75**	533	97.3%	$ 21.19
Investment properties classified as held for sale	**1,425**	**93.2%**	**$ 13.72**	1,437	94.7%	$ 13.18
Total portfolio before acquisitions and dispositions	**20,211**	**96.3%**	**$ 17.60**	19,587	96.3%	$ 16.90
Acquisitions – 2012	**2,167**	**91.5%**	**$ 16.74**	—	—	$ —
Acquisitions – 2011	**1,495**	**92.4%**	**$ 17.33**	1,558	94.6%	$ 17.13
Dispositions – 2012	**—**	**—**	**$ —**	1,206	96.9%	$ 15.71
Total	**23,873**	**95.6%**	**$ 17.51**	22,351	96.2%	$ 16.81

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

Year ended December 31, 2012	Total Square Feet (thousands)	Occupied Square Feet (thousands)	%	Under Redevelopment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	No. of Leases	Rate per Occupied Square Foot
December 31, 2011	**23,227**	**22,351**	**96.2%**	**127**	**0.6%**	**749**	**3.2%**		**$ 16.81**
Tenant openings	—	685		—		(685)		231	18.92
Tenant closures	—	(741)		—		741		(243)	(16.04)
Closures for redevelopment	—	(206)		190		16		(47)	(14.76)
Developments – coming on line	731	600		—		131		167	25.24
Redevelopments – coming on line	—	122		(106)		(16)		27	17.20
Demolitions	(173)	—		(173)		—		—	—
Reclassification	16	14		134		(132)		—	—
Total portfolio before dispositions and acquisitions	23,801	22,825	95.9%	172	0.7%	804	3.4%		$ 17.40
Dispositions (at date of disposition)	(1,087)	(1,054)	97.0%	—		(33)		(191)	(14.16)
Acquisitions (at date of acquisition)	2,255	2,102	93.2%	—		153		741	16.94
December 31, 2012	**24,969**	**23,873**	**95.6%**	**172**	**0.7%**	**924**	**3.7%**		**$ 17.51**
Renewals		1,301						393	$ 18.65
Renewals – expired		(1,301)						(393)	$ (16.95)
Net increase per square foot from renewals									$ 1.70
% Increase on renewal of expiring rents									10.0%
% Increase in rate per square foot – openings versus all closures									18.4%

For the year ended December 31, 2012, gross new leasing totalled 1,407,000 square feet including development and redevelopment spaces coming on line. This gross new leasing will generate additional minimum rent of approximately $30.2 million. The Company achieved a 10.0% increase on 1,301,000 square feet of renewal leases over the expiring lease rates.

The average rate per occupied square foot increased to $17.40 at December 31, 2012 before acquisitions and dispositions from total portfolio of $16.81 at December 31, 2011 as a result of leasing and development activity. Management believes that the weighted average rental rate per square foot for the portfolio would be in the range of $21.50 to $23.50, if the portfolio were at market. The Company continues to seek well-located properties in urban markets with below market rent for future value creation activities. The weighted average lease term for the portfolio is 5.9 years at December 31, 2012, excluding options in favour of tenants.

Portfolio occupancy at December 31, 2012 of 95.6% compares to 96.2% at December 31, 2011. Included in the vacant square feet amount is 172,000 square feet of space under redevelopment providing potential for future income growth.

In October 2011, Blockbuster Canada ("Blockbuster") filed for bankruptcy and 24 Blockbuster stores closed in the Company's properties in 2011, representing 117,000 square feet and $2.5 million annual minimum rent. Of these closures, the Company has received firm commitments for leases for 31 tenants, representing approximately 97,000 square feet and annual minimum rent of $2.8 million. Of these commitments, 28 tenants have taken occupancy as of December 31, 2012. The Company is in various stages of negotiations with tenants on the remaining space representing approximately 20,000 square feet.

2011 Leasing and Occupancy

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

	Total Square Feet	Occupied Square Feet		Under Redevelopment Square Feet		Vacant Square Feet			Rate per
Year ended December 31, 2011	(thousands)	(thousands)	%	(thousands)	%	(thousands)	%	No. of Leases	Occupied Square Foot
December 31, 2010	**21,624**	**20,852**	**96.4%**	**126**	**0.6%**	**646**	**3.0%**		**$ 16.35**
Tenant openings	—	666		—		(666)		238	19.43 [1]
Tenant closures	—	(694)		—		694		(231)	(18.62) [1]
Closures for redevelopment	—	(328)		328		—		(69)	(11.16)
Developments – coming on line	471	411		—		60		118	25.63
Redevelopments – coming on line	—	43		(43)		—		13	21.39
Demolitions	(334)	—		(330)		(4)		—	—
Reclassification	(69)	(71)		14		(12)		—	—
Total portfolio before dispositions and acquisitions	21,692	20,879	96.3%	95	0.4%	718	3.3%		16.86
Dispositions (at date of disposition)	(139)	(135)	97.1%	—		(4)		(36)	(19.88)
Acquisitions (at date of acquisition)	1,674	1,607	96.0%	32		35		475	16.34
December 31, 2011	**23,227**	**22,351**	**96.2%**	**127**	**0.6%**	**749**	**3.2%**		**$ 16.81**
Renewals		1,402		—		—		325	$ 15.73
Renewals – expired		(1,402)		—		—		(325)	$ (14.31)
Net increase per square foot from renewals									$ 1.42
% Increase on renewal of expiring rents									9.9%
% Increase in rate per square foot – openings versus all closures									22.3%

[1] Excluding temporary tenant openings and closings at a major redevelopment site totalling 88,000 square feet. Opening and closing rates per square foot would be $16.99 and $16.89 including these temporary tenants.

For the year ended December 31, 2011, gross new leasing totalled 1,120,000 square feet including development and redevelopment space coming on line. This gross new leasing will generate additional annual minimum rent of approximately $22.7 million. The Company achieved a 9.9% increase on 1,402,000 square feet of renewal leases over the expiring lease rates.

The weighted average rate per occupied square foot increased to $16.86 at December 31, 2011 before acquisitions and dispositions from $16.35 at December 31, 2010 as a result of leasing and development activity.

Portfolio occupancy at December 31, 2011 of 96.2% compares to 96.4% at December 31, 2010. Included in the vacant amount is 127,000 square feet of space under redevelopment providing potential for future income growth.

Average rental rate per occupied square foot for tenant openings, development and redevelopment coming on line, and renewals during the year ended December 31 by region are as follows:

(per occupied square foot)	Central Region	Eastern Region	Western Region	Total
2012	$ 21.04	$ 16.34	$ 22.82	$ 20.11
2011	$ 18.63	$ 12.11	$ 23.88	$ 17.77

Average estimated operating cost recoveries and realty tax recoveries during the year ended December 31 by region are as follows:

(per occupied square foot)	Central Region	Eastern Region	Western Region	Total
2012	$ 8.92	$ 6.90	$ 7.98	$ 8.08
2011	$ 8.59	$ 6.93	$ 7.68	$ 7.87

Top Forty Tenants

At December 31, 2012, 54.4% of the Company's annualized minimum rent came from its top 40 tenants (December 31, 2011 – 56.0%). Of those rents, 81.6% in the top 40 are from tenants who have investment grade credit ratings and who represent many of Canada's leading supermarket operators, drugstore chains, discount retailers, banks and other familiar shopping destinations. Furthermore, 44.4% (December 31, 2011 – 46.1%) of the Company's total annualized minimum rents came from tenants with investment grade credit ratings.

Tenant		Number of Stores	Square Feet (in 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	Shoppers Drug Mart	73	1,067	4.3%	6.4%	A (low)	BBB+	
2	Sobeys	51	1,816	7.3%	6.3%	BBB	BBB-	
3	Loblaws	29	1,455	5.8%	4.2%	BBB	BBB	
4	Metro	31	1,224	4.9%	3.6%	BBB	BBB	
5	Canadian Tire	28	893	3.6%	3.0%	BBB (high)	BBB+	
6	Walmart	16	1,520	6.1%	2.8%	AA	AA	Aa2
7	TD Canada Trust	46	252	1.0%	2.0%	AA	AA-	Aa1
8	RBC Royal Bank	47	257	1.0%	2.0%	AA	AA-	Aa3
9	CIBC	37	210	0.8%	1.6%	AA	A+	Aa3
10	Rona	4	421	1.7%	1.4%	BBB (low)	BBB-	
Sub-total		362	9,115	36.5%	33.3%			
11	LCBO	22	213	0.9%	1.3%	AA (low)	AA-	Aa1
12	Safeway	12	384	1.5%	1.2%	BBB	BBB	Baa2
13	Dollarama	35	339	1.4%	1.2%			
14	Staples	14	328	1.3%	1.1%		BBB	Baa2
15	Goodlife Fitness	13	297	1.2%	1.1%			
16	Scotiabank	23	132	0.5%	1.0%	AA	A+	Aa2
17	Rexall	20	159	0.6%	1.0%			
18	BMO	26	121	0.5%	0.9%	AA	A+	Aa3
19	London Drugs	8	216	0.9%	0.9%			
20	Tim Hortons	50	139	0.6%	0.8%	A (low)		
21	Alberta Health Services	4	164	0.7%	0.7%	AAA	AAA	AAA
22	Starbucks	44	74	0.3%	0.7%		A-	Baa3
23	Longo's	3	126	0.5%	0.7%			
24	Save-On-Foods	4	200	0.8%	0.6%			
25	Jean Coutu	11	150	0.6%	0.6%			
26	Subway	70	84	0.3%	0.6%			
27	SAQ	22	105	0.4%	0.6%	A (high)	A+	Aa2
28	Hudson's Bay Company	4	253	1.0%	0.6%			
29	Cara	23	95	0.4%	0.6%	B	BB-	
30	Whole Foods Market	2	90	0.4%	0.5%		BBB-	
31	Michaels	4	87	0.3%	0.5%		B	B1
32	Toys "R" Us	4	156	0.6%	0.5%		B	B1
33	Best Buy	5	140	0.6%	0.5%		BB	Baa2
34	Target	2	246	1.0%	0.5%		A+	A2
35	The Beer Store	12	69	0.3%	0.4%	AA (low)	AA-	Aa1
36	Reitmans	27	135	0.5%	0.4%			
37	Yum! Brands	30	59	0.2%	0.4%		BBB	Baa3
38	Mcdonald's	21	69	0.3%	0.4%		A	A2
39	Rogers	26	68	0.3%	0.4%	BBB	BBB	Baa1
40	Winners	5	164	0.7%	0.4%		A	A4
Total: Top 40 Tenants		908	13,977	56.1%	54.4%			

Lease Maturities

The Company's lease maturity profile at December 31, 2012 is as follows:

Maturity Date [1]	Number of Stores	Occupied Square Feet (in thousands)	Percent of Total Square Feet	Annualized Minimum Rent at Expiration ($ 000's)	Percent of Total Annualized Minimum Rent	Average Annual Minimum Rent per Square Foot at Expiration
2013 [2]	1,047	3,242	13.0%	$ 57,557	13.0%	$ 17.75
2014	621	2,303	9.2%	40,056	9.1%	17.39
2015	591	2,534	10.1%	43,523	9.9%	17.18
2016	517	2,244	9.0%	36,972	8.4%	16.47
2017	519	2,883	11.5%	50,544	11.5%	17.53
2018	207	1,637	6.6%	26,537	6.0%	16.21
2019	177	1,382	5.5%	27,249	6.2%	19.72
2020	171	993	4.0%	20,590	4.7%	20.73
2021	197	1,293	5.2%	28,223	6.4%	21.83
2022	233	1,431	5.7%	35,633	8.1%	24.91
2023	71	1,192	4.8%	19,470	4.4%	16.33
Thereafter	124	2,739	11.0%	54,298	12.3%	19.81
Total/Average	4,475	23,873	95.6%	$ 440,652	100.0%	$ 18.46

[1] Excluding any contractual renewal options in favour of the tenants.

[2] Contains tenants on over hold including new leases under negotiation, month-to-month tenants and tenants in space at properties with future redevelopment.

The Company's expected future income through maturity from its existing in-place leases at December 31, 2012 includes:

(in thousands of dollars) Revenue Recognition Period	Minimum Rent [1]	Estimated Income from Operating and Tax Recoveries
Q1, 2013	$ 99,648	$ 51,287
Q2, 2013	99,184	51,060
Q3, 2013	98,031	50,456
Q4, 2013	95,965	49,406
Total	$ 392,828	$ 202,209
2014	351,435	181,106
2015	311,190	160,630
2016	275,977	142,433
2017	235,973	122,021
Thereafter	1,008,244	523,020
Total	$ 2,575,647	$ 1,331,419

[1] Assumes non-exercise of optional periods by tenants.

RESULTS OF OPERATIONS

Net Income

		Year ended December 31		
(thousands of dollars, except share and per share amounts)		**2012**		2011
Net income attributable to common shareholders [1]	**$**	**392,959**	$	548,932
Net income per share attributable to common shareholders (diluted)	**$**	**1.98**	$	3.00
Weighted average number of common shares – diluted [2] (in thousands)		**206,573**		189,132

(1) Prior period has been restated for the effects of the adoption of IAS 12. Refer to Note 3 to the consolidated financial statements for the year ended December 31, 2012.

(2) Includes the weighted average number of outstanding shares that would result from the conversion of all dilutive outstanding convertible debentures.

Net income attributable to common shareholders for the year ended December 31, 2012 was $393.0 million or $1.98 per share (diluted) compared to $548.9 million or $3.00 per share (diluted) for the year ended December 31, 2011. The decrease in net income is primarily due to the $174.4 million difference in the fair value gain of investment properties, offset by an increase in NOI resulting from net acquisitions, development and redevelopment projects coming on line and same property NOI growth. On a per share basis, the decrease is also partially due to the increase in the weighted average number of common shares outstanding resulting from various financing activities and growth of the Company.

Funds from Operations and Adjusted Funds from Operations

In Management's view, funds from operations ("FFO") and adjusted funds from operations ("AFFO") are commonly accepted and meaningful indicators of financial performance in the real estate industry. First Capital Realty believes that financial analysts, investors and shareholders are better served when the clear presentation of comparable period operating results generated from FFO and AFFO disclosures supplement IFRS disclosure. These measures are the primary methods used in analyzing real estate organizations in Canada. FFO and AFFO are not measures defined by IFRS and, as such, neither of them has a standard definition. The Company's method of calculating FFO and AFFO may be different from methods used by other corporations or REITs (real estate investment trusts) and, accordingly, may not be comparable to such other corporations or REITs. FFO and AFFO are presented to assist investors in analyzing the Company's performance. FFO and AFFO: (i) do not represent cash flow from operating activities as defined by IFRS, (ii) are not indicative of cash available to fund all liquidity requirements, including payment of dividends and capital for growth and (iii) are not to be considered as alternatives to IFRS net income for the purpose of evaluating operating performance.

Funds from Operations

First Capital Realty calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("REALpac"), as issued in a White Paper on FFO for IFRS. It includes certain additional adjustments to FFO under IFRS from the previous definition of FFO under GAAP. The use of FFO has been included for the purpose of improving the understanding of the operating results of the Company.

FFO is considered a meaningful additional financial measure of operating performance, as it excludes fair value gains and losses on investment properties. FFO also adjusts for certain items included in IFRS net income that may not be the most appropriate determinants of the long-term operating performance of the Company including certain cash and non-cash gains and losses, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS.

The Company's net income is reconciled to funds from operations below:

	Year ended December 31	
(thousands of dollars)	**2012**	2011
Net income for the year [1]	**$ 392,995**	$ 548,961
Add (deduct):		
Increase in value of investment properties, net	**(291,851)**	(466,214)
Investment properties – selling costs [2]	**4,081**	—
Change in fair value of interest rate hedges [3]	**(1,469)**	(312)
Transaction costs	**2,895**	—
Deferred income taxes [1]	**82,158**	78,867
Non-controlling interest	**129**	—
FFO	**$ 188,938**	$ 161,302

The components of FFO are as follows:

		Year ended December 31	
(thousands of dollars, except share and per share amounts and percentages)	**% increase**	**2012**	2011
Net operating income		**$ 371,537**	$ 340,088
Interest expense		**(160,839)**	(159,981)
Corporate expenses		**(25,509)**	(21,230)
Amortization of corporate assets and credit facility costs		**(4,103)**	(3,937)
Interest and other income		**8,464**	7,484
Non-controlling interest		**129**	—
FFO excluding other gains (losses) and (expenses)	**16.8%**	**189,679**	162,424
Other gains (losses) and (expenses) [3]		**(741)**	(1,122)
FFO	**17.1%**	**$ 188,938**	$ 161,302
FFO per diluted share	**4.2%**	**$ 1.00**	$ 0.96
FFO per diluted share excluding other gains (losses) and (expenses)	**4.2%**	**$ 1.00**	$ 0.96
Weighted average number of common shares – diluted – FFO (in thousands)	**12.6%**	**189,876**	168,632

(1) Prior period net income and deferred taxes has been restated for the effects of the adoption of IAS 12. Refer to Note 3 to the consolidated financial statements for the year ended December 31, 2012.

(2) Refer to the "Other Gains (Losses) and (Expenses)" section in the following pages for details.

(3) The gains (losses) on hedges represents the change in fair value for those derivatives to which the Company does not apply hedge accounting.

FFO increased to $188.9 million or $1.00 per share (diluted) from $161.3 million or $0.96 per share (diluted). The increase in FFO is primarily due to the increase in NOI resulting from net acquisitions, development and redevelopment projects coming on line, same property NOI growth, and increased interest income. The effect of the increase in NOI was partially offset by increases in interest expense, and corporate expenses primarily relating to staffing costs associated with the growth and performance of the Company. On a per share basis, the increases in FFO were partially offset by an increase in the weighted average number of common shares outstanding resulting from various financing activities.

Adjusted Funds from Operations

AFFO is calculated by adjusting FFO for non-cash and other items including interest payable in shares, straight-line rent adjustments, non-cash compensation expense, actual costs incurred for capital expenditures and leasing costs for maintaining shopping centre infrastructures and revenues and other gains or losses. Gains or losses on land sales are excluded from AFFO. Residential inventory units pre-sale costs are recognized in AFFO when the Company recognizes revenue from the sale of residential units. The weighted average number of diluted shares outstanding for AFFO is adjusted to assume conversion of the outstanding convertible debentures.

		Year ended December 31	
(thousands of dollars, except share and per share amounts and percentages)	**% increase**	**2012**	2011
FFO		**$ 188,938**	$ 161,302
Add (deduct):			
Interest expense payable in shares		**22,796**	23,128
Rental revenue recorded on a straight-line basis		**(13,117)**	(8,490)
Non-cash compensation expense		**2,897**	3,055
Revenue sustaining capital expenditures and leasing costs (1)		**(17,640)**	(15,984)
Change in cumulative unrealized (gains) losses on marketable securities		**(2,677)**	1,296
Loss on settlement of debt and purchase of convertible debentures		**6,550**	1,486
Loss on temporary change of conversion privilege of convertible debentures		**—**	2,501
Hedge accounting losses		**10**	638
Pre-selling costs of residential inventory units		**337**	—
Costs not capitalized during development period (2)		**4,759**	3,455
Other adjustments		**(262)**	(430)
AFFO	**12.0%**	**192,591**	171,957
Add/Deduct: Other (gains) losses and expenses (3)		**(3,479)**	(4,588)
AFFO excluding other (gains) losses and expenses	**13.0%**	**$ 189,112**	$ 167,369
AFFO per diluted share	**2.2%**	**$ 0.93**	$ 0.91
AFFO per diluted share excluding other (gains) losses and expenses	**4.5%**	**$ 0.92**	$ 0.88
Weighted average number of common shares – diluted – AFFO (in thousands)	**9.2%**	**206,573**	189,132

(1) Estimated at $0.78 per square foot per annum on average gross leasable area (based on a three-year weighted average) for the year ended December 31, 2012 ($0.74 per square foot per annum in the year ended December 31, 2011).

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

(3) Refer to the "Other Gains (Losses) and (Expenses)" section in the following pages for details.

AFFO was $192.6 million or $0.93 per share (diluted) in 2012 compared to $172.0 million or $0.91 per share (diluted) in 2011. AFFO included $3.5 million of other net gains compared to $4.6 million of other net gains for prior year.

A reconciliation of cash provided by operating activities (an IFRS measure) to AFFO is presented below:

	Year ended December 31	
(thousands of dollars)	**2012**	2011
Cash provided by operating activities	**$ 182,901**	$ 152,956
Realized gains on sale of marketable securities	**3,538**	4,320
Deferred leasing costs	**9,648**	6,013
Net change in non-cash operating items	**(18,931)**	9,280
Expenditures on residential development inventory	**28,725**	17,013
Amortization	**(4,103)**	(3,937)
Transaction costs	**2,895**	—
Non-cash interest expense and change in accrued interest	**(4,005)**	(6,921)
Settlement of restricted share units	**2,396**	2,380
Convertible debenture interest paid in common shares	**(20,533)**	(19,797)
Convertible debenture interest payable in common shares	**22,796**	23,128
Costs not capitalized during development period	**4,759**	3,455
Pre-selling costs of residential inventory units other adjustments	**337**	—
Revenue sustaining capital expenditures and leasing costs	**(17,640)**	(15,984)
Non-controlling interest	**129**	—
Other adjustments	**(262)**	(217)
(Loss) gain on foreign currency exchange	**(59)**	268
AFFO	**$ 192,591**	$ 171,957

Net Operating Income ("NOI")

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

	Year ended December 31	
(thousands of dollars, except other data)	**2012**	2011
Property rental revenue		
Base rent [1]	**$ 364,188**	$ 338,561
Operating cost recoveries	**81,712**	72,768
Realty tax recoveries	**105,173**	97,253
Straight-line rent	**13,117**	8,490
Lease surrender fees	**1,617**	885
Percentage rent	**2,822**	2,195
Prior year operating cost and tax recovery adjustments	**(94)**	(859)
Temporary tenants, storage, parking and other	**14,561**	7,442
Total property rental revenue	**$ 583,096**	$ 526,735
Property operating costs		
Recoverable operating expenses	**$ 95,872**	$ 83,382
Recoverable realty tax expenses	**115,399**	105,012
Prior year operating cost and tax expense adjustments	**(184)**	(1,313)
Other operating costs and adjustments	**472**	(434)
Total property operating costs	**211,559**	186,647
NOI	**$ 371,537**	$ 340,088
NOI margin	**63.7%**	64.6%
Operating cost recovery percentage	**85.2%**	87.3%
Tax recovery percentage	**91.1%**	92.6%

[1] Base rent includes annual minimum rents from gross and semi-gross leases.

The Company experienced growth in base rent and recoveries from tenants as a result of growth in the portfolio due to net acquisitions and development coming on line, as well as increases in rental rates due to step-ups and lease renewals. On a comparative period basis, the portfolio size increased by 1.7 million square feet, the effects of which were partially offset by a 0.6% decrease in overall occupancy. This decrease is primarily due to the change in the portfolio mix of properties. Note that the occupancy for same property – stable has increased year over year from 97.3% to 97.5%. Operating costs and property taxes similarly increased due to the increase in the portfolio size; however, the operating and tax recovery percentages have decreased due to decreased occupancy, including vacancies related to development and redevelopment activities. Temporary tenants, storage, parking and other income has increased commensurate with the increase in portfolio size as well as an increase in incidental short-term tenants in those properties for which the Company is in the pre-development stage.

		Year ended December 31	
(thousands of dollars, except for percentages)	**% increase**	**2012**	2011
Same property – stable NOI	**1.4%**	**$ 189,346**	$ 186,797
Same property with incremental redevelopment and expansion NOI		**75,036**	71,552
Total same property	**2.3%**	**264,382**	258,349
Investment properties classified as held for sale		**16,247**	16,098
Major redevelopment		**21,500**	19,832
Ground-up development		**12,055**	9,959
Acquisitions – 2012		**14,617**	—
Acquisitions – 2011		**22,884**	10,002
Dispositions – 2012		**6,343**	15,138
Dispositions – 2011		**—**	1,878
Rental revenue recognized on a straight-line basis		**13,117**	8,490
Development land		**392**	342
NOI		**$ 371,537**	$ 340,088

Same property – stable NOI increased by 1.4% for the year ended December 31, 2012, compared to the same prior year period, primarily attributed to increases in rental rates due to step-ups, lease renewals and termination fees offset by tenant closures as well as other decreases in occupancy (as discussed in the "Business and Operations Review – Leasing and Occupancy" section of this MD&A).

Interest Expense

	Year ended December 31	
(thousands of dollars)	**2012**	2011
Mortgages and credit facilities	**$ 87,515**	$ 82,556
Senior unsecured debentures	**75,401**	72,746
Convertible debentures (cashless)		
Coupon interest (payable in shares)	**19,450**	20,470
Accretion of discounts [1]	**1,496**	1,530
Amortization of deferred issue costs	**1,850**	1,128
	22,796	23,128
Interest capitalized to investment properties and residential inventory under development	**(24,873)**	(18,449)
Total interest expense	**$ 160,839**	$ 159,981

(1) Discounts result from the bifurcation of the convertible debentures into the liability and equity components under IFRS on the date of issue, and consists of amortization of the difference between the principal and the amount assigned to the liability component as a result of assigning value to the equity component.

Mortgage and credit facilities interest expense has increased due to increased borrowings over prior year, partially offset by the decrease in the weighted average borrowing rate.

The increase in interest expense for the senior unsecured debentures is primarily due to the issuances of $325 million principal amount of senior unsecured debentures in 2011 and the issuances of $475 million principal amount of senior unsecured debentures during 2012, offset by the repayment of $199 million of principal amount during the year ended December 31, 2011 and the repayment of $243 million principal amount in 2012, as described in the "Capital Structure and Liquidity – Senior Unsecured Debentures" section of this MD&A. The increase was partially offset by the decrease in the weighted average effective interest rate on senior unsecured debentures from 5.63% at December 31, 2011 to 5.29% at December 31, 2012.

The decrease in convertible debentures coupon interest expense for 2012 is a result of the net issuances in 2011 and 2012 at lower interest rates than those redeemed and converted, offset by an increase in the amortization of deferred issue costs due to issuances in the current year. The weighted average effective interest rate on convertible debentures decreased from 6.85% at December 31, 2011 to 6.53% at December 31, 2012.

Consistent with First Capital Realty's practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares.

Interest capitalized to investment properties under development has increased commensurate with the development activities underway including residential development inventory.

Corporate Expenses

	Year ended December 31	
(thousands of dollars, except for percentages)	**2012**	2011
Salaries, wages and benefits	**$ 22,897**	$ 17,158
Non-cash compensation	**2,897**	3,055
Other corporate costs	**9,298**	8,984
Abandoned transaction costs	**2,096**	1,267
	37,188	30,464
Amounts capitalized to investment properties under development and redevelopment, residential inventory and deferred leasing costs	**(11,679)**	(9,234)
	$ 25,509	$ 21,230
Corporate expenses, excluding non-cash compensation		
As a percentage of rental revenue	**3.9%**	3.5%
As a percentage of total assets	**0.31%**	0.30%

The overall level of corporate expenses has increased by 20.2% for the year ended December 31, 2012, as compared to the prior year, primarily as a result of increased staffing levels commensurate with the increase in the activity within the shopping centre portfolio, increased development activities and ongoing investments in processes and systems. Incentive compensation has also increased as a result of the Company's 2012 operating and financial performance and its growth.

Non-cash compensation is recognized over the respective vesting periods for options, restricted share units and deferred share units. These items are considered part of the total compensation for directors, senior management, other team members and periodically to select service providers to the Company.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development and initial leasing of the properties, including salaries and related costs, are capitalized in accordance with IFRS to development projects and residential inventory, as incurred. Certain costs associated with the Company's internal leasing staff are capitalized to investment properties. During each of 2012 and 2011, respectively, approximately 34.1% and 33.7% of compensation related and other corporate expenses were capitalized to real estate investments for properties undergoing development or redevelopment and leasing costs (including leasing for development projects and residential inventory). Amounts capitalized are based on specific leasing activities and development projects underway.

Other Gains (Losses) and (Expenses)

(thousands of dollars)	2012 Included in Consolidated Statements of Income	2012 Included in FFO	2012 Included in AFFO	2011 Included in Consolidated Statements of Income	2011 Included in FFO	2011 Included in AFFO
Realized gains on sale of marketable securities	**$ 3,538**	**$ 3,538**	**$ 3,538**	$ 4,320	$ 4,320	$ 4,320
Change in cumulative unrealized gains (losses) on marketable securities classified as FVTPL	**2,677**	**2,677**	**—**	(1,296)	(1,296)	—
Losses on settlement of debt	**(6,550)**	**(6,550)**	**—**	(1,486)	(1,486)	—
Loss on temporary change of conversion privilege of convertible debentures	**—**	**—**	**—**	(2,501)	(2,501)	—
Unrealized gains (losses) on hedges	**1,459**	**(10)**	**—**	(326)	(638)	—
(Loss) gain on foreign currency exchange	**(59)**	**(59)**	**(59)**	268	268	268
Transaction costs	**(2,895)**	**—**	**—**	—	—	—
Pre-selling costs of residential units	**(337)**	**(337)**	**—**	—	—	—
Investment properties - selling costs	**(4,081)**	**—**	**—**	—	—	—
Other income	**—**	**—**	**—**	211	211	—
	$ (6,248)	**$ (741)**	**$ 3,479**	$ (810)	$ (1,122)	$ 4,588

The loss on settlement of debt in the year ended December 31, 2012 primarily relates to the $4.4 million loss in connection with the redemption of the $97 million principal amount outstanding of the Company's 5.34% Series D senior unsecured debentures and the partial redemption of the $44.1 million principal amount outstanding of the 5.36% Series E senior unsecured debentures, which represents the difference between the respective carrying values and the consideration paid. The remaining $2.2 million relates to prepayment of certain mortgages.

The gains (losses) on hedges represent the change in fair value for those derivatives to which the Company does not apply hedge accounting, as well as the ineffectiveness of those hedges to which the Company applies hedge accounting.

Transaction costs represent those costs incurred in connection with the First Medical acquisition.

Investment properties – selling costs were incurred on the dispositions of properties.

Income Taxes

(thousands of dollars)	Year ended December 31 **2012**	2011 *(Restated)*
Deferred income taxes	**$ 82,158**	$ 78,867

Deferred tax expense increased compared to the same prior year period primarily as a result of a $10 million increase relating to the change in the income tax rate by the Province of Ontario on its general corporate income taxes, partially offset by the decrease in the fair value of investment properties as compared to prior year period.

The International Accounting Standards Board amended IAS 12, "Income Taxes", effective for annual periods on or after January 1, 2012, with retrospective restatement of prior periods.

IAS 12 has been amended in certain areas applicable to the determination of deferred taxes where investment property is measured using the fair value model in IAS 40, "Investment Property". The amendment provides for the presumption that the carrying amount of an investment property is recovered through sale, as opposed to presuming that the economic benefits of the investment property will be substantially consumed through use over time.

Effective on the adoption of the amended IAS 12, First Capital Realty, and other real estate entities measuring investment property using the fair value model, were required to apply taxation rates applicable to capital gains or losses to the extent the reversal of the temporary difference through sale would result in a capital gain or loss.

The non-cash impact of the Company's adoption of the amendment to IAS 12 on the consolidated balance sheets is as follows:

(thousands of dollars) Increase (decrease)	December 31, 2011	January 1, 2011
Deferred tax liabilities	$ (90,120)	$ (42,810)
Retained earnings	90,120	42,810

The non-cash impact of the Company's adoption of the amendment to IAS 12 on the consolidated statements of income is as follows:

(thousands of dollars, except per share amounts) *Increase (decrease)*	Year ended December 31, 2011
Deferred income taxes	$ (47,310)
Net income	47,310
Net income per share attributable to common shareholders	
Basic	$ 0.28
Diluted	0.25

CAPITAL STRUCTURE AND LIQUIDITY

Capital Employed

	As at December 31	
(thousands of dollars, except for other data)	**2012**	2011
Equity capitalization		
Common shares outstanding (in thousands)	**206,546**	178,225
Common share purchase warrants (in thousands)	**5,625**	—
Mortgages and credit facilities	**$ 1,609,112**	$ 1,584,168
Senior unsecured debentures (principal amount)	**1,478,943**	1,247,000
Convertible debentures (principal amount)	**338,592**	300,772
Shareholders' equity		
Common shares (based on closing per share price of $18.82; December 31, 2011 – $17.30) and common share purchase warrants (based on closing price of $0.35; December 31, 2011 – n/a)	**3,889,163**	3,083,290
Total capital employed (total enterprise value)	**$ 7,315,810**	$ 6,215,230
Debt to total assets (1)	**42.1%**	46.6%
Debt to total assets (at invested cost) (1)	**49.4%**	53.6%
Debt to total assets (based on debt covenants) (2)	**45.3%**	51.3%
Debt to total market capitalization	**41.8%**	45.5%
Weighted average interest rate on fixed rate debt and senior unsecured debentures	**5.28%**	5.75%
Maximum proportion of debt maturing in any one year	**15.25%**	18.65%
Debt/EBITDA (5)	**8.50**	8.59
Debt/EBITDA - based on run rate (5)	**7.81**	8.08
Weighted average maturity on mortgages and senior unsecured debentures (years)	**5.3**	4.5
Unencumbered aggregate assets to unsecured debt		
Total, based on IFRS value (3)	**2.28**	1.96
Based on debt covenants (4)	**2.09**	1.60
EBITDA interest coverage (5)	**2.19**	2.12
EBITDA interest coverage excluding capitalized interest on development (5)	**2.59**	2.41

(1) Calculated with all joint ventures proportionately consolidated and cash balances reducing debt.

(2) Includes investment properties at IFRS value, valued using the average capitalization rate used to calculate IFRS value for the last ten fiscal quarters.

(3) Includes all unencumbered assets at IFRS values.

(4) Includes unencumbered assets as defined by debt covenants, with shopping centres valued at the average capitalization rate used to calculate IFRS value for the last ten fiscal quarters.

(5) EBITDA is calculated as net income, adding back income tax expense, interest expense, amortization expense and excluding the impact of increases in value of investment properties, gains and losses and other non-cash items. EBITDA is used in analyzing the Company's compliance with the senior unsecured debentures indenture. EBITDA is not a measure defined by IFRS and as such there is no standard definition. As a result, EBITDA may not be comparable with similar measures presented by other entities. EBITDA is not to be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS. EBITDA is calculated on a trailing four quarter basis.

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, convertible debentures 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.

In 2012, the Company made substantial progress in continuing to reduce the cost of debt and equity capital and extending and staggering debt maturities. Improvements were made in all key debt metrics including weighted average interest rate, weighted average remaining term, maximum debt maturities and overall leverage ratios.

DBRS provided First Capital Realty with its initial credit rating in 2005 of BBB (low) with a stable trend, and upgraded this rating to BBB with a stable trend in 2007. On June 27, 2012, DBRS confirmed the BBB rating and changed the trend to positive. On November 14, 2012, DBRS upgraded the ratings of the Company's senior unsecured debentures to BBB (high) and changed the trend to stable, from positive. The rating upgrade acknowledges First Capital Realty's progress in terms of enhancing the quality, size and market position of its portfolio of supermarket- and drugstore-anchored shopping centres in high barrier-to-entry major urban markets across Canada. In addition, according to DBRS the Company has meaningfully reduced the proportion of debt in its capital structure and improved key credit metrics to levels that are more in line with the BBB (high) rating category. 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 (high) 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.

Moody's provided First Capital Realty with a credit rating of Baa3, with a stable outlook in 2006, and then in December 2011, while confirming its rating, revised the rating outlook to positive. On November 20, 2012, Moody's upgraded the senior unsecured debenture rating of First Capital Realty to Baa2 (from Baa3) and revised the rating outlook to stable, from positive. According to Moody's, the upgrade reflects the Company's steady growth in its shopping centre franchise throughout Canada's major markets, while improving its financial profile with key metrics, such as secured debt, unencumbered assets and fixed charge coverage moving solidly into the mid-Baa range. 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.

The Company completed the issuance of $475 million principal amount of senior unsecured subordinated debentures and $127.5 million principal amount of convertible unsecured subordinated debentures in 2012. This compares to the issuance of $325 million principal amount of senior unsecured subordinated debentures and $165 million principal amount of convertible unsecured subordinated debentures in 2011.

The Company completed the issuance of 28.3 million common shares and 5.6 million common share purchase warrants for gross proceeds of approximately $507 million in 2012. By issuing approximately $507 million of equity in 2012, and approximately $744 million since the beginning of 2011, the Company has significantly reduced its leverage which Management expects will result in a continued decrease in the Company's cost of capital.

These financings, along with planned financings and availability on existing credit facilities, address substantially all of the remaining contractual 2013 debt maturities and contractually committed costs to complete current development projects.

The Company uses convertible debentures as a part of its overall capital structure. Consistent with First Capital Realty's practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures through the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares.

The Company intends to maintain financial strength to achieve the lowest 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.

Consolidated Debt and Principal Amortization Maturity Profile

(thousands of dollars, except for other data)	Mortgages	Credit Facilities	Senior Unsecured Debentures	Total	% Due
2013	$ 241,977	$ —	$ —	$ 241,977	7.84%
2014	301,801	—	153,943	455,744	14.76%
2015	251,867	—	125,000	376,867	12.20%
2016	173,763	—	—	173,763	5.63%
2017	85,669	—	250,000	335,669	10.87%
2018	108,645	—	150,000	258,645	8.38%
2019	120,662	—	150,000	270,662	8.76%
2020	57,941	—	175,000	232,941	7.54%
2021	92,494	—	175,000	267,494	8.66%
2022	170,884	—	300,000	470,884	15.25%
Thereafter	3,409	—	—	3,409	0.11%
Add (deduct): unamortized deferred financing costs and premium and discounts, net	14,228	—	(9,870)	4,358	—
	$ 1,623,340	$ —	$ 1,469,073	$ 3,092,413	100.00%

Mortgages and Credit Facilities

The changes in the book value of the Company's mortgages and credit facilities during the year ended December 31, 2012 are set out below:

(thousands of dollars, except for percentages)	Mortgages and Other Secured Debt	Weighted Average Interest Rate	Secured Credit Facilities	Weighted Average Interest Rate	Unsecured Credit Facilities	Weighted Average Interest Rate	Total
Balance, December 31, 2011	$ 1,409,772	5.88%	$ 33,826	2.95%	$ 140,570	3.05%	$1,584,168
Additional borrowings	249,970		—		—		249,970
Assumed mortgages on acquisition of investment properties and vendor take back mortgage [(1)]	226,790		3,700		—		230,490
Mortgage financing and loans on residential development inventory	22,406		—		—		22,406
Repayments	(216,139)		(37,526)		(139,752)		(393,417)
Principal installment payments	(40,171)		—		—		(40,171)
Assumed mortgages on sales of investment properties	(37,748)		—		—		(37,748)
Other changes (2)	8,460		—		(818)		7,642
Balance, December 31, 2012	$ 1,623,340	5.28%	$ —	—	$ —	—	$1,623,340

(1) Includes mortgage and credit facility debt assumed in the First Medical acquisition.

(2) Includes amortization of issue costs, premiums and discounts and exchange rate difference.

At December 31, 2012, 98% (December 31, 2011 – 99%) of the outstanding mortgage and property-specific debt liabilities bore interest at fixed interest rates. The fixed mortgage rates provide an effective matching for rental income from leases, which typically have fixed terms ranging from five to ten years, and incremental contractual rent steps during the term of the lease. The average remaining term of mortgages outstanding has increased from 4.0 years at December 31, 2011 to 4.5 years at December 31, 2012 reflecting the Company's strategy to use primarily ten-year terms if secured financing is obtained.

In 2012, the Company funded $180.8 million of 10-year mortgage financing relating to seven properties with a weighted average interest rate of 3.86%. In addition, for the year ended December 31, 2012, the Company topped-up $68.8 million of mortgage financings with terms between one and five years, relating to three properties with a weighted average interest rate of 3.16%.

In the year ended December 31, 2012, the Company prepaid or repaid at maturity $216.1 million amount of mortgage financing with a weighted average interest rate of 6.29%.

Mortgage Maturity and Lender Type Profile

					Breakdown of Mortgage Maturities by Type of Lender		
(thousands of dollars, except for percentages)	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Interest Rate	Percent with Banks	Percent with Conduits	Percent with Insurance Co's and Pension Funds
2013	$ 42,148	$ 199,829	$ 241,977	5.01%	45.84%	37.59%	16.57%
2014	36,391	265,410	301,801	6.03%	12.10%	37.21%	50.69%
2015	28,672	223,195	251,867	4.97%	7.61%	35.72%	56.67%
2016	22,869	150,894	173,763	5.08%	34.11%	5.40%	60.49%
2017	20,063	65,606	85,669	5.36%	8.23%	47.69%	44.08%
2018	16,811	91,834	108,645	6.15%	5.49%	0.46%	94.05%
2019	13,948	106,714	120,662	6.36%	33.20%	0.43%	66.37%
2020	12,083	45,858	57,941	5.20%	8.86%	0.95%	90.19%
2021	10,085	82,409	92,494	4.94%	73.26%	0.62%	26.12%
2022	3,801	167,083	170,884	3.99%	31.39%	7.84%	60.77%
Thereafter	3,409	—	3,409	6.20%	—	—	100.00%
Total	$ 210,280	$ 1,398,832	$ 1,609,112	5.28%	25.20%	22.31%	52.49%

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. At December 31, 2012, the Company had mortgage payments aggregating $242.0 million coming due in 2013. Maturing amounts are comprised of $199.8 million of mortgages maturing at an average interest rate of 5.01% and $42.1 million of scheduled amortization of principal balances. The Company's liquidity position at December 31, 2012 in excess of $600 million provides the Company with significant flexibility in addressing these 2013 maturities.

Credit Facilities

The Company has the flexibility under its credit facilities to draw funds based on bank prime rates, Canadian bankers' acceptances ("BA"), LIBOR-based advances or U.S. prime for U.S. dollar-denominated borrowings or Euro dollars. The BAs currently provide the Company with the lowest cost means of borrowing under these credit facilities. The credit facilities are used primarily to provide liquidity for financing acquisition, development and redevelopment activities and for general corporate purposes.

On June 29, 2012, the Company reduced pricing on, and extended the maturity of, its $500 million senior unsecured revolving credit facility with a syndicate of Canadian chartered banks. The facility will mature on June 30, 2014.

In connection with the First Medical acquisition, the Company assumed a $13.6 million secured credit facility with a Canadian chartered bank. This facility was terminated in the fourth quarter of 2012.

On December 31, 2012, the Company reduced pricing on, extended the maturity to December 2014, and increased the capacity of its existing $50.0 million secured credit facility with a Canadian chartered bank to $75.0 million.

The following table summarizes the details of the Company's lines of credit as at December 31, 2012:

(thousands of Canadian dollars, except other data)	Borrowing Capacity	Amounts Drawn	Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Secured by development properties	$ 75,000	$ —	$ —	$ 75,000	BA + 1.50% or Prime + 0.50%	December 31, 2014
Unsecured	500,000	—	(43,591)	456,409	C$ at BA + 1.50% or Prime + 0.50% or US$ at LIBOR + 1.50%	June 30, 2014
Total secured and unsecured facilities	$ 575,000	$ —	$ (43,591)	$ 531,409		

Senior Unsecured Debentures

(thousands of dollars, except for percentages)			Interest Rate			Principal Outstanding	
Maturity Date	Series	Date of Issue	Coupon	Effective	Remaining Term to Maturity (yrs)	**December 31, 2012**	December 31, 2011
June 21, 2012	A	June 21, 2005	5.08%	5.29%	—	**$ —**	$ 100,000
April 1, 2013	D	September 18, 2006	5.34%	5.51%	—	**—**	97,000
January 31, 2014	E	January 31, 2007	5.36%	5.52%	1.1	**53,943**	100,000
October 30, 2014	F	April 5, 2007	5.32%	5.47%	1.8	**100,000**	100,000
June 1, 2015	G	November 20, 2009	5.95%	6.13%	2.4	**125,000**	125,000
January 31, 2017	H	January 21, 2010	5.85%	5.99%	4.1	**125,000**	125,000
November 30, 2017	I	April 13, 2010	5.70%	5.85%	4.9	**50,000**	50,000
November 30, 2017	I	April 13, 2010	5.70%	5.82%	4.9	**25,000**	25,000
November 30, 2017	I	June 14, 2010	5.70%	5.70%	4.9	**50,000**	50,000
August 30, 2018	J	July 12, 2010	5.25%	5.66%	5.7	**50,000**	50,000
November 30, 2018	K	August 25, 2010	4.95%	5.30%	5.9	**50,000**	50,000
November 30, 2018	K	October 26, 2010	4.95%	5.04%	5.9	**50,000**	50,000
July 30, 2019	L	January 21, 2011	5.48%	5.61%	6.6	**150,000**	150,000
April 30, 2020	M	March 30, 2011	5.60%	5.73%	7.3	**110,000**	110,000
April 30, 2020	M	June 13, 2011	5.60%	5.39%	7.3	**65,000**	65,000
March 1, 2021	N	April 4, 2012	4.50%	4.63%	8.2	**175,000**	—
January 31, 2022	O	June 1, 2012	4.43%	4.55%	9.1	**100,000**	—
January 31, 2022	O	July 17, 2012	4.43%	4.44%	9.1	**50,000**	—
December 5, 2022	P	December 5, 2012	3.95%	4.15%	9.9	**150,000**	—
			5.15%	5.29%	6.2	**$ 1,478,943**	$ 1,247,000

During 2012, the Company issued an aggregate of $475 million principal amount of senior unsecured debentures with a weighted average effective yield of 4.44% and a weighted average term (at issuance) of 9.5 years.

On December 31, 2012, First Capital Realty redeemed $44.1 million of the $98.1 million outstanding principal amount of its Series E senior unsecured debentures. The debentures were redeemed at a price of $1,042.69 for each $1,000 principal amount of Debentures outstanding, consisting of the Canada Yield Price (as defined in the Trust Indenture pursuant to which the Debentures were issued) calculated on November 29, 2012. In addition, accrued but unpaid interest was paid on the Debentures up to but excluding the redemption date.

During 2012, the Company repaid on maturity or redeemed $243 million principal amount outstanding of senior unsecured debentures with a weighted average effective rate of 5.42%.

Convertible Debentures

(thousands of dollars, except for percentages)

As at December 31, 2012

Interest Rate							
Coupon	Effective	Date of Issue	Maturity Date	Principal at Issue Date	Principal	Liability	Equity
5.70%	6.88%	December 30, 2009	June 30, 2017	$ 50,000	$ 46,092	$ 44,012	$ 1,031
5.40%	6.90%	April 28, 2011	January 31, 2019	57,500	57,500	53,262	2,192
5.25%	6.07%	August 9, 2011	January 31, 2019	57,500	57,500	55,146	390
5.25%	6.68%	December 15, 2011	March 31, 2018	50,000	50,000	46,918	1,155
4.95%	6.51%	February 16, 2012	March 31, 2017	75,000	75,000	70,712	1,495
4.75%	6.19%	May 22, 2012	July 31, 2019	52,500	52,500	48,744	1,439
5.19%	6.53%				$ 338,592	$ 318,794	$ 7,702

(i) Principal and Interest

The Company uses convertible debentures as a part of its overall capital structure. Consistent with First Capital Realty's practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares.

During 2012, 1.1 million common shares (year ended December 31, 2011 – 1.3 million common shares) were issued for $20.5 million (year ended December 31, 2011 – $19.8 million) to pay interest to holders of convertible debentures.

(ii) Issuance of Convertible Debentures

On February 16, 2012, the Company completed the issuance of $75.0 million aggregate principal amount of 4.95% convertible unsecured subordinated debentures due March 31, 2017. The debentures bear interest at a rate of 4.95% per annum, payable semi-annually on March 31 and September 30 (commencing September 30, 2012), and are convertible at the option of the holder into common shares of the Company at a conversion price of $23.75 per common share. The closing included $5.0 million aggregate principal amount of debentures issued as a result of the exercise in full of the underwriters' option.

On May 22, 2012, the Company completed the issuance of $52.5 million aggregate principal amount of 4.75% convertible unsecured subordinated debentures due July 31, 2019. The debentures bear interest at a rate of 4.75% per annum, payable semi-annually on March 31 and September 30 (commencing September 30, 2012), and are convertible at the option of the holder into common shares of the Company at a conversion price of $26.75 per common share until July 31, 2017 and thereafter at a conversion price of $27.75 per common share on maturity. The closing included $2.5 million aggregate principal amount of debentures issued as a result of the exercise of the underwriters' option.

On February 19, 2013, the Company completed the issuance of $57.5 million aggregate principal amount of 4.45% convertible unsecured subordinated debentures due February 28, 2020. The debentures bear interest at a rate of 4.45% per annum, payable semi-annually on March 31 and September 30 (commencing September 30, 2013), and are convertible at the option of the holder into common shares of the Company at a conversion price of $26.75 per common share until February 28, 2018 and thereafter at a conversion price of $27.75 per common share on maturity. The closing included $7.5 million aggregate principal amount of debentures issued as a result of the exercise in full of the underwriters' option.

(iii) Principal Redemptions

On February 15, 2012, the Company completed the redemption of its remaining 5.50% convertible unsecured subordinated debentures in accordance with their terms at par by issuing common shares in satisfaction of the remaining principal outstanding and interest owing on the 5.50% debentures so redeemed.

On September 30, 2012, the Company completed the redemption of its remaining 6.25% convertible unsecured subordinated debentures in accordance with their terms at par by issuing common shares in satisfaction of the remaining principal outstanding and interest owing on the 6.25% debentures so redeemed.

For the year ended December 31, 2012, the Company issued 5.8 million common shares in connection with the debentures redeemed or converted.

(iv) Normal Course Issuer Bid

On August 25, 2011, First Capital Realty commenced a normal course issuer bid ("NCIB") for certain series of its convertible unsecured subordinated debentures. On September 19, 2011, the Company expanded its NCIB to include one additional series of convertible unsecured subordinated debentures. On August 27, 2012, the Company renewed its NCIB for all of its then outstanding series of convertible unsecured subordinated debentures. The NCIB will expire on August 26, 2013 or such earlier date as First Capital Realty completes its purchases pursuant to the NCIB. All purchases made under the NCIB will be made through the facilities of the Toronto Stock Exchange ("TSX") or other Canadian marketplaces at market prices prevailing at the time of purchase and the timing of such purchases will be determined by First Capital Realty.

For the years ended December 31, 2012 and 2011 principal amounts and amounts paid for the purchases are represented in the table below:

	Year ended December 31			
(thousands of dollars)	**2012**		2011	
	Principal Amount Purchased	**Amount Paid**	Principal Amount Purchased	Amount Paid
Total	**$ 3,035**	**$ 3,315**	$ 2,071	$ 2,067

Shareholders' Equity

Shareholders' equity amounted to $3.2 billion as at December 31, 2012, as compared to $2.5 billion as at December 31, 2011.

As at December 31, 2012, the Company had 206.5 million (December 31, 2011 – 178.2 million) issued and outstanding common shares with a stated capital of $2.4 billion (December 31, 2011 – $1.9 billion). During the year ended December 31, 2012, a total of 28.3 million common shares were issued for proceeds of $505.2 million as follows: 15.1 million shares from public offerings, 5.5 million shares in connection with the First Medical acquisition, 1.1 million shares for interest payments on convertible debentures, 5.8 million shares on the conversion or redemption of convertible debentures, and 0.8 million shares from the exercise of common share options.

On August 3, 2012, the Company issued 2.5 million units at $18.75 per unit for gross proceeds of $46.9 million. Each unit in this offering consisted of: (i) one common share of the Company, and (ii) one common share purchase warrant (a "Warrant"). The common shares and the Warrants separated immediately upon closing of the offering. Each Warrant entitles the holder to acquire at any time up to August 2, 2013, one common share of the Company at an exercise price equal to $19.75. Issue costs were approximately $2.1 million.

On September 19, 2012, the Company issued 12.5 million units at a price of $19.22 per unit for total gross proceeds of approximately $240.3 million. Each unit in this offering consisted of: (i) one common share of the Company, and (ii) one-quarter of a Warrant. The common shares and the Warrants separated immediately upon closing of the offering. Issue costs were approximately $9.8 million.

As at December 31, 2012, and February 20, 2013 there were 5.6 million warrants outstanding.

As at February 20, 2013, there were 206.6 million common shares outstanding.

Share Purchase Options

As at December 31, 2012, the Company had outstanding 5.7 million share purchase options, with an average exercise price of $15.65. The options are exercisable by the holder at any time after vesting up to ten years from the date of grant. The options have been issued at various times pursuant to the Company's stock option plan to the employees, officers and directors of the Company. The options granted permit the holder to acquire shares at an exercise price equal to the market price of such shares at the date the option is granted. The purpose of granting options is to encourage the holder to acquire an ownership interest in the Company over a period of time, which acts as a financial incentive to align the interests of the holder with the long-term interests of the Company and its shareholders.

If all options outstanding at December 31, 2012 were exercised, 5.7 million shares would be issued and the Company would receive proceeds of approximately $88.8 million. Based on the December 31, 2012 closing per share price of $18.82, there were no options out-of-the-money at December 31, 2012.

Liquidity

(thousands of dollars)	**December 31, 2012**	December 31, 2011
Revolving credit facilities	**$ 575,000**	$ 550,000
Cash and cash equivalents	**70,155**	3,075
Unencumbered assets		
Total, based on IFRS value [1]	**3,377,586**	2,717,008
Based on debt covenants [2]	**3,088,967**	2,224,337

(1) Includes all unencumbered assets at IFRS values.

(2) Includes unencumbered assets as defined by debt covenants, with shopping centres valued at the average capitalization rate used to calculate IFRS value for the last ten fiscal quarters.

Cash flow from operations is dependent on occupancy levels of properties, rental rates achieved, collections of rent and costs to maintain or lease space. The Company's strategy is to maintain debt in the range of 35 - 50% of market capitalization based on current market conditions. This target has been lowered to reflect the Company's ongoing commitment to achieving a lower cost of capital. At December 31, 2012, this debt ratio was 41.8% based on the Company's calculation. Maturing debt is generally repaid from proceeds from refinancing such debt.

Cash and cash equivalents were $70.2 million at December 31, 2012 (December 31, 2011 – $3.1 million). At December 31, 2012, the Company had credit facilities totalling $575.0 million of which $531.4 million is undrawn. The Company also had unencumbered assets with a fair value of approximately $3.4 billion. During the year ended December 31, 2012, the Company issued $127.5 million of convertible debentures, issued $231.9 million of senior unsecured debentures net of repayments, issued 15.1 million common shares, and issued 5.6 million warrants for gross proceeds of $289.6 million. As a result the Company also held average cash balances of approximately $80.4 million during the year. These transactions demonstrate the Company's access to capital and various sources of financing. Management believes that it has sufficient resources to meet its operational and investing requirements in the near and longer term based on the availability of capital in various markets.

The Company has historically used secured mortgages, term loans and revolving credit facilities, senior unsecured debentures, convertible debentures and equity issues to finance its growth. 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 general view of the required leverage in the business.

Cash Flows

	Year ended December 31	
(thousands of dollars)	**2012**	2011
Cash flow from operating activities before net change in non-cash operating items and expenditures on residential development inventory	**$ 192,695**	$ 179,249
Net change in non-cash operating items	**18,931**	(9,280)
Expenditures on residential development inventory	**(28,725)**	(17,013)
Cash provided by operating activities	**182,901**	152,956
Cash provided by financing activities	**330,408**	319,801
Cash used in investing activities	**(446,108)**	(501,500)
Effect of currency rate movement	**(121)**	83
Increase (decrease) in cash and cash equivalents	**$ 67,080**	$ (28,660)

Operating Activities

Cash provided by operating activities increased primarily from cash flow generated by growth in net operating income from the Company's shopping centre portfolio, the timing of receipts and payments on working capital items offset by increased expenditures on residential development inventory.

Financing Activities

The cash provided by financing activities includes the net issuances of senior unsecured debentures, issuance of convertible debentures, equity issuances, mortgage financing activities and credit facility activities offset by the repayment of debt. Cash provided by financing activities in 2012 is higher due to a higher level of senior unsecured debenture and equity issuances in 2012, offset by a higher level of net mortgage repayments. These activities are more fully described in the "Capital Structure and Liquidity" section of this MD&A.

Investing Activities

The decrease in cash used in investing activities is due to the proceeds received in connection with the disposition of investment properties and realization on loans, mortgages and other real estate assets in 2012 offset by increased acquisition activity and expenditures on investment properties in 2012 as compared to the prior year activity. Details of the Company's investments in acquisitions and developments are provided under the "Business and Operations Review" section of this MD&A.

Contractual Obligations

	Payments Due by Period				
(thousands of dollars)	2013	2014 to 2015	2016 to 2017	Thereafter	Total
Mortgages					
Scheduled amortization	$ 42,148	$ 65,063	$ 42,932	$ 60,137	$ 210,280
Payments on maturity	199,829	488,605	216,500	493,898	1,398,832
Total mortgage obligations	241,977	553,668	259,432	554,035	1,609,112
Senior unsecured debentures	—	278,943	250,000	950,000	1,478,943
Loans payable [1]	17,098	16,722	—	—	33,820
Interest obligations [2]	159,491	250,788	185,298	203,468	799,045
Land leases (expiring between 2023 and 2061)	1,091	2,100	1,596	21,433	26,220
Contractual committed costs to complete current development projects	89,697	86	—	—	89,783
Other committed costs	6,550	—	—	—	6,550
Total contractual obligations [3]	$ 515,904	$ 1,102,307	$ 696,326	$ 1,728,936	$ 4,043,473

(1) Loans payable include a $16.5 million loan relating to residential development inventory and a third party loan that had previously been defeased.

(2) Interest obligations include expected interest payments on mortgages and credit facilities at December 31, 2012 (assuming balances remain outstanding through to maturity) and senior unsecured debentures, as well as standby credit facility fees.

(3) Consistent with existing practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares, and as such have been excluded from this table.

In addition, the Company has $43.6 million of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's obligations related to its development projects.

The Company's estimated cost to complete properties currently under development is $160.1 million, of which $89.8 million is contractually committed. The balance of the costs to complete will only be committed once leases are signed and/or construction activities are 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, 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 $59.4 million (December 31, 2011 – $37.6 million) to various lenders in connection with loans advanced to its joint venture partners secured by the partners' interest in the joint ventures and other mortgage liabilities.

DIVIDENDS

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

	Year ended December 31	
	2012	2011
Regular dividends paid per common share	**$ 0.82**	$ 0.80
Payout ratio calculated as a percentage of:		
Funds from operations	**82.4%**	83.6%
Adjusted funds from operations	**88.0%**	88.0%

Quarterly Dividend

The Company announced that it will pay a first quarter dividend of $0.21 per common share on April 10, 2013 to shareholders of record on March 28, 2013.

QUARTERLY FINANCIAL INFORMATION

	2012				2011[1]			
(thousands of dollars, except per share and other data, and thousands of shares)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property rental revenue	**$ 155,985**	**$ 147,152**	**$ 140,725**	**$ 139,234**	$ 136,518	$ 131,398	$ 129,437	$ 129,382
Property operating costs	59,270	**51,154**	**49,609**	**51,526**	48,088	44,893	45,761	47,905
Net operating income	**96,715**	**95,998**	**91,116**	**87,708**	88,430	86,505	83,676	81,477
Increase in value of investment properties, net	**32,567**	**73,873**	**110,541**	**74,870**	208,318	72,278	163,508	22,110
Net income attributable to common shareholders	**69,783**	**102,055**	**122,035**	**99,086**	234,960	96,814	168,747	48,411
Net income per share attributable to common shareholders:								
Basic	**$ 0.34**	**$ 0.54**	**$ 0.67**	**$ 0.55**	$ 1.36	$ 0.57	$ 1.02	$ 0.29
Diluted	**0.33**	**0.51**	**0.63**	**0.52**	1.24	0.54	0.92	0.28
Weighted average number of diluted common shares outstanding – EPS	**222,633**	**208,131**	**200,311**	**196,763**	193,237	191,166	188,619	185,909
Funds from operations	**$ 48,886**	**$ 47,823**	**$ 47,856**	**$ 44,373**	$ 43,490	$ 40,441	$ 38,045	$ 39,326
Funds from operations per diluted share	**0.24**	**0.25**	**0.26**	**0.25**	0.25	0.24	0.23	0.24
Cash provided by operating activities	**67,388**	**43,741**	**31,525**	**40,247**	50,577	32,982	31,292	33,054
Weighted average number of diluted common shares outstanding – FFO	**207,930**	**189,028**	**181,906**	**180,456**	173,221	170,035	166,353	164,754
Adjusted funds from operations	**$ 50,929**	**$ 49,334**	**$ 47,836**	**$ 44,492**	$ 45,139	$ 45,081	$ 41,518	$ 40,219
Adjusted funds from operations per diluted share	**0.23**	**0.24**	**0.24**	**0.23**	0.23	0.24	0.22	0.22
Weighted average number of diluted shares outstanding – AFFO	**222,633**	**208,131**	**200,311**	**196,763**	193,237	191,166	188,619	185,909
Regular dividend	**$ 0.21**	**$ 0.21**	**$ 0.20**	**$ 0.20**	$ 0.20	$ 0.20	$ 0.20	$ 0.20
Fair value of investment properties – shopping centres	**6,903,340**	**6,638,954**	**6,237,595**	**5,917,137**	5,811,288	5,330,188	5,128,150	4,904,198
Weighted average capitalization rate of shopping centres	**6.00%**	**6.11%**	**6.14%**	**6.25%**	6.34%	6.55%	6.67%	6.92%
Total assets	**$7,318,792**	**$7,198,552**	**$6,632,855**	**$6,263,810**	$ 6,111,144	$ 5,696,456	$ 5,534,074	$ 5,204,308
Total mortgages and credit facilities	**1,623,340**	**1,648,873**	**1,533,513**	**1,573,582**	1,584,168	1,344,516	1,326,992	1,332,100
Shareholders' equity	**3,245,612**	**3,215,127**	**2,699,145**	**2,608,692**	2,511,848	2,215,120	2,058,982	1,903,849
Other data								
Number of properties	**175**	**172**	**165**	**166**	169	166	163	163
Gross leasable area (in thousands)	**24,969**	**24,152**	**23,471**	**23,095**	23,227	22,811	22,345	22,351
Occupancy %	**95.6%**	**95.6%**	**95.7%**	**95.9%**	96.2%	96.3%	96.2%	96.4%

[1] 2011 amounts have been restated, where applicable, for the effects of the adoption of IAS 12.

Refer to the applicable MD&A and the Quarterly Financial Statements for discussion and analysis relating to the first three quarters of 2012 and the four quarters in 2011.

FOURTH QUARTER 2012 OPERATIONS AND RESULTS

Investment Property Development and Redevelopment Activities

During the fourth quarter of 2012, the Company invested $78 million in the acquisition of four income-producing properties totalling 412,000 square feet. The Company also invested $66.1 million in the acquisition of 5 additional spaces and adjacent land parcels totalling 234,000 square feet and 1.4 acres. Further, the Company invested $15.2 million in the acquisition of three development land assemblies, comprising 1.1 acres of commercial land for future development.

In addition to acquisitions of income-producing properties and development lands, the Company invested $103.1 million during the fourth quarter in its active development projects as well as in certain improvements to existing properties.

The Company also sold one shopping centre comprising 51,000 square feet of gross leasable area and one 2.6 acre land parcel.

Development of 199,000 square feet was brought on line in the fourth quarter of 2012, with 140,000 square feet leased at an average rate of $21.02 per square foot. The Company also reopened 33,000 square feet of redeveloped space at an average rate of $16.36 per square foot.

Property Name	Note	City	Province	Square Feet[(1)]	Major Tenants of Developed Space
Same property with incremental redevelopment and expansion					
Westmount Shopping Centre	(2)	Edmonton	AB	22,000	Rexall, Woodcroft Medical Centre
Major redevelopment					
Chartwell Shopping Centre	(2)	Toronto	ON	76,000	Bestco Food, CIBC, Dollarama, various other
5051-5061 Yonge Street		Toronto	ON	10,000	Jack Astor's Bar and Grill
Place Pointe-aux-Trembles		Montreal	QC	5,000	Various tenants
Other				1,000	
Ground-up development					
Leaside Village	(2)	Toronto	ON	8,000	Against The Grain Urban Tavern
Carrefour du Plateau des Grives	(2)	Gatineau	QC	6,000	Leasing underway
Other				11,000	
Acquisitions – 2012					
Jardins Millen	(2)	Montreal	QC	45,000	IGA and other leasing underway
Shops at New West Station		Vancouver	BC	38,000	Various tenants and space with leasing underway
Acquisitions – 2011					
9630 Macleod Trail		Calgary	AB	10,000	Fit 4 Less
Total				232,000	
Total development brought on line				199,000	
Total other redevelopment brought on line				33,000	
				232,000	

(1) Includes new space in development projects and redevelopment and expansion projects.

(2) Constructed in accordance with LEED certification standards.

Development and redevelopment of 232,000 square feet was completed in the fourth quarter of 2012 compared with 126,000 square feet developed in the fourth quarter of 2011. 173,000 square feet of this newly developed space was occupied at an average rental rate of $20.13 per square foot when transferred to income-producing shopping centres.

Expenditures on Investment Properties

Revenue sustaining and enhancing expenditures on investment properties are as follows:

	Three months ended December 31	
(thousands of dollars)	**2012**	2011
Revenue sustaining	**6,814**	$ 5,539
Revenue enhancing	**18,888**	8,936
Expenditures recoverable from tenants	**5,147**	1,593
Property repositioning and other items	**4,463**	1,882
Development expenditures	**67,827**	66,220
Total	**$ 103,139**	$ 84,170

In the fourth quarter of 2012 revenue sustaining capital expenditures totalled $0.27 per square foot (2011 – $0.24 per square foot). The increase of $0.03 per square foot is primarily due to the increase in roof replacement expenditures.

Leasing and Occupancy

Changes in the Company's gross leasable area and occupancy in the fourth quarter 2012 are set out below:

	Total Square Feet	Occupied Square Feet		Under Redevelopment Square Feet		Vacant Square Feet			
Three months ended December 31, 2012	(thousands)	(thousands)	%	(thousands)	%	(thousands)	%	No. of Leases	Rate per Occupied
September 30, 2012	**24,152**	**23,086**	**95.6%**	**175**	**0.7%**	**891**	**3.7%**		**$ 17.42**
Tenant openings	—	202		—		(202)		74	21.28
Tenant closures	—	(145)		—		145		(56)	(18.12)
Closures for redevelopment	—	(37)		37		—		(6)	(13.50)
Developments – coming on line	199	140		—		59		45	21.02
Redevelopments – coming on line	—	33		(33)		—		4	16.36
Demolitions	(2)	—		(2)		—		—	—
Reclassification	23	9		(5)		19		—	—
Total portfolio before dispositions and acquisitions	24,372	23,288	95.6%	172	0.7%	912	3.7%		$ 17.60
Dispositions (at date of disposition)	(49)	(42)	85.7%	—		(7)		(6)	(23.08)
Acquisitions (at date of acquisition)	646	627	97.1%	—		19		147	14.57
December 31, 2012	**24,969**	**23,873**	**95.6%**	**172**	**0.7%**	**924**	**3.7%**		**$ 17.51**
Renewals		355						89	$ 18.27
Renewals – expired		(355)						(89)	$ (16.52)
Net increase per square foot from renewals									$ 1.75
% Increase on renewal of expiring rents									10.6%

In the fourth quarter of 2012, gross new leasing totalled 375,000 square feet including development and redevelopment space coming on line compared to 291,000 square feet in the fourth quarter of 2011. This gross new leasing will generate additional annual minimum rent of approximately $7.8 million. The Company achieved a 10.6% increase on 355,000 square feet of renewal leases over the expiry rates.

With the impact of leasing during the three months ended December 31, 2012 on the existing portfolio and development space, new acquisitions and increases from contractual rent steps, the average rate per occupied square foot increased to $17.51 at December 31, 2012. This compares to an average rate of $17.42 at September 30, 2012 and $16.81 at December 31, 2011.

Closures for redevelopment totalled 37,000 square feet in the three months ended December 31, 2012, providing potential for future income growth through leasing and redevelopment activities.

Three months ended December 31, 2011	Total Square Feet (thousands)	Occupied Square Feet (thousands)	%	Under Redevelopment Square Feet (thousands)	%	Vacant Square Feet (thousands)	%	No. of Leases	Rate per Occupied
September 30, 2011	**22,811**	**21,977**	**96.3%**	**96**	**0.4%**	**738**	**3.3%**		**$ 16.73**
Tenant openings	—	193		—		(193)		83	19.11
Tenant closures	—	(172)		—		172		(74)	(21.29)
Closures for redevelopment	—	(33)		33		—		(14)	(16.50)
Developments – coming on line	114	86		—		28		45	28.25
Redevelopments – coming on line	—	12		(12)		—		6	33.63
Demolitions	(45)	—		(45)		—		—	—
Reclassification	(3)	(19)		23		(7)		—	—
Total portfolio before dispositions and acquisitions	22,877	22,044	96.4%	95	0.4%	738	3.2%		16.74
Dispositions (at date of disposition)	(30)	(28)	93.3%	—		(2)		(9)	(24.76)
Acquisitions (at date of acquisition)	380	335	88.2%	32		13		194	22.08
December 31, 2011	**23,227**	**22,351**	**96.2%**	**127**	**0.6%**	**749**	**3.2%**		**$ 16.81**
Renewals		251						77	$ 20.16
Renewals – expired		(251)						(77)	$ (18.76)
Net increase per square foot from renewals									$ 1.40
% Increase on renewal of expiring rents									7.5%

In the fourth quarter of 2011, gross new leasing totalled 291,000 square feet including development and redevelopment space coming on line compared to 176,000 square feet in the fourth quarter of 2010. This gross new leasing generated additional annual minimum rent of approximately $6.5 million. Renewal leasing totalled 251,000 square feet with a 7.5% increase over expiring lease rates.

Net Income

(thousands of dollars, except share and per share amounts)	Three months ended December 31 2012	2011 (Restated) [1]
Net operating income		
Property rental revenue	**$ 155,985**	$ 136,518
Property operating costs	**59,270**	48,088
Net operating income	**96,715**	88,430
Interest and other income	**1,859**	1,976
	98,574	90,406
Expenses		
Interest expense	**39,845**	40,140
Corporate expenses and amortization	**8,212**	6,897
	48,057	47,037
Income before increase in value of investment properties, net, other gains (losses) and (expenses) and income taxes	**50,517**	43,369
Increase in value of investment properties, net	**32,567**	208,318
Other gains (losses) and (expenses)	**(2,072)**	433
Income before income taxes	**81,012**	252,120
Deferred income taxes	**11,324**	17,108
Net income	**$ 69,688**	**$ 235,012**
Net income (loss) attributable to:		
Common shareholders	**$ 69,783**	$ 234,960
Non-controlling interests	**(95)**	52
	$ 69,688	$ 235,012
Net income per share attributable to common shareholders:		
Basic	**$ 0.34**	$ 1.36
Diluted	**$ 0.33**	$ 1.24
Weighted average number of common shares – diluted [2] (in thousands)	**222,633**	193,237

(1) Prior period has been restated for the effects of the adoption of IAS 12. Refer to Note 3 to the consolidated financial statements for the year ended December 31, 2012.

(2) Includes the weighted average number of outstanding shares that would result from the conversion of all dilutive outstanding convertible debentures.

Net income attributable to common shareholders for the three months ended December 31, 2012 was $69.8 million or $0.33 per share (diluted) compared to $235.0 million or $1.24 per share (diluted) for the three months ended December 31, 2011. The decrease in net income is primarily due to the difference in fair value gain of investment properties, recorded in the fourth quarter in 2011 versus 2012, offset by the increase in NOI resulting from net acquisitions, development and redevelopment projects coming on line and same property NOI growth. On a per share basis, the decrease is also partially due to the increase in the weighted average number of common shares outstanding resulting from various financing activities and growth of the Company.

Funds from Operations

The Company's net income is reconciled to funds from operations below:

		Three months ended December 31		
(thousands of dollars)		**2012**		2011
Net income for the year [(1)]	**$**	**69,688**	$	235,012
Add (deduct):				
Increase in value of investment properties, net		**(32,567)**		(208,318)
Investment properties – selling costs [(2)]		**256**		—
Change in fair value of interest rate hedges [(3)]		**—**		(312)
Transaction costs [(2)]		**56**		—
Deferred income taxes [(1)]		**11,324**		17,108
Non-controlling interest		**129**		—
FFO	**$**	**48,886**	$	43,490

The components of FFO are as follows:

			Three months ended December 31		
(thousands of dollars, except share and per share amounts)	**% increase (decrease)**		**2012**		2011
Net operating income		**$**	**96,715**	$	88,430
Interest expense			**(39,845)**		(40,140)
Corporate expenses			**(7,017)**		(5,926)
Amortization of corporate assets and credit facility costs			**(1,195)**		(971)
Interest and other income			**1,859**		1,976
Non-controlling interest			**129**		—
FFO excluding other gains (losses) and (expenses)	**16.8 %**	**$**	**50,646**	$	43,369
Other gains (losses) and (expenses) [(2)]			**(1,760)**		121
FFO	**12.4 %**	**$**	**48,886**	$	43,490
FFO per diluted share	**(4.0)%**	**$**	**0.24**	$	0.25
FFO per diluted share excluding other gains (losses) and (expenses)	**(4.0)%**	**$**	**0.24**	$	0.25
Weighted average number of common shares – diluted – FFO (in thousands)	**20.0 %**		**207,930**		173,221

(1) Prior period net income and deferred taxes has been restated for the effects of the adoption of IAS 12. Refer to Note 3 to the consolidated financial statements for the year ended December 31, 2012.

(2) Refer to the "Other Gains (Losses) and (Expenses)" section in the following pages for details.

(3) The gains (losses) on hedges represents the change in fair value for those derivatives to which the Company does not apply hedge accounting.

FFO was $48.9 million or $0.24 per share (diluted) compared to $43.5 million or $0.25 per share (diluted) in the same prior year period. The increase in FFO is primarily due to the increase in NOI resulting from net acquisitions, development and redevelopment projects coming on line, same property NOI growth and increased interest income. The effect of the increase in NOI was partially offset by increases in interest expense and corporate expenses primarily relating to staffing costs associated with the growth and performance of the Company. On a per share basis, the decrease in FFO primarily resulted from an increase in the weighted average number of common shares outstanding resulting from various financing activities.

Adjusted Funds from Operations

AFFO for the three months ended December 31, 2012 totalled $50.9 million or $0.23 per diluted common share compared to $45.1 million or $0.23 per diluted common share in the prior year period. AFFO included $1.5 million of other net gains in the quarter compared to $2.0 million of other net gains for the same prior year period.

		Three months ended December 31	
(thousands of dollars, except share and per share amounts)	**% increase**	**2012**	2011
FFO		**$ 48,886**	$ 43,490
Add/(deduct):			
Interest expense payable in shares		**5,242**	5,794
Rental revenue recorded on a straight-line basis		**(2,956)**	(2,746)
Non-cash compensation expense		**708**	782
Revenue sustaining capital expenditures and leasing costs (1)		**(5,028)**	(5,063)
Change in cumulative unrealized (gains) losses on marketable securities		**(1,082)**	451
Loss on settlement of debt and purchase of convertible debentures		**4,124**	12
Loss on temporary change of conversion privilege of convertible debentures		**—**	984
Hedge accounting (gains) losses		**23**	385
Pre-selling costs of residential inventory units		**201**	—
Costs not capitalized during development period (2)		**886**	1,082
Other adjustments		**(75)**	(32)
AFFO	**12.8%**	**50,929**	45,139
Add/Deduct: Other (gains) losses and expenses (3)		**(1,506)**	(1,985)
AFFO excluding other (gains) losses and expenses	**14.5%**	**$ 49,423**	$ 43,154
AFFO per diluted share	**—%**	**$ 0.23**	$ 0.23
AFFO per diluted share excluding other (gains) losses and expenses	**—%**	**$ 0.22**	$ 0.22
Weighted average number of common shares – diluted – AFFO (in thousands)	**15.2%**	**222,633**	193,237

(1) Estimated at $0.78 per square foot per annum on average gross leasable area (based on a three year weighted average) for the year ended December 31, 2012 ($0.74 per square foot per annum in the year ended December 31, 2011).

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

(3) Refer to the "Other Gains (Losses) and (Expenses)" section in the following pages for details.

A reconciliation of cash provided by operating activities (an IFRS measure) to AFFO is presented below:

	Three months ended December 31	
(thousands of dollars)	**2012**	2011
Cash provided by operating activities	**$ 67,388**	$ 50,577
Realized gains on sale of marketable securities	**1,503**	2,002
Deferred leasing costs	**3,370**	1,593
Net change in non-cash operating items	**(25,823)**	(20,561)
Expenditures on residential development inventory	**6,130**	8,723
Amortization	**(1,195)**	(971)
Transaction costs	**56**	—
Non-cash interest expense and change in accrued interest	**(4,254)**	(337)
Settlement of restricted share units	**2,396**	2,380
Convertible debenture interest payable in common shares	**5,242**	5,794
Costs not capitalized during development period	**886**	1,082
Revenue sustaining capital expenditures and leasing costs	**(5,028)**	(5,063)
Pre-selling costs of residential inventory units	**201**	—
Non-controlling interest	**129**	—
Other adjustments	**(75)**	(63)
Gain (loss) on foreign currency exchange	**3**	(17)
AFFO	**$ 50,929**	$ 45,139

Net Operating Income

(thousands of dollars, except other data)	Three months ended December 31 **2012**	2011
Property rental revenue		
Base rent [1]	**$ 96,054**	$ 87,271
Operating cost recoveries	**23,848**	18,748
Realty tax recoveries	**26,653**	24,877
Straight-line rent	**2,956**	2,746
Lease surrender fees	**102**	342
Percentage rent	**1,446**	986
Prior year operating cost and tax recovery adjustments	**20**	(533)
Temporary tenants, storage, parking and other	**4,906**	2,081
Total property rental revenue	**$ 155,985**	$ 136,518
Property operating costs		
Recoverable operating expenses	**28,430**	22,160
Recoverable realty tax expenses	**29,866**	27,017
Prior year operating cost and tax expense adjustments	**(140)**	(493)
Other operating costs and adjustments	**1,114**	(596)
Total property operating costs	**$ 59,270**	$ 48,088
NOI	**$ 96,715**	$ 88,430
NOI margin	**62.0%**	64.8%
Operating cost recovery percentage	**83.9%**	84.6%
Tax recovery percentage	**89.2%**	92.1%

(1) Base rent includes annual minimum rents from gross and semi-gross leases.

The Company experienced growth in base rent and recoveries from tenants as a result of growth in the portfolio due to net acquisitions and development coming on line, as well as increases in rental rates due to step-ups and lease renewals. On a comparative period basis, the portfolio size increased by 1.7 million square feet, the effects of which were partially offset by a 0.6% decrease in overall occupancy. This decrease is primarily due to the change in the portfolio mix of properties. Note that the occupancy for same property – stable has increased year over year from 97.3% to 97.5%. Operating costs and property taxes similarly increased due to the increase in the portfolio size; however, the operating and tax recovery percentages have decreased due to decreased occupancy, including vacancies related to development and redevelopment activities. Temporary tenants, storage, parking and other income has increased commensurate with the increase in portfolio size as well as an increase in incidental short-term tenants in those properties for which the Company is in the pre-development stage.

			Three months ended December 31	
(thousands of dollars)	**% increase**		**2012**	2011
Same property – stable NOI	**0.2%**	**$**	**47,434**	$ 47,357
Same property with incremental redevelopment and expansion NOI			**18,608**	17,342
Total same property	**2.1%**		**66,042**	64,699
Investment properties classified as held for sale			**4,175**	4,105
Major redevelopment			**6,002**	5,133
Ground-up development			**3,646**	2,595
Acquisitions – 2012			**7,898**	—
Acquisitions – 2011			**5,684**	4,674
Dispositions – 2012			**312**	4,296
Dispositions – 2011			**—**	86
Rental revenue recognized on a straight-line basis			**2,956**	2,746
Development land			**—**	96
NOI		**$**	**96,715**	$ 88,430

Same property — stable NOI increased by 0.2% in the fourth quarter of 2012, compared to the same prior year period, primarily attributed to increases in rental rates due to step-ups and lease renewals offset by tenant closures as well as other decreases in occupancy (as discussed in the "Business and Operations Review – Leasing and Occupancy" section of this MD&A). The fourth quarter of 2011 included adjustments that were related to prior year CAM and tax not recurring at the same level in the fourth quarter of 2012.

Interest Expense

		Three months ended December 31	
(thousands of dollars)		**2012**	2011
Mortgages and credit facilities	**$**	**21,965**	$ 21,200
Senior unsecured debentures		**19,038**	18,544
Convertible debentures (cashless)			
Coupon interest (payable in shares)		**4,439**	5,114
Amortization of discounts (1)		**359**	390
Amortization of deferred issue costs		**444**	290
		46,245	45,538
Interest capitalized to investment properties and residential inventory under development		**(6,400)**	(5,398)
Total interest expense	**$**	**39,845**	$ 40,140

(1) Discounts result from the bifurcation of the convertible debentures into the liability and equity components under IFRS on the date of issue, and consists of amortization of the difference between the principal and the amount assigned to the liability component as a result of assigning value to the equity component.

Mortgage and credit facilities interest expense has increased due to increased borrowings over the prior year period, partially offset by the decrease in the weighted average borrowing rate.

The increase in interest expense for the senior unsecured debentures is primarily due to the issuances of $475 million principal amount of senior unsecured debentures during 2012, offset by the repayment of $243 million principal amount in 2012, as described in the "Capital Structure and Liquidity – Senior Unsecured Debentures" section of this MD&A. The increase was partially offset by the decrease in the weighted average effective interest rate on senior unsecured debentures from 5.63% at December 31, 2011 to 5.29% at December 31, 2012.

The decrease in convertible debentures coupon interest expense for 2012 is a result of the net issuances in 2011 and 2012 at lower interest rates than those redeemed and converted. The weighted average effective interest rate on convertible debentures decreased from 6.85% at December 31, 2011 to 6.53% at December 31, 2012. This is offset by an increase in the amortization of deferred issue costs, due to issuances in the current period, resulting in a decrease for the total convertible debentures interest expense in 2012.

Consistent with First Capital Realty's practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares.

Interest capitalized to investment properties under development has increased commensurate with the development activities underway including residential development inventory.

Corporate Expenses

	Three months ended December 31	
(thousands of dollars, except other data)	**2012**	2011
Salaries, wages and benefits	**$ 6,071**	$ 4,570
Non-cash compensation	**708**	782
Other corporate costs	**2,959**	2,663
Abandoned transaction costs	**981**	309
	10,719	8,324
Amounts capitalized to investment properties under development and redevelopment, residential inventory and deferred leasing costs	**(3,702)**	(2,398)
	$ 7,017	$ 5,926
Corporate expenses, excluding non-cash compensation		
As a percent of rental revenue	**4.00%**	3.8%
As a percent of total assets	**0.34%**	0.34%

The overall level of corporate expenses has increased by 18.4% for the three months ended December 31, 2012, as compared to the same prior year period, primarily as a result of increased staffing levels commensurate with the increase in the activity within the shopping centre portfolio, increased development activities and ongoing investments in processes and systems. Incentive compensation has also increased as a result of the Company's 2012 operating and financial performance and its growth.

Non-cash compensation is recognized over the respective vesting periods for options, restricted share units and deferred share units. These items are considered part of the total compensation for directors, senior management, other team members and periodically to select service providers to the Company.

The Company manages all of its acquisitions, development and redevelopment and leasing activities internally. Certain internal costs directly related to development and initial leasing of the properties, including salaries and related costs, are capitalized in accordance with IFRS to development projects and residential inventory, as incurred. Certain costs associated with the Company's internal leasing staff are capitalized to investment properties. During each of the fourth quarters of 2012 and 2011 respectively, approximately 37.0% and 31.8% of compensation related and other corporate expenses were capitalized to real estate investments for properties undergoing development or redevelopment and leasing costs (including leasing for development projects and residential inventory). Amounts capitalized are based on specific leasing activities and development projects underway. The increase in amount capitalized during the three months ended December 31, 2012 as compared to the same prior year period is impacted by the increase in development activities and incentive compensation.

Other Gains (Losses) and (Expenses)

Three months ended December 31			2012			2011
(thousands of dollars)	**Included in Consolidated Statements of Income**	**Included in FFO**	**Included in AFFO**	Included in Consolidated Statements of Income	Included in FFO	Included in AFFO
Realized gains on sale of marketable securities	**$ 1,503**	**$ 1,503**	**$ 1,503**	$ 2,002	$ 2,002	$ 2,002
Change in cumulative unrealized gains (losses) on marketable securities classified as FVTPL	**1,082**	**1,082**	**—**	(451)	(451)	—
Losses on settlement of debt	**(4,124)**	**(4,124)**	**—**	(12)	(12)	—
Loss on temporary change of conversion privilege of convertible debentures	**—**	**—**	**—**	(984)	(984)	—
Unrealized (losses) on hedges	**(23)**	**(23)**	**—**	(73)	(385)	—
Gain (loss) on foreign currency exchange	**3**	**3**	**3**	(17)	(17)	(17)
Transaction costs	**(56)**	**—**	**—**	—	—	—
Pre-selling costs of residential units	**(201)**	**(201)**	**—**	—	—	—
Investment properties - selling costs	**(256)**	**—**	**—**	—	—	—
Other income	**—**	**—**	**—**	(32)	(32)	—
	$ (2,072)	**$ (1,760)**	**$ 1,506**	$ 433	$ 121	$ 1,985

The loss on settlement of debt in the three months ended December 31, 2012 primarily relates to the $2.0 million loss in connection with the redemption of the $44.1 million principal amount outstanding of the 5.36% Series E senior unsecured debentures, which represents the difference between the carrying value and the consideration paid. The remaining $2.1 million relates to prepayments on mortgages.

The losses on hedges represent the change in fair value for those derivatives to which the Company does not apply hedge accounting, as well as the ineffectiveness of those hedges to which the Company applies hedge accounting.

Transaction costs represent those costs incurred in connection with the First Medical acquisition.

Investment properties – selling costs were incurred on disposition of properties.

Income Taxes

	Three months ended December 31	
(thousands of dollars)	**2012**	2011
		(Restated)
Deferred income taxes	**$ 11,324**	$ 17,108

Deferred tax expense decreased compared to the same prior year period primarily due to the decrease in the fair value adjustment of investment properties as compared to the prior year period.

Mortgages and Credit Facilities

In the three months ended December 31, 2012 , the Company funded $19.3 million of 10-year mortgage financing relating to one property with a weighted average interest rate of 3.86%. In addition, for the three months ended December 31, 2012, the Company topped-up $36.1 million of mortgage financings with terms less than five years relating to one property with a weighted average interest rate of 3.07%.

In the three months ended December 31, 2012, the Company repaid $127.2 million amount of mortgage financing relating to 10 properties with a weighted average interest rate of 6.12%.

Cash Flows

(thousands of dollars)	Three months ended December 31 2012	2011
Cash flow from operating activities before net change in non-cash operating items and expenditures on residential development inventory	**$ 47,695**	$ 38,739
Net change in non-cash operating items	**25,823**	20,561
Expenditures on residential development inventory	**(6,130)**	(8,723)
Cash provided by operating activities	**67,388**	50,577
Cash (used in) provided by financing activities	**(5,410)**	101,914
Cash used in investing activities	**(184,320)**	(152,550)
Effect of currency rate movement	**6**	82
(Decrease) increase in cash and cash equivalents	**$ (122,336)**	$ 23

Operating Activities

Cash provided by operating activities increased primarily from cash flow generated by growth in net operating income from the Company's shopping centre portfolio, the timing of receipts and payments on working capital items and decreased expenditures on residential development inventory.

Financing Activities

Financing activities include the net issuances of senior unsecured debentures, issuance of convertible debentures, equity issuances, mortgage financing activities and credit facility activities offset by the repayment of debt. In the fourth quarter of 2012, repayments on debt exceeded borrowings as compared to the borrowings exceeding repayments in the same prior year period. These activities are more fully described in the "Capital Structure and Liquidity" section of this MD&A.

Investing Activities

The increase in cash used in investing activities is due to the increased expenditures on investment properties and changes in working capital items relating to investing activities in 2012 as compared to the prior year activity. Details of the Company's investments in acquisitions and developments are provided under the "Business and Operations Review" section of this MD&A.

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND POLICIES

Summary of Critical Accounting Estimates

First Capital Realty's significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2012. Management believes the policies that are most subject to estimation and Management's judgment are those outlined below.

Fair Value

Fair value is defined as the amount at which an item can be bought or sold between independent, knowledgeable parties under no compulsion to act, as opposed to a forced or liquidation sale.

Quoted market prices in active markets are usually the best evidence of fair value when they are available. Market prices are usually available for marketable securities and other actively traded financial instruments owned by the Company. When quoted market prices are not available, estimates of fair value are based on the best information available, including comparable market data and other valuation techniques, including discounted cash flows and other models based on future cash flows.

Where the valuation method chosen is based on future cash flows, the Company would be required to make estimates that incorporate assumptions of economic conditions, local market conditions, the potential uses of assets and other factors.

As a result, the Company's determination of fair value could vary under differing circumstances and result in different calculations. The most significant areas which are affected by fair value estimates in the Company's financial statements are:

- estimates of fair values of investment properties;
- valuation of financial instruments both for disclosure and measurement purposes; and
- valuation of stock options using the Black-Scholes model.

The method of determination of the fair value of investment properties is discussed in detail elsewhere in this MD&A under "Valuation of Investment Properties under IFRS".

Fair Value of Financial Instruments

The Company is required to determine the fair value of its mortgage debt, senior unsecured debentures, loans, mortgages and marketable securities and its convertible debentures. In determining the fair value of the Company's outstanding mortgages, Management uses internally developed models, which incorporate estimated market rates. In determining market rates, Management adds a credit spread to quoted rates on Canadian government bonds with similar maturity dates to the Company's mortgages. Estimates of market rates and the credit spread applicable to a specific property could vary and result in a different disclosed fair value.

A 1% increase or decrease in the interest rate used to determine the fair value of the mortgages payable would change the fair value of the mortgages payable by $56 million and $59 million, respectively. Similarly, a 1% increase or decrease in the interest rate used to determine the fair value of the senior unsecured debentures would change the fair value by $80 million and $86 million, respectively. The fair value of the Company's convertible debentures is based on current trading prices.

Income Taxes

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

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

FUTURE ACCOUNTING POLICY CHANGES

Refer to Note 4 to the consolidated financial statements for the year ended December 31, 2012 for details on future accounting policy changes.

CONTROLS AND PROCEDURES

As at December 31, 2012, the Chief Executive Officer and the Chief Financial Officer of the Company, with the assistance of other Management and staff to the extent deemed necessary, have designed First Capital Realty'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, First Capital Realty used the framework published by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework").

The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their supervision, the effectiveness of the Company's disclosure controls and procedures and its internal controls over financial reporting (each as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2012, and have concluded that such disclosure controls and procedures and internal controls over financial reporting were operating effectively.

The Company did not make any changes in its internal controls over financial reporting during the quarter ended December 31, 2012 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 the manner in which it takes action to minimize the impact of these risks are outlined below. The Company's current Annual Information Form provides a more detailed discussion of these and other risks and can be found on SEDAR at www.sedar.com and the Company's website at www.firstcapitalrealty.ca.

Economic Conditions and Ownership of Real Estate

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

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

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

In addition, the value of real property and any improvements may depend on the success of its tenants' operations as well as their credit and financial stability. Anchor tenants generally occupy large amounts of square footage, pay a significant portion of the total rents at a property and contribute to the success of other tenants by drawing significant numbers of customers to a property. The closing of one or more anchor stores at a property could have a significant adverse effect on that property. The Company's financial position and results of operations would be adversely affected if tenants become unable to pay rent or other charges on a timely basis or if the Company is unable to lease a significant amount of available space in its properties on economically favourable terms.

Real property investments are relatively illiquid and generally cannot be sold quickly. This illiquidity will likely limit the ability of the Company to vary its portfolio promptly in response to changed economic or investment conditions. The Company's inability to respond quickly to changes in the performance of its investments could adversely affect its ability to meet its obligations, its financial position and its results of operations.

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

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

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

Interest rates have a significant effect on the profitability of commercial properties as interest represents a significant cost in the ownership of real property where debt financing is used as a source of capital. The Company has a total of $1.1 billion principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between December 31, 2012 and December 31, 2015 at a weighted average coupon interest rate of 5.42%. If these amounts were refinanced at an average interest rate that was 100 basis points higher or lower than the existing rate, the Company's annual interest cost would respectively increase or decrease by $10.7 million. In addition, at December 31, 2012, the Company had $36.4 million principal amount of debt (or 2% of the Company's aggregate mortgage debt as of such date) at floating interest rates.

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

Changes to Credit Ratings

Any credit rating that is assigned to the Senior Unsecured Debentures may not remain in effect for any given period of time or may be lowered, withdrawn or revised by one or more of the rating agencies if, in their judgment, circumstances so warrant. Any lowering, withdrawal or revision of a credit rating may have an adverse effect on the market price of the Senior Unsecured Debentures, may affect a debenture holder's ability to sell its Senior Unsecured Debentures and may affect the Company's access to financial markets and its cost of borrowing.

Lease Renewals and Rental Increases

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

Acquisition, Expansion, Development, Redevelopment and Strategic Dispositions

The key to the Company's ongoing success will be its ability to create and enhance value through the skill, creativity and effectiveness of its Management team and the opportunities which the market presents.

The Company competes for suitable real property investments with individuals, corporations, real estate investment companies, trusts and other institutions (both Canadian and foreign) which may seek real property investments similar to those desired by the Company. Many of these investors may also have financial resources, which are comparable to, or greater than, those of the Company. An increase in the availability of investment funds, and an increase of interest in real property investments, increases competition for real property investments, thereby increasing purchase prices and reducing the yield therefrom.

Increased competition in the real estate market leads to lower capitalization rates for new acquisitions in certain of the markets in which the Company operates. Lower capitalization rates mean a smaller spread between the Company's cost of capital and return on acquisitions and may therefore have a negative impact on the Company's earnings growth.

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

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

The Company's redevelopment and intensification activities are focussed primarily on increasing retail space on a property and to a lesser degree, adding mixed-use density, including residential projects and office uses. Residential property development and redevelopment is a relatively new line of business for the Company. As a result, development risks associated with such projects may be greater due to the Company's more limited experience in this area.

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

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

Competition

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

Residential Development Sales and Leasing

First Capital Realty is and expects to be increasingly involved in the development of mixed-use properties that include residential condominiums and rental apartments. These developments are often carried out with an experienced residential developer as the Company's joint venture partner. Purchaser demand for residential condominiums is cyclical and is significantly affected by changes in general and local economic and industry conditions, such as employment levels, availability of financing for home buyers, interest rates, consumer confidence, levels of new and existing homes for sale, demographic trends and housing demand. As a residential landlord in its properties that include rental apartments, First Capital Realty is subject to the risks inherent in the multi-unit residential rental property industry. In addition to the risks highlighted above, these include exposure to private individual tenants (as opposed to commercial tenants in the Company's retail properties), fluctuations in occupancy levels, the inability to achieve economic rents (including anticipated increases in rent), controlling bad debt exposure, rent control regulations, increases in operating costs including the costs of utilities (residential leases are often "gross" leases under which the landlord is not able to pass on costs to its residents), the imposition of increased taxes or new taxes and capital investment requirements.

Financial Covenants

First Capital Realty's revolving credit facilities and its outstanding senior unsecured debentures contain customary covenants and conditions, including, among others, compliance with various financial ratios and restrictions upon the incurrence of additional indebtedness and liens on the Company's properties. Furthermore, the terms of some of this indebtedness may adversely affect the Company's ability to consummate transactions that result in a change of control. The existing mortgages also contain customary negative covenants such as those that limit the Company's ability, without the prior consent of the lender, to further mortgage the applicable property. If the Company were to breach covenants in these debt agreements, the lender could declare a default and require the Company to repay the debt immediately. If the Company fails to make such repayment in a timely manner, the lender may be entitled to take possession of any property securing the loan. If the lenders declared a default under the Company's revolving credit facilities, all amounts outstanding thereunder would become due and payable and the Company's ability to borrow in future periods could be restricted. In addition, any such default or indebtedness in excess of an agreed amount, unless waived, would constitute a default under First Capital Realty's revolving credit facilities and senior unsecured debentures, giving rise to the acceleration of such indebtedness.

Environmental Matters

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

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

Joint Ventures

Some of First Capital Realty's properties are partially owned by non-affiliated partners through partnership, co-ownership and limited liability corporate venture arrangements (collectively, "joint ventures"). As a result, the Company does not control all decisions regarding those properties and may be required to take actions that are in the interest of the joint venture partners collectively, but not in the Company's sole best interests. Accordingly, First Capital Realty may not be able to favourably resolve any issues that arise with respect to such decisions, or the Company may have to take legal action or provide financial or other inducements to joint venture partners to obtain such resolution.

Investments Subject to Credit and Market Risk

The Company occasionally extends credit to third parties in connection with joint ventures, the sale of assets or other transactions. First Capital Realty also invests in marketable and other equity securities. The Company is exposed to risk in the event that the values of its loans and/or its investments decrease due to overall market conditions, business failure, and/or other nonperformance by the counterparties or investees.

Significant Shareholders

As of December 31, 2012, Chaim Katzman, the Chairman of the board of directors of First Capital Realty, and several of the Company's shareholders affiliated with Mr. Katzman (the "Gazit Group"), including Gazit-Globe and related entities, beneficially owned approximately 45.6% of the outstanding Common Shares. Gazit-Globe is a public company listed on the New York Stock Exchange and on the Tel-Aviv Stock Exchange. Additional information concerning Gazit-Globe is available in its public disclosure. Dori J. Segal, the Vice-Chairman, President and Chief Executive Officer of First Capital Realty, is also the Executive Vice Chairman of Gazit-Globe. Mr. Segal and his spouse directly and indirectly, own shares of the holding company (Norstar Holdings Inc., a corporation listed on the Tel-Aviv Stock Exchange) which controls Gazit-Globe and they have entered into a shareholders' agreement with Mr. Katzman under which they have agreed, among other things, to vote for certain nominees to, and to constitute, the board of this holding company in an agreed manner, and to certain participation rights in the event that either Mr. Katzman or Mr. Segal and his spouse wish to sell any of their shares of this holding company. In addition, Mr. Katzman has been given voting control over some shares held by Mr. Segal's spouse in another entity which itself owns shares of the holding company under the terms of a power of attorney. Mr. Segal directly owns 720,000 common shares of Gazit-Globe, representing approximately 0.4% of the outstanding common shares of Gazit-Globe.

In addition, as of December 31, 2012, Alony-Hetz Properties and Investments Ltd. ("Alony-Hetz") beneficially owned approximately 10.3% of the Common Shares. Alony-Hetz and Gazit-Globe have entered into a shareholders' agreement pursuant to which, among other terms, (i) Gazit-Globe has agreed to vote its common shares of the Company in favour of the election of up to two representatives of Alony-Hetz to the Board of Directors of the Company and (ii) Alony-Hetz has agreed to vote its common shares of the Company in favour of the election of the nominees of Gazit-Globe as the remaining directors of the Company.

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

Moreover, members of the Gazit Group have pledged a substantial portion of their common shares to secure revolving credit facilities made available to them by commercial banks (the "Gazit Group Credit Facilities"). Based on information from the Gazit Group, First Capital Realty believes that currently approximately 88.0% of the common shares reported as beneficially owned by the Gazit Group (representing approximately 40.1% of the outstanding common shares of First Capital Realty) are pledged to secure the Gazit Group Credit Facilities. While First Capital Realty has not been provided with a copy of the Gazit Group Credit Facilities or the related pledge agreements, it has been advised by the Gazit Group that if one of the Gazit Group members defaults on any of their obligations under the Gazit Group Credit Facilities or the related pledge agreements, the related lenders may have certain rights over the pledged Common Shares, including without limitation, the right to sell the pledged Common Shares in one or more public or private sales. Any such event could cause the Company's Common Share price (and the price of other securities convertible into Common Shares, including the Convertible Debentures) to decline materially. Many of the occurrences that could result in a default under the Gazit Group Credit Facilities and, among other things, foreclosure of the pledged Common Shares are out of First Capital Realty's control and are unrelated to its operations.

In addition, because a significant number of Common Shares are pledged to secure the Gazit Group Credit Facilities, the occurrence of an event of default could result in a sale of such pledged Common Shares that would trigger an effective change of control of First Capital Realty, even when such a change may not be in the best interests of the shareholders of the Company or may have a material adverse effect on the Company.

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

Management's Responsibility

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

The preparation of consolidated financial statements and the MD&A necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. In addition, in preparing this financial information, Management must make determinations as to the relevancy of information to be included, and estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to February 20, 2013.

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

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

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

Dori J. Segal
President and Chief Executive Officer
Toronto, Ontario
February 20, 2013

Karen H. Weaver, CPA, ICD.D
Executive Vice President and Chief Financial Officer

Independent Auditors' Report

To the Shareholders of First Capital Realty Inc.

We have audited the accompanying consolidated financial statements of First Capital Realty Inc., which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of First Capital Realty Inc. as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of First Capital Realty Inc. for the year ended December 31, 2011 and the consolidated balance sheets as at January 1, 2011 and December 31, 2011 (in each case prior to adjustments described in note 3 to the consolidated financial statements) were audited by another auditor who expressed an unmodified opinion on those financial statements on March 8, 2012.

As part of our audit of the consolidated financial statements of First Capital Realty Inc. for the year ended December 31, 2012, we also audited the adjustments described in note 3 that were applied to restate the consolidated financial statements for the year ended December 31, 2011 and the consolidated balance sheets as at January 1, 2011 and December 31, 2011. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the consolidated financial statements for the year ended December 31, 2011 or the consolidated balance sheets as at January 1, 2011 and December 31, 2011 other than with respect to the adjustments described in note 3 and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements for the year ended December 31, 2011 or the consolidated balance sheet as at January 1, 2011 and December 31, 2011 taken as a whole.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
February 20, 2013

Independent Auditors' Report

To the Shareholders of First Capital Realty Inc.

We have audited, before the effects of the adjustments to retrospectively apply the changes in accounting discussed in Note 3 to the consolidated financial statements, the accompanying consolidated financial statements of First Capital Realty Inc., which comprise the consolidated balance sheets as at December 31, 2011 and January 1, 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year ended December 31, 2011 (the consolidated financial statements before the effects of the adjustments discussed in Note 3 to the consolidated financial statements are not presented herein), and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, such consolidated financial statements, before the effects of the adjustments to retrospectively apply the changes in accounting discussed in Note 3 to the consolidated financial statements, present fairly, in all material respects, the financial position of First Capital Realty Inc. as at December 31, 2011 and January 1, 2011 and its financial performance and its cash flows for the year ended December 31, 2011 in accordance with International Financial Reporting Standards. We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the changes in accounting discussed in Note 3 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 8, 2012

Consolidated Balance Sheets

As at *(thousands of Canadian dollars)*	Notes	**December 31 2012**	December 31 2011	January 1 2011
			(Restated – Note 3)	*(Restated – Note 3)*
ASSETS				
Non-Current Assets				
Real Estate Investments				
Investment properties – shopping centres	5	**$ 6,622,003**	$ 5,714,614	$ 4,734,574
Investment properties – development land	5	**133,337**	100,845	88,859
Loans, mortgages and other real estate assets	6	**14,473**	46,422	62,010
Total real estate investments		**6,769,813**	5,861,881	4,885,443
Other non-current assets	9	**27,089**	8,330	8,376
Total non-current assets		**6,796,902**	5,870,211	4,893,819
Current Assets				
Cash and cash equivalents	25(d)	**70,155**	3,075	31,735
Loans, mortgages and other real estate assets	7	**46,591**	43,272	13,958
Residential development inventory		**65,891**	37,166	16,874
Amounts receivable	8	**22,439**	14,393	10,030
Other assets	9	**33,348**	46,353	21,601
		238,424	144,259	94,198
Investment properties classified as held for sale	5(d)	**283,466**	96,674	—
Total current assets		**521,890**	240,933	94,198
Total assets		**$ 7,318,792**	$ 6,111,144	$ 4,988,017
LIABILITIES				
Non-Current Liabilities				
Mortgages and credit facilities	11	**$ 1,338,807**	$ 1,376,963	$ 1,222,400
Senior unsecured debentures	12	**1,469,073**	1,140,594	915,232
Convertible debentures	13	**318,794**	263,500	324,535
Other liabilities	14	**62,027**	11,848	9,721
Deferred tax liabilities	21	**357,405**	278,406	192,877
Total non-current liabilities		**3,546,106**	3,071,311	2,664,765
Current Liabilities				
Current portion of mortgages and credit facilities	11	**242,950**	184,938	95,941
Current portion of senior unsecured debentures	12	—	100,000	198,799
Current portion of convertible debentures	13	—	18,828	—
Accounts payable and other liabilities	15	**224,549**	191,477	149,199
		467,499	495,243	443,939
Mortgages on investment properties classified as held for sale	11	**41,583**	22,267	—
Total current liabilities		**509,082**	517,510	443,939
Total liabilities		**4,055,188**	3,588,821	3,108,704
EQUITY				
Shareholders' equity	16	**3,245,612**	2,511,848	1,875,407
Non-controlling interests		**17,992**	10,475	3,906
Total equity		**3,263,604**	2,522,323	1,879,313
Total liabilities and equity		**$ 7,318,792**	$ 6,111,144	$ 4,988,017

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

Chaim Katzman
Chairman of the Board

Dori J. Segal
Director

Consolidated Statements of Income

		Year ended December 31	
(thousands of Canadian dollars, except per share amounts)	Notes	**2012**	2011
			(Restated – Note 3)
Net operating income			
Property rental revenue		**$ 583,096**	$ 526,735
Property operating costs		**211,559**	186,647
Net operating income	17	**371,537**	340,088
Interest and other income	18	**8,464**	7,484
		380,001	347,572
Expenses			
Interest expense	19	**160,839**	159,981
Corporate expenses and amortization		**29,612**	25,167
		190,451	185,148
Income before increase in value of investment properties, net, other gains (losses) and (expenses) and income taxes		**189,550**	162,424
Increase in value of investment properties, net	5	**291,851**	466,214
Other gains (losses) and (expenses)	20	**(6,248)**	(810)
Income before income taxes		**475,153**	627,828
Deferred income taxes	21	**82,158**	78,867
Net income		**$ 392,995**	$ 548,961
Net income attributable to:			
Common shareholders		**$ 392,959**	$ 548,932
Non-controlling interests		**36**	29
		$ 392,995	$ 548,961
Net income per share attributable to common shareholders:			
Basic	22	**$ 2.08**	$ 3.27
Diluted	22	**$ 1.98**	$ 3.00

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(thousands of Canadian dollars)	Note		Year ended December 31 **2012**		2011 *(Restated – Note 3)*
Net income		**$**	**392,995**	$	548,961
Other comprehensive income (loss)					
Unrealized (losses) gains on available-for-sale marketable securities			**(557)**		580
Reclassification of net gains on available-for-sale marketable securities to net income			**(384)**		(2,306)
Unrealized losses on cash flow hedges			**(1,890)**		(4,133)
Reclassification of net losses on cash flow hedges to net income			**330**		—
			(2,501)		(5,859)
Deferred tax recovery			**(607)**		(1,334)
Other comprehensive loss	24(a)		**(1,894)**		(4,525)
Comprehensive income		**$**	**391,101**	$	544,436
Comprehensive income attributable to:					
Common shareholders		**$**	**391,065**	$	544,407
Non-controlling interests			**36**		29
		$	**391,101**	$	544,436

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive Loss	Share Capital	Contributed Surplus and Other Equity Items	**Total Shareholders' Equity**	Non-Controlling Interests	**Total Equity**
December 31, 2011		*(Note 24(b))*	*(Note 16(a))*	*(Note 16(b))*			
As reported	$ 454,618	$ (2,286)	$ 1,928,583	$ 40,813	**$ 2,421,728**	$ 10,475	**$ 2,432,203**
Impact of adoption of amendment to IAS 12, Income Taxes *(note 3)*	90,120	—	—	—	**90,120**	—	**90,120**
Balance, at January 1, 2012, as restated	544,738	(2,286)	1,928,583	40,813	**2,511,848**	10,475	**2,522,323**
Changes during the year:							
Net income	392,959	—	—	—	**392,959**	36	**392,995**
Issuance of common shares	—	—	389,789	—	**389,789**	—	**389,789**
Dividends	(159,157)	—	—	—	**(159,157)**	—	**(159,157)**
Payments of interest on convertible debentures	—	—	20,533	—	**20,533**	—	**20,533**
Equity component on issuance of convertible debentures	—	—	—	2,857	**2,857**	—	**2,857**
Conversion of convertible debentures to common shares	—	—	84,357	(2,808)	**81,549**	—	**81,549**
Purchase of convertible debentures	—	—	—	(116)	**(116)**	—	**(116)**
Issuance of warrants	—	—	—	1,677	**1,677**	—	**1,677**
Options vested	—	—	—	1,130	**1,130**	—	**1,130**
Exercise of options	—	—	10,560	(399)	**10,161**	—	**10,161**
Deferred share units vested	—	—	—	991	**991**	—	**991**
Restricted share units vested	—	—	—	1,621	**1,621**	—	**1,621**
Restricted share units exercised	—	—	—	(1,350)	**(1,350)**	—	**(1,350)**
Share issue costs, net of tax	—	—	(6,986)	—	**(6,986)**	—	**(6,986)**
Other comprehensive loss	—	(1,894)	—	—	**(1,894)**	—	**(1,894)**
Contributions from non-controlling interests	—	—	—	—	**—**	7,481	**7,481**
December 31, 2012	$ 778,540	$ (4,180)	$ 2,426,836	$ 44,416	**$ 3,245,612**	$ 17,992	**$ 3,263,604**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Share Capital	Contributed Surplus and Other Equity Items	**Total Shareholders' Equity**	Non-Controlling Interests	**Total Equity**
December 31, 2010		*(Note 24(b))*	*(Note 16(a))*	*(Note 16(b))*			
As reported	$ 89,182	$ 2,239	$ 1,689,516	$ 51,660	**$ 1,832,597**	$ 3,906	**$ 1,836,503**
Impact of adoption of amendment to IAS 12, Income Taxes *(note 3)*	42,810	—	—	—	**42,810**	—	**42,810**
Balance, at January 1, 2011 as restated	131,992	2,239	1,689,516	51,660	**1,875,407**	3,906	**1,879,313**
Changes during the year:							
Net income	548,932	—	—	—	**548,932**	29	**548,961**
Issuance of common shares	—	—	1,248	—	**1,248**	—	**1,248**
Dividends	(136,186)	—	—	—	**(136,186)**	—	**(136,186)**
Payments of interest on convertible debentures	—	—	19,797	—	**19,797**	—	**19,797**
Equity component on issuance of convertible debentures	—	—	—	3,781	**3,781**	—	**3,781**
Conversion of convertible debentures to common shares	—	—	206,711	(15,575)	**191,136**	—	**191,136**
Purchase of convertible debentures	—	—	—	(49)	**(49)**	—	**(49)**
Options vested	—	—	—	1,297	**1,297**	—	**1,297**
Exercise of options	—	—	9,648	(674)	**8,974**	—	**8,974**
Deferred share units vested	—	—	—	747	**747**	—	**747**
Restricted share units vested	—	—	—	1,680	**1,680**	—	**1,680**
Restricted share units exercised	—	—	—	(2,054)	**(2,054)**	—	**(2,054)**
Share issue costs, net of tax	—	—	1,663	—	**1,663**	—	**1,663**
Other comprehensive loss	—	(4,525)	—	—	**(4,525)**	—	**(4,525)**
Contributions from non-controlling interests	—	—	—	—	**—**	6,540	**6,540**
December 31, 2011	$ 544,738	$ (2,286)	$ 1,928,583	$ 40,813	**$ 2,511,848**	$ 10,475	**$ 2,522,323**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

		Year ended December 31	
(thousands of Canadian dollars)	Note	**2012**	2011
			(Restated – Note 3)
CASH FLOWS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net income		**$ 392,995**	$ 548,961
Adjustments for:			
Increase in value of investment properties, net	5	**(291,851)**	(466,214)
Interest expense	19	**160,839**	159,981
Capitalized interest	19	**24,873**	18,449
Cash interest paid	19	**(161,174)**	(151,713)
Amortization		**4,103**	3,936
Items not affecting cash and other items	25(a)	**72,558**	71,862
Deferred leasing costs		**(9,648)**	(6,013)
Cash flow from operating activities before net change in non-cash operating items and expenditures on residential development inventory		**192,695**	179,249
Net change in non-cash operating items	25(b)	**18,931**	(9,280)
Expenditures on residential development inventory		**(28,725)**	(17,013)
Cash provided by operating activities		**182,901**	152,956
FINANCING ACTIVITIES			
Mortgage financings and credit facilities			
Borrowings, net of financing costs		**249,378**	333,963
Mortgage financings and loans on residential development inventory		**29,551**	16,664
Principal installment payments		**(40,171)**	(36,576)
Repayments		**(395,473)**	(160,038)
Issuance of senior unsecured debentures, net of issue costs	12	**470,813**	323,798
Repayment of senior unsecured debentures		**(247,282)**	(198,799)
Issuance of convertible debentures, net of issue costs	13	**122,883**	158,725
Purchase of convertible debentures	13	**(3,315)**	(2,067)
Issuance of common shares, net of issue costs		**287,402**	10,274
Payment of dividends		**(150,859)**	(132,683)
Net contributions from non-controlling interests		**7,481**	6,540
Cash provided by financing activities		**330,408**	319,801
INVESTING ACTIVITIES			
Acquisition of shopping centres	5	**(386,965)**	(290,513)
Acquisition of development land	5	**(43,094)**	(29,780)
Net proceeds from property dispositions		**254,688**	46,236
Capital expenditures on investment properties		**(315,962)**	(221,372)
Changes in working capital items related to investing activities		**9,599**	5,426
Changes in loans, mortgages and other real estate assets	25(c)	**35,626**	(11,497)
Cash used in investing activities		**(446,108)**	(501,500)
Effect of foreign currency impact on cash balances		**(121)**	83
Increase (decrease) in cash and cash equivalents		**67,080**	(28,660)
Cash and cash equivalents, beginning of the year		**3,075**	31,735
Cash and cash equivalents, end of the year	25(d)	**$ 70,155**	$ 3,075

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF THE COMPANY

First Capital Realty Inc. (the "Company") is a corporation existing under the laws of Ontario and engages in the business of acquiring, developing, redeveloping, owning and operating neighbourhood and community shopping centres. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "FCR", and its head office is located at 85 Hanna Avenue, Suite 400, Toronto, Ontario, M6K 3S3.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of presentation

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated. The accounting policies set out below have been applied consistently in all material respects. Changes in standards effective for the current period are described in Note 3 – "Change in Accounting Policies" and for future accounting periods are described in Note 4 – "Future Accounting Policy Changes".

(c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Non-controlling interests in the equity and the results of these subsidiaries are shown separately in equity in the consolidated balance sheets.

(d) Investments in joint ventures

A joint venture is a contractual arrangement pursuant to which the Company and other parties undertake an economic activity that is subject to joint control. Joint control exists when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties subject to the contractual arrangement.

When the Company undertakes its activities under a joint venture arrangement through a direct interest in the joint venture's assets, rather than through the establishment of a separate entity, the Company proportionately recognizes its share of the assets, liabilities, revenue and expenses directly in the consolidated financial statements. Joint venture arrangements that involve the establishment of a separate entity (such as a corporation or a partnership) in which each venturer has an interest are considered jointly controlled entities. The Company reports its interests in jointly controlled entities also using the proportionate consolidation method.

(e) Investment properties

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

(i) Shopping centres

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

(ii) Development land

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

(iii) Valuation method

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

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

During the three months ended December 31, 2012, the Company refined its risk-based approach to determining which properties will be selected for external appraisal, and those that will be internally appraised. In previous periods, properties were selected for external appraisal based upon a fixed rotation plan, taking into account factors such as property size, local market conditions and geography. The previous policy also included specific size thresholds to be met.The key components of the refined risk-based approach are set out below.

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

1. External appraisals – by an independent national appraisal firm, according to professional appraisal standards and IFRS.
2. Internal appraisals – by certified staff appraisers employed by the Company, according to professional appraisal standards and IFRS.
3. Value updates – performed by certified staff appraisers and primarily consisting of reviewing the key assumptions from previous appraisals and updating the value for changes in the property cash flow, physical condition and changes in market conditions.

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

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

The Company makes no adjustments for portfolio premiums and discounts, nor for any value attributable to the Company's management platform, as required by IFRS.

Shopping centres are appraised primarily based on stabilized cash flows from existing tenants with the property in its existing state, since purchasers typically focus on expected income. External and internal appraisals conduct and place reliance on both the direct capitalization method and the discounted cash flow method (including the estimated proceeds from a potential future disposition). Value updates use the direct capitalization method.

Properties undergoing development, redevelopment or expansion are valued using the stabilized cash flows expected upon completion, with a deduction for costs to complete the project; capitalization rates are adjusted to reflect lease-up assumptions and construction risk, when appropriate. Adjacent land parcels held for future development are valued based on comparable sales of commercial land.

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

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

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

Acquisition costs (legal expenses, land transfer tax, and similar costs) are capitalized for investment property acquisitions. The Company may determine that a particular investment property acquisition constitutes a business combination, which would result in acquisition costs being expensed. Factors that would be considered by Management include whether the acquisition is a portfolio, or whether significant processes or other assets are acquired with the property.

Initial direct leasing costs, including applicable internal leasing costs incurred by the Company in negotiating and arranging tenant leases, are added to the cost of investment properties.

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

(f) Residential development inventory

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

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

(g) Taxation

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

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

Deferred tax assets are recorded for all deductible temporary differences, carry forwards of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. For the determination of deferred tax assets and liabilities where investment property is measured using the fair value model, the presumption is that the carrying amount of an investment property is recovered through sale, as opposed to presuming that the economic benefits of the investment property will be substantially consumed through use over time. Refer to Note 3 – "Change in Accounting Policies" for further discussion.

Current and deferred income taxes relating to items recognized in equity are charged directly to equity.

(h) Provisions

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

(i) Foreign currencies

The financial statements are presented in Canadian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are translated into Canadian dollars using exchange rates applicable to each transaction at the time it occurs. At each consolidated balance sheet date, foreign currency denominated monetary assets and liabilities are translated to Canadian dollars using the exchange rate prevailing at the consolidated balance sheet date. Gains and losses on translation of monetary items are recognized in the consolidated statements of income in other gains (losses) and (expenses).

(j) Share-based payments

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

(k) Revenue recognition

(i) Investment properties

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

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

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

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

(ii) Residential development inventory

The Company's residential development inventory comprises the construction and sale of residential condominium units. The Company will recognize revenue from the sale of residential units upon substantial completion. The Company considers substantial completion for each residential unit to be the point in which the purchaser has paid all amounts due on interim closing, has the right to occupy the premises, has demonstrated collectability of the balance due at closing, and has received an undertaking from the Company to be assigned title in due course or when title has passed.

(l) Financial instruments and derivatives

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

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

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

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

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

	Classification	Measurement
Financial assets		
Non-current financial assets		
Marketable securities designated as AFS	AFS	Fair value
Derivative assets	FVTPL	Fair value
Receivables and other assets		
Marketable securities designated as FVTPL	FVTPL	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Financial liabilities		
Mortgages payable	Other liabilities	Amortized cost
Amounts outstanding under credit facilities	Other liabilities	Amortized cost
Senior unsecured debentures	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost
Accounts payable and other liabilities	Other liabilities	Amortized cost
Derivative liabilities	FVTPL	Fair value

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

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

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

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

(iii) Level 3 Inputs – inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data). The Company does not have financial assets or liabilities measured using Level 3 inputs.

(m) Cash and cash equivalents

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

(n) Operating segments

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 Québec, with one property each in Nova Scotia and Newfoundland and Labrador; Central which includes the Company's Ontario operations; and Western which includes operations in Alberta and British Columbia. Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker, who is the President and Chief Executive Officer.

(o) Critical judgments in applying accounting policies

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

(i) Investment properties

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

(ii) Financial instruments

The critical judgements inherent in the application of the policies with respect to financial instruments include applying the criteria to designate financial instruments as FVTPL, which are acquired principally for the purpose of selling in the short-term.

(iii) Hedge accounting

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

Valuation of hedging derivatives are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

(iv) Income taxes

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

(v) Key management personnel

Judgement has been made in identifying the key management personnel for purposes of compensation disclosure. The Company considers those with the authority and responsibility for planning, directing and controlling the activities of the Company to be the Board of Directors and certain members of senior management.

(p) Critical accounting estimates and assumptions

The Company makes estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Actual results could differ from estimates. The estimates and assumptions that the Company considers critical include those underlying the valuation of investment properties, as set out in Note 2(e), which describes the process by which investment properties are valued, and the determination of which properties are externally and internally appraised and how often.

Additional critical accounting estimates and assumptions include those used for determining the values of financial instruments for disclosure purposes, estimating deferred taxes, allocation of convertible debentures liability and equity components, assessing the allowance for doubtful accounts on trade receivables, and estimating the fair value of share-based compensation (Note 16).

(i) Fair value of financial instruments

In determining the fair value of the Company's outstanding mortgages and its senior unsecured debentures, Management uses internally developed models, which incorporate estimated market rates. In determining market rates, Management adds a credit spread to quoted rates on Canadian government bonds with similar maturity dates to the Company's mortgages. Estimates of market rates and the credit spread applicable to a specific property could vary and result in a different disclosed fair value. The fair value of the Company's convertible debentures is based on current trading prices. The fair values of the Company's net working capital items approximate their recorded values at December 31, 2012 and December 31, 2011 due to their short-term nature. The fair values of the Company's other financial assets and liabilities are disclosed in Notes 6, 7, 11, 12, 13, 15 (a) and 15(b).

3. CHANGE IN ACCOUNTING POLICIES

(a) Income taxes

IAS 12, "Income Taxes" ("IAS 12") has been amended in certain areas applicable to the determination of deferred tax assets and liabilities where investment property is measured using the fair value model in IAS 40, "Investment Property" ("IAS 40"). The amendment provides for the presumption that the carrying amount of an investment property is recovered through sale, as opposed to presuming that the economic benefits of the investment property will be substantially consumed through use over time. Effective on the adoption of the amended IAS 12, the Company was required to apply taxation rates applicable to capital gains or losses to the extent that the reversal of the temporary difference through sale would result in a capital gain or loss. The standard is effective for annual periods beginning on or after January 1, 2012 with retrospective restatement of comparative periods.

The impact of the Company's adoption of the amendment to IAS 12 on the consolidated balance sheets is as follows:

(thousands of Canadian dollars)		
Increase (decrease)	December 31, 2011	January 1, 2011
Deferred tax liabilities	$ (90,120)	$ (42,810)
Retained earnings	90,120	42,810

The non-cash impact of the Company's adoption of the amendment to IAS 12 on the consolidated statements of income is as follows:

(thousands of Canadian dollars, except per share amounts)	Year ended
Increase (decrease)	December 31, 2011
Deferred income taxes	$ (47,310)
Net income	47,310
Net income per share attributable to common shareholders	
Basic	$ 0.28
Diluted	0.25

There were no material changes to the consolidated statements of cash flows.

For the year ended December 31, 2012, the adoption of this standard decreased deferred income tax liabilities by approximately $31.8 million with an equal increase to net income. This change impacted net income per share attributable to common shareholders by $0.17 basic and $0.15 diluted for the year ended December 31, 2012.

(b) Presentation of financial statements

The Company has early adopted the amendments to IAS 1, "Presentation of Financial Statements" related to comparative information in the consolidated financial statements. The amendment establishes, amongst other things, that when the Company is required to present an additional balance sheet at the beginning of the comparative period when it changes an accounting policy retrospectively in its financial statements, the Company is not required to provide all the related note disclosures required by other IFRSs associated with such balance sheet.

4. FUTURE ACCOUNTING POLICY CHANGES

Each of the standards below are effective for annual periods beginning on or after January 1, 2013, except for IFRS 9 which requires adoption effective January 1, 2015. Earlier adoption is permitted for each standard.

(a) Consolidated financial statements and joint arrangements

IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), establishes principles for the preparation of the Company's consolidated financial statements when it controls one or more other entities. The standard defines the principle of control and establishes control as the basis for determining which entities should be included in the consolidated financial statements of the Company. The standard also sets out the accounting requirements for the preparation of consolidated financial statements. The standard is required to be applied retrospectively to the prior periods presented.

IFRS 11, "Joint Arrangements" ("IFRS 11"), replaces the existing IAS 31, "Interests in Joint Ventures" ("IAS 31"). IFRS 11 requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement (a "joint venture") or to its share of the assets and liabilities of the joint arrangement (a "joint operation"). Joint ventures must be accounted for using the equity method, whereas joint operations must be accounted for by recognizing the venturer's right to assets and obligations for liabilities (i.e., proportionate consolidation). The standard is required to be applied retrospectively to the prior periods presented.

The impact of the Company's adoption of the amendments to IFRS 10 and IFRS 11 on the consolidated balance sheets will be as follows:

(thousands of Canadian dollars)		
Increase (decrease)	**December 31, 2012**	January 1, 2012
Total assets	**$ (49,104)**	$ (31,007)
Total liabilities	**(42,320)**	(24,065)
Retained earnings	**$ (6,784)**	$ (6,942)

The impact of the Company's adoption of the amendments to IFRS 10 and IFRS 11 on the consolidated statements of income is for the year ended December 31, 2012 is as follows:

(thousands of Canadian dollars)	For the three months ended				**Year ended**
Increase (decrease)	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012	**December 31, 2012**
Net income	$ (205)	$ 242	$ (115)	$ 279	**$ 201**

There is no material impact on per share amounts.

The impact of the Company's adoption of IFRS 10 and IFRS 11 on the consolidated statements of cash flows for the year ended December 31, 2012 will be an increase to cash flows from operations of approximately $14 million and a decrease to cash provided by financing activities of approximately $15 million.

(b) Disclosure of interests in other entities

IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The standard requires the Company to disclose information that enables users of financial statements to evaluate: (1) the nature of, and risks associated with, the Company's interests in other entities; and (2) the effects of those interests on the Company's financial position, financial performance and cash flows.

(c) Financial instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). This standard addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39. Included in IFRS 9 are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss ("FVTPL") and to measure equity-based financial assets as either held-for-trading ("HFT") or as fair value through other comprehensive income ("FVTOCI"). No amounts are reclassified out of other comprehensive income if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9.

(d) Fair value measurement

IFRS 13, "Fair Value Measurement" ("IFRS 13"), provides a single standard for fair value, replacing the fair value concepts that are currently in many other standards, and also clarifies various requirements with regard to the appropriate measurement and disclosure of fair value and its underlying inputs. The standard defines fair value, provides guidance on its determination and outlines required disclosures about fair value measurements, but does not change the requirements about the items that should be measured and disclosed at fair value.

Although the Company continues to assess the impact of the new standard, it may have an impact on how investment property is measured and the requirement for additional disclosures as follows:

a) IFRS 13 defines the fair value of an asset as an 'exit price', specifically "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The underlying concepts of 'exit price' of an investment property is similar in many ways to the 'exchange value' fair value definition currently used under IAS 40.

b) For non-financial assets, including investment properties, IFRS 13 refers to the 'highest and best use', which is the use to be assumed by market participants that maximizes the value of an asset. Except where the Company may be in the process of obtaining land use intensification and multi-use densification of certain pre-development properties, in most cases the Company expects that there will not be a substantial change in the estimation of fair value under the new definition, as the current use of the Company's investment properties are expected to be at the highest and best use.

c) The fair value measurement assumes that the hypothetical sale of the asset, or 'exit transaction', takes place in the 'principal market' with the greatest volume and highest level of activity for the asset or liability. Alternatively, in the absence of such a principal market, the transaction should take place in the 'most advantageous market'; management will therefore need to identify the relevant market.

d) The fair value hierarchy under IFRS 13 differs from that under IAS 40. IAS 40 defines a fair value hierarchy based on valuation techniques. In IFRS 13, fair value measurements are instead categorized into a three-level hierarchy based on the type of inputs utilized in determining the fair value using the valuation techniques.

e) Additionally, disclosure requirements have been significantly expanded to provide users of financial statements with detailed quantitative and qualitative information about assumptions made and processes used when measuring the fair value.

With the exception of IFRS 10 and IFRS 11, the Company is in the process of assessing the impact on its consolidated financial statements, if any, of adopting the above standards.

5. INVESTMENT PROPERTIES

(a) Activity

Year ended December 31		2012		2011
(thousands of Canadian dollars)	**Shopping Centres**	**Development Land**	Shopping Centres	Development Land
Balance, at beginning of year	**$ 5,811,288**	**$ 100,845**	$ 4,734,574	$ 88,859
Acquisitions	**754,470**	**44,394**	413,894	29,780
Capital expenditures	**305,087**	**10,875**	209,021	12,369
Initial direct leasing costs	**9,648**	**—**	6,013	—
Dispositions [1]	**(297,018)**	**(5,750)**	(52,850)	(2,033)
Reclassifications between shopping centres and development land	**13,433**	**(13,433)**	35,433	(35,433)
Reclassification to residential development inventory	**—**	**—**	(3,279)	—
Increase in value of investment properties, net	**293,316**	**(1,465)**	458,911	7,303
Straight-line rent and other changes	**13,116**	**—**	9,571	—
Balance, at end of year	**$ 6,903,340**	**$ 135,466**	$ 5,811,288	$ 100,845
Investment properties – non-current	**$ 6,622,003**	**$ 133,337**	$ 5,714,614	$ 100,845
Investment properties – classified as held for sale	**281,337**	**2,129**	96,674	—
Total	**$ 6,903,340**	**$ 135,466**	$ 5,811,288	$ 100,845

[1] The properties disposed of were classified as investment properties held for sale prior to their disposal.

Investment properties with a fair value of $3.7 billion (December 31, 2011 – $3.3 billion) are pledged as security for mortgages and credit facilities.

(b) Investment Property Valuation

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

		December 31, 2012			December 31, 2011	
Shopping Centres	**Number of Properties**	**Fair Value (C$ Millions)**	**Weighted Average Capitalization Rate**	Number of Properties	Fair Value (C$ Millions)	Weighted Average Capitalization Rate
Central Region	**74**	**$ 3,147.6**	**5.93%**	70	$ 2,713.1	6.27%
Eastern Region	**53**	**1,371.0**	**6.55%**	51	1,098.3	6.80%
Western Region	**48**	**2,384.7**	**5.80%**	48	1,999.9	6.19%
	175	**$ 6,903.3**	**6.00%**	169	$ 5,811.3	6.34%

A table summarizing the sensitivity of the fair values of shopping centres to capitalization rates as at December 31, 2012 is set out below:

Capitalization rate (decrease) increase	Resulting increase (decrease) in value of shopping centres (C$ millions)
(0.75)%	$ 961
(0.50)%	$ 611
(0.25)%	$ 292
0.25%	$ (269)
0.50%	$ (517)
0.75%	$ (747)

The net increase in the fair value of investment property, by region, is set out in the table below:

(thousands of Canadian dollars) Increase in fair value	Central Region	Eastern Region	Western Region	Total
2012	**$ 148,128**	**$ 30,915**	**$ 112,808**	**$ 291,851**
2011	$ 194,669	$ 52,737	$ 218,808	$ 466,214

Shopping centres valuation

During 2012, approximately 35% (December 31, 2011 – approximately 45%) of the total fair value of shopping centres was determined through external appraisals.

The percentage determined through external appraisal is calculated based on the fair value of the shopping centres in the period the appraisal was performed.

Development land valuation

During the year ended December 31, 2012, approximately 17% (year ended December 31, 2011 – approximately 23%) of the total fair value of development land was determined through external appraisals. The percentage appraised is calculated based on the fair value of development land in the period the appraisal was performed.

(c) Investment Properties – Acquisitions and Capital Expenditures

During the years ended December 31, 2012 and 2011, the Company acquired shopping centres and development lands for rental income and future development and redevelopment opportunities as follows:

Years ended December 31		**2012**		2011
(thousands of Canadian dollars)	**Shopping Centres**	**Development Land**	Shopping Centres	Development Land
Total purchase price, including acquisition costs	**$ 754,470**	**$ 44,394**	$ 413,894	$ 29,780
Share consideration issued for First Medical (excluding working capital)	**(102,860)**	**—**	—	—
Deferred purchase price and ground lease assets	**(21,953)**	**—**	—	—
Mortgage assumptions and vendor take-back mortgages on acquisitions	**(229,189)**	**(1,300)**	(115,299)	—
Difference between principal amount and fair value of assumed mortgage financing	**(13,503)**	**—**	(8,082)	—
Total cash paid	**$ 386,965**	**$ 43,094**	$ 290,513	$ 29,780

On August 8, 2012, a court-approved plan of arrangement for Gazit America Inc. ("Gazit America") was completed involving First Capital Realty and Gazit-Globe Ltd. ("Gazit"). Under the plan of arrangement, First Capital Realty acquired the shares of Gazit America's subsidiaries, ProMed Properties (CA) Inc. and ProMed Asset Management Inc., which together owned and managed all of the medical office and retail properties of Gazit America, and certain property-related inter-company indebtedness owing to Gazit America (hereinafter referred to as the "First Medical acquisition").

On and before completion of the transaction, Gazit controlled both First Capital Realty and Gazit America. The acquired subsidiaries include the portfolio of real estate properties, property management contracts and leasing and management personnel, and represent a business. The transaction was accounted for as a common control business combination using the acquisition method. The reason for First Capital Realty to complete the transaction was to acquire from Gazit America 12 medical office and retail properties generally adjacent to existing First Capital Realty properties and a 50% interest in a thirteenth property jointly owned with First Capital Realty.

The Company has adopted an accounting policy of using the acquisition method for common control business combinations for accounting purposes. The acquisition was conducted on an arm's-length basis at fair value and was determined to have substance due to the involvement of significant non-controlling interests in both the Company and Gazit America, and the process was conducted through independent Board committees and the use of independent business and property valuations and external appraisers. As a result, the assets and liabilities acquired by First Capital Realty were measured at their fair value on the closing date of the transaction. As consideration for the acquisition of these assets and assumption of these liabilities, the Company issued 5,461,786 common shares and assumed certain property-related indebtedness. The common shares issued were valued at their quoted trading price at the time of issue. Transaction costs related to the acquisition of approximately $2.8 million were expensed as incurred (Note 20) and costs related to the issuance of common shares of the Company reduced the value of share capital recorded.

The allocation of the purchase price to the assets acquired and liabilities assumed is as follows:

(thousands of Canadian dollars)	Assets (Liabilities)
Investment property	$ 225,664
Other assets	3,843
Secured mortgage debt	(122,804)
Other liabilities	(3,639)
Total share consideration paid	$ 103,064

Had the transaction occurred as at January 1, 2012, First Capital Realty's property rental revenue and net income for the year ended December 31, 2012 would have increased by approximately $14.5 million and $6.7 million, respectively.

Property rental revenue and net income of the acquired business since the acquisition date included in the consolidated statements of income is not significant to the Company.

As at December 31, 2011, the acquired business's total assets and total liabilities were approximately $224.4 million and $130.9 million, respectively (January 1, 2011 – approximately $34.4 million and $12.5 million, respectively). The acquired business's property rental revenue and net income for the year ended December 31, 2011 were $15.3 million and $1.0 million, respectively, and were not significant to the Company.

Acquisitions and capital expenditures on shopping centres and development lands by region are as follows:

Year ended December 31, 2012 (thousands of Canadian dollars)	**Central Region**	**Eastern Region**	**Western Region**	**Total**
Acquisitions	**$ 314,636**	**$ 154,712**	**$ 329,516**	**$ 798,864**
Capital expenditures and initial direct leasing costs	**174,364**	**86,534**	**64,712**	**325,610**

Year ended December 31, 2011 (thousands of Canadian dollars)	Central Region	Eastern Region	Western Region	Total
Acquisitions	$ 202,902	$ 83,084	$ 157,688	$ 443,674
Capital expenditures and initial direct leasing costs	103,662	60,464	63,277	227,403

Shopping centres and development land by region are as set out in the tables below:

As at December 31, 2012 (thousands of Canadian dollars)	**Central Region**	**Eastern Region**	**Western Region**	**Total**
Total shopping centres and development land[1]	**$ 3,254,553**	**$ 1,371,090**	**$ 2,413,163**	**$ 7,038,806**
A reconciliation of shopping centres and development land to total assets is as follows:				
Cash and cash equivalents				**70,155**
Loans, mortgages and other real estate assets				**61,064**
Other assets				**60,437**
Amounts receivable				**22,439**
Residential development inventory				**65,891**
Total assets				**$ 7,318,792**

As at December 31, 2011 *(thousands of Canadian dollars)*	Central Region	Eastern Region	Western Region	Total
Total shopping centres and development land [1]	$ 2,778,719	$ 1,112,943	$ 2,020,471	$ 5,912,133
A reconciliation of shopping centres and development land to total assets is as follows:				
Cash and cash equivalents				3,075
Loans, mortgages and other real estate assets				89,694
Other assets				54,683
Amounts receivable				14,393
Residential development inventory				37,166
Total assets				$ 6,111,144

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

(d) Investment Properties Classified As Held For Sale

The Company has certain investment properties that are classified as held for sale. These properties are considered to be non-core assets. Disposition of these investment properties will provide the Company with the opportunity to redeploy capital to be more aligned with the Company's urban focus. They are set out in the table below:

(thousands of Canadian dollars, except other data)	**December 31, 2012**	December 31, 2011
Aggregate fair value	**$ 283,466**	$ 96,674
Mortgages secured by investment properties classified as held for sale	**$ 41,583**	$ 22,267
Weighted average cash interest rate of mortgages secured by investment properties	**5.55%**	6.28%

6. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS (NON-CURRENT)

(thousands of Canadian dollars)	**December 31, 2012**	December 31, 2011
Non-revolving term loan receivable from Gazit America (a)	**$ —**	$ 37,295
Other loans receivable (b)	**14,473**	9,127
	$ 14,473	$ 46,422

(a) The non-revolving unsecured term loan receivable from Gazit America, a formerly TSX-listed subsidiary of the Company's principal shareholder, Gazit, in the amount of US$36 million was repaid on August 14, 2012.

(b) Other loans receivable include loans and mortgages receivable on certain investment properties. The loans and mortgages receivable are secured by interests in investment properties (or shares of entities owning investment properties), bear interest at a weighted average rate of 8.3% (December 31, 2011 – 8.6%) and have fair values approximating their carrying values. The loans mature between 2014 and 2025.

7. LOANS, MORTGAGES AND OTHER REAL ESTATE ASSETS (CURRENT)

(thousands of Canadian dollars)	**December 31, 2012**	December 31, 2011
FVTPL investments in marketable securities (a)	**$ 16,989**	$ 18,755
AFS investments in marketable securities (a)	**900**	6,857
Other loans receivable (b)	**28,702**	17,660
	$ 46,591	$ 43,272

(a) The Company invests from time to time in publicly traded real estate and related securities. These securities are recorded at market value. Unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses). Unrealized gains and losses on AFS securities are recorded in other comprehensive income.

(b) Other loans receivable include loans and mortgages receivable on certain investment properties. The loans and mortgages receivable are secured by interests in investment properties (or shares of entities owning investment properties), bear interest at a weighted average rate of 10.6% (December 31, 2011 – 10.8%) and have fair values approximating their carrying values.

8. AMOUNTS RECEIVABLE

(thousands of Canadian dollars)	Note	**December 31, 2012**	December 31, 2011
Trade receivables (net of allowances for doubtful accounts of $3.2 million December 31, 2011 – $2.7 million))		**$ 12,634**	$ 12,204
Construction and development related chargebacks and receivables		**1,072**	1,572
Corporate and other amounts receivable (a)	28	**8,733**	617
		$ 22,439	$ 14,393

(a) Includes $7.9 million of estimated insurance and indemnity proceeds receivable relating to anticipated environmental remediation expenses (Note 14(a)).

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.

A reconciliation of the change in allowances for doubtful accounts is set out in the table below:

(thousands of Canadian dollars)	**2012**	2011
Balance at beginning of year	**$ 2,710**	$ 3,309
Additions	**1,256**	630
Allowances applied or reversed	**(777)**	(1,229)
Balance at end of year	**$ 3,189**	$ 2,710

Of the amounts receivable, $2.2 million is more than 120 days past due (December 31, 2011 – $2.9 million), of which $1.4 million has been allowed for (December 31, 2011 – $1.6 million). An allowance is provided for when collection is no longer reasonably assured, including bankruptcy, abandonment by tenants and in certain tenant disputes. Accounts are written off only when all reasonable collection efforts have been exhausted.

9. OTHER ASSETS

(thousands of Canadian dollars)	**December 31, 2012**	December 31, 2011
Non-current		
Fixtures, equipment and computer hardware and software (net of accumulated amortization of $9.3 million (December 31, 2011 – $6.4 million))	**$ 7,303**	$ 6,721
Deferred financing costs on credit facilities (net of accumulated amortization of $1.8 million (December 31, 2011 – $0.6 million))	**956**	1,609
Held to maturity investment in bond (a)	**18,830**	—
	$ 27,089	$ 8,330
Current		
Deposits and costs on investment properties under option	**$ 5,777**	$ 7,823
Prepaid expenses	**5,973**	6,262
Other deposits	**3,667**	8,321
Restricted cash	**17,931**	23,947
	$ 33,348	$ 46,353

(a) In connection with the acquisition of a property, the Company assumed a third party loan that had previously been defeased. The defeasance collateral is a bond issued by an agency of the Canadian federal government with an effective interest rate of 1.25% (contractual rate of 4.24%) and matures in November 2014 (Note 14(c)). Its fair value approximates carrying value.

10. 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 over the long term to shareholders. The Company's capital structure currently includes common shares, common share purchase warrants, senior unsecured debentures, convertible debentures and secured and unsecured term financings and revolving credit facilities, which together provide the Company with financing flexibility to meet its capital needs. Primary uses of capital include development activities, acquisitions, capital improvements, leasing costs and debt principal repayments.The actual level and type of future financings to fund these capital requirements will be determined based on prevailing interest rates, various costs of debt and/or equity capital, capital market conditions and management's general view of the required leverage in the business.

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

(millions of Canadian dollars, except per share amounts)	**December 31, 2012**	December 31, 2011
Liabilities (principal amounts outstanding)		
Mortgages	**$ 1,609**	$ 1,409
Loans and credit facilities – Canadian dollars	**—**	139
Loans and credit facilities – US dollars	**—**	36
Mortgages and credit facilities	**1,609**	1,584
Senior unsecured debentures	**1,479**	1,247
Convertible debentures	**339**	301
Common shares (based on closing per share price of $18.82; December 31, 2011 – $17.30) and common share purchase warrants (based on closing price of $0.35; December 31, 2011 – n/a)	**3,889**	3,083
	$ 7,316	$ 6,215

The Company monitors a number of financial ratios in conjunction with its credit agreements and financial planning. These ratios are set out in the table below:

	Covenants	**December 31, 2012**	December 31, 2011
Debt to market capitalization, cash balances netted	N/A	**41.8%**	45.5%
Debt to total assets (investment properties at cost)	<65%		
Joint ventures presented on IFRS basis		**49.6%**	53.6%
Joint ventures proportionately consolidated		**49.9%**	53.6%
Joint ventures proportionately consolidated, cash balances netted		**49.4%**	53.6%
Debt to total assets (investment properties at IFRS value)	<65%		
Joint ventures presented on IFRS basis		**42.4%**	46.3%
Joint ventures proportionately consolidated		**42.6%**	46.6%
Joint ventures proportionately consolidated, cash balances netted		**42.1%**	46.6%
Joint ventures proportionately consolidated, using ten quarter average capitalization rate		**45.3%**	51.3%
Unencumbered aggregate assets to unsecured debt (investment properties at IFRS value)	>1.30		
Joint ventures presented on IFRS basis		**2.28**	1.96
Joint ventures proportionately consolidated		**2.28**	1.96
Joint ventures proportionately consolidated, using ten quarter average capitalization rate		**2.09**	1.60
Unencumbered aggregate assets to unsecured debt (investment properties at cost)	>1.30		
Joint ventures presented on IFRS basis		**1.92**	1.74
Joint ventures proportionately consolidated		**1.92**	1.74
Adjusted shareholders' equity (billions of Canadian dollars)	>$1.5 billion	**$ 2.9**	$ 2.1
Secured indebtedness to total assets (investment properties at fair value)	<40%	**22.2%**	23.6%

Year ended	Guidelines	**December 31, 2012**	December 31, 2011
Debt/EBITDA		**8.50**	8.59
Interest coverage (EBITDA to interest expense)	>1.65		
Joint ventures presented on IFRS basis		**2.19**	2.12
Joint ventures proportionately consolidated		**2.19**	2.12
Fixed charges coverage (consolidated EBITDA to debt service)	>1.5		
Joint ventures proportionately consolidated		**1.76**	1.72

The above ratios include measures not specifically defined in IFRS which are defined below:

Debt consists of outstanding balances on credit facilities, mortgages and unsecured debentures.

Market capitalization consists of the market value of the Company's common shares, common share purchase warrants, the par value of senior unsecured debentures, convertible debentures and mortgages, loans and credit facilities.

EBITDA is calculated as net income, adding back income tax expense, interest expense and amortization and excluding the increase or decrease in the value of investment properties, other gains (losses) and (expenses) and other non-cash items.

Fixed charges include financing costs and capitalized interest in the calculation of interest expense and removes non-cash interest on convertible debentures.

Unencumbered assets include the value of assets that have not been pledged as security under any credit agreement or mortgage, excluding investment properties under development and deferred tax assets. The unencumbered asset value ratio is calculated as unencumbered assets divided by the principal amount of the unsecured debt.

Adjusted shareholders' equity is calculated on a rolling four quarter basis.

The Company's strategy involves maintaining its financial strength and improving the above ratios to allow continued access to capital at the lowest possible cost. The Company's senior unsecured debentures are currently rated BBB (high) with a stable trend by Dominion Bond Rating Service Ltd. and Baa2 with a stable outlook by Moody's Investors Service.

The Company's long-term financial objectives have remained substantially unchanged during the past eight years. Since becoming an investment grade rated company in May 2005, the Company has financed its growth through common shares, warrants and convertible debentures (cashless) for the equity component and through senior unsecured debentures, mortgages and credit facilities for the debt component.

The Company's long-term financing strategy is based on maintaining flexibility in accessing various forms of debt and equity capital by maintaining a pool of unencumbered assets and investment grade credit ratings from rating agencies. The Company periodically re-evaluates its overall financing and capital execution strategy to ensure the best access to available capital at the lowest possible cost.

The Company is subject to financial covenants in agreements governing its senior unsecured debentures and secured revolving credit facilities. The Company is in compliance with all of its applicable financial covenants.

11. MORTGAGES AND CREDIT FACILITIES

(thousands of Canadian dollars)			**December 31, 2012**
	Canada	**US**	**Total**
Fixed rate mortgages	**$ 1,586,897**	**$ —**	**$ 1,586,897**
Floating rate mortgages and secured credit facilities	**36,443**	**—**	**36,443**
	$ 1,623,340	**$ —**	**$ 1,623,340**
Current	**$ 242,950**	**$ —**	**$ 242,950**
Mortgages on investment properties classified as held for sale	**41,583**	**—**	**41,583**
Non-current	**1,338,807**	**—**	**1,338,807**
	$ 1,623,340	**$ —**	**$ 1,623,340**

(thousands of Canadian dollars)			December 31, 2011
	Canada	US	Total
Fixed rate mortgages	$ 1,396,118	$ —	$ 1,396,118
Floating rate mortgages and secured credit facilities	13,654	—	13,654
Floating rate secured and unsecured revolving credit facilities	138,801	35,595	174,396
	$ 1,548,573	$ 35,595	$ 1,584,168
Current	$ 184,938	$ —	$ 184,938
Mortgages on investment properties classified as held for sale	22,267	—	22,267
Non-current	1,341,368	35,595	1,376,963
	$ 1,548,573	$ 35,595	$ 1,584,168

Mortgages and the secured credit facilities are secured by investment properties. Of the fair value of investment properties of $7.0 billion as at December 31, 2012 (December 31, 2011 – $5.9 billion), approximately $3.7 billion (December 31, 2011 – $3.3 billion) has been pledged as security under the mortgages and the secured credit facilities.

At December 31, 2012, the fair value of the Company's mortgages, loans and credit facilities was approximately $1.7 billion (December 31, 2011 – $1.7 billion).

(i) Mortgages

Mortgages bear coupon interest at a weighted average interest rate of 5.28% at December 31, 2012 (December 31, 2011 – 5.88%) and mature in the years ranging from 2013 to 2025. The weighted average effective interest rate on all fixed rate mortgage financing at December 31, 2012 is 4.98% (December 31, 2011 – 5.68%).

(ii) Credit facilities

On June 29, 2012, the Company reduced pricing on, and extended the maturity of, its $500.0 million senior unsecured revolving credit facility with a syndicate of Canadian chartered banks. The facility will mature on June 30, 2014.

In connection with the First Medical acquisition (Note 5), the Company assumed a $13.6 million secured credit facility with a Canadian chartered bank. This facility was terminated in the fourth quarter of 2012.

On December 31, 2012, the Company reduced pricing on, extended the maturity to December 2014, and increased the capacity of its existing $50.0 million secured credit facility with a Canadian chartered bank to $75.0 million.

The following table summarizes the details of the Company's lines of credit as at December 31, 2012:

(thousands of Canadian dollars, except other data)	Borrowing Capacity	Amounts Drawn	Outstanding Letters of Credit	Available to be Drawn	Interest Rates	Maturity Date
Secured by development properties	$ 75,000	$ —	$ —	$ 75,000	BA + 1.50% or Prime + 0.50%	December 31, 2014
Unsecured	500,000	—	(43,591)	456,409	C$ at BA + 1.50% or Prime + 0.50% or US$ at LIBOR + 1.50%	June 30, 2014
Total secured and unsecured facilities	$ 575,000	$ —	$ (43,591)	$ 531,409		

Principal repayments of mortgages and credit facilities outstanding as at December 31, 2012 are as follows:

(thousands of Canadian dollars, except other data)	Scheduled Amortization	Payments on Maturity	Total	Weighted Average Interest Rate
2013	$ 42,148	$ 199,829	$ 241,977	5.01%
2014	36,391	265,410	301,801	6.03%
2015	28,672	223,195	251,867	4.97%
2016	22,869	150,894	173,763	5.08%
2017	20,063	65,606	85,669	5.36%
Thereafter	60,137	493,898	554,035	5.17%
	$ 210,280	$ 1,398,832	$ 1,609,112	5.28%
Unamortized deferred financing costs, premiums and discounts, net [1]			14,228	
			$ 1,623,340	

[1] Includes $3.8 million of deferred financing costs, premiums and discounts, net, classified as current on the consolidated balance sheets.

12. SENIOR UNSECURED DEBENTURES

(thousands of Canadian dollars, except other data)					**December 31, 2012**		December 31, 2011
			Interest Rate				
Maturity Date	Series	Date of Issue	Coupon	Effective	**Principal Outstanding**	**Liability**	Liability
June 21, 2012	A	June 21, 2005	5.08%	5.29%	**$ —**	**$ —**	$ 99,800
April 1, 2013	D	September 18, 2006	5.34%	5.51%	**—**	**—**	96,805
January 31, 2014	E	January 31, 2007	5.36%	5.52%	**53,943**	**53,893**	99,756
October 30, 2014	F	April 5, 2007	5.32%	5.47%	**100,000**	**99,809**	99,673
June 1, 2015	G	November 20, 2009	5.95%	6.13%	**125,000**	**124,502**	124,317
January 31, 2017	H	January 21, 2010	5.85%	5.99%	**125,000**	**124,358**	124,224
November 30, 2017	I	April 13, 2010	5.70%	5.85%	**50,000**	**49,683**	49,628
November 30, 2017	I	April 13, 2010	5.70%	5.82%	**25,000**	**24,874**	24,853
November 30, 2017	I	June 14, 2010	5.70%	5.70%	**50,000**	**49,992**	49,992
August 30, 2018	J	July 12, 2010	5.25%	5.66%	**50,000**	**49,167**	49,014
November 30, 2018	K	August 25, 2010	4.95%	5.30%	**50,000**	**49,123**	49,000
November 30, 2018	K	October 26, 2010	4.95%	5.04%	**50,000**	**49,768**	49,734
July 30, 2019	L	January 21, 2011	5.48%	5.61%	**150,000**	**148,946**	148,817
April 30, 2020	M	March 30, 2011	5.60%	5.73%	**110,000**	**109,160**	109,070
April 30, 2020	M	June 13, 2011	5.60%	5.39%	**65,000**	**65,821**	65,911
March 1, 2021	N	April 4, 2012	4.50%	4.63%	**175,000**	**173,522**	—
January 31, 2022	O	June 1, 2012	4.43%	4.55%	**100,000**	**99,082**	—
January 31, 2022	O	July 17, 2012	4.43%	4.44%	**50,000**	**49,948**	—
December 5, 2022	P	December 5, 2012	3.95%	4.15%	**150,000**	**147,425**	—
			5.15%	5.29%	**$ 1,478,943**	**$ 1,469,073**	$ 1,240,594
Current						**$ —**	$ 100,000
Non-current						**1,469,073**	1,140,594
						$ 1,469,073	$ 1,240,594

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

On August 29, 2012, the Company redeemed in full the $97.0 million principal amount outstanding of its 5.34% Series D senior unsecured debentures. The debentures were redeemed at a price of 1,023.33 for each $1,000 principal amount of Debentures outstanding, consisting of the Canada Yield Price (as defined in the Trust Indenture pursuant to which the Debentures were issued) calculated on July 30, 2012. In addition, accrued but unpaid interest was paid on the Debentures up to but excluding the redemption date. In connection with the redemption, total proceeds of $101.4 million were paid to the holders, which consisted of $97.0 million of principal, $2.3 million in premium (Note 20) and $2.1 million in accrued but unpaid interest.

On December 31, 2012, First Capital Realty redeemed $44.1 million of the $98.1 million outstanding principal amount of its 5.36% Series E senior unsecured debentures. The debentures were redeemed at a price of $1,042.69 for each $1,000 principal amount of Debentures outstanding, consisting of the Canada Yield Price (as defined in the Trust Indenture pursuant to which the Debentures were issued) calculated on November 29, 2012. In addition, accrued but unpaid interest was paid on the Debentures up to but excluding the redemption date. In connection with the redemption, total proceeds of $47.0 million were paid to the holders, which consisted of $44.1 million of principal, $1.9 million in premium (Note 20) and $1.0 million in accrued but unpaid interest.

The fair value of the senior unsecured debentures is approximately $1.6 billion at December 31, 2012 (December 31, 2011 – $1.3 billion) based on closing bid spreads and current underlying Government of Canada bond yields.

13. CONVERTIBLE DEBENTURES

(thousands of Canadian dollars, except other data)		Interest Rate		**December 31, 2012**			December 31, 2011		
Date of Issue	Maturity Date	Coupon	Effective	**Principal**	**Liability**	**Equity**	Principal	Liability	Equity
Various (1)	September 30, 2017	5.50%	6.61%	**$ —**	**$ —**	**$ —**	$ 19,866	$ 18,828	$ 1,060
September 18, 2009	December 31, 2016	6.25%	7.64%	**—**	**—**	**—**	66,779	62,993	1,749
December 30, 2009	June 30, 2017	5.70%	6.88%	**46,092**	**44,012**	**1,031**	49,127	46,501	1,087
April 28, 2011	January 31, 2019	5.40%	6.90%	**57,500**	**53,262**	**2,192**	57,500	52,715	2,217
August 9, 2011	January 31, 2019	5.25%	6.07%	**57,500**	**55,146**	**390**	57,500	54,835	395
December 15, 2011	March 31, 2018	5.25%	6.68%	**50,000**	**46,918**	**1,155**	50,000	46,456	1,168
February 16, 2012	March 31, 2017	4.95%	6.51%	**75,000**	**70,712**	**1,495**	—	—	—
May 22, 2012	July 31, 2019	4.75%	6.19%	**52,500**	**48,744**	**1,439**	—	—	—
		5.19%	6.53%	**$ 338,592**	**$ 318,794**	**$ 7,702**	$ 300,772	$ 282,328	$ 7,676

(1) Issued in three tranches: December 2005, November 2006 and June 2007 for original principal amounts of $100 million, $100 million and $50 million, respectively.

(a) Principal and Interest

The Company has the option of repaying the convertible debentures on maturity through the issuance of common shares at 97% of the weighted average trading price of the Company's common shares. The Company also has the option of paying the semi-annual interest through the issuance of common shares valued in the same manner. In addition, the Company has the option of repaying the convertible debentures prior to the maturity date under certain circumstances, either in cash or in common shares. Consistent with existing practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares. Since issuance, the Company has made all principal and interest payments on its convertible debentures using common shares.

During the year ended December 31, 2012, 1.1 million common shares (year ended December 31, 2011 – 1.3 million common shares) were issued for $20.5 million (year ended December 31, 2011 – $19.8 million) to pay interest to holders of the convertible debentures.

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

Maturity Date	Coupon Rate	TSX	Holder Option to Convert at the Conversion Price	Company Option to Redeem at Principal Amount (conditional (1))	Company Option to Redeem at Principal Amount (2)	Conversion Price
June 30, 2017	5.70%	FCR.DB.D	2009-2016	Jun 30, 2013 - Jun 29, 2015	Jun 30, 2015 - Jun 30, 2017	$ 18.75
January 31, 2019	5.40%	FCR.DB.E	2011-2019	Jan 31, 2015 - Jan 30, 2017	Jan 31, 2017 - Jan 31, 2019	$ 22.62
January 31, 2019	5.25%	FCR.DB.F	2011-2019	Jan 31, 2015 - Jan 30, 2017	Jan 31, 2017 - Jan 31, 2019	$ 23.77
March 31, 2018	5.25%	FCR.DB.G	2011-2018	Mar 31, 2015 - Mar 30, 2016	Mar 31, 2016 - Mar 30, 2018	$ 23.25
March 31, 2017	4.95%	FCR.DB.H	2012-2017	Mar 31, 2015 - Mar 30, 2016	Mar 31, 2016 - Mar 31, 2017	$ 23.75
July 31, 2019	4.75%	FCR.DB.I	2012-2019	Jul 31, 2015 - Jul 30, 2017	Jul 31, 2017 - Jul 31, 2019	$26.75 - $27.75 (3)

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

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

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

The convertible unsecured subordinated debentures were issued pursuant to the Company's Trust Indenture dated December 19, 2005, as supplemented, and all rank pari passu.

(b) Principal Redemptions

On February 15, 2012, the Company completed the redemption of its remaining 5.50% debentures, in accordance with their terms at par by issuing common shares in satisfaction of the remaining principal outstanding and interest owing on the 5.50% debentures so redeemed.

On September 30, 2012, the Company completed the redemption of its remaining 6.25% convertible unsecured subordinated debentures in accordance with their terms at par by issuing common shares in satisfaction of the remaining principal outstanding and interest owing on the 6.25% debentures so redeemed.

(c) Normal Course Issuer Bid

On August 25, 2011, First Capital Realty commenced a normal course issuer bid ("NCIB") for certain series of its convertible unsecured subordinated debentures. On September 19, 2011, the Company expanded its NCIB to include one additional series of convertible unsecured subordinated debentures. On August 27, 2012, the Company renewed its NCIB for all of its then outstanding series of convertible unsecured subordinated debentures. The NCIB will expire on August 26, 2013 or such earlier date as First Capital Realty completes its purchases pursuant to the NCIB. All purchases made under the NCIB will be made through the facilities of the TSX or other Canadian marketplaces at market prices prevailing at the time of purchase and the timing of such purchases will be determined by First Capital Realty.

For the years ended December 31, 2012 and 2011 principal amounts purchased and amounts paid for the purchases are represented in the table below:

(thousands of Canadian dollars)	**Year ended December 31, 2012**		Year ended December 31, 2011	
	Principal Amount Purchased	**Amount Paid**	Principal Amount Purchased	Amount Paid
Total	**$ 3,035**	**$ 3,315**	$ 2,071	$ 2,067

(d) Fair Value

Based on the TSX closing bid prices, as at December 31, 2012, the fair value of the convertible debentures was approximately $347.7 million (December 31, 2011 – $318.0 million).

14. OTHER LIABILITIES

(thousands of Canadian dollars)	Note	**December 31, 2012**	December 31, 2011
Asset retirement obligations (a)		**$ 12,059**	$ 2,888
Ground leases payable (b)		**11,112**	8,747
Loan payable (c)	9(a)	**18,830**	—
Other liabilities		**—**	213
Deferred purchase price of investment property - shopping centre (d)		**20,026**	—
		$ 62,027	$ 11,848

(a) The Company has obligations for environmental remediation at certain sites within its portfolio. The amounts recorded as liabilities include those amounts recoverable or reimbursable from other parties (Note 8(a)).

(b) The Company has elected to present all ground leases to which it is a lessee as investment properties at fair value, as permitted by IAS 40. As such, the related finance lease liability is recognized on the consolidated balance sheets as an other liability at amortized cost. The implicit rates of interest on the ground leases range between 5.68% and 9.75%.

(c) In connection with the acquisition of a property, the Company assumed a third party loan that had previously been defeased. The defeasance collateral is a bond issued by an agency of the Canadian federal government. The effective interest rate of the loan is 1.25% (contractual rate of 5.96%) and matures in November 2014 (Note 9(a)) and its fair value approximates carrying value.

(d) The deferred purchase price is expected to be settled in May 2014. The effective interest rate is 6.20% and its fair value approximates carrying value.

15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(thousands of Canadian dollars)	December 31, 2012	December 31, 2011
Trade payables and accruals	$ 46,864	$ 32,182
Construction and development payables	49,838	43,103
Dividends payable	43,375	35,639
Interest payable	30,295	28,167
Tenant deposits	18,718	15,531
Derivatives at fair value (a)	2,311	5,620
Short positions in marketable securities (b)	16,663	20,458
Loans payable (c)	16,485	9,340
Other liabilities	—	1,437
	$ 224,549	$ 191,477

(a) The Company enters into forward contracts and interest rate swaps as part of its strategy for managing certain interest rate risks. These derivatives are measured at fair value, estimated using Level 2 inputs. For each of the contracts it enters into, the Company determines whether to apply hedge accounting. For those contracts to which the Company has applied hedge accounting, the Company has recorded the changes in fair value for the effective portion of the derivative in other comprehensive income (loss) from the date of designation. For those interest rate swaps to which the Company does not apply hedge accounting, the change in fair value is recognized in other gains (losses) and (expenses) (Note 20). The following are the fair values of the hedging instruments:

(thousands of Canadian dollars)	Designated as Hedging Instrument	Maturity	December 31, 2012	December 31, 2011
Bond forward contracts	Yes	Matured – March 2012	$ —	$ (3,998)
Interest rate swaps	Yes	December 2021 through October 2022	(975)	—
Interest rate swaps	No	May 2018	(1,336)	(1,622)
			$ (2,311)	$ (5,620)

(b) The Company invests from time to time in long and short positions in publicly traded real estate and related securities (Note 7). These securities are recorded at market value. Unrealized gains and losses on FVTPL securities are recorded in other gains (losses) and (expenses). At December 31, 2012, a restricted cash balance of $17.9 million was maintained on account with the Company's security broker as collateral for the Company's investment in short positions. This restricted cash balance is recorded in other assets (current) (Note 9).

(c) Loans payable includes a $16.5 million mortgage loan (December 31, 2011 – $9.3 million) bearing interest at an effective rate of 1% per annum relating to residential development inventory.

16. SHAREHOLDERS' EQUITY

(a) Share capital

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

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

		December 31, 2012		December 31, 2011	
(thousands of Canadian dollars and thousands of common shares)	Note	**Number of Common Shares**	**Stated Capital**	Number of Common Shares	Stated Capital
Issued and outstanding at beginning of year		**178,225**	**$ 1,928,583**	163,456	$ 1,689,516
Payment of interest on convertible debentures	13	**1,148**	**20,533**	1,250	19,797
Redemption and conversion of convertible debentures	13	**5,786**	**84,357**	12,651	206,711
Exercise of options		**797**	**10,560**	778	9,648
Issuance of common shares		**20,590**	**389,789**	90	1,248
Share issue costs and other, net of tax effect		**—**	**(6,986)**	—	1,663
Issued and outstanding at end of year		**206,546**	**$ 2,426,836**	178,225	$ 1,928,583

On August 3, 2012 the Company issued 2.5 million units at $18.75 per unit for gross proceeds of $46.9 million. Each unit in this offering consisted of: (i) one common share of the Company, and (ii) one common share purchase warrant (a "Warrant"). The common shares and the Warrants separated immediately upon closing of the offering. Each Warrant entitles the holder to acquire at any time up to August 2, 2013, one common share of the Company at an exercise price equal to $19.75 per share. Issue costs were approximately $2.1 million.

On September 19, 2012, the Company issued 12.5 million units at a price of $19.22 per unit for total gross proceeds of approximately $240.3 million. Each unit in this offering consisted of: (i) one common share of the Company, and (ii) one-quarter of a Warrant. The common shares and the Warrants separated immediately upon closing of the offering. Issue costs were approximately $9.8 million.

On December 17, 2012, the Company issued 128,212 shares to certain members of the Company's Management at a price of $18.69 per share for gross proceeds of $2.4 million.

On December 15, 2011, the Company issued 90,200 shares to certain members of the Company's Management at a price of $17.46 per share for gross proceeds of $1.6 million.

At December 31, 2012, there were 5.6 million Warrants outstanding.

(b) Contributed surplus and other equity items

Contributed surplus and other equity items are comprised of the following:

(thousands of Canadian dollars)	**December 31, 2012**					December 31, 2011			
	Contributed Surplus	**Convertible Debentures Equity Component**	**Options Restricted and Deferred Share Units**	**Warrants**	**Total**	Convertible Debentures Equity Component	Options Restricted and Deferred Share Units	Share Units	Total
		(note 13)				(note 13)			
Balance, beginning of year	**$ 19,494**	**$ 7,676**	**$ 13,643**	**$ —**	**$ 40,813**	$ 19,458	$ 19,555	$ 12,647	$ 51,660
Issuance of warrants	**—**	**—**	**—**	**1,677**	**1,677**	—	—	—	—
Issuance of convertible debentures	**—**	**2,857**	**—**	**—**	**2,857**	—	3,781	—	3,781
Conversion of convertible debentures to common shares	**—**	**(2,808)**	**—**	**—**	**(2,808)**	—	(15,575)	—	(15,575)
Purchase of convertible debentures	**(93)**	**(23)**	**—**	**—**	**(116)**	36	(85)	—	(49)
Options vested	**—**	**—**	**1,130**	**—**	**1,130**	—	—	1,297	1,297
Exercise of options	**—**	**—**	**(399)**	**—**	**(399)**	—	—	(674)	(674)
Deferred share units vested	**—**	**—**	**991**	**—**	**991**	—	—	747	747
Restricted share units vested	**—**	**—**	**1,621**	**—**	**1,621**	—	—	1,680	1,680
Exercise of restricted share units	**—**	**—**	**(1,350)**	**—**	**(1,350)**	—	—	(2,054)	(2,054)
Balance, end of year	**$ 19,401**	**$ 7,702**	**$ 15,636**	**$ 1,677**	**$ 44,416**	$ 19,494	$ 7,676	$ 13,643	$ 40,813

(c) Stock options

As of December 31, 2012, the Company is authorized to grant up to 15.2 million (December 31, 2011 – 15.2 million) common share options to the employees, officers and directors of the Company. As of December 31, 2012, 4.8 million (December 31, 2011 – 5.6 million) common share options are available to be granted. Options granted by the Company generally expire ten years from the date of grant and vest over three to five years. The outstanding options at December 31, 2012 have exercise prices ranging from $ 9.78 – $17.90 (December 31, 2011 – $9.78 – $16.95) and are comprised of the following:

(In Canadian dollars, except other data)	**December 31, 2012**					December 31, 2011				
	Outstanding Options			**Vested Options**		Outstanding Options			Vested Options	
Exercise Price Range	**Number of Common Shares (in thousands)**	**Weighted Average Exercise Price per Common Share**	**Weighted Average Remaining Life (years)**	**Number of Common Shares Issuable (in thousands)**	**Weighted Average Exercise Price per Common Share**	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price Per Common Share	Weighted Average Remaining Life (years)	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price per Common Share
$ 9.78 – $10.81	**226**	**$ 10.06**	**5.0**	**226**	**$ 10.06**	550	$ 9.92	6.6	260	$ 10.02
$13.00 – $14.26	**1,513**	**$ 13.75**	**5.9**	**1,243**	**$ 13.71**	1,745	$ 13.72	6.6	1,180	$ 13.62
$15.47 – $17.90	**3,937**	**$ 16.71**	**6.3**	**2,272**	**$ 16.55**	3,297	$ 16.33	6.3	2,078	$ 16.54
$ 9.78 – $17.90	**5,676**	**$ 15.65**	**6.1**	**3,741**	**$ 15.21**	5,592	$ 14.89	6.4	3,518	$ 15.08

During the year ended December 31, 2012, $1.1 million (year ended December 31, 2011 – $1.3 million) was recorded as an expense related to stock options.

(In Canadian dollars, except other data)	**December 31, 2012**		December 31, 2011	
	Number of Common Shares Issuable (in thousands)	**Weighted Average Exercise Price**	Number of Common Shares Issuable (in thousands)	Weighted Average Exercise Price
Outstanding, beginning of year	**5,592**	**$ 14.89**	5,463	$ 14.25
Granted (a)	**957**	**$ 17.88**	1,067	$ 15.74
Exercised (b)	**(797)**	**$ 12.88**	(778)	$ 11.54
Forfeited	**(76)**	**$ 16.47**	(160)	$ 15.23
Outstanding, end of year	**5,676**	**$ 15.65**	5,592	$ 14.89

(a) The fair value associated with the options issued was calculated using the Black-Scholes model for option valuation based on the following assumptions:

	Year ended December 31	
	2012	2011
Share options granted (thousands)	**957**	1,067
Term to expiry	**10 years**	10 years
Exercise price (range)	**$17.41-$17.90**	$15.70-$16.73
Fair value (thousands)	**$1,449**	$1,786
Weighted average volatility rate	**17.5%**	15.0%
Weighted average expected option life	**6 years**	10 years
Weighted average dividend yield	**4.46%**	4.39%
Weighted average risk free interest rate	**1.78%**	3.77%

(b) The weighted average market share price at which options were exercised for the year ended December 31, 2012 was $18.25 (year ended December 31, 2011 – $16.42).

(d) Share unit plans

The Company's share unit plans include a Directors Deferred Share Unit Plan, an Employee Restricted Share Unit Plan and a Chief Executive Officer Restricted Share Unit Plan. Under the 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 Deferred Share Unit ("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 Restricted Share Unit ("RSU") on December 15 of the third calendar year following the year in respect of which the RSU is granted. Holders of RSUs and DSUs receive dividends in the form of additional units when the Company declares dividends on its common shares.

	December 31, 2012		December 31, 2011	
(in thousands)	**Deferred Share Units**	**Restricted Share Units**	Deferred Share Units	Restricted Share Units
Outstanding, beginning of year	**291**	**368**	247	375
Granted (a)	**40**	**45**	31	132
Dividends declared	**14**	**17**	13	22
Exercised	**—**	**(128)**	—	(136)
Forfeited	**—**	**—**	—	(25)
Outstanding, end of year	**345**	**302**	291	368
Share units available to be granted based on the current reserve	**235**	**676**	289	601
Expense recorded for the year (thousands of Canadian dollars)	**$ 457**	**$ 1,309**	$ 397	$ 1,361

(a) The fair value of the DSUs granted during the year ended December 31, 2012 was $0.7 million (December 31, 2011 – $0.5 million), measured based on the Company's prevailing share price on the date of grant. The fair value of the RSUs granted during the year ended December 31, 2012 was $0.8 million (December 31, 2011 – $2.0 million), measured based on the Company's share price on the date of grant.

17. NET OPERATING INCOME

Net operating income is as follows:

Year ended December 31, 2012 *(thousands of Canadian dollars)*	**Central Region**	**Eastern Region**	**Western Region**	**Subtotal**	**Other[1]**	**Total**
Property rental revenue	**$ 264,150**	**$ 123,424**	**$ 182,361**	**$ 569,935**	**$ 13,161**	**$ 583,096**
Property operating costs	**104,070**	**51,377**	**61,264**	**216,711**	**(5,152)**	**211,559**
Net operating income	**$ 160,080**	**$ 72,047**	**$ 121,097**	**$ 353,224**	**$ 18,313**	**$ 371,537**

Year ended December 31, 2011 *(thousands of Canadian dollars)*	Central Region	Eastern Region	Western Region	Subtotal	Other[1]	Total
Property rental revenue	$ 241,369	$ 114,013	$ 164,812	$ 520,194	$ 6,541	$ 526,735
Property operating costs	91,793	46,153	53,287	191,233	(4,586)	186,647
Net operating income	$ 149,576	$ 67,860	$ 111,525	$ 328,961	$ 11,127	$ 340,088

[1] Other items are principally rental revenue recorded on a straight-line basis and operating costs and adjustments that are not attributable to a region.

18. INTEREST AND OTHER INCOME

		Year ended December 31	
(thousands of Canadian dollars)	Notes	**2012**	2011
Interest income from non-revolving term loan receivable from Gazit America Inc.	6(a)	**$ 1,908**	$ 3,028
Interest, dividend and distribution income from marketable securities and cash investments	7	**2,912**	2,873
Interest income from mortgages and loans receivable	6(b), 7(b)	**3,608**	1,583
Other income		**36**	—
		$ 8,464	$ 7,484

19. INTEREST EXPENSE

		Year ended December 31	
(thousands of Canadian dollars)	Note	**2012**	2011
Mortgages and credit facilities		**$ 87,515**	$ 82,556
Senior unsecured debentures		**75,401**	72,746
Convertible debentures			
Coupon interest		**19,450**	20,470
Accretion of discounts		**1,496**	1,530
Amortization of deferred issue costs		**1,850**	1,128
		22,796	23,128
Total interest expense		**185,712**	178,430
Interest capitalized to investment properties and residential development inventory		**(24,873)**	(18,449)
Interest expense		**$ 160,839**	$ 159,981
Convertible debenture interest paid in common shares	13	**(20,533)**	(19,797)
Change in accrued interest		**(2,128)**	(3,933)
Effective interest rate in excess of coupon rate on senior unsecured and convertible debentures		**(1,332)**	(1,467)
Effective interest in excess of coupon interest on assumed mortgages		**4,418**	2,485
Other non-cash interest expense		**(4,963)**	(4,005)
Interest capitalized to investment properties and residential development inventory		**24,873**	18,449
Cash interest paid		**$ 161,174**	$ 151,713

20. OTHER GAINS (LOSSES) AND (EXPENSES)

		Year ended December 31	
(thousands of Canadian dollars)	Notes	**2012**	2011
Realized gains on sale of marketable securities		**$ 3,538**	$ 4,320
Change in cumulative unrealized gains (losses) on marketable securities classified as FVTPL		**2,677**	(1,296)
Losses on settlement of debt	12	**(6,550)**	(1,486)
Loss on temporary change of conversion privilege of convertible debentures		**—**	(2,501)
Unrealized gains (losses) on hedges	15(a)	**1,459**	(326)
Investment properties – selling costs		**(4,081)**	—
Pre-selling costs of residential inventory		**(337)**	—
(Loss) gain on foreign currency exchange		**(59)**	268
Transaction costs	5	**(2,895)**	—
Other income		**—**	211
		$ (6,248)	$ (810)

21. INCOME TAXES

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

(thousands of Canadian dollars)	December 31, 2011	Net income	Recognized in OCI	Equity and other	December 31, 2012
Deferred taxes related to non-capital losses and capital losses	$ (35,195)	$ 26,811	$ —	$ (4,379)	$ (12,763)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	313,601	55,347	(607)	1,827	370,168
Net deferred taxes	$ 278,406	$ 82,158	$ (607)	$ (2,552)	$ 357,405

At December 31, 2012, the Company has approximately $35 million of non-capital losses which expire between 2016 and 2032.

(thousands of Canadian dollars) *(Restated – note 3)*	December 31, 2010	Net income	Recognized in OCI	Equity	December 31, 2011
Deferred taxes related to non-capital losses and capital losses	$ (25,414)	$ (9,781)	$ —	$ —	$ (35,195)
Deferred tax liabilities related to difference in tax and book basis primarily related to real estate, net	218,291	88,648	(1,334)	7,996	313,601
Net deferred taxes	$ 192,877	$ 78,867	$ (1,334)	$ 7,996	$ 278,406

At December 31, 2011, the Company has approximately $139 million of non-capital losses which expire between 2015 and 2031.

The major components of income tax expense include the following:

	Year ended December 31	
(thousands of Canadian dollars)	**2012**	2011
		(Restated – note 3)
Deferred income taxes	**$ 82,158**	$ 78,867

The following reconciles the Company's statutory tax rate to its effective tax rate for the years ended December 31, 2012 and 2011:

	Year ended December 31	
(thousands of Canadian dollars)	**2012**	2011
		(Restated – note 3)
Income tax expense at the Canadian federal and provincial income tax rate of 26.22% (2011 - 27.85%)	**$ 124,576**	$ 174,834
Increase (decrease) in income taxes is due to the following:		
Non-deductible interest	**392**	427
Changes in timing of reversal	**—**	(8,614)
Non-taxable portion of capital gains and other	**(52,331)**	(79,078)
Impact of change in statutory income tax rate	**9,169**	—
Other	**352**	(8,702)
	$ 82,158	$ 78,867

Deferred tax expense increased compared to the same prior year period primarily as a result of a $10 million increase relating to the change in the income tax rate by the Province of Ontario on its general corporate income taxes, partially offset by the decrease in the fair value adjustment of investment properties as compared to prior year period.

22. PER SHARE CALCULATIONS

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

	Year ended December 31	
(thousands of Canadian dollars, except other data)	**2012**	2011
Numerator		*(Restated note 3)*
Net income attributable to common shareholders	**$ 392,959**	$ 548,932
Adjustment for dilutive effect of convertible debentures, net of tax	**16,992**	18,566
Numerator for diluted per share amounts	**$ 409,951**	$ 567,498
Denominator (in thousands)		
Weighted average number of shares outstanding for basic per share amounts	**189,012**	168,007
Options	**864**	625
Convertible debentures	**16,697**	20,500
Denominator for diluted per share amounts	**206,573**	189,132
Basic net income per share attributable to common shareholders	**$ 2.08**	$ 3.27
Diluted net income per share attributable to common shareholders	**$ 1.98**	$ 3.00

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

Year ended December 31		Number of Shares if Exercised		
(in Canadian dollars, number of options in thousands)	**Exercise Price Range**	**2012**	Exercise Price Range	2011
Common share options	**$17.41 – $17.90**	**907**	$15.70 – $16.95	2,686

Regular dividends paid per common share were $0.82 and $0.80 for each of the years ended December 31, 2012 and 2011, respectively.

23. RISK MANAGEMENT

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

(a) Interest rate risk

The Company attempts to structure 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 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. The fair value of the Company's derivative liabilities (Note 15) and other contracts as at December 31, 2012 is a liability of $2.3 million due to changes in interest rates since the inception of the contracts. A 100 basis point increase in the yield curve for these contracts would decrease the Company's liability and equity by $6.5 million and increase net income by $0.5 million, with the remainder recognized in other comprehensive income. A 100 basis point decrease in the yield curve for these contracts would increase the Company's liability and equity by $7.1 million and decrease net income by $0.5 million and the remainder in other comprehensive income.

Interest represents a significant cost in financing the ownership of real property. The Company has a total of $1.1 billion principal amount of fixed rate interest-bearing instruments outstanding including mortgages, senior unsecured debentures and convertible debentures maturing between December 31, 2012 and December 31, 2015 at a weighted average coupon interest rate of 5.42%. If these amounts were refinanced at an average interest rate that was 100 basis points higher or lower than the existing rate, the Company's annual interest cost would respectively increase or decrease by $10.7 million.

The Company's other loans receivable (current and non-current) earn interest at fixed rates. If the loans were refinanced at 100 basis points higher or lower than the existing rate, the Company's annual interest income, and, accordingly, equity would respectively increase or decrease by approximately $0.4 million.

(b) Credit risk

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable or unwilling to fulfill their lease commitments or loan obligations. The Company mitigates the risk of credit loss by investing in well-located properties in urban markets that attract quality tenants, ensuring that its tenant mix is diversified, and by limiting its exposure to any one tenant. No one tenant represents more than 7% of annualized minimum rent. A tenant's success over the term of its lease and its ability to fulfill its lease obligations is subject to many factors. There can be no assurance that a tenant will be able to fulfill all of its existing commitments and leases up to the expiry date. The Company's maximum exposure to credit risk is limited to the carrying amounts of its financial assets.

The Company's leases typically have lease terms between five and twenty years and may include clauses to enable periodic upward revision of the rental rates.

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

(thousands of Canadian dollars)		**2012**
Within 1 year	**$**	**392,828**
After 1 year, but not more than 5 years		**1,174,575**
More than 5 years		**1,008,244**
	$	**2,575,647**

(c) Currency risk

The Company maintains its accounts in Canadian dollars. At December 31, 2012, the Company has nil drawn in U.S. dollars on its floating rate revolving credit facility (December 31, 2011 – $35.6 million) (Note 11).

(d) Liquidity risk

Real estate investments are relatively illiquid. This will tend 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 is set out below:

	Payments Due by Period				
(thousands of Canadian dollars)	2013	2014 to 2015	2016 to 2017	Thereafter	Total
Mortgages					
Scheduled amortization	$ 42,148	$ 65,063	$ 42,932	$ 60,137	$ 210,280
Payments on maturity	199,829	488,605	216,500	493,898	1,398,832
Total mortgage obligations	241,977	553,668	259,432	554,035	1,609,112
Senior unsecured debentures	—	278,943	250,000	950,000	1,478,943
Loans payable (1)	17,098	16,722	—	—	33,820
Interest obligations (2)	159,491	250,788	185,298	203,468	799,045
Land leases (expiring between 2023 and 2061)	1,091	2,100	1,596	21,433	26,220
Contractual committed costs to complete current development projects	89,697	86	—	—	89,783
Other committed costs	6,550	—	—	—	6,550
Total contractual obligations (3)	$ 515,904	$ 1,102,307	$ 696,326	$ 1,728,936	$ 4,043,473

(1) Loans payable includes a $16.5 million loan relating to residential development inventory and a third party loan that had previously been defeased.

(2) Interest obligations include expected interest payments on mortgages and credit facilities at December 31, 2012 (assuming balances remain outstanding through to maturity), and senior unsecured debentures, as well as standby credit facility fees.

(3) Consistent with existing practice, it is the Company's current intention to continue to satisfy its obligations of principal and interest payments in respect of all of its outstanding convertible debentures by the issuance of common shares, and as such have been excluded from this table.

In addition, the Company has contractual commitments with respect to its outstanding accounts payable and other liabilities and investment properties.

The Company's total estimated costs to complete development projects are $160.1 million including $11.4 million related to the residential development inventory, with $89.8 million contractually committed at December 31, 2012.

The Company manages its liquidity risk by staggering debt maturities; renegotiating expiring credit arrangements proactively; using undrawn lines of credit; and issuing equity when considered appropriate. As at December 31, 2012, there was nil (December 31, 2011 – $174.4 million) of cash advances drawn against the Company's revolving credit facilities.

In addition, at December 31, 2012 the Company has $43.6 million (December 31, 2011 – $24.1 million) of outstanding letters of credit that have been issued by financial institutions primarily to support certain of the Company's above contractual obligations.

24. SUPPLEMENTAL OTHER COMPREHENSIVE INCOME (LOSS) INFORMATION

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

Years ended December 31			**2012**			2011
(thousands of Canadian dollars)	**Before-Tax Amount**	**Tax-Recovery (Expense)**	**Net-of-Tax Amount**	Before-Tax Amount	Tax-Recovery (Expense)	Net-of-Tax Amount
Unrealized (losses) gains on available for sale marketable securities	**$ (557)**	**$ 107**	**$ (450)**	$ 580	$ (85)	$ 495
Reclassification of gains on available for sale marketable securities to net income	**(384)**	**54**	**(330)**	(2,306)	371	(1,935)
Unrealized losses on cash flow hedges	**(1,890)**	**531**	**(1,359)**	(4,133)	1,048	(3,085)
Reclassification of net losses on cash flow hedges to net income	**330**	**(85)**	**245**	—	—	—
Other comprehensive loss	**$ (2,501)**	**$ 607**	**$ (1,894)**	$ (5,859)	$ 1,334	$ (4,525)

(b) Accumulated other comprehensive (loss) income

Years ended December 31			**2012**			2011
(thousands of Canadian dollars)	**Opening Balance January 1**	**Net Change During the Period**	**Closing Balance December 31**	Opening Balance January 1	Net Change During the Period	Closing Balance December 31
Change in cumulative unrealized gains on available-for-sale marketable securities	**$ 799**	**$ (780)**	**$ 19**	$ 2,239	$ (1,440)	$ 799
Unrealized losses on cash flow hedges	**(3,085)**	**(1,114)**	**(4,199)**	—	(3,085)	(3,085)
Accumulated other comprehensive (loss) income	**$ (2,286)**	**$ (1,894)**	**$ (4,180)**	$ 2,239	$ (4,525)	$ (2,286)

25. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Items not affecting cash and other items

		Year ended December 31	
(thousands of Canadian dollars)	Notes	**2012**	2011
Rental revenue recognized on a straight–line basis		**$ (13,117)**	$ (8,490)
Investment properties selling costs	20	**4,081**	—
Realized gains on sale of marketable securities	20	**(3,538)**	(4,320)
Change in cumulative unrealized (gains) losses on marketable securities classified as FVTPL	20	**(2,677)**	1,296
Losses on settlement of debt	20	**6,550**	1,486
Loss on temporary change of conversion privilege of convertible debentures		**—**	2,501
Non-cash compensation expense		**2,897**	3,055
Cash settlement of restricted share units		**(2,396)**	(2,380)
Loss (gain) on foreign currency exchange	20	**59**	(268)
Deferred income taxes	21	**82,158**	78,867
Unrealized (gains) losses on hedges	20	**(1,459)**	326
Other income		**—**	(211)
		$ 72,558	$ 71,862

(b) Net change in non-cash operating items

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

	Year ended December 31	
(thousands of Canadian dollars)	**2012**	2011
Amounts receivable	**$ 5,516**	$ (3,246)
Prepaid expenses	**1,909**	1,365
Trade payables and accruals	**6,749**	(11,305)
Tenant security and other deposits	**5,773**	5,022
Other working capital changes	**(1,016)**	(1,116)
	$ 18,931	$ (9,280)

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

	Year ended December 31	
(thousands of Canadian dollars)	**2012**	2011
Decrease (increase) in loans and mortgages receivable	**$ 22,091**	$ (14,950)
Investment in marketable securities	**(169,373)**	(135,399)
Proceeds from disposition of marketable securities	**182,908**	138,852
	$ 35,626	$ (11,497)

(d) Cash and cash equivalents

	Year ended December 31	
(thousands of Canadian dollars)	**2012**	2011
Cash	**$ 58,555**	$ 2,781
Term deposits	**11,600**	294
	$ 70,155	$ 3,075

26. PROPORTIONATE CONSOLIDATION OF JOINT VENTURES

The Company is a participant in 14 (December 31, 2011 – 13) partnership, co-ownership and limited liability corporate ventures that own development lands and shopping centres which are proportionately consolidated in these consolidated financial statements (collectively, the "joint ventures"). The Company's participation interest in these joint ventures ranges from 33% to 75%.

The following amounts are included in the consolidated financial statements and represent the Company's proportionate interests in the joint ventures:

		Year ended December 31		
(thousands of Canadian dollars)		**2012**		2011
Non-current assets	**$**	**254,378**	$	227,840
Current assets		**4,036**		5,702
Total assets		**258,414**		233,542
Non-current liabilities		**67,753**		62,064
Current liabilities		**6,371**		12,521
Total liabilities		**74,124**		74,585
Net assets	**$**	**184,290**	$	158,957

(thousands of Canadian dollars)		Year ended December 31		
		2012		2011
Revenue	**$**	**20,589**	$	17,905
Expenses		**9,029**		8,604
Income before increase in value of investment properties, net		**11,560**		9,301
Increase in value of investment properties, net		**9,454**		8,805
Net income	**$**	**21,014**	$	18,106

Cash and cash equivalents held by joint ventures and proportionately consolidated amounted to $2.0 million at December 31, 2012 (December 31, 2011 – $3.5 million) at the Company's share.

The Company is contingently liable for certain of the obligations of the joint ventures and, generally, all of the net assets of a joint venture are available for the purpose of satisfying the obligations of the joint venture (Note 27(b)).

The Company's share of capital commitments of its joint ventures is as follows:

		As at December 31		
(thousands of Canadian dollars)		**2012**		2011
Commitments to complete development projects	**$**	**156**	$	67

27. 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, 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, for approximately $59.4 million (December 31, 2011 – $37.6 million) to various lenders in connection with loans advanced to its joint venture partners secured by the partners' interest in the joint ventures and other mortgage liabilities.

(c) The Company is contingently liable by way of letters of credit in the amount of $43.6 million (December 31, 2011 – $24.1 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 finance leases for land. Annual commitments under these ground leases are approximately $1.1 million (December 31, 2011 – $0.9 million) with a total obligation of $26.2 million (December 31, 2011 – $21.7 million).

(e) In two of the Company's shopping centres, the grocery store anchor tenant has a right to purchase its premises on terms that are potentially favourable to each such tenant.

(f) The Company has committed to purchase four properties in 2013 for a total of $6.6 million, subject to customary closing conditions.

28. RELATED PARTY TRANSACTIONS

(a) Major Shareholder

Gazit is the principal shareholder of the Company. Norstar Holdings Inc. is the ultimate controlling party. As of December 31, 2012, Alony-Hetz Properties and Investments Ltd. (''Alony-Hetz'') also beneficially owns 10.3% (December 31, 2011 – 11.6%) of the common shares of the Company. Alony-Hetz and Gazit have entered into a shareholders' agreement pursuant to which, among other terms, (i) Gazit has agreed to vote its common shares of the Company in favour of the election of up to two representatives of Alony-Hetz to the Board of Directors of the Company and (ii) Alony-Hetz has agreed to vote its common shares of the Company in favour of the election of the nominees of Gazit as the remaining directors of the Company.

In addition to the transaction with related parties referenced in Notes 5 and 6(a), corporate and other amounts receivable include amounts due from Gazit. Gazit reimburses the Company for certain interest, accounting and administrative services provided to it by the Company. The amounts are comprised of the following:

	Year ended December 31	
(thousands of Canadian dollars)	**2012**	2011
Interest payments	**$ 1,903**	$ 3,028
Reimbursements for professional services	**$ 766**	$ 85

Gazit was also a tenant at a property owned by the Company. Total rental payments received are as follows:

	Year ended December 31	
(thousands of Canadian dollars)	**2012**	2011
Rental payments	**$ 274**	$ 323

At December 31, 2012, amounts due from Gazit were $0.4 million (December 31, 2011 – $43,000).

(b) Compensation of key management personnel

Aggregate compensation for directors and key management personnel included in corporate expense is as follows:

	Year ended December 31	
(thousands of Canadian dollars)	**2012**	2011
Salaries and short-term employee benefits	**$ 3,251**	$ 2,278
Share-based compensation (non-cash compensation expense)	**1,938**	2,051
	$ 5,189	$ 4,329

29. SUBSEQUENT EVENTS

(a) Senior Unsecured Debentures

On January 14, 2013, the Company completed the issuance of an additional $100 million principal amount of the Series P senior unsecured debentures due December 5, 2022. The $100 million of debentures were sold at a price of $98.887 per $100 principal amount, plus accrued interest, with an effective yield of 4.0875% if held to maturity.

(b) Convertible Debentures

On February 19, 2013, the Company issued $57.5 million aggregate principal amount of 4.45% convertible unsecured subordinated debentures due February 28, 2020.

(c) Dividends

The Company announced that it will pay a first quarter dividend of $0.21 per common share on April 10, 2013 to shareholders of record on March 28, 2013.

30. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors and authorized for issue on February 20, 2013.

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ANNUAL SHAREHOLDERS' MEETING
May 22, 2013
The Design Exchange
234 Bay Street, Toronto, Ontario
At 1:00pm

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Gordon Driedger
Executive Vice President, Central Canada

Gregory J. Menzies
Executive Vice President, Eastern Canada

Roger J. Chouinard
General Counsel and Corporate Secretary

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Senior Vice President, Finance

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