

# FOCUSED ON **CANADA'S** URBAN MARKETS

VANCOUVER

EDMONTON

CALGARY

MONTREAL

OTTAWA

TORONTO

RIO  CAN

ANNUAL REPORT 2016

# CORPORATE PROFILE

## THE CANADIAN URBAN MARKETS

**RioCan** is Canada's largest real estate investment trust with a total enterprise value of approximately \$14.6 billion. RioCan owns and manages Canada's largest portfolio of shopping centres, including ownership interests in 300 retail and mixed-use properties, with 15 properties under active development. RioCan has an aggregate net leasable area (NLA) of more than 46 million square feet. Concentrated in Canada's six major markets of Toronto, Ottawa, Calgary, Edmonton, Montreal, and Vancouver, RioCan is Canada's pre-eminent real estate investment trust.



RioCan creates spaces where we can all prosper. RioCan stays true to its founding principle of growth driven by insight to deliver a steady or increased distribution to our Unitholders.

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**THE  
CANADIAN  
URBAN  
MARKETS**

**Vancouver**

**2.3** million  
sq ft

Canada's western-most major market represents 2.3 million square feet of leaseable area under management for RioCan.

**Greater Toronto  
Area**

**19.3** million  
sq ft

RioCan's largest market with approximately 19 million square feet representing 1/3 of the portfolio.

**Ottawa/Hull**

**6.5** million  
sq ft

RioCan's second largest market representing 6.5 million square feet and growing with dynamic projects like Gloucester City Centre.

VANCOUVER

CALGARY

EDMONTON

TORONTO

OTTAWA

MONTREAL

**Calgary**

**4.7** million  
sq ft

RioCan's largest market in Western Canada with 4.7 million square feet of space under management.

**Edmonton**

**3.3** million  
sq ft

A vital hub of commerce and energy, RioCan has 3.3 million square feet of leaseable area under management.

**Montreal**

**3.6** million  
sq ft

One of Canada's most culturally vibrant markets represents 3.6 million square feet of leaseable area for RioCan.



## CEO'S LETTER TO UNITHOLDERS

# FOCUSED ON CANADA

**EDWARD SONSHINE,**  
O.ONT., Q.C.  
CHIEF EXECUTIVE OFFICER

### **RioCan — We Are Where You Want To Be**

RioCan now, once again, has a dedicated focus on Canada, where we began building the nation's largest retail REIT nearly twenty-five years ago. With a total enterprise value of almost \$15 billion, RioCan owns and manages Canada's foremost portfolio of shopping centres, and some of the premier mixed-use locations in the country, such as RioCan Yonge Eglinton Centre and the Yonge Sheppard Centre. RioCan controls an aggregate net leasable area of more than 46 million square feet focused in Canada's six major markets: Toronto, Ottawa, Calgary, Edmonton, Montreal, and Vancouver. With annual rental revenue in excess of \$1.1 billion, RioCan is Canada's pre-eminent real estate investment trust.

Our "focused on Canada" strategy is derived from our storied past. In the early 1990s, I envisioned the potential of a Canadian REIT: a security that trades on a major exchange and that invests in real estate directly, generating special tax considerations for investors, coupled with growing distributions over time. A REIT provides Unitholders a method of investing in real estate while obtaining the benefits of professional management, diversification of properties and most importantly liquidity. Unitholders and the investment community were enthusiastic about the benefits of a REIT, and RioCan was listed on the Toronto Stock Exchange in 1994.



## **Rags Davloor**

### **President, Chief Operating Officer & Corporate Secretary**

I draw on more than 20 years of real estate and capital markets experience to implement RioCan's strategic vision and oversee the operational success of the Trust.

#### **Growth Through Insight**

With an initial portfolio of less than one million square feet, RioCan's portfolio varied in property type and location. Instead of a focus on Canada's six major markets, the early portfolio had an array of properties in primary, secondary and tertiary markets.

Over a decade ago, we forecast significant population growth in Canada's six major markets, so we targeted our portfolio accordingly by disposing of assets in secondary and tertiary markets while acquiring properties in the primary markets. The powerful growth of annual rental revenue generated in these six markets validates our strategy. In 2004, these markets generated less than 60% of RioCan's annual rental revenue. Today, this number has increased to more than 75% of our annual rental revenue, and we anticipate achieving our 80% target within the next few years as projects within our present urban development portfolio are completed.

RioCan's success is aligned with that of our tenants, so management continuously assesses retail and demographic trends to ensure that our properties are innovative and leading-edge. That's why RioCan properties are at the forefront of how people want to shop, live and work in the 21<sup>st</sup> century. Indeed, RioCan provides solutions that both address leading trends but also help define the communities of which we are a part.

#### **RioCan's Urban Intensification – Creating Spaces Where We Can All Prosper**

Urban transformation involves much more than bricks and mortar. Building better futures means seeing communities for what they are, imagining what they can be, and implementing a plan, sometimes with selected partners, to get them there. This is how RioCan delivers for our tenants, customers and unitholders alike.

Today, we are witnessing the continuing demographic shift that RioCan anticipated—and planned for. Canada's major markets are in the midst of major transformation in terms of population growth and density, as well as investment in transit infrastructure. Accordingly, RioCan will add substantial value by intensifying our properties in selected locations that were acquired or developed years ago.

To facilitate a large influx of people living, shopping, and working in densely populated areas, cities are upgrading their transit infrastructure. Land intensification is being mandated in the suburbs, especially in conjunction with major transit infrastructure expansion. This shift towards land use intensification is central to our expansion and redevelopment strategies of creating mixed-use communities, near public transit in areas with compelling demographic trends.



## **Jonathan Gitlin**

### **Senior Vice President, Investments & Residential**

As a key figure in the growth of RioCan, I now lead the Trust's efforts to develop and implement our innovative residential and urban intensification initiatives.

## **John Ballantyne**

### **Senior Vice President, Asset Management**

As one of RioCan's longest serving executives, I lead the Trust's asset management division, helping ensure that RioCan's strategic vision for its properties are realized.

## **Jeff Ross**

### **Senior Vice President, Leasing & Tenant Coordination**

As a key executive I ensure that our strategic goals are met by finding the right tenant for the right space, securing the success of our properties.

RioCan's development initiatives are central to our short-term and long-term planning. All our decisions on property acquisitions, development and management are based on RioCan's core competency: real estate. Our ability to scout prize properties, from the standpoints of location, demographic trends and income levels, allow us to strategically acquire, operate, and develop jewels that will shine brightly for tenants, residents, consumers and the surrounding communities.

As a major owner of limited and costly land in highly desirable urban cores and suburban transit ways, RioCan intends to develop spaces that provide an optimal shopping mix, often combining convenient and attractive living and, on occasion, working opportunities.

RioCan has a long-term goal to develop more than 10,000 rental residential units in these high-demand markets through its residential development initiative and already has several buildings under construction with the first occupancies expected towards the end of 2018. By forging alliances and partnerships on larger projects such as The Well featured in this report, RioCan mitigates some of the risk in these capital-intensive developments.

RioCan has a proud history delivering rewarding opportunities for our tenants and unitholders. Using our combined decades of experience, RioCan delivers prosperity for our stakeholders by making strategic decisions with integrity. At RioCan, we help shape the future, but as community stewards we have a responsibility to do it right, to wisely cultivate growth, and in so doing, take our stakeholders wherever they need to go.

### **2016: A Transformational Year**

In 2009, RioCan capitalized on a historic opportunity and expanded the portfolio into the United States, primarily in densely populated centres in the north east, as well as in major cities in Texas. Acting in a responsible and fiscally disciplined manner, RioCan partnered with established parties on these early acquisitions, as a means of widening our scope of projects and mitigating risk. Once established, we created our own operating platform in the United States. We added value to the portfolio by increasing occupancy and cash flow. Then, in 2016, RioCan capitalized on another historically favourable opportunity: with property valuations exceeding those in Canada and the significant rise in the American dollar, RioCan sold its American stake for US \$1.9 billion, realizing net proceeds of approximately \$1.2 billion Canadian.



## **Danny Kissoon**

### **Senior Vice President, Operations**

I am responsible for RioCan's properties adhering to high standards, assuring a safe environment for our tenants and shoppers alike.

## **Andrew Duncan**

### **Senior Vice President, Developments**

I help RioCan implement its vision for its new assets regarding design, approvals, development, and ultimately construction.

## **Qi Tang**

### **Senior Vice President, Finance & Acting Chief**

#### **Financial Officer**

Using my extensive finance background, I assess RioCan's forecasting, budgeting, process re-engineering, and financial reporting to ensure transparency and quality in our public reporting.

Our decision to divest in the United States this year was both measured and prudent. In assessing whether to proceed further in the United States, RioCan concluded that the best opportunities for long-term growth were based in Canada. Moreover, with improved valuations in the U.S. markets, and a significant spread between the U.S. and Canadian currencies, the timing was opportune to divest. As a result, RioCan repatriated a significant amount of capital, which enabled your REIT to reduce its leverage to a historic low. Our decisions have proven sound: at the end of 2016 RioCan has the best balance sheet in our history. Our leverage ratio was 39.7% as at December 31, 2016, which provides the balance sheet strength and ample resources necessary to execute RioCan's urban development initiatives.

#### **Real Vision – Solid Ground**

Since the inception of the Trust, RioCan has delivered on its strategy to grow its portfolio across Canada. Today, our approach is showcased with distinctive branding and signage in bustling communities and a portfolio that is strategically focused in Canada's six major markets. To assure success for our tenants, our centres must successfully compete with ecommerce. Indeed, RioCan centres offer consumers compelling experiences, including leading movies and entertainment, a range of dining options, dynamic social experiences, fitness and other services. Additionally, consumers rely on RioCan properties to provide a full array of leading retailers—and brands.

With a deep and experienced management team, an entrepreneurial spirit, strong financial resources, and the discipline to implement our vision, RioCan delivers on the same key principle that has defined our REIT since inception: maintaining or increasing our distributions to Unitholders. Today, RioCan's current financial strength makes our distribution as secure and reliable as it has ever been. Moreover, as our development projects move to completion and generate revenue, and organic growth in our portfolio is realized, it is our intention to resume regular growth in our distributions.

I thank you—our Unitholders—for your ongoing support, and I appreciate your continuing confidence in RioCan.

#### **Ed Sonshine O.Ont., Q.C.**

Chief Executive Officer

RioCan Real Estate Investment Trust

# THE WELL







## **The Well Toronto, Ontario**

Stretching down the western side of Spadina Avenue from Wellington to Front, The Well is located within comfortable walking distance to the entertainment district, financial district and waterfront, making it a central hub in one of Toronto's most vibrant areas.

At The Well, RioCan and its partners are bringing homes, flexible office space and retail shops together to create a new and entirely unique community in the heart of the city. With three million square feet of mixed-use space, The Well will be a singular destination for working, living, shopping, dining and entertainment. International brands, authentic cuisine and entrepreneurial minds will unite in one integrated, intimate place, making it easy to live, work and play in harmony.

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MARKET**

# ePLACE





## **ePlace Toronto, Ontario**

RioCan's ePlace at the northeast corner of Yonge and Eglinton will be a signature destination in the thriving commercial and residential community of Midtown Toronto. It is surrounded by endless shopping, dining and entertainment choices. ePlace includes two residential towers, including what will be RioCan's first completed rental residential tower.

Intersecting Yonge and Eglinton, two of Toronto's busiest streets, this mixed-use residential and retail property that is expected to be completed in 2018 and 2019 will elevate the status of Midtown, while connecting it with the city through unparalleled underground access to the Yonge subway and the future Crosstown Eglinton LRT. ePlace also enjoys direct access to RioCan's recently renovated Yonge Eglinton Centre. The two centres combined offer more than 70 retailers including; Metro, Indigo, Winners, LCBO and the largest Sephora in North America and a VIP Cineplex.

**FOCUSED  
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TORONTO,  
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URBAN  
MARKET**

# 5TH & 3RD EAST VILLAGE

3RD STREET  
RESIDENCE





## **5th & 3rd East Village Calgary, Alberta**

Located on 2.8 acres in Calgary's East Village, the project features 180,000 square feet of retail space at the base of a 600,000 square feet residential tower.



Highlights include an 82,000 square foot Loblaws City Market and Shoppers Drug Mart, and an additional 70,000 square feet of retail space at grade, with convenient access to 300 dedicated parking spots.

Located in the East Village area of downtown Calgary, the site features direct access to the LRT. Construction at the site is expected to be completed in 2020. Of note, the project is on one of downtown Calgary's few full city blocks that is privately owned. The site is being developed as a mixed-use project that will include approximately 188,000 square feet of retail space to be anchored by an 82,000 square foot Loblaws City Market and Shoppers Drug Mart. Other retailers include a liquor store and financial service providers.

**FOCUSED  
ON  
CALGARY,  
A CANADIAN  
URBAN  
MARKET**

# GLOUCESTER





## **Gloucester Ottawa, Ontario**

Ottawa is growing, and RioCan is in the heart of the action, building a striking 23 storey tower featuring approximately 220 residential units.

This phase 1 project, on a 7-acre site, provides convenient housing in Ottawa. The tower features environmentally friendly geothermal heating and cooling, and the potential to expand to 3 additional towers.

Plans and approvals have been received for phase 1 of the Gloucester City Centre. Demolition is underway, and construction is soon to commence. RioCan's innovative development features a 215,000 square foot, 23 storey rental residential tower comprising approximately 220 units. Current plans include a geothermal energy system for heating and cooling. Completion of the first phase is scheduled for 2019. The site, near a light rapid transit line, offers easy access to transit. There is room to grow with the potential for the development of three additional residential towers, offering up to 840 residential units in all four towers.

**FOCUSED  
ON  
OTTAWA,  
A CANADIAN  
URBAN  
MARKET**

# PROPERTY PORTFOLIO

## CANADA



## ALBERTA



As at December 31, 2016	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
17004 & 17008 107th Avenue NW Edmonton, AB	100%	11,963	11,963	
5008 5020 97th Street NW, Edmonton, AB	100%	11,943	11,943	
Brentwood Village, Calgary, AB	100%	291,597	291,597	Safeway, London Drugs, Sears Whole Home, Bed Bath & Beyond
East Hills, Calgary, AB	40%	136,350	340,876	Walmart, Sport Chek, Bed Bath & Beyond, Michaels, Marshalls, Cineplex, Costco*
Edmonton Walmart Centre, Edmonton, AB	40%	127,509	370,382	Walmart, Golf Town, Totem Building Supplies*
Glenmore Landing, Calgary, AB	50%	72,992	145,983	Safeway
Jasper Gates Shopping Centre Edmonton, AB	100%	91,063	146,063	London Drugs, Safeway*
Lethbridge Towne Square, Lethbridge, AB	100%	78,694	78,694	London Drugs
Lethbridge Walmart Centre Lethbridge, AB	100%	284,765	284,765	Walmart, Shoppers Drug Mart
Lowe's Sunridge Centre, Calgary, AB	100%	213,100	213,100	Lowe's, Golf Town
Market at Citadel Village, Edmonton, AB	100%	50,678	50,678	Shoppers Drug Mart
Mayfield Common, Edmonton, AB	50%	207,487	414,973	Winners, Save-On-Foods, Value Village, JYSK
Mill Woods Town Centre, Edmonton, AB	40%	234,426	581,126	Safeway (Co-op), Canadian Tire, GoodLife Fitness
North Edmonton Cineplex Centre Edmonton, AB	100%	75,836	75,836	Cineplex
Northgate Village Shopping Centre Calgary, AB	100%	277,181	404,271	Safeway, Gold's Gym, JYSK, Staples, Home Depot*
RioCan Beacon Hill, Calgary, AB	50%	527,835	787,209	Canadian Tire, Winners, Best Buy, Sport Chek, Home Depot*, Costco*
RioCan Centre Grande Prairie Grande Prairie, AB	100%	279,983	379,983	Rona, Cineplex Odeon, London Drugs, Staples, Michaels, Walmart*
RioCan Meadows, Edmonton, AB	100%	309,184	409,184	Home Depot, Staples, Winners, Best Buy, Loblaws*
RioCan Shawnessy, Calgary, AB	100%	470,460	841,105	Lowe's, Sport Chek, Best Buy, Winners, Home Depot*, Walmart*, Co-op*, Canadian Tire*
RioCan Signal Hill Centre, Calgary, AB	100%	477,173	592,173	Lowe's, Winners, Indigo, Michaels, Staples, Loblaws*
Riverbend Square Shopping Centre Edmonton, AB	100%	138,654	138,654	Safeway
Sage Hill, Calgary, AB	50%	138,164	276,327	Walmart, Loblaws City Market, London Drugs
Southbank Centre, Calgary, AB	75%	108,910	381,227	Winners, Michaels, Home Depot*, Costco*
South Edmonton Common, Edmonton, AB	100%	430,418	981,488	London Drugs, The Brick, Home Outfitters, Old Navy, Home Depot*, Walmart*, Loblaws*, Cineplex*, Staples*, Best Buy*



## PROPERTY PORTFOLIO

As at December 31, 2016				
Property and Location	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
South Trail Crossing, Calgary, AB	100%	311,684	311,684	Winners, HomeSense, Marshalls, Staples, Sport Chek
Southland Crossing Shopping Centre Calgary, AB	100%	132,063	132,063	Safeway
Summerwood Shopping Centre, Edmonton, AB	100%	83,980	83,980	Save-On-Foods, Shoppers Drug Mart
Timberlea Landing, Fort McMurray, AB	100%	104,307	104,307	Regional Municipality of Wood Buffalo

## BRITISH COLUMBIA



Abbotsford Power Centre, Abbotsford, BC	100%	219,892	459,892	Lowe's, Winners, PetSmart, Costco*, Rona*
BMO-1225 Douglas St., Victoria, BC	100%	25,133	25,133	
BMO-2219 Oak Bay Ave., Victoria, BC	100%	3,541	3,541	
BMO-3290 Grandview Hwy., Vancouver, BC	100%	4,454	4,454	
BMO-5710 Victoria Dr., Vancouver, BC	100%	4,432	4,432	
BMO-585 England Ave., Courtenay, BC	100%	5,885	5,885	
BMO-7075 Kingsway, Burnaby, BC	100%	5,010	5,010	
Cambie Street, Vancouver, BC	100%	148,215	148,215	Canadian Tire, Best Buy
Chahko Mika Mall, Nelson, BC	100%	173,107	173,107	Walmart, Save-On-Foods
Clearbrook Town Square, Abbotsford, BC	100%	189,435	189,435	Safeway, Staples
Cowichan Commons, Duncan, BC	100%	186,629	186,629	Walmart
Dilworth Shopping Centre, Kelowna, BC	100%	197,389	197,389	Safeway, Staples, JYSK, World Gym
Grandview Corners, Surrey, BC	100%	529,780	614,780	Walmart, Best Buy, Indigo, Home Depot*
Impact Plaza, Surrey, BC	100%	133,869	133,869	T&T Supermarket
Parkwood Place, Prince George, BC	100%	370,260	370,260	Save-On-Foods, The Bay, London Drugs, Cineplex, Staples
RioCan Langley Centre, Langley, BC	100%	380,090	380,090	Chapters, HomeSense, Marshalls, Winners, Michaels
Southwinds Crossing, Oliver, BC	100%	72,972	72,972	Canadian Tire, Buy-Low Foods
Strawberry Hill Shopping Centre, Surrey, BC	100%	337,935	337,935	Winners, PetSmart, Sport Chek, Home Depot, Cineplex
Tillicum Centre, Victoria, BC	100%	471,378	471,378	Lowe's, Cineplex, London Drugs, Winners, Save-On-Foods
Vernon Square, Vernon, BC	100%	96,706	149,706	London Drugs, Safeway*

## MANITOBA



Garden City, Winnipeg, MB	30%	86,123	379,681	Canadian Tire, Winners, Sears*
Kildonan Crossing Shopping Centre Winnipeg, MB	100%	179,027	179,027	Safeway, PetSmart

NEW BRUNSWICK



As at December 31, 2016	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
Brookside Mall, Fredericton, NB	50%	140,090	280,179	Sobeys
Corbett Centre, Fredericton, NB	100%	195,086	415,086	Winners, HomeSense, Home Depot*, Costco*
Northumberland Square, Miramichi, NB	50%	57,473	114,945	Winners, Giant Tiger
Quispamsis Town Centre, Quispamsis, NB	100%	88,114	88,114	Shoppers Drug Mart, GoodLife Fitness

NEWFOUNDLAND



Shoppers on Topsail, St. John's, NFLD	100%	29,690	29,690	Shoppers Drug Mart
Trinity Conception Square, Carbonear, NFLD	100%	182,155	182,155	Dominion, Walmart

ONTARIO



85 Bloor Street West, Toronto, ON	100%	13,810	13,810	
1208 & 1216 Dundas Street East, Whitby, ON	100%	7,697	7,697	
1650-1660 Carling Avenue, Ottawa, ON	100%	142,188	142,188	Canadian Tire
1860 Bayview Avenue, Toronto, ON	100%	70,112	70,112	Whole Foods, Shoppers Drug Mart
1910 Bank Street, Ottawa, ON	100%	6,425	6,425	
3736 Richmond Road, Ottawa, ON	100%	2,938	2,938	
2422 Fairview Street, Burlington, ON	100%	6,221	6,221	
2950 Carling Avenue, Ottawa, ON	100%	10,442	10,442	Pharma Plus
2955 Bloor Street West, Toronto, ON	100%	9,748	9,748	
2990 Eglinton Avenue East, Toronto, ON	100%	6,200	6,200	
404 Town Centre, Newmarket, ON	100%	267,954	267,954	Walmart, Metro
4055-4065 Carlingview Avenue, Ottawa, ON	100%	22,496	22,496	
410 King Street North, Waterloo, ON	100%	2,067	2,067	
549-555 College Street, Toronto, ON	50%	28,823	57,646	
506 & 510 Hespeler Road, Cambridge, ON	100%	12,515	12,515	
649 Queen Street West, Toronto, ON	100%	14,200	14,200	CB2
6666 Lundy's Lane, Niagara Falls, ON	100%	8,434	8,434	
735 Queenston Road, Hamilton, ON	100%	8,818	8,818	
740 Dupont Street, Toronto, ON	100%	25,000	25,000	
Adelaide Centre, London, ON	100%	81,004	81,004	Metro
Ajax Marketplace, Ajax, ON	100%	70,724	70,724	Metro, Pharma Plus
Albion Centre, Etobicoke, ON	100%	376,579	376,579	Canadian Tire, No Frills
Belleville Stream Centre, Belleville, ON	100%	89,237	89,237	Stream International
Belleville Walmart Centre, Belleville, ON	100%	275,410	275,410	Walmart
Bellfront Shopping Centre, Belleville, ON	100%	109,995	159,995	Bed Bath & Beyond, Canadian Tire*
BMO-1293 Bloor Street West, Toronto, ON	100%	5,683	5,683	

## PROPERTY PORTFOLIO

As at December 31, 2016	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
BMO-145 Woodbridge Avenue, Vaughan, ON	100%	4,973	4,973	
BMO-1556 Bank Street, Ottawa, ON	100%	4,835	4,835	
BMO-2 King Street West, Bowmanville, ON	100%	5,584	5,584	
BMO-200 Ouelette Avenue, Windsor, ON	100%	17,047	17,047	
BMO-270 Dundas Street, London, ON	100%	20,269	20,269	
BMO-297 King Street East, Kingston, ON	100%	8,856	8,856	
BMO-519 Brant Street, Burlington, ON	100%	5,190	5,190	
BMO-79 Durham Street, Sudbury, ON	100%	24,075	24,075	
BMO-81 King Street West, Hamilton, ON	100%	5,550	5,550	
BMO-945 Smyth Road, Ottawa, ON	100%	8,532	8,532	
Burlington Mall, Burlington, ON	50%	306,649	726,451	Canadian Tire, Indigo, Winners, HomeSense, Sport Chek, The Bay*
Cambrian Mall, Sault Ste. Marie, ON	100%	134,807	316,638	Sport Chek, Winners, Canadian Tire*, Loblaws*
Campus Estates, Guelph, ON	100%	72,859	72,859	No Frills
Chapman Mills Marketplace, Ottawa, ON	100%	451,673	566,673	Walmart, Winners, Staples, Indigo, Cineplex, Loblaws*
Cherry Hill Centre, Fergus, ON	100%	73,886	73,886	Zehrs
Churchill Plaza, Sault Ste. Marie, ON	100%	143,203	143,203	Metro
City View Plaza, Nepean, ON	100%	59,992	59,992	Giant Tiger, PartSource
Clarkson Crossing, Mississauga, ON	100%	213,077	213,077	Metro, Canadian Tire, Shoppers Drug Mart
Clarkson Village Shopping Centre Mississauga, ON	100%	63,781	63,781	HomeSense
Colborne Place, Brantford, ON	100%	70,406	70,406	No Frills
Coliseum Ottawa, Ottawa, ON	100%	109,260	109,260	Cineplex, Shoppers Drug Mart
Collingwood Centre, Collingwood, ON	100%	203,290	203,290	FreshCo (Sobeys), Canadian Tire, Sport Chek, Bed, Bath & Beyond, Winners
Commissioners Court Plaza, London, ON	100%	94,140	94,140	Food Basics
Dufferin Plaza, Toronto, ON	100%	70,100	70,100	Staples
Dundas 427 Marketplace, Mississauga, ON	100%	97,885	97,885	Staples
Eagle's Landing, Vaughan, ON	100%	176,090	176,090	Metro (Yummy Market)
Eastcourt Mall, Cornwall, ON	50%	81,504	163,008	No Frills
Elmvale Acres, Ottawa, ON	100%	146,699	146,699	Loblaws, Pharma Plus
Empress Walk, Toronto, ON	100%	180,829	238,829	Cineplex, Best Buy, Loblaws*
Fairlawn Plaza, Ottawa, ON	100%	8,322	8,322	
Fallingbrook Shopping Centre, Orleans, ON	100%	97,145	97,145	Metro, Shoppers Drug Mart
Five Points Shopping Centre, Oshawa, ON	100%	397,736	397,736	Metro, LA Fitness, JYSK
Flamborough Walmart Centre Flamborough, ON	100%	300,292	300,292	Walmart, Rona, Staples
Flamborough Power Centre, Flamborough, ON	100%	194,724	194,724	Value Village
Frontenac Mall, Kingston, ON	30%	834,057	280,191	Food Basics, Value Village
Galaxy Centre, Owen Sound, ON	100%	91,563	91,563	No Frills, Cineplex

## PROPERTY PORTFOLIO

As at December 31, 2016 Property and Location	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
Garrard & Taunton, Whitby, ON	100%	146,835	146,835	Lowe's
Gates of Fergus, Fergus, ON	100%	75,246	75,246	Giant Tiger
Glendale Marketplace, Pickering, ON	100%	53,963	53,963	Your Independent Grocer, Pharma Plus
Goderich Walmart Centre, Goderich, ON	100%	94,283	202,859	Walmart, Canadian Tire*, Zehrs*
GoodLife Plaza, St. Catharines, ON	100%	144,983	144,983	GoodLife Fitness, Canadian Tire (Call centre)
Grant Crossing, Ottawa, ON	80%	185,131	359,354	Winners, HomeSense, Michaels, Bed Bath & Beyond, Lowe's*
Green Lane Centre, Newmarket, ON	67%	106,817	417,668	Bed Bath & Beyond, Michaels, PetSmart, Costco*, Loblaws*
Halton Hills Shopping Plaza Georgetown, ON	100%	73,030	73,030	Food Basics
Hamilton Highbury Plaza, London, ON	100%	5,269	5,269	
Hamilton Walmart Centre, Hamilton, ON	100%	312,993	312,993	Walmart, Winners, Staples
Hartsland Market Square, Guelph, ON	100%	108,722	108,722	Zehrs
Hawkesbury Centre, Hawkesbury, ON	100%	72,466	72,466	
Heart Lake Town Centre, Brampton, ON	100%	123,572	123,572	Metro
Herongate Mall, Ottawa, ON	75%	71,003	94,670	Metro, Pharma Plus
Highbury Shopping Plaza, London, ON	100%	70,981	70,981	LA Fitness
Hunt Club Centre, Ottawa, ON	100%	67,186	67,186	Metro
Hunt Club Centre II, Ottawa, ON	100%	143,815	143,815	Lowe's
Huron & Highbury, London, ON	100%	87,969	87,969	Shoppers Drug Mart
Innes Road Centre, Gloucester, ON	100%	47,512	167,512	PetSmart, Costco*
Kanata Centrum Shopping Centre Kanata, ON	100%	286,336	386,336	Walmart, Chapters, Loblaws
Kendalwood Park Plaza, Whitby, ON	100%	158,688	158,688	FreshCo (Sobeys), Shoppers Drug Mart
Kennedy Commons, Scarborough, ON	50%	200,402	481,804	Metro, The Brick, Sears Whole Home, LA Fitness, Chapters, Michaels
Keswick Walmart, Keswick, ON	75%	120,363	160,484	Walmart
King & Portland, Toronto, ON	50%	41,109	82,218	Shopify (office), Indigo (office)
King George Square, Belleville, ON	100%	71,985	71,985	Metro
King Plaza, Oshawa, ON	100%	34,202	34,202	Shoppers Drug Mart
Lawrence Square, Toronto, ON	100%	658,244	658,244	Marshalls, HomeSense, Fortino's, Canadian Tire, Hudson's Bay Company (office)
Lincoln Fields Shopping Centre, Ottawa, ON	100%	284,947	284,947	Walmart, Metro
London Plaza, London, ON	100%	122,183	122,183	Gold's Gym, Value Village
Markington Square, Scarborough, ON	100%	173,029	173,029	Metro, GoodLife Fitness
Meadow Ridge Plaza, Ajax, ON	100%	111,762	111,762	Sobeys, GoodLife Fitness
Meadowlands Power Centre, Ancaster, ON	100%	145,605	589,209	Best Buy, Sport Chek, Michaels, PetSmart, Costco*, Home Depot*, Sobeys*, Staples*
Merivale Market, Ottawa, ON	75%	59,136	78,848	Food Basics, Shoppers Drug Mart
Millcroft Shopping Centre, Burlington, ON	50%	151,252	354,736	Metro, Canadian Tire*
Mississauga Plaza, Mississauga, ON	100%	175,672	175,672	FreshCo (Sobeys), LA Fitness
New Liskeard Walmart Centre New Liskeard, ON	100%	110,522	155,278	Walmart, Canadian Tire*

## PROPERTY PORTFOLIO

As at December 31, 2016	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
Niagara Falls Plaza, Niagara Falls, ON	100%	79,588	79,588	LA Fitness
Niagara Square, Niagara Falls, ON	30%	120,582	401,941	Winners, JYSK, The Brick, Cineplex, Michaels
Norwest Plaza, Kingston, ON	100%	39,924	39,924	GoodLife Fitness
Oakridge Centre, London, ON	100%	34,066	139,566	Pharma Plus, Loblaws*
Orillia Square Mall, Orillia, ON	100%	311,112	311,112	Canadian Tire, No Frills, The Brick
Pine Plaza, Sault Ste. Marie, ON	100%	42,455	42,455	Food Basics
Queensway Cineplex, Toronto, ON	50%	61,488	122,976	Cineplex
RioCan Centre Barrie, Barrie, ON	100%	244,589	244,589	Loblaws, Lowe's, Mountain Equipment Co-op
RioCan Centre Belcourt, Orleans, ON	60%	156,369	402,989	Empire Theatres, Food Basics, Toys R Us, Lowe's*
RioCan Centre Burloak, Oakville, ON	100%	454,623	552,623	Cineplex, Home Outfitters, Longo's, Home Depot*
RioCan Centre Kingston, Kingston, ON	100%	635,367	756,412	Cineplex, Sears Whole Home, Staples, Winners, HomeSense, Old Navy, Best Buy, Home Depot*
RioCan Centre London North, London, ON	100%	105,040	165,040	Chapters, PetSmart, Loblaws*
RioCan Centre London South, London, ON	100%	139,622	139,622	Metro
RioCan Centre Merivale, Nepean, ON	100%	200,132	200,132	Your Independent Grocer, Winners
RioCan Centre Milton, Milton, ON	100%	171,465	291,465	Cineplex, LA Fitness, Home Depot*, Longo's*
RioCan Centre Newmarket, Newmarket, ON	40%	26,688	66,721	Mark's Work Wearhouse, Staples
RioCan Centre Sudbury, Sudbury, ON	100%	403,797	669,193	Cineplex, Staples, Chapters, Sears Whole Home, Winners, HomeSense, Costco*, Home Depot*
RioCan Centre Vaughan, Vaughan, ON	100%	262,336	262,336	Walmart
RioCan Centre Windsor, Windsor, ON	100%	239,420	349,420	Cineplex, Sears Whole Home, The Brick, Staples, Costco*
RioCan Colossus Centre, Vaughan, ON	100%	528,088	658,088	HomeSense, Golf Town, Marshalls, Cineplex, Costco*
RioCan Durham Centre, Ajax, ON	100%	891,867	1,272,867	Marshalls, Winners, Sport Chek, HomeSense, Walmart, Cineplex, Canadian Tire, Home Depot*, Loblaws*, Costco*
RioCan Elgin Mills Crossing Richmond Hill, ON	100%	320,325	441,325	Costco, Michaels, Staples, Home Depot*
RioCan Fairgrounds, Orangeville, ON	100%	366,437	510,512	Walmart, Best Buy, Cineplex, Winners, Canadian Tire*, Home Depot*
RioCan Georgian Mall, Barrie, ON	50%	243,855	604,224	Atmosphere, HomeSense, H&M, Victoria's Secret, The Bay, Sephora, Sears*
RioCan Grand Park, Mississauga, ON	100%	118,681	118,681	Winners, Shoppers Drug Mart, Staples
RioCan Gravenhurst, Gravenhurst, ON	100%	149,548	149,548	Canadian Tire, Sobeys
RioCan Hall, Toronto, ON	100%	227,326	227,326	Cineplex, Marshalls, GoodLife Fitness, Michaels
RioCan Leamington, Leamington, ON	100%	192,851	192,851	Walmart, Metro
RioCan Leaside Centre, Toronto, ON	100%	133,035	133,035	Canadian Tire, PetSmart
RioCan Marketplace Toronto, Toronto, ON	67%	114,298	447,438	Winners, Loblaws*, Home Depot*
RioCan Niagara Falls, Niagara Falls, ON	100%	295,164	393,739	Staples, Zehrs, Home Depot*
RioCan Oakville Place, Oakville, ON	50%	231,129	462,258	The Bay, Sears, H&M, Sephora, Pusateri's, Shoppers Drug Mart, Sport Chek
RioCan Orleans, Cumberland, ON	100%	182,251	297,251	Metro, JYSK, Staples, Home Depot*

## PROPERTY PORTFOLIO

As at December 31, 2016 Property and Location	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
RioCan Renfrew Centre, Renfrew, ON	100%	53,099	127,099	No Frills*
RioCan Scarborough Centre, Scarborough, ON	100%	326,823	326,823	Costco, Staples, LA Fitness, Al's Premium Food Market
RioCan St. Laurent, Ottawa, ON	100%	308,031	308,031	Lowe's, Metro, Food Basics, Winners
RioCan Thicksen Ridge, Whitby, ON	100%	362,019	492,019	Winners, JYSK, HomeSense, Ikea, Buy Buy Baby, Sears Whole Home, Home Depot*
RioCan Thicksen Ridge – Bed Bath & Beyond, Whitby, ON	31%	8,749	28,222	Bed Bath & Beyond
RioCan Victoria, Whitby, ON	50%	49,290	98,579	
RioCan Warden, Scarborough, ON	100%	230,967	230,967	Lowe's, Marshalls, Michaels
RioCan West Ridge Place, Orillia, ON	100%	226,415	356,415	Food Basics, Cineplex, Home Depot*
RioCan Yonge Eglinton Centre, Toronto, ON	100%	1,056,285	1,056,285	Cineplex, Indigo, Metro, Toys R Us, Winners
RioCentre Brampton, Brampton, ON	100%	103,607	103,607	Food Basics
RioCentre Kanata, Ottawa, ON	100%	108,562	108,562	Sobeys, Pharma Plus
RioCentre Newmarket, Newmarket, ON	100%	92,688	92,688	Metro, Shoppers Drug Mart
RioCentre Oakville, Oakville, ON	100%	106,884	106,884	Food Basics, Shoppers Drug Mart
RioCentre Thornhill, Thornhill, ON	100%	140,370	140,370	No Frills, Winners, HomeSense
Sandalwood Square Shopping Centre Mississauga, ON	100%	104,514	104,514	Value Village
Sheppard Centre, Toronto, ON	50%	236,730	473,459	Winners, Shoppers Drug Mart
Sherwood Forest Mall, London, ON	100%	218,758	218,758	Food Basics, Shoppers Drug Mart, GoodLife Fitness
Shoppers City East, Ottawa, ON	63%	9,551	15,208	Shoppers Drug Mart
Shoppers Drug Mart Pembroke Pembroke, ON	100%	17,020	17,020	Shoppers Drug Mart
Shoppers on Argyle, Caledonia, ON	100%	17,024	17,024	Shoppers Drug Mart
Shoppers World Brampton, Brampton, ON	100%	696,897	696,897	Canadian Tire, Winners, Staples, Oceans, JYSK, Giant Tiger
Shoppers World Danforth, Toronto, ON	100%	326,303	326,303	Lowe's, Metro, Staples
Shoppes on Avenue, Toronto, ON	100%	20,884	20,884	Pharma Plus
Shoppes on Queen West, Toronto, ON	100%	89,690	89,690	Loblaws, Winners
Silver City Gloucester, Gloucester, ON	80%	121,514	150,608	Cineplex, Chapters
South Cambridge Shopping Centre Cambridge, ON	100%	189,739	189,739	Zehrs, Home Hardware
South Hamilton Square, Hamilton, ON	100%	294,255	294,255	Fortinos, JYSK, GoodLife Fitness
Southgate Shopping Centre, Ottawa, ON	100%	72,627	72,627	Metro, Shoppers Drug Mart
Spring Farm Marketplace, Vaughn, ON	100%	72,896	72,896	Sobeys, Shoppers Drug Mart
Stratford Centre, Stratford, ON	100%	131,077	131,077	Metro, Michaels
Sudbury Place, Sudbury, ON	100%	147,917	203,661	Canadian Tire, Real Canadian Superstore*
Sunnybrook Plaza, Toronto, ON	100%	51,013	51,013	Pharma Plus
Tanger Outlets Cookstown, Cookstown, ON	50%	154,914	309,828	Under Armour, Coach, Tommy Hilfiger, Nike, Polo Ralph Lauren
Tanger Outlets Ottawa, Ottawa, ON	50%	158,289	316,577	Polo Ralph Lauren, Old Navy, Nike, Saks, Under Armour, Coach, Marshalls

## PROPERTY PORTFOLIO

As at December 31, 2016	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
The Stockyards, Toronto, ON	50%	246,146	492,291	Nations, Sport Chek, PetSmart, Winners, HomeSense, Old Navy, Michaels
The Shops of Summerhill, Toronto, ON	100%	23,115	30,820	
Timiskaming Square, New Liskeard, ON	50%	44,114	88,228	No Frills
Timmins Square, Timmins, ON	30%	117,116	390,385	No Frills, Winners, Sport Chek
Trafalgar Ridge Shopping Centre Oakville, ON	100%	131,251	131,251	Winners/HomeSense, GoodLife Fitness
Trenton Walmart Centre, Trenton, ON	100%	147,441	147,441	Walmart
Trinity Common Brampton, Brampton, ON	100%	613,901	828,901	Cineplex, Metro, Winners, HomeSense, Staples, Sport Chek, Michaels, Canadian Tire*, Home Depot*
Trinity Crossing, Ottawa, ON	100%	191,465	371,465	Michaels, Winners/HomeSense, Loblaws*
University Plaza, Dundas, ON	100%	185,660	185,660	Metro, Shoppers Drug Mart
Upper James Plaza, Hamilton, ON	100%	126,253	126,253	Canadian Tire, Metro
Victoria Crossing, Scarborough, ON	100%	64,628	64,628	FreshCo (Sobeys)
Viewmount Centre, Ottawa, ON	100%	127,270	127,270	Metro, Best Buy, HomeSense
Walker Place, Burlington, ON	100%	69,857	69,857	FreshCo (Sobeys)
Walker Towne Centre, Windsor, ON	100%	39,788	39,788	
West Side Place, Port Colborne, ON	100%	93,123	93,123	No Frills
Westgate Shopping Centre, Ottawa, ON	100%	165,660	165,660	Shoppers Drug Mart
Wharncliffe Centre, London, ON	100%	60,744	60,744	No Frills
White Shield Plaza, Toronto, ON	100%	148,770	148,770	Lone Thai Grocery
Woodview Place, Burlington, ON	100%	145,401	145,401	Metro, Chapters
Yonge & Erskine Avenue, Toronto, ON	50%	6,862	13,723	

## PRINCE EDWARD ISLAND



Charlottetown Mall, Charlottetown, PEI	100%	352,477	352,477	Loblaws, Sport Chek, Winners, H&M
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## QUEBEC



2335 Lapiniere Boulevard, Brossard, PQ	100%	2,259	2,259	
541 Saint-Joseph Boulevard Gatineau, PQ	100%	2,584	2,584	
BMO-279 Rue St Charles Ouest Longueuil, PQ	100%	5,015	5,015	
Centre Carnaval LaSalle, LaSalle, PQ	100%	209,103	209,103	Super C, L'Aubainerie
Centre Carnaval Montreal, Montreal, PQ	100%	67,815	67,815	Super C
Centre Carnaval Pierrefonds Pierrefonds, PQ	100%	129,589	129,589	Super C
Centre Carnaval Trois Rivieres Trois Rivieres, PQ	100%	112,888	112,888	Super C
Centre Concorde, Laval, PQ	50%	31,649	63,298	IGA

## PROPERTY PORTFOLIO

As at December 31, 2016	Ownership Interest (%)	RioCan's Interests NLA (sq. ft.)	Total Site NLA (sq. ft.)	Major or Anchor Tenants
Centre Rene A. Robert Centre Ste. Therese, PQ	50%	37,553	75,106	IGA
Centre RioCan Kirkland, Kirkland, PQ	100%	319,445	319,445	Cineplex, Winners
Centre Sicard, Ste. Therese, PQ	100%	106,329	106,329	IGA
Centre St. Jean St. Jean Sur Richelieu, PQ	100%	104,280	104,280	IGA
Centre St. Julie, Ste. Julie, PQ	50%	30,389	60,778	IGA
Centre St. Martin, Laval, PQ	100%	248,974	248,974	Provigo, Giant Tiger, Pharmaprix
Desserte Ouest, Laval, PQ	100%	87,434	87,434	Staples, JYSK, Gold's Gym
Galeries Laurentides, St. Antoine, PQ	100%	452,857	452,857	Maxi
Galeries Mille-Iles, Rosemere, PQ	100%	252,450	252,450	Maxi, Staples
Granby, Granby, PQ	100%	48,870	48,870	L'Aubainerie
Lachute Walmart Centre, Lachute, PQ	100%	78,761	78,761	Walmart
Les Factories Tanger Bromont Bromont, PQ	50%	81,367	162,733	Atmosphere, Tommy Hilfiger, Puma
Les Factories Tanger St. Sauveur Prevost, PQ	50%	56,986	113,971	Atmosphere, Nike
Les Galeries Lachine, Montreal, PQ	100%	167,409	167,409	Maxi, Pharmaprix
Levis, Levis, PQ	100%	19,003	19,003	
Mega Centre Notre Dame Sainte Dorothee, PQ	100%	421,886	483,784	Winners/HomeSense, Sports Experts, Super C*, Shoppers Drug Mart*
Mega Centre Rive-Sud, Levis, PQ	100%	204,759	393,628	Walmart, Canadian Tire*, Home Depot*
Place Carnaval Laval, Laval, PQ	100%	108,346	108,346	Adonis
Place Newman, LaSalle, PQ	100%	181,001	181,001	Maxi, Winners
RioCan Gatineau, Gatineau, PQ	100%	300,007	300,007	Walmart, Canadian Tire, Super C
RioCan Greenfield, Greenfield Park, PQ	100%	363,181	363,181	Maxi, Winners, Staples, Guzzo Cinemas, JYSK, Giant Tiger
Place La Prairie, La Prairie, PQ	50%	35,467	70,934	IGA
RioCan La Gappe, Gatineau, PQ	100%	371,392	371,392	Walmart, Winners, Michaels
Shoppers Drug Mart Repentigny Repentigny, PQ	100%	17,050	17,050	Shoppers Drug Mart
Silver City Hull, Hull, PQ	100%	84,590	499,775	Cineplex, Rona*, Walmart*, Maxi*, Super C*, Winners*
St. Hyacinthe Walmart Centre Ste. Hyacinthe, PQ	100%	166,930	254,430	Walmart, Staples, Canadian Tire*
Vaudreuil Shopping Centre Vaudreuil-Dorion, PQ	100%	117,837	228,337	Staples, Canadian Tire*, Super C*

## SASKATCHEWAN



Parkland Mall, Yorkton, SA	100%	264,112	264,112	Canadian Tire, Save-On-Foods, Winners
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**REAL ESTATE PORTFOLIO KEY FACTS** as at December 31, 2016 (all metrics stated at RioCan's interest)

Net Leasable Area ("NLA") (thousands of sq.ft.):	Retail	Office	Total
Income Producing Properties	41,294	1,918	43,212
Properties Under Development	3,761	—	3,761
Total	45,055	1,918	46,973
Number of Tenancies			6,206

**Committed Occupancy**

Retail	95.7%
Office	93.6%
Total	95.6%

**Geographic Diversification**

	Percentage of annualized rental revenue	Number of properties		Total
		Income producing properties	Properties under development	
Ontario	66.1%	189	11	200
Alberta	14.3%	30	4	34
Quebec	8.5%	35	—	35
British Columbia	8.2%	21	—	21
Eastern Canada	1.9%	7	—	7
Manitoba/Saskatchewan	1.0%	3	—	3
	100.0%	285	15	300

**Anchor and National Tenants**

Percentage of:	
Annualized rental revenue	85.2%
Total NLA	84.8%

**Top Ten Sources of Revenue by Property Tenant**

Rank	Tenant	Percentage of annualized rental revenue	Weighted average remaining lease term (yrs)
1	Loblaws/Shoppers Drug Mart (i)	4.8%	7.8
2	Canadian Tire Corporation (ii)	4.7%	7.4
3	Walmart	4.2%	10.1
4	Cineplex/Galaxy Cinemas	3.9%	8.1
5	Winners/HomeSense/Marshalls	3.7%	7.5
6	Metro/Super C/Loeb/Food Basics	3.4%	6.6
7	Cara/Prime Restaurants/St-Hubert	1.9%	5.8
8	Lowe's	1.8%	11.5
9	Sobeys/Safeway	1.6%	9.3
10	Dollarama	1.5%	5.9
		31.5%	8.0

(i) Loblaws/Shoppers Drug Mart includes No Frills, Fortinos, Zehrs Markets, Joe Fresh and Maxi.

(ii) Canadian Tire Corporation includes Canadian Tire, PartSource, Mark's, Sport Chek, Sports Experts, National Sports and Atmosphere.

**Property Lease Expiries**

	Total	2017	2018	2019	2020	2021
NLA (thousands of sq. ft)	43,212	3,051	4,711	5,322	4,847	5,269
Average Expiring rent per square foot	\$17.59	\$19.77	\$18.67	\$18.84	\$17.73	\$17.92

# RioCan

## FINANCIAL REVIEW

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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VANCOUVER

EDMONTON

CALGARY

MONTREAL

OTTAWA

TORONTO

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess our results of operations and financial condition for the three months and year ended December 31, 2016 ("Q4 2016" and "2016", respectively). This MD&A is dated February 15, 2017 and should be read in conjunction with our annual consolidated financial statements and related notes for the year ended December 31, 2016 ("2016 Annual Consolidated Financial Statements"). Unless the context indicates otherwise, references to "RioCan", the "Trust", "we", "us" and "our" in this MD&A refer to RioCan for Real Estate Investment Trust and its consolidated operations. Unless otherwise specified, all amounts are based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, as well as additional information relating to RioCan, including our most recently filed Annual Information Form ("AIF"), have been filed electronically with Canadian securities regulators through the System for Electronic Document Analysis and Retrieval ("SEDAR") and may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com) or RioCan's website at [www.riocan.com](http://www.riocan.com).

Unless otherwise specified, all information in this MD&A refers to the results of our continuing Canadian operations only, all amounts are in thousands of Canadian dollars and all percentage changes are calculated using whole numbers.

## FORWARD-LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. This information includes, but is not limited to, statements made in *2016 Financial Highlights, Business Overview, Outlook and Strategy, Asset Profile, Capital Strategy and Resources*, and other statements concerning RioCan's objectives, its strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking information generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "plan", "continue", or similar expressions suggesting future outcomes or events. Such forward-looking information reflects management's current beliefs and is based on information currently available to management. All forward-looking information in this MD&A is qualified by these cautionary statements.

Forward-looking information is not a guarantee of future events or performance and, by its nature, is based on RioCan's current estimates and assumptions, which are subject to numerous risks and uncertainties, including those described under *Risks and Uncertainties* in this MD&A which could cause actual events or results to differ materially from the forward-looking information contained in this MD&A. Those risks and uncertainties include, but are not limited to, those related to: liquidity and general market conditions; tenant concentrations and related risk of bankruptcy or restructuring (and the terms of any bankruptcy or restructuring proceeding); occupancy levels and defaults, including the failure to fulfill contractual obligations by the tenant or a related party thereof; lease renewals and rental increases; the ability to re-lease and find new tenants for vacant space; retailer competition; access to debt and equity capital; interest rate and financing risk; joint ventures and partnerships; the relative illiquidity of real property; unexpected costs or liabilities related to acquisitions and dispositions; development risk associated with construction commitments, project costs and related approvals; environmental matters; litigation; reliance on key personnel; unitholder liability; income, sales and land transfer taxes; and credit ratings.

RioCan currently qualifies as a real estate investment trust for Canadian tax purposes and intends to qualify for future years. The *Income Tax Act (Canada)* contains provisions which potentially impose tax on publicly traded trusts that qualify as specified investment flow-through entities (the "SIFT Provisions"). However, the SIFT Provisions do not impose tax on a publicly traded trust which qualifies as a REIT. Should RioCan no longer qualify as a Canadian REIT under the SIFT Provisions, certain statements contained in this MD&A may need to be modified. RioCan is still subject to Canadian tax in their incorporated Canadian subsidiaries.

Our U.S. subsidiary qualified as a REIT for U.S. income tax purposes up to May 25, 2016, subsequent to the closing date of the sale of our U.S. property portfolio. For U.S. income tax purposes, the subsidiary distributed all of its U.S. taxable income and is entitled to deduct such distributions against its taxable income. The subsidiary's qualification as a REIT depends on the REIT's satisfaction of certain asset, income, organizational, distribution, unitholder ownership and other requirements up until May 25, 2016. Our U.S. subsidiary was subject to a 30% or 35% withholding tax on distributions of its U.S. taxable income to Canada. We do not intend to distribute any withholding taxes paid or payable to our unitholders related to the disposition.

General economic conditions, including interest rate fluctuations, may also have an effect on RioCan's results of operations. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: a stable retail environment; relatively low and stable interest costs; a continuing trend toward land use intensification, including residential development in urban markets; access to equity and debt capital markets to fund, at acceptable costs, future capital requirements and to enable our refinancing of debts as they mature; and the availability of investment opportunities for growth in Canada. For a description of additional risks that could cause actual results to materially differ from management's current expectations, refer to *Risks and Uncertainties* in this MD&A and *Risks and Uncertainties* in RioCan's AIF. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with this forward-looking information. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable Canadian securities laws, and as such the financial outlook may not be appropriate for purposes other than this MD&A. The forward-looking information contained in this MD&A is made as of the date of this MD&A, and should not be relied upon as representing RioCan's views as of any date subsequent to the date of this MD&A. Management undertakes no obligation, except as required by applicable law, to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW, OUTLOOK AND STRATEGY

### Business Overview

RioCan is an unincorporated "closed-end" real estate investment trust listed on the Toronto Stock Exchange ("TSX") under the symbol REI.UN. We are Canada's largest real estate investment trust based on market capitalization with a total enterprise value of approximately \$14.6 billion at December 31, 2016. RioCan owns and manages Canada's largest portfolio of shopping centres with ownership interests in a portfolio of 300 retail and mixed use properties, including 15 properties under development, containing an aggregate net leasable area ("NLA") of 46,973,000 square feet.

RioCan's property portfolio includes grocery anchored, new format retail, urban retail, mixed use and non-grocery anchored centres, of which 255 properties are 100% owned (250 income properties and 5 properties under development) and 45 are co-owned through joint arrangements with co-owners (including 10 under development). RioCan's primary joint arrangements are with Allied Properties REIT (Allied); Canada Pension Plan Investment Board (CPPIB); Hudson's Bay Company (HBC); KingSett Capital (KingSett); Tanger Factory Outlet Centres, Inc. (Tanger); and Trinity Development Group (Trinity).

### Executive management update

During the year, our Chief Executive Officer, Edward Sonshine, amended his employment contract to reflect his agreement to not retire or resign voluntarily before December 31, 2018. As part of this commitment, Mr. Sonshine agreed to use his best efforts to provide the Trust with 12 months' notice of his intent to retire or resign.

### Sale of U.S. assets

On May 24, 2016, RioCan completed the sale of its U.S. portfolio of 49 wholly owned investment properties to Blackstone Real Estate Partners VIII ("Blackstone") for gross sales proceeds of US\$1.9 billion. RioCan received cash proceeds of approximately US\$1.0 billion, which was net of outstanding U.S. mortgages repaid on completion of the sale transaction.

As a result of our exit from the U.S., our former U.S. geographic segment's financial results are reported as discontinued operations. Unless otherwise noted, comparative income statement amounts have been restated to reflect this change. See *Strategy update - Sale of U.S. operations* in this MD&A for further discussion of this transaction.

### Unsecured credit facility

On June 1, 2016, the Trust entered into a 5-year \$1.0 billion unsecured operating credit facility with six Canadian Schedule I financial institutions, which replaced our secured operating lines. The new facility is expected to provide us with short-term liquidity and enhanced flexibility for the Trust's operational and capital needs.

### Property acquisitions and dispositions

#### CPPIB acquisition

On July 27, 2016, RioCan acquired CPPIB's interests in four income properties that were previously co-owned for an aggregate purchase price of \$352 million, representing a weighted average capitalization rate of 5.7%. As a result of this purchase, RioCan now owns 100% of these assets, representing over 1,800,000 square feet of NLA. RioCan did not assume any additional debt from CPPIB in connection with this acquisition.

#### The Well air rights disposition

During July 2016, RioCan, Allied Properties and DiamondCorp entered into a binding agreement to sell a portion of the residential component of The Well to Tridel Builders Inc. and Woodbourne Canada Partners III (CA) LP for approximately \$180 million, subject to certain closing conditions. Closing of the transaction is anticipated to occur in early 2020. RioCan will remain a 50% co-owner of one of the rental buildings representing approximately 400,000 square feet of residential rental density. Refer to *Properties Under Development - Urban Intensification* section of this MD&A for further details.

### Debenture issuance

On August 26, 2016, the Trust issued \$250 million of Series X senior unsecured debentures, which mature on August 26, 2020 and carry a coupon rate of 2.185%. The interest on these debentures is payable semi-annually commencing February 26, 2017. The net proceeds were used to fund our development program, for property acquisitions, to repay certain indebtedness and for general trust purposes.

### Target backfill

We continue to make significant progress re-leasing our vacant Target locations. To date, leases included in our backfill progress, if all completed, will produce annualized base rental revenue of approximately \$14.2 million versus \$11.6 million being the total base rental revenue lost through Target's departure (at RioCan's proportionate share). Refer to *Tenant Vacancies - Target Leasing Update* for further details.

### Outlook

Canada's growth performance continues to remain mixed due to the effects of lower energy prices, despite the recent increase as a result of an OPEC output cut, reduced oil sands production in Alberta, and the uncertainty in the global economy caused by political uncertainty in Europe and the United States, offset somewhat by some indications of improving Canadian and U.S. economies. It is anticipated that the Bank of Canada will continue to keep interest rates low for the foreseeable future. In contrast, with the U.S. economy approaching near full employment levels and the impact of inflationary pressure from potential expansionary policies from the new U.S. Presidential Administration, it is generally believed that the U.S. Federal Reserve will continue to gradually raise interest rates in the near term.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall, we remain well-positioned to withstand an unsettled retail environment due to our large size and dominant position in urban locations, including Canada's six major markets from which 75.5% of our portfolio net rental revenues are derived. In addition to the competitive advantage provided by RioCan's significant scale and urban presence, our resiliency is aided by the depth of our management team, our well diversified and stable portfolio, the portfolio potential for urban intensification, solid tenant base, flexible capital structure and conservative borrowing practices.

We continue to expect to achieve organic growth over the long term. As the properties that were impacted by Target's departure begin to stabilize, we anticipate positive effects to same property net operating income ("NOI"). However, this will be partially offset by increased interest expenses as costs that were previously capitalized when the property was under redevelopment will again be expensed.

In 2017, on a full year basis, we are expecting same property NOI to show positive growth assuming the current market conditions prevail.

## **Macro Economic and Market Trends**

### *Canadian dollar*

The current uncertainty in the economic environment and anticipated rising interest rates in the U.S. may result in continued downward pressure on the Canadian dollar. However, we do not expect this trend to have a significant impact on RioCan's business or our tenants' operations. The prolonged weakness in the Canadian dollar has negatively impacted retailers that import goods from the U.S., although there may be some positive growth in retail sales resulting from fewer Canadians shopping in the U.S. The weaker Canadian dollar may also attract more tourists and foreign retailers to Canada, and more specifically to Canada's major urban centres where we have a significant presence. Growth in profit will also depend on our tenants' ability to manage import costs and pass through price increases.

### *Alberta economy*

Low oil prices and the costly Fort McMurray wildfires made 2016 a very difficult year for the Alberta economy, putting it in recession territory. It has the highest provincial unemployment rate in Canada and the largest projected budget deficit Albertans have ever faced. The sharp economic contraction in Alberta also spread weakness across other sectors of the Canadian economy. With a modest recovery in oil prices to around US\$50 per barrel and the rebuilding efforts in Fort McMurray slowly underway, our outlook for 2017 remains cautiously optimistic. Despite Alberta's attempts to diversify into non-energy dependent sectors, the province's recovery will still largely depend on the price of oil. If oil prices remain at their current levels, the headwinds will likely persist with potential to further impact retail and residential markets. If oil prices rise, we would anticipate a slow and gradual recovery with slightly improved market conditions ahead. Notwithstanding the foregoing, according to Statistics Canada, Alberta continues to lead the country in retail sales as measured on a per capita basis, although the effects of the recession are causing the gap to narrow. Occupancy rates in our Alberta portfolio are approximately 98% and valuations for RioCan's high quality, well-located assets in Alberta remain strong.

### *Interest rates*

In its latest meeting, the Bank of Canada maintained the overnight interest rate at 0.5%, which we expect to remain unchanged for 2017. In the fourth quarter of 2016, the Bank of Canada lowered its growth expectations through 2018.

The relatively low interest rate environment in Canada is positive for RioCan and should continue to provide interest savings as higher interest debt is refinanced upon maturity. We will monitor the economy and real estate markets with a view to ensuring that we continue to have adequate access to capital, either by way of equity, debt or strategic asset dispositions, to meet our business requirements and to maximize financing opportunities as they become available.

### *E-commerce*

We believe that we are well-positioned for e-commerce trends based upon the depth and breadth of our retail portfolio, especially in urban markets.

There is no question that we see evidence today of the disruptive effects of e-commerce on the traditional brick-and-mortar powerhouses, as giants like Walmart begin redirecting significant portions of their capital spending toward online sales capabilities. At the same time, urban population growth is generally out-pacing the overall population growth and cities tend not to be the traditional locations for most big box retail.

That being said, shopping centres will always have a place for consumers as they remain the most cost-effective way for a retailer to distribute goods, and the most successful retailers in the future will be the ones that effectively execute a combined online and brick-and-mortar strategy. These retailers will employ models that have been adapted to integrate sales in their storefronts as well as catering to online sales, commonly referred to as 'omni channeling' to provide today's consumer with the choice of how they want to shop. In the changing face of retail, national tenants are increasingly realizing that they must provide this flexibility to their customers in order to remain relevant.

Grocery stores have historically been more resistant to online consumer spending, and in Canada, most online grocery orders are filled at the store level rather than through a distribution warehouse. RioCan continues to pro actively bolster its portfolio through a greater focus on national and grocery anchor tenants and an improved overall shopping experience.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

While e-commerce may have an impact on the size, mix and possibly even the location of physical stores, we expect that shopping centres are going to be a very important part of how retailers remain connected to their customers. For example, the two largest demographic groups are the Baby Boomers in their retirement years and the Millennials, each having very different spending habits than previous generations. The spending patterns of these two groups compound the effects of e-commerce by changing the focus of retail to more service-oriented providers, such as food and beverage, entertainment, personal services and fitness - or what we sometimes refer to as 'experiential retail'. Our recent residential strategy addresses these trends, in part, as it not only re-purposes the existing retail, but also focuses the retail component on today's changing retail landscape.

## *Canadian retail environment*

We expect fundamentals in Canadian retail real estate to remain steady in 2017, particularly necessity-based retail services and restaurants. The Canadian retail environment continues to work through the disruption caused by Target's departure from Canada and other announced store closures that occurred over the past 24 months. These closures have created a more cautious environment with retailers; however, the Canadian market still largely benefits from a sound retail tenant base that exhibits financial strength.

## **Strategy**

### ***Sale of U.S. Operations***

In May of 2016, we completed the sale of our U.S. portfolio of 49 retail properties located in the Northeastern U.S. and Texas at a total sale price US\$1.9 billion. RioCan received cash proceeds of approximately US\$1.0 billion on closing, which was net of approximately US\$0.9 billion in mortgage debt. We have executed a strategy that has helped to reduce the dilutive effects of the sale. The proceeds from the sale have enhanced our corporate liquidity to fund our Canadian growth strategy and development pipeline as outlined above, and has also significantly deleveraged our balance sheet. We have simplified our business structure this year and expect to improve our strategic advantage in Canada by allowing us to focus exclusively on our Canadian operations.

### ***Canadian focus***

The successful sale of our U.S. portfolio in the second quarter of 2016 has provided us with enhanced liquidity and a stronger balance sheet in order to focus on our Canadian growth strategy and development pipeline. With 285 income producing properties in Canada offering approximately 43 million square feet of leasable space, our vision is to be the premier owner of Canadian shopping centres in our six major markets in addition to building and managing a portfolio of high quality mixed use urban assets with a substantial residential component.

Our Canadian growth strategy entails the following:

- achieving organic growth by leveraging our existing strengths, such as our strong relationships with high quality tenants and partners, our size, diversity and experience;
- an investment strategy that promotes growth and learning by bringing in additional partners with expertise when needed and an acquisitions/divestitures program focused on selectively growing our presence in the six major markets;
- a disciplined development strategy for both commercial and mixed use, including a residential intensification program that includes purpose built, transit-oriented projects seeking to capitalize on our development capabilities and the high quality locational attributes of our land holdings; and lastly,
- financial strength through prudent balance sheet management ensuring continued access to cost effective capital in support of our investment and development strategies, such as our \$1 billion unsecured credit facility providing the Trust with unprecedented liquidity.

### ***Development Program***

Many of our properties are located on or near existing or new transit lines approved by municipalities. It offers a tremendous opportunity to increase our portfolio value through redevelopment and intensification of existing properties. The Trust will continue to pursue a disciplined approach to the development of new properties and the redevelopment and intensification of existing properties in Canada, with a focus on major urban markets. The markets of Toronto, Calgary, and Ottawa are a principal focus of our development and intensification efforts.

RioCan is committed to ensuring that the individual properties in the portfolio are utilized to their highest and best use over the long term. While there are numerous ways to utilize the existing properties beyond their current use of conventional retail centres, RioCan has focused on mixed use projects containing predominantly multi-residential (both rentals and condominiums), retail and, to a lesser extent, office rental buildings.

In addition to opportunities being identified within the existing portfolio, certain properties owned as part of our real estate joint venture with HBC have the strong potential for intensification as urban mixed use properties.

We will continue to use a staggered approach in our development program to avoid unnecessary concentration of development projects in a single period of time. This will allow us to balance our development risk exposure and effectively manage our capital and personnel resources.

### ***Residential Focus***

RioCan will continue to build our team to carry forward the residential development initiative as such initiative evolves, drawing from its existing areas of expertise. The current team is comprised of existing RioCan executives as well as third-party consultants. As the initiative continues to grow, additional resources may be added to the platform to facilitate such growth, including bringing in partners that have residential development and management expertise on a property-by-property basis.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

There are numerous attributes that attracted RioCan to the multi-unit residential sector. The addition of residential density to existing sites is expected to enhance the value of the underlying retail element of a property. As well, we will be able to leverage our ownership of land in key urban locations, often those along mass transit lines, which should provide a competitive cost advantage. Residential is a sector that allows a steady income stream with a growth profile that will serve as a partial hedge against inflation. The residential rental sector serves as a healthy diversification to RioCan's retail portfolio. Given our overall scale, we expect to drive long term efficiencies going forward. RioCan owns the underlying land, often at irreplaceable transit-oriented locations, thus giving us the unique opportunity to create a tremendous amount of portfolio value. Finally, residential rental projects will typically attract favourable financing terms based on the availability of Canadian Mortgage and Housing Corporation (CMHC) insurance.

## **Acquisitions and Dispositions**

There is greater competition for acquisitions because of a significant number of well-capitalized high net worth investors and institutions seeking quality investments, especially due to the current low interest rate environment in Canada. Given the competitive nature of the acquisition market and limited supply of acquisitions that meet RioCan's criteria in selected markets, it is not currently expected that acquisitions will be a significant growth driver in the near term. On occasion, management may be approached by a partner interested in disposing of its interest in a co-owned property. Our ability to acquire our co-owners' interests in property where we already have an efficient management structure in place represents a competitive advantage because we can acquire managing interests in highly desirable assets that are unavailable on the open market. Consistent with our acquisition strategy noted above, we will continue to maintain a disciplined approach in evaluating these acquisition opportunities to ensure that they meet our investment criteria.

RioCan will continue to dispose non-core assets in order to recycle capital into developments and acquisitions in higher growth major markets. We also evaluate the sale of selected assets as part of a process of actively managing our portfolio and as a means of increasing the portfolio weighting in the six major markets in Canada.

## **Capital Management**

RioCan is committed to prudent management of its balance sheet. Management believes that the quality of RioCan's assets and strong balance sheet are attractive to both lenders and equity investors, and should enable RioCan to continue to access multiple sources of capital at competitive rates.

To support growth, RioCan employs a three-fold capital strategy: to provide the capital necessary to fund growth; to maintain sufficient flexibility to access capital in many forms, both public and private; and to manage the overall financial structure in a fashion that preserves investment grade credit ratings. RioCan strives for an optimal financial structure to drive appropriate risk-adjusted total returns. The principal objectives of the capital strategy are to:

- optimize the risk-adjusted cost of capital through an appropriate mix of debt and equity;
- raise debt from a variety of sources and maintain a well-staggered maturity schedule and a large pool of unencumbered assets;
- maintain and expand as necessary significant committed undrawn loan facilities to support current and future business requirements;
- actively manage financial risks, including interest rate, foreign exchange, liquidity and counterparty risks; and
- selectively sell assets as part of actively managing the portfolio and to increase the portfolio weighting to the six urban markets in Canada as a means to strategically recycle capital.

## **Co-owner Relationships**

We will continue to capitalize on the strength of our co-owner relationships to acquire property, enhance our development projects, leverage partner expertise and generate additional unitholder value pursuant to arrangements where RioCan earns fees for its services.

# SUSTAINABILITY

## **Embedding Sustainability**

At RioCan, sustainability is an integral component of our strategy to maximize the value of our assets in order to create long term, reliable and increasing cash flow to our unitholders.

Our objective for sustainability is to be among leaders in embedding sustainability practices in our business model. To us, embedding sustainability means that we enhance our business model and management approaches, considering sustainability in developments, operations, investment activities and corporate functions.

Historically, we pursued a variety of sustainability initiatives at the corporate level and at the property level under Corporate Social Responsibility. In 2016, we confirmed a company wide commitment to sustainability and developed an overall strategy and plan for sustainability. We believe the term sustainability more accurately reflects the broader commitments we are making in building a sustainable business model and systematically embedding people, community and environmental considerations in our decision-making and performance evaluation. Embedding sustainability is our overall framework for bringing together our sustainability initiatives and plans.

We recognize that sustainability is important to our employees, tenants, partners, investors and other diverse stakeholder groups. Our commitment is to make measurable progress on our Embedding Sustainability mandate and to report on the progress we are making to improve our sustainability performance.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Our platform for sustainability focuses on three areas. To achieve the sustainability vision, we have centered on People, Community and Environmental leadership.

## **People**

People leadership focuses on our tenants, consumers, partners, employees and investors. Starting with a safe place to live, work and shop at, we conduct business with integrity and transparency and strive to create mutually beneficial partnerships with our stakeholder groups. Examples of our people commitments include:

- Engage with our tenants, partners, employees and investors regularly to evaluate and evolve sustainability initiatives
- Strive for diversity so that our management teams and employee base reflect the diverse communities where we operate
- Use sustainability as a platform for employee development, engagement programs and recruitment
- Cooperate with tenants to meet joint sustainability goals
- Educate our stakeholders how sustainability is creating value to the company
- Engage our partners in contributing to our sustainability goals from the onset

## **Community**

Community leadership builds on our history of investing in the communities where we operate and develop. Examples of our community commitments include:

- Be community stewards by proactively building relationships with and contributing to the communities in which we operate
- Support our Developments, Construction, Operations, Asset Management and Investment teams to create healthy, resource-efficient and durable buildings by having clear guidelines and decision frameworks
- Continue to give back to our communities by investing in community initiatives that align with our values and sustainability priorities

## **Environmental**

Environmental leadership strives to minimize the environmental impacts of our properties and developments. Examples of our environmental commitments include:

- Support our properties in embedding sustainable practices by providing standards, guidelines and training
- Invest in programs and equipment that enhance energy and water efficiency, indoor air quality and minimize waste to landfill
- Examine the viability of implementing renewable energy at new developments
- Protect and enhance the natural environment, where feasible

These commitments frame our strategy and plan for sustainability at RioCan.

For each pillar, we have identified specific initiatives to be implemented. We are also defining specific performance measures to track our progress on these initiatives.

Over the next year, we will focus on developing sustainability policies and standards, formalizing our governance structure, communicating and educating stakeholders on our sustainability vision and plan, and preparing the organization to measure sustainability. In 2016, we completed a GRESB (Global Real Estate Sustainability Benchmark) diagnostic internally to identify specific areas of strength and areas for development. This diagnostic informed our overall Embedding Sustainability framework. In 2017, to further reinforce our commitment to measuring sustainability performance, we are preparing to participate in GRESB.

In our 2017 MD&A, we will share the specific initiatives we will pursue and our approach to sustainability performance measurement. We have also integrated sustainability into our corporate reporting.

## **Sustainability Governance**

We have assembled a Sustainability Steering Committee comprised of cross functional Executive and Leadership team members to oversee our sustainability strategy implementation and to drive performance improvements. Steering Committee members will sponsor and provide guidance on sustainability initiatives within the organization and enable performance measurement. We have also committed to hiring a full time resource to manage day-to-day sustainability strategy implementation.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## PRESENTATION OF FINANCIAL INFORMATION AND NON-GAAP MEASURES

### Presentation of Financial Information

Unless otherwise specified herein, financial results, including related historical comparatives, contained in this MD&A are based on RioCan's 2016 Annual Consolidated Financial Statements. In connection with the sale of our U.S. assets, the consolidated statement of income results from our U.S. geographic segment are presented as discontinued operations in accordance with IFRS.

All references, herein, to "Canada" and "U.S." represent the results from our continuing and discontinued operations, respectively. Continuing operations is comprised of our former Canadian geographic segment and discontinued operations is comprised of our former U.S. geographic segment.

### Non-GAAP Measures

In addition to reported IFRS measures, industry practice is to evaluate real estate entities giving consideration, in part, to certain non-IFRS performance measures described below, such as funds from operations, net operating income and same store and same property net operating income growth. Management believes that these measures are helpful to investors because they are widely recognized measures of a REIT's performance and provide a relevant basis for comparison among real estate entities. In addition to the IFRS results, we also use these measures internally to measure the operating performance of our investment property portfolio. These measures are not in accordance with IFRS generally accepted accounting principles ("GAAP") and have no standardized definition prescribed by IFRS and, as such, our computation of these non-GAAP performance measures might not be comparable to similar measures reported by other issuers. Non-GAAP measures should not be considered as alternatives to net income or comparable metrics determined in accordance with IFRS as indicators of RioCan's performance, liquidity, cash flows and profitability. We supplement our IFRS measures with these non-GAAP measures to aid in assessing our core performance and we report these additional measures so that investors may do the same. Management believes that the supplementary non-GAAP measures described below provide readers with a more comprehensive understanding of management's perspective on its operating performance.

The Real Property Association of Canada (REALpac) recently undertook a project to draft a white paper prescribing revised definitions for certain non-GAAP financial measures of cash flow and operating performance commonly used by the Canadian real estate industry. RioCan intends to review these guidelines once they are issued with a view to adopt, where appropriate, the revised definitions for our first quarter 2017 reporting. Existing non-GAAP financial measures that could potentially be impacted are Adjusted Funds From Operations (AFFO) and a new non-GAAP measure called Adjusted Cash Flow from Operations (ACFO) could be introduced.

The following discussion describes the non-GAAP measures RioCan management currently uses in evaluating its operating results. For greater clarity, each measure defined below includes the results from both continuing and discontinued operations on a combined basis.

#### **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 April 2014. It is RioCan's view that IFRS net income does not necessarily provide a complete measure of RioCan'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, RioCan 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 attributable to RioCan common and preferred 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 (including related transactions costs and income taxes) calculated on a basis consistent with IFRS.

FFO should not be construed as an alternative to net income or cash flows provided by or used in operating activities determined in accordance with IFRS. RioCan'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 can be found under *Results of Operations* section in this MD&A.

#### **Operating Funds From Operations (OFFO)**

OFFO is a non-GAAP measure of operating performance approximating the recurring operating performance generated through the direct or indirect ownership and management of income properties. RioCan considers OFFO to be a meaningful measure because it adjusts for items included in FFO that management views as capital or transactional in nature. OFFO is currently a key internal measure of business performance that management uses to determine the level of employee variable incentive-based compensation and certain long-term incentive based equity unit awards each year. While there is no standard industry-defined measure of OFFO, management considers it a useful measure in helping readers further assess the Trust's core investment property operating performance in a manner similar to management.

In addition to the adjusting items in computing FFO as described above, OFFO adjusts for the following additional items:

- certain costs, including interest and taxes, related to investment properties identified for future potential development that are currently inactive that, in management's view, form part of the capital cost of such projects;

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- demolition costs associated with backfilling vacant units on income producing properties that are not capitalized to the carrying value of investment property under IFRS;
- transaction gains and losses on the sale of residential inventory and marketable securities; and
- other gains and losses resulting from corporate transaction activities, such as the repayment of long-term debt and redemptions of preferred unit capital.

A reconciliation of net income to OFFO is presented under the *Results of Operations* section of this MD&A.

During 2016, RioCan's management undertook a review of its non-GAAP measures of financial performance. In an effort to improve comparability to other Canadian real estate reporting issuers and reduce the number of non-GAAP measures, RioCan will be transitioning toward FFO as its key measure of operating performance, and will no longer report OFFO effective January 1, 2017. Commencing with the first quarter of 2017, the Trust will be focusing on FFO as a key performance measure for determining the level of employee incentive-based compensation.

### **Adjusted Funds From Operations (AFFO)**

AFFO is another non-GAAP financial measure of operating performance widely used by the real estate industry in Canada as an input in assessing a REIT's distribution payout ratio and for determining an appropriate level of sustainable common unitholder distributions over the long run. While distributions can be analyzed in comparison to FFO, management believes that AFFO makes a number of adjustments to FFO with the intention of providing a better measure of cash available for distribution.

As such, AFFO starts with the computation of FFO and adjusts for the same items described in computing OFFO, with the exception of realized gains and losses on the disposition of marketable securities, which are included in FFO and AFFO, plus the following adjustments:

- includes a deduction for straight-line rent revenue;
- adds back all non-cash unit-based compensation expenses; and
- includes deductions for normalized capital expenditures, which include both third-party leasing commissions and capital spending related to maintaining the physical condition and the existing earnings capacity of the Trust's income property portfolio. See below for further description of normalized capital expenditures.

Effective January 1, 2017, the Trust intends to deduct internal leasing costs associated with income producing properties in the determination of AFFO.

Gains and losses on marketable securities are included in AFFO as management considers such amounts when assessing the Trust's cash available for distribution to common unitholders.

While there is no standard industry-defined measure of AFFO, management considers AFFO to be a useful supplementary disclosure in addition to the cash flow measures determined under IFRS. RioCan's method of calculating AFFO will differ from other issuers' methods and, accordingly, will not be comparable to such amounts reported by other issuers.

A reconciliation of AFFO to net cash flow from operating activities is presented under *Results of Operations*.

### *Normalized capital expenditures*

Normalized capital expenditures are an estimate made by management of the amount of ongoing capital investment required to maintain the condition of the physical property and current rental revenues. Management considers a number of items in estimating normalized capital expenditures relative to the growth in the age and size of the Trust's property portfolio. Such factors include, but are not limited to, review and analysis of seven to ten years of historical capital spending, comparison of each quarter's annualized actual spending activity to the annual budgeted capital expenditures as approved by our Board of Trustees at the beginning of each year and management's expectations and/or plans for the properties.

Since actual capital expenditures can vary widely from quarter to quarter depending on a number of factors, management believes that normalized capital expenditures are a more relevant input than actual capital expenditures in assessing a REIT's distribution payout ratio and for determining an appropriate level of sustainable distributions over the long run. The number of factors affecting the quarterly variations in actual capital expenditures include, but are not limited to, lease expiry profile, tenant vacancies, age and location of the properties, general economic and market conditions, which impact the level of tenant bankruptcies and acquisitions and dispositions. As part of formulating its estimate of normalized capital expenditures, the Trust reviews its actual capital spending levels based on property performance and type of spend (e.g. HVAC, elevator, roof, parking lot, electrical, etc.) to determine the amount of ongoing capital investment required to maintain the condition of the physical property and current rental revenues. This review is done with representation and input from RioCan's cross-functional teams. Short-term fluctuations in actual capital expenditures are analyzed to remove any expenditures that are determined to not represent the level of ongoing maintenance capital investment. For example, during periods of adverse market conditions where RioCan experiences a period of higher tenant turnover, short-term spikes in leasing, re-tenanting costs and landlord work would not necessarily result in a material increase to the level of ongoing capital investment over the life cycle of a property, and accordingly, are removed from the actual costs for the purpose of determining normalized capital expenditures. Property capital expenditures that are generally expected to add to the overall earnings capacity of the property are considered revenue enhancing capital expenditures by management and are also excluded in determining the normalized capital expenditures.

IFRS capital expenditures are further discussed and analyzed under the section *Capital Expenditures on Income Properties*.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## ***Net Operating Income (NOI)***

NOI is a non-GAAP measure and is defined by RioCan as rental revenue from income properties less property operating costs adjusted to normalize the impact of the application of the requirements of International Financial Reporting Interpretation Committee Issue 21, Levies (IFRIC 21) by matching the pro-rata expense over the period of property ownership with the actual timing of tenant cost recoveries.

For the calculation of NOI, rental revenue includes all amounts earned from tenants related to lease agreements, including property tax and operating cost recoveries, to the extent recoverable under tenant leases. Amounts payable by tenants to terminate their lease prior to the contractual expiry date (lease cancellation fees) are included in rental revenue for the calculation of NOI. The amount of property taxes and operating costs that can be recovered from tenants is impacted by property vacancy and fixed cost recovery tenancies.

Management believes that NOI is a meaningful supplementary measure of operating performance of the Trust's income producing properties in addition to the most comparable IFRS measure, which we believe is operating income. The IFRS measure of operating income also includes residential inventory gains and losses as well as property and asset management fees earned from co-owners. While management considers its residential inventory and portfolio management activities part of its business operations, and thus operating income, such revenues are not part of how we evaluate the operating performance of our income producing properties. As such, we report NOI as a useful supplementary non-GAAP measure to report the operating performance of our income producing properties.

NOI is an important measure of the income generated from the income producing properties and is used by the Trust in evaluating the performance of the portfolio, as well as a key input in determining the value of the income producing portfolio. RioCan's method of calculating NOI may differ from other issuers' methods and, accordingly, may not be comparable to NOI reported by other issuers.

## ***Same Store NOI***

Same store NOI is a non-GAAP financial measure used by RioCan to assess the period-over-period performance of the same asset base having consistent leasable area in both periods. To calculate same store NOI growth, NOI for the period is adjusted to remove the impact of straight-line rents, lease cancellation fees, foreign exchange and other non-recurring items. Same store performance is a common measure of NOI growth used by the retail industry. RioCan considers this a meaningful measure because it allows management to determine what portion of its period-over-period rental income increase is attributed to rent growth and leasing activity.

As part of our review of non-GAAP measures and our efforts to reduce the use of such measures as previously discussed, the Trust will be increasingly focusing on same property NOI growth as its key measure of portfolio performance, and will no longer report same store NOI growth effective January 1, 2017. While we acknowledge the usefulness of same store NOI growth as a good indicator of operating performance, in our view, it is less effective and a relatively cumbersome calculation relative to same property NOI as discussed below in the context of our considerable redevelopment program and tenant backfill initiatives where space is significantly reconfigured.

## ***Same Property NOI***

Same property NOI is a non-GAAP financial measure that is consistent with the definition of same-store NOI above, except that same property includes the NOI impact of redevelopment or expansion of assets within the real estate portfolio. Same property performance is a meaningful measure of operating performance because it allows management to assess rent growth and leasing activity of its portfolio on a RioCan property basis and the impact of capital investments.

## ***Enterprise Value***

Enterprise value is a non-GAAP measure calculated at the reporting period date as the sum of RioCan's total debt measured on a proportionate basis, common unit market capitalization and preferred unit market capitalization. This non-GAAP measure is used by RioCan management and the industry as a measure of total value of the REIT based on the market price of debt and equity instead of IFRS GAAP total assets.

## ***RioCan's Proportionate Share***

Effective July 1, 2015, certain financial information previously presented in this MD&A as "RioCan's Interest" is disclosed in accordance with IFRS. Debt metrics, such as those described below, are shown on both an IFRS and a RioCan proportionate basis (as defined below). Unless otherwise indicated, comparative financial information has been updated to reflect the current year's presentation.

All references to "RioCan's proportionate share" refer to a non-GAAP financial measure representing RioCan's proportionate interest in the financial position and results of operations of its entire portfolio, taking into account the difference in accounting for joint ventures using proportionate consolidation versus equity accounting. Management considers certain results presented on a proportionate basis to be a meaningful measure because it is consistent with how RioCan and its partners manage the net assets and assess operating performance of each of its co-owned properties. The Trust currently accounts for its investments in joint ventures and associates using the equity method of accounting.

The remaining definitions outlined below pertain to measures and/or inputs to our financial leverage, coverage ratios and other key metrics that we use to manage capital and to assess our liquidity, borrowing capacity and cost of capital. All of these measures include the results of both continuing and discontinued operations. In our opinion, the following ratios calculated on the basis of the combined continuing and discontinued operations provides a more meaningful measure of financial performance with respect to the periods reported.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## ***Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)***

Adjusted EBITDA is a non-GAAP measure that is used by management as an input in several of our debt metrics, providing information with respect to certain financial ratios that we use in measuring our debt profile and assessing our ability to satisfy obligations, including servicing our debt. Adjusted EBITDA is used as an alternative to IFRS net income because it excludes major non-cash items (including, but not limited to, depreciation and amortization expense, unit-based compensation costs and fair value gains and losses on investment properties), interest costs, current and deferred tax expenses (recoveries), transaction gains and losses on the disposition of investment properties and equity accounted investments, transaction costs and other items that management considers either non-operating in nature or related to the capital cost of our investment properties. Realized gains and losses on the disposition of marketable securities are included in Adjusted EBITDA for purposes of management assessing the Trust's ongoing ability to satisfy its obligations and service its debt.

A reconciliation of Adjusted EBITDA to IFRS net income and the debt metrics that utilize Adjusted EBITDA are presented under *Capital Resources and Liquidity - Debt and Leverage Metrics* in this MD&A.

## ***Operating EBITDA***

Operating EBITDA is a non-GAAP measure that is used by management in the computation of certain debt metrics, providing information with respect to certain financial ratios that we use in measuring our debt profile, excluding debt-related to properties under development. In addition to the adjusting items to arrive at Adjusted EBITDA as defined above, Operating EBITDA also excludes the impact to EBITDA of transaction gains and losses arising on the disposition of residential inventory and marketable securities, as well as certain costs related to currently inactive development projects that, in management's view, form part of the capital cost of such projects. Operating EBITDA is used as an input to our debt metrics and can be calculated on both a RioCan's proportionate share basis and using IFRS reported amounts, depending on the basis of presentation. A reconciliation of Operating EBITDA to IFRS net income is presented under *Capital Resources and Liquidity - Debt and Leverage Metrics*.

## ***Debt to Adjusted EBITDA***

Debt to adjusted EBITDA is a non-GAAP measure of our financial leverage calculated on a rolling twelve month basis and defined as our quarterly average total debt (net of cash and cash equivalents) divided by Adjusted EBITDA. Debt to adjusted EBITDA is calculated and presented in the *Debt and Leverage Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

## ***Operating Debt to Operating EBITDA***

Operating debt to operating EBITDA is a non-GAAP measure of our financial leverage calculated on a rolling twelve month basis and defined as our quarterly average total debt (net of cash and cash equivalents) less a portion of such debt allocated to properties under development divided by operating EBITDA. Operating debt to operating EBITDA is calculated and presented in the *Debt and Leverage Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

Effective January 1, 2017, the Trust will be increasingly focusing on debt to adjusted EBITDA as part of its efforts to reduce the number of reported non-GAAP measures and improve comparability to other Canadian real estate issuers.

## ***Debt Service Coverage***

Debt service coverage is a non-GAAP measure of our financial leverage calculated on a rolling twelve month basis and is defined as adjusted EBITDA divided by the sum of total interest costs (including interest that has been capitalized) and scheduled mortgage principal amortization. It measures our ability to meet our debt service obligations on a 12-month rolling basis. Debt service coverage is calculated and presented in the *Debt and Leverage Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

## ***Interest Coverage***

Interest coverage is a non-GAAP measure of our financial leverage calculated on a rolling twelve month basis and is defined as adjusted EBITDA divided by total interest costs (including interest that has been capitalized). It measures our ability to meet our interest cost obligations on a 12-month rolling basis. Interest coverage is calculated and presented in the *Debt and Leverage Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

## ***Fixed Charge Coverage***

Fixed charge coverage is a non-GAAP measure of our financial leverage calculated on a rolling twelve month basis and is defined as adjusted EBITDA divided by total interest costs (including interest that has been capitalized) and distributions declared and/or paid to common and preferred unitholders. It measures our ability to meet our interest and unitholder distribution obligations on a 12-month rolling basis. Fixed charge coverage is calculated and presented in the *Debt and Leverage Metrics* section of this MD&A on both a RioCan's proportionate share basis and using IFRS reported amounts.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## RESULTS OF OPERATIONS

### Selected Annual Information

<i>(thousands of dollars, except where otherwise noted)</i>	2016	2015	2014
Revenue (i)	1,133,332	1,087,736	1,025,003
Net income from continuing operations	683,151	417,566	447,715
Net income	830,838	142,437	663,965
FFO (ii)	547,879	622,364	506,785
OFFO (ii)	545,498	556,680	517,414
AFFO (ii)	501,183	500,976	463,556
Total debt (iii)	5,653,592	7,413,370	6,443,565
Weighted average common units outstanding – diluted (in thousands)	325,665	319,983	308,672

#### Per unit basis (diluted)

Net income from continuing operations	\$ 2.06	\$ 1.26	\$ 1.40
Net income	\$ 2.51	\$ 0.40	\$ 2.10
FFO (ii)	\$ 1.68	\$ 1.94	\$ 1.64
OFFO (ii)	\$ 1.68	\$ 1.74	\$ 1.68
AFFO (ii)	\$ 1.54	\$ 1.57	\$ 1.50
Common unitholder distributions	\$ 1.41	\$ 1.41	\$ 1.41

#### Key Ratios

Same property NOI growth (decline) % (ii)	0.5%	(1.8)%	1.6%
Common unitholder distributions paid as a percentage of AFFO (v)	91.4%	90.4%	93.4%
Debt to total assets (iii) (vi)	39.7%	46.1%	43.7%
Debt to total assets (RioCan's proportionate share) (ii) (vi)	40.0%	46.3%	43.8%
Interest coverage (RioCan's proportionate share) (ii) (vi)	3.36	3.07	2.89
Debt to adjusted EBITDA (RioCan's proportionate share) (ii) (vi)	8.10	8.34	8.09
Operating debt to operating EBITDA (RioCan's proportionate share) (ii) (vi)	7.74	7.93	7.67
Weighted average contractual interest rate	3.54%	3.65%	4.04%
Unencumbered assets to unsecured debt (ii) (iv)	240%	166%	137%
% NOI expected to be generated from unencumbered assets (ii)	49.5%	25.1%	19.9%

- (i) Revenue is the sum of rental revenue, property and asset management fees and residential inventory sales.
- (ii) Represents a non-GAAP measure. RioCan'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 RioCan's non-GAAP measures, refer to the section *Presentation of Financial Information and Non-GAAP Measures* in this MD&A.
- (iii) Debt to total assets is a non-GAAP measure and is calculated as total debt less cash and cash equivalents as of December 31 of each year, divided by total assets, excluding cash and cash equivalents. Total debt is defined as the sum of mortgages payable, lines of credit and other bank loans, mortgages on properties held for sale and debentures payable.
- (iv) Unencumbered assets to unsecured debt is a non-GAAP measure and is defined as unencumbered assets divided by unsecured debt.
- (v) Calculated on a trailing twelve month basis. For further discussion of the Trust's common unitholder distributions as a percentage of AFFO, refer to the section *Capital Resources and Liquidity* in this MD&A.
- (vi) Refer to the sections *Capital Structure* and *Debt and Leverage Metrics* in this MD&A for further details.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2016 Financial Highlights

Due to the sale of our U.S. property portfolio in the second quarter of 2016, our results are presented on both a continuing and discontinued operations basis below.

### Net income attributable to unitholders

(thousands of dollars, except per unit amounts)	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net income (loss) attributable to unitholders:				
Continuing operations	\$ 178,472	\$ 199,796	\$ 683,060	\$ 416,892
Discontinued operations	(14,013)	(377,837)	147,687	(275,129)
<b>Net income (loss) attributable to unitholders</b>	<b>\$ 164,459</b>	<b>\$ (178,041)</b>	<b>\$ 830,747</b>	<b>\$ 141,763</b>
Net income (loss) per unit attributable to unitholders (basic):				
Continuing operations	\$ 0.54	\$ 0.61	\$ 2.06	\$ 1.26
Discontinued operations	(0.04)	(1.17)	0.45	(0.86)
<b>Net income (loss) per unit attributable to unitholders (basic)</b>	<b>\$ 0.50</b>	<b>\$ (0.56)</b>	<b>\$ 2.51</b>	<b>\$ 0.40</b>
Net income (loss) per unit attributable to unitholders (diluted):				
Continuing operations	\$ 0.54	\$ 0.61	\$ 2.06	\$ 1.26
Discontinued operations	(0.04)	(1.17)	0.45	(0.86)
<b>Net income (loss) per unit attributable to unitholders (diluted)</b>	<b>\$ 0.50</b>	<b>\$ (0.56)</b>	<b>\$ 2.51</b>	<b>\$ 0.40</b>

### Continuing Operations

#### 2016

Net income from continuing operations attributable to unitholders for the year ended December 31, 2016 is \$683 million compared to \$417 million during the same period in 2015, representing an increase of \$266 million or 64%. Excluding a \$274 million increase in fair value and the \$88 million Target settlement received in 2015, net income from continuing operations attributable to unitholders for the year ended December 31, 2016 is \$500 million compared to \$420 million in 2015, representing an increase of \$80 million or 19%.

The increase of \$80 million is largely the net effect of the following:

- \$42 million of income primarily due to property acquisitions (net of dispositions), higher same property performance and higher operating income from greenfield developments, net of lower lease cancellation fees;
- \$14 million in gains related to the sale of marketable securities;
- \$9.9 million in lower debt redemption costs;
- \$8.7 million in gross transaction gains mainly due to gains from the disposition of one investment property during 2016 and the impact of a third quarter 2015 transaction loss upon transfer of certain assets and liabilities to form the RioCan-HBC joint venture;
- \$7.2 million in interest savings arising mainly from the refinancing of debt at lower interest rates and lower average debt outstanding;
- \$5.1 million in higher deferred tax recoveries, partly offset by
- \$3.5 million in lower property and management fees mainly related to lost management fees due to the purchase of additional co-ownership interests during Q4 2015 and Q3 2016;
- \$2.5 million in lower income associated with our residential inventory sales; and
- \$2.4 million in higher leasing and general and administrative expenses.

For a discussion of fair value adjustments during the year ended December 31, 2016, refer to the *Other income (loss)* section of this MD&A.

#### Q4 2016

Net income from continuing operations attributable to unitholders for the fourth quarter of 2016 is \$178 million compared to \$200 million during the same period in 2015, representing a decrease of \$21 million. Excluding a \$43 million increase in fair value and the \$88 million Target settlement received in the same period of 2015, net income from continuing operations attributable to unitholders for the fourth quarter of 2016 is \$134 million compared to \$110 million in 2015, representing an increase of \$24 million or 22%.

The increase of \$24 million is largely the net effect of the following:

- \$18 million of income primarily due to property acquisitions (net of dispositions) and increased same property performance, net of lower lease cancellation fees;
- \$4.4 million in lower interest expense primarily due to interest savings on the refinancing of aggregate debt at lower effective rates and less total debt outstanding;

# MANAGEMENT'S DISCUSSION AND ANALYSIS

- \$3.7 million in gains related to the sale of marketable securities;
- \$2.6 million in lower transaction costs due to the level of and timing of property acquisition and disposition activity in 2016 relative to 2015;
- \$4.4 million in higher deferred tax recoveries, partly offset by
- \$4.6 million in lower other income primarily due to a fourth quarter 2015 net transaction gain related to the transfer of certain assets and liabilities to form the RioCan-HBC joint venture;
- \$2.5 million in lower income associated with our residential inventory sales due to cost adjustments;
- \$1.4 million in less property and asset management fees; and
- \$1.3 million in lower dividend income from marketable securities.

For the fourth quarter 2016 and 2015 consolidated statements of income refer to *Quarterly Results and Trend Analysis* section of this MD&A. For a discussion of fair value adjustments during the quarter, refer to the *Other income (loss)* section of this MD&A.

## Discontinued Operations

### 2016

Net income from discontinued operations attributable to unitholders is \$148 million compared to a net loss of \$275 million in 2015, representing an increase of \$423 million. This increase was primarily due to the inclusion in 2015 net income from discontinued operations of a \$147 million fair value loss mainly due to an increase in capitalization rates of our Northeast U.S. portfolio and a \$230 million deferred tax provision relating to the sale of the U.S. portfolio. Excluding these factors, income from discontinued operations attributable to unitholders for the year ended December 31, 2016 decreased by \$76 million.

This \$76 million decrease is explained by the following: \$123 million of reduced operating income due to operations ceasing in May 2016 from the sale of our U.S. property portfolio, partly offset by higher transaction gains of \$9.2 million due to our U.S. asset sale (net of related transaction costs), lower interest costs and other expenses of \$34 million, and reduced losses from equity accounted joint ventures of \$4.1 million.

### Q4 2016

The net loss from discontinued operations attributable to unitholders is \$14 million this quarter compared to \$378 million in 2015, representing a reduction in net loss of \$364 million from the prior period, mainly due to the sale of our U.S. property portfolio. The net loss during the quarter is the result of \$2.5 million in additional professional fees in connection with the disposition of our U.S. property portfolio and \$11 million in higher current tax expense, which includes the impact of foreign exchange translation on accrued taxes payable and an additional current tax provision.

## Operating Income

The IFRS operating income for the quarter and year ended December 31, 2016 and 2015 are as follows:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<b>Revenue</b>				
Rental income	\$ 285,257	\$ 263,893	\$ 1,103,884	\$ 1,039,068
Residential inventory sales	3,353	22,888	16,262	31,937
Property and asset management fees	2,968	4,355	13,186	16,731
	\$ 291,578	\$ 291,136	\$ 1,133,332	\$ 1,087,736
<b>Direct costs</b>				
Property operating costs				
Recoverable under tenant leases	\$ 101,058	\$ 96,386	\$ 397,776	\$ 373,698
Non-recoverable from tenants	5,233	6,316	19,684	20,465
Residential inventory cost of sales	4,550	21,563	16,188	29,343
	110,841	124,265	433,648	423,506
<b>Operating income</b>	\$ 180,737	\$ 166,871	\$ 699,684	\$ 664,230

### 2016

Operating income from continuing operations for the year ended December 31, 2016 is \$700 million compared to \$664 million during the same period in 2015, representing an increase of \$35 million or 5.3%. The increase of \$35 million is primarily the net effect of the following:

- \$43 million higher operating income due to acquisitions net of dispositions, particularly due to the acquisition of increased ownership interests in thirty RioCan/Kimco and four CPPIB co-owned properties in 2016;
- \$2.7 million of same property operating income growth particularly as a result of progress on Target backfill and same store growth, as further explained in the NOI section below; offset by
- \$7.0 million lower lease cancellation fees compared to 2015 largely due to a \$4.8 million fee received from one tenant at RioCan Centre Victoria during the first quarter of 2015 and \$3.7 million in fees from two tenants at Yonge Eglinton Centre in

## MANAGEMENT'S DISCUSSION AND ANALYSIS

the third quarter of 2015;

- \$3.5 million in lower property and management fees; and
- \$2.5 million in lower residential inventory sales, net of cost of sales, due to less residential units sold during the year.

### Q4 2016

Operating income from continuing operations for the year ended December 31, 2016 is \$181 million compared to \$167 million during the same period in 2015, representing an increase of \$14 million or 8.3%. The increase of \$14 million is the net effect of largely the following:

- \$11 million higher operating income connected with acquisitions net of dispositions, particularly due to the acquisition of increased ownership interests in four CPPIB co-owned properties in 2016;
- \$3.3 million of same property operating income growth particularly as a result of progress on Target backfills and same store growth;
- \$3.3 million in higher straight-line rent revenue; offset by,
- \$1.4 million in lower property and management fees; and
- \$2.5 million in lower residential inventory sales, net of cost of sales, due to less residential units sold during the year.

For the fourth quarter 2016 and 2015 consolidated statements of income refer to *Quarterly Results and Trend Analysis* section of this MD&A.

### Net Operating Income (NOI)

This NOI section is a sub-section of the MD&A related to IFRS operating income. The NOI for the quarter and year ended December 31, 2016 and 2015 is as follows:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<b>Operating income (i)</b>	\$ 180,737	\$ 166,871	\$ 699,684	\$ 664,230
Adjusted for the following:				
Residential inventory				
Sales	(3,353)	(22,888)	(16,262)	(31,937)
Cost of sales	4,550	21,563	16,188	29,343
Property and asset management fees	(2,968)	(4,355)	(13,186)	(16,731)
<b>NOI</b>	\$ 178,966	\$ 161,191	\$ 686,424	\$ 644,905
<b>NOI as a percentage of rental revenue (excluding the impact of lease cancellation fees)</b>	<b>62.7%</b>	61.0%	<b>62.1%</b>	61.6%
<i>Add: NOI of proportionate share of equity accounted investments</i>				
RioCan-HBC JV	3,191	2,858	12,271	5,531
Other (ii)	176	279	933	1,054
<b>NOI - RioCan's proportionate share</b>	\$ 182,333	\$ 164,328	\$ 699,628	\$ 651,490

(i) In accordance with IFRS.

(ii) Includes NOI from RioCan's Canadian equity accounted investments in Dawson-Yonge LP, WhiteCastle New Urban Fund, LP, WhiteCastle New Urban Fund 2, LP and WhiteCastle New Urban Fund 3, LP.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Canadian Portfolio

Same store and same property NOI for the quarter and year ended December 31, 2016 and 2015 are as follows:

(thousands of dollars)	Three months ended December 31,		Increase (decrease)	Year ended December 31,		Increase (decrease)
	2016	2015		2016	2015	
Same store (i)	\$ 146,233	\$ 143,714	1.8%	\$ 564,114	\$ 560,957	0.6%
Redevelopment and intensification (ii)	5,493	4,733	16.1%	24,862	25,332	(1.9%)
Same properties (iii)	151,726	148,447	2.2%	588,976	586,289	0.5%
Acquisitions (iv)	21,257	8,717	nm	76,317	16,264	nm
Dispositions (v)	—	2,038	(100.0%)	1,192	17,901	(93.3%)
Greenfield development (vi)	779	230	nm	5,594	3,918	42.8%
NOI before adjustments	173,762	159,432	9.0%	672,079	624,372	7.6%
Lease cancellation fees	145	113	28.3%	3,052	10,062	(69.7%)
Straight-line rent adjustment	3,916	582	nm	7,263	6,643	9.3%
NOI from properties under development (vii)	1,143	1,064	7.4%	4,030	3,828	5.3%
<b>NOI</b>	<b>\$ 178,966</b>	<b>\$ 161,191</b>	<b>11.0%</b>	<b>\$ 686,424</b>	<b>\$ 644,905</b>	<b>6.4%</b>
<i>Add: NOI of proportionate share of equity accounted investments:</i>						
RioCan-HBC JV	3,191	2,858	11.7%	12,271	5,531	nm
Other (viii)	176	279	(36.9%)	933	1,054	(11.5%)
<b>NOI - RioCan's proportionate share</b>	<b>\$ 182,333</b>	<b>\$ 164,328</b>	<b>11.0%</b>	<b>\$ 699,628</b>	<b>\$ 651,490</b>	<b>7.4%</b>

"nm" – not meaningful.

- (i) Refer to the same store NOI definition in the *Non-GAAP Measures* section of this MD&A.
- (ii) Redevelopment and intensification represents NOI from income producing properties or specific units within a property being re-positioned or expanded.
- (iii) Refer to the same property NOI definition in the *Non-GAAP Measures* section of this MD&A.
- (iv) Acquisitions represent NOI from income producing properties purchased during the periods being compared.
- (v) Dispositions represent NOI from income producing properties sold during the periods being compared.
- (vi) Greenfield development represents NOI from greenfield properties as each individual unit is 100% income producing for two comparable periods.
- (vii) NOI from properties under development represents NOI from properties acquired for re-development purposes.
- (viii) Includes NOI from RioCan's Canadian equity accounted investments in Dawson Yonge LP, WhiteCastle New Urban Fund, LP, WhiteCastle New Urban Fund 2, LP and WhiteCastle New Urban Fund 3, LP.

### 2016

Same store NOI grew by 0.6% or \$3.2 million compared to the same period in 2015 as explained by the following aggregate changes:

- \$25.4 million of higher NOI comprising \$14.8 million from new leasing (including re-leased space due to bankruptcies and lease cancellations), \$6.4 million increased rent from renewals and rent steps, \$3.5 million in percentage rent and a decrease of \$0.7 million in Target co-tenancy claims; partially offset by
- \$22.2 million of lower NOI resulting from vacancies (including the impact of previously agreed upon lease cancellations).

Same property NOI increased 0.5% or \$2.7 million year to date primarily due to the reasons cited above as well as the timing of redevelopment projects completed in 2015 and 2016.

NOI benefited from higher property acquisition activity, net of disposals, primarily due to the acquisition of the increased ownership interests in thirty RioCan/Kimco and four CPPIB co-owned properties. In aggregate, acquisitions net of disposition activity, generated an additional \$43 million of NOI, excluding the impact of lost property management fees.

Lease cancellation fees decreased \$7.0 million compared to 2015 largely due to a \$4.8 million fee received from one tenant at RioCan Centre Victoria during the first quarter of 2015 and \$3.7 million in fees from two tenants at Yonge Eglinton Centre in the third quarter of 2015.

### Q4 2016

Same store NOI grew by 1.8% or \$2.5 million compared to the same period in 2015 as explained by the following aggregate changes:

- \$8.1 million of higher NOI comprising \$4.2 million from new leasing (including re-leased space due to bankruptcies and lease cancellations), \$1.4 million increased rent from renewals and rent steps, \$1.3 million increase in percentage rent and a decrease of \$1.2 million in Target co-tenancy claims; partially offset by
- \$5.6 million of lower NOI resulting from vacancies (including the impact of previously agreed upon lease cancellations)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The impact of Target co-tenancy losses on same store NOI was favourable this quarter due to the reduction in the number of tenants that are entitled to rent abatement provisions as compared to prior periods.

Same property NOI increased 2.2% or \$3.3 million this quarter primarily driven by the reasons cited above, as well as the completion of other development properties, including a portion of Target backfill at three locations.

NOI continues to benefit from higher property acquisition activity, net of disposals, primarily due to the acquisition of the increased ownership interests in thirty RioCan/Kimco as well as four CPPIB co-owned properties. In aggregate, acquisitions, net of disposition activity, generated an additional \$11 million of NOI, excluding the impact of lost property management fees.

Straight-line rent increased \$3.3 million from the prior period primarily due to \$2.2 million in adjustments recognized this quarter in connection with certain 2015 property acquisitions and \$1.5 million due to the write-off of Target unamortized rents in the fourth quarter of 2015.

### Other Income (Loss)

The components of other income (loss) are as follows:

#### Continuing Operations

(thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Interest income	\$ 1,657	\$ 1,457	\$ 5,744	\$ 5,370
Income from equity accounted investments	4,521	4,510	9,972	10,378
Fair value gains (losses) on investment properties, net	44,371	1,183	182,888	(91,548)
Investment and other income	6,762	97,261	33,268	98,426
<b>Other income</b>	<b>\$ 57,311</b>	<b>\$ 104,411</b>	<b>\$ 231,872</b>	<b>\$ 22,626</b>

#### 2016

Income from equity accounted investments mainly includes our share of the income from the RioCan-HBC joint venture. For further details on the 100% results of operations of the RioCan-HBC joint venture, refer to the section *Co-ownerships Arrangements* in this MD&A.

During the three months and year ended December 31, 2016, we recognized fair value gains that were \$43 million and \$274 million higher than the comparative periods in 2015, respectively. For both the quarter and year of 2016, we recorded fair value gains primarily driven by capitalization rate compression and higher stabilized net operating income on certain income producing properties, the revaluation of interests in previously co-owned properties and valuation adjustments on specific development properties. For the year ended December 31, 2015, the Trust recorded fair value losses which mainly reflected valuation adjustments resulting from Target's exit from Canada and interior renovation costs at some of our enclosed malls.

Included in investment and other income for the three months and year ended December 31, 2016 is a \$3.7 million and \$14 million transaction gain on the sale of marketable securities and investment income of \$3.1 million and \$13 million, respectively. Also in 2016, RioCan realized a \$6.1 million transaction gain on the sale of one investment property. During 2015, other income included \$88 million of aggregate net cash proceeds relating to the Target settlement and \$13 million of investment income, partly offset by a transaction loss of \$2.6 million.

For the fourth quarter 2016 and 2015 consolidated statements of income refer to *Quarterly Results and Trend Analysis* section of this MD&A.

#### Discontinued Operations

(thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Loss from an equity accounted investment	\$ —	\$ —	\$ —	\$ (4,145)
Other income	—	—	66,404	7,529
Fair value gains (losses) on investment property, net	—	(174,782)	16,899	(147,060)
<b>Other income (loss)</b>	<b>\$ —</b>	<b>\$ (174,782)</b>	<b>\$ 83,303</b>	<b>\$ (143,676)</b>

#### 2016

The loss from an equity accounted investment of \$4.1 million related to a U.S. joint venture which was sold in July 2015.

Included in other income for the year ended December 31, 2016 is a \$255 million realized foreign currency exchange gain reclassified from other comprehensive income, partly offset by a \$190 million portfolio discount in connection with the U.S. asset sale.

The fair value losses of \$175 million and \$147 million for the three months and year ended December 31, 2015, respectively, are mostly attributable to an increase in capitalization rates of our Northeast U.S. portfolio in 2015, as well as other property specific adjustments.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Other Expenses

### Interest costs

#### Continuing Operations

The components of interest costs are as follows:

(thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Total interest	\$ 49,787	\$ 55,285	\$ 206,989	\$ 214,203
Interest costs capitalized to investment property	(6,323)	(7,432)	(27,462)	(27,431)
<b>Net interest</b>	<b>\$ 43,464</b>	<b>\$ 47,853</b>	<b>\$ 179,527</b>	<b>\$ 186,772</b>
Percentage capitalized to investment properties	12.7%	13.4%	13.3%	12.8%

Net interest costs from continuing operations decreased \$4.4 million and \$7.2 million for the three months and year ended December 31, 2016, respectively, compared to the same periods in 2015. Interest costs have decreased over both periods mainly due to interest savings on the refinancing of fixed rate mortgages, interest savings resulting from our cross currency swap program and the reduction of overall leverage using net proceeds from the U.S. property portfolio sale. As at December 31, 2016, the weighted average contractual interest rate of our total debt is 3.54% (December 31, 2015 - 3.65%).

Interest capitalized to investment properties for the year ended December 31, 2016 remained flat compared to 2015, primarily due to higher redevelopment activity associated with the former Target properties being offset by lower portfolio weighted average interest rates.

Interest is capitalized to properties under development at weighted average effective interest rates of 3.66% and 3.94% for the three months and year ended December 31, 2016, respectively (December 31, 2015 – 4.14% and 4.23%, respectively).

For the fourth quarter 2016 and 2015 consolidated statements of income refer to *Quarterly Results and Trend Analysis* section of this MD&A.

#### Discontinued Operations

Interest costs relating to discontinued operations decreased \$13 million and \$30 million for the three months and year ended December 31, 2016, respectively, compared to the same periods in 2015 due to the repayment of all of our U.S. mortgages in connection with our U.S. property portfolio sale in the second quarter of 2016.

### General and Administrative

#### Continuing Operations

The components of general and administrative expenses are as follows:

(thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Non-recoverable salaries and benefits	\$ 9,915	\$ 9,131	\$ 41,169	\$ 36,555
Capitalized to investment properties (i)	(1,666)	(1,641)	(7,883)	(6,942)
Leasing costs	(2,538)	(2,064)	(9,718)	(8,407)
Non-recoverable salaries and benefits, net	5,711	5,426	23,568	21,206
Unit-based compensation expense	2,286	1,615	6,745	4,741
Depreciation and amortization	1,078	1,073	4,386	4,434
Other general and administrative (ii)	4,925	6,740	17,521	20,670
<b>Total general and administrative expense</b>	<b>\$ 14,000</b>	<b>\$ 14,854</b>	<b>\$ 52,220</b>	<b>\$ 51,051</b>
Total general and administrative expense as a percentage of rental revenue	4.9%	5.6%	4.7%	4.9%

(i) Amounts capitalized to investment properties are comprised of salaries and benefits related to development and landlord work.

(ii) Other general and administrative primarily includes information technology costs, public company costs, travel, marketing, legal and professional fees.

#### 2016

For the year ended December 31, 2016, general and administrative expenses increased \$1.2 million or 2.3% primarily due to the following: an increase of \$2.4 million in net non-recoverable salaries and benefits, \$2.0 million in higher unit-based compensation, partially offset by a \$3.1 million decrease in other general and administrative expenses.

Net non-recoverable salaries and benefits was higher compared to 2015 primarily due to certain employee termination costs as well as general merit-based salary increases.

The increase in unit-based compensation expense compared to 2015 was mainly due to certain historical performance unit awards subject to accelerated vesting in connection with our CEO's three-year employment commitment agreement entered into during February 2016.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The decrease in other general and administrative costs mainly relate to a favourable outcome on certain tax filings that were accrued in Q4 2015 and lower advertising and marketing costs during the year.

### *Q4 2016*

For the three months ended December 31, 2016, general and administrative expenses decreased \$0.9 million or 5.7% primarily due to changes in the following costs: \$1.8 million decrease mainly due to a favourable outcome related to certain tax filings in the normal course, partly offset by \$0.7 million in higher unit-based compensation expense.

The changes in unit-based compensation and other general and administrative expenses are mostly due to the same factors as described above for 2016.

For the fourth quarter 2016 and 2015 consolidated statements of income refer to *Quarterly Results and Trend Analysis* section of this MD&A.

### **Leasing Costs**

#### Continuing Operations

Leasing costs are comprised of the payroll costs of our internal leasing department and related administration costs. For the three months and year ended December 31, 2016, leasing costs increased \$0.3 million and \$1.2 million compared to the prior comparative periods. The increase in leasing costs of our leasing and administrative operation is primarily due to employee termination costs incurred during the year, general merit-based salary increases and the timing of prior year variable compensation payments.

For the fourth quarter 2016 and 2015 consolidated statements of income refer to *Quarterly Results and Trend Analysis* section of this MD&A.

### **Transaction and Other Costs**

#### Continuing Operations

Transaction and other costs related to Canadian operations decreased \$2.6 million and \$0.9 million for the three months and year ended December 31, 2016, respectively, due to the level of and timing of property acquisition and disposal activity in 2016 compared to 2015.

For the fourth quarter 2016 and 2015 consolidated statements of income refer to *Quarterly Results and Trend Analysis* section of this MD&A.

#### Discontinued Operations

Transaction and other costs related to our discontinued operations decreased by \$1.0 million and increased by \$50 million for the three months and year ended December 31, 2016, respectively. In connection with the closing of our U.S. property sale, RioCan incurred transaction costs such as investment banking fees, legal fees, franchise and land transfer taxes, employee retention amounts and other transaction costs. We do expect to incur some ongoing transaction-related professional fees and advisor costs in connection with the U.S. property sale, which will be presented in our results from discontinued operations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Funds from Operations (FFO) and Operating Funds from Operations (OFFO)

The following table presents a reconciliation of IFRS net income attributable to unitholders to FFO and OFFO on both a continuing and discontinued operations basis:

<i>(thousands of dollars, except per unit amounts)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<b>Net income from continuing operations attributable to unitholders</b>	<b>\$ 178,472</b>	<b>\$ 199,796</b>	<b>\$ 683,060</b>	<b>\$ 416,892</b>
<i>Add back/(Deduct):</i>				
Fair value (gains) losses, net	(44,371)	(1,183)	(182,888)	91,548
Non-controlling interest relating to fair value losses	—	43	91	674
Fair value (gains) losses included in equity accounted investments	(1,476)	468	846	676
Deferred income tax expense (recovery)	(3,000)	1,350	(3,850)	1,290
Internal leasing costs	2,663	2,340	10,931	9,750
Transaction (gains) losses on investment properties, net (i)	—	(4,608)	(6,075)	2,632
Transaction costs (i)	1,978	4,574	8,165	8,459
Preferred trust unit redemption (ii)	—	—	(4,304)	—
Preferred unit distributions	(1,757)	(3,397)	(8,667)	(13,590)
Foreign exchange loss	—	—	—	131
<b>FFO from continuing operations</b>	<b>\$ 132,509</b>	<b>\$ 199,383</b>	<b>\$ 497,309</b>	<b>\$ 518,462</b>
<b>Net income (loss) from discontinued operations attributable to unitholders</b>	<b>\$ (14,013)</b>	<b>\$ (377,837)</b>	<b>\$ 147,687</b>	<b>\$ (275,129)</b>
<i>Add back/(Deduct):</i>				
Fair value (gains) losses, net	—	174,782	(16,899)	147,060
Fair value losses included in equity accounted investments	—	—	—	4,694
Deferred income tax expense (recovery)	—	230,474	(230,675)	230,474
Internal leasing costs	—	185	706	2,022
Accrued property tax expense (recovery) under IFRIC 21	—	(8,297)	25,145	—
Foreign exchange gain related to realty taxes (iii)	—	(1,176)	—	(1,176)
Transaction gains on sale of U.S. investment properties, net (iii)	—	—	(65,116)	(7,529)
Transaction costs on sale of U.S. investment properties (iii)	2,511	3,464	53,562	3,486
Current taxes on U.S. income properties sold	11,167	—	136,160	—
<b>FFO from discontinued operations</b>	<b>\$ (335)</b>	<b>\$ 21,595</b>	<b>\$ 50,570</b>	<b>\$ 103,902</b>
<b>FFO</b>	<b>\$ 132,174</b>	<b>\$ 220,978</b>	<b>\$ 547,879</b>	<b>\$ 622,364</b>
<b>FFO from continuing operations</b>	<b>\$ 132,509</b>	<b>\$ 199,383</b>	<b>\$ 497,309</b>	<b>\$ 518,462</b>
<i>Add back/(Deduct):</i>				
Costs not capitalized on non-active developments (iv):				
Property operating costs	479	354	1,603	1,175
Interest costs	1,459	1,833	5,800	6,811
Demolition costs (v)	—	487	891	2,164
(Gain) loss on sale of residential inventory	1,197	(1,285)	(74)	(2,594)
Target settlement proceeds, net	—	(88,267)	—	(88,267)
Long-term debt redemption costs	—	—	—	9,929
Preferred trust unit redemption (ii)	—	—	4,304	—
Other transaction gains, net (vi)	(3,582)	(421)	(12,596)	(3,380)
<b>OFFO from continuing operations</b>	<b>\$ 132,062</b>	<b>\$ 112,084</b>	<b>\$ 497,237</b>	<b>\$ 444,300</b>
<b>FFO from discontinued operations</b>	<b>\$ (335)</b>	<b>\$ 21,595</b>	<b>\$ 50,570</b>	<b>\$ 103,902</b>
<i>Deduct: Transaction (gains) losses, net (vii)</i>	<i>—</i>	<i>8,478</i>	<i>(2,309)</i>	<i>8,478</i>
<b>OFFO from discontinued operations</b>	<b>\$ (335)</b>	<b>\$ 30,073</b>	<b>\$ 48,261</b>	<b>\$ 112,380</b>
<b>OFFO</b>	<b>\$ 131,727</b>	<b>\$ 142,157</b>	<b>\$ 545,498</b>	<b>\$ 556,680</b>

(i) Represents net transaction gains, losses and costs related to Canadian property acquisitions and dispositions during the period.

(ii) Represents the excess of par redemption value over the carrying value of our Series A preferred trust units redeemed on March 31, 2016.

(iii) Net transaction gains associated with discontinued operations represents the realized gains on disposal of U.S. investment properties and related transaction costs.

(iv) To calculate OFFO, the Trust adjusts for certain costs not capitalized for IFRS, primarily associated with non-active excess density projects

# MANAGEMENT'S DISCUSSION AND ANALYSIS

identified for future potential development that, in management's view, forms part of the capital cost of these projects.

- (v) Represents demolition costs associated with backfilling vacant units on income producing properties; in management's view, forms part of the capital cost of these properties.
- (vi) Current period amounts mainly represent realized transaction gains on the sale of marketable securities; comparative amounts primarily include our share of transaction gains and losses included in equity accounted investments that have been excluded in the calculation of OFFO. Realized gains and losses on the sale of marketable securities are included in FFO and AFFO.
- (vii) Represents current tax expense related to the disposition of an equity accounted investment during 2015 included in net income from discontinued operations on the consolidated income statement and gains related to the extinguishment of a U.S. mortgage and the unwind of a corresponding interest rate swap.

## FFO and OFFO Summary

(thousands of dollars, except per unit amounts)	Three months ended December 31,		Increase (Decrease)	Year ended December 31,		Increase (Decrease)
	2016	2015		2016	2015	
<b>FFO</b>						
Continuing operations	\$ 132,509	\$ 199,383	(33.5%)	\$ 497,309	\$ 518,462	(4.1%)
Discontinued operations	(335)	21,595	(101.6%)	50,570	103,902	(51.3%)
<b>FFO</b>	<b>\$ 132,174</b>	<b>\$ 220,978</b>	<b>(40.2%)</b>	<b>\$ 547,879</b>	<b>\$ 622,364</b>	<b>(12.0%)</b>
<b>FFO per unit - basic</b>	<b>\$ 0.40</b>	<b>\$ 0.69</b>	<b>(41.0%)</b>	<b>\$ 1.68</b>	<b>\$ 1.95</b>	<b>(13.6%)</b>
<b>FFO per unit - diluted</b>	<b>\$ 0.40</b>	<b>\$ 0.69</b>	<b>(41.0%)</b>	<b>\$ 1.68</b>	<b>\$ 1.94</b>	<b>(13.5%)</b>
<b>OFFO</b>						
Continuing operations	\$ 132,062	\$ 112,084	17.8%	\$ 497,237	\$ 444,300	11.9%
Discontinued operations	(335)	30,073	(101.1%)	48,261	112,380	(57.1%)
<b>OFFO</b>	<b>\$ 131,727</b>	<b>\$ 142,157</b>	<b>(7.3%)</b>	<b>\$ 545,498</b>	<b>\$ 556,680</b>	<b>(2.0%)</b>
<b>OFFO per unit - basic</b>	<b>\$ 0.40</b>	<b>\$ 0.44</b>	<b>(8.6%)</b>	<b>\$ 1.68</b>	<b>\$ 1.74</b>	<b>(3.8%)</b>
<b>OFFO per unit - diluted</b>	<b>\$ 0.40</b>	<b>\$ 0.44</b>	<b>(8.6%)</b>	<b>\$ 1.68</b>	<b>\$ 1.74</b>	<b>(3.7%)</b>

## OFFO Highlights

### 2016

OFFO for 2016 is \$545 million compared to \$557 million in 2015, representing a decrease of \$11 million or approximately 2.0%. On a basic per unit basis, OFFO is \$1.68 compared to \$1.74, representing a decrease of approximately 3.8%. The decline in OFFO in the current quarter and for the full year is primarily related to the sale of our U.S. portfolio.

### Continuing Operations

The \$53 million increase in OFFO from continuing operations for the year was primarily due to higher NOI of \$48 million (at RioCan's proportionate share) mainly as a result of acquisition activity net of dispositions, \$4.9 million in lower Series A preferred unit dividends and \$5.8 million in lower interest costs (at RioCan's proportionate share), partly offset by lower property and asset management fees of \$3.5 million and higher general and administrative expenses of \$1.2 million.

### Discontinued Operations

The \$64 million decrease in OFFO from discontinued operations in 2016 was mainly driven by lower NOI of \$98 million partly offset by \$30 million of lower interest expense (both of which include the impact of foreign exchange) and \$2.7 million in less general and administrative expenses, all of which are mainly due to operations ceasing in May 2016 after the sale of our U.S. property portfolio.

### Q4 2016

OFFO for the fourth quarter of 2016 is \$132 million compared to \$142 million during the same period in 2015, representing a decrease of \$11 million or approximately 7.3%. Excluding \$30 million in OFFO from discontinued operations from this decrease, OFFO from continuing operations for the fourth quarter of 2016 is \$132 million compared to \$112 million in 2015, representing an increase of \$20 million or 18%. On a basic per unit basis, OFFO is \$0.40 compared to \$0.44, representing a decrease of approximately 8.6%, primarily due to the sale of the U.S. portfolio.

OFFO from continuing operations increased \$20 million in the fourth quarter, primarily due to higher NOI of \$18 million (at RioCan's proportionate share) as a result of acquisition activity, net of dispositions, and higher same property performance; \$1.6 million in lower Series A preferred unit dividends and \$4.4 million in lower interest costs, partly offset by lower property and asset management fees of \$1.4 million; and less investment income from marketable securities of \$1.3 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Adjusted Funds from Operations (AFFO)

The following table is a reconciliation of FFO to AFFO prepared based on the results of our continuing and discontinued operations for all periods shown:

<i>(thousands of dollars, except per unit amounts)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<b>FFO (i)</b>	\$ 132,174	\$ 220,978	\$ 547,879	\$ 622,364
<i>Add back/(Deduct):</i>				
Costs not capitalized on non-active developments (ii):				
Property operating costs	479	354	1,603	1,175
Interest costs	1,459	1,833	5,800	6,811
Demolition costs (iii)	—	487	891	2,164
Deduction of straight-line rents (iv)	(4,187)	(1,285)	(9,995)	(9,328)
Non-cash unit based compensation expense	706	1,765	1,640	5,135
Normalized capital expenditures:				
Leasing commissions and tenant improvements (v)	(6,250)	(6,250)	(25,000)	(25,000)
Capital expenditures recoverable from tenants	(3,750)	(3,750)	(15,000)	(15,000)
Capital expenditures not recoverable from tenants	(2,500)	(2,500)	(10,000)	(10,000)
(Gain) loss on sale of residential inventory	1,197	(1,285)	(74)	(2,594)
Target settlement proceeds, net	—	(88,267)	—	(88,267)
Preferred trust unit redemption (vi)	—	—	4,304	—
Long-term debt redemption costs	—	—	—	9,929
Transaction (gains) losses, net (vii)	—	8,478	(2,309)	8,478
Other transaction (gains) losses, net (viii)	99	(1,932)	1,444	(4,891)
<b>AFFO</b>	\$ 119,427	\$ 128,626	\$ 501,183	\$ 500,976

- (i) A reconciliation of IFRS net income from continuing and discontinued operations attributable to unitholders to FFO is presented under the *Funds from Operations (FFO) and Operating Funds from Operations (OFFO)* section of this MD&A.
- (ii) To calculate AFFO, the Trust adjusts for certain costs not capitalized for IFRS, primarily associated with non-active excess density projects identified for future potential development that, in management's view, forms part of the capital cost of these projects.
- (iii) Represents demolition costs associated with backfilling vacant units on income producing properties; in management's view, forms part of the capital cost of these properties.
- (iv) Includes straight-line rents on RioCan's proportionate share basis from both continuing and discontinued operations.
- (v) Effective January 1, 2017, in computing AFFO, it is our intention to also deduct normalized internal leasing costs relating to leasing activities on our income-producing properties.
- (vi) Represents the excess of par redemption value over the carrying value of our Series A preferred trust units redeemed on March 31, 2016.
- (vii) Represents current tax expense related to the disposition of an equity accounted investment during 2015 included in net income from discontinued operations on the consolidated income statement and gains related to the extinguishment of a U.S. mortgage and the unwind of a corresponding interest rate swap.
- (viii) Represents our share of transaction gains and losses included in equity accounted investments and joint ventures that have been excluded in the calculation of OFFO.

### AFFO Summary

<i>(thousands of dollars, except per unit amounts)</i>	Three months ended December 31,		Increase (Decrease)	Year ended December 31,		Increase (Decrease)
	2016	2015		2016	2015	
<b>AFFO</b>	\$ 119,427	\$ 128,626	(7.2%)	\$ 501,183	\$ 500,976	—%
<b>AFFO per unit - basic</b>	\$ 0.37	\$ 0.40	(8.5%)	\$ 1.54	\$ 1.57	(1.8%)
<b>AFFO per unit - diluted</b>	\$ 0.37	\$ 0.40	(8.4%)	\$ 1.54	\$ 1.57	(1.7%)

### AFFO Highlights

#### 2016

AFFO for the year ended December 31, 2016 is \$501 million and has remained flat compared to the same period in 2015. On a per unit basis (basic), AFFO is \$1.54 compared to \$1.57, representing a decrease of 1.8% due to higher units outstanding in 2016.

AFFO for the year was impacted by the following; a \$65 million reduction caused by the sale of our U.S. property portfolio in May 2016, lower property and asset management fees of \$3.5 million, and higher general and administrative expenses (excluding the impact of unit based compensation) of \$4.7 million, offset by the following: higher NOI (excluding the impact of straight line rent) of \$47 million at RioCan's proportionate share as a result of acquisition activity (net of dispositions) and higher same property performance, \$14 million in gains realized on the sale of marketable securities, \$5.8 million in lower interest costs at RioCan's proportionate share and \$4.9 million in lower Series A preferred unit distributions.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Q4 2016

AFFO for the fourth quarter of 2016 is \$119 million compared to \$129 million during the same period in 2015, representing a decrease of \$9.2 million or approximately 7.2%. On a basic per unit basis (basic), AFFO is \$0.37 compared to \$0.40, representing a decrease of 8.5%.

The decrease in AFFO was primarily due to a \$30 million reduction caused by the sale of our U.S. property portfolio, lower property and asset management fees of \$1.4 million and less investment income from marketable securities of \$1.3 million. This was partly offset by higher NOI (excluding the impact of straight line rent) of \$15 million at RioCan's proportionate share as a result of acquisition activity (net of dispositions) and higher same property performance, \$3.7 million in realized gains on the sale of marketable securities, \$1.6 million in lower Series A preferred unit dividends and \$4.4 million in lower interest costs.

## Reconciliation of cash flows provided by operating activities to AFFO

The following table is a reconciliation of cash provided by operating activities to AFFO:

<i>(thousands of dollars, except per unit amounts)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Cash provided by operating activities from continuing and discontinued operations	\$ 137,973	\$ 300,145	\$ 455,424	\$ 614,816
Adjustments for net changes in operating assets and liabilities	(30,998)	(80,245)	(156,069)	(12,676)
Share of net income in associates and joint ventures	4,521	4,510	9,972	6,233
Fair value (gains) losses included in equity accounted investments	(1,476)	468	846	5,370
Costs not capitalized on non-active developments:				
Property operating costs	479	354	1,603	1,175
Interest costs	1,459	1,833	5,800	6,811
Demolition costs	—	487	891	2,164
Transaction costs	4,489	8,038	61,727	11,945
Depreciation and amortization - corporate assets	(1,078)	(1,114)	(4,398)	(4,655)
Preferred unit distributions	(1,757)	(3,397)	(8,667)	(13,590)
Normalized capital expenditures:				
Leasing commissions and tenant improvements	(6,250)	(6,250)	(25,000)	(25,000)
Maintenance capital expenditures recoverable from tenants	(3,750)	(3,750)	(15,000)	(15,000)
Maintenance capital expenditures not recoverable from tenants	(2,500)	(2,500)	(10,000)	(10,000)
Non-controlling interests	—	(43)	(91)	(674)
Accrued property taxes under IFRIC 21	—	(8,297)	25,145	—
Foreign exchange gain related to realty taxes	—	(1,176)	—	(1,176)
Gain on sale of marketable securities	3,681	—	14,040	—
Internal leasing costs	2,663	2,525	11,637	11,772
Current taxes on U.S. income properties sale	11,167	—	135,139	—
Net (gain) loss on sale of residential inventory	1,197	(1,285)	(74)	(2,594)
Other transaction (gains) losses, net (i)	99	8,057	(885)	5,098
Target settlement proceeds, net	—	(88,267)	—	(88,267)
Long-term debt redemption costs	—	—	—	9,929
Foreign exchange loss	—	—	—	131
Other adjustments	(492)	(1,467)	(857)	(836)
<b>AFFO</b>	<b>\$ 119,427</b>	<b>\$ 128,626</b>	<b>\$ 501,183</b>	<b>\$ 500,976</b>

(i) Includes gains and losses related to certain equity accounted investments, WhiteCastle Fund transactions, extinguishment of a U.S. mortgage and the unwind of a corresponding interest rate swap.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OPERATIONS

RioCan has remained focused on its core portfolio and continues to execute its growth strategy through acquisitions and developments, along with organic growth. In addition, RioCan is selectively paring its portfolio in order to increase its focus on the six Canadian major markets.

The following is our percentage of portfolio net rental revenue derived from the six Canadian major markets:

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Percentage of rental revenue (i)</b>	<b>75.5 %</b>	75.6 %	75.7 %	75.0 %	74.8 %	74.4 %	74.4 %	73.6 %

(i) The six Canadian major markets include the following: Calgary, AB; Edmonton, AB; Montreal, QC; Ottawa, ON (includes Gatineau region); Toronto, ON; and Vancouver, BC.

The slight 0.1% decline in percentage of portfolio net rental revenue for the six Canadian major markets from Q3 2016 to Q4 2016 is due to timing of tenant vacancies in major markets at each reporting period end as the percentage is calculated on an annualized basis.

## Net Leasable Area

<i>(thousands of square feet, except where otherwise noted)</i>	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>NLA at 100% (i)</b>								
Income properties	<b>57,085</b>	57,248	57,416	57,648	57,898	58,092	58,412	58,292
Properties under development (ii)	<b>6,440</b>	5,862	5,851	6,755	6,985	7,085	7,095	6,972
	<b>63,525</b>	63,110	63,267	64,403	64,883	65,177	65,507	65,264
<b>NLA at RioCan's interest</b>								
Income properties	<b>43,212</b>	43,299	41,987	42,019	42,124	39,282	39,926	39,845
Properties under development (ii)	<b>3,761</b>	3,283	3,240	3,715	3,939	3,968	3,975	3,840
	<b>46,973</b>	46,582	45,227	45,734	46,063	43,250	43,901	43,685

(i) Includes non-owned anchors.

(ii) Includes active and non-active projects in greenfield and urban intensification developments located in Canada.

## Investment Properties NLA

As at December 31, 2016, NLA at RioCan's interest was 43,212,000 square feet compared to 42,124,000 square feet as at December 31, 2015. The increase of 1,088,000 square feet of NLA was due to higher acquisitions, net of dispositions and NLA from completed developments, partially offset by NLA transferred to properties under development during the year.

### Acquisitions and Dispositions

During the year ended December 31, 2016, RioCan acquired approximately 1,809,000 additional square feet and disposed of approximately 711,000 square feet in connection with certain investment properties located in Canada.

### NLA Transfers

During the year ended December 31, 2016, NLA increased by 733,000 square feet due to completed development projects which was offset by an NLA decrease of 743,000 square feet due to certain planned property redevelopments. Refer to *Development Activity in 2016* section in this MD&A for further discussion.

## Occupancy and Leasing

The following table shows the current difference between our committed occupancy (tenants that have signed leases) and economic occupancy (tenants that have commenced paying rent). The gap between committed occupancy and economic occupancy is wider in Q4 2016 than the historical average. This is mainly due to a large square footage of committed occupancy as of December 31, 2016 relating to Target backfill, a significant portion of which is expected to be in place by the end of 2017. Please refer to the *Target Leasing Update* section of this MD&A for further details.

The historical portfolio committed and economic occupancy rates for our Canadian property operations are as follows:

<i>(in percentages)</i>	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Committed	<b>95.6</b>	95.3	95.1	94.8	94.0	93.2	93.1	96.7
Economic	<b>92.6</b>	92.5	92.3	91.9	92.2	91.6	91.9	95.3

## Committed Occupancy

RioCan's overall portfolio committed occupancy rate is calculated as leased NLA divided by total portfolio NLA. During the quarter, the committed occupancy rate increased 0.3% to 95.6% compared to September 30, 2016. Refer to *New Leasing Activity* section in this MD&A for further details.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Economic Occupancy

RioCan's economic occupancy rate of 92.6% represents the occupied NLA for which tenants are paying cash rents and is calculated as leased NLA (excluding 1,270,000 square feet of leased NLA that is not yet generating cash rents) divided by total portfolio NLA. We expect economic occupancy to increase during the next 12 months of operations as the former Target space backfill leases commence paying rent.

As of the end of this quarter, we expect to generate approximately \$22.4 million of annualized cash rental payments once all tenants that have signed leases commence paying rent. This includes base rent and operating cost recoveries, but excludes operating costs capitalized while a property is under redevelopment as part of the Target backfill process.

The estimated \$22.4 million of annualized cash rental payments commencing include approximately \$4.7 million annualized straight-lined rents that we began recognizing revenue on in our reported 2016 operating results on a pro-rated basis reflecting the tenant possession dates. The net incremental annualized gross IFRS rental revenue impact of the committed occupancy as of December 31, 2016 is estimated at \$17.7 million, which includes the incremental rental revenue impact of Target backfill as discussed under *Target Leasing Update*.

A rent commencement timeline for the NLA on our properties that have been leased but are not currently open as at December 31, 2016 is as follows:

<i>(in thousands, except percentage amounts)</i>	Annualized	Total	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018+
<b>Square feet:</b>							
NLA commencing		1,270	315	289	242	186	238
Cumulative NLA commencing		1,270	315	604	846	1,032	1,270
% of NLA commencing			24.8%	22.8%	19.1%	14.6%	18.7%
Cumulative % total			24.8%	47.6%	66.7%	81.3%	100.0%
<b>Average net cash rent:</b>							
Monthly cash rent commencing (i)	\$ 22,368	\$ 1,864	\$ 522	\$ 476	\$ 386	\$ 190	\$ 290
Cumulative monthly cash rent commencing	\$ 22,368	\$ 1,864	\$ 522	\$ 998	\$ 1,384	\$ 1,574	\$ 1,864
% of cash rent for NLA commencing			28.0%	25.5%	20.7%	10.2%	15.6%
Cumulative % total cash rent commencing			28.0%	53.5%	74.2%	84.4%	100.0%
<b>Average net IFRS rent:</b>							
Monthly incremental IFRS rent commencing (ii)	\$ 17,700	\$ 1,475	\$ 208	\$ 408	\$ 379	\$ 190	\$ 290
Cumulative monthly incremental IFRS rent commencing	\$ 17,700	\$ 1,475	\$ 208	\$ 616	\$ 995	\$ 1,185	\$ 1,475
% of IFRS rent for NLA commencing			14.1%	27.7%	25.7%	12.9%	19.6%
Cumulative % total IFRS rent commencing			14.1%	41.8%	67.5%	80.4%	100.0%

(i) Monthly cash rent commencing includes base rent and operating cost recoveries, but excludes operating costs capitalized while a property is under redevelopment as part of the Target backfill process. It includes straight-line rents that have been recognized as rental revenues based on tenant possession dates, which are typically earlier than the dates when the tenants start paying cash rents.

(ii) Based on monthly cash rent, net of straight-line rent revenue.

During 2016, management undertook a review of its financial and non-financial performance measures, including occupancy metrics. As a result of this review and to achieve better alignment with how management assesses portfolio occupancy, we will be transitioning toward a new measure called "in-place occupancy", effective January 1, 2017. In-place occupancy is similar to economic occupancy; however, it also includes tenants that are in possession of their space and have straight-line rents included in revenue under IFRS. This will provide greater alignment between our occupancy metric and IFRS revenue recognition.

## Small Shop Occupancy

As at December 31, 2016, RioCan's small shop committed occupancy rate was 93.0%. RioCan defines small shops as commercial tenants with less than 10,000 square feet of NLA. The following is a breakdown of the Canadian portfolio committed occupancy:

<i>(in percentages)</i>	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Majors (≥10,000 sqft)	96.9	96.7	96.4	96.1	95.0	94.0	93.7	99.1
Small Shop (<10,000 sqft)	93.0	92.6	92.6	92.1	92.0	91.9	91.9	92.0
<b>Total</b>	<b>95.6</b>	<b>95.3</b>	<b>95.1</b>	<b>94.8</b>	<b>94.0</b>	<b>93.2</b>	<b>93.1</b>	<b>96.7</b>

Committed occupancy for both major tenants and small shop tenants as of December 31, 2016 have improved over the comparable periods, reflecting the growth in our leasing activities, particularly with respect to our Target backfill progress.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Average In-Place Rent

The historical portfolio average in-place net rent for our Canadian properties is as follows:

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average net rent per square foot (i)	\$ 17.59	\$ 17.44	\$ 17.28	\$ 17.23	\$ 17.11	\$ 17.08	\$ 17.02	\$ 16.63

(i) Net rent is primarily contractual base rent pursuant to tenant leases.

Average in-place net rent slightly increased during the quarter primarily due to higher contractual rent steps and rent renewals on certain tenant leases.

## New Leasing Activity

RioCan's new leasing activity is as follows:

(in thousands, except per sqft amounts)	2016					2015				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
NLA at 100%	2,048	440	439	581	588	2,319	532	693	481	613
Average net rent per square foot (i)	\$19.22	\$20.01	\$19.19	\$21.86	\$16.05	\$18.99	\$18.91	\$16.23	\$23.31	\$18.81

(i) Net rent is primarily contractual base rent pursuant to tenant leases.

## Renewal Leasing

A summary of our 2016 and 2015 renewal leasing activity for the Canadian property portfolios is as follows:

(in thousands, except per sqft amounts)	2016					2015				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
Square feet renewed	4,255	1,309	857	1,120	969	4,607	1,001	1,300	1,117	1,189
Average net rent per square foot	\$19.14	\$18.69	\$19.76	\$20.06	\$18.12	\$18.37	\$18.19	\$17.75	\$18.07	\$19.47
Increase in average net rent per square foot (i)	\$ 1.08	\$ 1.39	\$ 1.22	\$ 0.64	\$ 1.05	\$ 1.37	\$ 0.71	\$ 1.41	\$ 1.57	\$ 1.69
Percentage increase in average net rent per square foot	6.0%	8.1%	6.6%	3.3%	6.2%	8.1%	4.0%	8.6%	9.5%	9.5%
Retention rate	85.8%	84.0%	83.1%	91.6%	84.4%	85.7%	81.4%	89.8%	87.7%	83.5%

(i) Net rent is primarily contractual base rent pursuant to tenant leases.

Including anchor tenants, the components of renewal activity are as follows:

(in thousands, except per sqft amounts)	2016					2015				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
<b>Renewals at market rental rates:</b>										
Square feet renewed	2,659	760	591	813	494	2,959	806	662	704	787
Average net rent per square foot (i)	\$22.61	\$23.08	\$21.33	\$22.43	\$23.71	\$20.82	\$19.77	\$20.62	\$20.48	\$22.37
<b>Renewals at fixed rental rates:</b>										
Square feet renewed	1,596	549	265	307	475	1,648	195	638	413	402
Average net rent per square foot	\$13.35	\$12.61	\$16.25	\$13.78	\$12.31	\$13.97	\$11.67	\$14.78	\$13.97	\$13.79

(i) Net rent is primarily contractual base rent pursuant to tenant leases.

## Tenant Vacancies

We strive to diversify our tenant base by location, property type and anchor type and by minimizing the degree of reliance on any single tenant. In the regular course of business, we will, however, encounter tenants that are subject to restructuring, insolvency or bankruptcy activities. In most cases, rental revenue continues to be paid by, or on behalf of, RioCan's tenants. We actively monitor such situations, and in those cases where vacancies occur, RioCan endeavours to replace tenants as quickly as possible at economically similar or better lease terms. In certain instances, such vacancies will give rise to rights in favour of other tenants in the property that is the subject of the vacancy. This is commonly referred to as a co-tenancy right and entitles co-tenants to certain rent reductions or lease terminations. For further details on the impact on the Target co-tenancy losses, refer to the *Net Operating Income - Canadian Portfolio* section in this MD&A.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

RioCan's vacancy activity for the most recent eight quarters is as follows:

(in thousands, except per sqft amounts)	2016					2015				
	Full Year	Q4	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
<i>Total vacancies (i)</i>										
100%	<b>1,652</b>	<b>477</b>	377	353	445	3,621	476	493	2,195	457
RioCan's interest	<b>1,376</b>	<b>399</b>	309	314	354	2,880	343	363	1,792	382
<i>Vacated space re-leased</i>										
100%	<b>762</b>	<b>143</b>	163	208	248	1,400	116	234	835	215
RioCan's interest	<b>691</b>	<b>138</b>	139	195	219	1,135	91	189	656	199

(i) Excluding lease buyouts.

During the year ended December 31, 2016, RioCan experienced vacancies of approximately 1,652,000 square feet, of which RioCan's interest was 1,376,000 square feet. The average gross rent on RioCan's ownership interest was \$30.31 per square foot. Approximately 762,000 square feet of space vacated in 2016 has been leased to new tenants, of which RioCan's interest was 691,000 square feet, at an average gross rent of \$27.96 per square foot.

## Target Leasing Update

A summary of our leasing progress-to-date is as follows:

	Square feet at 100%	Square feet at RioCan's Interest	Average annual base rental revenue at RioCan's interest (i)
Former Target Canada space	2,091,480	1,662,977	\$10.9
Disposition of County Fair Mall	(92,989)	(92,989)	(0.3)
Acquisition of Mega Centre Notre Dame	—	58,042	0.5
Acquisition of Gates of Fergus	—	47,989	0.3
Acquisition of Charlottetown Mall	—	53,903	0.2
Revised Former Target space	1,998,491	1,729,922	\$11.6
Backfill progress:			
Leased space where tenants are open and paying rent	164,696	164,696	2.5
Leased space where tenants have taken possession	226,754	191,754	1.7
Committed space	806,721	681,354	8.4
Conditional agreements	35,500	30,250	0.6
Advanced discussions	177,206	149,453	1.0
<b>Total backfill progress</b>	<b>1,410,877</b>	<b>1,217,507</b>	<b>\$14.2</b>
Space currently being marketed (ii)	113,606	96,529	n.a.
<b>Total NLA upon completion of redevelopment</b>	<b>1,524,483</b>	<b>1,314,036</b>	<b>\$14.2</b>
Potential GLA converted for landlord uses (common area, loading docks, etc.) (ii)	397,814	339,724	n.a.
Space for demolition/potential redevelopment	102,444	102,444	n.a.
<b>Total (iii)</b>	<b>2,024,741</b>	<b>1,756,204</b>	

"n.a." – not applicable.

(i) Amounts in millions of Canadian dollars.

(ii) Represents square footage based on current redevelopment plans and is subject to change based on tenant demand. Space currently being marketed includes NLA at Flamborough Power Centre, which was grouped with Greenfield developments in Q4 2015.

(iii) Expansion space at RioCan Niagara Falls results in an additional 26,000 square feet of net leasable area at this property.

We continue to be proactive in holding discussions with potential retailers to backfill the vacant premises. Over the long run, we believe that the re-tenanting of the larger Target boxes will result in a more diversified revenue stream and a better draw for consumers.

To date, leases included in our backfill progress above will, if all are completed, produce net rental revenue of approximately \$14.2 million versus \$11.6 million of the total base rental revenue lost through Target's departure (at RioCan's proportionate share).

The expected total cost of the redevelopment work pertaining to the deals currently included in our backfill progress is estimated to be approximately \$162 million (approximately \$137 million at RioCan's proportionate share, which is being funded, in part, by our approximate \$88 million in net settlement proceeds received from Target last year). The overall redevelopment costs will evolve as additional tenants are secured, development plans are completed and construction costs finalized. Consistent with

## MANAGEMENT'S DISCUSSION AND ANALYSIS

properties under development, interest costs are capitalized during the Target backfill process prior to tenants taking possession of a space using the same weighted average interest of 3.66% and 3.94% for the three months and year ended December 31, 2016, respectively (December 2015 - 4.14% and 4.23%, respectively). Once the tenants take possession, these interest costs will be expensed.

As of December 31, 2016, 681,000 square feet at RioCan's interests have been committed in addition to the leased space where tenants have been open or have taken possession. The majority of the tenants under these committed leases will take possession in the second half of 2017.

Included in our backfill progress-to-date are deals where we are in advanced stages of negotiation for leases totalling approximately 149,000 square feet at RioCan's interest that are expected to be finalized in 2017. These leases are expected to generate \$1.0 million of base rental revenue per year on a full year basis, at RioCan's proportionate share.

There is also 97,000 square feet at RioCan's interest that is currently being marketed, but is not presently the subject of active lease negotiations where redevelopment plans are being prepared.

The area that will be converted for landlord purposes including common area, loading docks and other uses represents 340,000 square feet at RioCan's interest, which is subject to change based on tenant demand. The remaining 102,000 square feet at RioCan's interest represents space for potential redevelopment where plans have not yet been finalized.

The lease agreements are in various stages of negotiations and there can be no assurance as to how many of the lease agreements will be completed or their timelines.

### Other Store Closures

During 2016, we received notice from Golf Town that Golf Town's U.S. parent filed for bankruptcy protection in the U.S. and they disclaimed leases at three of our store locations. At the time of the tenant's filing we had 12 Golf Town stores under lease (including the aforementioned three disclaimed leases) representing approximately 195,000 square feet of total NLA with an average remaining lease term of 4 years (at RioCan's proportionate share). We have reached an agreement for 9 of the 12 locations for Golf Town to remain as a tenant and one of the three vacated locations has been re-leased to another tenant.

Danier Leather also announced that it had made an assignment in bankruptcy pursuant to the *Bankruptcy and Insolvency Act (Canada)* in March of 2016. RioCan had eight locations under lease representing approximately 27,000 square feet of total NLA, at RioCan's interest, with an average remaining lease term of 3.63 years. We have re-leased seven of the eight vacated locations.

We did experience a few other fashion tenant closures, the largest of which was Jones New York, where we had a total of five locations under lease representing only 15,500 square feet of total NLA at RioCan's interest. Two of these locations have been re-leased.

The store closings as discussed in this section are not expected to have a material effect on our investment property fair value given that most of these vacancies have been re-leased and management is confident of re-leasing the remaining space.

In January 2017, Grafton Fraser, the company that owns Tip Top Tailors, was granted court protection under the *Companies Creditors Arrangement Act (CCAA)*. Currently, RioCan has 20 locations under lease representing approximately 92,000 square feet of total NLA with an average remaining lease term of 3.3 years. The impact on RioCan's locations has yet to be determined.

### Lease Expiries

Lease expiries for our Canadian portfolio for the next five years are as follows:

(in thousands, except per sqft and percentage amounts)	Portfolio NLA (i)	Lease expiries for the years ending				
		2017	2018	2019	2020	2021
Square feet	43,212	3,051	4,711	5,322	4,847	5,269
Square feet expiring/Portfolio NLA		7.1%	10.9%	12.3%	11.2%	12.2%
Average net rent per occupied square foot		\$ 19.77	\$ 18.67	\$ 18.84	\$ 17.73	\$ 17.92

(i) Represents RioCan's proportionate ownership share.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The components of our remaining lease expiries for 2017 are as follows:

(in thousands, except per sqft amounts)	Total
<u>2017 expiries at market rental rates:</u>	
Square feet expiring	2,068
Average net rent per sqft	\$ 21.90
<u>2017 expiries with fixed rental rate options:</u>	
Square feet expiring	983
Average in-place net rent per sqft	\$ 15.30
Average renewal net rent per sqft	\$ 16.19
Increase in average net rent per sqft	\$ 0.89
Total:	
Square feet expiring	3,051
Average net rent per sqft	\$ 19.77

## Canadian Contractual Rent Increases

Certain of our leases allow for periodic increases in rates during the lease term which contributes to growth in same store NOI. Contractual rent increases (including rent increases at the time of renewal) in each year for the next five years for our Canadian properties are as follows:

(in thousands)	2017	2018	2019	2020	2021
For the years ending					
Contractual rent increases	\$ 7,855	\$ 6,527	\$ 6,188	\$ 4,356	\$ 3,993

## Property Ownership by Geographic Area

(in thousands of sqft)	NLA at RioCan's Interest	NLA at Partners' Interest	Retailer Owned Anchors	Total Site NLA	Percentage of annualized gross rental revenue	Committed occupancy percentage
As at December 31, 2016						
Ontario	27,379	3,440	5,043	35,862	66.1%	95.4%
Alberta	5,678	1,197	1,966	8,841	14.3%	98.0%
Quebec	5,025	273	864	6,162	8.5%	93.4%
British Columbia	3,556	—	378	3,934	8.2%	96.8%
Eastern Canada	1,045	198	220	1,463	1.9%	91.9%
Manitoba/Saskatchewan	529	201	93	823	1.0%	96.1%
Income producing properties	43,212	5,309	8,564	57,085	100.0%	95.6%
Properties under development	3,761	2,362	317	6,440	—%	—%
<b>Canadian investment properties</b>	<b>46,973</b>	<b>7,671</b>	<b>8,881</b>	<b>63,525</b>	<b>100.0%</b>	<b>95.6%</b>

## Six Canadian Major Markets

(in thousands of sqft)	NLA at RioCan's Interest	NLA at Partners' Interest	Retailer Owned Anchors	Total Site NLA
As at December 31, 2016				
Calgary	3,158	452	1,108	4,718
Edmonton	1,773	745	758	3,276
Montreal	3,147	238	172	3,557
Ottawa (i)	4,774	387	1,315	6,476
GTA (ii)	14,831	2,177	2,293	19,301
Vancouver (iii)	1,948	—	325	2,273
Income producing properties	29,631	3,999	5,971	39,601
Properties under development	3,761	2,362	317	6,440
<b>Total</b>	<b>33,392</b>	<b>6,361</b>	<b>6,288</b>	<b>46,041</b>

(i) Area extends from Nepean and Vanier to Gatineau, Quebec.

(ii) Area extends north to Barrie, Ontario; west to Burlington, Ontario; and east to Oshawa, Ontario.

(iii) Area extends east to Abbotsford, British Columbia.

As at December 31, 2016, the percentage of gross revenue derived from the six major markets increased to 75.5% compared to 74.8% at December 31, 2015. The increase during 2016 is in line with management's strategy to acquire and develop properties located in our six major markets and dispose of non-core lower growth assets.

As at December 31, 2016, the committed occupancy for our six major markets is 96.5% compared to 95.1% at December 31, 2015.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Top 50 Tenants

We strive to reduce our exposure to rental revenue risk in the shopping centre portfolio through geographical diversification, staggered lease maturities, investment in residential developments, diversification of revenue sources resulting from a large tenant base, avoiding dependence on any single tenant by ensuring no individual tenant contributes a significant percentage of our gross revenue and ensuring a considerable portion of rental revenue is earned from national and anchor tenants.

At December 31, 2016, RioCan's 50 largest tenants measured by annualized gross rental revenue have the following profile:

Rank	Tenant name	Annualized rental revenue	Number of locations	NLA (in thousands of sqft)	Percentage of total NLA	Weighted average remaining lease term (years) (i)
1	Loblaws/Shoppers Drug Mart (ii)	4.8%	82	2,125	4.9%	7.8
2	Canadian Tire Corporation (iii)	4.7%	90	2,481	5.7%	7.4
3	Walmart	4.2%	29	3,607	8.3%	10.1
4	Cineplex/Galaxy Cinemas	3.9%	27	1,443	3.3%	8.1
5	Winners/HomeSense/Marshalls	3.7%	71	1,929	4.5%	7.5
6	Metro/Super C/Loeb/Food Basics	3.4%	50	2,058	4.8%	6.6
7	Cara/Prime Restaurants/St-Hubert	1.9%	107	522	1.2%	5.8
8	Lowe's	1.8%	13	1,517	3.5%	11.5
9	Sobeys/Safeway	1.6%	27	928	2.1%	9.3
10	Dollarama	1.5%	80	727	1.7%	5.9
11	Staples/Business Depot	1.4%	30	708	1.6%	4.9
12	Bank Of Montreal	1.2%	50	386	0.9%	7.8
13	Reitmans/Penningtons/Smart Set/Addition Elle/Thyme Maternity	1.2%	80	398	0.9%	4.5
14	PetSmart	1.2%	30	471	1.1%	5.9
15	GoodLife Fitness	1.1%	27	549	1.3%	9.9
16	TD Bank	1.1%	54	266	0.6%	6.4
17	Michaels	1.0%	22	426	1.0%	6.5
18	Best Buy	0.9%	15	332	0.8%	3.7
19	Chapters/Indigo	0.8%	23	289	0.7%	2.3
20	Leon's/The Brick	0.8%	14	373	0.9%	5.5
21	Hudson's Bay Company	0.7%	9	472	1.1%	11.4
22	Bluenotes/Stitches/Suzy Shier/Urban Planet/West 49 (YM Inc.)	0.6%	51	329	0.8%	4.4
23	LA Fitness	0.6%	9	309	0.7%	10.7
24	Liquor Control Board of Ontario (LCBO)	0.6%	21	189	0.4%	9.3
25	Rexall Pharma Plus	0.6%	16	144	0.3%	9.5
26	The Bank of Nova Scotia	0.6%	30	144	0.3%	4.2
27	Sears	0.6%	9	381	0.9%	4.1
28	DSW/Town Shoes/The Shoe Company	0.5%	31	198	0.5%	5.1
29	Ardene	0.5%	40	188	0.4%	5.8
30	Tim Hortons/Burger King	0.5%	56	154	0.4%	6.6
31	Value Village	0.5%	14	289	0.7%	4.1
32	CIBC	0.5%	27	123	0.3%	4.2
33	Old Navy/The Gap/Banana Republic	0.5%	21	189	0.4%	4.0
34	London Drugs	0.5%	8	224	0.5%	10.1
35	Bed Bath & Beyond	0.5%	11	228	0.5%	8.2
36	Genuine Canadian Corp.	0.4%	33	141	0.3%	7.3
37	Bell/The Source	0.4%	73	105	0.2%	5.0
38	Sleep Country Canada	0.4%	26	121	0.3%	5.3
39	Jysk Linen	0.4%	11	226	0.5%	9.0
40	Overwaitea Foods	0.4%	5	200	0.5%	9.1
41	Subway	0.4%	80	90	0.2%	5.2
42	MTY Food Group	0.4%	75	74	0.2%	6.1
43	La Vie En Rose	0.4%	24	115	0.3%	7.2
44	Golf Town	0.4%	9	155	0.4%	4.1
45	Benix & Co Inc	0.4%	23	120	0.3%	7.6
46	Royal Bank of Canada	0.4%	19	87	0.2%	4.5
47	Moore's	0.3%	18	108	0.3%	4.4
48	Brewers Retail	0.3%	21	117	0.3%	3.7
49	Bouclair	0.3%	15	125	0.3%	4.2
50	Pier 1 Imports	0.3%	13	118	0.3%	4.0
		<b>56.1%</b>	<b>1,719</b>	<b>26,998</b>	<b>62.6%</b>	<b>7.2</b>

(i) Weighted average remaining lease term based on annualized gross rental revenue.

(ii) Loblaws/Shoppers Drug Mart includes No Frills, Fortinos, Zehrs Markets, Joe Fresh and Maxi.

(iii) Canadian Tire Corporation includes Canadian Tire, PartSource, Mark's, Sport Chek, Sports Experts, National Sports and Atmosphere.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## ASSET PROFILE

### Investment Property

Refer to note 5 of the 2016 Annual Consolidated Financial Statements for the year ended December 31, 2016 for the change in consolidated IFRS carrying values of our income properties.

#### *Fair Valuation of Canadian Investment Properties*

The net fair value increase for the Trust's investment properties for the year ended December 31, 2016 was \$183 million. During the year ended December 31, 2016, the weighted average capitalization rate of the Trust's investment portfolio decreased from 5.72% at December 31, 2015 to 5.64% due, in part, to capitalization rate compression for certain core properties located in primary markets. In addition, the fair value of our investment properties increased due to the revaluation of interests acquired in previously co-owned properties and the result of a positive valuation adjustments on specific development properties during the period.

#### *Valuation processes*

##### *Internal valuations*

RioCan measures the vast majority of its investment properties, including co-owned properties, using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of the Trust's management. The internal valuation team's processes and results are reviewed and approved by the Valuations Committee on a quarterly basis.

The Trust's Valuations Committee is responsible for approving any fair value changes to the investment properties and consists of senior management of the Trust including the President & Chief Operating Officer, Chief Financial Officer, and other executive members.

##### *External valuations*

Depending on the property asset type and location, management may opt to obtain independent third party valuations from firms that employ experienced valuation professionals having the required qualifications in property appraisals for purposes of adopting such appraised values in the case of land parcels or assessing the reasonableness of its internal investment property valuations. During the year, the Trust obtained a total of 22 external property appraisals (including 13 vacant land parcels), which supported an IFRS fair value of approximately \$1.1 billion or 8% of the Trust's investment property portfolio as at December 31, 2016.

On a go-forward basis, the Trust intends to select approximately six investment properties for external appraisal on a quarterly basis.

#### *Capitalization Rates*

The capitalization rate is based on the location and quality of the properties and takes into account market data at the valuation date. The table below provides details of the average capitalization rate (weighted on stabilized NOI) by market category:

As at	Weighted average capitalization rate	
	December 31, 2016	December 31, 2015
Primary markets (i)	5.36%	5.47%
Secondary markets	6.33%	6.32%
<b>Total average portfolio capitalization rate</b>	<b>5.64%</b>	<b>5.72%</b>

(i) Includes properties located in the six major Canadian markets of Calgary, Edmonton, Montreal, Ottawa, Vancouver and the Greater Toronto Area.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Income Property Acquisitions During 2016

We did not acquire any income properties during the fourth quarter of 2016; however, during the year ended December 31, 2016, we completed acquisitions of interests in a total of 17 income properties aggregating \$595 million at a weighted average capitalization rate of 5.7%, comprised of approximately 1,809,000 square feet. In connection with these acquisitions, RioCan assumed mortgage financing of \$48 million at a weighted average interest rate of 3.8%.

Property name and location	Quarter acquired	Interest acquired	Capitalization rate	Purchase price (i)	NLA at RioCan's interest (thousands of sqft)	Average in place rent	% leased	Average remaining lease term (years) (ii)	RioCan's ending interest
Chapman Mills Marketplace, Ottawa, ON	Q3	25%	5.3%	\$ 36,200	113	\$ 18.04	100%	4.4	100%
CPPIB four-property portfolio (iv)	Q3	50%	5.7%	343,476	910	22.72	98.7%	4.7	100%
642 King Street West, Toronto, ON (iii)	Q3	50%	n/a	12,923	15	28.62	72.8%	0.4	50%
Grant Crossing, Ottawa ON	Q3	20%	5.4%	16,000	46	19.40	100%	5.7	80%
Kimco four-property portfolio (v)	Q3	50%	7.9%	42,708	405	11.92	83.1%	3.1	100%
South Bank Centre, Okotoks, AB	Q2	25%	5.9%	11,840	37	19.70	98%	7.4	75%
Gloucester Phase II, Gloucester ON (iii)	Q2	20%	n/a	3,200	16	21.37	100%	4.6	100%
Shops of Summerhill, Toronto, ON	Q2	75%	4.0%	32,585	23	49.33	100%	17.3	75%
RioCan Thickson Ridge, Whitby, ON	Q2	50%	6.7%	45,000	186	17.40	100%	7.3	100%
85 Bloor Street West, Toronto, ON	Q1	100%	3.7%	38,106	14	101.38	100%	9.7	100%
Huron Heights, London, ON	Q1	50%	6.6%	12,500	44	19.11	100%	4.9	100%
<b>Total 2016 Acquisitions</b>			<b>5.7%</b>	<b>\$ 594,538</b>	<b>1,809</b>	<b>\$ 20.21</b>			

- (i) RioCan's purchase price includes closing costs and other transaction costs in the case of asset acquisitions. These costs are expensed for property acquisitions treated as IFRS business combinations.
- (ii) Weighted average based on gross rental revenue.
- (iii) The purchase price for this property was not determined using a capitalization rate.
- (iv) The CPPIB four-property portfolio includes Grandview Corners (Surrey, BC), RioCan Beacon Hill (Calgary, AB), RioCan Meadows (Edmonton, AB) and RioCan Centre Burloak (Oakville, ON). Also acquired with this portfolio was \$8.5 million of associated lands, which have been recognized as acquisitions of properties under development. The total acquisition price was \$352 million.
- (v) The Kimco four-property portfolio includes Charlottetown Mall (Charlottetown, PEI), Parkwood Place (Prince George, BC), Gates of Fergus (Fergus, ON) and Hawkesbury Centre (Hawkesbury, ON).

During the year, we also acquired a 100% interest in the income producing buildings on the property located at 1860 Bayview Avenue in Toronto, Ontario. The purchase price will be finalized within 14 months from the acquisition date based on capitalized earnings at the settlement date according to a contractually agreed formula. 1860 Bayview Avenue is a 76,000 square foot shopping centre anchored by Whole Foods and also includes Shoppers Drug Mart and TD Bank as tenants. The Whole Foods anchor is scheduled to commence operations in April 2017.

## Income Property Dispositions During 2016

As a further means of raising and recycling capital, the Trust evaluates the sale of selected assets as part of a process of actively managing the portfolio and a means of increasing the portfolio weighting to the urban markets in Canada.

We did not dispose of any income properties during the fourth quarter of 2016. During the year ended December 31, 2016, we disposed of interests in a total of nine income-producing properties totaling \$126 million and representing a weighted average capitalization rate of 6.1%. Our mortgage obligations related to these properties was \$29 million.

Property name and location	Quarter disposed	Capitalization rate	RioCan's sales price (thousands of dollars)	Debt associated with property (thousands)	GLA disposed of at RioCan's interest (thousands of sqft)	Ownership interest disposed of by RioCan
12 Vodden Street, Brampton, ON	Q3	(i)	\$ 8,180	\$ —	32	100%
The Junction, Mission, BC	Q2	6.3%	34,025	—	141	50%
Centre Regional Chateauguay, PQ	Q2	8.0%	15,625	13,278	100	50%
Eastcourt Mall, Cornwall, ON	Q2	(i)	7,900	—	88	50%
Northumberland Square, Miramichi, NB	Q2	(i)	2,500	—	80	50%
Timiskaming Square, New Liskeard, ON	Q2	(i)	1,100	—	80	50%
Nortown Centre, Chatham, ON	Q1	7.1%	6,393	—	36	50%
Peninsula Village, Surrey, BC	Q1	4.9%	39,125	13,654	85	50%
Halifax Walmart Centre, Halifax, NS	Q1	6.2%	11,040	2,427	69	50%
<b>Total 2016 Dispositions</b>		<b>6.1%</b>	<b>\$ 125,888</b>	<b>\$ 29,359</b>	<b>711</b>	

- (i) Property disposed of primarily based on land value.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Capital Expenditures on Income Properties

### Maintenance capital expenditures

Maintenance capital expenditures refer to investments that are necessary to maintain the existing earnings capacity of our property portfolio and are dependent upon many factors, including, but not limited to, lease expiry maturity profile, tenant vacancies, the age and location of the income properties and general economic and market conditions, which impact the level of tenant bankruptcies. As at December 31, 2016, the estimated weighted average age of our income property portfolio is approximately 23 years (December 31, 2015 - approximately 22 years). Maintenance capital expenditures consist primarily of third party leasing commissions, tenant improvements and certain recoverable and non-recoverable capital expenditures. Actual maintenance capital expenditures can vary widely from period to period depending on a number of factors as noted above, as well as the level of acquisition and disposition activity.

As a result, management believes that for the purpose of determining AFFO which, as discussed in the *Non-GAAP Measures* section of this MD&A, is used as an input in assessing a REIT's distribution payout ratio and for determining an appropriate level of sustainable common unitholder distributions, normalized capital expenditures are more relevant than using actual capital expenditures. Refer to the *Non-GAAP Measures* section in this MD&A for details on how management estimates our normalized capital expenditures used in the determination of AFFO. The later part of this MD&A section discusses the reasons for our 2016 actual maintenance capital expenditures being higher than the normalized capital expenditures.

### Third-party leasing commissions and tenant improvements

Our portfolio requires ongoing investments of capital for costs related to tenant improvements, broker commissions on new and renewal tenant leases and other third-party leasing costs. The amount and timing of capital outlays to fund tenant improvements on our income property portfolio depend on several factors, which may include the lease maturity profile, unforeseen tenant bankruptcies and the location of the income property.

### Recoverable and non-recoverable capital expenditures

We also invest capital on a regular basis to physically maintain our income properties. Typical costs incurred are for expenditures such as roof replacement programs and the resurfacing of parking lots. Tenant leases generally provide for the ability to recover a significant portion of such costs from tenants over time as property operating costs. We expense or capitalize these amounts to income properties, as appropriate.

The majority of such activities occur when weather conditions are favourable. As a result, these expenditures are generally not consistent throughout the year.

### Revenue enhancing capital expenditures

Capital spending for new or existing income properties that is expected to create, improve and/or add to the overall earnings capacity of the property portfolio are considered revenue enhancing. RioCan considers such amounts to be investing activities. As a result, we do not expect such expenditures to be funded from cash flows from operating activities and do not consider such amounts as a key determinant in setting the amount that is distributed to our unitholders. Revenue enhancing capital expenditures are not included in the determination of AFFO.

Expenditures for third-party leasing commissions and tenant improvements, recoverable and non-recoverable, and revenue enhancing capital expenditures pertaining to our income properties are as follows:

### Continuing Operations

(thousands of dollars)	Three months ended December 31,		Year ended December 31,		Normalized Capital Expenditures	
	2016	2015	2016	2015	2016	2017
Maintenance capital expenditures:						
Leasing commissions and tenant improvements	\$ 13,853	\$ 7,807	\$ 33,677	\$ 21,626	\$ 25,000	\$ 26,500
Recoverable from tenants	9,287	8,141	18,920	14,438	15,000	16,000
Non-recoverable	1,504	7,303	11,746	11,520	10,000	10,000
	<b>\$ 24,644</b>	<b>\$ 23,251</b>	<b>\$ 64,343</b>	<b>\$ 47,584</b>	<b>\$ 50,000</b>	<b>\$ 52,500</b>
Revenue enhancing capital expenditures:						
Office capital investment (i)	1,485	1,053	6,538	4,770		
Other revenue-enhancing	828	473	5,168	2,238		
	<b>\$ 2,313</b>	<b>\$ 1,526</b>	<b>\$ 11,706</b>	<b>\$ 7,008</b>		
	<b>\$ 26,957</b>	<b>\$ 24,777</b>	<b>\$ 76,049</b>	<b>\$ 54,592</b>		

(i) Includes certain expenditures related to the office component of the RioCan Yonge Eglinton Centre that management believes have improved the overall earnings capacity of this property, a portion of which is recoverable from the office tenants.

During the year ended December 31, 2016, our total capital expenditures on income properties were \$76 million compared to \$55 million for 2015. The \$21 million increase was primarily due to the following:

- higher leasing and tenant improvement expenditures as we increased occupancy over the year;

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- accelerated maintenance capital spending during 2016 on some of the facilities that lost the Target anchor in order to increase occupancy back to their historic levels; and
- higher revenue enhancing spend connected to our office capital investment and certain interior renovation costs at some of the Trust's enclosed mall properties.

For the year ended December 31, 2016, our maintenance capital expenditures of \$64 million, which exclude revenue enhancing capital expenditures, are \$14 million higher than our normalized capital expenditures of \$50 million. This is mainly due to accelerated maintenance capital spending during 2016 on some of our facilities that lost the Target anchor as well as higher than normal leasing and tenant improvement expenditures, both of which were done to increase occupancy back to historical levels. Management does not believe such spending represents an ongoing level of maintenance capital expenditures.

### Discontinued Operations

Capital expenditures including leasing costs and tenant improvements for the year ended December 31, 2016 was \$18 million (December 31, 2015 - \$13 million). Included in 2016 capital expenditures were approximately \$6 million related to a sink-hole repair at one of our U.S. properties and approximately \$4 million in tenant allowances transferred to Blackstone in connection with the U.S. portfolio sale.

### **Co-ownership Arrangements**

Co-ownership activities represent real estate investments in which RioCan has joint control and either owns an undivided interest in the assets and liabilities with its co-owners (joint operations) or ownership rights to the residual equity of the co-ownership (joint ventures).

The Trust's co-ownership arrangements are governed by co-ownership agreements with its various co-owners. RioCan's standard co-ownership agreement provides exit and transfer provisions, including, but not limited to, buy/sell and/or right of first offers or refusals that allow for the unwinding of these co-ownership arrangements should the circumstances necessitate.

Generally, the Trust is only liable for its proportionate share of the obligations of the co-ownerships in which it participates, except in limited circumstances. Credit risk arises in the event that co-owners default on the payment of their proportionate share of such obligations. Co-ownership agreements will typically provide RioCan with an option to remedy any non-performance by a defaulting co-owner. These credit risks are mitigated as the Trust has recourse against the asset under its co-ownership agreements in the event of default by its co-owners, in which case the Trust's claim would be against both the underlying real estate investments and the co-owners that are in default. In addition to the matter noted above, RioCan has provided guarantees on debt totalling \$341 million as at December 31, 2016 (December 31, 2015 - \$358 million) on behalf of co-owners.

### **Selected Financial Information of Joint Operations (Proportionate Share)**

<i>(thousands of dollars)</i>	RioCan's ownership interest	Number of investment properties (i)	Assets (ii)		Liabilities (ii)		Three months ended December 31, 2016 NOI (iii)	Year ended December 31, 2016 NOI (iii)
As at December 31, 2016								
Allied	50%	3	\$ 86,780	\$ 7,287	\$ 360	\$ 1,271		
Allied/Diamond (The Well)	40%	1	131,881	42,319	—	347		
Bayfield	30% - 40%	5	103,967	45,785	1,487	6,462		
CMHC Pension Fund	50%	1	41,841	20,021	482	1,995		
CPPIB (iv)	40% - 50%	3	239,060	19,639	1,231	15,341		
First Gulf	50%	1	80,210	33,821	1,053	4,406		
Kimco (v)	—	—	—	—	—	5,361		
KingSett	50%	3	347,013	96,225	2,962	10,348		
Metropia/Bazis	50%	1	169,174	88,807	—	—		
Sun Life	40% - 50%	2	97,065	14,314	1,288	5,102		
Tanger	50%	4	179,314	12,712	2,823	9,315		
Trinity	50% - 81.25%	10	397,984	185,616	4,490	20,363		
Other	50% - 75%	11	179,524	66,653	2,261	8,534		
<b>Total joint operations</b>		<b>45</b>	<b>\$ 2,053,813</b>	<b>\$ 633,199</b>	<b>\$ 18,437</b>	<b>\$ 88,845</b>		

(i) Includes properties under development and is based on the number of proportionately owned properties as at December 31, 2016.

(ii) Assets and liabilities are stated at RioCan's proportionate share.

(iii) Represents the proportionate share of NOI related to all properties for which we owned a proportionate interest during the reporting period.

(iv) On July 27, 2016, RioCan purchased CPPIB's interest in four properties thereby reducing the number of co-owned assets to three properties.

(v) On September 29, 2016, RioCan acquired Kimco's interest in the remaining four properties.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Selected Financial Information of Joint Operations and Joint Ventures

### Total Assets

<i>(thousands of dollars)</i>						December 31,
As at December 31, 2016	Income properties	PUD (i)	Residential development inventory	Other (ii)	Total	2015
Proportionately consolidated joint operations						
Allied	\$ 41,891	\$ 43,363	\$ —	\$ 1,526	\$ 86,780	\$ 45,236
Allied/Diamond (The Well)	—	128,800	—	3,081	131,881	100,657
Bayfield	100,114	2,576	—	1,277	103,967	108,179
CMHC Pension Fund	36,329	5,402	—	110	41,841	40,499
CPIIB	131,229	99,958	—	7,873	239,060	592,057
First Gulf	79,771	—	—	439	80,210	81,094
Kimco	—	—	—	—	—	243,623
KingSett	257,628	82,226	—	7,159	347,013	297,022
Metropia/Bazis (iii)	2,511	102,493	48,414	15,756	169,174	113,293
Sun Life	96,445	—	—	620	97,065	94,982
Tanger	163,837	12,061	—	3,416	179,314	184,429
Trinity (iii)	331,434	58,545	—	8,005	397,984	478,669
Other	165,824	7,291	—	6,409	179,524	143,383
<b>Total assets of proportionately consolidated joint operations</b>	<b>\$ 1,407,013</b>	<b>\$ 542,715</b>	<b>\$ 48,414</b>	<b>\$ 55,671</b>	<b>\$ 2,053,813</b>	<b>\$ 2,523,123</b>
Equity accounted joint ventures (iv):						
HBC (RioCan-HBC JV)	\$ 231,203	\$ —	\$ —	\$ 1,053	\$ 232,256	\$ 200,872
Marketvest Corporation/Dale-Vest Corporation (Dawson-Yonge LP)	8,840	—	—	98	8,938	8,538
<b>Total assets of equity accounted joint ventures</b>	<b>240,043</b>	<b>—</b>	<b>—</b>	<b>1,151</b>	<b>241,194</b>	<b>209,410</b>
	<b>\$ 1,647,056</b>	<b>\$ 542,715</b>	<b>\$ 48,414</b>	<b>\$ 56,822</b>	<b>\$ 2,295,007</b>	<b>\$ 2,732,533</b>

- (i) The value of properties under development includes active development projects as well as the value of excess density where development is currently non-active.
- (ii) Primarily includes cash and cash equivalents, rents receivable and other operating expenditures recoverable from tenants.
- (iii) Residential development inventory represents the Yonge Eglinton Northeast Corner e-condos with Metropia and Bazis Inc. and the December 31, 2015 amounts also include Stouffville townhome residential density (Minto and Trinity).
- (iv) Includes the Trust's equity accounted joint arrangements only and excludes our equity accounted investment in the WhiteCastle Funds.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Total NOI

(thousands of dollars)	Year ended December 31,	
	2016	2015
Proportionately consolidated joint operations (i)		
Allied	\$ 1,271	\$ 1,234
Allied/Diamond (The Well)	347	1,365
Bayfield	6,462	6,607
CMHC Pension Fund	1,995	1,979
CPPIB	15,341	20,574
First Gulf Corporation	4,406	4,222
Kimco	5,361	55,361
KingSett	10,348	10,736
Metropia/Bazis	—	(52)
Sun Life	5,102	5,248
Tanger	9,315	7,915
Trinity	20,363	19,164
Other	8,534	12,936
<b>Total NOI of proportionately consolidated joint operations</b>	<b>\$ 88,845</b>	<b>\$ 147,289</b>
Equity accounted joint ventures (ii):		
HBC (RioCan-HBC JV)	\$ 12,271	\$ 5,531
Kimco (RioKim Montgomery JV LP)	—	1,167
Marketvest Corporation/Dale-Vest Corporation (Dawson-Yonge LP)	495	499
Total NOI of equity accounted joint ventures	12,766	7,197
<b>Total joint arrangements</b>	<b>\$ 101,611</b>	<b>\$ 154,486</b>

(i) Represents the proportionate share of NOI related to all properties for which we owned a proportionate interest during the year.

(ii) Includes the Trust's equity accounted joint arrangements only and excludes our equity accounted investment in the WhiteCastle Funds.

### RioCan-HBC JV

As at December 31, 2016, the Trust's ownership interest in RioCan-HBC JV was 11.6% (December 31, 2015 - 10.3%). The following tables present the financial results of RioCan-HBC JV on a 100% basis:

#### Condensed Statements of Financial Position

(thousands of dollars)

As at	December 31, 2016	December 31, 2015
Current assets	\$ 9,067	\$ 1,985
Non-current assets	1,980,330	1,947,903
Current liabilities	10,675	4,417
Non-current liabilities (i)	546,114	549,732
Net assets	\$ 1,432,608	\$ 1,395,739
<b>RioCan's share of net assets in RioCan-HBC JV (ii)</b>	<b>\$ 167,581</b>	<b>\$ 143,785</b>

(i) Includes mortgages payable and lines of credit.

(ii) Represents RioCan's proportionate share of net assets and other acquisition-related costs.

#### Condensed Statements of Income

(thousands of dollars)	Year ended December 31,	
	2016	2015 (i)
Rental revenue	\$ 131,653	\$ 52,290
Operating expenses	10,643	4,706
Fair value losses	(11,825)	(7,554)
Interest expense	15,999	6,708
Net income	\$ 93,186	\$ 33,322
<b>RioCan's share of net income in RioCan-HBC JV</b>	<b>\$ 10,391</b>	<b>\$ 4,292</b>

(i) RioCan became a co-venturer in the RioCan-HBC JV on July 9, 2015.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Properties Under Development

RioCan has a development program primarily focused on mixed use and urban retail centres. The provisions of the Trust's Declaration have the effect of limiting direct and indirect investments in greenfield developments and development properties held for resale (each net of related mortgage debt and mezzanine financing to fund co-owners' share of such developments) to no more than 15% of total consolidated unitholders' equity of the Trust, as determined under IFRS. As at December 31, 2016, RioCan's investments in greenfield development and residential inventory as a percentage of consolidated unitholders' equity is 2.6% and, therefore, the Trust is in compliance with this restriction.

RioCan also has an unsecured operating credit facility with six Canadian Schedule I financial institutions. The unsecured operating credit facility agreement requires the Trust to maintain certain financial covenants pursuant to the credit facility agreement, one of which includes a more restrictive covenant as it pertains to the Trust's development activities. Refer to note 24 of the 2016 Annual Consolidated Financial Statements for further details.

In addition to RioCan's various development projects, the Trust also contributes to portfolio growth through the intensification and redevelopment of existing properties where RioCan has identified opportunities to increase density or add to an existing asset. This intensification and redevelopment of existing properties contributes to NOI growth in an efficient manner, leveraging the existing asset base, and can also lead to significant gains resulting from the sale of residential rights.

Development square feet (at RioCan's share) for greenfield development and urban intensification projects by geographic area as at December 31, 2016 is as follows:

<i>(in thousands of square feet)</i>	Toronto	Suburban GTA	Alberta	Ottawa	Total
NLA	1,720	1,061	759	221	3,761

Refer to note 5 of the 2016 Annual Consolidated Financial Statements for the year ended December 31, 2016 for the change in consolidated IFRS carrying value of the Trust's development properties.

### ***Development Property Acquisitions and Dispositions***

During 2016, RioCan completed acquisitions in four development properties for \$10 million, these assets were acquired free and clear of financing, and disposed of two parcels of excess land in Canada valued at \$5.4 million.

### ***Completed Developments in 2016***

During the year ended December 31, 2016, RioCan transferred carrying value from properties under development to income producing properties totalling \$274 million pertaining to 733,000 square feet of completed greenfield development and expansion and redevelopment projects.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of RioCan's 2016 transfers to income properties from development projects is as follows:

(thousands of square feet, unless otherwise noted)	RioCan's % ownership	NLA at RioCan's Interest					NLA at 100%	Tenants transferred to IPP
		2016						
		Total	Q4	Q3	Q2	Q1		
Brentwood Village, Calgary, AB	100%	3	—	3	—	—	3	Chatime
Charlottetown Mall, Charlottetown, PEI	100%	44	25	19	—	—	44	H&M, Urban Planet
Corbett Centre, Fredericton, NB	100%	25	25	—	—	—	25	Princess Auto
East Hills, Calgary, AB	40%	57	—	35	22	—	143	Sport Chek, Bed, Bath & Beyond, Dollarama, Michaels, Marshalls
Flamborough Power Centre, Hamilton, ON	100%	8	—	—	—	8	8	Investors Group
Gates of Fergus, Fergus, ON	100%	32	—	16	6	10	32	Giant Tiger, Dollarama
Herongate Mall, Ottawa, ON	75%	2	2	—	—	—	3	A&W
Kennedy Commons, Toronto, ON	50%	5	—	—	5	—	10	Visions Electronics
Lawrence Square, Toronto, ON	100%	62	—	11	—	51	62	HomeSense, Marshalls, PetSmart
RioCan Colossus Centre, Vaughan, ON	100%	114	6	108	—	—	114	Bed, Bath & Beyond, Buy Buy Baby, Staples, Chop
RioCan Scarborough Centre II, Toronto, ON	100%	116	116	—	—	—	116	Costco
Sage Hill Crossing, Calgary, AB	50%	51	21	14	13	3	102	McDonald's, Liquor Max, Bulk Barn, London Drugs, Bank of Nova Scotia
Shoppers City East, Ottawa, ON	63%	22	13	—	—	9	35	Shoppers Drug Mart, The Beer Store, Expedia, Thai Express, Gabriel's Pizza
South Hamilton Square, Hamilton, ON	100%	51	—	16	—	35	51	Flying Squirrel
South Trail Crossing, Calgary, AB	100%	49	—	—	—	49	49	HomeSense, Marshalls
Stratford Centre, Stratford, ON	100%	16	16	—	—	—	16	World Gym
1860 Bayview Avenue, Toronto, ON	100%	76	—	38	38	—	76	Shoppers Drug Mart, TD Bank, Whole Foods
		733	224	260	84	165	889	

## Development Pipeline Summary

The fair market value of properties under development, including properties under development held for sale, at December 31, 2016 is \$916 million (December 31, 2015 - \$872 million), which includes costs of \$905 million (December 31, 2015 - \$907 million) and a cumulative fair value of \$11 million (December 31, 2015 - reduction of \$35 million).

As at December 31, 2016, RioCan's greenfield development and urban intensification pipeline will, upon completion, represent approximately 6,440,000 square feet (3,761,000 square feet at RioCan's interest), which includes approximately 811,000 square feet that is already income producing.

The following tables represent the components of properties under development type and status:

(thousands of dollars)	Active		Non-active	Total
	Committed	Non-committed		
As at December 31, 2016				
<i>Comprised of:</i>				
Greenfield Development	\$ 82,147	\$ 72,900	\$ —	\$ 155,047
Urban Intensification	263,127	151,863	—	414,990
Expansion and Redevelopment	218,056	6,684	—	224,740
Excess Density and Other (i)	—	—	120,731	120,731
	\$ 563,330	\$ 231,447	\$ 120,731	\$ 915,508

(i) Non-active excess density and other includes earn-outs and early stage zoning, planning and consent costs related to residential initiatives.

## Definitions

**Greenfield Development** - vacant land typically located in suburban markets that is being constructed or developed 'from the ground-up' for future use as a rental property.

**Urban Intensification** - land use intensification at existing rental income property located in urban markets, which typically involves increasing the rentable square footage of the property.

**Expansion and Redevelopment** - existing rental income property, or component thereof, that is being repositioned through redevelopment, which typically increases NOI by adding to the overall rentable area of the property.

**Excess Density and Other** - vacant land acquired or identified for future development, if and when market demand exists.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Active Committed* - a property where a pro forma budget has been approved, all major planning issues have been resolved, anchor tenant(s) have been secured and construction is about to start or has started.

*Active Non-committed* - a property where the development team is in the process of creating a pro forma budget, all planning issues are being resolved, the leasing team is in the process of securing tenants, but construction has not started.

*Non-active* - a property that has been identified as having future development potential, but is currently not in active development.

On an aggregate basis, the majority of greenfield development and urban intensification projects (including residential rental development) are estimated to generate a weighted average NOI yield of approximately 5% to 6%, although certain properties may fall outside of this range. For the year ended December 31, 2016, total costs incurred were approximately \$243 million. Capital expenditures for active projects in 2017 are estimated to be approximately \$385 million. These costs will be reduced by any potential proceeds received from conditional land and air right sales.

## Projected Development Summary

RioCan is committed to property development and redevelopment opportunities and is focused on completing the construction of the development pipeline underway, on time and on budget, and continuing to make progress on leasing. Commencement of construction for several of the development projects have been deferred until economic conditions warrant. Potential anchor tenants are currently more cautious in committing to new developments, which will impact the timing of several developments, as RioCan will not commence construction until it has secured the requisite leasing commitments pertaining to the retail portion of the development and appropriate risk-adjusted returns. In the case of mixed use projects, construction of the rental residential component will commence with no pre-leasing.

Development activity is expected to increase in the upcoming years due to development of mixed use properties featuring residential components, demand from U.S.-based tenants entering the Canadian market and the demand from existing tenants, especially in urban locations.

RioCan's estimated development project square footage and future development costs are subject to change. Such changes may be material to the Trust, as assumptions are updated regularly based on revised site plans, the cost tendering process and continuing tenant negotiations. These assumptions, among other items, include the following: anchor tenants, the likelihood, timing and amount of future sales of air rights and land dispositions, tenant rents, building sizes, project completion timelines, availability and cost of construction financing, and project costs. Although the projected development expenditures below are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these projections and may, therefore, materially differ from management's current expectations.

RioCan's projected development spending for active committed and active non-committed projects are as follows:

<i>(thousands of dollars)</i>	2017	2018	2019	2020+	Total
Greenfield Development	\$ 19,266	\$ 75,120	\$ 17,872	\$ 113,564	\$ 225,822
Urban Intensification	217,141	272,163	164,008	364,951	1,018,263
Expansion & Redevelopment	148,667	64,306	19,783	70,735	303,491
<b>Sub-total</b>	<b>\$ 385,074</b>	<b>\$ 411,589</b>	<b>\$ 201,663</b>	<b>\$ 549,250</b>	<b>\$ 1,547,576</b>
Less: Projected proceeds from dispositions (i)	(34,724)	—	—	(101,964)	(136,688)
<b>Projected development costs, net of dispositions</b>	<b>\$ 350,350</b>	<b>\$ 411,589</b>	<b>\$ 201,663</b>	<b>\$ 447,286</b>	<b>\$ 1,410,888</b>
Committed	\$ 293,681	\$ 229,868	\$ 40,967	\$ —	\$ 564,516
Non-committed	56,669	181,721	160,696	447,286	846,372
<b>Total</b>	<b>\$ 350,350</b>	<b>\$ 411,589</b>	<b>\$ 201,663</b>	<b>\$ 447,286</b>	<b>\$ 1,410,888</b>

(i) Projected proceeds from dispositions represents conditional land and air right sales, which management considers as reductions to its overall development expenditures.

As at December 31, 2016, the development pipeline NLA expected to be completed by year is as follows:

<i>(thousands of square feet)</i>	NLA - 100%	NLA - RioCan%					
		NLA - RioCan%	IPP(i)	2017	2018	2019	2020+
Greenfield Development	2,498	1,549	294	50	143	—	1,062
Urban Intensification	3,942	2,212	81	—	235	534	1,362
Sub-total	6,440	3,761	375	50	378	534	2,424
Expansion & Redevelopment	2,150	1,544	—	816	536	27	165
<b>Total</b>	<b>8,590</b>	<b>5,305</b>	<b>375</b>	<b>866</b>	<b>914</b>	<b>561</b>	<b>2,589</b>

(i) NLA of the development pipeline that is currently income producing.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

As at December 31, 2016, the development pipeline NLA expected to be completed by year and by committed and non-committed is as follows:

<i>(thousands of square feet)</i>	2017	2018	2019	2020+
Committed	866	862	542	333
Non-committed	—	52	19	2,256
<b>Total</b>	<b>866</b>	<b>914</b>	<b>561</b>	<b>2,589</b>

## Greenfield Development

RioCan's current greenfield development pipeline consists of three properties that are expected to add approximately 2,498,000 square feet (1,549,000 square feet at RioCan's interest) of space upon completion over the next six years, excluding potential condominium units, townhouses and air rights that will be sold. 655,000 square feet is already income producing (294,400 square feet at RioCan's interest). RioCan is committed to property development and redevelopment opportunities and is focused on completing its existing development pipeline. These developments will be an important component of our organic growth strategy over time. Our development program is focused on well-located urban and suburban land in the six major markets in Canada. RioCan's projected returns on development properties are expected to be higher than the returns that can be generated through properties that are purchased. Furthermore, population growth over time will lead to improved tenant sales and further increases in rent at these properties as tenants renew upon the expiry of their original term. Development properties that we have completed either independently or with co-owners during the last fifteen years contribute significantly to our existing growth.

A summary of RioCan's greenfield development pipeline as at December 31, 2016 is as follows:

<i>(thousands of square feet)</i>	RioCan's % ownership	Partners	Anchors	Estimated square feet upon completion of the development project				Total leasing activity (ii)	% Leased	Anticipated date of development completion	
				Total estimated development	Retailer owned anchors (i)	RioCan's interest	Partners' interests			Current development (iii)	Potential future developments
East Hills, Calgary, AB	40%	CPPIB / Lansdowne / Tristar	Walmart, Cineplex, Costco (shadow anchor)	886	160	291	435	380	52%	Q4 2017	2018
Sage Hill, Calgary, AB	50%	KingSett	Walmart, Loblaws, London Drugs	394	—	197	197	355	90%	Q4 2017	
<i>Greenfield Developments – Committed</i>				<b>1,280</b>	<b>160</b>	<b>488</b>	<b>632</b>	<b>735</b>	<b>66%</b>		
Windfield Farms, Oshawa, ON	100%			1,218	157	1,061	—	—	—		2019+
<i>Greenfield Developments – Non-committed</i>				<b>1,218</b>	<b>157</b>	<b>1,061</b>	<b>—</b>	<b>—</b>	<b>—</b>		
<b>Total Greenfield Developments</b>				<b>2,498</b>	<b>317</b>	<b>1,549</b>	<b>632</b>	<b>735</b>	<b>34%</b>		

(i) Retailer owned anchors include both completed and contemplated sales.

(ii) Leasing activity includes leasing that is conditional on receiving municipal approvals and meeting construction deadlines.

(iii) The current development date refers to the rent commencement date.

<i>(thousands of dollars)</i>	RioCan's % ownership	Estimated project cost (100%)	Acquisition and development expenditures incurred to date					Estimated remaining construction expenditures to complete		
			RioCan's interest		Total	Partners' interest	Total	RioCan's interest	Partners' interest	Total
			Amount included in IPP	Amount included in PUD						
East Hills, Calgary, AB	40%	\$ 338,401	\$ 36,044	\$ 59,156	\$ 95,200	\$ 120,232	\$ 215,432	\$ 49,187	\$ 73,781	\$ 122,968
Sage Hill, Calgary, AB	50%	121,466	44,051	6,377	50,428	46,681	97,109	12,179	12,179	24,358
Fair Value Adjustments			—	16,613	16,613	—	16,613	—	—	—
<i>Greenfield Developments – Committed</i>		<b>459,867</b>	<b>80,095</b>	<b>82,146</b>	<b>162,241</b>	<b>166,913</b>	<b>329,154</b>	<b>61,366</b>	<b>85,960</b>	<b>147,326</b>
Windfield Farms, Oshawa, ON	100%	223,476	—	59,020	59,020	—	59,020	164,456	—	164,456
Fair Value Adjustments			—	13,880	13,880	—	13,880	—	—	—
<i>Greenfield Developments – Non-committed</i>		<b>223,476</b>	<b>—</b>	<b>72,900</b>	<b>72,900</b>	<b>—</b>	<b>72,900</b>	<b>164,456</b>	<b>—</b>	<b>164,456</b>
<b>Total Greenfield Developments</b>		<b>\$ 683,343</b>	<b>\$ 80,095</b>	<b>\$ 155,046</b>	<b>\$ 235,141</b>	<b>\$ 166,913</b>	<b>\$ 402,054</b>	<b>\$ 225,822</b>	<b>\$ 85,960</b>	<b>\$ 311,782</b>

A summary of 2016 highlights from RioCan's Greenfield Development projects are as follows:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## *East Hills - Calgary, Alberta*

This 148 acre site is currently being developed into an 886,000 square foot regional new format retail centre. The site is anchored by a 130,000 square foot Walmart that opened in March 2014. An additional 67,000 square feet of retail space was constructed in 2015. The majority of the tenants in this phase opened in early 2016.

A deal was completed with Costco in the first quarter of 2016 to purchase approximately 14.8 acres of the site. Costco commenced construction of a 160,000 square foot store in the second quarter of 2016 and opened in the third quarter of 2016.

Construction was completed on 135,000 square feet of retail space in the third quarter of 2016. Marshalls, Michaels, PetSmart, Bed Bath & Beyond, Mark's Work Wearhouse and Dollarama all commenced operations in the third quarter of 2016. Sport Chek commenced operations in early October 2016.

## *Sage Hill - Calgary, Alberta*

This 32-acre site is currently being developed into a 394,000 square foot new format retail centre. This site is anchored by a 153,000 square foot Walmart that opened in January 2015. A 45,000 square foot Loblaws City Market commenced operation in January 2016. A 36,000 square foot London Drugs commenced operation in November 2016. The majority of tenants are expected to be open in 2017.

## *Windfield Farms - Oshawa, Ontario*

RioCan and Tribute Communities ("Tribute") have formed a co-ownership with the purpose of developing a residential project containing approximately 551 townhome units on an approximate 31-acre portion of RioCan's Windfield Farms development property. Tribute will provide development, construction, sales and marketing services to the co-ownership for the residential component of the site. RioCan continues to explore various retail and mixed use development options for the remaining 85 acres of the approximately 116 acres of developable land at the site, which is located in the eastern GTA adjacent to Highway 407 in Oshawa, Ontario.

All significant conditions with respect to the purchase price have been waived by Tribute for the residential portion of this project and we expect to receive the remaining approvals during second quarter of 2017. Site work commenced during 2016.

## **Urban Intensification**

A focus within our development growth strategy is urban development and intensification. Our current urban development pipeline consists of eleven properties that, if all rezoning requests are granted as applied for, represents approximately 3,942,000 square feet (2,212,000 square feet at RioCan's interest) of space upon completion over the next six years, excluding condominium units and air rights that have been sold and potential condominium units and air rights that will be sold. Our urban development program currently is focused on properties located in densely populated areas in the urban cores of Toronto and Calgary.

Land use intensification opportunities arise from the fact that retail centres are generally built with lot coverages of approximately 25% of the underlying land. Therefore, particularly in urban markets and preferably near transit lines, we can seek to obtain additional density, retail or residential, on its existing property portfolio, and as the land is already owned, it anticipates achieving strong returns on new construction and increasing net asset value. Population growth is significant in these areas and retailers want locations that are able to access this population. RioCan's urban development program will serve that demand and returns on these properties will contribute significantly to our growth strategy over time. As a result of the aforementioned population growth, cities are building infrastructure to serve this population that will benefit RioCan's urban development growth strategy.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of our urban development and intensification pipeline as at December 31, 2016 is as follows:

(thousands of square feet)	RioCan's % ownership	Partners	Anchors	Estimated square feet upon completion of the development project			Total leasing activity (i)		Anticipated date of development completion	
				Total estimated development	RioCan's interest	Partners' interests	Total Leased	% Leased	Current development (ii)	Potential future developments
491 College Street, Toronto, ON	50%	Allied	LCBO	25	12	13	7	28%	2018	
Bathurst College Centre, Toronto, ON	100%		Grocery store	146	146	—	98	67%	2018	
Fifth and Third East Village, Calgary, AB	100%		Loblaws	184	184	—	105	57%	2020	
Gloucester -Residential, Ottawa, ON	100%			221	221	—	5	2%	2019	
King-Portland Centre, Toronto, ON	50%	Allied	Shopify, Indigo	484	242	242	278	57% (iii)	2019	
Yonge Eglinton Northeast Corner, Toronto, ON	50%	Metropia / Bazis	TD Bank	398	199	199	18	5% (iii)	2018 & 2019	
<b>Urban Intensification –Committed</b>				<b>1,458</b>	<b>1,004</b>	<b>454</b>	<b>511</b>	<b>35%</b>		
Brentwood Village -Residential, Calgary, AB	50%	Boardwalk		174	87	87	—	—% (iv)		2020
College & Manning, Toronto, ON	50%	Allied		121	61	60	59	49%		2020
Dupont Street, Toronto, ON	100%			236	236	—	—	0%		2020
The Well, Toronto, ON	40%	Allied / Diamond		1,531	613	918	—	0%		2020+
The Well -Residential Bldg 6, Toronto, ON	50%	Woodbourne		422	211	211	—	—% (iv)		2022+
<b>Urban Intensification - Non-committed</b>				<b>2,484</b>	<b>1,208</b>	<b>1,276</b>	<b>59</b>	<b>2%</b>		
<b>Total Urban Intensification</b>				<b>3,942</b>	<b>2,212</b>	<b>1,730</b>	<b>570</b>	<b>14%</b>		

- (i) Leasing activity includes leasing that is conditional on receiving municipal approvals and meeting construction deadlines.
- (ii) The current development date refers to the rent commencement date.
- (iii) Excluding the residential components, the commercial space leased as at December 31, 2016 for King-Portland Centre and Yonge Eglinton Northeast Corner are 75% and 31%, respectively.
- (iv) These projects are primarily rental residential with either very minor retail components (based on square feet to be developed) or no retail, therefore, there is minimal or no pre-leasing activity at this date.

The total estimated development square feet upon completion of our project at Yonge Eglinton Northeast Corner includes space for offices, retail and residential rental apartments only (excludes residential condominiums). 341,000 square feet of the total estimated 398,000 square foot development pertains to residential rental density, wherein leasing will not take place until construction of the building is completed. As a result, total leased space on our mixed use projects, such as this one and the King-Portland Centre, will be lower relative to our retail developments as there is no pre-leasing on the rental residential components.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

<i>(thousands of dollars)</i>	RioCan's % ownership	Estimated project cost (100%)	Acquisition and development expenditures incurred to date					Estimated remaining construction expenditures to complete		
			RioCan's interest			Partners' interest	Total	RioCan's interest	Partners' interest	Total
			Amount included in IPP	Amount included in PUD	Total					
491 College Street, Toronto, ON	50%	\$ 21,876	\$ 45	\$ 6,701	\$ 6,746	\$ 6,149	\$ 12,895	\$ 4,490	\$ 4,490	\$ 8,980
Bathurst College Centre, Toronto, ON	100%	101,147	—	52,848	52,848	—	52,848	48,299	—	48,299
Fifth and Third East Village, Calgary, AB	100%	136,024	—	42,648	42,648	—	42,648	93,376	—	93,376
Gloucester -Residential, Ottawa, ON	100%	80,561	413	14,419	14,832	—	14,832	65,729	—	65,729
King-Portland Centre, Toronto, ON	50%	251,071	24,140	26,790	50,930	47,451	98,381	76,344	76,344	152,688
Yonge Eglinton Northeast Corner, Toronto, ON	50%	226,758	113	61,881	61,994	49,678	111,672	57,543	57,543	115,086
Fair Value Adjustments			—	57,839	57,839	—	57,839			
<i>Urban Intensification – Committed</i>		<b>817,437</b>	<b>24,711</b>	<b>263,126</b>	<b>287,837</b>	<b>103,278</b>	<b>391,115</b>	<b>345,781</b>	<b>138,377</b>	<b>484,158</b>
Brentwood Village -Residential, Calgary, AB (ii)	50%	66,673	—	—	—	—	—	33,337	33,337	66,674
College & Manning, Toronto, ON	50%	55,406	8,915	5,472	14,387	12,739	27,126	14,140	14,140	28,280
Dupont Street, Toronto, ON	100%	126,763	—	17,296	17,296	—	17,296	109,468	—	109,468
The Well, Toronto, ON	40%	1,205,828 (i)	—	89,130	89,130	122,196	211,326	397,801	596,702	994,503
The Well -Residential Bldg 6, Toronto, ON (ii)	50%	235,477	—	—	—	—	—	117,738	117,738	235,476
Fair Value Adjustments			—	39,966	39,966	—	39,966	—	—	—
<i>Urban Intensification - Non-committed</i>		<b>1,690,147</b>	<b>8,915</b>	<b>151,864</b>	<b>160,779</b>	<b>134,935</b>	<b>295,714</b>	<b>672,484</b>	<b>761,917</b>	<b>1,434,401</b>
<b>Total Urban Intensification</b>		<b>\$2,507,584</b>	<b>\$ 33,626</b>	<b>\$ 414,990</b>	<b>\$ 448,616</b>	<b>\$ 238,213</b>	<b>\$ 686,829</b>	<b>\$ 1,018,265</b>	<b>\$ 900,294</b>	<b>\$ 1,918,559</b>

- (i) Estimated project cost reflects the change in scope as a result of the sale of a portion of the residential component of The Well in July 2016. Closing of this transaction is expected to occur in early 2020.
- (ii) These rental residential development projects have not yet commenced construction, therefore, no costs have been incurred to date.

A summary of 2016 highlights from RioCan's urban intensification projects is as follows:

### *491 College Street - Toronto, Ontario*

RioCan and Allied purchased this site, located in downtown Toronto on a 50/50 joint venture basis for the purposes of relocating the existing LCBO at 549 College Street in order to allow for that site's redevelopment. 491 College Street is considered a heritage building, and as such, the facade will remain and be meticulously restored. The LCBO will occupy the first floor and the basement totaling 7,000 square feet of this 25,000 square foot development. Construction commenced in the summer of 2016 and is expected to be completed in the first quarter of 2018.

### *Bathurst College Centre - Toronto, Ontario*

This 1.3 acre site is located just west of the downtown core in Toronto near Bathurst and College Street. The property will be developed into a 146,000 square foot mixed use retail and office building anchored by a national grocery store. This project is expected to be completed in 2018.

### *Fifth and Third East Village - Calgary, Alberta*

This 2.8 acre site is located in the East Village area of downtown Calgary, Alberta. The site was first acquired in the second quarter of 2013 as a 50/50 co-ownership with KingSett and RioCan purchased KingSett's interest in the property in the second quarter of 2015. Upon completion, this mixed use project will include approximately 184,000 square feet of retail space anchored by an 86,000 square foot Loblaws City Market/Shoppers Drug Mart. Construction of this project commenced during the second quarter of 2016 and the retail portion of this project is expected to be completed in 2020. RioCan has agreed in principle to grant a closing extension to residential developer, Embassy BOSA Inc., up to 2023 for the sale of \$30 million in air rights as it pertains to the two residential towers to be erected upon the retail podium.

### *Gloucester Residential - Ottawa, Ontario*

Demolition commenced in December 2016 and construction is scheduled to commence in April 2017 on a 216,000 square foot, 23-storey building that will contain 220 residential units at Silver City Gloucester in Ottawa. The project is expected to be completed in 2019.

### *King-Portland Centre - Toronto, Ontario*

This site is comprised of 602-606 & 620 King Street West, formerly owned exclusively by Allied, and adjacent properties extending from King Street West to Adelaide Street West that Allied and RioCan each acquired a 50% undivided interest. The site has frontage on King Street West, Portland Street and Adelaide Street West. Upon completion, the site will obtain a mixed use office, retail and residential complex with approximately 454,000 square feet of gross floor area. This includes an additional 30,000 square feet pertains to offices at 642 King Street West, which will be redeveloped separately. Leases have been completed with Shopify Inc. for 107,000 square feet and Indigo Books & Music for approximately 79,000 square feet of office

## MANAGEMENT'S DISCUSSION AND ANALYSIS

space at the property. Construction on this project began in the second quarter of 2016. The project is expected to be completed in early 2019.

### *Yonge Eglinton Northeast Corner - Toronto, Ontario*

Construction on this site began in April 2014 with the demolition of the TD Bank branch. The demolition of the remaining residential apartment building was completed in the second quarter of 2015. The project will contain a 58-floor condominium tower and a 36-floor residential rental tower, as well as 57,000 square feet of retail space featuring a flagship TD Bank branch. The rental tower will have 458 units and the condominium will have 621 units, all of which have been pre-sold. Construction is in progress and the project is expected to be completed toward the end of 2018, with leasing of the residential rental component to take place through 2019.

### *Brentwood Village - Calgary, Alberta*

Zoning approval was received in early October for a mixed use retail and residential building. The 11-storey building will contain approximately 10,000 square feet of retail space and approximately 164,000 square feet of residential space comprising 165 units in total. RioCan and Boardwalk REIT intend to develop this project as joint venture partners. A firm deal to sell a 50% interest in the project to Boardwalk REIT has been signed, with the deal expected to close in the second quarter of 2017.

### *College & Manning - Toronto, Ontario*

This site is comprised of 551-555 College Street, formerly owned exclusively by Allied, and 547 and 549 College Street, which were formerly owned exclusively by RioCan. Given the strategic downtown location of each property, Allied and RioCan have formed a 50/50 co-ownership to create a mixed use development including office, retail and residential space. Upon completion, the development shall be 121,000 square feet, including approximately 59,000 square feet that is currently income producing, 56,000 square feet of residential rental density and 6,000 square feet of retail space featuring 185 feet of frontage along College Street. Construction will commence in 2018 upon completion of the LCBO relocation to 491 College Street.

### *740 Dupont Street - Toronto, Ontario*

This 1.4 acre site, located on Dupont Street near Christie Avenue, is northwest of the downtown Toronto core. Notice was received and the existing tenant will vacate on September 30, 2017, which will allow the property to be redeveloped into a mixed use retail and residential property.

The site is expected to be developed into a 236,000 square foot, nine-storey mixed use urban retail and residential building that will feature up to 85,000 square feet of retail space and 151,000 square feet of residential space. RioCan has a 100% ownership interest in the site. We received zoning approvals in 2015 and expect to receive site plan approval during the third quarter of 2017. Construction will commence in the fourth quarter of 2017.

### *The Well - Toronto, Ontario*

This 7.74 acre site is located on part of a large city block in Toronto bounded by Spadina Avenue, Front Street, Draper Street and Wellington Street. The site is in close proximity to Toronto's downtown office corridor and adjacent to a large and growing residential population. Official Plan approval has been received for over 3,000,000 square feet of mixed use density on the site. Approximately 1,450,000 square feet of the density is expected to be residential which will include a mix of both condominiums and rental apartments. A binding agreement to sell the residential component of The Well to Tridel and Woodbourne was completed in the third quarter of 2016. The occupants of the buildings on the site vacated at the end of 2016. Construction will begin in early 2017.

RioCan will remain a 50% co-owner of one of the rental buildings (Building 6) representing approximately 422,000 square feet of the residential rental density.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Expansion & Redevelopment

RioCan's expansion and redevelopment project costs for 2017 are currently expected to be approximately \$149 million. As at December 31, 2016, RioCan's expansion and redevelopment pipeline will, upon completion, comprise approximately 2,150,000 square feet, of which RioCan's ownership interest will be approximately 1,544,000 square feet.

A summary of RioCan's expansion and redevelopment projects are as follows:

(thousands of square feet, thousands of dollars)	RioCan's % ownership	Tenant(s)	Estimated project cost					Historical costs(i)	Development expenditures to date at RioCan's interest	Total costs incurred to date	Estimated remaining construction expenditures to complete at RioCan's interest
			Project NLA	NLA RioCan's Interest	RioCan's Interest	Partners' Interest	Total				
As at December 31, 2016											
Brentwood Village, Calgary, AB	100%	Retail Podium	13	13	\$ 1,858	\$ —	\$ 1,858	\$ 9,616	\$ 740	\$ 10,356	\$ 1,118
Burlington Mall, Burlington, ON	50%	Interior Mall Renovation	—	—	20,133	20,133	40,266	—	890	890	19,243
Corbett Centre, Fredericton, NB	100%	NB Liquors, Mr. Lube	20	20	6,070	—	6,070	—	1,269	1,269	4,801
Flamborough Power Centre, Hamilton, ON	100%	TBD	88	88	23,574	—	23,574	5,384	2,735	8,119	20,839
Herongate Mall, Ottawa, ON	75%	GoodLife Fitness	44	33	6,502	2,167	8,669	4,153	5,434	9,587	1,068
Parkland Mall, Yorkton, SK	100%	Winners	20	20	4,457	—	4,457	2,241	4,416	6,657	41
Place Greenfield Park, GP, QC	100%	JYSK, Giant Tiger, Dollarama	72	72	7,642	—	7,642	2,300	2,594	4,894	5,048
Shoppers City East, Ottawa, ON	63%	A&W, Tim Hortons	7	4	2,217	1,313	3,530	18,840	1,261	20,101	956
Tanger Outlets - Ottawa, Kanata, ON	50%	Marshalls	58	29	9,934	9,934	19,868	4,504	5,029	9,533	4,905
The Stockyards, Toronto, ON	50%	Pads D, M, N	20	10	252	252	504	6,700	127	6,827	125
Yonge Sheppard Centre, Toronto, ON	50%	Longo's, LA Fitness, Interior Mall Renovation, Residential	511	256	184,865	184,865	369,730	25,122	57,818	82,940	127,047
Properties with former Target units(ii)			1,119	909	129,724	27,353	157,077	101,934	26,155	128,089	103,569
Fair Value Adjustments			—	—	—	—	—	(71,206)	—	(71,206)	—
<b>Total Committed Expansion and Redevelopment properties</b>			<b>1,972</b>	<b>1,454</b>	<b>\$ 397,228</b>	<b>\$ 246,017</b>	<b>\$ 643,245</b>	<b>109,588</b>	<b>108,468</b>	<b>218,056</b>	<b>288,760</b>
<b>Total Non-committed Expansion and Redevelopment properties</b>			<b>178</b>	<b>90</b>	<b>17,550</b>	<b>17,550</b>	<b>35,100</b>	<b>3,865</b>	<b>2,819</b>	<b>6,684</b>	<b>14,731</b>
<b>Total</b>			<b>2,150</b>	<b>1,544</b>	<b>\$ 414,778</b>	<b>\$ 263,567</b>	<b>\$ 678,345</b>	<b>\$ 113,453</b>	<b>\$ 111,287</b>	<b>\$ 224,740</b>	<b>\$ 303,491</b>

- (i) Historical costs represent carrying amounts transferred from IPP for former anchors targeted for redevelopment.
- (ii) RioCan transferred carrying value associated with the disclaimed spaces formerly occupied by Target from income producing properties to properties under development. The estimated remaining construction expenditures are based upon various scenarios related to the former Target space with the objective of developing these assets, such that RioCan can attract new tenants, achieve higher rents and improve the overall shopping centre.

A summary of 2016 highlights from our expansion and redevelopment projects is as follows:

### Brentwood Village Shopping Centre - Calgary, Alberta

The four condo towers at Brentwood Village, known as University City, sit atop two retail podiums. The podium below towers 1 and 2 is fully leased and features a 5,700 square foot sushi restaurant, a daycare, and Anytime Fitness. The podium below towers 3 and 4 remains unleased except for Chatime, who took occupancy in the fourth quarter of 2016. We anticipate the remaining space will be leased and open by late 2017.

### Burlington Mall - Burlington, Ontario

In addition to the reconfiguration and improvements scheduled to occur in the former Target premises, there will be an additional investment made to renovate the balance of the centre. The scope of the renovation includes creation of a new mall link corridor connecting the existing food court to the HomeSense corridor via the former SportChek premises, a full renovation of the food court including washroom upgrades, replacement of all existing flooring, the addition of new skylights and lighting as well as cosmetic upgrades to the existing common areas.

### Corbett Centre - Fredericton, New Brunswick

Construction is nearing completion on this 459,000 square foot new format retail centre. The site is shadow anchored by Costco and Home Depot and operate as part of the overall site. During the fourth quarter of 2016, Princess Auto received possession of

## MANAGEMENT'S DISCUSSION AND ANALYSIS

a 25,000 square foot PAD and construction was underway for a 14,000 square foot New Brunswick Liquor. The tenants are expected to open in the second quarter of 2017.

### *Flamborough Power Centre, Flamborough, Ontario*

An 8,000 square foot Investors Group commenced operations in Q3 2016. An additional 88,000 square feet can be developed at the property.

### *Herongate Mall - Ottawa, Ontario*

This 16 acre site consisted of a 196,000 square foot enclosed mall when the property was acquired in 2011. The majority of the original building was demolished in two stages in 2012 and 2013 and the property is currently being redeveloped into a 150,000 square foot new format retail centre. The site is anchored by a 42,000 square foot Food Basics. A 12,000 square foot Pharma Plus commenced operations in April 2013. A 12,000 square foot PetSmart and a 10,000 square foot Dollarama commenced operations in 2015. Construction on the final phase of the development began in the third quarter of 2016 and the tenants are expected to open in 2017. Deals have been completed with a 30,000 square foot GoodLife Fitness and a 2,800 square foot A&W.

### *Parkland Mall - Yorkton, Saskatchewan*

Parkland Mall is an enclosed shopping centre located in Yorkton, Saskatchewan. A deal has been completed with Save-On-Foods to backfill a former grocery store premises at the mall. In addition, approximately ten interior mall units will be demolished in order to construct a new 20,000 square foot Winners. Construction is nearing completion and Save-On-Foods and Winners are expected to open during the second quarter of 2017.

### *Place Greenfield Park - Greenfield Park, Quebec*

Deals have been completed with a 27,000 square foot JYSK, a 24,000 square foot Giant Tiger, and a 15,000 square foot Dollarama to backfill the former 70,000 square foot Grand Marche premises. Construction is underway to reconfigure the unit and tenants are expected to commence operations by the fourth quarter of 2017.

### *Shoppers City East - Ottawa, Ontario*

This 19.4 acre site consisted of a 152,000 square foot neighborhood shopping when the property was acquired. Demolition of the buildings commenced late in 2013 and was completed in 2016. The property is currently being redeveloped into a 207,000 square foot new format retail centre.

A conditional deal has been completed with Costco to purchase approximately 14.7 acres of the site. Providing that conditions are waived, it is anticipated that Costco will commence construction of a 164,000 square foot store in 2017.

Construction is nearing completion on the remainder of the site that consists of four buildings totaling 43,000 square feet of retail space. A 15,000 square foot Shoppers Drug Mart commenced operations in May 2016. Three additional buildings totaling 28,000 square feet are expected to commence operations by mid 2017. Deals have been completed with numerous national tenants including The Beer Store and Tim Hortons.

### *Tanger Outlets - Ottawa, Kanata, Ontario*

Construction is nearing completion on a 25,000 square foot Marshall's. The tenant is projected to open during the second quarter of 2017. An additional 33,000 square feet can be developed in the current phase and the property also has an additional ten acres that can be redeveloped.

### *Yonge Sheppard Centre - Toronto, Ontario*

The redevelopment plan includes 295,000 square feet of residential rental units and 216,000 square feet of commercial space. The site will be anchored by Longo's, LA Fitness, Winners and Shoppers Drug Mart. Construction on the retail renovation began during the first quarter of 2016 and is expected to be completed in 2019. The final site plan agreement is expected to be in place by the second quarter of 2017. Construction is expected to begin in the second quarter of 2018 on a 35-storey, 359-unit residential rental building. RioCan and KingSett each own 50% of the property.

### *Former Target Properties*

To date, RioCan has agreements in place or in advanced discussions on 47 leases that, when completed, will replace approximately 122% of the revenue lost from the major retailer's exit, not including the enhanced common area maintenance and realty tax recoveries. Approximately one-third of the replacement rental revenue will be in place by the end of the first quarter of 2017, including the tenants in possession by the end of 2016, with the majority of the backfilled base rental revenue in place by the end of the year.

The expected cost to complete the redevelopment work related to the 47 leases is currently estimated to be approximately \$104 million at RioCan's interest. A substantial portion of the capital required for the redevelopment work was provided through the net settlement proceeds of \$88 million (at RioCan's interest) with Target Corporation, Target's parent company. Once the redevelopment work is completed, these properties will then move out of the Trust's development portfolio and back into the income producing portfolio and we will cease to capitalize interest costs on the properties.

The net result of this event is stronger shopping centres with better appeal, greater cash flow, enhanced diversification, and a stronger rent growth profile than the portfolio had previously.

### **Excess Density**

In addition to RioCan's various development projects, the Trust contributes to portfolio growth through the intensification of existing properties where RioCan has identified opportunities to increase density or add to an existing asset. This intensification of existing properties is an important component of RioCan's organic growth strategy.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Residential Development

RioCan has currently identified nearly 50 properties that it considers to be strong possible intensification opportunities, all of which are in the six major markets and are typically located in the vicinity of substantive transit infrastructure. RioCan's objective is to develop approximately 10,000 rental residential units over the next decade. Given the early stage of the evolution of this strategy, there can be no assurance that all of these developments will be undertaken, and if they are, on what terms.

As at the date of this report, RioCan has obtained planning approvals for 11 mixed use projects. If all planning permission requests - including those where approvals have been received and those where applications have been filed - are granted as applied for, a total of 10,583,000 square feet of potential development is expected, which will include residential rental units held for long-term rental income; condominiums for sale that will, in most cases, be developed by third party partners through the sale of air rights; and commercial gross leasable area. The mix between condominiums and rental residential may change over time depending on market conditions. The majority of these properties are located directly on, or in proximity, to major transit lines such as the existing Toronto Transit Commission's subway lines or The Crosstown Eglinton LRT line, which is currently under construction. The ability to intensify its existing retail properties into transit-oriented mixed use developments is indicative of both the locational attributes of RioCan's land holdings and its development capabilities. The figures in the chart below and those noted herein are at 100% interest. In some cases, RioCan has co-owners, and therefore, does not hold a 100% interest. The figures in the chart below represent the first planned phase of development with multiple phases.

A summary of our residential development projects is as follows:

Property	Location	RioCan Ownership % (Partner)	Estimated square feet upon completion of the first phase of the development project (at 100%)		
			Commercial	Residential (i)	Total
Yonge Eglinton Northeast Corner (v)	Toronto, ON	50% (Metropia / Bazis)	56,000	774,000	830,000
College & Manning (iii) (v)	Toronto, ON	50% (Allied)	6,000	57,000	63,000
Dupont Street (v)	Toronto, ON	100%	85,000	151,000	236,000
Yonge Sheppard Centre (iv) (v)	Toronto, ON	50% (KingSett)	216,000	295,000	511,000
King-Portland Centre (iii) (v)	Toronto, ON	50% (Allied)	301,000	116,000	417,000
Tillicum Centre (ii) (v)	Victoria, BC	100%	18,000	275,000	293,000
Markington Square (ii) (v)	Toronto, ON	100%	2,000	357,000	359,000
Gloucester - Residential (ii) (v)	Gloucester, ON	100%	—	216,000	216,000
Fifth & Third (v)	Calgary, AB	100%	184,000	650,000	834,000
Brentwood Village (ii) (v)	Calgary, AB	100%	10,000	164,000	174,000
The Well	Toronto, ON	40% (Allied / Diamond)	1,532,000	1,454,000	2,986,000
Sunnybrook Plaza (ii) (v)	Toronto, ON	100%	43,000	308,000	351,000
Southland Crossing (ii)	Calgary, AB	100%	20,000	175,000	195,000
Queensway Cineplex (ii)	Toronto, ON	50% (Talisker)	12,000	216,000	228,000
Mill Woods Town Centre (ii)	Edmonton, AB	40% (Bayfield)	20,000	188,000	208,000
Spring Farm Marketplace (ii)	GTA, ON	100%	25,000	233,000	258,000
RioCan Grand Park (ii)	GTA, ON	100%	17,000	268,000	285,000
Dufferin Plaza (ii)	Toronto, ON	100%	61,000	578,000	639,000
Elmvale Acres (ii)	Ottawa, ON	100%	29,000	143,000	172,000
Westgate Shopping Centre (ii)	Ottawa, ON	100%	19,000	159,000	178,000
RioCan Scarborough Centre (ii)	Toronto, ON	100%	600,000	188,000	788,000
RioCan Leaside Centre (ii)	Toronto, ON	100%	132,000	230,000	362,000
<b>Total</b>			<b>3,388,000</b>	<b>7,195,000</b>	<b>10,583,000</b>

- (i) Residential gross leasable area (GLA) represents residential rental units that will produce long-term rental income, as well as condominium units and/or air rights that will be sold (where applicable). The costs associated with the residential rental units are included in the Urban Intensification and Expansion & Redevelopment tables in the *Properties Under Development* section of this MD&A (where applicable).
- (ii) The Urban Intensification and Expansion & Redevelopment tables currently do not include potential residential density contemplated for this property, but will be updated to include residential density as the development plan is finalized.
- (iii) GLA excludes the square footage that is currently generating income.
- (iv) Commercial square footage to be developed at Sheppard Centre represents redevelopment of existing enclosed mall retail space.
- (v) As at the date of this report, RioCan has obtained planning approvals for the development of this site.

In addition to the estimated square feet indicated in the above table, RioCan intends to file applications on additional properties during 2017 and beyond. As these projects are in preliminary stages, there can be no assurance that any of these developments will be undertaken and if so, on what terms. Depending on market conditions, management may change the allocation between residential rental development and condominium development or air rights sales, or may decide not to proceed with the contemplated development.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Residential Inventory

Residential development inventory are properties acquired or developed for which RioCan intends to dispose of all or part of such properties in the ordinary course of business, rather than hold on a long term basis for capital appreciation or for rental income purposes. It is expected that the Trust will earn a return on these assets through a combination of property operating income earned during the relatively short holding period, which will be included in net income and sales proceeds. As at December 31, 2016, the Trust's residential development inventory consists of 623 pre-sold condominium units at our Yonge Eglinton Northeast Corner development with Metropia and Bazis Inc..

Transfers of investment properties into residential inventory are based on a change in use evidenced by management's strategic intent, together with the commencement of development activities with a view to sell, at which point an investment property would be transferred to inventory. Transfers from inventory to investment property are based on a change in use evidenced by management's commitment to use a property for rental purposes or the commencement of an operating lease to another party.

Presented below are the carrying amounts of the Trust's residential inventory by property:

(thousands of dollars)

As at	December 31, 2016		December 31, 2015
Condominium units at Yonge Eglinton Northeast Corner	\$	48,414	\$ 37,290
Townhomes at Stouffville Residential Lands		—	7,986
	\$	48,414	\$ 45,276

### Stouffville Residential Lands

This project is comprised of a pre-sold townhouse development consisting of 272 units. During 2016, the final 93 townhomes were closed (18 during the fourth quarter of 2016) resulting in cumulative life-to-date operating income of \$2.7 million recognized on the sale of all townhomes, at RioCan's ownership.

## Mortgages and Loans Receivable

RioCan's Declaration contains provisions that have the effect of limiting the aggregate value of the investment by the Trust in mortgages, other than mortgages taken back on the sale of RioCan's properties, to a maximum of 30% of Adjusted Unitholders' Equity, as defined in the *Properties Under Development* section in this MD&A. Additionally, RioCan is limited to the amount of capital that can be invested in greenfield developments and development properties held for resale to no more than 15% of the book value of RioCan's total consolidated unitholders' equity, and this limitation also applies to any mortgages receivable to fund the co-owners' share of such developments referred to as mezzanine financing. At December 31, 2016, RioCan was in compliance with these restrictions.

Contractual mortgages and loans receivable as at December 31, 2016 and December 31, 2015 are comprised of the following:

(thousands of dollars)

	Contractual rates		Weighted Average Rate	December 31, 2016	December 31, 2015
	Low	High			
Mezzanine financing to co-owners	0%	7%	5.1%	\$ 107,745	\$ 124,245
Vendor-take-back and other	4%	5%	4.5%	10,272	5,013
<b>Total</b>	0%	7%	5.0%	\$ 118,017	\$ 129,258

Prior to maturity, payments on these mortgages and loans receivable from co-owners are made from the cash flows generated from operations and capital transactions relating to the underlying properties.

## CAPITAL RESOURCES AND LIQUIDITY

### Liquidity and Cash Management

RioCan maintains a committed revolving bank facility to provide financial liquidity. These can be drawn or repaid at short notice, reducing the need to hold liquid resources in cash and deposits. This minimizes costs arising from the difference between borrowing and deposit rates, while reducing credit exposure.

### Capital Management Framework

RioCan defines capital as the aggregate of common unitholder and preferred unitholders' equity and debt. The Trust's capital management framework is designed to maintain a level of capital that:

- complies with investment and debt restrictions pursuant to the Trust's Declaration;
- complies with debt covenants;
- enables RioCan to achieve target credit ratings;
- funds the Trust's business strategies; and
- builds long-term unitholder value.

The key elements of RioCan's capital management framework are set out in the Trust's Declaration, and/or approved by the Trust's Board, through the Board's annual review of the strategic plan and budget, supplemented by periodic Board and related committee meetings. Capital adequacy is monitored by management of the Trust by assessing performance against the approved

## MANAGEMENT'S DISCUSSION AND ANALYSIS

annual plan throughout the year, which is updated accordingly, and by monitoring adherence to investment and debt restrictions contained in the Declaration and debt covenants (refer to note 24 of RioCan's 2016 Annual Consolidated Financial Statements). In selecting appropriate funding choices, RioCan's objective is to manage its capital structure in such a way so as to diversify its funding sources while minimizing its funding costs and risks. For 2017, RioCan expects to be able to satisfy all of its financing requirements through the use of some or all of the following: cash on hand, cash generated by operations, refinancing of maturing debt, utilization of its operating line, construction financing facilities, sale of non-core properties, and through public offerings of unsecured debentures and common equity. If market conditions become challenging, the Trust could finance certain assets currently unencumbered by debt or issue preferred units.

### Capital Structure

As at December 31, 2016 and December 31, 2015, RioCan's capital structure is as follows (includes both continuing and discontinued operations):

<i>(thousands of dollars)</i>	IFRS		RioCan's proportionate share	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
As at				
Capital:				
Mortgages payable and lines of credit	\$ 3,405,568	\$ 4,164,669	\$ 3,481,026	\$ 4,229,926
Mortgages on properties held for sale:				
U.S. (disposal group)	—	1,224,667	—	1,224,667
Canada	—	23,968	—	23,968
Debentures payable	2,248,024	2,000,066	2,248,024	2,000,066
Total debt	5,653,592	7,413,370	5,729,050	7,478,627
Preferred unit equity	144,755	265,451	144,755	265,451
Common unit equity	7,865,133	7,660,588	7,865,133	7,660,588
Total capital	\$ 13,663,480	\$ 15,339,409	\$ 13,738,938	\$ 15,404,666
Total assets	\$ 14,173,760	\$ 15,996,491	\$ 14,249,875	\$ 16,063,873
Cash and equivalents	\$ 54,366	\$ 83,318	\$ 55,463	\$ 85,336
Ratio of total debt to total assets (net of cash and cash equivalents)	39.7%	46.1%	40.0%	46.3%
Ratio of floating rate debt to total debt	13.8%	14.0%	14.3%	14.4%

As at December 31, 2016, RioCan's ratio of floating rate debt to total debt remained relatively flat at 13.8% (14.0% as at December 31, 2015), as a result of the Trust repaying a portion of floating rate debt with the net sales proceeds generated from the U.S. asset sale, largely offset by higher operating credit facility draws associated with property acquisitions and development costs. Also in connection with the Trust repaying debt during 2016, our overall debt leverage has been reduced from 46.3% as at December 31, 2015 to 40.0% as at December 31, 2016, as determined on a RioCan proportionate share basis.

We expect our total debt to total asset ratio to fluctuate going forward between 38% to approximately 42%. Over the next 12 to 18 months, we expect this ratio to rise toward the higher end of the range, primarily as a result of funding of our development program.

RioCan continues to utilize floating interest rate debt for the purpose of interest rate risk management and for the flexibility it offers in the execution of investment transactions.

### Debt and Leverage Metrics

RioCan's debt and leverage metrics are tracked and disclosed on a quarterly basis to help facilitate financial statement users' and stakeholders' understanding of RioCan's leverage and its ability to service such leverage. These metrics include ratios measuring interest coverage, debt service coverage, fixed charge coverage, debt to adjusted EBITDA, operating debt to operating EBITDA and unencumbered assets to unsecured debt.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Presented below are the Trust's key debt and leverage metrics presented on both an IFRS and RioCan's proportionate share basis in comparison to our targeted ratios:

	Targeted Ratios	Rolling 12 months ended			
		IFRS		RioCan's proportionate share	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Interest coverage (i)	>3.00x	<b>3.38</b>	3.06	<b>3.36</b>	3.07
Debt service coverage (i)	>2.25x	<b>2.62</b>	2.36	<b>2.61</b>	2.37
Fixed charge coverage (i)	>1.10x	<b>1.10</b>	1.10	<b>1.10</b>	1.11
Debt to adjusted EBITDA (i)	<8.0x	<b>8.04</b>	8.35	<b>8.10</b>	8.34
Operating debt to operating EBITDA (i)	<6.5x	<b>7.68</b>	7.94	<b>7.74</b>	7.93
Common unitholder distributions as a percentage of AFFO	<90%	<b>91.4%</b>	90.4%	<b>91.4%</b>	90.4%

	IFRS	
	December 31, 2016	December 31, 2015
<i>(thousands of dollars)</i>		
As at		
Unencumbered assets	<b>\$ 6,625,322</b>	\$ 3,321,413
Unsecured debt:		
Unsecured debentures	<b>\$ 2,250,000</b>	\$ 2,000,000
Amounts drawn on unsecured operating facility	<b>505,185</b>	—
Total unsecured debt outstanding	<b>\$ 2,755,185</b>	\$ 2,000,000
Unencumbered assets to unsecured debt	<b>&gt;200%</b>	166%
% NOI expected to be generated from unencumbered assets (ii)	<b>&gt; 50%</b>	25.1%

(i) Refer to section *Non-GAAP Measures* in this MD&A for further details. See tables below for calculation of adjusted and operating EBITDA for the respective periods.

(ii) Ratio is calculated on a continuing operations basis. Given the substantial increase in the amount of our unencumbered assets due to repayments of secured debt, as well as our conversion from secured credit facilities to an unsecured facility, we have introduced a target relating to the percentage of the portfolio's NOI that is generated from unencumbered assets.

The interest and debt service coverage ratios calculated on an IFRS basis for the year ended December 31, 2016 have improved compared to December 31, 2015 mainly due to lower interest and debt service costs as a result of the repayment of debt using the net proceeds from the U.S. sale and interest savings from mortgage refinancings, partially offset by a decrease in adjusted EBITDA mainly in connection with our U.S. property portfolio disposition.

The fixed charge coverage ratio calculated on an IFRS basis has remained flat for the year ended December 31, 2016 compared to December 31, 2015. Although our interest costs have been reduced as discussed above, our common and preferred unitholder distributions, in aggregate, have remained largely unchanged over the comparable twelve month period. The lower total fixed charges (interests plus unitholder distributions) was mostly offset by the lower adjusted EBITDA over the comparable period, leaving the fixed coverage ratio largely flat.

Debt to adjusted EBITDA has decreased to 8.04 for the year ended December 31, 2016 mainly as a result of lower average debt outstanding more than offset by a decline in adjusted EBITDA during the year in connection with the U.S. portfolio sale. This ratio is likely to improve over the next 12 to 18 months as gains on the sale of marketable securities, the annualized impact of acquisitions and same property growth more than offset the loss of EBITDA from the U.S. property portfolio sale.

The unencumbered assets to unsecured debt increased from 166% as of December 31, 2015 to 240% as of December 31, 2016, above our target ratio of 200%. The percentage NOI expected to be generated from unencumbered assets has also improved from 25.1% as of December 31, 2015 to 49.5% as of December 31, 2016. The improvements are a result of the following:

- the sale of our U.S. portfolio and repayment of related mortgages,
- the utilization of U.S. net sales proceeds to pay down secured Canadian mortgages, and
- the conversion from a secured credit facility to unsecured credit facility during June 2016, which enabled RioCan to unencumber multiple investment properties that were previously designated as collateral for the former secured credit facilities.

As part of its capital management strategy, it is RioCan's objective to further improve its leverage, unencumbered assets and coverage ratios. The Trust's objective is to achieve the targeted ratios indicated in the above table over time. In particular, we anticipate achieving our target of having 50% of NOI generated from unencumbered assets in 2017.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following tables present a reconciliation of consolidated net income from continuing and discontinued operations attributable to unitholders to Adjusted and Operating EBITDA:

Year ended December 31,	IFRS					
	2016			2015		
(thousands of dollars)	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) attributable to unitholders	\$ 683,060	\$ 147,687	\$ 830,747	\$ 416,892	\$ (275,129)	\$ 141,763
Add (deduct) the following items:						
Income tax expenses (recovery):						
Current	—	135,139	135,139	—	8,478	8,478
Deferred	(3,850)	(230,675)	(234,525)	1,290	230,474	231,764
Fair value (gains) losses on properties, net	(182,888)	(16,899)	(199,787)	91,548	147,060	238,608
Accrued property taxes under IFRIC 21	—	26,321	26,321	—	—	—
Foreign exchange gains related to realty taxes (i)	—	(1,176)	(1,176)	—	(1,176)	(1,176)
Leasing costs	10,931	706	11,637	9,750	2,022	11,772
Non-cash unit based compensation expense	1,640	—	1,640	4,741	6	4,747
Interest costs	179,527	18,927	198,454	186,772	49,253	236,025
Long-term debt redemption costs	—	—	—	9,929	—	9,929
Depreciation and amortization	4,386	12	4,398	4,434	221	4,655
Foreign exchange loss	—	—	—	131	—	131
Transaction (gains) losses on the sale of investment properties, net (ii)	(6,075)	(65,116)	(71,191)	2,631	(7,528)	(4,897)
Target settlement proceeds, net	—	—	—	(88,267)	—	(88,267)
Transaction costs on investment properties	8,165	53,562	61,727	8,458	3,487	11,945
<b>Adjusted EBITDA</b>	<b>\$ 694,896</b>	<b>\$ 68,488</b>	<b>\$ 763,384</b>	<b>\$ 648,309</b>	<b>\$ 157,168</b>	<b>\$ 805,477</b>
Less: Other transaction gains (iii)	(12,670)	(1,288)	(13,958)	(5,974)	—	(5,974)
Addback: Costs related to properties under development (iv)	2,694	—	2,694	3,339	—	3,339
<b>Operating EBITDA</b>	<b>\$ 684,920</b>	<b>\$ 67,200</b>	<b>\$ 752,120</b>	<b>\$ 645,674</b>	<b>\$ 157,168</b>	<b>\$ 802,842</b>
Debt and operating debt is calculated as follows:						
Average debt outstanding			\$ 6,200,515			\$ 6,788,647
Less: average cash and cash equivalents			(60,710)			(60,168)
<b>Debt, net of cash and cash equivalents</b>			<b>6,139,805</b>			<b>6,728,479</b>
Less: debt related to properties under development (v)			(366,476)			(350,577)
<b>Operating debt</b>			<b>\$ 5,773,329</b>			<b>\$ 6,377,902</b>

(i) Relates to the favourable impact of foreign exchange for the period based on the timing of U.S. realty tax payments.

(ii) Includes transaction gains and losses realized on the disposal of Canadian and U.S. investment properties.

(iii) Includes residential inventory transaction gains, realized gains on the sale of marketable securities, the extinguishment of a U.S. mortgage and corresponding interest rate swap and gains and losses related to our equity accounted investments in the WhiteCastle Funds.

(iv) The Trust adjusts for certain costs not capitalized for IFRS on excess density projects identified for future potential development that, in management's view, form part of the capital cost of these projects.

(v) Allocated based on the ratio of Debt to Total Assets and applied to properties under development.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, <i>(thousands of dollars)</i>	RioCan's proportionate share					
	2016			2015		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) attributable to unitholders	\$ 683,060	\$ 147,687	\$ 830,747	\$ 416,892	\$ (275,129)	\$ 141,763
Add (deduct) the following items:						
Income tax expenses (recovery):						
Current	—	135,139	135,139	—	8,478	8,478
Deferred	(3,850)	(230,675)	(234,525)	1,290	230,474	231,764
Fair value (gain) loss on investment property, net	(183,643)	(15,207)	(198,850)	91,546	153,106	244,652
Accrued property taxes under IFRIC 21	—	26,321	26,321	—	—	—
Foreign exchange gains related to realty taxes (i)	—	(1,176)	(1,176)	—	(1,176)	(1,176)
Leasing costs	10,931	706	11,637	9,750	2,022	11,772
Non-cash unit based compensation expense	1,640	—	1,640	4,741	6	4,747
Interest costs	181,496	18,927	200,423	188,410	49,253	237,663
Long-term debt redemption costs	—	—	—	9,929	—	9,929
Depreciation and amortization	4,386	12	4,398	4,434	221	4,655
Foreign exchange loss	—	—	—	131	—	131
Transaction (gains) losses on the sale of investment properties, net (ii)	(6,075)	(65,116)	(71,191)	2,631	(7,528)	(4,897)
Target settlement proceeds, net	—	—	—	(88,267)	—	(88,267)
Transaction costs	8,165	53,562	61,727	8,458	3,487	11,945
<b>Adjusted EBITDA</b>	<b>\$ 696,110</b>	<b>\$ 70,180</b>	<b>\$ 766,290</b>	<b>\$ 649,945</b>	<b>\$ 163,214</b>	<b>\$ 813,159</b>
Adjust: Other transaction gains (iii)	(12,670)	(1,288)	(13,958)	(5,974)	—	(5,974)
Adjust: Items related to properties under development (iv)	2,697	—	2,697	3,339	—	3,339
<b>Operating EBITDA</b>	<b>\$ 686,137</b>	<b>\$ 68,892</b>	<b>\$ 755,029</b>	<b>\$ 647,310</b>	<b>\$ 163,214</b>	<b>\$ 810,524</b>
Net debt and net operating debt is calculated as follows:						
Average debt outstanding			\$ 6,271,581			\$ 6,841,991
Less: average cash and cash equivalents			(62,165)			(62,244)
<b>Net debt</b>			<b>6,209,416</b>			<b>6,779,747</b>
Less: debt related to properties under development (v)			(366,476)			(350,577)
<b>Net operating debt</b>			<b>\$ 5,842,940</b>			<b>\$ 6,429,170</b>

- (i) Relates to the favourable impact of foreign exchange during the year based on the timing of U.S. realty tax payments.
- (ii) Includes transaction gains and losses realized on the disposal of Canadian and U.S. investment properties.
- (iii) Includes residential inventory transaction gains, realized gains on the sale of marketable securities, the extinguishment of a U.S. mortgage and corresponding interest rate swap and gains and losses related to our equity accounted investments in the WhiteCastle Funds.
- (iv) The Trust adjusts for certain costs not capitalized for IFRS on excess density projects identified for future potential development that, in management's view, form part of the capital cost of these projects.
- (v) Allocated based on the ratio of Debt to Total Assets and applied to properties under development.

## Credit Ratings

RioCan intends to maintain strong debt service coverage and fixed charge coverage ratios as part of its commitment to maintaining its investment-grade debt ratings from Standard and Poor's (S&P) and from Dominion Bond Rating Services Limited (DBRS). A credit rating generally provides an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. Rating categories range from highest credit quality (generally AAA) to default payment (generally D).

As at December 31, 2016, S&P provided RioCan with an issuer credit rating of BBB with a Stable outlook. On December 2, 2016, S&P raised the ratings on RioCan's senior unsecured debentures (Debentures) from BBB- to BBB. An obligor with a credit rating of BBB by S&P exhibits adequate capacity to meet its financial obligations, however, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A credit rating of BBB- or higher is an investment grade rating.

As at December 31, 2016, DBRS provided RioCan with a credit rating of BBB (high) relating to the Debentures with a Stable trend. A credit rating of BBB by DBRS is generally an indication of adequate credit quality, the capacity for the payment of financial obligations is considered acceptable but the entity may be vulnerable to future events.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Credit Facility

On June 1, 2016, the Trust entered into a new \$1.0 billion unsecured operating credit facility (also referred to as "line of credit") with six Canadian Schedule I financial institutions, which replaced five secured operating credit facilities. The new facility has an interest rate based on a pricing grid depending on RioCan's credit rating and the type of borrowing utilized, with the current rates for Canadian dollar Banker's Acceptances and US dollar LIBOR loans being 120 basis points over the underlying rate. The facility has a five-year term to maturity and a one-year extension option. The unsecured operating credit facility agreement requires the Trust to maintain certain financial covenants in accordance with the credit facility agreement. Refer to note 24 of the 2016 Annual Consolidated Financial Statements for additional details.

As at December 31, 2016, RioCan had cash advances and letters of credit outstanding of \$505 million and \$0.4 million, respectively, and \$494 million in cash available to be drawn from this credit facility.

## Letters of Credit

The Trust has aggregate letter of credit facilities with certain Schedule I banks totaling \$81 million. As at December 31, 2016, the Trust's outstanding letters of credit under these facilities was \$29 million (December 31, 2015 - \$29 million).

## Debentures Payable

We have the following series of senior unsecured debentures outstanding as at December 31, 2016 in connection with our Canadian continuing operations:

Series	Maturity date	Coupon rate	Interest payment frequency	Principal amount
P	March 1, 2017	3.800%	Semi-annual	\$ 150,000
S	March 5, 2018	2.870%	Semi-annual	250,000
Q	June 28, 2019	3.850%	Semi-annual	350,000
U	June 1, 2020	3.620%	Semi-annual	150,000
X	August 26, 2020	2.185%	Semi-annual	250,000
R	December 13, 2021	3.716%	Semi-annual	250,000
V	May 30, 2022	3.746%	Semi-annual	250,000
T	April 18, 2023	3.725%	Semi-annual	200,000
W	February 12, 2024	3.287%	Semi-annual	300,000
I	February 6, 2026	5.953%	Semi-annual	100,000
				\$ 2,250,000

As at December 31, 2016, RioCan had debentures outstanding totalling \$2.2 billion, net of unamortized debt financing costs (December 31, 2015 – \$2.0 billion).

Changes in the carrying amount of debentures resulted primarily from the following:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 2,250,000	\$ 2,000,000	\$ 2,000,000	\$ 1,865,990
Issuances	—	—	250,000	475,000
Repayments	—	—	—	(349,900)
Foreign currency translation	—	—	—	8,910
Contractual obligations	2,250,000	2,000,000	2,250,000	2,000,000
Unamortized debt financing costs	(1,976)	66	(1,976)	66
Balance, end of period	\$ 2,248,024	\$ 2,000,066	\$ 2,248,024	\$ 2,000,066

The debentures have covenants relating to our 60% leverage limit to Aggregate Assets as set out in RioCan's Declaration, the maintenance of a \$1.0 billion Adjusted Book Equity, defined in the indenture, and maintenance of an interest coverage ratio of 1.65 times or better. There are no requirements under the unsecured debenture covenants that require RioCan to maintain unencumbered assets. The Series I debentures, which are due in 2026 and aggregate \$100 million, have an additional provision that provides RioCan with the right, at any time, to convert these debentures to mortgage debt, subject to the acceptability of the security given to the debenture holders. In such an event, the covenants relating to the 60% leverage limit, minimum book equity and interest coverage ratio would be eliminated for this series of debentures.

### Issuance

On August 26, 2016, the Trust issued \$250 million of Series X senior unsecured debentures, which mature on August 26, 2020 and carry a coupon rate of 2.185%. The interest on these debentures is payable semi-annually commencing February 26, 2017. The net proceeds were used by RioCan to fund development, property acquisitions, repayment of certain indebtedness and other general trust purposes.

Subsequent to December 31, 2016, the Trust issued \$300 million of Series Y senior unsecured debentures, which mature on October 3, 2022 and carry a coupon rate of 2.83%. The interest on these debentures is payable semi-annually commencing April 3, 2017. This series of debentures has the same covenants as the rest of the series of debentures and does not have the additional covenants for Series I debentures, as noted earlier.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Mortgages Payable and Lines of Credit

Canadian mortgages payable and lines of credit consist of the following and are presented net of unamortized financing costs:

As at	December 31, 2016	December 31, 2015
Line of credit	\$ 502,359	\$ 561,389
Construction lines and other bank loans	203,274	182,622
Mortgages payable	2,699,935	3,420,658
	\$ 3,405,568	\$ 4,164,669
Mortgages on Canadian properties held for sale	—	23,968
	\$ 3,405,568	\$ 4,188,637
Fixed rate mortgages	\$ 2,627,591	\$ 3,230,492
Floating rate mortgages, line of credit, construction lines and other bank loans	777,977	958,145
	\$ 3,405,568	\$ 4,188,637

The weighted average contractual and effective rates for fixed and floating rate mortgages payable and lines of credit are as follows:

As at December 31,	Contractual		Effective	
	2016	2015	2016	2015
Fixed rate	4.07%	4.17%	3.98%	4.36%
Floating rate	1.81%	1.79%	1.81%	1.79%
<b>Total</b>	<b>3.55%</b>	<b>3.63%</b>	<b>3.49%</b>	<b>3.71%</b>

For the three months and year ended December 31, 2016, RioCan's new mortgage borrowings and operating line draws for its Canadian operations are as follows:

(thousands of dollars, except other data)	Three months ended December 31, 2016			Year ended December 31, 2016		
	Contractual Amount	Weighted average contractual interest rate	Average term to maturity in years	Contractual Amount	Weighted average contractual interest rate	Average term to maturity in years
<b>New borrowings:</b>						
Fixed rate term mortgages	\$ —	—%	—	\$ 91,300	2.98%	5.85
Floating rate term mortgages	—	—%	—	72,590	2.21%	2.09
Construction financing	10,032	2.20%	2.20	27,294	2.23%	1.84
Operating lines of credit and other bank loans	228,892	1.93%	4.40	1,118,712	1.75%	2.41
<b>New borrowings</b>	<b>\$ 238,924</b>	<b>1.94%</b>	<b>—</b>	<b>\$ 1,309,896</b>	<b>1.87%</b>	<b>—</b>
<b>Aggregate new borrowings:</b>						
Fixed rate debt	\$ —	—%	—	\$ 91,300	2.98%	5.85
Floating rate debt	238,924	1.94%	4.31	1,218,596	1.78%	2.39
<b>Aggregate new borrowings debt</b>	<b>\$ 238,924</b>	<b>1.94%</b>	<b>—</b>	<b>\$ 1,309,896</b>	<b>1.87%</b>	<b>—</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in the carrying amount of the Canadian and U.S. mortgages payable and lines of credit resulted primarily from the following:

<i>(thousands of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Contractual obligations, beginning of period	\$ 3,346,731	\$ 4,661,538	\$ 5,398,642	\$ 4,576,115
New borrowings:				
Fixed rate term mortgages – Canada	—	9,900	91,300	343,776
Fixed rate term mortgages – U.S.	—	14,262	—	268,094
Floating rate term mortgages – Canada	—	—	72,590	—
Construction lines	10,032	10,248	27,294	43,140
Advances on operating line of credit and other bank loans	228,892	461,296	1,118,712	817,296
Principal repayments:				
Scheduled amortization	(14,685)	(19,046)	(65,111)	(78,245)
Operating lines of credit and other bank loans	(10,000)	(26,529)	(1,154,814)	(341,830)
At maturity: Fixed rate term mortgages	(165,453)	(16,446)	(890,420)	(608,616)
Construction financing	—	(15,088)	(15,469)	(17,334)
Disposed on the sale of properties located in:				
Canada	—	—	(29,359)	(155,117)
U.S.	—	—	(1,119,562)	—
Assumed on the acquisition of properties	—	262,802	62,697	286,986
Foreign currency translation (gain) loss	—	55,705	(100,983)	264,377
Contractual obligations, end of period	3,395,517	5,398,642	3,395,517	5,398,642
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties	16,658	31,626	16,658	31,626
Unamortized debt financing costs, net of premiums and discounts	(6,607)	(16,964)	(6,607)	(16,964)
Balance, end of period	\$ 3,405,568	\$ 5,413,304	\$ 3,405,568	\$ 5,413,304
Less: Mortgages associated with properties held for sale:				
Canada	—	23,968	—	23,968
U.S.	—	1,224,667	—	1,224,667
	\$ 3,405,568	\$ 4,164,669	\$ 3,405,568	\$ 4,164,669

At the outset of 2016, RioCan had \$484 million of mortgage principal maturing in 2016 at a weighted average contractual interest rate of 4.50%. For the year ended December 31, 2016, RioCan secured new term mortgage borrowings of \$164 million at a weighted average interest rate of 2.64% and a weighted average term of 4.2 years, which include two floating rate mortgages for \$73 million having a weighted average term of 2.09 years. For the year ended December 31, 2016, repayments of maturing mortgage balances and scheduled amortization amounted to \$956 million.

### Hedging Activities

#### Interest rate risk

As at December 31, 2016, the outstanding notional amount of floating-to-fixed interest rate swaps was \$683 million (December 31, 2015 – \$993 million) and the term to maturity of these agreements ranges from April 2017 to October 2023. We assess the effectiveness of the hedging relationship on a quarterly basis and have determined there is no ineffectiveness in the hedging of its interest rate exposure as at December 31, 2016.

Refer to note 23 of the 2016 Annual Consolidated Financial Statements for the year ended December 31, 2016 for further details.

#### Foreign currency risk

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. As a result of the Trust's disposal of its U.S. property portfolio, repayment of U.S. denominated debt and exit from its U.S. operations, RioCan has significantly reduced its foreign exchange risk.

For further details, refer to note 23 of the 2016 Annual Consolidated Financial Statements for the year ended December 31, 2016.

#### Cross currency interest rate swaps

On occasion, we will fund our Canadian assets by electing to draw on our unsecured credit facility in US dollars bearing interest at US LIBOR when it is determined that the differential between Canadian and U.S. interest rates makes it economically advantageous to do so.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

During the year ended December 31, 2016, the Trust entered into cross currency interest rate swaps as part of its strategy to hedge any U.S. dollar denominated borrowings from the Trust's unsecured operating credit facility. These have the economic effect of converting floating rate U.S. dollar borrowings to floating rate Canadian dollar borrowings. These cash flow hedges are short-term in nature and qualify for hedge accounting. These hedges are expected to be highly effective since all critical terms of the hedged item and hedging instrument match. All such designated hedging relationships were effective as of the reporting date, with a total U.S. dollar principal value of US\$365 million.

## Canadian Debt Profile

As at December 31, 2016, RioCan's Aggregate Debt had a 3.42 year weighted average term to maturity (December 31, 2015 – 3.55 years) bearing interest at a weighted average contractual interest rate of 3.54% (December 31, 2015 – 3.65%). As at December 31, 2016, 13.8% of the Trust's Aggregate Debt is at floating interest rates compared to 14.0% at December 31, 2015.

We temporarily increased our debt levels during the first half of 2016 through increased use of floating rate operating lines to fund the Kimco portfolio acquisition and the redemption of our Series A preferred units. Proceeds generated from the U.S. asset sale and our Series X debentures were mostly used to repay operating lines of credit. This repayment activity during the period was partly offset by higher operating credit facility draws associated with property acquisitions and development costs, resulting in a slightly reduced weighting of floating rate debt in our overall portfolio from December 31, 2015.

RioCan's fixed and floating rate debt as a percentage of total Aggregate Debt and term to maturity are as follows:

As at December 31, 2016	Aggregate debt	Percentage of total RioCan's aggregate debt	Weighted average term to maturity in years
Aggregate debt at:			
Fixed rate debt	\$ 4,875,615	86.2%	3.43
Floating rate debt	777,977	13.8%	3.35
<b>Aggregate debt</b>	<b>\$ 5,653,592</b>	<b>100%</b>	<b>3.42</b>

The weighted average contractual and effective rates for fixed and floating aggregate debt including mortgages payable, lines of credit, debentures and the impact of hedging programs, where applicable, are as follows:

As at December 31,	Contractual		Effective	
	2016	2015	2016	2015
Fixed rate	3.81%	3.90%	3.77%	3.92%
Floating rate	1.81%	1.79%	1.85%	1.80%
<b>Total</b>	<b>3.54%</b>	<b>3.65%</b>	<b>3.50%</b>	<b>3.71%</b>

RioCan's debt maturity profile and future repayments are as outlined below:

(thousands of dollars, except percentage amounts)	Contractual principal maturities and interest rates (i)										
	Fixed rate		Floating rate			Total mortgages payable, bank loans and lines of credit		Total mortgages payable		Total mortgages, bank loans, lines of credit and debentures payable	
	Mortgages payable	Weighted average interest rate	Mortgages payable, bank loans and lines of credit	Weighted average interest rate	Scheduled principal amortization	Weighted average interest rate	Debt	Weighted average interest rate	Debt	Weighted average interest rate	
<b>As at December 31, 2016</b>											
<b>Year ending December 31:</b>											
2017	\$ 702,743	4.18%	\$ 163,595	1.24%	\$ 64,088	\$ 930,426	3.66%	\$ 150,000	3.80%	\$ 1,080,426	3.68%
2018	447,327	3.86%	50,000	2.13%	44,730	542,057	3.70%	250,000	2.87%	792,057	3.44%
2019	263,179	4.38%	39,679	2.13%	32,724	335,582	4.11%	350,000	3.85%	685,582	3.98%
2020	425,840	3.71%	22,590	2.38%	17,836	466,266	3.64%	400,000	2.72%	866,266	3.22%
2021	348,782	4.42%	505,185	1.92%	6,992	860,959	2.95%	250,000	3.72%	1,110,959	3.12%
Thereafter	256,041	3.89%	—	—%	4,186	260,227	3.89%	850,000	3.84%	1,110,227	3.85%
	\$ 2,443,912	4.07%	\$ 781,049	1.81%	\$ 170,556	\$ 3,395,517	3.55%	\$ 2,250,000	3.52%	\$ 5,645,517	3.54%
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties											16,658
Unamortized debt financing costs, net of premiums and discounts											(8,583)
<b>Balance</b>											<b>\$ 5,653,592</b>

(i) Amounts for 2017 also include due on demand facilities.

As at December 31, 2016, our mortgages payable and lines of credit including mortgages associated with properties held for sale was \$3.4 billion (\$4.2 billion as at December 31, 2015). The majority of our mortgage debt provides recourse to the assets of the Trust, as opposed to only having recourse to the specific property charged. We follow this policy as it generally results in lower interest rates that could otherwise be obtained.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Trust Units

As at December 31, 2016, there are 327 million common trust units outstanding, including exchangeable limited partnership units. All common units outstanding have equal rights and privileges and entitle the holder to one vote for each unit at all meetings of unitholders. During the quarter and year ended December 31, 2016 and 2015, we issued common units as follows:

<i>(number of units in thousands)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Units outstanding, beginning of period (i)	325,845	321,051	322,483	315,986
Units issued:				
Distribution reinvestment plan	551	1,420	2,399	5,443
Unit option plan	202	—	1,671	1,019
Direct purchase plan	17	12	36	35
Exchangeable limited partnership units	—	—	26	—
<b>Units outstanding, end of period (i)</b>	<b>326,615</b>	<b>322,483</b>	<b>326,615</b>	<b>322,483</b>

(i) Included in units outstanding are exchangeable limited partnership units of three limited partnerships that are subsidiaries of the Trust (the "LP units") which were issued to vendors, as partial consideration for income properties acquired by RioCan (December 31, 2016 – 1,164,010 LP units, December 31, 2015 – 1,137,871 LP units). RioCan is the general partner of the limited partnerships. The LP units are entitled to distributions equivalent to distributions on RioCan units, must be exchanged for RioCan units on a one-for-one basis and are exchangeable at any time at the option of the holder.

During the three months ended December 31, 2016, 0.6 million units were issued pursuant to our distribution reinvestment plan ("DRIP") resulting in \$7.1 million in equity capital and representing a participation rate of 6.2%. During the same period in 2015, the Trust issued 1.4 million units resulting in \$35 million in equity capital, representing a participation rate of 30.6%. During the first quarter of 2016, we eliminated our 3.1% discount on the distribution reinvestment plan, resulting in a decline in our DRIP participation rate for the quarter. Refer to the *Distributions to Unitholders* section of this MD&A for further details on changes to the Trust's distribution reinvestment plan.

During the year ended December 31, 2016, 2.4 million units were issued pursuant to our DRIP resulting in \$61 million in equity capital and representing a participation rate of 13.3%. During the same period in 2015, the Trust issued 5.4 million units resulting in \$143 million in equity capital, representing a participation rate of 31.5%.

As of February 15, 2017, there are 326.8 million common units issued and 8.3 million unit options issued and outstanding under the Trust's incentive unit option plan.

### Unit Options

The Trust provides long-term incentives to certain employees by granting options through the Incentive Unit Option Plan (the "Plan"). The objective of granting unit-based compensation is to encourage Plan members to acquire an ownership interest in RioCan over time and provides a financial incentive for such persons to act in the long-term interests of RioCan and its unitholders. The exercise price for each option is equal to the volume weighted average trading price of the units on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant except for those options granted prior to May 27, 2009 which have an exercise price equal to the closing price of our units on the date prior to the day the option was granted.

As at December 31, 2016, 11.6 million unit options remain available for grant under the Plan (December 31, 2015 – 12.6 million unit options). During the year ended December 31, 2016, 1.7 million units were issued pursuant to exercises of the incentive unit options, compared to 1.0 million units issued during the same period in 2015.

### Executive compensation plan

The Trust grants performance equity units (PEUs) under the PEU Plan with a three-year performance period for certain senior executives. The PEUs will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period, which upon vesting are cash settled.

RioCan accounts for this plan under the fair value method of accounting, which uses the Monte-Carlo simulation pricing model to determine the fair value of market-based awards. The Monte-Carlo simulation pricing model uses the same input assumptions as the Black-Scholes model; however, it allows for the incorporation of the market-based performance hurdles that must be met before the PEU vests in the holder. Pursuant to IFRS, compensation costs related to awards with a market-based condition are recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided and all performance conditions have been satisfied.

During February 2016, we granted 0.2 million performance equity units (PEUs) under our PEU Plan at an IFRS fair value of \$5.3 million, where PEUs will fully vest in February 2019 with one-third vested each year over the three-year period.

### Normal course issuer bid

On October 18, 2016, RioCan announced the TSX approval of its notice of intention to make a normal course issuer bid (NCIB) for a portion of its common trust units as appropriate opportunities arise from time to time. See note 13 in RioCan's 2016 Annual Consolidated Financial Statements as at and for the year ended December 31, 2016 for further details.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Preferred Units

On March 31, 2016, the Trust exercised its option to redeem all 5 million outstanding Series A preferred trust units at the cash redemption price of \$25.00 per Series A preferred trust unit, for total cash proceeds of \$125 million paid on April 1, 2016. Unit issue costs totaling \$4.3 million were recorded as a charge to retained earnings upon redemption, representing the excess of par redemption value over the carrying value of the preferred trust units.

## Guarantees

As at December 31, 2016, the maximum exposure to loss resulting from the Trust's mortgage guarantees, on behalf of certain of our co-owners' interests and mortgages assumed by purchasers on property dispositions, is approximately \$428 million, with expiries between 2017 and 2034 (December 31, 2015 - \$457 million). The maximum exposure to credit risk relating to a guarantee is the maximum risk of loss if there was a total default, without consideration of recoveries under recourse provisions against the aforementioned parties. During the year ended December 31, 2016, we both disposed of and acquired interests in certain properties which, on a net basis, reduced our maximum exposure to loss under guarantees.

As at December 31, 2016 and during 2016, there have been no defaults by the primary obligors for debts on which we have provided guarantees and, as a result, no contingent loss on these guarantees has been recognized in our 2016 Annual Consolidated Financial Statements.

The parties on behalf of which RioCan has outstanding guarantees are as follows:

(thousands of dollars)

As at	December 31, 2016	December 31, 2015
Partners and co-owners		
HBC	\$ 124,082	\$ 126,916
KingSett	83,750	33,750
Bayfield	63,230	39,474
Metropia and Bazis	39,679	22,900
Trinity	22,614	52,537
Kimco	—	45,382
Other	7,555	36,738
	<b>\$ 340,910</b>	<b>\$ 357,697</b>
Assumption of mortgages by purchasers on property dispositions		
Devimco	56,574	58,035
Other	30,252	40,966
	<b>\$ 427,736</b>	<b>\$ 456,698</b>

## Liquidity

Liquidity refers to the Trust having and/or generating sufficient amounts of cash and equivalents to fund the ongoing operational commitments, distributions to unitholders and planned growth in the business.

RioCan retains a portion of its operating cash flows to help fund ongoing maintenance capital expenditures, tenant installation costs and long term unfunded contractual obligations, among other items.

Cash on hand, borrowings under the operating line of credit, construction financing facilities, equity and debt capital markets and the potential sale of assets also provide the necessary liquidity to fund ongoing and future capital expenditures and obligations.

As at December 31, 2016, RioCan had the following sources of liquidity available:

- \$54 million of cash and cash equivalents,
- \$494 million of cash available under its undrawn operating line of credit,
- \$130 million of cash available under undrawn construction facilities, and
- 183 unencumbered Canadian properties with a fair value of \$6.6 billion.

Unitholder distributions reinvested through the distribution reinvestment and direct purchase plans result in the issuance of units, as opposed to a cash outlay, thereby providing an additional source of capital to fund RioCan's activities, refer to *Distributions to Unitholders* section in this MD&A for further discussion.

AFFO for 2016 has remained flat compared to 2015 on a total AFFO basis. However, AFFO per unit decreased from \$1.57 in 2015 to \$1.54 in 2016 mainly as a result of an increase in weighted average trust units outstanding during 2016 due primarily to our distribution reinvestment and unit option plans. This results in a ratio of distributions as a percentage of AFFO of 91.4% as compared to 90.4% for the year ended December 31, 2015. Refer to "AFFO Highlights" section of this MD&A for the AFFO change. Over the long term, the Trust targets a payout ratio of AFFO on a rolling twelve month basis, which allows RioCan to provide a sustainable distribution of cash flow to unitholders, while retaining a portion of operational cash flow to reinvest into income producing and development properties, and if necessary, to fund any unexpected expenditures for property maintenance that might arise. We continue to target a ratio at or below 90% over the long term, although there may be some fluctuations from

# MANAGEMENT'S DISCUSSION AND ANALYSIS

quarter to quarter.

RioCan's liquidity profile is as follows:

<i>(thousands of dollars)</i>	IFRS		RioCan's proportionate share	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
As at				
Cash and cash equivalents	\$ 54,366	\$ 83,318	\$ 55,463	\$ 85,336
Undrawn operating line of credit	494,380	339,284	494,380	339,284
<b>Liquidity</b>	<b>\$ 548,746</b>	<b>\$ 422,602</b>	<b>\$ 549,843</b>	<b>\$ 424,620</b>
Contractual debt:				
Debentures payable	\$ 2,250,000	\$ 2,000,000	\$ 2,250,000	\$ 2,000,000
Mortgages payable, mortgages on Canadian properties held for sale and lines of credit	3,395,517	4,173,840	3,470,135	4,238,544
U.S. properties held for sale	—	1,224,802	—	1,224,802
<b>Total contractual debt</b>	<b>\$ 5,645,517</b>	<b>\$ 7,398,642</b>	<b>\$ 5,720,135</b>	<b>\$ 7,463,346</b>
Percentage of total contractual debt:				
Liquidity	9.7%	5.7%	9.6%	5.7%
Unsecured debt	48.8%	27.0%	48.2%	26.8%
Secured debt	51.2%	73.0%	51.8%	73.2%

Our liquidity is impacted by contractual debt commitments and forecasted development expenditures on active projects. Our contractual debt commitments and development expenditures at December 31, 2016 are as follows:

<i>(thousands of dollars)</i>	2017	2018	2019	2020	2021	Thereafter	Total
Contractual obligations:							
Lines of credit and other bank loans	\$ 163,595	\$ —	\$ 39,679	\$ —	\$ 505,185	\$ —	\$ 708,459
Mortgages payable	766,831	542,057	295,903	466,266	355,774	260,227	2,687,058
Unsecured debentures	150,000	250,000	350,000	400,000	250,000	850,000	2,250,000
Lease commitments	3,751	3,708	3,606	3,342	3,005	26,473	43,885
<b>Total</b>	<b>\$ 1,084,177</b>	<b>\$ 795,765</b>	<b>\$ 689,188</b>	<b>\$ 869,608</b>	<b>\$ 1,113,964</b>	<b>\$ 1,136,700</b>	<b>\$ 5,689,402</b>
Estimated development expenditures:							
Active developments (i)	350,350	411,589	201,663	—	—	549,250 (ii)	1,512,852
<b>Total</b>	<b>\$ 1,434,527</b>	<b>\$ 1,207,354</b>	<b>\$ 890,851</b>	<b>\$ 869,608</b>	<b>\$ 1,113,964</b>	<b>\$ 1,685,950</b>	<b>\$ 7,202,254</b>

(i) Represents our estimated costs to complete properties both currently under development and planned future developments. These costs will only be committed once leases are signed and/or construction activities are underway.

(ii) Represents forecasted development expenditures from 2020 and thereafter.

The Trust's contractual debt obligations and projected development expenditures can be funded by net proceeds from the sale of non-core assets (including, but not limited to, excess land and potential air rights), existing cash on hand, our unsecured operating line, construction lines, proceeds from mortgage refinancing and proceeds from the issuance of unsecured debentures or equity units.

In addition, our debt strategy has resulted in an unencumbered asset pool with an approximate fair value of \$6.6 billion as at December 31, 2016, which can generate additional liquidity, if needed.

## Unencumbered Assets

RioCan has the continued flexibility to generate additional funds in 2017 through upward refinancing of maturing loan balances.

As at December 31, 2016, our debt strategy has resulted in approximately 49.5% of annualized NOI being generated by unencumbered assets, providing us with access to a pool of assets for obtaining additional secured debt (December 31, 2015 - 25.1%). Management expects this ratio to improve to over 50% in 2017. The fair value of the unencumbered investment property assets as at December 31, 2016 is estimated at approximately \$6.6 billion for 183 properties or 49.9% of the total fair value of investment properties as compared to 119 properties with a fair value of \$3.3 billion as at December 31, 2015.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below presents RioCan's interest in assets at fair value that are available to finance and/or refinance for debt maturing in 2017 and 2018:

<i>(thousands of dollars)</i>	Number of Properties	Fair Value of Investment Properties as at		Principal balance of debt maturing		
		December 31, 2016		2017	2018	Thereafter
Unencumbered assets (i)	183	\$ 6,625,322	\$ —	\$ —	\$ —	\$ —
Encumbered assets with debt maturing in 2017	27	1,591,826	670,343	—	—	—
Encumbered assets with debt maturing in 2018	14	1,206,155	—	438,387	—	—
Encumbered assets with debt maturing thereafter	76	3,924,265	—	—	—	1,591,205
<b>Total</b>		<b>\$ 13,347,568</b>	<b>\$ 670,343</b>	<b>\$ 438,387</b>	<b>\$ —</b>	<b>\$ 1,591,205</b>

(i) Substantially all of the Trust's unencumbered assets are income producing properties and 100% owned.

Considering the availability our credit facility, unencumbered asset pool, relatively low leverage and demonstrated historical access to debt capital markets, we expect that all maturities will be refinanced or repaid in the normal course of business, and as such, do not anticipate that we will be required to sell assets in 2017 to meet our maturing debt obligations in 2017.

### Distributions to Unitholders

RioCan qualifies as a mutual fund trust and a REIT for Canadian income tax purposes. We expect to distribute all of our taxable income to unitholders and are entitled to deduct such distributions for Canadian income tax purposes. From time to time, RioCan may retain some taxable income and net capital gains, when appropriate, in order to utilize the capital gains refund available to mutual fund trusts without incurring any income taxes. Accordingly, no provision for current income taxes payable is required, except for amounts incurred in our incorporated Canadian subsidiaries.

Our U.S. subsidiary qualified as a REIT for U.S. income tax purposes up to May 25, 2016, subsequent to the closing date of the sale of our U.S. property portfolio. The subsidiary distributed all of its U.S. taxable income and is entitled to deduct such distributions for U.S. income tax purposes. The subsidiary's qualification as a REIT depends on the REIT's satisfaction of certain asset, income, organizational, distribution, unitholder ownership and other requirements on a continuing basis. Our U.S. subsidiary was subject to a 30% or 35% withholding tax on distributions of its U.S. taxable income to Canada. We do not intend to distribute any withholding taxes paid or payable to our unitholders, related to the disposition.

We consolidate certain wholly owned incorporated entities that are subject to tax. The tax disclosures, expense and deferred tax balances relate only to these entities.

If we were to cease to qualify as a REIT for Canadian income tax purposes, certain distributions would not be deductible in computing income for Canadian income tax purposes and we would be subject to tax on such distributions at a rate substantially equivalent to the general corporate income tax rate. Other distributions would generally continue to be treated as returns of capital to unitholders.

From year to year, the taxability of the Trust's distributions may fluctuate depending upon the timing of recognition of certain gains and losses based on the activities of the Trust. For the year ended December 31, 2016, we expect the taxability of the Trust's distributions to be higher than historical average, primarily due to the gains realized upon the sale of our U.S. property portfolio during the year.

Our monthly distribution in 2016 was \$0.1175 per unit representing \$1.41 per unit on an annualized basis. Distributions to unitholders are as follows:

*(thousands of dollars, except when otherwise noted)*

Year ended December 31,	2016		2015	
Distributions declared to unitholders	\$	458,388	\$	453,094
Distributions reinvested through the distribution reinvestment plan		(60,782)		(142,715)
Distributions to common unitholders, net of distribution reinvestment plan	\$	397,606	\$	310,379
Distribution reinvestment plan participation rate		13.3%		31.5%

In consideration of the funds received as a result of the sale of our U.S. portfolio, management determined that an additional incentive for participants in the distribution reinvestment plan is currently not necessary. During the first quarter of 2016, we eliminated our 3.1% discount on the distribution reinvestment plan, which resulted in a decline in our DRIP participation rate.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Difference between cash flows provided by operating activities and distributions to unitholders*

A comparison of distributions to unitholders with cash flows provided by operating activities and distributions, net of our distribution reinvestment plan, is as follows:

*(thousands of dollars)*

Year ended December 31,	2016	2015
Cash flows provided by operating activities	\$ 455,424	\$ 614,816
Adjustments for:		
Other changes in working capital items	(156,069)	(12,676)
Adjusted operating cash flow	299,355	602,140
Deduct: Distributions declared to unitholders	458,388	453,094
Excess (Deficit) of adjusted operating cash flow over distributions to unitholders	(159,033)	149,046
Add back: Distributions reinvested through the distribution reinvestment plan	67,857	142,715
Excess (Deficit) of adjusted operating cash flow over distributions, net of distribution reinvestment plan	\$ (91,176)	\$ 291,761

The \$159 million deficit in adjusted operating cash flow over distributions to unitholders for the year ended December 31, 2016 was impacted unfavourably by income tax expenses and transaction costs in connection with the sale of our U.S. property portfolio. The following table summarizes such costs associated with the disposal of our U.S. properties in the years ended December 31, 2016 and 2015:

*(thousands of dollars)*

Year ended December 31,	2016	2015
Current income taxes	\$ 135,139	\$ 8,478
Transaction costs	53,562	3,868
	\$ 188,701	\$ 12,346

Absent these U.S. taxes and transaction costs (which taxes and transaction costs, for greater certainty, were funded from the proceeds of the sale of the U.S. property portfolio), RioCan would have generated approximately \$30 million of cash flow in excess of distributions to unitholders for the year ended December 31, 2016. Accordingly, we expect to maintain adequate cash flows to fund future unitholder distributions.

In determining the annual level of distributions to unitholders, we consider forward-looking cash flow information including forecasts and budgets and the future business prospects of the Trust. Furthermore, RioCan does not consider periodic cash flow fluctuations resulting from working capital items such as the timing of property operating costs and tax installments, and semi-annual debenture and mortgages payable interest payments in determining the level of distributions to unitholders in any particular period. In determining the annual level of distributions to unitholders, RioCan also considers the impact of its distribution reinvestment plan on its ability to sustain current distribution levels during the current period and on a rolling twelve month basis.

Additionally, in establishing the level of cash distributions to unitholders we consider the impact of, among other items, the future growth in the income producing portfolio, the current interest rate environment and cost of capital, completion of properties under development, impact of future acquisitions, capital expenditures and leasing related to the income producing portfolio. Distributions to unitholders are expected to continue to be funded by cash flows generated from our real estate investments and fee generating activities.

The Trust does not use net income in accordance with IFRS as the basis to establish the level of unitholders' distributions as net income includes, among other items, non-cash fair value adjustments related to its investment property portfolio and deferred income taxes. In establishing the level of annual distributions to unitholders, consideration is given by RioCan to the level of cash flow from operating activities, capital expenditures for the property portfolio, preferred unitholder distributions and proceeds on the sale of marketable securities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## QUARTERLY RESULTS AND TREND ANALYSIS

(millions of dollars, except per unit amounts)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
As at and for the quarter ended (i)								
Revenue	\$ 292	\$ 282	\$ 276	\$ 284	\$ 291	\$ 264	\$ 263	\$ 270
Net income (loss) attributable to unitholders	164	248	271	147	(178)	144	86	89
Net income from continuing operations attributable to unitholders	178	254	143	108	200	113	59	45
NOI	179	174	166	167	205	201	198	206
FFO	132	140	133	143	221	140	135	127
OFFO	132	131	135	148	142	140	136	138
AFFO	119	127	122	133	129	126	123	123
Total assets	14,174	14,056	13,469	15,856	15,996	15,255	15,104	15,083
Total debt (ii)	5,654	5,606	5,112	7,218	7,413	6,667	6,732	6,687
Common unitholder distributions	115	115	115	114	114	113	112	112
DRIP participation rate	6.2%	7.0%	9.1%	30.7%	30.1%	35.1%	29.8%	30.6%
Weighted average common units outstanding – diluted (in thousands)	326,639	326,658	325,811	323,812	322,195	320,672	319,485	317,805
<b>Per unit basis (diluted)</b>								
Net income attributable to unitholders from continuing operations	\$ 0.54	\$ 0.77	\$ 0.43	\$ 0.31	\$ 0.61	\$ 0.34	\$ 0.18	\$ 0.13
Net income (loss) attributable to unitholders	\$ 0.50	\$ 0.75	\$ 0.83	\$ 0.43	\$ (0.56)	\$ 0.44	\$ 0.26	\$ 0.27
FFO	\$ 0.40	\$ 0.43	\$ 0.41	\$ 0.44	\$ 0.69	\$ 0.44	\$ 0.42	\$ 0.40
OFFO	\$ 0.40	\$ 0.40	\$ 0.41	\$ 0.46	\$ 0.44	\$ 0.44	\$ 0.43	\$ 0.43
AFFO	\$ 0.37	\$ 0.39	\$ 0.37	\$ 0.41	\$ 0.40	\$ 0.39	\$ 0.38	\$ 0.39
Common unitholder distributions	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35
Net book value per unit (iii)	\$ 24.08	\$ 23.89	\$ 23.59	\$ 23.73	\$ 23.76	\$ 24.58	\$ 24.19	\$ 24.39
Closing market price per common unit	\$ 26.63	\$ 27.22	\$ 29.33	\$ 26.60	\$ 23.69	\$ 25.47	\$ 26.77	\$ 28.97
<b>Key Performance Indicator Ratios</b>								
Same Property NOI growth (decline) %	2.2%	2.0%	0.1%	(2.2%)	(3.4%)	(2.4%)	(1.1%)	0.1%
Common unitholder distributions paid as a percentage of AFFO	91.4%	90.0%	89.9%	89.2%	90.4%	91.6%	94.5%	94.5%
Debt to total assets	39.7%	39.6%	37.7%	45.4%	46.1%	43.6%	44.3%	44.1%
Debt to total assets (RioCan's proportionate share)	40.0%	39.9%	38.0%	45.6%	46.3%	43.8%	44.5%	44.3%
Interest coverage (RioCan's proportionate share)	3.36	3.23	3.11	3.11	3.07	3.00	3.00	2.93
Debt to Adjusted EBITDA (RioCan's proportionate share)	8.10	8.07	8.17	8.46	8.34	8.28	8.19	8.14
Weighted average contractual interest rate	3.54%	3.63%	3.91%	3.60%	3.65%	3.87%	3.94%	3.96%
Unencumbered assets to unsecured debt (v) (vi)	240%	245%	256%	167%	166%	165%	149%	161%
% NOI expected to be generated from unencumbered assets (v) (vii)	49.5%	46.3%	43.7%	26.7%	25.1%	n.a.	n.a.	n.a.
<b>Other</b>								
Number of employees	669	660	655	726	727	732	736	736
Residency of unitholders (iv)								
– Canadian	69.9%	71.3%	71.8%	72.2%	80.0%	76.3%	69.4%	69.2%
– Non-resident	30.1%	28.7%	28.2%	27.8%	20.0%	23.7%	30.6%	30.8%

n.a. Not applicable. The Trust commenced reporting % NOI expected to be generated from unencumbered assets in Q4 2015.

- (i) Refer to RioCan's respective annual and interim MD&As issued for a discussion and analysis relating to those periods.
- (ii) Total debt is defined as the sum of mortgages payable, lines of credit and other bank loans, mortgages on properties held for sale and debentures payable.
- (iii) A non-GAAP measurement. Calculated by RioCan as common unitholders' equity divided by the number of units outstanding at the end of the reporting period. RioCan's method of calculating net book value per unit may differ from other issuers' methods and, accordingly, may not be comparable to net book value per unit reported by other issuers.
- (iv) Estimates based on mailing addresses on record at the end of each reporting period.
- (v) Represents a non-GAAP measure. RioCan'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 RioCan's non-GAAP measures, refer to the section *Presentation of Financial Information and Non-GAAP Measures* in this MD&A.
- (vi) Unencumbered assets to unsecured debt is defined as unencumbered assets divided by unsecured debt.
- (vii) Ratio is calculated on a continuing operations basis.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our revenue and operating results 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, our revenue and operating performance.

Overall, quarterly fluctuations in our revenue and operating results are mainly attributable to occupancy and same property growth, acquisitions and dispositions, the sale of marketable securities, Target backfill progress and fair value gains and losses on investment properties.

Revenue was relatively flat from Q1 2015 to Q3 2015. The increase in revenue in Q4 2015 was mainly the result of substantial Kimco property acquisitions completed in that quarter. The revenue decline from Q1 2016 to Q2 2016 was mainly related to the sale of our U.S. portfolio in late May 2016. The further decline in revenue in Q3 2016 was due to a full quarter effect of the sale of the U.S. portfolio in late May 2016, partially offset by the CPPIB and Kimco portfolio acquisitions completed in Q3 2016. The subsequent revenue increase in Q4 2016 was largely due to a full quarter effect of the CPPIB and Kimco portfolio acquisitions completed in Q3 2016 and stronger same property growth in Q4 2016.

The above factors for quarterly revenue variations also affect the quarterly variations in net income, NOI, FFO, OFFO and AFFO. In addition, the increase in net income from continuing operations attributable to unitholders from Q2 2015 to Q3 2015 was primarily due to higher fair value loss in Q2 2015 resulting from property specific valuation adjustments relating to interior renovation costs at some of our enclosed malls. The subsequent increase in net income from continuing operations attributable to unitholders in Q4 2015 was primarily due to Target settlement income. The net income (loss) attributable to unitholders was a loss in Q4 2015 mainly due to net loss from the U.S. discontinued operations resulting mainly from fair value loss due to an increase in capitalization rates of the Northwest U.S. properties and higher deferred tax expense relating to the U.S. portfolio. FFO over the same periods were relatively stable as fair value gains or losses were excluded in FFO but included in net income. FFO increased in Q4 2015 primarily due to Target settlement income while OFFO for the same period was relatively stable as the Target settlement income was excluded from OFFO.

Aggregate debt levels and overall leverage declined by approximately 7% in Q2 2016 mainly due to the sale of our U.S. portfolio and the use of the net proceeds to lower our debt levels. The subsequent approximately 2% increase in debt levels in Q3 2016 was mainly attributable to Canadian acquisitions in Q3 2016 funded by debt. The overall trend of improvement in interest coverage and debt to adjusted EBITDA from 2015 to 2016 was also primarily due to the sale of the U.S. portfolio and use of the net proceeds to lower our debt levels, as well as interest savings from our mortgage refinancing during 2016.

The significant improvement in our unencumbered assets to unsecured debt and percentage of NOI expected to be generated from unencumbered assets since Q2 2016 was mainly due to the sale of our U.S. portfolio and repayment of related mortgages, utilization of net proceeds from the sale to pay down secured Canadian mortgages, and the conversion of a secured line of credit facility to an unsecured credit facility.

In consideration of the funds received as a result of the sale of our U.S. portfolio, management determined that an additional incentive for participants in the distribution reinvestment plan was no longer necessary. During the first quarter of 2016, we eliminated the 3.1% discount on the distribution reinvestment plan, which resulted in a subsequent decline in the participation rate. The distribution reinvestment plan's lower participation rate since Q2 2016 was the main reason causing the lower than historical average quarterly increase in weighted average common units outstanding in Q3 2016 and Q4 2016.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Unaudited Consolidated Statements of Income

(In thousands of Canadian dollars, except per unit amounts)

Three months ended December 31,	2016	2015
<b>Revenue</b>		
Rental revenue	\$ 285,257	\$ 263,893
Residential inventory sales	3,353	22,888
Property and asset management fees	2,968	4,355
	<b>291,578</b>	<b>291,136</b>
<b>Operating costs</b>		
Rental operating costs		
Recoverable under tenant leases	101,058	96,386
Non-recoverable costs	5,233	6,316
Residential inventory cost of sales	4,550	21,563
	<b>110,841</b>	<b>124,265</b>
<b>Operating income</b>	<b>180,737</b>	<b>166,871</b>
<b>Other income</b>		
Interest income	1,657	1,457
Income from equity accounted investments	4,521	4,510
Fair value gain on investment properties, net	44,371	1,183
Investment and other income	6,762	97,261
	<b>57,311</b>	<b>104,411</b>
<b>Other expenses</b>		
Interest costs	43,464	47,853
General and administrative	14,000	14,854
Leasing costs	2,663	2,340
Transaction and other costs	2,449	5,046
	<b>62,576</b>	<b>70,093</b>
<b>Income before income taxes</b>	<b>175,472</b>	<b>201,189</b>
Deferred income tax expense (recovery)	(3,000)	1,350
<b>Net income from continuing operations</b>	<b>\$ 178,472</b>	<b>\$ 199,839</b>
Net loss from discontinued operations	(14,013)	(377,837)
<b>Net income (loss)</b>	<b>\$ 164,459</b>	<b>\$ (177,998)</b>
<b>Net income (loss) attributable to</b>		
Unitholders	\$ 164,459	\$ (178,041)
Non-controlling interests	—	43
	<b>\$ 164,459</b>	<b>\$ (177,998)</b>
<b>Net income (loss) per unit - basic:</b>		
From continuing operations	\$ 0.54	\$ 0.61
From discontinued operations	(0.04)	(1.17)
<b>Net income per unit - basic</b>	<b>\$ 0.50</b>	<b>\$ (0.56)</b>
<b>Net income (loss) per unit - diluted:</b>		
From continuing operations	\$ 0.54	\$ 0.61
From discontinued operations	(0.04)	(1.17)
<b>Net income per unit - diluted</b>	<b>\$ 0.50</b>	<b>\$ (0.56)</b>
<b>Weighted average number of units (in thousands):</b>		
Basic	<b>326,466</b>	<b>321,894</b>
Diluted	<b>326,639</b>	<b>322,195</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in note 3 of RioCan's audited 2016 Annual Consolidated Financial Statements. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates under different assumptions and conditions.

Our critical accounting judgments, estimates and assumptions relate to the following areas: fair value, the recognition and valuation of deferred tax assets and liabilities, capitalization of costs to investment property, determination of significant influence over equity investees, classification of disposal groups and discontinued operations and the determination of the type of lease where we are the lessor. Our critical accounting policies and estimates have been reviewed and approved by our Audit Committee, in consultation with senior management, as part of their review and approval of our significant accounting policies and judgments.

### **Fair value**

Fair value is the amount at which an item could be bought or sold in a current transaction between independent, knowledgeable willing parties, as opposed to a forced or liquidation sale, in an arm's length transaction under no compulsion to act.

Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question.

The Trust's financial statements are affected by the fair value-based method of accounting, the most significant areas of which are as follows:

- The determination of fair value of investment property is based upon, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect of tenant installation costs, capital expenditures and investment property operations. The Trust uses the direct capitalization method to fair value its income properties. Under this valuation method a capitalization rate is applied to normalized NOI to yield a fair value. RioCan has recently involved third party appraisers in its valuation process. For the year ended December 31, 2016, RioCan had 22 properties (including 13 land parcels) valued by experienced valuation professionals having the required qualifications in property appraisals. Going forward, our current plan is to select a sample of investment properties (approximately six each quarter) on a rotational basis for external appraisal. Refer to *Asset Profile* for a further discussion of fair values of investment property.
- Unit based compensation expense is measured at fair value and expensed over the option vesting period, calculated using the Black-Scholes Model for unit option valuation and the Monte-Carlo simulation pricing model for the performance equity unit plan. For the year ended December 31, 2016, we recorded unit-based compensation expense of \$6.7 million (December 31, 2015 - \$4.7 million).
- IAS 39, *Financial Instruments: Recognition and Measurement* establishes the standard for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.
- At least annually, RioCan reports in its financial statements the fair value of its mortgages and debentures payable, which amounts are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts that RioCan might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.

The carrying cost of RioCan's mortgages and debentures payable at December 31, 2016 is \$5.1 billion. The Trust reported a \$5.1 billion fair value relating to these mortgages and debentures payable in note 22 to the 2016 Annual Consolidated Financial Statements.

### **Capitalization of costs to investment property**

RioCan's accounting policies relating to investment properties are described in note 3(c) to the 2016 Annual Consolidated Financial Statements. In applying these policies, judgment is required in determining whether certain costs represent additions to the carrying amount of the property and in distinguishing between tenant incentives and capital improvements.

Development costs for properties under development are capitalized in accordance with the accounting policy in note 3(c) to the 2016 Annual Consolidated Financial Statements. Initial capitalization of costs requires management's judgment in determining when the project commences with active development and identifying at which time a development property is substantially completed. This amount includes capitalized common area maintenance, property taxes and borrowing costs on both specific and general debt.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## **Leases - RioCan as a lessor**

We make judgments in determining whether certain leases, in particular tenant leases where we are the lessor, are either operating or finance leases. RioCan has determined, based on an evaluation of terms and conditions of the lease arrangements, that the Trust retains all the significant risks and rewards of ownership of these properties and accounts for these arrangements as operating leases.

## **Income taxes**

The Trust uses judgment to interpret tax rules and regulations and determining the appropriate rates and amounts in recording current and deferred income taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such difference will impact the income tax provision in the period in which such determination is made.

The recognition of deferred income tax assets and liabilities also requires significant judgment as the recognition is dependent on RioCan's projection of future taxable profits and tax rates that are expected to be in effect in the period the asset will be realized or the liability settled. Any changes to this projection will result in changes in the amount of deferred tax assets and liabilities on the consolidated balance sheets and the deferred tax expense in the consolidated statements of income.

## **Classification of assets and liabilities as held for sale and discontinued operations**

Classification of assets or a disposal group as held for sale and discontinued operations requires judgment on whether the carrying amount will be recovered principally through a sale transaction rather than through continuing use and whether the sale is highly probable.

## **Significant influence**

When determining the appropriate basis of accounting for RioCan's investees, we make judgments about the degree of influence that RioCan exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors, appoint management or influence key decisions.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

RioCan monitors the potential changes proposed by the IASB and analyzes the effect that changes in the standards may have on RioCan'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, 2016, are described below. This description is of standards and interpretations issued, which we reasonably expect to be applicable at a future date. We intend to adopt these standards when they become effective.

### **IFRS 15, Revenue from Contracts with Customers (IFRS 15)**

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. RioCan is currently assessing the impact of IFRS 15 and intends to adopt the new standard on the required effective date.

### **IFRS 9, Financial Instruments (IFRS 9)**

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes new general hedge accounting guidance, which will align hedge accounting more closely with risk management. It does not completely change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. RioCan is currently assessing the impact of IFRS 9 and intends to adopt the new standard on the required effective date.

### **IFRS 16, Leases (IFRS 16)**

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard would be effective for the Trust's annual periods beginning after January 1, 2019 with earlier adoption permitted. RioCan is currently assessing the impact of IFRS 16 and intends to adopt the new standard on the required effective date.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## IAS 40, Investment Property (IAS 40)

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. RioCan is currently assessing the impact on the Trust's Consolidated Financial Statements and intends to adopt the amended standard on the required effective date.

## CONTROLS AND PROCEDURES

At December 31, 2016, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of the Trust, together with the assistance of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to RioCan is made known to the CEO and the CFO, and have designed internal controls over financial reporting and disclosure to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

RioCan has established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. Management, including RioCan's CEO and CFO has assessed or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trust's internal controls over financial reporting as at December 31, 2016 on the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, it was determined that, as of December 31, 2016, RioCan's internal controls over financial reporting were appropriately designed and were operating effectively based on the criteria established in the *Internal Control - Integrated Framework (2013)*.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

## Canadian REIT Status and Monitoring

RioCan currently qualifies as a REIT for purposes of the Income Tax Act (Canada). Accordingly, RioCan continues to be able to flow taxable income through to unitholders on a tax effective basis. Generally, to qualify as a REIT, RioCan's Canadian assets must be comprised primarily of real estate and substantially all of our Canadian source revenues must be derived from rental revenue, capital gains and fee income from properties in which we have an interest.

RioCan monitors its Canadian REIT status to ensure that we continue to qualify as a Canadian REIT. From time to time, the members of the Board of Trustees, Audit Committee and senior management are updated on RioCan's continued REIT qualification, including any significant legislation updates.

## U.S. Income Tax Legislation

On December 18th, 2015, the House of Representatives passed new tax legislation known as the PATH Act, which makes significant changes to the U.S. federal income tax rules on foreign investment in U.S. real property (the Foreign Investment in Real Property Act or "FIRPTA") by certain "qualified shareholders". The impact of these proposed changes on our U.S. portfolio sale is that it may have the potential to reduce a qualifying foreign investor's withholding tax rate from 35% to 30% and other potential tax reductions. We are awaiting additional guidance from the Internal Revenue Service to determine whether the Trust can potentially benefit from the new tax legislation. There can be no assurance that we will benefit from any changes in the tax legislation related to FIRPTA.

## RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into transactions with entities whose directors or trustees are also RioCan trustees and/or part of RioCan's senior management. All such transactions are in the normal course of operations and are measured at market-based exchange amounts.

Transactions subsequent to the formation of a co-ownership that are not contemplated by the co-ownership agreement are considered related party transactions for financial statement purposes.

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the Trust's activities, directly or indirectly.

The Trust's key management personnel include the Trustees and the following individuals: Chief Executive Officer, Edward Sonshine; President and Chief Operating Officer, Raghunath Davloor; and Chief Financial Officer and Corporate Secretary, Cynthia Devine (collectively, the Key Executives).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Remuneration of the Trust's key management during the year ended December 31, 2016 and 2015 is as follows:

Year ended December 31,	Trustees		Key Executives	
	2016	2015	2016	2015
Compensation and benefits	\$ 301	\$ 237	\$ 5,756	\$ 5,497
Unit-based payments	2,253	1,751	5,341	2,751
Post-employment benefit costs	—	—	57	88
	\$ 2,554	\$ 1,988	\$ 11,154	\$ 8,336

During February 2016, RioCan's Chief Executive Officer, Edward Sonshine, agreed to amend his employment contract to reflect his agreement to not retire or resign voluntarily before December 31, 2018. As part of this commitment, Mr. Sonshine agreed to use his best efforts to provide the Trust with 12 months' notice of his intent to retire or resign.

For further details on related party transactions, refer to note 29 of our 2016 Annual Consolidated Financial Statements.

## RISKS AND UNCERTAINTIES

The achievement of RioCan's objectives is, in part, dependent on the successful mitigation of business risks identified. Real estate investments are subject to a degree of risk. They are affected by various factors including changes in general economic and local market conditions, equity and credit markets, fluctuations in interest costs, the attractiveness of the properties to tenants, competition from other available space, the stability and credit-worthiness of tenants, and various other factors.

On June 17, 2015, RioCan amended its Declaration of Trust (the "Declaration") to further align the Declaration with evolving governance best practices, as further described in RioCan's Management Information Circular dated April 4, 2016. The rights granted in the amended Declaration are granted as contractual rights afforded to Unitholders (rather than as statutory rights). Similar to other existing rights contained in the Declaration (i.e. the take-over bid provisions and conflict of interest provisions), making these rights and remedies and certain procedures available by contract is structurally different from the manner in which the equivalent rights and remedies or procedures (including the procedure for enforcing such remedies) are made available to shareholders of a corporation, who benefit from those rights and remedies or procedures by the corporate statute that governs the corporation, such as the *Canada Business Corporations Act*. As such, there is no certainty how these rights, remedies or procedures may be treated by the courts in the non-corporate context or that a Unitholder will be able to enforce the rights and remedies in the manner contemplated by the proposed amendments. Furthermore, how the courts will treat these rights, remedies and procedures will be in the discretion of the court, and the courts may choose to not accept jurisdiction to consider any claim contemplated in the proposed provisions.

### Development Risk

Development risk arises from the possibility that completed developments will not be leased or that costs of development will exceed original estimates, resulting in an uneconomic return from the leasing of such space. RioCan also expects to be increasingly involved in mixed use development projects that include residential condominiums and rental apartments. Purchaser demand for residential condominiums is 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 demand. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by RioCan can fluctuate significantly as a result of changing economic and real estate market conditions.

RioCan'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 agreements, some of which are conditional. Construction risks are minimized through the provisions of the Trust's Declaration, which have the effect of limiting direct and indirect investments in greenfield developments and development properties held for resale (each net of related mortgage debt and mezzanine financing to fund co-owners' share of such developments) to no more than 15% of total consolidated unitholders' equity of the Trust, as determined under IFRS. RioCan also seeks to undertake such developments with established developers. With some exceptions for land in the major markets, RioCan will generally not acquire or fund significant expenditures for undeveloped land unless it is zoned and an acceptable level of space has been pre-leased or pre-sold. An advantage of unenclosed, new format retail is that it lends itself to phased construction keyed to leasing levels, which reduces the creation of significant amounts of vacant but developed space. Further, RioCan uses a staggered approach in its development program to avoid unnecessary concentration of development projects in a single period of time so as to manage our development risk exposure and properly allocate our capital and personnel resources.

### Liquidity and General Market Conditions

RioCan faces risks associated with general market conditions and their potential consequent effects. Current general market conditions may include, among other things, the insolvency of market participants, tightening lending standards and decreased availability of cash, and changes in unemployment levels, retail sales levels, and real estate values. These market conditions may affect occupancy levels and RioCan's ability to obtain credit on favourable terms or to conduct financings through the public market.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Ownership of Real Estate

### ***Tenant Concentration***

With respect to tenant concentration risk, in the event a given tenant, or group of tenants, experience financial difficulty and is unable to fulfill its lease commitments, a given geographical area suffers an economic decline, or the changing consumer/retail trends that result in less demand for rental space, we could experience a decline in revenue.

RioCan strives to manage tenant concentration risk through geographical diversification and diversification of revenue sources in order to avoid dependence on any single tenant. RioCan's objective, as exemplified by the requirements of its Declaration noted above, is that no individual tenant contributes a significant percentage of its gross revenue and that a considerable portion of our revenue is earned from national and anchor tenants. RioCan attempts to lease to credit worthy tenants, will generally conduct credit assessments for new tenants and generally is provided security by the tenants as part of negotiated deals. RioCan attempts to reduce its risks associated with occupancy levels and lease renewal risk by having staggered lease maturities, negotiating leases with base terms between five and ten years, and by negotiating longer term leases with built-in minimum rent escalations where deemed appropriate.

In order to reduce RioCan's exposure to the risks relating to credit and the financial stability of tenants, the Trust's Declaration restricts the amount of space which can be leased to any person and that person's affiliates, other than in respect of leases with or guaranteed by the Government of Canada, a province of Canada, a municipality in Canada or any agency thereof and certain corporations, the securities of which meet stated investment criteria, to a maximum premises or space having an aggregate gross leasable area of 20% of the aggregate gross leasable area of all real property held by RioCan. At December 31, 2016, RioCan was in compliance with this restriction.

It is common practice for a major tenant, such as Canadian Tire or Loblaws/Shoppers Drug Mart, to lease space from other landlords like RioCan in addition to owning real estate either within a controlled publicly traded REIT or within its own operating entity. Past experience and industry practice has dictated that it is the strength of a location more than the ownership of the property that drives the business decisions of RioCan's tenants. Despite this, there may be instances where a tenant may forgo the competitive advantage of RioCan's property location in order to better utilize its own real estate, RioCan does not consider the collective impact of risk to be significant.

### ***Tenant Bankruptcies***

Several of RioCan's properties are anchored by large national tenants. The value of some of our properties, including any improvements thereto, could be adversely affected if these anchor stores or major tenants fail to comply with their contractual obligations, experience credit or financial instability or cease their operations.

Bankruptcy filings by retailers occur periodically in the course of normal operations for reasons, such as increased competition, Internet sales, changing population demographics, poor economic conditions, rising costs and changing shopping trends and/or perceptions. RioCan continually seeks to re-lease vacant spaces resulting from tenant terminations. The bankruptcy of a tenant, particularly an anchor tenant, may make it more difficult to lease the remainder of the affected properties or may give rise to certain rights under existing leases with other tenants.

### ***Lease Renewals and Rental Increases***

Growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies at rental rates similar to those paid by existing tenants in order for us to maintain our existing occupancy levels of our properties. It is possible that we may face a disproportionate amount of space expiring in any one period. Additionally, rental rates could decline, tenant bankruptcies could increase and tenant renewals may not be achieved, particularly in the event of a protracted disruption in the economy, such as a recession.

At December 31, 2016, RioCan had NLA, at its interest, of 46,973,000 square feet and a portfolio economic occupancy rate of 92.6%. Based on our current annualized portfolio weighted average rental revenue of approximately \$24 per square foot, for every fluctuation in occupancy by a differential of 1%, our operations would be impacted by approximately \$11 million annually.

RioCan's aggregate rentals expiring over the next five years is \$429 million based on current contractual rental rates. If the leases associated with these expiring rents are renewed upon maturity at an aggregate rental rate differential of 100 basis points, our net income would be impacted by approximately \$4.3 million annually.

Some of our retail lease agreements include co-tenancy clauses which allow the tenant to pay a reduced rent amount and, in certain instances, terminate the lease, if RioCan fails to maintain certain occupancy levels or retain certain anchor tenancies. In addition, certain of our tenants have the ability to terminate their leases prior to the lease expiration date if their sales do not meet agreed upon thresholds. If occupancy, tenancy or sales fall below certain thresholds, rents that we are entitled to receive from tenants could be reduced.

## Financial and Liquidity Risk

### ***Access to capital***

A risk to the Trust's growth program and the refinancing of its debt upon maturity is that of not having sufficient debt and equity capital available to RioCan. Given the relatively small size of the Canadian marketplace, there are a limited number of lenders from which RioCan can borrow. RioCan's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing.

As at December 31, 2016, RioCan's total indebtedness had a 3.42 year weighted average term to maturity bearing interest at a weighted average contractual interest rate of 3.54% per annum.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## ***Interest rate and financing risk***

The terms of RioCan's credit agreements require the Trust to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios, adequate insurance coverage and certain credit ratings. These covenants may limit our flexibility in conducting our operations and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness.

RioCan's operations are also impacted by interest rates, as interest expense represents a significant cost in the ownership of real estate investments. We seek to reduce our interest rate risk by staggering the maturities of long term debt and limiting the use of floating rate debt so as to minimize exposure to interest rate fluctuations. As at December 31, 2016, 13.8% of our total debt was at floating interest rates.

From time to time, the Trust may enter into floating-for-fixed interest rate swaps as part of its strategy for managing certain interest rate risks. As at December 31, 2016, the carrying value of our floating rate debt, not subject to a hedging strategy, is \$778 million. A 50 basis point increase in market interest rates would result in a \$3.9 million decrease in our net income.

## **Joint Ventures and Co-ownerships**

RioCan participates in joint ventures, partnerships and similar arrangements that may involve risks and uncertainties not present absent third-party involvement, including, but not limited to, RioCan's dependency on partners, co-tenants or co-venturers that are not under our control and that might compete with RioCan for opportunities, become bankrupt or otherwise fail to fund their share of required capital contributions, or suffer reputational damage that could have an adverse impact on the Trust. Additionally, our partners might at any time have economic or other business interests or goals that are different than or inconsistent with those of the Trust, and we may be required to take actions that are in the interest of the partners collectively, but not in RioCan's sole best interests. Accordingly, we may not be able to favourably resolve issues with respect to such decisions, or we could become engaged in a dispute with any of them that might affect our ability to operate the business or assets in question.

## **Relative Illiquidity of Real Property**

Real estate investments are relatively illiquid as a large proportion of RioCan's capital is invested in physical assets which can be difficult to sell, especially if local market conditions are poor. A lack of liquidity could limit our ability to sell components of the portfolio promptly in response to changing economic or investment conditions. If RioCan were required to quickly liquidate its assets, there is a risk that we would realize sale proceeds of less than the current book value of our real estate investments.

As well, certain significant expenditures involved in real property investments, such as property taxes, maintenance costs and mortgage payments, represent obligations that must be met regardless of whether the property is producing sufficient, or any, revenue.

## **Unexpected Costs or Liabilities Related to Acquisitions**

A risk associated with a real property acquisition is that there may be an undisclosed or unknown liability concerning the acquired properties, and RioCan may not be indemnified for some or all of these liabilities. Following an acquisition, RioCan may discover that it has acquired undisclosed liabilities, which may be material.

RioCan conducts what it believes to be an appropriate level of investigation in connection with its acquisition of properties and seeks through contract to ensure that risks lie with the appropriate party.

## **Environmental Matters**

Environmental and ecological related policies have become increasingly important in recent years. Under various federal, provincial, state and municipal laws, RioCan, as an owner or operator of real property, could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, or address such matters through alternative measures prescribed by the governing authority, may adversely affect RioCan'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. RioCan is not currently aware of any material non-compliance, liability or other claim in connection with any of its properties, nor is RioCan currently aware of any environmental condition with respect to any properties that it believes would involve material expenditures by the Trust.

It is our policy to obtain a Phase I environmental audit conducted by a qualified environmental consultant prior to acquiring any additional property. In addition, where appropriate, tenant leases generally specify that the tenant will conduct its business in accordance with environmental regulations and be responsible for any liabilities arising out of infractions to such regulations. It is RioCan's practice to regularly inspect tenant premises that may be subject to environmental risk. We maintain insurance to cover a sudden and/or accidental environmental mishap.

## **Litigation**

RioCan's operations are subject to a wide variety of laws and regulations across all of its operating jurisdictions and RioCan faces risks associated with legal and regulatory changes and litigation. In the normal course of operations, RioCan becomes involved in various legal actions, including claims relating to personal injury, property damage, property taxes, land rights, and contractual and other commercial disputes. The final outcome with respect to outstanding, pending or future actions cannot be predicted with certainty, and the resolution of such actions may have an adverse effect on our financial position or results of operations.

RioCan retains external legal consultants to assist it in remaining current and compliant with legal and regulatory changes and to respond to litigation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Key Personnel

RioCan's executive and other senior officers have a significant role in our success and oversee the execution of RioCan's strategy. Our ability to retain our management team or attract suitable replacements should any members of the management group leave is dependent on, among other things, the competitive nature of the employment market. RioCan has experienced departures of key professionals in the past and may do so in the future, and we cannot predict the impact that any such departures will have on its ability to achieve its objectives. The loss of services from key members of the management team or a limitation in their availability could adversely impact our financial condition and cash flow.

We rely on the services of key personnel on our executive team, including its Chief Executive Officer, Edward Sonshine, our President and Chief Operating Officer, Raghunath Davloor and our Executive Vice President, Chief Financial Officer and Corporate Secretary, Cynthia Devine and the loss of their services could have an adverse effect on RioCan. We mitigate key personnel risk through succession planning, but do not maintain key person insurance.

## Unitholder Liability

There is a risk that RioCan's unitholders could become subject to liability. The Trust's Declaration provides that no unitholder or annuitant under a plan of which a unitholder acts as trustee or carrier will be held to have any personal liability as such, and that no resort shall be had to the private property of any unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of RioCan. Only RioCan's assets are intended to be subject to levy or execution. The Declaration further provides that, whenever possible, certain written instruments signed by RioCan must contain a provision to the effect that such obligation will not be binding upon unitholders personally or upon any annuitant under a plan of which a unitholder acts as trustee or carrier. In conducting its affairs, RioCan has acquired and may acquire real property investments subject to existing contractual obligations, including obligations under mortgages and leases that do not include such provisions. RioCan will use its best efforts to ensure that provisions disclaiming personal liability are included in contractual obligations related to properties acquired, and leases entered into, in the future.

Certain provinces have legislation relating to unitholder liability protection, including British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec. To RioCan's knowledge, certain of these statutes have not yet been judicially considered and it is possible that reliance on such statute by a unitholder could be successfully challenged on jurisdictional or other grounds.

## Income Taxes

RioCan currently qualifies as a mutual fund trust and REIT for income tax purposes. RioCan expects to distribute the Trust's taxable income to unitholders such that it will not be subject to tax. From time to time, RioCan may retain some taxable income and net capital gains in order to utilize the capital gains refund available to mutual fund trusts without incurring any income taxes. In order to maintain RioCan's current mutual fund trust status, the Trust is required to comply with specific restrictions regarding its activities and the investments held by the Trust. If the Trust was to cease to qualify as a mutual fund trust, or a REIT for income tax purposes, the consequences could be material and adverse.

No assurance can be given that the provisions of the *Income Tax Act (Canada)* regarding mutual fund trusts and REITs will not be changed in a manner that adversely affects RioCan and its unitholders. From year to year, there is a risk that the taxable allocation to unitholders can change depending upon the Trust's activities.

## Foreign Currency Risk

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. As a result of the Trust's disposal of its U.S. property portfolio, repayment of U.S. denominated debt and exit from its U.S. operations, RioCan has significantly reduced its foreign exchange risk.

## Credit Ratings

Real or anticipated changes in credit ratings on our debentures or preferred units may affect the market value thereof. In addition, real or anticipated change in credit ratings can affect the cost at which we can access the debenture or preferred unit market, as applicable.



# RioCan

## AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015

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VANCOUVER

EDMONTON

CALGARY

MONTREAL

OTTAWA

TORONTO

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of RioCan Real Estate Investment Trust (RioCan) is responsible for the preparation and fair presentation of the accompanying annual consolidated financial statements and Management's Discussion and Analysis (MD&A). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements and information in the MD&A necessarily include amounts based on best estimates and judgments by management of the expected effects of current events and transactions with the appropriate consideration to materiality. In addition, in preparing this financial information, we must make determinations about the relevancy of information to be included, and estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the integrity and fairness of the annual consolidated financial statements and MD&A and for the accounting systems from which they are derived, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded against unauthorized use or disposition.

As at December 31, 2016, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee, which is composed entirely of independent trustees. This committee reviews RioCan's annual consolidated financial statements and MD&A with both management and the independent auditors before such statements are approved by the Board of Trustees. Other key responsibilities of the Audit Committee include selecting RioCan's auditors, approving the consolidated financial statements and MD&A, and monitoring RioCan's existing systems of internal controls.

Ernst & Young LLP, independent auditors appointed by the unitholders of RioCan upon the recommendation of the Board of Trustees, have examined our 2016 and 2015 annual consolidated financial statements and have expressed their opinion upon the completion of such examination in the following report to the unitholders. The auditors have full and free access to, and meet at least quarterly with, the Audit Committee to discuss their audits and related matters.

*Edward Sonshine, O. Ont., Q.C.*  
Chief Executive Officer

*Cynthia Devine, FCPA, FCA*  
Executive Vice President, Chief Financial Officer and Corporate Secretary

Toronto, Canada  
February 15, 2017

# INDEPENDENT AUDITORS' REPORT

## To the Unitholders of RioCan Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of RioCan Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditors' responsibility

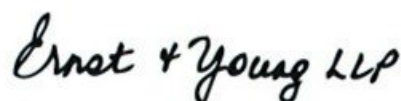
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RioCan Real Estate Investment Trust as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
February 15, 2017

# RIOCAN REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Note	December 31, 2016	December 31, 2015
<b>Assets</b>			
Investment properties	5	\$ 13,287,038	\$ 12,152,176
Deferred tax assets	9	11,609	8,009
Equity accounted investments	6	185,278	158,994
Mortgages and loans receivable	7	118,017	129,258
Residential inventory		48,414	45,276
Assets held for sale	4	60,530	2,968,095
Receivables and other assets	8	408,508	451,365
Cash and cash equivalents		54,366	83,318
<b>Total assets</b>		<b>\$ 14,173,760</b>	<b>\$ 15,996,491</b>
<b>Liabilities</b>			
Debentures payable	11	\$ 2,248,024	\$ 2,000,066
Mortgages payable and lines of credit	10	3,405,568	4,164,669
Deferred tax liabilities		—	230,474
Liabilities associated with assets held for sale	4	—	1,248,635
Accounts payable and other liabilities	12	510,280	425,826
<b>Total liabilities</b>		<b>\$ 6,163,872</b>	<b>\$ 8,069,670</b>
<b>Equity</b>			
Unitholders' equity:			
Preferred	13	\$ 144,755	\$ 265,451
Common	13	7,865,133	7,660,588
<b>Total unitholders' equity</b>		<b>8,009,888</b>	<b>7,926,039</b>
Non-controlling interests		—	782
<b>Total equity</b>		<b>8,009,888</b>	<b>7,926,821</b>
<b>Total liabilities and equity</b>		<b>\$ 14,173,760</b>	<b>\$ 15,996,491</b>

The accompanying notes are an integral part of the consolidated financial statements.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands of Canadian dollars, except per unit amounts)

Year ended December 31,	Note	2016	2015
<b>Revenue</b>			
Rental revenue	16	\$ 1,103,884	\$ 1,039,068
Residential inventory sales		16,262	31,937
Property and asset management fees		13,186	16,731
		<b>1,133,332</b>	<b>1,087,736</b>
<b>Operating costs</b>			
Rental operating costs			
Recoverable under tenant leases		397,776	373,698
Non-recoverable costs		19,684	20,465
Residential inventory cost of sales		16,188	29,343
		<b>433,648</b>	<b>423,506</b>
		<b>699,684</b>	<b>664,230</b>
<b>Other income</b>			
Interest income		5,744	5,370
Income from equity accounted investments		9,972	10,378
Fair value gain (loss) on investment properties, net		182,888	(91,548)
Investment and other income	17	33,268	98,426
		<b>231,872</b>	<b>22,626</b>
<b>Other expenses</b>			
Interest costs	18	179,527	186,772
General and administrative	19	52,220	51,051
Leasing costs		10,931	9,750
Transaction and other costs	20	9,577	10,498
Long-term debt redemption costs		—	9,929
		<b>252,255</b>	<b>268,000</b>
		<b>679,301</b>	<b>418,856</b>
<b>Income before income taxes</b>			
Deferred income tax expense (recovery)		(3,850)	1,290
		<b>\$ 683,151</b>	<b>\$ 417,566</b>
<b>Net income from continuing operations</b>			
Net income (loss) from discontinued operations	4	147,687	(275,129)
		<b>\$ 830,838</b>	<b>\$ 142,437</b>
<b>Net income</b>			
<b>Net income attributable to</b>			
Unitholders		\$ 830,747	\$ 141,763
Non-controlling interests		91	674
		<b>\$ 830,838</b>	<b>\$ 142,437</b>
Net income (loss) per unit - basic:			
From continuing operations	21	\$ 2.06	\$ 1.26
From discontinued operations	21	0.45	(0.86)
Net income per unit - basic		<b>\$ 2.51</b>	<b>\$ 0.40</b>
Net income (loss) per unit - diluted:			
From continuing operations	21	\$ 2.06	\$ 1.26
From discontinued operations	21	0.45	(0.86)
Net income per unit - diluted		<b>\$ 2.51</b>	<b>\$ 0.40</b>
Weighted average number of units (in thousands):			
Basic	21	325,386	319,492
Diluted	21	325,665	319,983

The accompanying notes are an integral part of the consolidated financial statements.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)

Year ended December 31,	Note	2016	2015
<b>Net income</b>		<b>\$ 830,838</b>	<b>\$ 142,437</b>
<b>Other comprehensive income (loss):</b>			
Items that may be reclassified subsequently to income, net of tax:			
Translation of foreign operations:			
Unrealized gain (loss) during the year	13	(53,391)	214,200
Reclassified during the year to income	13	(254,989)	(8,776)
Interest rate swap agreements:			
Unrealized gain (loss) during the year	13	16,125	(9,882)
Reclassified during the year to income	13	(2,697)	—
Unrealized gain on cross-currency interest rate swap agreements	13	74	—
Available-for-sale investment:			
Unrealized gain during the year	13	51,408	14,105
Reclassified during the year to income	13	(14,040)	—
Items that are not to be reclassified to net income, net of tax:			
Actuarial gain on pension plan	13	693	535
<b>Other comprehensive income (loss), net of tax</b>		<b>(256,817)</b>	<b>210,182</b>
<b>Comprehensive income, net of tax</b>		<b>\$ 574,021</b>	<b>\$ 352,619</b>
<b>Comprehensive income, net of tax attributable to</b>			
Unitholders		<b>\$ 573,930</b>	<b>\$ 351,945</b>
Non-controlling interests		<b>\$ 91</b>	<b>\$ 674</b>

The accompanying notes are an integral part of the consolidated financial statements.

## RIOCAN REAL ESTATE INVESTMENT TRUST CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands of Canadian dollars)

	Note	Preferred equity	Common trust units	Retained earnings	Accumulated OCI	Total unitholders' equity	Non-controlling interests	Total equity
Balance, December 31, 2014		\$ 265,451	\$ 4,536,957	\$ 2,951,710	\$ 114,452	\$ 7,868,570	\$ 298	\$ 7,868,868
Changes during the year								
Net income		—	—	141,763	—	141,763	674	142,437
Other comprehensive income	13	—	—	—	210,182	210,182	—	210,182
Units issued	13	—	167,073	—	—	167,073	—	167,073
Unit-based compensation awards	13	—	5,135	—	—	5,135	—	5,135
Distributions to unitholders	15	—	—	(466,684)	—	(466,684)	(190)	(466,874)
Balance, December 31, 2015		\$ 265,451	\$ 4,709,165	\$ 2,626,789	\$ 324,634	\$ 7,926,039	\$ 782	\$ 7,926,821
Changes during the year								
Net income		—	—	830,747	—	830,747	91	830,838
Other comprehensive loss	13	—	—	—	(256,817)	(256,817)	—	(256,817)
Units issued	13	—	100,334	—	—	100,334	—	100,334
Unit-based compensation awards	13	—	1,640	—	—	1,640	—	1,640
Unit redemptions	13	(125,000)	—	—	—	(125,000)	(782)	(125,782)
Preferred trust unit issue costs	13	4,304	—	(4,304)	—	—	—	—
Distributions to unitholders	15	—	—	(467,055)	—	(467,055)	(91)	(467,146)
<b>Balance, December 31, 2016</b>		<b>\$ 144,755</b>	<b>\$ 4,811,139</b>	<b>\$ 2,986,177</b>	<b>\$ 67,817</b>	<b>\$ 8,009,888</b>	<b>\$ —</b>	<b>\$ 8,009,888</b>

The accompanying notes are an integral part of the consolidated financial statements.

# RIOCAN REAL ESTATE INVESTMENT TRUST CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)

Year ended December 31,	Note	2016	2015
<b>Operating activities</b>			
Net income (loss) from:			
Continuing operations		\$ 683,151	\$ 417,566
Discontinued operations	4	147,687	(275,129)
Net income		830,838	142,437
Items not affecting cash:			
Depreciation and amortization		4,398	4,655
Amortization of straight-line rent		(8,006)	(9,328)
Unit-based compensation expense	13	1,640	5,135
Income from equity accounted investments	6	(9,972)	(6,233)
Fair value (gains) losses on investment properties, net	5	(199,787)	238,608
Deferred income taxes (recovery)		(234,525)	231,764
Transaction (gain) loss, net on disposition of:			
Available-for-sale securities		(14,040)	—
Canadian investment properties		(6,075)	2,631
U.S. investment properties		(65,116)	(7,529)
Adjustments for other changes in working capital items	28	156,069	12,676
<b>Net operating cash flow activities</b>		<b>455,424</b>	<b>614,816</b>
<b>Investing activities</b>			
Acquisitions of investment property, net of assumed debt		(556,203)	(732,635)
Construction expenditures on properties under development		(249,429)	(187,062)
Capital expenditures on income properties		(46,780)	(34,705)
Expenditures for leasing commissions and tenant installation costs		(47,593)	(33,208)
Proceeds from sale of investment properties		2,042,829	135,376
Earn-outs on investment properties		(7,022)	(2,034)
Contributions to associates and joint ventures	6	(26,750)	(3,108)
Distributions received from equity accounted investments	6	11,196	13,447
Proceeds on disposition of an equity accounted investment	6	—	43,079
Advances of mortgages and loans receivable		(3,894)	(24,255)
Repayments of mortgages and loans receivable		25,301	33,439
Purchases of available-for-sale securities, net of financing		—	(12,749)
Proceeds from sale of available-for-sale securities, net of selling costs		51,974	—
<b>Net investing cash flow activities</b>		<b>1,193,629</b>	<b>(804,415)</b>
<b>Financing activities</b>			
Proceeds from mortgage financing, net of issue costs		204,281	650,901
Repayments of mortgage principal		(1,599,076)	(704,195)
Advances from bank credit lines, net of issue costs		1,115,424	776,594
Repayment of bank credit lines		(1,154,814)	(341,830)
Proceeds from issuance of debentures, net of issue costs	11	248,669	484,110
Repayment of unsecured debentures	11	—	(349,900)
Distributions to common trust unitholders, net of distributions reinvested	27	(397,143)	(309,614)
Distributions to preferred trust unitholders	15	(8,667)	(13,590)
Distributions paid to non-controlling interests		(91)	(190)
Return of capital to non-controlling interests		(782)	—
Proceeds received from issuance of common units, net		39,194	24,358
Redemption of preferred units		(125,000)	—
<b>Net financing cash flow activities</b>		<b>(1,678,005)</b>	<b>216,644</b>
<b>Net change in cash and cash equivalents</b>		<b>(28,952)</b>	<b>27,045</b>
Cash and cash equivalents, beginning of year		83,318	56,273
<b>Cash and cash equivalents, end of year</b>		<b>\$ 54,366</b>	<b>\$ 83,318</b>
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The accompanying notes are an integral part of the consolidated financial statements.



# RioCan

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Audited – Canadian dollars, tabular amounts  
in millions, except per unit amounts or unless  
otherwise noted)

FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015

To facilitate a better understanding of RioCan's consolidated financial statements,  
significant accounting policies and related disclosures, a listing of all the notes is  
provided below:

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OTTAWA

TORONTO

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

## 1. GENERAL INFORMATION

RioCan Real Estate Investment Trust and its subsidiaries (the Trust or RioCan) own, develop and operate Canada's largest portfolio of shopping centres. The parent trust, RioCan Real Estate Investment Trust, is an unincorporated closed-end trust governed under the laws of the Province of Ontario, Canada and constituted pursuant to a Declaration of Trust dated November 30, 1993, as most recently amended and restated on June 17, 2015 (the Declaration). The Trust's corporate headquarters and registered head office are located at the RioCan Yonge Eglinton Centre, 2300 Yonge Street, Toronto, Ontario, Canada.

RioCan's common trust units (units) and Series C preferred trust units are listed on the Toronto Stock Exchange (TSX) under the ticker symbols REI.UN and REI.PR.C, respectively.

These consolidated financial statements were authorized for issue by Board of Trustees on February 15, 2017.

## 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

### (a) Statement of compliance

RioCan's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### (b) Basis of presentation

These consolidated financial statements are prepared on a going concern basis using the historical cost method modified to include the fair value measurement of investment property and certain financial instruments, as set out in the relevant accounting policies. The Trust presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity. RioCan considers this presentation to be more relevant than a classified balance sheet as the Trust considers its operating cycle to be longer than one year. The notes to the consolidated financial statements distinguish between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within one year from the reporting period, and non-current assets and liabilities are those where the recovery or settlement is expected to be greater than a year from the reporting period. The accounting policies set out below have been applied consistently in all material respects. Any IFRS not effective for the current accounting year are described in note 3. Certain comparative amounts have been reclassified to conform to the current year's presentation.

### (c) Principles of consolidation

These consolidated financial statements include the accounts of the parent trust, RioCan Real Estate Investment Trust, and its subsidiaries, after elimination of intercompany transactions, balances, revenues and expenses.

#### (i) *Subsidiaries*

Subsidiaries are entities over which the Trust has control. Control is achieved when RioCan is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements. The Trust reassesses whether or not it controls an investee based on current facts and circumstances.

All subsidiaries are consolidated from the date RioCan obtains control and continue to be consolidated until the date that such control ceases. When RioCan does not own all of the equity in a consolidated subsidiary, the non-controlling equity interest is presented as a separate component of total equity on the consolidated balance sheets. The net income attributable to non-controlling interests is separately disclosed in the Trust's consolidated statements of income.

#### (ii) *Associates and joint ventures*

Associates are entities over which RioCan has significant influence but not control or joint control, generally accompanying an ownership between 20% to 50% of the voting rights, although other factors such as the ability to impact key operating decisions could also indicate significant influence.

Joint ventures are entities over which the Trust has joint control and whereby the parties that share joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted by RioCan's share of the post-acquisition results of operations and changes in the net assets of the associate or joint venture. The financial statements of RioCan's associates and joint ventures are prepared for the same reporting period as the Trust and where necessary, adjustments are made to bring the accounting policies of such entities in line with those of the Trust.

#### (iii) *Joint operations*

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. RioCan records only its share of the assets, liabilities and share of the results of operations of the joint operation. The assets, liabilities and results of joint operations are included within the respective line items of the consolidated balance sheets, consolidated statements of income and consolidated statements of comprehensive income.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

#### (d) Significant judgments

The preparation of RioCan's consolidated financial statements requires management to make significant judgments that affect the carrying amounts of assets and liabilities, and the reported amounts of revenues and expenses. In the process of applying RioCan's accounting policies, management was required to apply judgment in the areas discussed below.

##### *Investment properties*

RioCan's accounting policies relating to investment properties are described in note 3(c). In applying these policies, judgment is required in determining whether certain costs represent additions to the carrying amount of the property and in distinguishing between tenant incentives and capital improvements.

##### *Development properties*

Development costs for properties under development are capitalized in accordance with the accounting policy in note 3(c). Initial capitalization of costs requires management's judgment in determining when the project commences with active development and identifying at which time a development property is substantially completed. This amount includes capitalized common area maintenance, property taxes and borrowing costs on both specific and general debt.

##### *Leases - RioCan as a lessor*

The Trust makes judgments in determining whether certain leases, in particular tenant leases where the Trust is the lessor, are either operating or finance leases. RioCan has determined, based on an evaluation of terms and conditions of the lease arrangements, that the Trust retains all the significant risks and rewards of ownership of these properties and accounts for these arrangements as operating leases.

##### *Income taxes*

The Trust uses judgment to interpret tax rules and regulations and determining the appropriate rates and amounts in recording current and deferred income taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such difference will impact the income tax provision in the period in which such determination is made.

The recognition of deferred income tax assets and liabilities also requires significant judgment as the recognition is dependent on RioCan's projection of future taxable profits and tax rates that are expected to be in effect in the period the asset will be realized or the liability settled. Any changes to this projection will result in changes in the amount of deferred tax assets and liabilities on the consolidated balance sheets and the deferred tax expense in the consolidated statements of income.

##### *Classification of assets and liabilities as held for sale and discontinued operations*

Classification of assets or a disposal group as held for sale and discontinued operations requires judgment on whether the carrying amount will be recovered principally through a sale transaction rather than through continuing use and whether the sale is highly probable.

##### *Significant influence*

When determining the appropriate basis of accounting for RioCan's investees, the Trust makes judgments about the degree of influence that RioCan exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors, appoint management or influence key decisions.

#### (e) Use of estimates and assumptions

The preparation of RioCan's consolidated financial statements requires management to make estimates and assumptions that have a significant risk of causing a material adjustment to the reported amounts of assets, liabilities, net income and related disclosures over the following reporting period. Estimates made by management are based on events and circumstances that existed at the consolidated balance sheet date. Accordingly, actual results may differ from these estimates.

##### *Investment properties*

Estimates and assumptions used in determining fair value of the Trust's investment properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates) used in the direct capitalization income approach. A change to any of these inputs could significantly alter the fair value of an investment property.

##### *Unit-based compensation*

RioCan uses estimates and assumptions when determining the unit-based compensation expense during a reporting period. The determination of the unit-based compensation expense resulting from the Trust's granting of employee unit options and performance equity unit awards depends on valuation models, which by their nature are subject to measurement uncertainty. The valuation method used to measure the fair value for each unit option awarded by RioCan is the Black-Scholes option pricing model. This model requires the use of assumptions, such as expected stock price volatility and the use of historical data, that may not be reflective of future performance. The valuation method used to measure the fair value for each performance equity unit awarded by RioCan is the Monte Carlo simulation model, which requires the use of similar input assumptions.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies (and any changes thereto) used in the preparation of these consolidated financial statements are summarized below. These accounting policies conform, in all material respects, to IFRS.

#### Change in accounting policy

##### *IFRS 11, Joint Arrangements (IFRS 11)*

On January 1, 2016, the Trust adopted an amendment with respect to IFRS 11, *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* as issued by IASB in May 2014. The amendments provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business combination as defined in IFRS 3. Acquirers of such interests are to apply the relevant principals on business combination accounting under IFRS 3 and other standards, as well as disclose the relevant information specified in these standards for business combinations. This amendment did not result in a material impact to these consolidated financial statements.

##### *IAS 1, Presentation of Financial Statements (IAS 1)*

On January 1, 2016, the Trust adopted an amendment to IAS 1 clarifying certain existing IAS 1 requirements as issued by the IASB in December 2014. The amendments include the following: the materiality requirements in IAS 1; that specific line items in the consolidated statements of income and comprehensive income and the consolidated balance sheets may be disaggregated; that entities have flexibility as to the order in which they present the notes to financial statements; that the share of other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to income. The amendments also clarify the requirements that apply when additional subtotals are presented in the consolidated balance sheets and the consolidated statements of income and OCI. These amendments did not result in a material impact on these consolidated financial statements.

#### Significant accounting policies

##### *(a) Business combinations*

At the time of acquisition of property, whether through a controlling share investment or directly, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired. If no significant processes, or only insignificant processes, are acquired, the acquisition is treated as an asset acquisition rather than a business combination.

The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The Trust recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in net income. The difference between the purchase price and the Trust's net fair value of the acquired identifiable net assets and liabilities is goodwill. On the date of acquisition, the purchaser records positive goodwill as an asset. Negative goodwill is immediately recognized in the consolidated statements of income. Goodwill is not amortized and must be tested for impairment at least annually, or more frequently, if events or changes in circumstances indicate that impairment has occurred.

RioCan expenses transaction costs associated with business combinations in the period incurred.

When an acquisition does not meet the criteria for a business, it is accounted for as an acquisition of a group of assets and liabilities, the cost of which includes transaction costs that are allocated to the assets and liabilities acquired based upon their relative fair values. No goodwill is recognized for asset acquisitions.

##### *(b) Fair value measurement*

The Trust measures certain financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each consolidated balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined by incorporating all factors that market participants would consider in setting a price acting in their economic best interests, including commonly accepted valuation approaches. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability that is accessible by RioCan.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its "highest and best use" or by selling it to another market participant that would use the asset in its highest and best use.

The Trust uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

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All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Trust determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, RioCan has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### **(c) Investment properties**

Investment properties are held to earn rental revenue or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity.

Real estate property held under an operating lease is not classified as investment property. Instead, these leases are accounted for in accordance with IAS 17, *Leases*. Certain land leases held under an operating lease, however, are classified as investment property when the definition of an investment property is met. At the inception of these leases, investment property is recognized at the lower of the fair value of the property and the present value of the future minimum lease payments and an equivalent amount is recognized as a lease obligation.

##### *(i) Income properties*

Income properties are initially measured at cost. Subsequent to initial recognition, income properties are recorded at fair value and related gains or losses arising from changes in fair value are recognized in net income in the period of change. The determination of fair value is based on, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect of tenant installation costs, income property operations and capital expenditures.

##### *(ii) Properties under development*

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties.

The cost of a development property that is an asset acquisition comprises the amount of cash, or the fair value of other consideration, paid to acquire the property, including transaction costs. Subsequent to the acquisition, the cost of a development property includes costs that are directly attributable to these assets, including development costs, property taxes and borrowing costs on both specific and general debt. Direct and indirect borrowing costs, development costs and property taxes are capitalized when the activities necessary to prepare an asset for development or redevelopment begin, and continue until the date that construction is substantially complete and all necessary occupancy and related permits have been received, whether or not the space is leased. If RioCan is required as a condition of a lease to construct tenant improvements that enhance the value of the property, then capitalization of costs continues until such improvements are completed. Capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Interest capitalized is calculated using the Trust's weighted average cost of borrowing after adjusting for borrowing associated with specific developments. Where borrowing is associated with specific developments, the amount capitalized is the gross interest incurred on such borrowing less any investment income arising on temporary investment of such borrowing.

Properties under development are also adjusted to fair value at each consolidated balance sheet date with fair value adjustments recognized in net income.

#### **(d) Residential inventory**

Residential inventory is assets acquired or developed that RioCan has no intention of using for rental income purposes and plans to sell in the ordinary course of business. The Trust expects to earn a return on such assets through a combination of property operating income earned during the holding period and sales proceeds. Residential inventory is recorded at the lower of cost, including pre-development expenditures and capitalized borrowing costs, and net realizable value, which RioCan determines using the estimated selling price in the ordinary course of business, less estimated selling costs and development costs to complete.

Residential inventory is reviewed for impairment at each reporting period date. An impairment loss is recognized in net income when the carrying value of the asset exceeds its net realizable value.

# RIOCAN REAL ESTATE INVESTMENT TRUST

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Transfers into residential inventory are based on a change in use evidenced by the commencement of development expenditures with a view to sell, at which point an investment property would be transferred to inventory. Transfers from inventory to investment property are based on a change in use evidenced by management's commitment to use a property for rental purposes or the commencement of an operating lease to another party.

#### **(e) Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Trust and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

##### *(i) Rental revenue*

###### Base rent

The Trust has not transferred substantially all of the benefits and risks of ownership of its investment properties and, therefore, accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries. Revenue recognition under a lease commences when the tenant has the right to use the leased asset, which is typically when the tenant takes possession of, or controls, the physical use of the leased property. Generally, this occurs on the lease commencement date. When RioCan is required to make additions to the property in the form of tenant improvements that enhance the value of the property, revenue recognition begins upon substantial completion of such additions.

Tenant incentives are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease where it is determined that the tenant fixturing has no benefit to RioCan beyond the existing tenancy.

###### Straight-line rent

Certain leases contain rent escalation clauses or provide for tenant occupancy during periods for which no rent is due. RioCan records the total rental income on a straight-line basis over the full term of the lease, including the tenant fixturing period. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually owing.

###### Percentage rent

Percentage rent is typically calculated based on a percentage of tenant sales over a specified threshold, which is in addition to base rent. Percentage rents are recognized once the specified threshold has been achieved in accordance with each tenant lease.

###### Lease cancellation fees

Amounts payable by tenants to terminate their lease prior to the contractual expiry date are included in rental revenue as lease cancellation fees at the effective date of the lease termination.

##### *(ii) Residential inventory*

Income earned from the sale of residential inventory is recognized when all of the following conditions are met: a) the Trust has transferred to the purchaser the significant risks and rewards of ownership; b) income and costs can be reliably measured; c) the purchaser has made a substantial commitment demonstrating its intent to honour its obligation; and d) collection of any additional consideration is reasonably assured.

Income from residential land sales, the sale of homes and residential condominium projects is recorded at the time that the risks and rewards of ownership have been transferred and collectibility of all proceeds is reasonably assured, which is generally when possession or title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received.

Directly attributable selling and disposition costs are expensed as incurred.

##### *(iii) Property and asset management fees*

RioCan has interests in various investment properties through joint arrangements and investments in associates. The Trust provides asset and property management services to co-owners, partners and third parties for which it earns market-based construction, development, financing and arranging fees.

Fees are recognized as the service or contract activity is performed using the percentage of completion method. Under the percentage of completion method, where services are provided over a specific period of time, revenue is recognized on a straight-line basis unless there is evidence that some other method would better reflect the pattern of performance. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

##### *(iv) Interest income*

Revenue is recognized as interest accrues using the effective interest method.

# RIOCAN REAL ESTATE INVESTMENT TRUST

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(v) *Other income*

Transaction gains and losses

Transaction gains and losses are recognized on the settlement date and represent the excess proceeds of disposition relating to subsidiaries, investments or assets over their carrying values in the case of gains and the excess carrying value of assets over proceeds of disposition in the case of transaction losses. Transaction gains and losses may also arise from the settlement of liabilities for more or less than their carrying values.

Available-for-sale investments

Other income also includes dividends and/or distributions arising on available-for-sale investments, which are recorded when the Trust's right to receive payment has been established, which is generally when the dividends and/or distributions are declared payable.

(f) *Unit-based compensation*

RioCan and its subsidiaries issue unit-based equity-settled awards to certain employees. The cost of these unit-based payments equals the fair value of each tranche of options at their grant date. The cost of the unit options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

RioCan has unit-based cash-settled compensation plans for independent trustees and certain employees. The cost of these unit-based payments is measured at fair value and expensed over the vesting period with the recognition of a corresponding liability. The liability is remeasured at fair value at each reporting period date with the vested changes in fair value recorded in consolidated statements of income.

(g) *Financial assets and financial liabilities*

Financial assets include RioCan's contractual rents receivable, mortgages and loans receivable, cash and cash equivalents, funds held in trust, available-for-sale securities and derivative contracts. Financial liabilities include RioCan's secured operating lines of credit, mortgages payable, debentures payable and accounts payable and certain other liabilities.

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument without modification or on a valuation technique using market based inputs. The fair values of mortgages and loans receivable and debentures are based on the current market conditions for instruments with similar terms and risks. The fair values of term mortgages, designated hedging derivative instruments included in receivables and other assets and accounts payable and certain other liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

(h) *Recognition and measurement of financial instruments*

The Trust determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recorded initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, held to maturity, loans and receivables, available-for-sale or other liabilities.

(i) *Held-for-trading*

Financial assets and financial liabilities classified as held for trading are measured at fair value with gains and losses recognized in net income. Transaction costs are expensed as incurred. Other than cash and cash equivalents, the Trust has no significant financial instruments classified as held for trading.

Derivative instruments are recorded on the consolidated balance sheets at fair value. Changes in the fair values of derivative instruments are required to be recognized in net income, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationship is required to be recognized in OCI. See note 2(l) for further discussion of hedge accounting policies.

(ii) *Held to maturity, loans and receivables*

Financial assets classified as held to maturity, loans and receivables and other liabilities (other than those held for trading) are required to be measured at amortized cost using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability. Amortized cost is computed using the effective interest method less any allowance for impairment. Gains and losses are recognized in net income when the loans and receivables are derecognized or impaired, as well as through amortization.

The principal categories of the Trust's financial assets and liabilities measured at amortized cost using the effective interest method include: (a) accounts receivable and payable; (b) mortgages and loans receivable, mortgages payable and mortgages payable associated with assets held for sale; and (c) debentures payable.

# RIOCAN REAL ESTATE INVESTMENT TRUST

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Loans and receivables are financial instruments with fixed or determinable payments that are not quoted in an active market. Financial instruments with fixed or determinable payments and fixed maturities are classified as held to maturity only when the Trust has the positive intention and ability to hold it to maturity.

#### *(iii) Available for sale*

Available for sale financial assets are financial assets that are not categorized as either held for trading or designated at fair value. Available-for-sale financial assets are initially measured at fair value with direct transaction costs included in the carrying value of the asset. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in OCI until the investment is derecognized or impaired, at which time the cumulative unrealized gain or loss is recognized in net income.

Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

#### *(i) Impairment of financial assets*

The Trust assesses at each consolidated balance sheet date whether there is any objective evidence of impairment for each financial asset (or a group of financial assets). A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of an event that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing financial difficulty, which may include default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears payments or economic conditions that correlate with defaults.

#### *(i) Impairment of loans and receivables*

Loans and receivables are considered impaired when there is objective evidence that the full carrying amount of the loan or receivable is not collectible.

When an impaired loan is identified, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated realizable amount, which is measured by discounting the expected future cash flows at the original effective interest rate of the loan or receivable. This difference between the carrying amount and the estimated realizable value of the loan or receivable represents an impairment loss that is recognized in net income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the loan. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to RioCan. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the loan or receivable. If a past write-off is later recovered, the recovery is recognized in net income.

#### *(ii) Impairment of available-for-sale financial assets*

For available-for-sale financial assets, the Trust assesses at each consolidated balance sheet date whether there is objective evidence that an asset is impaired, which would include a significant or prolonged decline in the fair value of the investment below its cost. If the evaluation indicates that there is objective evidence of impairment, the investment is written down to its current fair value and a loss is recognized in net income. Subsequent increases in the fair value of available-for-sale assets are recognized in OCI.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded in interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed through net income.

#### *(j) Financial guarantee contracts*

Financial guarantee contracts are contracts issued by RioCan that contingently require the Trust to make specified payments to reimburse the holder for a loss it incurs because the specified debtor fails to make payment when due in accordance with the terms of a debt instrument. When a debtor default occurs, financial guarantees are recognized on the consolidated balance sheets initially as a liability measured at the fair value of the obligation undertaken in issuing the guarantee, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of (i) the amount initially recognized and (ii) the best estimate of the expenditure required to settle the present obligation at the consolidated balance sheet date.

#### *(k) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amounts are reported in the consolidated balance sheets if there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.



# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### **(l) Hedges**

From time to time, the Trust may enter into foreign currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as fair value hedges, cash flow hedges or hedges of a foreign currency exposure related to the net investment in a foreign operation.

At the inception of a hedging relationship, RioCan formally designates and documents the hedging relationship to which the Trust is applying hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Trust will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

#### *Cash flow hedges*

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction. In a cash flow hedging relationship, the effective portion of the gain or loss on the hedging instrument is recognized in OCI. The ineffective portion is recognized in net income.

Hedge accounting ceases when the Trust revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy); or when it no longer qualifies for hedge accounting. Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity until the forecast transaction is ultimately recognized in the consolidated statements of income. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is immediately recognized in the consolidated statements of income.

#### *Net investment hedges*

In hedging a foreign currency exposure of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses on the hedging instrument is recognized in OCI and the ineffective portion is recognized in net income. The amounts, or a portion thereof, previously recorded in OCI within equity are recognized in net income on the disposal or partial disposal of the foreign operation.

#### **(m) Comprehensive income**

Comprehensive income comprises net income and OCI, which generally would include unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation adjustments (net of hedging) arising from foreign operations, changes in the fair value of the effective portion of cash flow hedging instruments, and actuarial gains and losses related to RioCan's defined benefit pension plans. The Trust reports consolidated statements of comprehensive income comprising net income and OCI for the year.

#### **(n) Income taxes**

Upon qualifying as a real estate investment trust (REIT) for Canadian income tax purposes in 2010, the Trust is considered, in substance, tax exempt and therefore does not account for income taxes. Prior to qualifying as a REIT, the Trust was considered taxable. Upon the Trust's change in tax status, all deferred taxes of the Trust were reversed through net income or OCI based upon where the amounts initially arose. The Trust's U.S. operations are qualifying U.S. REITs up to May 25, 2016 and are not subject to U.S. corporate income taxes. The Trust is subject to 30% or 35% withholding taxes on its distributions to Canada. The Trust consolidates certain wholly owned incorporated entities that continue to be subject to income taxes. These taxable subsidiaries, and the Trust prior to its change in tax status, account for income taxes as follows:

##### **(i) Current income taxes**

The Trust qualifies as a mutual fund trust and a REIT for income tax purposes. The Trust intends to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. From time to time, RioCan may retain some taxable income and net capital gains in order to utilize the capital gains refund available to mutual fund trusts without incurring any income taxes. Accordingly, a provision for current income taxes payable is not required, except for amounts incurred in its incorporated Canadian taxable subsidiaries.

The Trust's U.S. subsidiary qualifies as a REIT for U.S. income tax purposes up to May 25, 2016. The subsidiary has distributed all of its U.S. taxable income to Canada and is entitled to deduct such distributions for U.S. income tax purposes. The Trust is subject to a 30% or 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded as distributions or income tax expense, depending on whether the tax is passed on to unitholders.

##### **(ii) Deferred income taxes**

Deferred income taxes are provided using the liability method for temporary differences at the consolidated balance sheet dates between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

# RIOCAN REAL ESTATE INVESTMENT TRUST

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Deferred income tax liabilities are recognized for all taxable temporary differences, except:

1. Where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable income or loss; and
2. In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, where RioCan is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilized except:

1. Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
2. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled entities, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to undistributed profits in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the consolidated balance sheet dates and reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income taxes relating to temporary differences that are in equity are recognized in equity.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity related to the same taxation authority are offset.

#### **(o) Equipment and leasehold improvements**

Equipment and leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment in value, if any. Depreciation is recorded on a straight-line basis over the following expected useful lives:

Computer hardware	3 to 5 years
Furniture and equipment	5 years
Management information systems	5 to 10 years
Leasehold improvements	Lease term plus first renewal, if renewal is reasonably assured

#### **(p) Intangible assets**

The Trust's intangible assets comprise its management information systems and computer application software that is initially recognized at cost and amortized over its estimated useful life (5 to 10 years) on a straight-line basis. The cost of self-built management information systems and software includes the cost of materials, direct labour, and interest expense. Capitalization ceases and depreciation commences once the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

#### **(q) Cash and cash equivalents**

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

#### **(r) Provisions**

Provisions are recognized when the Trust has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Trust expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in net income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

#### **(s) Foreign currency translation**

These consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Trust.

Assets and liabilities of operations having a functional currency other than the Canadian dollars are translated at the rate of exchange at the consolidated balance sheet dates. Revenue and expenses are translated at average rates for the year, unless exchange rates fluctuated significantly during the year, in which case the exchange rates at the dates of the transaction are used. Gains or losses on translating a foreign operation are included in OCI as a component of equity.

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Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Foreign currency denominated monetary assets and liabilities are translated using the prevailing rate of exchange at the consolidated balance sheet dates. Gains and losses on translation of monetary items are recognized in the consolidated statements of income in general and administrative expenses, except for those related to monetary liabilities qualifying as hedges of the Trust's investment in foreign operations or certain intercompany loans to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI as a component of equity.

#### **(t) Non-current assets held for sale and discontinued operations**

Non-current assets (and disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are presented separately from other assets on the Trust's consolidated balance sheets. These measurement requirements do not apply to non-current assets, including the Trust's properties held for sale, that are accounted for in accordance with the fair value model in IAS 40. Comparative information is not adjusted to reflect the held for sale classification in the consolidated balance sheet for the latest period presented.

A disposal group is classified as a discontinued operation if it meets the following conditions: (i) it is a component that can be distinguished operationally and financially from the rest of the Trust's operations and (ii) it represents either a separate major line of business or geographic area or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. Disposal groups classified as discontinued operations are presented separately from continuing operations in the consolidated statements of income. The comparative consolidated statement of income is presented as if the operation had been discontinued from the start of the comparative year.

#### **(u) Employee future benefits**

The Trust operates a defined contribution pension plan and three defined benefit pension plans for certain employees.

The cost of providing benefits under the defined benefit plans is determined separately for each plan. Actuarial gains and losses for the defined benefit plans are recognized in OCI, in full, in the period in which they occur and are not reclassified to profit or loss in subsequent periods. The past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on non-callable investment grade fixed income securities), less unamortized past service costs and less the fair value of plan assets out of which the obligations are to be settled.

The Trust expenses its required contributions to the defined contribution pension plan.

#### **(v) Future changes in accounting policies**

RioCan monitors the potential changes proposed by the IASB and analyzes the effect that changes in the standards may have on its operations.

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are described below. This description is of the standards and interpretations issued that the Trust reasonably expects to be applicable at a future date. The Trust intends to adopt these standards when they become effective.

##### *IFRS 15, Revenue from Contracts with Customers (IFRS 15)*

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. RioCan is currently assessing the impact of IFRS 15 and intends to adopt the new standard on the required effective date.

##### *IFRS 9, Financial Instruments (IFRS 9)*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes new general hedge accounting guidance, which will align hedge accounting more closely with risk management. It does not completely change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. IFRS 9 is effective for annual periods beginning

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on or after January 1, 2018, with early application permitted. RioCan is currently assessing the impact of IFRS 9 and intends to adopt the new standard on the required effective date.

#### *IFRS 16, Leases (IFRS 16)*

In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard would be effective for the Trust's annual periods beginning after January 1, 2019 with earlier adoption permitted. RioCan is currently assessing the impact of IFRS 16 and intends to adopt the new standard on the required effective date.

#### *IAS 40, Investment Property (IAS 40)*

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. RioCan is currently assessing the impact on its consolidated financial statements and intends to adopt the amended standard on the required effective date.

## 4. ASSETS HELD FOR SALE, LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

### Discontinued operations

On May 24, 2016, RioCan completed the sale of its U.S. portfolio of 49 retail properties located in the Northeastern U.S. and Texas at a total sale price of US\$1.9 billion. RioCan received cash proceeds of approximately US\$1.0 billion on closing, net of approximately US\$0.9 billion in mortgage debt extinguishment. In connection with the sale, the Trust recorded a gain on disposition of \$65 million, including foreign currency exchange gain, which is included in other income from discontinued operations on the consolidated statement of income.

The results of the Trust's discontinued operations are as follows:

Year ended December 31,	2016	2015
<b>Rental revenue</b>	\$ 98,704	\$ 233,613
<b>Rental operating costs</b>		
Recoverable under tenant leases	51,995	60,551
Non-recoverable costs	3,175	6,272
	<b>55,170</b>	<b>66,823</b>
<b>Operating income</b>	<b>43,534</b>	<b>166,790</b>
<b>Other income (loss)</b>		
Loss from equity accounted investments	—	(4,145)
Fair value gains (losses) on investment property, net	16,899	(147,060)
Other income	66,404	7,529
	<b>83,303</b>	<b>(143,676)</b>
<b>Other expenses</b>		
Interest costs	18,927	49,253
General and administrative	1,491	4,148
Leasing costs	706	2,022
Transaction costs	53,562	3,868
	<b>74,686</b>	<b>59,291</b>
<b>Income (loss) before income taxes</b>	<b>52,151</b>	<b>(36,177)</b>
Income taxes (recovery)		
Current	135,139	8,478
Deferred	(230,675)	230,474
	<b>(95,536)</b>	<b>238,952</b>
<b>Net income (loss) from discontinued operations</b>	<b>\$ 147,687</b>	<b>\$ (275,129)</b>

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#### **Other income**

In connection with the U.S. asset sale during May 2016, other income includes a \$255 million realized foreign currency exchange gain reclassified from other comprehensive income, partly offset by a \$190 million portfolio discount in connection with the U.S. asset sale.

#### **Transaction costs**

Also in connection with the U.S. property portfolio sale, transaction costs includes \$54 million of costs directly related to the Trust's exit from its U.S. operations, consisting of investment banking fees, legal fees, lender consent costs, franchise and land transfer taxes, costs related to unwinding the Trust's net investment hedge, employee severance and other transaction closing costs.

#### **Income taxes**

Prior to the sale of RioCan's U.S. property portfolio, the Trust's U.S. subsidiary qualified as a REIT for U.S. income tax purposes. The subsidiary distributed all of its U.S. taxable income (if any) to Canada and was entitled to deduct such distributions for U.S. income tax purposes. The Trust is subject to withholdings tax at 30% to 35% on distributions to Canada. Any withholding taxes paid are recorded as distributions or current income tax expense, depending on whether the withholding tax is passed onto unitholders or deducted for Canadian tax purposes.

For the year ended December 31, 2016, RioCan recorded current income taxes of \$135 million, primarily representing the income taxes related to a realized gain on disposal of the Trust's U.S. income properties, since RioCan does not intend to distribute any withholding taxes paid or payable to its unitholders.

During 2015, RioCan had recognized a deferred tax expense of \$230 million primarily representing a taxable temporary taxable difference calculated based on the difference between fair value accounting and tax cost basis of the Trust's U.S. investment properties. For the year ended December 31, 2016, upon the transaction closing, the Trust also recorded a recovery of deferred taxes mainly resulting from the reversal of the temporary difference between the IFRS carrying value and the tax cost of the U.S. income properties.

#### **Assets held for sale and liabilities associated with assets held for sale**

Presented below are details of the Trust's assets and liabilities held for sale:

As at	December 31, 2016	December 31, 2015
<b>Assets</b>		
Income properties	\$ 25,341	\$ 2,925,960
Properties under development	35,189	42,135
Total assets held for sale	\$ 60,530	\$ 2,968,095
<b>Liabilities</b>		
Mortgages payable	—	1,248,635
<b>Net assets</b>	\$ 60,530	\$ 1,719,460

#### **U.S. income properties**

The change in the carrying value of the Trust's U.S. income properties is as follows:

Year ended December 31,	2016	2015
Balance, beginning of year	\$ 2,796,973	\$ 2,392,285
Acquisitions	—	53,698
Capital expenditures	569	4,551
Tenant installation costs	5,621	13,983
Fair value gain, net	16,899	(147,060)
Foreign currency translation gain (loss)	(186,720)	476,755
Straight-line rent	743	2,142
Other changes	(1,414)	619
Loss on disposition	(189,873)	—
Dispositions	(2,442,798)	—
<b>Balance, end of year</b>	\$ —	\$ 2,796,973

#### **Properties held for sale**

RioCan has one income property held for sale as at December 31, 2016 with a carrying value of \$25 million. In addition, the Trust has four land parcels held for sale with an aggregate carrying value of approximately \$35 million.

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**Cash flows associated with discontinued operations**

The net cash flows associated with discontinued operations are as follows:

Year ended December 31,	2016	2015
Net income (loss) from discontinued operations	\$ 147,687	\$ (275,129)
Adjustments for non-cash items		
Deferred income taxes	(230,675)	230,474
Fair value (gains) losses on investment properties, net	(16,899)	147,060
Net gain on sale of income properties and equity accounted investment	(65,116)	(7,529)
Adjustments for net changes in operating assets and liabilities	110,083	10,696
<b>Net operating cash flow activities</b>	<b>(54,920)</b>	<b>105,572</b>
Proceeds from the sale of income properties	1,951,312	—
Proceeds from sale of joint venture	—	43,079
Cash used in acquisitions of income properties	—	(53,698)
Other	(4,776)	(18,347)
<b>Net investing cash flow activities</b>	<b>1,946,536</b>	<b>(28,966)</b>
Proceeds from (Repayment of) mortgages payable	(668,253)	95,051
Repayment of parent REIT loan	(566,433)	(272,932)
Loan advances (to) from parent REIT	(672,119)	107,083
<b>Net financing cash flow activities</b>	<b>(1,906,805)</b>	<b>(70,798)</b>
<b>Net change in cash</b>	<b>\$ (15,189)</b>	<b>\$ 5,808</b>

**5. INVESTMENT PROPERTIES**

As at December 31,	2016	2015
Income properties	\$ 12,406,719	\$ 11,322,109
Properties under development	880,319	830,067
	<b>\$ 13,287,038</b>	<b>\$ 12,152,176</b>

**Income properties**

Year ended December 31,	2016	2015
Balance, beginning of year	\$ 11,451,096	\$ 10,861,112
Acquisitions	594,538	962,432
Dispositions	(119,813)	(424,561)
Capital expenditures	52,899	37,484
Leasing commissions and tenant installation costs	48,261	24,363
Transfers from properties under development	274,140	230,646
Transfers to properties under development	(21,019)	(172,499)
Fair value gains (losses), net	134,692	(78,759)
Straight-line rent (i)	7,263	6,737
Earn-out consideration	7,380	2,370
Other changes	2,623	1,771
Balance, end of year	<b>\$ 12,432,060</b>	<b>\$ 11,451,096</b>
Income properties	\$ 12,406,719	\$ 11,322,109
Properties held for sale	25,341	128,987
	<b>\$ 12,432,060</b>	<b>\$ 11,451,096</b>

(i) Included in investment properties is \$114 million of net rents receivable arising from the recognition of rental revenue on a straight-line basis over the lease term (December 31, 2015 - \$107 million).

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#### Properties under development

Year ended December 31,	2016		2015	
Balance, beginning of year	\$	872,202	\$	706,299
Acquisitions		10,043		25,301
Dispositions		(5,436)		(6,700)
Development expenditures		243,243		187,293
Completion of properties under development		(274,140)		(230,646)
Transfers from income properties		21,019		172,499
Transfers from residential inventory		—		31,309
Fair value gains (losses), net		48,196		(12,789)
Other		381		(364)
Balance, end of year	\$	915,508	\$	872,202
Properties under development	\$	880,319	\$	830,067
Properties held for sale		35,189		42,135
	\$	915,508	\$	872,202

#### Acquisitions

The following table summarizes the Trust's acquisitions of investment property for rental income and future development opportunities:

	Income properties		Properties under development	
	2016	2015	2016	2015
As at December 31,				
Investment properties acquired	\$ 594,538	\$ 1,016,759	\$ 10,043	\$ 25,301
Debt assumed	(48,416)	(296,265)	—	—
Difference between principal amount and fair value assumed of mortgage financing	(757)	(12,018)	—	—
Total consideration, net of debt assumed	\$ 545,365	\$ 708,476	\$ 10,043	\$ 25,301

On July 27, 2016, RioCan acquired Canada Pension Plan Investment Board's (CPPIB) 50% interests in four income properties that were previously co-owned for an aggregate purchase price of \$352 million, representing a weighted average capitalization rate of 5.7%. RioCan did not assume any additional debt from CPPIB in connection with this acquisition.

#### Dispositions

The following table summarizes the Trust's dispositions of non-core properties as part of a process to recycle capital into future developments and property acquisition opportunities:

	Income properties		Properties under development	
	2016	2015	2016	2015
As at December 31,				
Investment properties disposed	\$ 119,813	\$ 448,215	\$ 5,436	\$ —
Gain on disposition recorded in other income	6,075	—	—	—
Total consideration	\$ 125,888	\$ 448,215	\$ 5,436	\$ —
Mortgages associated with investment property dispositions	(29,359)	(155,205)	—	—
Other (i)	—	(9,967)	—	—
Total consideration, net of related debt	\$ 96,529	\$ 283,043	\$ 5,436	\$ —

(i) Represents a sales price adjustment for the assumption of a land lease commitment.

#### Properties held under lease

Included in investment properties are three properties that are subject to land operating leases with third parties. Two of the land leases expire in 2029 and do not include buy-out options, whereas the final land lease expires in 2020 and carries a buy-out option.

In accordance with IFRS, the Trust has elected to recognize these operating leases as investment properties and record a related finance lease obligation. The carrying amount of these properties is \$274 million (December 31, 2015 - \$280 million) and the corresponding finance lease obligation is \$19 million (December 31, 2015 - \$20 million) and is included in accounts payable and other liabilities.

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Future minimum lease payments under these finance leases are as follows:

	December 31, 2016	December 31, 2015
Within 12 months	\$ 2,232	\$ 2,232
2 to 5 years	8,461	8,811
Over 5 years	15,057	16,938
Total minimum lease payments	\$ 25,750	\$ 27,981
Less: Future interest costs	7,097	8,130
Present value of minimum lease payments	\$ 18,653	\$ 19,851

### Valuation methodology

#### *Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation.

Investment properties and properties held for sale are carried at fair value and the Trust uses significant unobservable inputs to estimate fair value of these assets at each reporting date. See below for further description of inputs used by the Trust in estimating the fair value of its properties. Significant unobservable inputs are classified as Level 3 inputs under IFRS. See note 22 for further details.

Quoted market prices in active markets are the best evidence of fair value and are used as the basis for fair value measurement, when available. When quoted market prices are not available, judgment is required to estimate fair value based on the best information available, including prices for similar assets and the use of other valuation techniques. These valuation techniques are consistent with the objective of measuring fair value and involve a degree of estimation depending on the availability of market-based information.

#### *Valuation processes*

##### Internal valuations

RioCan measures the vast majority of its investment properties, including co-owned properties, using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of the Trust's management. The internal valuation team's processes and results are reviewed and approved by the Valuations Committee on a quarterly basis, in line with the Trust's quarterly reporting dates.

The Trust's Valuations Committee is responsible for approving any fair value changes to the investment properties and consists of senior management of the Trust including the President & Chief Operating Officer; Chief Financial Officer; and other executive members.

##### External valuations

Depending on the property asset type and location, management may opt to obtain independent third party valuations from firms that employ experienced valuation professionals having the required qualifications in property appraisals for purposes of adopting such appraised values in the case of land parcels or assessing the reasonableness of its internal investment property valuations. During the year, the Trust obtained a total of 22 external property appraisals (including 13 vacant land parcels), which supported an IFRS fair value of approximately \$1.1 billion or 8% of the Trust's investment property portfolio as at December 31, 2016.

The internal valuation team also verifies all major inputs used by the external valuator in preparing the valuation report, assesses changes to fair value by comparing the current year fair value against the fair value determined in the prior year valuation report, and holds discussions with the external valuator. Commencing January 1, 2017, the Trust intends to select approximately six income properties for external appraisal on a quarterly basis.

#### *Valuation techniques*

##### Income properties

The internal valuation team estimates the fair value of each income property based on a valuation technique known as the direct capitalization income approach. The fair value is determined by applying a capitalization rate to stabilized net operating income (SNOI). The significant unobservable inputs are based on:

- SNOI - is based on budgeted rents and expenses and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties, adjusted to incorporate allowances for estimated vacancy rates, management fees and structural reserves for capital expenditures based on current and expected future market conditions after expiry of any current lease and expected maintenance costs. The resulting capitalized value is then adjusted for non-recoverable capital expenditures as well as other costs inherent in achieving and maintaining SNOI.
- The capitalization rate - is based on the location and quality of the properties and takes into account market data at the valuation date.



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Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the long-term vacancy rate. Each of these inputs when increased or decreased, in isolation, would not result in a material change in the fair value of the Trust's investment properties. As a result, management does not consider these variables as key inputs in estimating the fair value of income property.

#### Properties under development

Management uses an internal valuation process to estimate the fair value of properties under development that consist of undeveloped land on a land value per acre basis using the particular attributes of the project with respect to zoning and pre-development work performed on the site. Where a site is partially developed, the direct capitalization method is applied to capitalize the pro forma NOI, stabilized with market allowances, from which the costs to complete the development are deducted. The significant unobservable inputs are based on:

- Pro forma SNOI - is based on the location, type and quality of the properties and supported by the terms of actual or anticipated future leases, other contracts or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on expected future market conditions and estimated maintenance costs, which are consistent with internal budgets, based on management's experience and knowledge of the market conditions.
- Costs to complete - are derived from internal budgets based on management's experience and knowledge of the market conditions.

The primary method of valuation for land acquired for development is the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets. Land values are estimated using either a per acre or per buildable square foot basis based on highest and best use. Such values are applied to RioCan's properties after adjusting for factors specific to the site, including its location, intended use, zoning, servicing and configuration.

The table below summarizes the classification, valuation approach and inter-relationship between the Level 3 key unobservable inputs and fair value measurements for the Trust's investment properties:

Classification	Valuation approach	Key unobservable input	Relationship between key unobservable inputs and fair value measurement
Income producing properties / Properties under development	Direct capitalization income approach	Capitalization rate	There is an inverse relationship between the capitalization rate and the fair value; in other words, the higher the capitalization rate, the lower the estimated value.
		SNOI	Generally, an increase in SNOI will result in an increase in the estimated fair value of the properties.
Properties under development - undeveloped land	Comparable sales approach	Market comparison	Land value is in line with market trends.

As at December 31, 2016, the weighted average capitalization rate for the Trust's investment properties and Canadian properties held for sale is 5.64% (December 31, 2015 - 5.72%).

#### **Sensitivity analysis of changes in capitalization rates**

The following table is a sensitivity applied to the portion of the Trust's investment properties and properties held for sale carrying value that is measured using the direct capitalization approach and, therefore, is sensitive to changes in capitalization rates:

Capitalization rate sensitivity Increase (decrease)	Weighted average capitalization rate	Fair value of properties	Fair value variance	% change	Ratio of debt, net of cash, to total assets, net of cash
(1.00%)	4.64%	15,854,720	2,811,128	21.55 %	33.07%
(0.75%)	4.89%	15,044,151	2,000,559	15.34 %	34.73%
(0.50%)	5.14%	14,312,432	1,268,840	9.73 %	36.39%
(0.25%)	5.39%	13,648,590	604,998	4.64 %	38.03%
<b>December 31, 2016</b>	<b>5.64% \$</b>	<b>13,043,592 \$</b>	<b>—</b>	<b>— %</b>	<b>39.66%</b>
0.25%	5.89%	12,489,966	(553,626)	(4.24)%	41.27%
0.50%	6.14%	11,981,417	(1,062,175)	(8.14)%	42.88%
0.75%	6.39%	11,512,660	(1,530,932)	(11.74)%	44.48%
1.00%	6.64%	11,079,202	(1,964,390)	(15.06)%	46.07%

#### *Sensitivity analysis of changes in SNOI and capitalization rates*

In addition, a 1% increase in SNOI would result in a higher portfolio fair value of \$130 million. A 1% decrease in SNOI would result in a lower portfolio fair value of \$130 million. A 1% increase in SNOI coupled with a 0.25% decrease in capitalization rates would result in a higher portfolio fair value of \$741 million. A 1% decrease in SNOI coupled with a 0.25% increase in capitalization rates would result in a lower portfolio fair value of \$679 million.

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## 6. EQUITY ACCOUNTED INVESTMENTS

The Trust has certain equity method accounted investments in associates and joint ventures. The following table details the Trust's ownership interest in each equity investee:

Equity Investee	Principal activity	December 31, 2016	December 31, 2015
Dawson-Yonge LP	Owns and operates an income property	40.0%	40.0%
RioCan-HBC JV	Owns and operates income properties	11.6%	10.3%
WhiteCastle New Urban Fund, LP (WNUF)		14.2%	14.2%
WhiteCastle New Urban Fund 2, LP (WNUF 2)	Development and sale of residential inventory	19.3%	19.3%
WhiteCastle New Urban Fund 3, LP (WNUF 3)		20.0%	20.0%

The following table shows the changes in the aggregate carrying value of RioCan's investment in associates and joint ventures:

Year ended December 31,	2016	2015
Balance, beginning of year	\$ 158,994	\$ 63,016
Contributions	26,750	150,121
Share of net income (loss) from:		
Continuing operations	9,972	10,378
Discontinued operations	—	(4,145)
Disposals	—	(43,079)
Distributions	(11,196)	(13,447)
Other	758	(3,850)
Balance, end of year	\$ 185,278	\$ 158,994

### Financial results of equity accounted investees

The following tables present the financial results of RioCan's equity accounted investees on a 100% basis:

As at December 31,	2016			2015		
	RioCan-HBC JV	Other	Total	RioCan-HBC JV	Other	Total
Current assets	\$ 9,067	\$ 105,298	\$ 114,365	\$ 1,985	\$ 93,927	\$ 95,912
Non-current assets	1,980,330	22,100	2,002,430	1,947,903	21,200	1,969,103
Current liabilities	10,675	4,586	15,261	4,417	5,719	10,136
Non-current liabilities (i)	546,114	52,291	598,405	549,732	34,970	584,702
Net assets	\$ 1,432,608	\$ 70,521	\$ 1,503,129	\$ 1,395,739	\$ 74,438	\$ 1,470,177
<b>Equity accounted investments</b>	<b>\$ 167,581</b>	<b>\$ 17,697</b>	<b>\$ 185,278</b>	<b>\$ 143,785</b>	<b>\$ 15,209</b>	<b>\$ 158,994</b>

Year ended December 31,	2016			2015		
	RioCan-HBC JV	Other	Total	RioCan-HBC JV	Other	Total
Revenue	\$ 131,653	\$ 12,637	\$ 144,290	\$ 52,290	\$ 31,570	\$ 83,860
Operating expenses	10,643	5,657	16,300	4,706	5,362	10,068
Fair value gains (losses)	(11,825)	907	(10,918)	(7,554)	743	(6,811)
Interest expense	15,999	455	16,454	6,708	464	7,172
Net income	\$ 93,186	\$ 7,432	\$ 100,618	\$ 33,322	\$ 26,487	\$ 59,809
<b>Income (Loss) in equity accounted investments</b>	<b>\$ 10,391</b>	<b>\$ (419) (ii)</b>	<b>\$ 9,972</b>	<b>\$ 4,292</b>	<b>\$ 6,086</b>	<b>\$ 10,378</b>

(i) Includes mortgages payable and lines of credit.

(ii) Amount includes a \$1.5 million annual priority profit allocation to the general partner of the investees.

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#### 7. MORTGAGES AND LOANS RECEIVABLE

As at December 31,		<b>2016</b>		2015
Current	\$	<b>28,263</b>	\$	38,036
Non-current		<b>89,754</b>		91,222
	\$	<b>118,017</b>	\$	129,258

As at December 31, 2016, mortgages and loans receivable bear interest at a weighted average effective and contractual rate of 5.0% per annum (December 31, 2015 - 4.5%) and mature between 2017 and 2023.

Future repayments for the years ending December 31 are as follows:

Due on demand	\$	14,020
2017		14,243
2018		24,116
2019		5,169
2020		55,219
Thereafter		5,250
	\$	118,017

#### 8. RECEIVABLES AND OTHER ASSETS

As at	December 31, 2016			December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
Prepaid expenses and other assets	\$ 332,387	\$ 10,376	\$ 342,763	\$ 322,574	\$ 22,266	\$ 344,840
Net contractual rents receivable	40,754	—	40,754	45,290	—	45,290
Management information system	—	21,737	21,737	—	25,021	25,021
Funds held in trust	—	1,838	1,838	—	36,214	36,214
Cross currency interest rate swaps	—	1,416	1,416	—	—	—
	\$ 373,141	\$ 35,367	\$ 408,508	\$ 367,864	\$ 83,501	\$ 451,365

##### Prepaid expenses and other assets

Prepaid expenses and other assets primarily include available-for-sale investments, property taxes, office furniture and equipment.

RioCan pays certain upfront non-refundable selling commissions with respect to the sale of residential condominium units. As at December 31, 2016 included in other assets are \$3.4 million of non-refundable sales commissions the Trust has paid with respect to the sale of this inventory (December 31, 2015 - \$3.5 million), where it is probable that future economic benefits will flow to the Trust. No amortization prior to the recognition of revenue is recognized but rather a charge to net income occurs when the revenue associated with the sale is recognized.

##### Contractual rents receivable

Contractual rents receivable are presented net of an allowance for doubtful accounts of \$1.8 million as at December 31, 2016 (December 31, 2015 - \$2.0 million). RioCan determines its allowance for doubtful accounts on an individual tenant basis and reduces the carrying value of the receivable to the expected recoverable amount giving consideration to the tenant's payment history, credit worthiness, lease term, account status and other factors. Any subsequent recoveries of rent receivables previously recorded as doubtful accounts are recognized in the consolidated statements of income during the period of settlement.

##### Funds held in trust

Funds held in trust are property specific segregated funds that are contractually required by certain mortgage lenders. To support mortgage financing, lenders will sometimes require that certain property expenses be funded by monthly property cash flows. The reserves accumulate over time and, in some cases, are used by the lender to fund certain property expenses, such as realty taxes, insurance premiums, leasing commissions, repairs and maintenance, tenant construction allowances and landlord construction costs.

##### Cross currency interest rate swaps

During the year ended December 31, 2016, the Trust entered into cross currency interest rate swaps as part of its strategy to hedge any U.S. dollar denominated borrowings from the Trust's unsecured operating credit facility. These have the economic effect of converting floating rate U.S. dollar borrowings to floating rate Canadian dollar borrowings. These cash flow hedges are short-term in nature and qualify for hedge accounting. These hedges are expected to be highly effective since all critical terms of the hedged item and hedging instrument match. All such designated hedging relationships were effective as of the reporting date, with a total U.S. dollar principal value of US\$365 million.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

#### 9. INCOME TAXES

The Trust qualifies as a REIT for Canadian income tax purposes; therefore, it will be entitled to deduct distributions for income tax purposes. The Trust expects to distribute its taxable income to unitholders such that it will not be subject to tax. From time to time, RioCan may retain some taxable income and net capital gains in order to utilize the capital gains refund available to mutual fund trusts without incurring any income taxes. Accordingly, no provision for Canadian current income tax payable is required, except for amounts incurred in its incorporated Canadian subsidiaries.

Where an entity does not qualify as a REIT for Canadian income tax purposes, certain distributions will not be deductible by that entity in computing its income for Canadian tax purposes. As a result, the entity will be subject to tax at a rate substantially equivalent to the general corporate income tax rate on distributed taxable income. Distributions paid in excess of taxable income will continue to be treated as a return of capital to unitholders. Undistributed taxable income is generally subject to the top marginal personal tax rate. The Trust consolidates certain wholly owned incorporated entities that remain subject to tax. The tax disclosures and expense relate only to these entities.

As at December 31, 2016, the Trust's Canadian corporate subsidiaries have recognized deferred income tax assets totalling \$12 million (December 31, 2015 - \$8.0 million) on deductible temporary differences related to intangible assets, deferred pension and loss carry forwards that expire over the next 18 to 20 years. These deferred tax assets have been recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and there is sufficient taxable income available against which the temporary differences can be utilized.

#### 10. MORTGAGES PAYABLE AND LINES OF CREDIT

Mortgages payable and lines of credit, net of deferred financing costs, consist of the following:

As at	December 31, 2016		December 31, 2015	
Line of credit	\$	502,359	\$	561,389
Construction lines and other bank loans		203,274		182,622
Mortgages payable		2,699,935		3,420,658
	\$	3,405,568	\$	4,164,669
Current	\$	930,426	\$	1,176,912
Non-current		2,475,142		2,987,757
	\$	3,405,568	\$	4,164,669

Future repayments of mortgages payable and lines of credit by year of maturity are as follows:

Year	Weighted average contractual interest rate	Scheduled principal amortization	Principal maturities	Total repayments
2017	3.66%	\$ 64,088	\$ 866,338	\$ 930,426
2018	3.70%	44,730	497,327	542,057
2019	4.11%	32,724	302,858	335,582
2020	3.64%	17,836	448,430	466,266
2021	2.95%	6,992	853,967	860,959
Thereafter	3.89%	4,186	256,041	260,227
Contractual obligations	3.55%	\$ 170,556	\$ 3,224,961	\$ 3,395,517
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties				16,658
Unamortized debt financing costs, net of premiums and discounts				(6,607)
				\$ 3,405,568

#### U.S. dollar-denominated mortgages payable and lines of credit associated with Canadian properties

As at December 31, 2016, all U.S. dollar-denominated mortgages and lines of credit associated with the Trust's Canadian properties were repaid and have no outstanding balance (December 31, 2015 - US\$327 million). During the first half of 2016, the Trust repaid its U.S. dollar-denominated mortgages and lines of credit, primarily using cash proceeds from the sale of its U.S. income property portfolio. The U.S. dollar-denominated mortgages and lines of credit associated with Canadian properties were formerly designated as a net investment hedge of the Trust's U.S. operations.

#### Pledged investment properties

As at December 31, 2016, \$6.8 billion of the aggregate carrying value of investment properties, properties held for sale and residential inventory serves as security for RioCan's mortgages payable (December 31, 2015 - \$9.0 billion).

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

#### Weighted average effective and contractual interest rates

The following table summarizes the details of the Trust's weighted average effective and contractual interest rates on lines of credit and mortgages payable associated with properties located in Canada:

As at	December 31, 2016 (i)	December 31, 2015
Weighted average interest rates:		
Effective	3.49%	3.71%
Contractual	3.55%	3.63%

(i) Mortgages maturing between 2017 and 2034.

#### Line of credit

On June 1, 2016, the Trust entered into a new \$1.0 billion unsecured operating credit facility with six Canadian Schedule I financial institutions, which replaced five secured operating credit facilities. The new facility has an interest rate based on a pricing grid depending on RioCan's credit rating and the type of borrowing utilized, with the current rates for Canadian dollar Banker's Acceptances and U.S. dollar LIBOR loans being 120 basis points over the underlying rate. The facility has a five-year term to maturity and a one-year extension option. The unsecured operating credit facility agreement requires the Trust to maintain certain financial covenants in accordance with the credit facility agreement. Refer to note 24 for additional details.

As at December 31, 2016, RioCan had cash advances and letters of credit outstanding of \$505 million and \$0.4 million, respectively, and \$494 million in cash available to be drawn from this credit facility.

#### 11. DEBENTURES PAYABLE

Debentures payable consist of the following:

As at	December 31, 2016	December 31, 2015
Current	\$ 150,000	\$ —
Non-current	2,098,024	2,000,066
	\$ 2,248,024	\$ 2,000,066

As at December 31, 2016, total debentures payable bear interest at weighted average effective and contractual rates of 3.52% and 3.52% (December 31, 2015 - 3.70% and 3.68%), respectively.

#### Issuance

On August 26, 2016, the Trust issued \$250 million of Series X senior unsecured debentures, which mature on August 26, 2020 and carry a coupon rate of 2.185%. The interest on these debentures is payable semi-annually commencing February 26, 2017.

The Trust has the following series of senior unsecured debentures outstanding as at December 31, 2016:

Series	Maturity date	Coupon rate	Interest payment frequency	2016	2015
P	March 1, 2017	3.80%	Semi-annual	\$ 150,000	\$ 150,000
S	March 5, 2018	2.87%	Semi-annual	250,000	250,000
Q	June 28, 2019	3.85%	Semi-annual	350,000	350,000
U	June 1, 2020	3.62%	Semi-annual	150,000	150,000
X	August 26, 2020	2.19%	Semi-annual	250,000	—
R	December 13, 2021	3.72%	Semi-annual	250,000	250,000
V	May 30, 2022	3.75%	Semi-annual	250,000	250,000
T	April 18, 2023	3.73%	Semi-annual	200,000	200,000
W	February 12, 2024	3.29%	Semi-annual	300,000	300,000
I	February 6, 2026	5.95%	Semi-annual	100,000	100,000
Contractual obligations				\$ 2,250,000	\$ 2,000,000

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

Future repayments are as follows:

		Weighted average contractual interest rate	Principal maturities
Year ending December 31:	2017	3.80% \$	150,000
	2018	2.87%	250,000
	2019	3.85%	350,000
	2020	2.72%	400,000
	2021	3.72%	250,000
	Thereafter	3.84%	850,000
Contractual obligations			2,250,000
Unamortized debt financing costs			(1,976)
		\$	2,248,024

### Covenants

The debentures have covenants relating to RioCan's leverage limit of up to 60% of aggregate assets as set out in the Trust's Declaration, the maintenance of a \$1.0 billion Adjusted Book Equity (as defined in the debenture), and maintenance of an interest coverage ratio of 1.65 times or greater. There are no requirements under the unsecured debenture covenants for RioCan to maintain unencumbered assets. RioCan has the right, at any time, to convert the Series I debentures to mortgage debt, subject to the acceptability of the security given to the debenture holders. In such an event, the covenants relating to the 60% leverage limit, minimum book equity and interest coverage ratio would be eliminated for those debentures. As at and during the year ended December 31, 2016, the Trust was in compliance with these covenants pursuant to the Trust's Declaration and debenture indentures.

### 12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

As at	December 31, 2016			December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
Property operating costs	\$ 59,491	\$ 20,686	\$ 80,177	\$ 103,908	\$ 21,011	\$ 124,919
Development and capital expenditures	112,277	25	112,302	81,333	24,113	105,446
Deferred revenue	22,071	26,249	48,320	20,821	27,385	48,206
Distributions to unitholders payable	38,356	—	38,356	37,893	—	37,893
Interest payable	26,841	—	26,841	30,085	—	30,085
Interest rate swap agreements	843	9,398	10,241	1,751	24,665	26,416
Unfunded employee future benefits	—	12,751	12,751	—	13,170	13,170
Finance lease obligation	2,573	16,080	18,653	2,575	17,276	19,851
Other trade payables and accruals	21,909	4,236	26,145	15,469	3,507	18,976
Income taxes payable	136,169	—	136,169	—	—	—
Contingent consideration	325	—	325	864	—	864
	\$ 420,855	\$ 89,425	\$ 510,280	\$ 294,699	\$ 131,127	\$ 425,826

Income taxes payable relate to the realized gain on sale of the Trust's U.S. income property portfolio during May 2016. Refer to note 4 for further discussion.

### 13. UNITHOLDERS' EQUITY

#### Common trust units

The Trust is authorized to issue an unlimited number of common units. The common units are entitled to distributions, as and when declared by the Board (and upon liquidation), and to a pro rata share of the residual net assets remaining after the preferential claims, thereon, of debt holders and preferred unitholders. As the Trust is a closed end trust, the units are not puttable.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

The units issued and outstanding are as follows:

Year ended December 31,	2016		2015	
	Units	\$	Units	\$
Balance, beginning of year	322,483	4,709,165	315,986	4,536,957
Units issued:				
Distribution reinvestment plan	2,399	60,782	5,443	142,715
Unit option exercises	1,671	38,242	1,019	23,701
Costs associated with unit option plan	—	1,640	—	5,135
Direct purchase plan	36	959	35	932
Exchangeable limited partnership units	26	358	—	—
Unit issue costs	—	(7)	—	(275)
Balance, end of year	326,615	4,811,139	322,483	4,709,165

Included in units outstanding as at December 31, 2016, are exchangeable limited partnership units totaling 1.2 million units (December 31, 2015 - 1.1 million units) of three limited partnerships that are subsidiaries of the Trust (the LP units), which were issued to vendors as partial consideration for income properties acquired by RioCan. RioCan is the general partner of the limited partnerships. The LP units are entitled to distributions equivalent to distributions on RioCan units and are exchangeable for RioCan units on a one-for-one basis at any time at the option of the holder.

#### **Normal course issuer bid**

On October 18, 2016, RioCan announced the TSX approval of its notice of intention to make a normal course issuer bid (NCIB) for a portion of its units as appropriate opportunities arise from time to time. RioCan's NCIB will be made in accordance with the requirements of the TSX. Under the NCIB, RioCan may acquire up to a maximum of 8,128,045 of its units, or approximately 2.5% of its 325,121,826 outstanding units as at December 31, 2016, for cancellation over the next 12 months.

The number of units that can be purchased pursuant to the bid is subject to a current daily maximum of 120,555 units (which is equal to 25% of 482,221, being the average daily trading volume from April 1, 2016 through to December 31, 2016), subject to RioCan's ability to make one block purchase of units per calendar week that exceeds such limits. RioCan intends to fund the purchases out of its available cash and undrawn credit facilities.

During the years ended December 31, 2016 and 2015, RioCan did not purchase for cancellation any of its units under its NCIB.

#### **Preferred trust units**

The Trust is authorized to issue 50 million preferred units.

##### **Series A**

In 2011, the Trust issued a total of 5 million perpetual Cumulative Rate Reset Preferred Trust Units, Series A (the Series A Units) for aggregate gross proceeds of \$125 million (\$120 million, net of issue costs). The Series A Units pay a cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of RioCan, for the initial five-year period ending March 31, 2016. The distribution rate will be reset on March 31, 2016 and every five years thereafter, at a rate equal to the then five-year Government of Canada bond yield plus 2.62%.

On March 31, 2016, the Trust exercised its option to redeem all 5 million outstanding Series A preferred trust units at the cash redemption price of \$25.00 per Series A preferred trust unit, for total cash proceeds of \$125 million paid on April 1, 2016. Unit issue costs totaling \$4.3 million were recorded as a charge to retained earnings upon redemption, representing the excess of par redemption value over the carrying value of the preferred trust units.

##### **Series C**

In 2011, the Trust issued an aggregate of 5.98 million Cumulative Rate Reset Preferred Trust Units, Series C (the Series C Units) for aggregate gross proceeds of \$149.5 million (\$145 million, net of issue costs). The Series C Units pay a fixed cumulative distribution yield of 4.70% per annum, payable quarterly, as and when declared by the Board of Trustees of RioCan, for the initial approximate five and a half-year period ending June 30, 2017. The distribution rate will be reset on June 30, 2017 and every five years thereafter at a rate equal to the then five-year Government of Canada bond yield plus 3.18%.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

#### Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) as at and for the years ended December 31, 2016 and 2015 consists of the following amounts:

	Cumulative translation gain on U.S. foreign operations (i)	Available-for-sale investments	Actuarial gain (loss) on pension	Interest rate swap agreements	Cross currency interest rate swap agreements	Total
As at December 31, 2015	\$ 308,380	\$ 41,579	\$ (1,690)	\$ (23,635)	\$ —	\$ 324,634
Other comprehensive income (loss)	<b>(308,380)</b>	<b>37,368</b>	<b>693</b>	<b>13,428</b>	<b>74</b>	<b>(256,817)</b>
<b>As at December 31, 2016</b>	<b>\$ —</b>	<b>\$ 78,947</b>	<b>\$ (997)</b>	<b>\$ (10,207)</b>	<b>\$ 74</b>	<b>\$ 67,817</b>

- (i) On May 25, 2016, RioCan completed the sale of its U.S. income property portfolio and reclassified the cumulative translation gain on U.S. foreign operations in accumulated other comprehensive income to net income from discontinued operations on the consolidated statement of income. Refer to note 4 for details on the amount of realized gain related to the U.S. property sale.

#### 14. UNIT-BASED COMPENSATION PLANS

##### Incentive unit option plan

The Trust provides long-term incentives to certain employees by granting options through the incentive unit option plan (the plan). RioCan is authorized to issue up to a maximum of 22 million common unit options under the plan. As at December 31, 2016, 11.6 million common unit options remain available to be granted under the plan.

The exercise price for each option is equal to the volume weighted average trading price of the units on the TSX for the five trading days immediately preceding the dates of grant except for those options granted prior to May 27, 2009, which have an exercise price equal to the closing price of the units on the date prior to the day the option was granted. An option's maximum term is ten years. All options granted vest at 25% per annum commencing on the first anniversary of the grant date, and become fully vested after four years.

The Trust accounts for this plan by estimating the fair value of each tranche of an award at the grant date and subsequently recognizing the compensation expense over the vesting period.

The weighted average assumptions utilized in the calculation of units granted for the years ended December 31, 2016 and 2015 using the Black-Scholes option valuation model are as follows:

Year ended December 31,	2016	2015
Fair value of unit options granted	\$ 2,194	\$ 1,834
Unit options granted (in thousands)	2,159	1,453
Unit option exercise price	\$ 25.79	\$ 29.20
Expected risk free interest rate (i)	0.5%	0.6%
Expected distribution yield (ii)	5.5%	4.8%
Expected unit price volatility (iii)	14.9%	14.8%
Expected option life (years) (iv)	4.5	4.3

- (i) Determined using the yield on Government of Canada benchmark bonds with an average maturity period similar to the expected option life.  
(ii) Based on the annual distribution yield on the date of grant.  
(iii) Estimated by considering historic average unit price volatility for a period consistent with the expected option life.  
(iv) Represents the expected option life based on the actual holding period of all transacted option awards between grant date and the date of activity.

The following summarizes the changes in options outstanding during the years ended December 31, 2016 and 2015:

Options	2016		2015	
	Units (in thousands)	Weighted average exercise price	Units (in thousands)	Weighted average exercise price
Outstanding, beginning of year	9,027	\$ 26.12	8,782	\$ 25.30
Granted	2,159	25.79	1,453	29.20
Exercised	(1,671)	22.89	(1,019)	23.25
Expired	(332)	27.17	—	—
Forfeited	(775)	27.35	(189)	27.28
Outstanding, end of year	8,408	\$ 26.52	9,027	\$ 26.12
Options exercisable at end of year	4,511	\$ 26.11	4,976	\$ 24.63
Average fair value per unit of options granted during the year		\$ 1.02		\$ 1.26



# RIOCAN REAL ESTATE INVESTMENT TRUST

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(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

The following table summarizes our outstanding options and related exercise price ranges of units granted under the plan:

Exercise Price Range (\$/unit)	Number of Common Shares Issuable (in thousands)		Outstanding Options				Vested Options			
			Weighted Average Exercise Price per Common Share		Weighted Average Remaining Life (years)		Number of Common Shares Issuable (in thousands)		Weighted Average Exercise Price per Common Share	
As at December 31,	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
12.15 to 24.93	582	1,447	\$20.02	\$20.07	3.3	3.7	582	1,447	\$20.02	\$20.07
24.94 to 26.53	2,494	1,140	25.62	25.26	8.0	3.9	575	1,140	25.10	25.26
26.54	1,181	1,489	26.54	26.54	6.1	7.0	944	865	26.54	26.54
26.55 to 27.50	1,476	1,790	27.28	27.31	6.2	7.2	1,188	959	27.27	27.28
27.51 to 27.69	1,479	1,785	27.57	27.56	7.0	8.1	898	565	27.58	27.59
27.70 to 30.00	1,196	1,376	29.31	29.31	8.2	9.2	324	—	29.31	—
	8,408	9,027	\$26.52	\$26.12	6.9	6.7	4,511	4,976	\$26.11	\$24.63

#### Performance equity unit plan (PEU Plan)

The Trust grants performance equity units (PEUs) under the PEU Plan with a three-year performance period for certain senior executives. The PEUs will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period, which upon vesting are cash settled.

RioCan accounts for this plan under the fair value method of accounting, which uses the Monte-Carlo simulation pricing model to determine the fair value of market-based awards. The Monte-Carlo simulation pricing model uses the same input assumptions as the Black-Scholes model; however, it allows for the incorporation of the market-based performance hurdles that must be met before the PEU vests in the holder. Pursuant to IFRS, compensation costs related to awards with a market-based condition are recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided and all performance conditions have been satisfied.

During February 2016, the Trust granted 0.2 million PEUs under its PEU Plan. Unit-based compensation expense and fair value assumptions using the Monte-Carlo valuation model are as follows:

Year ended December 31,	2016	2015
Fair value of PEUs granted	\$ 5,325	\$ 3,766
PEUs granted (in thousands)	165	111
Grant date fair value per unit	\$ 32.27	\$ 33.93
Expected risk-free interest rate (i)	0.5%	0.5%
Expected unit price volatility (ii)	16.0%	14.0%
Expected total unitholder return (iii)	9.3%	11.4%

(i) Determined using the yield on Government of Canada benchmark bonds with an average maturity period similar to the PEU vesting period.

(ii) Estimated by considering historic average unit price volatility.

(iii) PEUs are subject to total unitholder return (TUR) performance hurdles where vesting is dependent upon RioCan's TUR performance relative to certain internal and external measures, which includes the following: a) one-third of PEU grants are subject to a relative performance against a comparative group of peer companies; b) one-third of PEU grants are subject to an absolute out performance hurdle against certain market indices; and one-third of PEU grants are subject to an internal Operating FFO growth performance hurdle.

#### 15. DISTRIBUTIONS TO UNITHOLDERS

Total distributions declared to unitholders are as follows:

Year ended December 31,	2016		2015	
	Total Distributions	Distributions per unit	Total Distributions	Distributions per unit
Common Unitholders	\$ 458,388	\$ 1.4100	\$ 453,094	\$ 1.4100
Preferred Unitholders – Series A	1,640	0.3281	6,563	1.3125
Preferred Unitholders – Series C	7,027	1.1750	7,027	1.1750
	\$ 467,055		\$ 466,684	

On March 31, 2016, the Trust exercised its option to redeem all outstanding Series A preferred trust units. Refer to note 13 for further details.

On January 13, 2017, RioCan declared a distribution payable of 11.75 cents per unit for the month of January 2017 to common trust unitholders of record as at January 31, 2017. On February 15, 2017, RioCan also declared a distribution payable of 11.75 cents per unit for the month of February 2017 to common trust unitholders of record as at February 28, 2017.

**RIOCAN REAL ESTATE INVESTMENT TRUST**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

**FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

**16. RENTAL REVENUE**

Year ended December 31,	2016	2015
Base rent	\$ 706,407	\$ 657,922
Realty tax recoveries	219,685	206,959
Common area maintenance recoveries	157,936	148,539
Percentage rent	9,541	6,201
Straight-line rent	7,263	8,094
Lease cancellation fees	3,052	11,353
	<b>\$ 1,103,884</b>	<b>\$ 1,039,068</b>

**17. INVESTMENT AND OTHER INCOME (LOSS)**

Year ended December 31,	2016	2015
Income earned on available-for-sale securities	\$ 13,173	\$ 12,790
Transaction gains (losses), net	20,095	(2,631)
Target settlement proceeds, net	—	88,267
	<b>\$ 33,268</b>	<b>\$ 98,426</b>

Net transaction gains and losses include realized gains and losses recorded upon the disposition of available-for-sale marketable securities, certain investment properties and equity accounted investments.

On January 15, 2015, Target Corporation (Target) announced plans to discontinue its Canadian operations through its indirect wholly owned subsidiary, Target Canada Co. During December 2015, RioCan entered into a binding agreement with Target Corp., the U.S. parent of Target Canada Co., concluding the terms of settlement relating to leases that were disclaimed pursuant to the *Companies' Creditors Arrangement Act*. Investment and other income includes \$88 million in cash settlement proceeds received relating to the release of Target Corp. from the indemnity agreements, which is net of \$3.5 million of outstanding rents receivable as of the disclaim date and other costs of settlement.

**18. INTEREST COSTS**

Year ended December 31,	2016	2015
Total interest	\$ 206,989	\$ 214,203
Less: Interest capitalized to properties under development	27,462	27,431
	<b>\$ 179,527</b>	<b>\$ 186,772</b>

For the year ended December 31, 2016, interest was capitalized to properties under development at a weighted average effective interest rate of 3.94% (December 31, 2015 - 4.23%).

**19. GENERAL AND ADMINISTRATIVE**

Year ended December 31,	2016	2015
Salaries and benefits	\$ 23,568	\$ 21,206
Unit-based compensation expense	6,745	4,741
Depreciation and amortization	4,386	4,434
Other general and administrative	17,521	20,670
	<b>\$ 52,220</b>	<b>\$ 51,051</b>

Other general and administrative costs include information technology costs, public company costs, professional fees, travel expenses, occupancy costs, donations, advertising, promotion and marketing costs.

**20. TRANSACTION AND OTHER COSTS**

For the year ended December 31, 2016, transaction and other costs includes primarily property acquisition and disposition costs totalling \$9.6 million (December 31, 2015 - \$10.5 million).

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

## 21. NET INCOME (LOSS) PER UNIT

Net income per basic and diluted unit is calculated based on net income available to common unitholders divided by the weighted average number of common trust units outstanding, taking into account the dilution effect of unit options and any difference between redemption and carrying value on preferred unit redemptions.

Year ended December 31,	2016		2015	
<b>Net income attributable to unitholders</b>	\$	<b>830,747</b>	\$	141,763
Less: Net income (loss) from discontinued operations		<b>147,687</b>		(275,129)
<b>Net income attributable to unitholders from continuing operations</b>	\$	<b>683,060</b>	\$	416,892
Less: Preferred unit redemption (ii)		<b>4,304</b>		—
Distributions to preferred unitholders		<b>8,667</b>		13,590
<b>Net income attributable to common unitholders from continuing operations</b>	\$	<b>670,089</b>	\$	403,302

Weighted average common units outstanding (in thousands):

Basic	<b>325,386</b>	319,492
Dilutive effect of common unit options (i)	<b>279</b>	491
Diluted	<b>325,665</b>	319,983

Net income (loss) per unit - basic:

Continuing operations	\$	<b>2.06</b>	\$	1.26
Discontinued operations		<b>0.45</b>		(0.86)
	\$	<b>2.51</b>	\$	0.40

Net income (loss) per unit - diluted:

Continuing operations	\$	<b>2.06</b>	\$	1.26
Discontinued operations		<b>0.45</b>		(0.86)
	\$	<b>2.51</b>	\$	0.40

(i) The calculation of diluted weighted average units outstanding excludes 4.4 million unit options for the year ended December 31, 2016 (December 31, 2015 - 5.1 million units), as the exercise price of these unit options was greater than the average market price of RioCan's common trust units.

(ii) Represents the excess of par redemption value over the carrying value of the Trust's Series A preferred trust units redeemed on March 31, 2016.

## 22. FAIR VALUE MEASUREMENT

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheets is as follows:

	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash and equivalents	\$ 54,366	\$ —	\$ —	\$ 83,318	\$ —	\$ —
Available-for-sale investments	<b>299,987</b>	<b>5,665</b>	—	300,553	—	—
Investment properties:						
Income properties	—	—	<b>12,406,719</b>	—	—	11,322,109
Properties under development	—	—	<b>880,319</b>	—	—	830,067
Properties held for sale	—	—	<b>60,530</b>	—	—	2,968,095
Cross currency interest rate swaps	—	<b>1,416</b>	—	—	—	—
<b>Total assets measured at fair value</b>	<b>\$ 354,353</b>	<b>\$ 7,081</b>	<b>\$13,347,568</b>	<b>\$ 383,871</b>	<b>\$ —</b>	<b>\$15,120,271</b>
Liabilities measured at fair value:						
Interest rate swaps	—	<b>10,241</b>	—	—	26,416	—
<b>Total liabilities measured at fair value</b>	<b>\$ —</b>	<b>\$ 10,241</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 26,416</b>	<b>\$ —</b>

For assets and liabilities measured at fair value as at December 31, 2016, there were no transfers between Level 1, Level 2 and Level 3 assets and liabilities during the period. For changes in fair value measurements of investment properties and Canadian properties held for sale included in Level 3 of the fair value hierarchy, refer to note 5 for details.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

#### Fair value of financial instruments

The Trust's financial instruments and their carrying values on the consolidated balance sheets are as follows:

	December 31, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Available-for-sale investments	\$ 305,652	\$ 305,652	\$ 300,553	\$ 300,553
Receivables and other assets	42,427	42,427	81,504	81,504
Mortgages and loans receivable	118,017	115,416	129,258	126,227
Cross currency interest rate swaps	1,416	1,416	—	—
Mortgages payable, lines of credit and mortgages on properties held for sale	3,405,568	3,508,106	5,413,304	5,660,359
Debentures payable	2,248,024	2,371,060	2,000,066	2,073,905
Interest rate swap liabilities	10,241	10,241	26,416	26,416
Accounts payable and other liabilities	489,613	489,613	394,483	394,483

The fair values of the Trust's financial instruments were determined as follows:

#### *Receivables, other assets, accounts payable and other liabilities*

These instruments' carrying amounts approximate fair values due to their short-term nature.

#### *Mortgages and other loans receivable*

The fair value of mortgages and other loans receivable is determined by the discounted cash flow method using applicable inputs such as prevailing interest rates, contractual rates and discounts. Fair value measurements of these instruments were estimated using Level 3 inputs. The carrying values of short-term and variable rate loans generally approximate their fair values.

#### *Mortgages payable, lines of credit, mortgages on properties held for sale and debentures payable*

The fair values of these instruments are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to the Trust for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs. The carrying values of short-term and variable rate debt generally approximate their fair values.

#### *Cross currency interest rate swap liability*

The fair values of the cross currency interest rate swaps reported in other liabilities represent estimates at a specific point in time using financial models, based on both foreign exchange and interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves.

#### *Interest rate swap liability*

The fair values of the interest rate swaps reported in other liabilities represent estimates at a specific point in time using financial models, based on interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves.

## 23. RISK MANAGEMENT

The main risks arising from the Trust's financial instruments are interest rate, liquidity, credit and foreign exchange risks.

The Trust's approach to managing these risks is summarized below:

#### **Interest rate risk**

The Trust is exposed to interest rate risk on its borrowings and could be adversely affected if it were unable to obtain cost-effective financing. The majority of the Trust's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. As at December 31, 2016, approximately 13.8% (December 31, 2015 - 14.0%) of the Trust's debt (including mortgages held for sale) is financed at variable rates, exposing the Trust to changes in interest rate risk.

From time to time, the Trust may enter into floating-for-fixed interest rate swaps as part of its strategy for managing certain interest rate risks. The Trust has applied hedge accounting and recorded the changes in fair value for the effective portion of the derivative in OCI from the date of designation. For any interest rate swaps for which the Trust does not apply hedge accounting, the change in fair value is recognized in the consolidated statements of income.

As at December 31, 2016, the outstanding notional amount of the floating-to-fixed interest rate swaps was \$683 million (December 31, 2015 - \$993 million) and the term to maturity of these agreements ranges from April 2017 to October 2023.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

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The outstanding interest rate swaps by year of maturity are as follows:

Maturity	Original principal amount	Weighted average effective fixed interest rate
2017	\$ 104,690	3.81%
2018	208,938	3.60%
2019	126,020	3.57%
2020	119,025	2.88%
2021	55,000	4.12%
Thereafter	69,000	2.82%
	\$ 682,673	

The Trust assesses the effectiveness of the hedging relationship on a quarterly basis and has determined there is no ineffectiveness in the hedging of its interest rate exposure. As an effective hedge, unrealized gains or losses on the interest rate swap agreements are recognized in OCI. As at December 31, 2016, the fair value of the interest rate swaps are, in aggregate, a net financial liability of \$10 million (December 31, 2015 - \$26 million).

As at December 31, 2016, the carrying value of the Trust's floating rate debt, not subject to a hedging strategy, is \$778 million. As at December 31, 2016, a 50 basis point increase in market interest rates would result in a \$3.9 million decrease in the Trust's net income.

#### Liquidity risk

Liquidity risk is the risk that the Trust will not meet its financial obligations as they become due. The Trust mitigates its liquidity risk by staggering the maturity dates of its long-term debt, limiting the use of floating rate debt, actively renewing expiring credit arrangements, utilizing undrawn lines of credit, and issuing equity when considered appropriate.

- For the schedule of future repayments of mortgages, floating rate debt and cash advances drawn against the Trust's lines of credit, see note 10 for further details.
- For the schedule of future repayments of debentures, see note 11 for further details.

The Trust expects to continue financing future acquisitions, development and debt obligations through existing cash balances, internally generated cash flows, mortgages, operating facilities, issuance of equity, unsecured debentures, and the sale of non-core assets.

#### Credit risk

Credit risk arises from the possibility that:

- Tenants experience financial difficulty and are unable to fulfill their lease commitments or tenants fail to occupy and pay rent in accordance with existing lease agreements, some of which are conditional.
- Borrowers default on the repayment of their mortgages to the Trust.
- Third-party defaults on the repayment of debt whereby RioCan has provided lender guarantees.

RioCan's Declaration of Trust contains provisions that have the effect of limiting the amount of space that can be leased to one tenant and its investment in mortgages receivable.

Additionally, the Trust mitigates tenant credit risk through geographical diversification, staggered lease maturities, diversification of revenue sources resulting from a large tenant base, avoiding dependence on any single tenant by ensuring no individual tenant contributes a significant percentage of the Trust's gross revenue and ensuring a considerable portion of the Trust's revenue is earned from national and anchor tenants and conducting credit assessments for new tenants.

#### Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. As a result of the Trust's disposal of its U.S. property portfolio, repayment of U.S. denominated debt and exit from its U.S. operations, discussed further in note 4, RioCan has significantly reduced its foreign exchange risk.

## 24. CAPITAL MANAGEMENT

The Trust defines capital as the aggregate of unitholders' equity and debt. The Trust's capital management framework is designed to maintain a level of capital that complies with investment and debt restrictions pursuant to RioCan's Declaration, complies with existing debt covenants, enables the Trust to achieve target credit ratings, implements its business strategies and builds long-term unitholder value. The key elements of RioCan's capital management framework are approved by its unitholders via the Trust's Declaration of Trust and by its Board through their annual review of the Trust's strategic plan and budget, supplemented by periodic Board and Board Committee meetings. Capital adequacy is monitored by the Trust by assessing performance against the approved annual plan throughout the year, which is updated accordingly, and by monitoring adherence to investment and debt restrictions contained in the Declaration and debt covenants.

RioCan's Declaration provides for maximum total debt levels up to 60% of Aggregate Assets (as defined in the Declaration). The Trust is in compliance with this restriction.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

Additionally, RioCan's Declaration contains provisions that have the effect of limiting capital expended by the Trust for, among other items, the following:

- direct and indirect investments (net of related mortgages payable) in non-income producing properties (including greenfield developments and mortgages receivable to fund the Trust's co-owners' share of such developments) to no more than 15% of the Adjusted Unitholders' Equity of the Trust (herein referred to as the "Basket Ratio" with Adjusted Unitholders' Equity as defined in the Declaration);
- total investment by the Trust in mortgages receivable, other than mortgages taken back by the Trust on the sale of its properties, to no more than 30% of the Adjusted Unitholders' Equity of the Trust;
- any property acquired by the Trust, directly or indirectly, if the cost to the Trust of such acquisition (net of the amount of mortgages payable assumed) exceeds 10% of the Adjusted Unitholders' Equity of the Trust;
- subject to the Basket Ratio, securities of an entity, other than to the extent that such securities would, for the purpose of the Declaration, constitute an investment in real estate; and
- the amount of space that can be leased or subleased to any tenant, with certain exceptions, to a maximum space having an aggregate gross leasable area of 20% of the aggregate gross leasable area of all real estate investments held by the Trust.

The Trust is in compliance with each of the above noted restrictions as at and for the year ended December 31, 2016. The Trust intends, but is not contractually obligated, to distribute to its unitholders in each year an amount not less than the Trust's income for the year, as calculated in accordance with the *Income Tax Act* (Canada) (the Tax Act) after all permitted deductions under the Tax Act have been taken. RioCan's Trustees rely upon forward-looking cash flow information, including forecasts and budgets and the future business prospects of RioCan, to establish the level of cash distributions.

The Trust's debentures payable have covenants that are consistent with the Debt to Aggregate Assets ratio as discussed above, maintenance of at least \$1 billion of Adjusted Book Equity (defined in the indenture), and maintenance of at least an interest coverage ratio (defined in the indenture) of 1.65 for a rolling twelve-month period.

The following table highlights RioCan's Ratio of Debt to Total Assets (net of cash), Basket Ratio and Interest coverage ratio in accordance with the Declaration:

As at December 31,	Note	2016	2015
Mortgages payable and lines of credit	10	\$ 3,405,568	\$ 4,164,669
Liabilities associated with assets held for sale	4	—	1,248,635
Debentures payable	11	2,248,024	2,000,066
<b>Total Debt</b>		<b>5,653,592</b>	7,413,370
Unitholders' equity		8,009,888	7,926,039
<b>Total capital</b>		<b>\$ 13,663,480</b>	\$ 15,339,409
Ratio of debt, net of cash, to total assets, net of cash		39.7%	46.1%
Basket Ratio		2.6%	2.9%

Year ended December 31,	2016	2015
Interest coverage ratio	3.38	3.06

#### ***New unsecured operating credit facility***

The Trust is subject to certain key financial covenants pursuant to the agreement governing its unsecured operating credit facility, which are calculated on a rolling twelve-month basis. As at and for the year ended December 31, 2016, the Trust is in compliance with all applicable financial covenants.

The following table summarizes the Trust's performance relative to these key financial covenants:

	Key covenant	December 31, 2016
Total indebtedness (i) (vi)	< 60%	43.3%
Secured indebtedness (ii) (vi)	< 40%	21.0%
Debt service coverage (iii) (vi)	> 1.5x	2.4 x
Minimum unitholders' equity (in millions)	> \$5,000	\$8,010
Ratio of unencumbered property assets to unsecured indebtedness (iv) (v) (vi)	> 1.5x	2.0 x
Properties held for development as a percentage of consolidated gross book value of assets	< 15%	6.6%

(i) Total indebtedness consists of the contractual amounts outstanding on mortgages payable, lines of credit and other bank loans, debentures payable, capital lease obligations, contingent liabilities and the maximum exposure to loss for all third-party debt where RioCan has provided a financial guarantee.

(ii) Secured indebtedness includes mortgages payable, other bank loans and capital lease obligations, which are secured against investment

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

properties.

- (iii) Debt service includes regular mortgage principal and interest payments, including interest capitalized on properties under development.
- (iv) Unsecured indebtedness includes the contractual amounts outstanding of the unsecured line of credit, debentures and any third-party debt amounts guaranteed by RioCan.
- (v) Unencumbered property assets consist of properties that have not been pledged as security for debt. The unencumbered property asset to unsecured indebtedness ratio is calculated as unencumbered assets divided by unsecured indebtedness.
- (vi) These ratios include inputs from proportionately consolidated equity accounted investments.

## 25. OPERATING LEASES

### Lease commitments – Trust as lessor

The Trust as lessor has entered into leases on its property portfolio. The leases typically have lease terms between five and twenty years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to terminate before the end of the lease term.

Future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods are as follows:

As at	December 31, 2016
Within twelve months	\$ 713,910
Two to five years	2,027,208
Over five years	1,533,327
<b>Total</b>	<b>\$ 4,274,445</b>

Contingent rent recognized in the consolidated statements of income for the year ended December 31, 2016 is \$12 million (December 31, 2015 - \$9.2 million).

## 26. SUBSIDIARIES

The subsidiaries listed below are wholly owned and reflect significant entities of the Trust:

Name	Country
RioCan Management (BC) Inc.	Canada
RioCan Management Inc.	Canada
RioCan (KS) Management LP	Canada
RioCan Management Beneficiary Trust	Canada
RioCan Yonge Eglinton LP	Canada
RioCan (Festival Hall) Trust	Canada
Timmins Square Limited Partnership	Canada
Shoppers World Brampton Investment Trust	Canada
RioCan Realty Investments Partnership Four LP	Canada
RioCan Realty Investments Partnership Seven LP	Canada
RioCan Realty Investments Partnership Nine LP	Canada
RioCan Realty Investments Partnership Ten LP	Canada
RioCan Realty Investments Partnership Eleven LP	Canada
RioCan (GH) Limited Partnership	Canada
RioCan Property Services Trust	Canada
RioCan White Shield Limited Partnership	Canada
RioCan (GTA Marketplace) LP	Canada
RioCan East Village LP	Canada
RC REIT Limited Partner Trust	Canada
RC NA Property 1 LP	Canada
RC NA Property 2 LP	Canada
RC Northeast Partnership LP	U.S.
RC/Dunhill Timber Creek Holdings LP	U.S.
RC (RP) I LP	U.S.
RioKim USA LP	U.S.
RC NA Property 3 LP	U.S.

# RIOCAN REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

#### 27. SUPPLEMENTAL CASH FLOW INFORMATION

Year ended December 31,	2016	2015
Interest received	\$ 776	\$ 3,286
Interest paid	229,159	264,208
Distributions paid:		
Distributions declared during the year	\$ (458,388)	\$ (453,094)
Distributions declared in the prior period paid in the current year	(37,893)	(37,128)
Distributions declared in current period paid in next year	38,356	37,893
Distributions paid	\$ (457,925)	\$ (452,329)
Proceeds from units issued under the distribution reinvestment plan	60,782	142,715
	\$ (397,143)	\$ (309,614)

#### 28. CHANGES IN OTHER WORKING CAPITAL ITEMS

Year ended December 31,	2016	2015
Receivable and other assets	\$ 96,709	\$ (41,512)
Mortgage receivable interest	(4,914)	3,305
Residential development inventory	(3,138)	35,074
Accounts payable and other liabilities	94,492	1,765
Foreign exchange and other	(27,080)	14,044
Net change in non-cash operating items	\$ 156,069	\$ 12,676

#### 29. RELATED PARTY TRANSACTIONS

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the Trust's activities, directly or indirectly.

The Trust's key management personnel include the Trustees and the following individuals: Chief Executive Officer, Edward Sonshine; President and Chief Operating Officer, Raghunath Davloor; and Chief Financial Officer and Corporate Secretary, Cynthia Devine (collectively, the Key Executives).

Remuneration of the Trust's key management during the year ended December 31, 2016 and 2015 is as follows:

Year ended December 31,	Trustees		Key Executives	
	2016	2015	2016	2015
Compensation and benefits	\$ 301	\$ 237	\$ 5,756	\$ 5,497
Unit-based payments	2,253	1,751	5,341	2,751
Post-employment benefit costs	—	—	57	88
	\$ 2,554	\$ 1,988	\$ 11,154	\$ 8,336

During February 2016, RioCan's Chief Executive Officer, Edward Sonshine, agreed to amend his employment contract to reflect his agreement to not retire or resign voluntarily before December 31, 2018. As part of this commitment, Mr. Sonshine agreed to use his best efforts to provide the Trust with 12 months' notice of his intent to retire or resign.

#### 30. EMPLOYEE BENEFITS

##### Plan characteristics

RioCan sponsors a defined contribution plan and three defined benefit plans that provide pension and certain post-employment benefits to eligible employees. Plan members are not required, nor are they permitted, to contribute to these plans. The defined benefit plans are closed to new members and any new employees are generally eligible to join the defined contribution pension plan. All plans are administered by separate funds that are legally segregated from RioCan.

##### Defined contribution plan

The Trust's defined contribution pension plans provide pension benefits based on accumulated RioCan contributions. RioCan's contributions are based on a percentage of an employee's annual earnings. For the year ended December 31, 2016, RioCan's contributions to the defined contribution plan was \$1.0 million (December 31, 2015 - \$0.9 million).

##### Defined benefit plans

RioCan's defined benefit pension plans, one of which is a registered plan and two of which are supplemental unregistered plans, provide pension benefits mostly based on years of credited service, the average of the highest five years of earnings and the age of the member at retirement.



# RIOCAN REAL ESTATE INVESTMENT TRUST

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(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

The Trust measures its benefit obligations and pension assets as at December 31 each year. All plans are valued using the projected unit-credit method. The Trust funds its registered defined benefit pension plans in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current pension regulations. The most recent funding actuarial valuation for the Trust's defined benefit plans was completed as at January 1, 2016, and the next valuation is scheduled for January 1, 2019.

The fair value of the registered plan assets as at December 31, 2016 is \$2.8 million (December 31, 2015 - \$2.9 million). The recognized pension obligation (net of plan assets) as at December 31, 2016 is \$12.8 million (December 31, 2015 - \$13.2 million). Pension costs, net of recoveries, of \$0.5 million were recorded in net income for the year ended December 31, 2016 (pension costs for the year ended December 31, 2015 - \$0.6 million).

The discount rate used was 3.8% (December 31, 2015 - 3.8%), the compensation growth rate was 4.0% (December 31, 2015 - 4.0%) and the expected long-term rate of return on assets was 3.8% (December 31, 2015 - 3.8%).

Actuarial gains and losses for the defined benefit plans are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to income in subsequent periods.

### 31. SEGMENTED INFORMATION

RioCan primarily owns, develops, manages and operates grocery-anchored retail centres and mixed-use developments located in Canada. In measuring the performance of its retail centres, the Trust does not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable segment. Management has applied judgment by aggregating its operating segments into one reportable segment for disclosure purposes. Such judgment considers the nature of property operations, tenant mix and an expectation that operating segments within a reportable segment have similar long-term economic characteristics.

The Trust's Chief Executive Officer is the chief operating decision maker and regularly reviews RioCan's operations and performance on an individual property basis. RioCan does not have any single major tenant or a significant group of tenants.

### 32. CONTINGENCIES AND OTHER COMMITMENTS

#### Guarantees

As at December 31, 2016, the estimated amount of third-party debt subject to RioCan guarantees, and therefore the maximum exposure to credit risk, was approximately \$428 million, consisting of guarantees totalling \$341 million to partners and co-owners (December 31, 2015 - \$358 million). The remaining debt subject to RioCan guarantees of \$87 million relates to the assumption of mortgages by purchasers on property dispositions with expiry dates between 2017 and 2034 (December 31, 2015 - \$99 million). There have been no defaults by the primary obligors for debts on which the Trust has provided its guarantees, and as a result, no provision for these guarantees has been recognized in these consolidated financial statements.

The maximum exposure to credit risk relating to a guarantee is the maximum risk of loss if there was a total default by the co-owner, without consideration of recoveries under recourse provisions against such co-owner's equity in the property or other assets of the co-owner.

#### Letters of credit

The Trust has aggregate letter of credit facilities with certain Schedule I banks totaling \$81 million. As at December 31, 2016, the Trust's outstanding letters of credit under these facilities was \$29 million (December 31, 2015 - \$29 million).

#### Lease commitments – Trust as lessee

The Trust as lessee is committed under long-term operating leases with various expiry dates to 2088. Future minimum lease payments are as follows:

	December 31, 2016		
	Land Leases	Operating Leases	Total Commitments
Within 12 months	\$ 903	\$ 615	\$ 1,518
2 to 5 years	3,275	1,925	5,200
Over 5 years	7,226	4,191	11,417
Total	\$ 11,404	\$ 6,731	\$ 18,135

#### Investment commitments

##### RioCan HBC Joint Venture

As at December 31, 2016, RioCan has approximately \$157 million of remaining unfunded investment commitments related to the RioCan-HBC JV (December 31, 2015 - \$178 million).

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Canadian dollars, tabular amounts in thousands, except per unit amounts or unless otherwise noted)

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

#### *WhiteCastle New Urban Funds (WNUF)*

As at December 31, 2016, the Trust has unfunded investment commitments of approximately \$53 million relating to WNUF, WNUF 2 and WNUF 3 (December 31, 2015 - \$59 million). Amounts to be funded are callable by the general partner at any point prior to the expiration of the investment period of February 28, 2018 for WNUF and WNUF 2 and May 1, 2020 for WNUF 3.

#### **Litigation**

The Trust is involved with litigation and claims that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies will not have a significant adverse effect on the Trust's consolidated financial statements.

### **33. EVENTS AFTER THE BALANCE SHEET DATE**

#### **Debenture issuance**

On January 16, 2017, the Trust issued \$300 million of Series Y senior unsecured debentures, which mature on October 3, 2022 and carry a coupon rate of 2.83%. The interest on these debentures is payable semi-annually commencing April 3, 2017.

# CORPORATE INFORMATION

## SENIOR MANAGEMENT

**Edward Sonshine, O.Ont., Q.C.**  
Chief Executive Officer

**Raghunath Davloor**  
President, Chief Operating Officer & Corporate Secretary

**Qi Tang**  
Senior Vice President, Finance & Acting Chief Financial Officer

**John Ballantyne**  
Senior Vice President, Asset Management

**Andrew Duncan**  
Senior Vice President, Developments

**Jonathan Gitlin**  
Senior Vice President, Investments & Residential

**Danny Kissoon**  
Senior Vice President, Operations

**Jeff Ross**  
Senior Vice President, Leasing & Tenant Coordination

**Terri Andrianopoulos**  
Vice President, Corporate Marketing

**Moshe Batalion**  
Vice President, Leasing – Ontario

**Stuart Baum**  
Vice President, Human Resources

**Nigel Bunbury**  
Vice President, Financial Reporting & Controls

**Stuart Craig**  
Vice President, Planning & Development

**Roberto DeBarros**  
Vice President, Construction

**Oliver Harrison**  
Vice President, Asset Management

**Oliver Hobday**  
Vice President, Legal

**Kevin Miller**  
Regional Vice President,  
Operations – Central Ontario

**Pradeepa Nadarajah**  
Vice President, Property Accounting

**Paran Namasivayam**  
Vice President, Recovery Accounting

**Stephen Roberts**  
Vice President, Analytics

**Tim Roos**  
Vice President, Operations

**Jonathan Sonshine**  
Vice President, Asset Management

**Jeffrey Stephenson**  
Vice President, Leasing

**Naftali Sturm**  
Vice President, Real Estate Finance

**Renato Vanin**  
Vice President, Information Technology

## BOARD OF TRUSTEES

**Paul Godfrey, C.M., O.Ont.** <sup>1,2,3,4</sup>  
(Chairman of Board of Trustees)  
President and Chief Executive Officer  
Postmedia Network Canada Corp.

**Bonnie R. Brooks, C.M.** <sup>3,4</sup>  
Chair, Liquor Control Board of Ontario

**Clare R. Copeland** <sup>1,2</sup>  
Vice-Chair, Falls Management Company

**Dale H. Lastman**  
Chair and Partner, Goodmans LLP

**Jane Marshall** <sup>2,3,4</sup>  
Former Chief Operating Officer of  
Choice Properties REIT

**Sharon Sallows** <sup>1,2,4</sup>  
Trustee, Chartwell Retirement Residences REIT

**Edward Sonshine, O.Ont., Q.C.**  
Chief Executive Officer  
RioCan Real Estate Investment Trust

**Charles M. Winograd** <sup>3,4</sup>  
President, Winograd Capital Inc.

**Luc Vanneste** <sup>1,2</sup>  
Chair of the Audit Committee,  
RioCan Real Estate Investment Trust

1 member of the Audit Committee

2 member of the Human Resources & Compensation Committee

3 member of the Nominating & Governance Committee

4 member of the Investment Committee

## UNITHOLDER INFORMATION

### Head Office

RioCan Real Estate Investment Trust  
RioCan Yonge Eglinton Centre,  
2300 Yonge Street, Suite 500  
P.O. Box 2386, Toronto, Ontario M4P 1E4  
Tel: (416) 866-3033 or 1 (800) 465-2733  
Fax: (416) 866-3020  
Website: [www.riocan.com](http://www.riocan.com)  
Email: [inquiries@riocan.com](mailto:inquiries@riocan.com)

## UNITHOLDER AND INVESTOR CONTACT

### Christian Green

Assistant Vice President, Investor Relations & Compliance  
Tel: (416) 864-6483  
Email: [cgreen@riocan.com](mailto:cgreen@riocan.com)

## AUDITORS

**Ernst & Young LLP**

## TRANSFER AGENT AND REGISTRAR

### CST Trust Company

P.O. Box Station B,  
Montreal, Quebec H3B 3K3  
Answerline: 1 (800) 387-0825 or  
(416) 643-5500  
Fax: 1 (800) 249-6189 or (514) 985-8843  
Website: [www.canstockta.com](http://www.canstockta.com)  
Email: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

## STOCK EXCHANGE LISTING

### The Toronto Stock Exchange

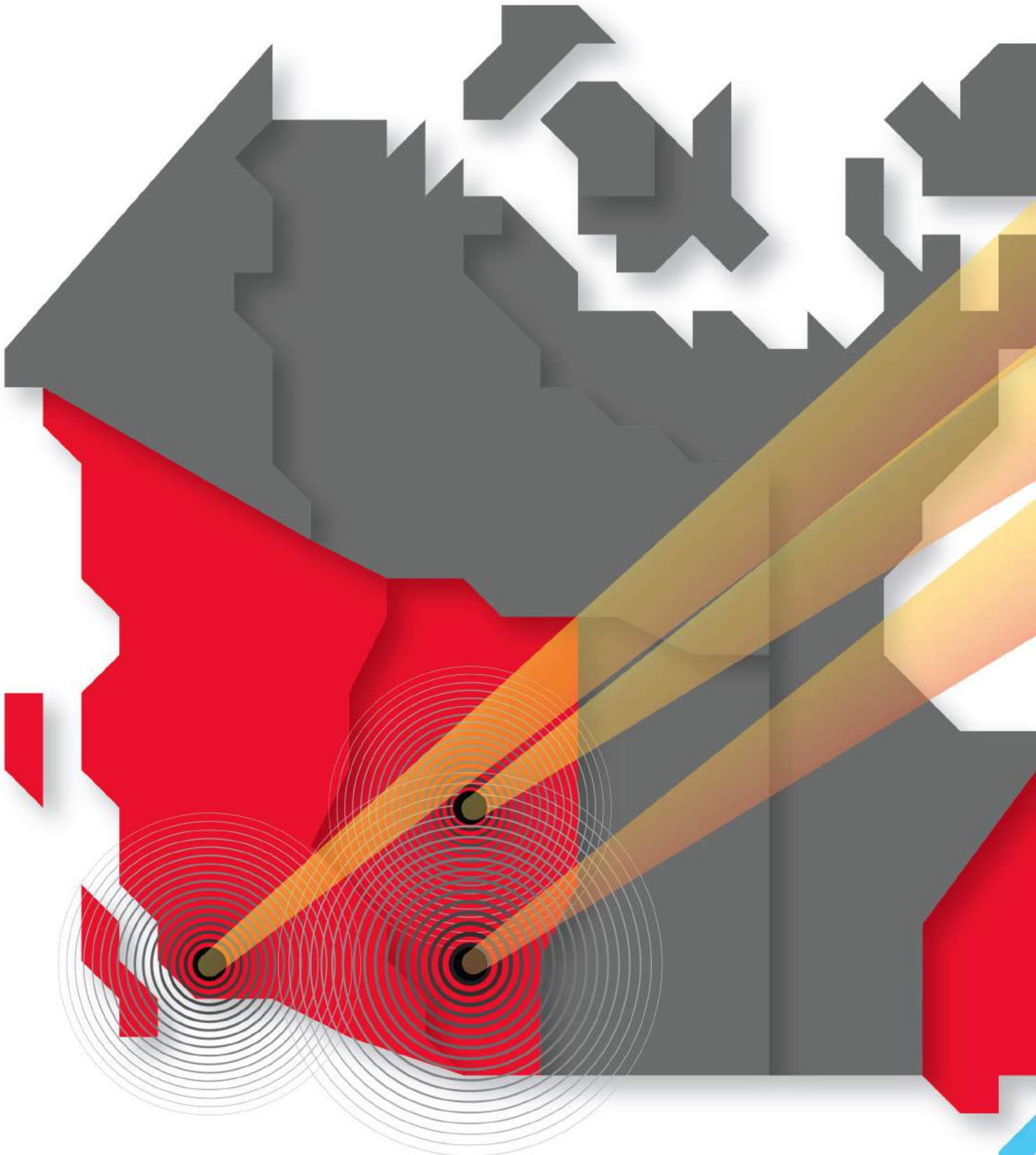
Trading Symbols:  
Common Units – REI.UN  
Preferred Units – Series C REI.PRC

## ANNUAL MEETING

The 2017 Annual Meeting of RioCan REIT will be held on June 8, 2017 at 10:00 a.m. at SilverCity Theatres located at RioCan Yonge Eglinton Centre, 2300 Yonge Street, Toronto, Ontario. All unitholders are invited and encouraged to attend in person or via webcast at [www.riocan.com](http://www.riocan.com).

On peut obtenir une version française du présent rapport annuel sur le site web de RioCan : [www.riocan.com](http://www.riocan.com).

A French language version of this annual report is available on RioCan's website: [www.riocan.com](http://www.riocan.com)



# RIO CAN

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