# ANNUAL REPORT

## MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

**DATED: FEBRUARY 28, 2013**

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**PRESIDENT'S MESSAGE**

Fellow Shareholders:

We are pleased to report our results for the year ended December 31, 2012. Our company has continued its growth and improved the quality of its portfolio of properties. Plazacorp now derives 90% of its revenues from national retail chains. Our geographically diversified and stable portfolio of properties delivers solid cash flow that has allowed Plazacorp to increase its annual dividend to 22.5¢ per share for 2013, up from 21.5¢ per share in 2012. This represents the 10th consecutive annual dividend increase.

During the year ended December 31, 2012, 4 additional properties, representing just over 191,000 square feet, became income producing. The company invested $11.7 million for 7 development land sites located in: Dieppe, NB; Saint John, NB; Halifax, NS; Charlottetown, PEI; Carbonear, NL; Boisbriand, QC; and St Jerome, QC. This development activity grew the current portfolio to 118 properties. Our business continues to grow as we have 11 properties, representing approximately 391,000 square feet, in planning, under development or under construction, 4 land assemblies, representing approximately 67,000 square feet, under purchase agreement and 1 income producing property, representing 46,000 square feet, for re-development under purchase agreement, at year end. These new development and re-development properties are representative of our investment strategy to develop assets leased to Canada's best retailers and grow our future cash flow.

The company took advantage of the market conditions and placed $21 million of new 10 and 15 year long term fixed rate financing with a weighted average interest rate of 4.53% in 2012. The company will continue to take a conservative approach to the management of its debt by placing very long term fixed rate financing. In 2012, the company signed three major food store deals (one in Nova Scotia and two in Quebec) to anchor new strip centre developments. In addition, high quality new development sites have been acquired and will contribute to future cash flow per share growth in the near and medium term.

Going forward, we anticipate that 2013 will be a year of change for Plazacorp as the company plans to: 1) move to the TSX; 2) evolve from a mutual fund corporation to a mutual fund trust (REIT), subject to gaining appropriate tax and other regulatory approvals; and 3) consolidate the ownership of various joint venture interests. The company will continue to pursue its value-added business strategy for its shareholders and fill its development/re-development pipeline, while maintaining one of the lowest payout ratios (dividends versus FFO or AFFO) among its peers. The discipline of a low payout ratio and conservative debt levels is an important part of Plazacorp's business strategy. Very few Canadian public real estate entities offer the potent combination of a secure dividend stream and the ability to consistently grow its asset base by developing high quality retail projects.

I wish to thank everyone responsible for our success: our staff; our Board of Directors; our customers; and our stakeholders.

Sincerely,

Michael Zakuta
President and CEO

# PART I

## BASIS OF PRESENTATION

Financial information included in this Management Discussion and Analysis ("MD&A") includes material information up to February 28, 2013. Financial information provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

This MD&A has been reviewed and approved by management of the Company and the Board of Directors.

## FORWARD-LOOKING DISCLAIMER

Management's Discussion and Analysis ("MD&A") of the consolidated financial position and the results of operations of Plazacorp Retail Properties Ltd. (hereinafter referred to as "Plazacorp" or the "Company") for the year ended December 31, 2012 should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto for the years ended December 31, 2012 and 2011, along with the MD&A for the year ended December 31, 2011, including the section on "Risks and Uncertainties". Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Certain information contained in this MD&A contains forward-looking statements, based on the Company's estimates and assumptions, which are subject to risks and uncertainties. This may cause the actual results and performance of the Company to differ materially from the forward-looking statements contained in this MD&A. Such factors include, but are not limited to, economic, capital market, and competitive real estate conditions. These forward-looking statements are made as of February 28, 2013 and Plazacorp assumes no obligation to update or revise them to reflect new events or circumstances, except for forward-looking information disclosed in a prior MD&A which, in light of intervening events, required further explanation to avoid being misleading.

## EXPLANATION OF NON-GAAP MEASURES USED IN THIS DOCUMENT

**Funds from Operations (FFO)** is not an IFRS financial measure. FFO is an industry measure and its calculation is prescribed in publications of the Real Property Association of Canada (REALpac). FFO as calculated by Plazacorp may not be comparable to similar titled measures reported by other entities. FFO is an industry standard widely used for measuring operating performance and is exclusive of unrealized changes in the fair value of investment properties, deferred income taxes and gains or losses on property dispositions. Plazacorp considers FFO a meaningful additional measure as it adjusts for certain non-cash items that do not necessarily provide an accurate picture of a company's past or recurring performance. It more reliably shows the impact on operations of trends in occupancy levels, rental rates, net property operating income and interest costs compared to profit determined in accordance with IFRS. As well, FFO allows some comparability amongst different real estate entities that have adopted different accounting with respect to investment properties (some entities use the cost model and some entities use the fair value model to account for investment properties).

**Adjusted Funds From Operations (AFFO)** is an industry measure widely used to help evaluate dividend or distribution capacity. AFFO as calculated by Plazacorp may not be comparable to similar titled measures reported by other entities. AFFO primarily adjusts FFO for non-cash revenues and expenses and operating capital and leasing requirements that must be made merely to preserve the existing rental stream. Most of these maintenance capital expenditures would normally be considered investing activities in the statement of cash flows. Capital expenditures which generate a new investment or revenue stream, such as the development of a new property or the construction of a new retail pad during property expansion or intensification would not be considered as maintenance capital expenditures and would not be included in determining AFFO.

**Net Property Operating Income (NOI)** is an industry measure in widespread use. NOI as calculated by Plazacorp may not be comparable to similar titled measures reported by other entities. Plazacorp considers NOI a meaningful additional measure of operating performance of property assets, prior to financing considerations. Its calculation is total property revenues less total property operating costs, including operating ground rents. It is used primarily for performance comparison of assets held over the entire reporting period of the financial statements and this MD&A.

**Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** is not an IFRS financial measure. EBITDA, as calculated by Plazacorp, may not be comparable to similarly titled measures reported by other entities. EBITDA is used in calculations that measure the Company's ability to service debt. Its calculation is profit before finance costs, income tax expense, gains/losses on property dispositions, unrealized change from fair value adjustments and net revaluation of interest rate swaps.

FFO, AFFO, NOI and EBITDA are not defined by IFRS, and therefore should not be considered as alternatives to profit or cash flow from operating activities calculated in accordance with IFRS.

## OVERVIEW OF THE BUSINESS

Plazacorp was incorporated on February 2, 1999 and commenced trading on the TSX Venture Exchange (PLZ) on July 30, 1999. On December 11, 2002 after receipt of shareholder and regulatory approval, Plazacorp filed articles of amendment to convert to a mutual fund corporation and retains that status. Headquartered in Fredericton, New Brunswick, Plazacorp acquires, develops and redevelops unenclosed and enclosed retail real estate throughout Atlantic Canada, Quebec and Ontario, which are predominantly occupied by national tenants. The Company's portfolio at December 31, 2012 includes interests in 118 properties totaling 5.2 million square feet and additional lands held for development. These include properties directly held by Plazacorp, its subsidiaries and through joint ventures. Plazacorp's growth has been, and continues to be, primarily created through the development or redevelopment of retail properties. As at December 31, 2012, the Company has $3.0 million committed to new development for 2013.

**Summary of Properties**

| | **Number of Properties December 31, 2012[1]** | **Gross Leasable Area (sq. ft.) December 31, 2012[1] [2]** | Number of Properties December 31, 2011[1] | Gross Leasable Area (sq. ft.) December 31, 2011[1] [2] |
|---|---|---|---|---|
| Newfoundland and Labrador | **10** | **620,644** | 9 | 599,382 |
| New Brunswick | **38** | **1,556,826** | 36 | 1,544,355 |
| Nova Scotia | **23** | **1,070,736** | 22 | 1,006,590 |
| Ontario | **14** | **261,824** | 14 | 259,087 |
| Prince Edward Island | **8** | **425,747** | 7 | 430,710 |
| Quebec | **25** | **1,223,775** | 24 | 1,202,648 |
| **Total** | **118** | **5,159,552** | 112 | 5,042,772 |

(1) Includes properties under development and non-consolidated investments.
(2) At 100%, regardless of the Company's ownership interest in the properties

Plazacorp intends to focus its investments on retail real estate in Canada and expects that unenclosed single tenant and multi-tenant retail centres in primary, secondary or tertiary markets in Central and Eastern Canada will constitute the majority of its acquisition and development activity over the near to medium term.

Subject to appropriate regulatory, Board and shareholder approvals, as applicable, the Company is looking at converting from a mutual fund corporation to a real estate investment trust (REIT) structure and pursuing a listing on the TSX. See "Outlook" section of this MD&A.

## BUSINESS ENVIRONMENT

The principal regions in which we operate continue to exhibit stability in retailer demand for space and in consumer spending. Our strategy is to develop or acquire properties tenanted by national retailers, with a focus on retailers in the consumer staples market segment. Our execution of this strategy has produced a portfolio that is currently approximately 90% occupied by national retailers, providing investors with stable cash flow.

### Yearly Dividend Growth

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Aug 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dividend per share annually | 8.0¢ | 8.75¢ | 10.5¢ | 12.5¢ | 15.0¢ | 17.5¢ | 18.5¢ | 19.25¢ | 20.25¢ | 21.0¢ | 21.5¢ | 22.5¢ |
| Percentage increase | n/a | 9.4% | 20.0% | 19.0% | 20.0% | 16.7% | 5.7% | 4.1% | 5.2% | 3.7% | 2.4% | 4.7% |

Plazacorp has a proven history of dividend growth, having increased its dividend eleven times over the past ten years. Plazacorp began paying dividends in November 2002. Plazacorp's first full year of dividends began in 2003.

The capital markets continued to be good in 2012 for financing through both debt and equity. Long-term debt financing is available at historically competitive rates with long amortization periods and long terms.

Over the last few years, Plazacorp has focused its growth on developments and redevelopments, partly as a result of high prices demanded for quality retail real estate. Plazacorp has strong in-house development expertise, including expertise in site selection, leasing, financing, construction and project management. Plazacorp expects to continue generating growth through developments and redevelopments of retail properties.

### STRATEGY

Plazacorp's principal goal is to deliver a reliable and growing yield to shareholders from a diversified portfolio of retail properties. To achieve this goal the Company's Board of Directors has set acquisition and development criteria of a minimum cash yield (unlevered yield) equal to 100 basis points above the mortgage constant for a 10 year mortgage at prevailing rates and assuming a 25 year amortization period.

The Company strives to:

- maintain access to cost effective sources of debt and equity capital to finance acquisitions and new developments;
- acquire or develop properties at a cost that is consistent with the Company's targeted returns on investment;
- maintain high occupancy rates on existing properties while sourcing tenants for properties under development and future acquisitions; and
- diligently manage its properties to ensure tenants are able to focus on their businesses.

The Company invests in the following property types:

- new properties developed on behalf of existing clients or in response to demand;
- well located but significantly amortized shopping malls and strip plazas to be redeveloped; and
- existing properties that will provide stable recurring cash flows with opportunity for growth.

Management intends to achieve Plazacorp's goals by:

- acquiring or developing high quality properties with the potential for increases in future cash flows;
- focusing on property leasing, operations and delivering superior services to tenants;
- managing properties to maintain high occupancies and staggering lease maturities appropriately;
- increasing rental rates when market conditions permit;
- achieving appropriate pre-leasing prior to commencing construction;
- managing debt to obtain both a low cost of debt and a staggered debt maturity profile;
- matching, as closely as practical, the weighted average term to maturity of mortgages to the weighted average lease term;
- retaining sufficient capital to fund capital expenditures required to maintain the properties well;
- raising capital where required in the most cost-effective manner; and
- periodically reviewing the portfolio to determine if opportunities exist to re-deploy equity from slow growth properties into higher growth investments.

# PART II

## KEY PERFORMANCE DRIVERS AND INDICATORS

There are numerous performance drivers, many beyond management's control, that affect Plazacorp's ability to achieve its goals. These key drivers can be divided into internal and external factors.

Management believes that the key internal performance drivers are:

- occupancy rates;
- rental rates;
- tenant service; and
- maintaining competitive operating costs.

Management believes that the key external performance drivers are:

- the availability of new properties for acquisition and development;
- the availability of equity and debt capital; and
- a stable retail market.

The key performance indicators by which management measures Plazacorp's performance are as follows:

- funds from operations (FFO);
- FFO/AFFO payout ratios;
- debt service ratios;
- "same-asset" net property operating income;
- weighted average effective cost of debt; and
- occupancy levels.

The key performance indicators discussed throughout the MD&A are summarized in the table that follows. For a detailed explanation of the key performance indicators please refer to the appropriate section in this MD&A. Management believes that its key performance indicators allow it to track progress towards the achievement of Plazacorp's primary goal of providing a steady and increasing cash flow to shareholders. The following chart discusses the key performance indicators for the year ended December 31, 2012 compared to the year ended December 31, 2011.

| | |
|---|---|
| **Funds from Operations** | Ø For the year ended December 31, 2012 FFO was $16.2 million, or 26.4¢ per share (26.4¢ per share diluted) compared to $14.1 million, or 26.3¢ per share (26.3¢ per share diluted) for the year ended December 31, 2011, a 15.6% dollar increase.<br><br>The principal factors influencing FFO were:<br><br>Ø Incremental NOI growth of approximately $2.0 million earned by properties which were acquired or transferred from properties under development to income producing status during 2011 and 2012.<br>Ø A net decrease in financing costs of $1.5 million mainly affected by the maturity and conversions of debentures and the maturity of mortgage bonds.<br>Ø A $1.2 million increase in other income recorded as a result of the internalization of property and corporate management effective July 1, 2011, relating to fees earned from third party partners in properties that Plazacorp does not own a 100% interest in.<br>Ø A net increase in administrative costs of $2.3 million mainly affected by the internalization of property and corporate management which accounted for $2.5 million of the increase compared to the prior year, partly offset by savings in one-time administrative costs incurred in 2011 of $242 thousand for tax consulting and professional fees relating to the potential conversion to a REIT structure and IFRS conversion work.<br>Ø A decrease in same-asset NOI of $166 thousand. |
| **FFO/AFFO Payout Ratios** | Ø For the year ended December 31, 2012, the FFO payout ratio was 80.9% compared to 78.2% in the prior year. For the year ended December 31, 2012, the AFFO payout ratio was 87.6% compared to 91.3% in the prior year. Both payout ratios remained low by industry standards. The payout ratios were negatively impacted by the effect on FFO of the internalization in 2011. |
| **Debt Service Ratios** | Ø For the year ended December 31, 2012 the interest coverage ratio improved 0.2 times over the prior year to 2.1 times and the debt service coverage ratio improved over the prior year by 0.2 times to 1.7 times. The debt service coverage and interest coverage ratios exceed the requirements under borrowing arrangements. |
| **Same-Asset Net Property Operating Income** | Ø For the year ended December 31, 2012, same-asset NOI decreased slightly compared to the prior year by $166 thousand or 0.5%. |
| **Weighted Average Effective Cost of Debt** | Ø At December 31, 2012 the weighted average effective cost of mortgage debt decreased 29 basis points to 5.78% from 6.07% at December 31, 2011. This was mainly the result of $16.2 million of defeasances of higher cost debt for lower cost debt entered into in 2011. |
| **Occupancy Levels** | Ø At December 31, 2012 overall occupancy was 95.9% compared to 96.5% at December 31, 2011. |

**PROPERTY AND CORPORATE PERFORMANCE 2012 AND 2011**

**Funds from Operations (FFO)**

Plazacorp's summary of FFO for the three and twelve months ended December 31, 2012, compared to the three and twelve months ended December 31, 2011 is presented below:

| **(000s – except per share amounts and debt coverage ratios)** | **3 Months Ended December 31, 2012 (unaudited)** | 3 Months Ended December 31, 2011 (unaudited) | **12 Months Ended December 31, 2012** | 12 Months Ended December 31, 2011 |
|---|---|---|---|---|
| **Profit for the period attributable to shareholders** | **$ 1,058** | $ 7,911 | **$ 43,598** | $ 28,114 |
| Add (deduct): | | | | |
| Loss on disposal of surplus land | **51** | 3 | **43** | 3 |
| Deferred income tax expense | **(72)** | 2,829 | **13,176** | 10,349 |
| Fair value adjustment to investment properties | **3,633** | (8,385) | **(37,091)** | (23,864) |
| Fair value adjustment to investments | **(2,701)** | (1,762) | **(7,485)** | (3,759) |
| Fair value adjustment to convertible debentures | **547** | 3,088 | **673** | 2,744 |
| Tax on disposals of investment properties and investment properties included in investments | **835** | - | **835** | - |
| Net revaluation of interest rate swaps | **(27)** | 165 | **(48)** | 363 |
| Non-controlling interest adjustment | **789** | (198) | **2,542** | 103 |
| **Basic FFO** | **$ 4,113** | $ 3,651 | **$ 16,243** | $ 14,053 |
| Interest on dilutive convertible debentures | **-** | - | **-** | - |
| **Diluted FFO** | **$ 4,113** | $ 3,651 | **$ 16,243** | $ 14,053 |
| Basic Weighted Average Shares Outstanding | **63,833** | 59,716 | **61,447** | 53,394 |
| Diluted Weighted Average Shares Outstanding | **63,833** | 59,716 | **61,447** | 53,394 |
| **Basic and diluted FFO per share** | **$ 0.064** | $ 0.061 | **$ 0.264** | $ 0.263 |
| | | | | |
| **Debt coverage ratios** | | | | |
| Interest coverage ratio(1) | **2.1 times** | 1.9 times | **2.1 times** | 1.9 times |
| Debt service coverage ratio(2) | **1.7 times** | 1.5 times | **1.7 times** | 1.5 times |

(1) Calculated as EBITDA divided by finance costs.
(2) Calculated as EBITDA divided by total debt service (finance costs plus periodic mortgage principal repayments).

Basic FFO for the year ended December 31, 2012 increased by 15.6% over the same period in the prior year. Positively impacting FFO was: (i) incremental NOI growth from new developments/acquisitions of approximately $2.0 million; and (ii) a net decrease in interest costs of $1.5 million. Interest costs were mainly affected by the maturity and conversions of debentures and the maturity of mortgage bonds. Negatively impacting FFO was a decrease in same-asset NOI of $166 thousand.

On a year-to-date basis, FFO was also negatively impacted by the July 1, 2011 internalization of property and corporate management, which was mainly reflected in the increase in salaries of internalized staff and other office costs (mainly recorded in administrative expenses), net of property management and corporate management fee savings from internalization as well as other income recorded on fees earned from third party partners in properties that Plazacorp does not own a 100% interest in. In 2012, these net costs are being recorded for the entire period, while in the prior year they were recorded only for six months (since July 1, 2011), resulting in approximately $1.1 million of relative negative impact to FFO compared to the prior year.

Although the internalization is generally positive to net cash flows as a result of additional non-FFO fee savings (such as development and acquisition fees), it has been negative to FFO mainly because certain costs incurred in the form of fees paid to the external manager prior to internalization that were eligible for capitalization, are not all eligible for capitalization when

they take the form of salaries. Salary expenses are recorded both in NOI (for property staff) and administrative expenses (for other staff).

Basic FFO for the three months ended December 31, 2012 increased by 12.7% over the same period in the prior year. Positively impacting FFO was: (i) incremental NOI growth from new developments/acquisitions of approximately $471 thousand; and (ii) a net decrease in interest costs of $383 thousand. Interest costs were mainly affected by the conversions of debentures. These were partly offset by the decline in same-asset NOI of $131 thousand and an increase in current income tax expense (excluding non-FFO taxes on disposals) of $181 thousand.

**Adjusted Funds from Operations (AFFO)**

Adjusted funds from operations removes non-cash revenues and expenses from FFO, deducts maintenance capital expenditures and leasing costs and makes other adjustments necessary to show funds available for distribution as dividends and to pay periodic mortgage payments.

Maintenance capital expenditures include routine capital expenditures for existing properties and leasing costs include leasing commissions and tenant improvement costs for existing properties.

| **(000s, except per share amounts and percentage data)** | **3 Months Ended December 31, 2012 (unaudited)** | 3 Months Ended December 31, 2011 (unaudited) | **12 Months Ended December 31, 2012** | 12 Months Ended December 31, 2011 |
|---|---|---|---|---|
| Basic FFO | **$ 4,113** | $ 3,651 | **$ 16,243** | $ 14,053 |
| Add: Amortization of finance charges included in interest expense | **209** | 200 | **765** | 737 |
| Principal repayment of tenant loans | **133** | 149 | **604** | 570 |
| Non-controlling interest adjustment | **20** | 26 | **147** | 90 |
| Less: Non-cash revenue – straight-line rent | **(371)** | (253) | **(1,117)** | (1,111) |
| Equity accounting adjustment | **(40)** | (136) | **(270)** | (244) |
| Maintenance capital expenditures – existing properties | **(186)** | (124) | **(605)** | (621) |
| Leasing costs – existing properties | **(11)** | (233) | **(768)** | (1,099) |
| Mortgage finance charges – existing properties | **-** | (56) | **-** | (341) |
| **Basic and diluted AFFO** | **$ 3,867** | $ 3,224 | **$ 14,999** | $ 12,034 |
| **Basic and diluted AFFO per share** | **$ 0.061** | $ 0.054 | **$ 0.244** | $ 0.225 |
| Gross dividend payments | **3,426** | 3,140 | **13,146** | 10,984 |
| **AFFO after dividends** | **$ 441** | $ 84 | **$ 1,853** | $ 1,050 |
| **Dividends as a percentage of basic AFFO** | **88.6%** | 97.4% | **87.6%** | 91.3% |
| **Dividends as a percentage of basic FFO** | **83.3%** | 86.0% | **80.9%** | 78.2% |

For the year ended December 31, 2012, AFFO increased by $3.0 million, or 24.6% over the prior year mainly due to the increase in FFO, a decrease in mortgage finance charges due to a lack of mortgage expiries on existing properties this year and a decrease in leasing costs on existing properties mainly as a result of the internalization of property and corporate management.

For the three months ended December 31, 2012, AFFO increased by $643 thousand, or 19.9% over the same period in the prior year. The increase was mainly due to the increase in FFO, a decrease in mortgage finance charges due to a lack of mortgage expiries on existing properties this year and a decrease in leasing costs on existing properties.

The FFO payout ratios for the three and twelve months ended December 31, 2012 were 83.3% and 80.9%, respectively, compared to 86.0% and 78.2%, respectively, for the three and twelve months ended December 31, 2011. The AFFO payout ratios for the three and twelve months ended December 31, 2012 were 88.6% and 87.6%, respectively, compared to 97.4% and 91.3%, respectively, for the three and twelve months ended December 31, 2011. For the twelve months ended December 31, 2012, the payout ratios were negatively impacted by the effect on FFO of the internalization in 2011.

### Same-Asset Net Property Operating Income

Same-asset categorization refers to those properties which were owned and operated by Plazacorp for the twelve months ended December 31, 2012 and the entire year ended December 31, 2011 and excludes partial year results from certain assets due to timing of acquisition, redevelopment or disposition.

Significant portions of the Company's leases have common cost recoveries from tenants linked to the consumer price index (CPI). Certain anchor tenant leases may restrict recovery of common costs. As a result, certain costs such as snow removal and utility costs may not be completely offset by cost recoveries in a period, or recovery revenues may exceed costs. Municipal taxes are generally net and fully recoverable from all tenants. Most tenants in strip plazas and single use properties are responsible for their own utilities, and changes to these costs do not materially impact NOI.

| (000s, except percentage data) | **3 Months Ended December 31, 2012 (unaudited)** | 3 Months Ended December 31, 2011 (unaudited) | **12 Months Ended December 31, 2012** | 12 Months Ended December 31, 2011 |
|---|---|---|---|---|
| Same-asset rental revenue | **$ 13,553** | $ 13,349 | **$ 53,801** | $ 53,153 |
| Same-asset operating expenses | **2,897** | 2,661 | **11,074** | 10,697 |
| Same-asset realty tax expense | **2,772** | 2,673 | **11,077** | 10,640 |
| **Same-asset net property operating income** | **$ 7,884** | $ 8,015 | **$ 31,650** | $ 31,816 |
| **Total net property operating income** | **$ 8,994** | $ 8,709 | **$ 35,298** | $ 33,487 |
| **Total net property operating income margin** | **59.0%** | 60.1% | **59.4%** | 60.2% |

As noted in the chart above, the NOI for the same-asset pool for the twelve months ended December 31, 2012, is down slightly by $166 thousand or 0.5% over the same period in the prior year. The decrease was mainly due to higher maintenance costs at some of the properties that are mostly either not recoverable (if cost recoveries from relevant tenants are capped) or not fully recoverable this year, accounting for approximately $306 thousand of the decrease. Partly offsetting this decrease were lease termination fees and other additional recoveries of approximately $120 thousand. The negative effect on same-asset NOI of the decrease in occupancy at the enclosed malls was offset by the positive effect on same-asset NOI of occupancy increases in the rest of the same-asset portfolio.

Total NOI grew by $1.8 million, or 5.4% due to the overall growth in investment properties mainly from development activities. The increase in total NOI for the year ended December 31, 2012 was mainly attributable to:

- the full period impact of four properties transferred to income producing status from properties under development in 2011, accounting for $1.5 million of the increase;
- the full period impact of three properties transferred to income producing status from properties under development during the year ended December 31, 2012, accounting for $545 thousand of the increase (annualized impact to NOI of approximately $1.2 million) (Spencer Drive Plaza was transferred to income producing status on April 20, 2012, Manotick was transferred to income producing status on July 18, 2012 and Powell Drive was transferred to income producing status on September 29, 2012);
- the impact of Buchanan Street Plaza which was an income producing property acquired in 2011, accounting for a decrease of $78 thousand in NOI compared to the prior year. Buchanan Street Plaza began being redeveloped in May 2012 and was re-transferred to income producing status on October 12, 2012. During the redevelopment phase, the property was not providing any rent (NOI of $238 thousand was recorded for this property for the year ended December 31, 2012 prior to redevelopment). The annualized positive impact to NOI post-redevelopment is approximately $697 thousand; and
- a same-asset pool decrease of $166 thousand.

NOI for the same-asset pool for the quarter ended December 31, 2012 decreased by $131 thousand or 1.6% over the same period in the prior year. The decrease was mainly due to higher maintenance costs at some of the properties that are mostly either not recoverable (if cost recoveries from relevant tenants are capped) or not fully recoverable this year, accounting for approximately $163 thousand of the decrease. The negative effect on same-asset NOI of the decrease in occupancy at the enclosed malls was more than offset by the positive effect on same-asset NOI of occupancy increases at the rest of the same-asset portfolio.

Total NOI for the quarter ended December 31, 2012 increased by $285 thousand or 3.3% over the same period in the prior year, mainly due to the impact of properties transferred to income producing status in 2011, accounting for $286 thousand of the increase, as well as properties transferred in 2012, accounting for $256 thousand of the increase. These were partly offset by the same asset NOI decline of $131 thousand, as well as the impact from the Buchanan Street Plaza property as described above, which accounted for $71 thousand of the decrease.

The following table shows a breakdown of same-asset NOI by province.

| (000s, except percentage data) | **3 Months Ended December 31, 2012 (unaudited)** | 3 Months Ended December 31, 2011 (unaudited) | **12 Months Ended December 31, 2012** | 12 Months Ended December 31, 2011 |
|---|---|---|---|---|
| New Brunswick | **$ 2,977** | $ 3,008 | **$ 12,020** | $ 11,715 |
| Quebec | **1,246** | 1,365 | **4,936** | 5,525 |
| Nova Scotia | **2,123** | 2,116 | **8,591** | 8,481 |
| Ontario | **416** | 430 | **1,671** | 1,715 |
| Newfoundland and Labrador | **378** | 380 | **1,549** | 1,545 |
| Prince Edward Island | **744** | 716 | **2,883** | 2,835 |
| **Same-asset net property operating income** | **$ 7,884** | $ 8,015 | **$ 31,650** | $ 31,816 |
| **Percentage decrease over prior period** | **(1.6%)** | | **(0.5%)** | |

The following assets are not included in "same asset" measurements due to timing of acquisition, redevelopment or disposition.

| **2011 Transactions** | **Property Type** | **Square Footage** | **Ownership** | **Income Producing During** |
|---|---|---|---|---|
| Dundonald & Smythe, Fredericton, NB[(1)] | Strip Plaza | 19,779 | 100% | Q1 11 |
| King & Mill, Newcastle, ON | Single Use | 15,134 | 50% | Q1 11 |
| Torbay & MacDonald, St. John's, NL | Single Use | 18,550 | 100% | Q1 11 |
| Buchanan Street Plaza, Charlottetown, PE[(2)] | Single Use | 56,452 | 100% | Q2 11 |
| Stavanger Drive Plaza, St. John's, NL | Strip Plaza | 50,563 | 90% | Q3 11 |
| Bedford Commons – 2, Bedford, NS | Strip Plaza | 105,190 | 100% | Q4 11 |
| **Total** | | **265,668** | | |

(1) Dundonald & Smythe was an income producing property which was purchased.
(2) Buchanan Street Plaza was an income producing property which was purchased for redevelopment.

| **2012 Transactions** | **Property Type** | **Square Footage** | **Ownership** | **Income Producing During** |
|---|---|---|---|---|
| Spencer Drive, Charlottetown, PE | Strip Plaza | 95,713 | 100% | Q2 12 |
| Manotick, Manotick (Ottawa), ON | Single Use | 28,968 | 50% | Q3 12 |
| Powell Drive, Carbonear, NL | Single Use | 10,000 | 100% | Q3 12 |
| Buchanan Street Plaza, Charlottetown, PE | Strip Plaza | 56,452 | 100% | Q4 12 |
| **Total** | | **191,133** | | |

## Leasing and Occupancy

The following table represents leases expiring for the next 5 years and thereafter for Plazacorp's property portfolio at December 31, 2012 (excluding non-consolidated investments).

| | Strip Plazas | | Enclosed Malls | | Single-User | | Total | |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Sq Ft[1]** | **%** | **Sq Ft[1]** | **%** | **Sq Ft[1]** | **%** | **Sq Ft[1]** | **%** |
| 2013 | 153,967 | 6.0 | 76,929 | 12.4 | - | - | **230,896** | **6.3** |
| 2014 | 200,806 | 7.8 | 76,153 | 12.3 | - | - | **276,959** | **7.5** |
| 2015 | 369,157 | 14.4 | 74,449 | 12.0 | 25,695 | 5.0 | **469,301** | **12.7** |
| 2016 | 289,893 | 11.3 | 50,461 | 8.1 | 25,771 | 5.1 | **366,125** | **9.9** |
| 2017 | 135,026 | 5.3 | 70,558 | 11.4 | 35,580 | 7.0 | **241,164** | **6.5** |
| Thereafter | 1,416,815 | 55.2 | 271,764 | 43.8 | 422,742 | 82.9 | **2,111,321** | **57.1** |
| Subtotal | 2,565,664 | 100.0 | 620,314 | 100.0 | 509,788 | 100.0 | **3,695,766** | **100.0** |
| Vacant | 108,340 | | 50,225 | | - | | **158,565** | |
| **Total** | **2,674,004** | | **670,539** | | **509,788** | | **3,854,331** | |
| **Weighted average lease** | **7.3 years** | | **5.8 years** | | **9.3 years** | | **7.3 years** | |

1) At 100%, regardless of the Company's ownership interest in the properties.

At December 31, 2012, overall occupancy for the portfolio (excluding properties under development and non-consolidated investments) decreased to 95.9% from 96.5% at December 31, 2011. This decrease was mainly due to the increase in vacancies at the enclosed malls.

During 2012, the Company completed 728 thousand square feet (2011 - 780 thousand square feet) of new and renewal leasing deals at market rates (including leasing at non-consolidated investments). The 728 thousand square feet of leasing was comprised of 314 thousand square feet on new developments, and 414 thousand square feet on existing properties. Excluding leasing at non-consolidated investments, the Company completed 596 thousand square feet of new and renewal leasing deals (2011 - 566 thousand square feet) at market rates. The 596 thousand square feet of leasing was comprised of 310 thousand square feet on new developments and 286 thousand square feet on existing properties.

On average, Plazacorp's embedded or contractual gross rents expiring in 2012 would be at or below current market rates. Plazacorp's financial exposure to vacancies and lease roll-overs differs among the different retail asset types, as gross rental rates differ dramatically by asset class.

- Occupancy in the strip plazas was 95.9% at December 31, 2012 compared to 95.7% at December 31, 2011.
- Average occupancy for enclosed malls was 92.5% at December 31, 2012 compared to 96.1% at December 31, 2011.
- Occupancy for single use assets remained stable at 100% at December 31, 2012.
- Pre-leased space in properties in the development phase and in the construction phase is 88.7% at December 31, 2012.

Plazacorp has built a portfolio with a high quality revenue stream. Plazacorp's ten largest tenants based upon current monthly gross rents at December 31, 2012 represent approximately 53.7% of total revenues in place.

| | % of Gross Revenue | | % of Gross Revenue |
|---|---|---|---|
| 1. Shoppers Drug Mart | 23.5 | 6. Reitmans | 2.8 |
| 2. Dollarama | 6.9 | 7. Best Buy/Future Shop | 2.7 |
| 3. Staples | 4.4 | 8. Bulk Barn | 2.6 |
| 4. Mark's Work Wearhouse | 3.2 | 9. Winners | 2.6 |
| 5. Sobeys | 3.1 | 10. Michaels | 1.9 |

The Company's mix of tenancy continues the trend towards primarily national tenants as a result of new developments. The portfolio is well positioned to resist downturns in its markets and provide stability to cash flows from which it funds operations and dividends.

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| National | **90.0%** | 89.7% |
| Regional | **3.5%** | 3.9% |
| Local | **5.5%** | 5.5% |
| Non-Retail | **1.0%** | 0.9% |

**Profit and Total Comprehensive Income for the Period**

Profit and total comprehensive income was $47.1 million for the year ended December 31, 2012, compared to $28.9 million for the year ended December 31, 2011, an increase of $18.2 million. Profit was impacted by: (i) the increase in NOI of $1.8 million mentioned previously; (ii) an increase in share of profit of associates of $3.9 million, mainly due to an increase in fair value of the underlying investment properties; (iii) an increase in the fair value gain to investment properties of $13.2 million over the prior year mainly as a result of a decrease in capitalization rates; (iv) the net decrease in finance costs mentioned previously, which increased profit by $1.5 million; and (v) the decrease in the net loss from fair value adjustments to convertible debentures, which increased profit by $2.1 million over the prior year. This was partly offset by: (i) the net negative impact of the internalization noted previously, which decreased profit by approximately $1.1 million; and (ii) an increase in income taxes of $3.7 million.

Profit and total comprehensive income for the three months ended December 31, 2012 was $2.1 million compared to $7.9 million for the same period in the prior year. Profit was impacted by (i) the increase in NOI of $285 thousand mentioned previously; (ii) an increase in share of profit of associates of $1.0 million, mainly due to an increase in fair value of the underlying investment properties; (iii) the net decrease in finance costs mentioned previously, which increased profit by $381 thousand; (iv) the decrease in the net loss from fair value adjustments to convertible debentures, which increased profit by $2.5 million over the prior year; and (v) a decrease in income taxes of $1.9 million. This was partly offset by a net loss recorded from fair value adjustments to investment properties in the quarter, which decreased profit by 12.0 million compared to the prior year.

**Share of Profit of Associates**

Share of profit of associates consists of income from equity and cost-accounted investments as well as fair value changes in the underlying investment properties included within these equity-accounted investments and other changes to the equity position of the equity-accounted investments that would impact the residual returns on wind-up (such as debt financing incurred). The following schedule shows Plazacorp's ownership position, rates of preferred returns on investment and Plazacorp's interest in cash on capital appreciation beyond the preferred returns.

| | Ownership Position | Preferred Return | Residual Return |
|---|---|---|---|
| **Equity Accounted Investments**[(1)] | | | |
| Centennial Plaza Limited Partnership | 10% | 10% | 20% |
| MDO Limited Partnership[(2)] | 20% | 10% | 30% |
| Village Shopping Centre Limited Partnership | 30% | 8% | 50% |
| Trois Rivieres Limited Partnership | 15% | 10% | 30% |
| Plazacorp – Shediac Limited Partnership | 10% | 8% | 50% |
| Plazacorp Ontario1 Limited Partnership | 25% | 4% | 25% |
| VGH Limited Partnership[(3)] | 20% | 8% | 27% |
| | | | |
| **Cost Accounted Investments**[(1)] | | | |
| Northwest Plaza Commercial Trust | 10% | - | - |

(1) Equity and cost accounted investments consist of the following properties: 3550 Sources, Centennial Plaza, Place Du Marche and BPK Levis (Centennial Plaza Limited Partnership); Plaza des Recollets (Trois Rivieres Limited Partnership); the Village Shopping Centre (Village Shopping Centre Limited Partnership); Shediac West (Plazacorp – Shediac Limited Partnership); Ottawa Street Almonte, Hastings Street Bancroft and Main Street Alexandria (Plazacorp Ontario1 Limited Partnership); St. Jerome (VGH Limited Partnership); and the Northwest Centre (Northwest Plaza Commercial Trust).

(2) Marche de L'Ouest (the property owned by MDO Limited Partnership) was sold in December 2012. Funds were not distributed to the partners on this sale until after year end.

(3) The land within this partnership is currently in the planning phases of development.

Share of profit of associates for the year ended December 31, 2012 includes Plazacorp's share of NOI of approximately $3.5 million. Share of profit of associates increased by $3.9 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 and increased by $1.0 million for the quarter ended December 31, 2012 compared to the quarter ended December 31, 2011. The increases were mainly due to a fair value increase of the underlying investment properties compared to the prior year as a result of both a decrease in the capitalization rates as well as improved leasing at the Village Shopping Centre. This was partly offset by additional debt incurred at Centennial Plaza Limited Partnership, which negatively affected the Company's share of the residual equity in this investment.

Distributions received from associates for the year ended December 31, 2012 were $1.7 million compared to $1.5 million for the year ended December 31, 2011.

In December 2012, Marche de L'Ouest (the property owned by MDO Limited Partnership), was sold for $27.0 million. Partial distribution to the partners of the net proceeds after settlement of liabilities was made in January 2013 with the remainder expected to follow in April 2013. The Company's share of the distribution is $4.6 million of which $2.0 million was received in January 2013 and the remaining $2.6 million is expected to be received in April 2013.

The joint venture for the Village Shopping Centre was reorganized and converted from a preferred return/residual return structure to a pari-passu co-ownership structure effective January 1, 2013, with the Company's ownership position becoming 44.5%. As part of the reorganization, the Village Shopping Centre Limited Partnership was dissolved. The Company anticipates that as a result of this reorganization, the Village Shopping Centre will be accounted for using proportionate consolidation.

**Change in Fair Value of Investment Properties**

The net gain from the fair value adjustment to investment properties for the year ended December 31, 2012 was $37.1 million and for the three months ended December 31, 2012 was a net loss of $3.6 million (for the year ended December 31, 2011 – net gain of $23.9 million; for the three months ended December 31, 2011 – net gain of 8.4 million). The weighted average

capitalization rate at December 31, 2012 was 6.80% compared to 7.41% at December 31, 2011. Although the overall weighted average capitalization rate remained unchanged during the three months ended December 31, 2012, changes in NOI assumptions and some minor increases in capitalization rates among some specific properties caused the loss in fair value to be recorded for the three months ended December 31, 2012. At December 31, 2012 a decrease of 0.25% in the capitalization rates used to determine the fair value of investment properties would have resulted in an increase in investment properties of approximately $20.5 million. An increase of 0.25% in the capitalization rates used would have resulted in a decrease in investment properties of approximately $19.1 million.

**Change in Fair Value of Convertible Debentures**

The net loss from the fair value adjustment to convertible debentures for the year ended December 31, 2012 was $673 thousand and for the three months ended December 31, 2012 was $547 thousand (for the year ended December 31, 2011 – net loss of $2.7 million; for the three months ended December 31, 2011 – net loss of $3.1 million). The decrease in the net loss was mainly due to the fact that there were less convertible debentures outstanding as a result of conversions.

**Gain/(Loss) on Disposals of Land**

During the year ended December 31, 2012 the Company disposed of three parcels of land located in Shawinigan, QC, Rivière-du-Loup, QC and Petawawa, ON for net proceeds of $427 thousand and an accounting loss of $43 thousand (representing transaction costs on sale).

During the year ended December 31, 2011, the Company sold land in Miramichi, NB for net proceeds of $247 thousand and an accounting loss of $3 thousand (representing transaction costs on sale).

**Other Income**

Other income includes property management and other fees earned from third party joint venture partners and partners in equity-accounted investments, as a result of the internalization of property and corporate management in 2011.

**Administrative Expenses**

Administrative expenses increased by $2.3 million for the year ended December 31, 2012, compared to the same period in the prior year, mainly due to the internalization of property and corporate management effective July 1, 2011, resulting in salaries and other office costs being recorded. Salaries, benefits and other office costs relating to the internalization are being recorded for the entire year ended December 31, 2012, compared to only six months in 2011. The difference accounts for $2.5 million of the increase in administrative expenses. This was partly offset by savings in one-time administrative costs incurred in 2011 of $242 thousand for tax consulting and professional fees relating to the potential conversion to a REIT structure and IFRS conversion work. For the three months ended December 31, 2012, administrative expenses increased by $145 thousand compared to the same period in the prior year mainly due to an increase in salaries and benefits.

**Income Tax Expense**

The financial statements include the current and deferred income taxes payable by the Company and its consolidated subsidiaries.

| (000s) | **3 Months Ended December 31, 2012 (unaudited)** | 3 Months Ended December 31, 2011 (unaudited) | **12 Months Ended December 31, 2012** | 12 Months Ended December 31, 2011 |
|---|---|---|---|---|
| Current income taxes | **1,152** | $ 136 | **1,061** | $ 169 |
| Deferred income taxes | **(72)** | 2,829 | **13,176** | 10,349 |
| **Total income taxes** | **1,080** | $ 2,965 | **14,237** | $ 10,518 |

Deferred income taxes increased for the twelve months ended December 31, 2012 compared to the prior year, mainly as a result of higher profit before income taxes, mainly driven by an increase in fair value adjustments compared to the prior year.

Deferred income taxes decreased for the three months ended December 31, 2012 compared to the prior year, mainly as a result of lower profit before income taxes, mainly driven by a decrease in fair value adjustments to investment properties compared to the prior year.

Current income taxes increased for both the three and twelve months ended December 31, 2012, as a result of a capital gain from the sale of Marche de L'Ouest in December 2012.

**Acquisitions**

During the year ended December 31, 2012 the Company acquired interests in land in Dieppe (Moncton), NB, Saint John, NB, Dartmouth, NS, Charlottetown, PE, Carbonear, NL and Boisbriand, QC for development for $10.7 million. As well the Company acquired a 20% interest in a land parcel in St. Jerome, QC for $950 thousand. This interest is accounted for as an equity-accounted investment.

During the year ended December 31, 2011 the Company acquired interests in land for $7.8 million in Fredericton, NB, Riverview (Moncton), NB, Charlottetown, PE, New Glasgow, NS, Halifax, NS, Montreal, QC, and Sherbrooke, QC. Two existing properties were purchased for redevelopment in Fredericton, NB (Dundonald & Smythe), and Charlottetown, PE (Buchanan Street Plaza), for $6.2 million.

## OUTLOOK

Plazacorp's development and leasing efforts have produced a property portfolio that is dominated by national retailers and provides investors with a very stable cash flow. Performance to date has demonstrated the strength of current strategies and operating capabilities. Barring unforeseen events, management is confident of delivering solid performance in 2013, as well as growth to the portfolio. The primary benefit to shareholders of the Company's performance and tenant profile is reliable cash flow and, over time, increasing dividends. Plazacorp's current dividend policy is to pay shareholders 22.50¢ per share for 2013 compared to 21.50¢ per share for 2012.

In the short-term, Plazacorp foresees most of its growth being derived from development and redevelopment activities. Plazacorp currently owns an interest in eleven projects under development and five land assemblies in progress which, upon completion, are expected to be accretive to the Company's earnings. The following properties, in which the Company currently owns an interest, are under construction, active development or active planning and are anticipated to become income producing at various points over the next three years as follows:

| Properties under development | Property Type | Status | Square Footage | Ownership | Occupied or Committed at December 31, 2012 | Income Producing |
|---|---|---|---|---|---|---|
| 90 Blvd. Tache Ouest, Montmagny, QC | Strip Plaza | In Planning[2] | 6,000[1] | 50% | n/a | 1-2 years |
| Bourque & Haut-Bois, Sherbrooke, QC – Phase I | Strip Plaza | In Construction | 88,000[1] | 50% | 78% | Q3 2013 |
| Bourque & Haut-Bois, Sherbrooke, QC – Phase II | Strip Plaza | In Planning[2] | 100,000[1] | 50% | n/a | 2-3 years |
| Jean Talon, Montreal, QC | Strip Plaza | In Planning[2,3] | 15,000[1] | 50% | n/a | 1-3 years |
| Magog, Magog, QC – Phase I | Strip Plaza | In Development | 53,000[1] | 50% | 100% | Q4 2013 |
| Magog, Magog, QC – Phase II | Strip Plaza | In Planning[2] | 27,000[1] | 50% | n/a | 2014 |
| Commercial Street Plaza – 2, New Minas, NS | Strip Plaza | In Planning[2] | 10,000[1] | 100% | n/a | 1-3 years |
| Boisbriand, QC | Strip Plaza | In Development | 7,300[1] | 33% | 41% | Q4 2013 |
| Fairville Boulevard – 3, Saint John, NB | Strip Plaza | In Planning[2] | 24,000[1] | 100% | n/a | 1-2 years |
| Spencer Drive – 2, Charlottetown, PE | Strip Plaza | In Planning[2] | 80,000[1] | 100% | n/a | 1-2 years |
| St. Jerome, St. Jerome, QC[4] | Strip Plaza | In Planning[2] | 200,000[1] | 20% | n/a | 2-3 years |
| Wyse Road, Dartmouth, NS | Single Use | In Construction | 60,979 | 50% | 100% | Q2 2013 |
| Champlain Plaza II, Dieppe (Moncton), NB | Strip Plaza | In Planning[2] | 60,000[1] | 100% | n/a | Q4 2014 |
| Total | | | 731,279 | | | |

(1) Approximate square footage.
(2) All are appropriately zoned for the intended use.
(3) There is a conditional sale for a portion of the land with an option in favour of the buyer to purchase the remainder.
(4) This is owned in a limited partnership that is part of the Company's non-consolidated trusts and partnerships. Square footage includes a second parcel of land that is conditional under purchase agreement.

There is excess density at existing properties that the Company plans to develop in the short term which would represent approximately 34 thousand additional square feet at completion.

At December 31, 2012, there were four other conditional land assemblies which were under purchase agreements and subject to due diligence or other conditions. These four land assemblies would represent 67 thousand additional square feet of retail space at completion (at the Company's ownership percentage). As well, at December 31, 2012, there was one 46,000 square foot income producing property for redevelopment under purchase agreement and subject to due diligence or other conditions.

The Company also benefits from growth stemming from contractual rental rate increases from existing tenants' leases that generally grow at or above the expected rate of inflation.

The Company is looking at converting from a mutual fund corporation to a real estate investment trust (REIT) structure. The Company believes that a REIT structure could be beneficial for existing shareholders. No assurances can be given that this will occur as any contemplated conversion requires tax, regulatory, Board and shareholder approvals. To that end, the Company submitted a ruling request to Canada Revenue Agency ("CRA") in 2011 to seek the appropriate tax approvals. Discussions on the ruling request between CRA and our tax lawyers have been ongoing throughout this time period, and as recently as February 2013.

The Company is also pursuing a move from the TSX Venture Exchange to the TSX. In preparation, the Company has been reviewing its disclosure controls and procedures and internal controls, in order that it can file under TSX certification rules.

## PART III

### SUMMARY OF SELECTED QUARTERLY INFORMATION

Plazacorp's summary of selected quarterly information for the last eight quarters is presented below:

| (000s except per share, percentage and number of properties data) (unaudited) | Q4'12 | Q3'12 | Q2'12 | Q1'12 | Q4'11 | Q3'11 | Q2'11 | Q1'11 |
|---|---|---|---|---|---|---|---|---|
| Total revenue [1] | **$ 19,022** | $ 16,135 | $ 18,685 | $ 17,177 | $ 17,237 | $ 14,704 | $ 15,440 | $ 14,796 |
| Profit (loss) and total comprehensive income | **$ 2,092** | $ 13,242 | $ 17,023 | $ 14,716 | $ 7,889 | $ 5,807 | $ 8,339 | $ 6,902 |
| Dividends per share | **5.38¢** | 5.38¢ | 5.38¢ | 5.38¢ | 5.25¢ | 5.25¢ | 5.06¢ | 5.06¢ |
| Funds from operations per share – basic [2] | **6.4¢** | 6.9¢ | 6.7¢ | 6.4¢ | 6.1¢ | 7.1¢ | 6.8¢ | 6.4¢ |
| Funds from operations per share – diluted [2] | **6.4¢** | 6.9¢ | 6.7¢ | 6.4¢ | 6.1¢ | 7.1¢ | 6.8¢ | 6.4¢ |
| Dividends as a percentage of basic FFO | **83.3%** | 76.8% | 79.5% | 84.5% | 86.0% | 73.6% | 73.6% | 79.4% |
| Dividends as a percentage of basic AFFO | **88.6%** | 79.3% | 88.5% | 95.8% | 97.4% | 87.3% | 85.2% | 95.3% |
| Total assets | **$607,221** | $605,677 | $586,424 | $569,405 | $550,345 | $548,796 | $526,191 | $492,103 |
| Total mortgages, bonds, debentures, notes and bank indebtedness | **$287,756** | $284,646 | $292,777 | $292,851 | $295,915 | $305,133 | $313,394 | $290,018 |
| Basic weighted average shares outstanding | **63,833** | 61,538 | 60,449 | 59,942 | 59,716 | 52,341 | 51,013 | 50,428 |
| Number of properties under development | **10** | 10 | 12 | 9 | 7 | 8 | 9 | 6 |
| Number of income producing properties (including non-consolidated investments) | **108** | 108 | 105 | 105 | 105 | 104 | 103 | 102 |
| Total number of properties in portfolio | **118** | 118 | 117 | 114 | 112 | 112 | 112 | 108 |
| Gross Leasable Area (000s of sq. ft.) (at 100% and excluding non-consolidated investments and properties under development) | | | | | | | | |
| Strip Plazas | **2,674** | 2,616 | 2,587 | 2,491 | 2,432 | 2,329 | 2,281 | 2,281 |
| Enclosed Malls | **670** | 671 | 671 | 671 | 671 | 672 | 680 | 659 |
| Single Use | **510** | 510 | 500 | 554 | 611 | 611 | 611 | 557 |
| Total income producing properties | **3,854** | 3,797 | 3,758 | 3,716 | 3,714 | 3,612 | 3,572 | 3,497 |
| Occupancy % (at 100% and excluding non-consolidated investments and properties under development) | | | | | | | | |
| Strip Plazas | **95.9** | 96.2 | 96.1 | 96.1 | 95.7 | 97.8 | 97.4 | 97.7 |
| Enclosed Malls | **92.5** | 93.2 | 94.7 | 95.1 | 96.1 | 96.1 | 95.9 | 97.1 |
| Single Use | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total income producing properties | **95.9** | 96.2 | 96.4 | 96.5 | 96.5 | 97.9 | 97.6 | 98.0 |

(1) Includes investment income, other income and share of profit of associates.
(2) Adjusted for debenture issuance costs if applicable.

During the last eight quarters occupancy has been relatively steady which contributes to stability of cash flow. Significant fluctuations in profit and loss are mainly due to non-cash fair value adjustments on the Company's investment properties and convertible debentures. Fair value adjustments are based on market parameters for which the Company has no control or ability to predict.

Some of Plazacorp's properties are leased on a base year or semi-gross basis or otherwise have caps on operating costs. At December 31, 2012, approximately 56.5% of the Company's leased area is tied to a CPI cost recovery formula. As well, anchor tenant leases may restrict Common Area Maintenance (CAM) cost recoveries. As a result of both of these factors, seasonal fluctuations in NOI and FFO occur primarily due to winter costs and yearly repair and maintenance activities which typically occur in spring and early summer which may create inconsistencies in quarterly recovery revenues compared with quarterly expenses.

# PART IV

### OPERATING LIQUIDITY AND WORKING CAPITAL

Cash flow, in the form of recurring rent generated from the portfolio, represents the primary source of liquidity to service debt including recurring monthly amortization of mortgage debt, to pay operating, leasing and property tax costs, and to fund dividends. Costs of development activities, which form a large portion of accounts payable and accrued liabilities, are funded by a combination of debt, equity and operating cash flow.

Cash flow from operations is dependent upon occupancy levels of properties owned, rental rates achieved, effective collection of rents, and efficiencies in operations as well as other factors.

Plazacorp's cash distribution policy generally reflects repayment of recurring mortgage principal amortization from cash flow in determining cash available for distribution. New debt or equity capital raised is generally directed to continuing development activities, which are discretionary, based on the availability of such capital.

### CAPITAL RESOURCES, EQUITY AND DEBT ACTIVITIES

**Operating and Development Facilities**

| (000s) | $10.0 Million Operating | $20.0 Million Development | $15.0 Million Development |
|---|---|---|---|
| December 31, 2011 | $ - | $ - | $ - |
| Net Change | 3,647 | 4,912 | 5,094 |
| December 31 , 2012 | $ 3,647 | $ 4,912 | $ 5,094 |
| Interest rate | Prime + 1.00% or BA + 2.50% | Prime + 1.00% or BA + 2.75% | Prime + 1.00% or BA + 2.50% |
| Maturity | November 30, 2013 | July 31, 2013 | July 31, 2013 |
| Security | First charges on pledged property | First charges on applicable pledged development property | First charges on applicable pledged development property |
| Other terms | Debt service, interest coverage, occupancy & equity maintenance covenants | Debt service, occupancy, leverage & equity maintenance covenants | Debt service, interest coverage, occupancy & equity maintenance covenants |
| Line reservations available for letters-of-credit | $2.0 million | $1.5 million | $500 thousand |
| Issued and outstanding | $137 thousand | - | - |

Funding is secured by first mortgage charges on properties or development properties as applicable. The Company must maintain certain financial ratios to comply with the facilities. These covenants include loan-to-value, debt service coverage, maximum leverage, interest coverage, occupancy and shareholder equity thresholds.
As of December 31, 2012, all debt covenants in respect of the above facilities have been maintained.

The operating line matured November 30, 2012 and was renewed for another year with the same terms and conditions.

## Debentures and Mortgage Bonds

Mortgage bonds are required to be secured by either property or cash. Mortgage bonds can be deployed up to 90% of the cost of a property under a first or second charge on that property. If it is a second charge, the total debt, including mortgage bonds cannot exceed 90%. Series IV mortgage bonds of $3 million matured on June 30, 2012 and $3 million in Series VII mortgage bonds matured on May 31, 2012. Both were repaid on maturity.

Convertible debentures are recorded at fair value and changes in the fair value are recorded quarterly in profit and loss. During the year ended December 31, 2012, all of the $11.5 million remaining in Series V convertible debentures were converted to 3.4 million shares and $1.7 million in Series VI convertible debentures were converted to 459 thousand shares.

## Mortgages

During 2012 long-term financing in the amount of $21 million (at Plazacorp's consolidated share) with a weighted average term of 14.4 years was obtained on refinancing and financing of 5 properties at a weighted average interest rate of 4.53%.

As well, construction financing was obtained in the amount of $4 million to replace the Series VII mortgage bonds which matured on May 31, 2012. The construction financing is for a 1 year term maturing June 30, 2013 and carries an interest rate of prime + 1.25%. At December 31, 2012, $3.3 million was outstanding.

The Company's strategy is to balance maturities and terms on new debt with existing debt maturities to minimize maturity exposure in any one year and to reduce overall interest costs. Maintaining or improving the average cost of debt will be dependent on market conditions at the time of refinancing. Plazacorp's debt strategy involves maximizing the term of long-term debt available based on the tenant profiles for the assets being financed, at current market rates, in order to stabilize cash flow available for reinvestment and dividend payments.

The Company's use of floating-rate debt has generally been limited to assets under development or redevelopment. At December 31, 2012, fixed-rate debt represents 93.6% of mortgages and lines of credit secured on investment properties. Management is of the view that such a strategy results in the most conservative interest rate risk management practice.

During 2010, the Company converted two variable rate mortgages to long-term fixed rate mortgages through $4.2 million of interest rate swaps entered into with a Canadian chartered bank (net book value of the swaps at December 31, 2012 was $4.0 million). The terms of the mortgages and associated interest rate swaps expire July 31, 2020. These interest rate swaps are valued quarterly and are recognized at fair value in mortgages payable with changes in the fair value reflected in profit and loss.

The following is a mortgage maturity chart by year:

| | Year 1<br>2013 | Year 2<br>2014 | Year 3<br>2015 | Year 4<br>2016 | Year 5<br>2017 | After 5<br>Years | Total |
|---|---|---|---|---|---|---|---|
| Long-term mortgages due at maturity [1] | $26,674 | $19,286 | $13,968 | $27,620 | $21,547 | $103,201 | $212,296 |
| Principal repayments | 4,435 | 3,963 | 3,742 | 3,620 | 3,149 | 17,277 | 36,186 |
| Sub total long-term mortgages | 31,109 | 23,249 | 17,710 | 31,240 | 24,696 | 120,478 | 248,482 |
| Bank operating facility | 3,647 | - | - | - | - | - | 3,647 |
| Variable rate construction loan | 3,259 | - | - | - | - | - | 3,259 |
| Development lines of credit | 10,006 | - | - | - | - | - | 10,006 |
| Total | $48,021 | $23,249 | $17,710 | $31,240 | $24,696 | $120,478 | $265,394 |
| As a percentage | 18.1% | 8.8% | 6.7% | 11.8% | 9.3% | 45.3% | 100% |
| Weighted average expiring rate on long-term mortgages | 5.99% | 6.52% | 6.11% | 4.74% | 5.37% | 5.26% | |

(1) Includes interest rate swaps.

At December 31, 2012 and December 31, 2011, the Company's cost of mortgage debt was as follows:

| (000s, except percentage data) | Balance Outstanding December 31, 2012 | Effective Rates December 31, 2012 | Effective Rates December 31, 2011 |
|---|---|---|---|
| Fixed rate mortgage loans | **$ 248,097** | **5.78%** | 6.07% |
| $10 million bank operating facility | **$ 3,647** | **Prime + 1.00%** | Prime + 1.00% |
| $20 million bank development facility | **$ 4,912** | **Prime + 1.00%** | Prime + 1.00% |
| $15 million bank development facility | **$ 5,094** | **Prime + 1.00%** | Prime + 1.00% |
| Variable rate secured construction loan | **$ 3,259** | **Prime + 1.25%** | n/a |

The weighted average term to maturity for the long-term mortgages is 6.2 years. The average remaining repayment (amortization) period on long-term mortgage debt is 24.7 years.

The ratio of debt to gross book value of assets at December 31, 2012 (excluding convertible debentures) is 43.8% compared to 44.6% at December 31, 2011.

**Shares Outstanding**

If all rights to convert shares under the provisions of convertible debt were exercised, the impact on shares outstanding would be as follows:

| At February 28, 2013 (000s) | Shares | Share Capital |
|---|---|---|
| Current outstanding shares | **64,075** | **$ 107,630** |
| Series VI convertible debentures | **4,332** | **21,560** |
| **Total adjusted shares outstanding** | **68,407** | **$ 129,190** |

**Land Leases**

Return on invested cash or equity is a measure Plazacorp uses to evaluate development and strategic acquisitions. Investing in a project subject to a land lease reduces the cash equity required for an individual project and increases the number of projects which can be undertaken with available capital. This spreads risk and enhances overall shareholder return. In some instances use of a land lease will enhance project feasibility where a project might not otherwise be undertaken without use of a land lease. Currently Plazacorp has 24 long-term land leases (affecting 23 properties) with total annual rent of $2.7 million. One of the land leases relates to shared parking facilities. The other properties under land lease represent approximately 15.0% of the Company's fair value of investment properties and investments. Land leases expire (excluding any non-automatic renewal periods) on dates ranging from 2017 to 2084 with an average life of 45 years, with some of the leases also containing non-automatic renewal options, extending the average life of the leases to 70 years including these non-automatic renewal options. Of the 24 land leases, 11 of the land leases have options to purchase, generally at fair market value.

**Gross Capital Additions Including Leasing Fees:**

| (000s) | **3 Months Ended December 31, 2012 (unaudited)** | 3 Months Ended December 31, 2011 (unaudited) | **12 Months Ended December 31, 2012** | 12 Months Ended December 31, 2011 |
|---|---|---|---|---|
| Leasing fees – existing properties | **$ 2** | $ 137 | **$ 39** | $ 405 |
| Leasing fees – redevelopment properties | **1** | 9 | **35** | 75 |
| Leasing fees – new developments | **51** | 703 | **355** | 1,381 |
| Total leasing fees | **54** | 849 | **429** | 1,861 |
| Capital additions – existing properties | **195** | 220 | **1,334** | 1,315 |
| Capital additions – redevelopment properties | **-** | - | **834** | 3,096 |
| Capital additions – new developments | **8,236** | 2,663 | **25,226** | 35,459 |
| Total capital additions | **8,431** | 2,883 | **27,394** | 39,870 |
| **Total gross additions** | **$ 8,485** | $ 3,732 | **$ 27,823** | $ 41,731 |

## COMMITMENTS AND CONTINGENT LIABILITIES

The Company has $3.0 million in short-term commitments in respect of development activities. Management believes that Plazacorp has sufficient unused bank line availability, and/or mortgage bond deployment potential, to fund these commitments.

The Company also has a contingent liability as original borrower on a mortgage assumed by the purchasers of a property in 2007. This commitment is subject to an indemnity agreement. The sale did not relieve the Company's obligation as original borrower in respect of this mortgage. The debt subject to such guarantee at December 31, 2012 totals $6.4 million with a remaining term of 0.3 years.

The Company has contingent liabilities as original borrower on four mortgages partially assumed by the purchasers of properties where a 75% interest in each was sold in 2009. These commitments are subject to indemnity agreements. These sales did not relieve the Company's obligations as original borrower in respect of these mortgages. The debt subject to such guarantees at December 31, 2012 totals $7.8 million with remaining terms ranging from 2.3 years to 10.1 years.

The Company guarantees mortgage debt in excess of its pro-rata position in joint ventures and non-consolidated subsidiaries in the amount of $4.6 million.

# PART V

## RISKS AND UNCERTAINTIES

All property investments are subject to a degree of risk and uncertainty. Property investments are affected by various factors including general economic conditions and local market circumstances. Local business conditions such as oversupply of space or a reduction in demand for space particularly affect property investments. Management attempts to manage these risks through geographic and retail asset class diversification in the portfolio. At December 31, 2012, the Company held interests in 118 properties spread geographically among six provinces in Canada. Some of the more important risks are outlined below. See Financial Risk Management Note 25 to the December 31, 2012 Annual Consolidated Financial Statements for further details. Also see the Company's Annual Information Form dated February 28, 2013 for a complete list of risks and uncertainties.

### Interest Rate, Financing and Refinancing Risk

Management attempts to lock in cash returns on assets for the longest period, consistent with exposure to debt maturing and leases expiring in any given year.

The Company mitigates interest rate risk by maintaining the majority of its debt at fixed rates. At December 31, 2012, 93.6% of the Company's mortgages and lines of credit secured by investment properties are at fixed rates. Floating rate debt is typically used for development or redevelopment projects as interim financing, until the projects are completed and are then able to attract the appropriate long-term financing. The Company mitigates its exposure to fixed-rate interest risk by staggering maturities in order to avoid excessive amounts of debt maturing in any one year. If market conditions warrant, the Company may attempt to renegotiate its existing debt to take advantage of lower interest rates.

At existing financing rates, the Company is able to obtain positive returns from debt financing. The quality of the Company's projects and properties makes management confident of obtaining suitable long-term financing for those projects on completion of development as well as those properties with maturing existing debt. The Company has an ongoing requirement to access the debt markets and there is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to the Company or on any terms at all. Management believes that all debts maturing in 2013 will be able to be financed or refinanced as they come due.

### Credit Risk

Credit risk mainly arises from the possibility that tenants may be unable to fulfill their lease commitments. Management mitigates this risk by ensuring that Plazacorp's tenant mix is diversified and heavily weighted to national tenants and by ensuring any significant individual revenue exposures are to tenants of significant credit worthiness. Plazacorp also maintains a portfolio that is diversified geographically so that exposure to local business is lessened.

Currently one tenant, Shoppers Drug Mart, represents 23.5% of current monthly gross rents in place. The top 10 tenants collectively represent approximately 53.7% of total revenues in place. National and regional tenants represent 93.5% of the in-place tenant base.

### Lease Roll-Over and Occupancy Risk

Lease roll-over risk arises from the possibility that Plazacorp may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants.

Management attempts to stagger the lease expiry profile so that Plazacorp is not faced with a disproportionate amount of square footage of leases expiring in any one year. Management further mitigates this risk by maintaining a diversified portfolio mix both by retail asset type and geographic location and ensuring that the Company maintains a well staffed and highly skilled leasing department to deal with all leasing issues.

One of Plazacorp's performance drivers is related to occupancy levels. The majority of Plazacorp's leases in place are referred to as net leases, meaning tenants reimburse Plazacorp fully for their share of property operating costs (subject to consumer price index adjustments in many cases) and realty taxes. Many of Plazacorp's operating costs and realty taxes

are not reduced by vacancy. Certain costs such as utilities and janitorial costs would not decline with a decline in occupancy.

The hypothetical impact to NOI of a change in occupancy of 1% would be approximately $368 thousand per annum. The analysis does not identify a particular cause of such changing occupancy and as a result, it does not reflect the actions management may take in relation to the changes. Plazacorp's principal management of occupancy risk is the skewing of tenancies towards national tenants, the signing of longer term leases and significant pre-leasing of development space.

**Development and Acquisition Risk**

Plazacorp's external growth prospects will depend in large part on identifying suitable development, redevelopment and acquisition opportunities, pursuing such opportunities, conducting necessary due diligence, consummating acquisitions (including obtaining necessary consents) and effectively operating the properties acquired or developed by the Company. If Plazacorp is unable to manage its growth and integrate its acquisitions and developments effectively, its business, operating results and financial condition could be adversely affected. Developments and acquisitions may not meet operational or financial expectations due to unexpected costs or market conditions, which could impact the Company's performance.

**Environmental Risk**

Plazacorp is subject to various laws relating to the environment which deal primarily with the costs of removal and remediation of hazardous substances such as asbestos or petroleum products. Environmental risk is relevant to Plazacorp's ability to sell or finance affected assets and could potentially result in liabilities for the costs of removal and remediation of hazardous substances or claims against Plazacorp. Management is not aware of any material non-compliance with environmental laws or regulations with regard to Plazacorp's portfolio, or of any material pending or threatened actions, investigations or claims against Plazacorp relating to environmental matters. Plazacorp manages environmental exposures in a proactive manner during every aspect of the property life cycle including extensive due diligence in respect of environmental risk before purchase or development.

## PART VI

### RELATED PARTY TRANSACTIONS

**Management Company**

Prior to July 1, 2011, Plaza Group Management Limited provided property management and corporate management services to Plazacorp. In Quebec, staff of Les Immeubles Plaza Z-Corp Inc. handled management duties under a separate management agreement with Plazacorp.

Plaza Group Management Limited was controlled by two directors of Plazacorp, namely Michael Zakuta and Earl Brewer. Les Immeubles Plaza Z-Corp Inc. is controlled by Michael Zakuta.

On July 1, 2011, the Company purchased the shares of Plaza Group Management Limited. As a result of this transaction, property management and corporate management were internalized and the Company manages all of its properties, including properties previously managed by Plaza Z-Corp Inc. Both management agreements previously in place were terminated.

The purpose of the management arrangement was to provide the Company the services of a fully staffed and professional management company in all geographic areas in which it operates at reasonable costs. The basis of fee payments under the management agreements, effective March 30, 2009 until July 1, 2011, was as follows:

| | **Plaza Group Management Limited Fee Structure** |
|---|---|
| Property management | 3% of gross rents paid. |
| Corporate management | ¾% of gross rents paid in the preceding fiscal year. |
| Leasing | 4% of net rental revenue per year for first five years of lease term. |
| | 2% of net rental revenue per year for years six to ten of lease term. |
| | Leasing fees for renewal are at 50% of the above rates. |
| Development | 4% of costs of construction on development projects. |
| | 10% of tenant improvement costs on non-development projects. |
| Debt financing | ¾ % of loan amount where no outside broker is involved. |
| | ¼ % of loan amount where an outside broker is involved. |
| Capital | Where and when permitted by securities law: |
| | 3% of capital raised where no external broker is involved. |
| | 1 ½ % of capital raised where no external broker is involved and where the proceeds are used to retire/redeem maturing capital. |
| | ¾ % of capital raised where an outside broker is involved. |
| Acquisitions | 2% of the purchase price of assets or capitalized value of land leases. |
| Dispositions | 1 ½ % of the proceeds of disposition on assets. |
| Legal services | Cost recovery basis, equal to $185 per hour. |

The following amounts were charged under the agreements (in 000s):

| **Fee Category** | **Included for Reporting Purposes In** | 12 Months Ended December 31, 2011 |
|---|---|---|
| Property management | Property operating expenses | $ 777 |
| Corporate management | Administrative expenses | 194 |
| Leasing | Investment properties | 616 |
| Development | Investment properties | 606 |
| Financing and capital | Debt or equity | 301 |
| Acquisitions | Investment properties | 49 |
| Legal services | Varied based on service provided | 343 |
| **Total** | | $ 2,886 |

**Remuneration of Key Management Personnel**

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any Director of the entity. The remuneration of Directors and other key management personnel of the Company during the years ended December 31, 2012 and 2011 was as follows:

| | **12 Months Ended December 31, 2012** | 12 Months Ended December 31, 2011 |
|---|---|---|
| Total key management personnel compensation – short-term employee benefits[1] | **$ 1,888** | $ 1,796 |

(1) Total compensation paid by Plaza Group Management Limited, prior to the internalization for 2011 was $897 thousand. This amount is not included in the financial statements of the Company but is included in this chart.

During the years ended December 31, 2012 and 2011 there were no amounts paid in post employment benefits, long-term benefits or termination benefits. There were 40 thousand RSUs granted to key management personnel.

**Notes Payable to Related Parties**

Notes payable fall into two categories:

- Interest bearing unsecured notes that are advanced from time-to-time to assist in financing property acquisitions and development costs and are retired on funding of interim or long-term debt or upon sale of the property to which the note relates.

- Non-interest bearing notes that existed at the time of acquisition of properties in September 2000. Certain of the notes are owed to parties controlled directly or indirectly by Michael Zakuta. The notes are repayable on sale or refinancing of the related asset.

| (000s) | Interest Rate | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| **Non-interest bearing notes:** | | | |
| Entities owned (directly or indirectly), controlled or significantly influenced by Michael Zakuta, President, Chief Executive Officer and Director of the Company | n/a | **$ 261** | $ 261 |

**Bonds and Debentures Held**

The Directors directly or indirectly held convertible debentures and mortgage bonds of the Company as follows (stated at face value):

| (000s) | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Barbara Trenholm | **$ -** | $ 100 |
| Earl Brewer | **219** | 1,481 |
| Edouard Babineau | **350** | 2,000 |
| Michael Zakuta | **670** | 781 |
| Richard Hamm | **-** | 250 |
| Stephen Johnson | **750** | 850 |
| **Total** | **$ 1,989** | $ 5,462 |

During 2012, Barbara Trenholm redeemed $100 thousand in expired mortgage bonds, Earl Brewer converted $1.042 million of convertible debentures to shares and redeemed $220 thousand in expired mortgage bonds, Edouard Babineau converted $1.4 million of convertible debentures to shares and redeemed $250 thousand in expired mortgage bonds, Michael Zakuta redeemed $111 thousand in expired mortgage bonds, Richard Hamm converted $250 thousand of convertible debentures to shares, and Stephen Johnson redeemed $100 thousand in expired mortgage bonds.

Other key management personnel own $45 thousand in mortgage bonds of the Company at December 31, 2012 (December 31, 2011 - $105 thousand).

**Other Related Party Transactions**

Two directors, directly or beneficially, hold interests in common with the Company’s 25% interest in the Gateway Mall, Sussex, NB, being Earl Brewer (25%) and Michael Zakuta (21.5%). There are no loans outstanding or fees charged by the related parties as a result of the joint ownership.

TC Land LP, an entity controlled by Michael Zakuta and Earl Brewer, leases nine parcels of land to Plazacorp at a total annual rent of $877 thousand. The land leases expire at various times from October 2043 to November 2047, subject to options to renew. All of these land leases have options to purchase, of which one is at a fixed price and the others are at fair market value. The business purpose of the leases was to enhance levered equity returns on the affected assets.

Earl Brewer and Michael Zakuta hold interests in common with the Company's 10% interest in Northwest Plaza Commercial Trust, the owner of the Northwest Centre, Moncton, NB. There are no loans outstanding or fees charged by the related parties as a result of the joint ownership.

Plaza Group Management Limited (a wholly-owned subsidiary of Plazacorp) is a party to an aircraft operating agreement with Plaza Atlantic Limited (a company owned by Michael Zakuta and Earl Brewer) with respect to the use and operation of a turbo-prop airplane, used from time to time by Plazacorp to facilitate more timely access to properties across the Corporation's portfolio, mainly for construction and development. Costs associated with the use of the airplane for the year ended December 31, 2012 were $599 thousand (July 1, 2011 to December 31, 2011 - $205 thousand).

Plaza Group Management Limited is a party to an office lease for Plazacorp's corporate headquarters in Fredericton, NB. The owner of the office building (and counter-party to the office lease) is a company indirectly owned by Michael Zakuta and Earl Brewer. Basic minimum rent under this office lease is $201 thousand per year. The lease expires on March 31, 2014.

Plaza Group Management Limited manages certain properties owned directly or indirectly by Michael Zakuta and Earl Brewer, namely 527 Queen Street, Fredericton, NB and 271 Queen Street, Fredericton, NB.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. Management is also responsible for establishing adequate internal controls over financial reporting to provide sufficient knowledge to support the representations made in this MD&A, the Consolidated Financial Statements for December 31, 2012 and all related public filings.

In contrast to the certificate required under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), the TSX Venture Exchange Issuer Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing certificates for TSX Venture issuers are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificate(s).

Investors should be aware that inherent limitations on the ability of certifying officers of a TSX Venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## CRITICAL ACCOUNTING POLICIES

### Critical Accounting Estimates

Plazacorp's significant accounting policies are described in its consolidated financial statements. The Company adopted IFRS as the basis of financial reporting effective January 1, 2011.

Management chooses the accounting policies and estimates that it believes are appropriate to fairly report the Company's operating results and financial position. Management regularly assesses its critical accounting estimates in light of current

and forecasted economic conditions and reviews these estimates with its Audit Committee. The following outlines the more significant judgments and estimates used in the preparation of the financial statements.

**Fair Value of Investment Properties**

Investment properties include all of the Company's income producing commercial properties, properties under development and surplus lands. Investment properties are recorded at fair value except for properties under development when fair value is not determinable. Fair value is based on a combination of external appraisals and internal valuations. Significant assumptions and estimates are made in determining the fair value of investment properties, including the normalized level of NOI for a particular property and which capitalization rate to use on each property. External appraisals use a number of different valuation approaches, including a discounted cash flow approach and a direct comparison approach. The discounted cash flow approach discounts expected future cash flows.

**Properties Under Development**

The Company capitalizes all direct expenditures incurred in connection with the development and construction of properties. These expenditures consist of all direct costs and direct and indirect borrowing costs on debt attributable to the specific development. Borrowing costs are reduced by any interest earned by the Company on borrowed funds prior to utilization.

The development period commences when expenditures are being incurred and activities necessary to prepare the asset for its intended use are in progress. Capitalization ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

**Fair Value of Convertible Debentures**

In determining the fair value of convertible debentures, the Company must make assumptions regarding credit spreads, share price volatility and bond yields, considering the terms of the convertible debentures and their risk.

**Fair Value of Debt**

In determining estimates of the fair values of financial instruments, the Company must make assumptions regarding current market rates, considering the terms of the instruments and their risk. Current market rates are generally selected from a range of potentially acceptable rates and accordingly, other effective rates and fair values are possible.

**Financial Instruments**

The Company reviews all significant contracts to determine if they contain embedded derivatives. As of August 1, 2010 the Company had entered into interest rate swaps to fix the rates for two variable rate mortgages. These swaps are valued quarterly and are recognized at fair value in mortgages payable with changes in the fair value reflected in profit and loss. At December 31, 2012, there are no embedded derivatives in the Company's financial instruments that require separation and measurement.

**FUTURE ACCOUNTING POLICY CHANGES**

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing the consolidated financial statements. Please see Note 3 to the consolidated financial statements for further details about future accounting policy changes.

## ADDITIONAL INFORMATION

Additional information relating to Plazacorp including the Management Information Circular, Material Change reports and all other continuous disclosure documents required by the securities regulators, are filed on the System for Electronic Document Analysis and Retrieval (SEDAR) and can be accessed electronically at www.sedar.com or on the Plazacorp website at www.plaza.ca.

Attached as Appendix A is a chart listing the Company's properties at December 31, 2012 and attached as Appendix B is the fourth quarter consolidated statements of comprehensive income.

## APPENDIX A

### PROPERTIES OF THE COMPANY[4]

| Property | Location | Year Built/ Redeveloped | Gross Leasable Area (sq. ft.) | Ownership Interest (%) | Occupied or Committed as at 31-Dec-12 | Major Tenants[1] |
|---|---|---|---|---|---|---|
| **Strip Plazas** | | | | | | |
| Les Promenades St. Francois | Laval, QC | 1987/2001 | 54,694 | 100% | 88% | Jean Coutu, Dollarama |
| Plaza Hotel de Ville | Rivière-du-Loup, QC | 1990 | 20,412 | 100% | 100% | Bouclair, Yellow Shoes |
| Plaza Theriault[2] | Rivière-du-Loup, QC | 1995 | 25,780 | 100% | 100% | National Bank, SuperClub Videotron |
| Plaza BBRF | Sherbrooke, QC | 2008 | 20,631 | 50% | 100% | Shoppers Drug Mart |
| Plaza Boulevard Royal | Shawinigan, QC | 1997/2008 | 128,222 | 100% | 97% | Rossy, Caisse Populaire |
| Carrefour des Seigneurs[3] | Terrebonne, QC | 1992/2004 | 33,900 | 25% | 86% | Jean Coutu |
| St. Anne Street Plaza | Bathurst, NB | 2006 | 25,299 | 100% | 96% | Dollarama, Reitmans |
| St. Peter Avenue Plaza | Bathurst, NB | 2006 | 23,273 | 100% | 100% | Shoppers Drug Mart |
| Champlain Plaza | Dieppe (Moncton), NB | 2005 | 48,815 | 100% | 100% | Mark's Work Wearhouse, Shoppers Drug Mart |
| Boulevard Hebert Plaza | Edmundston, NB | 2006 | 26,689 | 100% | 100% | Shoppers Drug Mart |
| Victoria Street Plaza | Edmundston, NB | 2007 | 21,875 | 100% | 93% | Reitmans, Dollarama |
| Dundonald & Smythe | Fredericton, NB | 1962/1997 | 19,779 | 100% | 100% | Dollarama |
| Empire Plaza[2] | Fredericton, NB | 2003 | 13,743 | 100% | 100% | Dollarama |
| FHS Plaza | Fredericton, NB | 1999 | 24,274 | 100% | 100% | Cleve's , Bulk Barn |
| Main Place[2] | Fredericton, NB | 1992/2004 | 31,416 | 100% | 93% | Shoppers Drug Mart |
| Nashwaaksis Plaza | Fredericton, NB | 1997 | 55,914 | 100% | 100% | Dollarama |
| Madawaska Road Plaza | Grand Falls, NB | 2005 | 10,410 | 100% | 100% | Pizza Delight, Tim Horton's |
| KGH Plaza | Miramichi, NB | 2007 | 18,969 | 25% | 100% | Shoppers Drug Mart |
| Miramichi Power Center – 1 | Miramichi, NB | 2005 | 38,033 | 100% | 100% | Staples, Mark's Work Wearhouse |
| Miramichi Power Center – 2 | Miramichi, NB | 2005 | 21,936 | 100% | 100% | Dollarama, Boston Pizza |
| Boulevard Plaza[2] | Moncton, NB | 2004 | 83,021 | 100% | 100% | Winners, Michael's |
| Wedgewood Plaza[2] | Riverview (Moncton), NB | 1999 | 12,768 | 100% | 69% | Dollarama |
| Crown Street[2] | Saint John, NB | 2006 | 21,764 | 100% | 100% | Shoppers Drug Mart |
| Exhibition Plaza[2] | Saint John, NB | 2004 | 75,204 | 55% | 100% | Empire Cinemas |
| Fairville Boulevard – 1 | Saint John, NB | 2008 | 57,000 | 100% | 100% | Sobeys |
| Fairville Boulevard – 2 | Saint John, NB | 2009 | 56,698 | 100% | 93% | Bulk Barn, Staples, Dollarama |
| Major Brook Drive Plaza[2] | Saint John, NB | 2005 | 40,597 | 55% | 100% | Michael's, Boston Pizza |
| McAllister Drive Plaza[2] | Saint John, NB | 1999 | 24,921 | 55% | 100% | Cleve's |
| SCA Plaza[2] | Saint John, NB | 2002 | 17,517 | 55% | 100% | Great Canadian Dollar Store, Bulk Barn |
| Main and Western Street Plaza | Sussex, NB | 2007 | 14,300 | 100% | 100% | Dollarama |
| Connell Road Plaza | Woodstock, NB | 2004 | 19,645 | 100% | 88% | Mark's Work Wearhouse, Dollarama |
| 303 Main Street Plaza | Antigonish, NS | 2005 | 19,542 | 100% | 92% | Shoppers Drug Mart |
| Bedford Commons | Bedford (Halifax), NS | 2009 | 72,622 | 100% | 92% | Future Shop, Dollarama |
| Bedford Commons – 2 | Bedford (Halifax), NS | 2011 | 105,190 | 100% | 89% | Winners, Staples, Sportchek |
| Tacoma Centre | Dartmouth (Halifax), NS | 1983/2002 | 157,936 | 50% | 99% | Sobeys, Dollarama |
| Tacoma Valley Field | Dartmouth (Halifax), NS | 2005 | 26,817 | 50% | 86% | Shoppers Drug Mart |
| 201 Chain Lake Drive[3] | Halifax, NS | 1995/2004 | 119,320 | 50% | 89% | Home Outfitters |
| 209 Chain Lake Drive[3] | Halifax, NS | 1998 | 89,549 | 50% | 100% | Value Village, Mark's Work Wearhouse, Dollarama |
| Joseph Howe Drive Plaza[2] | Halifax, NS | 2007 | 23,599 | 100% | 100% | Shoppers Drug Mart |
| Staples Plaza | New Glasgow, NS | 2001 | 33,763 | 100% | 100% | Staples |
| V-8 Plaza[2] | New Glasgow, NS | 2004 | 16,565 | 100% | 100% | Dollarama, Swiss Chalet |
| Commercial Street Plaza | New Minas, NS | 2003 | 15,342 | 100% | 100% | Swiss Chalet, Penningtons |
| Granite Drive Plaza | New Minas, NS | 2009 | 86,514 | 100% | 100% | Lawtons, Future Shop, Winners |
| Silver Fox Plaza | New Minas, NS | 2010 | 42,078 | 100% | 100% | Giant Tiger, Michael's |
| North Sydney Plaza | North Sydney, NS | 2007 | 20,372 | 100% | 100% | Shoppers Drug Mart |
| Welton Street Plaza[2] | Sydney, NS | 2004 | 21,006 | 100% | 100% | Dollarama, Bulk Barn |
| Robie Street Plaza | Truro, NS | 2007 | 21,890 | 25% | 100% | Shoppers Drug Mart |
| Pleasant Street | Yarmouth, NS | 2005 | 22,586 | 100% | 87% | Shoppers Drug Mart |

| Property | Location | Year Built/ Redeveloped | Gross Leasable Area (sq. ft.) | Ownership Interest (%) | Occupied or Committed as at 31-Dec-12 | Major Tenants[1] |
|---|---|---|---|---|---|---|
| Starrs Road Plaza | Yarmouth, NS | 1976/2005 | 64,319 | 100% | 100% | Empire Theatres, Dollarama |
| Belvedere Plaza | Charlottetown, PE | 1979/2000 | 77,459 | 60% | 100% | Mark's Work Wearhouse, Indigo, The Brick |
| Spencer Drive Plaza | Charlottetown, PE | 2012 | 95,713 | 100% | 78% | Sobeys, Petsmart |
| Spring Park Plaza | Charlottetown, PE | 1998 | 49,733 | 85% | 97% | Fabricville, Value Village |
| UAS Plaza | Charlottetown, PE | 2006 | 23,386 | 100% | 100% | Shoppers Drug Mart, TD Bank |
| University Plaza | Charlottetown, PE | 1977/1998 | 62,046 | 43% | 100% | Dollarama, Smitty's, The Bargain Shop |
| Buchanan Street Plaza | Charlottetown, PE | 2012 | 56,452 | 100% | 81% | ToysRUs, Reitmans |
| Granville Street Plaza | Summerside, PE | 1977/2011 | 60,957 | 60% | 96% | Dollarama, Mark's Work Wearhouse |
| 15260 Yonge Street[3] | Aurora, ON | 2006 | 14,177 | 50% | 87% | Dollarama |
| Manotick[2] | Manotick (Ottawa), ON | 2012 | 28,968 | 50% | 100% | Shoppers Drug Mart |
| Scott Street Plaza[3] | St. Catharines, ON | 2007 | 25,709 | 50% | 100% | Shoppers Drug Mart |
| Bay Roberts Plaza | Bay Roberts, NL | 2006 | 20,468 | 100% | 100% | Shoppers Drug Mart |
| Conception Bay South Plaza[2] | Conception Bay South, NL | 2006 | 22,980 | 100% | 100% | Shoppers Drug Mart |
| Kenmount Road Plaza[2] | St. John's, NL | 2006 | 20,576 | 100% | 100% | XS Cargo, Montana's |
| Le Marchant Road Plaza | St. John's, NL | 2007 | 18,309 | 100% | 100% | Shoppers Drug Mart |
| Stavanger Drive Plaza | St. John's, NL | 2011 | 50,563 | 90% | 100% | Best Buy, Petsmart, Montana's |
| **Sub-total** | | | **2,674,004** | | **95.9%** | |
| **Enclosed Malls** | | | | | | |
| Les Galaries Montmagny | Montmagny, QC | 1997/1990 | 138,725 | 50% | 97% | Maxi, Hart, Uniprix |
| Les Promenades du Cuivre | Rouyn-Noranda, QC | 1987/2003 | 149,682 | 100% | 100% | Hart, Familiprix, Royal Bank, Staples |
| Grand Falls Shopping Centre | Grand Falls, NB | 1972/2005 | 133,998 | 100% | 89% | Staples, Shoppers Drug Mart |
| Oromocto Mall | Oromocto, NB | 1976/2008 | 86,025 | 100% | 70% | Shoppers Drug Mart, Dollarama |
| Gateway Mall | Sussex, NB | 1978/2008 | 162,109 | 25% | 97% | Sobeys, Canadian Tire |
| **Sub-total** | | | **670,539** | | **92.5%** | |
| **Single Use** | | | | | | |
| Plaza BDP[2], [3] | Deux Montagnes, QC | 2007 | 16,940 | 37.5% | 100% | Shoppers Drug Mart |
| Bureau en Gros | Granby, QC | 2000 | 25,695 | 50% | 100% | Staples |
| Plaza TS Magog | Magog, QC | 2006 | 17,452 | 50% | 100% | Shoppers Drug Mart |
| Bureau en Gros | Rimouski, QC | 2001 | 25,771 | 50% | 100% | Staples |
| CPRDL | Rivière-du-Loup, QC | 2007 | 41,568 | 50% | 100% | Caisse Populaire |
| Plaza Jean XXIII[2], [3] | Trois-Rivieres, QC | 2007 | 16,721 | 50% | 100% | Shoppers Drug Mart |
| Miramichi West Plaza | Miramichi, NB | 2009 | 18,210 | 100% | 100% | Shoppers Drug Mart |
| 681 Mountain Road | Moncton, NB | 2004 | 19,504 | 25% | 100% | Shoppers Drug Mart |
| Staples[2] | Saint John, NB | 1997 | 25,293 | 100% | 100% | Staples |
| Main and Sackville | Shediac, NB | 2009 | 23,652 | 100% | 100% | Shoppers Drug Mart |
| Main and Victoria | Shediac, NB | 2007 | 10,287 | 100% | 100% | Dollarama |
| 201 Main Street | Sussex, NB | 2007 | 16,915 | 25% | 100% | Shoppers Drug Mart |
| Central Avenue Plaza | Greenwood, NS | 2006 | 16,989 | 100% | 100% | Shoppers Drug Mart |
| 912 East River Road | New Glasgow, NS | 2005 | 16,912 | 100% | 100% | Shoppers Drug Mart |
| Kings Road Plaza[2] | Sydney River, NS | 2006 | 16,847 | 100% | 100% | Shoppers Drug Mart |
| Amherstview | Amherstview, ON | 2010 | 18,029 | 50% | 100% | Shoppers Drug Mart |
| 615 King Street[2] | Gananoque, ON | 2008 | 16,619 | 50% | 100% | Shoppers Drug Mart |
| King & Mill | Newcastle, ON | 2011 | 15,134 | 50% | 100% | Shoppers Drug Mart |
| St. Josephs Boulevard | Orleans (Ottawa), ON | 2008 | 16,799 | 50% | 100% | Shoppers Drug Mart |
| Dufferin & Wilson (Perth) | Perth, ON | 2008 | 16,782 | 50% | 100% | Shoppers Drug Mart |
| Civic Center Road | Petawawa, ON | 2008 | 17,036 | 50% | 100% | Shoppers Drug Mart |
| Port Hope Plaza | Port Hope, ON | 2008 | 22,650 | 50% | 100% | Shoppers Drug Mart |
| Scugog Street Port Perry | Port Perry, ON | 2010 | 16,776 | 50% | 100% | Shoppers Drug Mart |
| Powell Drive | Carbonear, NL | 2012 | 10,000 | 100% | 100% | Dollarama |
| Airport Blvd. Plaza[2] | Gander, NL | 2008 | 18,077 | 100% | 100% | Shoppers Drug Mart |
| Ville Marie Drive Plaza | Marystown, NL | 2010 | 14,580 | 100% | 100% | Dollarama |
| Torbay & MacDonald[2] | St. John's, NL | 2011 | 18,550 | 100% | 100% | Shoppers Drug Mart |
| **Sub-total** | | | **509,788** | | **100%** | |
| **Income producing properties** | | | **3,854,331** | | **95.9%** | |

| Property | Location | Year Built/ Redeveloped | Gross Leasable Area (sq. ft.) | Ownership Interest (%) | Occupied or Committed as at 31-Dec-12 | Major Tenants[1] |
|---|---|---|---|---|---|---|
| **Projects Under Development** | | | | | | |
| Boisbriand | Boisbriand, QC | - | 7,300 | 33% | 41% | In Planning |
| 90 Blvd. Tache Ouest | Montmagny, QC | - | - | 50% | - | In Planning |
| Jean Talon[3,5] | Montreal, QC | - | - | 50% | - | In Planning |
| Magog | Magog, QC | - | 53,000 | 50% | 100% | IGA (Sobeys) |
| Bourque & Haut-Bois | Sherbrooke, QC | - | 88,000 | 50% | 78% | Dollarama, Metro |
| Wyse Road | Dartmouth (Halifax), NS | | 60,979 | 50% | 100% | Sobeys |
| Commercial Street Plaza – 2 | New Minas, NS | - | - | 100% | - | In Planning |
| Champlain Plaza – 2 | Dieppe (Moncton), NB | - | - | 100% | - | In Planning |
| Fairville Boulevard – 3 | Saint John, NB | - | - | 100% | - | In Planning |
| Spencer Drive Plaza – 2 | Charlottetown, PE | - | - | 100% | - | In Planning |
| **Sub-total** | | | **209,279** | | **88.7%** | |
| **Total Excluding Non-Trust and Partnerships** | | | **4,063,610** | | **95.5%** | |
| **Non-Consolidated Trusts and Partnerships** | | | | | | |
| 3550 Sources[3] | DDO (Montreal), QC | 2006 | 8,391 | 10% | 100% | National Bank |
| Centennial Plaza[3] | DDO (Montreal), QC | 1979/2008 | 152,422 | 10% | 93% | Value Village, Jean Coutu |
| Place Du Marche[3] | DDO (Montreal), QC | 1979/2008 | 35,205 | 10% | 100% | Laurentian Bank, Starbucks |
| BPK Levis[3] | Levis, QC | 1985 | 89,535 | 10% | 91% | Jeans Depot, Maxidollar, Ressourcerie De Levis |
| Plaza des Recollets | Trois-Rivieres, QC | 2006 | 73,730 | 15% | 94% | Winners/Home Sense |
| Northwest Centre | Moncton, NB | 1998/2003 | 191,131 | 10% | 91% | Zellers, Princess Auto |
| Shediac West | Shediac, NB | 2009 | 65,842 | 10% | 100% | Canadian Tire, Sobeys |
| Main Street Alexandria | Alexandria, ON | 2009 | 17,242 | 25% | 100% | Shoppers Drug Mart |
| Ottawa Street | Almonte, ON | 2010 | 18,365 | 25% | 100% | Shoppers Drug Mart |
| Hastings Street Bancroft | Bancroft, ON | 2009 | 17,538 | 25% | 100% | Shoppers Drug Mart |
| Village Shopping Centre | St. John’s, NL | 1978/2006 | 426,541 | 30% | 90% | Hart, Labels, Dollarama, SportChek, Bed Bath & Beyond |
| St. Jerome[3] | St. Jerome, QC | - | - | 20% | - | In Planning |
| **Sub-total** | | | **1,095,942** | | **92.4%** | |
| **Grand Total** | | | **5,159,552** | | **94.9%** | |

(1) Based on square footage.
(2) Currently subject to land leases. The land leases for Plaza BDP, Boulevard Plaza, Conception Bay South Plaza, Kenmount Road Plaza, Kings Road Plaza, Joseph Howe Drive Plaza, Plaza Jean XXIII, Airport Blvd. Plaza and 615 King Street all have options to purchase at fair market value. The V-8 Plaza and Main Place land leases have fixed options to purchase. All other land leases do not have an option to purchase. Land leases for Plaza BDP, Conception Bay South Plaza, Kenmount Road Plaza, Kings Road Plaza, Joseph Howe Drive Plaza, Plaza Jean XXIII, Airport Blvd. Plaza, 615 King Street and the V-8 Plaza are all with related parties.
(3) Co-managed by Plazacorp.
(4) All but 18 of these properties were either developed or redeveloped by the Company. The 18 that were not developed or redeveloped by the Company consist of Place Du Marche, Northwest Centre, BPK Levis, Plaza Hotel de Ville, Plaza Theriault, Nashwaaksis Plaza, Wedgewood Plaza, Exhibition Plaza, McAllister Drive Plaza, SCA Plaza, 209 Chain Lake Drive, Belvedere Plaza, Spring Park Plaza, University Plaza, Les Galaries Montmagny, Gateway Mall, Bureau en Gros Rimouski and Staples Saint John.
(5) There is a conditional sale for a portion of the land with an option in favour of the buyer to purchase the remainder.

## APPENDIX B

FOURTH QUARTER 2012 INCOME RESULTS

*Consolidated Statements of Comprehensive Income*

| (000s) (unaudited) | 3 Months Ended December 31, 2012 | 3 Months Ended December 31, 2011 |
|---|---|---|
| Rental revenue | **$ 15,248** | $ 14,489 |
| Operating expenses | **(6,254)** | (5,780) |
| **Net property operating income** | **8,994** | 8,709 |
| | | |
| Share of profit of associates | **3,368** | 2,349 |
| Administrative expenses | **(1,447)** | (1,302) |
| Investment income | **57** | 59 |
| Other income | **349** | 340 |
| Other expenses | **2** | (102) |
| **Income before finance costs, fair value adjustments, gain (loss) on disposals and income taxes** | **11,323** | 10,053 |
| | | |
| Finance costs | **(3,947)** | (4,328) |
| Finance costs – net loss from fair value adjustments to convertible debentures | **(547)** | (3,088) |
| Finance costs – net revaluation of interest rate swaps | **27** | (165) |
| Net gain (loss) from fair value adjustments to investment properties | **(3,633)** | 8,385 |
| Loss on disposal of surplus land | **(51)** | (3) |
| **Profit before income tax** | **3,172** | 10,854 |
| | | |
| Income tax expense | | |
| - Current | **(1,152)** | (136) |
| - Deferred | **72** | (2,829) |
| | **(1,080)** | (2,965) |
| | | |
| **Profit and total comprehensive income for the period** | **$ 2,092** | $ 7,889 |
| | | |
| **Profit and total comprehensive income for the period** | | |
| - Shareholders | **$ 1,058** | $ 7,911 |
| - Non-controlling interests | **1,034** | (22) |
| | **$ 2,092** | $ 7,889 |

To the Shareholders of Plazacorp Retail Properties Ltd.

The accompanying consolidated financial statements and information contained in the Annual Report have been prepared by, and are the responsibility of, the management of the Company. The financial statements have been prepared within accepted limits of materiality and in accordance with the International Financial Reporting Standards appropriate in the circumstances.

Management maintains appropriate systems of internal control. Policies and procedures are designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for preparation of financial statements.

The Board of Directors oversees management's responsibilities for the preparation of the consolidated financial statements and accompanying management's discussion and analysis (MD&A) primarily through the activities of its Audit Committee, which is comprised solely of directors who are unrelated to, and independent of, the Company. The Audit Committee meets regularly with management and the independent auditors to review the consolidated financial statements and MD&A and recommend approval by the Board of Directors. These consolidated financial statements and MD&A have been approved by the Board of Directors for inclusion in this Annual Report.

KPMG LLP, the independent auditors appointed by the shareholders based on the recommendation of the Audit Committee, have been engaged to audit the consolidated financial statements and provide an independent professional opinion thereon. The auditors have full and independent access to the Audit Committee to discuss audit and related matters.

Michael Zakuta
President and CEO
February 28, 2013

Floriana Cipollone
Chief Financial Officer
February 28, 2013

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Plazacorp Retail Properties Ltd.

We have audited the accompanying consolidated financial statements of Plazacorp Retail Properties Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising 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 our 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, we 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 consolidated financial position of Plazacorp Retail Properties Ltd. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
February 28, 2013
Fredericton, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

## Plazacorp Retail Properties Ltd.
### Consolidated Statements of Financial Position
**(audited)**
**(in thousands of Canadian dollars)**

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| **Non-Current Assets** | | |
| Investment properties (Note 4) | **$ 557,374** | $ 493,445 |
| Investments (Note 5) | **40,470** | 29,656 |
| Tenant loans | **939** | 1,388 |
| Deferred income tax asset (Note 14) | **951** | 609 |
| | **599,734** | 525,098 |
| **Current Assets** | | |
| Cash | **3,152** | 3,767 |
| Receivables (Note 6) | **1,142** | 1,016 |
| Prepaid expenses and deposits (Note 7) | **2,971** | 3,344 |
| Current portion of investments (Note 5) | **-** | 15,548 |
| Notes receivable (Note 8) | **263** | 1,572 |
| | **7,528** | 25,247 |
| | **$ 607,262** | $ 550,345 |
| **Liabilities and Shareholders' Equity** | | |
| **Non-Current Liabilities** | | |
| Debentures payable (Note 9) | **$ 21,865** | $ 39,532 |
| Mortgage bonds payable (Note 10) | **2,065** | 2,045 |
| Mortgages payable (Note 11) | **214,648** | 228,026 |
| Deferred income tax liability (Note 14) | **61,385** | 47,867 |
| | **299,963** | 317,470 |
| **Current Liabilities** | | |
| Bank indebtedness (Note 12) | **3,647** | - |
| Current portion of mortgage bonds payable (Note 10) | **-** | 6,000 |
| Current portion of mortgages payable (Note 11) | **44,374** | 19,261 |
| Accounts payable and accrued liabilities | **5,888** | 7,635 |
| Income taxes payable (Note 14) | **1,022** | 141 |
| Notes payable (Note 13) | **1,157** | 1,051 |
| | **56,088** | 34,088 |
| | **356,051** | 351,558 |
| Shareholders' equity | **237,570** | 187,509 |
| Non-controlling interests | **13,641** | 11,278 |
| | **251,211** | 198,787 |
| | **$ 607,262** | $ 550,345 |

Contingencies, commitments, guarantees, indemnities, litigation and provisions – see Note 24.
Subsequent events – see Note 27.

Michael Zakuta, Director

Earl Brewer, Director

The notes on pages 39 to 64 are an integral part of these consolidated financial statements.

## Plazacorp Retail Properties Ltd.
### Consolidated Statements of Comprehensive Income
**(audited)**

| (in thousands of Canadian dollars) | 2012 | 2011 |
|---|---|---|
| Revenues | **$ 59,412** | $ 55,588 |
| Operating expenses (Note 15) | **(24,114)** | (22,101) |
| **Net property operating income** | **35,298** | 33,487 |
| | | |
| Share of profit of associates | **9,623** | 5,701 |
| Administrative expenses (Note 15) | **(5,934)** | (3,642) |
| Investment income | **240** | 309 |
| Other income | **1,744** | 579 |
| Other expenses | **(9)** | (159) |
| **Income before finance costs, fair value adjustments, gain (loss) on disposals and income taxes** | **40,962** | 36,275 |
| | | |
| Finance costs | **(16,075)** | (17,574) |
| Finance costs - net loss from fair value adjustments to convertible debentures | **(673)** | (2,744) |
| Finance costs - net revaluation of interest rate swaps | **48** | (363) |
| Net gain from fair value adjustments to investment properties | **37,091** | 23,864 |
| Loss on disposal of surplus land | **(43)** | (3) |
| **Profit before income tax** | **61,310** | 39,455 |
| | | |
| Income tax expense (Note 14) | | |
| - Current | **(1,061)** | (169) |
| - Deferred | **(13,176)** | (10,349) |
| | **(14,237)** | (10,518) |
| | | |
| **Profit and total comprehensive income for the year** | **$ 47,073** | $ 28,937 |
| | | |
| **Profit and total comprehensive income for the year attributable to:** | | |
| - Shareholders | **$ 43,598** | $ 28,114 |
| - Non-controlling interests | **3,475** | 823 |
| | **$ 47,073** | $ 28,937 |

The notes on pages 39 to 64 are an integral part of these consolidated financial statements.

# Plazacorp Retail Properties Ltd.

## Consolidated Statements of Changes in Equity

## (audited)

**(in thousands of Canadian dollars)**

| | Share Capital (Note 16) | Retained Earnings | Total Attributable to Shareholders | Non-Controlling Interests | Total Equity |
|---|---|---|---|---|---|
| **Balance as at December 31, 2010** | $ 47,395 | $ 82,829 | $ 130,224 | $ 10,730 | $ 140,954 |
| Profit and total comprehensive income for the year | - | 28,114 | 28,114 | 823 | 28,937 |
| Transactions with shareholders, recorded directly in equity: | | | | | |
| - Contributions by shareholders | 9,294 | - | 9,294 | - | 9,294 |
| - Contributions by shareholders – equity raise | 30,861 | - | 30,861 | - | 30,861 |
| - Dividends to shareholders (Note 19) | - | (10,984) | (10,984) | - | (10,984) |
| - Distributions to non-controlling interests and changes in ownership interests in subsidiaries that do not result in loss of control | - | - | - | (275) | (275) |
| **Balance as at December 31, 2011** | $ 87,550 | $ 99,959 | $ 187,509 | $ 11,278 | $ 198,787 |
| Profit and total comprehensive income for the period | - | 43,598 | 43,598 | 3,475 | 47,073 |
| Transactions with shareholders, recorded directly in equity: | | | | | |
| - Contributions by shareholders | 19,609 | - | 19,609 | - | 19,609 |
| - Dividends to shareholders (Note 19) | - | (13,146) | (13,146) | - | (13,146) |
| - Distributions to non-controlling interests and changes in ownership interests in subsidiaries that do not result in loss of control | - | - | - | (1,112) | (1,112) |
| **Balance as at December 31, 2012** | $ 107,159 | $ 130,411 | $ 237,570 | $ 13,641 | $ 251,211 |

The notes on pages 39 to 64 are an integral part of these consolidated financial statements.

## Plazacorp Retail Properties Ltd.
### Consolidated Statements of Cash Flows
### (audited)

| (in thousands of Canadian dollars) | 2012 | 2011 |
|---|---|---|
| **Cash obtained from (used for):** | | |
| **Operating activities** | | |
| Profit and total comprehensive income for the year | **$ 47,073** | $ 28,937 |
| Interest expense | **15,311** | 16,837 |
| Items not affecting cash: | | |
| Share of profit of associates | **(9,623)** | (5,701) |
| Amortization of finance charges included in interest expense | **765** | 737 |
| Net change in fair value of investment properties | **(37,091)** | (23,864) |
| Net change in fair value of convertible debentures | **673** | 2,744 |
| Loss on disposal of land | **43** | 3 |
| Net change in fair value of interest rate swaps | **(48)** | 363 |
| Current and deferred income taxes | **14,237** | 10,518 |
| Straight-line rent revenue | **(1,117)** | (1,111) |
| Interest paid | **(15,681)** | (16,574) |
| Defeasance expense paid | **-** | (240) |
| Income taxes paid | **(180)** | (128) |
| Leasing commissions | **(429)** | (1,861) |
| Change in non-cash working capital (Note 20) | **23** | 623 |
| | **13,956** | 11,283 |
| **Financing activities** | | |
| Issuance of notes payable | **106** | 496 |
| Issue of common shares (Note 16) | **582** | 30,256 |
| Dividends paid to shareholders (Note 19) | **(13,146)** | (10,984) |
| Dividend reinvestment proceeds (Note 16) | **687** | 1,298 |
| Net repayment of bonds and debentures | **(6,000)** | (3,601) |
| Gross mortgage proceeds | **53,229** | 47,262 |
| Financing charges incurred from mortgage placement | **(247)** | (642) |
| Mortgages repaid | **(37,895)** | (23,153) |
| Periodic mortgage principal repayments | **(4,049)** | (3,773) |
| | **(6,733)** | 37,159 |
| **Investing activities** | | |
| Acquisition of Plaza Group Management Limited (Note 21) | **-** | (113) |
| Acquisitions, developments and redevelopments | **(27,394)** | (39,870) |
| Proceeds from disposal of surplus land (Note 4) | **427** | 247 |
| Payments of bonds purchased for mortgage defeasances (Note 5) | **15,548** | 685 |
| Bonds purchased for mortgage defeasances and other investments (Note 5) | **(258)** | (13,668) |
| Equity accounted investments – (contributions to) and distributions from | **(933)** | 2,156 |
| Contributions paid by subsidiaries to non-controlling interests | **(1,112)** | (275) |
| Decrease (increase) in deposits for acquisitions and financings | **479** | (558) |
| Decrease in notes receivable | **1,309** | 1,078 |
| Repayment of tenant loans | **604** | 570 |
| Funding of tenant loans | **(155)** | (334) |
| | **(11,485)** | (50,082) |
| **Net decrease in cash** | **(4,262)** | (1,640) |
| Cash less bank indebtedness, beginning of the year | **3,767** | 5,407 |
| **Cash less bank indebtedness, end of the year** | **$ (495)** | $ 3,767 |

The notes on pages 39 to 64 are an integral part of these consolidated financial statements.

## 1. Reporting Entity

Plazacorp Retail Properties Ltd. (the "Company") is incorporated and domiciled in Canada. The address of the Company's registered office is 527 Queen Street, Fredericton, New Brunswick.

The Company operates a retail real estate ownership and development business in Ontario, Quebec, and the Atlantic Provinces. The Company was incorporated under the New Brunswick Business Corporations Act on February 2, 1999. On December 11, 2002 the Company amended its articles of incorporation to become a Mutual Fund Corporation as defined in the Income Tax Act of Canada.

## 2. Basis of Preparation

*(a) Statement of Compliance*

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

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on February 28, 2013.

*(b) Basis of Measurement*

The consolidated financial statements have been prepared on a historical cost basis, except for the following items in the consolidated statements of financial position:

- Interest rate swaps measured at fair value;
- Share-based payments measured at fair value;
- Convertible debentures measured at fair value;
- Investment property measured at fair value; and
- Investment property included in investments measured at fair value.

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

*(c) Use of Estimates and Judgements*

The preparation of the Company's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. The significant estimates and judgements include the assessment of fair values, the discount rates used in the valuation of the Company's assets and liabilities, capitalization rates, the relative credit worthiness of the Company to its counterparties, the ability to use tax losses and other tax measurements, the determination of the degree of control that exists in determining the corresponding accounting basis, the amount of borrowing costs to capitalize to properties under development and the selection of accounting policies.

One significant judgement and key estimate that affects the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period, relates to property valuations. Investment properties, which are carried on the consolidated statements of financial position at fair value, are valued either by the Company or by external valuators. The valuation of investment properties is one of the principal estimates and uncertainties of these financial statements. The valuations are based on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. These investment properties are sensitive to fluctuations in capitalization and discount rates.

## 3. Summary of Significant Accounting Policies

The Company's accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

*(a) General and Consolidation*

The consolidated financial statements comprise the financial statements of the Company and the entities that it controls. Entities subject to joint control arrangements are accounted for using proportionate consolidation. Entities subject to significant influence are accounted for using the equity method. Entities over which the Company does not exercise significant influence are accounted for using the cost method. The financial statements of the consolidated and equity accounted entities are prepared for the same reporting period as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses resulting from intra-group transactions are eliminated in full.

*(b) Investment Properties*

Investment properties consist of all of the Company's consolidated commercial properties, development properties, land held for future development and land parcels that become surplus after assembly and subdivision of parcels used for development. Investment properties include interests held under land leases. The Company has adopted application of IAS 40, "Investment Property", and has chosen the fair value method of valuing its investment properties. Fair value represents the amount at which the properties could be exchanged between knowledgeable, willing parties in an arm's length transaction at the date of valuation.

The fair value of investment properties is based on a combination of external appraisals and internal valuations based on a capitalization matrix provided by independent appraisers. Management undertakes a quarterly review of the fair value of its investment properties to assess the continuing validity of the underlying assumptions, such as cash flows and capitalization rates. Where increases or decreases are warranted, the Company adjusts the fair values of its investment properties. Related fair value gains and losses are recorded in profit in the period in which they arise.

Development properties included in investment properties consist of properties under construction. To the extent fair value is reliably determinable, the carrying value of such development properties is adjusted to fair value. To the extent that fair value is not reliably determinable, the development properties are carried at cost until fair value becomes reliably determinable.

Surplus lands are included in investment properties and are carried at fair value. The fair value of the surplus lands is based on a combination of external appraisals and internal valuations based on recent market transactions.

Investment properties are classified as held for sale if their carrying amount will be recovered primarily through a sale transaction rather than through continuing use. The asset is classified as such, only when management has committed to a plan to sell, when the sale is probable and is expected to qualify for recognition as a completed sale within one year.

*(c) Capitalization of Costs*

The Company capitalizes investment property acquisition costs incurred at the time of purchase.

For development properties, the Company capitalizes all direct expenditures incurred in connection with their acquisition, development and construction. These expenditures consist of all direct costs and borrowing costs on both specific and general debt. Borrowing costs are offset by any interest earned by the Company on borrowed funds prior to utilization. The development period commences when expenditures are being incurred and activities necessary to prepare the asset for its intended use are in progress. Capitalization ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

*(d) Revenue*

(i) Rental revenue

Rental revenue includes rent earned from tenants under lease arrangements; including, base rent, percentage rents, straight-line rents, property tax and operating cost recoveries and incidental income including lease cancellation payments. The Company retains substantially all of the benefits and risks of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases.

Common area maintenance (CAM) recoveries are the share of property operating costs charged to tenants under the terms of the leases. Recoveries from tenants for common area maintenance, real estate taxes and other recoverable costs are recognized as revenue in the period that services are provided.

(ii) Straight-line rent

Certain leases provide for (i) tenant occupancy during the period for which no rent is due (free rent period) or (ii) minimum rent increases during the term of the lease. Rental revenue is recorded for the fixed term of each lease on a straight-line basis. The straight-line or free rent receivable, as applicable, is recorded as a component of investment properties for the difference between the rental revenue recorded and the contractual amount received. When a property is acquired, the term of existing leases is considered to commence as of the acquisition date for the purposes of the straight-line rent calculations. For lease renewals, the effective date of the lease is used for the purposes of the straight-line rent calculations.

*(e) Income Taxes*

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except when they relate to items that are recognized outside profit or loss, such as in the case of a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: (i) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and (ii) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse at either the capital gains rate or income rate, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities but there is an intention to settle liabilities and assets on a net basis.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

*(f) Cash*

Cash represent cash in bank accounts and short-term deposits with initial maturity dates of less than 90 days. The Company's cash balance does not include any instruments related to asset-backed securities or commercial paper programs.

*(g) Share-based Payments*

The Company issues share-based awards, comprised of restricted share units, to certain officers, employees and directors of the Company or its affiliates. Under the restricted share unit plan, the fair value of the units granted is recognized as compensation expense over the vesting period. Fair value is determined with reference to the market price of the Company's common shares.

Since the Company's common shares are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, "Financial Instruments: Presentation", any restricted share units are accounted for as a liability because the participants' rights to receive a puttable instrument is a cash-settled share-based payment under IFRS 2, "Share-based Payments". The restricted share units liability is adjusted to reflect the change in fair value of the units at each reporting period with the changes in fair value recognized as compensation expense.

*(h) Investments*

Investments in entities where control or significant influence over the financial and operating policies of the entity does not exist are recorded at cost. Amounts received or receivable in accordance with the income distribution formula of the entity, if not capital or financing receipts, are included in income. Investments in entities where significant influence over the financial and operating policies of the entity exist are accounted for using the equity method. Amounts received from these entities are accounted for as a reduction of the investments and the proportionate share of the net income or loss from the investments are recorded in profit or loss for the period and as an increase or decrease to the investment.

Investment properties that are held by equity-accounted entities are measured at fair value, consistent with the Company's policy for its consolidated investment properties. The Company's pro-rata share of any fair value gain or loss is calculated based on "winding-up" the specific entity and distributing the net assets to the partners as dictated by the respective agreements. The Company's pro-rata share of any fair value gain or loss is recorded in profit or loss for the period within share of profit of associates.

*(i) Financial Instruments*

The Company has or has had the following non-derivative financial assets and financial liabilities: at fair value through profit and loss, held-to-maturity financial assets, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The effective interest method is used for financial instruments measured at amortized cost and allocates interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, to the net carrying amount on initial recognition.

Any transaction costs associated with financial instruments measured at fair value through profit and loss are expensed as incurred in the consolidated statement of comprehensive income.

(i) Financial assets at fair value through profit and loss

A financial asset is classified at fair value through profit and loss if it is classified as held for trading or is designated as such upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking. Financial assets are designated at fair value through profit and loss if the Company manages and evaluates such assets on a fair value basis in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, certain transaction costs are recognized in profit and loss as incurred. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognized in profit and loss.

The Company's held for trading assets consist of cash.

(ii) Financial liabilities at fair value through profit and loss

Convertible debentures issued by the Company are convertible into common shares at the option of the holder and the number of common shares to be issued does not vary with changes in their fair value. As the Company's common shares are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, "Financial Instruments: Presentation", the convertible debentures are considered a liability containing liability-classified embedded derivatives.

The Company has elected to record the full outstanding amount of each convertible debenture at fair value determined using a valuation methodology which considers the volatility of the share price and current credit spreads. Changes in fair value are recognized in profit and loss.

(iii) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold certain financial assets to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in a reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity assets are comprised of Government of Canada bonds and cash substituted for mortgage security under defeasance arrangements.

(iv) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise receivables, notes receivable and tenant loans.

(v) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognized in other comprehensive income and presented within equity in the fair value reserve. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company currently has no assets which are designated as available-for-sale.

(vi) Other financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Company's other financial liabilities consist of accounts payable and accrued liabilities, notes payable, mortgage bonds payable, bank indebtedness and mortgages payable.

(vii) Share capital

The Company's common shares are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with lAS 32, "Financial Instruments: Presentation", in which case, the puttable instruments may be

presented as equity. The Company's common shares meet the conditions of lAS 32 and are, therefore, classified and accounted for as equity.

*(j) Derivative Financial Instruments*

The Company's derivative financial instruments consist of interest rate swaps (that do not qualify for hedge accounting) that have been entered into in order to manage the impact of floating interest rates on certain long-term debt. The Company's derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit and loss in the reporting period.

*(k) Leasing Costs*

Payments to tenants under lease contracts are characterized as either tenant improvements, which enhance the value of the property, or lease inducements. When the obligation is determined to be a tenant improvement, the Company is considered to have acquired an asset. Accordingly, the tenant improvements are capitalized as part of investment property. When the obligation is determined to be a lease inducement, the amount is recognized as an asset which forms a component of investment property and is deferred and amortized over the term of the lease as a reduction of revenue.

*(l) Finance Costs*

Finance costs comprise interest expense on borrowings, fair value changes in financial assets and liabilities, the fair value adjustment on interest rate swap derivatives and transaction costs associated with the issuance of convertible debentures which are recorded at fair value. Transaction costs associated with financial liabilities presented at amortized cost are presented with the related debt instrument and amortized using the effective interest method over the anticipated life of the related debt.

*(m) Future Changes in Accounting Policies*

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements.

(i) Financial instruments

The IASB has issued a new standard, IFRS 9 (2010), "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments – Recognition and Measurement" and augments the previously issued IFRS 9 (2009). The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. This standard becomes effective on January 1, 2015. The Company is currently evaluating the impact of this new standard.

(ii) Consolidated financial statements

The IASB issued IFRS 10, "Consolidated Financial Statements" on May 12, 2011 to replace the current IAS 27, "Consolidated and Separate Financial Statements". The new standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. This new standard is effective for fiscal years beginning January 1, 2013. The Company has evaluated this standard and the implementation of this new standard will not have a significant impact on the Company's financial statements.

(iii) Joint arrangements

The IASB issued IFRS 11, "Joint Arrangements" on May 12, 2011 to replace the current IAS 31, "Interests in Joint Ventures". The new standard classifies joint arrangements as either joint ventures or joint operations. Interests in joint ventures will be accounted for using equity accounting, eliminating the proportionate consolidation option currently available under IAS 31. This new standard is effective for fiscal years beginning January 1, 2013. The Company has evaluated this standard and a number of the Company's joint arrangements will be considered joint ventures and accounted for using the equity method instead of proportionate consolidation. The Company estimates that approximately $17 million of gross assets and approximately $15 million of gross liabilities will be reclassified and netted to investments on the statement of financial

position (net increase to investments of approximately $2 million). There should be no material impact to profit and total comprehensive income, however, certain revenues and expenses will be reclassified and recorded as share of profit of associates.

(iv) Disclosure of interest in other entities

On May 12, 2011 the IASB issued IFRS 12, "Disclosure of Interest in Other Entities". This standard establishes disclosure requirements for interests in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet entities. This new standard is effective for fiscal years beginning January 1, 2013. The Company has evaluated this standard and has determined that it will need to disclose information regarding the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows.

(v) Fair value measurement

The IASB issued IFRS 13, "Fair Value Measurement" on May 12, 2011. This is a comprehensive standard for fair value measurement and disclosure of fair value measurements across various IFRS standards. IFRS 13 provides a definition of fair value, sets out a single IFRS framework for measuring fair value, and outlines requirements for disclosure of fair value measurements. The new standard is effective for fiscal years beginning January 1, 2013. The Company has evaluated this standard and it is not anticipated to have a significant impact on the Company.

(vi) Other standards

The IASB amended IAS 1, "Presentation of Financial Statements" with changes effective July 1, 2012 and IAS 19, "Employee Benefits" with changes effective January 1, 2013. These standards have been reviewed and they are not anticipated to have a significant impact on the Company.

## 4. Investment Properties

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Balance, beginning of year: | **$ 493,445** | $ 426,516 |
| Additions (deductions): | | |
| Additions to investment properties | **15,205** | 28,206 |
| Additions - acquisitions | **10,733** | 13,998 |
| Disposals | **(470)** | (250) |
| Straight line rent receivable change | **1,370** | 1,111 |
| Fair value adjustment | **37,091** | 23,864 |
| Balance, end of year: | **$ 557,374** | $ 493,445 |

The majority of the Company's investment properties have been pledged as security under various mortgage and mortgage bond agreements.

Acquisitions consist of land and existing properties purchased for future development and land consolidation.

Investment properties are stated at fair value using the following methods, estimates and key assumptions:

(i) External appraisals

External appraisals from independent appraisers are obtained in the normal course of business as refinancing activities require them. Where available, the fair value of various investment properties are based on these external appraisals. Of the total fair value in the chart above, $60.8 million of investment properties were based on such external appraisals (December 31, 2011 - $3.5 million).

(ii) Internal approach - direct capitalization income approach

Under this method the Company determines the fair value based upon capitalization rates applied to normalized net operating income (property revenue less property operating expenses). The key assumption is the capitalization rate for each specific property. The Company receives quarterly capitalization rate matrices from an external independent appraiser. The capitalization rate matrices provide a range of rates for various geographic regions and for various types and qualities of properties within each region. The Company utilizes capitalization rates within the range of rates provided. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next or should another rate within the provided ranges be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

As at December 31, 2012 the Company has utilized the following range of capitalization rates:

| | Number of Properties[(1)] | Weighted average capitalization rates | Primary Market | Secondary Market |
|---|---|---|---|---|
| Freestanding | 39 | 6.27% | 5.75% – 6.75% | 6.00% - 7.25% |
| Anchored Strip – Class A | 11 | 6.70% | 5.75% - 6.75% | 6.25% - 8.00% |
| Anchored Strip – Class B | 17 | 6.57% | 6.00% - 7.25% | 6.50% - 8.50% |
| Unanchored Strip | 29 | 7.73% | 6.75% - 7.75% | 7.00% - 9.25% |
| Enclosed Malls – Community | 5 | 8.25% | 6.25% - 8.50% | 7.00% - 9.50% |
| | 101 | 6.80% | | |

(1) Excludes properties under development and non-consolidated trusts and partnerships.

Freestanding - defined as freestanding retail space leased to a national tenant. May include nominal additional gross leasable area (“GLA”) if the additional GLA is 15% or less than the total GLA or gross revenue.

Anchored Strip – Class A - defined as a food or equivalent-anchored retail strip, 20,000-125,000 square feet and where the anchor tenant represents 70% or more of GLA or gross revenue.

Anchored Strip – Class B - defined as a food or equivalent-anchored retail strip, 20,000-200,000 square feet and where the anchor tenant represents less than 70% of GLA or gross revenue.

Unanchored Strip - defined as an unanchored retail strip less than 75,000 square feet.

Enclosed Malls - Community - defined as an enclosed community mall with food or department/junior department store or equivalent anchors.

As at December 31, 2011 the Company has utilized the following range of capitalization rates:

| | Number of Properties[(1)] | Weighted average capitalization rates | Primary Market | Secondary Market |
|---|---|---|---|---|
| Freestanding | 37 | 6.82% | 6.50% – 7.50% | 6.75% - 7.75% |
| Anchored Strip – Class A | 11 | 7.33% | 6.25% - 7.75% | 7.00% - 8.50% |
| Anchored Strip – Class B | 16 | 7.30% | 6.50% - 8.00% | 7.25% - 9.00% |
| Unanchored Strip | 29 | 7.99% | 7.25% - 8.00% | 7.75% - 9.75% |
| Enclosed Malls – Community | 5 | 8.82% | 7.00% - 8.75% | 7.75% - 10.00% |
| | 98 | 7.41% | | |

(1) Excludes properties under development and non-consolidated trusts and partnerships.

At December 31, 2012 a decrease of 0.25% in the capitalization rates used to determine the fair value of investment properties would have resulted in an increase in investment properties of approximately $20.5 million. An increase of 0.25% in the capitalization rates used would have resulted in a decrease in investment properties of approximately $19.1 million.

*(a) Straight-line Rent*
Included in investment properties as at December 31, 2012 is $7.8 million (December 31, 2011 - $6.4 million) of straight line rents receivable arising from the recognition of rental revenue on a straight line basis over the lease terms in accordance with IAS 17, "Leases".

*(b) Surplus Land*

Included in investment properties as at December 31, 2012 is $1.2 million of surplus lands at fair value (December 31, 2011 - $1.3 million).

*(c) Properties Under Development*

Included in investment properties as at December 31, 2012 is $22.2 million of properties under development (December 31, 2011 - $23.5 million), of which $17.7 million are recorded at cost as fair value was not determinable (December 31, 2011 - $9.7 million).

*(d) Borrowing Costs*

The total amount of borrowing costs capitalized for the year ended December 31, 2012 is $892 thousand (for the year ended December 31, 2011 - $1.0 million).

*(e) Disposals*

During the year ended December 31, 2012, the Company disposed of land in Riviere-du-Loup, QC, Shawinigan, QC and Petawawa, ON for net proceeds of $427 thousand and an accounting loss of $43 thousand (representing transaction costs on sale).

During the year ended December 31, 2011, the Company disposed of surplus lands in Miramichi, N.B. for net proceeds of $247 thousand and an accounting loss of $3 thousand (representing transaction costs on sale).

## 5. Investments

Investments consist of the following:

| | **Ownership Position** | **Preferred Return** | **Residual Return** | **December 31, 2012** | December 31, 2011 |
|---|---|---|---|---|---|
| **Equity Accounted Investments** | | | | | |
| Centennial Plaza Limited Partnership | 10% | 10% | 20% | **$ 8,175** | $ 6,900 |
| MDO Limited Partnership | 20% | 10% | 30% | **4,611** | 4,352 |
| Village Shopping Centre Limited Partnership | 30% | 8% | 50% | **20,381** | 13,617 |
| Trois Rivieres Limited Partnership | 15% | 10% | 30% | **2,037** | 1,448 |
| Plazacorp-Shediac Limited Partnership | 10% | 8% | 50% | **1,635** | 1,463 |
| Plazacorp Ontario1 Limited Partnership | 25% | 4% | 25% | **2,113** | 1,616 |
| VGH Limited Partnership | 20% | 8% | 27% | **1,000** | - |
| | | | | **39,952** | 29,396 |
| **Cost Accounted Investments** | | | | | |
| Northwest Plaza Commercial Trust | 10% | - | - | **260** | 260 |
| | | | | **40,212** | 29,656 |
| **Held-to-Maturity Investments** | **Maturity Dates** | **Effective Interest Rate** | | | |
| Government of Canada bonds, mortgage bonds and cash – substituted for mortgage security | Aug 1/17 | 9% | | **258** | 15,548 |
| Less: current portion of investments | | | | - | (15,548) |
| Investments – long-term portion | | | | **$ 40,470** | $ 29,656 |

The share of the profits or other compensation, which the equity-accounted investments noted above are entitled to, is distributed first as a preferred return on invested capital, as outlined above, with the remaining distributed as a residual return.

Held-to-maturity investments as at December 31, 2012 were made up of mortgage bonds totaling $258 thousand with a yield of 9%. Held-to-maturity investments as at December 31, 2011 were made up of Government of Canada Bonds totaling $12.0 million with a yield of between non-interest bearing to 1.50%. Any remaining balance was made up of restricted cash that was utilized for monthly mortgage payments. The bonds were pledged as substitute security for mortgages under defeasance agreements. The mortgages matured on January 1, 2012, March 1, 2012 and April 1, 2012.

For the year ended December 31, 2012 the Company received $1.7 million of distributions (for the year ended December 31, 2011 - $2.2 million) from its investment in equity accounted investees. For the year ended December 31, 2012 the Company made $2.6 million in contributions (for the year ended December 31, 2011 - nil) to its investment in equity accounted investees.

For equity accounted investees in which the Company has less than a 20% ownership interest, the Company has significant influence over these entities as it has the power to participate in the financial and operating policy decisions of the investees but is not able to exercise control or joint control over those policies.

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Company is as follows:

| **December 31, 2012** | **Assets** | **Liabilities** | **Revenues** | **Expenses** | **Profit** |
|---|---|---|---|---|---|
| Equity Accounted Investments | $ 208,719 | $ 76,097 | $ 35,865 | $ 10,749 | $ 25,115 |
| Cost Accounted Investment | $ 27,905 | $ 13,815 | $ 6,595 | $ 2,017 | $ 4,579 |

| **December 31, 2011** | **Assets** | **Liabilities** | **Revenues** | **Expenses** | **Profit** |
|---|---|---|---|---|---|
| Equity Accounted Investments | $ 195,490 | $ 85,216 | $ 30,207 | $ 11,194 | $ 19,013 |
| Cost Accounted Investment | $ 21,352 | $ 11,436 | $ 3,787 | $ 2,015 | $ 1,772 |

In December 2012, Marche de L'Ouest (the property owned by MDO Limited Partnership), was sold for $27.0 million. Partial distribution to the partners of the net proceeds after settlement of liabilities was made in January 2013 with the remainder expected to follow in April 2013. The Company's share of the distribution is $4.6 million of which $2.0 million was received in January 2013 and the remaining $2.6 million is expected to be received in April 2013.

## 6. Receivables

Receivables consist of the following:

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Tenant accounts receivable, net of allowance | $ 756 | $ 487 |
| Excise tax | 168 | - |
| Other receivables | 218 | 529 |
| Total receivables | $ 1,142 | $ 1,016 |

The Company determines its allowance for doubtful accounts on a tenant-by-tenant basis taking into consideration lease terms, industry conditions, and status of the tenants' accounts, among other factors. Accounts are written off only when all collection efforts have been exhausted. Allowance for doubtful accounts balance as at December 31, 2012 is $76 thousand (December 31, 2011 - $16 thousand). This amount is deducted from tenant accounts receivable.

There were no impairment losses recognized during the year ended December 31, 2012 (for the year ended December 31, 2011 – nil).

## 7. Prepaid Expenses and Deposits

Prepaid expenses and deposits consist of the following:

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Prepaid expenses | **$ 1,577** | $ 1,469 |
| Deposits for acquisitions and financings | **270** | 750 |
| Other deposits, primarily property tax escrows under mortgage agreements | **1,124** | 1,125 |
| Total prepaid expenses and deposits | **$ 2,971** | $ 3,344 |

## 8. Notes Receivable

The notes receivable are owed by co-owners of investment properties as a result of funding requirements on a short-term basis during development of investment properties, and by minority interest shareholders of consolidated entities. The notes are due on demand.

## 9. Debentures Payable

Debentures payable consist of the following:

| | **Maturity Date** | **Interest Rate** | **December 31, 2012** | December 31, 2011 |
|---|---|---|---|---|
| Convertible[1] | | | | |
| Series V | October 14, 2014 | 8.0% | **$ -** | $ 15,930 |
| Series VI | March 31, 2015 | 7.5% | **21,865** | 23,602 |
| Total convertible debentures | | | **$ 21,865** | $ 39,532 |

[1] Recorded at fair value

Convertible subordinate debentures are unsecured. Convertible debenture terms are as follows:

| | Series VI |
|---|---|
| Conversion price | $3.80 |
| Company's first redemption date | March 31, 2013 |
| Maturity date | March 31, 2015 |
| Face value outstanding December 31, 2012 | $16,695 |

For the year ended December 31, 2012, holders of $11.5 million of Series V convertible debentures, and $1.7 million of Series VI convertible debentures (for the year ended December 31, 2011 - $5.0 million of Series IV convertible debentures, $1.0 million of Series V convertible debentures and $855 thousand of Series VI convertible debentures) exercised their option to convert to 3.4 million common shares and 459 thousand common shares, respectively (for the year ended December 31, 2011 – 1,250 thousand common shares, 299 thousand common shares and 225 thousand common shares, respectively).

## 10. Mortgage Bonds Payable

Mortgage bonds payable are secured by the following properties:

| | | | **December 31, 2012** | December 31, 2011 |
|---|---|---|---|---|
| | **Series V** | **Series VI** | **Total** | Total |
| Grand Falls Shopping Mall, Grand Falls, NB, 2nd Mortgage | $ - | $ - | **$ -** | $ 960 |
| Commercial Street-Phase 2, New Minas, NS, 1st Mortgage | - | - | **-** | 224 |
| Fairville Boulevard (ANBL), Saint John, NB, 1st Mortgage | - | 900 | **900** | 900 |
| Boulevard Hebert Plaza, Edmundston, NB, 1st Mortgage | 1,185 | - | **1,185** | 1,185 |
| Miramichi West, Miramichi, NB, 2nd Mortgage | - | - | **-** | 235 |
| Miramichi Phase II, Miramichi, NB, 2nd Mortgage | - | - | **-** | 177 |
| Main & Victoria, Shediac, NB, 2nd Mortgage | - | - | **-** | 167 |
| Main & Western, Sussex, NB, 2nd Mortgage | - | - | **-** | 218 |
| Starrs Road Plaza, Yarmouth, NS, 2nd Mortgage | - | - | **-** | 379 |
| Kenmount Road Plaza, St. John's, NL, 2nd Mortgage | - | - | **-** | 317 |
| Airport Blvd. Plaza, Gander, NL, 2nd Mortgage | - | - | **-** | 323 |
| Bourque & Haut-Bois, Sherbrooke, QC, 1st Mortgage | - | - | **-** | 3,000 |
| Gross mortgage bonds payable | $1,185 | $ 900 | **$ 2,085** | $ 8,085 |
| Less: unamortized finance charges | | | **(20)** | (40) |
| Less: current portion of mortgage bonds payable | | | **-** | (6,000) |
| Net mortgage bonds payable – long-term portion | | | **$ 2,065** | $ 2,045 |

| | **Series V** | **Series VI** |
|---|---|---|
| Interest Rate | 8.0% | 5.25% |
| Maturity Date | June 4, 2016 | February 24, 2016 |
| Amount | $1,185 | $900 |

The mortgage bonds have been secured by first or second charges against the respective properties. Mortgage bonds can be deployed up to 90% of the cost of a property under a first or second charge on that property. If it is a second charge, the total debt, including mortgage bonds, cannot exceed 90%.

Series IV mortgage bonds of $3 million matured on June 30, 2012 and $3 million in Series VII mortgage bonds matured on May 31, 2012. Both were repaid on maturity. The Company has no right to redeem the Series V or VI bonds prior to the maturity date.

## 11. Mortgages Payable

| | Rate Range | Weighted Average | Maturity Dates | December 31, 2012 | December 31, 2011 |
|---|---|---|---|---|---|
| Fixed rate loans | 4.21% - 7.97% | 5.78% | Up to June 2031 | **$ 248,097** | $ 250,077 |
| Less: unamortized finance charges | | | | **(2,638)** | (3,153) |
| Total net fixed rate loans | | | | **245,459** | 246,924 |
| Variable rate loans: | | | | | |
| - $20 million development facility | Prime plus 1.00% or BA plus 2.75% | | July 31, 2013 | **4,912** | - |
| - $15 million development facility | Prime plus 1.00% or BA plus 2.50% | | July 31, 2013 | **5,094** | - |
| - $4 million secured construction loan | Prime plus 1.25% | | June 30, 2013 | **3,259** | - |
| Less: unamortized finance charges | | | | **(87)** | (70) |
| Total net variable rate loans | | | | **13,178** | (70) |
| Net mortgages payable | | | | **258,637** | 246,854 |
| Impact of interest rate swaps | | | | **385** | 433 |
| Less: current portion of mortgages payable | | | | **(44,374)** | (19,261) |
| Total mortgages payable – long-term portion | | | | **$ 214,648** | $ 228,026 |

All mortgages are secured by charges against specific assets. The unamortized finance charges are made up of fees and costs incurred to obtain the mortgage financing less accumulated amortization.

Included in net mortgages payable are $4.0 million of mortgages obtained in 2010, which were converted from variable rate mortgages to fixed rate mortgages through the use of interest rate swaps entered into with a Canadian chartered bank. The terms of the mortgages and associated interest rate swaps were 10 years, expiring July 31, 2020. These interest rate swaps are valued quarterly and are recognized at fair value in mortgages payable with changes in the fair value reflected in profit and loss.

To fund development activities the Company has two 365-day revolving acquisition and development facilities with Canadian chartered banks available upon pledging of specific assets. One is a $20 million facility that bears interest at prime plus 1.00% or BAs plus 2.75%, and the other is a $15 million facility that bears interest at prime plus 1.00% or BAs plus 2.50%. At December 31, 2012 there is $25 million available on these development lines (December 31, 2011 - $35 million). Funding is secured by first mortgage charges on development properties. The Company must maintain certain financial ratios to comply with the facilities. These covenants include loan-to-value, debt service, interest coverage and occupancy ratios, as well as shareholder equity tests. As of December 31, 2012 the Company is in compliance with all covenants.

## 12. Bank Indebtedness

The Company has a $10.0 million operating line of credit facility with a Canadian chartered bank at the rate of prime plus 1.00% or BAs plus 2.50%, maturing November 30, 2013. The amount available to be drawn fluctuates depending on the specific assets pledged as security. At December 31, 2012, $3.6 million (December 31, 2011 – nil) was drawn on the facility and therefore the maximum amount available to be drawn on the facility was $6.2 million (December 31, 2011 – $9.6 million), net of letters of credit outstanding of $137 thousand (December 31, 2011 - $435 thousand). As security, the Company has provided a $12 million demand debenture secured by a first mortgage over seven properties.

## 13. Notes Payable

Notes payable consist of the following:

| | Interest Rate | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| **Non-interest bearing notes:** | | | |
| Entities owned (directly and indirectly), controlled or significantly influenced by Michael Zakuta, President, CEO and Director of the Company | n/a | **$ 261** | $ 261 |
| Unrelated parties and non-controlling interests | n/a | **896** | 790 |
| Total notes payable | | **$ 1,157** | $ 1,051 |

## 14. Income Taxes

As a mutual fund corporation, the Company is entitled to a refund of income taxes paid in respect of realized qualifying capital gains upon payment of sufficient capital gains dividends to residents of Canada to affect a refund.

The Company has $1.1 million in refundable capital gains tax in 2012 (for the year ended December 31, 2011 - $125 thousand) and triggered refunds of $108 thousand from the payment of capital gains dividends (for the year ended December 31, 2011 - nil). At December 31, 2012 the Company has a refundable capital gains balance of $1.2 million (December 31, 2011 - $210 thousand).

The reconciliation of the tax expense deducted in the determination of profit for the year, with the tax expense that would have resulted from the application of the statutory rates applicable to the Company is as follows:

| | 2012 | 2011 |
|---|---|---|
| Profit before income tax | **$ 61,310** | $ 39,455 |
| Combined Canadian federal and provincial income tax rate(1) | **39.45%** | 39.50% |
| Expected income tax provision | **$ 24,186** | $ 15,589 |
| Permanent difference of minority interest and non consolidated investments | **(1,873)** | (980) |
| Impact of tax rate changes | **-** | 1,099 |
| Impact of items taxed at capital gains rate | **(8,044)** | (4,830) |
| Impact of capital gains refund | **(108)** | - |
| Other | **76** | (360) |
| Total income tax expense included in profit for the year | **$ 14,237** | $ 10,518 |
| Effective tax rate | **23.2%** | 26.7% |

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Current tax | **$ 1,061** | $ 169 |
| Deferred tax | | |
| Origination and reversal of temporary differences | **13,176** | 9,250 |
| Change in tax rate(2) | **-** | 1,099 |
| | **13,176** | 10,349 |
| Total income tax expense included in profit for the year | **$ 14,237** | $ 10,518 |

(1) Change in rate is a result of a change in income allocation to various provinces
(2) Effect of substantively enacted corporate income tax rate

The income tax effects of temporary differences that gave rise to significant portions of deferred income tax assets and deferred income tax liabilities are presented below:

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Deferred income tax assets | | |
| Tax loss carry-forwards of Plazacorp Retail Properties Ltd. | $ 725 | $ 1,336 |
| Tax loss carry-forwards of subsidiary corporations | 1,175 | 843 |
| Tax loss carry-forwards from subsidiary trusts | 3,790 | 3,795 |
| Tax loss carry-forwards from limited partnerships | 43 | - |
| Deferred financing costs | - | 113 |
| Total deferred income tax assets | 5,733 | 6,087 |
| Deferred income tax liabilities | | |
| Income producing properties | 61,745 | 49,443 |
| Investments | 6,318 | 5,578 |
| Deferred financing costs | 49 | - |
| Total deferred income tax liabilities | 68,112 | 55,021 |
| Less: minority interests | (1,945) | (1,676) |
| Net deferred income tax liability | $ 60,434 | $ 47,258 |

| | | |
|---|---|---|
| Net deferred income tax liability is as follows: | | |
| Deferred income tax asset | $ (951) | $ (609) |
| Deferred income tax liability | 61,385 | 47,867 |
| Net deferred income tax liability | $ 60,434 | $ 47,258 |

The Company and its consolidated subsidiaries have income tax loss carry-forwards expiring as follows:

| Year | Plazacorp Retail Properties Ltd. | Consolidated Subsidiaries | Total |
|---|---|---|---|
| 2015 | $ - | $ 75 | $ 75 |
| 2026 | 1,838 | 5,252 | 7,090 |
| 2027 | - | 3,775 | 3,775 |
| 2028 | - | 1,523 | 1,523 |
| 2031 | - | 700 | 700 |
| 2032 | - | 1,457 | 1,457 |
| Total | $ 1,838 | $ 12,782 | $ 14,620 |

The income tax benefit of these losses has been recognized in the financial statements by reducing the deferred income tax liability arising from the difference between the tax and book values of income producing properties and other assets.

## 15. Short-Term Employee Benefits

Total short-term employee benefits paid by the Company during the year were $7.3 million, of which $2.9 million is included in operating expenses, $4.0 million is included in administrative expenses, and $0.4 million is included in income producing properties (for the year ended December 31, 2011 - $4.2 million, of which $2.0 million in operating expenses, $2.0 million in administrative expenses and $0.2 million in income producing properties).

## 16. Share Capital

### *(a) Authorized*

The Company has authorized an unlimited number of preferred shares and an unlimited number of common voting shares.

*(b) Issued and Outstanding*

| | **December 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| | **Shares (000s)** | **Amount** | Shares (000s) | Amount |
| Common shares outstanding, beginning of the year | **59,878** | **$ 87,550** | 50,189 | $ 47,395 |
| Issuance of common shares: | | | | |
| Shares issued through exercise of stock options | **120** | **582** | 20 | 60 |
| Shares issued through dividend reinvestment plan | **146** | **687** | 305 | 1,298 |
| Shares issued through equity raise[1] | **-** | **-** | 7,590 | 30,861 |
| Shares issued through debt conversion | | | | |
| - face value debentures | **3,836** | **13,227** | 1,774 | 6,873 |
| - impact of fair value of convertible debentures | **-** | **5,113** | - | 1,063 |
| Common shares outstanding, end of the year | **63,980** | **$ 107,159** | 59,878 | $ 87,550 |

[1] Net of deferred income tax asset of $665 thousand.

The Company is a mutual fund corporation as defined in the Income Tax Act (Canada) and as such, shareholders have the right to redeem their common shares at 90% of the lesser of the Market Price of the share (Market Price is defined as the weighted average trading price of the previous 180 trading days) and the most recent Closing Market Price at the time of the redemption. The redemption price may be satisfied by either cash or a note payable, at the discretion of the Company. The note payable would bear interest at a rate equal to the prescribed rate of interest under the Income Tax Act (Canada) in effect at the time of its issue, and will mature and be fully repaid two years after issuance. The notes may also be prepaid without penalty. For the year ended December 31, 2012 no shareholder had redeemed shares under the mutual fund corporation provisions (December 31, 2011 – nil).

The Company has a Dividend Reinvestment Plan to enable Canadian resident shareholders to acquire additional shares of the Company through the reinvestment of dividends on their shares. Shares issued in connection with the Dividend Reinvestment Plan are issued directly from the treasury of the Company at a price based on the weighted average closing price of the shares for the 20 trading days immediately preceding the relevant dividend date. Participants also receive “bonus shares” in an amount equal to 3% of the dividend amount reinvested. Pursuant to the Company’s Dividend Reinvestment Plan, during the year ended December 31, 2012, shareholders were issued 146 thousand shares at a weighted average price of $4.72 per share (for the year ended December 31, 2011 – 305 thousand shares at a weighted average price of $4.25 per share).

## 17. Restricted Share Unit Plan

The Company has a Restricted Share Unit Plan (“RSU Plan”) to enable the Company to reward directors, senior management and employees for their sustained contributions and to assist in attracting, retaining and motivating directors, senior management and employees of the Company. Restricted Share Units (“RSUs”) may be granted from time to time on a discretionary basis by the Administrator (the Corporate Governance and Compensation Committee of the Board of Directors). Each RSU notionally represents a share in the Company. Each RSU credited to a participant, shall receive a distribution of additional RSUs equal to the amount of dividends paid per share by the Company on its common shares (“Dividend RSUs”). The number of Dividend RSUs to be issued for each dividend payment will be equal to the aggregate amount of such dividend payable to a participant on his or her RSUs divided by the volume weighted average closing price of shares for the five trading days immediately preceding such applicable day. The Dividend RSUs vest immediately and are redeemed by the participant in either cash or shares. The RSUs will vest as follows: one-third of a given award on the first anniversary of the grant date, one-third on the second anniversary of the grant date and the balance on the third anniversary of the grant date. Upon vesting, a participant must redeem the RSUs for cash or shares or a combination of both. Currently, the maximum number of shares that may be issued under the RSU Plan upon the redemption of RSUs and Dividend RSUs is 5,879,261. On December 17, 2012, 145,200 RSUs were granted.

## 18. Stock Options

The Company has a stock option plan whereby officers, directors and certain employees of the Company or its affiliates may be granted stock options at an exercise price not less than 100% of the market value on the date of grant.

A summary of the common share options outstanding is as follows (in thousands):

| | Directors' Options | | Employees' Options | |
|---|---|---|---|---|
| | **December 31, 2012** | December 31, 2011 | **December 31, 2012** | December 31, 2011 |
| Options outstanding, beginning of the year | 120 | 120 | **-** | 20 |
| Options granted | - | - | **-** | - |
| Options expired | - | - | **-** | - |
| Options exercised | (120) | - | **-** | (20) |
| Options outstanding, end of the year | - | 120 | **-** | - |
| Outstanding options that are exercisable | - | 120 | **-** | - |

The Company has no current intention to issue any stock options in the future under the stock option plan.

## 19. Dividends per Share

Dividends are declared quarterly at the discretion of the Board of Directors of the Company.

For the year ended December 31, 2012, the dividends paid were $13.1 million or $0.2150 per share (for the year ended December 31, 2011 - $11.0 million or $0.20625 per share).

## 20. Change in Non-Cash Working Capital

| | **2012** | 2011 |
|---|---|---|
| Receivables | **$ (379)** | $ 110 |
| Prepaid expenses and mortgage deposits | **(106)** | 184 |
| Accounts payable and accrued liabilities | **505** | 283 |
| Income taxes payable | **3** | 46 |
| Total cash from change in non-cash working capital | **$ 23** | $ 623 |

## 21. Internalization

Prior to July 1, 2011, Plaza Group Management Limited provided property management and corporate management services to the Company. In Quebec, staff of Les Immeubles Plaza Z-Corp Inc. handled management duties under a separate management agreement with the Company.

Plaza Group Management Limited was controlled by two directors of the Company, namely Michael Zakuta and Earl Brewer. Les Immeubles Plaza Z-Corp Inc. is controlled by Michael Zakuta.

On July 1, 2011, the Company purchased the shares of Plaza Group Management Limited. The acquisition was a business combination, however, services provided under the management agreement were at market rates, so there was no gain or loss on the settlement of the pre-existing relationship. Total consideration of $113 thousand was attributed to the capital assets. As a result of this transaction, property management and corporate management were internalized and the Company manages all of its properties including properties previously managed by Plaza Z-Corp Inc. As part of the transaction, employees of Plaza Z-Corp Inc. that previously provided services to the Company were employed by Plaza Group Management Limited. Both management agreements previously in place were terminated.

## 22. Related Parties

The following are the related party transactions of the Company. All related party transactions have been recorded at the exchange amount.

*(a) Bonds and Debentures*

The Directors own directly or indirectly the following mortgage bonds and debentures of the Company (stated at face value):

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Barbara Trenholm | **$ -** | $ 100 |
| Earl Brewer | **219** | 1,481 |
| Edouard Babineau | **350** | 2,000 |
| Michael Zakuta | **670** | 781 |
| Richard Hamm | **-** | 250 |
| Stephen Johnson | **750** | 850 |
| Total related party mortgage bonds and debentures | **$ 1,989** | $ 5,462 |

During 2012, Barbara Trenholm redeemed $100 thousand in expired mortgage bonds, Earl Brewer converted $1.042 million of convertible debentures to shares and redeemed $220 thousand in expired mortgage bonds, Edouard Babineau converted $1.4 million of convertible debentures to shares and redeemed $250 thousand in expired mortgage bonds, Michael Zakuta redeemed $111 thousand in expired mortgage bonds, Richard Hamm converted $250 thousand of convertible debentures to shares, and Stephen Johnson redeemed $100 thousand in expired mortgage bonds.

Other key management personnel own $45 thousand in mortgage bonds of the Company at December 31, 2012 (December 31, 2011 - $105 thousand).

*(b) Other Transactions with Key Management Personnel*

(i) The Company is party to nine ground leases with TC Land LP, an entity controlled by Michael Zakuta and Earl Brewer and pays annual rent of $877 thousand under these leases. The land leases expire at various times from October 2043 to November 2047, subject to options to renew. All of these leases have options to purchase, of which 1 is at a fixed price and the others are at fair market value.

(ii) Two directors directly or beneficially, through companies they control, hold interests in common with the Company's 25% interest in the Gateway Mall, Sussex, NB, being Earl Brewer (25%) and Michael Zakuta (21.5%). There are no loans outstanding or fees charged by the related parties as a result of the joint ownership.

(iii) Earl Brewer and Michael Zakuta hold interests in common with the Company's 10% interest in Northwest Plaza Commercial Trust, the owner of the Northwest Centre, Moncton, NB. There are no loans outstanding or fees charged by the related parties as a result of the joint ownership.

(iv) Notes payable of $261 thousand (December 31, 2011 - $261 thousand) are owed to parties controlled directly or indirectly by Michael Zakuta. The non-interest bearing notes existed at the time of acquisition of properties in September 2000 and are repayable on sale or refinancing of the related assets. See Note 13.

(v) On July 1, 2011, as part of the internalization (see Note 21), Plaza Group Management Limited entered into an aircraft operating agreement with Plaza Atlantic Limited (a company owned by Michael Zakuta and Earl Brewer) with respect to the use and operation of a turbo-prop airplane, used from time to time by Plaza Group Management Limited and the Company to facilitate more timely access to properties across the Company's portfolio mainly for construction and development. Costs associated with the use of the airplane for the year ended December 31, 2012 were $599 thousand (July 1, 2011 to December 31, 2011 - $205 thousand).

(vi) Plaza Group Management Limited is a party to an office lease for the Company's corporate headquarters in Fredericton, NB. The owner of the office building (and counter-party to the office lease) is a company indirectly owned by Michael Zakuta and Earl Brewer. Basic minimum rent under this office lease is $201 thousand per year. The lease expires March 31, 2014.

(vii) Plaza Group Management Limited manages certain properties owned directly or indirectly by Michael Zakuta and Earl Brewer, namely 527 Queen Street, Fredericton, NB and 271 Queen Street, Fredericton, NB.

*(c) Management Agreements*

Prior to the internalization on July 1, 2011 (see Note 21), Plaza Group Management Limited provided property management and corporate management services to the Company. In Quebec, staff of Les Immeubles Plaza Z-Corp Inc. handled management duties under a separate management agreement with the Company. The basis of fee payments prior to July 1, 2011 under the management agreements was as follows:

| | Plaza Group Management Limited Fee Structure |
|---|---|
| Property management | 3% of gross rents paid. |
| Corporate management | ¾% of gross rents paid in the preceding fiscal year. |
| Leasing | 4% of net rental revenue per year for first five years of lease term. |
| | 2% of net rental revenue per year for years six to ten of lease term. |
| | Leasing fees for renewal are at 50% of the above rates. |
| Development | 4% of costs of construction on development projects. |
| | 10% of tenant improvement costs on non-development projects. |
| Debt financing | ¾ % of loan amount where no outside broker is involved. |
| | ¼ % of loan amount where an outside broker is involved. |
| Capital | Where and when permitted by securities law: |
| | 3% of capital raised where no external broker is involved. |
| | 1 ½ % of capital raised where no external broker is involved and where the proceeds are used to retire/redeem maturing capital. |
| | ¾ % of capital raised where an outside broker is involved. |
| Acquisitions | 2% of the purchase price of assets or capitalized value of land leases. |
| Dispositions | 1 ½ % of the proceeds of disposition on assets. |
| Legal services | Cost recovery basis, equal to $185 per hour. |

The following amounts were charged under the agreements prior to July 1, 2011:

| Fee Category | Included for Reporting Purposes In | 2011 |
|---|---|---|
| Property management | Property operating expenses | $ 777 |
| Corporate management | Administrative expenses | 194 |
| Leasing | Investment properties | 616 |
| Development | Investment properties | 606 |
| Financing and capital | Debt or equity | 301 |
| Acquisitions | Investment properties | 49 |
| Dispositions | Gain or loss on disposal of investment properties | - |
| Legal services | Varied based on service provided | 343 |
| **Total** | | $ 2,886 |

*(d) Remuneration of Key Management Personnel*

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any Director of the entity. The remuneration of Directors and other key management personnel of the Company during the years ended December 31, 2012 and 2011 was as follows:

| | 2012 | 2011 |
|---|---|---|
| Total key management personnel compensation – short-term employee benefits(1) | **$ 1,888** | $ 1,796 |

(1) Total compensation paid by Plaza Group Management Limited, prior to the internalization for 2011 was $897 thousand . This amount is not included in the financial statements of the Company but is included in this chart.

During the years ended December 31, 2012 and 2011 there were no amounts paid in post employment benefits, long-term benefits or termination benefits. There were 40,000 RSUs granted to key management personnel.

*(e) Significant Subsidiaries*

| | Ownership Interest | |
|---|---|---|
| | **December 31, 2012** | December 31, 2011 |
| Plazacorp REIT | **100%** | 100% |
| Plazacorp Operating Trust | **100%** | 100% |
| Plazacorp Master Limited Partnership | **100%** | 100% |
| Lemarchant Property Holdings Inc. | **100%** | 100% |
| Plaza Retail Limited Partnership #1 | **100%** | 100% |
| Bedford Commons 2 Property Holdings Inc. | **100%** | 100% |
| Plaza LPC Commercial Trust | **100%** | 100% |
| Commercial Street Plaza Trust | **100%** | 100% |
| Plaza Group Management Limited | **100%** | 100% |
| Stavanger Torbay Limited Partnership | **90%** | 90% |
| Spring Park Plaza Inc. | **85%** | 85% |
| Granville Street Properties Limited Partnership | **60%** | 60% |
| Wildan Properties Limited Partnership | **60%** | 60% |
| Exhibition Plaza Inc. | **55%** | 55% |

## 23. Interests in Joint Ventures

As described in Note 3(a), the consolidated financial statements include the Company's proportionate interest in its activities conducted jointly with other parties. The following amounts represent the total proportionate amounts consolidated for these joint ventures:

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Assets | $ 127,564 | $ 109,511 |
| Current liabilities | 11,602 | 5,417 |
| Long term liabilities | 52,535 | 55,777 |
| Revenues | 23,346 | 15,928 |
| Expenses | 7,110 | 6,938 |

The chart below details the Company's ownership interest of direct and indirect investments and co-ownerships in real estate assets.

| | Ownership Interest | |
|---|---|---|
| | **December 31, 2012** | December 31, 2011 |
| **Accounting Method – Proportionate Consolidation** | | |
| Les Galeries Montmagny and Plaza Tache, QC | **50%** | 50% |
| RBEG Limited Partnership, QC | **50%** | 50% |
| Bureau en Gross, QC | **50%** | 50% |
| Magog, QC | **50%** | 50% |
| Carrefour des Seigneurs, QC | **25%** | 25% |
| Plaza BDP, QC | **37.5%** | 37.5% |
| CPRDL, QC | **50%** | 50% |
| Plaza Jean XXIII, QC | **50%** | 50% |
| Plaza BBRF, QC | **50%** | 50% |
| 90 Boulevard Tache Ouest, QC | **50%** | 50% |
| Jean Talon, QC | **50%** | 50% |
| Plaza TS Magog, QC | **50%** | 50% |
| Bourque & Haut-Bois, QC | **50%** | 50% |
| Boisbriand, QC | **33%** | - |
| Queen Mary, QC | **25%** | - |
| 201 Chain Lake Drive, NS | **50%** | 50% |
| 209 Chain Lake Drive, NS | **50%** | 50% |
| Tacoma Centre, NS | **50%** | 50% |
| Tacoma Valley Field, NS | **50%** | 50% |
| Robie Street Plaza, NS | **25%** | 25% |
| Wyse Road, NS | **50%** | - |
| 15260 Yonge Street, ON | **50%** | 50% |
| Scott Street Plaza, ON | **50%** | 50% |
| St. Josephs Boulevard, ON | **50%** | 50% |
| Civic Centre Road, ON | **50%** | 50% |
| Port Hope Plaza, ON | **50%** | 50% |
| Dufferin & Wilson (Perth), ON | **50%** | 50% |
| 615 King Street, Gananoque, ON | **50%** | 50% |
| Plazacorp Ontario2 Limited Partnership: | | |
| Amherstview, ON | **50%** | 50% |
| Scugog Street Port Perry, ON | **50%** | 50% |
| Plazacorp Ontario3 Limited Partnership: | | |
| King & Mill, ON | **50%** | 50% |
| Plazacorp Ontario4 Limited Partnership: | | |
| Manotick, ON | **50%** | 50% |
| KGH Plaza, NB | **25%** | 25% |
| 681 Mountain Road, NB | **25%** | 25% |
| 201 Main Street, NB | **25%** | 25% |
| Gateway Mall, NB | **25%** | 25% |
| University Plaza, PE | **43%** | 43% |

## 24. Contingencies, Commitments, Guarantees, Indemnities, Litigation and Provisions

### *(a) Contingencies*

The $20.0 million development line of credit has a letter-of-credit limit of $1.5 million available. As at December 31, 2012, there were no letters-of-credit issued and outstanding under this line of credit (December 31, 2011 – nil).

The $15.0 million development line of credit has a letter-of-credit limit of $500 thousand available. As at December 31, 2012, there were no letters-of-credit issued and outstanding under this line of credit (December 31, 2011 – nil).

The $10.0 million operating line of credit has $2 million available for use in the form of letters-of-credit. As at December 31, 2012, $137 thousand (December 31, 2011 - $435 thousand) of such letters-of-credit were issued and outstanding.

*(b) Commitments*

The Company's estimated commitments in respect of certain projects under development and other long-term obligations are as follows:

| | Year 1 2013 | Year 2 2014 | Year 3 2015 | Year 4 2016 | Year 5 2017 | After 5 Years | Face Value Total |
|---|---|---|---|---|---|---|---|
| Mortgages – periodic payments | $ 4,435 | $3,963 | $3,742 | $3,620 | $3,149 | $17,277 | $36,186 |
| Mortgages – due at maturity [1] | 29,933 | 19,286 | 13,968 | 27,620 | 21,547 | 103,201 | 215,555 |
| Development lines of credit | 10,006 | - | - | - | - | - | 10,006 |
| Bank indebtedness | 3,647 | - | - | - | - | - | 3,647 |
| Mortgage bonds payable | - | - | - | 2,085 | - | - | 2,085 |
| Debentures [2] | - | - | 16,695 | - | - | - | 16,695 |
| Operating land leases [3] | 2,717 | 2,781 | 2,805 | 2,825 | 2,868 | 142,087 | 156,083 |
| Office lease | 201 | 50 | | | | | 251 |
| Development activities | 3,031 | - | - | - | - | - | 3,031 |
| Total contractual obligations | **$53,970** | **$26,080** | **$37,210** | **$36,150** | **$27,564** | **$262,565** | **$443,539** |

(1) *Includes interest rate swaps.*
(2) *Stated at face value.*
(3) *Operating land leases expire on dates ranging from 2017 to 2084 (including automatic renewal periods) with non-automatic renewal options ranging from 10 to 66 years.*

*(c) Guarantees and Indemnities*

The Company continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties. These guarantees will remain until the debt is modified, refinanced or extinguished. These commitments are subject to indemnity agreements. The estimated amount of the debt subject to such guarantees at December 31, 2012 is $6.4 million (December 31, 2011 - $14.1 million) consisting of a mortgage which expires on May 1, 2013. As well, a $7.8 million commitment (December 31, 2011 - $8.0 million) relating to the mortgages on four assets in which the Company sold a 75% interest in January of 2009 is also subject to guarantees by the Company. These mortgages have a weighted average remaining term of 4.9 years (December 31, 2011 - 3.9 years).

The Company is contingently liable for certain obligations of its co-venturers. The guarantees provided to the mortgagees of three free-standing properties located in Granby, QC, Amherstview, ON and Port Perry, ON are subject to cross-guarantees provided by the other 50% co-owners for the full amounts of the loans. As at December 31, 2012 the Company's total exposure on the cross-guarantees is $618 thousand for the Granby, QC property (December 31, 2011 - $633 thousand) and $4.0 million for the Amherstview and Port Perry, ON properties (December 31, 2011 - $4.1 million).

*(d) Litigation*

The Company believes that any liability that may arise from current or pending litigation would not have a significant adverse effect on these financial statements.

*(e) Provisions*

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The Company has no provisions recorded at December 31, 2012 (December 31, 2011 – nil).

## 25. Financial Risk Management

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. The Company's Board of Directors monitors management compliance with the Company's risk management policies through periodic reviews. These risks and the action taken to manage them are as follows:

*(a) Interest Rate Risk*

The Company adopts a policy of holding floating rate debt only for properties under development and those pledged to support the operating line of credit. All other debt is converted to fixed rate debt, when market conditions are favorable, as soon as practical after an asset attains income producing status.

The Company has classified its fixed rate financial assets and liabilities as held-to-maturity. Therefore a change in interest rates at the reporting date would not affect profit or loss on these. The Company minimizes its exposure to fixed rate interest risk by staggering the maturities in order to avoid excessive amounts of debt maturing in any one year. If market conditions warrant, the Company may attempt to renegotiate its existing debt to take advantage of lower interest rates.

The Company had entered into interest rate swap contracts with a Canadian chartered bank in connection with mortgages obtained in 2010, in order to convert the mortgages from variable rates to fixed rates (see Note 11). The interest rate swap contracts have been recorded at fair value in mortgages payable with changes in fair value reflected in profit and loss. The fair value of these contracts results in a liability, for the Company's share, of $385 thousand at December 31, 2012 (December 31, 2011 – $433 thousand). There is a risk that interest rates will fluctuate during the term of the mortgages. The Company intends to hold the mortgages to maturity and therefore would not realize the fair value fluctuations.

Trade receivables and payables (other than tenant deposits) are interest free and have settlement dates within one year.

An increase of 100 basis points in interest rates at December 31, 2012 if applied to all outstanding floating rate instruments would increase interest expense and decrease pre-tax profit by $133 thousand (December 31, 2011 – nil as the Company had no floating rate debt outstanding).

*(b) Lease Rollover and Occupancy Risk*

The Company is exposed to the risk of not being able to replace tenants as leases expire or development space becomes available. The hypothetical impact to net property operating income of a change in occupancy of 1% would be approximately $368 thousand per annum. The Company's principal management of occupancy risk involves the skewing of tenancies towards national tenants, the signing of longer term leases and significant preleasing of development space. As well, the Company attempts to stagger the lease expiry profile so that the Company is not faced with a disproportionate amount of square footage of leases expiring in any one year. The Company further mitigates this risk by maintaining a diversified portfolio mix both by retail asset type and geographic location and maintaining a well staffed and highly skilled leasing department to deal with all leasing issues.

*(c) Credit Risk*

Credit risk arises from the possibility that tenants may experience financial difficulty and will be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss by ensuring that its tenant mix is diversified and weighted to national and regional tenants, which now comprise 93.5% of the in-place tenant base (December 31, 2011 – 93.6%). As well, the Company limits loans granted under lease arrangements to high credit-rated national tenants.

The Company minimizes its credit risk on investment bonds by having them consist of Government of Canada bonds.

The Company generally provides financial guarantees only to wholly-owned subsidiaries and joint venture partners only during the development periods, subject to reciprocal indemnities, by utilizing established development lines of credit. Where lenders of first mortgages on joint venture properties require financial guarantees from the Company, reciprocal indemnities are obtained from the Company's joint venture partners. Guarantees are generally limited to the lower of 75% of the asset cost or 65% of the fair market value. See Note 24(c) for details of guarantees.

The Company limits cash transactions to high quality financial institutions to minimize its credit risk from cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| **Carrying Amount** | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Held-to-maturity investments | **$ 258** | $ 15,548 |
| Tenant loans, receivables and notes receivable | **2,344** | 3,976 |
| Cash | **3,152** | 3,767 |
| **Total** | **$ 5,754** | $ 23,291 |

The Company's most significant customer, a national retailer, accounts for the $939 thousand of tenant loans as at December 31, 2012 (December 31, 2011- $1.4 million). This retailer represents 23.5% of monthly gross rents in place at December 31, 2012. The top 10 tenants collectively represent approximately 53.7% of monthly gross rents in place.

Deposits refundable to tenants may be withheld by the Company in part or in whole if receivables due from the tenant are not settled or in case of other breaches of contract.

*(d) Liquidity and Debt Market Risk*

Prudent liquidity risk management implies maintaining sufficient cash and an adequate amount of committed credit facilities to run its business and pay obligations as they come due. The Company manages its cash resources and committed credit facilities based on financial forecasts and anticipated cash flows. In terms of debt, there is always the risk that lenders may tighten their lending standards, which could make it challenging for the Company to obtain financing on favourable terms or any terms at all. If this were to occur, it could adversely impact the Company. The Company staggers the maturities of its long-term debt to avoid excessive amounts of debt maturing in any one year. Several mortgages and the development lines contain material adverse change clauses which entitle the lenders to demand partial or full loan repayment when there are material adverse changes in the Company's financial position. The Company has determined that circumstances that could trigger action by a lender under these clauses are unlikely.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| | **Carrying amount** | **Contractual cash flow** | **1-2 years** | **2-5 years** | **More than 5 years** |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 5,888 | 5,888 | 5,888 | - | - |
| Debentures payable | 21,865 | 19,512 | 2,504 | 17,008 | - |
| Notes payable | 1,157 | 1,157 | 1,157 | - | - |
| Bank indebtedness | 3,647 | 3,780 | 3,780 | - | - |
| Mortgage bonds payable | 2,065 | 2,566 | 284 | 2,282 | - |
| Mortgages payable | 259,022 | 337,261 | 92,959 | 98,675 | 145,627 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

*(e) Fair Value*

Generally, trading values for the Company's financial instruments are not available. In determining estimates of the fair values of the financial instruments, the Company must make assumptions regarding current market rates, considering the term of the instrument and its risk. Current market rates are generally selected from a range of potentially acceptable rates and accordingly, other effective rates and fair values are possible. The rates used in determining the fair value of fixed rate mortgages are corresponding term Government of Canada Bonds plus credit spreads of 2.15% to 2.70% (December 31, 2011 – 1.80% to 2.45%). The rates used to determine the fair value of mortgage bonds range from 4.90% to 5.00% (December 31, 2011 – 5.25% to 7.00%).

The following chart shows the estimated fair value of the Company's long-term debt (including mortgages payable, mortgage bonds payable and notes payable).

| | **Book Value December 31, 2012** | **Fair Value December 31, 2012** | Book Value December 31, 2011 | Fair Value December 31, 2011 |
|---|---|---|---|---|
| Total net fixed rate mortgage loans [1] | $ 245,844 | $ 264,027 | $ 247,357 | $ 255,780 |
| Total net variable rate mortgage loans | 13,178 | 13,178 | (70) | (70) |
| Mortgage bonds payable | 2,065 | 2,205 | 8,045 | 8,194 |
| Notes payable | 1,157 | 1,157 | 1,051 | 1,051 |
| **Total** | $ 262,244 | $ 280,567 | $ 256,383 | $ 264,955 |

[1] *Includes the impact of interest rate swaps.*

The fair value of the Company's financial assets and liabilities that represent net working capital, including cash, receivables, notes receivable, bank indebtedness and accounts payable and accrued liabilities approximate their recorded values due to their short-term nature.

The fair value of the tenant loans approximate their book value with the interest rates ranging from 7.24% to 9.45% (December 31, 2011 - 7.24% to 9.45%).

The fair value of the Company's exposure from mortgage guarantees and indemnities are nil.

As at December 31, 2012, the fair value of the Company's investment in Government of Canada Bonds of $258 thousand (December 31, 2011 - $15.5 million) approximated fair value (December 31, 2011 - below the recorded value by $59 thousand). The Company had no exposure to financial hedges or embedded derivatives as at December 31, 2012 (December 31, 2011 – nil).

In accordance with IFRS, the Company is required to classify its financial instruments carried at fair value in the financial statements using a fair value hierarchy that exhibits the significance of the inputs used in making the measurements.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Financial assets and liabilities valued within Level 1 of the hierarchy include cash. The Company's convertible debentures are valued under Level 2 of the fair value hierarchy.

## 26. Capital Management

The primary objective of the Company's capital management is to ensure that it maintains adequate capital resources in order to support its business and maximize shareholder value. The Company manages its capital structure with the primary goal of minimizing risk and ensuring the stability of cash flow from properties. Other goals include maintaining debt service and interest coverage ratios in compliance with bank and debenture covenants. The Company has defined its capital to include bank indebtedness, mortgages payable, debentures payable, mortgage bonds payable, notes payable and shareholders' equity.

Bank operating and development lines require maintenance of at least $75 million of shareholders' equity; maintenance of debt service ratios in excess of 1.5 times; and interest coverage ratios of 1.6 times, with all debt service and interest coverage ratios calculated exclusive of interest charged on subordinate debt and convertible debentures. In addition, under a development line, the Company must maintain a ratio of mortgages plus bank indebtedness to the book value of its gross assets less fair value adjustments of not more than 70%. The Company is in compliance with all debt covenants.

There were no changes to the Company's approach to capital management for the year ended December 31, 2012.

The calculation of the total capital is summarized as follows:

| | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Total net fixed rate mortgage loans [(1)] | **$245,844** | $ 247,357 |
| Total net variable rate mortgage loans | **13,178** | (70) |
| Mortgage bonds payable | **2,065** | 8,045 |
| Debentures payable | **21,865** | 39,532 |
| Bank indebtedness | **3,647** | - |
| Notes payable | **1,157** | 1,051 |
| | **287,756** | 295,915 |
| Shareholders' equity | **251,211** | 198,787 |
| **Total** | **$ 538,967** | $ 494,702 |

*[(1)] Includes the impact of interest rate swaps.*

## 27. Subsequent Events

*Financing*

On February 26, 2013, the Company closed Tranche A of a private placement of Unsecured Debentures for $1.585 million. The Debentures have a term of 5 years and an interest rate of 5.0%. Tranche B in the maximum amount of $2.415 million is expected to close on or about April 15, 2013. The funds will be used to provide general financing to the Company: (i) to match a loan provided to a vendor/major retailer as part of the Company's purchase of development lands located in an important retail node in Dieppe, NB; (ii) for acquisitions currently under contract subject to due diligence located in Quebec; and (iii) for general working capital purposes.

*Equity-Accounted Investments*

In January 2013, the Company received a distribution of $2.0 from MDO Limited Partnership relating to the net proceeds from the sale of Marche de L'Ouest in December 2012.

The joint venture for the Village Shopping Centre was reorganized and converted from a preferred return/residual return structure to a pari-passu co-ownership structure effective January 1, 2013, with the Company's ownership position becoming 44.5%. As part of the reorganization, the Village Shopping Centre Limited Partnership was dissolved. The Company anticipates that as a result of this reorganization, the Village Shopping Centre will be accounted for using proportionate consolidation.

*Convertible Debentures*

$233 thousand in Series VI convertible debentures were converted to 61,313 shares.

*Dividend and Dividend Reinvestment Plan*

The Company paid its regular quarterly cash dividend of $0.05625 per common share for a total of $3.4 million on February 15, 2013 and 33 thousand shares were issued at a purchase price of $4.92 per share for a total of $161 thousand under the dividend reinvestment plan.

*RSUs*

In February 2013, in connection with the regular quarterly cash dividend, the Company issued Dividend RSUs to employees in accordance with the RSU Plan, resulting in 1,038 shares being issued at a price of $4.98 per share for those Dividend RSUs redeemed for shares, and $2,036 being paid for those Dividend RSUs redeemed for cash.

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