SMARTCENTRES REIT

YEAR-END

Management's Discussion and Analysis

DECEMBER 31, 2017

SMARTCENTRES®

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Outlook

SmartCentres REIT commenced operations as Calloway REIT in November 2001 with a balance sheet comprised of six retail, two office, and three industrial properties with a combined value of approximately $101 million. Through the next 14 years, we continued to focus on growth principally through the acquisition of retail-oriented income producing properties. In May 2015, we completed a transaction with Penguin that resulted in us purchasing a platform that included, one of Canada's most experienced teams of real estate development specialists. Prior to the closing of the transaction in 2015, this team had completed the development of over 170 shopping centres representing approximately 50 million square feet of new space. Since May 2015, we have been channeling this team's energies to focus on mixed-use redevelopment opportunities in each of our centres across Canada. These initiatives have not been restricted to our historical core of retail-oriented developments, but rather, in other growth-oriented directions including high-rise and low-rise housing (both condominium and rental), retirement homes, office and similar commercial centres, self-storage and entertainment/ experiential opportunities. And now as we begin 2018, after 'planting the seeds' for mixed-used growth over the last two years, as one of the country's largest publicly traded real estate entities, Canadians will begin to witness the 'germination' of many of these initiatives.

During 2018, based on our most recent cost estimates and proforma information, we expect to commence development on a variety of mixed-use projects whose aggregate cost is in excess of $1 billion, or $389 million at our share. And over the next 5 years, together with our partners, we expect to commence development on projects whose aggregate costs are estimated to exceed $7.6 billion, or $2.8 billion at our share. With these accelerated efforts in residential high-rise and low-rise development (condominiums, townhomes and purpose-built rental), seniors housing, self-storage facilities, new office space, and other initiatives, when combined with our historic focus on retail development, we expect that each of these other areas will create substantial opportunities for inherent growth in both net asset value and earnings per unit.

Over the next five years we expect to begin a number of high profile, mixed-use projects on several of our existing sites. We are reviewing each of our properties to identify opportunities for further development potential. In both Canada's largest markets and some of its smaller cities and towns, over the next five years, we are planning mixed-use initiatives that will see development commence in: (i) various forms of low-rise and high-rise housing, with particular emphasis on newly constructed purpose-built rental buildings, (ii) seniors housing projects, (iii) self-storage facilities, (iv) office buildings, (v) medical centres, (vi) sound stages and related entertainment industry event facilities, and (vii) digital signs, electrical charging stations and similar forward-thinking initiatives. Each of these new initiatives have two common denominators… they will all be: (i) developed almost exclusively on our existing portfolio of properties across Canada, thus eliminating any need to acquire expensive development lands, and (ii) directed by our own in-house team of unparalleled development professionals, thus ensuring consistently high standards of quality and design, disciplined economic strategy, and realistic planning schedules. With "gold standard" partners, this very significant level of development will be occurring concurrently with our still active pipeline of retail development.

This large and dynamic development program will be ongoing against the backdrop of our existing fortified and industry-leading portfolio of predominantly Walmart anchored retail properties. Our retail centres continue to experience industry-leading occupancy levels, and it is important to emphasize that, our retail portfolio of 154 properties does not have a single Sears location. In 2018, we expect to complete developments to accommodate the expanding requirements of well-known retailers that include Marshalls, Sports Experts, Indigo, HomeSense, and Carter's. In addition, in November 2018, together with our partner, Simon Properties, we expect to complete the 145,000 square foot expansion of the Toronto Premium Outlets that will be the new home to an array of well-known premium brand tenants.

2018 will also mark the beginning of a very significant amount of new construction in and around the Vaughan Metropolitan Centre ("VMC"). The second phase of office construction will see the "topping off" of the PwC/YMCA building which is expected to be ready for occupancy in early spring 2019. In addition, in 2018, with our partners Penguin and CentreCourt, we will see construction commence on over 1,700 presold condominium units in the three 55 storey Transit City condominium buildings together with a multi-level above grade 1,100 unit parking facility. During 2018, the area around VMC is also expected to experience the commencement of tremendous levels of construction by other developers with construction either having already commenced or soon commencing on over 2,500 presold condominium units.

Much of the success of VMC can be attributed to the new subway line that officially opened in December 2017 and now allows commuters to be whisked downtown in a carefree environment in under 45 minutes. Because the new VMC subway station is on our VMC site, within the first month of the subway's opening, the demand for parking has risen significantly, thus resulting in holding income being generated by the temporary parking lots that we have built on future development parcels of the VMC site. In addition, and also on our VMC site, the new York Region Bus Terminal will be opening in the spring of 2018 and will be known as the "SmartCentres Terminal" and our iconic penguin symbol will be proudly displayed at the terminal's entrance. Our 2018 new initiatives for the VMC site include the potential pre-sale of the 4th phase of condominiums, the potential announcement of the site's first large purpose-built residential rental building, and the commencement of a pre-leasing program for the site's third office tower. Our development team has also been actively working on increasing coverage on the site and we now expect the present 53 acre site, when fully developed, to yield approximately 9-11 million square feet of mixed-use development, approximately 1.0 million square feet more than previously estimated.

Together with our partner, Fieldgate, we expect to launch the pre-sales program and commence active development for 230 townhomes at the Vaughan Northwest townhouse development site in late 2018 with first deliveries expected in early 2020. Based on the success of our actual presales program, together with budgeted costs, the expected returns on this project are estimated to be 20%-25%. In addition, with our partner, Jadco, we will commence construction of the first phase of a two phase, 330 unit, purpose built residential rental project in Laval, with completion of the first phase expected in 2019 and based on the market for rental accommodation and our current estimate for budgeted costs, we expect a 5.6% return once stabilized. And with our partner, SmartStop, construction of 3 new self-storage facilities, all located in the Greater Toronto Area, is also expected to commence in 2018, all of which are expected to be completed in 2019, and based on the market for self-storage rental accommodation and our current estimate for budgeted costs, we expect returns on these projects to be in the 7.5%-8.5% range. We will also be moving forward with opportunities for retirement homes within the portfolio and expect to commence development on an initial site in 2019. We recently announced the formation of a new joint venture with Revera to develop new retirement living residences across Canada.

The Toronto StudioCentre, which we own together with Penguin on a 50:50 basis will also see the completion of a new 9,000 square foot sound stage facility in 2018. Construction of this project began in 2017. Work is also progressing on other areas of this site where we are planning for additional studio, office, retail and potentially hotel space that will approximate 1.0-1.2 million square feet and is expected to be completed over the next 7-10 years.

Together with Simon Properties, the expansion of the multi-level parking facility for 1,800 cars at the Toronto Premium Outlets was completed in November 2017. The centre's 145,000 square foot retail expansion is expected to be completed in November 2018. Current leasing initiatives are proceeding very well and the new space is expected to be over 80% leased by completion. Based on our current expectations for new leases coupled with our budgeted construction costs, unlevered yields on costs are expected to be in the high single digits. In addition, occupancy at the Premium Outlets in Montreal is 100%, with continuously improving traffic. We are beginning to plan for a potential expansion initiative on several outparcels on this site that may commence in 2019. Also, with our partner, Simon Properties, we continue to work on two potential additional Premium Outlets locations for Canada, despite having recently abandoned one site east of Toronto.

Work on the expansion of our existing retail centres also continues in earnest. During 2018, we expect to commence development of 279,000 square feet and 89,000 square feet of development and earnout projects, respectively. These initiatives represent continued growth and expansion of existing shopping centres where new premises for new tenants are being built. They include space in retail projects in Bradford, Cornwall, Orleans, Stoney Creek, Vaughan, Oshawa and Lachenaie. The combined cost of these new initiatives is expected to exceed $112 million.

All of this development activity will require large amounts of capital. For those initiatives planned to begin in 2018, with whom we have partners, we have either completed or are in the process of completing, construction financing facilities. For those initiatives planned to begin in 2018 for which we do not have partners, we plan to use our existing sources of funds, including our operating line of credit, to assist with each respective project's completion.

Although the current state of the equity capital markets is not conducive to issuing new equity, we continue to experience strong support for our DRIP program, which in 2017 contributed over $50 million. In addition, we expect to continue to experience fair value increases for those properties sold into joint ventures with whom we have partners, thus resulting in the recognition of additional equity. During 2017, the sale of a 50% interest in the land for the Vaughan NW townhouse project and Transit City phases 1&2 resulted in us recognizing fair value increases of $3.2 million and $2.7 million, respectively. Our overall debt levels continue to be manageable at 45.4% debt to total assets and our weighted average cost of secured and unsecured debt is 3.87% and 3.46%, respectively. In a rising interest rate environment, we will continue to seek opportunities to fix interest rates and secure longer-term financing when appropriate.

Our core portfolio of over 34 million square feet of predominately Walmart anchored shopping centres continues to provide a very safe and secure platform from which we can leverage the development opportunities noted above. Our portfolio has been designed to have both strength and agility and we will continue to ensure that our shopping centres provide platforms to allow our tenants to flourish and provide growth for their future initiatives. During 2018, we expect this portfolio to generate growth in funds from operations ("FFO") per unit approximately 3% higher than 2017 and 4%-5% higher including transactional gains. Principally, this growth will be derived from: (i) incremental revenue associated with the 12 new properties that were acquired as part of the OneREIT acquisition, and (ii) savings in interest costs associated with those 2018 maturing mortgages with substantially higher interest rates than rates currently available. The contributions to FFO from the various new mixed-use development initiatives are expected to commence in the latter half of 2019 with substantial annualized contributions to FFO growth levels beginning in 2020.

Accordingly, 2018 will be a year that sees our development pipeline begin to commence construction on various new mixed-use projects. We believe that this very significant development pipeline, when coupled with our industry-leading operating platform, provide our Unitholders with both security and a unique opportunity to participate in substantial levels of future growth in FFO and net asset value (NAV) over the medium and long terms.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

About this Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") sets out SmartCentres Real Estate Investment Trust's (previously known as Smart Real Estate Investment Trust)("SmartCentres" or the "Trust"), strategies and provides an analysis of the financial performance and financial condition for the year ended December 31, 2017, the risks facing the business and management's outlook.

This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2017 and 2016, and the notes contained therein. Such consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Canadian dollar is the functional and reporting currency for purposes of preparing the consolidated financial statements.

This MD&A is dated February 14, 2018, which is the date of the press release announcing the Trust's results for the year ended December 31, 2017. Disclosure contained in this MD&A is current to that date, unless otherwise noted.

All definitions of terms and ratios capitalized throughout this MD&A can be found in the "Glossary" section.

Presentation of Non-GAAP Measures

Readers are cautioned that certain terms used in this MD&A such as Funds From Operations ("FFO"), Transactional FFO, Adjusted Funds From Operations ("AFFO"), Adjusted Cashflow From Operations ("ACFO"), Net Operating Income ("NOI"), "Interest Coverage", "Aggregate Assets", "Gross Book Value", "Debt to Service", Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), "Secured Indebtedness", "Payout Ratio", and any related per Variable Voting Unit of the Trust (a "Trust Unit") and per unit of the Trust's subsidiary limited partnerships (an "LP Unit") (where management discloses the combination of Trust Units and LP Units, combined units are referred to as "a Unit" or "Units") amounts used by management to measure, compare and explain the operating results and financial performance of the Trust do not have any standardized meaning prescribed under IFRS and, therefore, should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS. These terms are defined in this MD&A and reconciled to the closest IFRS measure in the consolidated financial statements of the Trust for the year ended December 31, 2017. Such terms do not have a standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities. See "Other Measures of Performance", "Net Operating Income", "Debt" and "Financial Covenants".

The calculation of the Trust's AFFO and related AFFO payout ratio, including comparative amounts, has changed pursuant to the February 2017 Real Property Association of Canada ("REALpac") White Paper on FFO and AFFO to be reported in accordance with the REALpac definitions. As a result, comparison with previously reported AFFO and AFFO payout ratios may be inappropriate.

ACFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with REALpac's "White Paper on Adjusted Cashflow from Operations (ACFO)" for IFRS issued in February 2017. The purpose of the White Paper is to provide reporting issuers and stakeholders with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. Prior to the issuance of the February 2017 White Paper, there was no industry standard to calculate a sustainable, economic cash flow metric.

Forward-Looking Statements

Certain statements in this MD&A are "forward-looking statements" that reflect management's expectations regarding the Trust's future growth, results of operations, performance and business prospects and opportunities as outlined under the headings "Business Overview and Strategic Direction", "Outlook" and "Run-Rate NOI". More specifically, certain statements contained in this MD&A, including statements related to the Trust's maintenance of productive capacity, estimated future development plans, including the described type, scope, costs and other financial metrics related thereto, ability to pay future distributions to Unitholders, view of term mortgage renewals including rates and upfinancing amounts, timing of future payments of obligations, intentions to obtain additional secured and unsecured financing and potential financing sources, forecasted annualized NOI, and vacancy and leasing assumptions, and statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions and statements relating to matters that are not historical facts, constitute "forward-looking statements". These forward-looking statements are presented for the purpose of assisting Unitholders and financial analysts to understand the Trust's operating environment, and may not be appropriate for other purposes. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

However, such forward-looking statements involve significant risks and uncertainties, including those discussed under the heading "Risks and Uncertainties" and elsewhere in this MD&A. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Although the forward-looking statements contained in this MD&A are based on what management believes to be reasonable assumptions, including those discussed under the heading "Outlook" and elsewhere in this MD&A, the Trust cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. These forward-looking statements are made as at the date of this MD&A and the Trust assumes no obligation to update or revise them to reflect new events or circumstances unless otherwise required by applicable securities legislation.

All amounts in the MD&A are expressed in millions of Canadian dollars, except where otherwise stated. Per Unit amounts are expressed on a diluted basis, except where otherwise stated.

Additional information relating to the Trust, including the Trust's Annual Information Form for the year ended December 31, 2017, can be found at www.sedar.com.

Business Overview and Strategic Direction

The Trust is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Alberta. The Trust Units are listed and publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "SRU.UN".

The Trust's vision is to create exceptional places to shop, work and live. The Trust's purpose is to develop, lease, construct, own and manage shopping centres and office buildings that provide retailers with a platform to reach their customers through convenient locations, intelligent designs, and a desirable tenant mix, and also, to provide high-quality office space for tenants to locate effective workspaces. The Trust is also now working on opportunities to provide residential housing (in various forms), seniors housing and self-storage facilities at certain of its shopping centre properties across Canada, as well as developing certain of its urban properties to provide a mix of retail, residential, office and self-storage space.

The Trust's shopping centres focus on value-oriented retailers and include strong national and regional names as well as strong neighbourhood merchants. It is expected that Walmart will continue to be the dominant anchor tenant in the portfolio and that its presence will continue to attract other retailers and consumers.

As at December 31, 2017, the Trust owned 154 shopping centres with total gross leasable area of 34.2 million square feet, one office property, seven development properties and one mixed-use property, located in communities across Canada. Generally, the Trust's centres are conveniently located close to major highways, which, along with the anchor stores, provide significant draws to the Trust's portfolio, attracting both value-oriented retailers and consumers. In 2015, the Trust, through a subsidiary limited partnership, acquired the right from Penguin to use the "SmartCentres" brand, which has historically represented a family and value-oriented shopping experience. The Trust recently changed its name from Smart Real Estate Investment Trust to SmartCentres Real Estate Investment Trust in order to further streamline the recognition, branding, and goodwill associated with the SmartCentres' brand among investors, retailers, municipal officials, and consumers.

Mixed-Use Development

Several examples of the Trust's evolution into mixed-use development are: (i) the Vaughan Metropolitan Centre ("VMC") in Vaughan, Ontario, (ii) the Toronto StudioCentre ("StudioCentre") in Toronto, Ontario, (iii) the Vaughan North West ("Vaughan NW") Town-house site in Vaughan, Ontario and (iv) the Laval high-rise residential project in Laval, Quebec.

Vaughan Metropolitan Centre

The VMC is one of the largest proposed urban mixed-use development sites in Canada. The Trust owns a 50% interest in 53 acres through a joint venture with Penguin and plans to develop an expected total area of approximately 9.0 million to 11.0 million square feet of commercial, residential and retail real estate at VMC. Phase 1 of the development at VMC, which is referred to as "SmartCentres' Place", includes a 365,000 square foot office complex with KPMG as lead tenant, with possession taken by KPMG in March 2016. The Spadina-York University subway line extension began service on December 17, 2017 with the opening of the VMC subway station. Also at SmartCentres Place, construction is underway on a new 220,000 square foot Class-A office tower with lead tenant PwC Canada. This building's occupants will also include a 100,000 square foot flagship YMCA with child care, fitness and aquatic facilities plus a 20,000 square foot City of Vaughan library and studio space, to compliment the growing workforce and residential population. Furthermore, at SmartCentres Place, the first, second and third residential condominium towers (known as Transit City) representing over 1,700 units, of which the Trust's share is 25%, have been sold out. When complete, each of these three towers will be 55 storeys in height. The Trust is now planning the next phases of residential and office development for this site. Adjacent to this property is an additional 47 acres of development property which, when fully developed, is expected to consist of approximately 8.0 million square feet of mixed-used space, for which the Trust is responsible for the overall management of planning and development initiatives. The Trust does not have an ownership interest in this adjacent property, which is owned by Penguin in partnership with others.

Next Stop, Vaughan Metropolitan Centre Subway Station

After years of planning and construction, the extension of the TTC's University-Spadina subway line is now complete and operational. On December 17, 2017, Prime Minister Justin Trudeau, Ontario Premier Kathleen Wynne, Vaughan Mayor Maurizio Bevilacqua, Toronto Mayor John Tory and other dignitaries joined the Vaughan community in opening the Vaughan Metropolitan Centre Station. For the first time in the TTC's 96-year history, trains now carry passengers outside present Toronto city limits. Riders are able to travel all the way from the new, state-of-the-art Vaughan Metropolitan Centre Station to downtown Toronto in under 45 minutes.

The SmartCentres Place Bus Terminal which is expected to open in April 2018 will also serve as a connection to the new vivaNext Rapidway bus line running across Highway 7 in Vaughan, allowing east-to-west travel across York Region between Pine Valley Drive and Unionville GO station. The terminal and subway station will be the heart of VMC's major commercial and residential development.

The capital investment by the various levels of government for these transit initiatives exceeds $3.5 billion and VMC is expected to be a primary beneficiary of this enormous capital investment.

Toronto StudioCentre

The StudioCentre site, in which the Trust owns a 50% interest through a joint venture with Penguin, has become a mainstay of the Canadian film, video and television production industry, housing multiple facilities to accommodate all elements of film, video and television production. The Trust has received approval from Toronto City Council to upgrade and redevelop the approximate 19 acre site to include up to 1.2 million square feet of mixed-use space, including office, retail and potentially a hotel, as well as the existing studio space to service the arts, film and media community. The Trust expects that the existing 230,000 square feet of former industrial buildings will continue to benefit from a thriving movie and television production industry in Canada. The sound stages and production office space have now been pre-booked well into 2018, and a new 9,000 square foot sound stage is currently under development and is expected to be completed in and available for rental starting Spring 2018.

Residential Development at Vaughan North West

During the second quarter of 2017, the Trust entered into a joint venture with Fieldgate to develop a 16 acre parcel of land adjacent to the SmartCentres Shopping Centre at the northeast corner of Major Mackenzie Drive and Weston Road in Vaughan, Ontario and to build approximately 230 freehold townhouses.

On June 29, 2017, the Trust sold 50% of the development lands to Fieldgate for gross proceeds of $19.4 million, excluding closing costs of $0.2 million (see the "Residential Development Inventory" section for details). Concurrent with the disposition of 50% of the development lands, the Trust transferred the remaining 50% or $19.4 million interest that it owns out of property under development into residential development inventory.

The Trust also plans to develop residential rentals and seniors residences on the 5.9 acre parcel at the corner of Major Mackenzie Drive and Weston Road and a self-storage facility at the northeast corner of the site.

Acquisitions

Subject to the availability of acquisition opportunities, the Trust intends to grow distributions, in part through the accretive acquisition of properties. The current environment for acquisitions is very competitive with limited supply of economically viable, quality properties coming to the market. The Trust explores acquisition opportunities as they arise but will pursue only acquisitions that management believes are either strategic and/or accretive relative to its long-term cost of capital.

The Plan of Arrangement to Acquire a 12 Property Portfolio from OneREIT

On October 4, 2017, the Trust completed the acquisition of OneREIT pursuant to the terms included in the Arrangement, which was accounted for as a business combination. The Arrangement included: (a) the acquisition of 12 investment properties from OneREIT with a fair value of $451.2 million (including $37.2 million recorded as equity accounted investment), and (b) debt assumptions totalling $325.0 million (including $21.8 million as equity accounted investment). The total consideration paid included the issuance of a total of 833,053 Trust Units and $1.5 million Units classified as liabilities (of which 269,990 ONR LP I Class B Units were issued to Penguin) totalling $70.3 million, and the settlement of a loan receivable of $30.3 million. The assumed debt included obligations under two existing series of OneREIT convertible debentures totalling $76.7 million - one of the series of convertible debentures was redeemed by the Trust in November of 2017.

The Arrangement added 2.2 million square feet of gross leasable area to the Trust's existing portfolio, with 10 of the 12 properties located in Ontario. Further, the portfolio includes 11 food stores, inclusive of six Walmart supercentres and a strong mix of national tenants. The portfolio has an average lease term to maturity of 7.2 years and is 93.0% leased and offers several mixed-use development opportunities.

Developments, Earnouts and Mezzanine Financing

Developments, Earnouts and Mezzanine Financing continue to be a significant component of the Trust's strategic plan. "Developments", as noted in the table below, represent the potential gross leasable area that the Trust plans to develop for its own account and exclude the Trust's share of VMC which is separately reflected below. "Earnouts" are defined as the gross leasable area to be developed and leased to third parties, on lands previously purchased from Penguin and its partners. "Mezzanine Financing" purchase options are exercisable once a certain level of development and leasing at a shopping centre is achieved and typically allow the Trust as a lender to acquire 50% of the completed shopping centre at agreed-upon formulas, based on a market capitalization rate at the time the option is exercised. If the specified level of development and leasing is not achieved prior to the maturity date of the loan and the loan is repaid, then the option terminates. If an applicable property is to be sold prior to the maturity date of the loan and prior to the applicable option being triggered, then the Trust has a right of first refusal with respect to such sale.

As at December 31, 2017, the Trust's potential gross leasable area subject to Developments, Earnouts and Mezzanine Financing is summarized as follows:

(in thousands of square feet)	December 31, 2017
Developments	3,301
Premium Outlets	123
VMC (Office Phase 1 and Office Phase 2)[1]	83
Planned developments not subject to Earnouts	3,507
Planned developments subject to Earnouts	531
Future estimated development area	4,038
Lands under Mezzanine Financing	614
Potential gross leasable area	**4,652**

(1) The potential gross leasable area excludes future phases of office and retail and all residential development.

Pursuant to the transaction completed on May 28, 2015 (the "Transaction"), which involved the acquisition of both a very significant portfolio of real estate and the Penguin platform (see MD&A for the year ended December 31, 2015 for details) – all leasing and development work on behalf of Penguin and other vendors is now managed by, and will be completed by, the Trust under contract with those parties. Earnouts occur where the vendors retain responsibility for certain developments on behalf of the Trust for additional proceeds calculated based on a predetermined, or formula-based, capitalization rate, net of land and development costs incurred by the Trust. Pursuant to the Transaction, the Trust is now responsible for managing the completion of Earnouts and Developments and charges fees to the vendors for such management.

Professional Management

Through professional management of the portfolio, the Trust intends to ensure its properties portray an image that will continue to attract consumers and residents, as well as provide preferred locations for its tenants. Well-managed properties enhance the overall quality of both the shopping and living experience. The Trust believes its professional management of the portfolio permitted the maintenance of a high occupancy level of 98.2% at December 31, 2017 (December 31, 2016 – 98.3%) or 98.3% including executed leases (December 31, 2016 – 98.5%).

SmartCentre's Commitment to Corporate Social Responsibility

To sustain our success, we take a long-term view on everything from employment to environment, then embed this progressive thinking across all levels of the business. We have set an objective to be leaders in our industry on sustainability. To do so, we have clear sustainability-related KPIs and by working with our many partners, we believe our progressive approach to sustainability gives us the competitive advantage.

We want to be the best real estate entity in Canada in the eyes of our customers, our communities, our partners and our employees. We believe it starts with creating jobs and opportunities, engaging our communities, promoting fairness, diversity, health, safety and security, efficient use of natural resources (energy management, waste management, water and responsible supply change management) and striving for sustainable design and continued innovation of our properties.

Employee Well-being

Our priority is to ensure we strengthen our reputation as a strong and admired company and deepen our relationships with the people who matter the most to us: our customers, investors, communities and partners. We recognize that this commitment begins with our employees. We regularly carry out surveys amongst all our employees and we organize an all-company conference every other year. We promote professional and personal growth by offering a variety of professional development courses and personal health clinics throughout the year, which includes an in-house chiropractor/physiotherapist, fitness coach, healthy cooking classes and a run club.

Environmental Stewardship

SmartCentres acknowledges that there are inevitable environmental impacts associated with the daily operations of its centres and aims to minimize that impact wherever feasible. SmartCentres continuously reviews and analyzes environmental initiatives of all levels of government and industry associations for new and innovative ways to reduce its carbon and overall environmental footprint. SmartCentres is committed to making practical, long-term sustainable changes that result in overall reductions in landfill waste, water and energy consumption.

In 2017, the KPMG Tower at SmartCentres Place in the VMC was awarded the Office Development of the Year Real Estate Excellence (REX) Award by the Greater Toronto Chapter of the Commercial Real Estate Development Association (NAIOP). NAIOP states the criteria for the REX Awards focus on results (quality and performance), skills (teamwork, collaboration, innovation and creativity) and values (community and environmental awareness.) Developed by the Trust and Penguin, the KPMG Tower is the first Class-A, LEED Gold office building in the VMC.

Energy Management

SmartCentres employs a third-party utility management company which has allowed for benchmarking and performance measures enabling management to make better informed decisions relating to energy efficient initiatives. Hydro is an area of primary focus and one that SmartCentres can impact significantly by reducing overall consumption within the common areas of its shopping centres.

Parking Lot Lighting Retrofit

A pilot study was completed across a number of sites where magnetic ballasts were replaced with digital ballasts. The changeover resulted in an increased efficiency rating of 98% from 60% with the prior ballasts. Additionally, the increased efficiency made it possible to replace 400-watt bulbs with 250-watt bulbs without compromising on existing lighting levels. The newer 250-watt bulbs last approximately 1.5 times longer than the older 400-watt bulbs resulting in less mercury waste. Digital ballasts have a life expectancy of approximately nine years, which is six years longer than magnetic ballasts, thereby reducing the overall environmental impact. SmartCentres is going one step further and moving towards LED lighting, which will see 400-watt and 250-watt bulbs replaced with 165-watt bulbs. Both LED bulbs and fixtures have a life expectancy of approximately 22 years, about 14 times that of the life expectancy of the 250-watt bulbs. The LED fixtures will meet the RP20 standards for parking lots and the visual light level will increase with the higher colour rendering index.

Waste Management

SmartCentres encourages tenants to recycle and reduce landfill deposits by providing appropriate recycling containers at most sites. All waste is separated at the source and percentage rates of diversion, where available, are monitored for areas of opportunity. SmartCentres' national average diversion rate is approximately 32% and is expected to grow.

Water Management

Water usage does not make up a significant part of the daily operations of most sites and is predominantly used for the purposes of landscape irrigation. Water sensors are installed on many irrigation systems to prevent unnecessary consumption and waste.

Community Engagement and Corporate Citizenship

SmartCentres is committed to the well-being of the many communities in which it serves either through direct corporate involvement or through the services or facilities provided across the property portfolio.

An annual budget is approved by the Board of Trustees for distribution which includes support for national charities as well as other charities with an employee, municipal, or tenant interest.

SmartCentres proudly supports the personal fundraising efforts carried out by employees for registered charities or community-based organizations by contributing annual amounts to individual registered charities and towards community-based organizations. In addition, SmartCentres supports tenants by facilitating local fundraising efforts and community involvement by donating the use of space in kind.

SmartCentres' Commitment to Corporate Governance

The Board of Trustees (the "Board") and management of SmartCentres are committed to the principles of continuously improving corporate governance and has implemented internal policies and procedures to ensure all Trustees, management and associates are aware of our expectations of ethical and professional conduct. To maintain investor confidence, SmartCentres continually strives to ensure that we have sound governance practices, that reflect evolving legislation, guidelines and better practices.

The Board is responsible for the stewardship of SmartCentres and reviews, approves and provides guidance to the strategic plan of the Trust and monitors implementation. The Board approves all significant decisions that affect SmartCentres before they are implemented, supervises the implementation and reviews the results. The Board has specifically assumed responsibility for:

- participating in the development of the strategic plan;
- identifying and managing business risks;
- ensuring the integrity and adequacy of SmartCentres' internal controls and management information systems;
- defining the roles and responsibilities of executive management;
- reviewing and approving the business and investment objectives to be met by management;
- assessing the performance of management;
- succession planning;
- ensuring effective and adequate communication with SmartCentres' Unitholders and other stakeholders as well as the public at large;
- establishing committees of the Board, where required and defining their mandates.

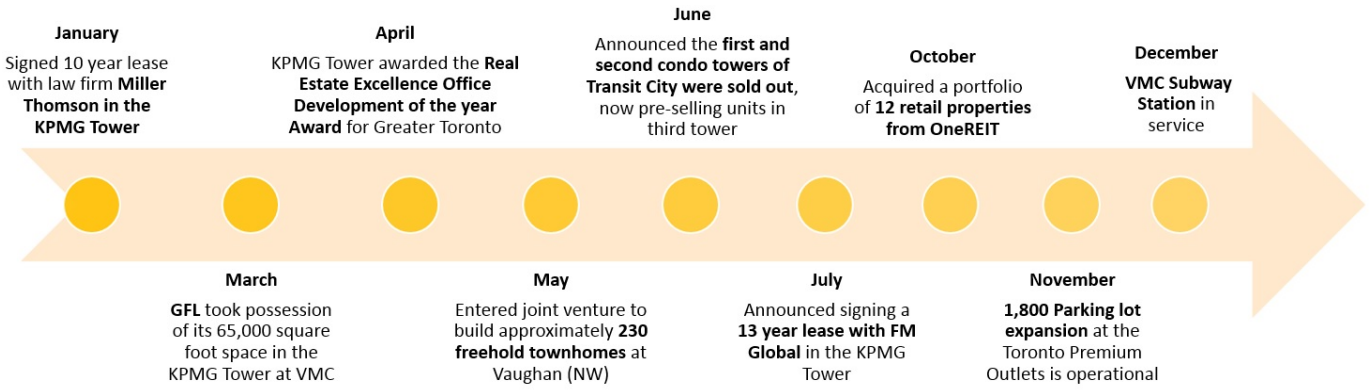
Our Ongoing Commitment

We are proud of our accomplishments in corporate social responsibility, but we understand that we can always do more, and we are committed to continuous improvement in this regard.

Key Business Development, Financial and Operational Highlights in 2017

The Trust continued its growth through Acquisitions, Developments and Earnouts in 2017. During the year, the Trust also focused on managing the operation and development of existing properties and raising the capital required for future growth of the business.

Key business development highlights for the year ended December 31, 2017 include the following:



- The KPMG Tower was awarded the Real Estate Excellence ("REX") Office Development of the Year Award for Greater Toronto.

- The Trust entered into a joint venture with Fieldgate to develop a 16 acre parcel of land adjacent to the SmartCentres Shopping Centre at Major Mackenzie Drive and Weston Road in Vaughan, ON and build approximately 230 freehold townhouses.

- The Trust and Penguin announced the signing of a 13-year (plus two five-year extensions) 48,000 square foot lease transaction with FM Global, one of the world's largest commercial and industrial property insurers, in the KPMG Tower at SmartCentres Place in Vaughan, ON.

- The Trust along with its joint venture partners Penguin and CentreCourt Developments announced that over 1,700 condominium units in the three 55 storey condominium towers at Transit City were sold out.

- The new multi-level parking lot expansion at the Toronto Premium Outlets with Simon Properties, began service in November 2017, with approximately 1,800 total new parking spaces. Together with Simon Properties, the Trust has commenced the 145,000 square foot retail expansion of the Toronto Premium Outlets which is expected to be completed in November 2018.

- The Trust acquired a portfolio of 12 retail properties from OneREIT as part of a plan of arrangement with OneREIT ("the Arrangement") with a fair value of $451.2 million.

    - The Arrangement has added approximately 2.2 million square feet of gross leasable area to the Trust's existing portfolio, with 10 of the 12 properties located in Ontario. Further, the portfolio includes 11 food stores, inclusive of six Walmart supercentres and a strong mix of national tenants. The portfolio has an average lease term to maturity of 7.2 years and is 93.0% leased.

- The Trust announced that it changed its name to SmartCentres Real Estate Investment Trust and was to be commonly referred to as SmartCentres. This change is a recognition of the high level of brand awareness of the SmartCentres name and its iconic penguin logo, well known with consumers, tenants and municipalities across the country. The TSX stock symbol remains the same.

Financial highlights (both GAAP and non-GAAP measures) for the year ended December 31, 2017 include the following:

- Net income and comprehensive income (determined in accordance with IFRS) was $355.9 million, as compared to $386.1 million in the prior year, representing a decrease of $30.2 million or 7.8%[1].

- Net rental income (determined in accordance with IFRS) was $472.9 million, as compared to $474.9 million in the prior year, representing a decrease of $2.0 million or 0.4%.[1]

- Cash flow provided by operating activities (determined in accordance with IFRS) was $353.1 million, as compared to $316.3 million in the prior year, representing an increase of $36.8 million or 11.6%.[1]

- Net income and comprehensive income excluding loss on disposition and fair value adjustments (determined in accordance with IFRS) was $340.5 million, as compared to $327.9 million in the prior year, representing an increase of $12.6 million or 3.9%.[1]

- The Trust maintained a high level of occupancy at 98.2% (December 31, 2016 – 98.3%). Including executed leases, the occupancy level for the year ended December 31, 2017 was 98.3% (December 31, 2016 – 98.5%.)[2]

- Excluding the $9.9 million net settlement proceeds associated with the 2016 Target lease terminations that was recorded in 2016, as compared to the prior year:
    - Payout ratio to AFFO with one time adjustment and transactional FFO decreased by 0.3% to 82.8%. (When the impact of the 2016 Target settlement is included, Payout ratio to AFFO with one time adjustment and transactional FFO increased by 2.5%.)[2]
    - FFO with one time adjustment and before transactional FFO increased by $10.3 million or 3.0% to $347.4 million and increased by $0.03 or 1.38% to $2.20 on a per Unit basis. (When the impact of the 2016 Target settlement is included, FFO with one time adjustment and before transactional FFO increased by $0.4 million or 0.1% and decreased by $0.03 or 1.35% on a per Unit basis.)[2]
    - FFO with one time adjustment and transactional FFO increased by $14.3 million or 4.3% to $351.4 million, and increased by $0.06 or 2.8% to $2.23 on a per Unit basis (When the impact of the 2016 Target settlement is included, FFO with one time adjustment and transactional FFO increased by $4.4 million or 1.3% and remained consistent at $2.23 on a per Unit basis.)[2]
    - AFFO with one time adjustment and transactional FFO increased by $13.2 million or 4.2% to $326.5 million, and increased by $0.06 or 2.5% to $2.07 on a per Unit basis. (When the impact of the 2016 Target settlement is included, AFFO with one time adjustment and transactional FFO increased by $3.3 million or 1.0%, and decreased by $0.01 or 0.5% on a per Unit basis.)[2]

- Same properties' NOI increased by $2.9 million or 0.6% over the prior year.[2]

- Earnouts and Developments including equity accounted investments totalling $107.1 million were completed and transferred to income properties at an average yield rate of 5.8%.[2]

- On March 21, 2017, $150.0 million of 2.876% Series Q senior unsecured debentures were issued for net proceeds including issuance costs totaling $149.1 million.

- On August 9, 2017, the Board of Trustees approved a $0.05 increase in annual distributions to $1.75 per Unit effective October 2017.

- On December 21, 2017, $250.0 million of Series R floating rate senior unsecured debentures and $250.0 million of 3.834% Series S senior unsecured debentures were issued for combined net proceeds including issuance costs totaling $498.4 million.

(1) Represents a GAAP measure.
(2) Represents a non-GAAP measure.

Financial highlights (both GAAP and non-GAAP measures) for the quarter ended December 31, 2017 include the following:

- Net income and comprehensive income (determined in accordance with IFRS) was $101.9 million, as compared to $153.9 million for the same quarter last year, representing a decrease of $52.0 million or 33.8%.[1]

- Net rental income (determined in accordance with IFRS) was $123.7 million, as compared to $119.2 million for the same quarter last year, representing an increase of $4.5 million or 3.8%.[1]

- Cash flow provided by operating activities (determined in accordance with IFRS) was $137.5 million, as compared to $109.7 million over the same quarter last year, representing an increase of $27.8 million or 25.4%.[1]

- Net income excluding loss on disposition and fair value adjustments (determined in accordance with IFRS) was $100.4 million, as compared to $89.9 million over last year, representing an increase of $10.5 million or 11.6%.[1]

- FFO and transactional FFO increased by $4.1 million or 4.7% to $91.0 million and by $0.01 or 1.8% to $0.57 on a per Unit basis.[2]

- AFFO and transactional FFO increased by $3.9 million or 5.0% to $81.1 million and increased by $0.01 or 2.0% to $0.51 on a per Unit basis.[2]

- Payout ratio to AFFO and transactional FFO increased by 1.7% to 85.7% compared to the same quarter of 2016.[2]

- Same properties' NOI decreased by $1.1 million or 0.9% compared to the same quarter of 2016. Without the influence of a $1.2 million reversal in 2016, Same Properties NOI would have increased by $0.1 million or 0.1%.[2]

- Earnouts and Developments including equity accounted investments totaling $54.3 million were completed and transferred to income properties at an average yield rate of 5.8% on investment.[2]

Subsequent to Year End:

- On January 12, 2018, the Trust transferred development lands in Laval, Quebec to a partnership with Jadco. The lands were transferred in for $5.1 million and represented the Trust's respective share of equity required to commence construction of the first phase of the two phased, 330 unit rental residential development.

- On February 5, 2018, the Trust entered into a loan agreement with the PCVP, of which the Trust has a 50% ownership interest, to extend a loan totalling $115.8 million that bears interest at 2.31% to March 21, 2018 and subsequently at the three-month CDOR plus 76 basis points (calculated on the first day of subsequent periods), which matures on August 3, 2018, 50.0% of which is guaranteed by Penguin. The purpose of the loan was to advance funds on an interim basis to repay an existing construction facility outstanding on the KPMG Tower in Vaughan until such time as permanent financing is established.

- On February 12, 2018, the Trust announced, that along with Penguin, it had entered into a joint venture with Revera Inc., a leading owner, operator and investor in the senior living sector to jointly develop new retirement living residences across Canada.

(1) Represents a GAAP measure.
(2) Represents a non-GAAP measure.

Subsequent to Year End continued:

- Management changes:
  - On February 14, 2018, the Board of Trustees announced that Huw Thomas, the Trust's current CEO, will be stepping down at the end of his five-year contract in June 2018, but will be remaining as a Trustee of the Trust. Mitchell Goldhar, the Trust's current non-executive Chairman and largest Unitholder, will become Executive Chairman and in that role will increase his already significant involvement in all aspects of the Trust's business, including strategy, development, intensification initiatives, leasing and finance. Peter Forde, the Trust's current President and COO will assume the President and CEO role on Huw Thomas' departure. This leadership transition is a logical step as the Trust focuses more on development and intensification opportunities on virtually its entire shopping centre portfolio.

  - "On behalf of the Board of Trustees and other Unitholders, I want to thank Huw for his significant contribution to our business over the last five years during which we worked together in starting the transformation of the Trust from an owner/landlord of a portfolio of retail real estate to a fully integrated owner with an emerging suite of exceptional mixed-use properties and an extensive development pipeline," said Mitchell Goldhar. "I also want to congratulate Peter on his appointment and I look forward to working with him in all facets of our business, as we have for the past twenty years," added Goldhar.

Selected Consolidated Financial and Operational Information:

The consolidated financial and operational information shown in the table below includes the Trust's share of equity accounted investments, see the "Equity Accounted Investments" section for details. With the exception of Net income and comprehensive income, and Cash flows provided by operating activities, total assets, and equity, all other items represent non-GAAP financial measures.

The following table represents key financial and operational information for the years ended December 31, 2017 and December 31, 2016:

(in thousands of dollars, except per Unit and other non-financial data)	**2017**	2016
Consolidated Financial and Operational Information		
Net income and comprehensive income[1]	**355,926**	386,135
Cash flows provided by operating activities[1]	**353,082**	316,337
Net income and comprehensive income excluding loss on disposition and fair value adjustments[1]	**340,528**	327,880
Rentals from investment properties[1]	**741,354**	727,750
Number of retail and other properties	**154**	143
Number of properties under development	**7**	7
Number of office properties	**1**	1
Number of mixed-use properties	**1**	1
Total number of properties owned	**163**	152
Gross leasable area (in thousands of sq. ft.)	**34,157**	31,939
Future estimated development area (in thousands of sq. ft.)	**4,038**	4,129
Lands under Mezzanine Financing (in thousands of sq. ft.)	**614**	698
Occupancy rate	**98.2%**	98.3%
Average lease term to maturity	**5.8 years**	6.2 years
Net rental rate (per occupied sq. ft.)	**$15.28**	$15.29
Net rental rate excluding Anchors (per occupied sq. ft.)	**$21.61**	$21.97
Financial Information		
Investment properties[2][3]	**8,915,264**	8,424,860
Total assets[1]	**9,380,232**	8,738,878
Total unencumbered assets[2]	**3,387,000**	2,701,700
Debt[2][3]	**4,318,330**	3,894,671
Debt to Aggregate Assets[2][3]	**45.4%**	44.3%
Debt to Gross Book Value[2][3]	**52.3%**	51.9%
Interest Coverage[2][3]	**3.1X**	3.1X
Debt to Adjusted EBITDA[2][3]	**8.4X**	8.4X
Equity (book value)[1]	**4,827,457**	4,663,944

(1) Represents a GAAP measure.
(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.
(3) Includes the Trust's share of equity accounted investments.

The following table represents key financial, per Unit, and payout ratio information for the years ended December 31, 2017 and December 31, 2016.

(in thousands of dollars, except per Unit information)	2017	(inclusive of Target settlement) 2016	Variance	(without Target settlement) 2016	Variance
	(A)	(B)	(A–B)	(C)	(A-C)
Financial Information					
Net income and comprehensive income[1]	**355,926**	386,135	(30,209)	376,235	(20,309)
Net income and comprehensive income excluding loss on disposition and fair value adjustments[1]	**340,528**	327,880	12,648	317,980	22,548
Rentals from investment properties[1]	**734,032**	725,267	8,765	715,367	18,665
NOI[2][3]	**477,527**	476,346	1,181	466,446	11,081
FFO[2][3][4]	**344,651**	330,556	14,095	320,656	23,995
FFO with one time adjustment and before transactional FFO[2][3][4]	**347,372**	347,013	359	337,113	10,259
FFO with one time adjustment and transactional FFO[2][3][4]	**351,441**	347,013	4,428	337,113	14,328
AFFO[2][3][4][5]	**319,709**	306,741	12,968	296,841	22,868
AFFO with one time adjustment and transactional FFO[2][3][4]	**326,499**	323,198	3,301	313,298	13,201
ACFO[2][3][4][6]	**328,076**	305,057	23,019	295,157	32,919
ACFO with one time adjustment[2][3][4]	**330,797**	321,514	9,283	311,614	19,183
Distributions declared	**270,665**	259,096	11,569	259,096	11,569
Surplus of AFFO with one time adjustment and transactional FFO over distributions declared[2][3][4]	**55,834**	64,102	(8,268)	54,202	1,632
Units outstanding[7]	**159,720,126**	155,686,295	4,033,831	155,686,295	4,033,831
Weighted average – basic	**157,058,690**	154,940,163	2,118,527	154,940,163	2,118,527
Weighted average – diluted[8]	**157,722,407**	155,544,454	2,177,953	155,544,454	2,177,953
Per Unit Information (Basic/Diluted)					
Net income and comprehensive income	**$2.27/$2.26**	$2.49/$2.48	$-0.22/$-0.22	$2.43/$2.42	$-0.16/$-0.16
Net income and comprehensive income excluding fair value adjustments	**$2.18/$2.17**	$2.04/$2.03	$0.14/$0.14	$1.97/$1.96	$0.21/$0.21
FFO with one time adjustment and before transactional FFO[2][3][4]	**$2.21/$2.20**	$2.24/$2.23	$-0.03/$-0.03	$2.18/$2.17	$0.03/$0.03
FFO with one time adjustment and transactional FFO[2][3][4]	**$2.24/$2.23**	$2.24/$2.23	$0.00/$0.00	$2.18/$2.17	$0.06/$0.06
AFFO with one time adjustment and transactional FFO[2][3][4]	**$2.08/$2.07**	$2.09/$2.08	$-0.01/$-0.01	$2.02/$2.01	$0.06/$0.06
Distributions declared	**$1.713**	$1.670	$0.043	$1.670	$0.043
Payout ratio Information					
Payout ratio to AFFO with one time adjustment and transactional FFO[2][3][4]	**82.8%**	80.3%	2.5 %	83.1%	(0.3)%
Payout ratio to ACFO[2][3][4][6]	**82.5%**	84.9%	(2.4)%	87.8%	(5.3)%
Payout ratio to ACFO with one time adjustment[2][3][4]	**81.8%**	80.6%	1.2 %	83.1%	(1.3)%

(1) Represents a GAAP measure.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(3) Includes the Trust's share of equity accounted investments.

(4) See "Other Measures of Performance" for a reconciliation of these measures to the nearest consolidated financial statement measure.

(5) The calculation of the Trust's AFFO and related AFFO payout ratio, including comparative amounts, has changed pursuant to the February 2017 REALpac White Paper on FFO and AFFO, to be reported in accordance with the REALpac definitions. As a result, comparison with previously reported AFFO and AFFO payout ratios may be inappropriate. Payout ratio is calculated as distributions per Unit divided by AFFO per Unit.

(6) The calculation of the Trust's ACFO and related ACFO payout ratio, including comparative amounts, is a new financial metric pursuant to the February 2017 REALpac White Paper on ACFO. Comparison with other reporting issuers may not be appropriate. Payout ratio is calculated as declared distributions divided by ACFO.

(7) Total Units outstanding include Trust Units and LP Units, including Units classified as liabilities. LP Units classified as equity in the consolidated financial statements are presented as non-controlling interests.

(8) The diluted weighted average includes the vested portion of the deferred unit plan.

Results of Operations

The Trust's real estate portfolio has grown through acquisitions and completed Developments and Earnouts during the year ended December 31, 2017, as compared to the year ended December 31, 2016.

Three Months Ended December 31, 2017

The following represents the consolidated statement of income and comprehensive income including the Trust's share of equity accounted investments (a non-GAAP measure), for the three months ended December 31, 2017 and December 31, 2016:

(in thousands of dollars)	**Three Months Ended December 31, 2017**	Three Months Ended December 31, 2016	Variance
Net rental income			
Rentals from investment properties	**196,530**	186,702	9,828
Property operating costs	**(71,024)**	(66,656)	(4,368)
Net rental income	**125,506**	120,046	5,460
Other income and expenses			
Service and other revenues	**3,540**	3,856	(316)
Other expenses	**(3,586)**	(3,851)	265
General and administrative expense	**(6,328)**	(5,786)	(542)
Fair value adjustment on revaluation of investment properties	**5,010**	64,986	(59,976)
Loss on sale of investment properties	**(231)**	(20)	(211)
Interest expense	**(35,700)**	(32,968)	(2,732)
Interest income	**1,985**	2,647	(662)
Pre-sale costs on condominium sales	**(72)**	—	(72)
Loss on investment in equity accounted investments	**(3,301)**	—	(3,301)
Fair value adjustment on financial instruments	**(3,391)**	4,979	(8,370)
Acquisition related gain, net	**18,479**	—	18,479
	(23,595)	33,843	(57,438)
Net income and comprehensive income	**101,911**	153,889	(51,978)

Net income and comprehensive income for the quarter ended December 31, 2017 decreased by $52.0 million compared to the prior year comparative quarter. The primary reasons for the decrease pertain to: (i) fair value adjustments on revaluation of investment properties were lower by $60.0 million, (ii) an $8.4 million decrease in fair value adjustment on financial instruments, (iii) a $3.3 million loss on investment in equity accounted investments, and (iv) a $2.7 million increase in interest expense primarily resulting from the Arrangement, partially offset by (v) an $18.5 million acquisition related gain, net pursuant to the Arrangement, and (vi) a $5.5 million increase in net rental income.

The following summarizes NOI, NOI related ratios, and net income and comprehensive income, which are recorded in the Trust and the Trust's share of equity accounted investments for the three months ended December 31, 2017 and December 31, 2016 (all of which are non-GAAP measures):

(in thousands of dollars)	**Three Months Ended December 31, 2017**			Three Months Ended December 31, 2016			
	Trust	**Equity Accounted Investments**	**Total**	Trust	Equity Accounted Investments	Total	Variance
			(A)			(B)	(A-B)
Net base rent	**124,342**	**1,755**	**126,097**	116,907	752	117,659	8,438
Property operating cost recoveries	**66,435**	**643**	**67,078**	64,393	467	64,860	2,218
Miscellaneous revenue	**3,148**	**207**	**3,355**	4,087	96	4,183	(828)
Rentals from investment properties[1]	**193,925**	**2,605**	**196,530**	185,387	1,315	186,702	9,828
Service and other revenues	**3,540**	**—**	**3,540**	3,856	—	3,856	(316)
Other expenses	**(3,586)**	**—**	**(3,586)**	(3,851)	—	(3,851)	265
Recoverable property operating costs	**(67,655)**	**(712)**	**(68,367)**	(64,246)	(447)	(64,693)	(3,674)
Property management fees and costs	**(1,364)**	**(63)**	**(1,427)**	(1,344)	(12)	(1,356)	(71)
Non-recoverable costs	**(1,187)**	**(43)**	**(1,230)**	(563)	(44)	(607)	(623)
Total property-specific costs and other[1]	**(70,252)**	**(818)**	**(71,070)**	(66,148)	(503)	(66,651)	(4,419)
NOI[1]	**123,673**	**1,787**	**125,460**	119,239	812	120,051	5,409
NOI as a percentage of net base rent	**99.5%**	**101.8%**	**99.5%**	102.0%	108.0%	102.0%	(2.5)%
NOI as a percentage of rentals from investment properties	**63.8%**	**68.6%**	**63.8%**	64.3%	61.7%	64.3%	(0.5)%
Recovery ratio (including prior year adjustments)	**98.2%**	**90.3%**	**98.1%**	100.2%	104.5%	100.3%	(2.2)%
Recovery ratio (excluding prior year adjustments)	**97.5%**	**94.1%**	**97.4%**	97.3%	104.3%	97.3%	0.1%
Net income (loss) and comprehensive income (loss)	**110,422**	**(8,511)**	**101,911**	147,258	6,631	153,889	(51,978)

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

For the three months ended December 31, 2017, NOI increased by $5.4 million or 4.5% compared to the same quarter in 2016. The primary reasons for the increase of $5.4 million pertain to: (i) a $7.6 million increase in net base rent and miscellaneous revenue attributed to the growth of the portfolio, predominantly from the properties acquired pursuant to the Arrangement, offset by (ii) a $1.5 million increase in property operating cost recoveries shortfall, and (iii) a $0.7 million increase in management fees and non-recoverable operating costs principally because of the properties acquired pursuant to the Arrangement.

With respect to the total recovery ratio (including the Trust's share of equity accounted investments) both including and excluding prior year adjustments, recovered 98.1% and 97.4%, respectively, of total recoverable expenses during the three months ended December 31, 2017, compared to 100.3% and 97.3%, respectively, in the same quarter last year.

Year Ended December 31, 2017

The following represents the consolidated statement of income and comprehensive income including the Trust's share of equity accounted investments, for the years ended December 31, 2017 and December 31, 2016 (all of which are non-GAAP measures):

(in thousands of dollars)	**2017[1]**	2016[1]	Variance
Net rental income			
Rentals from investment properties	**741,355**	739,292	2,063
Property operating costs	**(263,771)**	(262,956)	(815)
Net rental income	**477,584**	476,336	1,248
Other income and expenses			
Service and other revenues	**13,215**	11,548	1,667
Other expenses	**(13,271)**	(11,543)	(1,728)
General and administrative expense	**(23,377)**	(24,491)	1,114
Fair value adjustment on revaluation of investment properties	**12,664**	72,315	(59,651)
Loss on sale of investment properties	**(388)**	(144)	(244)
Interest expense	**(135,692)**	(147,895)	12,203
Interest income	**8,584**	11,440	(2,856)
Pre-sale costs on condominium sales	**(277)**	—	(277)
Loss on investment in equity accounted investments	**(3,303)**	—	(3,303)
Fair value adjustment on financial instruments	**1,708**	(1,431)	3,139
Acquisition related gain, net	**18,479**	—	18,479
	(121,658)	(90,201)	(31,457)
Net income and comprehensive income	**355,926**	386,135	(30,209)

Net income and comprehensive income for the year ended December 31, 2017 decreased by $30.2 million compared to the prior year. The primary reasons for the decrease pertain to: (i) a $59.7 million decrease in fair value adjustment on revaluation of investment properties, (ii) a $3.3 million loss on investment in equity accounted investments, (iii) a $2.9 million decrease in interest income, partially offset by, (iv) an $18.5 million acquisition related gain, net pursuant to the Arrangement, (v) a $12.2 million decrease in interest expense primarily relating to lower yield maintenance costs in 2017, (vi) a $3.1 million increase in fair value adjustment on financial instruments, and (vii) a $1.2 million increase in net rental income.

The following summarizes NOI, NOI related ratios, and net income and comprehensive income, which are recorded in the Trust and the Trust's share of equity accounted investments for the years ended December 31, 2017 and December 31, 2016 (all of which are non-GAAP measures):

(in thousands of dollars)	**Year Ended December 31, 2017**			Year Ended December 31, 2016[2]			
	Trust	**Equity Accounted Investments**	**Total**	Trust	Equity Accounted Investments	Total	Variance
			(A)			(B)	(A-B)
Net base rent	**476,474**	**4,773**	**481,247**	465,802	1,467	467,269	13,978
Property operating cost recoveries	**246,358**	**1,972**	**248,330**	235,274	918	236,192	12,138
Miscellaneous revenue	**11,200**	**577**	**11,777**	24,191	98	24,289	(12,512)
Rentals from investment properties[1]	**734,032**	**7,322**	**741,354**	725,267	2,483	727,750	13,604
Service and other revenues	**13,216**	**—**	**13,216**	11,548	—	11,548	1,668
Other expenses	**(13,271)**	**—**	**(13,271)**	(11,543)	—	(11,543)	(1,728)
Recoverable property operating costs	**(253,597)**	**(2,322)**	**(255,919)**	(241,165)	(912)	(242,077)	(13,842)
Property management fees and costs	**(5,076)**	**(180)**	**(5,256)**	(5,840)	(43)	(5,883)	627
Non-recoverable costs	**(2,431)**	**(166)**	**(2,597)**	(3,405)	(44)	(3,449)	852
Total property-specific costs and other[1]	**(261,159)**	**(2,668)**	**(263,827)**	(250,405)	(999)	(251,404)	(12,423)
NOI[1]	**472,873**	**4,654**	**477,527**	474,862	1,484	476,346	1,181
NOI as a percentage of net base rent	**99.2%**	**97.5%**	**99.2%**	101.9%	101.2%	101.9%	(2.7)%
NOI as a percentage of rentals from investment properties	**64.4%**	**63.6%**	**64.4%**	65.5%	59.8%	65.5%	(1.1)%
Recovery ratio (including prior year adjustments)	**97.1%**	**84.9%**	**97.0%**	97.6%	100.7%	97.6%	(0.6)%
Recovery ratio (excluding prior year adjustments)	**96.8%**	**86.4%**	**96.7%**	96.9%	99.7%	96.9%	(0.2)%
Net income (loss) and comprehensive income (loss)	**357,589**	**(1,663)**	**355,926**	372,348	13,787	386,135	(30,209)

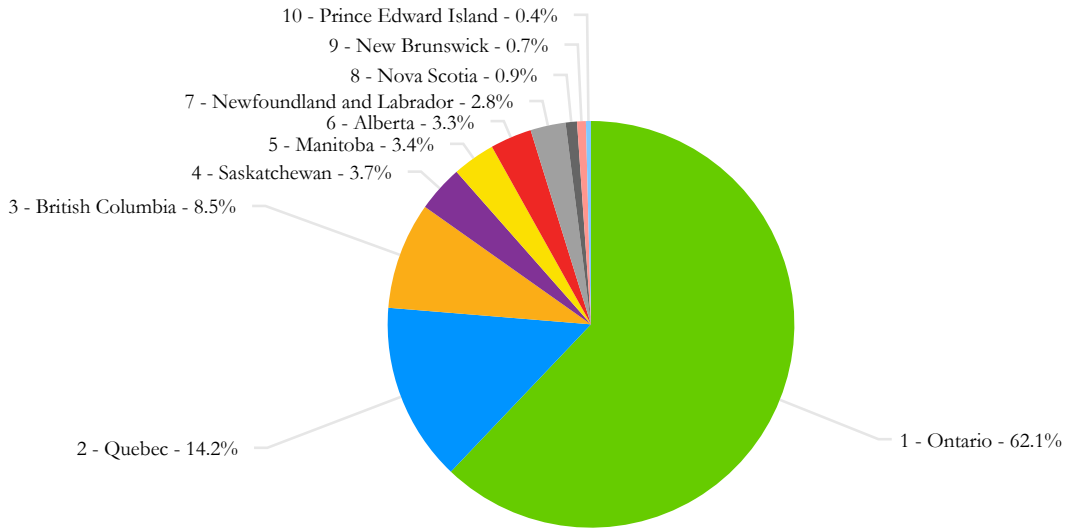
(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(2) Includes $9.9 million net settlement proceeds associated with the 2016 Target lease terminations recorded during the year ended December 31, 2016.

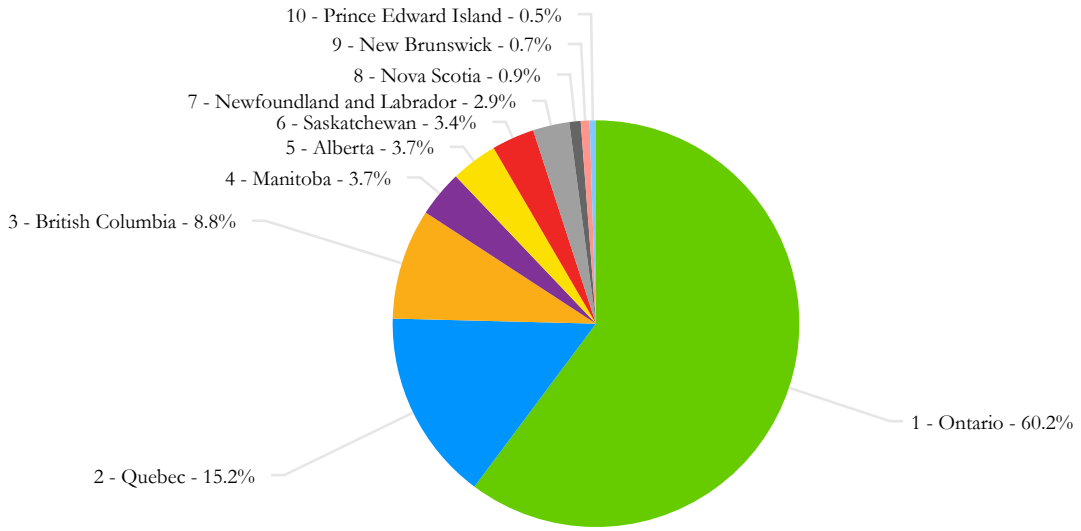
For the year ended December 31, 2017, NOI increased by $1.2 million or 0.2% compared to the prior year. The primary reasons for the increase of $1.2 million pertain to: (i) a $14.0 million increase in base rental income due to growth from the properties acquired, primarily due to the Arrangement ($10.4 million) and the KPMG Office Tower ($3.3 million), and (ii) a $12.1 million increase in property operating cost recoveries due to the growth of the portfolio, offset by, (iii) a $13.8 million increase in recoverable property operating costs, attributed to an $8.7 million increase in realty tax expenses and $5.2 million increase in CAM recoveries due to the growth of the portfolio, predominantly from the properties acquired pursuant to the Arrangement, and (iv) a $12.5 million decrease in miscellaneous revenue attributed to lower termination fees received in the current year versus the comparative year which was principally driven by the 2016 Target lease termination fees of $9.9 million.

With respect to the recovery ratio both including and excluding prior year adjustments, the Trust recovered 97.0% and 96.7%, respectively, of total recoverable expenses during the year ended December 31, 2017, compared to 97.6% and 96.9%, respectively, in the year ended December 31, 2016.

Gross Revenue by Province (Year Ended December 31, 2017)



Gross Revenue by Province (Year Ended December 31, 2016)



The Trust's portfolio is located across Canada with properties in each of the provinces. With respect to the portfolio's gross revenue, 76.4% (December 31, 2016 – 75.4%) is derived from Ontario and Quebec, primarily in the Greater Toronto and Montreal areas.

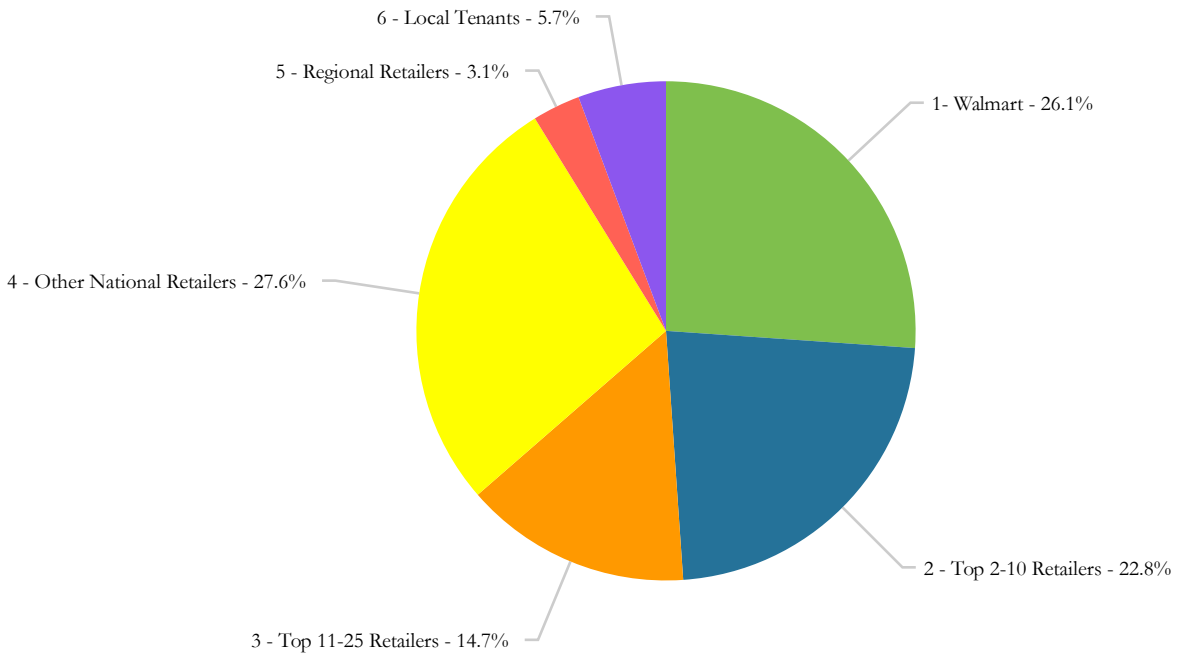
Top 10 Tenants

The 10 largest tenants (by rental revenue) account for 49.0% of portfolio revenue as follows:

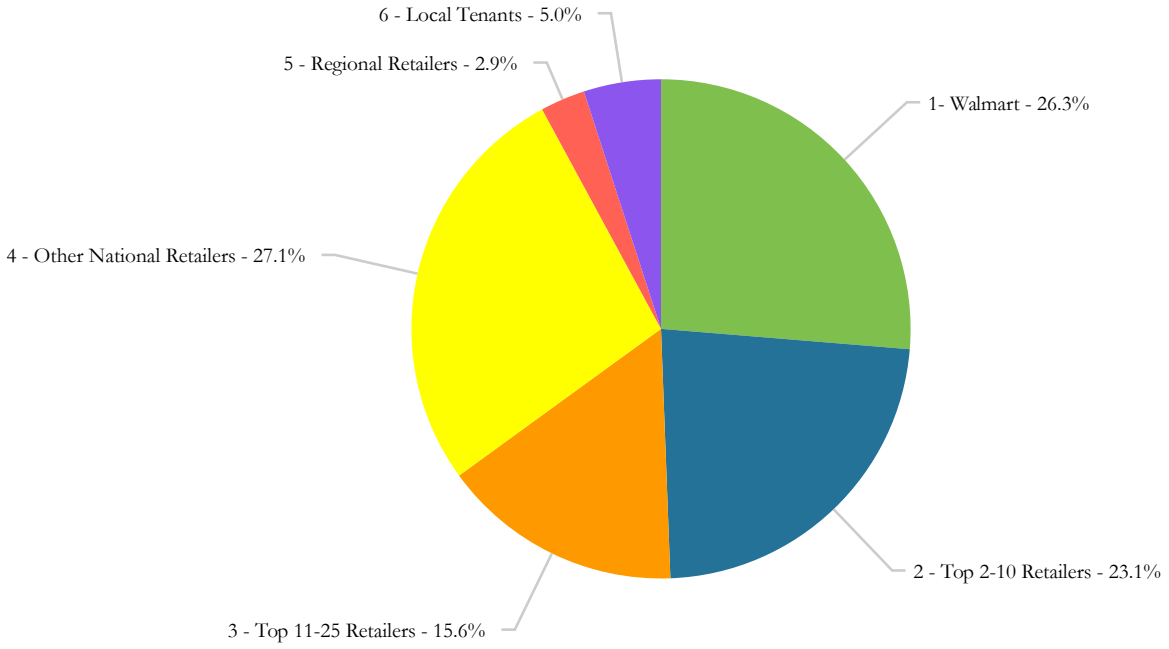
#	Tenant	Number of Stores	Annualized Rental Revenue ($ millions)	Percentage of Total Annualized Rental Revenue	Leased Area (sq. ft.)	Leased Area as a Percentage of Total Gross Leasable Area
1	Walmart[1]	101	201.8	26.1%	14,107,316	41.3%
2	Canadian Tire, Mark's and FGL Sports	70	34.6	4.5%	1,351,961	4.0%
3	Winners, HomeSense, Marshalls	52	30.4	3.9%	1,336,489	3.9%
4	Loblaws and Shoppers Drug Mart	24	20.6	2.7%	899,056	2.6%
5	Lowe's, RONA	9	18.7	2.4%	1,023,223	3.0%
6	Sobeys	18	17.8	2.3%	782,029	2.3%
7	Reitmans	94	16.0	2.1%	519,650	1.5%
8	Best Buy	23	13.9	1.8%	524,027	1.5%
9	Dollarama	52	12.8	1.7%	491,164	1.4%
10	Michaels	25	11.7	1.5%	477,249	1.4%
		468	378.3	49.0%	21,512,164	62.9%

(1) The Trust has a total of 101 Walmart locations under lease, of which 96 are supercentres. The Trust has 14 shopping centres with Walmart as shadow anchors, of which 13 are supercentres.

Gross Rental Revenue by Tenant (Year Ended December 31, 2017)



Gross Rental Revenue by Tenant (Year Ended December 31, 2016)



Same Property NOI

NOI from continuing operations is defined as rentals from investment properties less property-specific costs net of service and other revenues. Disclosing the NOI contribution from each of same properties, acquisitions, dispositions, Earnouts and Development activities highlights the impact each component has on aggregate NOI. Straight-lining of rent and other adjustments have been excluded from NOI attributed to same properties, acquisitions, dispositions, Earnouts and Development activities in the table below to highlight the impact of growth in occupancy, rent uplift and productivity.

Three Months Ended December 31, 2017

(in thousands of dollars)	**Three Months Ended December 31, 2017**	Three Months Ended December 31, 2016	Variance	Variance (%)
Same properties[1]	**116,923**	118,034	(1,111)	(0.9)%
Acquisitions	**7,961**	726	7,235	N/R[2]
Dispositions	**10**	135	(125)	(92.6)%
Earnouts and Developments	**1,332**	1,062	270	25.4 %
NOI before adjustments	**126,226**	119,957	6,269	5.2 %
Amortization of tenant improvements	**(1,690)**	(1,638)	(52)	3.2 %
Lease termination and other adjustments	**531**	1,529	(998)	(65.3)%
Straight-lining of rents	**577**	377	200	53.1 %
Royalties	**(184)**	(174)	(10)	5.7 %
NOI[1]	**125,460**	120,051	5,409	4.5 %

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(2) N/R - Not representative

"Same properties" in the table above refer to those income properties that were owned by the Trust from October 1, 2016 to December 31, 2016 and from October 1, 2017 to December 31, 2017. The same properties NOI for the three months ended December 31, 2017 decreased by $1.1 million or 0.9% over the comparable prior year quarter, which was primarily due to: (i) a $1.2 million decrease in CAM and tax recoveries principally relating to prior year recovery adjustment/settlement recorded in the comparative prior quarter, and (ii) a $0.4 million increase in bad debt, offset by (iii) a $0.5 million increase in rental revenue principally related to StudioCentre. Without the significant prior year recovery adjustment, year-over-year same property growth for the three months ended December 31, 2017 would have been 0.4%.

The increases in rental revenue from acquisitions of $7.2 million, as illustrated in the table above, were principally attributed to the growth of the portfolio during the quarter ended December 31, 2017 primarily as a result of the Arrangement.

Lease terminations and other adjustments decreased by $1.0 million, as illustrated in the table above, which was primarily attributed to an increase of termination fees received during the comparative quarter.

Please also see the beginning of the "Results of Operations" section for a commentary on the change in NOI for the three months ended December 31, 2017.

Year Ended December 31, 2017

(in thousands of dollars)	**Year Ended December 31, 2017**	Year Ended December 31, 2016[2]	Variance	Variance (%)
Same properties[1]	**458,678**	455,760	2,918	0.6 %
Acquisitions	**11,512**	1,105	10,407	N/R[3]
Dispositions	**338**	504	(166)	(32.9)%
Earnouts and Developments	**11,376**	9,132	2,244	24.6 %
NOI before adjustments	**481,904**	466,501	15,403	3.3 %
Amortization of tenant improvements	**(6,789)**	(6,110)	(679)	11.1 %
Lease termination and other adjustments	**1,375**	15,530	(14,155)	(91.1)%
Straight-lining of rents	**1,742**	1,083	659	60.8 %
Royalties	**(705)**	(658)	(47)	7.1 %
NOI[1]	**477,527**	476,346	1,181	0.2 %

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.
(2) Includes $9.9 million net settlement proceeds associated with the 2016 Target lease terminations recorded during the year ended December 31, 2016.
(3) N/R - Not representative

"Same properties" in the table above refer to those income properties that were owned by the Trust from January 1, 2016 to December 31, 2016 and from January 1, 2017 to December 31, 2017. The same properties NOI for the year ended December 31, 2017 increased by $2.9 million or 0.6% over the comparable prior year period, which was primarily due to: (i) a $2.1 million decrease in bad debt expense attributed to the reversal/settlements of previously provided bad debt provisions, (ii) a $0.9 million increase in rental revenue principally relating to Toronto StudioCentre, and (iii) a $0.9 million increase in short-term rental revenues and percentage rental revenues principally relating to Toronto Premium Outlets and Montreal Premium Outlets, offset by (iv) a $1.0 million decrease prior year adjustment/ settlement of CAM and tax recoveries.

The increases in rental revenue from acquisitions of $10.4 million, as illustrated in the above table, were principally attributed to the growth of the portfolio during the year ended December 31, 2017 primarily as a result of the Arrangement.

Lease terminations and other adjustments decreased by $14.2 million, as illustrated in the above table, which was attributed to lease terminations recorded in the comparative period, principally due to the $9.9 million net settlement proceeds associated with the Target lease terminations and other lease terminations of $4.3 million.

Please also see the beginning of the "Results of Operations" section for a commentary on the change in NOI for the year ended December 31, 2017.

Annual Run-Rate NOI

Annual Run-Rate NOI is a forward-looking, non-GAAP measure. Management's estimate of the annual Run-Rate NOI (excluding the impact of straight-line rent and other non-recurring items including but not limited to bad debt provisions and termination fees) at December 31, 2017 is $505.8 million (December 31, 2016 – $471.5 million). The annual Run-Rate NOI is computed by annualizing the current quarter NOI and making adjustments as noted. The estimated annual Run-Rate NOI improved by $34.3 million or 7.3% from the prior year, primarily as a result of acquisitions, Developments and Earnouts over the past 12 months.

There are no assurances for same property Annual Run-Rate NOI growth rates, however, assuming a 1.0% same property NOI growth rate over 2018 and 2019, FFO is forecasted to increase by $0.032 and $0.032 per Unit, respectively.

Adjusted EBITDA

The following table represents a reconciliation of net income and comprehensive income to Adjusted EBITDA for the 12 months ended, December 31, 2017 and December 31, 2016:

	12 Months Ended December 31		
(in thousands of dollars)	**2017**	2016	Variance
Net income and comprehensive income[1]	**355,926**	386,135	(30,209)
Add (deduct) the following items[2]:			
Net interest expense	**133,485**	131,794	1,691
Yield maintenance on redemption of unsecured debentures	**2,721**	16,457	(13,736)
Amortization of equipment and intangible assets	**2,087**	2,022	65
Amortization of tenant improvements	**6,635**	6,078	557
Fair value adjustment on revaluation of investment properties	**(12,664)**	(72,315)	59,651
Fair value adjustment on financial instruments	**(1,708)**	1,431	(3,139)
Loss on supplemental contribution	**3,303**	—	3,303
Loss on sale of investment properties	**288**	144	144
Target settlement proceeds, net	**—**	(9,910)	9,910
Transactional FFO - gain on sale of land to co-owners	**4,069**	—	4,069
Acquisition related gain, net	**(18,479)**	—	(18,479)
Adjusted EBITDA[2]	**475,663**	461,836	13,827

(1) Represents a GAAP measure.
(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

Other Measures of Performance

The following are measures sometimes used by Canadian real estate investment trusts ("REITs") as indicators of financial performance. Management uses these measures to analyze operating performance. Because one of the factors that may be considered relevant by prospective investors is the cash distributed by the Trust relative to the price of the Units, management believes these measures are useful supplemental measures that may assist prospective investors in assessing an investment in Units. The Trust analyzes its cash distributions against these measures to assess the stability of the monthly cash distributions to Unitholders. Because these measures are not standardized as prescribed by IFRS, they may not be comparable to similar measures presented by other REITs. These measures are not intended to represent operating profits for the period; nor should they be viewed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. The calculations are derived from the consolidated financial statements for the year ended December 31, 2017, unless otherwise stated, do not include any assumptions, do not include any forward-looking information and are consistent with prior reporting periods.

ACFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with the Real Property Association of Canada's "White Paper on Adjusted Cashflow from Operations (ACFO)" for IFRS issued in February 2017. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. Prior to the issuance of the February 2017 White Paper, there was no industry standard to calculate a sustainable, economic cash flow metric.

REALpac, in consultation amongst preparers and users of reporting issuers' financial statements, determined there was diversity in how AFFO should be utilized – some viewing it as an earnings metric, some viewing it as a cash flow measure, and others considering it a hybrid between the two. In order to develop greater consistency within the industry, it was determined that AFFO should be defined as a recurring economic earnings measure. Accordingly, the calculation of the Trust's AFFO and related AFFO payout ratio, including comparative amounts, has changed pursuant to the February 2017 REALpac White Paper on FFO and AFFO to be reported in accordance with the REALpac definitions. As a result, comparison with previously reported AFFO and AFFO payout ratios may be inappropriate, and because of different interpretation and adoption of the new guidance, comparison with other reporting issuers may also not be appropriate.

Weighted Average Number of Units

The weighted average number of Trust Units and LP Units is used in calculating the Trust's FFO, AFFO and ACFO per Unit. Diluted FFO, AFFO and ACFO per Unit are adjusted for the dilutive effect of the vested portion of deferred units granted under the Trust's deferred unit plan unless they are anti-dilutive. To calculate diluted FFO, AFFO and ACFO per Unit for the three months and year ended December 31, 2017, vested deferred units are added back to the weighted average Units outstanding because they are dilutive.

The following table sets forth the weighted average number of Units outstanding for the purpose of FFO, AFFO and ACFO per Unit calculations in this MD&A:

	Three Months Ended December 31		**Year Ended December 31**	
(number of Units)	**2017**	2016	**2017**	2016
Trust Units	**132,333,681**	129,946,480	**131,127,619**	129,421,202
Class B LP Units	**16,353,564**	16,340,573	**16,350,990**	16,334,543
Class D LP Units	**311,022**	311,022	**311,022**	311,022
Class B LP II Units	**756,525**	756,525	**756,525**	756,525
Class B LP III Units	**3,798,484**	3,772,448	**3,780,574**	3,763,393
Class B LP IV Units	**3,046,121**	3,046,121	**3,046,121**	3,043,124
Class B Oshawa South LP Units	**688,336**	688,336	**688,336**	688,336
Class D Oshawa South LP Units	**251,649**	251,649	**251,649**	251,649
Class B Oshawa Taunton LP Units	**374,223**	374,223	**374,223**	355,454
Class D Oshawa Taunton LP Units	**—**	—	**—**	14,915
Class B Series ONR LP Units	**1,213,219**	—	**305,798**	—
Class B Series 1 ONR LP I Units	**128,548**	—	**32,401**	—
Class B Series 2 ONR LP I Units	**132,638**	—	**33,432**	—
LP Units	**27,054,329**	25,540,897	**25,931,071**	25,518,961
Total Units - Basic	**159,388,010**	155,487,377	**157,058,690**	154,940,163
Vested deferred units	**690,209**	572,090	**663,717**	604,291
Total Units and vested deferred units - Diluted	**160,078,219**	156,059,467	**157,722,407**	155,544,454

Funds From Operations

FFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a White Paper describing the intended use of FFO last revised in February 2017. It is the Trust's view that IFRS net income does not necessarily provide a complete measure of the Trust's recurring operating performance. This is primarily because IFRS net income includes items such as fair value changes of investment property that are subject to market conditions and capitalization rate fluctuations and gains and losses on the disposal of investment properties, including associated transaction costs and taxes, which are not representative of a company's recurring operating performance. For these reasons, the Trust has adopted REALpac's definition of FFO, which was created by the real estate industry as a supplemental measure of recurring operating performance. FFO is computed as IFRS consolidated net income and comprehensive income attributable to Unitholders adjusted for items such as, but not limited to, unrealized changes in the fair value of investment properties and transaction gains and losses on the acquisition or disposal of investment properties calculated on a basis consistent with IFRS.

FFO should not be construed as an alternative to net income and comprehensive income or cash flows provided by or used in operating activities determined in accordance with IFRS. The Trust's method of calculating FFO is in accordance with REALpac's recommendations, but may differ from other issuers' methods and, accordingly, may not be comparable to FFO reported by other issuers.

A reconciliation of FFO to IFRS net income and comprehensive income can be found on the following page.

Adjusted Funds From Operations

AFFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a White Paper describing the intended use of AFFO last revised in February 2017. AFFO is a supplemental measure historically used by many in the real estate industry to measure operating cash flow generated from the business. In calculating AFFO, the Trust now adjusts FFO for actual costs incurred relating to leasing activities, major maintenance costs (both recoverable and non-recoverable) and straight-line rent in excess of contractual rent paid by tenants (a receivable). Working capital changes, viewed as short-term cash requirements or surpluses, are deemed financing activities pursuant to the methodology and are not considered when calculating AFFO. Capital expenditures that are excluded and not deducted in the calculation of AFFO comprise those which generate a new investment stream, such as erecting a new pylon sign that generates sign rental income, constructing a new retail pad during property expansion or intensification, development activities or acquisition activities. Accordingly, AFFO differs from FFO in that AFFO excludes from its definition certain non-cash revenues and expenses recognized under IFRS, such as straight-line rent and the amortization of financing costs, but also includes capital and leasing costs incurred during the period that are capitalized for IFRS purposes. Management is of the view that AFFO is a useful measure of recurring economic earnings generated from operations after providing for operating capital requirements and as a result is also useful in evaluating the ability of the Trust to fund distributions to Unitholders.

A reconciliation of AFFO to IFRS net income and comprehensive income can be found below. The Trust will continue to provide AFFO, but may over time, consider using only FFO and ACFO, as measures by which it evaluates its business.

Adjusted Cashflow From Operations

ACFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with the Real Property Association of Canada's "White Paper on Adjusted Cashflow from Operations (ACFO)" for IFRS issued in February 2017. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. Prior to the issuance of the February 2017 White Paper, there was no industry standard to calculate a sustainable, economic cash flow metric. Similarly, it may still differ from other reporting issuers because of variances in interpretation and adoption of the new guidelines.

A reconciliation of ACFO to IFRS cash provided by operating activities can be found on the following page.

Determination of Distributions

Pursuant to the Declaration of Trust, the Trust endeavours to distribute annually such amount as is necessary to ensure the Trust will not be subject to tax on its net income under Part I of the Income Tax Act.

Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management believes the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations. Management has historically targeted a payout ratio of approximately 77% to 82% of AFFO, which allows for any unforeseen expenditures for the maintenance of productive capacity. The establishment of the new cash flow measure, ACFO, and the revised calculation of AFFO on a new basis show that existing payout ratios are now above this target range, but based on current facts and assumptions, management does not anticipate cash distributions will be reduced or suspended in the foreseeable future. In any given period, the distributions declared may differ from cash provided by operating activities, primarily due to seasonal fluctuations in non-cash operating items (amounts receivable, prepaid expenses, deposits, accounts payable and accrued liabilities). These seasonal or short-term fluctuations are funded, if necessary, by the Trust's revolving operating facility. In addition, the distributions declared include a component funded by the Trust's distribution reinvestment plan. Management anticipates that distributions declared will, in the foreseeable future, continue to vary from net income and comprehensive income because net income and comprehensive income include fair value adjustments to investment properties, fair value changes in financial instruments, and other adjustments and also because distributions are determined based on non-GAAP cash flow measures, which include consideration of the maintenance of productive capacity. Accordingly, the Trust does not use IFRS net income and comprehensive income as a proxy for distributions. Management will continue to assess the sustainability of cash and non-cash distributions in each financial reporting period.

Cash Flows from Operating Activities and Distributions Declared

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the ensuing table "Distributions and ACFO Highlights" outlines the differences between cash generated from operating activities (per consolidated financial statements) and total distributions, as well as the differences between net income and comprehensive income (loss) and total distributions, in accordance with the guidelines.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles: (i) adjusted cash flows from operating activities (a non-GAAP measure) to cash generated from operating activities (per consolidated financial statements), and (ii) cash flows from operating activities (including investments in joint ventures) (a non-GAAP measure) to cash generated from operating activities (per consolidated financial statements).

The following represents a reconciliation from cash flows from operating activities (a GAAP measure) to ACFO (a non-GAAP measure), for the years ended December 31, 2017 and December 31, 2016:

(in thousands of dollars)	**2017**	2016
Cash generated from operating activities before inclusion of equity accounted investments (per consolidated financial statements)	**322,096**	329,736
Add:		
Equity accounted investments' cash flows from operating activities	**30,986**	(13,399)
Cash flows from operating activities (including equity accounted investments)	**353,082**	316,337
Add (deduct):		
Normalizing adjustments, the elimination of actual sustaining expenditures and other[1]	**(25,006)**	(11,280)
Adjusted cash flows from operating activities[2]	**328,076**	305,057
Distributions declared	**270,665**	259,096
Distributions from Units classified as equity	**269,034**	258,132
Distributions from Units classified as liabilities	**1,631**	964

(1) Please see the Reconciliation of ACFO for detail of adjustments.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

Reconciliation of FFO

The table and analysis below illustrate a reconciliation of the Trust's net income to FFO, and FFO and transactional FFO for the three months ended December 31, 2017 and December 31, 2016:

(in thousands of dollars, except per Unit amounts)	**Three Months Ended December 31, 2017**	Three Months Ended December 31, 2016	Variance	Variance (%)
Net income and comprehensive income	**101,911**	153,889	(51,978)	(33.8)%
Add (deduct):				
Fair value adjustment on revaluation of investment properties	**(5,173)**	(59,681)	54,508	(91.3)%
Fair value adjustment on financial instruments	**3,516**	(4,307)	7,823	(181.6)%
Loss on sale of investment properties	**132**	20	112	560.0 %
Amortization of intangible assets	**332**	333	(1)	(0.3)%
Amortization of tenant improvement allowance	**1,635**	1,606	29	1.8 %
Distributions on LP Units and vested deferred units recorded as interest expense	**1,211**	480	731	152.3 %
Salaries and related costs attributed to leasing activities[1]	**1,083**	84	999	1,189.3 %
Acquisition related gain, net[2]	**(18,479)**	—	(18,479)	(100.0)%
Adjustments relating to equity accounted investments:				
Rental revenue adjustment – tenant improvement amortization	**57**	32	25	78.1 %
Indirect interest with respect to the development portion[3]	**412**	475	(63)	(13.3)%
Fair value adjustment on revaluation of investment properties	**162**	(5,305)	5,467	(103.1)%
Fair value adjustment on financial instruments	**(127)**	(672)	545	(81.1)%
Loss on sale of investment properties	**100**	—	100	100.0 %
Adjustment for supplemental contribution	**3,303**	—	3,303	100.0 %
FFO[4]	**90,075**	86,954	3,121	3.6 %
Transactional FFO - gain on sale of land to co-owners	**945**	—	945	100.0 %
FFO and transactional FFO[4]	**91,020**	86,954	4,066	4.7 %
Per Unit – basic/diluted[5]:				
FFO[4]	**$0.57/$0.56**	$0.56/$0.56	$0.01/$0.00	1.8%/0.0%
FFO and transactional FFO[4]	**$0.57/$0.57**	$0.56/$0.56	$0.01/$0.01	1.8%/1.8%
Payout ratio:				
FFO[4]	**78.0%**	75.2%	2.8%	3.7%
FFO and transactional FFO[4]	**76.7%**	75.2%	1.5%	2.0%

(1) Internal expenses for leasing, primarily salaries, of $1.1 million were incurred in the three months ended December 31, 2017 (three months ended December 31, 2016 – $0.1 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2017, which provided for an adjustment to incremental leasing expenses for the cost of salaried staff. This adjustment to FFO results in more comparability between Canadian publicly traded real estate entities that expensed their internal leasing departments and those that capitalized external leasing expenses.

(2) Acquisition related gain, net relates to the gain associated with the Arrangement.

(3) Indirect interest is not capitalized to properties under development of equity accounted investments under IFRS but is a permitted adjustment under REALpac's definition of FFO. The amount is based on the total cost incurred with respect to the development portion of equity accounted investments multiplied by the Trust's weighted average cost of debt.

(4) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(5) Diluted FFO and diluted FFO with one time adjustment are adjusted for the dilutive effect of vested deferred units, which are not dilutive for net income purposes. To calculate diluted FFO and diluted FFO with one time adjustment for the three months ended December 31, 2017, 690,209 vested deferred units are added back to the weighted average Units outstanding (three months ended December 31, 2016 – 572,090 vested deferred units).

For the three months ended December 31, 2017, FFO and transactional FFO increased by $4.1 million or 4.7% to $91.0 million, and by $0.01 or 1.8% to $0.57 on a per Unit basis. The increase in FFO and transactional FFO was primarily due to: (i) a $5.4 million increase in NOI (see details in the "Results of Operations" section), partially offset by (ii) a $0.5 million increase in general, administrative and other expense, and (iii) a $0.7 million decrease in interest income attributed to a repayment in 2016 by OneREIT of $10.0 million against a loan receivable, and lower interest rates associated with amended interest rate terms on certain Mezzanine Loans.

The table and analysis below illustrate a reconciliation of the Trust's net income to FFO and FFO with one time adjustment and transactional FFO for the years ended December 31, 2017 and December 31, 2016:

(in thousands of dollars, except per Unit amounts)	**Year Ended December 31, 2017**	Year Ended December 31, 2016[7]	Variance	Variance (%)
Net income and comprehensive income	**355,926**	386,135	(30,209)	(7.8)%
Add (deduct):				
Fair value adjustment on revaluation of investment properties	**(15,063)**	(60,312)	45,249	(75.0)%
Fair value adjustment on financial instruments	**(624)**	1,911	(2,535)	(132.7)%
Loss on sale of investment properties	**288**	146	142	97.3 %
Amortization of intangible assets	**1,331**	1,331	0	— %
Amortization of tenant improvement allowance	**6,635**	6,078	557	9.2 %
Distributions on LP Units and vested deferred units recorded as interest expense	**2,753**	1,966	787	40.0 %
Salaries and related costs attributed to leasing activities[1]	**5,267**	3,637	1,630	44.8 %
Acquisition related gain, net[2]	**(18,479)**	—	—	(100.0)%
Adjustments relating to equity accounted investments:				
Rental revenue adjustment – tenant improvement amortization	**156**	32	124	387.5 %
Indirect interest with respect to the development portion[3]	**1,743**	2,115	(372)	(17.6)%
Fair value adjustment on revaluation of investment properties	**2,399**	(12,003)	14,402	(120.0)%
Fair value adjustment on financial instruments	**(1,084)**	(480)	(604)	125.8 %
Loss on sale of investment properties	**100**	—	100	100.0 %
Adjustment for supplemental contribution	**3,303**	—	3,303	100.0 %
FFO[4]	**344,651**	330,556	14,095	4.3 %
One time adjustment:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs[5]	**2,721**	16,457	(13,736)	(83.5)%
FFO with one time adjustment and before transactional FFO	**347,372**	347,013	359	0.1 %
Transactional FFO – gain on sale of land to co-owners	**4,069**	—	4,069	100.0 %
FFO with one time adjustment and transactional FFO[4]	**351,441**	347,013	4,428	1.3 %
Per Unit – basic/diluted[6]:				
FFO[4]	**$2.19/$2.19**	$2.13/$2.13	$0.06/$0.06	2.8%/2.8%
FFO with one time adjustment and before transactional FFO[4]	**$2.21/$2.20**	$2.24/$2.23	$-0.03/$-0.03	-1.3%/-1.3%
FFO with one time adjustment and transactional FFO[4]	**$2.24/$2.23**	$2.24/$2.23	$0.00/$0.00	0.0%/0.0%
Payout ratio:				
FFO[4]	**78.2%**	78.4%	(0.2)%	(0.3)%
FFO with one time adjustment and before transactional FFO[4]	**77.9%**	74.9%	3.0%	4.0%
FFO with one time adjustment and transactional FFO[4]	**76.8%**	74.9%	1.9%	2.5%

(1) Internal expenses for leasing, primarily salaries, of $5.3 million were incurred in the year ended December 31, 2017 (year ended December 31, 2016 – $3.6 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2017, which provided for an adjustment to incremental leasing expenses for the cost of salaried staff. This adjustment to FFO results in more comparability between Canadian publicly traded real estate entities that expensed their internal leasing departments and those that capitalized external leasing expenses.

(2) Acquisition related gain, net relates to the gain associated with the Arrangement.

(3) Indirect interest is not capitalized to properties under development of equity accounted investments under IFRS but is a permitted adjustment under REALpac's definition of FFO. The amount is based on the total cost incurred with respect to the development portion of equity accounted investments multiplied by the Trust's weighted average cost of debt.

(4) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(5) The year ended December 31, 2017 includes $2.2 million of yield maintenance costs on redemption of unsecured debentures and $0.5 million of accelerated amortization of deferred financing costs (year ended December 31, 2016 – $15.1 million of yield maintenance costs and $1.3 million of accelerated amortization of deferred financing costs).

(6) Diluted FFO and diluted FFO with one time adjustment and transactional FFO are adjusted for the dilutive effect of vested deferred units, which are not dilutive for net income purposes. To calculate diluted FFO and diluted FFO with one time adjustment and transactional FFO for the year ended December 31, 2017, 663,717 vested deferred units are added back to the weighted average Units outstanding (year ended December 31, 2016 – 604,291 vested deferred units).

(7) Includes $9.9 million net settlement proceeds associated with the Target lease terminations recorded during the year ended December 31, 2016. For the year ended December 31, 2016, the net settlement proceeds had an impact on both FFO per Unit and AFFO per Unit by $0.06.

For the year ended December 31, 2017, FFO with one time adjustment and transactional FFO increased by $4.4 million or 1.3% to $351.4 million, and no change on a per Unit basis, compared to prior year. The increase in FFO with one time adjustment and transactional FFO was primarily due to: (i) a $4.1 million increase in transactional FFO not present in the prior year, (ii) a $1.2 million increase in NOI (see details in the "Results of Operations" section), (iii) a $1.1 million decrease in general and administrative expense (see details in the "General and Administrative Expense" section), and (iv) a $0.9 million decrease in interest expense net of yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs (see details in the "Interest Expense" section), partially offset by, (v) a $2.8 million decrease in interest income attributed to a repayment in 2016 by OneREIT of $10.0 million against a loan receivable, and lower interest rates associated with amended interest rate terms on certain Mezzanine Loans.

Reconciliation of AFFO

The table and analysis below illustrate a reconciliation of the Trust's FFO and AFFO and transactional FFO for the three months ended December 31, 2017 and December 31, 2016:

(in thousands of dollars, except per Unit amounts)	**Three Months Ended December 31, 2017**	Three Months Ended December 31, 2016	Variance	Variance (%)
FFO[1]	**90,075**	86,954	3,121	3.6 %
Deduct:				
Straight-lining of rents	**(161)**	(341)	180	(52.8)%
Adjustments relating to equity accounted investments:				
Straight-lining of rents	**(416)**	(33)	(383)	1,160.6 %
Adjusted salaries and related costs attributed to leasing	**(1,083)**	(84)	(999)	1,189.3 %
Actual sustaining capital expenditures[2]	**(7,013)**	(7,371)	358	(4.9)%
Actual sustaining leasing commissions[2]	**(424)**	(411)	(13)	3.2 %
Actual sustaining tenant improvements[2]	**(782)**	(1,443)	661	(45.8)%
AFFO[1][3]	**80,196**	77,271	2,925	3.8 %
Transactional FFO - gain on sale of land to co-owners	**945**	—	945	— %
AFFO and transactional FFO[1]	**81,141**	77,271	3,870	5.0 %
Per Unit – basic/diluted[4]:				
AFFO[1][3]	**$0.50/$0.50**	$0.50/$0.50	$0.00/$0.00	0.0%/0.0%
AFFO and transactional FFO[1]	**$0.51/$0.51**	$0.50/$0.50	$0.01/$0.01	2.0%/2.0%
Payout ratio:				
AFFO[1][3]	**87.4%**	84.0%	3.4%	4.0%
AFFO and transactional FFO[1]	**85.7%**	84.0%	1.7%	2.0%

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(2) Please see the "Maintenance of Productive Capacity" section for details of actual capital expenditures, actual leasing commissions and actual tenant improvements.

(3) The calculation of the Trust's AFFO and related AFFO payout ratio, including comparative amounts, has changed pursuant to the February 2017 REALpac White Paper on FFO and AFFO. As a result, comparison with previously reported AFFO and AFFO payout ratios may be inappropriate. Payout ratio is calculated as distributions per Unit divided by Adjusted Funds From Operations per Unit.

(4) Diluted AFFO and diluted AFFO with one time adjustment and transactional FFO are adjusted for the dilutive effect of vested deferred units, which are not dilutive for net income purposes. To calculate diluted AFFO and diluted AFFO with one time adjustment and transactional FFO for the three months ended December 31, 2017, 690,209 vested deferred units are added back to the weighted average Units outstanding (three months ended December 31, 2016 – 572,090 vested deferred units).

For the three months ended December 31, 2017, AFFO and transactional FFO increased by $3.9 million or 5.0% to $81.1 million, and by $0.01 or 2.0% on a per Unit basis, compared to the same quarter in 2016. This increase of $3.9 million was primarily due to the following: (i) an increase in FFO and transactional FFO of $4.1 million (discussed in the "Reconciliation of FFO" section above), and (ii) a $1.0 million increase in actual sustaining capital expenditures and tenant improvements, partially offset by (iii) a $1.0 million decrease in adjusted salaries and related costs attributed to leasing, and (iv) a $0.4 million decrease in straight-lining of rents (in connection with adjustments relating to equity accounted investments).

The payout ratio relating to AFFO and transactional FFO for the three months ended December 31, 2017 increased by 1.7% to 85.7% compared to the same quarter last year, for the reasons noted above.

The table and analysis below illustrate a reconciliation of the Trust's FFO and AFFO with one time adjustment and transactional FFO for the years ended December 31, 2017 and December 31, 2016:

(in thousands of dollars, except per Unit amounts)	**Year Ended December 31, 2017**	Year Ended December 31, 2016[6]	Variance	Variance (%)
FFO[1]	**344,651**	330,556	14,095	4.3%
Deduct:				
Straight-lining of rents	**(568)**	(1,050)	482	(45.9)%
Adjustments relating to equity accounted investments:				
Straight-lining of rents	**(1,175)**	(33)	(1,142)	3,460.6 %
Adjusted salaries and related costs attributed to leasing	**(5,267)**	(3,637)	(1,630)	44.8%
Actual sustaining capital expenditures[2]	**(12,777)**	(12,623)	(154)	1.2%
Actual sustaining leasing commissions[2]	**(1,203)**	(1,218)	15	(1.2)%
Actual sustaining tenant improvements[2]	**(3,952)**	(5,254)	1,302	(24.8)%
AFFO[1][3]	**319,709**	306,741	12,968	4.2 %
One time adjustment:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs [4]	**2,721**	16,457	(13,736)	(83.5)%
Transactional FFO – gain on sale of land to co-owners	**4,069**	—	4,069	100.0 %
AFFO with one time adjustment and transactional FFO[1]	**326,499**	323,198	3,301	1.0 %
Per Unit – basic/diluted[5]:				
AFFO[1][3]	**$2.04/$2.03**	$1.98/$1.97	$0.06/$0.06	3.0%/3.0%
AFFO with one time adjustment and transactional FFO[1]	**$2.08/$2.07**	$2.09/$2.08	$-0.01/$-0.01	-0.5%/-0.5%
Payout ratio:				
AFFO[1][3]	**84.4%**	84.8%	(0.4)%	(0.5)%
AFFO with one time adjustment and transactional FFO[1]	**82.8%**	80.3%	2.5%	3.1%

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(2) Please see the "Maintenance of Productive Capacity" section for details of actual capital expenditures, actual leasing commissions and actual tenant improvements.

(3) The calculation of the Trust's AFFO and related AFFO payout ratio, including comparative amounts, has changed pursuant to the February 2017 REALpac White Paper on FFO and AFFO. As a result, comparison with previously reported AFFO and AFFO payout ratios may be inappropriate. Payout ratio is calculated as distributions per Unit divided by Adjusted Funds From Operations per Unit.

(4) The year ended December 31, 2017 include $2.2 million of yield maintenance costs on redemption of unsecured debentures and $0.5 million of accelerated amortization of deferred financing costs (year ended December 31, 2016 – $15.1 million of yield maintenance costs and $1.3 million of accelerated amortization of deferred financing costs).

(5) Diluted AFFO and diluted AFFO with one time adjustment and transactional FFO are adjusted for the dilutive effect of vested deferred units, which are not dilutive for net income purposes. To calculate diluted AFFO and diluted AFFO with one time adjustment and transactional FFO for the year ended December 31, 2017, 663,717 vested deferred units are added back to the weighted average Units outstanding (year ended December 31, 2016 – 632,731 vested deferred units).

(6) Includes $9.9 million net settlement proceeds associated with the Target lease terminations recorded during the year ended December 31, 2016. For the year ended December 31, 2016, the net settlement proceeds had an impact on both FFO per Unit and AFFO per Unit by $0.06.

For the year ended December 31, 2017, AFFO with one time adjustment and transactional FFO increased by $3.3 million or 1.0% to $326.5 million, and decreased by $0.01 or 0.5% on a per Unit basis, compared to prior year . This increase of $3.3 million was primarily due to: (i) an increase of $4.4 million in FFO with one time adjustment and transactional FFO, (ii) an increase of $1.3 million in actual sustaining tenant improvements; (iii) an increase of $0.5 million in straight-lining of rents, partially offset by (iv) a decrease of $1.1 million in straight-lining of rents in connection with adjustments relating to equity accounted investments, and (v) a decrease of $1.6 million from adjusted salaries and related costs attributed to leasing.

The payout ratio relating to AFFO with one time adjustment and transactional FFO for the year ended December 31, 2017 increased by 2.5% to 82.8% compared to prior year, for the reasons noted above.

Reconciliation of ACFO

The table and analysis below illustrate a reconciliation of the Trust's cash flows provided by operating activities to ACFO for the three months ended December 31, 2017 and December 31, 2016:

(in thousands of dollars)	**Three Months Ended December 31, 2017**	Three Months Ended December 31, 2016	Variance
Cash flows provided by operating activities	**137,492**	109,672	27,820
Adjustments to working capital items that are not indicative of sustainable cash available for distribution[1]	**(37,113)**	(22,421)	(14,692)
Notional interest capitalization	**412**	475	(63)
Expenditures on direct leasing costs and tenant incentives	**655**	1,855	(1,200)
Expenditures on tenant incentives for properties under development	**1,169**	200	969
Actual sustaining capital expenditures	**(7,013)**	(7,371)	358
Actual sustaining leasing commissions	**(424)**	(411)	(13)
Actual sustaining tenant improvements	**(782)**	(1,443)	661
Non-cash interest expense	**(9,847)**	(5,718)	(4,129)
Non-cash interest income	**1,565**	1,864	(299)
Transactional FFO - gain on sale of land to co-owners	**945**	—	945
ACFO[2]	**87,059**	76,702	10,357
ACFO[2]	**87,059**	76,702	10,357
Distributions declared	**70,191**	66,463	3,728
Surplus of ACFO over distributions declared	**16,868**	10,239	6,629
Payout ratio:			
ACFO[2]	**80.6%**	86.7%	(6.1)%

(1) Adjustment to working capital items include, but are not limited to, changes in prepaids, accounts receivables, deposits, accounts payables and other other working capital items that are not indicative of sustainable cash available for distribution.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

For the three months ended December 31, 2017, ACFO increased by $10.4 million to $87.1 million compared to the same quarter in 2016. This increase of $10.4 million was primarily due to: (i) a $27.8 million increase in cash flows provided by operating activities, (ii) a $0.9 million increase in transactional FFO-gain on sale of land to co-owners, and (iii) a $0.4 million increase in actual sustaining capital expenditures, partially offset by (iv) a $14.7 million decrease in adjustments to working capital items that are not indicative of sustainable cash available for distribution, and (v) a $4.1 million increase in non-cash interest expense.

The payout ratio relating to ACFO for the three months ended December 31, 2017 decreased by 6.1% to 80.6% compared to the same quarter last year, for the reasons noted above.

The analysis below shows a reconciliation from cash flows provided by operating activities to ACFO with one time adjustment for the years ended December 31, 2017 and December 31, 2016:

(in thousands of dollars)	**Year Ended December 31, 2017**	Year Ended December 31, 2016[4]	Variance
Cash flows provided by operating activities	**353,082**	316,337	36,745
Adjustments to working capital items that are not indicative of sustainable cash available for distribution[1]	**(17,950)**	12,160	(30,110)
Notional interest capitalization	**1,743**	2,115	(372)
Expenditures on direct leasing costs and tenant incentives	**5,142**	6,470	(1,328)
Expenditures on tenant incentives for properties under development	**1,169**	979	190
Actual sustaining capital expenditures	**(12,777)**	(12,623)	(154)
Actual sustaining leasing commissions	**(1,203)**	(1,218)	15
Actual sustaining tenant improvements	**(3,952)**	(5,254)	1,302
Non-cash interest expense	**(7,054)**	(17,307)	10,253
Non-cash interest income	**5,807**	3,398	2,409
Transactional FFO – gain on sale of land to co-owners	**4,069**	—	4,069
ACFO[2]	**328,076**	305,057	23,019
One time adjustment:			
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs[3]	**2,721**	16,457	(13,736)
ACFO with one time adjustment[2]	**330,797**	321,514	9,283
ACFO[2]	**328,076**	305,057	23,019
Distributions declared	**270,665**	259,096	11,569
Surplus of ACFO over distributions declared	**57,411**	45,961	11,450
Payout ratio:			
ACFO[2]	**82.5%**	84.9%	(2.4)%
ACFO with one time adjustment[2]	**81.8%**	80.6%	1.2%

(1) Adjustment to working capital items include, but are not limited to, changes in prepaids, accounts receivables, deposits, accounts payables and other other working capital items that are not indicative of sustainable cash available for distribution.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(3) The year ended December 31, 2017 includes $2.2 million of yield maintenance costs on redemption of unsecured debentures and $0.5 million of accelerated amortization of deferred financing costs (year ended December 31, 2016 – $15.1 million of yield maintenance costs and $1.3 million of accelerated amortization of deferred financing costs).

(4) Includes $9.9 million net settlement proceeds associated with the 2016 Target lease terminations recorded during the year ended December 31, 2016.

For the year ended December 31, 2017, ACFO with one time adjustment increased by $9.3 million to $330.8 million compared to prior year. This increase was primarily due to: (i) a $36.7 million increase in cash flows provided by operating activities, (ii) a $10.3 million increase in non-cash interest expense, (iii) a $4.1 million increase in transactional FFO – gain on sale of land to co-owners, (iv) a $2.4 million increase in non-cash interest income, partially offset by (v) a $30.1 million decrease in adjustments to working capital items that are not indicative of sustainable cash available for distribution, (vi) a $13.7 million decrease in yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs, compared to prior year, and (vii) a $0.4 million decrease in notional interest capitalization.

The payout ratio relating to ACFO with one time adjustment for the year ended December 31, 2017 increased by 1.2% to 81.8% compared to prior year, for the reasons above noted.

Distributions and AFFO Highlights

The following table is provided for historical continuity only:

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2017**	2016	Variance	**2017**	2016[4]	Variance
Net income and comprehensive income	**101,911**	153,889	(51,978)	**355,926**	386,135	(30,209)
Distributions declared	**70,191**	66,463	3,728	**270,665**	259,096	11,569
Distributions paid	**56,220**	54,087	2,133	**218,994**	212,181	6,813
AFFO[1][2][3]	**80,196**	77,271	2,925	**319,709**	306,741	12,968
AFFO with one time adjustment and transactional FFO[1][2]	**81,141**	77,271	3,870	**326,499**	323,198	3,301
Surplus of AFFO with one time adjustment and transactional FFO over distributions declared	**10,950**	10,808	142	**55,834**	64,102	(8,268)
Surplus of AFFO with one time adjustment and transactional FFO over distributions paid	**24,921**	23,184	1,737	**107,505**	111,017	(3,512)
Surplus of net income and comprehensive income over distributions declared	**31,720**	87,426	(55,706)	**85,261**	127,039	(41,778)

(1) REALpac, in consultation amongst preparers and users of reporting issuers' financial statements, determined there was diversity in how AFFO should be utilized – some viewing it as an earnings metric, some viewing it as a cash flow measure, and others considering it a hybrid between the two. In order to develop greater consistency within the industry, it was determined that AFFO should be defined as a recurring economic earnings measure. Accordingly, the calculation of the Trust's AFFO and related AFFO payout ratio, including comparative amounts, has changed pursuant to the February 2017 REALpac White Paper on FFO and AFFO to be reported in accordance with the REALpac definitions. As a result, comparison with previously reported AFFO and AFFO payout ratios may be inappropriate, and because of different interpretation and adoption of the new guidance, comparison with other reporting issuers may also not be appropriate.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(3) The calculation of the Trust's AFFO and related AFFO payout ratio, including comparative amounts, has changed pursuant to the February 2017 REALpac White Paper on FFO and AFFO. As a result, comparison with previously reported AFFO and AFFO payout ratios may be inappropriate. Payout ratio is calculated as distributions per Unit divided by Adjusted Funds From Operations per Unit.

(4) Includes $9.9 million net settlement proceeds associated with the 2016 Target lease terminations recorded during the year ended December 31, 2016.

Distributions and ACFO Highlights

The following table is provided for historical continuity only:

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2017**	2016	Variance	**2017**	2016[3]	Variance
Cash flows provided by operating activities	**137,492**	109,672	27,820	**353,082**	316,337	36,745
Distributions declared	**70,191**	66,463	3,728	**270,665**	259,096	11,569
Distributions paid	**56,220**	54,087	2,133	**218,994**	212,181	6,813
ACFO[1][2]	**87,059**	76,702	10,357	**328,076**	305,057	23,019
ACFO with one time adjustment[2]	**87,059**	76,702	10,357	**330,797**	321,514	9,283
Surplus of ACFO with one time adjustment over distributions declared	**16,868**	10,239	6,629	**60,132**	62,418	(2,286)
Surplus of ACFO with one time adjustment over distributions paid	**30,839**	22,615	8,224	**111,803**	109,333	2,470
Surplus (shortfall) of cash flows provided by operating activities over ACFO with one time adjustment	**50,433**	32,970	17,463	**22,285**	(5,177)	27,462
Surplus of cash flows provided by operating activities over distributions declared	**67,301**	43,209	24,092	**82,417**	57,241	25,176
Surplus of cash flows provided by operating activities over distributions paid	**81,272**	55,585	25,687	**134,088**	104,156	29,932

(1) ACFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with the Real Property Association of Canada's "White Paper on Adjusted Cashflow from Operations (ACFO)" for IFRS issued in February 2017. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. Prior to the issuance of the February 2017 White Paper, there was no industry standard to calculate a sustainable, economic cash flow metric. Similarly, it may still differ from other reporting issuers because of variances in interpretation and adoption of the new guidelines.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(3) Includes $9.9 million net settlement proceeds associated with the 2016 Target lease terminations recorded during the year ended December 31, 2016.

Leasing Activities and Lease Expiries

Since the Trust's inception, its portfolio of predominantly Walmart-anchored shopping centres has experienced industry-leading occupancy rates. Over the last several years, the demise of both Target and Sears in Canada, has resulted in a historically high level of vacant retail space in many Canadian markets. These additional vacancies, when coupled with the further closings or downsizings of other retailers, and other economic factors, have resulted in current challenges to overall occupancy rates, leasing rates, and lease renewal rates among retail landlords. The Trust establishes annual forward-facing budgets with expected occupancy level assumptions and lease rate renewal assumptions for each of its properties that contemplate these various factors that directly influence overall occupancy and leasing levels. Together with the external retail leasing brokerage community, the Trust's internal team of leasing professionals actively pursue opportunities to both attract new tenants, and retain existing tenants in the Trust's portfolio of shopping centres.

Leasing Activities

The Trust's portfolio of conveniently located, value-based and predominantly Walmart-anchored shopping centres continues to provide a successful platform for retailers. As such, for the year ended December 31, 2017, the Trust achieved an occupancy level of 98.2% (December 31, 2016 – 98.3%). Including executed leases, the occupancy level for the year ended December 31, 2017 was 98.3% (December 31, 2016 – 98.5%). At December 31, 2017, approximately 49,757 square feet of space has been leased or is in the final stages of being leased for occupancy of vacant space in future quarters. The Trust's quarterly occupancy level is summarized below for "in occupancy" as well as "in occupancy, plus executed leases," which represents the occupancy level for tenants taking occupancy after the quarter:

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
In occupancy	**98.2%**	98.5%	98.4%	98.1%
In occupancy, plus executed leases	**98.3%**	98.6%	98.5%	98.4%

The following table represents a reconciliation of the Trust's occupancy level for the year ended December 31, 2017:

(in square feet)	**Vacant Area**	**Occupied Area**	**Leasable Area**	**Occupancy Level (%)**
Beginning balance – January 1, 2017	538,519	31,400,768	31,939,287	98.3%
New vacancies	488,055	(488,055)	—	
New leases	(444,889)	444,889	—	
Subtotal	581,685	31,357,602	31,939,287	
Dispositions	—	(23,377)	(23,377)	
Acquisitions	83,552	2,080,589	2,164,141	
Transferred from properties under development to income properties	50,282	329,307	379,589	
Transferred from income properties to properties under development	(90,193)	(223,343)	(313,536)	
Other	214	10,767	10,981	
Ending balance – December 31, 2017	625,540	33,531,545	34,157,085	98.2%

2017 Lease Expiries and Related Renewals

At December 31, 2017, the Trust completed or was near completion on lease renewals totalling 1,493,795 square feet of space, representing approximately 73.1% of 2017 lease expiries (December 31, 2016 – 81.2%) at an average rental rate of $19.4 per square foot. For 2018 lease maturities, the Trust completed or was near completion on renewals totalling 1,491,579 square feet or 59.8% of 2018 maturities.

	2017	2016	Change
Lease expiries	**2,043,495**	1,792,553	250,942
Renewals:			
Square feet – renewed	**1,390,667**	1,455,553	(64,886)
Square feet – near completion	**103,128**	74,623	28,505
Total renewals completed and near completion	**1,493,795**	1,530,176	(36,381)
Renewal percentage - complete and near completion	**73.1%**	81.2%	(8.1)%
Average net rent per square foot on renewed leases	**$19.40**	$18.18	$1.22
Average net rent per square foot on near completion	**$18.93**	$18.21	$0.72
Increase in average net rent per square foot on renewed leases	**$0.46**	$0.48	$(0.02)
Percentage increase in average net rent per square foot on renewed leases	**2.4%**	2.8%	(0.4)%
Percentage increase in average net rent per square foot on renewed leases excluding anchor tenants	**2.5%**	4.0%	(1.5)%

Lease expiries for the total portfolio are as follows:

Year of Expiry	**Total Area (sq. ft.)**	**Percentage of Total Area (%)**	**Annualized Base Rent ($000s)**	**Average Base Rent psf[1] ($)**
Month-to-month and holdovers	481,671	1.4%	8,275	17.18
2018	1,581,285	4.6%	31,944	20.20
2019	3,286,761	9.6%	49,890	15.18
2020	3,696,997	10.8%	54,295	14.69
2021	3,747,205	11.0%	53,551	14.29
2022	4,294,993	12.6%	61,239	14.26
2023	3,606,725	10.6%	57,831	16.03
Beyond	12,835,908	37.6%	195,267	15.21
Vacant	625,540	1.8%	—	—
Total	34,157,085	100.0%	512,292	15.28

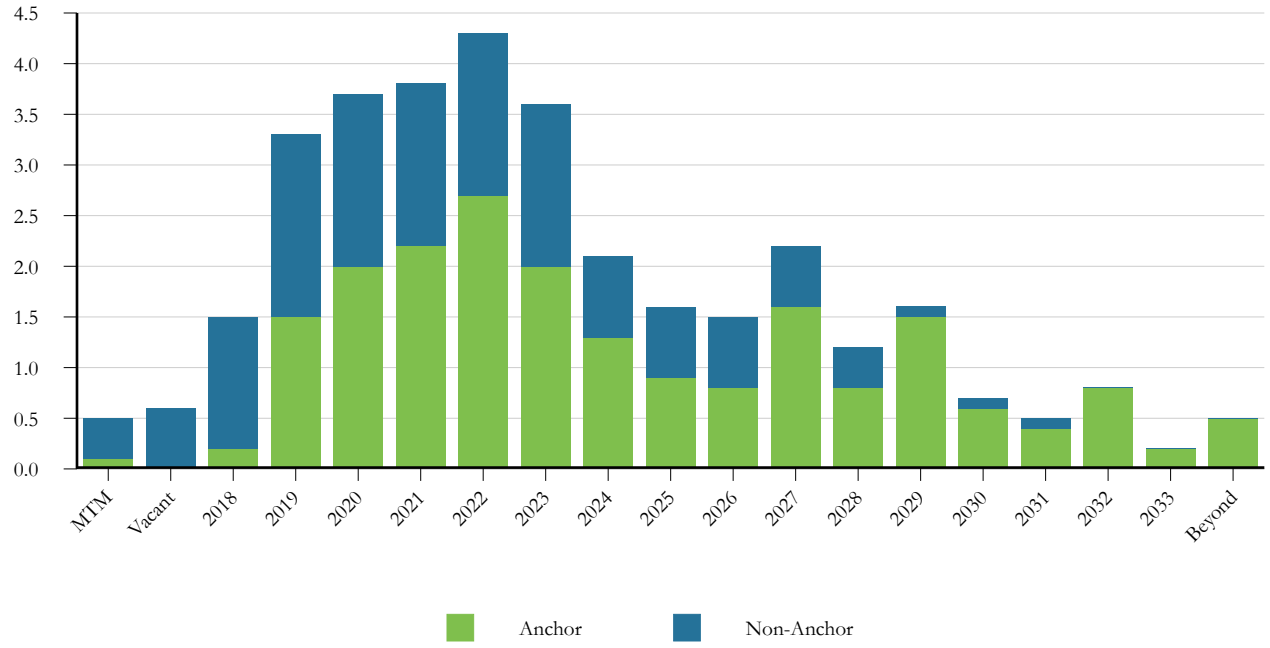
(1) The total average base rent per square foot excludes vacant space of 625,540 square feet.

Lease expiries for the portfolio excluding anchor tenants are as follows:

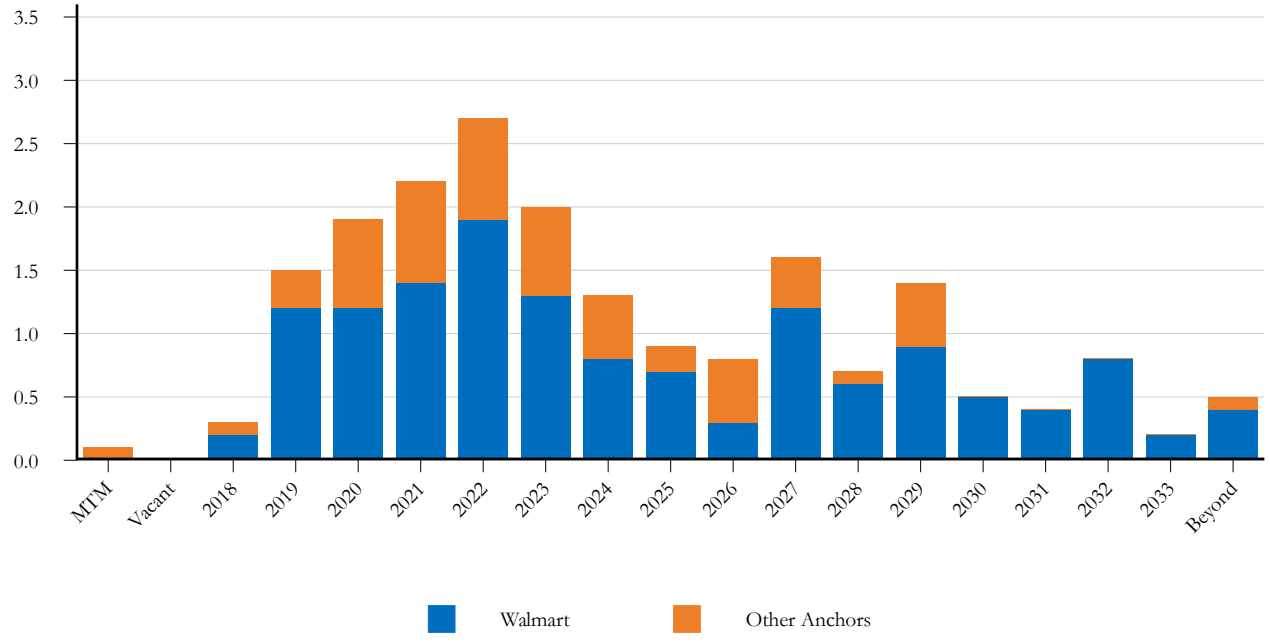
Year of Expiry	**Total Area (excluding Anchor tenants) (sq. ft.)**	**Percentage of Total Area (excluding Anchor tenants) (%)**	**Proportion of Area (excluding Anchor tenants) (%)**	**Annualized Base Rent ($000s)**	**Average Base Rent psf[1] ($)**
Month-to-month and holdovers	414,465	1.2%	2.9%	7,555	18.23
2018	1,345,280	3.9%	9.5%	29,102	21.63
2019	1,804,942	5.3%	12.7%	38,167	21.15
2020	1,744,871	5.1%	12.3%	36,401	20.86
2021	1,561,922	4.6%	11.0%	32,468	20.79
2022	1,598,142	4.7%	11.2%	35,858	22.44
2023	1,613,336	4.7%	11.3%	35,638	22.09
Beyond	3,544,284	10.4%	24.9%	79,299	22.37
Vacant	591,089	1.7%	4.2%	—	—
Total	14,218,331	41.6%	100.0%	294,488	21.61

(1) The total average base rent per square foot excludes vacant space of 591,089 square feet.

Lease Expiries
(in millions of square feet)



Lease Expiries - Walmart versus Other Anchors
(in millions of square feet)



Amounts Receivable, Prepaid Expenses and Deposits

The timely collection of amounts receivable is a critical component associated with the Trust's treasury management and cash management functions. The components of amounts receivable, prepaid expenses and deposits are as follows:

(in thousands of dollars)	**2017**	2016	Variance
Amounts receivable			
Tenant receivables – net of allowance	**8,633**	7,564	1,069
Unbilled other tenant receivables	**5,712**	8,902	(3,190)
Other non-tenant receivables	**4,343**	4,507	(164)
Receivables from related party (see "Related Party" section)	**15,561**	8,188	7,373
Amounts receivable	**34,249**	29,161	5,088
Prepaid expenses and deposits	**5,579**	5,942	(363)
Total amounts receivable, prepaid expenses and deposits	**39,828**	35,103	4,725

During the year ended December 31, 2017, total amounts receivable, prepaid expenses and deposits increased by $4.7 million. The following represents a commentary on the variances illustrated in the above table:

i) Tenant receivables – net of allowance:
The $1.1 million increase in tenant receivables – net of allowance as at December 31, 2017, as compared to December 31, 2016, is primarily due to additional tenant receivables from those properties that were acquired as part of the Arrangement.

ii) Unbilled other tenant receivables:
The $3.2 million decrease in unbilled other tenant receivables as at December 31, 2017 is due to: (i) the receipt of a $1.2 million termination fee that was outstanding at December 31, 2016, (ii) $0.5 million in amounts previously treated as receivable, and as a result of the resolution of litigation pertaining to an investment property, this amount has now been classified as a cost of development, (iii) lower tenant year-end reconciliations accrued at the end of 2017 by $0.5 million, and (iv) lower percentage rent and chargebacks accrued at the end of 2017 by $0.8 million.

iii) Receivables from related party:
The $7.4 million increase in receivables from related party for the year ended December 31, 2017 is primarily due to: (i) the transition services fee of $4.5 million, and (ii) the development and other services fees of $3.2 million associated with the Development and Services Agreement. These incremental amounts were billed during 2017 and were outstanding as at December 31, 2017. Management believes that all of these amounts are collectible.

Mortgages, Loans and Notes Receivable, and Interest Income

(in thousands of dollars)	**2017**	2016	Variance
Mortgages, loans and notes receivable			
Mortgages receivable (Mezzanine Financing)	**127,704**	124,778	2,926
Loans receivable	**31,503**	51,134	(19,631)
Notes receivable	**2,979**	2,979	—
	162,186	178,891	(16,705)

(in thousands of dollars)	**2017**	2016	Variance
Interest income			
Mortgage interest	**5,283**	7,726	(2,443)
Loan interest	**2,580**	3,122	(542)
Note receivable interest	**268**	266	2
Bank interest	**451**	322	129
	8,582	11,436	(2,854)

Mortgages Receivable (Mezzanine Financing)

In addition to direct property acquisitions, the Trust has provided Mezzanine Financing to Penguin on terms that include an option to acquire an interest in the mortgaged property once a certain level of development and leasing is achieved. As at December 31, 2017, the Trust had total commitments of $282.1 million to fund mortgages receivable under this program. Five mortgages have an option entitling the Trust to acquire an additional interest in the property upon a certain level of development and leasing being achieved, with the acquisition price calculated pursuant to an agreed-upon formula, based on a market capitalization rate at the time the option is exercised. The properties under the Mezzanine Financing have 0.6 million potential square feet available (discussed in "Potential Future Pipeline"). If the specified level of development and leasing is not achieved prior to the maturity date of the loan and the loan is repaid, then the option terminates. If an applicable property is to be sold prior to the maturity date of the loan and prior to the applicable option being triggered, then the Trust has a right of first refusal with respect to such sale.

The details of the mortgages receivable (by maturity date) are set out in the following table:

(in thousands of dollars)

Property	Amount Outstanding ($)	Committed ($)	Amount Guaranteed by Penguin ($)	Maturity Date	Effective Interest Rate	Purchase Option % of Property[7]	Potential Area Upon Exercising Purchase Option (sq. ft.)
Salmon Arm, BC[1][2]	14,697	20,907	14,697	March 2018	4.68%	—	—
Innisfil, ON[1][3]	19,398	27,077	10,218	December 2020	3.32%	—	—
Aurora (South), ON[4]	15,468	30,543	15,468	March 2022	4.12%	50%	96,000
Mirabel (Shopping Centre), QC[5]	—	18,262	—	December 2022	7.50%	—	—
Mirabel (Option Lands), QC[6]	—	5,721	—	December 2022	7.50%	—	—
Pitt Meadows, BC[4]	26,503	68,664	26,503	November 2023	4.57%	50%	37,500
Vaughan (7 & 427), ON	16,692	53,127	16,692	December 2023	5.92%	50%	151,015
Caledon (Mayfield), ON[4]	8,995	14,033	8,995	April 2024	4.41%	50%	101,865
Toronto (StudioCentre), ON[1][4]	25,951	43,759	15,451	June 2024	4.38%	25%	227,831
	127,704	282,093	108,024		4.47%[8]		614,211

(1) The Trust owns a 50% interest in these properties, with the other 50% interest owned by Penguin. These loans are secured against Penguin's interest in the property.
(2) Monthly variable rate based on a fixed rate of 6.35% on loans outstanding up to $7.2 million and banker's acceptance rate plus 1.75% on any additional loans above $7.2 million.
(3) The monthly variable rate is based on the banker's acceptance rate plus 2.00%. The interest rate on this mortgage will reset in 2018 to the four-year Government of Canada bond rate plus 4.0%, subject to a lower limit of 6.75% and an upper limit of 7.75%.
(4) These loans were amended during the three months ended March 31, 2017. See the "Loan Amendments" section below for details.
(5) The Trust owns a 33.3% interest in this property. The loan is secured against a 33.3% interest owned by Penguin, as well as a guarantee by Penguin.
(6) The Trust owns a 25% interest in this property. The loan is secured against a 25% interest owned by Penguin, as well as a guarantee by Penguin.
(7) The Trust has an option to purchase an additional purchase option percentage from the borrower in these properties upon a certain level of development and leasing being achieved. As at December 31, 2017, it is management's expectation that the Trust will exercise these purchase options.
(8) Represents the weighted average effective interest rate.

Interest on these mortgages accrues monthly as follows: (a) at a variable rate based on the banker's acceptance rate plus 1.75% to 4.20% or at the Trust's cost of capital (as defined in the mortgage agreement) plus 0.25% on mortgages receivable of $120.5 million (December 31, 2016 – $43.7 million); and (b) at fixed rates of 6.35% to 7.50% on mortgages receivable of $7.2 million (December 31, 2016 – $81.0 million) and is added to the outstanding principal up to a predetermined maximum accrual after which it is payable in cash monthly or quarterly. Additional interest of $77.5 million (December 31, 2016 – $67.2 million) may be accrued on certain of the various mortgages receivable before cash interest must be paid.

The mortgage security includes a first or second charge on properties, assignments of rents and leases, and general security agreements. In addition, $108.0 million (December 31, 2016 – $105.1 million) of the outstanding balance is guaranteed by Penguin Properties Inc., one of Penguin's companies. The loans are subject to individual loan guarantee agreements that provide additional guarantees for all interest and principal advanced on outstanding amounts. The guarantees decrease on achievement of certain specified value-enhancing events. All mortgages receivable are considered by management to be fully collectible.

Assuming that developments are completed as anticipated, and assuming that borrowers repay their mortgages in accordance with the terms of the agreements governing such mortgages, expected repayments of the outstanding balances would be as follows:

(in thousands of dollars)	Mortgages (#)	Principal Repayments ($)
2018	1	14,697
2020	1	19,398
2022	3	15,468
2023	2	43,195
2024	2	34,946
	9	127,704

Loan amendments

On April 28, 2017, there were four mortgages receivable for which the maturity dates were amended from an original range of years 2017 to 2020 to a revised range of years 2022 to 2024. These extensions were provided principally because of delays associated with market conditions, anticipated municipal and related approvals, and development-related complexities. The committed facilities on these mortgages receivable were amended to reflect an increase from $141.0 million to $157.0 million. In addition, the interest rates on these mortgages receivable were amended from a range of fixed interest rates of 6.75% to 7.00% to a revised range of banker's acceptance rates plus 2.75% to 4.20%. These amended interest rates were established pursuant to independent opinions obtained that provided current market-based interest rates for similar development-based opportunities.

Loans Receivable

The details of the loans receivable (by maturity date) are set out in the following table:

Issued to	Maturity Date	Effective Interest Rate	December 31, 2017	December 31, 2016
OneREIT[1]	October 2017	6.75%	—	30,314
Unrelated party[2]	September 2018	4.50%	**11,500**	11,500
Unrelated party[3]	March 2019	5.50%	**9,804**	—
Penguin[4]	November 2020	Variable	**10,199**	9,320
			31,503	51,134

(1) This loan was settled pursuant to the OneREIT Arrangement (see "Business Overview and Strategic Direction" for details). This loan was secured by a subordinate charge on seven properties. On October 28, 2016, the Trust entered into an agreement to extend this loan receivable for a period of one year with a revised maturity of October 30, 2017, which included a one-time prepayment option of $10.0 million that was exercised by OneREIT on October 31, 2016.

(2) This loan is secured by either a first or second charge on properties, assignments of rents and leases, and general security agreements.

(3) During the year ended December 31, 2017, a loan receivable of $9.8 million was provided pursuant to an agreement with an unrelated party to use in acquiring a 50% interest in development lands. The loan bears interest at 5.50% payable quarterly, interest only, matures in March 2019 and is secured by a first charge on the 50% interest of the development lands held by the unrelated party.

(4) This loan was provided pursuant to a development management agreement with Penguin with a total loan facility of $20.0 million. Repayment of the pro-rata share of the outstanding loan amount is due upon the completion of each Earnout event. The loan bears interest at 10 basis points plus the lower of: (i) the Canadian prime rate plus 45 basis points, and (ii) the CDOR plus 145 basis points.

The following illustrates the activity in loans receivable for the year ended December 31:

	2017	2016
Loans issued	**9,804**	—
Amounts funded	**624**	462
Interest accrued	**255**	233
Repayments/settlements[1]	**(30,314)**	(11,161)
	(19,631)	(10,466)

(1) For the year ended December 31, 2017, $30.3 million was settled pursuant to the Arrangement.

Notes Receivable

Notes receivable of $3.0 million (December 31, 2016 – $3.0 million) have been granted to Penguin. These secured demand notes bear interest at 9.00% per annum. During the year ended December 31, 2017, $nil was advanced (year ended December 31, 2016 – $0.1 million).

Interest Expense

For the three months ended December 31, 2017, interest expense incurred totalled $35.2 million, which represents an increase of $2.3 million compared to the comparative period. The increase of $2.3 million was primarily attributed to: (i) a $2.2 million increase in interest at stated rates principally due to additional debt assumed pursuant to the Arrangement, which includes $0.3 million of refinancing charges, (ii) a $0.7 million increase in distributions on vested deferred units and Units classified as liabilities attributed to the Arrangement that occurred during the three months ended December 31, 2017, (iii) a $0.1 million increase in amortization of acquisition date fair value adjustments on assumed debt, during the three months ended December 31, 2017, offset by (iv) a $0.4 million increase in interest capitalized to properties under development and residential developments inventory, which is attributed to the Earnouts and Developments during the three months ended December 31, 2017 and (v) a $0.2 million decrease in amortization of deferred financing cost.

For the year ended December 31, 2017, interest expense incurred totalled $134.4 million, which represents a decrease of $13.3 million compared to the prior year. The decrease of $13.3 million was primarily attributed to: (i) a $12.4 million year-over-year decrease in yield maintenance on redemption of unsecured debentures costs, (ii) a $1.6 million decrease in interest at stated rates principally due to refinancing of debt at lower interest rates, and (iii) a $0.8 million decrease in amortization of deferred financing cost, partially offset by (iv) a $0.8 million increase in distributions on vested deferred units and Units classified as liabilities attributed to the Arrangement that occurred during the year ended December 31, 2017, (v) a $0.2 million decrease in interest capitalized to properties under development and residential developments inventory, which is attributed to the Earnouts and Developments during the year ended December 31, 2017, and (vi) a $0.5 million decrease in amortization of acquisition date fair value adjustments on assumed debt, which was attributed to a decrease in the assumed debt during the year ended December 31, 2017.

	Three Months Ended December 31			**Year Ended December 31**		
(in thousands of dollars)	**2017**	2016	Variance	**2017**	2016	Variance
Interest at stated rates	**39,338**	37,163	2,175	**148,677**	150,311	(1,634)
Amortization of acquisition date fair value adjustments on assumed debt	**(779)**	(846)	67	**(3,051)**	(3,547)	496
Amortization of deferred financing costs	**632**	822	(190)	**3,273**	4,074	(801)
Distributions on vested deferred units and Units classified as liabilities	**1,211**	480	731	**2,753**	1,966	787
	40,402	37,619	2,783	**151,652**	152,804	(1,152)
Less: Interest capitalized to properties under development	**(5,116)**	(4,809)	(307)	**(19,682)**	(20,228)	546
Less: Interest capitalized to residential development inventory	**(132)**	—	(132)	**(323)**	—	(323)
Interest associated with operating activities	**35,154**	32,810	2,344	**131,647**	132,576	(929)
Yield maintenance on redemption of unsecured debentures	**—**	—	—	**2,721**	15,138	(12,417)
Interest expense	**35,154**	32,810	2,344	**134,368**	147,714	(13,346)
Weighted average interest rate (inclusive of acquisition date fair value adjustment)	**3.77%**	3.94%	(0.17)%	**3.79%**	3.95%	(0.16)%

General and Administrative Expense

For the year ended December 31, 2017, total general and administrative expense before allocation was $62.4 million representing an increase of $2.1 million compared to prior year. The increase can be attributed to: (i) an increase in salaries and benefits of $2.2 million; (ii) an increase in professional fees of $0.3 million and (iii) an increase in public company costs of $0.2 million, partially offset by (iv) a decrease in other costs including information technology, marketing, communications and other employee expenses of $0.5 million, and (v) a decrease in rent and occupancy of $0.1 million, compared to prior year.

For the year ended December 31, 2017, total amounts allocated, capitalized and charged to Penguin and third parties of $39.1 million increased by $3.2 million compared to prior year. This increase is due to: (i) an increase in time billings, leasing, management fee, development fees and other fees of $1.4 million, (ii) an increase in the amounts capitalized to properties under development and other assets of $0.7 million, (iii) an increase in amounts allocated to property operating costs of $0.8 million, and (iv) an increase in the property management fees and shared service costs charged to a third party and Penguin of $0.3 million.

After applying the total amounts allocated, capitalized and charged to Penguin and third parties against total general and administrative expense before allocation, for the year ended December 31, 2017, general and administrative expense (net) totalled $23.4 million, which represents a $1.1 million decrease compared to the prior year.

(in thousands of dollars)	Note[1]		**2017**	2016	Variance
Salaries and benefits			**44,948**	42,773	2,175
Master planning services fee charged by Penguin per the Services Agreement	21		**3,500**	3,500	—
Professional fees			**2,644**	2,393	251
Public company costs			**1,965**	1,762	203
Rent and occupancy			**2,534**	2,596	(62)
Amortization of intangible assets	8		**1,331**	1,331	—
Other costs including information technology, marketing, communications and other employee expenses			**5,510**	6,022	(512)
Total general and administrative expense before allocation		**(A)**	**62,432**	60,377	2,055
					—
Less:					—
Allocated to property operating costs			**(13,052)**	(12,238)	(814)
Capitalized to properties under development and other assets			**(12,788)**	(12,105)	(683)
Total amounts allocated and capitalized		**(B)**	**(25,840)**	(24,343)	(1,497)
					—
Costs to provide transition services charged to Penguin	21		**(4,000)**	(4,000)	—
Time billings, leasing, management fee, development fees and other fees	21		**(7,564)**	(6,190)	(1,374)
Shared service costs charged to Penguin and a third party	21		**(1,651)**	(1,353)	(298)
Total amounts charged to Penguin and third parties		**(C)**	**(13,215)**	(11,543)	(1,672)
					—
Total amounts allocated, capitalized, and charged to Penguin and a third parties		**(D = B + C)**	**(39,055)**	(35,886)	(3,169)
General and administrative expense (net)		**(E = A - D)**	**23,377**	24,491	(1,114)
Less:					—
Adjusted salaries and related costs attributed to leasing[2]		**(F)**	**(5,267)**	(3,637)	(1,630)
General and administrative expense excluding internal leasing expense		**(G = E - F)**	**18,110**	20,854	(2,744)
As a percentage of rental revenue from investment properties[3]			**3.2%**	3.4%	(0.2)%

(1) The note reference relates to the corresponding note disclosure in the consolidated financial statements for the year ended December 31, 2017.

(2) Internal expenses for leasing, primarily salaries, of $5.3 million were incurred in the year ended December 31, 2017 (year ended December 31, 2016 – $3.6 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2017, which provided for an adjustment to incremental leasing expenses for the cost of salaried staff. This adjustment to FFO results in more comparability between Canadian publicly traded real estate entities that expensed their internal leasing departments and those that capitalized external leasing expenses.

(3) Determined as general and administrative expense (net) divided by rental revenue from investment properties including rental revenue from equity accounted investments.

Earnouts and Developments Completed on Existing Properties

During the three months ended December 31, 2017, $54.3 million of Earnouts and Developments (including Developments relating to equity accounted investments) were completed and transferred to income properties, which represents an increase of $10.5 million compared to the same quarter in 2016.

	Three Months Ended December 31, 2017			Three Months Ended December 31, 2016		
(in millions of dollars)	**Area (sq. ft.)**	**Investment ($)**	**Annualized Yield (%)**	Area (sq. ft.)	Investment ($)	Annualized Yield (%)
Earnouts	**3,544**	**1.9**	**6.4%**	7,609	4.5	6.1%
Developments	**150,154**	**39.1**	**6.3%**	22,686	7.9	6.0%
Developments – equity accounted investments	**24,126**	**13.3**	**4.9%**	63,927	31.4	6.5%
	177,824	**54.3**	**5.75%**	94,222	43.8	6.3%

During the year ended December 31, 2017, $107.1 million of Earnouts and Developments (including Developments relating to equity accounted investments) were completed and transferred to income properties, which represents a decrease of $47.4 million compared to 2016.

	Year Ended December 31, 2017			Year Ended December 31, 2016		
(in millions of dollars)	**Area (sq. ft.)**	**Investment ($)**	**Annualized Yield (%)**	Area (sq. ft.)	Investment ($)	Annualized Yield (%)
Earnouts	**15,899**	**7.4**	**6.5%**	57,430	23.6	6.4%
Developments	**235,545**	**60.6**	**6.3%**	362,913	99.5	6.8%
Developments – equity accounted investments	**77,863**	**39.1**	**5.2%**	63,927	31.4	6.5%
	329,307	**107.1**	**5.79%**	484,270	154.5	6.7%

Maintenance of Productive Capacity

The main focus in a discussion of capital expenditures is to differentiate between those costs incurred to achieve the Trust's longer term goals to produce increased cash flows and Unit distributions, and those costs incurred to maintain the level and quality of the Trust's existing cash flows.

Acquisitions of investment properties and the development of new and existing investment properties (Developments and Earnouts) are the two main areas of capital expenditures that are associated with increasing or enhancing the productive capacity of the Trust. In addition, there are capital expenditures incurred on existing investment properties to maintain the productive capacity of the Trust ("sustaining capital expenditures").

Actual sustaining capital expenditures and leasing costs are funded from operating cash flow and, as such, these expenditures (both recoverable and non-recoverable) and leasing costs were deducted from AFFO in order to estimate an amount of cash that could be distributed to Unitholders. The capital expenditures are those of a capital nature that are not considered to increase or enhance the productive capacity of the Trust, but rather maintain the productive capacity of the Trust. Leasing costs, which include tenant incentives and leasing commissions, vary with the timing of renewals, vacancies, tenant mix and market conditions. Leasing costs are generally lower for renewals of existing tenants when compared to new leases. Leasing costs also include internal expenses for leasing activities, primarily salaries, which are eligible to be added back to FFO based on the definition of FFO in the REALpac White Paper published in February 2017. The sustaining capital expenditures and leasing costs are based on actual costs incurred during the period.

REALpac, in consultation amongst preparers and users of reporting issuers' financial statements, determined there was diversity in how AFFO should be utilized – some viewing it as an earnings metric, some viewing it as a cash flow measure, and others considering it a hybrid between the two. In order to develop greater consistency within the industry, it was determined that AFFO should be defined as a recurring economic earnings measure. Accordingly, the calculation of the Trust's AFFO and related AFFO payout ratio, including comparative amounts, has changed pursuant to the February 2017 REALpac White Paper on FFO and AFFO to be reported in accordance with the REALpac definitions. As a result, comparison with previously reported AFFO and AFFO payout ratios may be inappropriate, and because of different interpretation and adoption of the new guidance, comparison with other reporting issuers may also not be appropriate.

The following is a discussion and analysis of capital expenditures of a maintenance nature (actual sustaining recoverable and non-recoverable capital expenditures and leasing costs). Earnouts, Acquisitions and Developments are discussed elsewhere in the MD&A.

The Trust uses actual sustaining capital expenditures and leasing costs to calculate AFFO on both a quarterly and annual basis. Given that a significant proportion of the Trust's portfolio is relatively new, management does not believe that actual sustaining capital expenditures will have an impact on the Trust's ability to pay distributions at their current level as any increases in requirements for additional capital expenditures are expected to be matched by increases in available cash flows from operations.

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars, except per Unit amounts)	**2017**	2016	Variance	**2017**	2016	Variance
Adjusted salaries and related costs attributed to leasing	**1,083**	84	999	**5,267**	3,637	1,630
Actual sustaining leasing commissions	**424**	411	13	**1,203**	1,218	(15)
Actual sustaining tenant improvements	**782**	1,443	(661)	**3,952**	5,254	(1,302)
Total actual sustaining leasing and related costs	**2,289**	1,938	351	**10,422**	10,109	313
Actual sustaining capital expenditures (recoverable and non-recoverable)	**7,013**	7,371	(358)	**12,777**	12,623	154
Total actual sustaining leasing costs and capital expenditures	**9,302**	9,309	(7)	**23,199**	22,732	467
Per Unit – diluted	**$0.06**	$0.06	—	**$0.15**	$0.15	—

Investment Properties

The portfolio consists of 34.2 million square feet of built gross leasable area and 4.0 million square feet of future potential gross leasable area in 163 properties and the option to acquire a 50.0% interest (0.6 million square feet) in five investment properties on their completion pursuant to the terms of Mezzanine Financing. The portfolio is located across Canada, with assets in each of the 10 provinces. The Trust targets major urban centres and shopping centres that are dominant in their trade area. By selecting well-located centres, the Trust attracts quality tenants at market rental rates.

As at December 31, 2017, the fair value of investment properties, including investment properties classified as equity accounted investments, totalled $8,915.3 million, compared to $8,424.9 million at December 31, 2016.

The net increase in investment properties of $490.4 million (including investment properties classified as equity accounted investments) was primarily due to: (i) the acquisition of 12 properties pursuant to the Arrangement of $414.0 million, (ii) additions to investment properties of $87.4 million, (iii) a fair value adjustment of $15.1 million, and (iv) capitalized interest of $19.6 million, partially offset by (v) dispositions of $30.9 million (principally due to the sale of a 50% interest to a joint venture), and (vi) the transfer to residential development inventory of $19.4 million which represents the Trust's 50% share of the value of the joint venture.

The following table summarizes the changes in values of investment properties including the Trust's share of equity accounted investments:

	2017			2016		
(in thousands of dollars)	**Income Properties**	**Properties Under Development**	**Total Investment Properties**	Income Properties	Properties Under Development	Total Investment Properties
Total investment properties						
Balance – beginning of year	**7,757,109**	**485,308**	**8,242,417**	7,471,963	544,284	8,016,247
Acquisition, and related adjustments, of investment properties	**399,064**	**14,936**	**414,000**	76,035	—	76,035
Transfer to income properties from properties under development	**62,586**	**(62,586)**	**—**	115,659	(115,659)	—
Transfer from income properties to properties under development	**(30,500)**	**30,500**	**—**	(8,500)	8,500	—
Earnout Fees on properties subject to development management agreements	**5,101**	**—**	**5,101**	14,476	—	14,476
Additions to investment properties	**14,343**	**73,095**	**87,438**	13,840	50,250	64,090
Capitalized interest	**—**	**19,618**	**19,618**	—	15,419	15,419
Transfer to residential development inventory	**—**	**(19,392)**	**(19,392)**	—	—	—
Dispositions	**(8,016)**	**(22,920)**	**(30,936)**	—	(4,162)	(4,162)
Net additions	**442,578**	**33,251**	**475,829**	211,510	(45,652)	165,858
Fair value adjustment on revaluation of investment properties	**20,466**	**(5,403)**	**15,063**	73,636	(13,324)	60,312
Balance – end of year	**8,220,153**	**513,156**	**8,733,309**	7,757,109	485,308	8,242,417
Total investment properties classified as equity accounted investments						
Balance – beginning of year	**59,277**	**123,167**	**182,443**	21,600	130,704	152,304
Transfer from properties under development to income properties	**41,837**	**(41,837)**	**—**	33,543	(33,543)	—
Additions to investment properties	**—**	**21,481**	**21,481**	—	18,136	18,136
Dispositions	**—**	**(20,043)**	**(20,043)**	—	—	—
Capitalized interest	**—**	**472**	**472**	—	—	—
Fair value adjustment on revaluation of investment properties	**(5,672)**	**3,273**	**(2,399)**	4,134	7,870	12,003
Balance – end of year	**95,442**	**86,513**	**181,955**	59,277	123,167	182,443
Total balance (including investment properties classified as equity accounted investments) – end of year	**8,315,595**	**599,669**	**8,915,264**	7,816,386	608,475	8,424,860

Valuation Methodology

From January 1, 2015 to December 31, 2017, the Trust has had approximately 82% (by value) or 65% (by number of properties) of its operating portfolio appraised externally by independent national real estate appraisal firms with representation and expertise across Canada.

The determination of which properties are externally appraised and which are internally appraised by management is based on a combination of factors, including property size, property type, tenant mix, strength and type of retail node, age of property and location. Commencing in the first quarter of 2014, the Trust on an annual basis has had external appraisals performed on 15%–20% of the portfolio, rotating properties to ensure that at least 50% (by value) of the portfolio is valued externally over a three-year period.

The remaining portfolio is valued internally by management utilizing a valuation methodology that is consistent with the external appraisals. Management performed these valuations by updating cash flow information reflecting current leases, renewal terms and market rents and applying updated capitalization rates determined, in part, through consultation with the external appraisers and available market data. The fair value of properties under development reflects the impact of development agreements (see Note 4 in the consolidated financial statements for the year ended December 31, 2017 for further discussion).

Fair values were primarily determined through the income approach. For each property, the valuation methodology was conducted and reliance placed upon: (a) a direct capitalization method, which is an estimate of the relationship between value and stabilized income, and (b) a discounted cash flow method, which is an estimate of the present value of future cash flows over a specified horizon, including the potential proceeds from a deemed disposition.

For the year ended December 31, 2017, investment properties (including properties under development) with a total carrying value of $1,804.1 million (December 31, 2016 – $1,616.3 million) were valued with updated capitalization rates provided by external parties, and investment properties with a total carrying value of $7,111.3 million (December 31, 2016 – $6,808.6 million) were valued internally by the Trust. Based on these valuations, the aggregate weighted average stabilized capitalization rate on the Trust's portfolio as at December 31, 2017 was 5.85% (December 31, 2016 – 5.84%).

Acquisitions of Investment Properties

Acquisitions during the year ended December 31, 2017

The Arrangement added 2.2 million square feet of gross leasable area to the Trust's existing portfolio, representing a fair value of $451.2 million, with 10 of the 12 properties located in Ontario. Further, the portfolio includes 11 food stores, inclusive of 6 Walmart supercentres and a strong mix of national tenants. The portfolio has an average lease term to maturity of 7.2 years and is 93% leased.

Property	Property Type	Acquisition Date	Acquired Leasable Area (sq. ft.)	Ownership Interest Acquired
Brampton (Kingspoint), ON	Retail property	October 4, 2017	202,236	100%
Chilliwack (Chilliwack Mall), BC	Retail property	October 4, 2017	151,475	100%
Fergus, ON	Retail property	October 4, 2017	109,652	100%
Mississauga (Burnhamthorpe), ON	Retail property	October 4, 2017	199,970	100%
Mississauga (Creekside), ON	Retail property	October 4, 2017	122,402	30%
Orillia, ON	Retail property	October 4, 2017	241,659	100%
Regina (Golden Mile), SK	Retail property	October 4, 2017	259,152	100%
Rockland, ON	Retail property	October 4, 2017	147,592	100%
Simcoe, ON	Retail property	October 4, 2017	129,876	100%
St. Catharines (Hartzel), ON	Retail property	October 4, 2017	67,972	100%
St. Catharines (Lincoln Value), ON	Retail property	October 4, 2017	371,871	100%
Toronto (Yorkgate), ON	Retail property	October 4, 2017	214,568	100%
Total			**2,218,425**	

Acquisitions during the year ended December 31, 2016

Property	Property Type	Acquisition Date	Acquired Leasable Area (sq. ft.)	Ownership Interest Acquired
Lethbridge, AB	Retail property	August 16, 2016	53,392	100%
Pointe Claire, QC	Retail property	October 25, 2016	381,966	100%
Total			**435,358**	

Properties Under Development

At December 31, 2017, the fair value of properties under development totalled $599.7 million compared to $608.5 million at December 31, 2016, resulting in a net decrease of $8.8 million (for details on the factors influencing this change, see the "Investment Properties" section).

Properties under development as at December 31, 2017 and December 31, 2016 comprise the following:

(in thousands of dollars)	**2017**	2016	Variance
Earnouts subject to option agreements[1]	**49,599**	72,564	(22,965)
Developments	**463,557**	412,744	50,813
Equity accounted investments	**86,512**	123,167	(36,655)
	599,668	608,475	(8,807)

(1) Earnout development costs during the development period are paid by the Trust and funded through interest-bearing secured debt provided by the vendors to the Trust. On completion of the development and the commencement of lease payments by a tenant, the Earnouts will be acquired from the vendors based on predetermined or formula-based capitalization rates ranging from 6.00% to 7.40%, net of land and development costs incurred. Penguin has contractual options to acquire Trust Units and LP Units on completion of Earnouts as shown in Note 13(b) of the consolidated financial statements for the year ended December 31, 2017.

Potential Future Pipeline

Total future Earnouts, Developments and options under Mezzanine Financing (including the two VMC office properties but excluding all other non-retail development initiatives) could increase the existing Trust portfolio by an additional 4.6 million square feet. With respect to the future pipeline, commitments have been negotiated on 161,000 square feet.

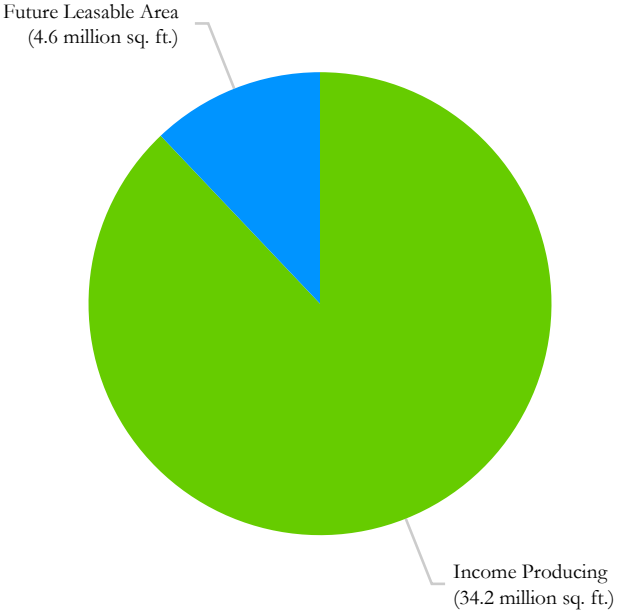
In addition to these initiatives, the Trust is currently assessing additional future potential intensification opportunities that may exist in its portfolio:

- Pending finalization of the development plan with the City of Vaughan, the Trust expects that VMC will over time have the potential to build, inclusive of completed and phases currently under development, 5.0 million to 5.5 million square feet of office, retail and residential space (at the Trust's 50% interest).

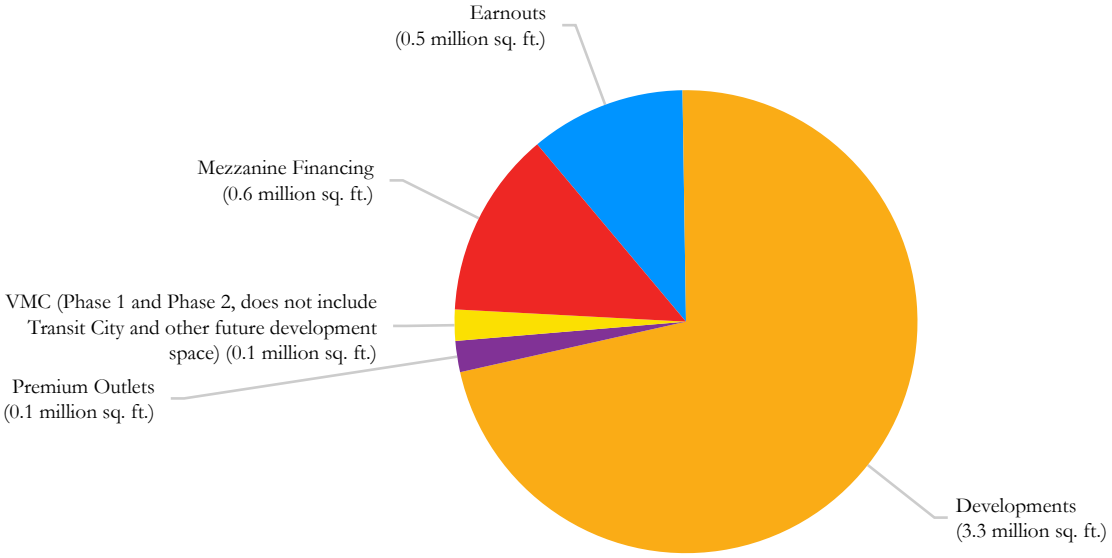
- In addition to VMC, the Trust has identified over 50 sites within its portfolio that have the potential to add in excess of 10.0 million square feet for residential, self-storage, and other non-retail uses over the medium to long term at sites including Westside Mall in Toronto, Vaughan North West, Highway 400/7, Laval Centre and Pointe Claire in Montreal and South Keys in Ottawa, as well as a significant number of shopping centre sites attached to which is vacant development land.

- The Trust is in discussions with various parties to jointly develop parcels within its existing portfolio with residential, seniors housing and self-storage uses where such uses make sense in optimizing each centre within its local community. This is expected to occur on adjacent vacant land that would have historically been designated for retail development or in designated parking areas that are no longer needed.

Gross Leasable Area Upon Completion of Pipeline (38.8 million square feet)



Future Leasable Area Upon Completion of Pipeline (4.6 million square feet)



(in thousands of square feet)	Committed	Years 0–3	Beyond Year 3	Total[1]
Earnouts	24	309	198	531
Developments	98	1,341	1,862	3,301
Premium Outlets	—	73	50	123
VMC (Office Phase 1 and Office Phase 2)	39	44	—	83
	161	1,767	2,110	4,038
Mezzanine Financing	—	—	614	614
	161	1,767	2,724	4,652

(1) The timing of development is based on management's best estimates and can be adjusted based on business conditions.

During the year ended December 31, 2017, the future properties under development pipeline decreased by 91,000 square feet to a total of 4.0 million square feet. The change is summarized as follows:

(in thousands of square feet)	Total Area
Future properties under development pipeline – January 1, 2017	4,129
Less:	
Completion of Earnouts and Developments	(154)
Net adjustment to project densities (for retail space only)	63
Net change	(91)
Future properties under development pipeline – December 31, 2017	4,038

Committed Retail and Office Pipeline

The following table summarizes the committed investment by the Trust in properties under development as at December 31, 2017:

(in millions of dollars)	Total	Costs Incurred	Future Development Costs
Earnouts	9	1	8
Developments	35	10	25
	44	11	33
VMC (Office Phase 1 and Office Phase 2)	28	15	13
	72	26	46

The completion of these committed Earnouts and Developments as currently scheduled is expected to have an average estimated yield of 6.4% in 2018 and 4.8% in 2019, which, based on the committed lease arrangements with respect to such Earnouts and Developments, should increase FFO per Unit by $0.004 in 2018.

Uncommitted Retail and Office Pipeline

The following table summarizes the estimated future investment by the Trust in properties under development. It is expected the future development costs will be spent over the next three years and beyond:

(in millions of dollars)	Years 0–3	Beyond Year 3	Total	Costs Incurred[1]	Future Development Costs
Earnouts	90	60	150	6	144
Developments	426	647	1,073	464	609
Premium Outlets	61	24	85	37	48
	577	731	1,308	507	801
VMC (Office Phase 1 and Office Phase 2)	31	—	31	17	14
	608	731	1,339	524	815

(1) Properties under development as recorded on the consolidated balance sheet totalled $599.7 million (including equity accounted investments of $88.9 million) which primarily consists of costs of $524.0 million in the uncommitted pipeline, costs of $26.0 million in the committed pipeline and costs of $54.5 million of future development land in VMC less $3.9 million of non-cash development costs relating to future land development and cumulative fair value loss on revaluation of properties under development.

Approximately 11.3% of the properties under development - representing proportion of gross investment cost (committed and uncommitted) relating to Earnouts ($159.0 million, divided by total potential future development pipeline of $1,411.0 million) - representing 531,000 square feet are lands that are under contract by vendors to develop and lease to third parties for additional proceeds when developed. In certain events, the developer may sell the portion of undeveloped land to accommodate the construction plan that provides the best use of the property. It is management's intention to finance the costs of construction through interim financing or operating facilities and, once rental revenue is stabilized, long-term financing will be negotiated. With respect to the remaining gross leasable area, it is expected that 3.5 million square feet of future space will be developed as the Trust leases space and finances the construction costs.

Residential Development Inventory

The Trust entered into a co-ownership agreement and related agreements with Fieldgate that acquired a 50% interest in the Vaughan NW development lands to develop and sell residential townhouse units. The Trust, with its partner Fieldgate, expects to begin the pre-sale program in 2018. In conjunction with the disposition on June 29, 2017 (see also "Investment properties"), the Trust's remaining 50% interest in development lands in Vaughan, Ontario with a fair value of $19.4 million was transferred to residential development inventory.

The following summarizes the activity in residential development inventory for the year ended December 31, 2017:

(in thousands of dollars)	**2017**
Balance – beginning of year	—
Transfer of fair value from properties under development	**19,392**
Costs capitalized	**875**
Balance – end of year	**20,267**

Equity Accounted Investments

The following summarizes the Trust's ownership interest in each equity accounted investment along with how it is accounted in the Trust's consolidated financial statements:

Equity accounted investment	**Principal Activity**	**2017**	2016
Investment in associates:			
PCVP	Owns, develops and operates investment properties	**50%**	50%
Residences LP	Develops two residential condominium towers	**25%**	N/A
Residences III LP	Develops a residential condominium tower	**25%**	N/A
Investment in joint venture:			
1500 Dundas East LP	Owns and operates an investment property	**30%**	N/A

The following summarizes key components relating to the Trust's equity accounted investments:

	2017			2016
(in thousands of dollars)	**Investment in associates**	**Investment in joint venture**	**Total**	Total
Investment – beginning of year	**122,677**	**—**	**122,677**	107,548
Contributions	**17,824**	**15,847**	**33,671**	1,730
(Loss) earnings	**(2,006)**	**343**	**(1,663)**	13,787
Distributions received	**(29,179)**	**(144)**	**(29,323)**	(388)
Investment – end of year	**109,316**	**16,046**	**125,362**	122,677

During the year ended December 31, 2017, the Trust entered into a Supplemental Development Fee Agreement with PCVP to provide development services. In accordance with this Supplemental Development Fee Agreement, the Trust invoiced PCVP an amount of $5,846 (net of sales tax) related to associated development fees. As a result, the Trust's share of the loss for the year ended December 31, 2017 related to its investment in PCVP includes an additional $3,303 (inclusive of sales tax) of the supplemental costs incurred by the Trust.

a) Investment in associates

In 2012, the Trust entered into the Penguin-Calloway Vaughan Partnership ("PCVP") with Penguin to develop the Vaughan Metropolitan Centre ("VMC"), which is expected to consist of approximately 9.0 million to 11.0 million square feet once fully developed, on 53 acres of development land in Vaughan, Ontario.

During the year ended December 31, 2017, the Trust entered into the VMC Residences Limited Partnership ("Residences LP") and VMC Residences III Limited Partnership ("Residences III LP") with Penguin and a third party, CentreCourt Developments, to develop residential condominium towers, located on the VMC site.

b) Investment in joint venture

During the year ended December 31, 2017, pursuant to the Arrangement, the Trust acquired an equity interest in 1500 Dundas East Limited Partnership ("1500 Dundas East LP"), which holds ownership of an investment property in Mississauga (Creekside Crossing).

Related Party

Pursuant to the Trust's declaration of trust ("Declaration of Trust"), provided certain thresholds are met, until July 1, 2020, Penguin is entitled to have a minimum of 25.0% of the votes eligible to be cast at any meeting of Unitholders (the "Voting Top-Up Right"). Pursuant to the Voting Top-Up Right, the Trust will issue additional special voting Units of the Trust ("Special Voting Units") to Penguin to increase its voting rights to 25.0% in advance of a meeting of Unitholders. The total number of Special Voting Units is adjusted for each meeting of the Unitholders based on changes in Penguin's ownership interest. As a result, in connection with the 2017 annual general and special meeting of Unitholders that took place on May 11, 2017, the Trust issued 361,215 additional Special Voting Units ("Additional Special Voting Units"). Furthermore, pursuant to the Arrangement, 677,069 additional Special Voting Units were issued to bring Penguin's total to 5,542,624 Additional Special Voting Units. These Special Voting Units are not entitled to any interest or share in the distributions or net assets of the Trust; nor are they convertible into any securities of the Trust. There is no value assigned to the Special Voting Units. The Voting Top-Up Right is more particularly described in the Trust's Annual Information Form for the year ended December 31, 2017, which is filed on SEDAR. As at December 31, 2017, Penguin owned 22.0% of the aggregate issued and outstanding Trust Units in addition to the Special Voting Units noted above. The 22.0% ownership would increase to 26.4% if Penguin exercised all remaining options to purchase Units pursuant to existing development and exchange agreements. In addition, the Trust has entered into property management, leasing, development and exchange, and co-ownership agreements with Penguin. Pursuant to its rights under the Declaration of Trust, at December 31, 2017, Penguin has appointed two trustees out of seven.

The Trust has entered into contracts and other arrangements with Penguin on a cost-sharing basis for administrative services and on market terms for leasing and development services and premises rent. The Trust earns interest on funds advanced and opportunity fees related to prepaid land held for development at rates negotiated at the time the Trust acquires retail centres from Penguin.

In addition to agreements and contracts with Penguin described in the Trust's consolidated financial statements for the year ended December 31, 2017, the Trust has entered into the following agreements with Penguin effective May 28, 2015:

1) The Development and Services Agreement, under which the Trust and certain subsidiary limited partnerships of the Trust have agreed to provide to Penguin the following services for a five-year term with automatic five-year renewal periods thereafter:

    a. Construction management services and leasing services are provided, at the discretion of Penguin, with respect to certain of Penguin's properties under development for a market-based fee based on construction costs incurred. Fees for leasing services, requested at the discretion of Penguin, are based on various rates that approximate market rates, depending on the term and nature of the lease. In addition, management fees are provided for a market-based fee based on rental revenue.

    b. Transition services relate to activities necessary to become familiar with Penguin projects and establishing processes and systems to accommodate the needs of Penguin.

    c. Support services are provided for a fee based on an allocation of the relevant costs of the support services incurred by the Trust. Such relevant costs include: office administration, human resources, information technology, insurance, legal and marketing.

2) The Services Agreement under which Mitchell Goldhar, owner of Penguin, has agreed to provide to the Trust certain advisory, consulting and strategic services, including but not limited to strategies dealing with development, municipal approvals, acquisitions, dispositions and construction costs, as well as strategies for marketing new projects and leasing opportunities. The fees associated with this agreement are approximately $0.9 million per quarter for a five-year term (these charges are included in the following table as "Master planning services").

3) The Trust has a lease agreement to rent its office premises from Penguin for a term ending in May 2025.

In addition to related party transactions and balances disclosed elsewhere in this Management's Discussion and Analysis (including the "Equity accounted investments" section referring to a Supplemental Development Fee Agreement), the following summarizes related party transactions and balances with Penguin and other related parties, including the Trust's share of amounts relating to the Trust's share in equity accounted investments:

(in thousands of dollars)	**2017**	2016	Variance
Related party transactions with Penguin			
Revenues:			
Transition services fee revenue	**4,000**	4,000	—
Management fee and other services revenue pursuant to the Development and Services Agreement	**5,851**	5,150	701
Support services	**973**	557	416
	10,824	9,707	1,117
Interest income from mortgages and loans receivable	**5,807**	7,993	(2,186)
Head lease rents and operating cost recoveries included in head lease rentals from income properties	**1,269**	2,128	(859)
Expenses and other payments:			
Master planning services:			
Included in general and administrative expense	**—**	875	(875)
Capitalized to properties under and held for development	**575**	2,625	(2,050)
Other expenses	**2,925**	—	2,925
	3,500	3,500	—
Development fees and costs (capitalized to investment properties)	**81**	19	62
Interest expense (capitalized to properties under development)	**12**	17	(5)
Opportunity fees (capitalized to properties under development)[1]	**2,498**	2,319	179
Rent and operating costs (included in general and administrative expense and property operating costs)	**2,307**	2,221	86
Time billings, and other administrative costs (included in general and administrative expense and property operating costs)	**184**	107	77
Leasing and consulting service fees (included in general and administrative expense)	**229**	271	(42)
Shared service costs (included in general and administrative expense)	**—**	79	(79)
Marketing cost sharing (included in property operating costs)	**53**	303	(250)

(1) These amounts relate to accrued interest on prepaid land costs subject to future Earnouts.

(in thousands of dollars)	**2017**	2016	Variance
Related party balances with Penguin			
Receivables:			
Amounts receivable	**15,561**	8,188	7,373
Mortgages receivable	**127,704**	124,778	2,926
Loans receivable	**10,199**	9,320	879
Notes receivable	**2,979**	2,979	—
Total receivables	**156,443**	145,265	11,178
Payables and other accruals:			
Accrued liabilities	**9,222**	1,918	7,304
Future land development obligation	**26,642**	26,042	600
Secured debt	**1,338**	3,468	(2,130)
Total payables and other accruals	**37,202**	31,428	5,774

Mortgages receivable

As at December 31, 2017, the weighted average effective interest rate associated with mortgages receivable was 4.47% (December 31, 2016 – 5.69%) (see "Loan Amendments" in the "Mortgages, Loans and Notes Receivable, and Interest Income" section for details).

Future land development obligations

The future land development obligations represent payments required to be made to Penguin for certain undeveloped lands acquired from 2006 to 2015, either on completion and rental of additional space on the undeveloped lands or, if no additional space is completed on the undeveloped lands, at the expiry of the 10-year development management agreement periods ending in 2018 to 2025. The accrued future land development obligations are measured at their estimated fair values using imputed interest rates ranging from 4.50% to 5.50%.

Leasehold interest properties

The Trust entered into leasehold agreements with Penguin for 15 investment properties.

The financial implications of related party agreements are disclosed in the notes to the consolidated financial statements for the year ended December 31, 2017.

Other related party transactions:

(in thousands of dollars)	**2017**	2016
Legal fees paid to a law firm in which a partner is a trustee of the Trust:		
Acquisition costs incurred	**851**	—
Capitalized to investment properties	**88**	—
Included in general and administrative expense and property operating costs	**393**	421
Included in disposition of investment properties	**125**	—
	1,457	421

Capital Resources and Liquidity

As at December 31, 2017 and December 31, 2016, the Trust had the following capital resources available:

(in thousands of dollars)	**2017**	2016	Variance
Cash and cash equivalents	**162,700**	23,093	139,607
Unused operating facilities	**483,138**	332,036	151,102
	645,838	355,129	290,709

On the assumption that cash flow levels permit the Trust to obtain financing on reasonable terms, the Trust anticipates meeting all current and future obligations. Management expects to finance future acquisitions, including committed Earnouts, Developments, Mezzanine Financing commitments and maturing debt from: (i) existing cash balances; (ii) a mix of mortgage debt secured by investment properties, operating facilities, issuance of equity, and convertible and unsecured debentures; (iii) repayments of mortgages receivable; and (iv) the sale of non-core assets. Cash flow generated from operating activities is the primary source of liquidity to pay Unit distributions, sustaining capital expenditures and leasing costs.

As at December 31, 2017, the Trust's capital resources increased by $290.7 million compared to December 31, 2016. The net increase of $290.7 million is primarily due to: (i) cash flows provided by operating activities of $353.1 million, (ii) a $151.1 million increase in unused operating facilities compared to last year resulting from the increase in the operating line, partially offset by (iii) cash flows used in financing activities of $132.6 million (principally due to distributions paid on Trust Units, non-controlling interest and Units classified as liabilities of $219.0 million, issuance net of repayments on secured debt and other debt of $90.1 million, and financing costs of $3.7 million), and (iv) cash flows used in investing activities of $80.9 million (principally due to additions to investment properties of $104.0 million and acquisition of business combination of $16.7 million).

The Trust manages its cash flow from operating activities by maintaining a target debt level. The debt to gross book value, as defined in the Declaration of Trust, as at December 31, 2017, is 52.3% (December 31, 2016 – 51.9%). Including the Trust's capital resources as at December 31, 2017, the Trust could invest an additional $995.9 million in new investments and remain at the midpoint of the Trust's target debt to gross book value range of 55% to 60%.

Future obligations, including the development pipeline noted below, total $4,426.5 million, as identified in the following table. Other than contractual maturity dates, the timing of payment of these obligations is management's best estimate based on assumptions with respect to the timing of leasing, construction completion, occupancy and Earnout dates at December 31, 2017.

As at December 31, 2017, the timing of the Trust's future obligations is as follows:

(in thousands of dollars)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Secured debt	2,392,221	416,177	372,381	199,665	208,908	324,958	870,132
Unsecured debentures	1,810,000	—	—	150,000	150,000	300,000	1,210,000
Mortgage receivable advances (repayments)[1]	154,389	10,308	17,404	11,311	29,235	4,287	81,844
Development obligations[2]	33,203	33,203	—	—	—	—	—
Convertible debentures	36,677	—	—	36,677	—	—	—
	4,426,490	459,688	389,785	397,653	388,143	629,245	2,161,976

(1) Mortgages receivable of $127.7 million at December 31, 2017, and further forecasted commitments of $154.4 million, mature over a period extending to 2024 if the Trust does not exercise its option to acquire the investment properties. Refer to the "Mortgages, Loans and Notes Receivable and Interest Income" section for timing of principal repayments.

(2) The Trust is in the process of refining its estimates of development obligations for the years subsequent to 2018.

The following represents the Trust's net working capital surplus (deficiency) for the years ended December 31, 2017 and December 31, 2016:

(in thousands of dollars)	**2017**	2016
Current assets	**252,492**	164,795
Less: Current liabilities	**(619,592)**	(720,508)
Working capital deficiency	**(367,100)**	(555,713)
Less: Current portion of debt	**(415,133)**	(550,581)
Net working capital surplus (deficiency)	**48,033**	(5,132)

As at December 31, 2017 the Trust experienced a working capital deficiency of $367.1 million (2016 - $555.7 million). This deficiency includes mortgages, unsecured debentures, convertible debentures and operating lines of credit of $415.1 million (2016 - $550.6 million) that have maturity dates within 12 months of the balance sheet date. It is management's intention to either repay or refinance these maturing liabilities with newly issued secured or unsecured debt, equity or, in certain circumstances, the disposition of certain assets. Any net working capital deficiencies are funded with the Trust's existing $500.0 million revolving operating facility.

It is management's intention to either repay or refinance $347.4 million of maturing secured debt in 2018. Potential upfinancing on maturing debt using a 65% loan to value and a 6.25% capitalization rate amounts to $258.5 million in 2018 and $136.9 million in 2019. In addition, the Trust has an unencumbered asset pool with an approximate fair value totalling $3,387.0 million, which can generate gross financing proceeds on income properties of approximately $2,201.6 million using a 65% loan to value. The secured debt, revolving operating facility, unsecured debentures, mortgage receivable advances, development obligations and convertible debentures will be funded by additional term mortgages, net proceeds on the sale of non-core assets, existing cash or operating lines, the issuance of convertible and unsecured debentures, and equity Units, as necessary.

The Trust's potential development pipeline of $1,411.0 million consists of $159.0 million in Earnouts and $1,252.0 million in Developments. Costs totalling $550.0 million have been incurred to date with a further $861.0 million still to be funded. The future funding includes $152.0 million for Earnouts that will be paid once a lease has been executed and construction of the space commenced. The remaining $709.0 million of Developments will proceed once the Trust has an executed lease and financing in place. Management expects this pipeline to be developed over the next three to five years.

Debt

Summary of activities during the year ended December 31, 2017

As at December 31, 2017, indebtedness was $4,318.3 million compared to $3,894.7 million as at December 31, 2016, as follows:

	2017				2016			
(in thousands of dollars)	**Balance**	**% of Total Debt**	**Weighted Average Term of Debt (years)**	**Weighted Average Interest Rate of Debt (%)**	Balance	% of Total Debt	Weighted Average Term of Debt (years)	Weighted Average Interest Rate of Debt (%)
Secured debt	**2,393,633**	**55%**	**4.6**	**3.87%**	2,535,326	65%	4.8	3.78%
Unsecured debentures	**1,800,650**	**42%**	**5.8**	**3.42%**	1,302,466	34%	6.0	3.64%
Convertible debentures	**36,677**	**1%**	**2.5**	**5.50%**	—	—%	—	—%
Total debt before equity accounted investments	**4,230,960**	**98%**	**5.1**	**3.69%**	3,837,792	99%	5.2	3.73%
Share of debt classified as equity accounted investments	**87,370**	**2%**	**3.8**	**3.33%**	56,879	1%	3.0	2.94%
	4,318,330	**100%**	**5.1**	**3.69%**	3,894,671	100%	5.2	3.72%

The following table illustrates the activity in secured debt, unsecured debentures and the revolving operating facility, for the year ended December 31, 2017:

(in thousands of dollars)	Secured Debt	Unsecured Debentures	Revolving Operating Facility	Convertible Debentures	Total
Balance – January 1, 2017	2,535,326	1,302,466	—	—	3,837,792
Borrowings	150,045	650,000	420,000	—	1,220,045
Loans assumed	207,800	—	—	76,250	284,050
Scheduled amortization	(77,758)	—	—	—	(77,758)
Repayments	(422,891)	(150,000)	(420,000)	(40,000)	(1,032,891)
Amortization of acquisition fair value adjustments, net of additions	903	—	—	—	903
Unamortized acquisition date fair value adjustment	—	—	—	427	427
Financing costs incurred relating to secured debt, net of additions	208	(1,816)	—	—	(1,608)
Balance – December 31, 2017	2,393,633	1,800,650	—	36,677	4,230,960

Secured Debt

The Trust continues to have access to secured debt due to its strong tenant base and high occupancy levels at mortgage loan levels ranging from 60% to 70% of loan to value. If maturing mortgages in 2018 and 2019 were refinanced using a 10-year secured rate of 3.64%, annualized FFO would increase by $0.017 per Unit for 2018 and decrease by $0.012 per Unit for 2019.

Future principal payments as a percentage of secured debt are as follows:

(in thousands of dollars)	Payments of Principal Amortization ($)	Debt Maturing During Year ($)	Total ($)	Total (%)	Weighted Average Interest Rate of Maturing Debt (%)
2018	68,764	347,413	416,177	17%	4.14%
2019	64,292	308,089	372,381	16%	3.09%
2020	59,423	140,242	199,665	8%	5.16%
2021	53,942	154,966	208,908	9%	4.29%
2022	49,698	275,260	324,958	14%	3.54%
Thereafter	128,547	741,585	870,132	36%	3.85%
Total	424,666	1,967,555	2,392,221	100%	3.87%
Acquisition date fair value adjustment			7,861		
Unamortized financing costs			(6,449)		
			2,393,633		

Debt maturing during year

The debt maturing by type of lender is as follows:

(in thousands of dollars)	Banks and Other Non-Conduit Loans	Conduit Loans	Total
2018	347,413	—	347,413
2019	308,089	—	308,089
2020	100,038	40,204	140,242
2021	109,374	45,592	154,966
2022	275,260	—	275,260
Thereafter	670,003	71,582	741,585
	1,810,177	157,378	1,967,555

Unsecured Debentures

Issued and outstanding as at December 31, 2017:

(in thousands of dollars)	Maturity Date	Annual Interest Rate	2017	2016
Series H	July 27, 2020	4.050%	**150,000**	150,000
Series I	May 30, 2023	3.985%	**200,000**	200,000
Series J	December 1, 2017	3.385%	**—**	150,000
Series L	February 11, 2021	3.749%	**150,000**	150,000
Series M	July 22, 2022	3.730%	**150,000**	150,000
Series N	February 6, 2025	3.556%	**160,000**	160,000
Series O	August 28, 2024	2.987%	**100,000**	100,000
Series P	August 28, 2026	3.444%	**250,000**	250,000
Series Q	March 21, 2022	2.876%	**150,000**	—
Series R	December 21, 2020	Variable[1]	**250,000**	—
Series S	December 21, 2027	3.834%	**250,000**	—
		3.42%[2]	**1,810,000**	1,310,000
Less: Unamortized financing costs			**(9,350)**	(7,534)
			1,800,650	1,302,466

(1) These unsecured debentures carry a floating rate of 3-month CDOR plus 66 basis points.
(2) Represents the weighted average annual interest rate.

Unsecured Debenture Activity for the year ended December 31, 2017

Issuances

On March 15, 2017, the Trust issued $150.0 million of 2.876% Series Q senior unsecured debentures (net proceeds including issuance costs – $149.1 million), which are due on March 21, 2022 with semi-annual payments due on March 21 and September 21 each year. The proceeds were used to redeem the outstanding principal on the 3.385% Series J senior unsecured debentures totalling $150.0 million (see below for details).

On December 14, 2017, the Trust issued $250.0 million floating rate (three-month CDOR plus 66 basis points) Series R senior unsecured debentures and $250.0 million of 3.834% Series S senior unsecured debentures (combined net proceeds including issuance costs - $498.4 million), which are due on December 21, 2020 and December 21, 2027, respectively. The Series R senior unsecured debentures have quarterly payments due on March 21, June 21, September 21 and December 21 and the Series S senior unsecured debentures have semi-annual payments due on June 21 and December 21. The combined net proceeds were used to repay existing indebtedness and for general trust purposes.

Redemptions

On April 13, 2017, the Trust redeemed $150.0 million aggregate principal amount of 3.385% Series J senior unsecured debentures. In addition to paying accrued interest of $1.9 million, the Trust paid a yield maintenance fee of $2.2 million in connection with the redemption.

Credit Rating of Unsecured Debentures

Dominion Bond Rating Services (DBRS) provides credit ratings of debt securities for commercial issuers that indicate the risk associated with a borrower's capabilities to fulfill its obligations. An investment-grade rating must exceed "BB", with the highest rating being "AAA". The Trust's debentures are rated "BBB" with a stable trend at December 31, 2017.

Convertible Debentures

Pursuant to the Arrangement, the Trust assumed the convertible debentures that were previously issued by OneREIT as follows:

i) *5.45% convertible unsecured subordinated debentures, due on June 30, 2018*

The $40.0 million 5.45% convertible unsecured subordinated debentures ("5.45% Convertible Debentures") bore interest at 5.45% per annum, payable semi-annually on June 30 and December 31 each year and were to mature on June 30, 2018. The 5.45% Convertible Debentures were convertible at the debenture holder's option into fully paid Units at any time prior to the earlier of the maturity date and the date fixed for redemption at a conversion price of $58.01 per Unit. On or after June 30, 2016, but prior to the maturity date, the 5.45% Convertible Debentures were redeemable in whole or in part, at the Trust's option, at a price equal to their principal amount plus accrued interest.

On November 6, 2017, the Trust redeemed the balance of the 5.45% Convertible Debentures for $40.0 million plus accrued interest. As a result, at December 31, 2017, $nil of the face value of the 5.45% Convertible Debentures was outstanding.

ii) *5.50% convertible unsecured subordinated debentures, due on June 30, 2020*

The $36.3 million 5.50% convertible unsecured subordinated debentures ("5.50% Convertible Debentures") bear interest at 5.50% per annum, payable semi-annually on June 30 and December 31 each year and mature on June 30, 2020. The 5.50% Convertible Debentures are convertible at the debenture holder's option into fully paid Units at any time prior to the earlier of maturity date and the date fixed for redemption at a conversion price of $51.57 per Unit. On or after October 4, 2017, but prior to June 30, 2018, the 5.50% Convertible Debentures may be redeemed, in whole or in part, at the Trust's option, provided that the market price for the Units is not less than 125% of the conversion price. On or after June 30, 2018, but prior to the maturity date, the 5.50% Convertible Debentures may be redeemed in whole or in part, at the Trust's option, at a price equal to their principal amount plus accrued interest. The Trust may satisfy its obligation to repay the principal amounts of the 5.50% Convertible Debentures, in whole or in part, by delivering Units of the Trust. In the event the Trust elects to satisfy its obligation to repay the principal with Units of the Trust, it must deliver that number of Units equal to 95% of the market price for the Units at that time.

During the three months and year ended December 31, 2017, $nil of the face value of the 5.50% convertible debentures (three months and year ended December 31, 2016 - $nil) was converted into Trust Units.

(in thousands of dollars)	**2017**
5.50% convertible debentures, due on June 30, 2020	**36,250**
Unamortized acquisition date fair value adjustment	**427**
	36,677

Revolving operating facility

On June 12, 2017, the Trust replaced the former revolving operating facility of $350.0 million with a $500.0 million unsecured revolving operating facility bearing interest at a variable interest rate based on either bank prime rate plus 45 basis points or banker's acceptance rates plus 145 basis points, and expires on May 31, 2022. The new facility includes an accordion feature of $250.0 million whereby the Trust has an option to increase its facility amount with the lenders to sustain future operations as required. As at December 31, 2017, the Trust had $nil (December 31, 2016 – $nil) outstanding on its revolving operating facility, with the exception of the letters of credit collateralized by the line totalling $16.9 million (December 31, 2016 - $18.0 million).

Pursuant to the Arrangement, the Trust assumed a revolving operating facility of $20.0 million secured by specific charges on an investment property, bearing interest at bank prime rate plus 45 basis points or at banker's acceptance rate plus 145 basis points. The revolving operating facility was to mature on June 30, 2020. At the time of the Arrangement, the total amount outstanding on the revolving operating facility was $15.0 million. In December 2017, the Trust repaid the amount outstanding of $15.0 million and closed the revolving operating facility.

(in thousands of dollars)	**2017**	2016	Variance
Former revolving operating facility	**—**	350,000	(350,000)
Revolving operating facility	**500,000**	—	500,000
Total available operating facility	**500,000**	350,000	150,000
Letters of credit – outstanding	**(16,862)**	(17,964)	1,102
Remaining unused operating facility	**483,138**	332,036	151,102

The Trust has outstanding revolving letters of credit with other financial institutions totalling $37.8 million (December 31, 2016 – $27.9 million).

Non-revolving operating facility

Pursuant to the Arrangement, the Trust assumed the following non-revolving operating facilities:

(i) A non-revolving operating facility with a Canadian chartered bank secured by specific charges on an investment property, that bore interest at prime plus 100 basis points or at banker's acceptance rate plus 135 basis points and matured on April 7, 2021. At the time of the Arrangement, the total amount outstanding on the non-revolving operating facility was $27.2 million. In December 2017, the Trust repaid the amount outstanding of $27.2 million and closed the non-revolving operating facility.

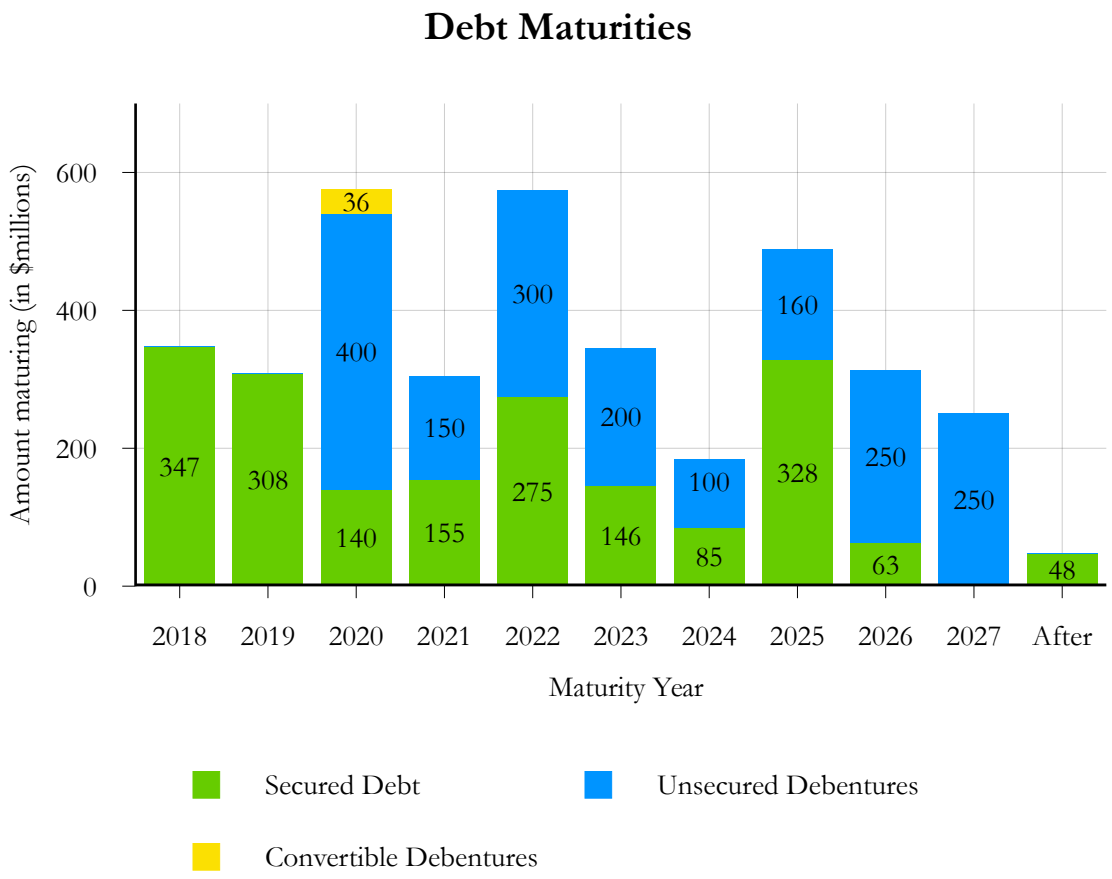
(ii) A non-revolving operating facility with a Canadian chartered bank secured by specific charges on an investment property, that bore interest at prime plus 45 basis points or at banker's acceptance rate plus 145 basis points and matured on June 30, 2020. At the time of the Arrangement, the total amount outstanding on the non-revolving operating facility was $30.0 million. In December 2017, the Trust repaid the amount outstanding of $30.0 million and closed the non-revolving operating facility.

Unencumbered Assets

As at December 31, 2017, the Trust had $3,387.0 million of unencumbered assets, which reflects the Trust's share of the value of investment properties. In connection with this pool of unencumbered assets, management estimates that the total Forecasted Annualized NOI for 2018 will be $199.1 million. Forecasted Annualized NOI is representative of board approved budgets, and includes all known leasing and cost assumptions pertaining to the Trust's income properties that are not encumbered by secured debt, and is a forward-looking non-GAAP measure.

Debt Maturities

The following graph illustrates the debt maturities for secured debt, unsecured debentures and convertible debentures:



Financial Covenants

The unsecured operating facility and unsecured debentures contain numerous terms and covenants that limit the discretion of management with respect to certain business matters. These covenants could in certain circumstances place restrictions on, among other things, the ability of the Trust to create liens or other encumbrances, to pay distributions on its Units or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

In addition, the operating facility and unsecured debentures contain a number of financial covenants that require the Trust to meet certain financial ratios and financial condition tests. A failure to comply with the financial covenants in the operating facility and unsecured debentures could result in a default, which, if not cured or waived, could result in a reduction or termination of distributions by the Trust and permit acceleration of the relevant indebtedness.

As stipulated by the Declaration of Trust, the Trust monitors its capital structure based on the following ratios: interest coverage ratio, debt to gross book value, debt to aggregate assets, and debt to Adjusted EBITDA. These ratios are used by the Trust to manage an acceptable level of leverage and are not considered measures in accordance with IFRS; nor is there an equivalent IFRS measure. The ratios are as follows:

	2017	2016
Interest coverage ratio	**3.1X**	3.1X
Debt to aggregate assets	**45.4%**	44.3%
Debt to gross book value (excluding convertible debentures)	**52.3%**	51.9%
Debt to gross book value (including convertible debentures)	**52.8%**	51.9%
Debt to Adjusted EBITDA	**8.4X**	8.4X

The following are the significant financial covenants that the Trust is required by its operating line lenders to maintain: debt to aggregate assets of not more than 65%, secured debt to aggregate assets of not more than 40%, Adjusted EBITDA to debt service (fixed charge coverage ratio) of not less than 1.5, unencumbered investment properties value to consolidated unsecured debt of not less than 1.3 and Unitholders' equity of not less than $2.0 billion.

Those ratios are as follows:

Ratio	Threshold	**2017**	2016
Debt to aggregate assets	65%	**45.4%**	44.3%
Secured debt to aggregate assets	40%	**26.1%**	29.5%
Fixed charge coverage ratio	1.5X	**2.1X**	2.0X
Unencumbered assets to unsecured debt	1.3X	**1.8X**	2.1X
Unitholders' equity (in thousands)	$2,000,000	**$4,827,457**	$4,663,944

The Trust's indentures require its unsecured debentures to maintain debt to gross book value excluding and including convertible debentures not more than 60% and 65%, respectively, interest coverage ratio not less than 1.65 and Unitholders' equity not less than $500.0 million. Those ratios are as follows:

	Threshold	**2017**	2016
Debt to gross book value (excluding convertible debentures)	60%	**52.3%**	51.9%
Debt to gross book value (including convertible debentures)	65%	**52.8%**	51.9%
Interest coverage ratio	1.65X	**3.1X**	3.1X
Unitholders' equity (in thousands)	$500,000	**$4,827,457**	$4,663,944

For the year ended December 31, 2017, the Trust was in compliance with all financial covenants.

Unitholders' Equity

The Unitholders' Equity of the Trust is calculated based on the equity attributable to the holders of Trust Units and Limited Partnership Units that are exchangeable into Trust Units on a one-for-one basis. These Limited Partnership Units consist of Class B Units of the Trust's subsidiary limited partnerships. Certain of the Trust's subsidiary limited partnerships also have Units classified as liabilities that are exchangeable on a one-for-one basis for Units. The following is a summary of the number of Units outstanding for the years ended December 31, 2017 and December 31, 2016:

Type	Class and Series	2017	2016	Variance
Trust Units	N/A	**132,612,320**	130,132,036	2,480,284
Smart Limited Partnership	Class B Series 1	**14,746,176**	14,741,660	4,516
Smart Limited Partnership	Class B Series 2	**886,956**	886,956	—
Smart Limited Partnership	Class B Series 3	**720,432**	720,432	—
Smart Limited Partnership II	Class B	**756,525**	756,525	—
Smart Limited Partnership III	Class B Series 4	**647,934**	647,934	—
Smart Limited Partnership III	Class B Series 5	**572,337**	559,396	12,941
Smart Limited Partnership III	Class B Series 6	**449,375**	437,389	11,986
Smart Limited Partnership III	Class B Series 7	**434,598**	434,598	—
Smart Limited Partnership III	Class B Series 8	**1,698,018**	1,698,018	—
Smart Limited Partnership IV	Class B Series 1	**3,046,121**	3,046,121	—
Smart Oshawa South Limited Partnership	Class B Series 1	**688,336**	688,336	—
Smart Oshawa Taunton Limited Partnership	Class B Series 1	**374,223**	374,223	—
Total Units classified as equity		**157,633,351**	155,123,624	2,509,727
Smart Limited Partnership	Class D Series 1	**311,022**	311,022	—
Smart Oshawa South Limited Partnership	Class D Series 1	**251,649**	251,649	—
ONR Limited Partnership[(1)]	Class B	**1,254,114**	—	1,254,114
ONR Limited Partnership I[(1)]	Class B Series 1	**132,881**	—	132,881
ONR Limited Partnership I[(1)]	Class B Series 2	**137,109**	—	137,109
Total Units classified as liabilities		**2,086,775**	562,671	1,524,104
Total Units		**159,720,126**	155,686,295	4,033,831

(1) Limited Partnership was formed pursuant to the Arrangement.

The following is a summary of the activities having an impact on Unitholders' equity for the years ended December 31, 2017 and December 31, 2016:

(in thousands of dollars)	2017	2016
Unitholders' equity – beginning of the period	**4,663,944**	4,482,571
Issuance of Trust Units, net of issuance cost	**75,821**	48,907
Deferred Units exchanged for Trust Units	**251**	—
Issuance of LP Units classified as equity	**832**	4,578
Net income and comprehensive income	**355,926**	386,135
Contributions by other non-controlling interest	**—**	51
Distributions to other non-controlling interest	**(283)**	(166)
Distributions	**(269,034)**	(258,132)
Unitholders' equity – end of the period	**4,827,457**	4,663,944

During the year ended December 31, 2017, the Trust issued $76.9 million in Units as follows:

	Trust Units (#)	LP Units (#)	Total Units (#)	2017 ($ thousands)
Options exercised	13,390	29,443	42,833	1,101
Distribution reinvestment plan (DRIP)	1,625,403	—	1,625,403	50,719
Deferred units exchanged for Trust Units	8,438	—	8,438	251
Units issued for the Arrangement	833,053	—	833,053	24,833
Total change in Unit equity	2,480,284	29,443	2,509,727	76,904

During the year ended December 31, 2017, distributions declared by the Trust totalled $270.7 million (of which $1.6 million is treated as interest expense relating to distributions on Units classified as liabilities) (December 31, 2016 – $259.1 million, of which $1.0 million is treated as interest expense relating to distributions on Units classified as liabilities) or $1.7128 per Unit (December 31, 2016 – $1.66 per Unit). For the year ended December 31, 2017, the Trust paid $219.9 million in cash and the balance of $50.7 million by issuing 1,625,403 Trust Units under the DRIP (December 31, 2016 – $212.9 million and the balance of $46.2 million represented by 1,379,838 Trust Units, respectively).

Distributions to Unitholders for the year ended December 31, 2017 compared to December 31, 2016 were as follows:

(in thousands of dollars)	**2017**	2016
Distributions to Unitholders	**270,665**	259,096
Distributions reinvested through DRIP	**(50,719)**	(46,212)
Distributions to Unitholders, net of DRIP	**219,946**	212,884
DRIP as a percentage of distributions to Unitholders	**18.7%**	17.8%

Quarterly Results and Trends
(in thousands of dollars, except percentage, Unit and per Unit amounts)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2[7] 2016	Q1 2016
Rentals from investment properties[1]	196,530	178,752	181,511	184,562	186,702	174,123	187,297	179,629
NOI[1][2]	125,460	117,867	117,107	117,094	120,051	115,138	126,811	114,347
Net income and comprehensive income[1]	101,911	69,946	124,070	59,999	153,889	56,731	76,646	98,869
FFO[2]	90,075	87,754	85,634	81,188	86,954	66,999	93,666	82,937
Per Unit								
Basic	$0.57	$0.56	$0.55	$0.52	$0.56	$0.43	$0.61	$0.54
Diluted[2][3]	$0.56	$0.56	$0.55	$0.52	$0.56	$0.43	$0.60	$0.54
FFO with one time adjustment and transactional FFO[2][4]	91,020	87,754	88,939	83,728	86,954	83,456	93,666	82,937
Per Unit								
Basic	$0.57	$0.56	$0.57	$0.54	$0.56	$0.54	$0.61	$0.54
Diluted[3][4]	$0.57	$0.56	$0.57	$0.54	$0.56	$0.54	$0.60	$0.54
AFFO[2][5]	80,196	81,115	82,382	78,556	77,271	60,675	89,051	79,744
Per Unit								
Basic[2][5]	$0.50	$0.52	$0.53	$0.50	$0.50	$0.39	$0.57	$0.52
Diluted[2][3][5]	$0.50	$0.52	$0.53	$0.50	$0.50	$0.39	$0.57	$0.52
AFFO with one time adjustment and transactional FFO[1][4]	81,141	81,115	85,687	78,556	77,271	77,132	89,051	79,744
Per Unit								
Basic[1][4]	$0.51	$0.52	$0.55	$0.50	$0.50	$0.50	$0.57	$0.52
Diluted[1][2][4]	$0.51	$0.52	$0.55	$0.50	$0.50	$0.50	$0.57	$0.52
Payout ratio to AFFO[5]	87.4%	81.7%	80.2%	85.0%	84.0%	106.0%	72.0%	79.4%
Payout ratio to AFFO with one time adjustment and transactional FFO[2]	85.7%	81.7%	77.3%	85.0%	84.0%	83.4%	72.0%	79.4%
Cash flows provided by operating activities	137,492	84,967	74,285	56,338	109,672	83,717	66,629	56,319
Distributions declared	70,191	67,018	66,806	66,650	66,463	64,360	64,237	64,037
Units outstanding[6]	159,720,126	158,196,022	156,455,314	156,072,260	155,686,295	155,300,424	154,991,447	154,608,575
Weighted average Units outstanding								
Basic	159,388,010	156,681,702	156,256,467	155,882,593	155,487,377	155,148,277	154,807,223	154,309,475
Diluted	160,078,219	157,367,314	156,916,777	156,500,558	156,059,467	155,728,508	155,427,741	154,954,420
Total assets	9,380,232	8,839,166	8,843,016	8,886,478	8,738,878	8,647,605	8,611,463	8,562,488
Total unencumbered assets	3,387,000	2,921,700	2,914,000	2,744,600	2,701,700	2,635,200	2,522,100	2,463,000
Total debt[1]	4,318,330	3,889,763	3,909,966	4,031,172	3,894,671	3,896,201	3,842,278	3,838,553
Occupancy rate[1]	98.2%	98.5%	98.4%	98.1%	98.3%	98.3%	98.2%	98.5%

(1) Includes the Trust's share of earnings from equity accounted investments.
(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.
(3) Diluted AFFO and FFO are adjusted for the dilutive effect of the vested Earnout options and vested portion of deferred units, unless they are anti-dilutive.
(4) Q2 2017 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ($0.2 million). Q1 2017 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ($2.5 million). Q3 2016 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ($16.5 million).
(5) The 2016 AFFO, AFFO per Unit and AFFO payout ratio, have been restated to comply with the REALpac White Paper on FFO and AFFO dated February 2017.
(6) Total units outstanding include Trust Units and LP Units, including Units classified as financial liabilities.
(7) Includes $9.7 million settlement proceeds associated with the Target lease terminations net of other amounts recorded during the three months ended June 30, 2016. For the three months ended June 30, 2016, the net settlement proceeds had an impact on both FFO per Unit and AFFO per Unit by $0.06.

Rentals from investment properties, NOI, Net income and comprehensive income and all related financial and operational metrics noted above are not materially impacted by seasonal factors. However, macroeconomic and market trends, as described under the Outlook section of this MD&A, do have an influence on the demand for space, occupancy levels and, consequently, rental revenue and ultimately operating performance.

Overall, quarterly fluctuations in our revenue and operating results are mainly attributable to occupancy and same property growth, acquisitions and dispositions and fair value gains and losses on investment properties.

Rentals from investment properties increased from Q1 2016 to Q2 2016 principally because of the termination fees received from Target pursuant to the closing of the two Target locations in the portfolio. The Q3 2016 reduction in rental from investment properties results from additional vacancy and provisions for bad debt taken in the quarter. For the ensuing quarters up to and including Q3 2017, rentals from investment properties was relatively stable with quarterly fluctuations resulting primarily from leasing and additional recoveries of tax and recoverable operating costs. The increase in Q4 2017 over Q3 2017 results primarily from the revenue attributed to the 12 additional OneREIT properties acquired pursuant to the Arrangement.

The above factors for quarterly revenue from investment properties also affect the quarterly variations in NOI, FFO and AFFO. Variations in AFFO are also a function of increases in distributions and quarterly changes in capital expenditures and leasing costs.

In addition to the factors noted above, net income and comprehensive income are principally affected quarter-over-quarter by fluctuations in fair value of the Trust's income producing properties, the incidence of yield maintenance costs associated with the early redemption of unsecured debentures and, for Q4 2017, the recognition of an acquisition gain, net, pursuant to the Arrangement.

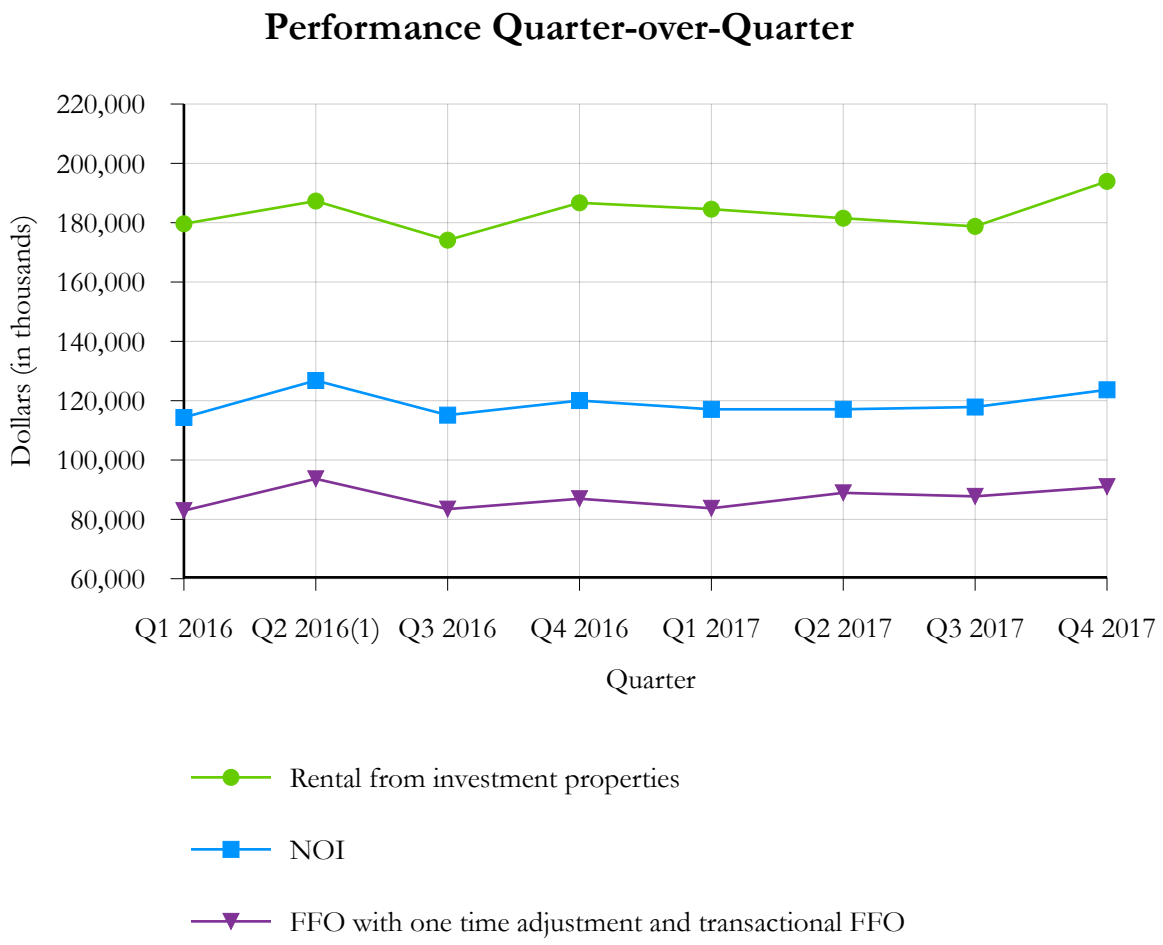
Quarterly increases in Units outstanding and weighted average units outstanding (Basic and Diluted) can be attributed to units issued pursuant to: (i) DRIP, (ii) earnouts, and (iii) the properties under development issuances. The substantive quarter over quarter increase in Q4 2017 is attributed to units issued pursuant to the Arrangement.

The quarter-over-quarter change in total assets and total debt are primarily attributed to: (i) acquisitions and the assumption or arrangement of new debt associated with such acquisitions, and (ii) development and related costs associated with properties under development in the portfolio. The substantive increase in both assets and total debt in Q4 2017 can be attributed to the assets purchased and related debt assumed pursuant to the Arrangement.

The quarter-over-quarter increase in unencumbered assets over the last two years is primarily attributed to the Trust's practice of repaying maturing mortgages by using its existing credit facilities and unsecured debt, resulting in the related assets remaining unencumbered thereafter.

The Trust's occupancy rate has remained relatively stable over the last eight quarters, ranging from a low of 98.1% in Q1 2017 to 98.5% in Q3 2017. Quarterly changes in occupancy rates are primarily caused by: (i) the expiration and non-renewal of existing tenancies, (ii) new leasing, (iii) assumed occupancy/vacancy on acquisitions, and (iv) movements of space in and out of the Trust's portfolio of properties under development. The primary reasons for the reduction in occupancy rate in Q4 2017 relates to additional vacancy assumed pursuant to the Arrangement and additional vacancy in the existing portfolio.

General trends in SmartCentres' key performance indicators



(1) Includes $9.7 million settlement proceeds associated with the Target lease terminations net of other amounts recorded during the three months ended June 30, 2016.

The graph above represents the Trust's experience over the last eight quarters pertaining to: (i) rentals from investment properties, (ii) NOI, and (iii) FFO with one time adjustment and transactional FFO, and reflects the relative stability in performance for each of these various earnings-based metrics.

Income Taxes and the REIT Exception

The Trust currently qualifies as a "mutual fund trust" as defined in the Income Tax Act (Canada) (the "Tax Act"). In accordance with the Declaration of Trust, distributions to Unitholders are declared at the discretion of the trustees. The Trust endeavours to distribute to Unitholders, in cash or in Units, in each taxation year its taxable income to such an extent that the Trust will not be liable to income tax under Part I of the Tax Act.

The Tax Act imposes a special taxation regime (the "SIFT Rules") applicable to certain publicly traded income trusts (each a "SIFT"). A SIFT includes a trust resident in Canada with publicly traded units that holds one or more "non-portfolio properties". "Non-portfolio properties" include certain investments in real properties situated in Canada and certain investments in corporations and trusts resident in Canada and in partnerships with specified connections in Canada. Under the SIFT Rules, a SIFT is subject to tax in respect of certain distributions that are attributable to the SIFT's "non-portfolio earnings" (as defined in the Tax Act; generally, income (other than certain dividends) from, or capital gains realized on, "non-portfolio properties", which does not include certain investments in non-Canadian entities), at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. The SIFT Rules are not applicable to a SIFT that meets certain specified criteria relating to the nature of its revenues and investments in order to qualify as a real estate investment trust for purposes of the Tax Act (the "REIT Exception"). The Trust qualifies for the REIT Exception as at December 31, 2017.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting – National Instrument 52-109 Compliance

Disclosure Controls and Procedures ("DCP")

The Trust's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have designed or caused to be designed, under their direct supervision, the Trust's DCP (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), adopted by the Canadian Securities Administrators) to provide reasonable assurance that: (i) material information relating to the Trust, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared; and (ii) material information required to be disclosed in the annual filings is recorded, processed, summarized and reported on a timely basis. The Trust continues to evaluate the effectiveness of DCP, and changes are implemented to adjust to the needs of new processes and enhancement required. Further, the Trust's CEO and CFO have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of the Trust's DCP at December 31, 2017, and concluded that it was effective.

Internal Control Over Financial Reporting ("ICFR")

The Trust's CEO and CFO have also designed, or caused to be designed under their direct supervision, the Trust's ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Using the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission 2013 (COSO 2013), the Trust's CEO and CFO have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of the Trust's ICFR as at December 31, 2017, and concluded that it was effective.

Inherent Limitations

Notwithstanding the foregoing, because of its inherent limitations a control system can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. In addition, management has attempted to minimize the likelihood of fraud. However, any control system can be circumvented through collusion and illegal acts.

Significant Accounting Estimates and Policies

Significant Accounting Estimates

In preparing the Trust's audited consolidated financial statements and accompanying notes, it is necessary for management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the period. The significant estimates and assumptions made by the Trust are as follows:

Fair value of investment property
Investment properties include income producing properties and properties under development (land or building, or part of a building, or both) that are held by the Trust, or leased by the Trust as a lessee under a finance lease, to earn rentals or for capital appreciation or both.

After the initial recognition, investment properties are recorded at fair value, determined based on comparable transactions, if any. If comparable transactions are not available, the Trust uses alternative valuation methods, such as the direct income capitalization method or discounted cash flow projections. Valuations, where obtained externally, are performed either as of a June 30 valuation date or as of a December 31 valuation date with quarterly updates on capitalization rates by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. Related fair value gains and losses are recorded in the consolidated statements of income and comprehensive income in the period in which they arise.

Fair value measurement of an investment property under development is applied only if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development may be carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- the status of construction permits.

The fair value of investment properties and properties under development is dependent on stabilized or forecasted net operating income and capitalization rates applicable to those assets. The review of stabilized or forecasted net operating income is based on the location, type and quality of the properties and involves assumptions of current market rents for similar properties, adjusted for estimated vacancy rates and estimated maintenance costs. Capitalization rates are based on the location, size and quality of the properties and take into account market data at the valuation date. These assumptions may not ultimately be achieved.

Fair value of financial instruments
a) Unit options issued to non-employees on acquisitions (the "Earnout options")
The Earnout options are considered to be contingent consideration with respect to the acquisitions they relate to, and are initially recognized at their fair value. The Earnout options are subsequently carried at fair value with changes in fair value recognized in the consolidated statements of income and comprehensive income. The fair value of Earnout options is determined using the Black-Scholes option-pricing model using certain observable inputs with respect to the volatility of the underlying Trust Unit price, the risk-free rate and using unobservable inputs with respect to the anticipated expected lives of the options, the number of options that will ultimately vest and the expected Trust Unit distribution rate. Generally, increases in the anticipated lives of the options, decreases in the number of options that will ultimately vest, and decreases in the expected Trust Unit distribution rate will combine to result in a lower fair value of Earnout options.

b) Deferred unit plan

The deferred units are measured at fair value using the market price of the Trust Units on each reporting date with changes in fair value recognized in the consolidated statements of income and comprehensive income as additional compensation expense over their vesting period and as a gain or loss on financial instruments once vested. The additional deferred units are recorded in the consolidated statements of income and comprehensive income as compensation expense over their vesting period and as interest expense once vested.

c) Units classified as liabilities

The Class D Smart LP Units, Class D Smart Oshawa South LP Units, Class D Smart Oshawa Taunton LP Units, Class B ONR LP Units and Class B ONR LP I Units (collectively referred to herein as "Units classified as liabilities") will continue to be presented as a liability, measured at amortized cost each reporting period, which will approximate the fair value of Trust Units, with changes in amortized cost recorded directly in earnings. The distributions on such Units are classified as interest expense in the consolidated statement of income and comprehensive income. The Trust considers distributions on such Units classified as interest expense to be a financing activity in the consolidated statement of cash flows.

d) Long Term Incentive Plan

The fair value of the LTIP is based on the following factors: (i) the long-term performance of the Trust relative to the S&P/TSX Capped REIT Index for each grant period, (ii) the market value of Trust Units at each reporting date, and (iii) the total granted LTIP units under the plan including LTIP units reinvested.

Fair value of mortgages and loans receivable

The fair values of mortgages and loans receivable are estimated based on discounted future cash flows using discounted rates that reflect current market conditions for instruments with similar terms and risks.

Residential Development Inventory

Residential development inventory, which is developed for sale in the ordinary course of business, is stated 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 as an expense 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 interest rate for the Trust's other borrowings to eligible expenditures. Borrowing costs are not capitalized on residential development inventory where no development activity is taking place. Residential development inventory is presented separately on the condensed consolidated balance sheets as current assets. Residential development inventory is classified as current as the Trust intends to sell these assets in the ordinary course of business.

Statement of Cash Flows

The Trust implemented the amendments to IAS 7, "Statement of Cash Flows", to provide disclosure on changes in liabilities arising from financing activities, including both cash and non-cash flow changes. The implementation of the amendments did not have any impact on the unaudited interim condensed consolidated financial statements.

Future Changes in Accounting Policies

The Trust monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Trust's operations. Standards issued, but not yet effective, up to the date of issuance of the consolidated financial statements for the year ended December 31, 2017, and the notes contained therein, are described below. The Trust intends to adopt the following standards once they become effective.

IFRS 9, "Financial Instruments"
IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. Following the changes approved by the IASB in July 2014, the new standard also introduces expanded disclosure requirements and changes in presentation. The new impairment model is an expected loss model which may result in earlier recognition of credit losses. IFRS 9 must be applied for financial years commencing on or after January 2018. The Trust has performed an assessment of key areas within the scope of IFRS 9 which includes, but not limited to, amounts receivable, mortgages receivable, loans receivable and notes receivable. The Trust intends to adopt the new standard on the required effective date of January 1, 2018 and will not restate comparative information.

IFRS 15, "Revenue from Contracts with Customers"
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Trust has performed an assessment of key areas within the scope of IFRS 15 which includes, but not limited to, property operating costs recovered, service and other revenues, common area maintenance recoveries and residential inventory sales. The impact may be limited to additional note disclosure on the disaggregation of the Trust's revenue streams, specifically common area maintenance recoveries. The Trust intends to adopt the new standard on the required effective date of January 1, 2018 and will not restate comparative information.

IFRS 16, "Leases"
IFRS 16, "Leases" is a new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessors, IFRS 16 carries forward the lessor accounting requirements in IAS 17, with enhanced disclosure requirements that will provide information to the users of financial statements about a lessor's risk exposure, particularly to residual value risk. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. This standard supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The Trust intends to adopt the new standard on the required effective date of January 1, 2019 without restatement of prior period comparatives.

IAS 40, "Investment Property"
During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Trust will apply the amendments when they become effective prospectively, however, the Trust does not expect any impact to the Trust's consolidated financial statements.

Risks and Uncertainties

In addition to the risks discussed below, further risks are discussed in the Trust's Annual Information Form for the year ended December 31, 2017 under the heading "Risk Factors".

Real Property Ownership Risk

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors.

Real estate has a high fixed cost associated with ownership, and income lost due to declining rental rates or increased vacancies cannot easily be minimized through cost reduction. Through well-located, well-designed and professionally managed properties, management seeks to reduce this risk. Management believes prime locations will attract high-quality retailers with excellent covenants and will enable the Trust to maintain economic rents and high occupancy. By maintaining the property at the highest standard through professional management practices, management seeks to increase tenant loyalty.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants and on the vacancy rates of the Trust's portfolio of income-producing properties. The Trust's AFFO would be adversely affected if a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the properties in which the Trust has an interest was not able to be leased on economically favourable lease terms. In addition, the AFFO of the Trust would be adversely affected by increased vacancies in the Trust's portfolio of income-producing properties. On the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Trust than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the Trust's investment may be incurred. Furthermore, at any time, a tenant of any of the Trust's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and, thereby, cause a reduction in the cash flow available to the Trust. The ability to rent unleased space in the properties in which the Trust has an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to property. The failure to rent vacant space on a timely basis or at all would likely have an adverse effect on the Trust's financial condition.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If the Trust is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

Real property investments tend to be relatively illiquid with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If the Trust were to be required to liquidate its real property investments, the proceeds to the Trust might be significantly less than the aggregate carrying value of its properties.

The Trust will be subject to the risks associated with debt financing on its properties and it may not be able to refinance its properties on terms that are as favourable as the terms of existing indebtedness. In order to minimize this risk, the Trust attempts to appropriately structure the timing of the renewal of significant tenant leases on the properties in relation to the time at which mortgage indebtedness on such properties becomes due for refinancing.

Significant deterioration of the retail shopping centre market in general, or the financial health of Walmart and other key tenants in particular, could have an adverse effect on the Trust's business, financial condition or results of operations. Also, the emergence of e-commerce as a platform for retail growth has caused many retailers to change their approach to attracting and retaining customers. To the extent that some retailers are unsuccessful in attracting and retaining customers because of the prevalence of e-commerce on their respective businesses, the Trust may experience additional vacancy and its resulting adverse effects financial condition and results of operations including occupancy rates, base rental income, tax and operating cost recoveries, leasing and other similar costs.

Development and Construction Risk

Development and construction risk arises from the possibility that completed developed space will not be leased or that costs of development and construction will exceed original estimates, resulting in an uneconomic return from the leasing of such developments. The Trust mitigates this risk by limiting construction of any development until sufficient lease-up has occurred and by entering into fixed price contracts for a large proportion of both development and construction costs.

The Trust also expects to be increasingly involved in mixed-use development projects that include residential condominiums and townhouses, rental apartments, seniors housing and self-storage. Purchaser/tenant demand for these uses can be cyclical and is affected by changes in general market and economic conditions, such as consumer confidence, employment levels, availability of financing for home buyers, interest rates, demographic trends, and housing and similar commercial demand. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by the Trust can fluctuate significantly as a result of changing economic and real estate market conditions. An oversupply of alternative housing, such as new homes, resale homes (including homes held for sale by investors and speculators), foreclosed home and rental properties and apartments, accommodation of seniors housing and self-storage space may (i) reduce the Trust's ability to sell new condominiums and townhouses, depress prices and reduce margins from the sale of condominiums and townhouses, and (ii) have an adverse effect on the Trust's ability to lease rental apartments, seniors housing and self-storage units and on the rents charged.

The Trust's construction commitments are subject to those risks usually attributable to construction projects, which include: (i) construction or other unforeseen delays including municipal approvals; (ii) cost overruns; and (iii) the failure of tenants to occupy and pay rent in accordance with existing lease arrangements, some of which are conditional.

Joint Venture Risk

The Trust is a co-owner in several properties; including a joint venture with Penguin to develop the VMC and a joint venture with third parties to own and further develop a retail property, which are classified as equity accounted investments. The Trust is subject to the risks associated with the conduct of joint ventures. Such risks include disagreements with its partners to develop and operate the properties efficiently and the inability of the partners to meet their obligations to the joint ventures or third parties. Any failure of the Trust or its partners to meet its obligations or any disputes with respect to strategic decision-making or the parties' respective rights and obligations, could have a material adverse effect on the joint ventures, which may have a material adverse effect on the Trust. The Trust attempts to mitigate these risks by continuing to maintain strong relationships with its partners.

Interest and Financing Risk

In the low interest rate environment that the Canadian economy has experienced in recent years, leverage has enabled the Trust to enhance its return to Unitholders. A reversal of this trend, however, could significantly affect the business's ability to meet its financial obligations. In order to minimize this risk, the Trust's policy is to negotiate fixed rate secured debt with staggered maturities on the portfolio and seek to match average lease maturity to average debt maturity. Derivative financial instruments may be utilized by the Trust in the management of its interest rate exposure. The Trust's policy is not to utilize derivative financial instruments for trading or speculative purposes. In addition, the Declaration of Trust restricts total indebtedness permitted on the portfolio.

Interest rate changes will also affect the Trust's development portfolio. The Trust has entered into development agreements that obligate the Trust to acquire up to approximately 0.5 million square feet of additional income properties at a cost determined by capitalizing the rental income at predetermined rates. Subject to the ability of the Trust to obtain financing on acceptable terms, the Trust will finance these acquisitions by issuing additional debt and equity. Changes in interest rates will have an impact on the return from these acquisitions should the rate exceed the capitalization rate used and could result in a purchase being non-accretive. This risk is mitigated as management has certain rights of approval over the developments and acquisitions.

Operating facilities and secured debt exist that are priced at a risk premium over short-term rates. Changes in short-term interest rates will have an impact on the cost of financing. In addition, there is a risk the lenders will not refinance on maturity. By restricting the amount of variable interest rate debt and short-term debt, the Trust has minimized the impact on financial performance.

The Canadian capital markets are competitively priced. In addition, the secured debt market remains strong with lenders seeking quality products. Due to the quality and location of the Trust's real estate, management expects to meet its financial obligations.

Credit Risk

Credit risk arises from cash and cash equivalents, as well as credit exposures with respect to tenant receivables and mortgages and loans receivable. Tenants may experience financial difficulty and become unable to fulfill their lease commitments. The Trust mitigates this risk of credit loss by reviewing tenants' covenants, by ensuring its tenant mix is diversified and by limiting its exposure to any one tenant, except Walmart Canada because of its creditworthiness. Further risks arise in the event that borrowers may default on the repayment of amounts owing to the Trust. The Trust endeavours to ensure adequate security has been provided in support of mortgages and loans receivable. The failure of the Trust's tenants or borrowers to pay the Trust amounts owing on a timely basis or at all would have an adverse effect on the Trust's financial condition. The Trust deposits its surplus cash and cash equivalents in high-credit-quality financial institutions only in order to minimize any credit risk associated with cash and cash equivalents.

Environmental Risk

As an owner of real property, the Trust is subject to various federal, provincial, territorial and municipal laws relating to environmental matters. Such laws provide that the Trust could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the Trust's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the Trust. The Trust is not aware of any material non-compliance with environmental laws at any of its properties. The Trust is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any pending or threatened claims relating to environmental conditions at its properties. The Trust has policies and procedures to review and monitor environmental exposure, including obtaining a Phase I environmental assessment, as appropriate, prior to acquisition. Further investigation is conducted if the Phase I assessments indicate a problem. In addition, the standard lease requires compliance with environmental laws and regulations and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site. The Trust has obtained environmental insurance on certain assets to further manage risk.

The Trust will make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurances, the Trust does not believe that costs relating to environmental matters will have a material adverse effect on the Trust's business, financial condition or results of operations. However, environmental laws and regulations can change, and the Trust may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on the Trust's business, financial condition or results of operations.

Capital Requirements

The Trust accesses the capital markets from time to time through the issuance of debt, equity or equity related securities. If the Trust were unable to raise additional funds or renew existing maturing debt on favourable terms, then acquisition or development activities could be curtailed, asset sales accelerated and property-specific financing, purchase and development agreements renegotiated and monthly cash distributions reduced or suspended. However, the Trust anticipates accessing the capital markets on favourable terms due to its high occupancy levels and low lease maturities, combined with strong national tenants in prime retail locations.

Tax Related Risks

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the Unitholders.

If the Trust fails to qualify for the REIT Exception, the Trust will be subject to the taxation regime under the SIFT Rules. The Trust qualifies for the REIT Exception as at December 31, 2017. In the event that the REIT Exception did not apply to the Trust, the corresponding application of the SIFT Rules to the Trust could affect the level of cash distributions that would otherwise be made by the Trust and the taxation of such distributions to Unitholders. There can be no assurance that Canadian federal income tax laws with respect to the REIT Exception will not be changed, or that administrative and assessment practices of the Canada Revenue Agency will not develop in a manner that adversely affects the Trust or its Unitholders. Accordingly, no assurance can be given that the Trust will continue to qualify for the REIT Exception.

The extent to which distributions will be tax deferred in the future will depend in part on the extent to which the Trust is able to deduct capital cost allowance or other expenses relating to properties directly or indirectly held by the Trust.

Cyber Security Risk

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for the Trust and the real estate industry. Cyber attacks against large organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. Such an attack could compromise the Trust's confidential information as well as that of the Trust's employees, tenants and third parties with whom the Trust interacts and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage. As a result, the Trust continually monitors for malicious threats and adapts accordingly in an effort to ensure it maintains high privacy and security standards. The Trust invests in cyber defence technologies to support its business model and to protect its systems, employees and tenants by employing industry better practices. The Trust’s investments continue to manage the risks it faces today and position the Trust for the evolving threat landscape.

Significant Unitholder Risk

According to reports filed under applicable Canadian securities legislation, as at December 31, 2017, Mitchell Goldhar ("Mr. Goldhar") of Vaughan, Ontario beneficially owns or controls a number of the outstanding Units which, together with the securities he beneficially owns or controls that are exchangeable at his option for Trust Units for no additional consideration and the associated Special Voting Units, represent an approximate 22.0% voting interest in the Trust. Further, according to the above mentioned reports, as at December 31, 2017, Mr. Goldhar beneficially owns or controls additional rights to acquire Trust Units which, if exercised or converted, would result in him increasing his beneficial economic and voting interest in the Trust to as much as approximately 26.4%. In addition, pursuant to the Voting Top-Up Right, Mr. Goldhar may be issued additional Special Voting Units to entitle Penguin to cast 25% of the votes attached to Voting Units at a meeting of the holders of Voting Units.

If Mr. Goldhar sells a substantial number of Trust Units in the public market, the market price of the Trust Units could fall. The perception among the public that these sales will occur could also produce such an effect. As a result of his voting interest in the Trust, Mr. Goldhar may be able to exert significant influence over matters that are to be determined by votes of the Unitholders of the Trust. The timing and receipt of any takeover or control premium by Unitholders could depend on the determination of Mr. Goldhar as to when to sell Trust Units. This could delay or prevent a change of control that might be attractive to and provide liquidity for Unitholders, and could limit the price that investors are willing to pay in the future for Trust Units.

From time to time, in the normal course of business, the Trust enters into transactions and agreements for services with Penguin. The Trust relies on the agreements with Penguin for development, advisory, consulting and strategic services. See the "Related Party" section for a discussion of transactions with the Trust's significant Unitholder.

Subsequent Events

On January 12, 2018, the Trust transferred development lands in Laval, Quebec to a partnership with Jadco. The lands were transferred in for $5.1 million and represented the Trust's respective share of equity required to commence construction of the first phase of the two phased, 330 unit rental residential development.

On February 5, 2018, the Trust entered into a loan agreement with the PCVP, of which the Trust has a 50% ownership interest, to extend a loan totalling $115.8 million that bears interest at 2.31% to March 21, 2018 and subsequently at the three-month CDOR plus 76 basis points (calculated on the first day of subsequent periods), which matures on August 3, 2018, 50.0% of which is guaranteed by Penguin. The purpose of the loan was to advance funds on an interim basis to repay an existing construction facility outstanding on the KPMG Tower in Vaughan until such time as permanent financing is established.

On February 12, 2018, the Trust announced, that along with Penguin, it had entered into a joint venture with Revera Inc., a leading owner, operator and investor in the senior living sector to jointly develop new retirement living residences across Canada.

On February 14, 2018, the Board of Trustees announced that Huw Thomas, the Trust's current CEO, will be stepping down at the end of his five-year contract in June 2018, but will be remaining as a Trustee of the Trust. Mitchell Goldhar, the Trust's current non-executive Chairman and largest Unitholder, will become Executive Chairman and in that role will increase his already significant involvement in all aspects of the Trust's business, including strategy, development, intensification initiatives, leasing and finance. Peter Forde, the Trust's current President and COO will assume the President and CEO role on Huw Thomas' departure. This leadership transition is a logical step as the Trust focuses more on development and intensification opportunities on virtually its entire shopping centre portfolio.

Glossary of Terms

Term	Definition
Adjusted Cashflow From Operations ("ACFO")	ACFO is a non-GAAP financial measure and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with the Real Property Association of Canada's White Paper on Adjusted Cashflow from Operations for IFRS issued in February 2017. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. Prior to the issuance of the February 2017 White Paper, there was no industry standard to calculate a sustainable, economic cash flow metric.
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")	Adjusted earnings before interest expense, income taxes, depreciation expense and amortization expense, as defined by the Trust, is a non-GAAP financial measure that comprises net earnings less income taxes, interest expense, amortization expense and depreciation expense, as well as adjustments for gains and losses on disposal of investment properties including transactional gains and losses on the sale of investment properties to a joint venture that are expected to be recurring, and the fair value changes associated with investment properties and financial instruments, and excludes non-recurring one time adjustments. It is a metric that can be used to help determine the Trust's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. Additionally, Adjusted EBITDA removes the non-cash impact of the fair value changes and gains and losses on investment property dispositions. Adjusted EBITDA is reconciled with net income, which is the closest IFRS measure (see "Results of Operations").
Adjusted Funds From Operations ("AFFO")	AFFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a White Paper describing the intended use of AFFO last revised in February 2017. AFFO is a supplemental measure historically used by many in the real estate industry to measure operating cash flow generated from the business. In calculating AFFO, the Trust now adjusts FFO for actual costs incurred relating to leasing activities, major maintenance costs and straight-line rent in excess of contractual rent paid by tenants (a receivable). Working capital changes, viewed as short-term cash requirements or surpluses, are deemed financing activities pursuant to the methodology and are not considered when calculating AFFO. Capital expenditures that are excluded and not deducted in the calculation of AFFO comprise those which generate a new investment stream, such as erecting a new pylon sign that generates sign rental income, constructing a new retail pad during property expansion or intensification, development activities or acquisition activities. AFFO is reconciled in this MD&A with net income, which is the closest IFRS measure.
Annual Run-Rate NOI	Represents a non-GAAP financial measure and is calculated as management's estimate annualized NOI excluding the impact of straight-line rent and other non-recurring items including but not limited to bad debt provisions and termination fees.
Anchors	Anchors are defined as tenants within a property with gross leasable area greater than 30,000 square feet.
The Arrangement	On October 4, 2017, the Trust announced the closing of a transaction to acquire a portfolio of 12 retail properties from OneREIT through the acquisition of OneREIT's ONR Limited Partnership as part of a plan of arrangement with OneREIT and others ("the Arrangement"). The Arrangement added 2.2 million square feet of gross leasable area to the Trust's existing portfolio, with 10 of the 12 properties located in Ontario. Further, the portfolio includes 11 food stores, inclusive of 6 Walmart supercentres and a strong mix of national tenants.

Glossary of Terms (continued)

Term	Definition
CAM	Defined as common area maintenance.
Debt to Adjusted EBITDA	Defined as debt divided by Adjusted EBITDA. The ratio of total debt to Adjusted EBITDA is included and calculated each period to provide information on the level of the Trust's debt versus the Trust's ability to service that debt. Adjusted EBITDA is used as part of this calculation because the fair value changes and gains and losses on investment property dispositions do not have an impact on cash flow, which is a critical part of this measure (see "Financial Covenants" section).
Debt to Aggregate Assets	Calculated as debt divided by aggregate assets including equity accounted investments ("Aggregate Assets"). The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.
Debt to Gross Book Value	Calculated as debt divided by Aggregate Assets plus accumulated amortization less cumulative unrealized fair value gain or loss with respect to investment property. The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.
Earnings Before Interest Expense, Income Taxes, Depreciation Expense and Amortization expense ("EBITDA")	Earnings before interest expense, income taxes, depreciation expense and amortization expense is a non-GAAP measure that can be used to help determine the Trust's ability to service its debt, finance capital expenditures and provide for distributions to its unitholders. EBITDA is reconciled with net income, which is the closest IFRS measure (see "Financial Covenants").
Exchangeable Securities	Exchangeable Securities are securities issued by the limited partnership subsidiaries of the Trust that are convertible or exchangeable directly for Units without the payment of additional consideration, including Class B Smart Limited Partnership units ("Class B Smart LP Units") and Units classified as liabilities. Such Exchangeable Securities are economically equivalent to Units as they are entitled to distributions equal to those on the Units and are exchangeable for Units on a one-for-one basis. The issue of a Class B Smart LP Unit and Units classified as liabilities is accompanied by a Special Voting Unit that entitles the holder to vote at meetings of Unitholders.
Fixed Charge Coverage Ratio	Defined as Adjusted EBITDA divided by interest expense on debt and distributions on LP Class D Units and all regularly scheduled principal payments made with respect to indebtedness during the period. The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.
Forecasted Annualized NOI	Represents a forward-looking, non-GAAP measure, and is calculated based on Management's estimates of annualized NOI.
Funds From Operations ("FFO")	FFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a White Paper describing the intended use of FFO last revised in February 2017. It is the Trust's view that IFRS net income does not necessarily provide a complete measure of the Trust's recurring operating performance. This is primarily because IFRS net income includes items such as fair value changes of investment property that are subject to market conditions and capitalization rate fluctuations and gains and losses on the disposal of investment properties, including associated transaction costs and taxes, which are not representative of a company's recurring operating performance. For these reasons, the Trust has adopted REALpac's definition of FFO, which was created by the real estate industry as a supplemental measure of recurring operating performance.
Interest Coverage Ratio	Defined as Adjusted EBITDA over interest expense, where interest expense excludes the distributions on deferred units and LP Class D Units classified as liabilities and adjustments relating to the early redemption of unsecured debentures. The ratio is used by the Trust to manage an acceptable level of interest expense relative to available earnings and is not considered a measure in accordance with IFRS.

Glossary of Terms (continued)

Term	Definition
Net Operating Income ("NOI")	NOI (a non-GAAP financial measure) from continuing operations is defined as rentals from investment properties less property-specific costs net of service and other revenues.
Payout Ratio to ACFO	Represents a non-GAAP financial measure and is calculated as distributions declared divided by ACFO. It is the proportion of earnings paid out as dividends to Unitholders. Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management believes the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations.
Payout Ratio to AFFO	Represents a non-GAAP financial measure and is calculated as distributions per Unit divided by AFFO per Unit. It is the proportion of earnings paid out as dividends to Unitholders. Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management believes the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations.
Penguin	Penguin refers to entities controlled by Mitchell Goldhar, a trustee and significant Unitholder of the Trust.
Recovery Ratio	Defined as property operating cost recoveries divided by recoverable costs.
Same Properties NOI	To facilitate a more meaningful comparison of NOI between periods, Same properties NOI (a non-GAAP financial measure) amounts are calculated as the NOI attributable to those income properties that were owned by the Trust during the current period and the same period in the prior year. Any NOI from properties either acquired, Earned out or disposed of, outside of these periods, are excluded from Same properties NOI.
Shadow Anchor	A shadow anchor is a store or business that satisfies the criteria for an anchor tenant, but which may be located at an adjoining property or on a portion.
SIFT	The Tax Act imposes a special taxation regime for specific investment flow-through trusts ("SIFT") (referred to as the "SIFT Rules") applicable to certain publicly traded income trusts. A SIFT includes a trust resident in Canada with publicly traded units that holds one or more "non-portfolio properties". "Non-portfolio properties" include certain investments in real properties situated in Canada and certain investments in corporations and trusts resident in Canada and in partnerships with specified connections in Canada. Under the SIFT Rules, a SIFT is subject to tax in respect of certain distributions that are attributable to the SIFT's "non-portfolio earnings" (as defined in the Tax Act; generally, income (other than certain dividends) from, or capital gains realized on, "non-portfolio properties", which does not include certain investments in non-Canadian entities), at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. The SIFT Rules are not applicable to a SIFT that meets certain specified criteria relating to the nature of its revenues and investments in order to qualify as a real estate investment trust for purposes of the Tax Act.

Glossary of Terms (continued)

Term	Definition
The Transaction	On May 28, 2015, the Trust completed the previously announced acquisition of the SmartCentres platform from Mitchell Goldhar as part of a $1,171.2 million transaction that transformed the Trust into a fully integrated real estate developer and operator by adding the SmartCentres platform of development, leasing, planning, engineering, architecture, and construction capabilities. The Transaction also included the acquisition of interests in a portfolio of 22 properties located principally in Ontario and Quebec, including 20 open-format Walmart Supercentre anchored or shadow-anchored shopping centres owned by Mitchell Goldhar and joint venture partners, including Wal-Mart Canada Realty Inc., for $1,116.0 million.
Transactional FFO	Transactional FFO is a non-GAAP financial measure that represents the net financial/economic gain (loss) resulting from a partial sale of an investment property to a third party. Transactional FFO is calculated as the difference between the actual selling price and actual costs incurred for the subject investment property. Because the Trust intends to establish numerous joint ventures with partners in which it plans to co-develop mixed-use projects, the Trust expects such gains (losses) to be recurring and therefore represent part of the Trust's overall distributable earnings.
Voting Top-Up Right	Until July 1, 2020, Penguin is entitled to have a minimum of 25.0% of the votes eligible to be cast at any meeting of Unitholders provided certain conditions are met (the "Voting Top-Up Right"). Pursuant to the Voting Top-Up Right, the Trust will issue additional special voting Units of the Trust ("Additional Special Voting Units") to Penguin to increase its voting rights to 25.0% in advance of a meeting of Unitholders. The total number of Special Voting Units is adjusted for each meeting of the Unitholders based on changes in Penguin's ownership interest.