

# Real Estate Portfolio Fact Sheet *as at December 31, 2011*

Total Net Leasable Area ("NLA") (sq.ft.):	Canadian Properties			American Properties			Grand Total
	Retail	Office	Total	Retail	Office	Total	
Income Producing Properties	37,334,136	1,794,524	39,128,660	6,821,263	51,758	6,873,021	46,001,681
Properties Under Development	3,407,900	-	3,407,900	-	-	-	3,407,900
<b>Total</b>	<b>40,742,036</b>	<b>1,794,524</b>	<b>42,536,560</b>	<b>6,821,263</b>	<b>51,758</b>	<b>6,873,021</b>	<b>49,409,581</b>

**Number of Tenancies** 7,250

## Occupancy

	Canadian Properties	American Properties	Total
Retail	97.5%	98.2%	97.6%
Office	97.7%	84.1%	97.4%
<b>Total</b>	<b>97.5%</b>	<b>98.1%</b>	<b>97.6%</b>

## Geographic Diversification

	Percentage of annualized rental revenue	Number of properties		Total
		Income producing properties	Properties under development	
Ontario	53.7%	175	7	182
Quebec	14.4%	44	-	44
Alberta	10.3%	28	2	30
British Columbia	5.6%	16	-	16
Other Canada	3.5%	13	1	14
Northeastern United States	6.6%	25	-	25
Texas	5.9%	20	-	20
<b>Total</b>	<b>100.0%</b>	<b>321</b>	<b>10</b>	<b>331</b>

## Anchor and National Tenants (including US)

	Percentage of annualized rental revenue	Percentage of total NLA
	85.7%	84.1%

## Top Ten Sources of Revenue by Tenant (including US)

Ranking	Tenant	Percentage of annualized rental revenue	Weighted average remaining lease term (yrs)
1.	Walmart	4.7%	13.8
2.	Canadian Tire Corporation (i)	4.5%	9.9
3.	Famous Players/Cineplex/Galaxy Cinemas	4.2%	11.4
4.	Metro/Super C/Loeb/Food Basics	4.1%	8.0
5.	Winners/HomeSense/ Marshalls	2.9%	6.6
6.	Loblaws/No Frills/Fortinos/Zehrs/Maxi	2.7%	7.9
7.	Target Corporation	2.0%	8.6
8.	Staples/Business Depot	2.0%	6.9
9.	Future Shop/Best Buy	2.0%	7.4
10.	Giant Food Stores/ Stop & Shop (Royal Ahold)	1.7%	14.1
	<b>Total</b>	<b>30.8%</b>	

(i) Canadian Tire Corporation includes Canadian Tire/PartSource/Mark's Work Wearhouse/Sport Mart/ Sport Chek/Sports Experts/National Sports/Atmosphere

## Lease Expiries - Canada

Retail Class	Total NLA	Lease expiries (NLA)				
		2012	2013	2014	2015	2016
New Format Retail	19,250,501	913,662	1,323,049	1,586,472	1,981,630	2,040,605
	30.2%	4.7%	6.9%	8.2%	10.3%	10.6%
Grocery Anchored Centre	8,025,308	822,423	673,240	1,184,704	986,398	1,151,559
	45.7%	10.2%	8.4%	14.8%	12.3%	14.3%
Enclosed Shopping Centre	6,392,612	655,778	608,738	730,729	770,473	802,388
	43.3%	10.3%	9.5%	11.4%	12.1%	12.6%
Non-Grocery Anchored Centre	2,124,940	110,441	209,612	181,192	345,285	188,292
	39.8%	5.2%	9.9%	8.5%	16.2%	8.9%
Urban Retail	1,540,775	107,725	198,619	337,069	27,675	62,879
	43.6%	7.0%	12.9%	21.9%	1.8%	4.1%
Office	1,794,524	104,939	171,403	172,767	101,960	234,100
	30.7%	5.8%	9.6%	9.6%	5.7%	13.0%
<b>Total</b>	<b>39,128,660</b>	<b>2,714,968</b>	<b>3,184,661</b>	<b>4,192,933</b>	<b>4,213,421</b>	<b>4,479,823</b>
		6.9%	8.1%	10.7%	10.8%	11.4%
Average net rent per square foot	\$ 15.21	\$ 17.69	\$ 16.77	\$ 15.75	\$ 15.35	\$ 15.34

## Lease Expiries - US

Retail Class	Total NLA	Lease expiries (NLA)				
		2012	2013	2014	2015	2016
New Format Retail	4,815,335	198,326	221,516	352,073	183,443	160,515
	19.8%	4.1%	4.6%	7.3%	3.8%	3.3%
Grocery Anchored Centre	1,822,903	94,338	61,800	189,073	56,740	32,585
	22.1%	5.2%	3.4%	10.4%	3.1%	1.8%
Non-Grocery Anchored Centre	183,025	9,853	22,720	32,000	10,243	-
	0.0%	5.4%	12.4%	17.5%	5.6%	0.0%
Office	51,758	-	-	-	-	-
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>6,873,021</b>	<b>302,517</b>	<b>306,036</b>	<b>573,146</b>	<b>250,426</b>	<b>193,100</b>
		4.4%	4.5%	8.3%	3.6%	2.8%
Average net rent per square foot	\$ 14.74	\$ 18.51	\$ 18.52	\$ 14.43	\$ 17.94	\$ 19.73



## Financial Review

Management's Discussion and Analysis

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# Management's Discussion and Analysis

The terms "RioCan" and the "Trust" in the following Management's Discussion and Analysis ("MD&A") refer to RioCan Real Estate Investment Trust and its consolidated financial position and results of operations for the years ended December 31, 2011 and 2010.

## **Forward-Looking Statement Advisory**

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

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on RioCan's current estimates and assumptions, which are subject to risks and uncertainties, including those described under "Risks and Uncertainties" in this MD&A, which could cause actual events or results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include, but are not limited to, those related to: liquidity in the global marketplace associated with economic conditions, tenant concentrations, occupancy levels, access to debt and equity capital, interest rates, joint ventures/partnerships, the relative illiquidity of real property, unexpected costs or liabilities related to acquisitions, construction, environmental matters, legal matters, reliance on key personnel, unitholder liability, income taxes, the investment in the United States of America ("US"), fluctuations in the currency exchange rate between the Canadian and US dollar, and RioCan's qualification as a real estate investment trust for tax purposes. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: a stable retail environment; relatively low and stable interest costs; a continuing trend toward land use intensification in high growth markets; access to equity and debt capital markets to fund, at acceptable costs, the future growth program and to enable the Trust to refinance debts as they mature; the availability of purchase opportunities for growth in Canada and the US; and the impact of accounting principles adopted by the Trust effective January 1, 2011 under International Financial Reporting Standards ("IFRS"). Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

The Income Tax Act (Canada) contains provisions which potentially impose tax on publicly traded trusts (the "SIFT Provisions"). However, the SIFT Provisions do not impose tax on a publicly traded trust which qualifies as a REIT. RioCan currently qualifies as a REIT and intends to continue to qualify for future years. Should this not occur, certain statements contained in this MD&A may need to be modified.

Except as required by applicable law, RioCan undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## **BASIS OF PRESENTATION**

RioCan has adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), as its basis of financial reporting which commenced with the interim financial statements for the three months ended March 31, 2011. The Trust's date of transition to IFRS was January 1, 2010.

Accordingly, financial data provided in this MD&A has been prepared in accordance with IFRS. Fiscal 2010 comparative results have also been reported under IFRS. For a complete discussion on the Trust's adoption of IFRS and its impact on the Trust's reported consolidated balance sheets and statements of earnings please refer to the Trust's audited consolidated financial statements for the year ended December 31, 2011 and 2010, together with this MD&A related thereto.

This MD&A is current as of February 13, 2012 unless otherwise stated, and should be read in conjunction with the audited consolidated financial statements and appended notes, which begin on page 78. Historical results and percentage relationships contained in the interim and annual consolidated financial statements and MD&A related thereto, including trends which might appear, should not be taken as indicative of future operations.

Certain figures in this MD&A are non-GAAP measures. For further discussion, please see page 69.

Additional information is also available on our Web site at [www.riocan.com](http://www.riocan.com).

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The role of RioCan's Audit Committee and Board of Trustees (the "Board") in respect of financial information included in this MD&A and consolidated financial statements is set out in "Management's Responsibility for Financial Reporting". Additional information relating to RioCan, including the Annual Information Form, is filed at [www.sedar.com](http://www.sedar.com).

# Management's Discussion and Analysis

## OPERATIONAL AND FINANCIAL HIGHLIGHTS

### Operational Information

(thousands of square feet, except other data)

As at December 31,

	2011			2010			2009		
	US	Canada	Total	US	Canada	Total	US	Canada	Total
<b>Number of properties:</b>									
Income properties	45	276	321	31	256	287	2	244	246
Under development (i)	-	10	10	-	10	10	-	12	12
Portfolio occupancy	98.1%	97.5%	97.6%	98.2%	97.3%	97.4%	95.8%	97.4%	97.4%
Net leasable area ("NLA") at 100% *	11,868	59,674	71,542	7,468	56,251	63,719	197	44,941	45,138
<b>Net leasable area ("NLA") at RioCan's interest:</b>									
Total portfolio	6,873	39,129	46,002	3,998	36,849	40,847	158	35,185	35,343
Average in place rent	\$ 14.74	\$ 15.21	\$ 15.14	\$ 14.69	\$ 14.82	\$ 14.75	\$ 16.56	\$ 14.39	\$ 14.40
Completed development and land use intensification activities during the period ended	-	91	91	-	261	261	-	929	929
Acquired during the period ended	1,502	1,006	2,508	3,840	1,819	5,659	158	1,820	1,978
<b>Development pipeline upon completion:</b>									
Total project NLA	-	8,915	8,915	-	8,090	8,090	-	8,480	8,480
RioCan's interest of project NLA	-	4,632	4,632	-	3,046	3,046	-	2,956	2,956
<b>Percentage of portfolio rental revenue derived from:</b>									
Six Canadian high growth markets (annualized) (ii)	n/a	65.9%	65.9%	n/a	65.2%	65.2%	n/a	66.3%	66.3%
US market (annualized)	12.5%	n/a	12.5%	8.2%	n/a	8.2%	1.0%	n/a	1.0%
National and anchor tenants (annualized)	86.8%	85.6%	85.7%	90.2%	85.5%	85.9%	93.5%	84.4%	84.5%
Largest tenant (annualized)	13.8%	5.1%	4.7%	21.3%	4.9%	4.6%	24.1%	5.0%	5.0%
Percentage of portfolio NLA anchored or shadow anchored by grocery stores	60.6%	70.5%	69.3%	71.0%	75.2%	74.8%	100.0%	76.4%	76.5%
Number of employees (excluding seasonal)			630			598			592

(i) The number of properties under development excludes those properties with phased development where tenancies have already commenced operations. These properties are included in the number of income properties.

(ii) See discussion in "About RioCan".

\* Includes retailer owned anchors

# Management's Discussion and Analysis

## Financial Information

(millions of dollars, except per Unit amounts)

As at and for the year ended	2011	2010	2009*
Total revenue	\$ 988	\$ 882	\$ 758
Net earnings before taxes and fair value adjustment	\$ 352	\$ 338	\$ n/c
Net earnings attributable to unitholders	\$ 873	\$ 1,495	\$ 114
Net earnings per Unit attributable to common Unitholders – basic	\$ 3.26	\$ 6.06	\$ 0.49
Net earnings per Unit attributable to common Unitholders – diluted	\$ 3.25	\$ 6.04	\$ 0.49
Adjusted EBITDA (i)	\$ 625	\$ 573	\$ n/c
Operating FFO (ii)	\$ 380	\$ 329	\$ n/c
Operating FFO per Unit (iii)	\$ 1.43	\$ 1.33	\$ n/c
Weighted average common Units outstanding (in thousands)	265,583	246,608	230,367
Distributions to common Unitholders	\$ 367	\$ 340	\$ 318
Distributions per common Unit	\$ 1.38	\$ 1.38	\$ 1.38
Distributions to common Unitholders net of distribution reinvestment plan	\$ 285	\$ 281	\$ 261
Distributions to common Unitholders net of distribution reinvestment plan per Unit	\$ 1.07	\$ 1.14	\$ 1.13
Common Unit issue proceeds under distribution reinvestment plan	\$ 82	\$ 59	\$ 57
Distribution reinvestment plan ("DRIP") participation rate	22.4%	17.2%	17.9%

(millions of dollars, except other data)  
As at

	December 31, 2011	December 31, 2010	December 31, 2009*
Total enterprise value (iii)	\$ 12,540	\$ 10,126	\$ 8,473
Total assets	\$ 10,767	\$ 8,886	\$ 5,862
Debt (mortgages and debentures payable)	\$ 5,034	\$ 4,410	\$ 3,663
Debt to total assets (iv)	46.4%	49.1%	n/c
Debt to total capitalization (v)	40.6%	43.6%	43.2%
Interest coverage ratio (vi)	2.5	2.5	n/c
Debt service coverage ratio (vii)	1.9	1.9	n/c
Fixed charge coverage ratio (viii)	1.0	1.0	n/c
Net debt to adjusted EBITDA (ix)	7.4	6.9	n/c
Operating debt to adjusted operating EBITDA (x)	7.1	7.0	n/c
Total unitholders' equity	\$ 5,363	\$ 4,165	\$ 1,857
Common Units outstanding (in thousands)	279,113	259,818	242,320
Closing market price per common Unit	\$ 26.43	\$ 22.00	\$ 19.85
Common Units – market capitalization (xi)	\$ 7,377	\$ 5,716	\$ 4,810
Series A preferred units outstanding (in thousands)	5,000	n/a	n/a
Closing market price per Series A preferred unit	\$ 25.81	n/a	n/a
Series C preferred units outstanding (in thousands)	5,980	n/a	n/a
Closing market price per Series C preferred unit	\$ 25.15	n/a	n/a
Preferred units – market capitalization (xii)	\$ 279	n/a	n/a

Please note: RioCan's method of calculating non-GAAP measures may differ from other issuers' methods and accordingly may not be comparable to such amounts reported by other issuers.

- (i) A non-GAAP measurement. Adjusted EBITDA is defined as net earnings before changes in fair value of income properties, net interest expense and income taxes as well as other one-time adjustments such as expense for early redemption of debentures. A reconciliation of Adjusted EBITDA can be found in RioCan's discussion under "Capital Strategy".
- (ii) A non-GAAP measurement for which a reconciliation to net earnings can be found in RioCan's discussion under Operating FFO ("OFFO").
- (iii) A non-GAAP measurement. Calculated by the Trust as debt plus common Unit market capitalization plus preferred unit market capitalization.
- (iv) A non-GAAP measurement. Calculated as debt net of cash divided by total assets net of cash.
- (v) A non-GAAP measurement. Calculated by the Trust as debt divided by total capitalization.
- (vi) A non-GAAP measurement. Interest coverage is calculated on a rolling twelve month basis and is defined as Adjusted EBITDA divided by total interest expense (including interest that has been capitalized).
- (vii) A non-GAAP measurement. Debt service coverage is calculated on a rolling twelve month basis and is defined as Adjusted EBITDA divided by total interest expense (including interest that has been capitalized) and scheduled mortgage principal amortization.
- (viii) A non-GAAP measurement. Fixed charge coverage ratio is calculated on a rolling twelve month basis and is defined as Adjusted EBITDA divided by total interest expense (including interest that has been capitalized) and distributions to common and preferred unitholders.
- (ix) A non-GAAP measurement. Net debt to Adjusted EBITDA is calculated on a rolling twelve month basis and is defined as the average debt outstanding (net of cash) for the period divided by Adjusted EBITDA.
- (x) A non-GAAP measurement. Net operating debt to Adjusted Operating EBITDA is defined as the average debt outstanding (net of cash) for the period less debt related to property under development divided by Adjusted EBITDA excluding amounts related to property under development.
- (xi) A non-GAAP measurement. Calculated by the Trust as closing market price of the common Units trading on the TSX on December 31, 2011, December 31, 2010 and December 31, 2009 multiplied by the number of common Units outstanding at such date.
- (xii) A non-GAAP measurement. Calculated by the Trust as the aggregate of the closing market price of each series of preferred units trading on the TSX on December 31, 2011 multiplied by the number of preferred units of such series outstanding at such date.

n/a - not applicable

n/c - not calculated

\* - 2009 information presented under Previous Canadian GAAP

# Management's Discussion and Analysis

## ABOUT RIOCAN

RioCan is an unincorporated "closed-end" trust governed by the laws of the Province of Ontario and constituted pursuant to a Declaration of Trust dated November 30, 1993, as most recently amended and restated on December 6, 2010 (the "Declaration"). The Trust's Units, excluding the preferred units, (the "Units" and a holder of Units, a "Unitholder") are listed on the Toronto Stock Exchange (the "TSX") under the symbol REI.UN. The Trust's Preferred Units, Series A and Series C are listed on the TSX under the symbol REI.PR.A and REI.PR.C, respectively.

### *Overview of the business*

RioCan is Canada's largest real estate investment trust ("REIT"), with a total enterprise value of approximately \$12.5 billion as at December 31, 2011. RioCan owns and manages Canada's largest portfolio of shopping centres, with ownership interests in a portfolio of 331 retail properties in Canada and the US combined, including 10 under development, containing an aggregate of over 79 million square feet as at December 31, 2011.

Included in RioCan's portfolio, as of December 31, 2011, are 45 grocery anchored, non-grocery anchored, neighbourhood convenience and new format retail centres (which in some instances include an office component) that are located in the US, primarily through five joint venture arrangements (40 centres), as well as through outright ownership (5 centres). RioCan's joint venture arrangements are with Cedar Realty Trust, Inc. ("Cedar"), Inland Western Retail REIT ("Inland Western"), Kimco Realty Corporation ("Kimco"), Dunhill Partners, Inc. ("Dunhill") and the Sterling Organization ("Sterling"). In addition to RioCan's property interests with Cedar, RioCan owns an approximate 14% equity interest in Cedar, a US REIT listed on the NYSE (CDR).

The Trust's purpose is to deliver to its unitholders stable and reliable cash distributions that increase over the long term. The Trust accomplishes this goal by following a strategy of focusing on owning, developing and operating retail and mixed use real estate. RioCan has grown its business by using prudent strategies, core competencies, conservative financial leverage, long-term strategic partnerships and by adapting to trends in commercial real estate.

RioCan's core strategy is the ownership and management of community-oriented neighbourhood shopping centres anchored by supermarkets, together with an expanding mix of new format retail centres. Its investment strategy is to focus on stable, lower risk, predominantly retail properties in either stable or high growth urban markets in order to create stable and, over time, growing cash flows from the property portfolio.

The specific retail assets in which RioCan currently invests are:

- **New format retail centres**  
New format retail centres ( or power centres) are large aggregations of dominant retailers grouped together at high traffic and easily accessible locations. These unenclosed campus-style centres are generally anchored by supermarkets and/or junior department stores and may include entertainment (movie theatres and restaurants) and fashion components.
- **Neighbourhood convenience unenclosed centres**  
Neighbourhood convenience unenclosed centres are generally supermarket and/or junior department store anchored shopping centres, typically comprising between 60,000 to 250,000 square feet of leasable area. Other tenants generally include drug stores, restaurants, banks and other service providers.
- **Enclosed shopping centres**  
An enclosed shopping centre is generally a large retail complex containing stores, restaurants and other facilities with interior common areas with access to all retail units.
- **Urban retail properties**  
Urban retail properties are high-quality, innovative, multi-level format retail centres located in major urban markets. The centres are situated in high-density locations and may sometimes be part of a multi-use complex, thereby including office space and/or a residential component as part of the property.
- **Outlet Shopping Centre**  
RioCan's joint venture arrangement with Tanger introduces a new type of retail asset to RioCan's portfolio, the outlet shopping centre which provides an opportunity for customers to purchase directly from the manufacturer at substantial savings. The planned outlet centres will be similar in concept and design to those within Tanger's existing US portfolio which are characterized by a tenant mix of leading designer and brand-name manufacturers and have a typical size of approximately 350,000 square feet. The intended locations of the planned centres are to be within close proximity to larger urban markets and tourist areas across Canada.

# Management's Discussion and Analysis

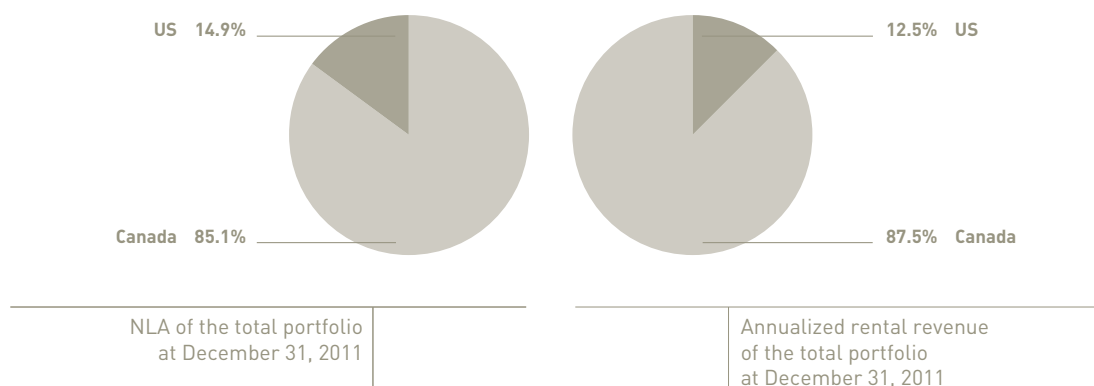
## Top Twenty-five Tenants – Total portfolio

As at December 31, 2011, RioCan's twenty-five largest tenants in Canada and the US have the following profile:

Rank	Tenant name	Annualized rental revenue	Number of locations	NLA (in thousands)	Percentage of total NLA	Weighted average remaining lease term (years)*
1	Walmart	4.7%	31	3,609	8.1%	13.8
2	Canadian Tire Corporation (i)	4.5%	108	2,046	4.6%	9.9
3	Famous Players/Cineplex/Galaxy Cinemas	4.2%	30	1,319	2.9%	11.4
4	Metro/Super C/Loeb/Food Basics	4.1%	59	2,145	4.8%	8.0
5	Winners/HomeSense/ Marshalls	2.9%	65	1,436	3.2%	6.6
6	Loblaws/No Frills/Fortinos/Zehrs/Maxi	2.7%	30	1,218	2.7%	7.9
7	Target Corporation	2.0%	24	1,960	4.4%	8.6
8	Staples/Business Depot	2.0%	49	989	2.2%	6.9
9	Future Shop/Best Buy	2.0%	32	744	1.7%	7.4
10	Giant Food Stores/ Stop & Shop (Royal Ahold)	1.7%	20	899	2.0%	14.1
11	Shoppers Drug Mart	1.7%	43	498	1.1%	9.7
12	Reitmans/Penningtons/Smart Set/Addition-Elle/Thyme Maternity	1.6%	128	534	1.2%	4.5
13	Harvey's/Swiss Chalet/Kelsey's/Montana's/Milestone's (Cara)	1.6%	95	391	0.9%	8.2
14	Sobeys/IGA/Price Chopper/Empire Theatres	1.5%	24	702	1.6%	10.0
15	PetSmart	1.4%	37	554	1.2%	7.6
16	Dollarama	1.2%	67	559	1.2%	6.9
17	Zellers/The Bay/Home Outfitters	1.1%	18	874	2.0%	8.3
18	Chapters/Indigo	1.0%	24	320	0.7%	3.2
19	Lowes	1.0%	7	844	1.9%	16.4
20	TD Bank	1.0%	53	217	0.5%	7.4
21	Safeway	0.9%	15	500	1.1%	8.4
22	Michael's	0.7%	24	338	0.8%	5.6
23	The Brick	0.7%	14	309	0.7%	8.5
24	Blue Notes/Stitches/Suzy Shier/Urban Planet (YM Inc.)	0.7%	47	213	0.5%	4.6
25	Sears	0.7%	16	366	0.8%	3.0
		<b>47.6%</b>	<b>1,060</b>	<b>23,584</b>	<b>52.8%</b>	<b>9.0</b>

\* – Weighted average based on gross rental revenue

(i) Canadian Tire Corporation includes Canadian Tire/PartSource/Mark's Work Wearhouse/Sport Mart/ Sport Chek/Sports Experts/National Sports/Atmosphere



# Management's Discussion and Analysis

## Canadian Portfolio

### Top Ten Tenants – Canada

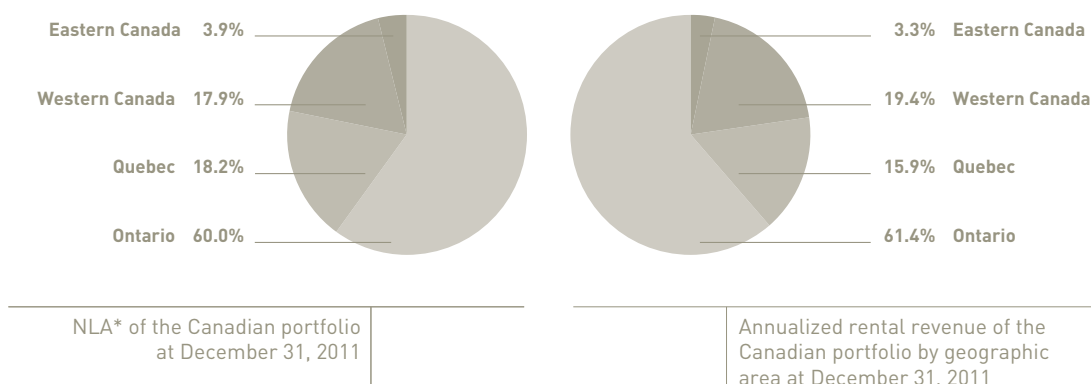
As at December 31, 2011, RioCan's ten largest tenants in Canada have the following profile:

Rank	Tenant name	Annualized rental revenue	Number of locations	NLA (in thousands)	Percentage of total NLA	Weighted average remaining lease term (years)*
1	Canadian Tire Corporation (i)	5.1%	108	2,046	5.4%	9.9
2	Walmart	5.1%	28	3,193	8.4%	13.4
3	Famous Players/Cineplex/Galaxy Cinemas	4.8%	30	1,319	3.5%	11.4
4	Metro/Super C/Loeb/Food Basics	4.7%	59	2,145	5.7%	8.0
5	Winners/HomeSense/Marshalls	3.2%	61	1,349	3.6%	6.6
6	Loblaws/No Frills/Fortinos/Zehrs/Maxi	3.1%	30	1,218	3.2%	7.9
7	Target Corporation	2.3%	24	1,960	5.2%	8.6
8	Staples/Business Depot	2.3%	48	974	2.6%	6.9
9	Shoppers Drug Mart	1.9%	43	498	1.3%	9.7
10	Reitmans/Penningtons/Smart Set/Addition-Elle/Thyme Maternity	1.8%	128	534	1.4%	4.5
		<b>34.3%</b>	<b>559</b>	<b>15,236</b>	<b>40.3%</b>	<b>9.3</b>

\* – Weighted average based on gross rental revenue

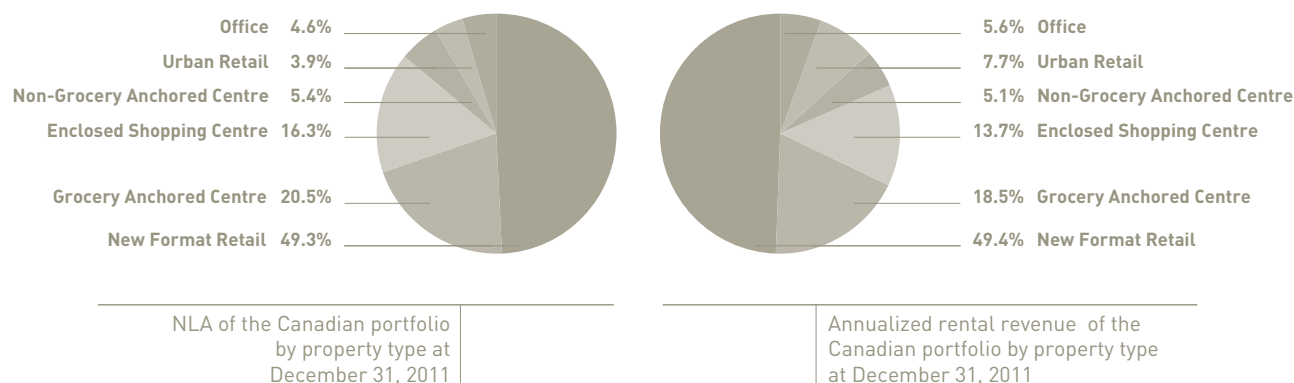
(i) Canadian Tire Corporation includes Canadian Tire/PartSource/Mark's Work Wearhouse/Sport Mart/ Sport Chek/Sports Experts/National Sports/Atmosphere

As at December 31, 2011, the geographical diversification of RioCan's Canadian property portfolio is as follows:



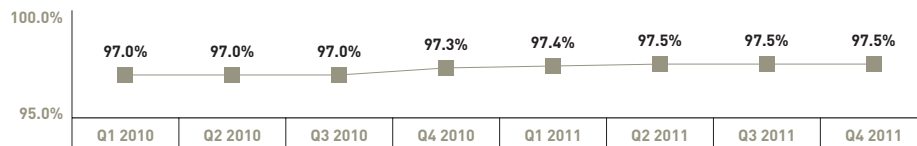
\* Net leasable area

As at December 31, 2011, the diversification of RioCan's Canadian property portfolio by property type is as follows:



# Management's Discussion and Analysis

The occupancy rate of the Canadian portfolio has remained relatively stable over the most recent eight fiscal quarters:



RioCan's major partners in Canada include the following:

- Canada Pension Plan Investment Board
- Kimco Realty Corporation
- KingSett Capital
- Sun Life Financial
- Trinity Development Group

For a description of Canadian partners, please see "Joint Venture and Partnership Activities".

## US Portfolio

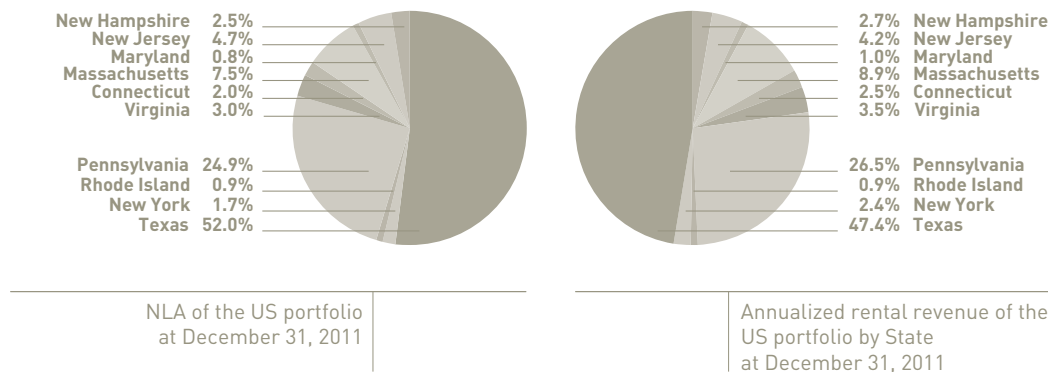
### Top Ten Tenants – US

As at December 31, 2011, RioCan's ten largest tenants in the US have the following profile:

Rank	Tenant name	Annualized rental revenue	Number of locations	NLA (in thousands)	Percentage of total NLA	Weighted average remaining lease term (years)*
1	Giant Food Stores/ Stop & Shop (Royal Ahold)	13.8%	20	899	13.2%	14.1
2	Best Buy	5.4%	9	284	4.2%	8.6
3	PetSmart	3.6%	12	216	3.2%	8.9
4	Walmart	2.1%	3	416	6.1%	17.7
5	Bed Bath & Beyond	2.1%	8	167	2.4%	8.2
6	Ross	2.0%	7	157	2.3%	7.0
7	Sports Authority	2.0%	3	109	1.6%	8.0
8	Lowes	2.0%	3	294	4.3%	16.0
9	HEB Grocery Stores	1.7%	2	114	1.7%	9.3
10	Michael's	1.7%	7	112	1.6%	5.8
		<b>36.4%</b>	<b>74</b>	<b>2,768</b>	<b>40.6%</b>	<b>11.4</b>

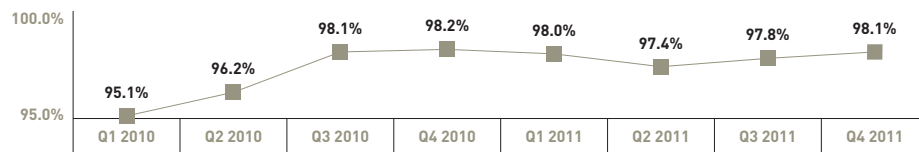
\* – Weighted average based on gross rental revenue

As at December 31, 2011, the geographical diversification of RioCan's US property portfolio is as follows:



# Management's Discussion and Analysis

The historical occupancy rate of the US portfolio is as follows:



RioCan's major partners in the United States include the following:

- *Cedar Realty Trust*
- *Dunhill Partners, Inc.*
- *Inland Western Retail Real Estate Trust Inc.*
- *Kimco Realty Corporation*
- *Sterling Organization, LLC*

For a description of US partners, please see "Joint Venture and Partnership Activities".

## 2011 HIGHLIGHTS

RioCan has remained focused on its core portfolio and continues to execute its growth strategy through acquisitions and development. Acquisition and development activity has led to a net increase in owned NLA of 5.2 million square feet to 46 million square feet which represents a 12.7% increase over the 40.8 million square feet at December 31, 2010. For the year, RioCan completed 38 income property acquisitions totalling \$1.1 billion comprising 24 properties in Canada aggregating \$506 million and 14 properties in the US aggregating \$567 million during 2011.

RioCan's continued access to capital allows the Trust to be an active acquirer of properties both in Canada and the US as opportunities arise, raising total equity (common and preferred) of \$700 million. In support of the growth strategy, during 2011, RioCan issued 10.1 million common Units that generated \$260 million of gross proceeds and 3.4 million units for \$82.4 million proceeds under its DRIP. In conjunction with portfolio acquisitions, 3.3 million exchangeable units were issued to generate equity of \$83 million. As well, during 2011, the Trust issued 11 million preferred shares for gross proceeds of \$274.5 million. RioCan's demonstrated financial flexibility and substantial liquidity also allows for the continuance of RioCan's development program where a substantial increase in activity is expected through multiple platforms.

Operationally, RioCan continues to experience good demand for space by tenants. Occupancy for the portfolio was 97.6% at December 31, 2011 as compared to 97.4% at the start of the year, and rental rate increases on renewing leases continue to be positive, which is expected to positively impact rental growth.

### **Operating Funds from Operations ("FFO") and Net Earnings attributable to unitholders**

*(millions of dollars, except per unit amounts)*

For the year ended December 31,	2011	2010	Increase/ (Decrease)
Operating FFO	\$ 380	\$ 329	16%
Operating FFO per Unit	\$ 1.43	\$ 1.33	8%
Net earnings attributable to unitholders	\$ 873	\$ 1,495	(42%)
Net earnings per Unit attributable to common Unitholders – basic	\$ 3.26	\$ 6.06	(46%)

Operating FFO for the year ended December 31, 2011 was \$380 million (\$1.43 per Unit) compared to \$329 million (\$1.33 per Unit) for the same period in 2010, an increase of 16%. On a per Unit basis, operating FFO increased by \$0.10 or 8%.

The \$51 million increase in Operating FFO for the year ended December 31, 2011 is primarily due to the following factors:

- increased net operating income from rental properties of \$70 million which is due to acquisitions, same store growth of 1.1% for the Canadian portfolio and 1.9% for the US portfolio and the completion of greenfield developments; and
- increased fee income of \$11 million primarily related to leasing and development activities; partially offset by
- increased interest expense of \$19 million and higher general and administrative expense of \$6 million.

Operating FFO for the three months ended December 31, 2011 was \$100 million (\$0.36 per Unit) compared to \$83 million (\$0.33 per Unit) for the same period in 2010, an increase of 20%. On a per Unit basis, Operating FFO increased by \$0.03 or 9%.

The \$17 million increase in Operating FFO for the three months ended December 31, 2011 is primarily due to the following factors:

- increased net operating income from rental properties of \$19 million which is due to acquisitions, same store growth of 1.9% for the Canadian portfolio and 1.2% for the US portfolio and the completion of greenfield developments;
- increased fee income of \$7 million due to higher level of fees arising from leasing and development activities; partially offset by
- increased interest expense and general and administrative expenses of \$5 million and \$4 million, respectively.

RioCan reported net earnings attributable to unitholders for the three months ended December 31, 2011 of \$242 million (\$0.87 per Unit) compared to \$1.3 billion (\$4.94 per Unit) for the same period in 2010, a decrease of \$1.0 billion. On a per Unit basis, net earnings decreased by \$4.07. The decrease is the result of a non-cash deferred tax recovery of \$1.0 billion in the fourth quarter of 2010, whereas no such deferred tax recovery was recorded in 2011. The deferred tax balance was predominantly the result of the increase in fair value of the investment property upon adoption of IFRS. When the Trust completed its restructuring to qualify as a REIT for purposes of the *Income Tax Act* (Canada), the deferred tax balance was reversed. Excluding the impact of deferred tax recovery of \$1.0 billion and fair value gains, net earnings increased by \$14.0 million in the three months ended December 31, 2011 when compared to the same period in 2010.

RioCan reported net earnings attributable to unitholders for the year ended December 31, 2011 of \$873 million (\$3.26 per Unit) compared to \$1.5 billion (\$6.06 per Unit) for the same period in 2010, a decrease of \$622 million. On a per Unit basis, net earnings decreased by \$2.80. As noted above, the decrease in earnings is related to a non-cash deferred tax recovery of \$898 million for the full year of 2010, whereas no such recovery occurred in 2011. Excluding the impact of the deferred tax recovery, net earnings increased by \$274 million (\$0.84 per Unit) in 2011, when compared to 2010.

# Management's Discussion and Analysis

The fair value gains for the quarter and year ended December 31, 2011 were \$146 million and \$533 million, respectively, as compared to \$169 million and \$273 million for the same periods in 2010. Capitalization rates for the portfolio for the fourth quarter of 2011 were reduced by 5 basis points, on average, as compared to the third quarter. For the year ended December 31, 2011, capitalization rates for the portfolio have decreased by approximately 35 basis points, on average, from December 31, 2010.

## Leasing Activities

RioCan's committed occupancy was consistent at 97.6% as at December 31, 2011 as compared to 97.4% at December 31, 2010. Included in this occupancy rate is 466,000 square feet of NLA that has been leased but is not yet paying rent, resulting in an economic occupancy rate of 96.6% which represents the occupied NLA for which tenants are paying rent. The annualized rental impact once these tenants take occupancy and commence paying rent is approximately \$ 11 million.

Occupancy rates and their rental impact over the last eight quarters is as follows:

<i>(thousands of square feet, millions of dollars)</i>	2011				2010			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Committed occupancy	97.6%	97.5%	97.5%	97.4%	97.4%	97.1%	97.0%	97.0%
Economic occupancy	96.6%	96.3%	96.3%	96.3%	96.1%	95.8%	95.7%	95.8%
NLA leased but not paying rent	466	541	485	470	518	492	476	407
Annualized rental impact	\$ 11.0	\$ 12.0	\$ 13.0	\$ 11.7	\$ 11.9	\$ 11.6	\$ 11.6	\$ 10.2

## Target

In 2011, Target Corporation announced its expansion into Canada and acquired the leaseholds of 189 Zellers stores. During the second quarter, Target announced the first tranche of location selections for its stores in Canada. At the time, RioCan had 34 stores that were leased to Zellers, and of these locations, Target committed to open in 21 of them. A second announcement by Target was made in the third quarter of 2011 and Target committed to open in an additional three stores in RioCan's portfolio. One of the latest three store openings is the result of Target's acquisition of the Wal-Mart lease at RioCan Niagara Falls. In addition, Target announced that the Zellers leases at 404 Town Centre and Parkland Mall were assumed by Wal-Mart and Canadian Tire respectively. The remaining nine Zellers locations owned by RioCan that were not selected by Target currently operate as Zellers stores. Of the nine remaining stores, one of the store leases expires in 2012 and the remaining eight expire between 2013 and 2020. Also, while still subject to various conditions and approvals, it is expected that Target will be an anchor tenant at RioCan's 500,000 square foot St. Clair and Weston Road development project in the Greater Toronto Area, which will be Target's first purpose built store in Canada. Target is RioCan's seventh largest tenant in Canada and on a total portfolio basis. Target's largest landlord in Canada is RioCan.

## Outlet Centres

RioCan formed an exclusive joint venture arrangement with Tanger Factory Outlet Centers, Inc. ("Tanger") for the acquisition, development and leasing of sites across Canada that are suitable for development or redevelopment as outlet shopping centres similar in concept and design to those within the existing Tanger US portfolio. It is the intention of the joint venture to develop as many as 10 outlet centres in close proximity to larger urban markets and tourist areas across Canada, over a five to seven year period. Any projects acquired or developed will be co-owned on a 50/50 basis and will be branded as Tanger Outlet Centres.

Tanger is a recognized leading developer and manager of outlet shopping centers in the US, each one known as a Tanger Outlet Center. Tanger has been a publicly held real estate investment trust since May 1993. Tanger Outlet Centers are characterized by a tenant mix of leading designer and brand-name manufacturers. Each shopping center provides a unique opportunity for customers to purchase a variety of brand-name products for the entire family directly from the manufacturer at substantial savings.

On March 14, 2011 RioCan and Tanger, through their exclusive joint venture, entered into purchase and sale agreements to acquire a 40 acre parcel of land to build the first Tanger Outlet Center in the Greater Toronto Area ("GTA"). The site is located at Highway 401 at the James Snow Parkway interchange west of Toronto.

On November 21, 2011, RioCan and Tanger entered into a purchase and sale agreement, subject to conditions, to acquire, on a co-ownership basis, 50 acres of land in Kanata, Ontario, near Ottawa, to be developed as a Tanger Outlet Centre. The co-ownership will acquire the land on a 50/50 co-ownership basis. When fully complete, the project will be home to approximately 350,000 square feet of branded factory outlet retailers from the U.S. and Canada. This transaction remains subject to certain conditions which have not been waived and while efforts will be made to complete this transaction, no assurance can be given.

On December 9, 2011, RioCan and Tanger purchased the Cookstown Outlet Mall. The property was acquired on a 50/50 basis for \$48 million (Canadian dollars, at 100%), plus an additional \$14 million for excess density payable upon the vendor meeting certain conditions, for an aggregate purchase price of \$62 million. In connection with the purchase, the co-owners assumed the in place financing of \$30 million (Canadian dollars) which carries an interest rate of 5.1% and matures in 2014. Cookstown Outlet Mall is

# Management's Discussion and Analysis

located approximately 50 kms north of the Greater Toronto Area (GTA) directly off of Highway 400 in the Town of Innisfil, Ontario. The property was built in 1995 and is approximately 161,000 square feet with the potential to expand to approximately 320,000 square feet.

## *Acquisitions*

During the year ended December 31, 2011, RioCan acquired interests in 24 income properties in Canada and 14 income properties in the US at an aggregate purchase price of approximately \$1.1 billion, at RioCan's interest, and a weighted average capitalization rate of 6.6%.

During 2011, RioCan acquired interests in four development sites in Canada at an aggregate purchase price of approximately \$71 million, at RioCan's interest.

Subsequent to year end, RioCan acquired interests in three income properties in Canada at an aggregate purchase price of approximately \$44 million, at RioCan's interest, and a weighted average capitalization rate of 6.1%. Additionally, RioCan entered into agreements of Purchase and Sale with respect to three income properties in Canada and two income properties in the US where conditions have not yet been waived that, if completed, represent \$71 million of acquisitions at RioCan's interest. These transactions are in various stages of due diligence and while efforts will be made to complete these transactions, no assurance can be given.

RioCan also entered into an agreement of Purchase and Sale with respect to the acquisition of a development site in Calgary, Alberta, for a purchase price of approximately \$16 million, at RioCan's interest. Conditions have been waived and it is expected that the acquisition will close in the third quarter of 2012. Additionally, RioCan currently has five development sites in Canada under contract where conditions have not yet been waived that, if completed, represent \$53 million of acquisitions at RioCan's interest. These transaction are in various stages of due diligence and while efforts will be made to complete these transaction, no assurance can be given.

## *Capital Management*

At December 31, 2011, RioCan's cash position was \$77 million, with available undrawn operating facilities of \$273 million.

In the fourth quarter of 2011, RioCan arranged secured financing totalling \$532 million at a weighted average interest rate of 2.69% and an average term of 4.9 years of which \$413 million represented RioCan's share and \$119 million represented RioCan's partners' share. At RioCan's share, the Trust generated secured net financing of \$332 million for three months ended December 31, 2011.

In 2011, RioCan arranged secured financing totalling \$1.2 billion at a weighted average interest rate of 3.79% and an average term of 5.5 years of which \$955 million represented RioCan's share and \$204 million represented RioCan's partners' share. At RioCan's share, the Trust generated secured net financing of \$684 million for the year ended December 31, 2011.

Net of cash, RioCan's debt to total assets at December 31, 2011 was 46.4%.

As at December 31, 2011, the Trust's debt strategy has resulted in approximately 13.1% of the properties being unencumbered by debt on a NLA basis, providing RioCan with access to a pool of assets for obtaining additional secured debt. The fair value of the unencumbered assets as of December 31, 2011 is estimated at approximately \$644 million, comprising 58 properties, or 6.5% of the fair value of the Trust's income property.

## OUTLOOK & STRATEGY

RioCan's strong operating performance and access to capital coupled with its measured US initiative has facilitated its continued growth and repositioning as a leading North American REIT with a retail focus. RioCan's prudent management of its balance sheet has provided it with the ability to take advantage of the growth that accompanies a recovering economic environment through same property rental income growth, acquisitions, greenfield development and asset intensification. RioCan will continue to seek acquisitions in selected markets, with a focus on properties that meet the Trust's investment criteria in both Canada and the US. The Trust will also continue to pursue a disciplined approach to development of new properties in Canada with a focus on major urban markets.

The outlook for the overall health of the economy continues to remain uncertain, however management believes that RioCan is well positioned for growth and will take advantage of opportunities as they arise. The acquisition market has become very competitive, with the financing market in Canada generally strong, compared to the US, which is volatile and less certain. Notwithstanding these factors, RioCan continues to have strong access to capital, thereby positioning itself to have a competitive advantage to its peers. Demand from tenants is strong and continues to provide upward momentum for rental rates. The expansion of US and international retailers into Canada is one of the primary factors that are creating additional demand for space. Retailers are, however, moving into the Canadian market cautiously and are very selective in their location decisions. RioCan will continue to monitor both the economy and real estate markets with a view to ensuring adequate access to capital, either by way of equity or debt, to meet its business requirements and maximize opportunities that may become available to it.

# Management's Discussion and Analysis

In addition to growth generated by acquisitions, RioCan's growth is expected to continue to come from organic growth from within the portfolio, asset intensification and development in Canada. RioCan is committed to remaining focused on its portfolio in order to preserve high occupancy levels through the active management and leasing of the portfolio to ensure it can maintain the stable stream of cash flows from long term assets which increase in value. RioCan believes that it is well positioned in the marketplace, due to the depth of its management team and its size, as well as its stable portfolio, solid tenant base, capital structure flexibility, and conservative borrowing practices.

In 2012:

- Fundamentals in retail real estate in Canada are expected to remain strong in 2012. The Canadian market benefits from concentrated retail tenants who generally are financially strong and from fewer development sites, which should create a market in which RioCan can maintain pricing power as a greater number of tenants compete for prime locations, as demonstrated in RioCan's strong occupancy ratio of over 97%.
- The trend of selected US retailers entering the Canadian market is likely to improve retail fundamentals and drive rent appreciation as they compete for space in desirable locations. In the short-term; however, there may be some uncertainty as to the impact to existing retailers created by increased competition.
- The acquisition of Zellers stores by US retailer, Target, is expected to lead to enhancement of certain of RioCan's properties. The replacement of Zellers stores with Target will serve as a means to revitalize the centres in which such stores are located and ultimately increase occupancy, rents and value through higher NOI and a lower cap rate. Target has assumed the leases in 23 of RioCan's 34 properties in which Zellers is a tenant. Of the 11 properties not assumed by Target, Canadian Tire and Walmart will each assume 1 of the locations and 9 will remain as Zellers stores. Of the 9 remaining stores, 1 of the store leases expires in 2012 and the remaining 8 expire between 2013 and 2020.
- The Trust expects to realize organic growth from within the portfolio by way of scheduled rental increases in existing leases, additional rental income that can be achieved from positive rental spreads on lease renewals and the potential for positive absorption in occupancy due to improving property fundamentals.
- The significant amount of acquisitions that have been completed during the past year will contribute strongly to RioCan's Operating FFO growth.
- Developments completed during 2011 and future developments are expected to contribute to the FFO growth. Strong fundamentals, growth in certain cities with strong economic and population growth (Greater Toronto Area and Calgary), and new retailers entering Canada will allow RioCan to increase its development activities. RioCan's recent joint venture partnership with Tanger for the development of outlet shopping centres in Canada further expands the potential development opportunities available.
- The Trust will continue to capitalize on the strength of its partnerships in Canada and the US to acquire property, enhance RioCan's development projects, and generate additional income for its unitholders in partnership arrangements where RioCan earns fees for its services.
- Interest expense savings derived from refinancing at the current attractive market interest rates are anticipated to continue due to the low interest rate environment, which is expected to remain during 2012 and further into the following year.
- RioCan continues to evaluate its strategy in connection with its US investments and explore various strategies.

## ***Leasing Activities and Shopping Centre Portfolio***

RioCan expects to continue to see growth in NOI on a same store basis in 2012 as compared to 2011 due to strong occupancy levels, contractual rental increases and rental rate increases on lease renewals.

## ***Acquisitions***

RioCan expects that there will be greater competition for acquisitions as more investors return to the market. While cap rates on acquisitions declined during 2011, interest rates have remained at historically low levels providing for good leveraged returns and an accretive environment for building RioCan's portfolio. Management will continue to maintain a disciplined approach to evaluating acquisition opportunities. Management believes that RioCan will be able to take advantage of its strength to acquire real estate in both the Canadian and US markets notwithstanding the increased competition for potential investment opportunities.

RioCan's joint venture arrangements in the US have allowed RioCan to team up with strong, experienced and well established partners who possess management platforms that provide RioCan access to transaction opportunities in the US market and ensures that RioCan's US properties within these joint ventures are well managed. RioCan has currently selected two geographic areas of focus, being the Northeastern US and the four major urban markets in Texas (Dallas-Fort Worth, Houston, Austin and San Antonio), which offer a complementary mix of tenants to RioCan's Canadian portfolio of largely nationally branded tenants. As management gains experience with the US markets and expands its relationships, it is possible that RioCan will look to expand into new geographic areas within the US.

## ***Development***

RioCan's development pipeline is expected to add 9 million square feet (4.6 million square feet at RioCan's interest) of space upon completion.

# Management's Discussion and Analysis

RioCan is committed to property development and redevelopment opportunities and is focused on completing the development pipeline currently underway. These developments will be an important component to RioCan's organic growth strategy. Development activities increased at a number of RioCan's projects during 2011 including: Cimarron Shopping Centre in Okotoks, Alberta and RioCan Centre Belcourt, Grant Crossing and March Road in Ottawa, Ontario. Additionally, RioCan launched the development of its St. Clair and Weston Rd., Toronto, Ontario, property during the third quarter of 2011. Target is expected to anchor the development of this site. RioCan also expects to launch its expansion of Yonge Eglinton Centre in Toronto in the spring of 2012 and its East Hills joint venture development located in Calgary towards the end of 2012. RioCan added to its urban development property portfolio in 2011 with the acquisition of two urban development sites in Toronto, Ontario: a land assembly at Bathurst Street and College Street, which is expected to be developed into a 139,000 square foot three storey urban retail building as well as a land assembly at the northeast corner of Yonge and Eglinton, which is expected to be developed into a mixed use urban development site. RioCan's joint venture agreement with Tanger is also expected to provide additional development opportunities in the Canadian market.

## **Intensification**

In addition to RioCan's various development projects, the Trust also contributes to portfolio growth through the intensification of existing properties where RioCan has identified opportunities to increase density or add to an existing asset. This intensification of existing properties contributes to NOI growth in an efficient manner, leveraging the existing asset base.

During December 2011, the Trust acquired the Sheppard Centre in north Toronto for \$218 million on a 50/50 joint venture basis with its partner KingSett Capital, on behalf of KingSett Real Estate Growth LP No 4. Sheppard Centre is a 673,000 square foot urban mixed use centre that contains retail, office, and residential uses. The property has direct access to both the Yonge and Sheppard subway lines and has three levels of underground parking. Beyond the current retail, office, and residential uses, this well located property has the potential for additional intensification through retail expansion and the addition of a larger residential/condominium component.

The proposed transit line along Toronto's Eglinton Avenue corridor is expected to create a number of development and intensification projects. RioCan is well positioned to take advantage of these opportunities as it currently has five properties located along, or near, this important infrastructure undertaking (including the aforementioned land assembly at the northeast corner of Yonge and Eglinton). The City of Toronto has said that it will rezone areas surrounding new transit stops to permit higher density developments, which will enable RioCan to redevelop its Eglinton properties more quickly, as many of them are located near anticipated transit stops.

## **Capital Management**

RioCan's capital management framework limits the Trust's maximum indebtedness to less than 60% of Aggregate Assets as defined by the Declaration of Trust. RioCan remains focused on preserving a strong balance sheet and continuing to maintain substantial liquidity. Based on the fair market value of its portfolio, the leverage ratio is substantially lower than the specified limit. Furthermore, RioCan believes it has sufficient unencumbered assets and assets with low loan-to-value ratios that can be financed and/or refinanced to generate capital to meet its capital requirements and grow its asset base. RioCan's ability to access such financing is dependent on the availability of debt in the market.

RioCan has developed other metrics regarding debt and leverage that are tracked and disclosed on a quarterly basis to help facilitate financial statement users' and stakeholders' understanding of RioCan's leverage and its ability to service such leverage. These metrics include net debt to adjusted EBITDA ratio, debt coverage ratio, interest coverage ratio and fixed charge coverage ratio (See the "Capital Strategy and Resources" section of this MD&A).

While having relatively low debt leverage exposure is important, the quality of the rental revenue available to service the Trust's debt and pay distributions to Unitholders is equally important. The Trust strives to reduce its exposure to rental revenue risk in the shopping centre portfolio through geographical diversification, staggered lease maturities, diversification of revenue sources resulting from a large tenant base, avoiding dependence on any single tenant by ensuring no individual tenant contributes a significant percentage of its gross revenue and ensuring a considerable portion of its rental revenue is earned from national and anchor tenants (see "Risk Factors – Tenant Concentrations"). In addition, RioCan staggers its debt maturities to reduce its exposure to potential volatility in availability of debt and interest rate movements. RioCan is able to access multiple sources of capital including, but not limited to, secured and unsecured debt, preferred units and Units to provide the Trust with greater flexibility in raising capital and to manage its overall cost of capital.

## **SIFT Legislation**

On December 6, 2010, RioCan announced that it had completed the necessary restructuring to qualify as a REIT for purposes of the *Income Tax Act* (Canada). Accordingly, RioCan continues to be able to flow taxable income through to unitholders on a tax effective basis.

## **CORPORATE RESPONSIBILITY**

Corporate responsibility continues to be an area of focus for RioCan as it endeavours to maintain its role as one of Canada's corporate leaders. RioCan's corporate responsibility philosophy is based on three cornerstones: Environmental Responsibility, Corporate Philanthropy, and RioCan's Responsibility to its employees.

# Management's Discussion and Analysis

## ***Environmental Responsibility***

RioCan strives to make efficiency improvements in its property portfolio, and works with its tenants to facilitate their energy conservation needs which contribute to lowered emissions and reduced energy use. In addition, development projects are viewed through the lens of sustainable building with these factors being incorporated wherever possible. RioCan has worked with tenants as they customize their space to include geothermal heating and cooling, waste water collection and lower carbon footprint initiatives. RioCan has also taken specific initiatives at its properties to reduce waste, such as the installation of recycling receptacles to reduce the amount of waste generated at RioCan properties across Canada. At its head office location, the RioCan Yonge Eglinton Centre, RioCan has taken a number of initiatives since acquiring the property to improve the efficiency and environmental footprint of the building. The property was BOMA BEST certified in 2009, and RioCan continues to upgrade the property's efficiency. Recent initiatives to reduce water consumption have reduced water usage by more than a half million litres of water, and an aggressive recycling program has resulted in a waste diversion rate of more than 90% at RioCan Yonge Eglinton Centre in 2011.

In addition to RioCan's environmental responsibilities RioCan strives to make its shopping centres a safe and integral part of its local community. Adequate lighting in parking lots, a clean environment and attentive staff all assist in providing a safe shopping environment in RioCan's centres. In 2011, RioCan rolled out an initiative to install automated external defibrillators (AEDs) in all of RioCan's enclosed shopping centres to provide emergency care in the event of a heart attack. An AED is a device that can monitor heart rhythms, and if necessary deliver an electric shock to restore heart rhythm and potentially save lives.

## ***Corporate Philanthropy***

Corporate Philanthropy is a key facet of RioCan's profile as a good corporate citizen and one that RioCan has always viewed as a priority. RioCan has regularly sponsored a number of charitable organizations with a focus towards children's and medical charities. RioCan views its participation in the community where it does business to be of great importance, whether it is through direct financial contributions, the donation of space for use by charitable organizations, or through the donation of the time taken by its employees through volunteerism across Canada.

RioCan recognizes the importance of its dedication to the development of communities through civic involvement and the funding of vital programs. RioCan believes that support in fundraising efforts returns long-lasting benefits to society, its employees, and the Trust. In 2011, RioCan was a proud supporter of several non-profit organizations – including The United Way, The Heart & Stroke Foundation, The Baycrest Foundation, The Toronto General and Mount Sinai Hospitals and The Juvenile Diabetes Foundation of Canada.

## ***RioCan's Responsibility to its Employees***

RioCan strives to provide its employees with a safe work environment, free from discrimination and harassment. RioCan has a number of employee-focused initiatives that are designed to improve workplace satisfaction. These initiatives include development and education programs. RioCan also has a comprehensive Code of Conduct for all employees, which includes protections against harassment and discrimination and provides guidelines for employee conduct including anti-bribery and fair dealing with RioCan's stakeholders. Furthermore RioCan provides a Whistleblower hotline to provide employees with the ability to anonymously report violations of RioCan's Code of Conduct.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

RioCan has adopted IFRS as its basis of financial reporting, which commenced with the interim financial statements for the three months ended March 31, 2011, with a transition date of January 1, 2010. IFRS is premised on a conceptual framework similar to Canadian Generally Accepted Accounting Principles prior to the adoption of IFRS ("Previous Canadian GAAP"); however, significant differences exist in certain areas of recognition, measurement and disclosure. While the adoption of IFRS has not had an impact on the Trust's reported net cash flows, it did have a material impact on its consolidated balance sheets and statements of earnings. In particular, RioCan's opening IFRS balance sheet dated as of January 1, 2010 reflects the revaluation of all of its investment properties to fair value. For a complete discussion on the Trust's adoption of IFRS and its impact on the Trust's reported consolidated balance sheets and statements of earnings please refer to the Trust's audited consolidated financial statements for the year ended December 31, 2011 and 2010.

### ***Impact of IFRS Accounting Policies on Financial Position***

The following paragraphs outline the impact of the revaluation of the Trust's investment property to fair value on RioCan's financial position, on the Trust's adoption of IFRS.

#### ***Investment Property***

IFRS defines an investment property as a property held to earn rentals or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independent of the other assets held by an entity.

Like Previous Canadian GAAP, investment property is initially measured at cost; however, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. RioCan has elected to use the fair value model for the valuation of its income properties and properties under development as provided under IFRS.

# Management's Discussion and Analysis

The fair value model requires an entity to record a gain or loss in net earnings arising from a change in the fair value of investment property in the period of change. The determination of fair value is based upon, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current conditions, less future cash outflows in respect of tenant installation costs and the investment property operations.

The transition to IFRS increased the carrying value of RioCan's investment property and total assets effective January 1, 2010. The following table summarizes these increases as at December 31, 2010 and January 1, 2010.

	December 31, 2010			January 1, 2010		
	IFRS	Previous Canadian GAAP	Increase from Previous Canadian GAAP to IFRS	IFRS	Previous Canadian GAAP	Increase from Previous Canadian GAAP to IFRS
<i>(in billions, except percentages)</i>						
Investment property	\$ 8.5	\$ 6.4	33%	\$ 6.9	\$ 5.3	30%
Total assets	\$ 8.9	\$ 6.9	29%	\$ 7.4	\$ 5.9	25%

Additionally, the transition to IFRS in conjunction with the use of the fair value model resulted in historic intangible assets, which had been established under Previous Canadian GAAP in respect of acquisitions and capitalized to income properties, to no longer be separately recognized under IFRS.

As a result of the increase to the carrying value of RioCan's investment properties effective January 1, 2010, the Trust's Debt, net of cash, to Total Assets, net of cash, ratio, has decreased as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Ratio of Debt to Total Assets, net of cash			
Under Previous Canadian GAAP	n/a	56.4%	54.5%
Under IFRS	46.4%	49.1%	48.1%
Decrease	n/a	7.3%	6.4%

RioCan has developed other metrics regarding debt and leverage that it tracks and discloses on a quarterly basis to help facilitate financial statement users' and stakeholders' understanding of RioCan's debt metrics and management objectives in managing its leverage. These metrics include net debt to adjusted EBITDA ratio, debt coverage ratio, interest coverage ratio and fixed charge coverage ratio (See the "Capital Strategy and Resources" section of this MD&A).

## Valuation Process

RioCan's management conducts, on a quarterly basis, an internal valuation of both its US and Canadian investment property assets to determine the fair value of its property portfolio.

The Trust determined the fair value of each income property based upon the direct capitalization method of the income approach to valuation. The fair value was determined by applying a capitalization rate to stabilized NOI, which incorporates allowances for vacancy, management fees and structural reserves for the property. The resulting capitalized value was further adjusted, where appropriate, for extraordinary costs to stabilize the income and for non recoverable capital expenditures.

RioCan valued properties under development that consists of undeveloped land based upon the direct comparison approach to valuation, on a value per site area basis, accounting for the particular attributes of the development with respect to zoning and pre-development work performed on the site. Where a site was partially developed, the direct capitalization method was used to capitalize the pro forma income, from which the costs to complete the development were deducted.

Properties held for resale are stated at the lower of cost and net realizable value. No amortization is recorded on these assets.

# Management's Discussion and Analysis

The table below provides further details of the average capitalization rates (weighted based on stabilized NOI) and ranges for each retail class.

Retail Class	December 31, 2011		December 31, 2010		January 1, 2010	
	Weighted average capitalization rate*	Range	Weighted average capitalization rate*	Range	Weighted average capitalization rate*	Range
Enclosed Shopping Centre	7.34%	6.00% – 9.23%	7.54%	6.50% – 9.00%	7.95%	7.00% – 9.00%
Grocery Anchored Shopping Centre	6.68%	5.75% – 9.00%	7.04%	6.00% – 9.26%	7.34%	6.50% – 9.00%
Mixed Use	6.45%	5.50% – 8.65%	7.01%	6.00% – 8.75%	7.18%	6.00% – 8.75%
New Format Retail	6.34%	5.65% – 8.00%	6.67%	6.00% – 8.25%	6.83%	6.25% – 8.50%
Non-Grocery Anchored Centre	6.78%	5.75% – 9.00%	7.09%	6.00% – 8.75%	7.29%	6.00% – 9.00%
Urban Retail	5.84%	5.50% – 6.75%	6.33%	5.75% – 7.70%	6.68%	6.00% – 7.25%
<b>Total Weighted Average</b>	<b>6.53%</b>	<b>5.50% – 9.23%</b>	<b>6.88%</b>	<b>5.75% – 9.26%</b>	<b>7.12%</b>	<b>6.00% – 9.00%</b>

\* at RioCan's interest

The table below provides the fair value and weighted average capitalization rate split between Canada and US as at December 31, 2011, December 31, 2010 and January 1, 2010:

As at	December 31, 2011		December 31, 2010		January 1, 2010	
	Weighted average capitalization rate*	Value	Weighted average capitalization rate*	Value	Weighted average capitalization rate*	Value
(in millions, except percentages)						
Canada	6.47%	\$ 8,986	6.85%	\$ 7,706	7.12%	\$ 6,892
US	6.91%	1,423	7.22%	760	7.75%	46
<b>Total</b>	<b>6.53%</b>	<b>\$10,409</b>	<b>6.88%</b>	<b>\$8,466</b>	<b>7.12%</b>	<b>\$6,938</b>

\* at RioCan's interest

The following table provides a sensitivity analysis for the weighted average capitalization rate applied at December 31, 2011:

(in billions, except percentages)

Capitalization rate sensitivity Increase (decrease)	Weighted average capitalization rate*	Fair value of investment property (at RioCan's ownership)	Fair value variance	% change	Ratio of debt, net of cash, to total assets, net of cash
(0.75%)	5.78%	\$ 11.7	\$ 1.3	12.9%	41.2%
(0.50%)	6.03%	\$ 11.3	\$ 0.9	8.3%	42.9%
(0.25%)	6.28%	\$ 10.8	\$ 0.4	3.9%	44.7%
<b>December 31, 2011</b>	<b>6.53%</b>	<b>\$ 10.4</b>	<b>\$ -</b>	<b>0.0%</b>	<b>46.4%</b>
0.25%	6.78%	\$ 10.0	\$ (0.4)	(3.7%)	48.1%
0.50%	7.03%	\$ 9.7	\$ (0.7)	(7.0%)	49.8%
0.75%	7.28%	\$ 9.3	\$ (1.1)	(10.2%)	51.5%

\* at RioCan's interest

## Impact of transition to IFRS Fair Value Accounting Policy on Results of Operations

The following paragraphs outline the significant accounting policy impacting RioCan's results of operations, applied by the Trust on its adoption of IFRS that was significantly different than Previous Canadian GAAP accounting policies.

Under the fair value model, RioCan will recognize gains or losses arising from changes in the fair value of investment properties during the period of change in net earnings. Net income during any given period may be greater or less than as determined under Previous Canadian GAAP depending on whether an increase or decrease in fair value occurs during the period of measurement.

For the year ended December 31, 2011, the Trust has recognized fair value gains on investment property of \$533 million. (December 31, 2010 – \$273 million)

# Management's Discussion and Analysis

As noted above, the transition to IFRS in conjunction with the use of the fair value model resulted in historic intangible assets, which had been established under Previous Canadian GAAP in respect of acquisitions and capitalized to income properties, to no longer be separately recognized under IFRS. Accordingly, such balances are no longer amortized. As a result, revenue decreased by \$3 million for the year ended December 31, 2010 under IFRS due to the reversal of amortization of the differential between contractual and market rents.

Depreciation of income properties will not be recorded under the fair value model. The impact of no longer recording depreciation expense on the Trust's income properties along with no longer amortizing historic intangible assets that had been capitalized to income properties results in an increase in net income. During the year ended December 31, 2010 amortization on income properties was \$191 million.

## OCCUPANCY AND LEASING PROFILE

RioCan's committed occupancy was consistent at 97.6% as at December 31, 2011 as compared to 97.4% at December 31, 2010. Included in this occupancy rate is 466,000 square feet of NLA that has been leased but is not yet paying rent, resulting in an economic occupancy rate of 96.6% which represents the occupied NLA for which tenants are paying rent. The annualized rental impact once these tenants take occupancy and commence paying rent is approximately \$ 11 million.

Occupancy rates and their rental impact over the last eight quarters is as follows:

<i>(thousands of square feet, millions of dollars)</i>	2011				2010			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Committed occupancy	97.6%	97.5%	97.5%	97.4%	97.4%	97.1%	97.0%	97.0%
Economic occupancy	96.6%	96.3%	96.3%	96.3%	96.1%	95.8%	95.7%	95.8%
NLA leased but not paying rent	466	541	485	470	518	492	476	407
Annualized rental impact	\$ 11.0	\$ 12.0	\$ 13.0	\$ 11.7	\$ 11.9	\$ 11.6	\$ 11.6	\$ 10.2

RioCan has maintained consistently high occupancy rates of between 97.0% and 97.6% over the most recent eight fiscal quarters.

The historical occupancy rate broken down by property type is as follows:

<i>(in percentages)</i>	2011				2010			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
<i>Canada</i>								
New format retail	98.8	98.6	98.8	98.8	98.7	98.2	98.7	99.2
Grocery anchored centre	97.3	97.3	97.4	97.0	97.7	97.9	97.8	96.8
Enclosed shopping centre	93.7	93.8	93.7	93.6	94.2	93.2	92.7	92.3
Non-grocery anchored centre	97.1	97.8	97.6	97.8	97.1	97.4	97.8	97.1
Urban retail	99.3	99.8	99.6	99.1	99.6	99.7	95.1	95.1
Office	97.8	97.2	95.7	95.6	91.5	92.2	93.0	95.6
Total Canada	97.5	97.5	97.5	97.4	97.3	97.0	97.0	97.0
<i>United States</i>								
New format retail	98.3	98.1	98.0	99.1	99.0	99.6	100.0	100.0
Grocery anchored centre	98.2	97.9	96.8	97.0	97.4	96.9	96.4	95.1
Non-grocery anchored centre	95.4	96.4	96.4	96.4	96.4	n/a	n/a	n/a
Office	84.2	84.2	80.1	80.1	87.5	85.5	85.5	85.5
Total United States	98.1	97.9	97.4	98.0	98.2	98.1	96.2	95.1
Total Portfolio	97.6	97.5	97.5	97.4	97.4	97.1	97.0	97.0

# Management's Discussion and Analysis

## Economic Occupancy

At December 31, 2011, RioCan's committed occupancy rate of the total portfolio is 97.6% which includes 466,000 square feet of NLA that has been leased but is not yet paying rent, resulting in an economic occupancy rate of 96.6%. A rent commencement timeline for the NLA which has been leased but is not currently open is as follows:

<i>(in thousands, except percentage amounts)</i>	Total	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Square feet:						
NLA commencing	466	123	146	137	52	8
Cumulative NLA commencing	466	123	269	406	458	466
% of NLA commencing		26%	31%	29%	11%	2%
Cumulative % total		26%	58%	87%	98%	100%
Average net rent:						
Monthly rent commencing	\$941	\$ 276	\$ 357	\$ 206	\$ 90	\$ 12
Cumulative monthly rent commencing	\$941	\$ 276	\$ 633	\$ 839	\$ 929	\$ 941
% of rent for NLA commencing		29%	38%	22%	10%	1%
Cumulative % total rent commencing		29%	67%	89%	99%	100%

A continuity of RioCan's committed and economic occupancy for the quarter and year ended December 31, 2011 is as follows:

### Full Year Economic Occupancy

<i>(in thousands of square feet)</i>	Total Leased Space	Space for which rent is currently being paid	Total Area	Occupancy Rates	Annualized rental impact (in millions of dollars)
<b>Committed Occupancy at December 31, 2010</b>	39,778	39,778	40,846	97.4%	
Less: space leased but not paying rent		(518)	-		
<b>Economic Occupancy at December 31, 2010</b>		39,260	40,846	96.1%	\$ 12
<b>Less:</b>					
GLA vacated in 2011	(833)	(833)	-		
<b>Add:</b>					
Re-Leasing of vacant space	1,026	1,026	-		
Other (i)	273	273	358		
	466	466	358		
Acquisitions	4,661	4,661	4,798		
<b>Committed Occupancy at December 31, 2011</b>	44,905		46,002	97.6%	
Add: tenant openings in 2011		407	-		
Less: GLA leased in 2011 but not yet paying rent		(327)	-		
Other		(28)			
<b>Economic Occupancy at December 31, 2011</b>		44,439	46,002	96.6%	\$ 11

(i) represents additional GLA from tenant expansions and properties under development.

# Management's Discussion and Analysis

## Fourth Quarter Economic Occupancy

<i>(in thousands of square feet)</i>	Total Leased Space	Space for which rent is currently being paid	Total Area	Occupancy Rates	Annualized rental impact (in millions of dollars)
<b>Committed Occupancy at September 30, 2011</b>	42,322	42,322	43,403	97.5%	
Less: space leased but not paying rent		(541)	-		
<b>Economic Occupancy at September 30, 2011</b>		41,781	43,403	96.3%	\$ 12
<b>Less:</b>					
GLA vacated in Q4 2011	(177)	(177)	-		
<b>Add:</b>					
Re-Leasing of vacant space	199	199	-		
Other <i>(i)</i>	91	91	91		
	113	113	91		
Acquisitions	2,470	2,470	2,508		
<b>Committed Occupancy at December 31, 2011</b>	44,905		46,002	97.6%	
Add: tenant openings in Q4 2011		318	-		
Less: GLA leased in Q4 2011 but not yet paying rent		(204)	-		
Other		(39)			
<b>Economic Occupancy at December 31, 2011</b>		44,439	46,002	96.6%	\$ 11

(i) represents additional GLA from tenant expansions and properties under development.

## Renewal Leasing

A summary of RioCan's 2011 and 2010 renewals is as follows:

<i>(in thousands, except per sqft amounts)</i>	Renewal Leasing					
	2011 Full year	2011 Fourth quarter	2011 Third quarter	2011 Second quarter	2011 First quarter	2010 Full year
<u>Square feet renewed:</u>						
Canada	3,828	705	838	1,022	1,263	3,765
US	202	49	58	85	10	142
<u>Average net rent per square foot:</u>						
Canada	\$ 16.04	\$ 19.34	\$ 15.12	\$ 16.33	\$ 14.55	\$15.35
US	\$ 17.73	\$ 16.60	\$ 20.47	\$ 16.78	\$ 15.47	\$ 6.72
<u>Increase in average net rent per square foot:</u>						
Canada	\$ 1.59	\$ 2.45	\$ 1.01	\$ 1.99	\$ 1.17	\$ 1.21
US	\$ 1.35	\$ 1.36	\$ 1.24	\$ 1.43	\$ 1.41	\$ 0.30
<u>Percentage increase in average net rent per square foot:</u>						
Canada	11.0%	14.5%	7.2%	13.9%	8.7%	8.6%
US	8.2%	8.9%	6.4%	9.3%	10.0%	4.7%

# Management's Discussion and Analysis

Including anchor tenants, the components of renewal activity for the three months and the year ended December 31, 2011 by country is as follows:

<i>(in thousands, except per sqft amounts)</i>	For the three months ended December 31, 2011		For the year ended December 31, 2011	
	Canada	US	Canada	US
<i>Renewals at market rental rates:</i>				
Square feet renewed	553	14	2,083	83
Average net rent per sqft	\$ 20.80	\$ 22.79	\$ 19.67	\$ 15.23
Increase in average net rent per sqft	\$ 2.85	\$ 1.63	\$ 2.24	\$ 0.88
Percentage increase in average net rent per sqft	15.9%	7.7%	12.9%	6.1%
<i>Renewals at fixed rental rate options:</i>				
Square feet renewed	152	35	1,745	119
Average net rent per sqft	\$ 14.01	\$ 14.11	\$ 11.70	\$ 19.46
Increase in average net rent per sqft	\$ 0.97	\$ 1.25	\$ 0.81	\$ 1.69
Percentage increase in average net rent per sqft	7.4%	9.7%	7.4%	9.5%
<i>Total:</i>				
Square feet renewed	705	49	3,828	202
Average net rent per sqft	\$ 19.34	\$ 16.60	\$ 16.04	\$ 17.73
Increase in average net rent per sqft	\$ 2.45	\$ 1.36	\$ 1.59	\$ 1.35
Percentage increase in average net rent per sqft	14.5%	8.9%	11.0%	10.1%

## Canadian Portfolio

	For the year ended December 31,	
	2011	2010
Retention rate	89.4%	90.9%
Increase in average net rent per sqft	\$ 1.59	\$ 1.21
Percentage increase in average net rent per sqft	11.0%	8.6%

Approximately 3.8 million square feet was renewed in the Canadian portfolio during the year ended December 31, 2011 at an average rent increase of \$1.59 per square foot, representing an increase of 11.0%, compared to 8.6% 2010. On an annualized basis, the increase in rent generated by renewals will increase same store NOI by \$6.1 million. For the year ended December 31, 2011, RioCan retained approximately 89.4% of the expiring leases compared to the year ended December 31, 2010, which had a renewal retention rate of approximately 90.9%. Of the approximately 3.8 million square feet that was renewed during the year ended December 31, 2011, approximately 1.7 million square feet (46%) was renewed at fixed rates. The average rent increase for these leases was \$0.81 representing an increase of 7.4%. Approximately 2.1 million square feet (54%) was renewed at market rents. The average rent increase for these leases was \$2.24 per square foot representing an increase of 12.9%.

Approximately 705,000 square feet was renewed in the Canadian portfolio during the three months ended December 31, 2011 at an average rent increase of \$2.45 per square foot, representing an increase of 14.5%, compared to 4.5% 2010. For the three months ended December 31, 2011, RioCan retained approximately 90.5% of the expiring leases compared to the fourth quarter of 2010, which had a renewal retention rate of approximately 93.3%. Of the approximately 705,000 square feet that was renewed during the three months ended December 31, 2011, approximately 152,000 square feet (22%) was renewed at fixed rates. The average rent increase for these leases was \$0.97 per square foot, representing an increase of 7.4%. Approximately 553,000 square feet (78%) was renewed at market rates. The average rent increase for these leases was \$2.85 per square foot representing an increase of 15.9% including 64,000 square feet that renewed at the expiring rents and 8,000 square feet that were renewed at lower rents. Of these leases, 32,000 square feet are located in Secondary markets.

## US Portfolio

	For the year ended December 31,	
	2011	2010
Retention rate	96.3%	100.0%
Increase in average net rent per sqft	\$ 1.36	\$ 0.30
Percentage increase in average net rent per sqft	8.3%	4.7%

# Management's Discussion and Analysis

During the year ended December 31, 2011, RioCan renewed approximately 202,000 square feet of space in the US portfolio, at an average rent increase of \$1.35 per square foot, representing an increase of 10.1%. The retention ratio for expiring tenants was strong at 96.3%.

For the three months ended December 31, 2011, renewals in the US portfolio totaled 49,000 square feet, at an average rent increase of \$1.36 per square foot or 8.9%. For the fourth quarter of 2011, the retention ratio for expiring tenants was 100%.

## Tenant Vacancies and Recent Events

RioCan strives to diversify its tenant base by location, by property type, by anchor type and by minimizing the degree of reliance on any single tenant. In the regular course of business, RioCan will, however, encounter tenants that are subject to restructuring, insolvency or bankruptcy activities. In most cases, rental revenue continues to be paid to RioCan by, or on behalf of, the tenant. RioCan actively monitors such situations and, in those cases where vacancies result, RioCan endeavours to replace tenants as quickly as possible at economically similar or better lease terms.

In February 2012, Premier Fitness Clubs Inc. ("Premier") was placed in receivership by its lender. Premier leases 10 of its locations from RioCan totaling 291,000 square feet which contributes annual rental revenue of \$5.9 million. RioCan expects that rents will be paid on these locations during the period of the receivership, and will monitor the situation as it progresses through the courts.

In December 2011, Hart Stores provided notice in accordance with its Companies' Creditors Arrangement Act ("CCAA") filing that, in February 2012, it will disclaim the leases for four of the five locations that it currently occupies within the RioCan portfolio. The four premises comprise 107,000 square feet (97,000 square feet at RioCan's interest) and are predominantly located in Eastern Canada. Given that the Hart rents were subject to sales thresholds, RioCan is confident it will achieve materially higher rents upon releasing the premises.

Sterling Shoes operates 158 stores in five provinces under five banners and due to over aggressive expansion and declining sales the company sought court protection from creditors via the CCAA in October 2011. RioCan's portfolio includes six locations totaling 23,050 square feet (14,203 square feet at RioCan's interest). The company expects to close 53 stores through the CCAA proceedings, and the impact on the stores in the RioCan portfolio is uncertain.

Included in the 2011 unanticipated vacancies are five locations with Jacob (39,000 square feet) that the tenant disclaimed per its CCAA filing of November 2010 and 10 Cotton Ginny locations (25,000 square feet) that were terminated by RioCan. To-date RioCan has re-leased 45,000 square feet of the 64,000 square feet and is in negotiations with national tenants for the remainder of the space.

In May 2011, Blockbuster Canada was placed into receivership and subsequently disclaimed all twenty-three of their leases within RioCan's portfolio (of which six were co-owned with partners). At RioCan's interest, these locations comprised approximately 98,000 square feet and contributed annually approximately \$2.9 million of rental revenue. Of these twenty-three disclaimed leases, 17 locations comprising 73,000 square feet have been re-leased at an average net rent of \$24.29 per square foot, as compared to the rent previously paid by Blockbuster of \$21.03 per square foot. RioCan has submitted offers to lease with national tenants on 5 of the remaining 6 locations.

	2011		2010	
	Total	RioCan's Share	Total	RioCan's Share
<i>For the three months ended December 31, (thousands of square feet)</i>				
Total vacancies in current period(i)	187	166	285	223
Vacated space re-leased in the current period	129	112	145	120

(i) Excluding lease buyouts

	2011		2010	
	Total	RioCan's Share	Total	RioCan's Share
<i>For the year ended December 31, (thousands of square feet)</i>				
Total vacancies in current period(i)	911	779	1,028	843
Vacated space re-leased in current period	478	404	505	399

(i) Excluding lease buyouts

During 2011, RioCan experienced vacancies of approximately 911,000 square feet, excluding lease buyouts, of which RioCan's interest was 779,000 square feet. The average gross rent on its ownership interest was \$27.74 per square foot. As at December 31, 2011, approximately 478,000 square feet of vacant space has been re-leased to new tenants, of which RioCan's interest was 404,000 square feet, at an average gross rent of \$28.80 per square foot. RioCan continues to market the balance of the vacant space, with the expectation that the majority of the space will be re-leased over the next 12 months.

In 2011, tenant vacancies for which lease cancellation fees of \$1.4 million were received by RioCan totalled 62,000 square feet of vacated NLA (54,000 square feet at RioCan's interest) at an average net rent of \$18.01 per square foot (\$17.56 per square foot at RioCan's interest). To date, 26,000 square feet (22,000 square feet at RioCan's interest) have been re-leased at an average net rent of \$24.67 per square foot (\$23.87 per square foot at RioCan's interest).

# Management's Discussion and Analysis

In the fourth quarter of 2011, RioCan experienced vacancies of approximately 187,000 square feet, excluding lease buyouts, of which RioCan's interest was 166,000 square feet. The average gross rent on its ownership interest was \$27.66 per square foot. As at December 31, 2011, approximately 129,000 square feet has been re-leased to new tenants, of which RioCan's interest was 112,000 square feet, at an average gross rent of \$27.47 per square foot. As a result, 58,000 square feet remains unleased, of which RioCan's interest is 54,000 square feet. RioCan continues to market the balance of the space, with the expectation that the majority of the space will be re-leased in 2012.

In the fourth quarter of 2011, tenant vacancies for which lease cancellation fees of \$0.6 million were received by RioCan totalled 14,000 square feet of vacated NLA (12,000 square feet at RioCan's interest) at an average net rent of \$24.42 per square foot (\$24.83 per square foot at RioCan's interest). To date, 1,000 square feet (1,000 square feet at RioCan's interest) have been re-leased at an average net rent of \$39.00 per square foot.

During 2010, tenant vacancies for which lease cancellation fees of \$12.7 million were received by RioCan totalled 484,000 square feet of vacated NLA (459,000 square feet at RioCan's interest) at an average net rent of \$12.59 per square foot (\$12.33 per square foot at RioCan's interest). Included in the NLA of 484,000 square feet were the following:

- 125,000 square foot space which was vacated on June 30, 2010 for which RioCan received a \$5.0 million lease cancellation fee at its RioCan Scarborough Shopping Centre. 110,000 square feet of the 125,000 square foot space has been re-leased to two new tenants, a 45,000 square foot LA Fitness and a 65,000 square foot supermarket operating under the name of "Oriental Food Mart", at higher rental rates.
- 106,000 square foot space which was vacated on September 30, 2010 for which RioCan received a \$ 3.7 million lease cancellation fee at its RioCan West Ridge Shopping Centre. 23,000 square feet has been re-leased to Value Village at higher rental rates. RioCan is in discussions with other tenants for the balance of the space.

## New Leasing

### Canadian Portfolio

Approximately 1.5 million square feet (including 141,000 square feet pertaining to space leased at development sites) of vacant space was leased in the Canadian portfolio during the year ended December 31, 2011 at an average net rent of \$ 19.42 per square foot compared to approximately 1.7 million square feet of vacant space that was leased at an average net rent of \$ 15.89 per square foot during the year ended December 31, 2010.

For the quarter ended December 31, 2011, approximately 342,000 square feet of vacant space was leased at an average net rent of \$21.74 per square foot compared to approximately 502,000 square feet of vacant space that was leased at an average net rent of \$16.00 per square foot during the fourth quarter of 2010.

A summary of RioCan's 2011 and 2010 new leasing on the existing Canadian portfolio by property type is as follows:

	New Leasing					
	2011 Full year	2011 Fourth quarter	2011 Third quarter	2011 Second quarter	2011 First quarter	2010 Full year
<i>(in thousands, except per sqft amounts)</i>						
<b>Square feet leased:</b>						
New format retail	587	172	89	194	132	693
Grocery anchored centre	277	54	44	97	82	411
Enclosed shopping centre	359	81	61	127	90	387
Non-grocery anchored centre	66	5	13	22	26	26
Urban retail	122	18	18	45	41	79
Office	121	12	31	21	57	75
<b>Total</b>	<b>1,532</b>	<b>342</b>	<b>256</b>	<b>506</b>	<b>428</b>	<b>1,671</b>
<b>Average net rent per square foot:</b>						
New format retail	\$21.65	\$ 22.79	\$ 22.48	\$ 21.33	\$ 20.06	\$18.36
Grocery anchored centre	16.72	18.39	20.92	15.28	15.07	14.48
Enclosed shopping centre	15.79	17.04	17.48	16.30	12.70	13.09
Non-grocery anchored centre	16.56	21.58	11.98	16.30	18.05	12.51
Urban retail	31.64	48.77	21.33	39.25	20.18	21.09
Office	14.70	12.17	9.24	15.55	17.90	11.59
<b>Total</b>	<b>\$19.42</b>	<b>\$ 21.74</b>	<b>\$ 18.80</b>	<b>\$ 20.05</b>	<b>\$ 17.16</b>	<b>\$15.89</b>

# Management's Discussion and Analysis

In addition to the new leasing, RioCan continues to add square footage to its portfolio through Greenfield development. During the year ended December 31, 2011, 280,000 square feet of greenfield developments at an average net rent of \$24.70 per square foot were completed compared to 80,000 square feet at an average net rent of \$14.87 per square foot during the year ended December 31, 2010.

During the three months ended December 31, 2011, 91,000 square feet of greenfield developments were completed compared to 60,000 square feet during the three months ended December 31, 2010.

## US Portfolio

During 2011, RioCan achieved approximately 112,000 square feet of new leasing in the US at an average rate of \$ 19.88 per square foot.

A summary of RioCan's 2011 and 2010 new leasing on the existing US portfolio by property type is as follows:

	New Leasing					
	2011 Full year	2011 Fourth quarter	2011 Third quarter	2011 Second quarter	2011 First quarter	2010 Full year
<i>(in thousands, except per sqft amounts)</i>						
<b>Square feet leased:</b>						
New format retail	64	20	24	2	18	19
Grocery anchored centre	44	12	19	7	6	26
Office	4	3	1	-	-	1
<b>Total</b>	<b>112</b>	<b>35</b>	<b>44</b>	<b>9</b>	<b>24</b>	<b>46</b>
<b>Average net rent per square foot (US dollars):</b>						
New format retail	\$20.76	\$ 20.41	\$ 19.68	\$ 27.50	\$ 22.00	\$22.74
Grocery anchored centre	18.57	18.37	18.34	20.54	17.49	18.69
Office	20.37	20.65	19.76	-	-	22.91
<b>Total</b>	<b>\$19.88</b>	<b>\$ 19.71</b>	<b>\$ 19.11</b>	<b>\$ 21.95</b>	<b>\$ 20.77</b>	<b>\$20.48</b>

## Lease Expiries

RioCan's lease expiries for the Canadian portfolio by property type for the next five years are as follows:

	Portfolio NLA	Lease expiries for the years ending				
		2012	2013	2014	2015	2016
<i>(in thousands, except per sqft and percentage amounts)</i>						
<b>Square feet:</b>						
New format retail	19,251	914	1,323	1,586	1,982	2,041
Grocery anchored centre	8,025	822	673	1,185	986	1,152
Enclosed shopping centre	6,393	656	609	731	770	802
Non-grocery anchored centre	2,125	110	210	181	345	188
Urban retail	1,541	108	199	337	28	63
Office	1,795	105	171	173	102	234
<b>Total</b>	<b>39,130</b>	<b>2,715</b>	<b>3,185</b>	<b>4,193</b>	<b>4,213</b>	<b>4,480</b>
Square feet expiring/Portfolio NLA		6.9%	8.1%	10.7%	10.8%	11.4%
<b>Average net rent per occupied square foot:</b>						
New format retail	\$ 16.49	\$20.38	\$17.96	\$ 17.81	\$ 17.27	\$ 17.48
Grocery anchored centre	14.65	16.15	16.68	13.68	14.93	14.47
Enclosed shopping centre	12.18	14.23	15.99	14.09	11.04	10.59
Non-grocery anchored centre	11.61	18.45	14.41	16.48	14.61	16.12
Urban retail	21.79	30.78	17.03	17.88	28.57	24.52
Office	12.84	13.68	13.37	13.23	13.63	14.04
<b>Total average net rent per square foot</b>	<b>\$ 15.21</b>	<b>\$17.69</b>	<b>\$16.77</b>	<b>\$ 15.75</b>	<b>\$ 15.35</b>	<b>\$ 15.34</b>

# Management's Discussion and Analysis

RioCan's lease expiries for the US portfolio, at RioCan's interest, for the next five years are as follows:

<i>(in thousands, except per sqft and percentage amounts)</i>	Portfolio NLA (i)	Lease expiries for the years ending				
		2012	2013	2014	2015	2016
<b>Square feet:</b>						
New format retail	4,815	198	222	352	183	161
Grocery anchored centre	1,823	94	62	189	57	33
Non-grocery anchored centre	183	10	23	32	10	-
Office	52	-	-	-	-	-
<b>Total</b>	<b>6,873</b>	<b>302</b>	<b>307</b>	<b>573</b>	<b>250</b>	<b>194</b>
Square feet expiring/Portfolio NLA		4.4%	4.5%	8.3%	3.6%	2.8%
<b>Average net rent per occupied square foot (US dollars):</b>						
New format retail	\$ 13.76	\$18.82	\$17.01	\$14.95	\$17.25	\$19.35
Grocery anchored centre	17.32	17.26	24.33	14.29	20.37	21.56
Non-grocery anchored centre	13.03	24.27	17.52	9.50	16.85	-
Office	22.64	-	-	-	-	-
<b>Total average net rent per square foot</b>	<b>\$ 14.74</b>	<b>\$18.51</b>	<b>\$18.52</b>	<b>\$14.43</b>	<b>\$17.94</b>	<b>\$19.73</b>

(i) Represents RioCan's proportionate ownership share.

The components of RioCan's Canadian and US lease expiries for 2012 by property type are as follows:

<i>(in thousands, except per sqft amounts)</i>	Total	New format retail	Grocery anchored centre	Enclosed shopping centre	Non- grocery anchored centre	Urban retail	Office
Square feet expiring	2,342	916	632	552	111	65	66
Average net rent per sqft	\$18.53	\$20.59	\$ 17.96	\$ 15.06	\$ 19.46	\$27.30	\$14.14
<b>2012 expiries with fixed rental rate options:</b>							
Square feet expiring	674	195	285	104	9	42	39
Average in-place net rent per sqft	\$15.14	\$17.82	\$ 12.50	\$ 9.86	\$ 12.66	\$36.15	\$12.91
Average renewal net rent per sqft	\$15.98	\$19.13	\$ 12.85	\$ 10.26	\$ 13.66	\$39.91	\$12.91
Increase in average net rent per sqft	\$ 0.84	\$ 1.31	\$ 0.35	\$ 0.40	\$ 1.00	\$ 3.76	\$ -
<b>Total</b>							
Square feet expiring	3,016	1,111	917	656	120	107	105
Average net rent per sqft	\$17.77	\$20.10	\$ 16.27	\$ 14.23	\$ 18.93	\$30.78	\$13.68

## Contractual Rent Increases

Certain of RioCan's leases allow for periodic increases in rates during the term of the leases which contributed to growth in same store NOI. Contractual rent increases in each year for the next five years are as follows:

<i>(in millions)</i>	For the years ending				
	2012	2013	2014	2015	2016
Net increase in contractual rent receipts	\$ 4	\$ 3	\$ 4	\$ 3	\$ 3

# Management's Discussion and Analysis

## RESULTS OF OPERATIONS—FULL YEAR

The components of RioCan's net earnings attributable to unitholders for each respective period are as follows:

<i>(thousands of dollars, except per Unit amounts)</i> <i>Year ended December 31,</i>	2011	2010	Increase (decrease)
Rental revenue	\$ 947,465	\$ 830,138	
Property operating costs	325,267	278,691	
Net operating income	622,198	551,447	13%
Fees and other income	27,631	16,315	
Interest income	13,361	15,422	
Gains on properties held for resale	-	21,243	
	663,190	604,427	10%
Interest expense	240,269	221,397	
Expense for early retirement of debentures	31,276	-	
General and administrative expense	38,142	32,442	
Foreign exchange loss	112	1,297	
Demolition costs	1,552	2,365	
IFRS and SIFT implementation costs	-	5,496	
Acquisition transaction costs	450	3,162	
Earnings before deferred income tax (expense) recovery and fair value gains	351,389	338,268	4%
Fair value gains	533,221	273,443	
Deferred income tax (expense) recovery	(700)	897,583	
Net earnings	\$ 883,910	\$ 1,509,294	(41%)
Net earnings attributable to Unitholders	\$ 873,311	\$ 1,495,016	(42%)
Net earnings attributable to non-controlling interests	\$ 10,599	\$ 14,278	(26%)
Net earnings per Unit attributable to common Unitholders - basic	\$ 3.26	\$ 6.06	(46%)
Net earnings per Unit attributable to common Unitholders - diluted	\$ 3.25	\$ 6.04	(46%)
Weighted average number of common Units outstanding - basic (in thousands)	265,583	246,608	8%
Weighted average number of common Units outstanding - diluted (in thousands)	267,017	247,336	8%

# Management's Discussion and Analysis

The following tables provide the analysis of RioCan's FFO, Operating FFO and AFFO for the year ended December 31, 2011 and 2010.  
(Thousands of dollars, except per Unit amounts and other data)  
Year ended December 31,

	2011			2010				
	Operating FFO	Development/ redevelopment activities	FFO	Operating FFO	Transaction gains	Development/ redevelopment activities and other	Operating FFO	FFO Increase
Net operating income	\$ 623,375	\$ (1,177)	\$ 622,198	\$ 553,677	\$ -	\$ (2,230)	\$ 551,447	
Other revenue	40,992	-	40,992	28,997	23,983	-	52,980	
	664,367	(1,177)	663,190	582,674	23,983	(2,230)	604,427	
Interest expense	233,811	6,458	240,269	214,724	-	6,673	221,397	
General and administrative	38,142	-	38,142	30,409	-	2,033 <sup>(iii)</sup>	32,442	
Demolition costs	-	1,552	1,552	-	-	2,365	2,365	
Preferred unit distributions	6,669	-	6,669	-	-	-	-	
IFRS and SIFT implementation	-	-	-	5,496	-	-	5,496	
Non-controlling interest	5,411	-	5,411	3,017	-	-	3,017	
Expense for early retirement of debentures	-	-	31,276	-	-	-	-	
	284,033	8,010	323,319	253,646	-	11,071	264,717	
Operating FFO	\$ 380,334			\$ 329,028				16%
Other activities		\$ (9,187)		\$ 23,983	\$ (13,301)			
FFO <sup>(i)</sup>			\$ 339,871				\$ 339,710	
Operating FFO per Unit	\$ 1.43			\$ 1.33				8%
FFO per Unit			\$ 1.28				\$ 1.38	
FFO, excluding expenses for early retirement of debentures			\$ 371,147				\$ 339,710	
FFO per Unit, excluding expenses for early retirement of debentures			\$ 1.40				\$ 1.38	
<b>Adjustments to bring Operating FFO to AFFO <sup>(ii)</sup>:</b>								
<b>Add back/(deduct):</b>								
Deduction of rents recorded on a straight-line basis	(9,527)			(6,662)				
Non-cash unit based compensation expense	3,500			2,225				
Normalized productive capacity maintenance cash expenditures capitalized :								
Leasing commissions and tenant improvements	(16,000)			(16,000)				
Maintenance capital expenditures recoverable from tenants	(13,000)			(13,000)				
Maintenance capital expenditures not recoverable from tenants	(3,000)			(3,000)				
IFRS and SIFT implementation costs	-			5,496				
AFFO	\$ 342,307			\$ 298,087				15%
AFFO per Unit	\$ 1.29			\$ 1.21				7%
Weighted average number of common Units outstanding (in thousands)	265,583			246,608				
<b>Distribution Coverage Ratios:</b>								
Cash distributions per Unit	\$ 1.380			\$ 1.380				
Distributions paid as a percentage of Operating FFO	96.5%			103.8%				
Distributions as a percentage of AFFO	107.0%			114.0%				
Distributions net of DRIP as a percentage of AFFO	83.0%			94.2%				

- (i) - FFO is generally the same as IFRS net earnings other than excluding changes in the fair values of investment properties, deferred income taxes, acquisition transaction costs and deducting preferred unit distributions.
- (ii) - AFFO is calculated by adjusting FFO for straight-line rent adjustments, non-cash compensation expenses, costs for capital expenditures and leasing costs for maintaining shopping centre infrastructure and current lease revenues ("productive capacity maintenance"). In addition, non-recurring costs that impact operating cash flow may be adjusted.
- (iii) - IFRS restatement of pension amendments.

# Management's Discussion and Analysis

A reconciliation of IFRS net earnings to FFO is as follows:

<i>(millions of dollars, except per Unit amounts)</i> <i>Year ended December 31,</i>	2011	2010	Increase (decrease)
Net earnings attributable to unitholders'	\$ 873	\$ 1,495	(42%)
<i>Add back/(Deduct):</i>			
Fair value gains	(533)	(273)	
Non controlling interest relating to fair value gains	5	11	
Deferred income tax expense (recovery)	1	(898)	
Acquisition transaction costs	-	3	
Foreign exchange gain on monetary item not forming part of a net investment in a foreign operation	-	1	
Preferred unit distributions	(7)	-	
Other	1	1	
FFO	\$ 340	\$ 340	0%
FFO per Unit	\$ 1.28	\$ 1.38	(7%)
Weighted average number of common Units outstanding	265,583	246,608	

## Net Operating Income

Net operating income ("NOI") is an additional non-GAAP measure and is defined by RioCan as rental revenue from income properties less property operating costs. RioCan's method of calculating NOI may differ from other issuers' methods and, accordingly, may not be comparable to NOI reported by other issuers.

Rental revenue includes all amounts earned from tenants related to lease agreements, including property tax and operating cost recoveries, to the extent recoverable under tenant leases. Amounts payable by tenants to terminate their lease prior to the contractual expiry date ("lease cancellation fees") are included in rental revenue.

Consolidated NOI for the years ended December 31, 2011 and 2010 is as follows:

<i>(thousands of dollars)</i> <i>Year ended December 31,</i>	2011	2010	Increase (decrease)
Base rent	\$627,319	\$541,697	
Percentage rent	3,991	3,702	
Rents subject to tenants' sales thresholds	5,285	5,394	
Property taxes and operating cost recoveries	309,514	265,404	
	946,109	816,197	
Lease cancellation fees	1,356	13,941	
Rental revenue	947,465	830,138	14%
Recoverable property taxes and operating costs	316,371	271,192	
Non-recoverable property operating and site administration costs	8,896	7,499	
Property operating costs	325,267	278,691	17%
NOI	\$622,198	\$551,447	13%
NOI as a percentage of rental revenue (excluding the impact of lease cancellation fees)	66%	66%	0%

The amount of property taxes and operating costs that can be recovered from tenants is impacted by property vacancy and fixed cost recovery tenancies.

The NOI margin for the year ended December 31, 2011 remained consistent when compared to the same period in 2010.

# Management's Discussion and Analysis

RioCan's proportionate interest in NOI is as follows:

<i>(thousands of dollars)</i> <i>Year ended December 31,</i>	2011	2010	Increase
Canadian Portfolio	\$553,917	\$525,974	5%
US Portfolio	59,111	20,797	nm
RioCan's proportionate interest in NOI	613,028	546,771	12%
Non-controlling interest	9,170	4,676	nm
NOI	\$622,198	\$551,447	13%

"nm" – not meaningful.

## Canadian Portfolio

Canadian portfolio NOI for the years ended December 31, 2011 and 2010 is as follows:

<i>(thousands of dollars)</i> <i>Year ended December 31,</i>	2011	2010	Increase (decrease)
Base rent	\$554,318	\$515,195	
Percentage rent	3,991	3,702	
Rents subject to tenants' sales thresholds	5,285	5,394	
Property taxes and operating cost recoveries	290,100	259,404	
	853,694	783,695	
Lease cancellation fees	1,356	12,941	
Rental revenue	855,050	796,636	7%
Recoverable property taxes and operating costs	293,358	264,630	
Non-recoverable property operating and site administration costs	7,775	6,032	
Property operating costs	301,133	270,662	11%
NOI	\$553,917	\$525,974	5%
NOI as a percentage of rental revenue (excluding the impact of lease cancellation fees)	65%	66%	(1%)

NOI for the years ended December 31, 2011 and 2010 for RioCan's Canadian portfolio are as follows:

<i>(thousands of dollars)</i> <i>Year ended December 31,</i>	2011	2010	Increase
Net Operating Income:			
Same store <i>(i)</i>	\$502,319	\$497,082	1.1%
Land use intensification	29	-	nm
Same properties <i>(ii)</i>	502,348	497,082	1.1%
2011 and 2010 acquisitions	29,138	-	nm
2011 and 2010 dispositions	-	771	nm
Greenfield development	13,581	9,433	44.0%
NOI before adjustments	545,067	507,286	7.4%
Lease cancellation fees	1,356	12,942	nm
Straight-lining of rents	7,494	5,746	30.4%
NOI	\$553,917	\$525,974	5.3%

"nm" – not meaningful.

(i) Same store refers to those income properties that were owned by RioCan and had consistent leasable area in both periods.

(ii) Same properties refer to those income properties that were owned by RioCan throughout both periods.

# Management's Discussion and Analysis

The change in same store NOI is the result of a combination of factors: contractual rent increases, lease renewals and net absorption of existing space in the portfolio which is a product of vacancies and the resultant new leasing. In 2011, same store and same property increased by 1.1% when compared to 2010.

The following items were the major components of same store growth:

- new and renewal leasing and fixed rent steps which positively impacted NOI by \$14 million; offset by
- reduced NOI in 2011 due to vacancies of \$8.8 million, including vacancies as a result of lease cancellation fees received of \$1.4 million, and
- higher non-recoverable administrative and IT costs of \$0.5 million.

## US Portfolio

US portfolio NOI for the years ended December 31, 2011 and 2010 is as follows:

*(thousands of dollars)*

Year ended December 31,	2011	2010
Base rent	\$63,196	\$21,653
Property taxes and operating cost recoveries	16,885	4,967
	80,081	26,620
Lease cancellation fees	-	800
Rental revenue	80,081	27,420
Recoverable property taxes and operating costs	20,037	5,429
Non-recoverable property operating and site administration costs	933	1,194
Property operating costs	20,970	6,623
NOI	\$59,111	\$20,797
NOI as a percentage of rental revenue	74%	76%

NOI for the year ended December 31, 2011 and 2010 for RioCan's US portfolio are as follows (at RioCan's interest):

*(thousands of dollars)*

Year ended December 31,	2011	2010	Increase (decrease)
Base rent – US\$	\$20,358	\$19,951	
Property tax and operating cost recoveries – US\$	5,182	4,967	
Other – US\$	72	115	
Rental revenue – US\$	25,612	25,034	
Property operating costs – US\$	6,651	6,426	
Same store and same properties (i) (ii) – US\$	18,961	18,608	1.9%
Foreign currency translation adjustment	(204)	551	
Same store and same properties (i) (ii) – CDN\$	18,757	19,159	
Acquisitions	38,315	-	
NOI before adjustments	57,072	19,159	
Lease cancellation fee	-	800	
Straight-lining of rents	2,039	838	
NOI	\$59,111	\$20,797	

"nm" – not meaningful.

(i) Same store refers to those income properties that were owned by RioCan and had consistent leasable area in both periods.

(ii) Same properties refer to those income properties that were owned by RioCan throughout both periods.

For the US portfolio, same store and same properties NOI increased during the year ended December 31, 2011 as compared to the same periods in 2010 due to new and renewal leasing which positively impacted NOI.

# Management's Discussion and Analysis

## Other Revenue

### Fees and Other Income

RioCan holds certain of its interests in various real estate investments through joint arrangements and investments accounted for by the equity method. Generally, RioCan provides asset, property management, development and financing services for the Canadian co-ownerships and investments for which the Trust earns market based fees ("Fees").

The significant sources of fees and other income are as follows:

<i>(thousands of dollars)</i>			
Year ended December 31,	2011	2010	Increase (decrease)
Fees	\$24,278	\$13,683	
Dividends earned on Cedar shares	3,353	2,632	
	\$27,631	\$16,315	69%

During the year ended December 31, 2011 fees earned increased as compared to 2010 primarily due to increased leasing, financing and development activities with joint venture partners as a result of increased development activities.

The Cedar dividends are earned from the Cedar common shares held by the Trust. The increase in dividends for the current year compared to 2010 is due to the timing of dividend payments as an additional dividend was received in 2011, offset by fluctuations in the exchange rate between the Canadian and US dollars.

### Interest Income

Interest income decreased during the year ended December 31, 2011 as compared to year ended December 31, 2010 which is consistent with lower average mortgage receivable balances in 2011 when compared to 2010.

### Gains on Properties Held for Resale

The components of gains on properties held for resale are as follows:

<i>(thousands of dollars)</i>		
Year ended December 31,	2011	2010
Properties acquired or redeveloped and developed for resale without partners and co-owners	\$ -	\$10,881
Properties acquired or redeveloped and developed for resale with partners and co-owners	\$ -	\$10,362
	\$ -	\$21,243

During the year ended December 31, 2010, the \$ 10.9 million gain on properties held for resale for wholly owned properties was a result of the sale of participation rights at two urban intensification sites: Avenue Road and Queen Street and Portland Street which are both located in Toronto, Ontario and sale of land located in Whitby, Ontario.

During the year ended December 31, 2010, the \$ 10.4 million gain on properties held for resale with partners and co-owners was primarily comprised of proceeds recorded upon the completion of the rezoning of the St. Clair Avenue & Weston Road, Toronto, Ontario and East Hills Calgary, Alberta development properties.

## Other Expenses

### Interest

The components of interest expense are as follows:

<i>(thousands of dollars)</i>			
Year ended December 31,	2011	2010	Increase (decrease)
Interest	\$255,299	\$234,431	9%
Capitalized to real estate investments	(15,030)	(13,034)	15%
Net interest expense	\$240,269	\$221,397	9%
Percentage capitalized to real estate investments	6%	6%	

The increase in total interest expense during the year ended December 31, 2011, compared to 2010, resulted primarily from higher aggregate debt levels during 2011 primarily due to increased acquisition activity offset by interest saving resulting from refinancing maturing debt at lower interest rates and a decrease in debentures outstanding. As at December 31, 2011, the weighted average interest rate of RioCan's debt portfolio was 5.11%, a decrease of 47 basis points from the weighted average rate of 5.58% as at December 31, 2010.

Interest is capitalized to investment properties when they are considered to be in active development. The amounts capitalized increased, on a year to date basis, as a result of increased development activities in 2011 as compared to 2010.

# Management's Discussion and Analysis

## Expense for early redemption of unsecured debentures

The early redemption of the Series F, L and K debentures resulted in the payment of accrued interest of \$1.5 million, yield maintenance payments totalling \$28.5 million, and the write-off of unamortized transaction costs of \$1.3 million. As a result of the early redemption of these debentures, the first and fourth quarter's net earnings were negatively impacted by one-time expenses totalling \$27.2 million and \$4.1 million, respectively.

## General and administrative

The components of general and administrative expense are as follows:

<i>(thousands of dollars)</i> Year ended December 31,	2011	2010	Increase (decrease)
General and administrative expense:			
Non-recoverable salaries and benefits	\$ 28,284	\$23,772	
Directly capitalized to properties under development and tenant installations costs <i>(i)</i>	(10,514)	(7,386)	
	17,770	16,386	
Public company and other	15,746	12,403	
Unit based compensation expense	3,500	2,225	
Indirectly recoverable regional office costs	1,126	1,428	
General and administrative expense	\$ 38,142	\$32,442	18%
Demolition costs	\$ 1,552	\$ 2,365	
Foreign exchange loss	112	1,297	
IFRS and SIFT implementation costs	-	5,496	
Other costs	\$ 1,664	\$ 9,158	
General and administrative expense:			
As a percentage of rental revenue	4.0%	3.9%	
As a percentage of total assets	0.4%	0.4%	

"nm" – not meaningful

(i) Amounts capitalized to properties under development and tenant installation costs are primarily comprised of salaries and benefits directly related to development and leasing activities at the properties.

Non-recoverable salaries and benefits for the year ended December 31, 2011 increased primarily due to modestly higher headcount due to the growth in the portfolio and increased complexity of the Trust, higher pension related costs, and a higher bonus amount in 2011. In addition, severance and retirement costs of \$1.5 million were incurred during the year.

The increase in public company and other costs for 2011 is primarily due to higher consulting and professional fees, which facilitate overall growth of the business, increased information technology cost, and increased external audit costs.

The increase in unit based compensation expense in 2011 is due to a higher Unit price, which results in a higher valuation of Unit option grants.

Demolition costs were, under Previous Canadian GAAP, capitalized to the related development, whereas under IFRS, in certain circumstances, are expensed as a period cost. These expenses are related to the Trust's development activities.

IFRS and SIFT implementation costs are nil in 2011 as the two conversion projects were completed in 2010.

RioCan expects to continue to experience overall increases in general and administrative costs due to growth of the asset base, enhanced regulatory requirements, continued US expansion, costs related to RioCan's compliance with IFRS and monitoring of compliance under the SIFT Legislation. In addition, RioCan will begin a significant information technology initiative during 2012, which will result in higher consulting expenditures during the course of the initiative, which is expected to be 18-24 months in duration.

# Management's Discussion and Analysis

## REVIEW OF FOURTH QUARTER RESULTS RESULTS OF OPERATIONS—FOURTH QUARTER

The components of RioCan's net earnings attributable to unitholders for each respective period are as follows:

<i>(thousands of dollars, except per Unit amounts)</i> Three months ended December 31,	2011	2010	Increase (decrease)
Rental revenue	\$253,688	\$ 221,956	
Property operating costs	86,471	74,579	
Net operating income	167,217	147,377	13%
Fees and other income	10,803	3,657	
Interest income	3,193	3,819	
Gains on properties held for resale	–	4,179	
	181,213	159,032	14%
Interest expense	62,310	57,971	
Expense for early retirement of debentures	4,059	–	
General and administrative expense	16,828	13,176	
Foreign exchange loss	18	–	
Demolition costs	214	1,054	
IFRS and SIFT implementation costs	–	3,279	
Acquisition transaction costs	203	(93)	
Earnings before deferred income tax recovery and fair value gains	97,581	83,645	17%
Fair value gains	145,839	169,135	
Deferred income tax recovery	–	1,009,862	
Net earnings	\$243,420	\$1,262,642	(81%)
Net earnings attributable to Unitholders	\$240,974	\$1,251,924	(81%)
Net earnings attributable to non-controlling interests	\$ 2,446	\$ 10,718	(77%)
Net earnings per Unit attributable to common Unitholders – basic	\$ 0.87	\$ 4.94	(82%)
Net earnings per Unit attributable to common Unitholders – diluted	\$ 0.87	\$ 4.92	(82%)
Weighted average number of common Units outstanding– basic (in thousands)	274,012	253,610	8%
Weighted average number of common Units outstanding – diluted (in thousands)	275,304	254,683	8%

# Management's Discussion and Analysis

The following tables provide the analysis of RioCan's FFO, Operating FFO and AFFO for the three months ended December 31, 2011 and 2010.

<i>(thousands of dollars, except per Unit amounts and other data)</i> <i>Three months ended December 31,</i>	2011			2010				Operating FFO Increase
	Operating FFO	Development/ redevelopment activities	FFO	Operating FFO	Transaction gains	Development/ redevelopment activities and other	FFO	
Net operating income	\$ 167,430	\$ (213)	\$167,217	\$ 148,201	\$ -	\$ (824)	\$147,377	
Other revenue	13,996	-	13,996	7,476	4,179	-	11,655	
Interest expense	181,426	(213)	181,213	155,677	4,179	(824)	159,032	
General and administrative	60,909	1,401	62,310	56,356	-	1,615	57,971	
Demolition costs	16,828	-	16,828	11,143	-	2,033(iii)	13,176	
Preferred unit distributions	-	214	214	-	-	1,054	1,054	
IFRS and SIFT implementation	2,237	-	2,237	-	-	-	-	
Non-controlling interest	-	-	-	3,279	-	-	3,279	
Expense for early retirement of debentures	1,504	-	1,504	1,479	-	-	1,479	
	-	-	4,059	-	-	-	-	
	81,478	1,615	87,152	72,257	-	4,702	76,959	
Operating FFO	\$ 99,948			\$ 83,420				20%
Other activities		\$ (1,828)		\$ 4,179		\$ (5,526)		
FFO (i)			\$ 94,061				\$ 82,073	
Operating FFO per Unit	\$ 0.36			\$ 0.33				9%
FFO per Unit			\$ 0.34				\$ 0.32	
FFO, excluding expenses for early retirement of debentures			\$ 98,120				\$ 82,073	
FFO per Unit, excluding expenses for early retirement of debentures			\$ 0.36				\$ 0.32	
<b>Adjustments to bring Operating FFO to AFFO (ii):</b>								
<i>Add back/(deduct):</i>								
Deduction of rents recorded on a straight-line basis	(2,547)			(2,042)				
Non-cash unit based compensation expense	1,120			633				
Normalized productive capacity maintenance cash expenditures capitalized:								
Leasing commissions and tenant improvements	(4,000)			(4,000)				
Maintenance capital expenditures recoverable from tenants	(3,250)			(3,250)				
Maintenance capital expenditures not recoverable from tenants	(750)			(750)				
IFRS and SIFT implementation costs	-			3,279				
AFFO	\$ 90,521			\$ 77,290				17%
AFFO per Unit	\$ 0.33			\$ 0.31				8%
Weighted average number of common Units outstanding (in thousands)	274,012			253,610				
Distribution Coverage Ratios:								
Cash distributions per Unit	\$ 0.345			\$ 0.345				
Distributions paid as a percentage of Operating FFO	95.8%			104.5%				
Distributions as a percentage of AFFO	104.5%			112.7%				
Distributions net of DRIP as a percentage of AFFO	81.3%			87.2%				

- (i) – FFO is generally the same as IFRS net earnings other than excluding changes in the fair values of investment properties, deferred income taxes, acquisition transaction costs and deducting preferred unit distributions.
- (ii) – AFFO is calculated by adjusting FFO for straight-line rent adjustments, non-cash compensation expenses, costs for capital expenditures and leasing costs for maintaining shopping centre infrastructure and current lease revenues ("productive capacity maintenance"). In addition, non-recurring costs that impact operating cash flow may be adjusted.
- (iii) – IFRS restatement of pension amendments.

# Management's Discussion and Analysis

A reconciliation of IFRS net earnings to FFO is as follows:

<i>(millions of dollars, except per Unit amounts)</i> <i>Three months ended December 31,</i>	2011	2010	Increase (decrease)
Net earnings attributable to unitholders	\$ 241	\$ 1,252	(81%)
<i>Add back/(Deduct):</i>			
Fair value gains	(146)	(177)	
Non controlling interest relating to fair value gains	1	9	
Deferred income tax expense (recovery)	-	(1,010)	
Impairment of real estate investments	-	8	
Preferred unit distributions	(2)	-	
FFO	\$ 94	\$ 82	15%
FFO per Unit	\$ 0.34	\$ 0.32	6%
Weighted average number of common Units outstanding	274,012	253,610	

## **Net Operating Income**

RioCan's consolidated NOI for the three months ended December 31, 2011 and 2010 are as follows:

<i>(thousands of dollars)</i> <i>Three months ended December 31,</i>	2011	2010	Increase (decrease)
Base rent	\$167,806	\$147,024	
Percentage rent	1,553	1,126	
Rents subject to tenants' sales thresholds	1,325	1,328	
Property taxes and operating cost recoveries	82,403	70,915	
	253,087	220,393	
Lease cancellation fees	601	1,563	
Rental revenue	253,688	221,956	14%
Recoverable property taxes and operating costs	84,172	71,973	
Non-recoverable property operating and site administration costs	2,299	2,606	
Property operating costs	86,471	74,579	16%
NOI	\$167,217	\$147,377	13%
NOI as a percentage of rental revenue (excluding the impact of lease cancellation fees)	66%	66%	

# Management's Discussion and Analysis

RioCan's proportionate interest in NOI is as follows:

<i>(thousands of dollars)</i> Three months ended December 31,	2011	2010	Increase
Canadian Portfolio	\$145,030	\$133,649	9%
US Portfolio	19,657	11,436	nm
RioCan's proportionate interest in NOI	164,687	145,085	14%
Non-controlling interest	2,530	2,292	nm
NOI	\$167,217	\$147,377	13%

"nm" – not meaningful.

## Canadian Portfolio

NOI for the three months ended December 31, 2011 and 2010 for our Canadian portfolio are as follows:

<i>(thousands of dollars)</i> Three months ended December 31,	2011	2010	Increase
Same store (i)	\$131,445	\$128,969	1.9%
Land use intensification	29	–	nm
Same properties (ii)	131,474	128,969	1.9%
2011 and 2010 acquisitions	7,196	–	nm
Dispositions	–	163	
Greenfield development	3,920	2,342	67.4%
NOI before adjustments	142,590	131,474	8.5%
Lease cancellation fees	601	563	nm
Straight-lining of rents	1,839	1,612	14.1%
NOI	\$145,030	\$133,649	8.5%

"nm" – not meaningful.

(i) Same store refers to those income properties that were owned by RioCan and had consistent leasable area in both periods.

(ii) Same properties refer to those income properties that were owned by RioCan throughout both periods.

The change in same store NOI is the result of a combination of factors: contractual rent increases, lease renewals and net absorption of existing space in the portfolio which is a product of vacancies and the resultant new leasing.

Same store and same property NOI increased by 1.9% during the three months ended December 31, 2011 as compared to the three months ended December 31, 2010 primarily due to the following:

- new and renewal leasing and fixed rent steps which positively impacted NOI by \$5.8 million; offset by
- reduced NOI in 2011 due to vacancies of \$3.3 million, including vacancies as a result of lease cancellation fees received of \$0.6 million.

NOI for the Canadian portfolio on a consecutive quarter-over-quarter basis is as follows:

<i>(thousands of dollars)</i> Three months ended	December 31, 2011	September 30, 2011	Increase (decrease)
Same store (i)	\$ 136,400	\$ 133,780	2.0%
Land use intensification	29	–	nm
Same properties (ii)	136,429	133,780	2.0%
Acquisitions	2,576	–	nm
Dispositions	3	83	nm
Greenfield development	3,582	2,913	23.0%
NOI before adjustments	142,590	136,776	4.3%
Lease cancellation fees	601	12	nm
Straight-lining of rents	1,839	1,613	14.0%
NOI	\$ 145,030	\$ 138,401	4.8%

"nm" – not meaningful.

(i) Same store refers to those income properties that were owned by RioCan and had consistent leasable area in both periods.

(ii) Same properties refer to those income properties that were owned by RioCan throughout both periods.

# Management's Discussion and Analysis

Same store and same property NOI increased sequentially by 2.0% during the fourth quarter of 2011 as compared to the third quarter of 2011, primarily due to the following:

- new and renewal leasing and fixed rent steps which positively impacted NOI by \$3.5 million, which includes \$1.5 million of seasonal revenue;
- reduced NOI in the third quarter due to vacancies of \$0.9 million.

During the three months ended December 31, 2011, 91,000 square feet of greenfield developments were completed as compared to 60,000 square feet during the fourth quarter of 2010.

## US Portfolio

NOI for the three months ended December 31, 2011 and 2010 for RioCan's US portfolio are as follows (at RioCan's interest):

<i>(thousands of dollars)</i> Three months ended December 31,	2011	2010	Increase (decrease)
Base rent – US\$	\$10,823	\$10,705	1%
Property tax and operating cost recoveries - US\$	2,920	2,801	4%
Other – US\$	53	31	nm
Rental revenue – US\$	13,796	13,537	2%
Property operating costs – US\$	3,706	3,571	4%
Same store and same properties (i) (ii) – US\$	10,090	9,966	1%
Foreign currency translation adjustment	246	248	nm
Same store and same properties (i) (ii) – CDN\$	10,336	10,214	1%
Acquisitions	8,613	(9)	nm
NOI before adjustments	18,949	10,205	86%
Lease cancellation fee	—	800	nm
Straight-lining of rents	708	431	nm
NOI	\$19,657	\$11,436	72%

"nm" – not meaningful.

(i) Same store refers to those income properties that were owned by RioCan and had consistent leasable area in both periods.

(ii) Same properties refer to those income properties that were owned by RioCan throughout both periods.

Same store and same property NOI increased by 1% during the three months ended December 31, 2011 as compared to the three months ended December 31, 2010 primarily due to the new and renewal leasing and fixed rent steps, offset by higher non-recoverable operating costs in the fourth quarter.

# Management's Discussion and Analysis

NOI for the US portfolio on a consecutive quarter-over-quarter basis is as follows (at RioCan's interest):

<i>(thousands of dollars) Three months ended</i>	December 31, 2011	September 30, 2011	Increase (decrease)
Base rent – US\$	\$ 16,163	\$ 16,193	–
Property tax and operating cost recoveries – US\$	4,591	4,089	12%
Other – US\$	206	78	nm
Rental revenue – US\$	20,960	20,360	3%
Property operating costs – US\$	5,860	5,075	15%
Same store and same properties (i) (ii) – US\$	15,100	15,285	(1.2%)
Foreign currency translation	367	(337)	nm
Same store and same properties (i) (ii) – CDN\$	15,467	14,948	3%
Acquisitions	3,482	15	nm
NOI before adjustments	18,949	14,963	27%
Straight-lining of rents	708	438	nm
NOI	\$ 19,657	\$ 15,401	28%

"nm" – not meaningful.

(i) Same store refers to those income properties that were owned by RioCan and had consistent leasable area in both periods.

(ii) Same properties refer to those income properties that were owned by RioCan throughout both periods.

Same store and same property NOI decreased by 1.2% when compared to the third quarter of 2011 due to higher non-recoverable costs in the fourth quarter.

## Other Revenue

### Fees and Other Income

RioCan holds certain of its interests in various real estate investments through co-ownerships and investments accounted for by the equity method. Generally, RioCan provides asset, property management, development and financing services for the Canadian co-ownerships and investments for which the Trust earns market based fees.

The significant sources of fees and other income are as follows:

<i>(thousands of dollars) Three months ended December 31,</i>	2011	2010
Fees	\$ 9,932	\$2,788
Dividends earned on Cedar shares	871	869
	\$10,803	\$3,657

For the fourth quarter of 2011, fees earned from co-owners, partners and other increased due to increased leasing and development activities with joint venture partners.

Dividends earned on Cedar shares in the fourth quarter of 2011 were consistent with the same period in 2010.

### Interest Income

Interest income decreased during the three months ended December 31, 2011 as compared to three months ended December 31, 2010, which is consistent with lower average mortgage receivable balances throughout the fourth quarter of 2011 than the Trust had throughout the fourth quarter of 2010.

### Gains on properties held for resale

There were no gains on properties held for resale recorded in the fourth quarter of 2011.

The \$4.2 million gain on properties held for resale for the three months ended December 31, 2010 for wholly-owned properties is primarily comprised of a gain recorded upon the sale of land located in Whitby, Ontario.

# Management's Discussion and Analysis

## Other Expenses

### Interest

The components of interest expense are as follows:

<i>(thousands of dollars)</i>			
Three months ended December 31,	2011	2010	Increase (decrease)
Interest	\$66,184	\$62,282	6%
Capitalized to real estate investments	(3,874)	(4,311)	(10%)
Net interest expense	\$62,310	\$57,971	7%
Percentage capitalized to real estate investments	6%	7%	

Interest expense increased primarily as a result of higher debt levels incurred due to acquisition activity in the fourth quarter of 2011.

The decrease in amounts capitalized to real estate investments is commensurate with the completion of several developments during 2011.

### General and Administrative

Certain staffing and related costs for property management activities are directly recoverable from tenants under lease agreements and such costs are included in property operating costs. Other regional office costs and head office costs are included in general and administrative expense.

The components of general and administrative expense are as follows:

<i>(thousands of dollars)</i>			
Three months ended December 31,	2011	2010	Increase (decrease)
General and administrative expense:			
Non-recoverable salaries and benefits	\$12,269	\$10,573	16%
Directly capitalized to properties under development and tenant installation costs <i>(i)</i>	(3,424)	(2,115)	62%
	8,845	8,458	5%
Public company and other	6,245	3,138	99%
Unit based compensation expense	1,055	633	67%
Indirectly recoverable regional office costs	683	947	(28%)
General and administrative expense	\$16,828	\$13,176	28%
Demolition costs	214	1,054	nm
Foreign exchange (gain) loss	18	-	
IFRS and SIFT transition costs	-	3,279	nm
Other costs	\$ 232	\$ 4,333	
General and administrative expense:			
As a percentage of rental revenue	6.7%	5.9%	0.7%
As a percentage of total assets	0.2%	0.2%	nm

"nm" – not meaningful

(i) Amounts capitalized to properties under development and tenant installation costs are primarily comprised of salaries and benefits directly related to development and leasing activities at the properties.

Non-recoverable salaries and benefits for the fourth quarter of 2011 when compared to the fourth quarter of 2010 increased primarily due to modestly higher headcount due to the growth in the portfolio and increased complexity of the Trust, higher pension related costs and a higher bonus amount.

The increase in public company and other costs for the fourth quarter of 2011, when compared to the same period in the prior year, is primarily due to higher IT consulting costs and external audit costs.

# Management's Discussion and Analysis

The increase in unit based compensation expense is due to a higher Unit price, which results in a higher valuation of Unit option grants.

IFRS and SIFT implementation costs are nil as the two conversion projects were completed in 2010.

RioCan expects to continue to experience overall increases in general and administrative costs due to the growth of the business, US expansion, enhanced regulatory requirements and costs related to RioCan's compliance with IFRS and monitoring of compliance under the SIFT Legislation. In addition, RioCan will begin a significant information technology initiative during 2012, which will result in higher consulting expenditures during the course of the initiative, which is expected to be 18-24 months in duration.

## ASSET PROFILE

As at December 31, 2011, RioCan had ownership interests in a portfolio of 321 shopping centres comprising 71.5 million square feet (RioCan's share being 46 million square feet), compared to 287 shopping centres comprised of 63.7 million square feet (RioCan's share being 40.8 million square feet) at December 31, 2010. In addition, RioCan had ownership interests in development projects at December 31, 2011 that will, upon completion, comprise approximately 8.9 million square feet, of which RioCan's ownership interest will be approximately 4.6 million square feet.

### INVESTMENT PROPERTY

(millions of dollars)

Year ended December 31,	2011	2010
Investment property is comprised of:		
Income properties	\$10,024	\$8,185
Properties under development	377	268
Properties held for resale	8	13
	\$10,409	\$8,466

### Change in the Fair Value of Investment Property During 2011

Of the \$1.9 billion increase in RioCan's investment property, the fair value gain was \$533 million composed of \$510 million in income properties and \$23 million in properties under development. During this period, capitalization rates have compressed by 35 basis points.

The table below provides details of the average capitalization rates (weighted based on stabilized NOI) and ranges for each retail class and market category as at December 31, 2011.

### Canadian Portfolio

Retail Class	Overall Portfolio		Primary Market		Secondary Market	
	Weighted Average Cap. Rate*	Range	Weighted Average Cap. Rate*	Range	Weighted Average Cap. Rate*	Range
Enclosed Shopping Centre	7.34%	6.0% – 9.2%	7.08%	6.4% – 9.2%	7.57%	6.0% – 8.9%
Grocery Anchored Shopping Centre	6.60%	5.8% – 9.0%	6.47%	5.8% – 9.0%	6.92%	6.3% – 9.0%
Mixed Use	6.45%	5.5% – 8.7%	6.23%	5.5% – 7.3%	7.74%	6.9% – 8.7%
New Format Retail	6.23%	5.7% – 8.0%	6.06%	5.7% – 6.8%	6.64%	6.0% – 8.0%
Non-Grocery Anchored Centre	6.75%	5.8% – 9.0%	6.47%	5.8% – 7.3%	7.20%	6.2% – 9.0%
Urban Retail	5.84%	5.5% – 6.8%	5.84%	5.5% – 6.8%	-	-
	6.47%	5.5% – 9.2%	6.26%	5.5% – 9.2%	6.87%	6.0% – 9.0%

\* at RioCan's interest

# Management's Discussion and Analysis

## US Portfolio

Retail Class	Overall Portfolio		North East**		Texas	
	Weighted Average Cap. Rate*	Range	Weighted Average Cap. Rate*	Range	Weighted Average Cap. Rate*	Range
Grocery Anchored Shopping Centre	6.98%	6.2% – 8.0%	6.94%	6.2% – 8.0%	7.14%	6.5% – 7.7%
New Format Retail	6.87%	6.1% – 8.0%	6.97%	6.8% – 7.3%	6.82%	6.1% – 8.0%
Non-Grocery Anchored Centre	7.50%	7.5% – 7.5%	7.50%	7.5% – 7.5%	-	-
	6.91%	6.1% – 8.0%	6.97%	6.2% – 8.0%	6.85%	6.1% – 8.0%

\* at RioCan's interest

\*\*Area includes Connecticut, Maryland, Massachusetts, New Jersey, New York, Rhode Island, Pennsylvania and Virginia.

The table below provides the fair value and weighted average capitalization rate split between Canada and US as at December 31, 2011, December 31, 2010 and January 1, 2010:

As at	December 31, 2011		December 31, 2010		January 1, 2010	
	Weighted average capitalization rate*	Value	Weighted average capitalization rate*	Value	Weighted average capitalization rate*	Value
(in millions, except percentages)						
Canada	6.47%	\$ 8,986	6.85%	\$7,706	7.12%	\$6,892
US	6.91%	1,423	7.22%	760	7.75%	46
Total	6.53%	\$10,409	6.88%	\$8,466	7.12%	\$6,938

\* at RioCan's interest

## INCOME PROPERTIES

(millions of dollars)

Year ended December 31,

	2011	2010
Balance, beginning of period	\$ 8,185	\$ 6,717
Acquisitions:		
Canada (i)	488	429
US (ii)	582	655
Contingent proceeds paid to vendors (iii)	11	25
Dispositions	-	(6)
Changes in fair values of income properties	510	306
Capital expenditures	37	17
Tenant installation costs	41	31
Transfers from properties under development	150	55
Transfers to properties under development	(14)	(39)
Foreign currency translation	24	(28)
Other	10	23
Balance, end of period	\$10,024	\$ 8,185

(i) Comprised of the purchase price including closing costs and other acquisition related costs.

(ii) The joint ventures with Cedar and Sterling are controlled by the Trust, therefore properties acquired through these joint ventures are 100% consolidated within the Trust's financial statements with Cedar's and Sterling's shares reflected as minority interest. Hence, amounts shown in the above table are comprised of 100% of the purchase price including closing costs and other acquisition related costs. Properties owned through the Inland joint venture are proportionately consolidated (at the Trust's respective ownership) within the Trust's financial statements. Hence, amounts shown in the above table are comprised of the Trust's share of the purchase price including closing costs and other acquisition related costs, where applicable.

(iii) Certain prior acquisitions were subject to an earn-out mechanism whereby additional proceeds are paid to the vendor upon completion and lease-up of the added density or vacant space at the previously acquired property.

# Management's Discussion and Analysis

At the end of 2011 and 2010, the NLA of RioCan's income properties is as follows:

(square feet in thousands)

As at and for the year ended December 31,

	2011	2010
NLA, beginning of year	40,846	35,103
Acquisitions of income properties – Canada	1,923	1,819
Acquisitions of income properties – US	2,875	3,840
Completed greenfield development and land use intensification	280	262
Other	78	(178)
NLA, end of year	46,002	40,846

## Acquisitions During 2011

During the three months ended December 31, 2011, RioCan completed total acquisitions of income properties of \$609 million, representing RioCan's share of the purchase price comprised of approximately 2.5 million additional square feet.

During the year ended December 31, 2011, RioCan completed total acquisitions of income properties of \$1.1 billion, representing RioCan's share of the purchase price comprised of approximately 4.8 million additional square feet.

Property name and location	Capitalization rate	RioCan's purchase price (i) (millions)	NLA (in sqft) at RioCan's interest	Weighted average in place rent	Asset class (ii)	Year Built	% Leased	Weighted Average Remaining Lease Term (years) (iii)	Largest tenant(s) and NLA	RioCan's ownership interest
<b>CANADA</b>										
Ajax Marketplace, Ajax, ON	6.3%	\$ 19	70,724	\$ 17.89	GA	1988	98%	6.4	Food Basics (35,561), Pharma Plus Drugmarts (10,904)	100%
Glendale Marketplace, Pickering, ON	6.3%	15	53,963	18.51	GA	1988	100%	8.2	Your Independent Grocer (35,521), Pharma Plus Drugmarts (9,610)	100%
Victoria Crossing Marketplace, Toronto, ON	6.3%	14	65,859	14.62	GA	1986	97%	3.5	Freshco (35,384), Rogers (5,113)	100%
Spring Farm Marketplace, Vaughan, ON	6.3%	23	73,202	19.52	GA	1987	100%	2.0	Sobeys (43,637), Shoppers Drug Mart (4,946)	100%
Dundas & 427 Marketplace I & II, Mississauga, ON	6.3%	20	97,860	12.44	GA	1987	100%	4.6	Starsky Foods (21,982), Staples (20,006)	100%
Cookstown Outlet Mall, Innisfil, ON (iv)	6.5%	31	80,875	20.85	OUT/PUD	1998	95%	4.0	Tommy Hilfiger (7,553), Oxford (7,108), Adidas (6,794)	50%
Sheppard Centre, Toronto, ON (v)	6.1%	109	339,182	16.11	MIX/PUD	1975	98%	6.3	Cineplex (78,845), Goodlife Fitness (23,800), Winners (23,777)	50%
549 College Street, Toronto, ON	6.0%	4	3,721	63.00	NGA	2006	100%	19.9	LCBO (3,721)	100%
266 King Street West, Oshawa, ON	6.7%	13	34,202	25.54	NFR	2005/2006	92%	7.6	Shoppers Drug Mart (18,970)	100%
Cowichan Commons, North Cowichan, BC	6.2%	50	186,629	17.08	NFR	2008	100%	14.9	Walmart (170,494), Canadian Tire*, Home Depot*	100%
<b>Total Canada – Fourth Quarter 2011 Acquisitions</b>	<b>6.2%</b>	<b>298</b>	<b>1,006,217</b>	<b>17.21</b>						
<b>UNITED STATES</b>										
<b>Inland Western</b>										
Alamo Ranch, San Antonio, TX	7.2%	76	326,357	19.03	NFR	2008	100%	6.5	Dick's Sporting Goods (50,000), Best Buy (45,000), Ross (30,187)	80%
1890 Ranch Shopping Center, Austin, TX	7.0%	80	389,517	16.62	NFR	2007	100%	7.7	Academy Sports (80,352), Gold's Gym (40,000), Cinemark (39,144)	80%
	<b>7.1%</b>	<b>156</b>	<b>715,874</b>	<b>17.72</b>						

# Management's Discussion and Analysis

Property name and location	Capitali- zation rate	RioCan's purchase price (i) (millions)	NLA (in sqft) at RioCan's interest	Weighted average in place rent	Asset class (ii) Year Built	% Leased	Weighted Average Remaining Lease Term (years) (iii)	Largest tenant(s) and NLA	RioCan's ownership interest
<b>Sterling</b>									
Cinco Ranch Shopping Center, Katy (Houston), TX	8.0%	14	78,209	14.85	NFR 2004	97%	5.2	HomeGoods (25,981), Michael's (21,322), Office Max (17,970), Target*	80%
<b>Dunhill</b>									
Timber Creek Crossing, Dallas, TX	6.1%	69	376,283	10.98	NFR 2011	100%	15.4	Walmart (157,207), Sam's Club (157,206), JC Penny (103,966)	80%
<b>US Acquisitions Without Partner</b>									
Village Shoppes of Salem, Salem, NH	7.0%	41	170,270	17.54	NFR 1999	100%	7.3	Best Buy (43,310), Sports Authority (41,760), Petsmart (29,860)	100%
Stonebridge Ranch, McKinney (Dallas), TX	7.6%	19	88,389	15.81	GA 2003	100%	12.3	Market Street Grocers (65,000)	100%
Colleyville Center, Colleyville (Dallas), TX	7.5%	12	72,617	12.67	GA 2003	100%	11.8	Market Street Grocers (72,617)	100%
	7.3%	72	331,276	16.01					
<b>Total US – Fourth Quarter 2011 Acquisitions</b>	6.9%	311	1,501,642	15.50					
<b>Fourth Quarter 2011 Acquisitions</b>	<b>6.6% \$</b>	<b>609</b>	<b>2,507,859 \$</b>	<b>16.19</b>					
<b>CANADA</b>									
Repentigny Shoppers Drug Mart, Repentigny (Montreal), QC	7.0% \$	5	17,035 \$	22.00	NGA 2009	100%	13.3	Shoppers Drug Mart (17,035)	100%
Mega Centre Rive-Sud, Levis (Quebec City), QC	6.2%	48	207,201	15.17	NFR 2006	96%	8.7	Wal-Mart (111,930), Canadian Tire*, Home Depot*	100%
Southwinds Crossing, Oliver, BC	6.7%	21	73,972	18.77	GA 2010	100%	13.7	Buy Low Foods (23,900), Canadian Tire (23,100)	100%
<b>Total Canada – Third Quarter 2011 Acquisitions</b>	6.4%	74	298,208	16.45					
<b>UNITED STATES</b>									
<b>Inland Western</b>									
Sawyer Heights SC, Houston, TX	6.2%	27	86,041	25.77	NFR 2007	88%	6.5	Staples (20,138), PetSmart (20,156), Target*	80%
Southpark Meadows II, Austin, TX	6.6%	88	523,440	13.45	NFR 2006/2008	100%	6.4	JC Penney (98,132), Hobby Lobby (61,095), Sports Authority (42,000), Super Target*	80%
	6.5%	115	609,481	15.19					
<b>US Acquisitions Without Partner</b>									
Huntington Square Plaza, Huntington, NY	6.2%	39	116,201	22.56	GA 2002	100%	11.8	Stop & Shop (69,215), Best Buy (47,000)	100%
Stop & Shop Plaza, Richmond, Rhode Island	7.4%	12	60,488	15.72	GA 2008	100%	6.2	Stop & Shop (53,988)	100%
	6.5%	51	176,689	20.22					
<b>Total US – Third Quarter 2011 Acquisitions</b>	6.5%	166	786,170	16.32					
<b>Third Quarter 2011 Acquisitions</b>	<b>6.5% \$</b>	<b>240</b>	<b>1,084,378 \$</b>	<b>16.36</b>					
<b>CANADA</b>									
RioCan Elgin Mills Richmond Hill, ON (additional 12.5% acquired)	6.0% \$	10	40,041 \$	15.24	NFR 2009	100%	10.9	Costco (114,774), Michael's (21,575), Staples (20,620)	75%
Flamborough Power Centre, Hamilton, ON	6.9%	36	186,688	11.75	NFR 2007	100%	9.0	Target (116,493), Value Village (25,206)	100%
<b>Total Canada – Second Quarter 2011 Acquisitions</b>	6.7%	46	226,729	12.34					

# Management's Discussion and Analysis

Property name and location	Capitalization rate	RioCan's purchase price (i) (millions)	NLA (in sqft) at RioCan's interest	Weighted average in place rent	Asset class (ii)	Year Built	% Leased	Weighted Average Remaining Lease Term (years) (iii)	Largest tenant(s) and NLA	RioCan's ownership interest
<b>UNITED STATES</b>										
<b>Cedar</b>										
Northwoods Crossing, Taunton, MA	7.6%	18	127,651	11.38	NFR	2003/2010	100%	11.6	BJ's Wholesale Club (115,367)	80%
<b>Inland Western</b>										
Bird Creek Crossing, Temple, TX	7.7%	16	99,953	15.04	NFR	2007/2009	94%	6.6	Best Buy (30,038), PetSmart (19,900), Target*, Home Depot*	80%
<b>Dunhill</b>										
Lincoln Square, Arlington, TX	7.2%	56	359,812	13.05	NFR	1984/2008	91%	4.7	Stein Mart (45,000), Ross Dress for Less (30,049), Best Buy (30,038)	82%
<b>Total US – Second Quarter 2011 Acquisitions</b>	<b>7.3%</b>	<b>90</b>	<b>587,416</b>	<b>13.02</b>						
<b>Second Quarter 2011 Acquisitions</b>	<b>7.1% \$</b>	<b>136</b>	<b>814,145 \$</b>	<b>12.82</b>						
<b>CANADA</b>										
Grant Crossing, Ottawa, ON (Additional 26.6%)	6.8% \$	6	21,125 \$	12.15	NFR	2010/2011	100%	14.6	Lowe's* (128,000), Winners, Homesense, Michaels	60%
Highway 401 & Thickson Road – Phase I Whitby, ON (Additional 25%)	7.5%	6	24,645	13.51	NFR	2007	100%	17.7	Rona (98,580)	50%
Pembroke Shoppers Drug Mart, Pembroke, ON	7.3%	5	17,020	21.98	NGA	2006	100%	10.0	Shoppers Drug Mart (17,035)	100%
Rexall Pharma Plus – 2950 Carling Avenue, Ottawa, ON	6.9%	4	10,422	27.00	NGA	2008	100%	13.0	Pharma Plus (10,442)	100%
RioCan Centre Belcourt, Ottawa, ON (Additional 26.6%)	6.8%	6	15,557	19.82	NFR	2011	100%	9.9	Lowe's* (142,000), Empire Theatre, Food Basics	60%
RioCan Colossus Centre, Vaughan, ON (Additional 10%)	6.3%	17	58,263	9.71	NFR	2000/2008	99%	6.7	Rona (121,000), Famous Players - Cineplex (101,000) Costco* (130,000)	70%
Silver City Gloucester, Ottawa, ON (Additional 10%)	6.3%	8	22,722	14.86	NFR	2000	100%	4.7	Famous Players Silver City, Chapters, Future Shop	70%
Trinity Common Brampton, Brampton, ON (Additional 10%)	6.3%	18	66,255	13.06	NFR	1999/2004	100%	5.6	Famous Players - Cineplex, Metro, Canadian Tire*, Home Depot*	70%
Whiteshield Plaza, Toronto, ON	6.5%	18	155,911	9.09	GA	1959/1985	80%	3.0	Lone Thai Grocery (sublease)	100%
<b>Total Canada – First Quarter 2011 Acquisitions</b>	<b>6.6%</b>	<b>88</b>	<b>391,920</b>	<b>12.09</b>						
<b>First Quarter 2011 Acquisitions</b>	<b>6.6% \$</b>	<b>88</b>	<b>391,920 \$</b>	<b>12.09</b>						
<b>2011 Acquisitions:</b>										
<b>Canada</b>	<b>6.4% \$</b>	<b>506</b>	<b>1,923,074 \$</b>	<b>15.48</b>						
<b>US</b>										
<b>Cedar</b>	<b>7.6%</b>	<b>18</b>	<b>127,651</b>	<b>11.38</b>						
<b>Inland Western</b>	<b>6.9%</b>	<b>287</b>	<b>1,425,308</b>	<b>16.45</b>						
<b>Dunhill</b>	<b>6.6%</b>	<b>125</b>	<b>736,095</b>	<b>11.99</b>						
<b>Sterling</b>	<b>8.0%</b>	<b>14</b>	<b>78,209</b>	<b>14.85</b>						
<b>Without Partner</b>	<b>6.9%</b>	<b>123</b>	<b>507,965</b>	<b>17.47</b>						
	<b>6.9%</b>	<b>567</b>	<b>2,875,228</b>	<b>15.22</b>						
<b>2011 Acquisitions</b>	<b>6.6% \$</b>	<b>1,073</b>	<b>4,798,302 \$</b>	<b>15.32</b>						

(i) Excludes closing costs and other acquisition related costs.

(ii) "GA" – Grocery Anchored Centre; "NGA" – Non Grocery Anchored Centre; "NFR" – New Format Retail; "MIX" – Mixed use; "PUD" – Property Under Development; "OUT" – Outlet Mall.

(iii) Weighted average based on gross rental revenue.

(iv) The Cookstown Outlet Mall acquisition includes excess density valued at \$7 million at RioCan's share. The cap rate is based on the \$24 million at RioCan's share allocated to the building. \$7 million of the purchase price at RioCan's share has been held back and will be paid if certain conditions are met within 18 months of closing. The excess density has the potential for approximately 159,000 square feet of retail development.

(v) The Sheppard Centre acquisition includes excess density valued at \$14 million at RioCan's share. The cap rate is based on the \$95 million allocated to the building at RioCan's share. The excess density has the potential for 450,000 to 530,000 square feet of retail and residential/condo development.

\* –Shadow Anchor

# Management's Discussion and Analysis

## Income Property Acquisitions Completed Subsequent to December 31, 2011

Subsequent to year end, RioCan completed total acquisitions of income properties of \$44 million, representing RioCan's share of the purchase price comprised of approximately 147,000 additional square feet.

Property name and location	Capitalization rate	RioCan's purchase price (i) (millions)	NLA (in sqft) at RioCan's interest	Weighted average in place rent	Asset class (ii)	Year Built	% Leased	Weighted Average Remaining Lease Term (years) (iii)	Largest tenant(s) and ownership NLA	RioCan's ownership interest
<b>CANADA</b>										
Trinity Common Brampton, Brampton (GTA), ON (additional 10%)	6.0%	\$ 19	66,255	\$ 17.90	NFR	1999/2004	100%	5.5	Famous Players - Cineplex, Zellers, Metro	80%
RioCan Colossus Centre, Vaughan (GTA), ON (additional 10%)	6.3%	17	58,263	19.29	NFR	2000/2008	99%	6.9	Rona (121,000), Famous Players - Cineplex (101,000), Costco*	80%
Silver City Gloucester (Ottawa), ON (additional 10%)	6.3%	8	22,722	21.14	NFR	2000	100%	4.2	Famous Plyers - Silver City, Chapters, Future Shop	80%
	6.1%	44	147,240	18.95						
<b>Subsequent Acquisitions</b>	<b>6.1%</b>	<b>\$ 44</b>	<b>147,240</b>	<b>\$ 18.95</b>						

(i) Excludes closing costs and other acquisition related costs.

(ii) "NFR" – New Format Retail

(iii) Weighted average based on gross rental revenue

\* – Shadow Anchor

## Income Property Acquisitions under Contract (Firm)

RioCan currently has five income properties (three in Canada and two in the US) under contract where conditions have not yet been waived that, if completed, represent \$71 million of acquisitions at RioCan's interest.

These transactions are in various stages of due diligence and while efforts will be made to complete these transactions, no assurance can be given.

# Management's Discussion and Analysis

## Acquisitions During 2010

Location	Capitalization rate	RioCan's purchase price (i) (millions)	NLA (in sqft) at RioCan's interest
CANADA	7.2%	\$ 105	440,718
UNITED STATES	7.8%	215	1,542,193
Fourth Quarter 2010 Acquisitions	7.6%	\$ 320	1,982,911
CANADA	7.0%	165	838,030
UNITED STATES	7.7%	209	1,416,811
Third Quarter 2010 Acquisitions	7.4%	\$ 374	2,254,841
CANADA	7.2%	40	245,509
UNITED STATES	8.5%	47	419,957
Second Quarter 2010 Acquisitions	7.9%	\$ 87	665,466
CANADA	7.8%	122	294,386
UNITED STATES	8.5%	83	460,817
First Quarter 2010 Acquisitions	8.1%	\$ 205	755,203
2010 Acquisitions:			
Canada	7.3%	\$ 432	1,818,643
US			
Inland Western	7.7%	131	968,409
Cedar	8.0%	396	2,669,133
Kimco and Dunhill	7.5%	27	202,236
	7.9%	554	3,839,778
2010 Acquisitions	7.6%	\$ 986	5,658,421

(i) Excludes closing costs and other acquisition related costs.

## Capital Expenditures on Income Properties

Capital spending for new property acquisitions, greenfield developments and the redevelopment of RioCan's existing properties to create and/or extract additional value are expected to improve the overall earnings capacity of the property portfolio. RioCan considers such amounts to be investing activities. As a result, RioCan does not expect such expenditures to be funded from cash flows from operating activities and does not consider such amounts as a key determinant in setting the amount that is distributed to its Unitholders.

Productive capacity maintenance capital expenditures refer to capital expenditures that are necessary to maintain the existing earnings capacity of the Trust's property portfolio and are dependent upon many factors, including, but not limited to the age and location of the income properties. As at December 31, 2011, the estimated weighted average age of the income property portfolio is 15.4 and 11.1 years for the Canadian and US portfolios respectively (December 31, 2010 – 14 years for the Canadian portfolio). Productive capacity maintenance capital expenditures are considered in determining the amount that is distributed to Unitholders and primarily consist of:

- Tenant installation costs

RioCan's portfolio requires ongoing investments of capital for tenant installation costs related to new and renewal tenant leases. Tenant installation costs consist of tenant improvements and other leasing costs, including certain costs associated with RioCan's internal leasing professionals, primarily compensation costs.

Investments of capital for tenant installation costs for RioCan's income properties are dependent upon many factors, including, but not limited to, the lease maturity profile, unforeseen tenant bankruptcies and the location of the income properties. Current year expenditures include the payment of amounts concerning lease deals completed in late 2009 and 2010 for unanticipated tenant bankruptcies or store closures, which are more expensive on a per square foot basis than normal tenant rollovers.

- Recoverable and non-recoverable maintenance capital expenditures

RioCan also invests capital on a continuous basis to physically maintain the income properties. Typical costs incurred are for roof replacement programs and the resurfacing of parking lots. Tenant leases generally provide for the ability to recover a significant portion of such costs from tenants over time as property operating costs. RioCan expenses or capitalizes these amounts to income properties, as appropriate.

As the majority of the portfolio is located in Canada and the northeastern US, the majority of such activities occur when weather conditions are favourable. As a result, these expenditures are not consistent throughout the year.

# Management's Discussion and Analysis

Expenditures for tenant installation costs and recoverable and non-recoverable maintenance capital included in income properties are as follows:

<i>(millions of dollars) Year ended December 31,</i>	2010	2011	Estimated expenditures for 2012	Normalized expenditures for 2012
Tenant installation costs	\$ 31	\$ 41	\$ 22	\$20 to \$22
Maintenance capital expenditures:				
Recoverable from tenants	10	10	13	\$11 to \$13
Non-recoverable from tenants	7	8	8	\$6 to \$8
	\$ 48	\$ 59	\$ 43	\$37 to \$43
Expenditures related to revenue enhancement (i)			9	
Office capital investment (ii)		8	12	
	\$ 48	\$ 67	\$ 64	\$37 to \$43

(i) Related to retrofit/redevelopment of properties where Target has taken assignment of the Zellers premises.

(ii) Expenditures related to one-time upgrades to mechanical/electrical components (that will have a 30-year life) of urban office assets.

The growth in tenant installation costs and maintenance capital expenditures is due to the overall growth of the Trust's portfolio. In 2011, tenant installation costs were unusually high due to tenant failures that occurred in 2010 and 2009.

## Joint Venture and Partnership Activities

Co-ownership activities represent real estate investments in which RioCan owns an undivided interest and where it has joint control with its partners. RioCan records its proportionate share of assets, liabilities, revenue and expenses of all co-ownerships in which it participates. RioCan consolidates 100% of the accounts of the properties it acquired with Cedar and Sterling. Where there is a party with a minority investment in a property that the Trust controls, that minority interest is reflected as "Non-controlling interest" in the consolidated financial statements.

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

Generally, the Trust is only liable for its proportionate share of the obligations of the co-ownerships in which it participates, except in limited circumstances. Credit risk arises in the event that co-owners default on the payment of their proportionate share of such obligations. Co-ownership agreements will typically provide RioCan with an option to remedy any non-performance by a defaulting co-owner. These credit risks are mitigated as the Trust has recourse against the asset under its co-ownership agreements in the event of default by its co-owners, in which case the Trust's claim would be against both the underlying real estate investments and the co-owners that are in default. In addition to the matter noted above, RioCan has provided guarantees on debt totalling \$360 million to partners and co-owners.

## Total Assets by Joint-Venture—proportionate share\*

<i>(millions of dollars) As at December 31, 2011</i>	Number of Properties	Total Assets	Total Liabilities	NOI
Kimco	45	\$ 1,091	\$ 493	\$ 68
Trinity	17	817	399	39
CPPIB	4	328	62	18
CPPIB/Trinity	3	72	1	-
Devimco	1	168	98	10
Sun Life	3	52	14	4
Kimco/Dunhill	1	33	17	2
Dunhill	2	130	74	3
Inland Western	14	521	266	16
Other	20	483	248	22
Total Co-ownership	110	3,695	1,672	182
Cedar	22	661	330	45
Sterling	1	18	11	-
Total Joint-Venture	133	\$ 4,374	\$ 2,013	\$227

\* Excluding Cedar and Sterling which is shown at 100%.

# Management's Discussion and Analysis

RioCan's major partners in Canada include the following:

## *Canada Pension Plan Investment Board*

CPPIB is a professional investment management organization based in Toronto whose purpose is to invest the assets of the Canada Pension Plan ("CPP") in a way that maximizes returns without undue risk of loss. For more information about CPPIB please visit its website at [www.cppib.ca](http://www.cppib.ca).

## *Kimco Realty Corporation*

Kimco Realty Corporation, a publicly traded real estate investment trust, owns and operates North America's largest portfolio of neighbourhood and community shopping centres. The company has specialized in shopping centre acquisitions, development and management for 50 years. For more information about Kimco please visit its website at [www.kimcorealty.com](http://www.kimcorealty.com). As at December 31, 2011, RioCan co-owns with Kimco 45 properties in Canada and 1 property in the US (December 31, 2010 — 45 and 1 respectively).

## *KingSett Capital*

In the fourth quarter of 2011, RioCan formed a partnership with KingSett Capital Inc ("KingSett") to acquire Sheppard Centre in Toronto, Ontario, on a 50/50 co-ownership basis. RioCan will perform property management, leasing and development management at this property. Subsequently RioCan and KingSett also entered into a joint venture to develop the Sage Hill development property, located in Calgary. KingSett is a private equity real estate business with investments focused on office, retail and industrial properties in the central and suburban business districts of Canada's major markets. KingSett sources, capitalizes and develops asset management investment opportunities, creates value through active management, and seeks "best of class" providers for property management, development management and leasing services. For more information about KingSett, please see [www.kingsettcapital.com](http://www.kingsettcapital.com)

## *Sun Life Financial*

Sun Life is a leading international financial services organization providing a diverse range of protection and wealth accumulation products and services to individuals and corporate customers. Chartered in 1865, Sun Life and its partners today have operations in key markets worldwide, including Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China and Bermuda. For more information about Sun Life please visit its website at [www.sunlife.ca](http://www.sunlife.ca).

## *Trinity Development Group*

Founded by John Ruddy, Trinity has played a prominent role in the development of new format regional retail centres across Canada. The private company also continues to construct and lease high quality food-anchored neighbourhood and convenience centres in several Canadian markets. For more information about Trinity please visit its website at [www.trinity-group.com](http://www.trinity-group.com).

## *Other joint investments*

RioCan also has a variety of partners in addition to those noted above such as, Canada Mortgage and Housing Corporation Pension Fund, First Gulf Corporation, Devimco Group Inc., Bayfield Realty Advisors, and Quebec Retail Properties Inc.

RioCan's major partners in the United States include the following:

## *Cedar*

Cedar (NYSE:CDR) is a real estate investment trust that primarily owns supermarket-anchored shopping centres. Their core portfolio of 92 primarily supermarket-anchored shopping centres straddling the Washington, DC to Boston corridor totals 13.2 million square feet of GLA, including the Company's ownership interest through a joint venture in 22 similarly-situated supermarket-anchored shopping centres, having approximately 3.7 million square feet of GLA managed by Cedar. For more information about Cedar, please see [www.cedarrealtytrust.com](http://www.cedarrealtytrust.com)

As at December 31, 2011, RioCan owned 9.4 million common shares of Cedar (December 31, 2010 – 9.4 million) and in addition to the 22 properties co-owned with Cedar, RioCan owns 100% of three US properties for which Cedar provides property management services.

## *Dunhill*

Dunhill is a commercial real estate brokerage and investment firm that currently owns and manages more than 4 million square feet of retail properties. Dunhill specializes in the acquisition, sale, leasing and management of commercial property. For more information about Dunhill please visit its website at [www.dunhillpartners.com](http://www.dunhillpartners.com).

## *Inland Western*

Inland Western is a real estate investment trust that acquires, manages and develops a diversified portfolio of real estate, primarily multi-tenant shopping centres across the United States totalling in excess of 44 million square feet, consisting of 306 properties nationally, both wholly owned and partially owned, including 4 properties under development. Inland Western's net real estate investment totals US\$5.3 billion. For more information on Inland Western, please see [www.inland-western.com](http://www.inland-western.com)

# Management's Discussion and Analysis

## *Sterling Organization, LLC*

In August 2011, RioCan formed a joint venture to acquire real estate in the US owned 80% by RioCan and 20% by Sterling Organization, LLC ("Sterling"). Sterling is a diversified real estate investment, development and services company. Focused on the opportunistic acquisition of quality grocery anchored and big box power centres, Sterling and its principals own approximately five million square feet of retail and other commercial real estate, located primarily in Florida and Texas. The RioCan Sterling joint venture completed its first acquisition on October 19, 2011, acquiring Cinco Ranch Shopping Center located in Houston, TX. Pursuant to a property management agreement, Sterling will manage Cinco Ranch Shopping Centre. For more information please see [www.sterlingorganization.com](http://www.sterlingorganization.com).

In addition to the property co-owned with Sterling, property management services are provided by Sterling for two of RioCan's 100% owned properties in the US.

## **PROPERTIES UNDER DEVELOPMENT**

RioCan has a development program primarily focused on new format and urban retail centres. The provisions of the Trust's Declaration have the effect of limiting direct and indirect investments, net of related mortgage debt, in non-income producing properties to no more than 15% of the Adjusted Unitholders' Equity of the Trust. "Adjusted Unitholders' Equity" is a non-GAAP measure defined in RioCan's Declaration as the amount of unitholders' equity plus the amount of accumulated amortization of income properties recorded by the Trust, calculated in accordance with GAAP. At December 31, 2011, RioCan was in compliance with this restriction. RioCan undertakes such developments on its own, or on a co-ownership or partnership basis, with established developers to whom the Trust generally provides mezzanine financing. With some exceptions for land in the high growth markets, generally RioCan will not acquire or fund significant expenditures for undeveloped land unless it is zoned and an acceptable level of space has been pre-leased or pre-sold. An advantage of unenclosed, new format retail is that it lends itself to phased construction keyed to leasing levels, which avoids the creation of meaningful amounts of vacant space. In addition to RioCan's various development projects, the Trust also contributes to portfolio growth through the intensification of existing properties where RioCan has identified opportunities to increase density or add to an existing asset. This intensification of existing properties contributes to NOI growth in an efficient manner, leveraging the existing asset base, and can also lead to significant gains resulting from the sale of residential rights.

During the second and third quarters of 2011, RioCan acquired four land parcels of an urban redevelopment site located near Bathurst Street and College Street in Toronto, Ontario. This 1.3 acre site is located just west of Toronto's downtown core. The property is expected to be developed into a 139,000 square foot three storey urban retail building. The property was acquired with Trinity, with the ownership being RioCan 60% and Trinity 40%. RioCan will provide property management, development and leasing services to this property.

During the third quarter of 2011, RioCan conveyed to Trinity a 40% interest in Whiteshields Plaza, a 160,510 square foot shopping centre located in Toronto, Ontario, for a purchase price of \$8 million. RioCan will continue to manage the property on behalf of the joint venture. RioCan will be managing the development of this site.

During the third and fourth quarters of 2011, RioCan acquired four land parcels of an urban redevelopment site located on the northeast corner of the intersection of Yonge Street and Eglinton Avenue in Toronto, Ontario. Depending on the land area RioCan is able to acquire, it is expected that the site will be redeveloped into between 55,000 and 109,000 square feet of mixed residential/urban retail space. The property was acquired with Metropia and Bazis Inc, with the ownership being RioCan 50% and Metropia and Bazis Inc. each holding 25%.

Properties under development include:

As at December 31, 2011

Greenfield properties less than 90% complete <i>(i)</i>	\$210
Redevelopment and land use intensification of income properties	167
	<hr/>
	\$377

(i) Included in "Development Pipeline Summary" table

# Management's Discussion and Analysis

## Development Properties Continuity

The change in the net carrying amount is as follows:

(millions of dollars)

Year ended December 31,	2011	2010
Balance, beginning of year	\$ 268	\$208
Acquisitions (i)	102	41
Development expenditures	101	74
Changes in fair values of properties under development	23	(20)
Completion of properties under development	(150)	(55)
Transfers from income properties	14	39
Reclassification	17	-
Other	2	(19)
Balance, end of year	\$ 377	\$268

(i) Comprised of the purchase price including closing costs and other acquisition related costs.

As at December 31, 2011, RioCan's greenfield development pipeline will, upon completion, comprise approximately 8.9 million square feet, of which RioCan's ownership interest will be approximately 4.6 million square feet which includes approximately 1.2 million square feet that is income producing.

The change in the potential development square footage of RioCan's interest in its greenfield development pipeline is as follows:

(thousands of square feet)	Three months ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Potential development:				
Balance, beginning of year	4,714	3,397	3,046	2,956
Acquisitions	-	55	1,489	589
Substantial completion of greenfield development projects	(91)	(261)	(167)	(261)
Transfer from (to) properties held for resale			-	(75)
Disposition of properties under development	-	(75)	-	-
Reclassification	-	-	25	-
Other	9	(70)	239	(163)
Properties under development, end of year	4,632	3,046	4,632	3,046

# Management's Discussion and Analysis

## DEVELOPMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2011, RioCan completed acquisitions of interests in four properties to be fully redeveloped and land for development at an aggregate purchase price of \$71 million at RioCan's interest. Additionally, RioCan completed acquisitions of excess density at an aggregate purchase price of \$31 million at RioCan's interest in connection with the acquisitions of interests in five income properties. In total, acquisitions of development property aggregated \$102 million in 2011.

Property name and location	RioCan's purchase price (i) (millions)	Expected NLA (in sqft) at RioCan's interest upon completion of re/development	Asset class to be re/developed (ii)	Expected year of completion	Partner's	RioCan's ownership interest
<i>Acquisitions of properties to be fully redeveloped and land for development</i>						
Yonge Street & Eglinton Avenue land assembly, Toronto, ON (iii)	\$ 17	27,000	MIX	2017	Metropia (Yonge and Eglinton) LP (25%), Basis E Inc. (25%)	50%
Bathurst Street land assembly, Toronto, ON (iv)	12	83,400	URB	2015	Trinity (40%)	60%
Windfield Farm Oshawa, ON (additional 66.7%) (v)	29	1,061,000	NFR	2018	None	100%
Herongate Mall Ottawa, ON (vi)	13	135,000	NFR	2014	Trinity (25%)	75%
<b>Total acquisitions of properties to be fully redeveloped and land for development</b>	<b>\$ 71</b>					
<i>Acquisitions of excess density in connection with acquisitions of income properties</i>						
Highway 401 & Thickson Road – Phase I, Whitby, Ontario (additional 25%)	\$ 2	26,500	NFR	(vii)	Wynn (50%)	50%
Flamborough Power Centre, Hamilton, Ontario	6	94,000	NFR	2013	None	100%
RioCan Centre Belcourt, Ottawa, Ontario (additional 26.6%)	2	15,000	NFR	2013	Shenkman (20%), Trinity (20%)	60%
Cookstown Outlet Mall, Innisfil, Ontario	14	79,500	OUT	(vii)	Tanger (50%)	50%
Sheppard Centre, Toronto, Ontario	7	n/d	MIX	(vii)	KingSett (50%)	50%
<b>Total acquisitions of excess density in connection with acquisitions of income properties</b>	<b>\$ 31</b>					
<b>Total 2011 acquisitions of development property</b>	<b>\$ 102</b>					

(i) Excludes closing costs and other acquisition related costs.

(ii) "MIX – Mixed Use Centre; "NFR" – New Format Retail; "URB" – Urban Retail; "OUT" – Outlet Mall.

(iii) The Yonge Street & Eglinton Avenue land assembly is a multi-parcel assembly located on the north east corner of the intersection of Yonge Street and Eglinton Avenue in Toronto, ON. It is expected that the site will be redeveloped into a residential/urban retail space. Four parcels have been acquired in 2011.

(iv) The Bathurst Street land assembly is a four-parcel assembly located near the intersection of Bathurst Street and College Street in Toronto, ON. The total land area of this assembly is 1.3 acres and it is expected that the site will be redeveloped into 139,000 square feet of urban retail space. The Trust has entered into a partnership with Trinity, where Trinity has acquired a 40% ownership interest in this development. All four parcels have been acquired in 2011.

(v) RioCan acquired its partners' interests in the Windfield Farms development property, located in the Greater Toronto Area, with the potential for development of up to 1.2 million square feet of retail space.

(vi) Herongate Mall is situated on a 16 acre site in a mature area of Ottawa. Upon completion, this redevelopment site will be anchored by many of the existing tenants at the property including Metro, PharmaPlus and Scotiabank. It is expected that the site will be redeveloped into 180,000 square feet of retail space.

(vii) To be determined based on market conditions.

n/d not determined

# Management's Discussion and Analysis

## Development Property Acquisitions under Contract

RioCan has waived conditions pursuant to the purchase and sale agreement with respect to one development site that, if completed, represents an acquisition of \$16 million, at RioCan's interest.

- Sage Hill Crossing: RioCan has waived conditions pursuant to a purchase agreement for the acquisition of a 50% interest in Sage Hill Crossing, a 32 acre Greenfield development site in Northwest Calgary. Once completed, the anticipated gross leasable area is 347,000 square feet of retail use. The anticipated closing is September 2012. Development is expected to commence in 2013. RioCan assigned the right to acquire the remaining 50% interest to KingSett on December 7, 2011.

Additionally, RioCan currently has five development sites in Canada under contract where conditions have not yet been waived that, if completed, represent \$53 million of acquisitions at RioCan's interest. These transactions are in various stages of due diligence and while efforts will be made to complete these transactions, no assurance can be given.

## Development Activities in 2011

During the three months ended December 31, 2011, RioCan completed 91,000 square feet (three months ended December 31, 2010 – 237,000 square feet) of redevelopment and development activities which pertain to the completion of development projects in 2011.

During the year ended December 31, 2011, RioCan completed 280,000 square feet (year ended December 31, 2010 – 262,000 square feet) of redevelopment and development activities which pertain to the completion of development projects in 2011.

In addition to its development projects, RioCan continues its urban intensification activities, primarily in the Toronto, Ontario market.

A summary of RioCan's 2011 transfers to Income Properties from development projects is as follows:

Property location	RioCan's ownership interest	NLA (in square feet) at RioCan's Interest					NLA at 100%
		2011					
		Total	Fourth quarter	Third quarter	Second quarter	First quarter	
Avenue Road, Toronto, ON	100%	19,291	–	–	12,480	6,811	19,291
Brentwood Village, Brentwood, AB	50%	4,050	4,050	–	–	–	8,100
Cimarron Shopping Centre, Okotoks, AB	50%	38,416	3,048	4,022	11,287	20,059	76,832
Grant Crossing, Ottawa, ON (i)	60%	47,829	3,738	25,331	3,700	15,060	79,715
March Road, Ottawa, ON	50%	43,596	–	13,069	30,527	–	87,192
RioCan Centre Belcourt, Ottawa, ON (i)	60%	35,587	24,320	–	9,333	1,934	59,312
Westney Road & Taunton Road, Ajax, ON	20%	2,234	–	1,215	1,019	–	11,170
Shoppes on Queen West, Toronto, ON	100%	88,533	55,608	32,925	–	–	88,533
		279,536	90,764	76,562	68,346	43,864	430,145

(i) RioCan's ownership interest increased from 33.3% to 60% in the first quarter of 2011.

A summary of RioCan's 2010 transfers to Income Properties from development projects and land use intensification activity is as follows:

Property location	RioCan's ownership interest	NLA (in square feet) at RioCan's Interest					NLA at 100%
		2010					
		Total	Fourth quarter	Third quarter	Second quarter	First quarter	
Corbett Centre, Fredericton, NB (i)	100%	13,107	7,826	2,701	–	2,580	14,655
Grant Crossing, Ottawa, ON	33.3%	25,820	25,820	–	–	–	77,538
RioCan Centre Belcourt, Ottawa, ON	33.3%	1,473	550	–	–	923	4,423
RioCan Gravenhurst, Gravenhurst, ON (ii)	100%	3,830	–	1,200	749	1,881	9,098
RioCan Centre Barrie, Barrie, ON	100%	24,500	24,500	–	–	–	24,500
RioCan Centre Vaughan, Ph 1, Vaughan, ON	100%	1,513	–	1,513	–	–	1,513
Westney Road & Taunton Road, Ajax, ON	20%	10,175	975	–	9,200	–	50,875
		80,418	59,671	5,414	9,949	5,384	182,602
Land use intensification	50% - 100%	181,495	177,551	3,944	–	–	180,838
		261,913	237,222	9,358	9,949	5,384	363,440

(i) RioCan's ownership interest increased from 62.5% to 100% in the second quarter of 2010.

(ii) RioCan's ownership interest increased from 33.3% to 100% in the third quarter of 2010.

# Management's Discussion and Analysis

## **Urban Intensification**

Land use intensification opportunities arise from the fact that retail centres are generally built with lot coverage of approximately 25% of the underlying land. Therefore, particularly in urban markets, RioCan can obtain additional density, retail or otherwise, on its existing property portfolio and, as the Trust already owns the underlying land, it is able to achieve relatively high returns on the sale of non-retail use density. A summary of significant projects underway is as follows.

### ***Brentwood Village Shopping Centre, Calgary, Alberta***

Brentwood Village Shopping Centre is owned in a joint venture between RioCan and Kimco where air rights and residential density associated with a 3.6 acre parcel have been sold. The purchaser is redeveloping the site, which will involve approximately 50,000 square feet of the existing retail being demolished and replaced with a number of mixed-used buildings, with approximately 40,000 square feet of retail space. The RioCan and Kimco joint venture ("RioKim") retained the ownership of the retail component of the site.

### ***RioCan Yonge Eglinton Centre***

RioCan has launched a thorough revitalization and expansion plan at RioCan Yonge Eglinton Centre in Toronto, Ontario that will capitalize on the area's residential intensification, including 46,000 square feet of new retail space, a connection to the office towers and ingress/egress to the food court and subway, improvements to parking, as well as a combined 12- storey, 210,000 square foot expansion of the office towers. In April 2010, RioCan received approval for its rezoning application for this expansion. In August 2010, RioCan submitted plans for site plan approval and in July 2011 the zoning by-law was passed at the Council meeting. Subject to receipt of all final approvals, it is expected that construction of the new retail space can begin in spring 2012.

### ***Dupont Street, Toronto, Ontario***

This 1.4 acre site, located on Dupont Street near Ossington Avenue, is north-west of the downtown core of Toronto. The site is expected to be developed into 184,000 square foot three storey urban retail building. RioCan has a 100% ownership interest in the site.

### ***Bathurst Street and College Street, Toronto, Ontario***

This 1.3 acre, four parcel land assembly is located just west of the downtown core in Toronto near Bathurst Street and College Street. The site is expected to be developed into 139,000 square foot three storey urban retail building. The site is owned by RioCan (60%) and Trinity (40%). RioCan is responsible for the development at this site.

### ***North East Corner of Yonge and Eglinton, Toronto***

RioCan, along with Metropia and Bazis Inc., residential developers focused on the City of Toronto, has acquired four parcels of a land assembly on the northeast corner of Yonge Street and Eglinton Avenue in Toronto. The parcels include a 6,230 square foot single tenant building, a 5,283 square foot multi-tenant use building, a 14,960 square foot multi-tenant use building and a 30-unit apartment building. Depending on the total land area RioCan and its partners are able to acquire, it is expected that the site will be redeveloped into between 54,000 and 109,000 square feet of urban retail space in addition to a multi storey residential development. RioCan has a 50% interest and each of Metropia and Bazis Inc. hold a 25% interest in the site.

## **Development Pipeline Summary**

On an individual development basis, the majority of the projects are estimated to generate yields of approximately 7% to 11%. On an aggregate basis, RioCan expects these development projects to generate a weighted average net operating income yield of 8.5% to 9.5%. Capital expenditures for Greenfield Development projects for 2012 are estimated to be approximately \$39 million before construction financing, or approximately \$37 million, net of current construction financing arranged. For 2012, RioCan expects to fund approximately \$9 million of certain partners' costs under the Trust's mezzanine lending program, primarily with Trinity. During the year ended December 31, 2011, total costs incurred and mezzanine loans advanced were approximately \$53 million.

RioCan is committed to property development and redevelopment opportunities and is focused on completing the construction of the development pipeline underway, on time and on budget, and continuing to make progress on leasing. Commencement of construction for several of the development projects have been deferred until economic conditions warrant. Potential anchor tenants are currently more cautious in committing to new developments, which will impact the timing of several developments, as RioCan will not commence construction until it has secured the requisite leasing commitments and appropriate risk-adjusted returns.

RioCan's estimated development project square footage and development costs are subject to change, which changes may be material to the Trust, as assumptions regarding, among other items, anchor tenants, land sales to shadow anchors, tenant rents, building sizes, project completion timelines, availability and cost of construction financing, and project costs, are updated periodically based on revised site plans, the cost tendering process and continuing tenant negotiations.

During 2011, there has been increased activity in certain greenfield development projects including: Cimarron Shopping Centre in Okotoks, Alberta and RioCan Centre Belcourt, Grant Crossing and March Road in Ottawa, Ontario. RioCan launched the St. Clair Avenue and Weston Road project in the third quarter of 2011.

Development activity is expected to increase in the upcoming years due to demand from US based tenants entering the Canadian market and the demand from existing tenants especially in urban locations. Due to the economic recession of the last few years,

# Management's Discussion and Analysis

the level of development in general has been low across the country. In addition, RioCan's exclusive joint venture with Tanger will result in the development of outlet shopping centers.

Highlights of RioCan's development pipeline as at December 31, 2011, are as follows:

	RioCan's % ownership	Partner	Estimated square feet upon completion of the development project				Total leasing activity	% Leased (iii)	Anticipated date of development completion	
			Total estimated development	Retailer owned anchors (i)	RioCan's interest	Partners' interests			Current development	Potential future developments
<i>Active Development Sites:</i>										
Cimarron Shopping Centre, Okotoks, AB	50%	Trinity/Tristar	446	244	102	100	79	39%	Q1 2012	2014
Corbett Centre, Fredericton, NB	100%		473	242	231	-	156	68%	Q3 2012	2013
Eglinton Avenue & Warden Avenue, Toronto, ON	100%		169	-	169	-	151	89%	Q2 2012	2013
Flamborough Power Centre, Hamilton, ON	100%		281	-	281	-	187	67%	-	2013
Flamborough Wal-Mart Centre, Hamilton, ON	100%		317	-	317	-	298	94%	Q4 2012	2013
Grant Crossing, Ottawa, ON	60%	Trinity/Shenkman	404	128	166	110	216	78%	Q2 2012	2013
Herongate Mall, Ottawa, ON	75%	Trinity	180	-	135	45	-	0%	Q1 2013	2014
Riocan Centre Belcourt, Ottawa, ON	60%	Trinity/Shenkman	396	142	152	102	199	78%	Q2 2012	2013
Westney Road & Taunton Road, Ajax, ON	20%	Sunlife	174	-	35	139	86	49%	Q2 2012	2013
			2,840	756	1,588	496	1,372	66%		
<i>Greenfield and Urban Development Properties:</i>										
Bathurst Street & College Street, Toronto, ON	60%	-	139	-	84	55	-	0%	-	2015
Dupont Street, Toronto, ON	100%	-	184	-	184	-	-	0%	-	2017
East Hills, Calgary, AB	37.5%	CPP/Trinity/Sidorski/Tristar	1,586	-	595	991	-	0%	-	2013(iii)
Highway 401 & Thicksen Road - Phase II, Whitby, ON	100%	-	115	-	115	-	-	0%	-	2013
Jacksonport, Calgary, AB	25%	CPP/Trinity	1,141	427	179	535	-	0%	-	2013(iii)
NE Yonge Eglinton, Toronto, ON	50%	Bazis/Metropia	54	-	27	27	-	0%	-	2017
Riocan Centre Vaughan, Vaughan, ON Ph 2 & 3	31.25%	Trinity/Strathallan	300	-	94	206	-	0%	-	2014
St. Clair Avenue and Weston Road, Toronto, ON	25%	CPP/Trinity	563	-	141	422	-	0%	-	2014
Stouffville, ON	41.75%	Trinity	60	-	25	35	-	0%	-	2013
Windfield Farms, Oshawa, ON	100%	-	1,217	156	1,061	-	-	0%	-	2014(iii)
			5,359	583	2,505	2,271	-	0%		
<i>Excess Land Sites:</i>										
Highway 401 & Thicksen Road - Phase I, Whitby, ON	50%		205	-	102	103	99	48%	-	(iv)
Riocan Gravenhurst, ON	100%		301	-	301	-	150	50%	-	(iv)
Riocan Renfrew Centre, Renfrew, ON	100%		210	74	136	-	53	39%	-	(iv)
			716	74	539	103	302	47%		
<b>Total</b>			<b>8,915</b>	<b>1,413</b>	<b>4,632</b>	<b>2,870</b>	<b>1,674</b>	<b>22%</b>		

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

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

(iii) The first phases are expected to be substantially complete by the dates indicated.

(iv) To be determined based on market conditions.

# Management's Discussion and Analysis

(thousands of dollars)	RioCan's % ownership	Estimated project cost (100%) (i)	Acquisition and development expenditures incurred to date					Estimated remaining construction expenditures to complete		
			RioCan's interest			Partners' interest	Total	RioCan's interest	Partners' interest	Total
			Amount included in IPP	Amount included in PUD	Total					
<b>Active Leasing Sites:</b>										
Cimarron Shopping Centre, Okotoks, AB	50%	\$ 49,357	\$ 11,007	\$ 1,512	\$ 12,519	\$ 12,519	\$ 25,038	\$ 12,159	\$ 12,160	\$24,319
Corbett Centre, Fredericton, NB	100%	45,952	21,529	4,626	26,155	-	26,155	19,798	-	19,798
Eglinton Avenue & Warden Avenue, Toronto, ON	100%	44,247	31,031	7,168	38,199	-	38,199	6,049	-	6,049
Flamborough Power Centre, Hamilton, ON	100%	56,311	30,664	6,111	36,775	-	36,775	19,537	-	19,537
Flamborough Wal-Mart Centre, Hamilton, ON	100%	52,788	38,661	4,143	42,804	-	42,804	9,984	-	9,984
Grant Crossing, Ottawa, ON	60%	68,433	23,401	8,753	32,154	21,436	53,590	8,906	5,937	14,843
Herongate Mall, Ottawa, ON	75%	45,786	-	13,609	13,609	4,536	18,145	20,730	6,910	27,640
Riocan Centre Belcourt, Ottawa, ON	60%	58,425	24,944	2,723	27,667	18,445	46,112	7,388	4,925	12,313
Westney Road & Taunton Road, Ajax, ON	20%	51,798	3,985	2,300	6,285	25,143	31,428	4,074	16,296	20,370
		473,097	185,222	50,945	236,167	82,079	318,246	108,625	46,228	154,853
<b>Greenfield and Urban Development Properties:</b>										
Bathurst Street & College Street, Toronto, ON	60%	76,022	-	9,155	9,155	6,104	15,259	36,458	24,305	60,763
Dupont Street, Toronto, ON	100%	79,936	-	12,226	12,226	-	12,226	67,710	-	67,710
East Hills, Calgary, AB	37.5%	343,976	-	23,049	23,049	38,415	61,464	105,942	176,570	282,512
Highway 401 & Thickson Road - Phase II, Whitby, ON	100%	29,753	-	7,483	7,483	-	7,483	22,270	-	22,270
Jacksonport, Calgary, AB	25%	183,366	-	13,179	13,179	39,537	52,716	32,663	97,988	130,651
NE Yonge Eglinton, Toronto, ON	50%	36,115	-	17,553	17,553	17,553	35,106	(ii)	(ii)	(ii)
Riocan Centre Vaughan, Vaughan, ON Ph 2 & 3	31.25%	58,142	-	7,312	7,312	22,587	29,899	8,826	19,417	28,243
St. Clair Avenue and Weston Road, Toronto, ON	25%	155,647	-	9,337	9,337	28,012	37,349	29,574	88,722	118,296
Stouffville, ON	41.75%	24,810	-	7,212	7,212	10,063	17,275	3,146	4,389	7,535
Windfield Farms, Oshawa, ON	100%	196,326	-	44,170	44,170	-	44,170	152,156	-	152,156
		1,184,093	-	150,676	150,676	162,271	312,947	458,745	411,391	870,136
<b>Excess Land Sites:</b>										
Highway 401 & Thickson Road - Phase I, Whitby, ON	50%	45,129	9,665	1,302	10,967	10,967	21,934	11,597	11,597	23,194
Riocan Gravenhurst, ON	100%	60,873	35,281	4,138	39,419	-	39,419	21,454	-	21,454
Riocan Renfrew Centre, Renfrew, ON	100%	28,538	11,395	2,882	14,277	-	14,277	14,260	-	14,260
		134,540	56,341	8,322	64,663	10,967	75,630	47,311	11,597	58,908
		\$1,791,730	\$241,563	\$209,943	\$451,506	\$255,317	\$706,823	\$614,681	\$469,216	\$1,083,897

(i) Proceeds from sale to shadow anchors reduce projected cost.

(ii) Cost to complete cannot be determined due to the early stage of the project.

# Management's Discussion and Analysis

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

As at December 31, 2011

(thousands of square feet, millions of dollars)	RioCan's % ownership	Tenant(s)	Project NLA	Estimated project cost including land			Development expenditures to date at RioCan's interest	Estimated remaining development activity at RioCan's interest	
				RioCan's interest	Partners' interest	Total		2012	2013
<b>RioCan owned:</b>									
Shoppers World Brampton, Brampton, ON	100%	Bad Boy, Imperial Buffet, Winners, Bulk Barn	80	\$ 32	\$ -	\$ 32	\$ 17	\$ 15	\$ -
Yonge & Eglinton Centre, Toronto, ON	100%	-	43	27	-	27	3	12	12
Méga Centre Notre- Dame	100%	Caseys	6	2	-	2	-	1	-
			129	\$ 61	\$ -	\$ 61	\$ 20	\$ 28	\$ 12
<b>Co-ownerships:</b>									
404 Town Centre, Newmarket, ON	50%	Shoppers Drug Mart	24	3	3	6	1	2	-
			153	\$ 64	\$ 3	\$ 67	\$ 21	\$ 30	\$ 12

RioCan's expansion and redevelopment project costs for 2012 are currently expected to be approximately \$30 million. The yields on these activities are expected to be approximately 7% to 11%. During the three months ended December 31, 2011, costs of \$2.4 million have been incurred (\$1.7 million for the three months ended December 31, 2010). During the year ended December 31, 2011 costs of \$4.7 million have been incurred (\$3.5 million for the year ended December 31, 2010).

## Properties Held for Resale

Properties held for resale are properties acquired or developed for which RioCan generally intends to sell rather than hold on a long term basis. RioCan's plan is to dispose of all or part of such properties in the ordinary course of business. It is expected that the Trust will earn a return on these assets through a combination of property operating income earned during the relatively short holding period, which will be included in net earnings, and sales proceeds. As at December 31, 2011, the Trust has \$8 million of properties held for resale comprising 2 assets (\$13 million as at December 31, 2010).

## Mortgages and Loans Receivable

RioCan's Declaration contains provisions that have the effect of limiting the aggregate value of the investment by the Trust in mortgages, other than mortgages taken back on the sale of RioCan's properties, to a maximum of 30% of Adjusted Unitholders' Equity. Additionally, RioCan is limited to the amount of capital that can be invested in non-income producing properties to no more than 15% of the Adjusted Unitholders' Equity, which limitation applies to both greenfield development projects and mortgages receivable to fund the co-owners' share of such developments, referred to in this MD&A as "mezzanine financing". At December 31, 2011, RioCan was in compliance with these restrictions.

Contractual mortgages and loans receivable as at December 31, 2011 and December 31, 2010 are comprised of the following:

(millions of dollars) As at December 31,	Contractual rates		Weighted Average Rate	December 31, 2011	December 31, 2010
	Low	High			
Mezzanine financing to co-owners	7%	10%	7.4%	\$ 115	\$ 151
Vendor-take-back and other	0%	7%	5.1%	32	39
<b>Total</b>	<b>0%</b>	<b>10%</b>	<b>6.9%</b>	<b>\$ 147</b>	<b>\$ 190</b>

Prior to maturity, payments on these mortgages and loans receivable from co-owners will be made from the cash flows generated from operating and capital transactions relating to the underlying properties. The decrease in mezzanine financing to co-owners since December 31, 2010 was due to the purchase by RioCan of additional interest in Grant Crossing Ottawa, Ontario, RioCan Belcourt Ottawa, Ontario, Elgin Mills Richmond Hill, Ontario, and 401 & Thicksen Whitby, Ontario, and mortgage principal repayments.

# Management's Discussion and Analysis

The changes in the carrying amount of mortgages and loans receivable are as follows:

<i>(millions of dollars)</i>	Year ended December 31,	
	2011	2010
Balance, beginning of year	\$ 190	\$ 238
Principal advances <i>(i)</i>	26	68
Mortgages and loans taken back on property dispositions	-	4
Principal repayments <i>(i)</i>	(69)	(124)
Interest receivable – repaid	(9)	(10)
Interest receivable – accrued	9	14
Contractual mortgages and loans receivable	147	190
Unamortized differential between contractual and market interest rates on mortgages and loans receivable	-	(2)
Balance, end of year	\$ 147	\$ 188

(i) Advances and repayments related to properties held for resale are included in cash flows from operating activities (see “Distributions to Unitholders” below). All other such amounts are included in cash flows used in investing activities.

Future repayments are as follows:

<i>(millions of dollars)</i>	Mezzanine financing to co-owners	Vendor- take-back and other	Total
Due on demand	\$ 40	\$ -	\$ 40
Year ending December 31:			
2012	32	-	32
2013	20	-	20
2014	7	7	14
2015	7	20	27
2016	9	5	14
Contractual mortgages and loans receivable	115	32	147
Unamortized differential between contractual and market interest rates on mortgages and loans receivable	-	-	-
	\$ 115	\$ 32	\$ 147

## TRANSACTIONS WITH JOINT VENTURE PARTNERS

RioCan may have transactions in the normal course of business with entities whose directors or trustees are also its trustees and/or management. Any such transactions are in the normal course of operations and are measured at market based exchange amounts. Unless otherwise noted, these transactions are not considered related party transactions for financial statement purposes.

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

During 2011, RioCan entered into certain transactions with partners to increase its interest in several of its jointly owned investment properties. These transactions included the following:

### ***Silver City Gloucester***

RioCan acquired an additional 10% interest from Trinity Development Group bringing RioCan's ownership for this property to 70%. The purchase price for RioCan's additional interest was \$7.4 million. Additionally, RioCan acquired a further 10% interest from Trinity in the first quarter of 2012 for \$7.6 million, bringing RioCan's ownership for this property to 80%. Trinity will retain a 20% interest and RioCan will continue to manage the property.

### ***RioCan Colossus Centre***

RioCan acquired an additional 10% interest from Trinity bringing RioCan's ownership for this property to 70%. The purchase price for RioCan's additional interest was \$17.1 million. Additionally, RioCan acquired a further 10% interest from Trinity in the first quarter of 2012 for \$17.4 million, bringing RioCan's ownership for this property to 80%. Trinity will retain a 20% interest and RioCan will continue to manage the property.

# Management's Discussion and Analysis

## ***Trinity Common Brampton***

RioCan acquired an additional 10% interest from Trinity bringing RioCan's ownership for this property to 70%. The purchase price for RioCan's additional interest was \$18.1 million. Additionally, RioCan acquired a further 10% interest from Trinity in the first quarter of 2012 for \$18.7 million, bringing RioCan's ownership for this property to 80%. Trinity will retain a 20% interest and RioCan will continue to manage the property.

## ***RioCan Elgin Mills***

RioCan acquired an additional 12.5% interest from its partner Tamuz Investments Limited. The ownership structure for this property is now 75% RioCan and 25% Trinity. RioCan will continue to manage the property. The purchase price for RioCan's additional interest was \$9.9 million.

## ***Highway 401 and Thickson Road***

RioCan acquired an additional 25% interest from its partner Trinity. The ownership structure for this property is now 50% RioCan and 50% The Wynn Group. RioCan will continue to manage the property. The purchase price for RioCan's additional interest was \$6.2 million.

## ***RioCan Centre Belcourt***

RioCan acquired an additional 13.3% interest from each of its existing partners in RioCan Centre Belcourt. The ownership structure for this property is now 60% RioCan, and 20% each for Trinity and Shenkman Corp. ("Shenkman"). The purchase price for RioCan's additional interest was \$6.0 million. An additional \$800,000 has been paid for earnouts, and a further amount of approximately \$9.7 million is expected to be paid for additional phases as they are completed.

## ***Grant Crossing***

RioCan acquired an additional 13.3% interest from each of its existing partners in Grant Crossing. The ownership structure for this property is now 60% RioCan, and 20% each for Trinity and Shenkman. The purchase price for RioCan's additional interest was \$6.2 million. An additional \$800,000 has been paid for earnouts, and a further amount of approximately \$13.1 million is expected to be paid for additional phases as they are completed.

## **CAPITAL STRATEGY AND RESOURCES**

RioCan strives for an optimal financial structure to drive appropriate risk adjusted total returns. The principal objectives of the capital strategy are to:

- optimize the risk-adjusted cost of capital through an appropriate mix of debt and equity;
- raise debt from a variety of sources and maintain a well staggered maturity schedule with longer-term financing and committed income under long term tenant leases;
- maintain significant committed undrawn loan facilities to support current and future business requirements; and
- actively manage financial risks, including interest rate, foreign exchange, liquidity and counterparty risks.

Management believes that the quality of RioCan's assets and strong balance sheet are attractive to lenders and equity investors and should enable RioCan to continue to access multiple sources of capital. In addition, management believes that current market conditions will continue to provide opportunities for RioCan – a well capitalized, highly experienced and growing company – to acquire high-quality assets at attractive levels. Opportunities to acquire properties may come through outright property acquisitions or joint venture arrangements. RioCan maintains a disciplined investment strategy, which focuses on high-quality assets in its targeted markets, emphasizing long-term value creation.

## ***Capital Strategy Supporting Continued Growth***

To support growth, RioCan employs a three-fold capital strategy:

- provide the capital necessary to fund growth;
- maintain sufficient flexibility to access capital in many forms, both public and private; and
- manage the overall financial structure in a fashion that preserves investment grade credit ratings.

RioCan plans to further strengthen its balance sheet by reducing its overall debt leverage over time, thereby strengthening various earnings and cash flow coverage ratios. It is management's intention that the Trust continually have access to the capital resources necessary to expand and develop its business. Accordingly, the Trust may, from time-to-time, seek to obtain funds through additional common and preferred equity offerings, unsecured debt financings and/or mortgage/construction loan financings and other capital alternatives in a manner consistent with its intention to operate with a conservative debt structure.

## ***Liquidity and Cash Management***

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

# Management's Discussion and Analysis

## Capital Management Framework

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

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

The key elements of RioCan's capital management framework are approved by the common Unitholders, as related to the Trust's Declaration, and by the Trust's Board, through the Board's annual review of the strategic plan and budget, supplemented by periodic Board and Board committee meetings. Capital adequacy is monitored by management of the Trust by assessing performance against the approved annual plan throughout the year, which is updated accordingly, and by monitoring adherence to investment and debt restrictions contained in the Declaration and debt covenants (see Note 30 to RioCan's audited consolidated financial statements as at December 31, 2011). In selecting appropriate funding choices, RioCan's objective is to manage its capital structure in such a way so as to diversify its funding sources while minimizing its funding costs and risks. For 2012, RioCan expects to be able to satisfy all of its financing requirements through the use of cash on hand, cash generated by operations, refinancing of maturing debt, financing of certain assets currently unencumbered by debt and available credit facilities and through public offerings of unsecured debentures, preferred units and common equity.

## Capital Structure

As at December 31, 2011 and December 31, 2010, RioCan's capital structure was as follows:

<i>(millions of dollars, except percentage amounts)</i>	2011	2010	Increase (decrease)
Capital:			
Mortgages payable	\$ 4,212	\$ 3,316	\$ 896
Debentures payable	822	1,094	(272)
Total Debt	5,034	4,410	624
Common and preferred unitholders' equity	5,363	4,165	1,198
Total capital	\$10,397	\$ 8,575	\$ 1,822
Ratio of Debt, net of cash, to Total assets, net of cash	46.4%	49.1%	(2.7%)

The period over period decrease in the Debt to Total Assets ratio primarily arises as a result of the relative increase in the value of investment property.

## Debt and Leverage Metrics

	Targeted Ratios	Three months ended		Rolling 12 months ended	
		December 31, 2011*	December 31, 2011	December 31, 2011	December 31, 2010
Interest coverage ratio (i)	>2.5x	2.65	2.49	2.46	2.47
Debt service coverage ratio (ii)	>2.0x	2.00	1.91	1.87	1.90
Fixed charge coverage ratio (iii)	>1.1x	1.03	1.01	1.00	1.00
Net debt to Adjusted EBITDA ratio (iv)	n/a	7.36	7.36	7.30	6.85
Net Operating debt to Adjusted Operating EBITDA (v)	<6.5x	7.12	7.12	7.10	6.98

(i) Interest coverage defined as: Adjusted EBITDA for the period, divided by total interest expense (including interest that has been capitalized). Adjusted EBITDA is calculated below.

(ii) Debt service coverage defined as: Adjusted EBITDA for the period, divided by total interest expense and scheduled mortgage principal amortization (including interest that has been capitalized).

(iii) Fixed charge coverage is defined as: Adjusted EBITDA for the period, divided by total interest expense (including interest that has been capitalized) and distributions to common and preferred unitholders.

(iv) Net debt to Adjusted EBITDA is defined as: the average debt outstanding (net of cash) for the period divided by Adjusted EBITDA

(v) Net operating debt to Adjusted Operating EBITDA is defined as: the average debt outstanding (net of cash) for the period less debt related to property under development divided by Adjusted EBITDA excluding amounts related to property under development

\* adjusted to exclude interest capitalized.

# Management's Discussion and Analysis

Interest and debt service coverage ratios decreased modestly in the year ended December 31, 2011 as compared to the same period in 2010, based on rolling twelve month results. For the three months ended December 31, 2011, the coverage ratios have improved slightly as the Trust got closer to reaching or exceeding its target ratios.

As part of its capital management strategy, it is RioCan's objective to further improve its leverage and coverage ratios. It is the Trust's objective to achieve the targeted ratios indicated in the above table over time.

Adjusted EBITDA is calculated as follows:

(thousands of dollars)	Three months ended December 31, 2011	12 months ended December 31, 2011	December 31, 2010
Net earnings attributable to unitholders	\$ 240,973	\$ 873,311	\$ 1,495,016
Deferred income tax (recovery) expense	-	700	(897,583)
Fair value gains on investment property	(145,839)	(533,221)	(273,443)
Interest expense	62,310	240,269	221,397
Expense for early redemption of debentures	4,059	31,276	-
Amortization of capital assets included in general and administrative expense	292	1,269	1,536
Non-controlling interest	2,446	10,599	14,278
Foreign exchange loss on monetary item not forming part of a net investment in a foreign operation	19	112	1,297
Acquisition transaction costs	204	450	3,350
Pension expense adjustment	-	-	2,034
IFRS and SIFT implementation costs	-	-	5,496
<b>Adjusted EBITDA</b>	<b>\$ 164,464</b>	<b>\$ 624,765</b>	<b>\$ 573,378</b>
Adjust: Items related to Properties Under Development	427	2,729	4,595
<b>Operating EBITDA</b>	<b>\$ 164,891</b>	<b>\$ 627,494</b>	<b>\$ 577,973</b>
Three months annualized	\$ 659,564		

Net debt is calculated as follows:

(thousands of dollars)

Average debt outstanding	\$ 4,891,616	\$ 4,639,264	\$ 4,015,906
Less: average cash on hand	(52,079)	(77,816)	(88,577)
<b>Net debt</b>	<b>\$ 4,839,537</b>	<b>\$ 4,561,448</b>	<b>\$ 3,927,329</b>
Less: Debt related to Properties Under Development (i)	(165,756)	(145,450)	(124,060)
<b>Net Operating Debt</b>	<b>\$ 4,673,781</b>	<b>\$ 4,415,998</b>	<b>\$ 3,803,269</b>

[i] Allocated based on the ratio of Debt to Total Assets.

## Debt

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

As at December 31, 2011, S&P provided RioCan with an entity credit rating of BBB and a credit rating of BBB- relating to RioCan's senior unsecured debentures payable ("Debentures"). An obligor with a credit rating of BBB by S&P exhibits adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A credit rating of BBB- or higher is an investment grade rating.

# Management's Discussion and Analysis

As at December 31, 2011, DBRS provided RioCan with a credit rating of BBB (high) relating to RioCan's Debentures. A credit rating of BBB by DBRS is generally an indication of adequate credit quality, the capacity for the payment of financial obligations is considered acceptable but the entity may be vulnerable to future events.

## Revolving Lines of Credit

As at December 31, 2011, RioCan had four revolving lines of credit in place with three Canadian Schedule 1 financial institutions, having an aggregate capacity of \$428.5 million (December 31, 2010—five revolving lines of credit aggregating \$421.5 million with four Canadian Schedule 1 financial institutions).

The following table summarizes the details of the secured lines of credit as at December 31, 2011:

(in millions of dollars)

Facility Maximum Loan Amount*	Amounts drawn			Available to be drawn	Interest rates	Maturity
	Cash advances	Letters of Credit				
1	\$ 200(i)	\$ 110	\$ 14	\$ 76	CDN\$ advances - prime plus 0.5% per annum or Bankers' Acceptance plus 1.5%; US\$ advances - US\$ Base Rate plus 0.5% per annum or US\$ LIBOR plus 1.5%	June 2014
2	100	20	9	71	CDN\$ advances - prime plus 0.5% per annum or Bankers' Acceptance plus 1.5%; US\$ advances - US\$ Base Rate plus 0.5% per annum or US\$ LIBOR plus 1.5%	December 2014
3	125	-	-	125	CDN\$ advances - prime plus 0.5% per annum or Bankers' Acceptance plus 1.5%; US\$ advances - US\$ Base Rate plus 0.5% per annum or US\$ LIBOR plus 1.5%	December 2013 (plus one year extension subject to Bank approval)
4	4(ii)	-	3	1	Letters of Credit fees - 2.25%	Upon demand for unused amounts
	\$ 429	\$ 130	\$ 26	\$ 273		

(i) Secured by a charge against certain income properties. Should the aggregate agreed values for lending purposes of such properties fall to a level which would not support a borrowing of \$200 million, through reappraisal or sale of the property providing the security, RioCan has the option to provide substitute income properties as additional security.

(ii) RioKim Letter of Credit facility, which provides for a maximum aggregate amount of \$7 million, or \$3.5 million at RioCan's interest.

\* The above facilities are subject to customary terms and conditions which RioCan's management believe would not limit the distributions currently expected to be distributed to unitholders in the foreseeable future.

In the fourth quarter, three of the revolving lines of credit were renegotiated. As a result the \$200 million and \$100 million facilities were extended to December 2014 and June 2014 respectively. The \$78 million facility was increased to \$125 million maturing December 2013 (plus one year extension subject to Bank approval). Prime rate advances for these three facilities are at prime rate plus 0.50% per annum and Banker's Acceptance advances are at Bankers' Acceptance rate plus 1.50% per annum. Letter of credit fees range between 0.75% to 2.25% per annum. Also during the fourth quarter, a US revolving line in favour of the RioCan/Cedar joint venture was terminated early by the joint venture.

## Debentures Payable

As at December 31, 2011, RioCan had six series of Debentures outstanding totalling \$0.9 billion (December 31, 2010—eight series totalling \$1.1 billion).

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

On January 20, 2011, the Trust redeemed early all of the outstanding \$200 million Series F debentures which were contractually due on March 8, 2011. The debentures were redeemed in accordance with their terms, at a total redemption price of \$1,004.89 plus accrued and unpaid interest of \$18.02575, both per \$1,000 principal amount.

# Management's Discussion and Analysis

On January 21, 2011, the Trust issued \$225 million principal amount of Series O senior unsecured debentures bearing contractual interest at 4.499% and which mature on January 21, 2016. The debenture covenants are consistent with covenants on the existing debentures outstanding, with the exception of Series I which has an additional provision as discussed above.

On February 24, 2011, the Trust redeemed all of the currently outstanding \$180 million Series L debentures which were due on April 3, 2014. The debentures were redeemed in accordance with their terms, at a total redemption price of \$1,131.85 plus accrued and unpaid interest of \$32.86356, both per \$1,000 principal amount.

The Series K debentures with a principal amount of \$120 million due on September 11, 2012 were redeemed on December 19, 2011 at a total redemption price of \$1,032.08 plus accrued and unpaid interest of \$15.46027, both per \$1,000 principal amount. This early extinguishment of the Series K debentures payable resulted in RioCan having to pay a prepayment penalty in the amount of \$3.8 million.

The early redemption of the Series F, L and K debentures resulted in the payment of accrued interest of \$1.5 million, yield maintenance payments totalling \$28.5 million, and the write-off of unamortized transaction costs of \$1.3 million. As a result of the early redemption of these debentures, the first and fourth quarter's net earnings were negatively impacted by one-time expenses totalling \$27.2 million and \$4.1 million, respectively.

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

*(millions of dollars)*  
*Year ended December 31,*

	2011	2010
Balance, beginning of year	\$1,099	\$1,000
Issuances	225	103
Repayments	(500)	-
Foreign currency translation	3	(4)
Contractual obligations	827	1,099
Unamortized debt financing costs	(5)	(5)
Balance, end of year	\$ 822	\$1,094

## **Mortgages Payable**

During the year ended December 31, 2011, RioCan had new mortgage borrowings as follows:

*(millions of dollars, except other data)*

	Year ended December 31, 2011		
		Weighted average contractual interest rate	Average term to maturity in years
New borrowings:			
Fixed rate term mortgages – Canada	\$446	4.58%	7.2
Fixed rate term mortgages – US	172	4.60%	7.1
Floating rate term mortgages – Canada	73	1.61%	2.9
Floating rate term mortgages – US	115	2.58%	2.6
Construction	44	3.45%	0.4
Operating lines of credit	105	2.11%	2.7
	\$955	3.79%	5.5

As at December 31, 2011, RioCan had mortgages payable of \$4.2 billion as compared to \$3.3 billion as at December 31, 2010. The vast majority of the Trust's mortgage indebtedness provides recourse to the assets of the Trust, as opposed to only having recourse to the specific property charged. RioCan follows this policy as it generally results in lower interest costs than would otherwise be obtained.

# Management's Discussion and Analysis

As at December 31, 2011, the contractual interest rates on the mortgages payable ranged from 1.78% to 8.45% per annum with the weighted average interest rate of 5.14% per annum. Changes in the carrying amount of the mortgages payable resulted primarily from the following:

(millions of dollars) Year ended December 31,	2011	2010
Balance, beginning of period	\$ 3,324	\$ 2,670
New Borrowings:		
Fixed rate term mortgages - Canada	516	638
Fixed rate term mortgages - US	285	235
Floating rate term mortgages	4	12
Construction	45	19
Net advances on operating line of credit	105	75
Assumed/granted on the acquisition of properties	200	218
Principal repayments:		
Scheduled amortization	(80)	(68)
Operating line of credit	-	(153)
At maturity: Fixed rate term mortgages	(139)	(292)
Construction	(51)	(16)
Foreign currency translation	11	(14)
Contractual obligations	4,220	3,324
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties	9	6
Unamortized debt financing costs	(17)	(14)
Balance, end of period	\$ 4,212	\$ 3,316

At December 31, 2011, \$363 million of the mortgage debt was at floating interest rates. Of the floating rate debt, \$235 million pertains to mortgages, \$23 million pertains to construction financing and \$105 million pertains to operating lines. The percentage of RioCan's aggregate debt at floating rates is 7.20%.

At the outset of 2011, RioCan had \$354 million of mortgage principal maturities at a weighted average contractual interest rate of 5.58%. During 2011, RioCan had new term borrowings of \$805 million at a weighted average interest rate of 4.03% and an average term of 6.1 years resulting in net proceeds of \$586 million after considering the effect of the maturity of fixed rate term mortgages and scheduled amortization.

During the fourth quarter of 2011, RioCan had new term borrowings of \$356 million at a weighted average interest rate of 2.96% and an average term of 5.1 years resulting in net proceeds of \$307 million after considering the effect of the maturity of fixed rate term mortgages and scheduled amortization.

## **Hedging Activities**

The effectiveness of the hedging relationships is reviewed on a quarterly basis. At December 31, 2011 the Trust has assessed that there is no ineffectiveness in the hedge of its interest rate exposure.

# Management's Discussion and Analysis

## Aggregate Maturities

On a combined basis, RioCan's mortgages and debentures payable bear a weighted average contractual interest rate of 5.11% with a weighted average term to maturity of 4.7 years. RioCan's debt maturity profile and future repayments are as outlined below:

<i>(millions of dollars, except percentage amounts)</i> As at December 31, 2011	Contractual								
	Principal maturities							Total	Weighted average interest rate
	Scheduled principal amortization	Mortgages payable	Weighted average interest rate	Debentures payable	Weighted average interest rate				
Year ending December 31:									
2012	\$ 92	\$ 281	5.74%	\$ 100	4.70%	\$ 473	5.47%		
2013	87	374	5.86%	150	5.23%	611	5.69%		
2014	77	666	4.60%	-	0.00%	743	4.60%		
2015	67	758	4.80%	252	5.02%	1,077	4.85%		
2016	50	543	4.81%	225	4.50%	818	4.73%		
2017	39	352	5.18%	-	0.00%	391	5.18%		
Thereafter	118	716	5.52%	100	5.95%	934	5.56%		
	\$ 530	\$ 3,690	5.14%	\$ 827	4.99%	\$5,047	5.11%		

The principal maturities by lender by year of maturity are as follows:

<i>(millions of dollars)</i> As at December 31, 2011	Contractual								
	Principal maturities by type of lender								Total
	Scheduled principal amortization	Life insurance industry	Mortgage conduit	Banks	Pension funds	Other	Unsecured debentures		
Year ending December 31:									
2012	\$ 92	\$ 60	\$ 93	\$ 127	\$ -	\$ 1	\$ 100	\$ 473	
2013	87	110	120	134	-	10	150	611	
2014	77	110	10	519	6	21	-	743	
2015	67	186	184	323	62	3	252	1,077	
2016	50	174	138	231	-	-	225	818	
2017	39	223	57	72	-	-	-	391	
Thereafter	118	267	217	129	103	-	100	934	
	\$ 530	\$ 1,130	\$ 819	\$1,535	\$ 171	\$ 35	\$ 827	\$5,047	

The table below presents assets, and the related income derived from such assets, that are available to RioCan to finance and/or refinance its debt maturities for 2012 and 2013:

<i>(in millions)</i>	Number of Properties	FV of Income Properties at December 31, 2011	Principal balance of debt maturing 2012	Principal balance of debt maturing 2013
Collateral – Income Properties:				
Encumbered assets with debt maturing in 2012	22	\$ 653	\$ 257	\$ -
Encumbered assets with debt maturing in 2013	27	827	-	373
Unencumbered assets at December 31, 2011	58	644	-	-
Construction financing on properties under development (i)	2	56	31	-
VTB on properties under development	1	-	-	2
Unsecured debt maturity	-	-	100	150
Total	110	\$ 2,180	\$ 388	\$ 525

(i) Projects include components that are income producing at December 31, 2011. FV shown represents amounts in IPP only.

# Management's Discussion and Analysis

RioCan has the continued flexibility to generate additional funds in 2012 through financing maturing loan balances as well as repay additional balloon balances to increase the size of RioCan's pool of unencumbered assets. As at December 31, 2011 RioCan had 58 properties that are unencumbered with a fair value of approximately \$644 million.

Considering RioCan's current levels of cash, undrawn credit facilities, relatively low leverage and demonstrated historical access to debt capital markets, the Trust expects that all maturities will be refinanced or repaid in the normal course of business, and as such, RioCan does not currently anticipate that it will be required to sell assets and/or issue equity to meet its maturing debt obligations for 2012.

## Trust Units

As at February 13, 2012, there are 279.8 million Units issued and outstanding and 7.6 million options outstanding under the Trust's incentive unit option plan (the "Plan"). All Common Units outstanding have equal rights and privileges and entitle the holder thereof to one vote for each Unit at all meetings of Unitholders. During the years ended December 31, 2011 and 2010, the Trust issued Units as follows:

<i>(number of Units in thousands)</i> Year ended December 31,	2011	2010
Units outstanding, beginning of year <i>(i)</i>	259,818	242,320
Units issued:		
Exchangeable limited partnership units <i>(ii)</i>	3,290	277
Public offerings	10,477	13,625
Distribution reinvestment plan	3,433	2,976
Direct purchase plan	48	53
Unit option plan	2,047	567
Units outstanding, end of year <i>(i), (iii)</i>	279,113	259,818

- (i) Included in units outstanding are exchangeable limited partnership units of four limited partnerships that are subsidiaries of the Trust (the "LP units") which were issued to vendors, as partial consideration for income properties acquired by RioCan (December 31, 2011 - 4,397,085 units; December 31, 2010 - 1,106,286 units). RioCan is the general partner of the limited partnerships. The LP units are entitled to distributions equivalent to distributions on RioCan units, must be exchanged for RioCan units on a one-for-one basis and are exchangeable at any time at the option of the holder.
- (ii) On March 28, 2011, a subsidiary of the Trust issued 553,304 exchangeable limited partnership units to a vendor, as partial consideration for an income property acquired in the first quarter of 2011. During the fourth quarter of 2011, 93,630 LP units were exchanged by the vendors for RioCan units. During 2011, an additional 122,585 exchangeable limited partnership units were issued in connection with the acquisition of additional pads at one of the Trust's properties that is held within a limited partnership. On December 15, 2011, a subsidiary of the Trust issued 2,945,320 exchangeable limited partnership units to a vendor, as partial consideration for portfolio of five income properties acquired in the fourth quarter of 2011. Prior to year-end, 236,780 LP units were exchanged by this vendor for RioCan units.

RioCan's continued access to capital allows the Trust to be an active acquirer of properties both in Canada and the US as opportunities arise. During the third quarter 2011, RioCan issued 5.1 million Units that generated \$125.1 million of gross proceeds that were used to pay down debt and fund RioCan's acquisition pipeline and for general trust purposes. During the fourth quarter of 2011, RioCan issued 5.1 million Units that generated \$126.5 million of gross proceeds that was used to pay down debt, fund acquisitions and for general trust purposes. RioCan's demonstrated financial flexibility and substantial liquidity allow for the continuance of its development program where a substantial increase in activity is expected through multiple platforms.

During the fourth quarter of 2011, 25,000 options (1.8 million options for the year ended December 31, 2011) were granted under the Plan compared to nil during the same period in 2010 (1.7 million options for the year ended December 31, 2010). Additionally, RioCan has a Restricted Equity Unit ("REU") plan which provides for an allotment of REUs to each non-employee trustee. The value of the REUs allotted appreciate and depreciate with increases or decreases in the market price of the Trust's Unit. During the fourth quarter of 2011 an aggregate of nil REU's were granted (nil during the fourth quarter of 2010).

During the fourth quarter of 2011, 0.9 million Units (3.4 million Units for the year ended December 31, 2011) were issued pursuant to the Trust's distribution reinvestment plan compared to 0.8 million Units during the same period in 2010 (3.0 million Units for the year ended December 31, 2010). Participation in the distribution reinvestment plan was 22.2% for the three months ended December 31, 2011 (22.4% for the year ended December 31, 2011) compared to 19.9% for the three months ended December 31, 2010 (17.2% for the year ended December 31, 2010). See also "Distributions to Unitholders" later in this MD&A.

The Trust provides long-term incentives to certain employees by granting options through the Plan. The objective of granting unit-based compensation is to encourage Plan members to acquire an ownership interest in RioCan over time and acts as a financial incentive for such persons to act in the long term interests of RioCan and its unitholders. The exercise price for each option is equal to the volume weighted average trading price of the Units on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant except for those options granted prior to May 27, 2009 which have an exercise price equal to the closing price of the Trust's Units on the date prior to the day the option was granted. At the 2010 annual and special meeting

# Management's Discussion and Analysis

of Unitholders, Unitholders approved an increase to the number of options that can be granted under the Plan by 10 million Units to 29.2 million Units. At December 31, 2011, 8.5 million Units (December 31, 2010 - 10 million Units) remain available for grant under the Plan. During the fourth quarter of 2011, 0.6 million Units (2.0 million Units for the year ended December 31, 2011) were issued pursuant to exercises of the incentive Unit options compared to 0.3 million Units for 2010 (0.6 million Units for the year ended December 31, 2010) as a result of exercising.

REU members are also entitled to be credited with REUs for distributions paid in respect of Units of the Trust based on an Average Market Price of the Units as defined by the plan. The REUs vest and are settled three years from the date of issuance by a cash payment equal to the number of vested REUs credited to the member multiplied by the Average Market Price of the Trust's Units at the settlement date, less applicable withholdings. The REU plan liability at December 31, 2011 is \$1.8 million (\$1.3 million at December 31, 2010).

## ***Preferred Units***

On December 6, 2010, the Trust's Declaration was amended and restated to permit the future authorization and issuance of a class of preferred equity securities ("Preferred Units"). RioCan believes that Preferred Units provide the Trust with further enhanced ability to more actively pursue value enhancing opportunities and acquisitions by providing the Trust with greater flexibility in raising capital. In addition, the Preferred Units potentially provide the Trust with an opportunity to reduce its cost of capital.

In the first quarter of 2011, the Trust issued 5 million Cumulative Rate Reset Preferred Trust Units, Series A (the "Series A Units") at a price of \$25 per unit for aggregate gross proceeds of \$125 million. The Series A Units pay a distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of RioCan, for the initial five-year period ending March 31, 2016. The distribution rate will be reset on March 31, 2016 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 2.62%. The Series A Units are redeemable by RioCan, at its option, on March 31, 2016 and on March 31 of every fifth year thereafter and can also be reclassified by the holder as Series B Units (which receives distributions based on a floating rate rather than a fixed rate) on the same five year increments.

On November 20, 2011, the Trust issued 5.98 million Cumulative Rate Reset Preferred Trust Units, Series C (the "Series C Units") at a price of \$25 per unit for aggregate gross proceeds of \$149.5 million. The Series C Units pay a distribution yield of 4.70% per annum, payable quarterly, as and when declared by the Board of Trustees of RioCan, for the initial five and one half year period ending June 30, 2017. The distribution rate will be reset on June 30, 2017 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.18%. The Series C Units are redeemable by RioCan, at its option, on June 30, 2017 and on June 30 of every fifth year thereafter and can also be reclassified by the holder as Series D Units (which receives distributions based on a floating rate rather than a fixed rate) on the same five year increments.

S&P and DBRS provided credit ratings for the Series A and Series C Units of the Trust. The Series A and Series C Units have both been assigned a rating of "Pfd-3 (high)" by DBRS and a rating of "P-3 (high)" by S&P. DBRS has five categories of preferred shares for which it will assign a rating. The "Pfd-3" rating is the third highest category available from DBRS for preferred securities and is considered to be of adequate credit quality. According to DBRS, preferred securities rated "Pfd-3" are of adequate credit quality and while protection of distributions and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. Pfd-3 ratings generally correspond with companies whose senior bonds are rated in the higher end of the BBB category. A "P-3 (High)" rating by S&P is the third of the three sub-categories within the second highest rating of the eight standard categories of ratings utilized by S&P for preferred units. "High" and "low" grades may be used to indicate a relative standing of a credit within a particular rating category.

## ***Deferred Income Taxes***

The Trust qualifies as a mutual fund trust and a REIT for Canadian income tax purposes. The Trust expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for Canadian income tax purposes. Accordingly, no provision for current income taxes payable is required, except for amounts incurred in its incorporated Canadian subsidiaries.

The Trust's US subsidiary qualifies as a REIT for US income tax purposes. This subsidiary expects to distribute all of its US taxable income to Canada and is entitled to deduct such distributions for US income tax purposes. Accordingly, no provision for US current income tax payable is required.

Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of unused tax credits and losses that are available to be carried forward to future tax years to the extent that it is probable that the deductions, unused tax credits and losses can be realized. Deferred tax assets and liabilities are measured at the undistributed tax rates that are expected to apply when the assets are realized or the liabilities are settled, based on the tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognized in equity will also be recognized in equity.

Prior to qualifying for the REIT Exception, RioCan was required to recognize deferred income taxes based on temporary differences expected to reverse after January 1, 2011, and on the basis of its structure at the current balance sheet date. RioCan was not permitted to consider future changes to its structure that it may make to enable it to qualify for the REIT Exception. The impact (including the reversal of the Trust's deferred income taxes set out below) of any such changes undertaken by the Trust to qualify for the REIT Exception could not be recognized in the consolidated financial statements until such time as it so qualified.

# Management's Discussion and Analysis

The non-cash deferred income tax liability that arose primarily as a result of the introduction of the SIFT Legislation in 2007, was reversed in the fourth quarter of 2010 through the consolidated statement of earnings as a one-time non-cash deferred income tax recovery as the requirements of the REIT Exception have been met.

The Trust consolidates certain wholly owned incorporated entities that remain subject to tax. The tax disclosures and expense at and after December 31, 2010 relate only to these entities.

At December 31, 2011, the Trust recorded deferred tax assets of \$8 million (December 31, 2010 - \$8 million; January 1, 2010 - \$nil) related to a goodwill balance that arose during the restructuring the Trust undertook to qualify as a REIT for purposes of the *Income Tax Act* (Canada).

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

## Guarantees

RioCan provides guarantees on behalf of third parties, including co-owners and partners, for which the Trust generally is paid a fee, as, among other reasons, it generally results in lower interest costs and higher loan-to-value ratios than would otherwise be obtained. Also, RioCan's guarantees remain in place for debts assumed by purchasers in connection with certain property dispositions and will remain until such debts are extinguished or lenders agree to release RioCan's covenants. Credit risks arise in the event that these parties default on repayment of their debt since they are guaranteed by RioCan. These credit risks are mitigated as RioCan has recourse under these guarantees in the event of a default by the borrowers, in which case the Trust's claim has security against the underlying real estate investments. As at December 31, 2011, the estimated amount of debt subject to such guarantees and, therefore, the maximum exposure to credit risk is approximately \$360 million with expiries between 2012 and 2034. As at December 31, 2011, there have been no defaults by the primary obligors for debts on which RioCan has provided guarantees, and as a result, no contingent loss on these guarantees has been recognized in the Trust's financial statements.

At December 31, 2011, the parties on behalf of which RioCan had outstanding guarantees are as follows:

<i>(millions of dollars)</i> As at December 31,	December 31, 2011	December 31, 2010
Partners and co-owners		
Kimco	\$163	\$194
Trinity	55	35
Other	52	78
Assumption of mortgages by purchasers on property dispositions		
Retrocom Mid-Market REIT ("Retrocom")	49	51
Other	41	42
	<b>\$360</b>	<b>\$400</b>

## Liquidity

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

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

Cash on hand, borrowings under the revolving credit facilities, the equity and debt capital markets and the potential sale of assets also provide the necessary liquidity to fund ongoing and future capital expenditures and obligations. At December 31, 2011, RioCan has:

- \$77 million of cash and short term investments;
- \$ 273 million of cash available under undrawn bank lines of credit with initial fixed terms of 3 years on its two largest facilities; and
- Indebtedness net of cash is 46.4% of total assets net of cash based on fair value.

Unitholder distributions reinvested through the distribution reinvestment and direct purchase plans result in the issuance of Units, as opposed to a cash outlay, thereby providing an additional source of capital to fund RioCan's activities (see "Distributions to Unitholders" elsewhere in this MD&A).

# Management's Discussion and Analysis

RioCan's liquidity profile at December 31, 2011 is as follows:

<i>(millions of dollars)</i>	As at December 31, 2011
Cash and short term investments	\$ 77
Undrawn lines of credit	273
<b>Liquidity</b>	<b>\$ 350</b>
Contractual debt:	
Unsecured debentures payable	\$ 827
Mortgages payable	4,220
<b>Total contractual debt</b>	<b>\$ 5,047</b>
Liquidity as a percentage of total contractual debt	6.9%
Percentage unsecured	16.4%
Percentage secured	83.6%

RioCan's contractual commitments and development expenditures for active projects at December 31, 2011 are as follows:

<i>(in millions)</i>	Contractual Debt Commitments and Development Expenditures							
	2012	2013	2014	2015	2016	2017	Thereafter	Total
Mortgages	\$373	\$461	\$743	\$ 825	\$593	\$391	\$ 1,225	\$4,611
Debentures	100	150	-	252	225	-	100	827
Developments	48	16	11	-	-	-	-	75
<b>Total</b>	<b>\$521</b>	<b>\$627</b>	<b>\$754</b>	<b>\$1,077</b>	<b>\$818</b>	<b>\$391</b>	<b>\$ 1,325</b>	<b>\$5,513</b>

## **Distributions to Unitholders**

The Trust expects to distribute to its Unitholders in each year an amount not less than the Trust's income for the year, as calculated in accordance with the Act after all permitted deductions under the Act have been taken.

The Unitholders approved an amendment to RioCan's Declaration at its Annual and Special meeting of the Unitholders on May 27, 2009 to remove the requirement to distribute its taxable income and to provide Trustees with the discretion to make further amendments to accommodate the impact of IFRS.

RioCan's monthly distribution to Unitholders is currently \$0.115 per Unit, representing, on an annualized basis, \$1.38 per Unit.

Distributions to Unitholders are as follows:

<i>(millions of dollars)</i>	2011	2010
Year ended December 31,		
Distributions to Unitholders	\$ 367	\$ 340
Distributions reinvested through the distribution reinvestment plan	(82)	(59)
<b>Net distributions</b>	<b>\$ 285</b>	<b>\$ 281</b>
Distributions reinvested through the distribution reinvestment plan as a percentage of distributions to Unitholders	22.4%	17.2%

(a) Difference between cash flows provided by operating activities and distributions to Unitholders

RioCan relies upon forward-looking cash flow information including forecasts and budgets to establish the level of its annual cash distributions to Unitholders, which are paid monthly.

# Management's Discussion and Analysis

A comparison of distributions to Unitholders with cash flows provided by operating activities and net distributions is as follows:

(millions of dollars)

Cash Flows Provided By (Used In)

Year ended December 31,	2011	2010	2009*
Cash flows provided by operating activities	\$356	\$341	\$ 273
Adjust for:			
Changes in non-cash operating items and other	(12)	(18)	(9)
Properties held for resale	3	12	(6)
Acquisition and development of properties held for resale	-	-	13
Adjusted cash flow	\$347	\$335	\$ 271
Distributions to Unitholders	\$367	\$340	\$ 318
Distributions reinvested through the distribution reinvestment plan	(82)	(59)	(57)
Net distributions	\$285	\$281	\$ 261
Excess of adjusted cash flow over net distributions	\$ 62	\$ 54	\$ 10

\* - As reported under Previous Canadian GAAP

In determining the annual level of distributions to Unitholders, the Trust looks at forward-looking cash flow information including forecasts and budgets and the future business prospects of the Trust. Furthermore, RioCan does not consider periodic cash flow fluctuations resulting from items such as the timing of property operating costs and tax installments, and semi-annual debenture and mortgages payable interest payments in determining the level of distributions to Unitholders in any particular quarter. Additionally, in establishing the level of cash distributions to Unitholders the Trust considers the impact of, among other items, the future growth in the income producing portfolio, completion of properties under development, impact of future acquisitions and capital expenditures and leasing related to the income producing portfolio. Annual distributions to Unitholders are expected to continue to be funded by cash flows generated from RioCan's real estate investments and fee generating activities.

## (b) Difference between net earnings and distributions to Unitholders

A comparison of distributions to Unitholders with cash flows provided by operating activities and net earnings is as follows:

(millions of dollars)

Year ended December 31,

	2011	2010	2009 (i)
Cash flows provided by operating activities	\$356	\$ 341	\$ 273
Net earnings attributable to unitholders	\$873	\$1,495	\$ 114
Distributions to Unitholders	\$367	\$ 340	\$ 318
Difference between cash flows provided by operating activities and distributions to Unitholders (a)	\$ (11)	\$ 1	\$ (45)
Difference between net earnings and distributions to Unitholders (b)	\$506	\$1,155	\$ (204)

(i) As reported under Previous Canadian GAAP

The Trust does not use net earnings in accordance with IFRS as the basis to establish the level of Unitholders' distributions as net earnings include, among other items, non-cash fair value adjustment related to its investment property portfolio and deferred income taxes. Consideration is given by RioCan to maintenance capital expenditures for the property portfolio in establishing the level of annual distributions to Unitholders.

# Management's Discussion and Analysis

## SELECTED QUARTERLY CONSOLIDATED INFORMATION

(millions of dollars, except per Unit amounts)

As at and for the quarter ended	2011				2010 ***			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	\$ 267	\$ 246	\$ 237	\$ 237	\$ 234	\$ 216	\$ 220	\$ 213
Net earnings *	244	170	118	352	1,263	58	128	60
Net earnings per common Unit*								
– basic	0.87	0.63	0.44	1.33	4.94	0.23	0.52	0.25
– diluted	0.87	0.63	0.44	1.32	4.91	0.23	0.52	0.25
Operating FFO	100	97	93	90	83	85	83	78
Operating FFO per Unit	0.36	0.37	0.36	0.35	0.33	0.34	0.34	0.32
Total assets	10,767	9,906	9,507	9,281	8,886	8,312	7,869	7,694
Total mortgages and debentures payable	5,034	4,749	4,574	4,418	4,410	4,189	3,936	3,881
Total distributions to common Unitholders	95	91	90	90	88	85	84	84
Total distributions to common Unitholders per Unit	0.345	0.345	0.345	0.345	0.345	0.345	0.345	0.345
Net book value per common Unit**	18.27	17.51	17.10	17.03	16.03	11.33	11.17	11.01
Market price per common Unit								
– high	26.56	26.90	26.20	25.50	23.40	23.12	20.00	20.07
– low	24.11	21.05	24.27	21.95	21.12	18.80	17.25	17.45
– close	26.43	26.00	25.94	25.46	22.00	22.92	19.04	18.48
Market price per preferred unit – Series A								
– high	26.03	26.21	26.16	26.10	–	–	–	–
– low	25.70	25.42	25.41	25.05	–	–	–	–
– close	25.81	25.55	25.56	26.00	–	–	–	–
Market price per preferred unit – Series C								
– high	25.50	–	–	–	–	–	–	–
– low	24.62	–	–	–	–	–	–	–
– close	25.15	–	–	–	–	–	–	–

\* Refer to RioCan's annual and interim MD&As issued for the three months ended March 31, 2011 and 2010, the six months ended June 30, 2011 and 2010, the nine months ended September 30, 2011 and 2010 and for the two years ended December 31, 2011 and 2010 for a discussion and analysis relating to those periods.

During the four quarters of 2011, RioCan recorded non-cash charges (recoveries) for deferred income taxes to net earnings of \$nil million, \$1 million, \$nil million and \$nil million, respectively. During the four quarters of 2010, RioCan recorded non-cash charges (recoveries) for deferred income taxes to net earnings of \$25 million, \$61 million, \$26 million, and (\$1) billion, respectively. These charges relate to its deferred income tax liabilities recorded as a result of the SIFT Legislation. These non-cash charges relate to temporary differences between the accounting and tax basis of its assets and liabilities, primarily relating to the Trust's real estate investments. These charges (recoveries) have no current impact on its cash flows or distributions (see "Deferred Income Taxes" elsewhere in this MD&A).

\*\* A non-GAAP measurement. Calculated by RioCan as common Unitholders' equity divided by Units outstanding at the end of the period. RioCan's method of calculating net book value per Unit may differ from other issuers' methods and accordingly may not be comparable to net book value per unit reported by other issuers.

\*\*\*The amounts reflected for 2010 have been restated for IFRS.

## USE OF NON-GAAP MEASURES

RioCan's consolidated financial statements are prepared in accordance with IFRS. The following measures, as well as other measures discussed elsewhere in this MD&A, do not have a standardized definition prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other reporting issuers. RioCan uses these measures to better assess the Trust's underlying performance and provides these additional measures so that investors may do the same.

### Funds From Operations ("FFO")

FFO is a supplemental non-GAAP financial measure of operating performance widely used by the real estate industry. Congruent with the Real Property Association of Canada's ("REALpac") intended use of FFO, RioCan considers FFO to be a meaningful measure of operating performance as it adjusts for items included in IFRS net earnings that do not necessarily provide an accurate picture of the Trust's past or recurring performance, such as unrealized changes in fair value of real estate property, gains or losses on disposal of income properties and other non-cash items.

# Management's Discussion and Analysis

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

FFO is generally the same as IFRS net earnings other than excluding changes in the fair values of investment properties, deferred income taxes, acquisition transaction costs and deducting preferred unit distributions.

## *Operating Funds From Operations ("Operating FFO")*

RioCan's Operating FFO represents the recurring cash flow generated through the ownership and management of income properties. This will be the basis for determining RioCan's Adjusted Funds From Operations. In contrast to FFO (defined above) Operating FFO also excludes transactional gains from the sale of real estate as well as the expenditures related to development activities that are no longer capitalized under IFRS.

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

AFFO is a supplemental non-GAAP financial measure of reporting operating performance widely used in the real estate industry. Management views AFFO as an alternative measure of cash generated from operations that, in addition to FFO, is widely used in the real estate industry. AFFO is calculated by adjusting FFO for straight-line rent adjustments, non-cash compensation expenses, normalized costs for capital expenditures and leasing costs for maintaining shopping centre infrastructure and current lease revenues ("productive capacity maintenance"). In addition, non-recurring costs that impact operating cash flow may be adjusted. There is no standard industry defined measure of AFFO. As such, RioCan's method of calculating AFFO will differ from other issuers' methods and, accordingly, will not be comparable to such amounts reported by other issuers.

Productive capacity maintenance can vary widely from quarter to quarter due to the lease expiry profile, vacancies and capital expenditure estimates due to the life cycle of the property resulting in volatility in AFFO. As well, the Trust reviews capital maintenance spending levels based on the performance of the portfolio. For these reasons, normalized capital maintenance expenditures have been estimated based on historical activity and management's expectations on a normalized level of activity. Productive capacity maintenance expenditures are further discussed in "Capital Expenditures on Income Properties" indicating the Trust's expectation of such annualized expenditures.

## *SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES*

The discussion and analysis of RioCan's financial position and results of operations are based upon the Trust's consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates under different assumptions and conditions.

RioCan believes that the following significant accounting policies are most affected by judgments and estimates used in the preparation of its consolidated financial statements. For a detailed description of these and other accounting policies refer to Note 3 to RioCan's annual consolidated financial statements.

### *Fair value*

Fair value is the amount at which an item could be bought or sold in a current transaction between independent, knowledgeable willing parties, as opposed to a forced or liquidation sale, in an arm's length transaction under no compulsion to act. The fair value of a disposal group is the amount at which the group as a whole could be bought or sold in a current single transaction between independent, knowledgeable willing parties, and would not necessarily be equal to the sum of the fair values of the individual assets and liabilities of the group.

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

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

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

- The determination of fair value of Investment property is based upon, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect of tenant installation costs and investment property operations. The Trust uses the direct capitalization method to fair value its income properties. Under this valuation method a capitalization rate is applied to normalized NOI to yield a fair value. Please see "Asset Profile" for a further discussion of fair values of investment property and sensitivities to changes in capitalization rates.

# Management's Discussion and Analysis

- Unit based compensation expense is measured at fair value and expensed over the options' vesting periods, calculated using the Black-Scholes Model for option valuation. For the year ended December 31, 2011, RioCan recorded Unit based compensation expense of approximately \$4 million (\$2 million for the comparative period of 2010).
- The International Financial Reporting Standards IAS 39, "Financial Instruments: Recognition and Measurement" establishes the standard for recognizing and measuring financial assets, financial liabilities and non-financial derivatives (please see Note 3 to RioCan's annual consolidated financial statements). All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

For the year ended December 31, 2011, the consideration for real estate acquired during 2011 included \$203 million relating to the assumption of mortgages payable and the granting of vendor-take-back mortgages by the vendors. These financial liabilities were measured at fair value on initial recognition. If the interest rate used in the assessment of fair value has a differential of 100 basis points, RioCan's operations would be impacted by approximately \$2 million annually.

- At least annually, RioCan reports in its financial statements the fair value of its mortgages and debentures payable, which amounts are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts that RioCan might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.
- The carrying cost of RioCan's mortgages and debentures payable at December 31, 2011 is \$ 5.03 billion. The Trust reported a \$5.42 billion fair value relating to these mortgages and debentures payable in the notes to the annual consolidated financial statements. If the interest rate used in the assessment of fair value has a differential of 100 basis points, RioCan's reported fair value relating to mortgages and debentures payable would be impacted by approximately \$54 million.

## *Guarantees*

GAAP requires RioCan to assess whether there are contingent losses relating to guarantees that the Trust provided on behalf of third parties, including co-owners and partners. In addition, RioCan's guarantees remain in place for debts assumed by purchasers in connection with certain property dispositions, and will remain until such debts are extinguished or the lenders agree to release its covenants. Credit risk arises in the event that these parties default on repayment of their debt since they are guaranteed by RioCan. These credit risks are mitigated as RioCan has recourse under these guarantees in the event of a default by the borrowers, in which case the Trust would also have a claim against the underlying real estate investments. A contingent loss is recorded by RioCan when the carrying values of the related real estate investments are not recovered either as a result of the inability of the underlying assets' performance to meet the contractual debt service terms of the underlying debt and the fair value of the collateral assets are insufficient to cover the obligations and encumbrances in a sale between unrelated parties in the normal course of business. RioCan's estimates of future cash flow which, among other things, involve assumptions of estimated occupancy, rental rates and residual value, and the effects of other factors, including general and local economic conditions and changing tenant formats, could vary and result in a significantly different assessment of such contingent loss. As at December 31, 2011, there have been no defaults by the primary obligors for debts on which the Trust has provided its guarantees and as a result, no contingent loss on these guarantees has been recognized in the Trust's financial statements.

## *Future income taxes*

Prior to compliance by the Trust with the REIT Exception, GAAP required RioCan to recognize future income tax assets and liabilities based on temporary differences expected to reverse after January 1, 2011. As a result of the completion of its tax restructuring, the non-cash future income tax liability that arose primarily as a result of the introduction of the SIFT Legislation in 2007 reversed in the fourth quarter of 2010 through the consolidated statement of earnings as a one-time non-cash future income tax recovery.

## FUTURE CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

RioCan monitors the IASB and CICA's recently issued accounting pronouncements to assess the applicability and impact, if any, of these pronouncements on its consolidated financial statements and note disclosures.

Standards issued but not yet effective up to the date of issuance of these financial statements are described below. This description is of standards and interpretations issued, which the Trust reasonably expects to be applicable at a future date. The Trust intends to adopt those standards when they become effective.

### *Financial Instruments: Classification and Measurement ("IFRS 9")*

IFRS 9 as issued reflects the IASB's work to date on the replacement of IAS 39, "Financial Instruments: Recognition and Measurement", and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The

# Management's Discussion and Analysis

approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address impairment and hedge accounting. The Trust has not yet determined the impact of IFRS 9 on its consolidated financial statements.

## *Consolidated Financial Statements ("IFRS 10")*

On May 12, 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which will replace IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation – Special Purpose Entities". The new standard provides a single model for consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power and requires that control be assessed as facts and circumstances change. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Trust has not yet determined the impact of IFRS 10 on its consolidated financial statements.

## *Joint Arrangements ("IFRS 11")*

On May 12, 2011, the IASB issued IFRS 11 "Joint Arrangements." This new standard replaces IAS 31 – "Interests in Joint Ventures". The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures. This change may impact the jointly controlled entities which the Trust currently proportionately consolidates. IAS 28, "Investments in Associates" has also been amended and will establish the requirements for the application of the equity method to these investments. This new standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Trust has not yet determined the impact of IFRS 11 on its consolidated financial statements.

## *Disclosure of interests in other entities ("IFRS 12")*

The IASB issued IFRS 12, "Disclosure of Interests in Other Entities" on May 12, 2011. The standard includes disclosure requirements about subsidiaries, joint ventures, and associates, replacing existing requirements. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling interests have in the consolidated entities, and the nature and risks associated with interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Trust has not yet determined the impact of IFRS 12 on its consolidated financial statements.

## *Fair value measurement ("IFRS 13")*

IFRS 13, "Fair Value Measurement" establishes a single source of guidance for fair value measurements when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Trust has not yet determined the impact of IFRS 13 on its consolidated financial statements.

## *Presentation of Financial Statements ("IAS 1")*

In June 2011, the IASB made amendments to IAS 1, "Presentation of Financial Statements" which will require entities to group items presented in Other Comprehensive Income on the basis of whether they will or will not subsequently be reclassified to profit or loss. The amended version of IAS 1 is effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Trust does not expect that this amendment will result in a material impact to the financial statements.

## *Employee Benefits ("IAS 19")*

In June 2011, the IASB made amendments to IAS 19, "Employee Benefits" The amendments include eliminating the option to defer the recognition of gains and losses, streamlining the presentation of changes to assets and liabilities with all changes from remeasurement to be recognized in other comprehensive income and enhancing the disclosure of the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amended version of IAS 19 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Trust does not expect that this amendment will result in a material impact to the financial results.

## CONTROLS AND PROCEDURES

### *Internal Controls for Disclosure and Financial Reporting*

At December 31, 2011, the Chief Executive Officer and Chief Financial Officer of the Trust, along with the assistance of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to RioCan is made known to the CEO and CFO, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

# Management's Discussion and Analysis

During the three month interim period ended December 31, 2011 there were no changes in the Trust's internal controls over financial reporting that occurred that have significantly affected, or are reasonably likely to significantly affect, the Trust's internal controls over financial reporting. During the first quarter of 2011, the following changes occurred:

## *Conversion to IFRS*

The conversion to IFRS from Previous Canadian GAAP impacts the way the financial results of the Trust are presented along with the accompanying disclosures. Management has evaluated the impact of the conversion on the Trust's financial reporting systems, processes and control and has determined that the most significant changes to the Trust's internal control and disclosure environment is the requirement to measure and report its portfolio of investment properties at fair value. This change has required the design and implementation of new processes surrounding the determination of fair values which includes, but is not limited to, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current conditions, less future cash outflows in respect of tenant installation costs and the investment property operations.

## *Canadian Income Tax Legislation – REIT Status*

In December 2010, the Trust announced that it had completed the necessary tax restructuring to qualify as a REIT for purposes of the *Income Tax Act* (Canada). Accordingly RioCan continues to be able to flow taxable income through to unitholders on a tax effective basis.

Generally, to qualify as a REIT, RioCan's Canadian assets must be comprised primarily of income producing real property and substantially all of RioCan's Canadian source revenues must be derived from rental revenue, capital gains and fee income from properties in which RioCan has an interest. RioCan's assets and operating activities, including those in the United States, were largely unaffected by the tax restructuring. All non-compliant assets were either disposed of or were restructured.

On December 16, 2010 the Minister of Finance announced draft changes to the REIT provisions (the "Draft Legislation") which, if enacted, will be effective retroactively as of January 1, 2011. The Draft Legislation will create a new 10% basket for the holding of non-qualifying assets, and will increase the non-qualifying revenue basket to from 5% to 10%. RioCan does not expect that the Draft Legislation will have any negative consequences on its continuing qualification as a REIT. RioCan also expects that the draft legislation will allow it more latitude to pursue intensification activities involving the sale of residential air rights and to provide mezzanine financing to development partners.

## *REIT Qualification Monitoring*

A key activity of RioCan in 2010 was the identification and implementation of steps to qualify before the end of 2010 as a REIT for purposes of the *Income Tax Act* (Canada). In addition, monitoring processes to ensure that RioCan continues to qualify as a REIT after 2010 were adopted. In this regard training of both accounting and operational staff was carried out. From time to time the Trust holds REIT information sessions with members of the Board of Trustees, Audit Committee and senior management, including but not limited to, reporting on REIT Exception qualification monitoring and the business implications of qualifying as a REIT.

## RISKS AND UNCERTAINTIES

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

### *Liquidity and General Market Conditions*

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

### *Tenant Concentrations, Occupancy Levels and Defaults*

The value of RioCan's real estate and any improvements thereto, may depend on the credit and financial stability of tenants. The Trust's financial position would be adversely affected if a significant number of tenants were to become unable to meet their obligations to RioCan or if RioCan were unable to lease a significant amount of available space in the properties on economically favourable lease terms.

# Management's Discussion and Analysis

With respect to tenant concentration risk, in the event a given tenant, or group of tenants, experience financial difficulty and be unable to fulfill its lease commitments, or a given geographical area suffers an economic decline, the Trust could experience a decline in revenue.

In order to reduce RioCan's exposure to the risks relating to credit and the financial stability of tenants, the Trust's Declaration restricts the amount of space which can be leased to any person and that person's affiliates, other than in respect of leases with or guaranteed by the Government of Canada, a province of Canada, a municipality in Canada or any agency thereof and certain corporations, the securities of which meet stated investment criteria, to a maximum premises or space having an aggregate gross leasable area of 20% of the aggregate gross leasable area of all real property held by RioCan. At December 31, 2011, RioCan was in compliance with this restriction.

RioCan's operating results may be adversely impacted by a decline in revenues if the Trust is unable to maintain the existing occupancy levels of its properties, if existing tenants experience financial difficulty and become unable to fulfill their lease commitments, if RioCan becomes unable to attract new tenants at rental rates similar to those paid by existing tenants, or if existing tenants do not renew at the expiry of the lease term and such space cannot be re-leased. As well, certain significant expenditures involved in real property investments, such as property taxes, maintenance costs and mortgage payments, represent obligations that must be met regardless of whether the property is producing sufficient, or any, revenue.

At December 31, 2011, RioCan has NLA, at its interest, of 46 million square feet and a portfolio occupancy rate of 97.6%. Based on the Trust's current annualized rental revenue on a weighted average portfolio basis of approximately \$23 per square foot, for every fluctuation in occupancy by a differential of 1%, the Trust's operations would be impacted by approximately \$11 million annually.

RioCan's aggregate lease renewals over the next five years represent annual net rent payments of approximately \$329 million based on current contractual rental rates. Should such tenancies be renewed upon maturity at an aggregate rental rate differential of 100 basis points, the Trust's operations would be impacted by approximately \$3 million annually.

<i>(in thousands)</i>	Lease expiries (Canadian Portfolio)					
	Portfolio NLA	2012	2013	2014	2015	2016
Square feet	39,130	2,715	3,185	4,193	4,213	4,480
Square feet expiring portfolio NLA	48.0%	6.9%	8.1%	10.7%	10.8%	11.4%
Total net rent	\$ 300,883	\$48,031	\$53,418	\$66,056	\$64,674	\$68,704

<i>(in thousands)</i>	Lease expiries (US Portfolio)					
	Portfolio NLA	2012	2013	2014	2015	2016
Square feet	6,873	302	307	573	250	194
Square feet expiring portfolio NLA	23.7%	4.4%	4.5%	8.3%	3.6%	2.8%
Total net rent	\$ 27,838	\$ 5,600	\$ 5,669	\$ 8,268	\$ 4,492	\$ 3,809

RioCan strives to manage tenant concentration risk through geographical diversification (See "Asset Profile") and diversification of revenue sources in order to avoid dependence on any single tenant. RioCan's objective is that no individual tenant contributes a significant percentage of its gross revenue and that a considerable portion of the Trust's revenue is earned from national and anchor tenants (see "About RioCan"). RioCan attempts to lease to creditworthy tenants and will generally conduct credit assessments for new tenants. RioCan attempts to reduce its risks associated with occupancy levels and lease renewal risk by having staggered lease maturities, negotiating leases with base terms between five and ten years, and by negotiating longer term leases with built-in minimum rent escalations where deemed appropriate.

## Access to Debt and Equity Capital

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

At December 31, 2011, RioCan's total indebtedness had a 4.7 year weighted average term to maturity bearing a weighted average contractual interest rate of 5.1% per annum.

# Management's Discussion and Analysis

## *Interest Rates*

RioCan's operations are impacted by interest rates, as interest expense represents a significant cost in the ownership of real estate investments. At December 31, 2011, RioCan had aggregate contractual debt comprised of mortgages and debentures payable having principal maturities through to December 31, 2014 of \$1.6 billion (32.2% of the aggregated debt) with a weighted average contractual interest rate of 5.2%. Should such amounts be refinanced upon maturity at an aggregate interest rate differential of 100 basis points, RioCan's operations would be impacted by approximately \$16.3 million annually.

RioCan seeks to reduce its interest rate risk by staggering the maturities of long term debt and limiting the use of floating rate debt so as to minimize exposure to interest rate fluctuations. At December 31, 2011, 7.2% of the Trust's aggregate debt was at floating interest rates.

From time to time, the Trust may enter into interest rate swap transactions to modify the interest rate profile of its current or future variable rate debts without an exchange of the underlying principal amount.

## *Relative Illiquidity of Real Property*

Real estate investments are relatively illiquid. This will tend to limit the Trust's ability to sell components of the portfolio promptly in response to changing economic or investment conditions. If RioCan were required to quickly liquidate its assets, there is a risk that the Trust would realize sale proceeds of less than the current book value of its real estate investments.

## *Unexpected Costs or Liabilities Related to Acquisitions*

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

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

## *Construction*

RioCan's construction commitments are subject to those risks usually attributable to construction projects, which include: (i) construction or other unforeseen delays including municipal approvals; (ii) cost overruns; and (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional. Construction risks are minimized through the provisions of the Trust's Declaration, which have the effect of limiting direct and indirect investments, net of related mortgage debt, in non-income producing properties to no more than 15% of the Adjusted Book Value of RioCan's unitholders' equity. RioCan also seeks to undertake such developments with established developers. With some exceptions for land in the high growth markets, RioCan will generally not acquire or fund significant expenditures for undeveloped land unless it is zoned and an acceptable level of space has been pre-leased or pre-sold. An advantage of unenclosed, new format retail is that it lends itself to phased construction keyed to leasing levels, which reduces the creation of significant amounts of vacant but developed space.

## *Environmental Matters*

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

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

## *Legal Risks*

RioCan's operations are subject to a wide variety of laws and regulations across all of its operating jurisdictions and RioCan faces risks associated with legal and regulatory changes and litigation. RioCan retains external legal consultants to assist it in remaining current and compliant with legal and regulatory changes and to respond to litigation.

# Management's Discussion and Analysis

## *Human Resources and Key Personnel*

RioCan faces certain human resource risks, including the risk that it will not have the necessary human resources to perform successfully. RioCan relies on the services of certain key personnel on its executive team, including its Chief Executive Officer, Edward Sonshine, its President and Chief Operating Officer, Frederic Waks, and its Executive Vice President and Chief Financial Officer, Raghunath Davloor, and the loss of their services could have an adverse effect on RioCan. RioCan mitigates key personnel risks through succession planning.

## *Unitholder Liability*

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

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

## *Income Taxes*

RioCan currently qualifies as a mutual fund trust and REIT for income tax purposes. RioCan expects to distribute all of the Trust's taxable income to unitholders and is, therefore, generally not subject to tax on such amounts. In order to maintain RioCan's current mutual fund trust status, the Trust is required to comply with specific restrictions regarding its activities and the investments held by the Trust. If the Trust were to cease to qualify as a mutual fund trust, the consequences could be material and adverse.

No assurance can be given that the provisions of the *Income Tax Act* (Canada) regarding mutual fund trusts and REITs will not be changed in a manner that adversely affects RioCan and its unitholders.

## *United States Investment and Currency Risk*

In 2010, RioCan completed its purchases of the initial portfolio in connection with the Cedar transaction. Since that time, RioCan has also made additional acquisitions in the United States through joint venture platforms with Cedar, Sterling, Inland Western, Kimco and Dunhill. RioCan intends to continue to make acquisitions from time to time in the U.S. as determined to be appropriate or desirable. It is possible that such additional acquisitions may not be completed. Further there may be a lack of availability of acquisition opportunities for these joint venture and exposure to economic, real estate and capital market conditions in the US. As it pertains to the Cedar joint ventures, fluctuations in the trading price of the Cedar securities may become a relevant factor.

As noted above, Cedar represented the Trust's first investment outside of Canada and has been followed with additional investments made through joint ventures with Kimco, Inland Western, Dunhill and Sterling. The US real estate market differs from the Canadian environment in many ways and the Trust's expertise and experience in Canada may not prove beneficial in a foreign jurisdiction. The Trust is mitigating the risks relating to its entry into and exposure to the US by aligning itself with experienced US operating companies and making investments of moderate scale. There can be no certainty, however, that RioCan's US investments will be successful.

Additionally, it is possible that the Trust's US investments will expose the Trust to foreign exchange fluctuations. The Trust will in part mitigate this risk through the use of US denominated debt.

## *Transition to IFRS*

In February 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises would be required to report under IFRS for fiscal years beginning on or after January 1, 2011. As new standards and recommendations are issued by the International Accounting Standards Board and the Canadian Accounting Standards Board, RioCan will continue to assess the effect of IFRS on the Trust's financial reporting and disclosure requirements, which may be material.

# Management's Discussion and Analysis

## *Credit Ratings*

Real or anticipated changes in credit ratings on RioCan's debentures or Preferred Units may affect the market value thereof. In addition, real or anticipated change in credit ratings can affect the cost at which RioCan can access the debenture or Preferred unit market, as applicable.

RIOCAN REAL ESTATE INVESTMENT TRUST  
(A TRUST GOVERNED BY THE LAWS OF ONTARIO)  
AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

RIOCAN REAL ESTATE INVESTMENT TRUST  
AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

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# Management's Responsibility for Financial Reporting

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

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

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

As at December 31, 2011, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

Ernst & Young LLP, independent auditors appointed by the unitholders of RioCan upon the recommendation of the Board of Trustees, have examined our 2011 and 2010 annual consolidated financial statements and have expressed their opinion upon the completion of such examination in the following report to the unitholders. The auditors have full and free access to, and meet at least quarterly with, the Audit Committee to discuss their audit and related matters.

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

*Raghunath Davloor, C.A.*  
Executive Vice President and Chief Financial Officer

Toronto, Canada  
February 13, 2012

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of

RioCan Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of RioCan Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of changes in equity, earnings, comprehensive income, and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

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

## Auditors' responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RioCan Real Estate Investment Trust as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Toronto, Canada  
February 13, 2012

*Ernst & Young LLP*  
Chartered Accountants  
Licensed Public Accountants

# RIOCAN REAL ESTATE INVESTMENT TRUST CONSOLIDATED BALANCE SHEETS

*(Audited – Canadian dollars, in millions)*

	Note	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>ASSETS</b>				
Investment property	7	\$ 10,409	\$ 8,466	\$ 6,938
Mortgages and loans receivable	8	147	188	236
Investment	9	41	59	50
Deferred tax assets	13	8	8	–
Receivables and other assets	10	85	73	66
Cash and equivalents		77	92	147
<b>Total assets</b>		<b>\$ 10,767</b>	<b>\$ 8,886</b>	<b>\$ 7,437</b>
<b>LIABILITIES</b>				
Mortgages payable and lines of credit	11	\$ 4,212	\$ 3,316	\$ 2,669
Debentures payable	12	822	1,094	994
Deferred tax liability	13	–	–	890
Accounts payable and other liabilities	14	291	252	196
<b>Total liabilities</b>		<b>\$ 5,325</b>	<b>\$ 4,662</b>	<b>\$ 4,749</b>
<b>EQUITY</b>				
Preferred unitholders' equity		\$ 265	\$ –	\$ –
Common unitholders' equity		5,098	4,165	2,680
<b>Total unitholders' equity</b>		<b>5,363</b>	<b>4,165</b>	<b>2,680</b>
Non-controlling interests		79	59	8
<b>Total equity</b>		<b>5,442</b>	<b>4,224</b>	<b>2,688</b>
<b>Total liabilities and equity</b>		<b>\$ 10,767</b>	<b>\$ 8,886</b>	<b>\$ 7,437</b>

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

Approved by the Board of Trustees

"Paul Godfrey, C.M."

Paul Godfrey, C.M.  
Chairman of the Board of Trustees

"Edward Sonshine, O.Ont., Q.C."

Edward Sonshine, O.Ont., Q.C.  
Trustee

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

*(Audited – Canadian dollars, in millions)*

	Note	Common Trust Units	Cumulative Earnings	Cumulative Distributions to Unitholders	Accumulated OCI (loss)	Total Common Equity	Total Preferred Equity	Non- Controlling Interests	Total
Equity, January 1, 2010	5	\$ 2,782	\$ 2,414	\$ [2,520]	\$ 4	\$ 2,680	\$ –	\$ 8	\$2,688
Changes during the year:									
Net earnings			1,495			1,495		14	1,509
Other comprehensive gain/(loss)	15(c)				(18)	(18)		(3)	(21)
Distributions to unitholders	17			(340)		(340)		(21)	(361)
Units issue proceeds, net	15(a)	349				349		61	410
Deferred income taxes	13	(3)				(3)			(3)
Value associated with unit options granted	16(a)	2				2			2
Reclassification of pension	15(c)		(1)		1	–			–
Equity December 31, 2010	5	\$ 3,130	\$ 3,908	\$ [2,860]	\$ [13]	\$ 4,165	\$ –	\$ 59	\$4,224
Changes during the year:									
Net earnings			873			873		11	884
Other comprehensive gain/(loss)	15(c)				(21)	(21)		1	(20)
Distributions to unitholders	17			(374)		(374)		(5)	(379)
Units issue proceeds, net	15(a)	451				451	265	13	729
Value associated with unit options granted	16(a)	4				4			4
Reclassification of pension	15(c)		1		(1)	–			–
Equity December 31, 2011		\$ 3,585	\$ 4,782	\$ [3,234]	\$ [35]	\$ 5,098	\$ 265	\$ 79	\$5,442

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

# RIOCAN REAL ESTATE INVESTMENT TRUST CONSOLIDATED STATEMENTS OF EARNINGS

*(Audited – Canadian dollars, in millions, except per unit amounts)*

For the year ended December 31,	Note	2011	2010
Rental revenue	18	\$ 947	\$ 830
<b>Property operating costs</b>			
Recoverable under tenant leases	19	316	271
Non-recoverable from tenants		9	7
		<b>325</b>	<b>278</b>
<b>Net operating income</b>		<b>622</b>	<b>552</b>
<b>Other income</b>			
Fees and other	20	28	16
Interest		13	15
Gains on properties held for resale		–	21
Fair value gains on investment property, net	7	533	273
		<b>574</b>	<b>325</b>
<b>Other expenses</b>			
Interest	21	240	221
General and administrative	22	40	42
Business acquisition transaction costs		–	3
Expense for early redemption of debentures	21	31	–
		<b>311</b>	<b>266</b>
<b>Earnings before income taxes</b>		<b>885</b>	<b>611</b>
Deferred income tax expense (recovery)		1	(898)
<b>Net earnings</b>		<b>\$ 884</b>	<b>\$ 1,509</b>
<b>Net earnings attributable to:</b>			
Common and preferred unitholders	24	\$ 873	\$ 1,495
Non-controlling interests		11	14
		<b>\$ 884</b>	<b>\$ 1,509</b>
<b>Net earnings per unit attributable to common unitholders – basic</b>		<b>\$ 3.26</b>	<b>\$ 6.06</b>
<b>Net earnings per unit attributable to common unitholders – diluted</b>		<b>\$ 3.25</b>	<b>\$ 6.04</b>
<b>Weighted average number of common units outstanding – basic (in thousands)</b>	24	<b>265,583</b>	<b>246,608</b>
<b>Weighted average number of common units outstanding – diluted (in thousands)</b>	24	<b>267,017</b>	<b>247,336</b>

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*(Audited – Canadian dollars, in millions)*

For the year ended December 31,	Note	2011	2010
<b>Net earnings</b>		<b>\$ 884</b>	<b>\$ 1,509</b>
<b>Other comprehensive income (loss), net of tax</b>	13		
Unrealized loss on interest rate swap agreements	25	(10)	(3)
Unrealized gain (loss) on translation of foreign operations		7	(13)
Unrealized loss on available-for-sale investment	9	(18)	(4)
Actuarial gain (loss) on pension plan		1	(1)
Other comprehensive loss		<b>(20)</b>	<b>(21)</b>
<b>Comprehensive income</b>		<b>\$ 864</b>	<b>\$ 1,488</b>
<b>Comprehensive income attributable to</b>			
Unitholders		\$ 852	\$ 1,477
Non-controlling interest		\$ 12	\$ 11

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

# RIOCAN REAL ESTATE INVESTMENT TRUST CONSOLIDATED STATEMENTS OF CASH FLOWS

*(Audited – Canadian dollars, in millions)*

For the year ended December 31,	Note	2011	2010
<b>CASH FLOWS PROVIDED BY (USED IN):</b>			
<b>Operating activities</b>			
Net earnings		\$ 884	\$ 1,509
Items not affecting cash			
Amortization		1	2
Recognition of rents on a straight-line basis		(10)	(7)
Unit-based compensation expense		4	2
Deferred income tax expense		1	(898)
Fair value gains on investment property		(533)	(273)
Properties held for resale		(3)	(12)
Net change in non-cash operating items and other	26	12	18
<b>Cash flows provided by operating activities</b>		<b>356</b>	<b>341</b>
<b>Investing activities</b>			
Acquisition of investment property		(873)	(739)
Acquisition of income properties by business combination		–	(93)
Capital expenditures on investment property		(122)	(70)
Maintenance capital expenditures recoverable from tenants		(18)	(10)
Maintenance capital expenditures not recoverable from tenants		(8)	(7)
Tenant installation costs		(41)	(31)
Proceeds on disposition of long-lived assets		–	13
Mortgages and loans receivable			
Advances		(26)	(61)
Repayments		70	92
Investment in available-for-sale securities		–	(20)
<b>Cash flows used in investing activities</b>		<b>(1,018)</b>	<b>(926)</b>
<b>Financing activities</b>			
Mortgages payable			
Borrowings (net of non-controlling interest)		835	877
Repayments		(271)	(376)
(Repayments) borrowings of lines of credit		105	(78)
Issue of debentures payable, net		223	102
Repayment of debentures payable	12	(500)	–
Distributions paid to common unitholders	17	(364)	(339)
Distributions paid to preferred unitholders	17	(7)	–
Units issued under distribution reinvestment plan		82	59
Issue of preferred units		265	–
Issue of common units		279	285
<b>Cash flows provided by financing activities</b>		<b>647</b>	<b>530</b>
<b>Net decrease in cash and equivalents during the year</b>		<b>(15)</b>	<b>(55)</b>
<b>Cash and equivalents, beginning of year</b>		<b>92</b>	<b>147</b>
<b>Cash and equivalents, end of year</b>		<b>\$ 77</b>	<b>\$ 92</b>
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The accompanying notes are an integral part of the consolidated financial statements

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**1. Trust Information**

RioCan Real Estate Investment Trust (the “Trust” or “RioCan”) is an unincorporated “closed-end” trust governed by the laws of the Province of Ontario and constituted pursuant to a Declaration of Trust (the “Declaration”) dated November 30, 1993, as most recently amended and restated on December 6, 2010. The Trust’s Units are listed on the Toronto Stock Exchange (the “Exchange”) under the symbol REI.UN. Preferred Units, Series A and Series C of the Trust, are listed on the Exchange under the symbol REI.PR.A and REI.PR.C, respectively.

The Trust’s registered office is at 2300 Yonge Street, Suite 500, Toronto, Ontario, M4P 1E4.

The Trust’s principal business activity is owning, developing and operating shopping centers in Canada and the United States.

The consolidated financial statements of the Trust for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Board of Trustees on February 13, 2012.

**2. Basis of Preparation and Statement of Compliance**

These consolidated financial statements represent the first annual financial statements of the Trust prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Trust adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* (“IFRS 1”) as discussed in Note 4.

The consolidated financial statements of the Trust have been prepared on a cost basis, except for investment property, derivative financial instruments and available-for-sale financial assets, which have been measured at fair value. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest million, except where otherwise indicated.

The Trust presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of their liquidity. The Trust considers this presentation to be reliable and more relevant than a classified balance sheet as the Trust considers its operating cycle to be longer than one year. The notes to the consolidated financial statements distinguish between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within twelve months from the reporting period and non-current assets and liabilities are those where the recovery or settlement is expected to be greater than twelve months from the reporting period. Note 11(b) provides information on the Trust’s net current assets and liabilities.

**3. Significant accounting policies**

**(a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Trust and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Trust obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Trust, using consistent accounting policies. All inter-company balances, income and expenses and unrealized gains and losses resulting from inter-company transactions are fully eliminated.

*(i) Subsidiaries*

The consolidated financial statements include the accounts of the Trust and its consolidated subsidiaries, which are the entities over which the Trust has control. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The non-controlling interest component of the Trust’s subsidiaries is included in equity. Where necessary, adjustments are made to bring the accounting policies in line with those of the Trust.

*(ii) Associates*

Associates are entities over which the Trust has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The Trust accounts for investments over which it has significant influence using the equity method.

Interests in investments accounted for using the equity method are initially recognized at cost. The carrying value of the Trust’s interest in an investee is adjusted for the Trust’s share of income, other comprehensive income and distributions of the investee.

The financial statements of the equity-accounted for investments are prepared for the same reporting period as the Trust. Where necessary, adjustments are made to bring the accounting policies in line with those of the Trust.

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*(iii) Joint arrangements*

The Trust enters into joint arrangements with two or more parties whereby economic activity and decision making are shared. These arrangements may take the form of jointly controlled assets or jointly controlled entities.

A jointly controlled asset is a shared asset to which each party has rights and a contractual agreement exists as to sharing of benefits and risks generated from the asset. The Trust recognizes its share of the assets and liabilities and benefits generated from the asset in proportion to its rights.

A jointly controlled entity involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Each venturer does not have rights to individual assets or obligations of the venture, but is entitled to a share of the outcome of activities of the arrangement. The Trust accounts for its interests in jointly controlled entities using the proportionate consolidation method.

The financial statements of the Trust's joint arrangements are prepared for the same reporting period as the Trust. Adjustments are made where necessary to bring the accounting policies in line with those of the Trust.

**(b) Business combinations**

At the time of acquisition of property whether through a controlling share investment or directly, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for this as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired. If no, or only insignificant processes are acquired, the acquisition is treated as an asset acquisition rather than a business combination.

The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The Trust recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in net earnings. The difference between the purchase price and the Trust's net fair value of the acquired identifiable net assets and liabilities is goodwill. On the date of acquisition, the purchaser records positive goodwill as an asset. Negative goodwill is immediately recognized in the consolidated statement of earnings. Goodwill is not amortized and must be tested for impairment at least annually, or more frequently, if events or changes in circumstances indicate impairment has occurred.

The Trust expenses transaction costs associated with business combinations in the period incurred.

When the acquisition does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities, the cost of the acquisition including transaction costs is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill is recognized.

**(c) Investment property**

Investment property is held to earn rental revenue or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity.

Real estate property held under an operating lease is not classified as investment property. Instead, these leases are accounted for in accordance with *Leases* ("IAS 17"). However, certain land leases held under an operating lease are classified as investment property when the definition of an investment property is met. At the inception of these leases, investment property is recognized at the lower of the fair value of the property and the present value of the future minimum lease payments and an equivalent amount is recognized as a lease liability.

*(i) Income properties*

Income property is initially measured at cost. Subsequent to initial recognition, income properties are recorded at fair value and related gains or losses arising from changes in fair value are recognized in net earnings in the period of change. The determination of fair value is based upon, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect of tenant installation costs and income property operations.

*(ii) Properties under development*

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to complete in order to prepare the properties for their use as income properties.

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The cost of a development property that is an asset acquisition is comprised of the amount of cash, or the fair value of the other consideration, given to acquire the property including transaction costs.

Subsequent to acquisition, the cost of a property under development includes third party and direct internal development and initial leasing costs, property taxes, and interest on both specific and general debt.

Direct and indirect borrowing costs, direct internal development costs, and property taxes are capitalized when development activities that change the property's condition occur.

Interest capitalized is calculated using the Trust's weighted average cost of borrowing after adjusting for borrowing associated with specific developments. Where borrowing is associated with specific developments, the amount capitalized is the gross interest incurred on such borrowing less any investment income arising on temporary investment of such borrowing. Interest is capitalized from commencement of development work until the date of completion. Capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a property acquired specifically for redevelopment, where activities necessary to prepare the asset for redevelopment are in progress.

Capitalization of costs to properties under development continues until all the activities necessary to prepare the property for use as a rental property are complete.

Properties under development are also adjusted to fair value at each balance sheet date with fair value adjustments recognized in net earnings.

*(iii) Properties held for resale*

Properties held for resale are properties acquired or developed by the Trust for which it has no intention of their being used on a long term basis and for which the Trust plans to dispose in the ordinary course of business. The Trust expects to earn a return on such assets through a combination of property operating income earned during the holding period and sales proceeds. Properties held for resale are stated at the lower of cost and net realizable value. No amortization is recorded on these assets.

**(d) Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Trust and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

*(i) Rentals*

The Trust has not transferred substantially all of the benefits and risks of ownership of its investment properties and, therefore, the Trust accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries.

The Trust reports minimum rental revenue on a straight-line basis, whereby the total amount of cash to be received under a lease is recognized into net earnings in equal periodic amounts over the term of the lease. Contingent rents are recognized as revenue in the period in which they are earned.

Amounts payable by tenants to terminate their lease prior to their contractual expiry date ("lease cancellation fees") are included in rental revenue.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset. Tenant incentives are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease.

*(ii) Fee income*

The Trust has interests in various investment properties through joint arrangements and investments in associates. Generally, the Trust provides asset and property management services for these investments for which it earns market based fees.

Fees are recognized as the service or contract activity is performed using the percentage of completion method. Under the percentage of completion method, where services are provided over a specific period of time, revenue is recognized on a straight-line basis unless there is evidence that some other method would better reflect the pattern of performance. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

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*(iii) Properties held for sale*

Revenue from completed properties held for sale is recognized when the Trust has transferred to the purchaser the significant risks and rewards of ownership, has no continuing managerial involvement in the property, revenues and costs can be reliably measured and the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and collection of any additional consideration is reasonably assured. For arrangements involving multiple elements, the Trust allocates the consideration to each element based on relative fair values.

*(iv) Interest income*

Revenue is recognized as interest accrues using the effective interest method.

*(v) Dividend income*

Dividends are recorded as dividend income in net earnings when declared. Currently, the Trust's investment in the common shares of Cedar Realty Trust Inc. ("Cedar") provides the Trust with dividend income.

**(e) Unit-based compensation plans**

*(i) Share-based awards – equity settled*

The Trust and its subsidiaries issue share-based awards to certain employees. The cost of equity-settled share-based payment transactions equals the fair value of each tranche of options as at their grant date. The cost of the stock options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

*(ii) Share-based awards – cash settled*

The Trust has a Restricted Share Unit ("REU") plan which provides for an allotment of REUs to each non-employee trustee. The cost of cash-settled share-based payment transactions is measured at fair value, and expensed over the vesting period with the recognition of a corresponding liability. The liability is re-measured at each reporting date at fair value with the vested changes in fair value recognized in net earnings.

**(f) Financial assets and liabilities**

Financial assets include the Trust's amounts receivable, mortgages and loans receivable, cash and equivalents, investments in common shares, and interest rate swaps. Financial liabilities include the Trust's operating lines of credit, mortgages and debentures payable and accounts payable and other liabilities.

*(i) Recognition and measurement of financial instruments*

The Trust determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recognized initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, loans and receivables, available-for-sale, held-to-maturity, or other liabilities.

*(1) Held-for-trading*

Financial assets and financial liabilities classified as held-for-trading are required to be measured at fair value with gains and losses recognized in net earnings. Transaction costs are expensed as incurred for a financial instrument classified as held-for-trading. Other than cash and equivalents, the Trust has no significant financial instruments classified as held-for-trading.

Derivative instruments are recorded on the consolidated balance sheets at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract. Changes in the fair values of derivative instruments are required to be recognized in net earnings, except for derivatives that are designated as a cash flow hedge, in which case the fair value change for the effective portion of such hedging relationship is required to be recognized in other comprehensive income ("OCI").

*(2) Loans and receivables or held-to-maturity*

Loans and receivables are financial instruments with fixed or determinable payments that are not quoted in an active market. Financial instruments with fixed or determinable payments and fixed maturities are classified as held-to-maturity only when the Trust has the positive intention and ability to hold it to maturity.

Financial assets classified as held-to-maturity, loans and receivables and other liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method. This method uses an

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effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability. Amortized cost is computed using the effective interest method less any allowance for impairment. Gains and losses are recognized in net earnings when the loans and receivables are derecognized or impaired, as well as through amortization.

The principal categories of the Trust's financial assets and liabilities measured at amortized cost using the effective interest method include: (a) amounts receivable and payable; (b) mortgages and loans receivable and mortgages payable; and (c) debentures payable.

*(3) Available-for-sale*

Available-for-sale financial assets are financial assets that are designated for accounting purposes as available-for-sale or are not classified in any of the two preceding categories.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in OCI until the investment is derecognized or impaired, at which time the cumulative gain or loss recorded is recognized in net earnings. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other than its investment in Cedar, the Trust has no significant financial instruments classified as available-for-sale.

*(ii) Impairment of financial assets*

The Trust assesses at each balance sheet date whether there is any objective evidence of impairment for each financial asset (or a group of financial assets). A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of an event that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtor(s) is experiencing financial difficulty, which may include default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears payments or economic conditions that correlate with defaults.

*(1) Impairment of loans and receivables*

The Trust assesses whether there is objective evidence of an indicator of impairment at each balance sheet date for each loan and receivable. If there is objective evidence that an impairment loss has occurred, 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in net earnings. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivable, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Trust. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a past write-off is later recovered, the recovery is recognized in net earnings.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

*(2) Impairment of available-for-sale financial assets*

For available-for-sale financial assets, the Trust assesses at each balance sheet date whether there is objective evidence that an asset is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in net earnings, is removed from equity and recognized in net earnings. Impairment losses on equity investments are not reversed through the statement of earnings; increases in their fair value after impairment are recognized directly in equity. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net earnings, the impairment loss is reversed through net earnings.

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*(iii) Financial guarantee contracts*

Financial guarantee contracts issued by the Trust are those contracts that require a payment to be made to reimburse the holder of the guarantee for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the initial amount recognized less cumulative amortization.

*(iv) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets if there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

*(v) Hedges*

The accounting standard *Financial Instruments: Recognition and Measurement* ("IAS 39") specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a foreign operation.

From time to time, the Trust may enter into interest rate swap (option) transactions to modify the interest rate profile of its current or future debts without an exchange of the underlying principal amount. In such cash flow hedging relationships, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI. The ineffective portion (as defined for accounting purposes by the standard) is recognized in net earnings. The Trust has entered into interest rate swaps on certain of its variable rate mortgages payable.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

At the inception of a hedging relationship, the Trust formally designates and documents the hedge relationship to which the Trust is applying hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Trust will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In a net investment hedging relationship, the effective portion of foreign exchange gains and losses on the hedging instrument is recognized in OCI and the ineffective portion is recognized in net earnings. The amounts recorded in accumulated other comprehensive income ("AOCI") are recognized in net earnings upon certain reductions in the net investment in the foreign subsidiary.

*(vi) Comprehensive income*

Comprehensive income is comprised of net earnings and OCI, which represents changes in unitholders' equity during a period arising from transactions and other events with non-owner sources. OCI generally would include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from foreign operations, changes in the fair value of the effective portion of cash flow hedging instruments, and actuarial gains and losses related to the Trust's defined benefit pension plans. The Trust reports a consolidated statement of comprehensive income comprising net earnings and OCI for the period. The components of AOCI have been added to the consolidated statements of changes in equity.

*(vii) Fair value*

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs. Except as noted below, the carrying value of the Trust's financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values of mortgages and loans receivable are based on the current market conditions for mortgage financing loans with similar terms and risks. The fair values of term mortgages, debentures and designated hedging derivative instruments included in receivables and other assets and accounts payable and other liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

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Financial instrument fair value measurements recognized in the balance sheet are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- (1) Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- (2) Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (3) Level 3 inputs – inputs for the asset or liability that are not based on observable market data (unobservable inputs). These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

**(g) Income taxes**

Upon qualifying as a real estate investment trust ("REIT") in the fourth quarter of 2010, the Trust is considered, in substance, tax exempt and therefore does not account for income taxes. Prior to qualifying as a REIT, the Trust was considered taxable. Upon the Trust's change in tax status, all deferred taxes of the Trust were reversed through net earnings or OCI based upon where the amounts initially arose. The Trust's US operations are qualifying US REITs and are not subject to income taxes. The Trust consolidates certain wholly owned incorporated entities that continue to be subject to income taxes. These taxable subsidiaries, and the Trust prior to its change in tax status, account for income taxes as follows:

*(i) Current income tax*

The Trust qualifies as a mutual fund trust and a REIT for income tax purposes. The Trust intends to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, a provision for current income taxes payable is not required, except for amounts incurred in its incorporated Canadian taxable subsidiaries.

*(ii) Deferred income tax*

Deferred income taxes are provided using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- (1) where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable income or loss; and
- (2) in respect of taxable temporary differences associated with investments in subsidiaries and interests in jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilized except:

- (1) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled entities, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to undistributed profits in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date and reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income taxes relating to temporary differences that are in equity are recognized in equity.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity related to the same taxation authority are offset.

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**(h) Cash and equivalents**

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

**(i) Provisions**

Provisions are recognized when the Trust has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Trust expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in net earnings, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**(j) Foreign currency translation**

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

Assets and liabilities of operations having a functional currency other than Canadian dollars are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in OCI.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the consolidated statement of earnings in interest and other, except for those related to monetary liabilities qualifying as hedges of the Trust's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

**(k) Employee future benefits**

The Trust operates a defined contribution pension plan and three defined benefit pension plans for certain employees. The Trust expenses its required contributions to the defined contribution pension plan.

The cost of providing benefits under the defined benefit plans is determined separately for each plan. Actuarial gains and losses for the defined benefit plans are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods. The past service costs are recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less unamortized past service costs and less the fair value of plan assets out of which the obligations are to be settled.

**(l) Significant accounting judgments, estimates and assumptions**

The preparation of the Trust's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

*(i) Judgments*

In the process of applying the Trust's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*(1) Investment property*

The Trust's accounting policies relating to investment property are described in Note 3(c). In applying these policies, judgment is applied in determining whether certain costs are additions to the carrying amount of the property, in distinguishing between tenant incentives and improvements, and, for properties under development, in identifying the point at which completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.

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*(2) Development costs*

Development costs for properties under development are capitalized in accordance with the accounting policy in Note 3(c)(ii). Initial capitalization of costs is based on management's judgment that the development project is in active development. This amount includes capitalized direct internal development and initial leasing costs, primarily comprising compensation costs, property taxes and interest on both specific and general debt.

*(iii) Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(1) Valuation of investment property*

Estimates and assumptions used in the valuation of investment properties are described in Note 7.

*(2) Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the balance sheet or disclosed in the notes cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

*(3) Guarantees*

The Trust reviews its contingent liabilities relating to guarantees it provides on behalf of third parties. The Trust's guarantees remain in place for certain debts assumed by purchasers in connection with property dispositions, and will remain until such debts are extinguished or lenders agree to release RioCan's covenants. Recourse would be available to the Trust under these guarantees in the event of a default by the borrowers, in which case the Trust would have a claim against the underlying real estate investments. A provision is recorded by the Trust when it is expected that the borrower will not honour its obligations as a result of the inability of the underlying assets' performance to meet the contractual debt service terms of the underlying debt and the fair value of the collateral assets are insufficient to cover the obligations and encumbrances in a sale between unrelated parties in the normal course of business. The Trust's estimates of future cash flow (which amongst others, involve assumptions of estimated occupancy, rental rates and residual value) and fair value could vary and result in a significantly different assessment of the need for and amount of any provisions.

*(4) Deferred income taxes*

Deferred income taxes are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying the substantively enacted tax rates applicable to the Trust to such temporary differences that would follow from the manner in which the Trust expects to recover or settle the carrying value of its assets and liabilities.

The Trust qualified for the REIT Exception before December 31, 2010 and as a result does not account for current or deferred taxes (except those within certain wholly owned incorporated entities) after the date of qualification.

The Trust expects to continue to qualify for the REIT Exception, however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the Trust would therefore be subject to tax.

**(m) Future accounting policy changes**

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are described below. This description is of standards and interpretations issued, which the Trust reasonably expects to be applicable at a future date. The Trust intends to adopt these standards when they become effective.

*Financial Instruments ("IFRS 9")*

IFRS 9 as issued reflects the IASB's work to date on the replacement of IAS 39, and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address impairment and hedge accounting. The Trust has not yet determined the impact of IFRS 9 on its consolidated financial statements.

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*Consolidated Financial Statements (“IFRS 10”)*

On May 12, 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, which will replace IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation – Special Purpose Entities*. The new standard provides a single model for consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power and requires that control be assessed as facts and circumstances change. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Trust has not yet determined the impact of IFRS 10 on its consolidated financial statements.

*Joint Arrangements (“IFRS 11”)*

On May 12, 2011, the IASB issued IFRS 11 *Joint Arrangements*. This new standard replaces IAS 31 – *Interests in Joint Ventures*. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures. This change may impact the jointly controlled entities which the Trust currently proportionately consolidates. IAS 28, *Investments in Associates* has also been amended and will establish the requirements for the application of the equity method to these investments. This new standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Trust has not yet determined the impact of IFRS 11 on its consolidated financial statements.

*Disclosure of Interests in Other Entities (“IFRS 12”)*

The IASB issued IFRS 12, *Disclosure of Interests in Other Entities*, on May 12, 2011. The standard includes disclosure requirements about subsidiaries, joint ventures, and associates, replacing existing requirements. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling interests have in the consolidated entities, and the nature and risks associated with interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Trust has not yet determined the impact of IFRS 12 on its consolidated financial statements.

*Fair Value Measurement (“IFRS 13”)*

IFRS 13, *Fair Value Measurement*, establishes a single source of guidance for fair value measurements when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Trust has not yet determined the impact of IFRS 13 on its consolidated financial statements.

*Presentation of Financial Statements (“IAS 1”)*

In June 2011, the IASB made amendments to IAS 1, *Presentation of Financial Statements*, which will require entities to group items presented in Other Comprehensive Income on the basis of whether they will or will not subsequently be reclassified to profit or loss. The amended version of IAS 1 is effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Trust does not expect that this amendment will result in a material impact to the financial statements.

*Employee Benefits (“IAS 19”)*

In June 2011, the IASB made amendments to IAS 19, *Employee Benefits*. The amendments include eliminating the option to defer the recognition of gains and losses, streamlining the presentation of changes to assets and liabilities with all changes from remeasurement to be recognized in other comprehensive income and enhancing the disclosure of the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amended version of IAS 19 is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Trust does not expect that this amendment will result in a material impact to the financial results.

#### 4. IFRS 1: First Time Adoption of IFRS

The Trust has adopted IFRS effective January 1, 2010 (the “transition date”) and has prepared its opening IFRS balance sheet as at that date. Prior to adopting IFRS, the Trust prepared its financial statements in accordance with Canada’s previous GAAP (“Previous Canadian GAAP”). The Trust’s consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements prepared in accordance with IFRS. The Trust has prepared its opening IFRS balance sheet at the transition date by applying all existing IFRS with mandatory effective dates of December 31, 2011 or prior.

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These consolidated financial statements apply IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), which permits or requires certain exemptions from full retrospective application of IFRS on transition. Accordingly, the Trust has elected certain optional exemptions and applied mandatory exceptions as set out below.

*(i) Elected exemptions from full retrospective application*

*(1) Business combinations*

The Trust has elected the business combinations exemption in IFRS 1, and therefore business combinations that took place prior to the transition date have not been restated.

*(2) Cumulative translation differences*

The Trust has elected to set the accumulated cumulative translation account that is included in AOCI related to foreign operations with a functional currency other than the Canadian dollar, to zero at January 1, 2010. This exemption has been applied to the Trust's US operations.

*(3) Employee future benefits*

The Trust has elected to recognize unamortized actuarial gains and losses through retained earnings at transition.

*(ii) Mandatory exceptions to full retrospective application*

*(1) Hedge accounting*

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date have been reflected as hedges in the Trust's results under IFRS. Any derivatives not meeting the criteria for hedge accounting of *IAS 39* have been recorded as non-hedging derivative financial instruments.

*(2) Estimates*

The Trust used estimates under IFRS that are consistent with those applied under Previous Canadian GAAP.

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5. Transition to IFRS

**Reconciliation of Equity as Reported Under Previous Canadian GAAP and IFRS**

The following is a reconciliation of the Trust's equity reported in accordance with Previous Canadian GAAP to IFRS as at January 1, 2010 (date of transition to IFRS).

	Note	January 1, 2010		IFRS
		Previous Canadian GAAP	Effect of transition to IFRS	
<b>ASSETS</b>				
Investment property	<i>(i)</i>	\$ 5,314	\$ 1,624	\$ 6,938
Mortgages and loans receivable		236	–	236
Investment		50	–	50
Receivables and other assets	<i>(ii)</i>	115	(49)	66
Cash and equivalents		147	–	147
<b>Total assets</b>		<b>\$ 5,862</b>	<b>\$ 1,575</b>	<b>\$ 7,437</b>
<b>LIABILITIES</b>				
Mortgages payable and lines of credit		\$ 2,669	\$ –	\$ 2,669
Debentures payable		994	–	994
Deferred tax liability	<i>(iii)</i>	140	750	890
Accounts payable and other liabilities	<i>(iv)</i>	193	3	196
<b>Total liabilities</b>		<b>\$ 3,996</b>	<b>\$ 753</b>	<b>\$ 4,749</b>
<b>NON-CONTROLLING INTEREST</b>	<i>(v)</i>	<b>\$ 9</b>	<b>\$ (9)</b>	<b>\$ –</b>
<b>EQUITY</b>				
Common unitholders' equity		\$ 1,857	\$ 823	\$ 2,680
Non-controlling interest	<i>(v)</i>	–	8	8
<b>Total equity</b>		<b>1,857</b>	<b>831</b>	<b>2,688</b>
<b>Total liabilities, non-controlling interest and equity</b>		<b>\$ 5,862</b>	<b>\$ 1,575</b>	<b>\$ 7,437</b>

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The following is a reconciliation of the Trust's equity reported in accordance with Previous Canadian GAAP to IFRS as at December 31, 2010.

	Note	December 31, 2010			
		Previous Canadian GAAP	Effect of transition to IFRS	2010 IFRS impact	IFRS
<b>ASSETS</b>					
Investment property	<i>(i)</i>	\$ 6,385	\$ 1,624	\$ 457	\$ 8,466
Mortgages and loans receivable		188	-	-	188
Investment		59	-	-	59
Deferred tax asset	<i>(vi)</i>	-	-	8	8
Receivables and other assets	<i>(ii)</i>	135	(49)	(13)	73
Cash and equivalents		92	-	-	92
<b>Total assets</b>		<b>\$ 6,859</b>	<b>\$ 1,575</b>	<b>\$ 452</b>	<b>\$ 8,886</b>
<b>LIABILITIES</b>					
Mortgages payable and lines of credit		\$ 3,316	\$ -	\$ -	\$ 3,316
Debentures payable		1,094	-	-	1,094
Deferred tax liability	<i>(iii)</i>	-	750	(750)	-
Accounts payable and other liabilities	<i>(iv)</i>	252	3	(3)	252
<b>Total liabilities</b>		<b>4,662</b>	<b>753</b>	<b>(753)</b>	<b>4,662</b>
<b>NON-CONTROLLING INTEREST</b>	<i>(v)</i>	<b>\$ 46</b>	<b>\$ (9)</b>	<b>\$ (37)</b>	<b>\$ -</b>
<b>EQUITY</b>					
Common unitholders' equity		\$ 2,151	\$ 823	\$ 1,191	\$ 4,165
Non-controlling interest	<i>(v)</i>	-	8	51	59
<b>Total equity</b>		<b>2,151</b>	<b>831</b>	<b>1,242</b>	<b>4,224</b>
<b>Total liabilities, non-controlling interest and equity</b>		<b>\$ 6,859</b>	<b>\$ 1,575</b>	<b>\$ 452</b>	<b>\$ 8,886</b>

*(i) Investment property*

IFRS defines an investment property as a property held to earn rentals or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independent of the other assets held by an entity. Substantially all of RioCan's income properties and properties under development qualify as investment property.

As with Previous Canadian GAAP, investment property is initially measured at cost; however, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. RioCan has elected to use the fair value model for the valuation of its investment property as provided under IFRS.

This adjustment represents the cumulative unrealized gain in respect of the fair value of the Trust's investment property, net of the derecognition of related intangible assets and liabilities which are inherently reflected in the fair value of income properties and the reclassification of straight-line rent receivable from receivables and other assets to income properties.

Properties held for resale are stated at the lower of cost and net realizable value.

*(ii) Receivables and other assets*

Consistent with Previous Canadian GAAP, IFRS requires rental revenue from operating leases to be recognized on a straight-line basis over the term of the lease. However, Previous Canadian GAAP required that this accounting be adopted on a prospective basis commencing in 2004, whereas IFRS requires that this accounting commence at lease inception. As a result, the amount recognized as a straight-line rent asset is larger under IFRS. The straight-line rent receivable has been reclassified from rents receivable to investment property. Also, intangible assets which are inherently reflected in the fair value of income properties have been derecognized.

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*(iii) Deferred tax liability*

Prior to compliance by the Trust with the REIT Exception, IFRS required RioCan to recognize deferred income taxes and liabilities based on temporary differences expected to reverse after January 1, 2011. As a result of the completion of its tax restructuring, the non-cash deferred income tax liability that arose primarily as a result of the introduction of the SIFT legislation in 2007 reversed in the fourth quarter of 2010 through the consolidated statement of earnings as a one-time deferred income tax recovery. The same was the case under Previous Canadian GAAP.

The increase in deferred tax liability under IFRS compared with Previous Canadian GAAP primarily relates to the increased carrying values of the Trust's investment property. In addition, the deferred tax liability under IFRS is determined by applying undistributed tax rates to temporary differences that are consistent with the Trust's expectation that the method of realization will be through owning and operating its properties rather than through sale.

*(iv) Accounts payable and other liabilities*

This adjustment primarily represents the accrued portion of certain land leases elected to be accounted for as investment property and finance leases under IFRS, as well as adjustments related to defined benefit plan actuarial adjustments and contingent consideration related to asset acquisitions and business combinations. These adjustments are partially offset by the derecognition of intangible liabilities which are inherently reflected in the fair value of income properties.

*(v) Non-controlling interests*

IFRS requires non-controlling interests to be classified as a component of equity. Under Previous Canadian GAAP, non-controlling interest was classified outside of equity. Other adjustments related to subsidiaries with non-controlling interests have also resulted in an adjustment to the carrying amount of non-controlling interest under IFRS.

*(vi) Deferred tax asset*

Under IFRS, recognition of a deferred tax asset and related income tax recovery in the fourth quarter of 2010 were required upon the intercompany sale of the Trust's management business to taxable subsidiaries of the Trust. The intercompany sale of the management business took place in order for the Trust to adhere to SIFT tax legislation.

**Reconciliation of Net Earnings and Comprehensive Income as Reported Under Previous Canadian GAAP to IFRS**

The following is a reconciliation of the Trust's net earnings and comprehensive income reported in accordance with Previous Canadian GAAP to IFRS for the year ended December 31, 2010.

	Note	Year ended December 31, 2010
<b>Net earnings as reported under Previous Canadian GAAP</b>		\$ 304
Differences increasing (decreasing) the reported amounts:		
Fair value gains recorded under IFRS	<i>(i)</i>	273
Depreciation and amortization under Previous Canadian GAAP	<i>(ii)</i>	191
Income tax recovery	<i>(iii)</i>	758
Capitalized costs	<i>(iv)</i>	(11)
Lease accounting	<i>(v)</i>	(4)
Business acquisition transaction costs	<i>(vi)</i>	(4)
Gain on disposition of long-lived asset	<i>(vii)</i>	(3)
Other		5
<b>Net earnings as reported under IFRS</b>		\$ 1,509
<b>Other comprehensive loss as reported under Previous Canadian GAAP</b>		\$ (20)
Actuarial loss on defined benefit plans	<i>(viii)</i>	(1)
<b>Other comprehensive loss as reported under IFRS</b>		\$ (21)
<b>Comprehensive income as reported under IFRS</b>		\$ 1,488

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*(i) Fair value gains recorded under IFRS*

In accordance with IFRS and the Trust's policy choice, RioCan measures investment property at fair value and records changes in fair value in net earnings during the period of change.

*(ii) Depreciation and amortization under Previous Canadian GAAP*

Under Previous Canadian GAAP, investment property was recorded at cost and depreciated over its estimated life. In addition, the amortization of certain intangible assets and liabilities recognized on acquisition of investment property was amortized under Previous Canadian GAAP, which will no longer be the case under IFRS as the values of the intangible assets and liabilities are considered in the determination of the fair value of the investment property.

*(iii) Income tax recovery (expense)*

IFRS adjustments have been tax effected. The Trust's deferred taxes were reversed in the fourth quarter of 2010 upon qualifying as a REIT.

Under IFRS, recognition of a deferred tax asset and related income tax recovery in the fourth quarter of 2010 was required upon the intercompany sale of the Trust's management business to taxable subsidiaries of the Trust. The intercompany sale of the management business took place in order for the Trust to adhere to SIFT tax legislation.

*(iv) Capitalized costs*

Under IFRS, the date on which a development property is reclassified to an income property is when the asset is in the condition capable of operating in the manner intended by management. This date may be earlier as compared to Previous Canadian GAAP and, as a result, there is an adjustment to recognize interest and other costs capitalized under Previous Canadian GAAP in net earnings under IFRS. In addition, income related to operations that is incidental to the construction of a development property is to be recognized in net earnings, rather than recognized as part of the cost of an asset during the development period as required under Previous Canadian GAAP. Demolition costs related to the Trust's development activities were capitalized under Previous Canadian GAAP, whereas in certain circumstances, such costs are expensed as period costs under IFRS.

*(v) Lease accounting*

The adoption of IFRS accounting standards has adversely impacted rental revenue due to the loss of the amortization of the differential between contractual and market rents and straight-lining of leases since their inception (rather than straight-lining leases commencing in 2004, according to Previous Canadian GAAP).

*(vi) Business acquisition transaction costs*

Transaction costs (including commissions, land transfer tax, appraisals, legal fees and third party inspection reports associated with a purchase) are expensed in accordance with IFRS where such acquisitions are considered business combinations. During 2010, certain acquisitions in the United States of America ("US") have been accounted for as business combinations under IFRS and accordingly, the related acquisition costs have been expensed.

*(vii) Gain on disposition of long-lived asset*

The gain recorded under Previous Canadian GAAP related to the sale of Langstaff Place shopping centre. After adjusting the value of the shopping centre to fair value effective January 1, 2010 in accordance with the fair value model under IFRS, a gain on sale no longer existed as the property was sold at approximately the recorded fair value.

*(viii) Actuarial loss on defined benefit plans*

Actuarial gains and losses on the Trust's three defined benefit pension plans are recognized in OCI.

**Adjustments to the Consolidated Statements of Cash Flows**

There were no material adjustments to the operating, investing or financing activity subtotals in the 2010 consolidated statements of cash flows as a result of the conversion to IFRS.

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## 6. Business Combinations

During 2011, the Trust has not acquired investment property through a business combinations.

During the fourth quarter of 2009, the Trust entered into an agreement for the acquisition of retail properties in the US to be owned 80% by RioCan and 20% by Cedar, with the first properties being seven grocery-anchored shopping centers owned by Cedar (the "Initial Portfolio"). The properties were acquired to expand the Trust's property portfolio into the US. In 2010, the Trust completed the acquisition, from Cedar, of an 80% interest in the remaining five properties to be acquired as part of the "Initial Portfolio".

In addition, during 2010, the Trust entered into an agreement with Inland Western to acquire an 80% interest in nine new format and grocery-anchored shopping centers in Texas.

These property acquisitions with Cedar and Inland Western were considered to be acquisitions of a business, rather than asset acquisitions because the existing property management function and associated processes were acquired.

The fair value of the identifiable assets and liabilities acquired as at the dates of acquisition were as follows:

*(US dollars, in millions)*

For the year ended December 31, 2010

<b>Assets acquired</b>	
Investment property	\$ 271
Trade receivables	4
Funds held in trust	7
Cash and equivalents	4
	286
<b>Liabilities assumed:</b>	
Mortgages payable	173
Trade payables	2
Contingent consideration <i>(i)</i>	13
	188
<b>Total identifiable net assets at fair value</b>	<b>98</b>
Non-controlling interest	(10)
<b>Total consideration – RioCan's interest</b>	<b>\$ 88</b>

(i) Contingent consideration relates to earn-out mechanisms whereby additional proceeds are paid to the vendors upon lease-up of vacant space at the acquired properties. Generally the proceeds are calculated using the same capitalization rates as the respective initial property acquisitions.

## 7. Investment Property

	December 31, 2011	December 31, 2010	January 1, 2010
<b>Composed of:</b>			
Income properties	\$ 10,024	\$ 8,185	\$ 6,717
Properties under development	377	268	208
Properties held for resale	8	13	13
	<b>\$ 10,409</b>	<b>\$ 8,466</b>	<b>\$ 6,938</b>

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*(i) Income Properties*

For the year ended December 31,	2011	2010
Balance, beginning of year	\$ 8,185	\$ 6,717
Acquisitions	1,081	1,109
Capital expenditures	37	17
Tenant installation costs	42	36
Dispositions	-	(6)
Transfers from properties under development	150	55
Transfers to properties under development	(14)	(39)
Fair value gains	510	293
Foreign currency translation gain (loss)	24	(28)
Other changes	9	31
Balance, end of year	\$ 10,024	\$ 8,185

*(ii) Properties Under Development*

For the year ended December 31,	2011	2010
Balance, beginning of year	\$ 268	\$ 208
Acquisitions	103	41
Development expenditures	101	74
Completion of properties under development	(150)	(55)
Transfers from income properties	14	39
Dispositions and other	18	(19)
Fair value gains (losses)	23	(20)
Balance, end of year	\$ 377	\$ 268

*(iii) Properties Held For Resale*

As at December 31, 2011, properties held for resale was \$8.3 million (December 31, 2010 – \$13.2 million). This change was as a result of a property being reclassified from properties held for resale to properties under development.

*Investment Property*

Included in investment property is \$86.4 million (December 31, 2010 – \$75.5 million) of net straight line rents receivable arising from the recognition of rental revenue on a straight line basis over the lease term in accordance with IAS 17.

Included in investment property are finance leases for which the Trust has exercised its options to purchase these properties in 2013, 2034 and 2037. As at December 31, 2011, the fair value of these properties was \$47 million. Included in mortgages payable is an obligation under capital lease of \$9.4 million, maturing in 2013, encompassing minimum lease payments of \$0.9 million per annum and a final payment upon maturity of \$8.9 million. The obligation is at an imputed interest rate of 6.54% per annum.

Included in investment property are two properties, the land under which is leased from a third party. These two properties are operating leases, but subject to IAS 40, have been treated as finance leases and recorded at fair value within income properties. The fair value of these two properties is \$59.6 million for the land and building (December 31, 2010 – \$58.9 million) and the lease obligation is \$14.8 million (December 31, 2010 – \$15.3 million) and is included in accounts payable and other liabilities.

*(i) Valuation Process*

The Trust determined the fair value of each income property internally based upon the direct capitalization income approach method of valuation. The fair value was determined by applying a capitalization rate to stabilized net operating income ("NOI"), which incorporates allowances for vacancy, management fees and structural reserves for capital expenditures for the

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property. The resulting capitalized value was further adjusted, where appropriate, for costs to stabilize the income and non recoverable capital expenditures.

The Trust valued properties under development that consist of undeveloped land, on a land value per acre basis, based on the particular attributes of the project with respect to zoning and pre-development work performed on the site. Where a site was partially developed, the direct capitalization method was applied to capitalize the pro forma income, from which the costs to complete the development were deducted.

Properties held for resale are stated at the lower of cost and net realizable value.

The Trust also utilized a sample of external appraisals to corroborate the Trust's internal valuations at December 31, 2010 (16.3%). As at December 31, 2011, no external appraisals were sought.

The table below provides further details of the average capitalization rates for income properties (weighted based on stabilized NOI), and ranges for each retail class.

Retail Class	December 31, 2011		December 31, 2010		January 1, 2010	
	Weighted Average Cap. Rate*	Range	Weighted Average Cap. Rate*	Range	Weighted Average Cap. Rate*	Range
Enclosed Shopping Centre	7.34%	6.00% - 9.23%	7.54%	6.50% - 9.00%	7.95%	7.00% - 9.00%
Grocery Anchored Shopping Centre	6.68%	5.75% - 9.00%	7.04%	6.00% - 9.26%	7.34%	6.50% - 9.00%
Mixed Use	6.45%	5.50% - 8.65%	7.01%	6.00% - 8.75%	7.18%	6.00% - 8.75%
New Format Retail	6.34%	5.65% - 8.00%	6.67%	6.00% - 8.25%	6.83%	6.25% - 8.50%
Non-Grocery Anchored Centre	6.78%	5.75% - 9.00%	7.09%	6.00% - 8.75%	7.29%	6.00% - 9.00%
Urban Retail	5.84%	5.50% - 6.75%	6.33%	5.75% - 7.70%	6.68%	6.00% - 7.25%
<b>Total Weighted Average</b>	<b>6.53%</b>	<b>5.50% - 9.23%</b>	<b>6.88%</b>	<b>5.75% - 9.26%</b>	<b>7.12%</b>	<b>6.00% - 9.00%</b>

\* –at RioCan's interest

The fair value change in fiscal 2011 for investment properties was \$533 million (December 31, 2010 – \$273 million).

The following table provides a sensitivity analysis for the weighted average capitalization rate applied at December 31, 2011:

(in billions, except percentages)

Capitalization rate sensitivity Increase (decrease)	Weighted average capitalization rate*	Fair value of investment property (at RioCan's ownership)	Fair value variance	% change	Ratio of debt, net of cash, to total assets, net of cash
(0.75%)	5.78%	\$ 11.7	\$ 1.3	12.9%	41.2%
(0.50%)	6.03%	\$ 11.3	\$ 0.9	8.3%	42.9%
(0.25%)	6.28%	\$ 10.8	\$ 0.4	3.9%	44.7%
<b>December 31, 2011</b>	<b>6.53%</b>	<b>\$ 10.4</b>	<b>\$ –</b>	<b>0.0%</b>	<b>46.4%</b>
0.25%	6.78%	\$ 10.0	\$ (0.4)	(3.7%)	48.1%
0.50%	7.03%	\$ 9.7	\$ (0.7)	(7.0%)	49.8%
0.75%	7.28%	\$ 9.3	\$ (1.1)	(10.2%)	51.5%

\* – at RioCan's interest

## 8. Mortgages and Loans Receivable

	December 31, 2011	December 31, 2010	January 1, 2010
Current	\$ 72	\$ 55	\$ 96
Non-current	75	133	140
	<b>\$ 147</b>	<b>\$ 188</b>	<b>\$ 236</b>

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As at December 31, 2011, mortgages and loans receivable bear interest at effective rates between 4.5% and 10% (contractual rates between 0% and 10%) per annum with a weighted average effective rate of 7.1% (contractual rate of 6.9%) per annum, and mature between 2012 and 2016. Future repayments are as follows:

Due on demand	\$ 40
For the year ending December 31:	
2012	32
2013	20
2014	14
2015	27
2016	14
Contractual mortgages and loans receivable	\$ 147

## 9. Investment

Investment represents the Trust's investment in Cedar (CDR:NYSE). The Trust initially acquired 6.7 million shares of Cedar and 1.4 million warrants to purchase common shares of Cedar on October 26, 2009 for aggregate consideration of US\$40 million. During the first quarter of 2010, 1.35 million additional Cedar shares were acquired at a price of US\$6.60 per share in connection with a public offering conducted by Cedar. On April 27, 2010, the Trust exercised its warrant to purchase 1.4 million common shares of Cedar at an exercise price of US\$7.00 per share. As at December 31, 2011, the Trust's investments consist of its ownership of 9.4 million common shares of Cedar (December 31, 2010 - 9.4 million). Cedar's closing stock price as at December 31, 2011 was US\$4.31 (December 31, 2010 - US\$6.29).

## 10. Receivables and Other Assets

	December 31, 2011			December 31, 2010			January 1, 2010		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Contractual rents receivable	\$ -	\$ 27	\$ 27	\$ -	\$ 26	\$ 26	\$ -	\$ 26	\$ 26
Prepaid expenses and other assets	23	35	58	14	33	47	21	19	40
	\$ 23	\$ 62	\$ 85	\$ 14	\$ 59	\$ 73	\$ 21	\$ 45	\$ 66

Contractual rents receivable, including both billed and accrued amounts, are non-interest bearing and are generally on 30-90 day terms.

## 11. Mortgages Payable and Lines of Credit

### (a) Mortgages Payable and Lines of Credit

	December 31, 2011	December 31, 2010	January 1, 2010
Current	\$ 373	\$ 232	\$ 331
Non-current	3,839	3,084	2,338
	\$ 4,212	\$ 3,316	\$ 2,669

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As at December 31, 2011, mortgages payable bear interest at effective rates between 1.78% and 8.73% (contractual rates between 1.78% and 8.45%) per annum with a weighted average effective rate of 5.25% (contractual rate of 5.14%) per annum and mature between 2012 and 2041. Future repayments are as follows:

		Scheduled principal amortization	Principal maturities	Total repayments	Weighted average contractual interest rate
For the year ending December 31:	2012	\$ 92	\$ 281	\$ 373	5.74%
	2013	87	374	461	5.86%
	2014	77	666	743	4.60%
	2015	67	758	825	4.80%
	2016	50	543	593	4.81%
	Thereafter	157	1,068	1,225	5.32%
Contractual obligations		\$530	\$3,690	\$4,220	
Unamortized differential between contractual and market interest rates on liabilities assumed at the acquisition of properties				9	
Unamortized debt financing costs				(17)	
				<b>\$4,212</b>	

As at December 31, 2011, US dollar denominated debt amounted to US\$ 1.1 billion (December 31, 2010 – US\$387.3 million).

As at December 31, 2011, RioCan had four revolving lines of credit in place with three Canadian Schedule 1 financial institutions, having an aggregate capacity of \$428.5 million (December 31, 2010 - five revolving lines of credit aggregating \$421.5 million with four Canadian Schedule 1 financial institutions).

The following table summarizes the details of the secured lines of credit as at December 31, 2011:

(in millions of dollars)

	Facility maximum loan amount	Amounts drawn		Available to be drawn	Interest rates	Maturity
		Cash advances	Letters of credit			
1	\$ 200 (i)	\$ 110	\$ 14	\$ 76	CDN\$ advances - prime plus 0.5% per annum or Bankers' Acceptance plus 1.5%; US\$ advances - US\$ Base Rate plus 0.5% per annum or US\$ LIBOR plus 1.5%	June 2014
2	100	20	9	71	CDN\$ advances - prime plus 0.5% per annum or Bankers' Acceptance plus 1.5%; US\$ advances - US\$ Base Rate plus 0.5% per annum or US\$ LIBOR plus 1.5%	December 2014
3	125	—	—	125	CDN\$ advances - prime plus 0.5% per annum or Bankers' Acceptance plus 1.5%; US\$ advances - US\$ Base Rate plus 0.5% per annum or US\$ LIBOR plus 1.5%	December 2013 (plus one year extension subject to Bank approval)
4	4 (ii)	—	3	1	Letters of credit fees - 2.25%	Upon demand for unused amounts
	<b>\$ 429</b>	<b>\$ 130</b>	<b>\$ 26</b>	<b>\$ 273</b>		

(i) Secured by a charge against certain income properties. Should the aggregate agreed values for lending purposes of such properties fall to a level which would not support a borrowing of \$200 million, through reappraisal or sale of the property providing the security, RioCan has the option to provide substitute income properties as additional security.

(ii) RioKim letter of credit facility, which provides for a maximum aggregate amount of \$7 million, or \$3.5 million at RioCan's interest.

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**(b) Net Current Liabilities**

	December 31, 2011	December 31, 2010	January 1, 2010
Cash and equivalents	\$ 77	\$ 92	\$ 147
Receivables and other assets <i>(Note 10)</i>	62	59	45
Mortgages and loans receivable <i>(Note 8)</i>	72	55	96
	211	206	288
Accounts payable and other liabilities <i>(Note 14)</i>	244	219	166
Debentures payable <i>(Note 12)</i>	100	200	–
Net current liabilities before undernoted	(133)	(213)	122
Mortgages payable and lines of credit <i>(Note 11)</i>	373	232	331
Net current liabilities	\$ (506)	\$ (445)	\$ (209)

**12. Debentures Payable**

	December 31, 2011	December 31, 2010	January 1, 2010
Current	\$ 100	\$ 200	\$ –
Non-current	722	894	994
	\$ 822	\$ 1,094	\$ 994

The Trust has the following series of senior unsecured debentures outstanding as at December 31, 2011:

Series	Principal amount	Maturity date	Coupon rate	Interest payment frequency
H	\$ 100	June 15, 2012	4.700%	Semi-annual
G	150	March 11, 2013	5.230%	Semi-annual
M	150	March 31, 2015	5.650%	Semi-annual
N <i>(i)</i>	102	September 21, 2015	4.100%	Semi-annual
O	225	January 21, 2016	4.499%	Semi-annual
I	100	February 6, 2026	5.953%	Semi-annual
	\$ 827		5.080%	

(i) US dollar denominated \$100 million debenture

The debentures have covenants relating to RioCan's 60% leverage limit to gross assets as set out in the Trust's Declaration, the maintenance of a \$1.0 billion Adjusted Book Equity, defined in the Indenture Agreement, and maintenance of an interest coverage ratio of 1.65 times or greater. There are no requirements under the unsecured debenture covenants for RioCan to maintain unencumbered assets. RioCan has the right, at any time, to convert the Series I debentures to mortgage debt, subject to the acceptability of the security given to the debenture holders. In such an event, the covenants relating to the 60% leverage limit, minimum book equity and interest coverage ratio would be eliminated for this debenture.

On September 21, 2010, the Trust issued US\$100 million of Series N debentures which are subject to the same covenants as the other above noted outstanding debentures, with the exception of Series I which has an additional provision as discussed above. Debenture issuance costs were approximately \$0.9 million.

The Series F debentures with a principal amount of \$200 million were redeemed on January 20, 2011, in accordance with their terms, at a total redemption price of \$1,004.89 plus accrued and unpaid interest of \$18.02575, both per \$1,000 principal amount. This early extinguishment of the Series F debentures payable resulted in RioCan having to pay a prepayment penalty in the amount of \$1.0 million.

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The Series L debentures with a principal amount of \$180 million due on April 3, 2014 were redeemed on February 24, 2011 at a total redemption price of \$1,131.85 plus accrued and unpaid interest of \$32.86356, both per \$1,000 principal amount. This early extinguishment of the Series L debentures payable resulted in RioCan having to pay a prepayment penalty in the amount of \$23.7 million in aggregate or \$131.85 per \$1,000 principal amount.

On January 21, 2011, the Trust issued \$225 million of Series O debentures which mature on January 21, 2016 and carry a coupon rate of 4.499%. These debentures are subject to the same covenants as the other above noted outstanding debentures, with the exception of Series I which has an additional provision as discussed above. Debenture issuance costs were approximately \$1.6 million.

The Series K debentures with a principal amount of \$120 million due on September 11, 2012 were redeemed on December 19, 2011 at a total redemption price of \$1,032.08 plus accrued and unpaid interest of \$15.46027, both per \$1,000 principal amount. This early extinguishment of the Series K debentures payable resulted in RioCan having to pay a prepayment penalty in the amount of \$3.8 million.

As at December 31, 2011, debentures payable bear interest at a weighted average effective rate of 5.18% (contractual rate of 4.99%) per annum. Future repayments are as follows:

		Principal maturities	Weighted average contractual interest rate
For the year ending December 31:	2012	\$ 100	4.70%
	2013	150	5.23%
	2014	-	-
	2015	252	5.02%
	2016	225	4.50%
	2017	-	-
	Thereafter	100	5.95%
Contractual obligations		827	
Unamortized debt financing costs		(5)	
		\$ 822	

### 13. Income Taxes

The Trust qualifies as a mutual fund trust and a real estate investment trust (REIT) for Canadian income tax purposes. The Trust expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for Canadian current income tax payable is required, except for amounts incurred in its incorporated Canadian subsidiaries.

The Trust's US subsidiary qualifies as a REIT for US income tax purposes. The subsidiary expects to distribute all of its US taxable income to Canada and is entitled to deduct such distributions for US income tax purposes. Accordingly, no provision for US current income tax payable is required.

The *Income Tax Act* (Canada) (the "Act") contains legislation affecting the tax treatment of publicly traded trusts (the "SIFT Legislation"). The SIFT Legislation provided for a transition period until 2011 for publicly traded trusts like RioCan which existed prior to November 1, 2006. In addition, the SIFT Legislation did not impose tax on a trust which qualifies under such legislation as a REIT (the "REIT Exception"). The Trust completed the necessary tax restructuring in the fourth quarter of 2010 to qualify commencing for the 2011 taxation year as a REIT under the Canadian income tax legislation. As a result, there will not be any deferred income tax assets or liabilities recognized for the Trust for either its Canadian or US operations except for amounts incurred in its incorporated Canadian taxable subsidiaries.

Where an entity does not qualify for the REIT Exception, certain distributions will not be deductible by that entity in computing its income for Canadian tax purposes. As a result, the entity will be subject to tax at a rate substantially equivalent to the general corporate income tax rate on distributed taxable income. Distributions paid in excess of taxable income will continue to be treated as a return of capital to unitholders. Undistributed taxable income is subject to the top marginal personal tax rate.

Prior to the fourth quarter of 2010 when the Trust did not meet the REIT Exception, RioCan recognized deferred income tax assets and liabilities at the undistributed rate based on temporary differences expected to reverse after January 1, 2011 in respect of its

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Canadian and US operations. As a result of the completion of its tax restructuring, the deferred income tax liability reversed in the fourth quarter of 2010 through the consolidated statements of earnings as a one-time non-cash deferred income tax recovery.

The Trust consolidates certain wholly owned incorporated entities that remain subject to tax. The tax disclosures and expense after December 31, 2010 relate only to these entities.

Components of deferred tax assets on the consolidated balance sheets	December 31, 2011	December 31, 2010	January 1, 2010
Tax effected temporary differences between accounting and tax basis of:			
Real estate investments	\$ –	\$ –	\$ (862)
Intangibles and other	8	8	(28)
<b>Deferred tax assets</b>	<b>\$ 8</b>	<b>\$ 8</b>	<b>\$ (890)</b>

The Trust's incorporated Canadian subsidiaries recorded deferred tax assets of \$8 million (December 31, 2010 – \$8 million).

Under IFRS, recognition of a deferred tax asset and related income tax recovery in the fourth quarter of 2010 were required upon the intercompany sale of the Trust's management business to taxable subsidiaries of the Trust. The intercompany sale of the management business took place in order for the Trust to adhere to SIFT Legislation.

#### 14. Accounts Payable and Other Liabilities

	December 31, 2011			December 31, 2010			January 1, 2010		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Property operating costs	\$ –	\$ 57	\$ 57	\$ –	\$ 54	\$ 54	\$ –	\$ 39	\$ 39
Development costs and other capital expenditures	–	66	66	–	54	54	–	33	33
Interest on mortgages and debentures payable	–	29	29	–	32	32	–	28	28
Distributions to unitholders payable	–	32	32	–	30	30	–	28	28
Property taxes	–	20	20	–	17	17	–	14	14
Tenant installation costs	–	11	11	–	10	10	–	18	18
Unfunded employee future benefits (Note 33)	7	–	7	7	–	7	4	–	4
Trustees' restricted equity unit plan (Note 16(b))	2	–	2	1	–	1	1	–	1
Fair value of interest rate swap agreements (Note 25)	15	–	15	3	–	3	1	–	1
Other	23	29	52	22	22	44	24	6	30
	<b>\$ 47</b>	<b>\$ 244</b>	<b>\$ 291</b>	<b>\$ 33</b>	<b>\$ 219</b>	<b>\$ 252</b>	<b>\$ 30</b>	<b>\$ 166</b>	<b>\$ 196</b>

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15. Unitholders' Equity

**(a) Common units**

The Trust is authorized to issue an unlimited number of common units. The common units are entitled to distributions as and when declared by the Board of Trustees and on liquidation to a pro rata share of the residual net assets remaining after the preferential claims thereon of debt holders and preferred unitholders. As the Trust is a closed end trust, the units are not puttable. The units issued and outstanding are as follows:

For the year ended December 31,

	2011		2010	
	Units (in thousands)	\$	Units (in thousands)	\$
Units outstanding, beginning of year <i>(i)</i>	259,818	3,130	242,320	2,782
Units issued:				
Exchangeable limited partnership units <i>(ii)</i>	3,290	83	277	5
Public offering <i>(ii) (iii)</i>	10,477	260	13,625	289
Distribution reinvestment plan	3,433	82	2,976	59
Direct purchase plan	48	1	53	1
Unit option plan	2,047	37	567	7
Value associated with unit options granted	-	4	-	2
Unit issue costs	-	(12)	-	(12)
Deferred income taxes <i>(Note 13)</i>	-	-	-	(3)
Units outstanding, end of year	279,113	3,585	259,818	3,130

- (i) Included in units outstanding are exchangeable limited partnership units of four limited partnerships that are subsidiaries of the Trust (the "LP units") which were issued to vendors, as partial consideration for income properties acquired by RioCan (December 31, 2011 - 4,397,085 units; December 31, 2010 - 1,106,286 units). RioCan is the general partner of the limited partnerships. The LP units are entitled to distributions equivalent to distributions on RioCan units, must be exchanged for RioCan units on a one-for-one basis and are exchangeable at any time at the option of the holder.
- (ii) On March 28, 2011, a subsidiary of the Trust issued 553,304 exchangeable limited partnership units to a vendor, as partial consideration for an income property acquired in the first quarter of 2011. During the fourth quarter of 2011, 93,630 LP units were exchanged by the vendors for RioCan units.  
 During 2011, an additional 122,585 exchangeable limited partnership units were issued in connection with the acquisition of additional pads at one of the Trust's properties that is held within a limited partnership.  
 On December 15, 2011, a subsidiary of the Trust issued 2,945,320 exchangeable limited partnership units to a vendor, as partial consideration for a portfolio of five income properties acquired in the fourth quarter of 2011. Prior to year-end, 236,780 LP units were exchanged by this vendor for RioCan units.
- (iii) On September 2, 2011, RioCan issued an aggregate of 5,055,000 trust units at a price of \$24.75 per unit for aggregate gross proceeds of \$125 million. The aggregate offering was comprised of the issuance of 4,445,000 units at \$24.75 per unit for gross proceeds of \$110 million, together with the option granted to underwriters, which was exercised in full, for an issuance of an additional 610,000 units for \$24.75 per unit for additional gross proceeds of \$15 million.  
 On November 4, 2011, RioCan issued an aggregate of 5,091,625 trust units at a price of \$24.85 per unit for aggregate gross proceeds of \$126.5 million. The aggregate offering was comprised of the issuance of 4,427,500 units at \$24.85 per unit for gross proceeds of \$110 million, together with the option granted to underwriters, which was exercised in full, for an issuance of an additional 664,125 units for \$24.85 per unit for additional gross proceeds of \$16.5 million.

**(b) Preferred units**

The Trust is authorized to issue 50 million preferred units.

On December 6, 2010, the Trust's Declaration was amended and restated to permit the future authorization and issuance of Preferred Units, and to make certain administrative and non-substantive changes and other changes resulting from the Trust's ongoing growth. These amendments were previously approved by unitholders at the Trust's Annual General meeting.

*(i) Series A*

On January 26, and February 17, 2011, the Trust issued a total of 5 million perpetual Cumulative Rate Reset Preferred Trust Units, Series A (the "Series A Units") at a price of \$25 per unit for aggregate gross proceeds of \$125 million. The Series A

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Units will pay a cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of RioCan, for the initial five-year period ending March 31, 2016. The distribution rate will be reset on March 31, 2016 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 2.62%. The Series A Units are redeemable by RioCan, at its option, on March 31, 2016 and on March 31 of every fifth year thereafter. Holders of Series A Units will have the right to reclassify all or any part of their units as perpetual Cumulative Floating Rate Preferred Trust Units, Series B (the "Series B Units"), subject to certain conditions, on March 31, 2016 and on March 31 of every fifth year thereafter. Holders of Series B Units will be entitled to receive a cumulative quarterly floating distribution at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 2.62%, as and when declared by the Board of Trustees of RioCan. Holders of Series B Units will have the right to reclassify all or part of their units as Series A Units on March 31, 2021 and on March 31 of every fifth year thereafter.

*(ii) Series C*

On November 30, 2011 the Trust issued an aggregate of 5,980,000 Cumulative Rate Reset Preferred Trust Units, Series C (the "Series C Units") at a price of \$25 per unit for aggregate gross proceeds of \$149.5 million. The aggregate offering was comprised of the issuance of 5,200,000 Series C Units at \$25.00 per unit for gross proceeds of \$130 million, together with the option granted to underwriters, which was exercised in full, for an additional issuance of 780,000 Series C Units for \$25 per unit for additional gross proceeds of \$19.5 million.

The Series C Units will pay fixed cumulative distribution yield of 4.70% per annum, payable quarterly, as and when declared by the Board of Trustees of RioCan, for the initial approximately five and a half-year period ending June 30, 2017. The distribution rate will be reset on June 30, 2017 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.18%. The Series C Units are redeemable by RioCan, at its option, on June 30, 2017 and on June 30 of every fifth year thereafter. Holders of Series C Units will have the right to reclassify all or any part of their units as Cumulative Floating Rate Preferred Trust Units, Series D (the "Series D Units"), subject to certain conditions, on June 30, 2017 and on June 30 of every fifth year thereafter. Holders of Series D Units will be entitled to receive a cumulative quarterly floating distribution at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 3.18%, as and when declared by the Board of Trustees of RioCan. Holders of Series D Units will have the right to reclassify all or part of their units as Series C Units on June 30, 2022 and on June 30 of every fifth year thereafter.

The Series C Units and the Series D Units will rank equally with each other and with the outstanding Series A Units and the Series B Units into which they may be reclassified.

*(c) Accumulated other comprehensive income (loss)*

Accumulated other comprehensive income (loss) consists of the following amounts:

	Unrealized income (loss)				
	Interest rate swap agreements	Translation of foreign operations	Available for-sale investment	Pension plan	Total
As at January 1, 2010	\$ -	\$ -	\$ 4	\$ -	\$ 4
Other comprehensive income	(3)	(10)	(4)	(1)	(18)
Reclassification of pension	-	-	-	1	1
As at December 31, 2010	\$ (3)	(10)	-	-	(13)
Other comprehensive income	(10)	6	(18)	1	(21)
Reclassification of pension	-	-	-	(1)	(1)
<b>As at December 31, 2011</b>	<b>\$ (13)</b>	<b>\$ (4)</b>	<b>\$ (18)</b>	<b>\$ -</b>	<b>\$ (35)</b>

**16. Unit-based Compensation Plans**

*(i) Incentive unit option plan*

As at December 31, 2011, the Trust's incentive unit option plan (the "plan") provides for option grants to a maximum of 29.2 million units. As at December 31, 2011, 13.0 million unit options have been granted and have been exercised, 7.7 million unit options have been granted and remain outstanding and 8.5 million unit options remain available for grant. The exercise price for each option is equal to the volume weighted average trading price of the Units on the Toronto Stock Exchange for the

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five trading days immediately preceding the date of grant except for those options granted prior to May 27, 2009 which have an exercise price equal to the closing price of the Trust's Units on the date prior to the day the option was granted. An option's maximum term is 10 years. All options granted through December 31, 2003 vest at 20% per annum commencing on the grant date, becoming fully vested after four years. All options granted after December 31, 2003 vest at 25% per annum commencing on the first anniversary of the grant, become fully vested after four years.

A summary of unit options granted under the plan is as follows:

For the year ended December 31,

	2011		2010	
	Units (in thousands)	Weighted average exercise price	Units (in thousands)	Weighted average exercise price
Options				
Outstanding, beginning of year	8,270	\$ 19.56	7,157	\$ 19.28
Granted	1,750	24.62	1,680	18.78
Exercised	(2,047)	17.84	(567)	13.69
Forfeited	(273)	22.28	-	-
<b>Outstanding, end of year</b>	<b>7,700</b>	<b>\$ 21.07</b>	<b>8,270</b>	<b>\$ 19.56</b>
<b>Options exercisable at end of year</b>	<b>3,890</b>	<b>\$ 21.59</b>	<b>4,356</b>	<b>\$ 20.78</b>
<b>Weighted average fair value per unit of options granted during the year</b>		<b>\$ 3.51</b>		<b>\$ 1.89</b>

The Trust accounts for its unit-based compensation plan using the fair value method, under which compensation expense for each tranche of an award is measured at the grant date and recognized over the vesting period. Unit-based compensation expense and assumptions utilized in the calculation thereof using the Black-Scholes option valuation model are as follows:

(units in thousands)

For the year ended December 31,

	2011	2010
<b>Unit-based compensation expense</b>	<b>\$ 4</b>	<b>\$ 2</b>
Unit options granted	1,750	1,680
Unit option holding period (years)	5.5 - 7	5.5 - 7
Weighted Average Volatility rate	25.7%	25.6%
Weighted Average Distribution yield	5.6%	7.4%
Weighted Average Risk free interest rate	2.8%	2.9%

(ii) *Trustees' restricted equity unit plan*

The Trustees' restricted equity unit plan provides for an allotment of restricted equity units ("REUs") to each non-employee trustee ("member"). The value of REUs allotted appreciates or depreciates with increases or decreases in the market price of the Trust's units. Members are also entitled to be credited with REUs for distributions paid in respect of units of the Trust based on an average market price of the units as defined by the plan. REUs vest and are settled three years from the date of issue by a cash payment equal to the number of vested REUs credited to the member based on an Average Market Price of the Trust's units at the settlement date. As at December 31, 2011, accounts payable and other liabilities include accrued compensation costs relating to the REUs of \$1.8 million (December 31, 2010 – \$1.3 million).

17. Distributions to Unitholders

RioCan currently qualifies as a mutual fund trust and real estate investment trust for income tax purposes. RioCan intends, but is not contractually obligated, to distribute all of the Trust's taxable income to unitholders in each year, as calculated in accordance with the Act after all permitted deductions under the Act have been taken.

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Total distributions declared to unitholders are as follows:

For the year ended December 31,	2011		2010	
	Total Distributions	Distributions per unit	Total Distributions	Distributions per unit
Common Unitholders	\$ 367	\$ 1.3800	\$ 340	\$ 1.3800
Preferred Unitholders – Series A	\$ 6	\$ 1.2145	\$ –	\$ –
Preferred Unitholders – Series C	\$ 1	\$ 0.0998	\$ –	\$ –

**18. Rental Revenue**

For the year ended December 31,	2011	2010
Rental income	\$ 623	\$ 540
Straight line rent	10	7
	<b>633</b>	<b>547</b>
Common area maintenance recoveries	124	104
Realty tax recoveries	185	161
Percentage rent	4	4
Lease cancellation fees	1	14
Rental revenue	\$ 947	\$ 830

**19. Property Operating Costs - Recoverable Under Tenant Leases**

For the year ended December 31,	2011	2010
Realty tax	\$ 193	\$ 168
Common area maintenance	123	103
	<b>\$ 316</b>	<b>\$ 271</b>

**20. Fees and Other Income**

For the year ended December 31,	Note	2011	2010
Property and asset management fees earned from co-ownerships, partners and other	29	\$ 25	13
Dividends earned on Cedar shares	9	3	3
		<b>28</b>	<b>16</b>

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## 21. Interest Expense

Interest was capitalized to properties under development based on a weighted average interest rate of 5.6% (2010 – 6.0%) as follows:

For the year ended December 31,	2011	2010
Total interest	\$ 255	\$ 234
Capitalized to properties under development	15	13
	\$ 240	\$ 221

The early redemption of the Series F, L and K debentures resulted in the payment of accrued interest of \$1.5 million, yield maintenance payments totalling \$28.5 million, and the write-off of unamortized transaction costs of \$1.3 million. As a result of the early redemption of these debentures, the first and fourth quarter's net earnings were negatively impacted by one-time expenses totalling \$27.2 million and \$4.1 million, respectively.

## 22. General and Administrative

For the year ended December 31,	2011	2010
Salaries and benefits	\$ 24	\$ 21
Audit, legal & consulting fees	9	12
Advertising and promotion costs	3	2
Other	4	7
	\$ 40	\$ 42

## 23. Segmented Disclosures and Additional Information

The Trust operates in the shopping centre segment of the real estate industry in both Canada and in the US.

As at December 31, 2011, the Trust's portfolio is comprised of 331 retail properties, including 10 under development. Included in the Trust's portfolio are 45 grocery anchored and new format retail centers (December 31, 2010 – 31) located in the US which the Trust owns through joint venture agreements with Cedar, Sterling Organization LLC, Inland Western REIT, Kimco Realty Corporation and Dunhill Partners, Inc.

The Trust's property investments with Cedar and Sterling Organization LLC are consolidated at 100% with a 20% non-controlling interest. The Trust's US joint venture agreements with Inland Western REIT and Kimco Realty Corporation and Dunhill Partners, Inc. are proportionately consolidated.

No single tenant accounts for 10% or more of the Trust's consolidated rental revenue.

The following summary presents segmented financial information by geographic location:

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Net earnings by reportable segment for the year ended December 31, 2011 is as follows:

	Canada	United States	Eliminations <sup>(i)</sup>	Total
<b>Revenue</b>				
Rental revenue	\$ 855	\$ 92	\$ -	\$ 947
<b>Property operating costs</b>				
Recoverable under tenant leases	292	24	-	316
Non-recoverable from tenants	9	-	-	9
	301	24	-	325
<b>Net operating income</b>	554	68	-	622
<b>Other income</b>				
Fees and other	25	3	-	28
Interest	37	-	(24)	13
Fair value gains on investment property, net	503	30	-	533
	565	33	(24)	574
<b>Other expenses</b>				
Interest	214	50	(24)	240
General and administrative	38	2	-	40
Expense for early redemption of debentures	31	-	-	31
	283	52	(24)	311
<b>Earnings before income taxes</b>	836	49	-	885
Deferred income tax expense	1	-	-	1
<b>Net earnings</b>	\$ 835	\$ 49	\$ -	\$ 884

The net book value of real estate investments and capital expenditures as at December 31, 2011 is as follows:

	Canada	United States	Eliminations <sup>(i)</sup>	Total
<b>Real estate investments</b>				
Income properties	\$ 8,601	\$ 1,423	\$ -	\$ 10,024
Properties under development	377	-	-	377
Properties held for resale	8	-	-	8
	\$ 8,986	\$ 1,423	\$ -	\$ 10,409
Total assets	\$ 9,552	\$ 1,552	\$ (337)	\$ 10,767
Total liabilities	\$ 4,563	\$ 1,099	\$ (337)	\$ 5,325
Capital expenditures	\$ 187	\$ 2	\$ -	\$ 189

(i) Intercompany loans of US\$331 million and related interest between RioCan Holdings USA Inc. and RioCan REIT

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Net earnings by reportable segment for the year ended December 31, 2010 is as follows:

	Canada	United States	Eliminations <sup>(i)</sup>	Total
<b>Revenue</b>				
Rental revenue	\$ 796	\$ 34	\$ -	\$ 830
<b>Property operating costs</b>				
Recoverable under tenant leases	263	8	-	271
Non-recoverable from tenants	7	-	-	7
	270	8	-	278
<b>Net operating income</b>	526	26	-	552
<b>Other income</b>				
Fees and other	13	3	-	16
Interest	28	-	(13)	15
Gains on properties held for resale	21	-	-	21
Fair value gains on investment property, net	203	70	-	273
	265	73	(13)	325
<b>Other expenses</b>				
Interest	212	22	(13)	221
General and administrative	41	1	-	42
Business acquisition transaction costs	-	3	-	3
	253	26	(13)	266
<b>Earnings before income taxes</b>	538	73	-	611
Deferred income tax recovery	(896)	(2)	-	(898)
<b>Net earnings</b>	\$ 1,434	\$ 75	\$ -	\$ 1,509

The net book value of real estate investments and capital expenditures as at December 31, 2010 is as follows:

	Canada	United States	Eliminations <sup>(i)</sup>	Total
<b>Real estate investments</b>				
Income properties	\$ 7,423	\$ 762	\$ -	\$ 8,185
Properties under development	268	-	-	268
Properties held for resale	13	-	-	13
	\$ 7,704	\$ 762	\$ -	\$ 8,466
Total assets	\$ 8,129	\$ 856	\$ (99)	\$ 8,886
Total liabilities	4,245	516	(99)	4,662
Capital expenditures	\$ 118	\$ -	\$ -	\$ 118

(i) Intercompany loan of US\$100 million and related interest between RioCan Holdings USA Inc. and RioCan REIT

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## 24. Earnings per Unit

Net earnings per unit and weighted average units outstanding are calculated as follows:

For the year ended December 31,	2011	2010
Net earnings available to unitholders – basic and diluted	\$ 873	\$ 1,495
Distributions to preferred unitholders <i>(Note 17)</i>	7	–
Net earnings available to common unitholders – basic and diluted	\$ 866	\$ 1,495
Weighted average common units outstanding – basic	265,583	246,608
Unexercised dilutive unit options	1,434	728
Weighted average common units outstanding – diluted <i>(i)</i>	267,017	247,336

(i) The calculation of diluted weighted average units outstanding excludes options for 2.8 million units for the year ended December 31, 2011 (December 31, 2010 – 5.0 million units) as their inclusion would be anti-dilutive.

## 25. Hedging Activities

From time to time, the Trust may enter into interest rate swap transactions to modify the interest rate profile of its current or future variable rate debts without an exchange of the underlying principal amount. The Trust applies hedge accounting to such cash flow hedging relationships whereby the change in the fair value of the effective portion of the hedging derivative is recognized in OCI. The ineffective portion for accounting purposes is recognized in net earnings.

Since 2009, the Trust has entered into interest rate swap agreements on floating interest rate first mortgages to hedge the variability in cash flows attributed to fluctuating interest rates. Settlement on both the fixed and variable portion of the interest rate swaps occurs on a monthly basis. The following table summarizes the details of the interest rate swaps that are outstanding at December 31, 2011:

Transaction date	Original principal amount	Effective fixed interest rate	Maturity date
February 2009	\$ 103	4.87%	February 2014
April 2009	23	5.10%	April 2014
June 2009	53	6.10%	June 2014
November 2009	36	5.76%	November 2014
January 2010	26	5.27%	January 2015
December 2010	15	5.03%	December 2020
April 2011 <i>(i)</i>	15	5.24%	February 2016
May 2011	2	4.89%	May 2021
July 2011 <i>(ii)</i>	51	4.20%	July 2016
September 2011	23	4.04%	September 2021
December 2011 <i>(iii)</i>	8	5.49%	April 2014
December 2011	32	3.36%	December 2016
December 2011	30	4.13%	December 2021
	\$ 417		

(i) US denominated \$14 million mortgage assumed upon property acquisition

(ii) US denominated \$50 million mortgage

(iii) \$8 million mortgage assumed upon property acquisition

The Trust has assessed that there is no ineffectiveness in the hedge of its interest rate exposure. The effectiveness of the hedging relationships is reviewed on a quarterly basis. As an effective hedge, unrealized gains or losses on the interest rate swap agreements are recognized in OCI. As at December 31, 2011, the fair value of the interest rate swaps are, in aggregate, a financial liability of \$15.0 million (December 31, 2010 – \$2.5 million), which has been recognized in accounts payable and other liabilities *(Note 14)*. The associated unrealized gains or losses that are recognized in OCI will be reclassified into net earnings in the same period or periods during which the interest payments on the hedged item affect net earnings.

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26. Net Change in Non-Cash Operating Items and Other

Cash flows provided by (used in) For the year ended December 31,	2011	2010
Amounts receivable	\$ (2)	\$ 2
Mortgage receivable interest	(1)	(4)
Prepaid expenses and other assets	(11)	(13)
Accounts payable and other liabilities	20	30
Other	6	3
	<b>\$ 12</b>	<b>\$ 18</b>

27. Supplemental Cash Flow Information

For the year ended December 31,	2011	2010
Interest received	\$ 9	\$ 10
Interest paid	288	229
Acquisition of real estate investments through assumption of liabilities and mortgages given by vendors	203	221
Acquisition of real estate investments through issuance of exchangeable units	90	5
Acquisition of real estate in settlement of mortgage receivable	-	27
Mortgages taken back on property dispositions	-	(4)
Cash equivalents, end of year	1	40
Distributions to unitholders per unit	<b>1.380</b>	1.380

28. Operating Leases – Trust as Lessor

The Trust as lessor has entered into leases on its property portfolio. The leases typically have lease terms between 5 and 20 years and include clauses to enable periodic upward revision of the rental charge accordingly to prevailing market conditions. Some leases contain options to terminate before the end of the lease term.

Future minimum rentals receivable under non-cancellable operating leases as at December 31, 2011 are as follows:

	December 31, 2011
Within 1 year	\$ 642
After 1 year, but not more than 5 years	1,931
More than 5 years	1,671
<b>Total</b>	<b>\$ 4,244</b>

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29. Investments in Jointly Controlled Entities and Assets

(i) *Jointly controlled entities*

The Trust has investments in joint ventures that are jointly controlled entities. These joint ventures hold individual commercial properties and related mortgage debt that the Trust owns together with co-owners.

As at December 31, 2011, the Trust had interests in the following jointly controlled property holding entities:

Name	Number of income producing properties	RioCan's proportionate ownership interest		
		December 31, 2011	December 31, 2010	January 1, 2010
RioCan/Inland Partnership LP	14	80%	80%	n/a
Las Palmas Dunhill LP	1	32%	32%	n/a
RC/Dunhill Timber Creek Holdings LP	1	80%	n/a	n/a
RioCan/Dunhill LP	1	82%	n/a	n/a
RioTrin (Weston) LP	1	50%	50%	n/a
RioTrin (Herongate) LP	1	75%	n/a	n/a
RioTrin (Bathurst) LP	1	60%	n/a	n/a
RioTrin (Okotoks) LP	1	67%	67%	n/a
RioTrin (March Road) LP	1	50%	50%	n/a
RioTrin (Langstaff) LP	2	63%	63%	n/a
RioTrin (Jacksonport) LP	1	50%	50%	n/a
RioTrin (East Hills I) LP	1	75%	75%	n/a
RioTrin (East Hills II) LP	1	67%	67%	n/a
RioTrin (Belcourt) LP	1	70%	50%	n/a
RioTrin (Hazeldean) LP	1	70%	50%	n/a

The following amounts are included in the Trust's consolidated financial statements related to investments in jointly controlled entities:

	December 31, 2011	December 31, 2010	January 1, 2010
Balance Sheets			
Assets			
Non-current	\$ 837	\$ 301	\$ 98
Current	60	7	5
Total assets	897	308	\$ 103
Liabilities			
Non-current	373	87	\$ -
Current	39	18	3
Total liabilities	412	105	\$ 3
Net assets	\$ 485	\$ 203	\$ 100

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	2011	2010
Revenue	\$ 36	\$ 15
Expenses	20	3
Earnings before fair value gains	16	12
Fair value gains	13	13
Net earnings	\$ 29	\$ 25

(iii) *Jointly controlled assets*

The Trust has interests in properties that are subject to joint control and accordingly, the Trust has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties. The following properties represent the Trust's significant jointly controlled assets:

Joint Venture Partner	Province	Property Name	Proportionate ownership interest		
			December 31, 2011	December 31, 2010	January 1, 2010
BAYFIELD	AB	Millwoods Town Centre	40%	40%	–
BAYFIELD	ON	Niagara Square	30%	30%	15%
BAYFIELD	ON	Timmins Square	30%	30%	30%
CMHC	ON	Millcroft Shopping Centre	50%	50%	50%
CPPIB	BC	Grandview Corners	50%	50%	50%
CPPIB	AB	RioCan Beacon Hill	50%	50%	50%
CPPIB	ON	RioCan Centre Burloak	50%	50%	50%
CPPIB	AB	RioCan Meadows	50%	50%	50%
DEVIMCO	PQ	Quartiers 10/30	50%	50%	50%
FIRST GULF	ON	Kennedy Commons	50%	50%	50%
FRUM	NB	Brookside Mall	50%	50%	50%
KIMCO	ON	404 Town Centre	50%	50%	50%
KIMCO	BC	Abbotsford Power Centre	50%	50%	50%
KIMCO	ON	Albion Centre	50%	50%	50%
KIMCO	AB	Brentwood Village	50%	50%	50%
KIMCO	PQ	Centre Jacques Cartier	50%	50%	50%
KIMCO	PQ	Centre Regional Chateaugay	50%	50%	50%
KIMCO	PEI	Charlottetown Mall	50%	50%	50%
KIMCO	ON	Clarkson Crossing Centre	50%	50%	50%
KIMCO	BC	Langley Power Centre	50%	50%	50%
KIMCO	ON	Lincoln Fields Shopping Centre	50%	50%	50%
KIMCO	BC	Parkwood Place Shopping Centre	50%	50%	50%
KIMCO	ON	RioCan Centre Sudbury	50%	50%	50%
KIMCO	PQ	RioCan Gatineau	50%	50%	50%
KIMCO	PQ	RioCan Greenfield	50%	50%	50%
KIMCO	AB	RioCan Shawnessy	50%	50%	50%
KIMCO	ON	RioCan St. Laurent	50%	50%	50%
KIMCO	ON	RioCan Thickson	50%	50%	50%
KIMCO	ON	Shoppers World Danforth	50%	50%	50%
KIMCO	AB	South Edmonton Common	50%	50%	50%

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Joint Venture Partner	Province	Property Name	Proportionate ownership interest		
			December 31, 2011	December 31, 2010	January 1, 2010
KIMCO	BC	Strawberry Hill Shopping Centre	50%	50%	50%
KIMCO	BC	The Junction	50%	50%	50%
KIMCO	BC	Tillicum Centre	50%	50%	50%
KINGSETT	ON	RioCan Sheppard Centre	50%	–	–
SUNLIFE	AB	Edmonton Walmart Centre	40%	40%	40%
SUNLIFE	AB	Mayfield Common	30%	30%	30%
TAWSE	ON	Keswick Walmart Centre	75%	75%	–
TRINITY	ON	Chapman Mills	75%	75%	63%
TRINITY	ON	RioCan Colossus Centre	70%	60%	60%
TRINITY	ON	Silver City Gloucester	70%	60%	60%
TRINITY	ON	Trinity Common Brampton	70%	60%	60%
TRINITY	ON	Elgin Mills Crossing	75%	63%	63%

As at December 31, 2011, mortgages and loans receivable include \$109.2 million (December 31, 2010 – \$154.3 million) receivable from joint arrangements and joint arrangement partners.

Generally, the Trust is only liable for its proportionate share of the obligations of the co-ownerships in which it participates, except in limited circumstances. Credit risk arises in the event that co-owners default on the payment of their proportionate share of such obligations. Co-ownership agreements will typically provide for an option on the part of a non-defaulting co-owner to advance a default loan on behalf of the defaulting co-owner. The credit risk is mitigated as the Trust has recourse under its co-ownership agreements in the event of default by its co-owners, in which case the Trust's claim would be against both the underlying real estate investments and the co-owners that are in default.

### 30. Capital Management

The Trust defines capital as the aggregate of unitholders' equity and debt. The Trust's capital management framework is designed to maintain a level of capital that: complies with investment and debt restrictions pursuant to RioCan's Declaration, complies with existing debt covenants, enables the Trust to achieve target credit ratings, funds its business strategies and builds long-term unitholder value. The key elements of RioCan's capital management framework are approved by its unitholders as related to the Trust's Declaration of Trust and by its Board of Trustees ("Board") through their annual review of the Trust's strategic plan and budget, supplemented by periodic Board and Board Committee meetings. Capital adequacy is monitored by the Trust by assessing performance against the approved annual plan throughout the year, which is updated accordingly, and by monitoring adherence to investment and debt restrictions contained in the Declaration and debt covenants.

RioCan's Declaration provides for maximum total debt levels up to 60% of Aggregate Assets (with Aggregate Assets defined in the Declaration). The Trust is in compliance with this restriction.

Additionally, RioCan's Declaration contains provisions that have the effect of limiting capital expended by the Trust for, among other items, the following:

- Direct and indirect investments (net of related mortgages payable) in non-income producing properties (including greenfield developments and mortgages receivable to fund the Trust's co-owners' share of such developments) to no more than 15% of the Adjusted Unitholders' Equity of the Trust (herein referred to as the "Basket Ratio" with Adjusted Unitholders' Equity defined in the Declaration). The Trust is in compliance with this restriction;
- Total investment by the Trust in mortgages receivable, other than mortgages taken back by the Trust on the sale of its properties, to no more than 30% of the Adjusted Unitholders' Equity of the Trust. The Trust is in compliance with this restriction;
- Any property acquired by the Trust, directly or indirectly, if the cost to the Trust of such acquisition (net of the amount of mortgages payable assumed) exceeds 10% of the Adjusted Unitholders' Equity of the Trust. The Trust is in compliance with this restriction;
- Subject to the Basket Ratio, securities of an entity, other than to the extent that such securities would, for the purpose of the Declaration, constitute an investment in real estate. The Trust is in compliance with this restriction; and

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- The amount of space which can be leased or subleased to any tenant, with certain exceptions, to a maximum space having an aggregate gross leasable area of 20% of the aggregate gross leasable area of all real estate investments held by the Trust. The Trust is in compliance with this restriction.

The Trust intends, but is not contractually obligated, to distribute to its unitholders in each year an amount not less than the Trust's income for the year, as calculated in accordance with the Act after all permitted deductions under the Act have been taken. RioCan's Trustees rely upon forward looking cash flow information, including forecasts and budgets and the future business prospects of RioCan, to establish the level of cash distributions.

The Trust's debentures payable have covenants that are consistent with the Debt to Aggregate Assets ratio as discussed above, maintenance of at least \$1 billion of Adjusted Book Equity (defined in the indenture), and maintenance of at least an interest coverage ratio of 1.65 (defined in the indenture) for a rolling twelve-month period.

	December 31, 2011	December 31, 2010	Increase (decrease)
Capital			
Mortgages payable and lines of credit (Note 11)	\$ 4,212	\$ 3,316	\$ 896
Debentures payable (Note 12)	822	1,094	(272)
Total Debt	5,034	4,410	624
Unitholders' equity	5,363	4,165	1,198
Total capital	\$ 10,397	\$ 8,575	\$ 1,822
Ratio of Debt, net of cash, to Total Assets, net of cash	46.4%	49.1%	(2.7%)
Basket Ratio	3.8%	4.6%	(0.8%)

The period over period decrease in the Debt to Total Assets ratio primarily arises as a result of the relative increase in the value of investment property.

For the twelve months ended	December 31, 2011	December 31, 2010	Change
Interest coverage Ratio	2.46	2.46	-

### 31. Financial Instruments

#### (i) Fair value of financial instruments

The Trust's amounts receivable, mortgages and loans receivable and accounts payable and other liabilities are substantially carried at amortized cost, which approximates fair value. Cash, short-term investments and investments in the common shares of Cedar are measured at fair value. The fair value of other financial instruments is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Trust might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.

Financial instruments carried at amortized cost:

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable and lines of credit	\$ 4,212	\$4,570	\$ 3,316	\$3,487
Debentures payable	822	850	1,094	1,133

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The fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheets is as follows:

	2011			2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets:						
Cash and equivalents	\$ 77	\$ -	\$ -	\$ 92	\$ -	\$ -
Investment	41	-	-	59	-	-
Financial Liabilities:						
Interest rate swap liability (Note 25)	\$ -	\$ 15	\$ -	\$ -	\$ 3	\$ -

(ii) *Risk management*

The main risks arising from the Trust's financial instruments are credit, interest rate, liquidity and foreign exchange risks. The Trust's approach to managing these risks is summarized below:

1. *Credit risk*

Credit risk arises from the possibility that:

- Tenants may experience financial difficulty and be unable to fulfill their lease commitments or the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional.
- Borrowers default on the repayment of their mortgages to the Trust.
- Third parties default on the repayment of debt to the Trust (for discussion on joint arrangements, see Note 29 and on guarantees, see Note 34).

As discussed in Note 30, RioCan's Declaration contains provisions that have the effect of limiting the amount of space which can be leased to one tenant and its investment in mortgages receivable.

Additionally, the Trust mitigates tenant credit risk through geographical diversification, staggered lease maturities, diversification of revenue sources resulting from a large tenant base, avoiding dependence on any single tenant by ensuring no individual tenant contributes a significant percentage of the Trust's gross revenue, ensuring a considerable portion of the Trust's revenue is earned from national and anchor tenants and conducting credit assessments for new tenants.

As at December 31, 2011:

- Minimum annualized rentals (exclusive of recoverable property operating costs and taxes) for tenant leases expiring in each of the next five years ending December 31 are as follows: 2012 – \$54 million; 2013 – \$59 million; 2014 – \$74 million; 2015 – \$69 million; and 2016 – \$73 million.

The above aggregate rentals over the next five years represent annual lease payments of \$329 million based on current contractual rental rates. For every such lease renewed upon maturity at an aggregate rental rate differential of 100 basis points, the Trust's net earnings would be impacted by approximately \$3.3 million annually.

- No individual tenant comprises more than approximately 5% of the Trust's annualized rental revenue for 2011 and 2010.
- Approximately 86% of the Trust's annualized rental revenue is derived from national and anchor tenants (which tenant covenants are expected to be of higher credit quality than other tenants) as compared to approximately 86% for the comparative period of 2010.

2. *Interest rate and liquidity risks*

The Trust is exposed to interest rate risk on its borrowings. Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the Trust to fund its growth program and refinance its debts as they mature. The Trust's financial condition and results of operations would be adversely affected if it were unable to obtain financing, or obtain cost-effective financing.

As discussed in Note 30, RioCan's Declaration establishes a Debt to Aggregate Assets ratio limit of 60%.

Additionally, the Trust mitigates interest rate and liquidity risk by staggering the maturity dates of its long-term debt (see Notes 11 and 12 for Aggregate Debt), by entering into interest rate swap (option) agreements (see Note 25), and by limiting the use of floating rate debt.

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As at December 31, 2011:

- The Trust's Aggregate Debt has a 4.7 year weighted average term to maturity bearing interest at a weighted average contractual interest rate of 5.1% per annum;
- 7.2% of its Aggregate Debt is at floating interest rates as compared to 1.7% as at December 31, 2010;
- The Trust's undrawn lines of credit are \$273 million (see Note 11);
- The ratio of Debt, net of cash, to Total Assets, net of cash is 46.4% (See Note 30; and
- As at December 31, 2011, the Trust had cash and equivalents of \$77 million as compared to \$92 million as at December 31, 2010.

As at December 31, 2011, the Trust has aggregate contractual debt principal maturities through to December 31, 2014 of approximately \$1.6 billion (32.2% of RioCan's Aggregate Debt) with a weighted average contractual interest rate of 5.2%. For every such amount refinanced upon maturity at an aggregate interest rate differential of 100 basis points, the Trust's net earnings would be impacted by approximately \$16.3 million annually.

*3. Foreign exchange risk*

The Trust operates in Canada and, through various joint venture agreements, in the US. The functional currency of the Trust is the Canadian dollar as is the reporting currency. The functional currency of the Trust's US operations is the US dollar. The Trust also holds interest bearing debt and common shares of Cedar denominated in US dollars. The Trust is exposed to both transaction and translation risk due to the volatility of foreign currency exchange rates, primarily arising from its US dollar denominated investments and, to a lesser extent, its monetary assets and liabilities denominated in this currency. The carrying values of these assets and liabilities, as well as the comprehensive income and earnings derived from them, are subject to foreign exchange rate fluctuation.

Foreign exchange risk arises because the US dollar denominated financial statements of the US operations may vary on consolidation into Canadian dollars and the value of the Trust's investment in the common shares of Cedar will fluctuate with changes in the US dollar. Exchange gains and losses from the translation of the US operations and the foreign exchange gains or losses on the common shares of Cedar are included in OCI. As a result, the Trust may experience translation exposures because of volatility in the exchange rate between the Canadian and US dollar.

As at December 31, 2011, the Trust's US denominated net assets are \$313 million such that a 1% change in the value of the US dollar will result in a gain or loss to the Trust of approximately \$3.1 million.

**32. Related Party Transactions**

*(i) Compensation of key management*

The Trust's key management personnel are the Trustees; the Chief Executive Officer, Edward Sonshine; President and Chief Operating Officer, Frederic Waks; and Executive Vice President and Chief Financial Officer, Raghunath Davloor.

Remuneration of Trustees and the Trust's key management during the period was as follows:

	Trustees		Key Management	
	2011	2010	2011	2010
For the year ended December 31,				
Compensation and benefits	\$ 0.7	\$ 0.7	\$ 5.7	\$ 4.7
Share-based payments	1.4	1.1	1.7	1.1
Post-employment benefits	-	-	0.8	2.1
	<b>\$ 2.1</b>	<b>\$ 1.8</b>	<b>\$ 8.2</b>	<b>\$ 7.9</b>

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(ii) *Subsidiaries of the Trust*

The consolidated financial statements include the financial statements of RioCan Real Estate Investment Trust, the Trust's proportionate share of the jointly controlled entities described in Note 29, and the subsidiaries listed in the following table:

Name	Percentage of equity interest		
	December 31, 2011	December 31, 2010	January 1, 2010
RioCan Management Inc. (BC)	100%	100%	100%
RioCan Management Inc.	100%	100%	100%
RioCan (KS) Management LP	100%	-	-
RioCan Yonge Eglinton LP	100%	100%	100%
RioCan (Festival Hall) Trust	100%	100%	100%
Timmins Square Limited Partnership	100%	100%	100%
Shoppers World Brampton Investment Trust	100%	100%	100%
RioCan Realty Investments Partnership Five LP	100%	100%	100%
RioCan Realty Investments Partnership Eight LP	100%	100%	100%
RioCan Realty Investments Partnership One LP	100%	100%	100%
RioCan Realty Investments Partnership Two LP	100%	100%	100%
RioCan Realty Investments Partnership Four LP	100%	100%	100%
RioCan Realty Investments Partnership Seven LP	100%	100%	100%
RioCan (GH) Limited Partnership	100%	100%	100%
RioCan Property Services Trust	100%	100%	100%
RioCan White Shield Limited Partnership	60%	-	-
RioCan (GTA Marketplace) LP	100%	-	-
RioCan Holdings USA Inc.	100%	100%	100%
RC Cedar Partnership LP	80%	80%	80%
RC Sterling LP	100%	-	-

(c) *Transactions with related parties*

*RioCan Centre Belcourt*

RioCan acquired an additional 13.3% interest from each of its existing partners in RioCan Centre Belcourt. The ownership structure for this property is now 60% RioCan, and 20% each for Trinity and Shenkman Corp. ("Shenkman"). The purchase price for RioCan's additional interest was \$6.0 million. An additional \$800,000 is expected to be paid for earnouts, and a further amount of approximately \$10.7 million is expected to be paid for additional phases as they are completed.

*Grant Crossing*

RioCan acquired an additional 13.3% interest from each of its existing partners in Grant Crossing. The ownership structure for this property is now 60% RioCan, and 20% each for Trinity and Shenkman. The purchase price for RioCan's additional interest was \$6.2 million. An additional \$800,000 is expected to be paid for earnouts, and a further amount of approximately \$13.8 million is expected to be paid for additional phases as they are completed.

### 33. Employee Benefits

*Pension plans*

The Trust maintains several pension plans for its employees.

- a) A defined contribution pension plan incurred current service costs in the amount of \$0.4 million for the year ended December 31, 2011 and \$0.2 million for the year ended December 31, 2010.
- b) There are three defined benefit pension plans, of which one is a registered plan and the other two are unregistered plans. The plans' benefits are based on a specified length of service, up to a stated maximum. The fair value of the plan assets as at December 31, 2011 is \$2.1 million (December 31, 2010 – \$1.8 million). The recognized pension obligation, net of plan

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assets as at December 31, 2011 is \$7.4 million (December 31, 2010 – \$7.2 million). Pension costs of \$1.3 million were recorded in net earnings for the year ended 2011 (year ended December 31, 2010 – \$3.0 million). Actuarial gains and losses for the defined benefit plans are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to earnings in subsequent periods.

### 34. Contingencies and Commitments

#### (i) Guarantees

As at December 31, 2011, the estimated amount of third party debt subject to RioCan guarantees, and therefore the maximum exposure to credit risk, is approximately \$360 million (December 31, 2010 – \$400 million) with expiry dates between 2012 and 2034. There have been no defaults by the primary obligors for debts on which the Trust has provided its guarantees, and as a result, no provision for these guarantees has been recognized in these consolidated financial statements. As at December 31, 2011, RioCan has provided guarantees totalling \$270 million to partners and co-owners and \$90 million on the assumption of mortgages by purchasers on property dispositions.

#### (ii) Contractual obligations on real estate

RioCan has entered into Purchase and Sale Agreements with respect to one property in Canada for an aggregate purchase price of approximately \$16 million, at RioCan's interest. RioCan has waived its conditions with respect to this purchase.

#### (iii) Litigation

The Trust is involved with litigation and claims which arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies will not have a significant adverse effect on the Trust's consolidated financial statements.

#### (iv) Lease commitments – Trust as Lessee

The Trust as Lessee is committed under long-term operating leases with various expiry dates to 2029. Minimum annual rentals are as follows:

For the year ending December 31:	2012	\$	3
	2013		3
	2014		2
	2015		2
	2016		2
	Thereafter		20
			20

Included in the above are land lease commitments of \$0.9 million annually for the years 2012 to the end of the lease in December 2029. These leases have been accounted for as investment property and finance leases and a finance lease liability of \$14.8 million has been recognized in accounts payable and other liabilities as at December 31, 2011.

### 35. Events After the Balance Sheet Date

In January 2012, RioCan completed the acquisition of an additional 10% of three income properties in Canada for an aggregate purchase price of approximately \$44 million.

On January 26, 2012, the Trust issued \$150 million of Series P debentures which mature on March 1, 2017 and carry a coupon rate of 3.8%. These debentures are subject to the same covenants as the Trust's other outstanding debentures, with the exception of Series I which has an additional provision as discussed in Note 12. Debenture issuance costs were approximately \$1.1 million.

**RIO  CAN**

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