

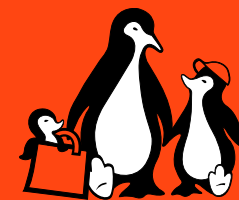
2017 ANNUAL REPORT

SMART TODAY SMART TOMORROW

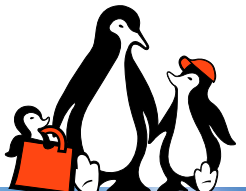


SMARTCENTRES®

**A DYNAMIC REAL ESTATE PORTFOLIO,
MULTIPLE INTENSIFICATION
OPPORTUNITIES AND MEASURED
GROWTH HAVE CONTRIBUTED
TO MAKING SMARTCENTRES
ONE OF THE LARGEST PUBLIC
DEVELOPMENT COMPANIES IN
CANADA. FROM THIS SOLID
POSITION, WE WILL CONTINUE
TO GROW STRONGER.**



SMART TODAY



RETAIL SHOPPING



Leaside SmartCentre



Whitby North SmartCentre



Penguin Pick-Up

Our roots are in retail, and our shopping malls remain a significant part of who we are as a company. We're proud to be an integral part of many communities across Canada.

VAUGHAN METROPOLITAN CENTRE



KPMG Tower



PwC-YMCA Tower



Transit City Condos



We are continuing to develop one of North America's fastest growing urban centres with the construction of office, residential and retail facilities.



VMC Subway Station



VMC

PREMIUM OUTLETS



Toronto Premium Outlets



Toronto Premium Outlets Expansion – Multi-level Parking and Pedestrian Bridge



Montreal Premium Outlets

With an unparalleled mix of international fashion name brands, Premium Outlets are expanding to meet the demand for exceptional retail experiences.



DEVELOPMENT INITIATIVES



Laval Centre



Retirement

SMART TOMORROW



Self-storage



StudioCentre



Residential

To expand our growing portfolio of real estate assets, we're undertaking a wide variety of new developments, from residential communities to self-storage facilities to seniors' residences.



Vaughan North West

INTENSIFICATION OPPORTUNITIES



Laval Centre



Pointe-Claire



StudioCentre (Toronto)



Westside Mall (Toronto)

Leveraging our real estate assets in select urban and suburban areas, we are developing projects that help maximize how the properties are used – residential, commercial and retail.

VALUE CREATION PIPELINE HIGHLIGHTS

- Vaughan Metropolitan Centre
- Premium Outlets (Toronto and Montreal)
- Westside Mall
- Vaughan (400 & 7) SmartCentre
- Laval Centre

- Pointe-Claire SmartCentre
- South Oakville Centre
- Vaughan North West SmartCentre
- StudioCentre
- Ottawa (Laurentian Place) SmartCentre



DEAR FELLOW UNITHOLDERS

2017 marked yet another year of strong performance and opportunity creation for SmartCentres, and I'm pleased to share the details with you in this year's annual report. Since its initial public offering in 2002, SmartCentres has enjoyed an average annual return of 10.1%, and has experienced above-average Net Asset Value (NAV) growth. Additionally, since the acquisition of the SmartCentres real estate development business in 2015, we have identified opportunities for intensification of more than 50 existing assets, with many more expected. I believe this ongoing success is based on a unique combination of key factors – namely, our national portfolio of 154 exceptionally well-located, open-format shopping centres; extensive list of development opportunities; in-house multidisciplinary team of 145 real estate development experts; diverse and innovative joint venture partnerships; and excellent financial strength and flexibility, with \$4.9 billion equity capitalization, unencumbered assets of approximately \$3.4 billion, and more than \$646 million of available liquidity.

The Canadian retail landscape continues to evolve as retailers adjust their business models to account for the growth of e-commerce, urbanization, an aging population and an increasingly ethnically diverse population. Over the last three years, the closure of Target and Sears has caused some 30 million square feet of retail space to come back into the market. This, together with other store closures, has presented retailers with space options and has caused inevitable pressure on rental renewal rates and new development absorption in some markets.

SmartCentres, principally Walmart-anchored, open-format centres, have continued to perform well because of their excellent locations, relevant tenant mix and value orientation. In addition, our Premium Outlets locations in Toronto and Montreal, with their strong brand representation and exceptional discount offers, continue to exceed market growth. Given these market dynamics for retail, the strategic direction for SmartCentres is looking to the future. Leveraging the experience of our internal development team, which has already shown its capability with more than 50 million square feet of retail built over the last 20 years, we are now considering the development potential of every one of our properties.

\$4.9B

**EQUITY
CAPITALIZATION**

\$3.4B

**UNENCUMBERED
ASSETS**

\$646M

**OF AVAILABLE
LIQUIDITY**

145

**IN-HOUSE TEAM
OF REAL ESTATE
DEVELOPMENT EXPERTS**

154

**EXCEPTIONALLY WELL-
LOCATED OPEN-FORMAT
SHOPPING CENTRES**



We have identified various residential properties (condominium, rental and single family), retirement homes, self-storage and office as appropriate uses for the land either adjacent to our centres or actually on site once redeveloped. Key to this strategy is that we have owned the land for a significant period, and therefore it is generally attractively priced. We also have income in place while the site is being redeveloped or expanded and our locations offer highly attractive opportunities for potential partners. The last two-and-a-half years since the SmartCentres acquisition have been spent building a pipeline of exceptional development opportunities, and we are now actively moving forward with the initial group of properties.

Earlier this year, we chose to change our name from SmartREIT to SmartCentres REIT to further leverage the positive equity established by the SmartCentres brand as we move forward on these new development initiatives. With a healthy balance sheet, we have the financial flexibility to continue on our path of disciplined growth. This growth has translated into higher returns for our Unitholders, and for the fourth year in a row, we increased our distributions, going from \$1.70 to \$1.75 per Unit in October – another reflection of the continued confidence the Board and I have in our abilities for future growth and cash generation.

As always, I thank our employees, business partners and our Trustees who provide us with the guidance to further develop our asset base profitably, positioning us for even greater future growth. But it is you, our Unitholders, who I thank the most for your continued support of SmartCentres and belief in our philosophy of measured growth. Your commitment will help us remain not only Smart Today, but Smart Tomorrow.

Sincerely,

Huw Thomas
Chief Executive Officer
SmartCentres REIT

2.9%
**INCREASE IN ANNUAL
DISTRIBUTIONS**

LAVAL, QUEBEC

LAVAL CENTRE

Growth potential now underway

Easily accessible by major roads and public transportation, and an ideal location for retail, office and residential uses, Laval Centre is the official downtown of the city of Laval. Currently under construction on the 48.5 acre Quartier St-Martin site is a mixed-use intensification project with a potential gross leasable area (GLA) of more than three million square feet – almost 20 times the size of the current GLA. A new BMO office building, retirement homes and rental apartments will soon be under construction with initial occupancies expected in 2019.



RETAIL PORTFOLIO STRENGTH

SmartCentres is one of Canada's premier REITs, possessing one of the country's largest real estate portfolios, with assets totalling \$9.4 billion. As of December 31, 2017, SmartCentres had over 34 million square feet of owned leasable area, with an occupancy rate of 98.3% including committed leases, comprising 3,100 tenants.

Our core business is our open-format retail shopping centres, which are located across Canada. The Canadian retail landscape is markedly different from that of our United States neighbours. In Canada, it's estimated there are 15 square feet of retail space per person, compared to 23 in the U.S., which has historically helped to drive higher rents. Big-box retail and open-format retail centres have been in Canada for just over 20 years, and are still very important to shoppers here. And whatever their level of income, Canadians tend to be more value-conscious, meaning that SmartCentres' value-focused shopping centres are relevant to the majority of Canadians.

In fact, SmartCentres is at a decided advantage because the majority of our shopping centres in Canada are anchored by Walmart stores, which, with the closure of Target and Sears, are now the only large-format discount stores, helping to drive high volumes of consumer traffic to our sites. Alongside our emerging suite of value-added services such as Penguin Pick-Up, free Wi-Fi, car charging stations, digital signage and mobile advertising support, more and more of our tenants are offering specialty services such as nail salons, gyms, restaurants and doctors' offices. As a result, we're not only offering popular shopping destinations, but vibrant community destinations as well.



SmartCentres Home Office, Vaughan, ON

34M ^{SQ.}
FT.

**OF SHOPPING
CENTRE SPACE**

5.8 **YRS.**

**AVERAGE
LEASE TERM**

84%

**NEAR OR IN
URBAN MARKETS**

98.3%

**OCCUPANCY INCLUDING
COMMITTED LEASES**

14.0 **YRS.**

**AVERAGE AGE
OF PROPERTIES**

100%

**OF SITES CONTAIN
A GROCERY/PHARMACY**

**MANY OPPORTUNITIES TODAY.
MANY MORE TO COME.**

In 2017, SmartCentres continued to expand its development initiatives to include a wide variety of proposed categories that include rental apartments, condominiums, townhouses, retirement homes, office buildings and self-storage facilities while also enhancing its shopping centres with additional services and amenities.

Ultimately, we believe that a very significant number of our shopping centre sites will provide value, creating development opportunities on land we already own. This is why we are not currently divesting of these suburban assets, or our more rural assets. Our updated analysis also shows we have more than 2,600 acres of parking lots supporting our centres, more than half of which are in the key VECTOM markets. As demand for parking decreases over time, we expect some of this land will become available for development in addition to our already substantial inventory of undeveloped land.

The majority of our SmartCentres are strategically located close to population nodes, in designated growth areas and have superior access and visibility. At present, SmartCentres is actively pursuing, executing or has identified more than 50 development sites, with more to come as our development team continues to perform its review of our portfolio. SmartCentres possesses a large land bank, and we are continually seeking innovative ways to garner the greatest possible returns from it while minimizing risk. Our philosophy: growth from stability.

Our recent acquisition of OneREIT for \$429 million is a great example of a portfolio – 12 properties comprising 2.2 million square feet – that is garnering excellent returns now, and has the potential for even more in the future through further development. Our development team projects 100,000 square feet of future retail density and 1.7 million square feet of future mixed-use density, including residential, retirement, office and storage. The team is now in the process of reviewing redevelopment opportunities, including zoning and permissions.



Blainville SmartCentre, Blainville, QC

**RETAIL
DEVELOPMENT
INITIATIVES**

25
UNDERWAY

36
ACTIVE

2+
FUTURE

**NON-RETAIL
DEVELOPMENT
INITIATIVES**

17
UNDERWAY

50
ACTIVE

59+
FUTURE



CANADA

SELF-STORAGE

More opportunities for growth

The continuing growth of residential areas across Canada has also helped to fuel a growing need for offsite storage units. To help serve this need, SmartCentres will be developing self-storage sites across Canada. Eight are expected to be underway in 2018, with plans for an additional 4–5 new facilities each year over the next several years.



VAUGHAN, ONTARIO

VAUGHAN METROPOLITAN CENTRE

Canada's largest urban mixed-use project continues to grow

As it has for the past several years, Vaughan Metropolitan Centre (VMC) continued on its path towards greater intensification and growth with more retail, residential and parks – all contributing to the life of a dynamic new urban hub located just northwest of Toronto.

Located at the intersection of Highway 7 and Highway 400, SmartCentres Place comprises 100 acres – one-quarter of the entire 400-acre VMC site – which allows for 17–19 million square feet of which the REIT's share is 4.5–5.5 million square feet of mixed-use development. The newest TTC station and the VIVA Rapidway bus station both opened on the site in December 2017, making it an even more desirable business and residential destination within the Greater Toronto Area.

The KPMG Tower, which opened in October 2016, is now virtually fully occupied with tenants that include TD, Miller Thomson, Harley-Davidson, BMO, Green for Life, and of course, KPMG. The second office tower, with PwC as a lead tenant, is under construction and will include a YMCA, a library and other community space. In addition, 1,716 condominium units in three 55-storey towers have been successfully pre-sold with completion expected in 2020. Pre-sales of future condominium phases are currently being considered and may begin later in 2018.

POINTE-CLAIRE, QUEBEC

POINTE- CLAIRE

Leveraging the potential of a well-located centre

Sitting on a 22.5 acre site located southwest of Montreal, Pointe-Claire is a shopping centre anchored by Walmart and Home Depot. It is an ideal location for mixed-use residential, retail and office space, and, once developed, has the potential to become a significant revenue generator for SmartCentres. Currently under development are a self-storage facility, two multi-storey residential towers and a group of townhomes.



LOCATED ON A MAJOR HIGHWAY, THIS SITE WILL INCLUDE RETAIL, RESIDENTIAL, MIXED-USE AND SELF-STORAGE.



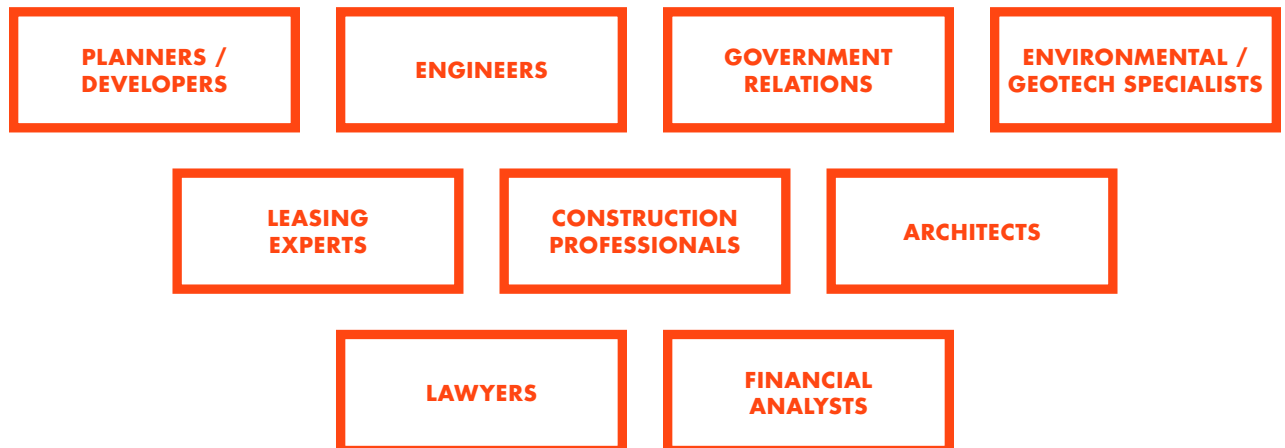
Vaughan North West, Vaughan, ON

A TALENT POOL WITH A BREADTH AND DEPTH OF EXPERIENCE

If the strength of a company can only be measured by the quality of its people, SmartCentres can be seen as very strong indeed. Our integrated, multidisciplinary team of more than 300 employees work together in our day-to-day operations and the creation of new development opportunities throughout Canada. Specifically, the development team has well over 2,000 years of real estate experience, and are collectively among the most experienced real estate professionals in the country.

With our commitment to grow our development pipeline, we are adding senior development expertise as well as skilled analytical professionals to our team to maximize the quality of our new developments.

IN-HOUSE DEVELOPMENT SKILLS



STRATEGIC RELATIONSHIPS

A large part of SmartCentres' success is due to a combination of our ongoing strategic relationships and our joint venture partnerships, each of which has been built on mutual trust, confidence and a proven ability to deliver substantial business results.

Walmart is absolutely one of our most important strategic partnerships. A key tenant anchoring the majority of our shopping centres – more than 100 – Walmart plays a vital role in enabling SmartCentres to provide shopping destinations with exceptionally broad appeal as well as local access. There's a Walmart store within ten kilometres of 76% of Canadians.

Today, our development team is actively working with a broad range of joint venture partners. We fully expect to add further partners in the coming months as we scope out additional development opportunities. Each of these partners brings their particular operating expertise and capital, and shares with us the risks of development.



Orleans SmartCentre (I), Orleans, ON

MOST NOTABLE JOINT VENTURE PARTNERS

<p>MITCHELL GOLDHAR</p>	<p>SIMON PROPERTY GROUP</p>	<p>CENTRECOURT DEVELOPMENTS</p>	<p>FIELDGATE</p>
<p>VMC, StudioCentre, Salmon Arm</p>	<p>Premium Outlet Malls</p>	<p>Transit City condominiums in VMC</p>	<p>Townhomes in Vaughan North West</p>
<p>JADCO</p>	<p>SMARTSTOP</p>	<p>REVERA</p>	
<p>Luxury residential rentals in Montreal</p>	<p>Self-storage facilities in multiple locations</p>	<p>Retirement homes on our and Penguin properties</p>	



CANADA

RETIREMENT HOMES

Meeting a growing market need across Canada

The demand for seniors' residences is increasing quickly throughout Canada. SmartCentres is now partnering with senior residential owner, operator and investor Revera Inc. and the Penguin Group of Companies in a joint venture to develop retirement homes. The joint venture started in February 2018 and will initially include three SmartCentres properties and one Penguin property, all located within the Greater Toronto Area. More will be announced throughout the year, with the intention of developing at least five new retirement homes a year.



TORONTO, ONTARIO

STUDIOCENTRE

A visionary cultural and media production centre in the heart of Toronto

Located east of the Don Valley in Toronto, the 19-acre StudioCentre serves the ever-growing Canadian entertainment industry with multiple film and television production facilities, including Revival 629 Film Studios.

The vision for StudioCentre is to become Canada's epicentre for media production, cultural events, communications, broadcasting, visual art, design, photography and performing arts. It will also include training and post-secondary education facilities. With its close proximity to Toronto's downtown core, StudioCentre is well-positioned to serve the large and expanding community of artists, designers, photographers, film and production professionals in the city.

SmartCentres expects to develop over time nearly 1.2 million square feet of mixed-use space on the site, which is expected to include 800,000 square feet of office space and 150,000 square feet of retail space, an 80,000 square foot hotel, and 1,400 parking spaces. Without a doubt, it is one of the most exciting projects SmartCentres is undertaking, with the potential for continued growth and revenue now and in the long term.

DISCIPLINED GROWTH

Our approach to business has always been about disciplined growth. It always will be. Year over year, it has proven to be the profitable way forward. In 2017, this measured approach has once again enabled us to produce a healthy balance sheet alongside solid business results, and the financial flexibility to sustain future growth opportunities.

With a diverse and profitable portfolio, SmartCentres has a solid base to work from, which helps to minimize risk, while helping us to realize measured, steady growth over time.

The combination of our retail portfolio, land inventory, in-house multidisciplinary team, and our joint venture relationships are all working together to generate and facilitate on multiple opportunities for future development.

10.1%

**AVERAGE ANNUAL
RETURN SINCE IPO**

3.8%

**WEIGHTED AVERAGE
INTEREST RATE**

OUR COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY

Our belief is that success can only be sustainable through committed stewardship of every aspect of our business, from the well-being of our employees to the protection of the environment. We have set clear sustainability Key Performance Indicators (KPIs), with the goal of being seen as one of the best real estate investment trusts in Canada by our customers, our communities, our partners and our employees.

To achieve this, we take action. We focus on creating jobs and opportunities within our communities. We promote fairness, diversity, health, safety, and security within our workplace. We seek efficient use of natural resources through responsible management of energy, waste and water.

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



YMCA Concept Rendering, VMC, Vaughan, ON



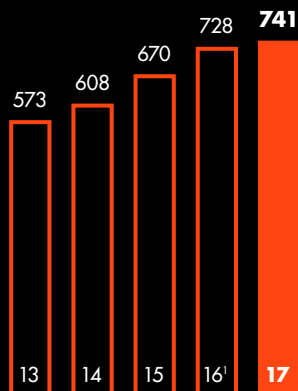
Central Park Concept Rendering, VMC, Vaughan, ON

PERFORMANCE HIGHLIGHTS

A robust, high-performing portfolio of real estate assets, an integrated and multidisciplinary team of real estate professionals, and a long pipeline of future development opportunities are all contributing to the ongoing success of SmartCentres, making it one of the highest performing real estate investment trusts in Canada. 2017 was an outstanding year for us, and we believe we will achieve even more successes in the years to come.

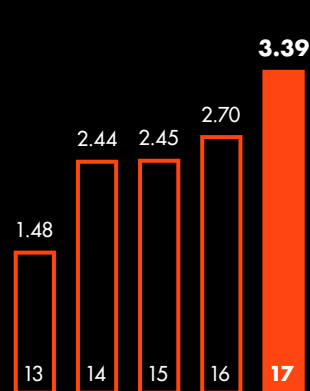
RENTALS FROM INVESTMENT PROPERTIES

(in millions of dollars)



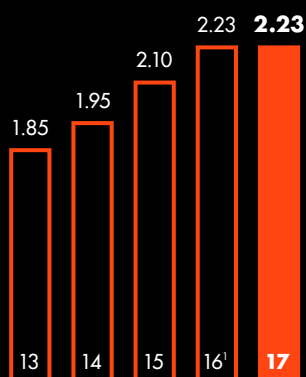
TOTAL UNENCUMBERED ASSETS

(in billions of dollars)



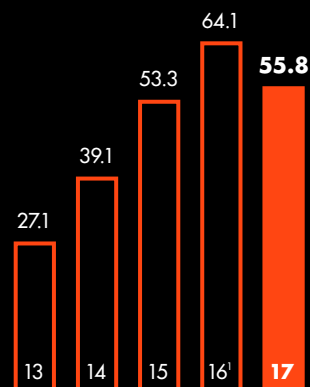
FUNDS FROM OPERATIONS

(per Unit)



SURPLUS OF ADJUSTED FUNDS FROM OPERATIONS OVER DISTRIBUTIONS DECLARED

(in millions of dollars)



With one time adjustment and transactional FFO

With one time adjustment and transactional FFO over distributions declared

¹ Includes \$9.9 million settlement proceeds associated with the Target lease terminations recorded during the year ended December 31, 2016.

TOTAL ASSET VALUE OF \$9.4B



RETAIL PROPERTIES	LOCATION	OWNERSHIP	NRA ¹ (SQ. FT.)	OCCUPANCY	MAJOR TENANTS
Chilliwack Mall	Chilliwack	100%	126,625	100.0%	Safeway, Winners, Sport Chek
Courtenay SmartCentre	Courtenay	100%	273,289	97.7%	Walmart Supercentre, Winners, Staples, Best Buy, Sport Chek, Mark's, Reitmans
Cowichan Commons East	Duncan	100%	249,677	93.7%	Walmart Supercentre*, RONA*, Canadian Tire, Home Depot, Best Buy, Bulk Barn
Cranbrook SmartCentre	Cranbrook	100%	164,025	100.0%	Walmart Supercentre, Real Canadian Superstore*, Home Hardware*, Sport Chek, Dollar Tree
Kamloops SmartCentre	Kamloops	100%	232,800	96.7%	Walmart Supercentre, Michaels, Lordco Auto Parts, Pier 1 Imports, Sleep Country
Langley SmartCentre	Langley	100%	351,224	99.3%	Walmart Supercentre, Home Depot*, Save-On-Foods*, London Drugs, Home Outfitters, Best Buy
Maple Ridge SmartCentre	Maple Ridge	100%	226,874	94.2%	Walmart Supercentre, Thrifty Foods, Westminster Savings Credit Union, Dollar Tree, Rexall
New Westminster SmartCentre	New Westminster	100%	409,249	94.0%	Walmart Supercentre, Home Outfitters, Tommy Hilfiger, The Gap, Carter's OshKosh
Peachtree Square	Penticton	100%	54,915	95.0%	Walmart Supercentre*, Sport Chek, Dollar Tree, Valley First Credit Union, Bulk Barn
Penticton Power Centre	Penticton	100%	202,322	98.6%	Real Canadian Superstore, Staples, Winners, PetSmart, Sleep Country, TD Canada Trust
Prince George SmartCentre	Prince George	100%	313,390	97.3%	Walmart Supercentre, Home Depot*, Canadian Tire*, Michaels, Old Navy, Mark's, Petland
Salmon Arm SmartCentre	Salmon Arm	50%	67,324	100.0%	Walmart Supercentre, Winners, Dollarama, Bulk Barn
Surrey West SmartCentre	Surrey	100%	188,264	99.4%	Walmart Supercentre, Dollar Tree, Ardene, Sleep Country, Reitmans, Carter's OshKosh
Vernon SmartCentre	Vernon	100%	259,302	95.1%	Walmart Supercentre, RONA*, Best Buy, Value Village, Mark's, Petland, Sleep Country
Calgary Southeast SmartCentre	Calgary	100%	246,085	100.0%	Walmart Supercentre, London Drugs, Mark's, Reitmans, Carter's OshKosh, Bulk Barn
Edmonton East SmartCentre	Edmonton	50%	180,100	100.0%	Walmart Supercentre, Safeway, Winners, Fit4Less, Petland, Dollarama
Edmonton Northeast SmartCentre	Edmonton	100%	274,353	97.1%	Walmart Supercentre, Your Dollar Store With More, Michaels, Bulk Barn, Moores, Penningtons
Lethbridge SmartCentre	Lethbridge	100%	333,092	98.9%	Walmart Supercentre, Home Depot*, Best Buy, Ashley Furniture, Mark's, Gap Outlet
Lethbridge SmartCentre (II)	Lethbridge	100%	53,392	100.0%	Sobeys
St. Albert SmartCentre	St. Albert	100%	251,329	100.0%	Walmart Supercentre, Save-On-Foods*, RONA*, Dollarama, Canadian Western Bank
Sylvan Lake SmartCentre	Sylvan Lake	100%	131,983	100.0%	Walmart Supercentre, Canadian Tire*, Dollarama
Golden Mile Shopping Centre	Regina	100%	237,636	93.3%	Loblaws, GoodLife Fitness, Rainbow Cinemas, Dollarama, RBC, Rexall
Regina East SmartCentre (I)	Regina	100%	364,681	100.0%	Walmart Supercentre, HomeSense, London Drugs, Best Buy, Michaels, Pier 1 Imports
Regina East SmartCentre (II)	Regina	100%	198,134	98.6%	RONA, Real Canadian Superstore*, Wholesale Sports, PetSmart, Old Navy, Petland
Regina North SmartCentre	Regina	100%	276,251	99.5%	Walmart Supercentre, IGA, Mark's, Dollarama, TD Canada Trust, Reitmans, Bulk Barn
Saskatoon South SmartCentre	Saskatoon	100%	374,722	100.0%	Walmart Supercentre, Home Depot*, HomeSense, The Brick, Ashley Furniture, Golf Town
Kenaston Common SmartCentre	Winnipeg	100%	257,222	99.6%	RONA, Costco*, Indigo Books, Golf Town, Petland, Nygard, CIBC, HSBC, RBC
Winnipeg Southwest SmartCentre	Winnipeg	100%	528,192	97.0%	Walmart Supercentre, Home Depot*, Safeway, Home Outfitters, HomeSense, Urban Planet
Winnipeg West SmartCentre	Winnipeg	100%	354,679	98.0%	Walmart Supercentre, Canadian Tire*, Sobeys, Winners, Value Village, Sport Chek, Staples
401 & Weston Power Centre	North York	44%	109,640	99.1%	Real Canadian Superstore*, Canadian Tire, The Brick, Best Buy, LCBO, Mark's, Dollar Tree
Alliston SmartCentre	Alliston	100%	170,770	100.0%	Walmart Supercentre, Dollarama, Tim Hortons
Ancaster SmartCentre	Ancaster	100%	264,833	100.0%	Walmart Supercentre, Canadian Tire*, Winners, GoodLife Fitness, Bouclair, Dollar Tree
Aurora North SmartCentre	Aurora	100%	508,567	98.9%	Walmart Supercentre, RONA, Best Buy, Golf Town, LCBO, Dollarama, RBC, TD Canada Trust
Aurora SmartCentre	Aurora	100%	51,186	100%	Winners, Healthy Planet, Bank of Nova Scotia
Barrie Essa Road Shopping Centre	Barrie	100%	104,906	93.6%	Food Basics, Pharma Plus, Dollarama, Anytime Fitness, Pet Valu, Tim Hortons
Barrie North SmartCentre	Barrie	100%	234,700	100%	Walmart Supercentre, Loblaws*, Old Navy, Carter's OshKosh, Addition Elle, Reitmans
Barrie South SmartCentre	Barrie	100%	389,561	100.0%	Walmart Supercentre, Sobeys, Winners, La-Z-Boy, PetSmart, Stitches, Dollar Tree
Bolton SmartCentre	Bolton	100%	242,444	99.2%	Walmart Supercentre, LCBO, Mark's, The Beer Store, Reitmans

* Non-owned anchor.

¹ Represents SmartCentres' interest in the net rentable area of the property.

RETAIL PROPERTIES	LOCATION	OWNERSHIP	NRA ¹ (SQ. FT.)	OCCUPANCY	MAJOR TENANTS
Bracebridge SmartCentre	Bracebridge	100%	142,501	100.0%	Walmart Supercentre, Home Depot*, Dollar Tree, Boston Pizza, Bulk Barn
Bradford SmartCentre	Bradford	100%	241,701	100.0%	Walmart Supercentre, GoodLife Fitness, Dollarama, Bulk Barn, CIBC, RBC
Bramport SmartCentre	Brampton	100%	163,450	99.2%	LA Fitness, Value Village, LCBO, Dollarama, Swiss Chalet, CIBC, Bank of Montreal
Bramport SmartCentre (II)	Brampton	100%	37,857	100.0%	No Frills
Brampton East SmartCentre	Brampton	100%	360,695	100.0%	Walmart Supercentre, The Brick, Winners, Staples, Mark's, Dollar Tree, Carter's OshKosh
Brampton North SmartCentre	Brampton	100%	58,794	79.3%	Fortinos*, Shoppers Drug Mart, RBC
Brampton Northeast SmartCentre	Brampton	100%	234,036	100.0%	Walmart Supercentre, GoodLife Fitness, LCBO, Dollarama, CIBC, Bank of Nova Scotia, RBC
Brockville SmartCentre	Brockville	100%	144,084	100.0%	Walmart Supercentre*, Real Canadian Superstore*, Home Depot*, Winners, Michaels, LCBO
Burlington (Appleby) SmartCentre	Burlington	100%	151,115	100.0%	Toys R Us, LA Fitness, Shoppers Drug Mart, Golf Town, Bank of Montreal
Burlington North SmartCentre	Burlington	100%	226,451	100.0%	Walmart Supercentre, Dollar Tree, Reitmans, Moores, Bank of Nova Scotia
Burnhamthorpe SmartCentre	Mississauga	100%	199,970	86.0%	Swiss Chalet, RE/MAX
Cambridge SmartCentre (I)	Cambridge	100%	744,417	95.5%	Walmart Supercentre, RONA, LA Fitness, Best Buy, Staples, Bed Bath & Beyond, Michaels
Cambridge SmartCentre (II)	Cambridge	100%	23,938	81.6%	Canadian Tire*, Home Depot*, Henry's Photography, Allstate Insurance
Carleton Place SmartCentre	Carleton Place	100%	148,885	100.0%	Walmart Supercentre, Dollarama, Mark's, Bulk Barn
Centennial Parkway Plaza	Stoney Creek	100%	133,748	95.1%	Food Basics, JYSK, King's Buffet, Salvation Army Thrift Store
Chatham SmartCentre	Chatham	50%	154,545	99.3%	Walmart Supercentre, Real Canadian Superstore*, Winners, Mark's, PetSmart, Dollarama, LCBO
Cobourg SmartCentre	Cobourg	100%	197,935	98.9%	Walmart Supercentre, Home Depot*, Winners, Dollar Tree, Swiss Chalet
Cornwall SmartCentre	Cornwall	100%	171,176	100.0%	Walmart Supercentre, Dollar Tree, Bank of Montreal
Creekside Crossing	Mississauga	30%	120,017	100.0%	Walmart Supercentre, Costco, LCBO, Dollarama, The Beer Store, CIBC, TD Canada Trust, RBC
Etobicoke (Index) SmartCentre	Etobicoke	100%	188,059	99.5%	Sail, Marshalls, PetSmart, Party Packagers, Structube, Bouclair, Penningtons
Etobicoke SmartCentre	Etobicoke	100%	294,734	100.0%	Walmart Supercentre, Home Depot*, Best Buy, Winners, Old Navy, Mark's, Urban Barn
Fergus SmartCentre	Fergus	100%	109,652	100.0%	Walmart Supercentre, LCBO
Fort Erie SmartCentre	Fort Erie	100%	12,738	100.0%	Walmart Supercentre*, No Frills*, LCBO, Bank of Nova Scotia
Guelph SmartCentre	Guelph	100%	296,116	99.5%	Walmart Supercentre, Home Depot*, HomeSense, Michaels, Dollarama, CIBC, RBC
Hamilton South SmartCentre	Hamilton	100%	241,795	100.0%	Walmart Supercentre, Shoppers Drug Mart, LCBO, Dollarama, The Beer Store, CIBC
Hartzel Plaza	St. Catharines	100%	67,972	100.0%	Food Basics, Provincial Government
Huntsville SmartCentre	Huntsville	100%	126,436	100.0%	Walmart Supercentre, Your Independent Grocer*, Dollar Tree, Mark's, Reitmans
Kanata SmartCentre	Kanata	100%	201,548	99.2%	Walmart Supercentre, Dollarama, Bulk Barn, CIBC, RBC
Kingspoint Shopping Centre	Brampton	100%	202,236	98.2%	Giant Tiger, GoodLife Fitness, Shoppers Drug Mart, The Beer Store
Laurentian Power Centre	Kitchener	100%	35,200	100.0%	RONA*, Zehrs*, Staples, CIBC
Leaside SmartCentre	East York	100%	257,919	98.0%	Home Depot*, Winners, Sobeys, Sport Chek, Best Buy, LCBO, Golf Town, RBC
Lincoln Value Centre	St. Catharines	100%	327,596	93.0%	Walmart Supercentre, Canadian Tire, No Frills, Dollarama
London East Argyle Mall	London	100%	424,986	98.4%	Walmart Supercentre, Toys R Us, No Frills, Winners, Staples, Sport Chek, GoodLife Fitness
London North SmartCentre	London	50%	250,118	99.3%	Walmart Supercentre, Canadian Tire*, Marshalls, Winners, Sport Chek, HomeSense, Old Navy
London Northwest SmartCentre	London	100%	36,214	100.0%	Lowe's*, Boston Pizza, Bank of Montreal, Montana's, Kelsey's, RBC
Markham East SmartCentre	Markham	40%	69,008	100.0%	Walmart Supercentre, Dollar Tree, CIBC
Markham Woodside SmartCentre	Markham	50%	179,950	100.0%	Home Depot, Longo's*, Winners, Staples, Chapters, Michaels, La-Z-Boy, LCBO
Milton Walmart Centre	Milton	50%	116,602	94.1%	Walmart Supercentre*, Canadian Tire*, Sport Chek, Indigo, Michaels, Mark's, Staples, RBC

* Non-owned anchor.

¹ Represents SmartCentres' interest in the net rentable area of the property.

RETAIL PROPERTIES	LOCATION	OWNERSHIP	NRA'(SQ. FT.)	OCCUPANCY	MAJOR TENANTS
Mississauga (Erin Mills) SmartCentre	Mississauga	100%	289,932	96.3%	Walmart Supercentre, No Frills, GoodLife Fitness, Shoppers Drug Mart, Dollarama
Mississauga (Go Lands) SmartCentre	Mississauga	100%	113,005	100.0%	Real Canadian Superstore*, Toys R Us, Marshalls, Dollarama, TD Canada Trust
Mississauga (Meadowvale) SmartCentre	Mississauga	100%	557,845	93.5%	Walmart Supercentre, RONA, Winners, Staples, Michaels, Mark's, PetSmart, LCBO
Niagara Falls SmartCentre	Niagara Falls	100%	249,745	100.0%	Walmart Supercentre, PetSmart, Penningtons, Dollarama, LCBO, Sleep Country, Bulk Barn
Oakville SmartCentre	Oakville	100%	461,226	99.6%	Walmart Supercentre, Real Canadian Superstore, LCBO, The Beer Store, The Keg, CIBC, RBC
Orillia SmartCentre	Orillia	100%	241,659	100.0%	Walmart Supercentre, Winners, Staples, Michaels, Dollarama
Orleans SmartCentre (I)	Orleans	100%	384,015	94.8%	Walmart Supercentre, Canadian Tire*, Home Outfitters, Best Buy, Shoppers Drug Mart
Orleans SmartCentre (II)	Orleans	60%	13,203	100.0%	Indigo Books
Oshawa North SmartCentre	Oshawa	100%	558,159	100.0%	Walmart Supercentre, Real Canadian Superstore, Home Depot*, Marshalls, Sport Chek, Best Buy, Michaels
Oshawa North SmartCentre (II)	Oshawa	100%	163,259	100.0%	Home Outfitters, Winners, PetSmart, Party Packagers, Boston Pizza, TD Canada Trust
Oshawa South SmartCentre	Oshawa	100%	536,707	100.0%	Walmart Supercentre, Lowe's, Sail, CIBC, Dollarama, Moores, Reitmans, RBC
Ottawa (Laurentian Place) SmartCentre	Ottawa	50%	128,939	100.0%	Walmart Supercentre, Stantec, CIBC
Ottawa South SmartCentre	Ottawa	50%	261,569	93.9%	Walmart Supercentre, Loblaws, Cineplex Odeon, Marshalls, Winners, Chapters
Owen Sound SmartCentre	Owen Sound	100%	163,101	100.0%	Walmart Supercentre, Home Depot*, Penningtons, Dollarama, Carter's OshKosh, Reitmans
Pickering SmartCentre	Pickering	100%	546,194	98.2%	Walmart Supercentre, Lowe's, Sobeys, Canadian Tire*, Toys R Us, Winners, PetSmart, LCBO
Port Elgin SmartCentre	Port Elgin	100%	115,524	100.0%	Walmart Supercentre
Port Perry SmartCentre	Port Perry	100%	138,789	100.0%	Walmart Supercentre, LCBO, Dollarama, Mark's, Bulk Barn, Bank of Nova Scotia
Rexdale SmartCentre	Etobicoke	100%	35,174	100.0%	Walmart Supercentre*, Dollarama, Bank of Nova Scotia
Richmond Hill SmartCentre	Richmond Hill	50%	136,306	98.5%	Walmart Supercentre, Food Basics, Shoppers Drug Mart, HSBC, Bank of Montreal
Rockland SmartCentre	Rockland	100%	147,592	100.0%	Walmart Supercentre, RONA*, Dollarama, LCBO, Boston Pizza
Rutherford Village Shopping Centre	Vaughan	100%	104,301	97.9%	Sobeys, TD Canada Trust, Rogers Video, Tim Hortons
Sarnia SmartCentre	Sarnia	100%	342,617	99.4%	Walmart Supercentre, Winners, Michaels, PetSmart, LCBO, Dollarama, Penningtons
Scarborough (1900 Eglinton) SmartCentre	Scarborough	100%	380,090	99.6%	Walmart Supercentre, Winners, Mark's, LCBO, David's Bridal, Bank of Montreal
Scarborough East SmartCentre	Scarborough	100%	282,156	100.0%	Walmart Supercentre, Cineplex Odeon, LCBO, Reitmans, Boston Pizza, Sleep Country
Simcoe SmartCentre	Simcoe	100%	129,876	100.0%	Walmart Supercentre, LCBO, Dollar Tree
South Oakville Centre	Oakville	100%	189,379	97.0%	Metro, Winners, Shoppers Drug Mart, LCBO, The Beer Store, CIBC, TD Canada Trust
St. Catharines West SmartCentre (I)	St. Catharines	100%	370,106	100.0%	Walmart Supercentre, Real Canadian Superstore*, Canadian Tire*, Home Outfitters, Best Buy
St. Catharines West SmartCentre (II)	St. Catharines	100%	120,438	95.8%	The Brick, Michaels, Shoppers Drug Mart, Golf Town, Bouclair
St. Thomas SmartCentre	St. Thomas	100%	224,291	96.3%	Walmart Supercentre, Real Canadian Superstore*, Canadian Tire*, Staples, Dollar Tree
Stoney Creek SmartCentre	Stoney Creek	100%	257,064	99.0%	Walmart Supercentre, Toys R Us, Dollar Tree
Stouffville SmartCentre	Stouffville	100%	162,968	100.0%	Walmart Supercentre*, Canadian Tire, Winners, Staples, Dollarama, Bouclair, Bulk Barn
Sudbury South SmartCentre	Sudbury	100%	233,046	100.0%	Walmart Supercentre, LCBO, Mark's, Dollarama, Bouclair
Toronto Premium Outlets	Halton Hills	50%	179,333	100.0%	Saks Fifth Avenue OFF 5TH, Polo Ralph Lauren, Restoration Hardware, Nike, Columbia, Coach
Toronto Stockyards SmartCentre	Toronto	100%	8,615	100.0%	Walmart Supercentre*, Bank of Montreal, CitiFinancial
Vaughan (400 & 7) SmartCentre	Vaughan	100%	216,342	100.0%	Sail, The Brick, Home Depot*, Value Village, GoodLife Fitness, Fabricland
Vaughan North West SmartCentre	Vaughan	100%	172,170	95.9%	Walmart Supercentre, CIBC
Waterloo SmartCentre	Waterloo	100%	181,623	100.0%	Walmart Supercentre, Value Village, Mark's, Dollarama
Welland SmartCentre	Welland	100%	240,663	100.0%	Walmart Supercentre, Canadian Tire*, RONA, Mark's, Dollar Tree
Westside Mall	Toronto	100%	144,405	95.8%	Canadian Tire, FreshCo., Dollar Tree, Rogers, CIBC

* Non-owned anchor.

† Represents SmartCentres' interest in the net rentable area of the property.

RETAIL PROPERTIES	LOCATION	OWNERSHIP	NRA ¹ (SQ. FT.)	OCCUPANCY	MAJOR TENANTS
Whitby North SmartCentre	Whitby	100%	279,153	100.0%	Walmart Supercentre, Real Canadian Superstore*, Mark's, LCBO, Bank of Nova Scotia
Whitby Northeast SmartCentre	Whitby	100%	39,249	100.0%	Boston Pizza, Swiss Chalet, RBC, Popeyes
Whitby Shores Shopping Centre	Whitby	100%	85,602	100.0%	Metro, LCBO, Bank of Nova Scotia, Lovell Drugs, Pet Valu, Tim Hortons
Windsor South SmartCentre	Windsor	100%	231,110	97.6%	Walmart Supercentre, PartSource, Dollarama, PetSmart, Moores, The Beer Store, CIBC
Woodbridge SmartCentre	Woodbridge	50%	216,983	98.1%	Canadian Tire*, Fortinos*, Winners, Best Buy, Toys R Us, Chapters, Michaels, Sport Chek
Woodstock SmartCentre	Woodstock	100%	257,220	97.9%	Walmart Supercentre, Canadian Tire*, Staples, Mark's, Carter's OshKosh, CIBC, Reitmans
Yorkgate Shopping Centre	Toronto	100%	214,684	94.0%	No Frills, City of Toronto, Planet Fitness, Seneca College, Dollarama
Blainville SmartCentre	Blainville	100%	197,812	100.0%	Walmart Supercentre, Winners, Dollarama, Bulk Barn, Bank of Nova Scotia, RBC
Hull SmartCentre	Hull	50%	161,239	97.5%	Walmart Supercentre, Loblaws*, RONA*, Famous Players*, Super C*, Winners, Staples
Kirkland SmartCentre	Kirkland	100%	207,216	100.0%	Walmart Supercentre, The Brick
Lachenaie SmartCentre	Lachenaie	50%	141,292	100.0%	Walmart Supercentre, HomeSense, Michaels, SAQ, Bouclair, Structube
Laval Centre	Laval	100%	159,779	100.0%	Walmart Supercentre, Leon's*
Laval East SmartCentre	Laval	100%	540,056	97.4%	Walmart Supercentre, Canadian Tire, IGA, Winners, Michaels, Bouclair, Dollarama, SAQ
Laval West SmartCentre	Laval	100%	577,678	97.3%	Walmart Supercentre, RONA, Canadian Tire*, IGA*, Archambault, Marshalls, Michaels
Mascouche North SmartCentre	Mascouche	100%	62,539	92.2%	RONA*, Jean Coutu, Structube, SAQ, McDonald's, Bulk Barn
Mascouche SmartCentre	Mascouche	100%	407,799	100.0%	Walmart Supercentre, IGA, Home Outfitters, Winners, Staples, Best Buy, Bouclair, Mark's
Montreal (Decarie) SmartCentre	Montreal	50%	132,434	96.4%	Walmart, Toys R Us, Ardene, Baton Rouge, Suzy Shier, P.F. Chang's, Bulk Barn
Montreal North SmartCentre	Montreal	100%	267,713	96.9%	Walmart Supercentre, IGA, Winners, Dollarama, Sleep Country, Bulk Barn TD Canada Trust
Montreal Premium Outlets	Mirabel	50%	182,976	100.0%	The Bay Outlet, Polo Ralph Lauren, Old Navy, Nike, Urban Planet, Tommy Hilfiger, Coach
Place Bourassa Mall	Montreal	100%	266,173	83.5%	Canadian Tire, Super C, Pharmaprix, L'Aubainerie, Yellow, Urban Depot, Ardene
Pointe-Claire SmartCentre	Pointe-Claire	100%	384,915	98.4%	Walmart Supercentre, Home Depot, Mark's, Dollarama, Baron Sports, Pier 1 Imports
Rimouski SmartCentre	Rimouski	100%	243,740	100.0%	Walmart Supercentre, Tanguay*, Super C*, Winners, Best Buy, SAQ, Dollarama, Clement, Scores
Saint-Constant SmartCentre	Saint-Constant	100%	361,610	97.4%	Walmart Supercentre, Home Depot*, Super C, L'Aubainerie Concept Mode, Michaels
Saint-Jean SmartCentre	Saint-Jean	100%	249,981	97.7%	Walmart Supercentre, Maxi*, Michaels, Mark's, Bouclair, Reitmans, TD Canada Trust
Saint-Jerome SmartCentre	Saint-Jerome	100%	164,001	100.0%	Walmart Supercentre*, Home Depot*, IGA, Best Buy, Michaels, Bouclair, Dollarama
Sherbrooke SmartCentre	Sherbrooke	100%	243,804	99.2%	Walmart Supercentre, Canadian Tire*, Home Depot*, The Brick, Michaels, Mark's
Valleyfield SmartCentre	Valleyfield	100%	188,252	100.0%	Walmart Supercentre, Dollarama, SAQ, Reitmans, Claire France, Yellow
Vaudreuil SmartCentre	Vaudreuil-Dorion	100%	16,941	100.0%	Walmart Supercentre*, Brunet, Coco Fruitti
Victoriaville SmartCentre	Victoriaville	100%	37,784	100.0%	Walmart Supercentre*, Home Depot*, Maxi*, Winners, Carter's OshKosh, Bulk Barn, Reitmans
Fredericton North SmartCentre	Fredericton	100%	11,390	100.0%	Walmart Supercentre*, Canadian Tire*, Kent*, Dollarama
Saint John SmartCentre	Saint John	100%	271,694	95.2%	Walmart Supercentre, Kent*, Canadian Tire*, Winners, Best Buy, Old Navy, Pier 1 Imports
Colby Village Plaza	Dartmouth	100%	152,633	97.1%	Walmart, Atlantic Superstore, Cleve's Source for Sports, Pharmasave, Bank of Nova Scotia
Halifax Bayers Lake Centre	Halifax	100%	167,921	96.4%	Atlantic Superstore*, Bed, Bath and Beyond, Winners, Cleve's Warehouse Sporting Goods
Charlottetown SmartCentre	Charlottetown	100%	225,057	100.0%	Walmart Supercentre, Toys R Us*, Michaels, Best Buy, Old Navy, Gap Outlet
Corner Brook SmartCentre	Corner Brook	100%	178,988	100.0%	Walmart, Canadian Tire*, Dominion (Loblaws)*, Staples, Mark's, Buck or Two, Bulk Barn
Mount Pearl SmartCentre	Mount Pearl	100%	268,534	99.6%	Walmart, Dominion (Loblaws)*, Canadian Tire*, Staples, GoodLife Fitness, Mark's, CIBC
Pearlgate Shopping Centre	Mount Pearl	100%	42,993	88.9%	Shoppers Drug Mart, Bulk Barn, TD Canada Trust
St. John's Central SmartCentre	St. John's	100%	157,773	100.0%	Walmart*, Home Depot*, Canadian Tire*, Sobeys, Staples, Mark's, Dollarama, Moores
St. John's East SmartCentre	St. John's	100%	371,343	100.0%	Walmart, Dominion (Loblaws)*, Winners, Marshalls, Michaels, Sport Chek, Old Navy
Total Net Rentable Area			33,901,419		

* Non-owned anchor.

¹ Represents SmartCentres' interest in the net rentable area of the property.

OFFICE PROPERTIES	LOCATION	OWNERSHIP	NRA ¹ (SQ. FT.)	OCCUPANCY	MAJOR TENANTS
British Colonial Building	Toronto	100%	16,226	100.0%	Irish Embassy Pubs
Total Net Rentable Area			16,226		

¹Represents SmartCentres' interest in the net rentable area of the property.

MIXED-USE PROPERTIES	LOCATION	OWNERSHIP	NRA ¹ (SQ. FT.)	OCCUPANCY	MAJOR TENANTS
Vaughan Metropolitan Centre ²	Vaughan	50%	239,440	100.0%	Walmart Supercentre, KPMG, GFL, Miller Thomson LLP, Harley-Davidson
Total Net Rentable Area			239,440		

¹Represents SmartCentres' interest in the net rentable area of the property.

²Includes KPMG Tower, PwC/YMCA Tower and existing retail only.

RETAIL DEVELOPMENT LANDS	LOCATION	OWNERSHIP	AREA UPON COMPLETION ¹	MAJOR TENANTS
Quesnel SmartCentre	Quesnel	100%	0	Walmart Supercentre*
Dunnville SmartCentre	Dunnville	100%	92,720	Canadian Tire*, Sobeys*
Innisfil SmartCentre	Innisfil	50%	69,872	–
StudioCentre	Toronto	50%	455,661	–
Jonquière SmartCentre	Jonquière	100%	0	–
Mirabel SmartCentre (I)	Mirabel	33%	85,333	–
Mirabel SmartCentre (II)	Mirabel	25%	44,517	–
Total Area Upon Completion			748,103	

* Non-owned anchor.

¹Represents SmartCentres' interest in the net rentable area of the property. Future area may include existing area that requires further redevelopment.

MD&A AND FINANCIALS

2017 FINANCIAL HIGHLIGHTS

(in millions of dollars, except per Unit information)	2017	2016 ⁵	Change
Net income and comprehensive income excluding loss on disposition and fair value adjustments	340.5	327.9	12.6
Rentals from investment properties ¹	741.4	727.8	13.6
NOI ^{1,2}	477.5	476.3	1.2
FFO with one time adjustment and transactional FFO ³	351.4	347.0	4.4
Per Unit Information (Diluted)			
FFO with one time adjustment and transactional FFO ³	\$2.23	\$2.23	\$0.00
AFFO with one time adjustment and transactional FFO ³	\$2.07	\$2.08	\$-0.01
Distributions declared	\$1.71	\$1.67	\$0.04
Payout ratio to AFFO with one time adjustment and transactional FFO ⁴	82.8%	80.3%	2.5%

¹ Includes the Trust's share of equity accounted investments.

² Defined as rentals from investment properties less property-specific costs net of service and other revenues.

³ See "Other Measures of Performance" for a reconciliation of these measures to the nearest consolidated financial statement measure.

⁴ Payout ratio is calculated as distributions per Unit divided by Adjusted Funds From Operations per Unit.

⁵ Includes \$9.9 million net settlement proceeds associated with the Target lease terminations recorded during the year ended December 31, 2016, which increased both FFO per Unit and AFFO per Unit by \$0.06.

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OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

About this Management's Discussion and Analysis

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

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

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

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

Presentation of Non-GAAP Measures

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

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

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

Forward-Looking Statements

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

looking statements are presented for the purpose of assisting Unitholders and financial analysts to understand the Trust's operating environment, and may not be appropriate for other purposes. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

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

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

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

Business Overview and Strategic Direction

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

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

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

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

Mixed-Use Development

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

Vaughan Metropolitan Centre

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

Next Stop, Vaughan Metropolitan Centre Subway Station

After years of planning and construction, the extension of the TTC's University-Spadina subway line is now complete and operational. On December 17, 2017, Prime Minister Justin Trudeau, Ontario Premier Kathleen Wynne, Vaughan Mayor Maurizio Bevilacqua, Toronto

Mayor John Tory and other dignitaries joined the Vaughan community in opening the Vaughan Metropolitan Centre Station. For the first time in the TTC's 96-year history, trains now carry passengers outside present Toronto city limits. Riders are able to travel all the way from the new, state-of-the-art Vaughan Metropolitan Centre Station to downtown Toronto in under 45 minutes.

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

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

Toronto StudioCentre

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

Residential Development at Vaughan North West

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

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

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

Acquisitions

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

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

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

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

Developments, Earnouts and Mezzanine Financing

Developments, Earnouts and Mezzanine Financing continue to be a significant component of the Trust's strategic plan.

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

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

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

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

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

Professional Management

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

SmartCentre's Commitment to Corporate Social Responsibility

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

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

Employee Well-being

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

Environmental Stewardship

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

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

Energy Management

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

Parking Lot Lighting Retrofit

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

Waste Management

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

Water Management

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

Community Engagement and Corporate Citizenship

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

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

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

SmartCentres' Commitment to Corporate Governance

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

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

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

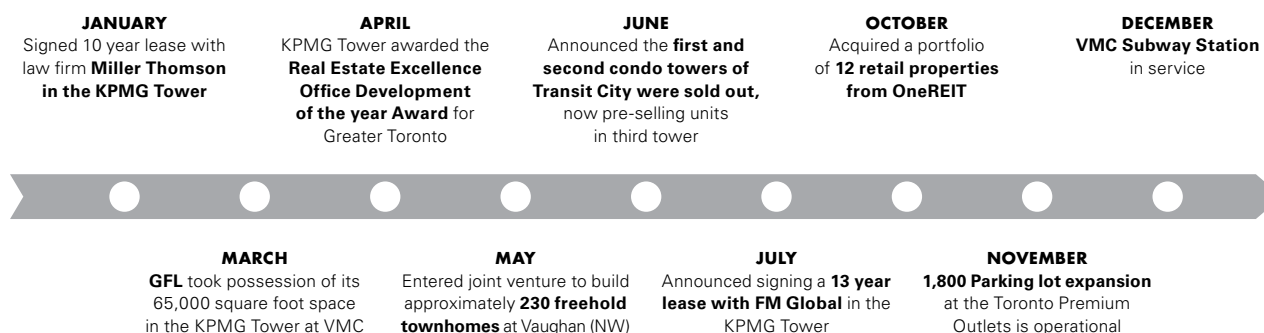
Our Ongoing Commitment

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

Key Business Development, Financial and Operational Highlights in 2017

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

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



- The KPMG Tower was awarded the Real Estate Excellence (“REX”) Office Development of the Year Award for Greater Toronto.
- The Trust entered into a joint venture with Fieldgate to develop a 16 acre parcel of land adjacent to the SmartCentres Shopping Centre at Major Mackenzie Drive and Weston Road in Vaughan, ON and build approximately 230 freehold townhouses.
- The Trust and Penguin announced the signing of a 13-year (plus two five-year extensions) 48,000 square foot lease transaction with FM Global, one of the world’s largest commercial and industrial property insurers, in the KPMG Tower at SmartCentres Place in Vaughan, ON.
- The Trust along with its joint venture partners Penguin and CentreCourt Developments announced that over 1,700 condominium units in the three 55 storey condominium towers at Transit City were sold out.
- The new multi-level parking lot expansion at the Toronto Premium Outlets with Simon Properties, began service in November 2017, with approximately 1,800 total new parking spaces. Together with Simon Properties, the Trust has commenced the 145,000 square foot retail expansion of the Toronto Premium Outlets which is expected to be completed in November 2018.
- The Trust acquired a portfolio of 12 retail properties from OneREIT as part of a plan of arrangement with OneREIT (“the Arrangement”) with a fair value of \$451.2 million.
 - The Arrangement has added approximately 2.2 million square feet of gross leasable area to the Trust’s existing portfolio, with 10 of the 12 properties located in Ontario. Further, the portfolio includes 11 food stores, inclusive of six Walmart supercentres and a strong mix of national tenants. The portfolio has an average lease term to maturity of 7.2 years and is 93.0% leased.
- The Trust announced that it changed its name to SmartCentres Real Estate Investment Trust and was to be commonly referred to as SmartCentres. This change is a recognition of the high level of brand awareness of the SmartCentres name and its iconic penguin logo, well known with consumers, tenants and municipalities across the country. The TSX stock symbol remains the same.

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

- Net income and comprehensive income (determined in accordance with IFRS) was \$355.9 million, as compared to \$386.1 million in the prior year, representing a decrease of \$30.2 million or 7.8%.¹
- Net rental income (determined in accordance with IFRS) was \$472.9 million, as compared to \$474.9 million in the prior year, representing a decrease of \$2.0 million or 0.4%.¹
- Cash flow provided by operating activities (determined in accordance with IFRS) was \$353.1 million, as compared to \$316.3 million in the prior year, representing an increase of \$36.8 million or 11.6%.¹
- Net income and comprehensive income excluding loss on disposition and fair value adjustments (determined in accordance with IFRS) was \$340.5 million, as compared to \$327.9 million in the prior year, representing an increase of \$12.6 million or 3.9%.¹
- The Trust maintained a high level of occupancy at 98.2% (December 31, 2017 – 98.3%). Including executed leases, the occupancy level for the year ended December 31, 2017 was 98.3% (December 31, 2016 – 98.5%).²
- Excluding the \$9.9 million net settlement proceeds associated with the 2016 Target lease terminations that was recorded in 2016, as compared to the prior year:
 - Payout ratio to AFFO with one time adjustment and transactional FFO decreased by 0.3% to 82.8%. (When the impact of the 2016 Target settlement is included, Payout ratio to AFFO with one time adjustment and transactional FFO increased by 2.5%.²)
 - FFO with one time adjustment and before transactional FFO increased by \$10.3 million or 3.0% to \$347.4 million and increased by \$0.03 or 1.38% to \$2.20 on a per Unit basis. (When the impact of the 2016 Target settlement is included, FFO with one time adjustment and before transactional FFO increased by \$0.4 million or 0.1% and decreased by \$0.03 or 1.35% on a per Unit basis.²)
 - FFO with one time adjustment and transactional FFO increased by \$14.3 million or 4.3% to \$351.4 million, and increased by \$0.06 or 2.8% to \$2.23 on a per Unit basis. (When the impact of the 2016 Target settlement is included, FFO with one time adjustment and transactional FFO increased by \$4.4 million or 1.3% and remained consistent at \$2.23 on a per Unit basis.²)

¹ Represents a GAAP measure.

² Represents a non-GAAP measure.

- AFFO with one time adjustment and transactional FFO increased by \$13.2 million or 4.2% to \$326.5 million, and increased by \$0.06 or 2.5% to \$2.07 on a per Unit basis. (When the impact of the 2016 Target settlement is included, AFFO with one time adjustment and transactional FFO increased by \$3.3 million or 1.0%, and decreased by \$0.01 or 0.5% on a per Unit basis.)²
- Same properties' NOI increased by \$2.9 million or 0.6% over the prior year.²
- Earnouts and Developments including equity accounted investments totalling \$107.1 million were completed and transferred to income properties at an average yield rate of 5.8%.²
- On March 21, 2017, \$150.0 million of 2.876% Series Q senior unsecured debentures were issued for net proceeds including issuance costs totalling \$149.1 million.
- On August 9, 2017, the Board of Trustees approved a \$0.05 increase in annual distributions to \$1.75 per Unit effective October 2017.
- On December 21, 2017, \$250.0 million of Series R floating rate senior unsecured debentures and \$250.0 million of 3.834% Series S senior unsecured debentures were issued for combined net proceeds including issuance costs totalling \$498.4 million.

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

- Net income and comprehensive income (determined in accordance with IFRS) was \$101.9 million, as compared to \$153.9 million for the same quarter last year, representing a decrease of \$52.0 million or 33.8%.¹
- Net rental income (determined in accordance with IFRS) was \$123.7 million, as compared to \$119.2 million for the same quarter last year, representing an increase of \$4.5 million or 3.8%.¹
- Cash flow provided by operating activities (determined in accordance with IFRS) was \$137.5 million, as compared to \$109.7 million over the same quarter last year, representing an increase of \$27.8 million or 25.4%.¹
- Net income excluding loss on disposition and fair value adjustments (determined in accordance with IFRS) was \$100.4 million, as compared to \$89.9 million over last year, representing an increase of \$10.5 million or 11.6%.¹
- FFO and transactional FFO increased by \$4.1 million or 4.7% to \$91.0 million and by \$0.01 or 1.8% to \$0.57 on a per Unit basis.²
- AFFO and transactional FFO increased by \$3.9 million or 5.0% to \$81.1 million and increased by \$0.01 or 2.0% to \$0.51 on a per Unit basis.²
- Payout ratio to AFFO and transactional FFO increased by 1.7% to 85.7% compared to the same quarter of 2016.²
- Same properties' NOI decreased by \$1.1 million or 0.9% compared to the same quarter of 2016. Without the influence of a \$1.2 million reversal in 2016, Same Properties NOI would have increased by \$0.1 million or 0.1%.²
- Earnouts and Developments including equity accounted investments totalling \$54.3 million were completed and transferred to income properties at an average yield rate of 5.8% on investment.²

Subsequent to Year End:

- On January 12, 2018, the Trust transferred development lands in Laval, Quebec to a partnership with Jadco. The lands were transferred in for \$5.1 million and represented the Trust's respective share of equity required to commence construction of the first phase of the two phased, 330 unit rental residential development.
- On February 5, 2018, the Trust entered into a loan agreement with the PCVP, of which the Trust has a 50% ownership interest, to extend a loan totalling \$115.8 million that bears interest at 2.31% to March 21, 2018 and subsequently at the three-month CDOR plus 76 basis points (calculated on the first day of subsequent periods), which matures on August 3, 2018, 50.0% of which is guaranteed by Penguin. The purpose of the loan was to advance funds on an interim basis to repay an existing construction facility outstanding on the KPMG Tower in Vaughan until such time as permanent financing is established.
- On February 12, 2018, the Trust announced, that along with Penguin, it had entered into a joint venture with Revera Inc., a leading owner, operator and investor in the senior living sector to jointly develop new retirement living residences across Canada.
- Management changes:
 - On February 14, 2018, the Board of Trustees announced that Huw Thomas, the Trust's current CEO, will be stepping down at the end of his five-year contract in June 2018, but will be remaining as a Trustee of the Trust. Mitchell Goldhar, the Trust's current non-executive Chairman and largest Unitholder, will become Executive Chairman and in that role will increase his already significant involvement in all aspects of the Trust's business, including strategy, development, intensification initiatives, leasing and finance. Peter Forde, the Trust's current President and COO will assume the President and CEO role on Huw Thomas' departure. This leadership transition is a logical step as the Trust focuses more on development and intensification opportunities on virtually its entire shopping centre portfolio.
 - "On behalf of the Board of Trustees and other Unitholders, I want to thank Huw for his significant contribution to our business over the last five years during which we worked together in starting the transformation of the Trust from an owner/landlord of a portfolio of retail real estate to a fully integrated owner with an emerging suite of exceptional mixed-use properties and an extensive development pipeline," said Mitchell Goldhar. "I also want to congratulate Peter on his appointment and I look forward to working with him in all facets of our business, as we have for the past twenty years," added Goldhar.

¹ Represents a GAAP measure.

² Represents a non-GAAP measure.

Selected Consolidated Financial and Operational Information:

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

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

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

¹ Represents a GAAP measure.

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

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

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

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

¹ Represents a GAAP measure.

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

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

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

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

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

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

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

Results of Operations

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

Three Months Ended December 31, 2017

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

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

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

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

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

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

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

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

Year Ended December 31, 2017

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

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

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

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

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

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

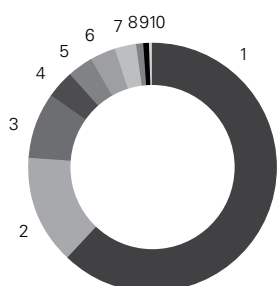
² Includes \$9.9 million net settlement proceeds associated with the 2016 Target lease terminations recorded during the year ended December 31, 2016.

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

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

GROSS REVENUE BY PROVINCE YEAR ENDED DECEMBER 31, 2017

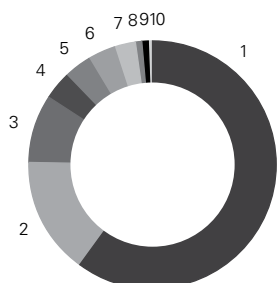
(per cent)



- | | |
|----------------------------|-------------------------------------|
| 1. Ontario – 62.1% | 6. Alberta – 3.3% |
| 2. Quebec – 14.2% | 7. Newfoundland and Labrador – 2.8% |
| 3. British Columbia – 8.5% | 8. Nova Scotia – 0.9% |
| 4. Saskatchewan – 3.7% | 9. New Brunswick – 0.7% |
| 5. Manitoba – 3.4% | 10. Prince Edward Island – 0.4% |

GROSS REVENUE BY PROVINCE YEAR ENDED DECEMBER 31, 2016

(per cent)



- | | |
|----------------------------|-------------------------------------|
| 1. Ontario – 60.2% | 6. Saskatchewan – 3.4% |
| 2. Quebec – 15.2% | 7. Newfoundland and Labrador – 2.9% |
| 3. British Columbia – 8.8% | 8. Nova Scotia – 0.9% |
| 4. Manitoba – 3.7% | 9. New Brunswick – 0.7% |
| 5. Alberta – 3.7% | 10. Prince Edward Island – 0.5% |

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

Top 10 Tenants

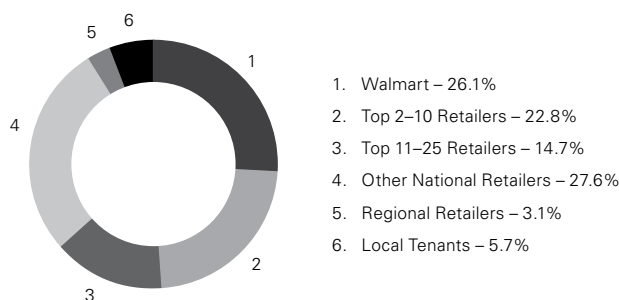
The 10 largest tenants (by rental revenue) account for 49.0% of portfolio revenue as follows:

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

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

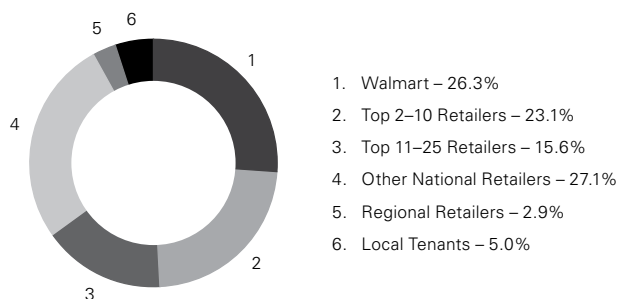
GROSS RENTAL REVENUE BY TENANT YEAR ENDED DECEMBER 31, 2017

(per cent)



GROSS RENTAL REVENUE BY TENANT YEAR ENDED DECEMBER 31, 2016

(per cent)



Same Property NOI

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

Three Months Ended December 31, 2017

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

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

² N/R – Not representative

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

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

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

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

Year Ended December 31, 2017

(in thousands of dollars)	Year Ended December 31, 2017	Year Ended December 31, 2016 ²	Variance	Variance (%)
Same properties ¹	458,678	455,760	2,918	0.6 %
Acquisitions	11,512	1,105	10,407	N/R ³
Dispositions	338	504	(166)	(32.9)%
Earnouts and Developments	11,376	9,132	2,244	24.6 %
NOI before adjustments	481,904	466,501	15,403	3.3 %
Amortization of tenant improvements	(6,789)	(6,110)	(679)	11.1 %
Lease termination and other adjustments	1,375	15,530	(14,155)	(91.1)%
Straight-lining of rents	1,742	1,083	659	60.8 %
Royalties	(705)	(658)	(47)	7.1 %
NOI¹	477,527	476,346	1,181	0.2 %

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

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

³ N/R – Not representative

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

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

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

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

Annual Run-Rate NOI

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

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

Adjusted EBITDA

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

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

¹ Represents a GAAP measure.

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

Other Measures of Performance

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

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

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

Weighted Average Number of Units

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

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

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

Funds From Operations

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

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

A reconciliation of FFO to IFRS net income and comprehensive income can be found below in subsection "Reconciliation of FFO."

Adjusted Funds From Operations

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

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

Adjusted Cashflow From Operations

ACFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with the Real Property Association of Canada's "White Paper on Adjusted Cashflow from

Operations (ACFO)” for IFRS issued in February 2017. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. Prior to the issuance of the February 2017 White Paper, there was no industry standard to calculate a sustainable, economic cash flow metric. Similarly, it may still differ from other reporting issuers because of variances in interpretation and adoption of the new guidelines.

A reconciliation of ACFO to IFRS cash provided by operating activities can be found below in subsection “Reconciliation of ACFO”:

Determination of Distributions

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

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

Cash Flows from Operating Activities and Distributions Declared

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

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

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

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

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

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

Reconciliation of FFO

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

(in thousands of dollars, except per Unit amounts)	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Variance	Variance (%)
Net income and comprehensive income	101,911	153,889	(51,978)	(33.8)%
Add (deduct):				
Fair value adjustment on revaluation of investment properties	(5,173)	(59,681)	54,508	(91.3)%
Fair value adjustment on financial instruments	3,516	(4,307)	7,823	(181.6)%
Loss on sale of investment properties	132	20	112	560.0 %
Amortization of intangible assets	332	333	(1)	(0.3)%
Amortization of tenant improvement allowance	1,635	1,606	29	1.8 %
Distributions on LP Units and vested deferred units recorded as interest expense	1,211	480	731	152.3 %
Salaries and related costs attributed to leasing activities ¹	1,083	84	999	1,189.3 %
Acquisition related gain, net ²	(18,479)	–	(18,479)	(100.0)%
Adjustments relating to equity accounted investments:				
Rental revenue adjustment – tenant improvement amortization	57	32	25	78.1 %
Indirect interest with respect to the development portion ³	412	475	(63)	(13.3)%
Fair value adjustment on revaluation of investment properties	162	(5,305)	5,467	(103.1)%
Fair value adjustment on financial instruments	(127)	(672)	545	(81.1)%
Loss on sale of investment properties	100	–	100	100.0 %
Adjustment for supplemental contribution	3,303	–	3,303	100.0 %
FFO⁴	90,075	86,954	3,121	3.6 %
Transactional FFO – gain on sale of land to co-owners	945	–	945	100.0 %
FFO and transactional FFO⁴	91,020	86,954	4,066	4.7 %
Per Unit – basic/diluted ⁵ :				
FFO ⁴	\$0.57/\$0.56	\$0.56/\$0.56	\$0.01/\$0.00	1.8%/0.0 %
FFO and transactional FFO ⁴	\$0.57/\$0.57	\$0.56/\$0.56	\$0.01/\$0.01	1.8%/1.8 %
Payout ratio:				
FFO ⁴	78.0%	75.2%	2.8%	3.7 %
FFO and transactional FFO ⁴	76.7%	75.2%	1.5%	2.0 %

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

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

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

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

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

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

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

(in thousands of dollars, except per Unit amounts)	Year Ended December 31, 2017	Year Ended December 31, 2016	Variance	Variance (%)
Net income and comprehensive income	355,926	386,135	(30,209)	(7.8)%
Add (deduct):				
Fair value adjustment on revaluation of investment properties	(15,063)	(60,312)	45,249	(75.0)%
Fair value adjustment on financial instruments	(624)	1,911	(2,535)	(132.7)%
Loss on sale of investment properties	288	146	142	97.3 %
Amortization of intangible assets	1,331	1,331	0	– %
Amortization of tenant improvement allowance	6,635	6,078	557	9.2 %
Distributions on LP Units and vested deferred units recorded as interest expense	2,753	1,966	787	40.0 %
Salaries and related costs attributed to leasing activities ¹	5,267	3,637	1,630	44.8 %
Acquisition related gain, net ²	(18,479)	–	–	(100.0)%
Adjustments relating to equity accounted investments:				
Rental revenue adjustment – tenant improvement amortization	156	32	124	387.5 %
Indirect interest with respect to the development portion ³	1,743	2,115	(372)	(17.6)%
Fair value adjustment on revaluation of investment properties	2,399	(12,003)	14,402	(120.0)%
Fair value adjustment on financial instruments	(1,084)	(480)	(604)	125.8 %
Loss on sale of investment properties	100	–	100	100.0 %
Adjustment for supplemental contribution	3,303	–	3,303	100.0 %
FFO⁴	344,651	330,556	14,095	4.3 %
One time adjustment:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ⁵	2,721	16,457	(13,736)	(83.5)%
FFO with one time adjustment and before transactional FFO	347,372	347,013	359	0.1 %
Transactional FFO – gain on sale of land to co-owners	4,069	–	4,069	100.0 %
FFO with one time adjustment and transactional FFO⁴	351,441	347,013	4,428	1.3 %
Per Unit – basic/diluted ⁶ :				
FFO ⁴	\$2.19/\$2.19	\$2.13/\$2.13	\$0.06/\$0.06	2.8%/2.8 %
FFO with one time adjustment and before transactional FFO ⁴	\$2.21/\$2.20	\$2.24/\$2.23	\$-0.03/\$-0.03	-1.3%/-1.3 %
FFO with one time adjustment and transactional FFO ⁴	\$2.24/\$2.23	\$2.24/\$2.23	\$0.00/\$0.00	0.0%/0.0 %
Payout ratio:				
FFO ⁴	78.2%	78.4%	(0.2)%	(0.3)%
FFO with one time adjustment and before transactional FFO ⁴	77.9%	74.9%	3.0%	4.0 %
FFO with one time adjustment and transactional FFO ⁴	76.8%	74.9%	1.9%	2.5 %

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

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

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

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

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

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

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

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

Reconciliation of AFFO

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

(in thousands of dollars, except per Unit amounts)	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Variance	Variance (%)
FFO ¹	90,075	86,954	3,121	3.6 %
Deduct:				
Straight-lining of rents	(161)	(341)	180	(52.8)%
Adjustments relating to equity accounted investments:				
Straight-lining of rents	(416)	(33)	(383)	1,160.6 %
Adjusted salaries and related costs attributed to leasing	(1,083)	(84)	(999)	1,189.3 %
Actual sustaining capital expenditures ²	(7,013)	(7,371)	358	(4.9)%
Actual sustaining leasing commissions ²	(424)	(411)	(13)	3.2 %
Actual sustaining tenant improvements ²	(782)	(1,443)	661	(45.8)%
AFFO^{1,3}	80,196	77,271	2,925	3.8 %
Transactional FFO – gain on sale of land to co-owners	945	–	945	– %
AFFO and transactional FFO¹	81,141	77,271	3,870	5.0 %
Per Unit – basic/diluted ⁴ :				
AFFO ^{1,3}	\$0.50/\$0.50	\$0.50/\$0.50	\$0.00/\$0.00	0.0%/0.0 %
AFFO and transactional FFO ¹	\$0.51/\$0.51	\$0.50/\$0.50	\$0.01/\$0.01	2.0%/2.0 %
Payout ratio:				
AFFO ^{1,3}	87.4%	84.0%	3.4%	4.0 %
AFFO and transactional FFO ¹	85.7%	84.0%	1.7%	2.0 %

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

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

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

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

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

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

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

(in thousands of dollars, except per Unit amounts)	Year Ended December 31, 2017	Year Ended December 31, 2016 ⁶	Variance	Variance (%)
FFO ¹	344,651	330,556	14,095	4.3 %
Deduct:				
Straight-lining of rents	(568)	(1,050)	482	(45.9)%
Adjustments relating to equity accounted investments:				
Straight-lining of rents	(1,175)	(33)	(1,142)	3,460.6 %
Adjusted salaries and related costs attributed to leasing	(5,267)	(3,637)	(1,630)	44.8 %
Actual sustaining capital expenditures ²	(12,777)	(12,623)	(154)	1.2 %
Actual sustaining leasing commissions ²	(1,203)	(1,218)	15	(1.2)%
Actual sustaining tenant improvements ²	(3,952)	(5,254)	1,302	(24.8)%
AFFO^{1,3}	319,709	306,741	12,968	4.2 %
One time adjustment:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ⁴	2,721	16,457	(13,736)	(83.5)%
Transactional FFO – gain on sale of land to co-owners	4,069	–	4,069	100.0 %
AFFO with one time adjustment and transactional FFO¹	326,499	323,198	3,301	1.0 %
Per Unit – basic/diluted ⁵ :				
AFFO ^{1,3}	\$2.04/\$2.03	\$1.98/\$1.97	\$0.06/\$0.06	3.0%/3.0 %
AFFO with one time adjustment and transactional FFO ¹	\$2.08/\$2.07	\$2.09/\$2.08	\$-0.01/\$-0.01	-0.5%/-0.5 %
Payout ratio:				
AFFO ^{1,3}	84.4%	84.8%	(0.4)%	(0.5)%
AFFO with one time adjustment and transactional FFO ¹	82.8%	80.3%	2.5%	3.1 %

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

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

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

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

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

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

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

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

Reconciliation of ACFO

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

(in thousands of dollars)	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Variance
Cash flows provided by operating activities	137,492	109,672	27,820
Adjustments to working capital items that are not indicative of sustainable cash available for distribution ¹	(37,113)	(22,421)	(14,692)
Notional interest capitalization	412	475	(63)
Expenditures on direct leasing costs and tenant incentives	655	1,855	(1,200)
Expenditures on tenant incentives for properties under development	1,169	200	969
Actual sustaining capital expenditures	(7,013)	(7,371)	358
Actual sustaining leasing commissions	(424)	(411)	(13)
Actual sustaining tenant improvements	(782)	(1,443)	661
Non-cash interest expense	(9,847)	(5,718)	(4,129)
Non-cash interest income	1,565	1,864	(299)
Transactional FFO – gain on sale of land to co-owners	945	–	945
ACFO²	87,059	76,702	10,357
ACFO ²	87,059	76,702	10,357
Distributions declared	70,191	66,463	3,728
Surplus of ACFO over distributions declared	16,868	10,239	6,629
Payout ratio:			
ACFO ²	80.6%	86.7%	(6.1)%

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

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

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

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

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

(in thousands of dollars)	Year Ended December 31, 2017	Year Ended December 31, 2016 ⁴	Variance
Cash flows provided by operating activities	353,082	316,337	36,745
Adjustments to working capital items that are not indicative of sustainable cash available for distribution ¹	(17,950)	12,160	(30,110)
Notional interest capitalization	1,743	2,115	(372)
Expenditures on direct leasing costs and tenant incentives	5,142	6,470	(1,328)
Expenditures on tenant incentives for properties under development	1,169	979	190
Actual sustaining capital expenditures	(12,777)	(12,623)	(154)
Actual sustaining leasing commissions	(1,203)	(1,218)	15
Actual sustaining tenant improvements	(3,952)	(5,254)	1,302
Non-cash interest expense	(7,054)	(17,307)	10,253
Non-cash interest income	5,807	3,398	2,409
Transactional FFO – gain on sale of land to co-owners	4,069	–	4,069
ACFO²	328,076	305,057	23,019
One time adjustment:			
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ³	2,721	16,457	(13,736)
ACFO with one time adjustment²	330,797	321,514	9,283
ACFO²	328,076	305,057	23,019
Distributions declared	270,665	259,096	11,569
Surplus of ACFO over distributions declared	57,411	45,961	11,450
Payout ratio:			
ACFO ²	82.5%	84.9%	(2.4)%
ACFO with one time adjustment ²	81.8%	80.6%	1.2 %

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

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

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

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

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

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

Distributions and AFFO Highlights

The following table is provided for historical continuity only:

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

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

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

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

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

Distributions and ACFO Highlights

The following table is provided for historical continuity only:

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

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

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

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

Leasing Activities and Lease Expiries

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

Leasing Activities

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

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

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

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

2017 Lease Expiries and Related Renewals

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

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

Lease expiries for the total portfolio are as follows:

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

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

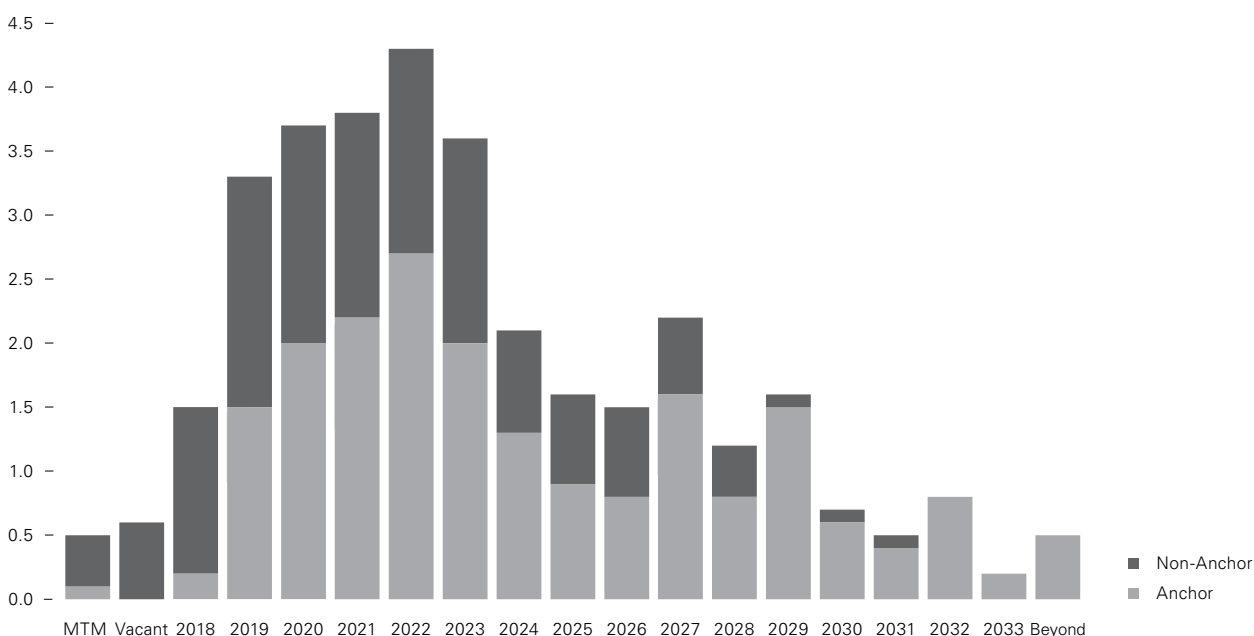
Lease expiries for the portfolio excluding anchor tenants are as follows:

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

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

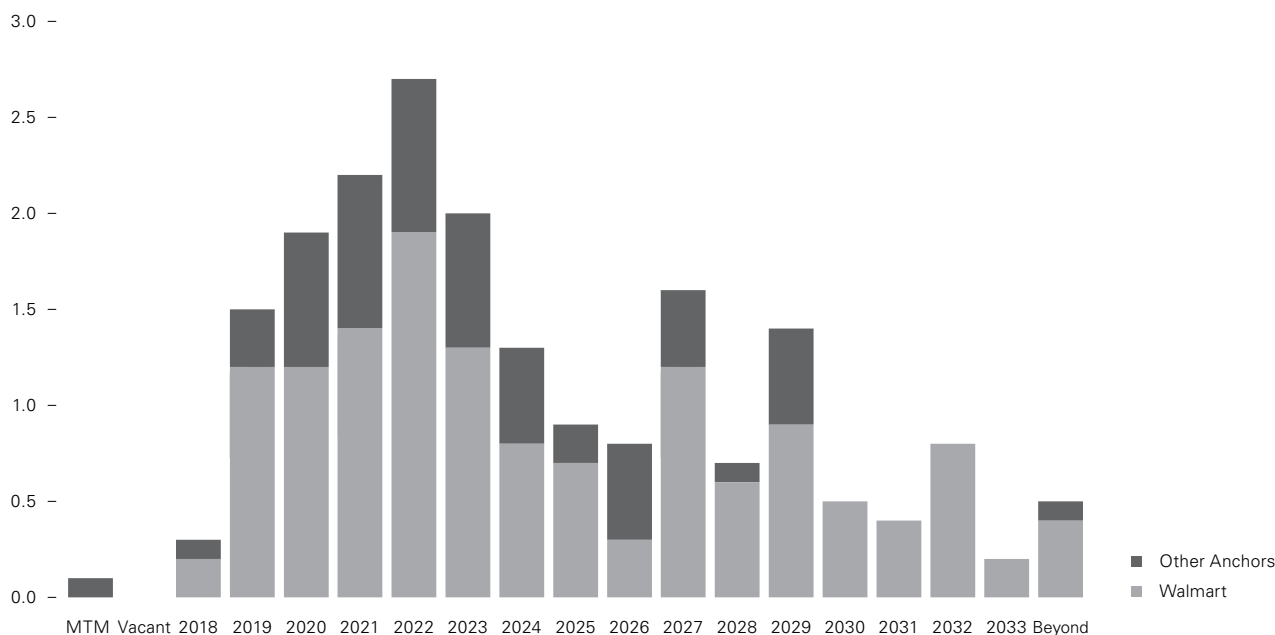
LEASE EXPIRIES

(in millions of sq. ft.)



LEASE EXPIRIES – WALMART VERSUS OTHER ANCHORS

(in millions of sq. ft.)



Amounts Receivable, Prepaid Expenses and Deposits

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

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

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

i) Tenant receivables – net of allowance:

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

ii) Unbilled other tenant receivables:

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

iii) Receivables from related party:

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

Mortgages, Loans and Notes Receivable, and Interest Income

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

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

Mortgages Receivable (Mezzanine Financing)

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

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

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

¹ The Trust owns a 50% interest in these properties, with the other 50% interest owned by Penguin. These loans are secured against Penguin's interest in the property.

² Monthly variable rate based on a fixed rate of 6.35% on loans outstanding up to \$7.2 million and banker's acceptance rate plus 1.75% on any additional loans above \$7.2 million.

³ The monthly variable rate is based on the banker's acceptance rate plus 2.00%. The interest rate on this mortgage will reset in 2018 to the four-year Government of Canada bond rate plus 4.0%, subject to a lower limit of 6.75% and an upper limit of 7.75%.

⁴ These loans were amended during the three months ended March 31, 2017. See the “Loan Amendments” section below for details.

⁵ The Trust owns a 33.3% interest in this property. The loan is secured against a 33.3% interest owned by Penguin, as well as a guarantee by Penguin.

⁶ The Trust owns a 25% interest in this property. The loan is secured against a 25% interest owned by Penguin, as well as a guarantee by Penguin.

⁷ The Trust has an option to purchase an additional purchase option percentage from the borrower in these properties upon a certain level of development and leasing being achieved. As at December 31, 2017, it is management's expectation that the Trust will exercise these purchase options.

⁸ Represents the weighted average effective interest rate.

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

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

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

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

Loan amendments

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

Loans Receivable

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

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

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

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

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

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

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

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

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

Notes Receivable

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

Interest Expense

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

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

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

General and Administrative Expense

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

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

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

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

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

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

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

Earnouts and Developments Completed on Existing Properties

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

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

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

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

Maintenance of Productive Capacity

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

Valuation Methodology

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

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

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

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

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

Acquisitions of Investment Properties

Acquisitions during the year ended December 31, 2017

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

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

Acquisitions during the year ended December 31, 2016

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

Properties Under Development

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

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

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

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

Potential Future Pipeline

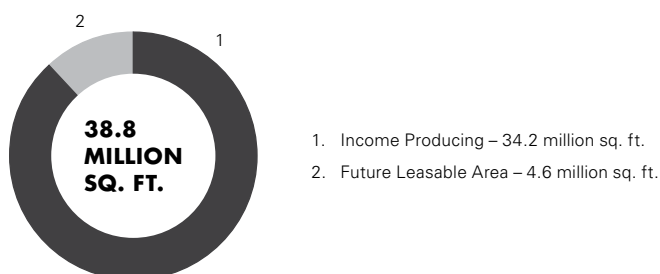
Total future Earnouts, Developments and options under Mezzanine Financing (including the two VMC office properties but excluding all other non-retail development initiatives) could increase the existing Trust portfolio by an additional 4.6 million square feet. With respect to the future pipeline, commitments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

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

- Pending finalization of the development plan with the City of Vaughan, the Trust expects that VMC will over time have the potential to build, inclusive of completed and phases currently under development, 5.0 million to 5.5 million square feet of office, retail and residential space (at the Trust's 50% interest).
- In addition to VMC, the Trust has identified over 50 sites within its portfolio that have the potential to add in excess of 10.0 million square feet for residential, self-storage, and other non-retail uses over the medium to long term at sites including Westside Mall in Toronto, Vaughan North West, Highway 400/7, Laval Centre and Pointe Claire in Montreal and South Keys in Ottawa, as well as a significant number of shopping centre sites attached to which is vacant development land.
- The Trust is in discussions with various parties to jointly develop parcels within its existing portfolio with residential, seniors housing and self-storage uses where such uses make sense in optimizing each centre within its local community. This is expected to occur on adjacent vacant land that would have historically been designated for retail development or in designated parking areas that are no longer needed.

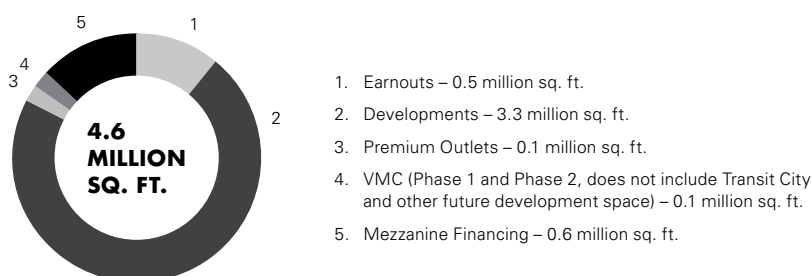
GROSS LEASABLE AREA UPON COMPLETION OF PIPELINE

(in millions of sq. ft.)



FUTURE LEASABLE AREA UPON COMPLETION OF PIPELINE

(in millions of sq. ft.)



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

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

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

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

Committed Retail and Office Pipeline

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

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

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

Uncommitted Retail and Office Pipeline

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

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

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

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

Residential Development Inventory

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

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

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

Equity Accounted Investments

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

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

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

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

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

a) *Investment in associates*

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

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

b) *Investment in joint venture*

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

Related Party

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

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

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

1. The Development and Services Agreement, under which the Trust and certain subsidiary limited partnerships of the Trust have agreed to provide to Penguin the following services for a five-year term with automatic five-year renewal periods thereafter:
 - a. Construction management services and leasing services are provided, at the discretion of Penguin, with respect to certain of Penguin's properties under development for a market-based fee based on construction costs incurred. Fees for leasing services, requested at the discretion of Penguin, are based on various rates that approximate market rates, depending on the term and nature of the lease. In addition, management fees are provided for a market-based fee based on rental revenue.
 - b. Transition services relate to activities necessary to become familiar with Penguin projects and establishing processes and systems to accommodate the needs of Penguin.
 - c. Support services are provided for a fee based on an allocation of the relevant costs of the support services incurred by the Trust. Such relevant costs include: office administration, human resources, information technology, insurance, legal and marketing.
2. The Services Agreement under which Mitchell Goldhar, owner of Penguin, has agreed to provide to the Trust certain advisory, consulting and strategic services, including but not limited to strategies dealing with development, municipal approvals, acquisitions, dispositions and construction costs, as well as strategies for marketing new projects and leasing opportunities. The fees associated with this agreement are approximately \$0.9 million per quarter for a five-year term (these charges are included in the following table as "Master planning services").
3. The Trust has a lease agreement to rent its office premises from Penguin for a term ending in May 2025.

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

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

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

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

Mortgages receivable

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

Future land development obligations

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

Leasehold interest properties

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

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

Other related party transactions:

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

Capital Resources and Liquidity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt

Summary of activities during the year ended December 31, 2017

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

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

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

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

Secured Debt

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

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

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

Debt maturing during year

The debt maturing by type of lender is as follows:

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

Unsecured Debentures

Issued and outstanding as at December 31, 2017:

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

¹ These unsecured debentures carry a floating rate of 3-month CDOR plus 66 basis points.

² Represents the weighted average annual interest rate.

Unsecured Debenture Activity for the Year Ended December 31, 2017

Issuances

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

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

Redemptions

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

Credit Rating of Unsecured Debentures

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

Convertible Debentures

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

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

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

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

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

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

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

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

Revolving Operating Facility

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

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

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

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

Non-revolving Operating Facility

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

- (i) A non-revolving operating facility with a Canadian chartered bank secured by specific charges on an investment property, that bore interest at prime plus 100 basis points or at banker's acceptance rate plus 135 basis points and matured on April 7, 2021. At the time of the Arrangement, the total amount outstanding on the non-revolving operating facility was \$27.2 million. In December 2017, the Trust repaid the amount outstanding of \$27.2 million and closed the non-revolving operating facility.
- (ii) A non-revolving operating facility with a Canadian chartered bank secured by specific charges on an investment property, that bore interest at prime plus 45 basis points or at banker's acceptance rate plus 145 basis points and matured on June 30, 2020. At the time of the Arrangement, the total amount outstanding on the non-revolving operating facility was \$30.0 million. In December 2017, the Trust repaid the amount outstanding of \$30.0 million and closed the non-revolving operating facility.

Unencumbered Assets

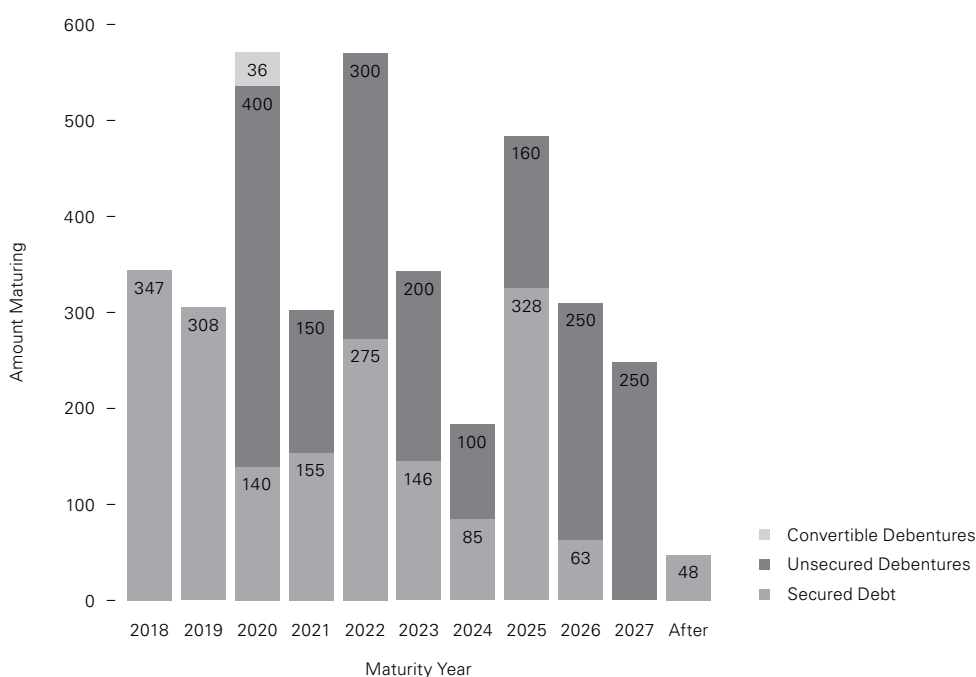
As at December 31, 2017, the Trust had \$3,387.0 million of unencumbered assets, which reflects the Trust's share of the value of investment properties. In connection with this pool of unencumbered assets, management estimates that the total Forecasted Annualized NOI for 2018 will be \$199.1 million.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

Debt Maturities

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

DEBT MATURITIES

(in millions of dollars)



Financial Covenants

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

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

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

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

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

Those ratios are as follows:

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

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

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

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

Unitholders' Equity

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

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

¹ Limited Partnership was formed pursuant to the Arrangement.

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

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

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

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

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

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

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

Quarterly Results and Trends

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

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

¹ Includes the Trust's share of earnings from equity accounted investments.

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

³ Diluted AFFO and FFO are adjusted for the dilutive effect of the vested Earnout options and vested portion of deferred units, unless they are anti-dilutive.

⁴ Q2 2017 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs (\$0.2 million). Q1 2017 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs (\$2.5 million). Q3 2016 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs (\$16.5 million).

⁵ The 2016 AFFO, AFFO per Unit and AFFO payout ratio, have been restated to comply with the REALpac White Paper on FFO and AFFO dated February 2017.

⁶ Total units outstanding include Trust Units and LP Units, including Units classified as financial liabilities.

⁷ Includes \$9.7 million settlement proceeds associated with the Target lease terminations net of other amounts recorded during the three months ended June 30, 2016. For the three months ended June 30, 2016, the net settlement proceeds had an impact on both FFO per Unit and AFFO per Unit by \$0.06.

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

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

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

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

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

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

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

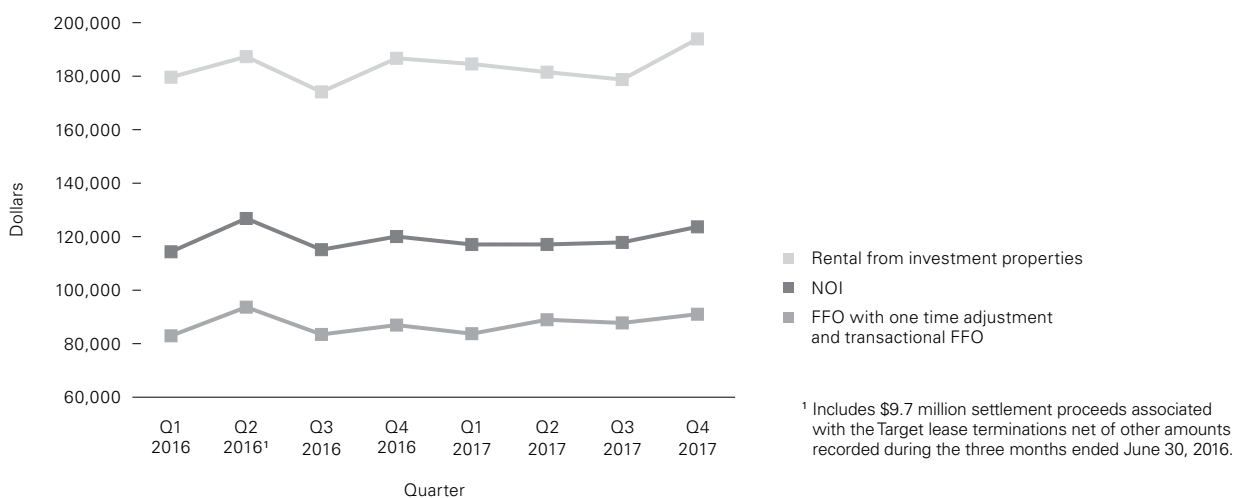
The quarter-over-quarter increase in unencumbered assets over the last two years is primarily attributed to the Trust's practice of repaying maturing mortgages by using its existing credit facilities and unsecured debt, resulting in the related assets remaining unencumbered thereafter.

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

General trends in SmartCentres' key performance indicators

PERFORMANCE QUARTER-OVER-QUARTER

(in thousands of dollars)



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

Income Taxes and the REIT Exception

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

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

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

Disclosure Controls and Procedures (“DCP”)

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

Internal Control Over Financial Reporting (“ICFR”)

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

Inherent Limitations

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

Significant Accounting Estimates and Policies

Significant Accounting Estimates

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

Fair value of investment property

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

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

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

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

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

Fair value of financial instruments

a. Unit options issued to non-employees on acquisitions (the "Earnout options")

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

b. Deferred unit plan

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

c. Units classified as liabilities

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

d. Long Term Incentive Plan

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

Fair value of mortgages and loans receivable

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

Residential Development Inventory

Residential development inventory, which is developed for sale in the ordinary course of business, is stated at the lower of cost and estimated net realizable value. Residential development inventory is reviewed for impairment at each reporting date. An impairment loss is recognized as an expense when the carrying value of the property exceeds its net realizable value. Net realizable value is based on projections of future cash flows, which take into account the development plans for each project and management's best estimate of the most probable set of anticipated economic conditions.

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

Statement of Cash Flows

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

Future Changes in Accounting Policies

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

IFRS 9, “Financial Instruments”

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

IFRS 15, “Revenue from Contracts with Customers”

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

IFRS 16, “Leases”

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

IAS 40, “Investment Property”

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

Risks and Uncertainties

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

Real Property Ownership Risk

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

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

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

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

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

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

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

Development and Construction Risk

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

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

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

Joint Venture Risk

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

Interest and Financing Risk

In the low interest rate environment that the Canadian economy has experienced in recent years, leverage has enabled the Trust to enhance its return to Unitholders. A reversal of this trend, however, could significantly affect the business's ability to meet its financial

obligations. In order to minimize this risk, the Trust's policy is to negotiate fixed rate secured debt with staggered maturities on the portfolio and seek to match average lease maturity to average debt maturity. Derivative financial instruments may be utilized by the Trust in the management of its interest rate exposure. The Trust's policy is not to utilize derivative financial instruments for trading or speculative purposes. In addition, the Declaration of Trust restricts total indebtedness permitted on the portfolio.

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

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

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

Credit Risk

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

Environmental Risk

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

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

Capital Requirements

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

Tax Related Risks

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

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

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

Cyber Security Risk

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

Significant Unitholder Risk

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

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

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

Subsequent Events

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

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

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

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

Glossary of Terms

Adjusted Cashflow From Operations (“ACFO”)

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

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”)

Adjusted earnings before interest expense, income taxes, depreciation expense and amortization expense, as defined by the Trust, is a non-GAAP financial measure that comprises net earnings less income taxes, interest expense, amortization expense and depreciation expense, as well as adjustments for gains and losses on disposal of investment properties including transactional gains and losses on the sale of investment properties to a joint venture that are expected to be recurring, and the fair value changes associated with investment properties and financial instruments, and excludes non-recurring one time adjustments. It is a metric that can be used to help determine the Trust’s ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. Additionally, Adjusted EBITDA removes the non-cash impact of the fair value changes and gains and losses on investment property dispositions. Adjusted EBITDA is reconciled with net income, which is the closest IFRS measure (see “Results of Operations”).

Adjusted Funds From Operations (“AFFO”)

AFFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a White Paper describing the intended use of AFFO last revised in February 2017. AFFO is a supplemental measure historically used by many in the real estate industry to measure operating cash flow generated from the business. In calculating AFFO, the Trust now adjusts FFO for actual costs incurred relating to leasing activities, major maintenance costs and straight-line rent in excess of contractual rent paid by tenants (a receivable). Working capital changes, viewed as short-term cash requirements or surpluses, are deemed financing activities pursuant to the methodology and are not considered when calculating AFFO. Capital expenditures that are excluded and not deducted in the calculation of AFFO comprise those which generate a new investment stream, such as erecting a new pylon sign that generates sign rental income, constructing a new retail pad during property expansion or intensification, development activities or acquisition activities. AFFO is reconciled in this MD&A with net income, which is the closest IFRS measure.

Annual Run-Rate NOI

Represents a non-GAAP financial measure and is calculated as management’s estimate annualized NOI excluding the impact of straight-line rent and other non-recurring items including but not limited to bad debt provisions and termination fees.

Anchors

Anchors are defined as tenants within a property with gross leasable area greater than 30,000 square feet.

The Arrangement

On October 4, 2017, the Trust announced the closing of a transaction to acquire a portfolio of 12 retail properties from OneREIT through the acquisition of OneREIT’s ONR Limited Partnership as part of a plan of arrangement with OneREIT and others (“the Arrangement”).

The Arrangement added 2.2 million square feet of gross leasable area to the Trust’s existing portfolio, with 10 of the 12 properties located in Ontario. Further, the portfolio includes 11 food stores, inclusive of 6 Walmart supercentres and a strong mix of national tenants.

CAM

Defined as common area maintenance.

Debt to Adjusted EBITDA

Defined as debt divided by Adjusted EBITDA. The ratio of total debt to Adjusted EBITDA is included and calculated each period to provide information on the level of the Trust’s debt versus the Trust’s ability to service that debt. Adjusted EBITDA is used as part of this calculation because the fair value changes and gains and losses on investment property dispositions do not have an impact on cash flow, which is a critical part of this measure (see “Financial Covenants” section).

Debt to Aggregate Assets

Calculated as debt divided by aggregate assets including equity accounted investments (“Aggregate Assets”). The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.

Debt to Gross Book Value

Calculated as debt divided by Aggregate Assets plus accumulated amortization less cumulative unrealized fair value gain or loss with respect to investment property. The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.

Earnings Before Interest Expense, Income Taxes, Depreciation Expense and Amortization expense ("EBITDA")

Earnings before interest expense, income taxes, depreciation expense and amortization expense is a non-GAAP measure that can be used to help determine the Trust's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. EBITDA is reconciled with net income, which is the closest IFRS measure (see "Financial Covenants").

Exchangeable Securities

Exchangeable Securities are securities issued by the limited partnership subsidiaries of the Trust that are convertible or exchangeable directly for Units without the payment of additional consideration, including Class B Smart Limited Partnership units ("Class B Smart LP Units") and Units classified as liabilities. Such Exchangeable Securities are economically equivalent to Units as they are entitled to distributions equal to those on the Units and are exchangeable for Units on a one-for-one basis. The issue of a Class B Smart LP Unit and Units classified as liabilities is accompanied by a Special Voting Unit that entitles the holder to vote at meetings of Unitholders.

Fixed Charge Coverage Ratio

Defined as Adjusted EBITDA divided by interest expense on debt and distributions on LP Class D Units and all regularly scheduled principal payments made with respect to indebtedness during the period. The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.

Forecasted Annualized NOI

Represents a forward-looking, non-GAAP measure, and is calculated based on management's estimates of annualized NOI.

Funds From Operations ("FFO")

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

Interest Coverage Ratio

Defined as Adjusted EBITDA over interest expense, where interest expense excludes the distributions on deferred units and LP Class D Units classified as liabilities and adjustments relating to the early redemption of unsecured debentures. The ratio is used by the Trust to manage an acceptable level of interest expense relative to available earnings and is not considered a measure in accordance with IFRS.

Net Operating Income ("NOI")

NOI (a non-GAAP financial measure) from continuing operations is defined as rentals from investment properties less property-specific costs net of service and other revenues.

Payout Ratio to ACFO

Represents a non-GAAP financial measure and is calculated as distributions declared divided by ACFO. It is the proportion of earnings paid out as dividends to Unitholders. Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management believes the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations.

Payout Ratio to AFFO

Represents a non-GAAP financial measure and is calculated as distributions per Unit divided by AFFO per Unit. It is the proportion of earnings paid out as dividends to Unitholders. Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management believes the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations.

Penguin

Penguin refers to entities controlled by Mitchell Goldhar, a trustee and significant Unitholder of the Trust.

Recovery Ratio

Defined as property operating cost recoveries divided by recoverable costs.

Same Properties NOI

To facilitate a more meaningful comparison of NOI between periods, Same properties NOI (a non-GAAP financial measure) amounts are calculated as the NOI attributable to those income properties that were owned by the Trust during the current period and the same period in the prior year. Any NOI from properties either acquired, Earned out or disposed of, outside of these periods, are excluded from Same properties NOI.

Shadow Anchor

A shadow anchor is a store or business that satisfies the criteria for an anchor tenant, but which may be located at an adjoining property or on a portion.

SIFT

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

The SIFT Rules are not applicable to a SIFT that meets certain specified criteria relating to the nature of its revenues and investments in order to qualify as a real estate investment trust for purposes of the Tax Act.

The Transaction

On May 28, 2015, the Trust completed the previously announced acquisition of the SmartCentres platform from Mitchell Goldhar as part of a \$1,171.2 million transaction that transformed the Trust into a fully integrated real estate developer and operator by adding the SmartCentres platform of development, leasing, planning, engineering, architecture, and construction capabilities.

The Transaction also included the acquisition of interests in a portfolio of 22 properties located principally in Ontario and Quebec, including 20 open-format Walmart Supercentre anchored or shadow-anchored shopping centres owned by Mitchell Goldhar and joint venture partners, including Wal-Mart Canada Realty Inc., for \$1,116.0 million.

Transactional FFO

Transactional FFO is a non-GAAP financial measure that represents the net financial/economic gain (loss) resulting from a partial sale of an investment property to a third party. Transactional FFO is calculated as the difference between the actual selling price and actual costs incurred for the subject investment property. Because the Trust intends to establish numerous joint ventures with partners in which it plans to co-develop mixed-use projects, the Trust expects such gains (losses) to be recurring and therefore represent part of the Trust's overall distributable earnings.

Voting Top-Up Right

Until July 1, 2020, Penguin is entitled to have a minimum of 25.0% of the votes eligible to be cast at any meeting of Unitholders provided certain conditions are met (the "Voting Top-Up Right"). Pursuant to the Voting Top-Up Right, the Trust will issue additional special voting Units of the Trust ("Additional Special Voting Units") to Penguin to increase its voting rights to 25.0% in advance of a meeting of Unitholders. The total number of Special Voting Units is adjusted for each meeting of the Unitholders based on changes in Penguin's ownership interest.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

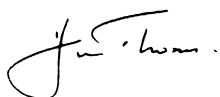
The Annual Report, including consolidated financial statements, is the responsibility of the management of SmartCentres Real Estate Investment Trust and has been approved by the Board of Trustees. The financial statements have been prepared in accordance with International Financial Reporting Standards. The summary of significant accounting policies used are described in Note 2 to the consolidated financial statements. Financial information contained elsewhere in this report is consistent with information contained in the consolidated financial statements.

Management maintains a system of internal controls over financial reporting that provides reasonable assurance that the assets of SmartCentres Real Estate Investment Trust are safeguarded and that facilitates the preparation of relevant, timely and reliable financial information that reflects, where necessary, management's best estimates and judgments based on informed knowledge of the facts.

The Board of Trustees is responsible for (i) ensuring that management fulfills its responsibility for financial reporting; and (ii) providing final approval of the consolidated financial statements. The Board of Trustees has appointed an Audit Committee comprising three independent Trustees to approve, monitor, evaluate, advise and make recommendations on matters affecting the external audit, the financial reporting and the accounting controls, policies and practices of SmartCentres Real Estate Investment Trust under its terms of reference.

The Audit Committee meets at least four times per year with management and with the independent external auditors to satisfy itself that they are properly discharging their responsibilities. The consolidated financial statements and the Management Discussion and Analysis of SmartCentres Real Estate Investment Trust have been reviewed by the Audit Committee and approved by the Board of Trustees.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements in accordance with International Financial Reporting Standards and have read Management's Discussion and Analysis. Their auditors' report is set forth herein.



Huw Thomas
Chief Executive Officer



Peter Sweeney
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of SmartCentres Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of SmartCentres Real Estate Investment Trust and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of income and comprehensive income, equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SmartCentres Real Estate Investment Trust and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
February 14, 2018

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

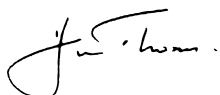
As at December 31, 2017 and December 31, 2016

(in thousands of Canadian dollars)	Note	2017	2016
Assets			
Non-current assets			
Investment properties	4	8,733,309	8,242,417
Mortgages, loans and notes receivable	5	135,990	73,290
Equity accounted investments	6	125,362	122,677
Other assets	7	82,615	83,904
Intangible assets	8	50,464	51,795
		9,127,740	8,574,083
Current assets			
Residential development inventory	9	20,267	–
Current portion of mortgages, loans and notes receivable	5	26,196	105,601
Amounts receivable, prepaid expenses and deposits, deferred financing costs and other	10	43,329	36,101
Cash and cash equivalents	20	162,700	23,093
		252,492	164,795
Total assets		9,380,232	8,738,878
Liabilities			
Non-current liabilities			
Debt	11	3,815,827	3,287,211
Other payables	12	28,753	27,820
Other financial liabilities	13	88,603	39,395
		3,933,183	3,354,426
Current liabilities			
Current portion of debt	11	415,133	550,581
Accounts payable and current portion of other payables	12	204,459	169,927
		619,592	720,508
Total liabilities		4,552,775	4,074,934
Equity			
Trust Unit equity		3,994,259	3,847,575
Non-controlling interests		833,198	816,369
		4,827,457	4,663,944
Total liabilities and equity		9,380,232	8,738,878

Commitments and contingencies (Note 27)

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

Approved by the Board of Trustees.



Huw Thomas
Trustee



Garry Foster
Trustee

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)	Note	2017	2016
Net rental income			
Rentals from investment properties	17	734,032	725,267
Property operating costs		(261,103)	(250,410)
Net rental income		472,929	474,857
Other income and expenses			
Service and other revenues	18	13,216	11,548
Other expenses	18	(13,271)	(11,543)
General and administrative expense	19	(23,377)	(24,491)
Earnings (loss) from equity accounted investments	6	(1,663)	13,787
Fair value adjustment on revaluation of investment properties	25	15,063	60,312
Loss on sale of investment properties	4	(288)	(146)
Interest expense	11(f)	(134,368)	(147,714)
Interest income		8,582	11,436
Fair value adjustment on financial instruments	25	624	(1,911)
Acquisition related gain, net	3	18,479	–
Net income and comprehensive income		355,926	386,135
Net income and comprehensive income attributable to:			
Trust Units		296,833	322,231
Non-controlling interests		59,093	63,904
		355,926	386,135

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)	Note	2017	2016
Cash provided by (used in)			
Operating activities			
Net income and comprehensive income for the year		355,926	386,135
Add (deduct): Other items			
Fair value adjustments	25	(15,687)	(58,401)
Loss on sale of investment properties	4	288	146
Loss (earnings) from equity accounted investments, net of distributions	6	30,986	(13,399)
Acquisition related gain	3	(32,037)	–
Interest expense	11(f)	134,368	147,714
Cash interest paid associated with operating activities	11(f)	(127,314)	(130,407)
Interest income		(8,582)	(11,436)
Interest received		2,775	8,038
Adjustments/amortization relating to other assets	7	6,822	5,718
Amortization of intangible assets	19	1,331	1,331
Finance lease obligation interest		517	507
Deferred unit compensation expense, net of redemptions	13(c)	1,311	(3,885)
Long Term Incentive Plan accrual adjustment	12(b)	(1,063)	1,777
Payment of vested Long Term Incentive Plan performance units	12(b)	(1,765)	(574)
Expenditures on direct leasing costs and tenant incentives		(5,142)	(6,470)
Expenditures on tenant incentives for properties under development		(1,169)	(979)
Changes in other non-cash operating items	20	11,517	(9,478)
Cash flows provided by operating activities		353,082	316,337
Financing activities			
Proceeds from issuance of unsecured debentures – net of issuance costs	11(b)	647,437	347,425
Repayment of unsecured debentures including yield maintenance on redemption	11(b)	(152,721)	(205,138)
Redemption of convertible debentures	11(c)	(40,000)	–
Proceeds from revolving operating facility	11(d)	405,000	95,000
Repayments of revolving operating facility	11(d)	(420,000)	(105,000)
Non-revolving operating facility repayments	11(e)	(57,184)	–
Proceeds from issuance of secured debt		103,840	38,572
Repayments of secured debt and other debt		(396,307)	(182,020)
Distributions paid on Trust Units		(174,602)	(169,694)
Distributions paid on non-controlling interests and Units classified as liabilities		(44,392)	(42,487)
Financing costs		(3,676)	(625)
Cash flows used in financing activities		(132,605)	(223,967)
Investing activities			
Acquisitions and Earnouts of investment properties	3	(5,062)	(45,109)
Cash acquired in a business combination	3	16,728	–
Additions to investment properties		(103,955)	(68,308)
Additions to investment in associates	6	(11,218)	(1,730)
Additions to equipment	7	(399)	(252)
Advances of mortgages and loans receivable	5	(10,428)	(462)
Repayments of mortgages and loans receivable	5	2,357	21,210
Net proceeds from sale of investment properties	4	31,107	4,038
Cash flows used in investing activities		(80,870)	(90,613)
Increase in cash and cash equivalents during the year		139,607	1,757
Cash and cash equivalents – beginning of year		23,093	21,336
Cash and cash equivalents – end of year		162,700	23,093
Supplemental cash flow information	20		

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

Consolidated Statements of Equity

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)	Note	Attributable to Unitholders			Attributable to LP Units Classified as Non-Controlling Interests			Other Non-Controlling Interest (Note 21)	Total Equity
		Trust Units (Note 15)	Retained Earnings	Unit Equity	LP Units (Note 15)	Retained Earnings	LP Unit Equity		
Equity – January 1, 2016		2,599,493	1,093,592	3,693,085	624,082	162,529	786,611	2,875	4,482,571
Issuance of Units		47,322	–	47,322	4,578	–	4,578	–	51,900
Net income and comprehensive income		–	322,231	322,231	–	63,537	63,537	367	386,135
Contributions by other non-controlling interest	5(c)	–	–	–	–	–	–	51	51
Distributions	16	–	(216,648)	(216,648)	–	(41,484)	(41,484)	(166)	(258,298)
Units exchanged	13,15	1,585	–	1,585	–	–	–	–	1,585
Equity – December 31, 2016		2,648,400	1,199,175	3,847,575	628,660	184,582	813,242	3,127	4,663,944
Equity – January 1, 2017		2,648,400	1,199,175	3,847,575	628,660	184,582	813,242	3,127	4,663,944
Issuance of Units	15	76,072	–	76,072	832	–	832	–	76,904
Net income and comprehensive income		–	296,833	296,833	–	58,699	58,699	394	355,926
Distributions	16	–	(226,221)	(226,221)	–	(42,813)	(42,813)	(283)	(269,317)
Equity – December 31, 2017		2,724,472	1,269,787	3,994,259	629,492	200,468	829,960	3,238	4,827,457

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars, except Unit, square foot and per Unit amounts)

1. Organization

SmartCentres Real Estate Investment Trust and its subsidiaries, previously known as Smart Real Estate Investment Trust ("the Trust"), is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Alberta created under a declaration of trust, dated December 4, 2001, subsequently amended and last restated on October 20, 2017 ("the Declaration of Trust"). The Trust develops, leases, constructs, owns and manages shopping centres, office buildings, and high-rise and low-rise residences in Canada, both directly and through its subsidiaries, Smart Limited Partnership, Smart Limited Partnership II, Smart Limited Partnership III, Smart Limited Partnership IV, Smart Oshawa South Limited Partnership, Smart Oshawa Taunton Limited Partnership, Smart Boxgrove Limited Partnership, and includes the following additional subsidiaries that arose as part of a plan of arrangement with OneREIT and others ("the Arrangement") (see also Note 3, "Business combination, property acquisitions and earnouts"): ONR Limited Partnership and ONR Limited Partnership I. The exchangeable securities of these subsidiaries, which are presented as non-controlling interests or as a liability as appropriate, are economically equivalent to Trust Units as a result of voting, exchange and distribution rights as more fully described in Note 15(a). The address of the Trust's registered office is 700 Applewood Crescent, Vaughan, Ontario, L4K 5X3. The Units of the Trust are listed on the Toronto Stock Exchange ("TSX") under the ticker symbol "SRU.UN".

These consolidated financial statements have been approved for issue by the Board of Trustees on February 14, 2018. The Board of Trustees has the power to amend the consolidated financial statements after issue.

At December 31, 2017, the Penguin Group of Companies ("Penguin"), owned by Mitchell Goldhar, owned approximately 22.0% (December 31, 2016 – 22.4%) of the issued and outstanding Units of the Trust and Limited Partnerships (see also Note 21, "Related party transactions").

2. Summary of significant accounting policies

2.1 Basis of presentation

The Trust's consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand. The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of investment property and certain financial and derivative instruments (discussed in Note 2.4 and Note 2.11, respectively). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

Statement of compliance

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

2.2 Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Trust has control. The Trust controls an entity when the Trust is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Trust. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, unrealized losses and unrealized gains on transactions between the Trust and its subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Trust.

Non-controlling interests represent equity interests in subsidiaries not attributable to the Trust. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Net income and comprehensive income are attributed to Trust Units and non-controlling interests.

Interests in joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The Trust is a co-owner in several properties that are subject to joint control and has determined that certain current joint arrangements are joint operations as the Trust, through its subsidiaries, is the direct beneficial owner of the Trust's interests in the properties. For these properties, the Trust recognizes its proportionate share of the assets, liabilities, revenue and expenses of these co-ownerships in the respective lines in the consolidated financial statements (see Note 23 "Co-ownership interests").

2.3 Equity accounted investments

a) Investment in associates

Investment in associates are entities over which the Trust has significant influence but not control or joint control, generally accompanying an ownership of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and recorded as equity accounted investments on the consolidated balance sheet. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize

the investor's share of the profit or loss of the investee, including the Trust's pro rata share of changes in fair value of investment property held by the associate from the previous reporting period, after the date of acquisition. The Trust's investment in associates includes any goodwill identified on acquisition.

b) Investment in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control only have rights to the net assets of the arrangement. Investment in joint ventures are accounted for using the equity method of accounting and recorded as equity accounted investments on the consolidated balance sheet. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee, including the Trust's pro rata share of changes in fair value of investment property held by the equity accounted investment from the previous reporting period, after the date of acquisition. The Trust's equity accounted investment includes any goodwill identified on acquisition.

The Trust's share of post-acquisition profit or loss is recognized in the consolidated statement of income and comprehensive income with a corresponding adjustment to the carrying amount of the equity accounted investment. When the Trust's share of losses in an equity accounted investment equals or exceeds its interest in the equity accounted investment, including any other unsecured receivables, the Trust does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the equity accounted investment.

The Trust determines at each reporting date whether there is any objective evidence that the equity accounted investment is impaired. If this is the case, the Trust calculates the amount of impairment as the difference between the recoverable amount of the equity accounted investment and its carrying value and recognizes the amount in the consolidated statement of income and comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Trust and its equity accounted investment are recognized in the Trust's consolidated financial statements only to the extent of an unrelated investor's interests in the equity accounted investment. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investments are updated when necessary to ensure consistency with the policies adopted by the Trust.

2.4 Investment properties

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

Acquired investment properties are measured initially at cost, including related transaction costs in connection with asset acquisitions. Certain properties are developed by the Trust internally, and other properties are developed and leased to third parties under development management agreements with Penguin and other vendors ("Earnouts"). Earnouts occur when the vendors retain responsibility for managing certain developments on land acquired by the Trust for additional proceeds paid on completion calculated based on a predetermined, or formula based, capitalization rate, net of land and development costs incurred by the Trust (see Note 4(e)(i)). The completion of an Earnout is reflected as an additional purchase in Note 3. Costs capitalized to properties under development include direct development and construction costs, Earnout Fees ("Earnout Fees"), borrowing costs and property taxes.

Borrowing costs that are incurred for the purpose of, and are directly attributable to, acquiring or constructing a qualifying investment property are capitalized as part of its cost. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is ready for use as intended by management, or suspended if the development of the asset is suspended, as identified by management.

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

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

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

Investment property held by the Trust under a lease is classified as investment property when the definition of an investment property is met and the Trust elects to account for the lease as a finance lease. The Trust has elected to account for all leasehold property interests that meet the definition of investment property held by the Trust as finance leases. Finance leases are recognized at the lease commencement date at the lower of the fair value of the leased property interest and the present value of the minimum lease payments. Investment properties recognized under finance leases are carried at their fair value.

Subsequent expenditure is capitalized to the investment property's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Initial direct leasing costs incurred by the Trust in negotiating and arranging tenant leases are added to the carrying amount of investment properties.

2.5 Residential development inventory

Residential development inventory, which is developed for sale in the ordinary course of business, is stated at the lower of cost and estimated net realizable value. Residential development inventory is reviewed for impairment at each reporting date. An impairment loss is recognized as an expense when the carrying value of the property exceeds its net realizable value. Net realizable value is based on projections of future cash flows, which take into account the development plans for each project and management's best estimate of the most probable set of anticipated economic conditions.

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

2.6 Business combinations

The Trust applies business combination accounting whereby identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. Any excess of the purchase price over the fair value of identifiable net assets acquired is considered goodwill. If the purchase price is less than the fair value of the net assets acquired the difference is recognized directly in the consolidated statement of income and comprehensive income as a gain. The Trust expenses any transaction costs associated with a business combination in the period incurred. When an acquisition does not meet the criteria for a business, it is accounted for as an asset acquisition. Any transaction costs associated with an asset acquisition are allocated to the assets acquired and liabilities assumed. No goodwill is recognized for asset acquisitions.

2.7 Intangible assets

The Trust's intangible assets comprise key joint venture relationships, trademarks and goodwill. The joint venture relationships and trademarks have finite useful lives, and as such are amortized over a period of 30 years and reviewed for impairment when an indication of impairment exists. Goodwill is not amortized but tested for impairment at least annually, or more frequently if there are indicators of impairment.

2.8 Equipment

Equipment is stated at cost less accumulated amortization and accumulated impairment losses and is included in other assets. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Trust records amortization expense on a straight-line basis over the assets' estimated useful lives as follows:

Office furniture and fixtures	Up to 7 years
Computer hardware	Up to 5 years
Computer software	Up to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

If events and circumstances indicate an asset may be impaired, the asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount defined as the higher of an asset's fair value less costs to sell and its value in use.

2.9 Provisions

Provisions are recognized when: (i) the Trust has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation that reflect current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.10 Classification of Units as liabilities and equity

a) Trust Units

The Trust Units meet the definition of a financial liability under IFRS as the redemption feature of the Trust Units creates an unavoidable contractual obligation to pay cash (or another financial instrument such as notes payable if redemptions exceed \$50 in a given month).

The Trust Units are considered to be “puttable instruments” because of the redemption feature. IFRS provides a very limited exemption to allow puttable instruments to be presented as equity provided certain criteria are met.

To be presented as equity, a puttable instrument must meet all of the following conditions: (i) it must entitle the holder to a pro rata share of the entity’s net assets in the event of the entity’s dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in (ii) must have identical features; (iv) other than the redemption feature, there can be no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the instrument must be based substantially on the profit or loss of the entity or change in fair value of the instrument. This is called the “Puttable Instrument Exemption”.

The Trust Units meet the Puttable Instrument Exemption criteria and accordingly are presented as equity in the consolidated financial statements. The distributions on Trust Units are deducted from retained earnings.

b) Limited Partnership Units

The Class B General Partnership Units and Class D Limited Partnership Units of Smart Limited Partnership (referred to herein as “Smart LP Units”), Class B Limited Partnership Units of Smart Limited Partnership II (referred to herein as “Smart LP II Units”), Class B General Partnership Units of Smart Limited Partnership III (referred to herein as “Smart LP III Units”), Class B General Partnership Units of Smart Limited Partnership IV (referred to herein as “Smart LP IV Units”), Class B General Partnership Units and Class D Limited Partnership Units of Smart Oshawa South Limited Partnership (referred to herein as “Smart Oshawa South LP Units”), Class B General Partnership Units and Class D Limited Partnership Units of Smart Oshawa Taunton Limited Partnership (referred to herein as “Smart Oshawa Taunton LP Units”), Class B Limited Partnership Units of ONR Limited Partnership (referred to herein as “ONR LP Units”), and Class B Limited Partnership Units of ONR Limited Partnership I (referred to herein as “ONR LP I Units”) are exchangeable into Trust Units at the partners’ option. ONR LP and ONR LP I were limited partnerships acquired as part of a plan of arrangement with OneREIT and others in 2017, see details in Note 3. All limited partnership units that are presented as equity are referred to herein as “LP Units”.

The original characteristics of the LP Units indicated that they were exchangeable into a liability (the Trust Units are a liability by definition), and accordingly the Class B and D Smart LP Units, Class B LP II Units and Class B LP III Units were also considered to be a liability, measured at amortized cost each reporting period with changes in carrying amount recorded directly in the consolidated statements of income and comprehensive income. The distributions on such Units were classified as interest expense in the consolidated statements of income and comprehensive income. Certain amendments to the Exchange, Option and Support Agreements (“EOSA”) for each respective Smart LP, LP II and LP III were made so that effective December 31, 2010, the Series 1 and Series 3 Class B Smart LP Units, Class B LP II Units and Class B LP III Units, and effective December 31, 2012, the Class B Series 2 Smart LP Units, could be classified as equity in the Trust’s consolidated financial statements. These Units were transferred at their carrying value on the date the amendments to the EOSA were made, and no further adjustments were made. The amendments to the EOSA agreements require the Trust to convert to a closed-end trust prior to honouring a redemption request by the partners. Converting to a closed-end trust will classify the Trust Units as equity as the Trust Units will no longer have the redemption feature. Accordingly, the LP Units subject to the amended EOSA are exchangeable only into equity and as a result are presented in equity as non-controlling interests in the Trust’s consolidated financial statements. The above noted amendments were reflected in the EOSA for each new limited partnership that the Trust entered into subsequent to December 31, 2012, such that unless otherwise stated, any Class B Unit (including Smart LP IV Class B Units, Smart Oshawa South Class B Units and Smart Oshawa Taunton Class B Units) is to be presented in equity as non-controlling interests in the Trust’s consolidated financial statements.

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

2.11 Financial instruments – recognition and measurement

Financial instruments must be classified into one of the following specified categories: at fair value through profit or loss (“FVTPL”), held-to-maturity investments, available-for-sale (“AFS”) financial assets, loans and receivables and other liabilities. Initially, all financial assets and financial liabilities are recorded on the consolidated balance sheet at fair value. After initial recognition, financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. The effective interest related to financial assets and liabilities measured at amortized cost and the gain or loss arising from the change in the fair value of financial assets or liabilities classified as FVTPL are included in net income for the period in which they arise. AFS financial instruments are measured at fair value with gains and losses recognized in other comprehensive income until the financial asset is derecognized, and all cumulative gains or losses are then recognized in net income.

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

	Note	Classification	Measurement
Financial assets			
Mortgages and loans receivable		Loans and receivables	Amortized cost
Amounts receivable and deposits		Loans and receivables	Amortized cost
Cash and cash equivalents		Loans and receivables	Amortized cost
Financial liabilities			
Accounts and other payables		Other liabilities	Amortized cost
Secured debt		Other liabilities	Amortized cost
Revolving operating facility		Other liabilities	Amortized cost
Unsecured debentures		Other liabilities	Amortized cost
Convertible debentures	2.13	Other liabilities	Amortized cost
Long Term Incentive Plan	2.14	Other liabilities	Amortized cost
Units classified as liabilities	2.10	FVTPL	Fair value
Conversion feature of convertible debentures	2.13	FVTPL	Fair value
Earnout options	2.14	FVTPL	Fair value
Deferred unit plan	2.14	FVTPL	Fair value
Interest rate swap agreements	2.14	FVTPL	Fair value

a) *Financing costs*

Financing costs include commitment fees, underwriting costs and legal costs associated with the acquisition or issuance of financial assets or liabilities.

Financing costs relating to secured debt, non-revolving credit facilities, and convertible and unsecured debentures are accounted for as part of the respective liability's carrying value at inception and amortized to interest expense using the effective interest method. Financing costs incurred to establish revolving credit facilities are deferred as a separate asset on the consolidated balance sheet and amortized on a straight-line basis over the term of the facilities. In the event any debt is extinguished, any associated unamortized financing costs are expensed immediately.

b) *Derivative instruments*

Derivative financial instruments may be utilized by the Trust in the management of its interest rate exposure. Derivatives are carried at fair value with changes in fair value recognized in net income. The Trust's policy is not to utilize derivative instruments for trading or speculative purposes.

c) *Fair value of financial and derivative instruments*

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act; i.e. the fair value of consideration given or received. In certain circumstances, the fair value may be determined based on observable current market transactions in the same instrument, using market-based inputs. The fair values are described and disclosed in Note 14.

d) *Interest rate swap agreements*

The Trust may enter into interest rate swaps to hedge its interest rate risk. The fair value of interest rate swap agreements reflects the fair value of swap agreements at each reporting date, and is driven by the difference between the fixed interest rate and the Canadian Dealer Offered Rate ("CDOR").

e) *Modifications of loans and debt*

Amendments to mortgages and loans receivable and debt are assessed as either modifications or extinguishments based on the terms of the revised agreements. An amendment is treated as an extinguishment if the present value of cash flows under the terms of the modified loan or debt instrument is at least 10% different from the carrying amount of the original loan or debt. When an extinguishment is determined, the loan or debt is derecognized and the fair value of the loan or debt under the amended terms is recognized, with the difference recorded as a gain or loss. The new loan or debt is carried at amortized cost using the effective interest rate inherent in the new loan or debt. When a modification is determined, the carrying amount of the loan or debt continues to be recognized at amortized cost using the original effective interest rate and no gain or loss on settlement is recorded.

f) *Impairment of financial assets*

The Trust assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Trust uses to determine whether there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- the probability that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statements of income and comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statements of income and comprehensive income.

2.12 Cash and cash equivalents

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

2.13 Convertible debentures

Convertible debentures issued or assumed by the Trust are convertible into Trust Units at the option of the holder, and the number of Units to be issued does not vary with changes in their fair value.

Upon issuance, convertible debentures are separated into their debt and conversion feature components. The debt component of the convertible debentures is recognized initially at the fair value of a similar debt instrument without a conversion feature. Subsequent to initial recognition, the debt component of a compound financial instrument is measured at amortized cost using the effective interest method.

The conversion feature component of the convertible debentures is initially recognized at fair value. The convertible debentures are convertible into Trust Units at the holder's option. As a result of this obligation, the convertible debentures are exchangeable into Trust Units. Accordingly, the conversion feature component of the convertible debentures is recorded on the consolidated balance sheet as a liability, measured at fair value, with changes in fair value recognized in fair value adjustment on financial instruments in the consolidated statements of income and comprehensive income.

Any directly attributable transaction costs are allocated to the debt and conversion components of the convertible debentures in proportion to their initial carrying amounts.

2.14 Trust and Limited Partnership Unit based arrangements

a) Unit options issued to non-employees on acquisitions (the "Earnout options")

In connection with certain acquisitions and the associated development agreements, the Trust may grant options to acquire Units of the Trust or Limited Partnerships to Penguin or other vendors. These options are exercisable only at the time of completion and rental of additional space on acquired properties at strike prices determined on the date of grant. Earnout options that have not vested expire at the end of the term of the corresponding development management agreement.

The Earnout options are considered to be a financial liability because there is a contractual obligation for the Trust to deliver Trust or Limited Partnership Units upon exercise of the Earnout options. The Earnout options are considered to be contingent consideration with respect to the acquisitions they relate to, and are initially recognized at their fair value. The Earnout options are subsequently carried at fair value with changes in fair value recognized in the fair value adjustment on financial instruments in the consolidated statements of income and comprehensive income.

The fair value of Earnout options is determined using the Black-Scholes option-pricing model using certain observable inputs with respect to the volatility of the underlying Trust Unit price, the risk-free rate and using unobservable inputs with respect to the anticipated expected lives of the options, the number of options that will ultimately vest and the expected Trust Unit distribution rate. Generally, increases in the anticipated lives of the options, decreases in the number of options that will ultimately vest, and decreases in the expected Trust Unit distribution rate will combine to result in a lower fair value of Earnout options. (See also 2.22(b)(i)).

b) Deferred unit plan

Deferred units granted to Trustees with respect to their Trustee fees, as well as the matching deferred units, vest immediately and are considered to be with respect to past services and are recognized as compensation expense upon grant. Deferred units granted to senior management with respect to their bonuses vest immediately, and the matching deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries. Deferred units granted relating to amounts matched by the Trust are considered to be with respect to future services and are recognized as compensation expense based upon the fair value of Trust Units over the vesting period of each deferred unit.

The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units as if they instead had been issued as Trust Units on the date of grant. The deferred units are considered to be a financial liability because there is a contractual obligation for the Trust to deliver Trust Units or settle in cash upon conversion of the deferred units.

The deferred units are measured at fair value using the market price of the Trust Units on each reporting date, with changes in fair value recognized in the consolidated statements of income and comprehensive income as additional compensation expense over their vesting period and as a gain or loss on financial instruments once vested. The additional deferred units are recorded in the consolidated statements of income and comprehensive income as compensation expense over their vesting period and as interest expense once vested. (See also 2.22(b)(iii)).

c) Long Term Incentive Plan

The Trust has a Long Term Incentive Plan ("LTIP") that awards officers of the Trust with performance units that are linked to the long term performance of Trust Units relative to the respective market index. Performance units vest over a performance period of three years and are settled for cash based on the market value of Trust Units at the end of the performance period.

At each reporting date, the performance units are measured based on the performance of Trust Units relative to the respective market index, the market value of Trust Units and the total performance units granted including additional units for distributions. (See also 2.22(b)(iv)).

2.15 Revenue recognition

a) Rental revenues

Rentals from investment properties include rents from tenants under leases, property tax and operating cost recoveries, percentage participation rents, lease cancellation fees, parking income and incidental income. Rents from tenants may include free rent periods and rental increases over the term of the lease and are recognized in revenue on a straight-line basis over the term of the lease. The difference between revenue recognized and the cash received is included in other assets as straight-line rent receivable. Lease incentives provided to tenants are deferred and are amortized against revenue over the term of the lease. Recoveries from tenants are recognized as revenue in the period in which the applicable costs are incurred. Percentage participation rents are recognized after the minimum sales level has been achieved with each lease. Lease cancellation fees are recognized as revenue once an agreement is completed with the tenant to terminate the lease and the collectibility is reasonably assured.

b) Service and other revenues

The Trust provides asset and property management services to co-owners, partners and third parties for which it earns market-based construction, development and other fees. These fees are recognized as the service or activity is performed. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

c) Interest income

Interest income is recognized as interest accrues using the effective interest method. When a loan and receivable are impaired, the Trust reduces the carrying amount to its recoverable amount, which is the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

2.16 Tenant receivables

The Trust determines that impairment exists when there is objective evidence that the Trust will not be able to collect all amounts due. Significant financial difficulties, bankruptcy or financial reorganization are considered indicators of tenant receivable impairment. The carrying amount of tenant receivables is reduced through the use of an allowance account, and a loss is recorded in the consolidated statements of income and comprehensive income within "Property operating costs." When a tenant receivable is uncollectible, it is written off against the allowance for doubtful accounts for tenant receivables. Subsequent recoveries of tenant receivables previously written off are credited against "Property operating costs" in the consolidated statements of income and comprehensive income.

2.17 Current and deferred income tax

The Trust is taxed as a mutual fund trust for Canadian income tax purposes. In accordance with the Declaration of Trust, distributions to Unitholders are declared at the discretion of the Trustees. The Trust endeavours to declare distributions in each taxation year in such an amount as is necessary to ensure that the Trust will not be subject to tax on its net income and net capital gains under Part I of the Tax Act.

The Trust qualifies for the REIT Exception under the specified investment flow-through (SIFT) trust rules for accounting purposes. The Trust considers the tax deductibility of the Trust's distributions to Unitholders to represent, in substance, an exemption from current tax so long as the Trust continues to expect to distribute all of its taxable income and taxable capital gains to its Unitholders. Accordingly, the Trust will not recognize any current tax or deferred income tax assets or liabilities on temporary differences in the Trust.

2.18 Distributions

Distributions are recognized as a deduction from retained earnings for the Trust Units and the Limited Partnership Units classified as equity, and as interest expense for the Units classified as liabilities and vested deferred units, in the Trust's consolidated financial statements in the period in which the distributions are approved (Note 16).

2.19 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Trust has determined that its chief operating decision-maker is the chief executive officer (CEO).

2.20 Statement of Cash Flows

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

2.21 Critical judgments in applying accounting policies

The following are the critical judgments that have been made in applying the Trust's accounting policies and that have the most significant effect on the amounts recorded or disclosed in the consolidated financial statements:

a) Investment properties

The Trust's accounting policies relating to investment properties are described in Note 2.4. In applying these policies, judgment is applied in determining whether certain costs are additions to the carrying amount of an investment property and, for properties under development, identifying the point at which substantial completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. The Trust applies judgment in determining whether development projects are active and viable, otherwise previously capitalized costs are written off.

The Trust also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. With the exception of the Arrangement, the Trust considers all the properties it has acquired to date to be asset acquisitions. Earnout options, as described in Note 2.14, are exercisable upon completion and rental of additional space on acquired properties. Judgment is applied in determining whether Earnout options are considered to be contingent consideration relating to the acquisition of the acquired properties or additional cost of services during the construction period. The Trust considers the Earnout options it has issued to date to represent contingent considerations relating to the acquisitions. The valuation of the investment properties is the main area of judgment exercised by the Trust. Investment properties are stated at fair value. Gains and losses arising from changes in the fair values are recognized in fair value adjustment on revaluation of investment properties in the consolidated statements of income and comprehensive income in the period in which they arise.

The Trust endeavours to obtain external valuations of approximately 15%–20% (by value) of the portfolio annually carried out by professionally qualified valuers in accordance with the Appraisal and Valuation Standards of the Royal Institute of Chartered Surveyors. Properties are rotated annually to ensure that approximately 50% (by value) of the portfolio is appraised externally over a three-year period. Management internally values the remainder of the portfolio utilizing external data where applicable. Judgment is applied in determining the extent and frequency of independent appraisals.

b) Investment in associate

The Trust's policy for its investment in associate is described in Note 2.3. Management has assessed the level of influence that the Trust has on the Vaughan Metropolitan Centre ("VMC") and determined that it has significant influence based on its decision-making authority with regards to the operating, financing and investing activities of VMC as specified in the contractual terms of the arrangement. Consequently, this investment has been classified as an associate.

c) Joint arrangements

The Trust's policy for its joint arrangements is described in Note 2.2. In applying this policy, the Trust makes judgments with respect to whether the Trust has joint control and whether the arrangements are joint operations or joint ventures.

d) Intangible assets

The Trust's policy for intangible assets and goodwill is described in Note 2.7. In applying this policy, the Trust makes judgments with respect to the amortization period relating to the joint venture relationships and trademarks that have finite useful lives, while also reviewing for impairment when an indication of impairment exists. In addition, on an annual basis or more frequently if there are any indications of impairment, the Trust evaluates whether goodwill may be impaired by determining whether the recoverable amount is less than the carrying amount for the smallest identified cash-generating unit.

e) Classifications of Units as liabilities and equity

The Trust's accounting policies relating to the classification of Units as liabilities and equity are described in Note 2.9. The critical judgments inherent in these policies relate to applying the criteria set out in IAS 32, "Financial Instruments Presentation," relating to the Puttable Instrument Exemption.

f) Leases

The Trust's policy for revenue recognition on investment properties is described in Note 2.14. In applying this policy, the Trust makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased property, which determines whether such amounts are treated as additions to investment property or incentives resulting in an adjustment to revenue.

The Trust also makes judgments in determining whether certain leases, in particular long-term ground leases where the Trust is the lessee and the property meets the definition of investment property, are operating or finance leases. The Trust has elected to treat all long-term ground leases where the Trust is the lessee as finance leases. All tenant leases where the Trust is a lessor have been determined to be operating leases.

g) Income taxes

The Trust is taxed as a mutual fund trust for Canadian income tax purposes and qualifies for the REIT Exemption under the SIFT rules for tax purposes. The Trust endeavours to declare distributions in each taxation year in such an amount as is necessary to ensure that the Trust will not be subject to tax on its net income and net capital gains under Part I of the Tax Act.

The Trust considers the tax deductibility of its distributions to Unitholders to represent, in substance, an exemption from current tax so long as the Trust continues to expect to distribute all of its taxable income and taxable capital gains to its Unitholders. Accordingly, the Trust will not recognize any current tax or deferred income tax assets or liabilities on temporary differences in the Trust.

2.22 Critical accounting estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

a) Fair value of investment properties

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

The critical estimates and assumptions underlying the valuation of investment properties are set out in Note 4.

b) Fair value of financial instruments

i) Unit options issued to non-employees on acquisitions (the "Earnout options")

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

ii) Deferred unit plan

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

iii) Units classified as liabilities

Units classified as liabilities are measured at each reporting period and approximate the fair value of Trust Units, with changes in value recorded directly in earnings. The distributions on such Units are classified as interest expense in the consolidated statement of income and comprehensive income. The Trust considers distributions on such Units classified as interest expense to be a financing activity in the consolidated statement of cash flows.

iv) Long Term Incentive Plan

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

v) Conversion feature of convertible debentures

The fair value of the conversion feature of the convertible debentures is determined using the differential approach between the market price of the convertible debentures and the present value of unsecured debentures that reflects current market conditions for instruments with similar terms and risks. The fair value of the convertible debentures is based on their market price.

c) Fair value of mortgages and loans receivable

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

d) Fair value of secured debt and the revolving operating facility

The fair values of secured debt and the revolving operating facility reflect current market conditions for instruments with similar terms and risks.

- e) *Fair value of unsecured debentures and convertible debentures*
The fair value of unsecured debentures and convertible debentures is based on their market price.

2.23 *Future changes in accounting policies*

a) *IFRS 9, "Financial Instruments"*

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

b) *IFRS 15, "Revenue from Contracts with Customers"*

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

c) *IFRS 16, "Leases"*

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

e) *IAS 40, "Investment Property"*

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

3. Business Combination, Property Acquisitions and Earnouts

Business combination, property acquisitions and Earnouts completed during the year ended December 31, 2017

a) Business combination

On October 4, 2017, the Trust completed the acquisition of OneREIT pursuant to the terms included in the Arrangement, which was accounted for as a business combination. The Arrangement included: (a) the acquisition of 12 investment properties from OneREIT with a fair value of \$451,200 (including \$37,200 recorded as equity accounted investment), and (b) debt assumptions totalling \$324,966 (including \$21,818 as equity accounted investment). The total consideration paid included the issuance of a total of 833,053 Trust Units and 1,524,104 Units classified as liabilities (of which 269,990 ONR LP I Class B Units were issued to Penguin) totalling \$70,266, and the settlement of a loan receivable of \$30,314. The assumed debt included obligations under two existing series of OneREIT convertible debentures totalling \$76,691 – one of the series of convertible debentures was redeemed by the Trust in November of 2017. The purchase price allocation and the identifiable assets acquired, liabilities assumed, and resulting gain from the acquisition is as follows:

	Note	Total
Identifiable net assets acquired		
Investment properties	4	414,000
Assumed debt		(303,148)
Equity accounted investment		15,647
Cash		16,728
Other working capital adjustments		(10,610)
Total net identifiable assets acquired		132,617
Consideration paid:		
Trust Units issued		24,833
LP Units issued		45,433
Loan receivable settlement	5(b)	30,314
Total consideration paid or payable		100,580
Acquisition related gain		32,037
Acquisition costs incurred		(13,558)
Acquisition related gain, net		18,479

The Arrangement's acquisition related gain noted above reflects the excess of net assets acquired over total consideration paid before transaction costs are considered. Acquisition costs incurred include land transfer tax paid on the 12 investment properties acquired pursuant to the Arrangement.

During the year ended December 31, 2017, the Trust recognized \$11,096 of rental revenues from investment properties and \$4,561 of net income and comprehensive income, relating to the Arrangement. If the Arrangement had occurred on January 1, 2017, assuming no changes in occupancy levels or related lease assumptions, the rental revenues from investment properties and net income and comprehensive income for the year ended December 31, 2017 are estimated to be \$44,384 and \$18,243, respectively.

b) Property acquisitions

There were no property acquisitions during the year ended December 31, 2017 other than those investment properties acquired pursuant to the Arrangement discussed above.

c) Earnouts

During the year ended December 31, 2017, pursuant to development management agreements referred to in Note 4 (see also Note 21, "Related party transactions"), the Trust completed the purchase of Earnouts totalling 15,863 square feet of development space from Penguin for \$6,969. The purchase price was satisfied through the issuance of: 13,390 Trust Units, 4,516 Class B Smart LP Units, and 24,927 Class B Smart LP III Units, totalling \$1,101 and the balance paid in cash, adjusted for other working capital amounts.

The following summarizes the consideration for Earnouts completed during the year ended December 31, 2017:

	Note	Earnouts
Cash		5,063
Trust Units issued	4(e)(i)	269
LP Units issued	4(e)(i)	832
Amounts previously funded and other adjustments		805
		6,969

The Earnouts in the above table do not include the cost of previously acquired freehold land in the amount of \$440.

Acquisitions and Earnouts completed during the year ended December 31, 2016

a) Acquisitions

- i) On August 16, 2016, the Trust completed the acquisition of a property in Lethbridge, Alberta, from a third party, totalling 53,392 square feet of leasable area. The total purchase price of this acquisition was \$15,320, which included \$6,174 paid in cash and the assumption of a mortgage of \$9,209, adjusted for costs of acquisition and other working capital amounts.
- ii) On October 25, 2016, the Trust completed the acquisition of a property in Pointe Claire, Quebec, from a third party, totalling 381,966 square feet of leasable area. The total purchase price of this acquisition was \$63,375, which included \$28,725 paid in cash and the assumption of a mortgage of \$34,460, adjusted for costs of acquisition and other working capital amounts.

The following summarizes the consideration for Acquisitions completed during the year ended December 31, 2016:

	Property Acquisitions
Cash	34,899
Mortgages assumed	43,669
Other working capital adjustments	127
	78,695

b) Earnouts

During the year ended December 31, 2016, pursuant to development management agreements referred to in Note 4(b)(i), the Trust completed the purchase of Earnouts totalling 57,430 square feet of development space from Penguin for \$23,061. The purchase price was satisfied through the issuance of: 36,671 Trust Units, 35,072 Class B Smart LP Units, 26,014 Class B Smart LP III Units, 10,365 Class B Smart LP IV Units, 68,458 Class B Smart Oshawa Taunton LP Units and 41,670 Class D Smart Oshawa Taunton LP Units, totalling \$6,422 and the balance paid in cash, adjusted for other working capital amounts.

The following summarizes the consideration for Earnouts completed during the year ended December 31, 2016:

	Note	Earnouts
Cash		10,210
Trust Units issued	4(e)(i)	774
LP Units issued	4(e)(i)	5,648
Amounts previously funded and other adjustments		6,429
		23,061

The Earnouts in the above table do not include the cost of previously acquired freehold land in the amount of \$534.

4. Investment Properties

The following summarizes the activities in investment properties for the years ended December 31, 2017 and December 31, 2016:

	Note	2017			2016		
		Income Properties	Properties Under Development	Total	Income Properties	Properties Under Development	Total
Balance – beginning of year		7,757,109	485,308	8,242,417	7,471,963	544,284	8,016,247
Additions:							
Acquisition, and related adjustments, of investment properties		399,064	14,936	414,000	76,035	–	76,035
Transfer to income properties from properties under development		62,586	(62,586)	–	115,659	(115,659)	–
Transfer from income properties to properties under development		(30,500)	30,500	–	(8,500)	8,500	–
Earnout Fees on properties subject to development management agreements	4(e)(i)	5,101	–	5,101	14,476	–	14,476
Additions to investment properties		14,343	73,095	87,438	13,840	50,250	64,090
Capitalized interest		–	19,618	19,618	–	15,419	15,419
Transfer to residential development inventory	4(b),9	–	(19,392)	(19,392)	–	–	–
Dispositions	4(c)	(8,016)	(22,920)	(30,936)	–	(4,162)	(4,162)
Fair value adjustments	25	20,466	(5,403)	15,063	73,636	(13,324)	60,312
Balance – end of year		8,220,153	513,156	8,733,309	7,757,109	485,308	8,242,417

The costs of both income properties and properties under development as at December 31, 2017 totalled \$6,831,326 and \$623,094, respectively (December 31, 2016 – \$6,380,816 and \$584,104, respectively).

Secured debt with a carrying value of \$2,393,633 (December 31, 2016 – \$2,535,326) is secured by investment properties with a fair value of \$5,334,774 (December 31, 2016 – \$5,540,717).

Presented separately from investment properties is \$80,927 (December 31, 2016 – \$81,860) of net straight-line rent receivables and tenant incentives (these amounts are included in “Other assets” – see Note 7) arising from the recognition of rental revenues on a straight-line basis and amortization of tenant incentives over the respective lease terms. The fair value of investment properties has been reduced by these amounts, which are presented separately.

a) Valuation techniques underlying management’s estimation of fair value

i) Income properties

Fair value estimates of income properties that are freehold properties were based on a valuation technique known as the direct income capitalization method. In applying the direct income capitalization method, the stabilized net operating income (“NOI”) of each property is divided by an overall capitalization rate. The significant unobservable inputs include:

Stabilized net operating income:

Based on the location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.

Capitalization rate:

Based on the location, size and quality of the properties and taking into account market data at the valuation date.

Fair value estimates of income properties that are leasehold interests with purchase options were valued using the direct income capitalization method as described above, adjusted for the present value of the purchase options. The significant unobservable inputs, in addition to stabilized net operating income and capitalization rate described above, include the discount rate used to present value the contractual purchase option, which is based on the location, type and quality of each property.

Fair value estimates of income properties that are leasehold interests with no purchase options, were valued by present valuing the remaining income stream of the properties. The significant unobservable inputs include:

Remaining income stream:

Based on the location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on current and expected future market conditions and expected maintenance costs.

Discount rate:

Based on market data at the valuation date, adjusted for property-specific risks dependent on the location, size and quality of the properties.

ii) Properties under development

Properties under development were valued using two primary methods: (i) the direct income capitalization method less any construction costs to complete development and Earnout Fees, if any; or (ii) the sales comparison approach by comparing to recent sales of properties of similar types, locations and quality.

The significant unobservable inputs for the direct income capitalization method less any construction costs to complete development and Earnout Fees, if any, include:

Forecasted net operating income:

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 market conditions.

Earnout Fee:

Based on estimated net operating rents divided by predetermined negotiated capitalization rates, less associated land and development costs incurred by the Trust.

Costs to complete:

Derived from internal budgets, based on management’s experience and knowledge of market conditions.

Completion date:

Properties under development require approval or permits from oversight bodies at various points in the development process, including approval or permits with respect to initial design, zoning, commissioning and compliance with environmental regulations. Based on management’s experience with similar developments, all relevant permits and approvals are expected to be obtained. However, the completion date of the development may vary depending on, among other factors, the timeliness of obtaining approvals, construction delays, weather and any remedial action required by the Trust.

The significant unobservable inputs for the sales comparison approach represents characteristics specific to each property that could cause the fair value to differ from the property to which it is being compared.

The following summarizes significant unobservable inputs in Level 3 valuations along with corresponding fair values for the years ended December 31, 2017 and December 31, 2016:

2017					
Class	Valuation Technique	Carrying Value	Total Stabilized or Forecasted NOI	Range of Capitalization or Discount Rates	Weighted Average Capitalization or Discount Rate
Income properties	Direct income capitalization	7,173,499	419,650	5.00%–8.14%	5.85%
	Direct income capitalization less present value of purchase option	824,925	52,383	5.88%–6.75%	6.35%
	Discounted cash flow	221,729	N/A	6.00%–6.50%	6.22%
Properties under development	Direct income capitalization	429,474	28,646	6.00%–8.00%	6.67%
	Sales comparison	83,682	N/A	N/A	N/A
2016					
Class	Valuation Technique	Carrying Value	Total Stabilized or Forecasted NOI	Range of Capitalization or Discount Rates	Weighted Average Capitalization or Discount Rate
Income properties	Direct income capitalization	6,699,690	391,262	5.00%–8.13%	5.84%
	Direct income capitalization less present value of purchase option	827,557	52,664	6.00%–7.00%	6.36%
	Discounted cash flow	229,862	N/A	6.00%–6.50%	6.22%
Properties under development	Direct income capitalization	410,803	27,688	5.85%–8.23%	6.74%
	Sales comparison	74,505	N/A	N/A	N/A

Fair values are most sensitive to changes in capitalization rates and stabilized or forecasted NOI, among other inputs as described above. Generally, an increase in NOI will result in an increase in the fair value of investment properties and an increase in capitalization rates will result in a decrease in the fair value of investment properties. The capitalization rate magnifies the effect of a change in NOI, with a lower capitalization rate resulting in a greater impact of a change in NOI than a higher capitalization rate.

The analysis below shows the maximum impact on fair values of possible changes in capitalization rates and discount rates, assuming no changes in NOI:

Change in capitalization rate of	–0.50%	–0.25%	+0.25%	+0.50%
Increase (decrease) in fair value				
Income properties	747,516	357,072	(327,804)	(629,797)
Properties under development	34,803	16,724	(15,516)	(29,949)

b) Transfer to residential development inventory

The Trust has entered into a co-ownership agreement and related agreements with an unrelated party that acquired a 50% interest of the development lands to develop and sell townhouse and residential units. In conjunction with the disposition on June 29, 2017, discussed in Note 4(c) below, the remaining 50% interest in development lands in Vaughan, Ontario with a fair value of \$19,392 was transferred to residential development inventory.

c) Dispositions

Disposition of investment properties during the year ended December 31, 2017

On June 29, 2017, the Trust sold a 50% interest in development lands in Vaughan, Ontario to an unrelated party for gross proceeds of \$19,392, excluding closing costs of \$156, which was satisfied by: (i) a loan receivable of \$9,804 bearing interest at 5.50% payable quarterly in interest only, maturing in 2019 and secured by a first charge on the development lands (see also Note 5(b), "Mortgages, loans and notes receivable") and (ii) the balance in cash, adjusted for other working capital amounts. Concurrent with the sale, the Trust entered into a co-ownership agreement and related agreements with an unrelated party to develop and sell townhouse and residential units on the development lands (see also Note 23, "Co-ownership interests").

On August 25, 2017, the Trust sold a parcel of land located in Laval, Quebec, to an unrelated party for gross proceeds of \$3,534 excluding closing costs of \$6, which was satisfied by cash, adjusted for other working capital amounts.

On October 20, 2017, the Trust sold an income property located in Calgary, Alberta, to a related party – a company in which a trustee is an officer, director and shareholder – for gross proceeds of \$8,100 excluding closing costs of \$130, which was satisfied by cash, adjusted for other working capital amounts.

Disposition of investment properties during the year ended December 31, 2016

On March 15, 2016, the Trust sold a parcel of land to an unrelated party for gross proceeds of \$162 excluding closing costs of \$3, which was satisfied by cash, adjusted for other working capital amounts.

On April 7, 2016, the Trust sold a parcel of land to an unrelated party for gross proceeds of \$4,000 excluding closing costs of \$121, which was satisfied by cash, adjusted for other working capital amounts.

d) Leasehold property interests

At December 31, 2017, 16 (December 31, 2016 – 16) investment properties with a fair value of \$1,046,654 (December 31, 2016 – \$1,057,419) are leasehold property interests accounted for as finance leases.

i) Leasehold property interests without bargain purchase options

Three of the leasehold interests commenced in 2005 under the terms of 35-year leases with Penguin. Penguin has the right to terminate the leases after 10 years on payment to the Trust of the fair value of a 35-year leasehold interest in the properties at that time and also has the right to terminate the leases at any time in the event any third party acquires 20% of the aggregate of the Trust Units and Special Voting Units by payment to the Trust of the unamortized balance of any prepaid lease cost. The Trust does not have a purchase option under these three leases.

Ten of the leasehold interests commenced in 2006 through 2009, of which four are under the terms of 80-year leases with Penguin and six are under the terms of 49-year leases with Penguin. The Trust has separate options to purchase each of these 10 leasehold interests at the end of the respective leases at prices that are not considered to be bargain prices.

An additional leasehold interest commenced in 2015 under the terms of a 49-year lease with Penguin. The Trust has an option to purchase this leasehold interest at the end of the lease term at a price that is not considered to be a bargain price.

The Trust prepaid its entire lease obligations for the 14 leasehold interests with Penguin above noted (see also Note 21, “Related party transactions”) in the amount of \$888,262 (December 31, 2016 – \$886,194), including prepaid land rent of \$229,815 (December 31, 2016 – \$229,391). On the completion and rental of additional space during the year ended December 31, 2017, the Trust prepaid its entire lease obligations relating to build-out costs of \$2,068 (December 31, 2016 – \$10,397).

ii) Leasehold property interests with bargain purchase options

One leasehold interest commenced in 2003 under the terms of a 35-year lease with Penguin (see also Note 21, “Related party transactions”). The lease requires a \$10,000 payment at the end of the lease term in 2038 to exercise a purchase option, which is considered to be a bargain purchase option. The Trust prepaid its entire lease obligation for this property of \$57,997 (December 31, 2016 – \$57,997). On the completion and rental of additional space during the year ended December 31, 2017, the Trust prepaid its lease obligations relating to build-out costs of \$nil (December 31, 2016 – \$3). The purchase option price has been included in accounts payable, net of imputed interest at 9.18% of \$8,512 (December 31, 2016 – \$8,642), in the amount of \$1,488 (December 31, 2016 – \$1,358) (see also Note 12, “Accounts and other payables”).

A second leasehold interest was acquired on February 11, 2015 from a third party and includes a land lease that expires on September 1, 2054. The land lease requires monthly payments ranging from \$400 to \$600 annually until September 1, 2054, and a \$6,000 payment between September 1, 2023 and September 1, 2025 to exercise a purchase option that is considered to be a bargain purchase option. As the Trust intends to exercise the purchase option on September 1, 2023, the purchase option price and the monthly payments up to September 1, 2023 have been included in accounts payable, net of imputed interest at 6.25% of \$2,179 (December 31, 2016 – \$2,566), in the amount of \$6,324 (December 31, 2016 – \$6,337) (see also Note 12, “Accounts and other payables”).

e) Properties under development

Properties under development consist of the following:

	2017	2016
Properties under development subject to development management agreements (i)	49,599	72,564
Properties under development not subject to development management agreements (ii)	463,557	412,744
	513,156	485,308

For the year ended December 31, 2017, the Trust capitalized a total of \$20,005 (year ended December 31, 2016 – \$20,228) of borrowing costs related to properties under development.

i) *Properties under development subject to development management agreements*

These properties under development (including certain leasehold property interests) are subject to various development management agreements with Penguin and Wal-Mart Canada Realty Inc. and Hopewell Development Corporation – a company in which a trustee is an officer, director and shareholder.

In certain events, the developer may sell a portion of undeveloped land to accommodate the construction plan that provides the best use of the property, reimbursing the Trust its costs related to such portion and, in some cases, a profit based on a pre-negotiated formula. Pursuant to the development management agreements, the vendors assume responsibility for managing the development of the land on behalf of the Trust and are granted the right for a period of up to 10 years to earn an Earnout Fee. On completion and rental of additional space on these properties, the Trust is obligated to pay the Earnout Fee and to purchase the additional developments, at a total price calculated by a formula using the net operating rents and predetermined negotiated capitalization rates, on the date rent becomes payable on the additional space (Gross Cost). The Earnout Fee is calculated as the Gross Cost less the associated land and development costs incurred by the Trust.

For additional space completed on land with a fair value of \$9,783 (December 31, 2016 – \$27,012), the fixed predetermined negotiated capitalization rates range from 6.0% to 7.4% during the five-year period of the respective development management agreements. For additional space completed on land with a fair value of \$39,816 (December 31, 2016 – \$45,552), the predetermined negotiated capitalization rates are fixed for each contract for either the first one, two, three, four or five years, ranging from 6.0% to 8.0%, and then are determined by reference to the 10-year Government of Canada bond rate at the time of completion plus a fixed predetermined negotiated spread ranging from 2.00% to 3.90% for the remaining term of the 10-year period of the respective development management agreements subject to a maximum capitalization rate ranging from 6.60% to 9.50% and a minimum capitalization rate ranging from 5.75% to 7.50%.

For certain of these properties under development, Penguin and other unrelated parties have been granted Earnout options that give them the right, at their option, to invest up to 40% of the Earnout Fee for one of the agreements and up to 30% to 40% of the Gross Cost for the remaining agreements in Trust Units, Class B and D Smart LP Units, Class B and D Smart LP III Units, Class B Smart LP IV Units, Class B and D Smart Oshawa South LP Units, Class B and D Smart Oshawa Taunton LP Units, Class D Smart Boxgrove LP Units and Class B ONR LP I Units at predetermined option strike prices subject to a maximum number of units (Note 13(b)).

The Earnout options that Penguin and a third party elected to exercise during the years ended December 31, 2017 and December 31, 2016 resulted in proceeds as follows (see also Note 13(b), “Other financial liabilities”):

	2017	2016
Trust Units	269	774
Class B Smart LP Units	92	830
Class B Smart LP III Units	740	860
Class B Smart LP IV Units	–	345
Class B Smart Oshawa Taunton LP Units	–	2,257
Class D Smart Oshawa Taunton LP Units	–	1,356
	832	5,648
	1,101	6,422

The development costs incurred (exclusive of the cost of land previously acquired) and Earnout Fees paid to vendors relating to the completed retail spaces that have been reclassified to income properties during the years ended December 31, 2017 and December 31, 2016 are as follows:

	2017	2016
Development costs incurred	2,132	11,723
Earnout Fees	5,101	14,476
	7,233	26,199

A certain vendor has provided interest bearing loans to finance additional costs of development.

ii) *Properties under development not subject to development management agreements*

During the year ended December 31, 2017, the Trust completed the development and leasing of certain properties under development not subject to development management agreements. The values of land and development costs incurred have been reclassified from properties under development into income properties. For the year ended December 31, 2017, the Trust incurred land and development costs of \$60,014 (year ended December 31, 2016 – \$103,402).

5. Mortgages, loans and notes receivable

Mortgages, loans and notes receivable consist of the following:

	Note	2017	2016
Mortgages receivable (a)	21	127,704	124,778
Loans receivable (b)		31,503	51,134
Notes receivable (c)	21	2,979	2,979
		162,186	178,891
Current		26,196	105,601
Non-current		135,990	73,290
		162,186	178,891

- a) Mortgages receivable of \$127,704 (December 31, 2016 – \$124,778) have been provided pursuant to agreements with Penguin (see also Note 21, “Related party transactions”) in which the Trust will lend up to \$282,093 (December 31, 2016 – \$268,851) for use in acquiring and/or developing nine (December 31, 2016 – nine) properties across Ontario, Quebec and British Columbia.

The following provides further details on the mortgages receivable (by maturity date):

Property	Committed	Maturity Date	Effective Interest Rate	Purchase Option % of Property ¹	December 31, 2017	December 31, 2016
Salmon Arm, BC ^{2,3}	20,907	March 2018	4.68%	–	14,697	16,362
Innisfil, ON ^{2,4}	27,077	December 2020	3.32%	–	19,398	18,810
Aurora (South), ON ⁵	30,543	March 2022	4.12%	50%	15,468	14,885
Mirabel (Shopping Centre), QC ⁶	18,262	December 2022	7.50%	–	–	–
Mirabel (Option Lands), QC ⁷	5,721	December 2022	7.50%	–	–	–
Pitt Meadows, BC ⁵	68,664	November 2023	4.57%	50%	26,503	25,388
Vaughan (7 & 427), ON	53,127	December 2023	5.92%	50%	16,692	15,796
Caledon (Mayfield), ON ⁵	14,033	April 2024	4.41%	50%	8,995	8,630
Toronto (StudioCentre), ON ^{2,5}	43,759	June 2024	4.38%	25%	25,951	24,907
	282,093		4.47% ⁸		127,704	124,778

¹ The Trust has an option to purchase an additional purchase option percentage from the borrower in these properties upon a certain level of development and leasing being achieved. As at December 31, 2017, it is management's expectation that the Trust will exercise these purchase options.

² The Trust owns a 50% interest in these properties, with the other 50% interest owned by Penguin. These loans are secured against Penguin's interest in the property.

³ Monthly variable rate based on a fixed rate of 6.35% on loans outstanding up to \$7,237 and banker's acceptance rate plus 1.75% on any additional loans above \$7,237.

⁴ The monthly variable rate is based on the banker's acceptance rate plus 2.00%. The interest rate on this mortgage will reset in 2018 to the four-year Government of Canada bond rate plus 4.0%, subject to a lower limit of 6.75% and an upper limit of 7.75%.

⁵ These loans were amended during the three months ended March 31, 2017. See the “Loan Amendments” section below for details.

⁶ The Trust owns a 33.3% interest in this property. The loan is secured against a 33.3% interest owned by Penguin, as well as a guarantee by Penguin.

⁷ The Trust owns a 25% interest in this property. The loan is secured against a 25% interest owned by Penguin, as well as a guarantee by Penguin.

⁸ Represents the weighted average effective interest rate.

Interest on these mortgages accrues monthly as follows: (a) at a variable rate based on the banker's acceptance rate plus 1.75% to 4.20% or at the Trust's cost of capital (as defined in the mortgage agreement) plus 0.25% on mortgages receivable of \$120,467 (December 31, 2016 – \$43,733); and (b) at fixed rates of 6.35% to 7.50% on mortgages receivable of \$7,237 (December 31, 2016 – \$81,045) and is added to the outstanding principal up to a predetermined maximum accrual after which it is payable in cash monthly or quarterly. Additional interest of \$77,529 (December 31, 2016 – \$67,208) may be accrued on certain of the various mortgages receivable before cash interest must be paid.

The mortgage security includes a first or second charge on properties, assignments of rents and leases, and general security agreements. In addition, \$108,023 (December 31, 2016 – \$105,098) of the outstanding balance is guaranteed by Penguin Properties Inc., one of Penguin's companies. The loans are subject to individual loan guarantee agreements that provide additional guarantees for all interest and principal advanced on outstanding amounts. The guarantees decrease on achievement of certain specified value-enhancing events. All mortgages receivable are considered by management to be fully collectible.

Loan amendments

On April 28, 2017, there were four mortgages receivable for which the maturity dates were amended from an original range of 2017 to 2020 to a revised range of 2022 to 2024. The committed facilities on these mortgages receivable were amended to reflect an increase from \$141,000 to \$157,000. In addition, the interest rates on these mortgages receivable were amended from a range of fixed interest rates of 6.75% to 7.00% to a revised range of banker's acceptance rates plus 2.75% to 4.20%.

The following illustrates the interest accrued and repayments for the years ended December 31:

	2017	2016
Interest accrued	5,283	7,494
Repayments of principal	(2,357)	(5,457)
Repayments of interest	–	(4,592)
	2,926	(2,555)

b) Loans receivable as at December 31, 2017 of \$31,503 (December 31, 2016 – \$51,134) comprise the following (by maturity date):

Issued to	Maturity Date	Effective Interest Rate	Note	2017	2016
OneREIT ¹	October 2017	6.75%	3(a)	–	30,314
Unrelated party ²	September 2018	4.50%		11,500	11,500
Unrelated party ³	March 2019	5.50%	4(b)	9,804	–
Penguin ⁴	November 2020	Variable	21	10,199	9,320
				31,503	51,134

¹ This loan was repaid pursuant to the Arrangement (see Note 3 "Business combination, property acquisitions and Earnouts"). This loan was secured by a subordinate charge on seven properties. On October 28, 2016, the Trust entered into an agreement to extend this loan receivable for a period of one year with a revised maturity of October 30, 2017, which included a one-time prepayment option of \$10,000 that was exercised by OneREIT on October 31, 2016.

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

³ During the year ended December 31, 2017, a loan receivable of \$9,804 was provided pursuant to an agreement with an unrelated party to use in acquiring a 50% interest in development lands. The loan bears interest at 5.50% payable quarterly, interest only, matures in March 2019 and is secured by a first charge on the 50% interest of the development lands held by the unrelated party.

⁴ This loan was provided pursuant to a development management agreement with Penguin with a total loan facility of \$20,000. Repayment of the pro rata share of the outstanding loan amount is due upon the completion of each Earnout event. The loan bears interest at 10 basis points plus the lower of: (i) the Canadian prime rate plus 45 basis points, and (ii) the CDOR plus 145 basis points.

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

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

¹ For the year ended December 31, 2017, \$30,314 was settled pursuant to the Arrangement (see Note 3 "Business combination, property acquisitions and Earnouts").

c) Notes receivable of \$2,979 (December 31, 2016 – \$2,979) have been granted to Penguin (see also Note 21, "Related party transactions"). These secured demand notes bear interest at 9.00% per annum. During the year ended December 31, 2017, \$nil was advanced (December 31, 2016 – \$51).

The estimated fair values of mortgages, loans and notes receivable are based on their respective current market rates, bearing similar terms and risks. This information is disclosed in Note 14, "Fair value of financial instruments".

6. Equity accounted investments

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

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

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

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

a) Investment in associates

In 2012, the Trust entered into the Penguin-Calloway Vaughan Partnership (“PCVP”) with Penguin (see also Note 21, “Related party transactions”) to develop the Vaughan Metropolitan Centre (“VMC”), which is expected to consist of approximately 9.0 million to 11.0 million square feet once fully developed, on 53 acres of development land in Vaughan, Ontario.

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

i) Balance Sheet summary

	2017			2016
	PCVP	Residences LP and Residences III LP	Total	Total
Non-current assets	373,499	–	373,499	368,760
Current assets	27,466	95,588	123,054	1,397
Total assets	400,965	95,588	496,553	370,157
Non-current liabilities	131,580	–	131,580	114,670
Current liabilities	53,672	89,749	143,421	10,133
Total liabilities	185,252	89,749	275,001	124,803
Net assets	215,713	5,839	221,552	245,354
Trust's share of net assets	107,856	1,460	109,316	122,677

ii) (Loss) earnings summary

	2017			2016
	PCVP	Residences LP and Residences III LP	Total	Total
Revenue	13,223	–	13,223	4,965
Operating expense	(4,974)	–	(4,974)	(1,996)
Pre-sale cost	–	(1,110)	(1,110)	–
Fair value adjustments	(2,628)	–	(2,628)	24,966
Interest expense	(2,272)	–	(2,272)	(361)
Loss on sale of investment properties	(200)	–	(200)	–
(Loss) earnings	3,149	(1,110)	2,039	27,574
Trust's share of (loss) earnings	(1,729)	(277)	(2,006)	13,787

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

iii) Summary of development facilities

In 2015, the PCVP completed development financing for an original amount of \$189,000, of which the Trust's share is 50%, which bears an interest rate of banker's acceptance rates plus 1.40%, is secured by a first charge over the property, matures on January 16, 2019, and includes a non-revolving credit facility up to a maximum of \$24,000. Also in 2015, PCVP entered into an agreement to lock-in the banker's acceptance rate at 1.48%, which resulted in a fixed effective interest rate of 2.88% for the term, and extended the loan maturity date to January 16, 2020. The financing comprises pre-development, construction

and letters of credit facilities. The obligations of the credit facilities are joint and several to each of the VMC general partners. During the year ended December 31, 2017, PCVP completed additional financing to sustain further development, which resulted in two additional facilities totalling \$93,776 bearing interest rates ranging from banker's acceptance rates plus 135 basis points to 145 basis points, and maturity dates between December 2020 and June 2021. During the year ended December 31, 2017, the VMC Residences LP completed development financing totalling \$244,000 bearing interest at banker's acceptance rate plus 175 basis points and maturing in December 2021.

	2017	2016
Development facilities – beginning of year	180,693	189,000
Reduction ¹	(20,000)	–
Letters of credit released	(313)	(8,307)
Additional development facilities obtained:		
PCVP	95,276	–
VMC Residences LP	244,000	–
Development facilities – end of year	499,656	180,693
Amount drawn on development facility	(130,700)	(112,200)
Letters of credit – outstanding	(12,654)	(12,190)
Remaining unused development facilities	356,302	56,303
Trust's share of remaining unused development facilities	117,188	28,152

¹ On March 23, 2017, the Trust entered into an agreement to reduce the amount available under a development facility by \$20,000.

b) Investment in joint venture

During the year ended December 31, 2017, pursuant to the Arrangement (see also Note 3, "Business combination, property acquisitions and Earnouts"), the Trust acquired an equity interest in 1500 Dundas East Limited Partnership ("1500 Dundas East LP"), which holds ownership of an investment property in Mississauga, Ontario (Creekside Crossing).

i) Balance Sheet summary

	2017
Non-current assets	124,076
Current assets	3,483
Total assets	127,559
Non-current liabilities	71,933
Current liabilities	2,139
Total liabilities	74,072
Net assets	53,487
Trust's share of net assets	16,046

ii) Earnings summary

	2017
Revenue	2,371
Operating expense	(605)
Fair value adjustments	(4)
Interest expense	(619)
Earnings	1,143
Trust's share of earnings ¹	343

¹ Pursuant to the Arrangement, amount represents the Trust's share of earnings from October 4, 2017.

7. Other assets

The components of other assets are as follows:

	2017	2016
Straight-line rent receivables	46,274	45,750
Tenant incentives	34,653	36,110
Equipment	1,688	2,044
	82,615	83,904

The following table summarizes the activity in other assets for the year ended December 31, 2017:

	2016	Additions	Adjustments	Amortization	2017
Straight-line rent receivables	45,750	8,699	(44)	(8,131)	46,274
Tenant incentives	36,110	5,215	(37)	(6,635)	34,653
Equipment	2,044	399	–	(755)	1,688
	83,904	14,313	(81)	(15,521)	82,615

8. Intangible assets

The components of intangible assets are as follows:

	2017			2016		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:						
Key joint venture relationships	36,944	3,195	33,749	36,944	1,964	34,980
Trademarks	2,995	259	2,736	2,995	159	2,836
Total intangible assets with finite lives	39,939	3,454	36,485	39,939	2,123	37,816
Goodwill	13,979	–	13,979	13,979	–	13,979
	53,918	3,454	50,464	53,918	2,123	51,795

The total amortization expense recognized for the year ended December 31, 2017 amounted to \$1,331 (year ended December 31, 2016 – \$1,331).

9. Residential development inventory

The Trust entered into a co-ownership agreement and related agreements with an unrelated party that acquired a 50% interest of the development lands to develop and sell townhouse and residential units. In conjunction with the disposition on June 29, 2017 (see Note 4, "Investment properties"), the remaining 50% interest in development lands in Vaughan, Ontario with a fair value of \$19,392 was transferred to residential development inventory.

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

	2017
Balance – beginning of year	–
Transfer of fair value from properties under development	19,392
Costs capitalized	875
Balance – end of year	20,267

10. Amounts receivable, prepaid expenses and deposits, deferred financing costs and other

The components of amounts receivable, prepaid expenses and deposits, deferred financing costs and other are as follows:

	Note	2017	2016
Amounts receivable			
Tenant receivables – net of allowance (a)		8,633	7,564
Unbilled other tenant receivables (b)		5,712	8,902
Other non-tenant receivables		4,343	4,507
Receivables from related party	21	15,561	8,188
		34,249	29,161
Prepaid expenses and deposits (c)		5,579	5,942
Deferred financing costs		1,484	306
Other		2,017	692
		43,329	36,101

a) *Tenant receivables – net of allowance*

Tenant receivables net of allowance is determined as follows:

	2017	2016
Tenant receivables	11,870	12,054
Allowance for doubtful accounts	(3,237)	(4,490)
Tenant receivables – net of allowance	8,633	7,564

Tenant receivables representing contractual rental payments from tenants are due at the beginning of each month. Common area maintenance (“CAM”) and property taxes are considered past due 60 days after billing. Tenant receivables less than 90 days old total \$4,493 (December 31, 2016 – \$4,745). The tenant receivable amounts older than 90 days totalling \$4,140 (December 31, 2016 – \$2,819), net of bad debt allowances of \$3,237 (December 31, 2016 – \$4,490), primarily pertain to CAM and property tax queries. The net amounts over 90 days old are at various stages of the collection process and are considered by management to be collectible.

The reconciliation of changes in the allowance for doubtful accounts on tenant receivables is as follows:

	2017	2016
Balance – beginning of year	4,490	4,492
Additional allowance recognized as expense	1,275	1,297
Reversal of previous allowances	(2,191)	(537)
Net	(916)	760
Tenant receivables written off during the period	(337)	(762)
Balance – end of year	3,237	4,490

For the year ended December 31, 2017, the reversal of previous allowances relates to specific tenant receivable impairments. Amounts written off totalling \$337 (year ended December 31, 2016 – \$762) relate to uncollectible amounts from specific tenants that have vacated their premises or where there is a settlement of a specific amount.

b) *Unbilled other tenant receivables*

Other tenant receivables totalling \$5,712 (December 31, 2016 – \$8,902) pertain to unbilled CAM and property tax recoveries and chargebacks. These amounts are considered current and/or collectible and are at various stages of the billing and collection process, as applicable.

c) *Prepaid expenses and deposits*

Prepaid expenses and deposits totalling \$5,579 (December 31, 2016 – \$5,942) consist primarily of prepaid property operating expenses and deposits relating to acquisitions and Earnouts. Included in prepaid property operating expenses are prepaid realty taxes associated with the Trust’s investment properties.

11. Debt

Debt consists of the following:

	2017	2016
Secured debt (a)	2,393,633	2,535,326
Unsecured debentures (b)	1,800,650	1,302,466
Convertible debentures (c)	36,677	–
	4,230,960	3,837,792
Current	415,133	550,581
Non-current	3,815,827	3,287,211
	4,230,960	3,837,792

a) Secured debt

Secured debt bears interest at a weighted average interest rate of 3.87% at December 31, 2017 (December 31, 2016 – 3.79%). The total includes \$2,057,918 (December 31, 2016 – \$2,063,204) at fixed rates and \$335,715 (December 31, 2016 – \$472,122) at variable interest rates based on banker's acceptance rates plus a margin. Secured debt matures at various dates between 2018 and 2031 and is secured by first or second registered mortgages over specific income properties and properties under development and first general assignments of leases, insurance and registered chattel mortgages.

Principal repayment requirements for secured debt are as follows:

	Instalment Payments	Lump Sum Payments at Maturity	Total
2018	68,764	347,413	416,177
2019	64,292	308,089	372,381
2020	59,423	140,242	199,665
2021	53,942	154,966	208,908
2022	49,698	275,260	324,958
Thereafter	128,547	741,585	870,132
	424,666	1,967,555	2,392,221
Unamortized acquisition date fair value adjustment			7,861
Unamortized financing costs			(6,449)
			2,393,633

b) Unsecured debentures

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

¹ These unsecured debentures carry a floating rate of three-month CDOR plus 66 basis points.

² Represents the weighted average annual interest rate.

Unsecured debenture activity for the year ended December 31, 2017

Issuances

On March 15, 2017, the Trust issued \$150,000 of 2.876% Series Q senior unsecured debentures (net proceeds including issuance costs – \$149,062), which are due on March 21, 2022 with semi-annual payments due on March 21 and September 21 each year. The proceeds were used to redeem the outstanding principal on the 3.385% Series J senior unsecured debentures totalling \$150,000 (see below for details).

On December 14, 2017, the Trust issued \$250,000 floating rate (three-month CDOR plus 66 basis points) Series R senior unsecured debentures and \$250,000 of 3.834% Series S senior unsecured debentures (combined net proceeds including issuance costs – \$498,375), which are due on December 21, 2020 and December 21, 2027, respectively. The Series R senior unsecured debentures have quarterly payments due on March 21, June 21, September 21 and December 21 and the Series S senior unsecured debentures have semi-annual payments due on June 21 and December 21. The combined net proceeds were used to repay existing indebtedness and for general trust purposes.

Redemptions

On April 13, 2017, the Trust redeemed \$150,000 aggregate principal amount of 3.385% Series J senior unsecured debentures. In addition to paying accrued interest of \$1,864, the Trust paid a yield maintenance fee of \$2,206 in connection with the redemption.

Unsecured debenture activity for the year ended December 31, 2016

Issuances

On August 16, 2016, the Trust issued \$100,000 of 2.987% Series O senior unsecured debentures and \$250,000 of 3.444% Series P senior unsecured debentures (combined net proceeds including issuance costs – \$347,425), which are due on August 28, 2024 and August 28, 2026, respectively, with semi-annual payments due on February 28 and August 28 each year. The combined proceeds were used to redeem the outstanding principal on the 5.0% Series F senior unsecured debentures totalling \$100,000, the 4.7% Series G senior unsecured debentures totalling \$90,000 and to repay the outstanding amount under the Trust's revolving credit facility.

Redemptions

On September 14, 2016, the Trust redeemed \$100,000 aggregate principal amount of 5.0% Series F senior unsecured debentures and \$90,000 aggregate principal amount of 4.7% Series G senior unsecured debentures. In addition to paying accrued interest of \$870, the Trust paid a yield maintenance fee of \$15,138 in connection with the redemptions and wrote off unamortized financing costs of \$1,319.

Credit rating of unsecured debentures

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

c) Convertible debentures

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

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

The \$40,000 5.45% convertible unsecured subordinated debentures ("5.45% Convertible Debentures") bore interest at 5.45% per annum, payable semi-annually on June 30 and December 31 each year and were to mature on June 30, 2018. The 5.45% Convertible Debentures were convertible at the debenture holder's option into fully paid Units at any time prior to the earlier of the maturity date and the date fixed for redemption at a conversion price of \$58.01 per Unit. On or after June 30, 2016, but prior to the maturity date, the 5.45% Convertible Debentures were redeemable in whole or in part, at the Trust's option, at a price equal to their principal amount plus accrued interest.

On November 6, 2017, the Trust redeemed the balance of the 5.45% Convertible Debentures for \$40,000 plus accrued interest. As a result, at December 31, 2017, \$nil of the face value of the 5.45% Convertible Debentures was outstanding.

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

The \$36,250 5.50% convertible unsecured subordinated debentures ("5.50% Convertible Debentures") bear interest at 5.50% per annum, payable semi-annually on June 30 and December 31 each year and mature on June 30, 2020. The 5.50% Convertible Debentures are convertible at the debenture holder's option into fully paid Units at any time prior to the earlier of maturity date and the date fixed for redemption at a conversion price of \$51.57 per Unit. On or after October 4, 2017, but prior to June 30, 2018, the 5.50% Convertible Debentures may be redeemed, in whole or in part, at the Trust's option, provided that the market price for the Units is not less than 125% of the conversion price. On or after June 30, 2018, but prior to the maturity date, the 5.50% Convertible Debentures may be redeemed in whole or in part, at the Trust's option, at a price equal to their principal amount plus accrued interest. The Trust may satisfy its obligation to repay the principal amounts of the 5.50% Convertible Debentures, in whole or in part, by delivering Units of the Trust. In the event the Trust elects to satisfy its obligation to repay the principal with Units of the Trust, it must deliver that number of Units equal to 95% of the market price for the Units at that time.

During the year ended December 31, 2017, \$nil of the face value of the 5.50% Convertible Debentures (December 31, 2016 – \$nil) was converted into Trust Units.

	2017
5.50% convertible debentures, due on June 30, 2020	36,250
Unamortized acquisition date fair value adjustment	427
	36,677

d) Revolving operating facility

On June 12, 2017, the Trust replaced the former revolving operating facility of \$350,000 with a \$500,000 unsecured revolving operating facility bearing interest at a variable interest rate based on either bank prime rate plus 45 basis points or banker's acceptance rates plus 145 basis points, and expires on May 31, 2022. The new facility includes an accordion feature of \$250,000 whereby the Trust has an option to increase its facility amount with the lenders to sustain future operations as required. As at December 31, 2017, the Trust had \$nil (December 31, 2016 – \$nil) outstanding on its revolving operating facility, with the exception of the letters of credit collateralized by the line totalling \$16,862 (December 31, 2016 – \$17,964).

Pursuant to the Arrangement, the Trust assumed a revolving operating facility of \$20,000 secured by specific charges on an investment property, bearing interest at bank prime rate plus 45 basis points or at banker's acceptance rate plus 145 basis points. The revolving operating facility was to mature on June 30, 2020. At the time of the Arrangement, the total amount outstanding on the revolving operating facility was \$15,000. In December 2017, the Trust repaid the amount outstanding of \$15,000 and closed the revolving operating facility.

	2017	2016
Former revolving operating facility	–	350,000
Revolving operating facility	500,000	–
Total available operating facility	500,000	350,000
Letters of credit – outstanding	(16,862)	(17,964)
Remaining unused operating facility	483,138	332,036

e) Non-revolving operating facilities

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

- i) A non-revolving operating facility with a Canadian chartered bank secured by specific charges on an investment property, that bore interest at bank prime rate plus 100 basis points or at banker's acceptance rate plus 135 basis points and matures on April 7, 2021. At the time of the Arrangement, the total amount outstanding on the non-revolving operating facility was \$27,184. In December 2017, the Trust repaid the amount outstanding of \$27,184 and closed the non-revolving operating facility.
- ii) A non-revolving operating facility with a Canadian chartered bank secured by specific charges on an investment property, that bore interest at bank prime rate plus 45 basis points or at banker's acceptance rate plus 145 basis points and matures on June 30, 2020. At the time of the Arrangement, the total amount outstanding on the non-revolving operating facility was \$30,000. In December 2017, the Trust repaid the amount outstanding of \$30,000 and closed the non-revolving operating facility.

f) Interest expense

Interest expense consists of the following:

	2017	2016
Interest at stated rates	148,677	150,311
Amortization of acquisition date fair value adjustments on assumed debt	(3,051)	(3,547)
Amortization of deferred financing costs	3,273	4,074
Distributions on vested deferred units and Units classified as liabilities	2,753	1,966
	151,652	152,804
Less: Interest capitalized to properties under development	(19,682)	(20,228)
Less: Interest capitalized to residential development inventory	(323)	–
Interest associated with operating activities	131,647	132,576
Yield maintenance on redemption of unsecured debentures	2,721	15,138
Interest expense	134,368	147,714

Cash interest paid associated with operating activities, consists of the following:

	2017	2016
Interest expense	134,368	147,714
Amortization of acquisition date fair value adjustments on assumed debt	3,051	3,547
Amortization of deferred financing costs	(3,273)	(4,074)
Distributions on vested deferred units and Units classified as liabilities	(2,753)	(1,966)
Change in interest associated with financing activities	(2,721)	(15,138)
Change in accrued interest payable associated with operating activities	(1,358)	324
Cash interest paid associated with operating activities	127,314	130,407

12. Accounts and other payables

Accounts payable and the current portion of other payables that are classified as current liabilities consist of the following:

	2017	2016
Accounts payable	87,853	68,119
Tenant prepaid rent, deposits and other payables	54,982	42,069
Accrued interest payable	23,238	21,880
Distributions payable	23,292	22,056
Realty taxes payable	6,466	6,257
Current portion of other payables	8,628	9,546
	204,459	169,927

Other payables that are classified as non-current liabilities consist of the following:

	Note	2017	2016
Future land development obligations (a)		26,642	26,042
Finance lease obligation	4	7,812	7,695
Long Term Incentive Plan liability (b)		2,927	3,629
Total other payables		37,381	37,366
Less: Current portion of other payables		(8,628)	(9,546)
Total non-current portion of other payables		28,753	27,820

a) Future land development obligations

The future land development obligations represent payments required to be made to Penguin for certain undeveloped lands acquired from 2006 to 2015, either on completion and rental of additional space on the undeveloped lands or, if no additional space is completed on the undeveloped lands, at the expiry of the 10-year development management agreement periods ending in 2018 to 2025. The accrued future land development obligations are measured at their estimated fair values using imputed interest rates ranging from 4.50% to 5.50%. For the year ended December 31, 2017, imputed interest of \$1,150 (year ended December 31, 2016 – \$1,464) was capitalized to properties under development.

b) Long Term Incentive Plan ("LTIP") liability

	2017	2016
Balance – beginning of period	3,629	2,426
Accrual adjustment	1,063	1,777
LTIP vested and paid out	(1,765)	(574)
Balance – end of period	2,927	3,629

13. Other financial liabilities

The components of other financial liabilities are as follows:

	2017	2016
Units classified as liabilities (a)	64,501	18,169
Earnout options (b)	751	1,455
Deferred unit plan (c)	23,351	19,743
Fair value of interest rate swap agreements	–	28
	88,603	39,395

a) *Units classified as liabilities*

The following represents the number of Units classified as liabilities that are issued and outstanding. The fair value measurement of the Units classified as liabilities is described in Note 14 "Fair value of financial instruments".

Total number of Units classified as liabilities

	Note	Class D Series 1 Smart LP Units	Class D Series 1 Smart Oshawa South LP Units	Class D Series 1 Smart Oshawa Taunton LP Units	Class B ONR LP Units	Class B Series 1 ONR LP I Units	Class B Series 2 ONR LP I Units	Total
Balance – January 1, 2016		311,022	251,649	–	–	–	–	562,671
Options exercised	13(b)	–	–	41,670	–	–	–	41,670
Units exchanged for Trust Units		–	–	(41,670)	–	–	–	(41,670)
Balance – December 31, 2016		311,022	251,649	–	–	–	–	562,671
Balance – January 1, 2017		311,022	251,649	–	–	–	–	562,671
Units issued for Arrangement	3	–	–	–	1,254,114	132,881	137,109	1,524,104
Balance – December 31, 2017		311,022	251,649	–	1,254,114	132,881	137,109	2,086,775

Carrying value of Units classified as liabilities

	Note	Class D Series 1 Smart LP Units	Class D Series 1 Smart Oshawa South LP Units	Class D Series 1 Smart Oshawa Taunton LP Units	Class B ONR LP Units	Class B Series 1 ONR LP I Units	Class B Series 2 ONR LP I Units	Total
Balance – January 1, 2016		9,390	7,597	–	–	–	–	16,987
Options exercised	13(b)	–	–	1,356	–	–	–	1,356
Change in carrying value		654	528	229	–	–	–	1,411
Units exchanged for Trust Units		–	–	(1,585)	–	–	–	(1,585)
Balance – December 31, 2016		10,044	8,125	–	–	–	–	18,169
Balance – January 1, 2017		10,044	8,125	–	–	–	–	18,169
Units issued for Arrangement	3	–	–	–	37,385	3,961	4,087	45,433
Change in carrying value		(430)	(347)	–	1,379	146	151	899
Balance – December 31, 2017		9,614	7,778	–	38,764	4,107	4,238	64,501

b) *Earnout options*

As part of the consideration paid for certain investment property acquisitions, the Trust has granted options in connection with the development management agreements (Note 4(d)). On completion and rental of additional space on specific properties, the Earnout options vest and the holder may elect to exercise the options and receive Trust Units, Class B Smart LP Units, Class D Smart LP Units, Class B Smart LP III Units, Class B Smart LP IV Units, Class B Smart Oshawa South LP Units, Class D Smart Oshawa South LP Units, Class B Smart Oshawa Taunton LP Units, Class D Smart Oshawa Taunton LP Units, Class B Smart Boxgrove LP Units and Class B ONR LP I Units, as applicable. Earnout options that have not vested expire at the end of the term of the corresponding development management agreement. In certain circumstances, the Trust may be required to issue additional Earnout options to Penguin. The option strike prices were based on the market price of Trust Units on the date the substantive terms were agreed on and announced. In the case of Class B Smart LP III Units, Class B Smart LP IV Units, Class B Smart Oshawa South LP Units, Class D Smart Oshawa South LP Units, Class B Smart Oshawa Taunton LP Units, Class D Smart Oshawa Taunton LP Units, Class B Smart Boxgrove LP Units, and Class B ONR LP I Units, the strike price is the market price of the Trust Units at the date of exchange.

The following represents the number of Units granted, cancelled, exercised, and outstanding and proceeds for the year ended December 31, 2017:

	Strike Price (\$)	Options Outstanding at January 1, 2017 (#)	Additional Options Granted (\$)	Options Cancelled (#)	Options Exercised (#)	Options Outstanding at December 31, 2017 (#)	Proceeds During Year Ended December 31, 2017 (\$)
Options to acquire Trust Units							
July 2005	20.10	121,996	–	–	(13,390)	108,606	269
December 2006	29.55 to 33.55	53,458	–	–	–	53,458	–
July 2007	29.55 to 33.00	1,348,223	–	–	–	1,348,223	–
		1,523,677	–	–	(13,390)	1,510,287	269
Options to acquire Class B Smart LP Units and Class D Smart LP Units¹							
July 2005 (Earnout)	20.10	1,358,669	–	–	(4,516)	1,354,153	92
December 2006	29.55 to 30.55	2,290,052	–	–	–	2,290,052	–
July 2007	29.55 to 33.00	1,600,000	–	–	–	1,600,000	–
June 2008 ²	20.10	708,004	–	(5,337)	–	702,667	–
		5,956,725	–	(5,337)	(4,516)	5,946,872	92
Options to acquire Class B Smart LP III Units^{3,4}							
September 2010	Market price	646,669	–	–	–	646,669	–
August 2011	Market price	612,701	–	(1,484)	(14,998)	596,219	382
August 2013	Market price	580,975	–	(6,971)	(13,933)	560,071	358
September 2014	Market price	297,530	–	(11,476)	–	286,054	–
		2,137,875	–	(19,931)	(28,931)	2,089,013	740
Options to acquire Class B Smart LP IV Units^{4,5}							
May 2015	Market price	446,061	–	–	–	446,061	–
		446,061	–	–	–	446,061	–
Options to acquire Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units⁶							
May 2015	Market price	60,000	–	–	–	60,000	–
		60,000	–	–	–	60,000	–
Options to acquire Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units^{4,7}							
May 2015	Market price	302,692	–	(37,270)	–	265,422	–
		302,692	–	(37,270)	–	265,422	–
Options to acquire Class B Smart Boxgrove LP Units⁸							
May 2015	Market price	170,000	–	–	–	170,000	–
		170,000	–	–	–	170,000	–
Options to acquire Class B ONR LP I Units⁹							
October 2017	Market price	–	540,000	–	–	540,000	–
Total Earnout options		10,597,030	540,000	(62,538)	(46,837)	11,027,655	1,101

¹ Each option is represented by a corresponding Class C Smart LP Unit or Class E Smart LP Unit.

² Each option is convertible into Class F Series 3 Smart LP Units. At the holder's option, the Class F Series 3 Smart LP Units may be redeemed for cash at \$20.10 per Unit or, on the completion and rental of additional space on certain development properties, the Class F Series 3 Smart LP Units may be exchanged for Class B Smart LP Units.

³ Each option is represented by a corresponding Class C Smart LP III Unit.

⁴ During the year ended December 31, 2017, 16,482 Class C Smart LP III Series 5 Units, 20,904 Class C Smart LP III Series 6 Units, 11,476 Class C Smart LP III Series 7 Units, and 37,270 Class C and E Smart Oshawa Taunton LP Series 1 Units, were available for conversion into Class B Smart LP III Series 6 Units, Class B Smart LP III Series 7 Units, and Class B and D Smart Oshawa Taunton LP Series 1 Units, respectively, of which 14,998 Class C Smart LP III Series 5 Units, 13,933 Class C Smart LP III Series 6 Units, nil Class C Smart LP III Series 7 Units, and nil Class C and E Smart Oshawa Taunton LP Series 1 Units were exercised using the predetermined conversion prices, in exchange for 12,941 Class B Smart LP III Series 5 Units, 11,986 Class B Smart LP III Series 6 Units, nil Class B Smart LP III Series 7 Units, nil Class B Smart Oshawa Taunton LP Series 1 Units and nil Class D Smart Oshawa Taunton LP Series 1 Units, respectively, issued based on the market price at the time of issuance. 1,484 Class C Smart LP III Series 5 Units, 6,971 Class C Smart LP III Series 6 Units, 11,476 Class C Smart LP III Series 7 Units and 37,270 Class C and E Smart Oshawa Taunton LP Series 1 Units were cancelled due to the price differential between the market price and fixed conversion price.

⁵ Each option is represented by a corresponding Class C Smart LP IV Unit.

⁶ Each option is represented by a corresponding Class C Smart Oshawa South LP Unit or Class E Smart Oshawa South LP Unit.

⁷ Each option is represented by a corresponding Class C Smart Oshawa Taunton LP Unit or Class E Smart Oshawa Taunton LP Unit.

⁸ Each option is represented by a corresponding Class C Smart Boxgrove LP Unit.

⁹ Each option is represented by a corresponding Class C ONR LP I Unit.

The following represents the number of Units cancelled, exercised and outstanding and proceeds for the year ended December 31, 2016:

	Strike Price (\$)	Options Outstanding at January 1, 2016 (#)	Options Cancelled (#)	Options Exercised (#)	Options Outstanding at December 31, 2016 (#)	Proceeds During Year Ended December 31, 2016 (\$)
Options to acquire Trust Units						
July 2005	20.10	154,781	–	(32,785)	121,996	659
December 2006	29.55 to 33.55	57,344	–	(3,886)	53,458	115
July 2007	29.55 to 33.00	1,348,223	–	–	1,348,223	–
		1,560,348	–	(36,671)	1,523,677	774
Options to acquire Class B Smart LP Units and Class D Smart LP Units¹						
July 2005 (Earnout)	20.10	1,380,526	–	(21,857)	1,358,669	439
December 2006	29.55 to 30.55	2,303,267	–	(13,215)	2,290,052	391
July 2007	29.55 to 33.00	1,600,000	–	–	1,600,000	–
June 2008 ²	20.10	708,004	–	–	708,004	–
		5,991,797	–	(35,072)	5,956,725	830
Options to acquire Class B Smart LP III Units^{3,4}						
September 2010	Market price	685,499	(34,041)	(4,789)	646,669	103
August 2011	Market price	612,701	–	–	612,701	–
August 2013	Market price	603,281	(2,465)	(19,841)	580,975	510
September 2014	Market price	307,142	(213)	(9,399)	297,530	247
		2,208,623	(36,719)	(34,029)	2,137,875	860
Options to acquire Class B Smart LP IV Units^{4,5}						
May 2015	Market price	464,461	(243)	(18,157)	446,061	345
		464,461	(243)	(18,157)	446,061	345
Options to acquire Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units⁶						
May 2015	Market price	60,000	–	–	60,000	–
		60,000	–	–	60,000	–
Options to acquire Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units^{4,7}						
May 2015	Market price	460,000	–	(157,308)	302,692	3,613
		460,000	–	(157,308)	302,692	3,613
Options to acquire Class B Smart Boxgrove LP Units⁸						
May 2015	Market price	170,000	–	–	170,000	–
		170,000	–	–	170,000	–
Total Earnout options		10,915,229	(36,962)	(281,237)	10,597,030	6,422

¹ Each option is represented by a corresponding Class C Smart LP Unit or Class E Smart LP Unit.

² Each option is convertible into Class F Series 3 Smart LP Units. At the holder's option, the Class F Series 3 Smart LP Units may be redeemed for cash at \$20.10 per Unit or, on the completion and rental of additional space on certain development properties, the Class F Series 3 Smart LP Units may be exchanged for Class B Smart LP Units.

³ Each option is represented by a corresponding Class C Smart LP III Unit.

⁴ During the year ended December 31, 2016, 38,830 Class C Smart LP III Series 4 Units, 22,306 Class C Smart LP III Series 6 Units, 9,612 Class C Smart LP III Series 7 Units, 18,400 Class C Smart LP IV Series 1 Units and 157,308 Class C and E Smart Oshawa Taunton LP Series 1 Units, were available for conversion into Class B Smart LP III Series 4 Units, Class B Smart LP III Series 6 Units, Class B Smart LP III Series 7 Units, Class B Smart LP IV Series 1 Units and Class B and D Smart Oshawa Taunton LP Series 1 Units, respectively, of which 4,789 Class C Smart LP III Series 4 Units, 19,841 Class C Smart LP III Series 6 Units, 9,399 Class C Smart LP III Series 7 Units, 18,157 Class C Smart LP IV Series 1 Units and 157,308 Class C and E Smart Oshawa Taunton LP Series 1 Units were exercised using the predetermined conversion prices, in exchange for 3,179 Class B Smart LP III Series 4 Units, 15,594 Class B Smart LP III Series 6 Units, 7,241 Class B Smart LP III Series 7 Units, 10,365 Class B Smart LP IV Series 1 Units, 68,458 Class B Smart Oshawa Taunton LP Series 1 Units and 41,670 Class D Smart Oshawa Taunton LP Series 1 Units, respectively, issued based on the market price at the time of issuance. 34,041 Class C Smart LP III Series 4 Units, 2,465 Class C Smart LP III Series 6 Units, 213 Class C Smart LP III Series 6 Units and 243 Class C Smart LP IV Series 1 Units were cancelled due to the price differential between the market price and fixed conversion price.

⁵ Each option is represented by a corresponding Class C Smart LP IV Unit.

⁶ Each option is represented by a corresponding Class C Smart Oshawa South LP Unit or Class E Smart Oshawa South LP Unit.

⁷ Each option is represented by a corresponding Class C Smart Oshawa Taunton LP Unit or Class E Smart Oshawa Taunton LP Unit.

⁸ Each option is represented by a corresponding Class C Smart Boxgrove LP Unit.

The following summarizes the change in the fair value of Earnout options:

	2017	2016
Fair value – beginning of year	1,455	3,150
Trust options exercised	–	(336)
LP options exercised	–	(284)
Fair value adjustment	(704)	(1,075)
Fair value – end of year	751	1,455

c) Deferred unit plan (“DUP”)

The Trust has a deferred unit plan that entitles Trustees and senior management, at the participant’s option, to receive deferred units in consideration for Trustee fees or senior management bonuses with the Trust matching the number of units received. Any deferred units granted to Trustees, which include the matching deferred units, vest immediately. Any deferred units granted to senior management as part of their compensation structure effectively vest immediately, and the matching deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events. The deferred units earn additional deferred units (“reinvested units”) for the distributions that would otherwise have been paid on the deferred units (i.e., had they instead been issued as Trust Units on the date of grant). Once vested, participants are entitled to receive an equivalent number of Trust Units for the initially granted vested deferred units and the matching deferred units.

The outstanding deferred units for the years ended December 31, 2017 and December 31, 2016 are summarized as follows:

	Outstanding	Vested	Non-Vested
Balance – January 1, 2016	664,337	611,997	52,340
Granted	108,205	55,196	53,009
Reinvested units from distributions	34,259	30,869	3,390
Vested	–	29,411	(29,411)
Redeemed for cash ¹	(151,500)	(151,500)	–
Balance – December 31, 2016	655,301	575,973	79,328
Balance – January 1, 2017	655,301	575,973	79,328
Granted	148,898	73,199	75,699
Reinvested units from distributions	42,897	37,129	5,768
Vested	–	33,894	(33,894)
Exchanged for Trust Units ²	(11,250)	(11,250)	–
Redeemed for cash ¹	(16,166)	(16,166)	–
Balance – December 31, 2017	819,680	692,779	126,901

¹ During the year ended December 31, 2017, 16,166 deferred units totalling \$555 were redeemed (year ended December 31, 2016 – 151,500 deferred units totalling \$5,234 were redeemed).

² During the year ended December 31, 2017, 11,250 deferred units totalling \$335 were exchanged for \$251 of Trust Units net of other adjustments (year ended December 31, 2016 – nil deferred units totalling \$nil were exchanged for \$nil of Trust Units).

The following represents the carrying value of the deferred unit plan for the year ended December 31:

	Note	2017	2016
Carrying value – beginning of year		19,743	19,192
Deferred units granted for trustee fees and bonuses		2,300	1,699
Reinvested distributions on vested deferred units	11(f)	1,123	1,002
Compensation expense – reinvested distributions, amortization and fair value change on unvested deferred units		1,866	1,349
Exchanged for Trust Units		(335)	–
Redeemed for cash		(555)	(5,234)
Fair value adjustment – vested deferred units		(791)	1,735
Carrying value – end of year		23,351	19,743

14. Fair value of financial instruments

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction based on the current market for assets and liabilities with the same risks, principal and remaining maturity.

The fair value of the Trust's financial instruments is summarized in the following table:

	2017			2016		
	Fair Value Through Profit or Loss ("FVTPL")	Loans Receivable/Other Liabilities	Total	Fair Value Through Profit or Loss ("FVTPL")	Loans Receivable/Other Liabilities	Total
Financial assets						
Mortgages and loans receivable	–	154,824	154,824	–	176,490	176,490
Tenant receivable – net of allowance	–	8,633	8,633	–	7,564	7,564
Financial liabilities						
Secured debt	–	2,445,133	2,445,133	–	2,626,353	2,626,353
Unsecured debentures	–	1,816,128	1,816,128	–	1,324,236	1,324,236
Long Term Incentive Plan	–	2,927	2,927	–	3,629	3,629
Convertible debentures	–	36,975	36,975	–	–	–
Units classified as liabilities	64,501	–	64,501	18,169	–	18,169
Earnout options	751	–	751	1,455	–	1,455
Deferred unit plan	23,351	–	23,351	19,743	–	19,743
Fair value of interest rate swap agreements	–	–	–	28	–	28

Fair value hierarchy

The Trust values financial assets and financial liabilities carried at fair value using quoted closing market prices, where available.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities. When quoted market prices are not available, the Trust maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. Valuations at this level are more subjective and, therefore, more closely managed. Such testing has not indicated that any material difference would arise due to a change in input variables.

	2017			2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Recurring measurements:						
Financial liabilities						
Units classified as liabilities	64,501	–	–	18,169	–	–
Earnout options	–	–	751	–	–	1,455
Deferred unit plan	–	23,351	–	–	19,743	–
Fair value of interest rate swap agreements	–	–	–	–	28	–

Refer to Note 13(b) for a reconciliation of Earnout option fair value measurements.

15. Unit equity

The following represents the number of Units issued and outstanding, and the related carrying value of Unit equity for the years ended December 31, 2017 and December 31, 2016. The Limited Partnership Units are classified as non-controlling interests in the consolidated balance sheets and the consolidated statements of equity.

Note	Number of Units Issued and Outstanding			Carrying Amount			
	Trust Units (#)	Smart LP Units (#)	Total Units (#)	Trust Units (\$)	Smart LP Units (\$)	Total (\$)	
	(Table A)			(Table B)			
Balance – January 1, 2016		128,673,857	24,851,679	153,525,536	2,599,493	624,082	3,223,575
Options exercised ¹	4,13(b)	36,671	139,909	176,580	1,110	4,578	5,688
Distribution reinvestment plan	15(b)	1,379,838	–	1,379,838	46,212	–	46,212
Units exchanged for Trust Units ²		41,670	–	41,670	1,585	–	1,585
Balance – December 31, 2016		130,132,036	24,991,588	155,123,624	2,648,400	628,660	3,277,060
Balance – January 1, 2017		130,132,036	24,991,588	155,123,624	2,648,400	628,660	3,277,060
Options exercised ¹	4,13(b)	13,390	29,443	42,833	269	832	1,101
Deferred Units exchanged for Trust Units	13(c)	8,438	–	8,438	251	–	251
Distribution reinvestment plan	15(b)	1,625,403	–	1,625,403	50,719	–	50,719
Units issued for Arrangement	3	833,053	–	833,053	24,833	–	24,833
Balance – December 31, 2017		132,612,320	25,021,031	157,633,351	2,724,472	629,492	3,353,964

¹ The carrying values of Trust Units and Limited Partnership Units issued include the fair value of options on exercise of \$nil and \$nil, respectively (year ended December 31, 2016 – \$336 and \$284).

² 41,670 Class D Smart Oshawa Taunton LP Units (classified as a liability – see Note 13 “Other financial liabilities”) amounting to \$1,585 were exchanged for 41,670 Trust Units.

Table A: Number of LP Units issued and outstanding

The following represents the number of Units issued, exercised and outstanding for the years ended December 31, 2017 and December 31, 2016.

Unit Type	Class and Series	Balance January 1, 2017	Options exercised	Balance December 31, 2017
			Note 13(b)	
Smart Limited Partnership	Class B Series 1	14,741,660	4,516	14,746,176
Smart Limited Partnership	Class B Series 2	886,956	–	886,956
Smart Limited Partnership	Class B Series 3	720,432	–	720,432
Smart Limited Partnership II	Class B	756,525	–	756,525
Smart Limited Partnership III	Class B Series 4	647,934	–	647,934
Smart Limited Partnership III	Class B Series 5	559,396	12,941	572,337
Smart Limited Partnership III	Class B Series 6	437,389	11,986	449,375
Smart Limited Partnership III	Class B Series 7	434,598	–	434,598
Smart Limited Partnership III	Class B Series 8	1,698,018	–	1,698,018
Smart Limited Partnership IV	Class B Series 1	3,046,121	–	3,046,121
Smart Oshawa South Limited Partnership	Class B Series 1	688,336	–	688,336
Smart Oshawa Taunton Limited Partnership	Class B Series 1	374,223	–	374,223
		24,991,588	29,443	25,021,031

Unit Type	Class and Series	Balance January 1, 2016	Options exercised	Balance December 31, 2016
			Note 13(b)	
Smart Limited Partnership	Class B Series 1	14,719,803	21,857	14,741,660
Smart Limited Partnership	Class B Series 2	873,741	13,215	886,956
Smart Limited Partnership	Class B Series 3	720,432	–	720,432
Smart Limited Partnership II	Class B	756,525	–	756,525
Smart Limited Partnership III	Class B Series 4	644,755	3,179	647,934
Smart Limited Partnership III	Class B Series 5	559,396	–	559,396
Smart Limited Partnership III	Class B Series 6	421,795	15,594	437,389
Smart Limited Partnership III	Class B Series 7	427,357	7,241	434,598
Smart Limited Partnership III	Class B Series 8	1,698,018	–	1,698,018
Smart Limited Partnership IV	Class B Series 1	3,035,756	10,365	3,046,121
Smart Oshawa South Limited Partnership	Class B Series 1	688,336	–	688,336
Smart Oshawa Taunton Limited Partnership	Class B Series 1	305,765	68,458	374,223
		24,851,679	139,909	24,991,588

Table B: Carrying value of LP Units

The following represents the carrying values of Units issued, exercised and outstanding for the years ended December 31, 2017 and December 31, 2016.

Unit Type	Class and Series	Balance January 1, 2017	Proceeds from options exercised	Balance December 31, 2017
			Note 13(b)	
Smart Limited Partnership ¹	Class B Series 1	347,583	92	347,675
Smart Limited Partnership ¹	Class B Series 2	25,722	–	25,722
Smart Limited Partnership ¹	Class B Series 3	16,836	–	16,836
Smart Limited Partnership II	Class B	17,680	–	17,680
Smart Limited Partnership III	Class B Series 4	15,838	–	15,838
Smart Limited Partnership III	Class B Series 5	14,974	382	15,356
Smart Limited Partnership III	Class B Series 6	11,362	358	11,720
Smart Limited Partnership III	Class B Series 7	11,668	–	11,668
Smart Limited Partnership III	Class B Series 8	48,732	–	48,732
Smart Limited Partnership IV	Class B Series 1	87,477	–	87,477
Smart Oshawa South Limited Partnership	Class B Series 1	19,755	–	19,755
Smart Oshawa Taunton Limited Partnership	Class B Series 1	11,033	–	11,033
		628,660	832	629,492

Unit Type	Class and Series	Balance January 1, 2016	Proceeds from options exercised	Balance December 31, 2016
			Note 13(b)	
Smart Limited Partnership ¹	Class B Series 1	346,934	649	347,583
Smart Limited Partnership ¹	Class B Series 2	25,255	467	25,722
Smart Limited Partnership ¹	Class B Series 3	16,836	–	16,836
Smart Limited Partnership II	Class B	17,680	–	17,680
Smart Limited Partnership III	Class B Series 4	15,735	103	15,838
Smart Limited Partnership III	Class B Series 5	14,974	–	14,974
Smart Limited Partnership III	Class B Series 6	10,852	510	11,362
Smart Limited Partnership III	Class B Series 7	11,421	247	11,668
Smart Limited Partnership III	Class B Series 8	48,732	–	48,732
Smart Limited Partnership IV	Class B Series 1	87,132	345	87,477
Smart Oshawa South Limited Partnership	Class B Series 1	19,755	–	19,755
Smart Oshawa Taunton Limited Partnership	Class B Series 1	8,776	2,257	11,033
		624,082	4,578	628,660

¹ The carrying values of Smart LP Units issued include the fair value of options on exercise of \$nil (year ended December 31, 2016 – \$284).

a) Authorized Units

i) Trust Units

The Trust is authorized to issue an unlimited number of voting trust units ("Trust Units"), each of which represents an equal undivided interest in the Trust. All Trust Units outstanding from time to time are entitled to participate pro rata in any distributions by the Trust and, in the event of termination or windup of the Trust, in the net assets of the Trust. All Trust Units rank among themselves equally and rateably without discrimination, preference or priority. Unitholders are entitled to require

the Trust to redeem all or any part of their Trust Units at prices determined and payable in accordance with the conditions provided for in the Declaration of Trust. A maximum amount of \$50 may be redeemed in total in any one month unless otherwise waived by the Board of Trustees.

In accordance with the Declaration of Trust, distributions to Unitholders are declared at the discretion of the Trustees. The Trust endeavours to declare distributions in each taxation year in such an amount as is necessary to ensure that the Trust will not be subject to tax on its net income and net capital gains under Part I of the Income Tax Act (Canada) (the "Tax Act").

The Trust is authorized to issue an unlimited number of Special Voting Units that will be used to provide voting rights to holders of securities exchangeable, including all series of Class B Smart LP Units, Class D Smart LP Units, Class B Smart LP II Units, Class B Smart LP III Units, Class B Smart LP IV Units, Class B Smart Oshawa South LP Units, Class D Smart Oshawa South LP Units, Class B Smart Oshawa Taunton Units, Class D Oshawa Taunton Units, Class B Smart Boxgrove LP Units, and Class B ONR LP Units, into Trust Units. Special Voting Units are not entitled to any interest or share in the distributions or net assets of the Trust. Each Special Voting Unit entitles the holder to the number of votes at any meeting of Unitholders of the Trust that is equal to the number of Trust Units into which the exchangeable security is exchangeable or convertible. Special Voting Units are cancelled on the issuance of Trust Units on exercise, conversion or cancellation of the corresponding exchangeable securities. At December 31, 2017, there were 27,107,806 (December 31, 2016 – 25,554,259) Special Voting Units outstanding. There is no value assigned to the Special Voting Units. A July 2005 agreement preserved Penguin's voting rights at a minimum of 25.0% for a period of 10 years commencing on July 1, 2005, on the condition that Penguin's owner, Mitchell Goldhar, remains a Trustee of the Trust and owns at least 15,000,000 Trust Units, Class B Smart LP and Smart LP III Units, collectively. On May 26, 2015, the Trust extended the voting rights agreement for an additional five years. These Special Voting Units are not entitled to any interest or share in the distributions or net assets of the Trust; nor are they convertible into any Trust securities. The total number of Special Voting Units is adjusted for each annual meeting of the Unitholders based on changes in Penguin's ownership interest.

ii) *Smart Limited Partnership Units*

Smart Limited Partnership ("Smart LP"), formerly known as Calloway Limited Partnership, was formed on June 15, 2005, and commenced activity on July 8, 2005.

An unlimited number of any series of Class A Smart LP Units, Class B Smart LP Units, Class C Smart LP Units, Class D Smart LP Units, Class E Smart LP Units and Class F Smart LP Units may be issued by the LP. Class A Smart LP partners have 20 votes for each Class A Smart LP Unit held, Class B Smart LP and Class D Smart LP partners have one vote for each Class B Smart LP Unit or Class D Smart LP Unit held, and Class C Smart LP, Class E Smart LP and Class F Smart LP partners have no votes at meetings of the Smart LP. The Smart LP is under the control of the Trust.

The Class A Smart LP Units are entitled to all distributable cash of the LP after the required distributions on the other classes of Units have been paid. At December 31, 2017, there were 75,062,169 (December 31, 2016 – 75,062,169) Class A Smart LP Units outstanding. All Class A Smart LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart LP Units and the Class D Smart LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart LP Units and Class D Smart LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart LP Unit and Class D Smart LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart LP Units and the Class D Smart LP Units are considered to be economically equivalent to Trust Units. All Class B Smart LP Units and Class D Smart LP Units (owned by outside parties) have been presented as non-controlling interests and liabilities, respectively.

The Class C Smart LP Units and Class E Smart LP Units are entitled to receive 0.01% of any distributions of the Smart LP and have nominal value assigned in the consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific predetermined amount per Unit, the Class C Series 1 and Series 2 Smart LP Units, the Class C Series 3 Smart LP Units and the Class E Series 1 Smart LP Units are exchangeable into Class B Smart LP Units, Class F Series 3 Smart LP Units and Class D Series 1 Smart LP Units, respectively, and the Class E Series 2 Smart LP Units are exchangeable into Class D Series 2 Smart LP Units (the Class C Smart LP Units and Class E Smart LP Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to the LP, the corresponding Class C Smart LP Units and Class E Smart LP Units are cancelled.

Number of Class C and E Units Outstanding	2017	2016
Class C Series 1 Smart LP Units	3,445,341	3,449,857
Class C Series 2 Smart LP Units	3,090,052	3,090,052
Class C Series 3 Smart LP Units	708,004	708,004
Class E Series 1 Smart LP Units	16,704	16,704
Class E Series 2 Smart LP Units	800,000	800,000

Of the 3,445,341 Class C Series 1 Smart LP Units, 1,337,449 Units relate to Earnout options, 1,357,892 Units relate to expired Earnout options and 750,000 Units are cancelled concurrently with Class F Series 3 Smart LP Units on the completion and rental of additional space on specific properties.

The Class F Series 3 Smart LP Units are entitled to receive distributions equivalent to 65.5% of the distributions on Trust Units. At the holder's option, the Class F Series 3 Smart LP Units are exchangeable for \$20.10 in cash per Unit or, on the completion and rental of additional space on specific properties, the Class F Series 3 Smart LP Units are exchangeable into Class B Smart LP Units. As at December 31, 2017, there were nil Class F Series 3 Smart LP Units outstanding (December 31, 2016 – nil). On issuance, the Class F Series 3 Smart LP Units are recorded as a liability in the consolidated financial statements.

The Class D Smart LP Units (owned by outside parties) are considered to be a financial liability under IFRS. The Class B Series 1, Class B Series 2 and Class B Series 3 Smart LP Units are classified as equity.

iii) *Smart Limited Partnership II Units*

Smart Limited Partnership II ("Smart LP II"), formerly known as Calloway Limited Partnership II, was formed on February 6, 2006, and commenced activity on May 29, 2006.

An unlimited number of Class A Smart LP II Units and Class B Smart LP II Units may be issued by Smart LP II. Class A Smart LP II partners have five votes for each Class A Smart LP II Unit held, and Class B Smart LP II partners have one vote for each Class B Smart LP II Unit held. Smart LP II is under the control of the Trust.

The Class A Smart LP II Units are entitled to all distributable cash of Smart LP II after the required distributions on the Class B Smart LP II Units have been paid. At December 31, 2017, there were 208,356 (December 31, 2016 – 200,002) Class A Smart LP II Units outstanding. The Class A Smart LP II Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart LP II Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart LP II Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart LP II Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart LP II Units are considered to be economically equivalent to Trust Units. All Class B Smart LP II Units are owned by outside parties and have been presented as non-controlling interests.

iv) *Smart Limited Partnership III Units*

Smart Limited Partnership III ("Smart LP III"), formerly known as Calloway Limited Partnership III, was formed on September 2, 2010 and commenced activity on September 13, 2010.

An unlimited number of Class A Smart LP III Units, Class B Smart LP III Units and Class C Smart LP III Units may be issued by Smart LP III. Class A Smart LP III partners have 20 votes for each Class A Smart LP III Unit held, Class B Smart LP III partners have one vote for each Class B Smart LP III Unit held and Class C Smart LP III Units have no votes at meetings of the Smart LP III. Smart LP III is under the control of the Trust.

The Class A Smart LP III Units are entitled to all distributable cash of Smart LP III after the required distributions on the Class B Smart LP III Units have been paid. At December 31, 2017, there were 12,556,688 (December 31, 2016 – 12,556,688) Class A Smart LP III Units outstanding. The Class A Smart LP III Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart LP III Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart LP III Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart LP III Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart LP III Units are considered to be economically equivalent to Trust Units. All Class B Smart LP III Units are owned by outside parties and have been presented as non-controlling interests.

The Class C Smart LP III Units are entitled to receive 0.01% of any distributions of Smart LP III and have a nominal value assigned in the consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 4 Smart LP III Units, Class C Series 5 Smart LP III Units, Class C Series 6 Smart LP III Units and Class C Series 7 Smart LP III Units are exchangeable into Class B Smart LP III Units (the Class C Smart LP III Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart LP III, the corresponding Class C Smart LP III Units are cancelled. At December 31, 2017, there were 2,089,013 (December 31, 2016 – 2,137,875) Class C Smart LP III Units outstanding.

v) *Smart Limited Partnership IV Units*

Smart Limited Partnership IV ("Smart LP IV") was formed on May 28, 2015.

An unlimited number of Class A Smart LP IV Units, Class B Smart LP IV Units and Class C Smart LP IV Units may be issued by Smart LP IV. Class A Smart LP IV partners have 20 votes for each Class A Smart LP IV Unit held, Class B Smart LP IV partners have one vote for each Class B Smart LP IV Unit held and Class C Smart LP IV Units have no votes at meetings of the Smart LP IV. Smart LP IV is under the control of the Trust.

The Class A Smart LP IV Units are entitled to all distributable cash of Smart LP IV after the required distributions on the Class B Smart LP IV Units have been paid. At December 31, 2017, there were 102,569 (December 31, 2016 – 102,569) Class A Smart LP IV Units outstanding. The Class A Smart LP IV Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart LP IV Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart LP IV Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart LP IV Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart LP IV Units are considered to be economically equivalent to Trust Units. All Class B Smart LP IV Units are owned by outside parties and have been presented as non-controlling interests.

The Class C Smart LP IV Units are entitled to receive 0.01% of any distributions of Smart LP IV and have a nominal value assigned in the consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 1 Smart LP IV Units are exchangeable into Class B Smart LP IV Units (the Class C Smart LP IV Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart LP IV, the corresponding Class C Smart LP IV Units are cancelled. At December 31, 2017, there were 446,061 (December 31, 2016 – 446,061) Class C Smart LP IV Units outstanding.

vii) Smart Oshawa South Limited Partnership Units

Smart Oshawa South Limited Partnership ("Smart Oshawa South LP") was formed on May 28, 2015.

The Class A Smart Oshawa South LP Units are entitled to all distributable cash of Smart Oshawa South LP after the required distributions on the other classes of Units have been paid. At December 31, 2017, there were 138,680 (December 31, 2016 – 138,680) Class A Smart Oshawa South LP Units outstanding. The Class A Smart Oshawa South LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart Oshawa South LP Unit and Class D Smart Oshawa South LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units are considered to be economically equivalent to Trust Units. All Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units (owned by outside parties) have been presented as non-controlling interests and liabilities, respectively.

The Class C Smart Oshawa South LP Units and Class E Smart Oshawa South LP Units are entitled to receive 0.01% of any distributions of Smart Oshawa South LP and have a nominal value assigned in the consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 1 Smart Oshawa South LP Units and Class E Series 1 Smart Oshawa South LP Units are exchangeable into Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units, respectively (the Class C Smart Oshawa South LP Units and Class E Smart Oshawa South LP Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart Oshawa South LP, the corresponding Class C Smart Oshawa South LP Units and Class E Smart Oshawa South LP Units are cancelled.

Number of Class C and E Units Outstanding	2017	2016
Class C Series 1 Smart Oshawa South LP Units	45,000	45,000
Class E Series 1 Smart Oshawa South LP Units	15,000	15,000
	60,000	60,000

The Class D Series 1 Smart Oshawa South LP Units (owned by outside parties) are considered to be a financial liability under IFRS, whereas the Class B Series 1 Smart Oshawa South LP Units are classified as equity.

viii) Smart Oshawa Taunton Limited Partnership Units

Smart Oshawa Taunton Limited Partnership ("Smart Oshawa Taunton LP") was formed on May 28, 2015.

The Class A Smart Oshawa Taunton LP Units are entitled to all distributable cash of Smart Oshawa Taunton LP after the required distributions on the Class B Smart Oshawa Taunton LP Units have been paid. At December 31, 2017, there were 637,895 (December 31, 2016 – 637,895) Class A Smart Oshawa Taunton LP Units outstanding. The Class A Smart Oshawa Taunton LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart Oshawa Taunton LP and Class D Smart Oshawa Taunton LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart Oshawa Taunton LP Unit and Class D Smart Oshawa Taunton LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of

the Trust. The Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units are considered to be economically equivalent to Trust Units. All Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units (owned by outside parties) have been presented as non-controlling interests and liabilities, respectively.

The Class C Smart Oshawa Taunton LP Units and Class E Smart Oshawa Taunton LP Units are entitled to receive 0.01% of any distributions of Smart Oshawa Taunton LP and have a nominal value assigned in the consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 1 Smart Oshawa Taunton LP Units and Class E Series 1 Smart Oshawa Taunton LP Units are exchangeable into Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units, respectively (the Class C Smart Oshawa Taunton LP Units and Class E Smart Oshawa Taunton LP Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart Oshawa Taunton LP, the corresponding Class C Smart Oshawa Taunton LP Units and Class E Smart Oshawa Taunton LP Units are cancelled.

Number of Class C and E Units Outstanding	2017	2016
Class C Series 1 Smart Oshawa Taunton LP Units	132,711	151,346
Class E Series 1 Smart Oshawa Taunton LP Units	132,711	151,346
	265,422	302,692

The Class D Series 1 Smart Oshawa Taunton LP Units (owned by outside parties) are considered to be a financial liability under IFRS, whereas the Class B Series 1 Smart Oshawa Taunton LP Units are classified as equity.

viii) Smart Boxgrove Limited Partnership Units

Smart Boxgrove Limited Partnership ("Boxgrove LP") was formed on May 28, 2015.

An unlimited number of Class A Smart Boxgrove LP Units, Class B Smart Boxgrove LP Units and Class C Smart Boxgrove LP Units may be issued by Smart Boxgrove LP. Class A Smart Boxgrove LP partners have 20 votes for each Class A Smart Boxgrove LP Unit held, Class B Smart Boxgrove LP partners have one vote for each Class B Smart Boxgrove LP Unit held and Class C Smart Boxgrove LP Units have no votes at meetings of Smart Boxgrove LP. Smart Boxgrove LP is under the control of the Trust.

The Class A Smart Boxgrove LP Units are entitled to all distributable cash of Smart Boxgrove LP after the required distributions on the Class B Smart Boxgrove LP Units have been paid. At December 31, 2017, there were 397,438 (December 31, 2016 – 397,438) Class A Smart Boxgrove LP Units outstanding. The Class A Smart Boxgrove LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart Boxgrove LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart Boxgrove LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart Boxgrove LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart Boxgrove LP Units are considered to be economically equivalent to Trust Units. All Class B Smart Boxgrove LP Units are owned by outside parties and have been presented as non-controlling interests. At December 31, 2017, there were nil (December 31, 2016 – nil) Class B Smart Boxgrove LP Units outstanding.

The Class C Smart Boxgrove LP Units are entitled to receive 0.01% of any distributions of Smart Boxgrove LP and have a nominal value assigned in the consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 1 Smart Boxgrove LP Units are exchangeable into Class B Smart Boxgrove LP Units (the Class C Smart Boxgrove LP Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart Boxgrove LP, the corresponding Class C Smart Boxgrove LP Units are cancelled. At December 31, 2017, there were 170,000 (December 31, 2016 – 170,000) Class C Smart Boxgrove LP Units outstanding.

ix) ONR Limited Partnership Units

ONR Limited Partnership ("ONR LP") was formed on October 4, 2017 pursuant to the Arrangement.

An unlimited number of Class A ONR LP Units may be issued by ONR LP. Class A ONR LP partners have 20 votes for each Class A ONR LP Unit held, Class B ONR LP partners have one vote for each Class B ONR LP Unit held. ONR LP is under the control of the Trust.

The Class A ONR LP Units are entitled to all distributable cash of ONR LP after the required distributions on the Class B ONR LP Units have been paid. At December 31, 2017, there were 3,912,943,532 (December 31, 2016 – nil) Class A ONR LP Units outstanding. The Class A ONR LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B ONR LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B ONR LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B ONR LP Unit is entitled to one Special Voting Unit, which will entitle

the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B ONR LP Units are considered to be economically equivalent to Trust Units.

The ONR LP Class B Units are considered to be a financial liability under IFRS.

x) *ONR Limited Partnership I Units*

ONR Limited Partnership I (“ONR LP I”) was formed on October 4, 2017 pursuant to the Arrangement.

An unlimited number of Class A ONR LP I Units may be issued by ONR LP I. Class A ONR LP I partners have 20 votes for each Class A ONR LP I Unit held, Class B ONR LP I partners have one vote for each Class B ONR LP I Unit held. ONR LP I is under the control of the ONR LP.

The Class A ONR LP I Units are entitled to all distributable cash of ONR LP I after the required distributions on the Class B ONR LP I Units have been paid. At December 31, 2017, there were 38,000,010 (December 31, 2016 – nil) Class A ONR LP I Units outstanding. The Class A ONR LP I Units are owned directly by the ONR LP and have been eliminated on consolidation.

The Class B ONR LP I Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder’s option. Holders of Class B ONR LP I Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B ONR LP I Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B ONR LP I Units are considered to be economically equivalent to Trust Units.

The Class B ONR LP I Units are considered to be a financial liability under IFRS.

The Class C ONR LP I Units are entitled to receive 0.01% of any distributions of ONR LP I and have a nominal value assigned in the consolidated financial statements. At the holder’s option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C ONR LP I Units are exchangeable into Class B ONR LP I (the Class C ONR LP I Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to ONR LP I, the corresponding Class C ONR LP I Units are cancelled. At December 31, 2017, there were 540,000 (December 31, 2016 – nil) Class C ONR LP I Units outstanding.

b) *Distribution reinvestment plan (“DRIP”)*

The Trust enables holders of Trust Units to reinvest their cash distributions in additional Units of the Trust at 97% of the volume weighted average Unit price over the 10 trading days prior to the distribution. The 3% bonus amount is recorded as an additional distribution and issuance of Units.

16. Unit distributions

Pursuant to the Declaration of Trust, the Trust endeavours to distribute annually such amount as is necessary to ensure the Trust will not be subject to tax on its net income under Part I of the Tax Act. Unit distributions declared during the years ended December 31, 2017 and December 31, 2016 are as follows:

Unit Type Subject to Distributions	Class and Series	2017	2016
Distributions on Units classified as equity:			
Trust Units	N/A	226,221	216,648
Distributions on Limited Partnership Units			
Smart Limited Partnership	Class B Series 1	25,249	24,507
Smart Limited Partnership	Class B Series 2	1,519	1,456
Smart Limited Partnership	Class B Series 3	1,234	1,198
Smart Limited Partnership II	Class B	1,296	1,258
Smart Limited Partnership III	Class B Series 4	1,110	1,076
Smart Limited Partnership III	Class B Series 5	962	930
Smart Limited Partnership III	Class B Series 6	754	712
Smart Limited Partnership III	Class B Series 7	744	719
Smart Limited Partnership IV	Class B Series 8	2,908	2,823
Smart Limited Partnership IV	Class B Series 1	5,217	5,061
Smart Oshawa South Limited Partnership	Class B Series 1	1,179	1,144
Smart Oshawa Taunton Limited Partnership	Class B Series 1	641	600
Total distributions on Limited Partnership Units		42,813	41,484
Distributions on other non-controlling interest	N/A	283	166
Total distributions on Units classified as equity		269,317	258,298
Distributions on Units classified as liabilities:			
Smart Limited Partnership	Class D Series 1	533	517
Smart Oshawa South Limited Partnership	Class D Series 1	431	418
Smart Oshawa Taunton Limited Partnership	Class D Series 1	–	29
ONR Limited Partnership	Class B	549	–
ONR Limited Partnership I	Class B Series 1	58	–
ONR Limited Partnership I	Class B Series 2	60	–
Total distributions on LP Units classified as liabilities		1,631	964
Distributions paid through DRIP	N/A	50,719	46,212

On January 18, 2018, the Trust declared a distribution for the month of January 2018 of \$0.14583 per Unit, representing \$1.75 per Unit on an annualized basis, to Unitholders of record on January 31, 2018.

17. Rentals from investment properties

Rentals from investment properties consist of the following:

	2017	2016
Gross base rent	483,108	471,880
Less: Amortization of tenant incentives	(6,636)	(6,078)
Net base rent	476,472	465,802
Property operating costs recovered	246,358	235,274
Miscellaneous revenue ¹	11,202	24,191
	734,032	725,267

¹ Miscellaneous revenue includes \$9,900 settlement proceeds associated with the Target lease terminations net of other amounts recorded during the year ended December 31, 2016.

The future contractual minimum base rent payments under non-cancellable operating leases expected from tenants in investment properties are as follows:

	2017	2016
2017	–	466,589
2018	489,127	426,933
2019	448,031	380,539
2020	400,912	336,663
2021	347,255	287,249
2022	293,227	238,943
Thereafter	972,774	803,948
	2,951,326	2,940,864

18. Service and other revenues

Pursuant to the acquisition of the Penguin platform on May 28, 2015, the Trust records service and other revenues as well as relevant expenses (“other expenses”) in the consolidated financial statements, as follows:

	2017	2016
Service and other revenues ¹	13,216	11,548
Other expenses	(13,271)	(11,543)

¹ For the year ended December 31, 2017, service and other revenues included \$10,824 relating to the fees associated with the Development and Services Agreement with Penguin (year ended December 31, 2016 – \$9,707). See also Note 21 “Related party transactions with Penguin”.

19. General and administrative expense

The general and administrative expense consists of the following:

	Note	2017	2016
Salaries and benefits		44,948	42,773
Master planning services fee charged by Penguin per the Services Agreement	21	3,500	3,500
Professional fees		2,644	2,393
Public company costs		1,965	1,762
Rent and occupancy		2,534	2,596
Amortization of intangible assets	8	1,331	1,331
Other costs including information technology, marketing, communications and other employee expenses		5,510	6,022
Total general and administrative expense before allocation		62,432	60,377
Less:			
Allocated to property operating costs		(13,052)	(12,238)
Capitalized to properties under development and other assets		(12,788)	(12,105)
Costs allocated to other expenses related to the Development and Services Agreement		(13,215)	(11,543)
Total amounts allocated, capitalized and charged to Penguin and a third party		(39,055)	(35,886)
General and administrative expense (net)		23,377	24,491

20. Supplemental cash flow information

Cash and cash equivalents consist of the following:

	2017	2016
Cash	162,700	22,479
Short-term deposits	–	614
	162,700	23,093

The following summarizes supplemental cash flow information and non-cash transactions:

	Note	2017	2016
Non-cash transactions			
Adjustment for other working capital amounts		(3,654)	6,556
Distributions payable	12	23,292	22,056
Liabilities relating to additions to investment properties		33,698	25,825
Value of Units issued:			
Consideration for acquisitions and Earnouts	3	71,367	6,422
Distribution reinvestment plan	15	50,719	46,212

Changes in other non-cash operating items

Changes in other non-cash operating items consist of the following:

	2017	2016
Amounts receivable and prepaid expenses	(5,784)	(8,682)
Accounts payable and accrued liabilities	17,301	(796)
	11,517	(9,478)

21. Related party transactions

Transactions with related parties are conducted in the normal course of operations and have been recorded at their respective exchange amounts.

At December 31, 2017, Penguin (the Trust's largest Unitholder), owned the following Units, which in total represent approximately 22.0% of the issued and outstanding Units (December 31, 2016 – 22.4%):

Type	Class and Series	2017	2016
Trust Units	N/A	13,782,861	13,769,471
Smart Limited Partnership	Class B Series 1	12,488,816	12,484,300
Smart Limited Partnership	Class B Series 2	304,447	304,447
Smart Limited Partnership	Class B Series 3	720,432	720,432
Smart Limited Partnership III	Class B Series 4	647,934	647,934
Smart Limited Partnership III	Class B Series 5	572,337	559,396
Smart Limited Partnership III	Class B Series 6	449,375	437,389
Smart Limited Partnership III	Class B Series 7	434,598	434,598
Smart Limited Partnership III	Class B Series 8	1,698,018	1,698,018
Smart Limited Partnership IV	Class B Series 1	2,819,411	2,819,411
Smart Oshawa South Limited Partnership	Class B Series 1	611,478	611,478
Smart Oshawa Taunton Limited Partnership	Class B Series 1	374,223	374,223
ONR Limited Partnership I	Class B Series 1	132,881	–
ONR Limited Partnership I	Class B Series 2	137,109	–
		35,173,920	34,861,097

Certain conditions related to the Declaration of Trust require the Trust to issue such number of additional Special Voting Units to Penguin that will entitle Penguin to cast 25.0% of the aggregate votes eligible to be cast at a meeting of the Unitholders and Special Voting Unitholders ("Voting Top-Up Right"). At December 31, 2017, there were 6,219,693 additional Special Voting Units outstanding (December 31, 2016 – 5,181,409). These Special Voting Units are not entitled to any interest or share in the distributions or net assets of the Trust, nor are they convertible into any Trust securities. There is no value assigned to the Special Voting Units. As a result of the extension for an additional five years of the existing Voting Top-Up Right in favour of Penguin, which was approved by Unitholders at the Trust's 2015 Unitholder meeting, at the request of the TSX, the Trust also redesignated its Trust Units as "Variable Voting Units." Such designation will cease on the termination of the Voting Top-Up Right in 2020. The Voting Top-Up Right is more particularly described in the Trust's management information circular dated April 13, 2017 and filed on the System for Electronic Document Analysis and Retrieval (SEDAR).

Penguin has Earnout options to acquire certain Units as follows:

Type	Class and Series	2017	2016
Trust Units	N/A	1,339,835	1,353,225
Smart Limited Partnership	Class B Series 1	1,337,449	1,341,965
Smart Limited Partnership	Class B Series 2	3,090,052	3,090,052
Smart Limited Partnership	Class B Series 3	702,667	708,004
Smart Limited Partnership III	Class B Series 4	646,669	646,669
Smart Limited Partnership III	Class B Series 5	596,219	612,701
Smart Limited Partnership III	Class B Series 6	560,071	580,975
Smart Limited Partnership III	Class B Series 7	286,054	297,530
Smart Limited Partnership IV	Class B Series 1	409,548	409,548
Smart Oshawa South Limited Partnership	Class B Series 1	40,000	40,000
Smart Oshawa Taunton Limited Partnership	Class B Series 1	132,711	151,346
Smart Boxgrove Limited Partnership	Class B Series 1	170,000	170,000
ONR Limited Partnership I	Class B Series 2	540,000	–
		9,851,275	9,402,015

At December 31, 2017, Penguin's ownership would increase to 26.4% (December 31, 2016 – 26.6%) if Penguin were to exercise all remaining Earnout options. Pursuant to its rights under the Declaration of Trust, at December 31, 2017, Penguin has appointed two Trustees out of seven.

The other non-controlling interest, which is included in equity, represents a 5.0% equity interest by Penguin in five consolidated investment properties.

In addition to agreements and contracts with Penguin described elsewhere in these consolidated financial statements, the Trust has entered into the following agreements with Penguin effective May 28, 2015:

1. The Development and Services Agreement, under which the Trust has agreed to provide to Penguin the following services for a five-year term:
 - a. Construction management services and leasing services are provided, at the discretion of Penguin, with respect to certain of Penguin's properties under development for a market-based fee based on construction costs incurred. Fees for leasing services, requested at the discretion of Penguin, are based on various rates that approximate market rates, depending on the term and nature of the lease. In addition, management fees are provided for a market-based fee based on rental revenue.
 - b. Transition services relate to activities necessary to become familiar with the Penguin projects and establishing processes and systems to accommodate the needs of Penguin.
 - c. Support services are provided for a fee based on an allocation of the relevant costs of the support services incurred by the Trust. Such relevant costs include: office administration, human resources, information technology, insurance, legal and marketing.
2. The Services Agreement under which Mitchell Goldhar, owner of Penguin, has agreed to provide to the Trust certain advisory, consulting and strategic services, including but not limited to strategies dealing with development, municipal approvals, acquisitions, dispositions, and construction costs, as well as strategies for marketing new projects and leasing opportunities. The fees associated with this agreement are \$875 per quarter for a five-year term (these charges are included in the following table as "Master planning services").
3. The Trust has a lease agreement to rent its office premises from Penguin for a term ending in May 2025.

In addition to related party transactions and balances disclosed elsewhere in these consolidated financial statements (including note 6.(a)(ii) referring to a Supplemental Development Fee Agreement), the following summarizes related party transactions and balances with Penguin and other related parties, including the Trust's share of amounts relating to the Trust's share in investment in associates:

	Note	2017	2016
Related party transactions with Penguin			
Revenues:			
Service and other revenues:			
Transition services fee revenue		4,000	4,000
Management fee and other services revenue pursuant to the Development and Services Agreement		5,851	5,150
Support services		973	557
	18	10,824	9,707
Interest income from mortgages and loans receivable		5,807	7,993
Head lease rents and operating cost recoveries included in head lease rentals from income properties		1,269	2,128
Expenses and other payments:			
Master planning services:			
Included in general and administrative expense		–	875
Capitalized to properties under and held for development		575	2,625
Other expenses		2,925	–
	19	3,500	3,500
Development fees and costs (capitalized to investment properties)		81	19
Interest expense (capitalized to properties under development)		12	17
Opportunity fees (capitalized to properties under development) ¹		2,498	2,319
Rent and operating costs (included in general and administrative expense and property operating costs)		2,307	2,221
Time billings, and other administrative costs (included in general and administrative expense and property operating costs)		184	107
Leasing and consulting service fees (included in general and administrative expense)		229	271
Shared service costs (included in general and administrative expense)		–	79
Marketing cost sharing (included in property operating costs)		53	303

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

	Note	2017	2016
Related party balances with Penguin			
Receivables:			
Amounts receivable	10	15,561	8,188
Mortgages receivable	5(a)	127,704	124,778
Loans receivable	5(b)	10,199	9,320
Notes receivable	5(c)	2,979	2,979
Total receivables		156,443	145,265
Payables and other accruals:			
Accrued liabilities		9,222	1,918
Future land development obligation	12	26,642	26,042
Secured debt		1,338	3,468
Total payables and other accruals		37,202	31,428

Mortgages receivable

As at December 31, 2017, the weighted average effective interest rate associated with mortgages receivable from Penguin was 4.47% (December 31, 2016 – 5.69%).

Future land development obligations

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

Leasehold interest properties

The Trust entered into leasehold agreements with Penguin for 15 investment properties (see also Note 4, "Investment properties").

Other related party transactions:

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

22. Key management and Trustee compensation

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust's key management personnel include the Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer, Chief Development Officer, and Executive Vice President, Portfolio Management and Investments. In addition, the Trustees have oversight responsibility for the Trust.

The compensation relating to key management and Trustees is shown below:

	2017	2016
Salaries and other short-term employee benefits	2,216	2,527
Trustee fees	567	581
Deferred unit plan	3,317	1,996
Long Term Incentive Plan	1,063	1,777
	7,163	6,881

23. Co-ownership interests

The Trust has the following co-owned property interests and includes in these consolidated financial statements its proportionate share of the related assets, liabilities, revenue and expenses of these properties:

	2017		2016	
	Number of co-owned properties ¹	Ownership interest	Number of co-owned properties ¹	Ownership interest
Shopping centre	17	40%–50%	17	40%–50%
Development	5	25%–60%	5	25%–60%
Residential development	1	50.0%	–	–
Total	23		22	

¹ Penguin is a co-owner of seven properties, consisting of five development properties and two shopping centre properties (December 31, 2016 – seven properties, consisting of five development properties and two shopping centre properties).

The following amounts, included in these consolidated financial statements, represent the Trust's proportionate share of the assets and liabilities of the 23 co-ownership interests as at December 31, 2017 (22 co-ownership interests at December 31, 2016) and the results of operations and cash flows for the years ended December 31, 2017 and December 31, 2016:

	2017	2016
Assets ¹	1,137,940	1,040,448
Liabilities	385,373	346,516

¹ Includes cash and cash equivalents of \$15,270 (December 31, 2016 – \$6,450).

	2017	2016
Revenues	85,549	82,357
Expenses	44,771	44,014
Income before fair value adjustment	40,778	38,343
Fair value adjustment on investment properties	26,384	22,975
Net income	67,162	61,318
Cash flow provided by operating activities	48,082	39,155
Cash flow provided by (used in) financing activities	25,505	(27,592)
Cash flow used in investing activities	(64,767)	(17,313)

Management believes the assets of the co-ownerships are sufficient for the purpose of satisfying the associated obligations of the co-ownerships. Penguin is the co-owner in seven investment properties.

24. Segmented information

The Trust owns, develops, manages and operates investment properties located in Canada. In measuring performance, the Trust does not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable segment for disclosure purposes.

The Trust's major tenant is Walmart, accounting for 26.1% of the Trust's annualized rentals from investment properties for the year ended December 31, 2017 (year ended December 31, 2016 – 26.3%).

25. Adjustments to fair value

The following summarizes the adjustments to fair value for the year ended December 31:

	Note	2017	2016
Investment properties			
Income properties	4	20,466	73,636
Properties under development	4	(5,403)	(13,324)
Fair value adjustment on revaluation of investment properties		15,063	60,312
Financial instruments			
Units classified as liabilities	13(a)	(899)	(1,411)
Earnout options	13(b)	704	1,075
Deferred unit plan – vested portion	13(c)	791	(1,735)
Fair value of interest rate swap agreements	13	28	160
Fair value adjustment on financial instruments		624	(1,911)
Total adjustments to fair value		15,687	58,401

26. Risk management

a) Financial risks

The Trust's activities expose it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. The Trust's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Trust's financial performance. The Trust may use derivative financial instruments to hedge certain risk exposures.

i) Interest rate risk

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. At December 31, 2017, approximately 13.84% (December 31, 2016 – 12.30%) of the Trust's debt is financed at variable rates, exposing the Trust to changes in interest rates on such debt.

The Trust analyzes its interest rate exposure on a regular basis. From time to time, the Trust may enter into fixed-for-floating interest rate swaps as part of its strategy for managing certain interest rate risks. The Trust has recognized the change in fair value associated with interest rate swap agreements in the consolidated statements of income and comprehensive income.

The Trust monitors the historical movement of 10-year Government of Canada bonds for the past two years and performs a sensitivity analysis to show the possible impact on net income of an interest rate shift. The simulation is performed on a quarterly basis to ensure the maximum loss potential is within the limit acceptable to management. Management runs the simulation only for the interest-bearing secured debt and revolving operating facility. The Trust's policy is to capitalize interest

expense incurred relating to properties under development (year ended December 31, 2017 – 12.96% of total interest costs; year ended December 31, 2016 – 12.04% of total interest costs). The sensitivity analysis below shows the maximum impact (net of estimated interest capitalized to properties under development) on net income of possible changes in interest rates on variable-rate debt.

Interest shift of:	-0.50%	-0.25%	+0.25%	+0.50%
Net income increase (decrease)	2,929	1,464	(1,464)	(2,929)

ii) Credit risk

Credit risk arises from cash and cash equivalents, as well as credit exposures with respect to mortgages and loans receivable (Note 5) and tenant receivables (Note 10). Tenants may experience financial difficulty and become unable to fulfill their lease commitments. The Trust mitigates this risk of credit loss by reviewing tenants' covenants, by ensuring its tenant mix is diversified and by limiting its exposure to any one tenant except Walmart. Further risks arise in the event that borrowers of mortgages and loans receivable default on the repayment of amounts owing to the Trust. The Trust endeavours to ensure adequate security has been provided in support of mortgages and loans receivable. The Trust limits cash transactions to high-credit-quality financial institutions to minimize its credit risk from cash and cash equivalents.

iii) Liquidity risk

Liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to lease out vacant units. In the next 12 months, \$619,592 of liabilities will mature and will need to be settled by means of renewal or payment.

Due to the dynamic nature of the underlying business, the Trust aims to maintain flexibility and opportunities in funding by keeping committed credit lines available, obtaining additional mortgages as the value of investment properties increases, issuing equity and issuing convertible or unsecured debentures. During the year ended December 31, 2017, the Trust was able to raise additional secured debt and unsecured debentures financing.

The key assumptions used in the Trust's estimates of future cash flows when assessing liquidity risk are: the renewal or replacement of the maturing revolving operating facility, secured debt and unsecured debentures, at reasonable terms and conditions in the normal course of business and no major bankruptcies of large tenants. Management believes that it has considered all reasonable facts and circumstances as of today in forming appropriate assumptions. However, as always, there is a risk that significant changes in market conditions could alter the assumptions used.

The Trust's liquidity position is monitored on a regular basis by management. A schedule of principal repayments on secured debt and other debt maturities is disclosed in Note 11.

b) Capital risk management

The Trust defines capital as the aggregate amount of Unitholders' equity, debt and Units classified as liabilities. The Trust's primary objectives when managing capital are: (i) to safeguard the Trust's ability to continue as a going concern so that it can continue to provide returns for Unitholders; and (ii) to ensure the Trust has access to sufficient funds for operating, acquisition (including Earnouts) or development activities.

The Trust sets the amount of capital in proportion to risk. The Trust manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Trust may adjust the amount of distributions paid to Unitholders, issue new Units and debt or sell assets to reduce debt or fund operating, acquisition or development activities.

The Trust anticipates meeting all current and future obligations. Management expects to finance operating, future acquisitions, mortgages receivable, development costs and maturing debt from: (i) existing cash balances; (ii) a mix of debt secured by investment properties, operating facilities, issuance of equity and convertible and unsecured debentures; and (iii) the sale of non-core assets. Cash flow generated from operating activities is the source of liquidity to service debt (except maturing debt), sustaining capital expenditures, leasing costs and Unit distributions.

The Trust monitors its capital structure based on the following ratios: interest coverage ratio, debt to total assets and debt to total earnings before interest, taxes, depreciation and amortization ("EBITDA") and fair value changes associated with investment properties and financial instruments. These ratios are used by the Trust to manage an acceptable level of leverage and are not considered measures in accordance with IFRS, nor are there equivalent IFRS measures.

The following are the significant financial covenants that the Trust is required by its operating line lenders to maintain:

Ratio	Threshold
Debt to aggregate assets	65%
Secured debt to aggregate assets	40%
Fixed charge coverage ratio	1.5X
Unencumbered assets to unsecured debt	1.3X
Unitholders' equity	\$2,000,000

The Trust's indentures require its unsecured debentures to maintain debt to gross book value including convertible debentures not more than 65%, an interest coverage ratio not less than 1.65 and Unitholders' equity not less than \$500,000.

These covenants are required to be calculated based on Canadian generally accepted accounting principles ("GAAP") at the time of debt issuance. If the Trust does not meet all externally imposed financial covenants, then the related debt will become immediately due and payable unless the Trust is able to remedy the default or obtain a waiver from lenders. For the year ended December 31, 2017, the Trust was in compliance with all financial covenants.

27. Commitments and contingencies

The Trust has certain obligations and commitments pursuant to development management agreements to complete the purchase of Earnouts totalling approximately 0.5 million square feet of development space from Penguin and others over periods extending to 2020 based on a pre-negotiated formula, as more fully described in Note 4. As at December 31, 2017, the carrying value of these obligations and commitments included in properties under development was \$49,599 (December 31, 2016 – \$72,564). The timing of completion of the purchase of the Earnouts, and the final prices, cannot be readily determined because they are a function of future tenant leasing. The Trust has also entered into various other development construction contracts totalling \$13,236 (excluding VMC – see Note 6) that will be incurred in future periods.

The Trust entered into agreements with Penguin in which the Trust will lend monies in the form of mortgages receivable, as disclosed in Note 5(a). The maximum amount that may be provided under the agreements totals \$282,093 (Note 5), of which \$127,704 has been provided at December 31, 2017 (December 31, 2016 – \$124,778).

Letters of credit totalling \$54,648 (including letters of credit drawn down under the revolving operating facility described in Note 11(d)) have been issued on behalf of the Trust by financial institutions as security for debt and for maintenance and development obligations to municipal authorities.

The Trust carries insurance and indemnifies its Trustees and officers against any and all claims or losses reasonably incurred in the performance of their services to the Trust to the extent permitted by law.

The Trust, in the normal course of operations, is subject to a variety of legal and other claims. Management and the Trust's legal counsel evaluate all claims on their apparent merits and accrue management's best estimate of the likely cost to satisfy such claims. Management believes the outcome of current legal and other claims filed against the Trust, after considering insurance coverage, will not have a significant impact on the Trust's consolidated financial statements.

28. Subsequent events

On January 12, 2018, the Trust transferred development lands in Laval, Quebec to a partnership with Jadco. The lands were transferred in for \$5,127 and represented the Trust's respective share of equity required to commence construction of the first phase of the two phased, 330 unit rental residential development.

On February 5, 2018, the Trust entered into a loan agreement with the PCVP, of which the Trust has a 50% ownership interest, to extend a loan totalling \$115,820 that bears interest at 2.31% to March 21, 2018 and subsequently at the three-month CDOR plus 76 basis points (calculated on the first day of subsequent periods), which matures on August 3, 2018, 50.0% of which is guaranteed by Penguin. The purpose of the loan was to advance funds on an interim basis to repay an existing construction facility outstanding on the KPMG Tower in Vaughan until such time as permanent financing is established.

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

On February 14, 2018, the Board of Trustees announced that Huw Thomas, the Trust's current CEO, will be stepping down at the end of his five-year contract in June 2018, but will be remaining as a Trustee of the Trust. Mitchell Goldhar, the Trust's current non-executive Chairman and largest Unitholder will become Executive Chairman. Peter Forde, the Trust's current President and COO will assume the President and CEO role on Huw Thomas' departure.

CORPORATE INFORMATION

TRUSTEES

Mitchell Goldhar²
President, Chief Executive Officer
Penguin Investments Inc.

Huw Thomas
Chief Executive Officer
SmartCentres Real Estate Investment Trust

Jamie McVicar^{1,3}
Trustee

Kevin Pshebniski^{1,2}
President
Hopewell Development Corporation

Garry Foster^{1,2}
Trustee

Michael Young^{2,3}
Principal
Quadrant Capital Partners Inc.

Gregory Howard^{2,3}
Partner
Davies Ward Phillips & Vineberg LLP

¹ Audit Committee

² Investment Committee

³ Corporate Governance and Compensation Committee

SENIOR MANAGEMENT

Huw Thomas
Chief Executive Officer

Peter Forde
President & Chief Operating Officer

Peter Sweeney
Chief Financial Officer

Mauro Pambianchi
Chief Development Officer

Rudy Gobin
Executive Vice President
Portfolio Management & Investments

BANKERS

TD Bank Financial Group
BMO Capital Markets
RBC Capital Markets
CIBC World Markets
Scotia Capital
National Bank of Canada
HSBC Bank Canada
Desjardins Securities Inc.
Raymond James Ltd.
Canaccord Genuity Corp.

AUDITORS

PricewaterhouseCoopers LLP
Toronto, Ontario

LEGAL COUNSEL

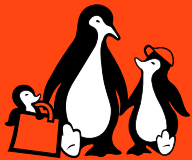
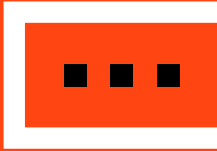
Osler Hoskin & Harcourt LLP
Toronto, Ontario

REGISTRAR & TRANSFER AGENT

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