



# Choice Properties<sup>REIT</sup><sup>®</sup>

## 2019 Annual Report



# Letter to Unitholders

Fellow Unitholders,

Choice Properties is well-positioned for long term value creation with an exceptional portfolio of income producing properties and an impressive pipeline of future development opportunities. This combination provides the foundation for us to deliver on our goals of stability and growth for our investors over a long-term investment horizon. For us, stability means the preservation of your capital investment and the reliability of your monthly distribution. Growth means responsible distribution and net asset value growth over time.

Our income producing property portfolio is comprised of 708 properties and 66 million square feet of gross leasable area representing a total asset value of approximately \$14.9 billion. Retail real estate represents the majority of our portfolio, with a focus on grocery-anchored properties with necessity-based tenants. We believe this asset class is less sensitive to short term economic fluctuations and the ever-changing retail environment. We are diversified beyond retail real estate through our ownership of industrial, office and residential properties with a national footprint in Canada's largest markets. This diversification reduces risk, helps stabilize cash flows and opens more avenues for investment and growth. Our portfolio continues to deliver stability and growth with year end occupancy of 97.7% and same-asset net operating income growth of 2.6% over the prior year.

Our development initiatives continue to provide us with opportunities to add high-quality real estate to our portfolio at a reasonable cost. In 2019, we completed 32 development projects at a total cost of \$232 million, delivering over 1 million square feet of best-in class real estate to our income producing portfolio.

Looking forward, over time we anticipate investing approximately \$1 billion in our current active development pipeline, of which \$410 million has already been invested. We will continue to deliver commercial properties to our income producing portfolio, through a mix of at-grade retail intensification and larger scale greenfield development of both retail centres and new generation industrial assets. Through development, we will also look to expand our growing presence in the rental residential market. Most of our active pipeline consists of rental residential projects within the Greater Toronto Area and with close proximity to major transit.

In addition to our current development program, one of our significant competitive advantages is the opportunity to redevelop our grocery anchored retail properties. We expect that these urban projects will be close to public transportation and will be transformed into major mixed-use communities with a residential focus. Currently we have four major mixed-use sites in the planning stages, and we own many retail properties where residential density could be added. These are exciting opportunities and ones that we think will allow Choice to grow its footprint in residential real estate and allow us to add high quality real estate to our portfolio for years to come.

Our business is supported by an industry leading balance sheet. This is a key enabler for both the stability and growth that underpin our business model. In 2019, we made significant progress in strengthening our balance sheet and improving our leverage metrics. We issued equity in May 2019 for total gross proceeds of \$395 million and in September we closed on the sale of a 30-property portfolio for total proceeds of \$426 million. The proceeds from these transactions were used to repay debt and lower our leverage. Over the past year, we reduced our leverage ratio from 8.0x to 7.5x and are currently one of the lowest levered REITs in Canada. The strength of our balance sheet provides us with future financial flexibility to fund our development pipeline.

As Canada's preeminent real estate investment trust, we are ideally positioned to achieve our goals. Our income producing portfolio is stable and we have meaningful traction in our development program. Together the unique combination of stability and growth is at the core of Choice's commitment to driving long term value for our unitholders.

Thank you for your continued confidence.

**Rael L. Diamond**  
President & Chief Executive Officer

February 12, 2020



Rendering of 985 Woodbine Ave | Toronto ON



# Management's Discussion and Analysis

---

(1) See Section 15, “Non-GAAP Financial Measures”, of this MD&A.

(2) To be read in conjunction with the “Forward-Looking Statements” included in the Notes for Readers located on page 4 of this MD&A.

# Notes for Readers

Please refer to the Choice Properties Real Estate Investment Trust ("Choice Properties" or the "Trust") audited consolidated financial statements for the year ended December 31, 2019 and accompanying notes ("2019 Financial Statements") when reading this Management's Discussion and Analysis ("MD&A"). In addition, this MD&A should be read in conjunction with the Trust's "Forward-Looking Statements" as listed below. Choice Properties' 2019 Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and were authorized for issuance by the Board of Trustees ("Board").

In addition to using performance measures determined in accordance with IFRS, Choice Properties' management also measures performance using certain additional non-GAAP measures and provides these measures in this MD&A so that investors may do the same. Such measures do not have any standardized definitions prescribed under IFRS and are, therefore, unlikely to be comparable to similar measures presented by other real estate investment trusts or enterprises. Please refer to Section 15, "Non-GAAP Financial Measures" for a list of defined non-GAAP financial measures and reconciliations thereof.

On May 4, 2018, Choice Properties completed the acquisition of Canadian Real Estate Investment Trust ("CREIT"), an unincorporated, closed-end real estate investment trust that traded on the TSX, by acquiring all the assets and assuming all the liabilities for total consideration of \$3.7 billion. The consideration was comprised of \$1.65 billion in cash with the balance funded through the issuance of 182,836,481 Units (the "Acquisition Transaction"). The Acquisition Transaction brought together two leading Canadian REITs and introduced asset class diversification to Choice Properties, while continuing to leverage its strategic relationship with Loblaw. The impact of the Acquisition Transaction on the Trust's operating results and key performance indicators is discussed throughout this MD&A.

**This Annual Report, including this MD&A,** contains forward-looking statements about Choice Properties' objectives, outlook, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities, and legal and regulatory matters. Specific statements with respect to anticipated future results and events can be found in various sections of this MD&A, including but not limited to, Section 3, "Investment Properties", Section 5, "Results of Operations", Section 6, "Leasing Activity", Section 7, "Results of Operations - Segment Information", and Section 14, "Outlook". Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to Choice Properties and its management.

**Forward-looking statements** reflect Choice Properties' current estimates, beliefs and assumptions, which are based on management's perception of historic trends, current conditions, outlook and expected future developments, as well as other factors it believes are appropriate in the circumstances.

**Choice Properties' expectation of operating and financial performance** is based on certain assumptions, including assumptions about the Trust's future growth potential, prospects and opportunities, industry trends, future levels of indebtedness, tax laws, economic conditions and competition. Management's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. Choice Properties can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

**Numerous risks and uncertainties** could cause the Trust's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the "Enterprise Risks and Risk Management" section of this MD&A and the Trust's Annual Information Form ("AIF") for the year ended December 31, 2019. Selected highlights of such risks and uncertainties include:

- failure by Choice Properties to realize the anticipated benefits associated with its strategic priorities and major initiatives, including failure to develop quality assets and effectively manage development, redevelopment, and renovation initiatives;
- failure by Choice Properties to effectively and efficiently manage its property and leasing management processes;
- failure by Choice Properties to anticipate, identify and react to demographic changes, including shifting consumer preferences toward electronic commerce, which may result in a decrease in demand for physical space by retail tenants;
- the inability of Choice Properties' information technology infrastructure to support the requirements of Choice Properties' business, failure by Choice Properties to identify and respond to business disruptions, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms or other known or unknown cyber security or data breaches;
- changes in economic conditions, including changes in interest rates and the rate of inflation; and
- changes in Choice Properties' competitiveness in the real estate market.

**This is not an exhaustive list** of the factors that may affect Choice Properties' forward-looking statements. Other risks and uncertainties not presently known to Choice Properties could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

**Choice Properties' financial results** are impacted by adjustments to the fair value of the Exchangeable Units, unit-based compensation and investment properties. Exchangeable Units and unit-based compensation liabilities are recorded at their fair value based on the market trading price of the Trust Units, which results in a negative impact to the financial results when the Trust Unit price rises and a positive impact when the Trust Unit price declines. Investment properties are recorded at fair value based on valuations performed by the Trust's internal valuation team. These adjustments to fair value impact certain of the GAAP reported figures of the Trust, including net income.

**Additional risks and uncertainties** are discussed in Choice Properties' materials filed with the Canadian securities regulatory authorities from time to time, including without limitation, the Trust's AIF for the year ended December 31, 2019. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect Choice Properties' expectations only as of the date of this Annual Report. Except as required by applicable law, Choice Properties does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Choice Properties is an unincorporated, open-ended mutual fund trust governed by the laws of the Province of Ontario and established pursuant to a declaration of trust amended and restated as of May 2, 2018, as may be amended from time to time (the "Declaration of Trust"). Choice Properties' Trust Units are listed on the Toronto Stock Exchange ("TSX") and are traded under the symbol "CHP.UN".

The Trust was created in 2013 from the owned real estate of Loblaw Companies Limited ("Loblaw"), the Trust's largest Unitholder and primary tenant. On November 1, 2018, Loblaw and George Weston Limited ("GWL") completed a reorganization under which Loblaw spun out its direct effective interest in Choice Properties to its majority shareholder, GWL. As of December 31, 2019, GWL had a 62.9% direct effective interest in Choice Properties.

Additional information about Choice Properties has been filed electronically with the Canadian securities regulatory authorities through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at [www.sedar.com](http://www.sedar.com).

**The information in this MD&A is current to February 12, 2020, unless otherwise noted.**

**All amounts in this MD&A are reported in thousands of Canadian dollars, except where otherwise noted.**



**Choice Properties**  
REAL ESTATE INVESTMENT TRUST

#diversityand  
...together

# Our Portfolio Mix

To generate long term value by owning, managing and developing a diversified portfolio of high quality properties.



*North Barrie Crossing Shopping Centre | Barrie ON*

## Retail Portfolio

The retail portfolio is primarily focused on necessity-based retail tenants. Management views the retail portion of the portfolio as the foundation for maintaining reliable cash flow. In addition to having a national footprint concentrated in Canada’s largest markets, stability is attained through the strategic relationship and long term leases with Loblaw - Canada’s largest retailer. This strategic alliance provides Choice Properties with access to future tenancy and related opportunities with Loblaw, Shoppers Drug Mart and other members of the Loblaw group of companies.

## Industrial Portfolio

The industrial portfolio is centered around distribution facilities, warehouses, and buildings used for light manufacturing of a size and configuration that will readily accommodate the diverse needs of a broad range of tenants. Management’s focus in this sector is on large, purpose-built distribution assets for Loblaw and high-quality “generic” industrial assets. The properties are located in target distribution markets across Canada, where Choice Properties can build up critical mass to enjoy management efficiencies and to accommodate the expansion or contraction requirements of the tenant base. The term “generic” refers to product that appeals to a wide range of potential users, so that the leasing or re-leasing time frame is reduced.



*Great Plains Business Park | Calgary AB*



Calgary Place | Calgary AB



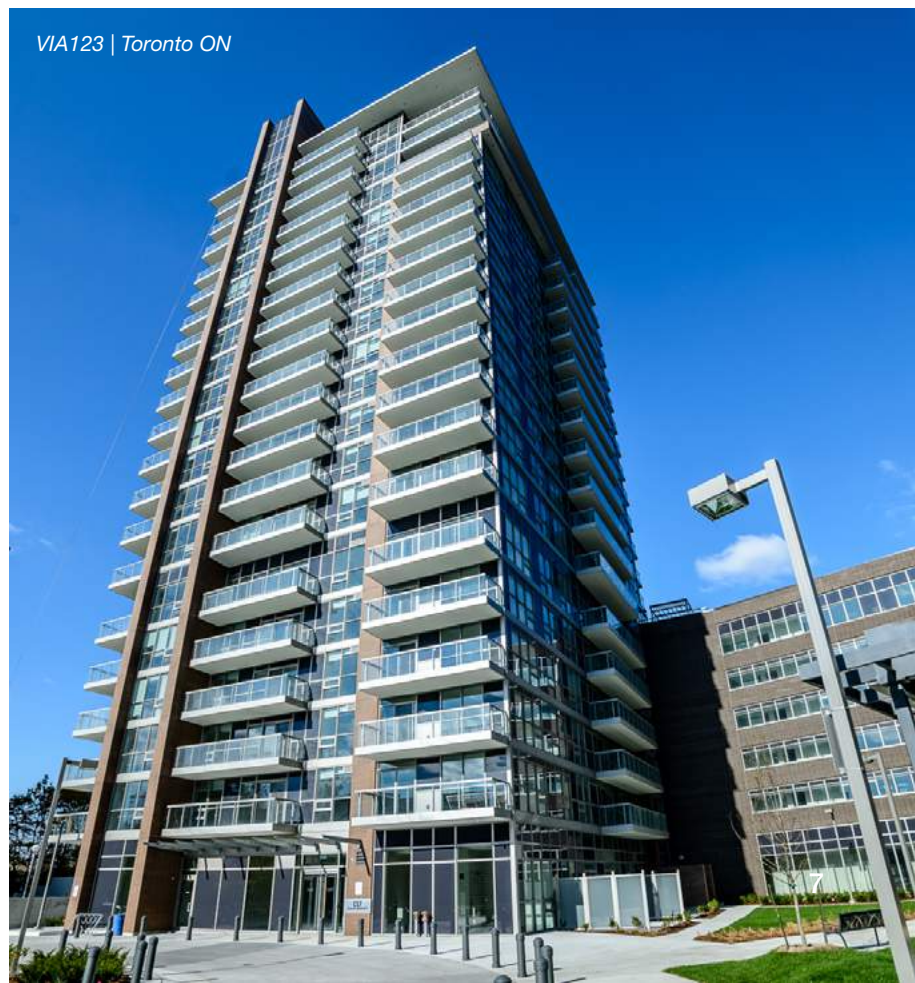
## Office Portfolio

The office portfolio is focused on large, well-located buildings in target markets, with an emphasis on the downtown core in some of Canada's largest cities. Management's objective is to seek institutional partners for these assets as a means to diversify risk. As the managing partner, Choice Properties' overall returns are enhanced through the generation of fee income from the day-to-day management and leasing activities at these properties.

## Residential Portfolio <sup>(i)</sup>

The residential portfolio is a recent addition to the Choice Properties asset mix. Rental residential real estate provides additional income diversification and generates further investment opportunities for asset base growth. Many of these opportunities to develop residential properties are by densifying existing retail sites with residential buildings. The Choice Properties portfolio of residential properties is located in Canada's largest cities and includes both newly developed purpose built rental buildings and residential-focused mixed use communities, many of which are in close proximity to public transportation.

VIA123 | Toronto ON



(i) Residential properties are included in the retail segment for reporting purposes.

## Our Portfolio Mix

### RETAIL

**576**

Properties

**98.0%**

Occupancy

**46.3M**

sq. ft. GLA

### INDUSTRIAL

**113**

Properties

**97.9%**

Occupancy

**16.1M**

sq. ft. GLA

### OFFICE

**15**

Properties <sup>(ii)</sup>

**93.3%**

Occupancy

**3.2M**

sq. ft. GLA

### RESIDENTIAL <sup>(i)</sup>

**4**

Properties

**0.2M**

sq. ft. GLA

### DEVELOPMENT

**11**

Retail

**2**

Industrial

**5**

Residential

### TOTAL

**726**

Properties <sup>(ii)</sup>

**97.7%**

Occupancy

**65.8M**

sq. ft. GLA





# Development Program

Development initiatives are a key component of Choice Properties' business model, providing the opportunity to add high quality real estate to the portfolio at a reasonable cost. Choice Properties has internal development capabilities as well as established relationships with strong real estate developers. With a significant amount of intensification and redevelopment opportunities and a long-term pipeline of potential mixed-use development projects, Choice Properties is well positioned for long-term growth and value creation.





2211-20th Sideroad Rd | Innisfil ON

## Intensification

Intensifications are focused on adding retail density within the existing portfolio. As at December 31, 2019, Choice Properties had 27 ongoing intensification projects representing a total of 435,000 square feet.



Oshawa Gateway | Oshawa ON

## Greenfield Development

Choice Properties' development activities include greenfield projects which are primarily focused on unenclosed retail shopping centres and industrial parks. As at December 31, 2019, Choice Properties had 17 greenfield development projects in the pipeline which upon completion will comprise approximately 1.2 million square feet. A total of \$233.6 million has been invested to date in the pipeline. The Trust currently expects to invest a total of \$46.8 million<sup>(2)</sup> in the next three to five years.

An advantage of greenfield developments is that they lend themselves to phased construction creating flexibility to time developments to take advantage of changing market conditions.



Rendering of Golden Mile | Toronto ON

## Major Mixed Use Development

Choice Properties currently has a number of sites planned for major mixed use development with four of these sites in an active pre-development stage. The four properties are in key urban markets, including three sites in Toronto, Ontario, and one in Coquitlam, British Columbia. These developments are residential focused, mixed use communities with close proximity to public transportation. A total of \$31.0 million has been invested to date on land acquisition and other initial development costs. The Trust expects to invest an additional \$20.2 million<sup>(2)</sup> on pre-development activities for these projects over the next two to five years before beginning construction. The projects are in various phases of pre-development, and Choice Properties continues to work on finalizing the assembly of land parcels for the developments.

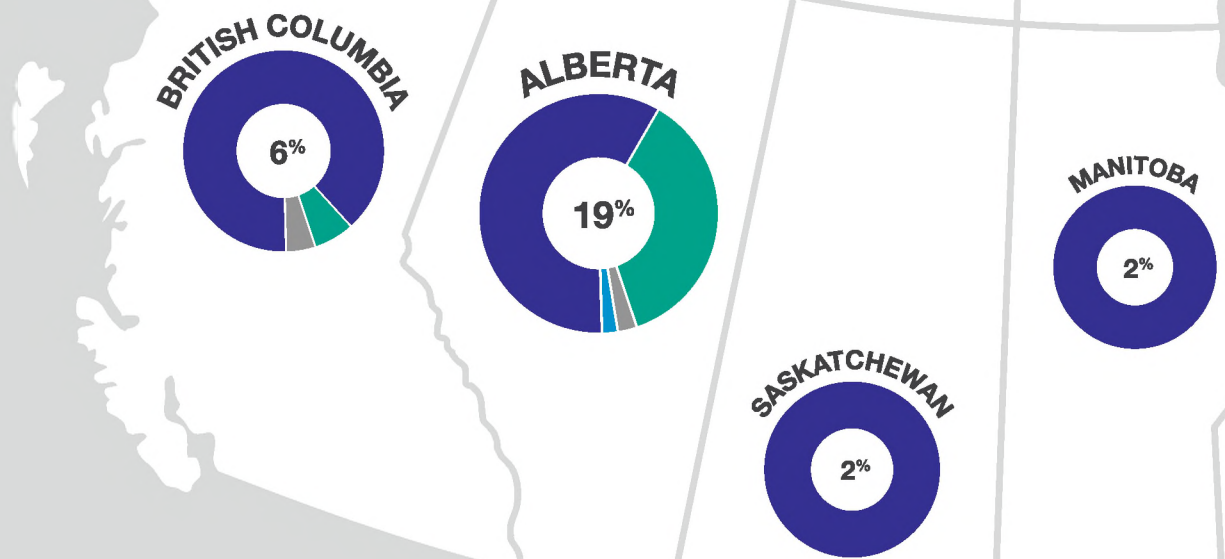


Rendering of 390 Dufferin St | Toronto ON

## Residential

Choice Properties has six residential projects in the pipeline representing 1,246 residential units. As at December 31, 2019, a total of \$118.1 million has been invested in these projects to date and Choice Properties expects to invest an additional \$423.9 million<sup>(2)</sup> to complete the developments before transferring them to income producing properties.

# Ownership by Asset Class



British Columbia		Alberta		Saskatchewan		Manitoba		Ontario	
<b>Total</b>	<b>44</b>	<b>Total</b>	<b>136</b>	<b>Total</b>	<b>17</b>	<b>Total</b>	<b>14</b>	<b>Total</b>	<b>280</b>
Retail	39	Retail	79	Retail	17	Retail	14	Retail	235
Industrial	3	Industrial	52	Industrial	0	Industrial	0	Industrial	38
Office	2	Office	2	Office	0	Office	0	Office	6
Residential	0	Residential	3	Residential	0	Residential	0	Residential	1

(i) As at December 31, 2019.

(ii) Including Illinois, USA.

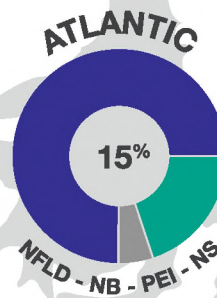
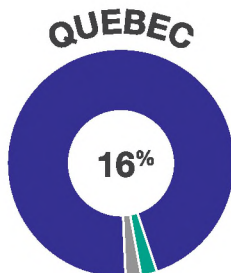
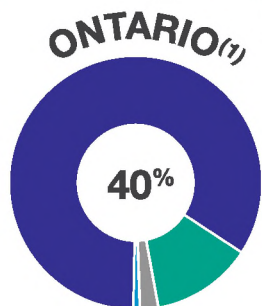
**708** INCOME PRODUCING PROPERTIES <sup>(1)</sup>

**576** RETAIL

**113** INDUSTRIAL

**15** OFFICE

**4** RESIDENTIAL



**Quebec**

<b>Total</b>	<b>113</b>
Retail	109
Industrial	2
Office	2
Residential	0

**New-foundland**

<b>Total</b>	<b>9</b>
Retail	8
Industrial	1
Office	0
Residential	0

**New-Brunswick**

<b>Total</b>	<b>28</b>
Retail	26
Industrial	2
Office	0
Residential	0

**Prince Edward Island**

<b>Total</b>	<b>4</b>
Retail	4
Industrial	0
Office	0
Residential	0

**Nova Scotia**

<b>Total</b>	<b>63</b>
Retail	45
Industrial	15
Office	3
Residential	0

# STABILITY & GROWTH

## Strategic Framework

Choice Properties aims to create **long term value** by owning, managing and developing high-quality assets.

Our **high-quality** and **diversified** portfolio provides **reliable** cash flows and includes an impressive pipeline of future development opportunities.

We seek to maximize long term value by taking a **disciplined and sustainable** approach to property operations and financial management, and by **unlocking value** through development activities.

Our goal is to provide NAV appreciation, stable NOI growth and capital preservation, all with a **long term** focus.





## Sustainability and Responsibility

Choice Properties is committed to conducting business in a manner that is respectful of the environment and the communities in which Choice Properties operates in. Over the past year, Choice Properties has focused on developing a formalized and comprehensive sustainability program that addresses environmental, social and governance (ESG) issues. The program encompasses three key initiatives, including: (i) integrating ESG into our daily business activities; (ii) establishing targets, and the design of methodologies to measure achievements; and (iii) developing reporting formats that provide visibility on Choice Properties' progress and achievements.

### In 2019 we advanced these key initiatives by:

- Posting our Sustainability & Responsibility Commitment publicly on our website;
- Publishing our inaugural Sustainability & Responsibility Highlights Report;
- Committing to 5-year targets that include the reduction of energy, water, waste and greenhouse gases, certifying our properties under LEED or BOMA BEST, and supporting employee volunteering;
- Achieving a Green Star in our first submission to GRESB, a global assessment that benchmarks real estate entities' ESG performance; and
- Launching Choice Cares, a program dedicated to charitable volunteering and philanthropy, and raising over \$300,000 for eight local and national charities.

Choice Properties employs a sustainability team whose primary responsibility is to integrate the Trust's Sustainability & Responsibility Commitment into its day-to-day operations. The sustainability team is supported by a cross-functional steering committee that meets regularly to discuss activities and progress towards meeting the Trust's sustainability targets.

For a copy of the Choice Properties Sustainability & Responsibility Commitment and Highlights Report, including additional details about our strategy and targets, please visit our website under "About Us".

## Our Highlights for 2019...

**\$0.987**

FFO per unit  
diluted <sup>(1)</sup>

**+2.6%**

Same-asset NOI,  
Cash Basis <sup>(1)</sup>

**97.7%**

Occupancy

**7.5x**

Normalized Debt  
to EBITDAFV <sup>(1)</sup>

**\$1.3B**

Rental Revenue  
(IFRS)

## ...and Q4 2019

**\$0.237**

FFO per unit  
diluted <sup>(1)</sup>

**+3.1%**

Same-asset NOI,  
Cash Basis <sup>(1)</sup>

**97.7%**

Occupancy

**7.5x**

Normalized Debt  
to EBITDAFV <sup>(1)</sup>

**\$318M**

Rental Revenue  
(IFRS)

# Key Performance Indicators and Selected Financial Information

The analysis of the indicators focuses on trends and significant events affecting the financial condition and results of operations.

■ Q4 2019      ■ Q4 2018      ■ YTD 2019      ■ YTD 2018

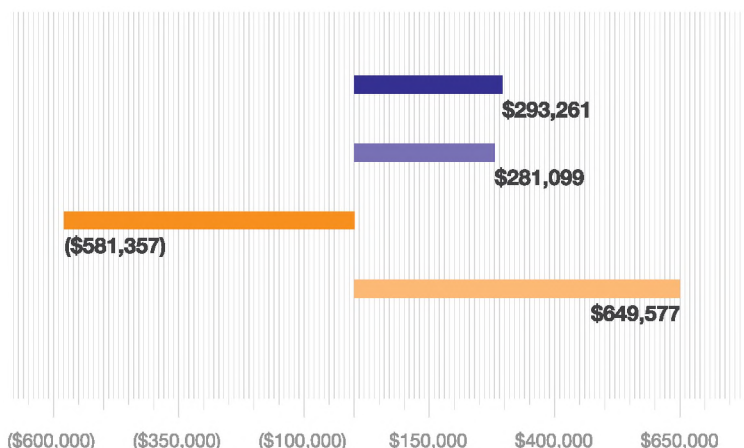
\*As at or for the three months and year ended December 31, 2019 (\$ thousands except where otherwise indicated).

\$

## NET INCOME (LOSS) (IFRS)

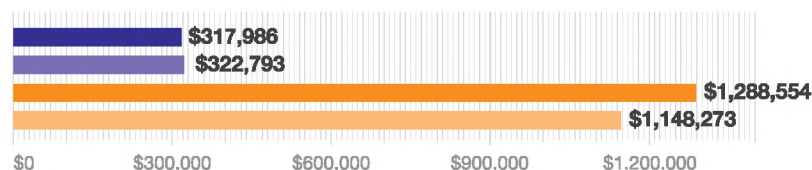
The quarterly increase was mainly due to a favourable change in fair value for investment properties and lower acquisition transaction and borrowing costs, partially offset by a reduction in the year-over-year gain recognized with respect to the fair value adjustment on Exchangeable Units, an allowance for expected credit losses associated with certain mortgages and loans receivable, non-recurring reimbursement of contract revenue to Loblaw for incorrectly allocated solar rooftop leases and reduced contribution from equity accounted joint ventures.

The year-over-year decline was primarily due to cumulative adverse fair value adjustments for the Exchangeable Units due to increases in the unit price, partially offset by a decline in acquisition transaction costs, a full year of contribution from the Acquisition Transaction as compared to eight months in the prior year and a favourable change in the fair value for investment properties.



## RENTAL REVENUE (IFRS)

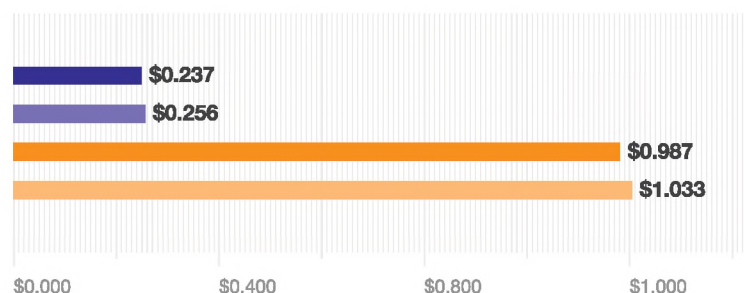
The quarterly decrease was primarily due to the effect of dispositions in the third quarter of 2019. On an annual basis, the increase was primarily related due to the contribution from development transfers and the properties acquired as part of the Acquisition Transaction.

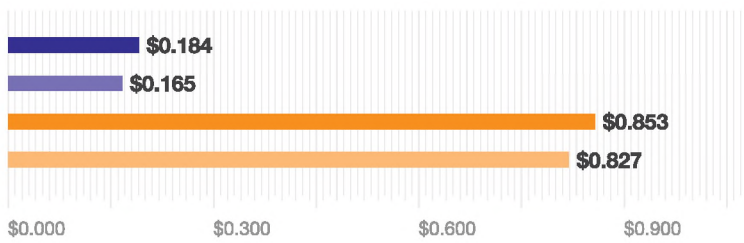


## FFO PER UNIT DILUTED <sup>(1)</sup>

FFO decreased on a quarterly basis primarily due to the non-recurring reimbursement of revenue to Loblaw for incorrectly allocated solar rooftop leases, offset primarily by a decline in borrowing costs. On an annual basis, in addition to the above, FFO increased due to a full year of contribution from the Acquisition Transaction.

On a per unit basis, the decline in both the quarter and full year periods was due to deleveraging in the year arising from the May 2019 equity offering and the Oak Street disposition.

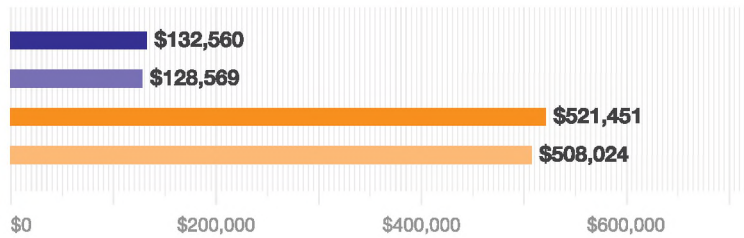




**AFFO PER UNIT DILUTED<sup>(1)</sup>**

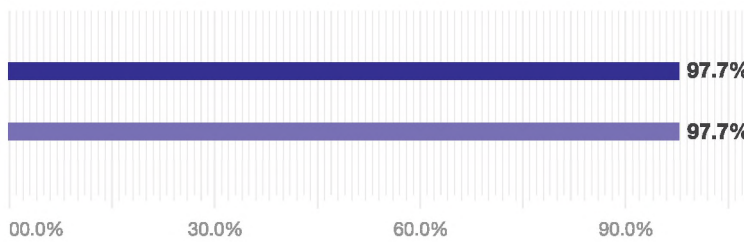
AFFO increased on a quarterly basis primarily due to a reduction in property capital spending. On an annual basis, AFFO further increased due to positive contribution from FFO.

On a per unit basis, for the three months and year ended December 31, 2019, reported AFFO per unit diluted of \$0.184 and \$0.853, with a payout ratio of 100.3% and 86.8%, respectively.



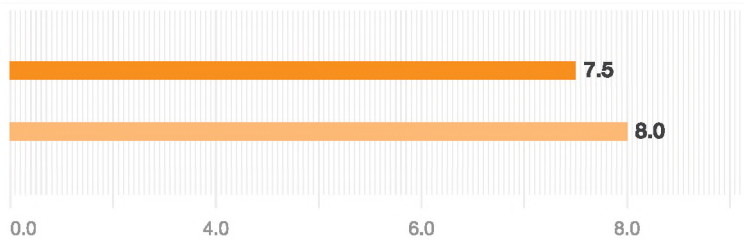
**SAME-ASSET NOI, CASH BASIS<sup>(1)</sup>**

The increase of 3.1% and 2.6% for the three months and year ended December 31, 2019, respectively, was primarily due to the contribution from contractual rental steps in the retail portfolio.



**PERIOD END OCCUPANCY**

Overall period end occupancy was consistent year-over-year as positive absorption in the Ontario and Alberta industrial and Ontario retail portfolios was offset by net portfolio changes due to the sale of fully occupied assets.



**NORMALIZED DEBT TO EBITDAFV<sup>(1)</sup>**

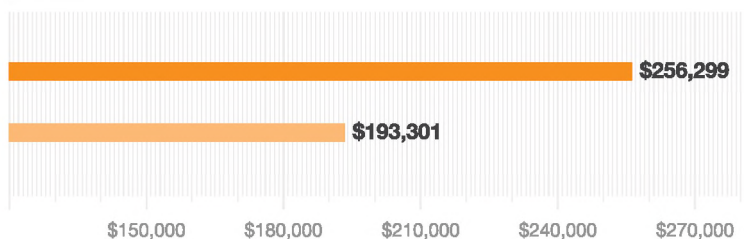
Debt to EBITDAFV on a 12-month normalized basis excluded the non-GAAP and proforma results from the Oak Street disposition.

The improvement in normalized debt to EBITDAFV is primarily a result of the capital raised through the May 2019 equity offering.



**DEVELOPMENT SPENDING (PROPORTIONATE)<sup>(1)</sup>**

Development activity reflects spending on 24 active projects during the three months ended December 31, 2019.



**TRANSFERS FROM PROPERTIES UNDER DEVELOPMENT TO INCOME PRODUCING (PROPORTIONATE)<sup>(1)</sup>**

As at December 31, 2019, 34 phases were transferred during the year from properties under development to income producing, including 8 transfers in the current quarter.

# Annual Financial Performance

During the year ended December 31, 2019

## NOTABLE HIGHLIGHTS

- Completed the disposition of a 30-property portfolio for an aggregate sale price of \$426.3 million to an affiliate of Oak Street Real Estate Capital LLC (the “Oak Street disposition”). The unencumbered portfolio consisted of 27 stand-alone retail properties and 3 distribution centres with an average lease term of approximately twelve years with Loblaw.

## OPERATING PERFORMANCE

- Reported net loss for the year of \$581.4 million. Included in this amount was a \$932.0 million adjustment to the fair value of the Exchangeable Units attributable to the unit price increase for Choice Properties during the year. The annual net income also included \$8.4 million of costs related to the Acquisition Transaction.
- Reported FFO per unit diluted<sup>(1)</sup> for 2019 of \$0.987.
- AFFO per unit diluted<sup>(1)</sup> for 2019 was \$0.853, reflecting an 86.8% payout ratio.
- Same-asset NOI on a cash basis<sup>(1)</sup> increased by 2.6% over the prior year.
- Period end occupancy remained strong at 97.7%, with retail at 98.0%, industrial at 97.9% and office at 93.3%. Overall, there was positive absorption of 403,000 sq. ft., primarily in the retail and industrial portfolios.
- Net fair value loss on investment properties of \$15.3 million on a proportionate share basis<sup>(1)</sup> due to increases in fair value on select industrial and office assets, as well as realized gains from the Oak Street disposition, offset by a decline in the fair value for power centre retail assets and a retail asset in Oak Brook, Illinois.

## INVESTING AND FINANCING

- Active capital recycling with dispositions of \$467.9 million in assets, of which the proceeds were utilized to facilitate \$153.1 million in acquisitions, including \$133.3 million of income producing properties and \$19.8 million of development properties, and the balance utilized to repay term debt.
- Ongoing investment in the development program with \$139.6 million of spending during the year on intensification, greenfield, major mixed use and residential development projects.
- During the year, transferred \$256.3 million of properties under development to income producing status, delivering 1.1 million sq ft of new GLA on a proportionate share basis.
- Completed a \$395.0 million equity offering for 30,042,250 units at \$13.15 per unit in May 2019, with net proceeds of \$381.0 million applied to the credit facility.
- Completed a 10-year, \$750.0 million debenture offering at 3.53% in June 2019, with proceeds utilized to repay \$300.0 million of 2019 debenture maturities and \$400.0 million of variable rate term loans.
- Ended the year with a debt-to-gross book value<sup>(1)</sup> at 43.1%, and normalized debt to EBITDAFV<sup>(1)</sup> and interest coverage ratios<sup>(1)</sup> of 7.5 and 3.5 times, respectively.
- Strong liquidity position with \$1.4 billion of available credit and an \$11.8 billion pool of unencumbered properties.

650 Portland St | Dartmouth NS

2994 Peddie Rd | Milton ON





Rendering of Block 4 | Brampton ON



525 University Ave | Toronto ON

# Fourth Quarter Financial Performance

During the three months ended December 31, 2019

## OPERATING PERFORMANCE

- Reported net income for the quarter of \$293.3 million. Included in this amount was a \$206.7 million adjustment to the fair value of the Exchangeable Units attributable to the unit price increase for Choice Properties during the quarter, a \$3.0 million allowance for expected credit losses associated with certain mortgages and loans receivable, as well as a \$7.1 million non-recurring reimbursement of contract revenue to Loblaw for incorrectly allocated solar rooftop leases.
- Reported FFO per unit diluted<sup>(1)</sup> of \$0.237. Excluding the impact of the non-recurring reimbursement of contract revenue to Loblaw of \$7.1 million, FFO for the fourth quarter was \$172.9 million or \$0.247 per unit diluted
- AFFO per unit diluted<sup>(1)</sup> of \$0.184, reflecting a 100.3% payout ratio.
- Same-asset NOI on a cash basis<sup>(1)</sup> increased by 3.1% over the same quarter in 2018 primarily due to the increased rental rates in the retail and industrial portfolios.
- Period end occupancy remained strong at 97.7%, with retail at 98.0%, industrial at 97.9% and office at 93.3%.
- Net fair value loss on investment properties of \$5.9 million on a proportionate share basis<sup>(1)</sup> due to decreases in fair value on select retail assets primarily in Ontario and Alberta, offset by increased fair value on an Ontario residential development.

## INVESTING AND FINANCING

- Acquired one retail income producing property in Toronto, Ontario for \$10.9 million and one industrial income producing property in Toronto, Ontario for \$13.8 million.
- Acquired our partner's 15% interest in two industrial income producing properties in Milton, Ontario for \$28.7 million.
- Sold a fully leased retail property in Red Deer, Alberta for \$8.5 million and our 50% interest in development lands located in Strathcona County, Alberta for \$15.8 million.
- Ongoing investment in the development program with \$30.3 million of spending during the quarter on intensification, greenfield, major mixed use and residential development projects.
- Transferred \$28.5 million of properties under development to income producing status, delivering 96,000 square feet of new GLA on a proportionate share basis.
- Ended the quarter with a debt-to-gross book value<sup>(1)</sup> at 43.1%, and normalized debt to EBITDAFV<sup>(1)</sup> and interest coverage ratios<sup>(1)</sup> of 7.5 and 3.5 times, respectively.
- Strong liquidity position with \$1.4 billion of available credit and an \$11.8 billion pool of unencumbered properties.





# Table of Contents

<b>SECTION 1 - Key Performance Indicators and Selected Financial Information</b> .....	<b>24</b>
<b>SECTION 2 - Balance Sheet</b> .....	<b>25</b>
<b>SECTION 3 - Investment Properties</b> .....	<b>26</b>
<b>SECTION 4 - Liquidity and Capital Resources</b> .....	<b>35</b>
<b>SECTION 5 - Results of Operations</b> .....	<b>44</b>
<b>SECTION 6 - Leasing Activity</b> .....	<b>48</b>
<b>SECTION 7 - Results of Operations - Segment Information</b> .....	<b>50</b>
<b>SECTION 8 - Quarterly Results of Operations</b> .....	<b>56</b>
<b>SECTION 9 - Related Party Transactions</b> .....	<b>57</b>
<b>SECTION 10 - Critical Accounting Estimates and Judgments</b> .....	<b>58</b>
<b>SECTION 11 - Accounting Policy Changes</b> .....	<b>59</b>
<b>SECTION 12 - Controls and Procedures</b> .....	<b>59</b>
<b>SECTION 13 - Enterprise Risks and Risk Management</b> .....	<b>60</b>
<b>SECTION 14 - Outlook</b> .....	<b>66</b>
<b>SECTION 15 - Non-GAAP Financial Measures</b> .....	<b>67</b>

## 1. KEY PERFORMANCE INDICATORS AND SELECTED FINANCIAL INFORMATION

Choice Properties has identified key financial and operating performance indicators that were derived from, and should be read in conjunction with, the consolidated financial statements of the Trust dated December 31, 2019 and 2018. The analysis of the indicators focuses on trends and significant events affecting the financial condition and results of operations of the Trust.

As at or for the years ended December 31 (\$ thousands except where otherwise indicated)	2019	2018	2017
Number of investment properties	726	753	546
GLA (in millions of square feet)	65.8	66.8	44.1
Occupancy*	97.7%	97.7%	98.9%
Total assets (IFRS)	\$ 15,576,195	\$ 15,549,215	\$ 9,923,511
Total liabilities (IFRS)	\$ (12,478,177)	\$ (12,049,229)	\$ (8,986,530)
Rental revenue (IFRS)	\$ 1,288,554	\$ 1,148,273	\$ 830,630
Net income (loss)	\$ (581,357)	\$ 649,577	\$ 405,345
Net income (loss) per unit diluted	\$ (0.843)	\$ 1.111	\$ 0.981
FFO <sup>(i)</sup> per unit diluted*	\$ 0.987	\$ 1.033	\$ 1.072
FFO <sup>(i)</sup> payout ratio*	75.0%	71.4%	68.1%
AFFO <sup>(i)</sup> per unit diluted*	\$ 0.853	\$ 0.827	\$ 0.863
AFFO <sup>(i)</sup> payout ratio*	86.8%	89.2%	84.6%
Distribution declared per Unit	\$ 0.740	\$ 0.740	\$ 0.730
Weighted average number of Units outstanding – diluted	689,285,790	584,605,228	413,208,961
Debt to total assets <sup>(ii)</sup>	43.1%	47.2%	44.3%
Debt service coverage <sup>(ii)</sup>	3.0x	3.0x	3.7x
Normalized Debt to EBITDAFV <sup>(i)(iii)</sup>	7.5x	8.0x	7.1x
Indebtedness <sup>(iii)</sup> – weighted average term to maturity*	5.2 years	5.2 years	4.5 years
Indebtedness <sup>(iii)</sup> – weighted average interest rate*	3.74%	3.72%	3.62%

\* Denotes a key performance indicator

- (i) Debt ratios exclude Exchangeable Units, see Section 4, "Liquidity and Capital Resources", of this MD&A. The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.
- (ii) Calculated on a trailing 12-month normalized basis, excluding lease surrender revenue from Loblaw and the effect of the Oak Street disposition. As at December 31, 2018, calculated on a trailing 12-month normalized basis, excluding lease surrender revenue from Loblaw and includes proforma results of CREIT.
- (iii) Indebtedness reflects senior unsecured debentures and mortgages only.

## 2. BALANCE SHEET

The following table reconciles Choice Properties' balance sheet on a GAAP basis to a proportionate share basis as at the dates indicated:

(\$ thousands)	As at December 31, 2019			As at December 31, 2018		
	GAAP Basis	Reconciliation	Proportionate Share Basis <sup>(1)</sup>	GAAP Basis	Reconciliation	Proportionate Share Basis <sup>(1)</sup>
<b>Assets</b>						
Investment properties	\$ 14,373,000	\$ 938,000	\$ 15,311,000	\$ 14,501,000	\$ 1,011,000	\$ 15,512,000
Equity accounted joint ventures	606,089	(606,089)	—	734,167	(734,167)	—
Mortgages, loans and notes receivable	332,286	—	332,286	213,410	—	213,410
Intangible assets	30,000	—	30,000	30,000	—	30,000
Accounts receivable and other assets	95,030	(12,219)	82,811	39,925	9,653	49,578
Assets held for sale	97,800	—	97,800	—	—	—
Cash and cash equivalents	41,990	9,494	51,484	30,713	10,080	40,793
<b>Total Assets</b>	<b>\$ 15,576,195</b>	<b>\$ 329,186</b>	<b>\$ 15,905,381</b>	<b>\$ 15,549,215</b>	<b>\$ 296,566</b>	<b>\$ 15,845,781</b>
<b>Liabilities and Equity</b>						
Long term debt	\$ 6,413,452	\$ 314,798	\$ 6,728,250	\$ 6,062,951	\$ 278,443	\$ 6,341,394
Credit facility and term loans	127,233	—	127,233	1,114,407	—	1,114,407
Exchangeable Units	5,424,368	—	5,424,368	4,492,359	—	4,492,359
Trade payables and other liabilities	513,124	14,388	527,512	379,512	18,123	397,635
Total Liabilities	12,478,177	329,186	12,807,363	12,049,229	296,566	12,345,795
Equity						
Unitholders' equity	3,090,217	—	3,090,217	3,492,185	—	3,492,185
Non-controlling interests	7,801	—	7,801	7,801	—	7,801
Total Equity	3,098,018	—	3,098,018	3,499,986	—	3,499,986
<b>Total Liabilities and Equity</b>	<b>\$ 15,576,195</b>	<b>\$ 329,186</b>	<b>\$ 15,905,381</b>	<b>\$ 15,549,215</b>	<b>\$ 296,566</b>	<b>\$ 15,845,781</b>

### Balance Sheet Analysis (GAAP Basis)

Line Item	\$ Change	Variance	Commentary
Investment properties	\$ (128,000)		The decrease compared to December 31, 2018 is primarily attributable to the sale of investment properties, net of acquisitions totalling \$358,382. The significant activity included the Oak Street disposition (\$426,318), partially offset by capital spending for income producing properties of \$59,365 and properties under development of \$72,174, in addition to the acquisition of the Trust's partner's interest in two equity accounted joint ventures which resulted in the transfer of \$181,909 from equity accounted joint ventures during the year.
Equity accounted joint ventures	(128,078)		The net decrease is primarily attributable to the transfer of two properties in Milton, Ontario to investment properties, offset by the acquisition of Choice Properties' partner's interest in two buildings at an industrial property in Calgary, Alberta, in addition to increased capital spending and an increase in working capital due to timing.
Mortgages, loans and notes receivable	118,876		The increase is primarily attributable to the timing of distributions paid for the Exchangeable Units held by GWL, which are deferred in exchange for advances on notes receivable. Included in the year was a \$3,000 allowance for expected credit losses associated with certain mortgages and loans receivable.
Working Capital	(67,230)		Net change is primarily a function of timing of business activities.
Long-term debt, credit facility and term loans	(636,673)		The net decrease is primarily due to repayments of the credit facility and term loans with the use of proceeds from equity financing and proceeds from dispositions of investment properties.
Exchangeable Units	932,009		As this liability is measured at fair value, the change is due to the increase in the unit price for Choice Properties since December 31, 2018.
Unitholders' equity	(401,968)		Net decrease is primarily due to the annual net loss and distributions to Unitholders, offset by the proceeds from the Units issued as part of the May 2019 equity offering.

### 3. INVESTMENT PROPERTIES

To expand the portfolio and participate in development opportunities, Choice Properties owns varying interests in real estate entities which hold investment properties. Under GAAP, many of these interests are recorded as equity accounted joint ventures and, as such, the Trust's portion of investment properties of these entities is presented on the balance sheet as a summarized value, not as part of the total investment properties. In addition, the Trust also has one financial real estate asset which is not included with its investment properties as prepared under GAAP. Refer to Section 15.1, "Investment Properties Reconciliation", of this MD&A, for a reconciliation of the continuity of investment properties determined in accordance with GAAP.

The following continuity schedules present Choice Properties' portfolio inclusive of its financial real estate asset and equity accounted joint ventures prepared on a proportionate share ownership basis for the periods ended, as indicated:

As at and for the periods ended December 31, 2019 (\$ thousands)	Three Months			Year Ended		
	Income producing properties	Properties under development	Investment Properties <sup>(i)</sup>	Income producing properties	Properties under development	Investment Properties <sup>(i)</sup>
GAAP balance, beginning of period	\$ 14,015,000	\$ 187,000	\$ 14,202,000	\$ 14,261,616	\$ 239,384	\$ 14,501,000
Adjustments to reflect equity accounted joint ventures and financial real estate asset on a proportionate share basis <sup>(ii)</sup>	845,000	245,000	1,090,000	719,000	292,000	1,011,000
Non-GAAP proportionate share balance, beginning of period	14,860,000	432,000	15,292,000	14,980,616	531,384	15,512,000
Acquisitions of investment properties <sup>(iii)</sup>	52,548	917	53,465	133,335	19,779	153,114
Capital expenditures						
Development capital <sup>(iii)</sup>	—	29,355	29,355	—	133,870	133,870
Building improvements	1,452	—	1,452	6,815	—	6,815
Capitalized interest	—	918	918	—	5,698	5,698
Operating capital expenditures						
Property capital	18,859	—	18,859	30,658	—	30,658
Direct leasing costs	3,099	—	3,099	8,172	—	8,172
Tenant improvement allowances	7,413	—	7,413	21,417	—	21,417
Amortization of straight-line rent	5,622	—	5,622	26,185	—	26,185
Transfer to assets held for sale	(68,678)	—	(68,678)	(97,800)	—	(97,800)
Transfers from properties under development	28,486	(28,486)	—	256,299	(256,299)	—
Dispositions	(8,500)	(15,786)	(24,286)	(436,893)	(31,015)	(467,908)
Foreign currency translation	(2,328)	—	(2,328)	(5,971)	—	(5,971)
Adjustment to fair value of investment properties	(12,973)	7,082	(5,891)	(37,833)	22,583	(15,250)
<b>Non-GAAP proportionate share balance, December 31, 2019</b>	<b>\$ 14,885,000</b>	<b>\$ 426,000</b>	<b>\$ 15,311,000</b>	<b>\$ 14,885,000</b>	<b>\$ 426,000</b>	<b>\$ 15,311,000</b>

(i) Refer to Section 15.1, "Investment Properties Reconciliation", of this MD&A, for a reconciliation of the continuity of investment properties determined in accordance with GAAP.

(ii) Includes acquisition costs.

(iii) Development capital included \$353 and \$4,577 of site intensification payments paid to Loblaw for the three months and year ended December 31, 2019 (December 31, 2018 - \$5,858).

Included in certain investment properties acquired from Loblaw is excess land with development potential. Choice Properties will compensate Loblaw, over time, with intensification payments determined by a site intensification payment grid as outlined in the Strategic Alliance Agreement (see Section 9, "Related Party Transactions", of this MD&A), should Choice Properties pursue activity resulting in the intensification of such excess land. The fair value of this excess land has been recorded in the unaudited interim condensed consolidated financial statements.

As at December 31, 2019, the Trust classified its only US retail property as an asset held for sale. The sale of the property to a third party closed on January 24, 2020, at a sale price of \$97,800, excluding transaction costs, for cash consideration.

### 3.1 Valuation Method

Investment properties are measured at fair value, primarily determined using the discounted cash flow method. Under this methodology, discount rates are applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value based on a capitalization rate applied to the estimated NOI<sup>(1)</sup> in the terminal year. The portfolio is internally valued with external appraisals performed each quarter for a portion of the portfolio. The majority of the properties will be subject to an external appraisal at least once over a four-year period. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions.

Valuations are most sensitive to changes in capitalization rates. Choice Properties' valuation inputs, including capitalization rates, are supported by quarterly reports from independent nationally recognized valuation firms. Below are the weighted averages of key rates used in the valuation models for the Trust's investment properties (including those within equity accounted joint ventures) by asset class:

As at December 31, 2019	Retail	Industrial	Office	Total Investment Properties
Discount rate	6.88%	6.51%	6.05%	6.77%
Terminal capitalization rate	6.24%	5.78%	5.29%	6.10%
Overall capitalization rate	5.97%	5.48%	5.13%	5.84%

As at December 31, 2018	Retail	Industrial	Office	Total Investment Properties
Discount rate	6.86%	6.91%	6.07%	6.81%
Terminal capitalization rate	6.21%	6.15%	5.33%	6.15%
Overall capitalization rate	5.94%	5.84%	5.16%	5.87%

#### Capitalization Rate Commentary

Retail	Capitalization rates remained relatively unchanged as increases in the select power centre assets were partially offset by decreases in well located, stand alone urban assets.
Industrial	Capitalization rates experienced compression in 2019 primarily due to recent trading activity in this sector, reflecting strong demand.
Office	Capitalization rates in this sector remain relatively consistent with the prior year, with slight compression reflecting the continued strength in demand for office space in urban markets.

### 3.2 Investment Property Transactions

#### Acquisitions of Investment Properties

The following table summarizes the investment properties acquired in the year ended December 31, 2019:

(\$ thousands except where otherwise indicated)

Location	Date of Acquisition	Segment	Ownership Interest	GLA (square feet)	Purchase Price	Purchase Price incl. Related Costs	Consideration		
							Net Debt Repayment	Mortgage Receivable Settlement	Cash
<b>Acquisitions from related parties:</b>									
Kingston, ON	Mar 7	Retail	100%	37,863	\$ 6,660	\$ 6,813	\$ —	\$ —	\$ 6,813
Toronto, ON	Mar 7	Retail	100%	114,864	29,658	30,386	—	—	30,386
Langford, BC	Sep 25	Retail	100% <sup>(iv)</sup>	127,549	22,800	23,462	—	—	23,462
Toronto, ON	Dec 13	Industrial	100%	120,000	13,250	13,786	—	—	13,786
<b>Total acquisitions from related parties</b>				<b>400,276</b>	<b>72,368</b>	<b>74,447</b>	<b>—</b>	<b>—</b>	<b>74,447</b>
<b>Acquisitions from third-parties:</b>									
Toronto, ON	Mar 29	Land <sup>(i)</sup>	50%	—	18,000	18,862	—	—	18,862
Calgary, AB	May 6	Industrial <sup>(ii)</sup>	50% <sup>(ii)</sup>	138,772	20,000	20,126	13,537	1,401	5,188
Toronto, ON	Oct 7	Retail <sup>(v)</sup>	100%	16,840	10,500	10,918	—	—	10,918
Milton, ON	Nov 1	Industrial	15% <sup>(iii)</sup>	95,249	13,760	14,034	—	11,749	2,285
Milton, ON	Nov 1	Industrial	15% <sup>(iii)</sup>	99,746	14,440	14,727	—	12,330	2,397
<b>Total acquisitions from third-parties</b>				<b>350,607</b>	<b>76,700</b>	<b>78,667</b>	<b>13,537</b>	<b>25,480</b>	<b>39,650</b>
<b>Total acquisitions</b>				<b>750,883</b>	<b>\$ 149,068</b>	<b>\$ 153,114</b>	<b>\$ 13,537</b>	<b>\$ 25,480</b>	<b>\$ 114,097</b>

(i) Land is currently under development for residential purposes and classified as properties under development.

(ii) The property was acquired as part of an equity accounted joint venture.

(iii) Represents additional ownership interest acquired increasing the ownership interest in this property to 100%. As a result, this property was transferred from an equity accounted joint venture to a consolidated investment as of the acquisition date.

(iv) The acquired property has been recognized as a financial asset classified at fair value through profit and loss under IFRS.

(v) Property acquired from third-party includes a Loblaw lease.

#### Disposition of Investment Properties

The following table summarizes the investment properties sold in the year ended December 31, 2019:

(\$ thousands except where otherwise indicated)

Location	Date of Disposition	Segment	Ownership Interest	Sale Price excl. Selling Costs	Consideration
					Cash
Olds, AB (parcel)	Jan 7	Retail	50%	\$ 600	\$ 600
Brampton, ON	Apr 15	Development	50%	15,229	15,229
Cowansville, QC <sup>(i)</sup>	Aug 7	Retail	100%	1,475	1,475
Portfolio of 30 assets across Canada <sup>(i)</sup>	Sep 30	Retail/Industrial	100%	426,318	426,318
Strathcona County, AB	Nov 22	Development	50%	15,786	15,786
Red Deer, AB <sup>(i)</sup>	Dec 2	Retail	100%	8,500	8,500
<b>Total dispositions</b>				<b>\$ 467,908</b>	<b>\$ 467,908</b>

(i) On September 30, 2019, Choice Properties sold a 30-property portfolio consisting of 27 stand-alone retail properties and 3 distribution centres with an average lease term of approximately twelve years.

(ii) Property dispositions included a Loblaw lease

## Acquisitions of Investment Properties

The following table summarizes the investment properties acquired in the year ended December 31, 2018:

(\$ thousands except where otherwise indicated)

Location	Date of Acquisition	Segment	Ownership Interest	GLA (square feet)	Purchase Price	Purchase Price incl. Related Costs	Consideration		
							Other liabilities (assets) assumed, net	Debt assumed	Cash
<b>Acquisitions from related parties:</b>									
Sainte-Julie, QC	Jul 3	Land	75%	—	\$ 1,575	\$ 1,616	\$ (9)	—	\$ 1,625
Calgary, AB	Nov 14	Retail	100%	104,773	31,780	31,780	251	—	31,529
Bedford, NS	Nov 14	Retail	100%	80,103	8,950	9,084	(16)	—	9,100
Kanata, ON	Nov 14	Retail	100%	103,152	14,660	14,758	160	—	14,598
Langley, BC	Dec 7	Industrial	100%	130,563	20,280	20,866	70	—	20,796
<b>Total acquisitions from related parties</b>				<b>418,591</b>	<b>77,245</b>	<b>78,104</b>	<b>456</b>	<b>—</b>	<b>77,648</b>
<b>Acquisitions from third-parties:</b>									
Toronto, ON	Jan 10	Land	100%	1,860	2,775	2,950	22	—	2,928
Riviere-du-Loup, QC	Jan 22	Retail	100%	19,363	2,350	2,409	2	—	2,407
Toronto, ON	Jan 31	Land	100%	1,900	2,807	2,990	3	—	2,987
Sherbrooke, QC	Feb 1	Retail	100%	22,528	4,470	4,561	—	—	4,561
Toronto, ON	Mar 20	Retail	100%	45,285	17,000	17,915	118	2,805	14,992
Ottawa, ON	May 29	Land	100%	—	2,024	2,086	—	—	2,086
Calgary, AB	Oct 1	Retail	100%	5,408	1,224	1,224	—	—	1,224
<b>Total acquisitions from third-parties</b>				<b>96,344</b>	<b>32,650</b>	<b>34,135</b>	<b>145</b>	<b>2,805</b>	<b>31,185</b>
<b>Total acquisitions</b>				<b>514,935</b>	<b>\$ 109,895</b>	<b>\$ 112,239</b>	<b>\$ 601</b>	<b>\$ 2,805</b>	<b>\$ 108,833</b>

(i) The property acquired was combined with the adjacent Choice Properties owned site.

(ii) While purchased for the value of the land, some ancillary commercial space was acquired as part of the transaction.

## Disposition of Investment Properties

The following table summarizes the investment properties sold in the year ended December 31, 2018.

(\$ thousands except where otherwise indicated)

Location	Date of Disposition	Segment	Ownership Interest	Sale Price excl. Selling Costs	Consideration
					Cash
Victoriaville, QC	Jun 21	Retail	100%	\$ 2,745	\$ 2,745
Portfolio of 7 assets in Dartmouth, NS	Aug 27	Industrial	100%	17,300	17,300
Ottawa, ON	Oct 1	Office	50%	3,150	3,150
Calgary, AB	Dec 4	Office	50%	104,000	104,000
<b>Total dispositions</b>				<b>\$ 127,195</b>	<b>\$ 127,195</b>

### 3.3 Development Activities

Choice Properties believes that development of properties to their highest and best use is a key driver of incremental and accretive growth. The Trust's pipeline of development opportunities includes: (i) intensification of excess density within its existing retail portfolio (see Section 3.4, "Intensification"), (ii) greenfield developments in large markets, including retail and industrial projects (see Section 3.5, "Greenfield Development"), (iii) major mixed use development in urban markets (see Section 3.6, "Major Mixed-Use Development") and (iv) residential development (see Section 3.7, "Residential").

Choice Properties' development program, at the Trust's ownership share<sup>(1)</sup>, as at December 31, 2019 is summarized below:

Project type	GLA (square feet)			Total Investment <sup>(i)</sup>			
	Currently under development	Future <sup>(2)</sup> development	Total development	To-date	In progress <sup>(2)(ii)</sup>	Future <sup>(2)(iii)</sup>	Total
<b>Intensification</b>							
Retail - Active	99,000	44,000	143,000	\$ 24,870	\$ 13,182	\$ 16,271	\$ 54,323
Retail - In Planning	—	292,000	292,000	5,122	—	98,158	103,280
<b>Subtotal intensification</b>	<b>99,000</b>	<b>336,000</b>	<b>435,000</b>	<b>29,992</b>	<b>13,182</b>	<b>114,429</b>	<b>157,603</b>
<b>Greenfield development</b>							
Retail	255,000	304,000	559,000	204,288	39,558	41,907	285,753
Industrial	79,000	571,000	650,000	29,342	7,265	48,195	84,802
<b>Subtotal greenfield development</b>	<b>334,000</b>	<b>875,000</b>	<b>1,209,000</b>	<b>233,630</b>	<b>46,823</b>	<b>90,102</b>	<b>370,555</b>
<b>Major mixed use</b>							
Major mixed use	—	—	—	30,955	20,162	—	51,117
<b>Subtotal major mixed use</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>30,955</b>	<b>20,162</b>	<b>—</b>	<b>51,117</b>
<b>Residential</b>							
Residential	999,000	—	999,000	118,074	423,895	—	541,969
<b>Subtotal residential</b>	<b>999,000</b>	<b>—</b>	<b>999,000</b>	<b>118,074</b>	<b>423,895</b>	<b>—</b>	<b>541,969</b>
<b>Total development - cost</b>	<b>1,432,000</b>	<b>1,211,000</b>	<b>2,643,000</b>	<b>\$ 412,651</b>	<b>\$ 504,062</b>	<b>\$ 204,531</b>	<b>\$ 1,121,244</b>
<b>Total development - fair value</b>				<b>\$ 426,000</b>			

(i) Compiled on a non-GAAP proportionate share basis. Investment to-date was compiled on a cash basis, excluding adjustments to fair value of on-going projects.

(ii) In progress investments relate to estimated spending on projects that have commenced.

(iii) Future investments relate to planned projects that have not yet commenced.

### 3.4 Intensification

Intensifications are focused on adding retail density within the existing portfolio. As at December 31, 2019, Choice Properties had 27 ongoing intensification projects representing a total of 435,000 square feet. This includes:

- 11 intensification projects that are under active development representing 143,000 square feet and a total investment of \$54.3 million to complete<sup>(2)</sup> over the next two to three years; and
- 16 intensification projects that are in planning representing 292,000 square feet and, if they proceed as planned, will require a total investment of \$103.3 million to complete<sup>(2)</sup> over the next two to four years.



### 3.5 Greenfield Development

Choice Properties' development activities include greenfield projects which are primarily focused on unenclosed retail shopping centres and industrial parks. As at December 31, 2019, Choice Properties had 17 greenfield development projects in the pipeline which upon completion will comprise approximately 1.2 million square feet. A total of \$233.6 million has been invested to date in the pipeline. The Trust currently expects to invest a total of \$46.8 million<sup>(2)</sup> in the next three to five years.

An advantage of greenfield developments is that they lend themselves to phased construction creating flexibility to time developments to take advantage of changing market conditions.

Choice Properties had seven greenfield properties under active development as at December 31, 2019, representing 333,000 square feet. Included in this total are:

- Six retail properties representing 254,000 square feet, of which 93% had been pre-leased; and
- One industrial project representing 79,000 square feet. In certain instances, industrial development will commence on a speculative basis as the time to construct an industrial building is greater than the lead time required by tenants.

As at December 31, 2019, a total of \$80.9 million has been invested to date in these seven developments. The Trust expects to invest an additional \$37.3 million to complete the developments before transferring them to income producing properties<sup>(2)</sup>.

The greenfield projects, at the Trust's ownership share, currently under active development as at December 31, 2019 are as follows:

Project / Location		GLA (square feet)			Total investment <sup>(i)</sup>			
		Ownership %	Committed to lease	Not committed to lease	Total	To-date	In progress <sup>(2)</sup>	Total
(\$ thousands except where otherwise indicated)								
<b>Retail</b>								
1	Harvest Pointe, Edmonton, AB	50%	3,000	2,000	5,000	\$ 1,059	\$ 1,295	\$ 2,354
2	Harvest Hills, Edmonton, AB	50%	49,000	—	49,000	4,210	11,905	16,115
3	Sunwapta West (Coopers) Lands, Edmonton, AB	50%	63,000	—	63,000	2,968	9,040	12,008
4	Erin Ridge Retail Lands, St. Albert, AB	50%	25,000	—	25,000	6,026	2,424	8,450
5	Oshawa Retail Lands, Oshawa, ON	50%	11,000	1,000	12,000	3,866	454	4,320
6	Bathurst and Lake Shore, Toronto, ON	40%	84,000	16,000	100,000	50,764	9,360	60,124
<b>Subtotal retail</b>			<b>235,000</b>	<b>19,000</b>	<b>254,000</b>	<b>68,893</b>	<b>34,478</b>	<b>103,371</b>
<b>Industrial</b>								
1	Great Plains Business Park, Calgary, AB	50%	—	79,000	79,000	12,011	2,836	14,847
<b>Subtotal industrial</b>			<b>—</b>	<b>79,000</b>	<b>79,000</b>	<b>12,011</b>	<b>2,836</b>	<b>14,847</b>
<b>Total active greenfield development</b>			<b>235,000</b>	<b>98,000</b>	<b>333,000</b>	<b>\$ 80,904</b>	<b>\$ 37,314</b>	<b>\$ 118,218</b>
<b>Total non-active greenfield development</b>						<b>\$ 152,726</b>	<b>\$ 9,509</b>	
<b>Total greenfield development</b>						<b>\$ 233,630</b>	<b>\$ 46,823</b>	

(i) Compiled on a non-GAAP proportionate share basis. Investment to-date was compiled on a cash basis, excluding adjustments to fair value of on-going projects.

### 3.6 Major Mixed-Use Development

Choice Properties currently has a number of sites planned for major mixed-use development with four of these sites in an active pre-development stage. The four properties are in key urban markets, including three sites in Toronto, Ontario, and one in Coquitlam, British Columbia. These developments are residential focused, mixed use communities in close proximity to public transportation. A total of \$31.0 million has been invested to date on land acquisition and other initial development costs. The Trust expects to invest an additional \$20.2 million<sup>(2)</sup> on pre-development activities for these projects over the next two to five years before beginning construction. The projects are in various phases of pre-development, and Choice Properties continues to work on finalizing the assembly of land parcels for the developments.

#### 434-455 North Rd., Coquitlam, BC

The approximately seven acre site is in the City of Coquitlam in the Greater Vancouver Area. The site is well located and transit oriented, in close proximity to Lougheed Town Centre Station on the Vancouver SkyTrain system. The current redevelopment plans contemplate a mixed-use project with a focus on high density residential and retail at grade.

The site was approved for a transit oriented, mixed use development through the City of Coquitlam's Official Community Plan and Choice Properties is currently in design discussions with the City in preparation of making a formal Development Permit Application.

### 1806-1880 Eglinton Ave E., Toronto, ON

The approximately 19 acre site is located along Eglinton Avenue in the Golden Mile district of Toronto. The current redevelopment plans contemplate a large, mixed use master-plan community to be built in phases with a focus on high density residential and retail uses. The site is directly adjacent to new transit stations along the first phase of the Eglinton Crosstown LRT, which is currently under construction.

The Official Plan Application was submitted to the City of Toronto and the Trust is working with the City on their Secondary Planning Study for the Golden Mile Area.

### 2280 Dundas St. W., Toronto, ON

The approximately 15 acre site is located at the southeast corner of Dundas Street West and Bloor Street West in Toronto. The site is at the intersection of several major transit corridors including a TTC subway station, a GO train station and the Union-Pearson Express train. The current redevelopment plans contemplate a large mixed-use community integrated with the surrounding transit services with a focus on high density residential, office, retail and other community uses.

The Official Plan Application was submitted to the City of Toronto and Choice Properties is preparing a Rezoning Application for submission to the City.

### 985 Woodbine Ave., Toronto, ON

The approximately 1.6 acre site is located at the north east intersection of Woodbine Avenue and Danforth Avenue in the Danforth neighbourhood of Toronto. The site is directly adjacent to the Woodbine TTC subway station. The current redevelopment plan contemplates two mid-rise rental residential buildings with retail at grade.

The Rezoning Application was submitted to the City of Toronto and the Trust is in preliminary discussions with the City.

## 3.7 Residential

Choice Properties has six residential projects in the pipeline representing 1,246 residential units. As at December 31, 2019, a total of \$118.1 million has been invested in these projects to date and Choice Properties expects to invest an additional \$423.9 million<sup>(2)</sup> to complete the developments before transferring them to income producing properties. Choice Properties' residential development projects, at the Trust's ownership share<sup>(1)</sup>, as at December 31, 2019, are as follows:

Project / Location	Ownership %	Number of Units <sup>(i)</sup>	GLA (square feet)		Total	Total investment <sup>(iii)</sup>		
			Commercial under development	Residential under development		To-date	In progress <sup>(ii)</sup>	Total
<b>Residential</b>								
1 Bovaird West - Block 4, Brampton, ON <sup>(i)</sup>	50%	149	—	149,000	149,000	\$ 1,980	\$ 84,519	\$ 86,499
2 Richmond Road, Ottawa, ON <sup>(i)</sup>	100%	253	—	203,000	203,000	7,587	75,978	83,565
3 Dufferin Street, Toronto, ON	47%	187	32,000	156,000	188,000	50,215	40,448	90,663
4 East Liberty, Toronto, ON	47%	207	—	127,000	127,000	32,908	46,007	78,915
5 Sheppard Ave West, Toronto, ON <sup>(i)</sup>	50%	100	5,000	64,000	69,000	4,882	33,955	38,837
6 Grosvenor-Grenville, Toronto, ON <sup>(i)</sup>	50%	350	8,000	255,000	263,000	20,502	142,988	163,490
<b>Total residential</b>		<b>1,246</b>	<b>45,000</b>	<b>954,000</b>	<b>999,000</b>	<b>\$ 118,074</b>	<b>\$ 423,895</b>	<b>\$ 541,969</b>

(i) Preliminary stages of development.

(ii) Choice Properties' share.

(iii) Compiled on a non-GAAP proportionate share basis. Investment to-date was compiled on a cash basis, excluding adjustments to fair value of on-going projects.

### 3.8 Completed Developments

For the year ended December 31, 2019, Choice Properties transferred the following from properties under development to income producing properties as presented on a proportionate share basis:

(\$ thousands except where otherwise indicated)					
Project / Location	Property type	Ownership %	Transferred GLA (square feet)		Cost of assets transferred
<b>Intensification</b>					
1	Veterans Blvd. NE, Airdrie, AB	Retail	100%	46,995	\$ 15,385
2	Mahogany Village Market, Calgary, AB	Retail	100%	3,336	2,140
3	South Edmonton Common, Edmonton, AB	Retail	50%	1,395	739
4	Lougheed Hwy., Coquitlam, BC	Retail	100%	15,864	9,203
5	Bennett Dr., Gander, NF	Retail	100%	2,563	191
6	Dartmouth Crossing, Dartmouth, NS	Retail	50%	5,857	1,895
7	King St. S., Alliston, ON	Retail	100%	8,900	4,202
8	Mill St., Angus, ON	Retail	100%	10,430	3,327
9	Queen's Plate Dr., Etobicoke, ON	Retail	100%	8,000	4,349
10	Mavis & Elmcreek, Mississauga, ON	Retail	100%	13,115	4,725
11	16th St. E., Owen Sound, ON	Retail	100%	9,200	4,571
12	Neilson Rd, Toronto, ON	Retail	100%	2,379	1,445
13	Rue Jean-Talon E., Montreal, QC	Retail	100%	8,864	3,445
14	Carlton Spur, Prince Albert, SK	Retail	25%	4,175	1,139
15	Highway 88 West, Bradford, ON	Retail	100%	37,017	14,027
16	River Rd., Ottawa, ON	Retail	100%	12,991	5,851
17	Campbell Rd., Rothesay, NB	Retail	100%	2,107	1,192
18	Coxwell Ave., Toronto, ON	Retail	100%	33,000	9,352
19	Boul Laurier, Laplaine, QC	Retail	100%	10,041	2,606
20	Rue King George, Longueuil, QC	Retail	100%	4,965	1,407
21	St. Clair Rd. E., Guelph, ON	Retail	100%	1,200	886
<b>Subtotal intensification</b>				<b>242,394</b>	<b>92,077</b>
<b>Greenfield development</b>					
1	Great Plains Business Park, Calgary, AB	Industrial	50%	60,305	8,382
2	Harvest Pointe, Edmonton, AB	Retail	50%	6,967	3,201
3	Erin Ridge, St. Albert, AB	Retail	50%	3,294	1,495
4	Cundles and Duckworth, Barrie, ON	Retail	100%	15,049	6,871
5	Upper Sherman, Hamilton, ON	Retail	100%	50,299	14,352
6	Peddie Road, Milton, ON	Industrial	85%	565,425	70,026
7	Chemin du Fer-Cheval, St. Julie, QC	Retail	75%	54,977	15,655
8	Stockyards, Prince Albert, SK	Retail	100%	943	314
9	Oshawa Retail Lands, Oshawa, ON	Retail	50%	741	340
10	Harvest Hills, Edmonton, AB	Retail	50%	10,228	1,493
<b>Subtotal greenfield development</b>				<b>768,228</b>	<b>122,129</b>
<b>Residential</b>					
1	Centre in the Park, Sherwood Park, AB	Residential	50%	53,000	17,456
<b>Subtotal residential</b>				<b>53,000</b>	<b>17,456</b>
<b>Total Transferred Properties at Cost</b>				<b>1,063,622</b>	<b>\$ 231,662</b>
<b>Total Transferred Properties at Fair Value</b>					<b>\$ 256,299</b>

### 3.9 Development Project Capital

Choice Properties expects to invest a total of approximately \$564.7 million, at the Trust's ownership share<sup>(1)</sup>, by the end of the year 2022<sup>(2)</sup>.

(\$ thousands)	2020		2021		2022		Total	
Intensification	\$	40,800	\$	42,800	\$	13,800	\$	97,400
Greenfield development		35,100		32,800		26,000		93,900
Major mixed use		15,800		4,000		300		20,100
Residential		115,000		106,800		131,500		353,300
<b>Estimated total capital annual spend<sup>(i)</sup></b>	<b>\$</b>	<b>206,700</b>	<b>\$</b>	<b>186,400</b>	<b>\$</b>	<b>171,600</b>	<b>\$</b>	<b>564,700</b>

(i) Compiled on a non-GAAP proportionate share basis.

## 4. LIQUIDITY AND CAPITAL RESOURCES

### 4.1 Major Cash Flow Components

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Cash and cash equivalents, beginning of period	\$ 54,946	\$ 82,006	\$ (27,060)	\$ 30,713	\$ 6,407	\$ 24,306
Cash flows from operating activities	207,460	200,465	6,995	580,556	405,192	175,364
Cash flows from (used in) investing activities	(123,665)	17,481	(141,146)	61,597	(1,582,842)	1,644,439
Cash flows from (used in) financing activities	(96,751)	(269,239)	172,488	(630,876)	1,201,956	(1,832,832)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 41,990</b>	<b>\$ 30,713</b>	<b>\$ 11,277</b>	<b>\$ 41,990</b>	<b>\$ 30,713</b>	<b>\$ 11,277</b>

#### Cash Flows from Operating Activities

##### Three Months

The increase in cash flows from operating activities was primarily due to a decline in acquisition transaction costs and other related expenses and a reduction of working capital requirements for the current quarter, partially offset by lower net operating income attributable to the Oak Street disposition in September 2019.

##### Year Ended

The increase in cash flows from operating activities was primarily attributable to the positive contribution from the Acquisition Transaction, a reduction in net interest cash outflows due to the change in capital structure and a reduction in acquisition transaction costs and other related expenses, partially offset by an increase in working capital requirements.

Cash flows from operating activities are used to fund ongoing operations, and expenditures for leasing capital and property capital<sup>(2)</sup>.

#### Cash Flows from (used in) Investing Activities

##### Three Months

The change in cash flows from (used in) investing activities primarily relates to the change in the timing of settlement for notes receivables from related party and a reduction in property transactions activity, as Sun Life Plaza was sold in the comparative period in 2018, partially offset by a reduction in capital spending on investment properties.

##### Year Ended

The increase in cash flows from (used in) investing activities primarily relates to non-recurring use of funds as part of the closing of the Acquisition Transaction in May 2018, offset by the receipt of proceeds from the various dispositions in 2019 and a reduction in capital spending on investment properties.

#### Cash Flows from (used in) Financing Activities

##### Three Months

The decrease in cash used in financing activities was primarily attributable to the deferral of payments on distributions on Exchangeable Units during the current quarter.

##### Year Ended

The change in cash flows from (used in) financing activities was primarily due to a reduction in non-recurring debt financing incurred as part of the Acquisition Transaction in the prior year and overall net repayments on the credit facility and term loans partly financed from the net proceeds received from the Oak Street disposition, partially offset by proceeds from the equity offering completed in May 2019 and the deferral of payments on distributions on Exchangeable Units.

## 4.2 Liquidity and Capital Structure

Choice Properties expects to fund its ongoing operations and finance future growth primarily through the use of: (i) existing cash; (ii) cash flows from operations; (iii) short term financing through the committed credit facility; (iv) the issuance of unsecured debentures and equity (including Exchangeable Units), subject to market conditions; and (v) secured mortgages. Given reasonable access to capital markets, Choice Properties does not foresee any impediments in obtaining financing to satisfy its short- and long-term financial obligations, including its capital investment commitments<sup>(2)</sup>.

(\$ thousands)	As at December 31, 2019	As at December 31, 2018	Change
Cash and cash equivalents - non-GAAP proportionate share basis <sup>(1)</sup>	\$ 51,484	\$ 40,793	\$ 10,691
Unused portion of the credit facility <sup>(3)</sup>	1,368,000	1,175,000	193,000
<b>Liquidity</b>	<b>\$ 1,419,484</b>	<b>\$ 1,215,793</b>	<b>\$ 203,691</b>
<b>Unencumbered assets - non-GAAP proportionate share basis<sup>(1)</sup></b>	<b>\$ 11,800,000</b>	<b>\$ 11,750,000</b>	<b>\$ 50,000</b>

(i) Choice Properties has an accordion commitment from the lenders which allows the Trust to increase the limit by an additional \$500,000 (subject to certain conditions).

### Base Shelf Prospectus

On January 9, 2018, Choice Properties filed a Short Form Base Shelf Prospectus allowing for the issuance of up to \$2,000,000 of Units and debt securities, or any combination thereof over a 25-month period.

## 4.3 Components of Total Debt

Choice Properties' debt structure was as follows:

As at December 31, 2019 (\$ thousands)	GAAP Basis	Proportionate Share Basis <sup>(1)</sup>	Proportionate Share Basis <sup>(1)</sup>	
			Weighted average term to maturity (years)	Weighted average interest rate (%)
Construction loans	\$ 24,842	\$ 114,601	1.4	3.71%
Credit facility	132,000	132,000	3.3	3.46%
less: Debt placement costs	(4,767)	(4,767)		
Variable rate debt	152,075	241,834	2.4	3.58%
Senior unsecured debentures	5,175,000	5,175,000	5.1	3.67%
Mortgages	1,230,569	1,458,224	5.5	4.01%
less: Debt placement costs, discounts and premiums	(16,959)	(19,575)		
Fixed rate debt	6,388,610	6,613,649	5.2	3.74%
<b>Total debt, net</b>	<b>\$ 6,540,685</b>	<b>\$ 6,855,483</b>		

As at December 31, 2018 (\$ thousands)	GAAP Basis	Proportionate Share Basis <sup>(1)</sup>	Proportionate Share Basis <sup>(1)</sup>	
			Weighted average term to maturity (years)	Weighted average interest rate (%)
Construction loans	\$ 21,330	\$ 119,131	0.8	3.89%
Credit facility	325,000	325,000	4.3	3.76%
Term loans	800,000	800,000	4.1	3.64%
less: Debt placement costs	(10,593)	(10,593)		
Variable rate debt	1,135,737	1,233,538	3.8	3.70%
Senior unsecured debentures	4,725,000	4,725,000	5.1	3.61%
Mortgages	1,328,280	1,510,674	5.6	4.07%
less: Debt placement costs, discounts and premiums	(11,659)	(13,411)		
Fixed rate debt	6,041,621	6,222,263	5.2	3.72%
<b>Total debt, net</b>	<b>\$ 7,177,358</b>	<b>\$ 7,455,801</b>		

### Construction Loans

For the purpose of financing the development of certain retail, industrial and residential properties, various investments in equity accounted joint ventures and co-ownerships have variable rate non-revolving construction facilities in which certain subsidiaries of the Trust guarantee its own share. These construction loans, which mature throughout 2020 to 2022, have a maximum amount available to be drawn at the Trust's ownership interest of \$225,477 (December 31, 2018 - \$216,921).

As at December 31, 2019, \$114,601 was drawn and the construction loans had a weighted average effective interest rate of 3.71% and a weighted average term to maturity of 1.4 years.

### Credit Facility

Choice Properties has a \$1,500,000 senior unsecured committed revolving credit facility maturing May 4, 2023, provided by a syndicate of lenders. The credit facility bears interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB. Choice Properties has an accordion commitment from the lenders which allows the Trust to increase the limit by an additional \$500,000 (subject to certain conditions). As at December 31, 2019, \$132,000 was drawn under the syndicated facility.

The credit facility contains certain financial covenants. As at December 31, 2019, the Trust was in compliance with all its financial covenants for the credit facility.

### Senior Unsecured Debentures

On June 11, 2019, Choice Properties issued, on a private placement basis, \$750,000 aggregate principal amount of series M senior unsecured debentures of the Trust bearing interest at a rate of 3.53% per annum maturing on June 11, 2029. The net proceeds of the issuance were used to repay existing indebtedness, including the redemption in full of the \$200,000 aggregate principal amount of the 3.00% series 7 senior unsecured debentures due September 20, 2019 and the \$100,000 aggregate principal amount of the 2.56% series C-C senior unsecured debentures due November 30, 2019.

### Term Loans

At December 31, 2018, Choice Properties had two unsecured term loans outstanding from a syndicate of lenders: a \$175,000 term loan maturing on May 4, 2022 and a \$625,000 term loan maturing on May 4, 2023. On June 11, 2019, Choice Properties repaid in full the \$175,000 unsecured term loan maturing on May 4, 2022 and repaid \$225,000 of the unsecured term loan maturing on May 4, 2023, using a portion of the net proceeds from the issuance of the Series M senior unsecured debentures. On September 30, 2019, Choice Properties repaid the remaining \$400,000 balance on the unsecured term loan maturing on May 4, 2023, using a portion of the net proceeds from the investment properties sold during the year.

Prior to being repaid, the term loans were charged interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. This pricing was contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB.

### Summary of Total Debt Activities

The following outlines the net changes to the components of Choice Properties' variable rate debt on a non-GAAP proportionate share basis during the year ended December 31, 2019:

For the year ended December 31, 2019 (\$ thousands)	Credit facility	Term loans	Construction loans	Total variable rate debt
Principal balance outstanding, beginning of year	\$ 325,000	\$ 800,000	\$ 119,131	\$ 1,244,131
Net repayments	(193,000)	(800,000)	(4,530)	(997,530)
<b>Principal balance outstanding, end of year</b>	<b>\$ 132,000</b>	<b>\$ —</b>	<b>\$ 114,601</b>	<b>\$ 246,601</b>

The following outlines the changes to the components of Choice Properties' fixed rate debt on a non-GAAP proportionate share basis during the year ended December 31, 2019:

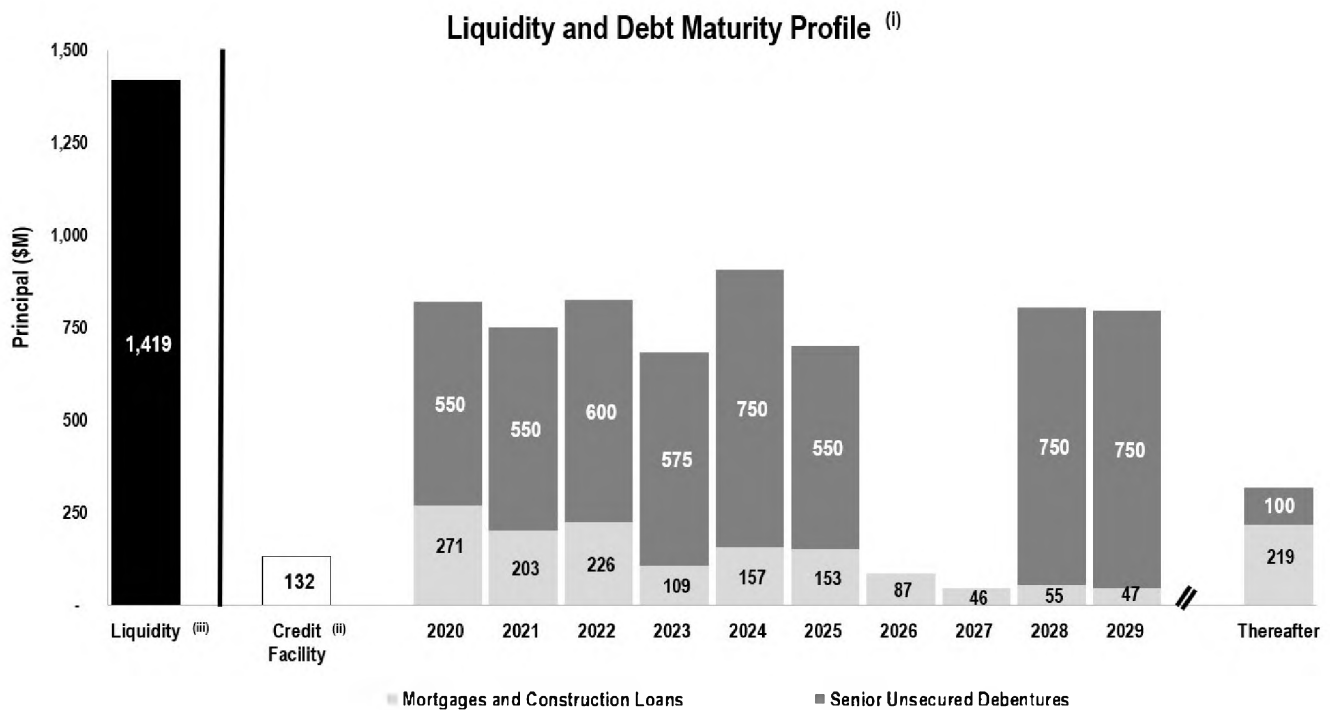
For the year ended December 31, 2019 (\$ thousands)	Senior unsecured debentures	Mortgages payable	Total fixed rate debt
Principal balance outstanding, beginning of year	\$ 4,725,000	\$ 1,510,674	\$ 6,235,674
Issuances	750,000	62,815	812,815
Repayments	(300,000)	(115,265)	(415,265)
<b>Principal balance outstanding, end of year</b>	<b>\$ 5,175,000</b>	<b>\$ 1,458,224</b>	<b>\$ 6,633,224</b>

### Schedules of Repayments and Cash Flow Activities

The schedule of principal repayment of total long-term debt, on a non-GAAP proportionate share basis, based on maturity, is as follows:

As at December 31, 2019 (\$ thousands)	Credit facility	Construction loans	Senior unsecured debentures	Mortgages payable	Total
2020	\$ —	\$ 36,011	\$ 550,000	\$ 234,920	\$ 820,931
2021	—	58,573	550,000	143,932	752,505
2022	—	20,017	600,000	205,806	825,823
2023	132,000	—	575,000	109,435	816,435
2024	—	—	750,000	157,346	907,346
Thereafter	—	—	2,150,000	606,785	2,756,785
<b>Total debt outstanding</b>	<b>\$ 132,000</b>	<b>\$ 114,601</b>	<b>\$ 5,175,000</b>	<b>\$ 1,458,224</b>	<b>\$ 6,879,825</b>

In order to reduce refinancing risk, Choice Properties attempts to stagger debt maturities and future financing obligations to ensure no large maturities or financing needs occur in any one year.



(i) Presented on a non-GAAP proportionate share basis.

(ii) The credit facility matures on May 4, 2023.

(iii) Includes cash and cash equivalents.



#### 4.4 Financial Condition

Choice Properties is subject to certain financial and non-financial covenants in its senior unsecured debentures, credit facility and term loans, that include maintaining certain leverage and debt service ratios. These ratios are monitored by management on an ongoing basis to ensure compliance. Choice Properties was in compliance with all these covenants as at December 31, 2019 and December 31, 2018.

The Trust's compliance with leverage and coverage ratios, as they relate to its debentures, are shown below:

		<b>As at December 31, 2019</b>	As at December 31, 2018
<b>Debt to Total Assets Ratio<sup>(i)</sup></b>	Limit: Maximum excluding convertible debt is 60.0%	<b>43.1%</b>	47.2%
<b>Debt Service Coverage Ratio<sup>(ii)</sup></b>	Limit: Minimum 1.5x	<b>3.0x</b>	3.0x
<b>Debt to EBITDAFV<sup>(i)(ii)(iii)(iv)</sup></b>		<b>7.3x</b>	8.9x
<b>Interest Coverage Ratio<sup>(i)(iii)</sup></b>		<b>3.5x</b>	3.4x

- (i) Debt ratios exclude Exchangeable Units. The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.
- (ii) Refer to Section 15.8, "Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value", of this MD&A, for a reconciliation of net income to EBITDAFV used in this ratio.
- (iii) Refer to Section 15.7, "Net Interest Expense and Other Financing Charges Reconciliation", of this MD&A, for a reconciliation of proportionate share basis to GAAP basis for net interest expense and other financing charges used in the ratio.
- (iv) On an unadjusted basis the debt to EBITDAFV at December 31, 2019 is 7.3x. On September 30, 2019, Choice Properties completed the Oak Street disposition and utilized the proceeds to repay debt. The debt to EBITDAFV ratio is calculated on a trailing 12-month basis which would include the earnings of the properties sold as part of the Oak Street disposition. Normalized to exclude the income (loss) from the Oak Street disposition and excluding lease surrender revenue from Loblaw, the Debt/EBITDAFV ratio as at December 31, 2019 is 7.5x.
- (v) Normalized to include the proforma results of CREIT and exclude lease surrender revenue from Loblaw, the Debt/EBITDAFV ratio as at December 31, 2018 is 8.0x.

#### 4.5 Credit Ratings

Choice Properties' debt securities are rated by two independent credit rating agencies: DBRS and S&P. Choice Properties' ratings are linked to and equivalent to those of Loblaw, largely because of Loblaw's significant relationship with the Trust, and the contractual arrangements and the strategic relationship between the Trust and Loblaw.

Choice Properties has maintained its BBB credit rating with both S&P and DBRS. On August 23, 2019, DBRS confirmed the rating at BBB with a stable trend and on October 4, 2019, S&P confirmed the rating at BBB with a stable outlook. A credit rating of BBB- or higher is an investment grade rating.

The following table sets out the current credit ratings for Choice Properties as at December 31, 2019:

Credit ratings (Canadian standards)	DBRS		S&P	
	Credit rating	Trend	Credit rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Senior unsecured debentures	BBB	Stable	BBB	N/A

## 4.6 Unit Equity

Unit equity, for the purposes of this MD&A, includes both Units and Exchangeable Units, which are economically equivalent to Units and receive equal distributions. The following is a continuity of Choice Properties' unit equity:

	Year ended December 31, 2019	Year ended December 31, 2018
Units, beginning of year	278,202,559	94,300,965
Units issued through equity financing	30,042,250	182,836,481
Units issued under the Distribution Reinvestment Plan	—	125,749
Distribution in Units	1,569,400	—
Consolidation of Units	(1,569,400)	—
Units issued under unit-based compensation arrangements	2,203,950	1,516,670
Units repurchased for unit-based compensation arrangement	(155,890)	(577,306)
<b>Units, end of year</b>	<b>310,292,869</b>	<b>278,202,559</b>
Exchangeable Units, beginning of year	389,961,783	319,080,557
Issued in conjunction with the Acquisition Transaction	—	70,881,226
<b>Exchangeable Units, end of year</b>	<b>389,961,783</b>	<b>389,961,783</b>
<b>Total Units and Exchangeable Units, end of year</b>	<b>700,254,652</b>	<b>668,164,342</b>

### Units Issued through Equity Financing

On May 9, 2019, the Trust completed a bought deal equity offering of 30,042,250 Units at a price of \$13.15 per Unit, for aggregate gross proceeds of approximately \$395.1 million, and net proceeds of approximately \$380.8 million. As part of this bought deal, GWL acquired 3,805,000 Units. In connection with the Acquisition Transaction in May 2018, Choice Properties issued 182,836,481 Units at a price of \$11.25 per unit, for aggregate gross and net proceeds of totalling approximately \$2.1 billion.

### Distribution in Units and Consolidation of Units

As a result of the increase in taxable income generated primarily from the sale transactions in the year ended December 31, 2019, the Board declared a special non-cash distribution on December 31, 2019 of 1,569,400 Units at \$0.07 per Unit totalling \$21.7 million. Immediately following the issuance of Units, the Units were consolidated such that each unitholder held the same number of Units after the consolidation as each unitholder held prior to the special non-cash distribution. As at December 31, 2019, the special distribution declared was recorded to Trust Units in accordance with IAS 32, "Financial Instruments: Presentation".

### Units Issued under Unit-Based Compensation Arrangements

Units were issued in connection with settlements under the Unit Option Plan and the Unit-Settled Restricted Unit Plan.

### Units Repurchased for Unit-Based Compensation Arrangement

On November 15, 2019, Choice Properties received approval from the TSX to purchase up to 25,856,839 Trust Units during the twelve-month period from November 19, 2019 to November 18, 2020, under a normal course issuer bid ("NCIB"). During the years ended December 31, 2019 and 2018, in connection with the Unit-Settled Restricted Unit Plan, the Trust acquired Units which were then granted to certain employees and are subject to vesting conditions and disposition restrictions.

## Distributions

In the year ended December 31, 2019, Choice Properties declared \$532,054 in distributions (December 31, 2018 - \$431,392), including distributions to holders of Exchangeable Units, which are reported as interest expense.

The distributions declared for the periods ended December 31, 2019 and December 31, 2018 were as follows:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Cash distributions declared	\$ 129,546	\$ 123,612	\$ 5,934	\$ 510,333	\$ 431,392	\$ 78,941
Add: Special non-cash distribution <sup>(i)</sup>	21,721	—	21,721	21,721	—	21,721
Total distributions declared	\$ 151,267	\$ 123,612	\$ 27,655	\$ 532,054	\$ 431,392	\$ 100,662
Less: Distributions reinvested through the DRIP	—	—	—	—	(1,487)	1,487
Net distributions declared	\$ 151,267	\$ 123,612	\$ 27,655	\$ 532,054	\$ 429,905	\$ 102,149

(i) The special non-cash distribution was settled through the issuance of Units. Immediately following the issuance of Units, the Units were consolidated such that each unitholder held the same number of Units after the consolidation as each unitholder held prior to the special non-cash distribution.

Choice Properties' Board retains full discretion with respect to the timing and quantum of distributions, however the total income distributed will not be less than the amount necessary to ensure the Trust will not be liable to pay income taxes under Part I of the Income Tax Act (Canada) for the year ended December 31, 2019. The taxable income allocated to the Trust and Exchangeable Unitholders may vary in certain taxation years. Over time, such differences, in aggregate, will be minimal.

### Distribution Reinvestment Plan ("DRIP")

Choice Properties instituted a DRIP that allows eligible Unitholders to elect to automatically reinvest their regular monthly cash distributions in additional Units and to receive a bonus distribution in Units equivalent to 3% of each distribution. The DRIP provides an efficient and cost-effective way for Choice Properties to issue additional equity to its existing Unitholders while offering Unitholders the opportunity to increase their ownership in Choice Properties on a regular basis without incurring any commission or brokerage fees. Cash not distributed by Choice Properties due to the issuance of additional Units under the DRIP is used by Choice Properties for future property acquisitions, capital improvements and working capital purposes.

Units issued under the DRIP will be issued directly from treasury at a price based on the volume-weighted average closing price for the five trading days immediately preceding the relevant distribution date. Choice Properties reserves the right to amend, suspend or terminate the DRIP at any time, but such actions will have no retroactive effect that would prejudice the interests of DRIP participants. All administrative costs associated with the operation of the DRIP will be paid by Choice Properties.

To date, Choice Properties has reserved for issuance with the TSX an aggregate of 9,075,000 additional Units to accommodate the ongoing purchase of Units under the DRIP. Persons who do not reside in Canada for purposes of the Tax Act are not permitted to participate in the DRIP.

On April 25, 2018, the Board temporarily suspended the DRIP commencing with the distribution declared in May 2018. On February 12, 2020, the Board approved an amendment and reinstatement of the DRIP. The Board also approved the elimination of the 3% bonus distribution under the amended DRIP. During the year ended December 31, 2019, there were no Units issued under the DRIP (December 31, 2018 - 125,749 Units).

At its most recent meeting on February 12, 2020, the Board reviewed and approved the current rate of distributions of \$0.74 per unit per annum. In determining the amount of distributions to be made to Unitholders, Choice Properties' Board considers many factors, including provisions in its Declaration of Trust, macro-economic and industry specific environments, the overall financial condition of the Trust, future capital requirements, debt covenants, and taxable income. In accordance with Choice Properties' Distribution Policy, management and the Board regularly review Choice Properties' rate of distributions to assess the stability of cash and non-cash distributions.

### Normal Course Issuer Bid

Choice Properties may from time to time purchase Units in accordance with the rules prescribed under applicable stock exchange or regulatory policies. On September 18, 2018, Choice Properties received approval from the TSX to purchase up to 13,880,839 Units during the twelve-month period from September 20, 2018 to September 19, 2019, under a Normal Course Issuer Bid ("NCIB").

On November 15, 2019, Choice Properties received approval from the TSX to purchase up to 25,856,839 Units during the twelve-month period from November 19, 2019 to November 18, 2020, by way of a NCIB over the facilities of the TSX or through alternative trading systems. During the year ended December 31, 2019, in connection with Choice Properties' Unit-Settled Restricted Unit Plan, Choice Properties acquired Units which were then granted to certain employees and are subject to vesting conditions and disposition restrictions.

#### 4.7 Adjusted Cash Flow from Operations (“ACFO”)

Adjusted Cash Flow from Operations<sup>(1)</sup> excludes most of the short-term fluctuations in non-cash working capital, such as property tax installments, and the timing of semi-annual debenture installments, although some fluctuations between quarters for operational cash flows still exist. ACFO<sup>(1)</sup> also adjusts cash flows from operating activities for the working capital required for operating capital expenditures to maintain productive capacity of the investment properties which adds volatility to the values due to seasonality of capital projects. Management includes this non-GAAP measure in its assessment of cash flow available for distributions. Refer to Section 15.5, “Adjusted Cash Flow from Operations”, of this MD&A, for a reconciliation of ACFO<sup>(1)</sup> to cash flows from operating activities, as determined in accordance with GAAP.

The table below summarizes the ACFO<sup>(1)</sup> metrics:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Adjusted Cash Flow from Operations <sup>(1)</sup>	\$ 136,636	\$ 109,044	\$ 27,592	\$ 597,650	\$ 491,371	\$ 106,279
Cash distributions declared	129,546	123,612	5,934	510,333	431,392	78,941
Cash retained after cash distributions	\$ 7,090	\$ (14,568)	\$ 21,658	\$ 87,317	\$ 59,979	\$ 27,338
ACFO <sup>(1)</sup> payout ratio	94.8%	113.4%	(18.6)%	85.4%	87.8%	(2.4)%

##### Three Months

ACFO increased primarily as a result of a decrease in capital expenditures related to the timing of maintenance activity and a reduction of acquisition transaction costs and other related expenses, partially offset by the non-recurring reimbursement of contract revenue to Loblaw.

ACFO payout ratio decreased primarily due to the increased cash flows highlighted above, partially offset by the higher amount of distributions declared as a result of the additional units issued from the May 2019 equity offering.

##### Year Ended

ACFO increased primarily due to a full year of contribution from the Acquisition Transaction as compared to eight months in the prior year and a reduction of acquisition transaction costs and other related expenses.

ACFO payout ratio declined marginally compared with the prior year, as the growth in operating income was partially offset by the higher amount of distributions declared as a result of the additional units issued from the May 2019 equity offering.

#### 4.8 Financial Instruments

Designated hedging derivatives consist of interest rate swaps to hedge the interest rate associated with an equivalent amount of variable rate mortgages. The Trust did not enter into any new designated hedging derivatives during the year ended December 31, 2019.

The impact of the hedging instruments on the consolidated balance sheets is as follows:

(\$ thousands)	Notional Amount	Net Asset (Liability)	Line Item in Balance Sheet	Fair Value Gain (Loss) Recorded in OCI
<b>As at December 31, 2019</b>				
Interest rate swaps	\$ 276,700	\$ (2,629)	Other assets or Other liabilities	\$ (2,044)
<b>As at December 31, 2018</b>				
Interest rate swaps	321,700	585	Other assets or Other liabilities	597

#### 4.9 Off-Balance Sheet Arrangements

Choice Properties issues letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at December 31, 2019, the aggregate gross potential liability related to these letters of credit totaled \$36,110 including \$1,790 posted by Loblaw with the Province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from Loblaw subsequent to the initial public offering (December 31, 2018 - \$38,540 including \$3,248 posted by Loblaw).

#### 4.10 Contractual Obligations

The undiscounted future principal and interest payments on Choice Properties' debt instruments and other contractual obligations as at December 31, 2019 were as follows:

(\$ thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Senior unsecured debentures	\$ 731,805	\$ 716,807	\$ 748,558	\$ 702,403	\$ 857,465	\$ 2,506,455	\$ 6,263,493
Mortgages payable	289,412	189,643	242,950	142,305	184,565	705,422	1,754,297
Construction loans <sup>(i)</sup>	36,011	58,573	20,017	—	—	—	114,601
Credit facility <sup>(i)</sup>	—	—	—	132,000	—	—	132,000
Other <sup>(ii)</sup>	186,513	129,993	140,414	61,080	32,456	3,388	553,844
<b>Total</b>	<b>\$ 1,243,741</b>	<b>\$ 1,095,016</b>	<b>\$ 1,151,939</b>	<b>\$ 1,037,788</b>	<b>\$ 1,074,486</b>	<b>\$ 3,215,265</b>	<b>\$ 8,818,235</b>

- (i) Excludes interest on the revolving credit facility and construction loans at a floating interest rate.
- (ii) As at December 31, 2019, Choice Properties had commitments of approximately \$553,844 for future capital expenditures related to ongoing development and sustainable capital projects, and other contractual obligations such as operating rents, of which \$184,633 relates to equity accounted joint ventures.

## 5. RESULTS OF OPERATIONS

Choice Properties' results, as reported under GAAP, for the three months and year ended December 31, 2019 and December 31, 2018 are summarized below:

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2019	2018	Change	% Change	2019	2018	Change	% Change
<b>Net Operating Income</b>								
Rental revenue	\$ 317,986	\$ 322,793	\$ (4,807)	(1.5)%	\$ 1,288,554	\$ 1,148,273	\$ 140,281	12.2 %
Property operating costs	(93,872)	(92,375)	(1,497)	1.6 %	(368,132)	(314,436)	(53,696)	17.1 %
	<b>224,114</b>	230,418	<b>(6,304)</b>	<b>(2.7)%</b>	<b>920,422</b>	833,837	<b>86,585</b>	<b>10.4 %</b>
<b>Other Income and Expenses</b>								
Interest income	456	4,095	(3,639)	(88.9)%	11,551	14,224	(2,673)	(18.8)%
Fee income	1,530	1,134	396	34.9 %	4,556	3,523	1,033	29.3 %
Net interest expense and other financing charges	(133,893)	(138,552)	4,659	(3.4)%	(551,843)	(551,146)	(697)	0.1 %
General and administrative expenses	(9,760)	(9,506)	(254)	2.7 %	(39,292)	(34,975)	(4,317)	12.3 %
Share of income from equity accounted joint ventures	(5,296)	8,116	(13,412)	(165.3)%	24,366	16,222	8,144	50.2 %
Acquisition transaction costs and other related expenses	—	(11,044)	11,044	(100.0)%	(8,363)	(141,493)	133,130	(94.1)%
Adjustment to fair value of unit-based compensation	1,744	707	1,037	146.7 %	(7,109)	4,792	(11,901)	(248.4)%
Adjustment to fair value of Exchangeable Units	206,680	214,479	(7,799)	N/M	(932,009)	593,706	(1,525,715)	(257.0)%
Adjustment to fair value of investment properties	7,608	(18,548)	26,156	(141.0)%	(4,434)	(88,575)	84,141	(95.0)%
<b>Income (Loss) before Income Taxes</b>	<b>293,183</b>	281,299	11,884	4.2 %	<b>(582,155)</b>	650,115	(1,232,270)	(189.5)%
Income taxes	78	(200)	278	(139.0)%	798	(538)	1,336	(248.3)%
<b>Net Income (Loss)</b>	<b>\$ 293,261</b>	\$ 281,099	\$ 12,162	4.3 %	<b>\$ (581,357)</b>	\$ 649,577	<b>\$(1,230,934)</b>	<b>(189.5)%</b>

### Net Income (Loss)

#### Three Months

Net income increased mainly due to a favourable change in fair value for investment properties and lower acquisition transaction and borrowing costs, partially offset by a reduction in the year-over-year gain recognized with respect to the fair value adjustment on Exchangeable Units, an allowance for expected credit losses associated with certain mortgages and loans receivable, non-recurring reimbursement of contract revenue to Loblaw for incorrectly allocated solar rooftop leases and reduced contribution from equity accounted joint ventures.

#### Year Ended

Net income decreased primarily due to cumulative adverse fair value adjustments for the Exchangeable Units due to increases in the unit price, partially offset by a decline in acquisition transaction costs, a full year of contribution from the Acquisition Transaction as compared to eight months in the prior year and a favourable change in the fair value for investment properties.

Adjustments to fair value can vary widely from quarter-to-quarter as they are impacted by market factors such as the Trust's Unit price and market capitalization rates.

## Rental Revenue and Property Operating Costs

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
<b>Net Operating Income</b>						
Rental revenue	\$ 317,986	\$ 322,793	\$ (4,807)	\$ 1,288,554	\$ 1,148,273	\$ 140,281
Property operating costs	(93,872)	(92,375)	(1,497)	(368,132)	(314,436)	(53,696)
	\$ 224,114	\$ 230,418	\$ (6,304)	\$ 920,422	\$ 833,837	\$ 86,585

### Three Months

The decline is primarily attributed to the full quarter impact of Choice Properties having sold a 30-property portfolio at September 30, 2019, partially offset by contributions from newly acquired properties and developments coming online.

### Year Ended

The increase is primarily due to the full year contribution from the Acquisition Transaction in the current year as compared to eight months in the prior year, coupled with income earned from newly acquired properties and completed developments, offset by the foregone income from disposed properties, highlighted by the 30-property portfolio sold at September 30, 2019.

Rental revenue is comprised primarily of base rent, including straight-line rent, and recoveries from tenants for property taxes, insurance, operating costs and qualifying capital expenditures. Growth in rental revenue is materially impacted by newly acquired or constructed assets.

Property operating costs are comprised primarily of expenses to manage and maintain the properties for the benefit of the tenants, including realty taxes and insurance, that are recoverable under the leases of most tenants. Non-recoverable operating costs do not directly benefit the tenants and include property management fees paid by the Trust for properties managed by its partners.

## Interest Income

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Interest income on mortgages and loans receivable	\$ 3,216	\$ 3,336	\$ (120)	\$ 13,999	\$ 10,691	\$ 3,308
Expected credit losses on mortgages and loans receivable	(3,000)	—	(3,000)	(3,000)	—	(3,000)
Other interest income	240	759	(519)	552	3,461	(2,909)
Other income	—	—	—	—	72	(72)
<b>Interest Income</b>	\$ 456	\$ 4,095	\$ (3,639)	\$ 11,551	\$ 14,224	\$ (2,673)

### Three Months

The decrease is primarily attributable to recording an expected credit loss of \$3.0 million in the three months ended December 31, 2019, coupled with a lower weighted average balance outstanding during the current period.

### Year Ended

The decrease is primarily attributable to recording an expected credit loss of \$3.0 million in 2019, in addition to a decline in income earned from the funds held in the security deposit escrow in the prior year, partially offset by twelve months of interest earned from the mezzanine financing program acquired as part of the Acquisition Transaction as compared to eight months in the prior year.

## Fee Income

Fees charged to third-parties include property management fees, leasing fees, project management fees relating to co-owned properties which serves as a cash flow supplement to enhance returns from the co-owned assets. Choice Properties provides property management services to Loblaw and also administers certain services in connection with Loblaw's gas bar subleases (see Section 9, "Related Party Transactions", of this MD&A).

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Fees charged to related party	\$ 245	\$ 157	\$ 88	\$ 922	\$ 899	\$ 23
Fees charged to third-parties	1,285	977	308	3,634	2,624	1,010
<b>Fee Income</b>	<b>\$ 1,530</b>	<b>\$ 1,134</b>	<b>\$ 396</b>	<b>\$ 4,556</b>	<b>\$ 3,523</b>	<b>\$ 1,033</b>

### Three Months

Fee income is impacted by changes in the portfolio and the timing of leasing transactions and project activity.

### Year Ended

The increase is primarily due to the incremental income earned from the third-party fee business acquired as part of the Acquisition Transaction.

## Net Interest Expense and Other Financing Charges

In 2018, Choice Properties' capital structure was altered by the Acquisition Transaction, see Section 1.2, "Acquisition of Canadian Real Estate Investment Trust" and Section 4, "Liquidity and Capital Resources", of this MD&A. The impacts of those changes flow through net interest expense and other financing charges as discussed below.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Interest on senior unsecured debentures	\$ 47,861	\$ 43,343	\$ 4,518	\$ 182,522	\$ 164,010	\$ 18,512
Distributions on Class C LP Units <sup>(i)</sup>	—	—	—	—	15,417	(15,417)
Interest on mortgages	12,299	13,343	(1,044)	51,907	35,293	16,614
Interest on credit facility and term loans	2,256	11,175	(8,919)	28,352	29,780	(1,428)
Interest on right-of-use asset	69	—	69	281	—	281
Distributions on Exchangeable Units <sup>(i)</sup>	72,143	72,143	—	288,573	271,089	17,484
Accelerated amortization of debt premium	—	—	—	—	37,282	(37,282)
Effective interest rate amortization of debt discounts and premiums	(923)	(979)	56	(3,720)	(2,387)	(1,333)
Effective interest rate amortization of debt placement costs	1,014	1,238	(224)	8,352	5,542	2,810
Capitalized interest	(826)	(1,711)	885	(4,424)	(4,880)	456
<b>Net interest expense and other financing charges</b>	<b>\$ 133,893</b>	<b>\$ 138,552</b>	<b>\$ (4,659)</b>	<b>\$ 551,843</b>	<b>\$ 551,146</b>	<b>\$ 697</b>
Less: Accelerated amortization of debt premium	—	—	—	—	(37,282)	37,282
<b>Net interest expense and other financing charges excl. accelerated amortization of debt premium</b>	<b>\$ 133,893</b>	<b>\$ 138,552</b>	<b>\$ (4,659)</b>	<b>\$ 551,843</b>	<b>\$ 513,864</b>	<b>\$ 37,979</b>

(i) Represents interest on indebtedness due to related parties.



### Three Months

The decline in interest expense is mainly due to:

- (a) a reduction in interest expense from the term loans as the balance was fully repaid as of September 30, 2019; and
- (b) a decline in mortgage principal balances due to repayments contributing to a lower interest expense;
- (c) offset by a net increase in interest charges from the senior unsecured debentures due to the change in capital structure resulting in a higher principal amount outstanding as compared to the prior year.

### Year Ended

The increase in interest expense is mainly due to:

- (a) accelerated amortization related to term loan placement costs, concurrent with repaying the balance on both term loans;
- (b) increased interest expense related to additional borrowings through debentures;
- (c) increased costs related to a full year of mortgages assumed as part of the Acquisition Transaction; and
- (d) increased costs associated with the Exchangeable Units as compared to the Class C LP Units;
- (e) offset by a decline due to the non-recurring accelerated amortization upon conversion of the Class C LP Units held by Loblaw into Exchangeable Units concurrent with the close of the Acquisition Transaction in May 2018; and
- (f) a reduction in interest expense from the term loans as the balance was fully repaid as of September 30, 2019.

## General and Administrative Expenses

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Salaries, benefits and employee costs	\$ 9,814	\$ 12,733	\$ (2,919)	\$ 42,772	\$ 40,960	\$ 1,812
Investor relations and other public entity costs	479	(10)	489	2,276	1,643	633
Professional fees	2,354	256	2,098	4,512	1,920	2,592
Services Agreement expense charged by related party <sup>(i)</sup>	798	702	96	3,095	2,335	760
Amortization of other assets	383	—	383	1,311	495	816
Other	2,329	1,804	525	8,256	7,226	1,030
	16,157	15,485	672	62,222	54,579	7,643
Less:						
Capitalized to investment properties	(733)	(730)	(3)	(3,055)	(3,261)	206
Allocated to recoverable operating expenses	(5,664)	(5,249)	(415)	(19,875)	(16,343)	(3,532)
<b>General and administrative expenses</b>	<b>\$ 9,760</b>	<b>\$ 9,506</b>	<b>\$ 254</b>	<b>\$ 39,292</b>	<b>\$ 34,975</b>	<b>\$ 4,317</b>

(i) The Services Agreement is described in the Section 9, "Related Party Transactions" of this MD&A.

### Three Months

General and administrative expenses were consistent compared to the prior period, as lower salary related costs were offset by increased spending on professional fees. In general, these expenses are impacted by transactions that can vary by year and the timing of when expenses are incurred.

### Year Ended

The increase reflects the increased cost for the Choice Properties operating platform for a full year of activity subsequent to the completion of the Acquisition Transaction as compared to eight months in the prior year.

## Acquisition Transaction Costs and Other Related Expenses

For the three months and year ended December 31, 2019, advisory fees, personnel and other integration costs related to the Acquisition Transaction totalling nil and \$8,363, respectively, were expensed (2018 - \$11,044 and \$141,493, respectively).

## 6. LEASING ACTIVITY

Choice Properties' leasing activities are focused on driving value by:

- focusing on property operations and striving for superior service to tenants;
- managing properties to maintain high levels of occupancy;
- increasing rental rates when market conditions permit; and
- by adding tenants in complementary business sectors to retail sites anchored by Loblaw food and drug stores.

The following tables detail the changes for in-place occupancy by operating segment for the three months and year ended December 31, 2019:

(in thousands of square feet except where otherwise indicated)	September 30, 2019									Three Months December 31, 2019		
	Leasable	Occupied	Occupied %	Expiries	New	Renewals	Subtotal: Absorption	Portfolio changes <sup>(i)</sup>	New/ (Disposed) vacancy	Leasable	Occupied	Occupied %
	Retail	46,285	45,351	98.0%	(606)	151	449	(6)	26	4	46,315	45,371
Industrial	15,826	15,522	98.1%	(471)	169	264	(38)	323	(7)	16,142	15,807	97.9%
Office	3,191	2,973	93.2%	(200)	60	135	(5)	7	(10)	3,188	2,975	93.3%
<b>Total</b>	<b>65,302</b>	<b>63,846</b>	<b>97.8%</b>	<b>(1,277)</b>	<b>380</b>	<b>848</b>	<b>(49)</b>	<b>356</b>	<b>(13)</b>	<b>65,645</b>	<b>64,153</b>	<b>97.7%</b>

(i) Represents changes in occupied square footage arising from acquisitions, dispositions, intensifications, expansions, and transfers from properties under development.

(in thousands of square feet except where otherwise indicated)	December 31, 2018									Year Ended December 31, 2019		
	Leasable	Occupied	Occupied %	Expiries	New	Renewals	Subtotal: Absorption	Portfolio changes <sup>(i)</sup>	New/ (Disposed) vacancy	Leasable	Occupied	Occupied %
	Retail	47,018	46,069	98.0%	(1,799)	694	1,282	177	(875)	172	46,315	45,371
Industrial	16,457	16,100	97.8%	(1,737)	675	1,248	186	(479)	164	16,142	15,807	97.9%
Office	3,153	2,909	92.3%	(520)	254	306	40	26	9	3,188	2,975	93.3%
<b>Total</b>	<b>66,628</b>	<b>65,078</b>	<b>97.7%</b>	<b>(4,056)</b>	<b>1,623</b>	<b>2,836</b>	<b>403</b>	<b>(1,328)</b>	<b>345</b>	<b>65,645</b>	<b>64,153</b>	<b>97.7%</b>

(i) Represents changes in occupied square footage arising from acquisitions, dispositions, intensifications, expansions, and transfers from properties under development.

### Three Months

Period end occupancy slightly reduced from 97.8% to 97.7% at December 31, 2019.

During the quarter, there was negative absorption of 49,000 square feet, mainly due to vacancy in the Ontario industrial portfolio.

Portfolio changes during the quarter primarily related to the acquisition of an industrial property in Toronto, Ontario, in addition to acquiring the Trust's partner's remaining 15% interest in two industrial assets in Milton, Ontario.

### Year Ended

Period end occupancy remains unchanged at 97.7%.

Positive absorption during the year was highlighted by increased leasing in the Ontario and Alberta industrial portfolios during the second quarter and the Ontario retail portfolio during the third quarter.

Portfolio changes were mainly due to the Oak Street disposition of 2.6 million square feet of 100% occupied space, offset by transfers of completed development projects in the Ontario industrial and retail portfolios, as well as acquisitions in the Ontario and British Columbia retail segments and the Ontario and Alberta industrial portfolios.

Choice Properties' principal tenant, Loblaw, represents 56.3% of its total GLA (December 31, 2018 - 58.9%). At December 31, 2019, the weighted average lease term-to-maturity on the Loblaw leases was 8.2 years (December 31, 2018 - 9.3 years).

(in millions of square feet except where otherwise indicated)	As at December 31, 2019			As at December 31, 2018		
	Portfolio GLA	Occupied GLA	Occupancy (%)	Portfolio GLA	Occupied GLA	Occupancy (%)
Loblaw banners	37.0	37.0	100.0%	39.3	39.3	100%
Third-party tenants	28.7	27.2	94.8%	27.3	25.8	94.5%
<b>Total commercial GLA</b>	<b>65.6</b>	<b>64.2</b>	<b>97.7%</b>	<b>66.6</b>	<b>65.1</b>	<b>97.7%</b>

The commercial lease maturity profile for Choice Properties' portfolio as at December 31, 2019 was as follows:

(in thousands of square feet except where otherwise indicated)	Third-party GLA	Loblaws GLA	Total GLA	Expiring GLA as a % of total GLA	Expiring annualized base rent (\$ 000's)	Average expiring base rent (per square foot)
Month-to-month	285	90	375	0.6%	\$ 4,267	\$ 11.38
2020	2,815	—	2,815	4.3%	33,654	11.96
2021	3,462	130	3,592	5.5%	45,861	12.77
2022	3,490	67	3,557	5.4%	51,257	14.41
2023	3,519	3,890	7,409	11.3%	105,210	14.20
2024	2,888	2,943	5,832	8.9%	81,114	13.91
2025	2,622	3,262	5,884	9.0%	77,194	13.12
2026 & Thereafter	8,087	26,602	34,689	52.7%	570,500	16.45
Vacant	1,492	—	1,492	2.3%	—	—
<b>Total</b>	<b>28,660</b>	<b>36,984</b>	<b>65,645</b>	<b>100.0%</b>	<b>\$ 969,057</b>	<b>\$ 14.76</b>

(in thousands of square feet except where otherwise indicated)	Retail segment		Industrial segment		Office segment		Total	
	GLA	Expiring GLA as a % of total GLA	GLA	Expiring GLA as a % of total GLA	GLA	Expiring GLA as a % of total GLA	GLA	Expiring GLA as a % of total GLA
Month-to-month	298	0.5%	43	0.1%	34	0.1%	375	0.6%
2020	1,138	1.7%	1,450	2.2%	227	0.3%	2,815	4.3%
2021	1,971	3.0%	1,346	2.1%	276	0.4%	3,593	5.5%
2022	1,681	2.6%	1,483	2.3%	393	0.6%	3,557	5.4%
2023	5,091	7.8%	1,987	3.0%	331	0.5%	7,409	11.3%
2024	4,086	6.2%	1,465	2.2%	280	0.4%	5,831	8.9%
2025	4,006	6.1%	1,708	2.6%	170	0.3%	5,884	9.0%
2026 & Thereafter	27,100	41.3%	6,325	9.6%	1,264	1.9%	34,689	52.7%
Vacant	944	1.4%	335	0.5%	213	0.3%	1,492	2.3%
<b>Total</b>	<b>46,315</b>	<b>70.6%</b>	<b>16,142</b>	<b>24.6%</b>	<b>3,188</b>	<b>4.8%</b>	<b>65,645</b>	<b>100.0%</b>

### Top 10 Tenants

Choice Properties' ten largest tenants for the three months ended December 31, 2019, represent approximately 64.4% of gross rental revenue, as calculated on a proportionate share basis<sup>(1)</sup>. The names noted below may be the names of the parent entities and are not necessarily the covenants under the leases.

Tenants	% of Gross Rental Revenue	GLA (square feet)
1. Loblaws	56.3%	36,984
2. Canadian Tire	2.6%	1,817
3. TJX Companies	1.1%	664
4. Dollarama	0.8%	473
5. Staples	0.7%	426
6. Sobeys	0.6%	338
7. GoodLife	0.6%	314
8. TD Canada Trust	0.6%	156
9. Liquor Control Board of Ontario (LCBO)	0.6%	199
10. Lowe's	0.5%	522
<b>Total</b>	<b>64.4%</b>	<b>41,893</b>

## 7. RESULTS OF OPERATIONS - SEGMENT INFORMATION

### 7.1 Net Income and Segment NOI Reconciliation

Choice Properties operates in three reportable segments: retail, industrial and office. Management measures and evaluates the performance of the Trust based on net operating income which is presented by segment below at the proportionate share of the related revenue and expenses for these properties, while other net income (loss) items are reviewed on a consolidated GAAP basis. Prior to the Acquisition Transaction, Choice Properties operated in only the retail segment and had no material equity accounted joint ventures, such that management used results as calculated under GAAP to evaluate the performance of the Trust.

The following table reconciles net income on a proportionate share basis to net income as determined in accordance with GAAP for the three months ended December 31, 2019:

(\$ thousands)	Retail	Industrial	Office	Proportionate Share Basis <sup>(i)(ii)</sup>	Consolidation and eliminations <sup>(i)</sup>	GAAP Basis <sup>(ii)</sup>
Rental revenue, excluding straight-line rent, reimbursed contract revenue and lease surrender revenue	\$ 263,462	\$ 43,164	\$ 27,290	\$ 333,916	\$ (15,569)	\$ 318,347
Property operating costs	(76,755)	(11,427)	(10,785)	(98,967)	5,095	(93,872)
<b>Net Operating Income, Cash Basis<sup>(i)</sup></b>	<b>186,707</b>	<b>31,737</b>	<b>16,505</b>	<b>234,949</b>	(10,474)	<b>224,475</b>
Straight-line rent	4,157	1,023	442	5,622	(189)	5,433
Reimbursed contract revenue	(6,706)	(318)	(76)	(7,100)	—	(7,100)
Lease surrender revenue	1,128	—	178	1,306	—	1,306
<b>Net Operating Income, Accounting Basis</b>	<b>185,286</b>	<b>32,442</b>	<b>17,049</b>	<b>234,777</b>	(10,663)	<b>224,114</b>
<b>Other Income and Expenses</b>						
Interest income				418	38	456
Fee income				1,530	—	1,530
Net interest expense and other financing charges				(136,315)	2,422	(133,893)
General and administrative expenses				(9,760)	—	(9,760)
Share of income from equity accounted joint ventures				—	(5,296)	(5,296)
Adjustment to fair value of unit-based compensation				1,744	—	1,744
Adjustment to fair value of Exchangeable Units				206,680	—	206,680
Adjustment to fair value of investment properties				(5,891)	13,499	7,608
<b>Income before Income Taxes</b>				<b>293,183</b>	—	<b>293,183</b>
Income taxes				78	—	78
<b>Net Income</b>				<b>\$ 293,261</b>	<b>\$ —</b>	<b>\$ 293,261</b>

(i) Reconciling items adjust Choice Properties' proportionate share of joint ventures to reflect the equity method of accounting under GAAP.

(ii) Included in net operating income, accounting basis, is rental revenue related to the Acquisition Transaction of \$97,201 on a GAAP basis (\$112,958 on a proportionate share basis).

The following table reconciles net loss on a proportionate share basis to net loss as determined in accordance with GAAP for the year ended December 31, 2019:

(\$ thousands)	Retail	Industrial	Office	Proportionate Share Basis <sup>(i)(ii)</sup>	Consolidation and eliminations <sup>(i)</sup>	GAAP Basis <sup>(ii)</sup>
Rental revenue, excluding straight-line rent, reimbursed contract revenue and lease surrender revenue	\$ 1,045,702	\$ 179,682	\$ 106,236	\$ 1,331,620	\$ (64,790)	\$ 1,266,830
Property operating costs	(301,238)	(48,012)	(41,050)	(390,300)	22,168	(368,132)
<b>Net Operating Income, Cash Basis<sup>(i)</sup></b>	<b>744,464</b>	<b>131,670</b>	<b>65,186</b>	<b>941,320</b>	(42,622)	<b>898,698</b>
Straight-line rent	19,189	4,867	2,129	26,185	(1,039)	25,146
Reimbursed contract revenue	(6,706)	(318)	(76)	(7,100)	—	(7,100)
Lease surrender revenue	3,415	73	190	3,678	—	3,678
<b>Net Operating Income, Accounting Basis</b>	<b>760,362</b>	<b>136,292</b>	<b>67,429</b>	<b>964,083</b>	(43,661)	<b>920,422</b>
<b>Other Income and Expenses</b>						
Interest income				12,500	(949)	11,551
Fee income				4,556	—	4,556
Net interest expense and other financing charges				(561,271)	9,428	(551,843)
General and administrative expenses				(39,292)	—	(39,292)
Share of income from equity accounted joint ventures				—	24,366	24,366
Acquisition transaction costs and other related expenses				(8,363)	—	(8,363)
Adjustment to fair value of unit-based compensation				(7,109)	—	(7,109)
Adjustment to fair value of Exchangeable Units				(932,009)	—	(932,009)
Adjustment to fair value of investment properties				(15,250)	10,816	(4,434)
<b>Loss before Income Taxes</b>				<b>(582,155)</b>	—	<b>(582,155)</b>
Income taxes				798	—	798
<b>Net Loss</b>				<b>\$ (581,357)</b>	<b>\$ —</b>	<b>\$ (581,357)</b>

(i) Reconciling items adjust Choice Properties' proportionate share of joint ventures to reflect the equity method of accounting under GAAP.

(ii) Included in net operating income, accounting basis, is rental revenue related to the Acquisition Transaction of \$399,370 on an GAAP basis (\$465,198 on a proportionate share basis).

## 7.2 Net Operating Income Summary<sup>(1)</sup>

NOI<sup>(1)</sup> is a supplemental measure of operating performance widely used in the real estate industry. There is no industry-defined definition of NOI<sup>(1)</sup>. Refer to Section 15.2, “Net Operating Income”, of this MD&A, for a definition of NOI<sup>(1)</sup> and a reconciliation to net income (loss) determined in accordance with GAAP.

Management also measures performance of operating segments using NOI<sup>(1)</sup> as calculated on a proportionate share basis and, in particular, same-asset NOI which isolates Management’s success at dealing with certain key performance factors. “Same-Asset” refers to those properties that were owned and operated by Choice Properties for the entire 24 months ended December 31, 2019, and where such properties had no changes to income as a result of acquisitions, dispositions, new developments, redevelopments and expansions, intensifications, transfers, or demolitions (collectively, “Transactions”). NOI related to Transactions for the period are presented separately from the same-asset financial results.

Choice Properties’ NOI<sup>(1)</sup> is calculated on a proportionate share basis to incorporate Choice Properties’ investment in co-owned properties as if they were owned directly, for the three months and year ended December 31, 2019 and December 31, 2018 is summarized below.

### Summary - Accounting Basis

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Rental revenue	\$ 180,828	\$ 172,454	\$ 8,374	4.9 %	\$ 712,208	\$ 693,353	\$ 18,855	2.7 %
Straight line rent	2,757	4,618	(1,861)	(40.3)%	14,633	21,859	(7,226)	(33.1)%
Property operating costs	(48,268)	(43,885)	(4,383)	10.0 %	(190,757)	(185,329)	(5,428)	2.9 %
Same-Asset NOI, Accounting Basis	135,317	133,187	2,130	1.6 %	536,084	529,883	6,201	1.2 %
Acquisition Transaction	73,283	80,406	(7,123)		309,063	214,301	94,762	
Transactions	31,971	27,277	4,694		122,358	105,053	17,305	
Reimbursed contract revenue	(7,100)	—	(7,100)		(7,100)	—	(7,100)	
Lease surrender and other revenue	1,306	409	897		3,678	10,886	(7,208)	
<b>Total NOI, Accounting Basis</b>	<b>\$ 234,777</b>	<b>\$ 241,279</b>	<b>\$ (6,502)</b>		<b>\$ 964,083</b>	<b>\$ 860,123</b>	<b>\$ 103,960</b>	

#### Three Months

The increase in Same-Asset NOI is primarily attributable to increased capital recoveries resulting from investments in income producing properties.

The decrease in NOI attributable to the Acquisition Transaction is primarily the result of dispositions completed subsequent to September 30, 2018 of properties within this portfolio.

#### Year Ended

Increase in Same-Asset NOI is primarily due to positive absorption during the year, as well as increasing rental rates upon renewal of expiring leases.

The increase in NOI attributable to the Acquisition Transaction mainly relates to the full year contribution of properties acquired in this portfolio compared to eight months in 2018.

## Summary - Cash Basis

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Rental revenue	\$ 180,828	\$ 172,454	\$ 8,374	4.9%	\$ 712,208	\$ 693,353	\$ 18,855	2.7%
Property operating costs	(48,268)	(43,885)	(4,383)	10.0%	(190,757)	(185,329)	(5,428)	2.9%
Same-Asset NOI, Cash Basis	132,560	128,569	3,991	3.1%	521,451	508,024	13,427	2.6%
Transactions	102,389	103,937	(1,548)		419,869	306,148	113,721	
<b>Total NOI, Cash Basis</b>	<b>\$ 234,949</b>	<b>\$ 232,506</b>	<b>\$ 2,443</b>		<b>\$ 941,320</b>	<b>\$ 814,172</b>	<b>\$ 127,148</b>	

## Retail Segment

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Rental revenue	\$ 163,240	\$ 155,437	\$ 7,803	5.0%	\$ 643,771	\$ 626,233	\$ 17,538	2.8%
Property operating costs	(43,924)	(39,716)	(4,208)	10.6%	(174,291)	(168,863)	(5,428)	3.2%
Same-Asset NOI, Cash Basis	119,316	115,721	3,595	3.1%	469,480	457,370	12,110	2.6%
Transactions	67,391	67,806	(415)		274,984	203,910	71,074	
<b>Total NOI, Cash Basis</b>	<b>\$ 186,707</b>	<b>\$ 183,527</b>	<b>\$ 3,180</b>		<b>\$ 744,464</b>	<b>\$ 661,280</b>	<b>\$ 83,184</b>	

## Industrial Segment

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Rental revenue	\$ 14,305	\$ 13,837	\$ 468	3.4%	\$ 55,368	\$ 53,996	\$ 1,372	2.5%
Property operating costs	(3,478)	(3,421)	(57)	1.7%	(13,018)	(12,935)	(83)	0.6%
Same-Asset NOI, Cash Basis	10,827	10,416	411	3.9%	42,350	41,061	1,289	3.1%
Transactions	20,910	20,809	101		89,320	59,652	29,668	
<b>Total NOI, Cash Basis</b>	<b>\$ 31,737</b>	<b>\$ 31,225</b>	<b>\$ 512</b>		<b>\$ 131,670</b>	<b>\$ 100,713</b>	<b>\$ 30,957</b>	

## Office Segment

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Rental revenue	\$ 3,283	\$ 3,181	\$ 102	3.2%	\$ 13,069	\$ 13,124	\$ (55)	(0.4)%
Property operating costs	(866)	(748)	(118)	15.8%	(3,448)	(3,531)	83	(2.4)%
Same-Asset NOI, Cash Basis	2,417	2,433	(16)	(0.7)%	9,621	9,593	28	0.3%
Transactions	14,088	15,322	(1,234)		55,565	42,586	12,979	
<b>Total NOI, Cash Basis</b>	<b>\$ 16,505</b>	<b>\$ 17,755</b>	<b>\$ (1,250)</b>		<b>\$ 65,186</b>	<b>\$ 52,179</b>	<b>\$ 13,007</b>	

### 7.3 Other Key Performance Indicators

FFO<sup>(1)</sup> and AFFO<sup>(1)</sup> are included in the Trust's summary of key performance indicators. See Section 15, "Non-GAAP Financial Measures", of this MD&A, for details on how these measures are defined, calculated and reconciled to GAAP financial measures and why management analyzes these measures. FFO<sup>(1)</sup> and AFFO<sup>(1)</sup> for the three months and year ended December 31, 2019 and December 31, 2018 are summarized below:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Funds from Operations <sup>(1)(i)</sup>	\$ 165,795	\$ 171,872	\$ (6,077)	\$ 680,278	\$ 603,840	\$ 76,438
FFO <sup>(1)(i)</sup> per unit basic	\$ 0.237	\$ 0.257	\$ (0.020)	\$ 0.987	\$ 1.038	\$ (0.051)
FFO <sup>(1)(i)</sup> per unit diluted	\$ 0.237	\$ 0.256	\$ (0.019)	\$ 0.987	\$ 1.033	\$ (0.046)
FFO <sup>(1)(i)</sup> payout ratio - diluted	78.1%	71.9%	6.2 %	75.0%	71.4%	3.6 %
Adjusted Funds from Operations <sup>(1)(i)</sup>	\$ 129,187	\$ 110,332	\$ 18,855	\$ 587,695	\$ 483,378	\$ 104,317
AFFO <sup>(1)(i)</sup> per unit basic	\$ 0.184	\$ 0.165	\$ 0.019	\$ 0.853	\$ 0.831	\$ 0.022
AFFO <sup>(1)(i)</sup> per unit diluted	\$ 0.184	\$ 0.165	\$ 0.019	\$ 0.853	\$ 0.827	\$ 0.026
AFFO <sup>(1)(i)</sup> payout ratio - diluted	100.3%	112.0%	(11.7)%	86.8%	89.2%	(2.4)%
Distribution declared per Unit	\$ 0.185	\$ 0.185	\$ —	\$ 0.740	\$ 0.740	\$ —
Weighted average Units outstanding - basic	700,251,450	667,907,648	32,343,802	689,016,850	581,978,014	107,038,836
Weighted average Units outstanding - diluted	700,544,380	670,486,393	30,057,987	689,285,790	584,605,228	104,680,562
Number of Units outstanding, end of period	700,254,652	668,164,342	32,090,310	700,254,652	668,164,342	32,090,310

(i) FFO<sup>(1)</sup>, AFFO<sup>(1)</sup> and the related per unit amounts and payout ratios for the comparative period in 2018 were calculated excluding the accelerated amortization of debt premium of \$37,282 (see Section 15, "Non-GAAP Financial Measures", of this MD&A).

#### Funds from Operations ("FFO")<sup>(1)</sup>

FFO<sup>(1)</sup> is calculated in accordance with the Real Property Association of Canada's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2019. From time to time the Trust may enter into transactions that materially impact the calculation and are excluded from the calculation for management's review purposes. Refer to Section 15.3, "Funds from Operations", of this MD&A, for a reconciliation of FFO<sup>(1)</sup> to net income determined in accordance with GAAP.

#### Three Months

FFO decreased compared to the prior quarter primarily due to a non-recurring reimbursement of revenue to Loblaw for incorrectly allocated solar rooftop leases, offset by a decline in borrowing costs.

On a per unit basis, the decline was primarily due to the higher weighted average number of units outstanding as a result of the May 2019 equity offering and higher net interest expense related to the Acquisition Transaction, partially offset by growth in net operating income attributable to completed development projects and contribution from the Acquisition Transaction.

#### Year Ended

FFO increased primarily due to a full year of contribution from the Acquisition Transaction as compared to eight months in the prior year, in addition to increased leasing activity and development transfers and a general reduction in borrowing costs, offset by non-recurring reimbursement of revenue to Loblaw for incorrectly allocated solar rooftop leases and interest costs related to the write-off of financing costs for the fully repaid term loans.

On a per unit basis, the decline was primarily due to the higher weighted average number of units outstanding as a result of the May 2019 equity offering and higher net interest expense related to the Acquisition Transaction, partially offset by the contribution from the Acquisition Transaction and growth in NOI attributable to completed development projects.



### Adjusted Funds from Operations (“AFFO”)<sup>(1)</sup>

Choice Properties calculates its AFFO<sup>(1)</sup> in accordance with the Real Property Association of Canada’s *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2019. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management’s review purposes. Refer to Section 15.4, “Adjusted Funds from Operations”, of this MD&A, for a reconciliation of AFFO<sup>(1)</sup> to net income determined in accordance with GAAP.

#### Three Months

AFFO increased primarily due to a decline in capital spending year-over-year, offset by a decline in FFO as noted above.

AFFO payout ratio decreased primarily as a result of the higher weighted average number of units outstanding as a result of the May 2019 equity offering.

#### Year Ended

AFFO increased primarily due to a full year of contribution from the Acquisition Transaction as compared to eight months in the prior year, coupled with reduced capital spending year-over-year.

AFFO payout ratio decreased primarily due to the higher weighted average number of units outstanding as a result of the May 2019 equity offering and lower overall capital spending, partially offset by FFO growth and the net contributions from the Acquisition Transaction and net operating income attributable to completed development projects.

### Operating Capital Expenditures

Choice Properties endeavours to fund operating capital from cash flows from operations.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Property capital	\$ 18,859	\$ 42,655	\$ (23,796)	\$ 30,658	\$ 57,737	\$ (27,079)
Leasing capital:						
Direct leasing costs	3,099	3,999	(900)	8,172	11,842	(3,670)
Tenant improvement allowances	7,413	4,877	2,536	21,417	10,391	11,026
<b>Total operating capital expenditures, proportionate share basis<sup>(1)</sup></b>	<b>\$ 29,371</b>	<b>\$ 51,531</b>	<b>\$ (22,160)</b>	<b>\$ 60,247</b>	<b>\$ 79,970</b>	<b>\$ (19,723)</b>

### Property Capital

Property capital expenditures incurred to sustain the investment properties’ existing GLA are considered to be operational and are deducted in the calculation of AFFO<sup>(1)</sup> and ACFO<sup>(1)</sup>. During the year ended December 31, 2019, Choice Properties incurred \$30,658 of property capital expenditures, which may be recoverable from tenants under the terms of their leases over the useful life of the improvements (2018 - \$57,737). Recoverable capital improvements may include items such as parking lot resurfacing and roof replacements. These items are recorded as part of investment properties and the recoveries from tenants are recorded as revenue.

### Leasing Capital

Capital expenditures for leasing activities, such as leasing commissions or tenant improvement allowances, are considered to be operational and are deducted in the calculation of AFFO<sup>(1)</sup> and ACFO<sup>(1)</sup>. Leasing capital varies with tenant demand and the balance between new and renewal leasing, as capital expenditures relating to securing new tenants are generally higher than the costs for renewing existing tenants.

## 8. QUARTERLY RESULTS OF OPERATIONS

### 8.1 Results by Quarter

The following is a summary of selected consolidated financial information for each of the eight most recently completed quarters.

#### Selected Quarterly Information

(\$ thousands except where otherwise indicated)	Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019	First Quarter 2019	Fourth Quarter 2018	Third Quarter 2018	Second Quarter 2018	First Quarter 2018
Number of investment properties	726	726	756	756	753	751	757	548
Gross leasable area (in millions of square feet)	65.8	65.5	68.0	67.7	66.8	66.8	67.0	44.2
Occupancy	97.7%	97.8%	97.7%	97.4%	97.7%	97.7%	97.6%	98.8%
Rental revenue (IFRS)	\$ 317,986	\$ 323,306	\$ 324,289	\$ 322,973	\$ 322,793	\$ 315,584	\$ 294,648	\$ 215,248
Net income (loss)	\$ 293,261	\$ (210,796)	\$ 238,310	\$ (902,132)	\$ 281,099	\$ 62,620	\$ (321,133)	\$ 626,991
Net income (loss) per Unit	\$ 0.419	\$ (0.301)	\$ 0.341	\$ (1.348)	\$ 0.421	\$ 0.094	\$ (0.481)	\$ 1.516
Net income (loss) per Unit diluted	\$ 0.419	\$ (0.301)	\$ 0.347	\$ (1.346)	\$ 0.419	\$ 0.093	\$ (0.557)	\$ 1.513
Net operating income, cash basis <sup>(i)</sup>	\$ 234,949	\$ 239,047	\$ 234,715	\$ 232,609	\$ 232,506	\$ 229,969	\$ 201,914	\$ 149,783
FFO <sup>(i)</sup>	\$ 165,795	\$ 174,982	\$ 170,241	\$ 169,260	\$ 171,872	\$ 169,683	\$ 156,600	\$ 105,685
FFO <sup>(i)</sup> per Unit - diluted	\$ 0.237	\$ 0.250	\$ 0.248	\$ 0.252	\$ 0.256	\$ 0.253	\$ 0.272	\$ 0.255
AFFO <sup>(i)</sup>	\$ 129,187	\$ 152,032	\$ 151,803	\$ 154,673	\$ 110,332	\$ 137,544	\$ 140,333	\$ 95,360
AFFO <sup>(i)</sup> per Unit - diluted	\$ 0.184	\$ 0.217	\$ 0.221	\$ 0.231	\$ 0.165	\$ 0.205	\$ 0.243	\$ 0.230
Distribution declared per Unit	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185
Market price per Unit - closing	\$ 13.91	\$ 14.44	\$ 13.68	\$ 14.06	\$ 11.52	\$ 12.07	\$ 12.11	\$ 11.61
Units outstanding, period end	700,254,652	700,247,802	699,572,174	669,312,915	668,164,342	667,847,540	667,224,978	413,459,836
Debt to total assets <sup>(i)</sup>	43.1%	43.5%	45%	47.6%	47.2%	47.2%	48.6%	51.9%
Debt service coverage <sup>(i)</sup>	3.0x	3.1x	3.0x	3.0x	3.0x	3.1x	3.5x	3.5x

(i) Debt ratio calculations for the first quarter of 2018 include Class C LP Units while the Exchangeable Units are excluded from the calculations in each subsequent quarter. The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.

Choice Properties' quarterly results were positively impacted by acquisition activity and development of additional GLA. In particular, quarterly results were impacted by the Acquisition Transaction on May 4, 2018. In addition, net income (loss) was impacted by fluctuations in adjustments to fair value of Exchangeable Units, investment properties, and unit-based compensation and therefore was often not comparable from quarter to quarter.

## 9. RELATED PARTY TRANSACTIONS

Choice Properties' parent corporation is George Weston Limited ("GWL"), which held a 62.9% direct effective interest in the Trust through ownership of 50,661,415 Units and all of the Exchangeable Units as at December 31, 2019. GWL is also the parent company of Loblaw, with ownership of 52.2% of Loblaw's outstanding common shares as at December 31, 2019.

On November 1, 2018, Loblaw and GWL completed a reorganization under which Loblaw spun out its effective interest in Choice Properties to GWL. Prior to the reorganization, Loblaw held a 61.6% direct effective interest in the Trust through ownership of 21,500,000 Units and 100% of the Exchangeable Units as at October 31, 2018. The reorganization had no significant impact on the ongoing relationship between Loblaw and Choice Properties. All current agreements and arrangements with Loblaw remain in place and Loblaw continues to be Choice Properties' largest tenant.

In the ordinary course of business, Choice Properties' enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties. Loblaw represents approximately 56.3% of Choice Properties' quarterly rental revenue on a proportionate share basis, and 56.3% of its commercial GLA as at December 31, 2019 (December 31, 2018 - 57.1% and 58.9%, respectively).

### Investment Property Transactions

In the year ended December 31, 2019, Choice Properties acquired two investment properties and one financial real estate asset from Loblaw with an aggregate purchase price of \$59,118, excluding transaction costs, and one industrial investment property from GWL with a fair value of \$13,250, excluding transaction costs. The acquisitions were settled with cash.

On September 30, 2019, Choice Properties completed the disposition of a portfolio of 30 income producing properties which had Loblaw leases, the Oak Street disposition, for an aggregate sale price of \$426,318, excluding transaction costs. Immediately prior to the closing date, Loblaw and Choice Properties agreed to amend certain applicable leases such that each lease had a remaining term of at least 12 years and Choice Properties' right to collect future capital recoveries by the purchaser would be waived.

In the year ended December 31, 2019, Choice Properties completed two dispositions of retail properties which had Loblaw leases, for an aggregate sale price of \$9,975, excluding transaction costs.

In 2018, Choice Properties acquired a 100% interest in three retail properties from Loblaw for a combined purchase price of \$55,390, excluding acquisition costs. Included in the investment properties acquired as part of the Acquisition Transaction were 17 properties containing a Loblaw food or drug store, with annual rental revenue of approximately \$12,841.

On December 7, 2018, Choice Properties acquired an industrial property from GWL for a purchase price of \$20,280, excluding transaction costs. The acquisition was settled with cash.

The acquisitions from related parties are disclosed in Section 3.2, "Investment Property Transactions", of this MD&A.

In the year ended December 31, 2019, Loblaw made lease surrender payments of \$3,156 to the Trust (2018 - \$10,204).

Choice Properties compensated Loblaw with intensification payments of \$4,577 in connection with completed gross leasable area for which tenants have taken possession during the year ended December 31, 2019 (December 31, 2018 - \$5,858).

On December 9, 2014, Choice Properties and its joint venture partner, Wittington Properties Limited ("Wittington") completed the acquisition of the West Block project at Lake Shore Boulevard and Bathurst Street in Toronto, Ontario for \$15,576 from Loblaw. Wittington's parent company is Wittington Investments, Limited, which holds a majority interest in GWL. The joint venture partners intend to develop the West Block project into a mixed-used property. Choice Properties contributed \$13,240 to the joint venture and received distributions of nil during the year ended December 31, 2019 (December 31, 2018 - contributions of \$7,080 and distributions of \$7,200). Operating activities have not begun at the property; however, the joint venture did earn interest income during the year ended December 31, 2019 of \$86 (2018 - \$2,070).

### Strategic Alliance Agreement

The Strategic Alliance Agreement creates a series of rights and obligations between Choice Properties and Loblaw intended to establish a preferential and mutually beneficial business and operating relationship. The Strategic Alliance Agreement expires on July 5, 2023. The Strategic Alliance Agreement provides Choice Properties with important rights that are expected to meaningfully contribute to the Trust's growth. Subject to certain exceptions, rights include:

- Choice Properties will have the right of first offer to purchase any property in Canada that Loblaw seeks to sell;
- Loblaw will be generally required to present shopping centre property acquisitions in Canada to Choice Properties to allow the Trust a right of first opportunity to acquire the property itself; and
- Choice Properties has the right to participate in future shopping centre developments involving Loblaw.

Included in certain investment properties acquired from Loblaw is excess land with development potential. In accordance with the Strategic Alliance Agreement, Choice Properties will compensate Loblaw, over time, with intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess land. The payments to Loblaw will be calculated in accordance with a payment grid that takes into account the region, market ranking and type of use for the property.

#### **Services Agreement**

During 2019, GWL provided Choice Properties with administrative and other support services for \$3,095 (2018 - nil). During 2018, Loblaw provided Choice Properties with administrative and other support services for an annualized amount of \$2,335. This agreement was terminated on December 31, 2018.

#### **Property Management Agreement**

Choice Properties provides Loblaw with property management services for Loblaw's properties with third-party tenancies on a fee for service basis with automatic one-year renewals.

#### **Sublease Administration Agreement**

On July 17, 2017, in connection with Loblaw's sale of substantially all of its gas bar operations, Choice Properties agreed to provide Loblaw with certain administrative services in respect of the subleases on a fee for service basis for an initial five-year term with automatic one-year renewals.

#### **Reimbursed contract revenue**

On certain properties sold to Choice Properties, the revenue received with respect to solar rooftop leases was incorrectly allocated to Choice Properties. During the year ended December 31, 2019, Choice Properties reimbursed Loblaw \$7,100 for revenue received in prior periods, and Choice Properties and Loblaw acknowledged that all future revenue and liabilities relating to the solar rooftop leases and related rooftop repair costs belong to Loblaw.

#### **Distributions on Exchangeable Units and Notes Receivable**

Subsequent to the reorganization on November 1, 2018, GWL holds all of the Exchangeable Units issued by Choice Properties Limited Partnership, a subsidiary of Choice Properties. During the year ended December 31, 2019, distributions declared on the Exchangeable Units totalling \$168,334 were payable to GWL (December 31, 2018 - \$50,274).

Subsequent to the reorganization on November 1, 2018, GWL assumed the notes receivable from Loblaw entities of \$26,226. On the first business day of 2019, distributions payable for Exchangeable Units of \$26,226 were paid and the corresponding notes receivable from GWL were cancelled.

#### **Trust Unit Distributions**

In the year ended December 31, 2019, Choice Properties declared cash distributions of \$36,551 on the Units held by GWL, and \$3,546 in non-cash distributions paid by the issuance of additional Trust Units (December 31, 2018 - \$21,416 and \$nil). As at December 31, 2019, \$3,124 of Trust Unit distributions declared were payable to GWL (December 31, 2018 - \$2,889).

### **10. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the consolidated financial statements requires management to make judgments and estimates in applying Choice Properties' accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Within the context of these consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that Choice Properties believes could have the most significant impact on the amounts recognized in the consolidated financial statements.

#### **a. Investment Properties**

##### *Judgments Made in Relation to Accounting Policies Applied*

Judgment is applied in determining whether certain costs are additions to the carrying value of investment properties, identifying the point at which substantial completion of a development property occurs, and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Choice Properties also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. Choice Properties considers all the properties it has acquired to date to be asset acquisitions.

### *Key Sources of Estimation*

The fair value of investment properties is dependent on available comparable transactions, future cash flows over the holding period and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flows involves assumptions relating to occupancy, rental rates and residual value. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

#### **b. Joint Arrangements**

##### *Judgments Made in Relation to Accounting Policies Applied*

Judgment is applied in determining whether the Trust has joint control and whether the arrangements are joint operations or joint ventures. In assessing whether the joint arrangements are joint operations or joint ventures, management applies judgment to determine the Trust's rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement.

#### **c. Leases**

##### *Judgments Made in Relation to Accounting Policies Applied*

Choice Properties is required to make judgments in determining whether certain leases are operating or finance leases, in particular long-term leases. All tenant leases where Choice Properties is the lessor have been determined to be operating leases.

#### **d. Income Taxes**

##### *Judgments Made in Relation to Accounting Policies Applied*

Choice Properties is a mutual fund trust and a REIT as defined in the *Income Tax Act (Canada)*. Choice Properties is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. Choice Properties is a REIT if it meets the prescribed conditions under the *Income Tax Act (Canada)*. Choice Properties uses judgment in reviewing these conditions in assessing its interpretation and application to its assets and revenue.

Choice Properties has determined that it qualifies as a REIT for the current period. Choice Properties expects to continue to qualify as a REIT under the *Income Tax Act (Canada)*, however, should it no longer qualify, it would not be able to flow through its taxable income to Unitholders and would therefore be subject to tax.

## **11. ACCOUNTING POLICY CHANGES**

### **Accounting Standards Implemented in 2019**

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16") replacing IAS 17, "Leases" and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance or operating leases. The Trust adopted IFRS 16 using the modified retrospective approach effective January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Trust's incremental borrowing rate as at January 1, 2019. The Trust elected to measure all its right-of-use assets at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments, in addition to a number of practical expedients.

As at January 1, 2019, the Trust recognized right-of-use lease liabilities of \$7,955 recorded in trade payables and other liabilities and right-of-use assets of \$7,955 recorded in accounts receivable and other assets on its balance sheet. The nature and timing of the related expenses will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

## **12. CONTROLS AND PROCEDURES**

### **Internal Controls Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"), the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' (2013) published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, they have concluded that the design and operation of the Trust's internal controls over financial reporting were effective as at December 31, 2019.

In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect

misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

### **Changes in Internal Controls Over Financial Reporting**

There were no changes in the Trust's internal controls over financial reporting in 2019 that materially affected or are reasonably likely to materially affect the Trust's internal control over financial reporting.

### **Disclosure Controls and Procedures**

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to Choice Properties is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

As required by NI 52-109, the CEO and CFO have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2019.

## **13. ENTERPRISE RISKS AND RISK MANAGEMENT**

Choice Properties is committed to maintaining a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the Trust, risks are identified and managed through the Trust's Enterprise Risk Management ("ERM") program.

The ERM program assists all areas of the business in managing risks within appropriate levels of tolerance by bringing a systematic approach and methodology for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Trust, prioritize risk mitigation activities and develop a risk-based internal audit plan.

Risks are not eliminated through the ERM program, but rather, are identified and managed in line with the Trust's risk appetite and within understood risk tolerances. The ERM program is designed to:

- facilitate effective corporate governance by providing a consolidated view of risks across the Trust;
- enable the Trust to focus on key risks that could impact its strategic objectives in order to reduce harm to financial performance through responsible risk management;
- ensure that the Trust's risk appetite and tolerances are defined and understood;
- promote a culture of awareness of risk management and compliance within Choice Properties;
- assist in developing consistent risk management methodologies and tools across the Trust including methodologies for the identification, assessment, measurement and monitoring of risks; and
- anticipate and provide early warnings of risks through key risk indicators.

The Board oversees the ERM program, including a review of the Trust's risks and risk prioritization, annual approval of the ERM policy and risk appetite framework. The risk appetite framework articulates key aspects of the Trust, values, and brands and provides directional guidance on risk taking. Key risk indicators are used to monitor and report on risk performance and whether Choice Properties is operating within its risk appetite. Risk owners are assigned relevant risks by the Board and are responsible for managing risk and implementing risk mitigation strategies.

Risk identification and assessments are important elements of the Trust's ERM process and framework. An annual ERM assessment is completed to assist in the update and identification of internal and external risks. This assessment is carried out in parallel with strategic planning through interviews, surveys and facilitated workshops with management and the Board to align stakeholder views. Risks are assessed and evaluated based on the Trust's vulnerability to the risk and the potential impact that the underlying risks would have on the Trust's ability to execute on its strategies and achieve its objectives.

At least semi-annually, management provides an update to the Board (or a committee of the Board) on the status of the key risks based on significant changes from the prior update, anticipated impacts in future quarters and significant changes in key risk indicators. In addition, the long-term (three-year) risk level is assessed to monitor potential long-term risk impacts, which may assist in risk mitigation planning activities.

Any of the key risks have the potential to negatively affect the Trust and its financial performance. Choice Properties has risk management strategies in place for key risks. However, there can be no assurance that the risks will be mitigated or will not materialize or that events or circumstances will not occur that could adversely affect the reputation, operations or financial condition or performance of the Trust.

### 13.1 Operating Risks and Risk Management

The following discussion of risks identifies significant factors that may adversely affect the Trust's business, operations and financial condition or future performance. This information should be read in conjunction with the Trust's consolidated financial statements and related notes. The following discussion of risks is not exhaustive but is designed to highlight the key risks inherent in the Trust's business.

#### Property Development and Construction

Choice Properties engages in development, redevelopment and major renovation activities with respect to certain properties. It is subject to certain risks, including: (a) the availability and pricing of financing on satisfactory terms or availability at all; (b) the availability and timely receipt of zoning, occupancy, land use and other regulatory and governmental approvals; (c) the ability to achieve an acceptable level of occupancy upon completion; (d) the potential that Choice Properties may fail to recover expenses already incurred if it abandons redevelopment opportunities after commencing to explore them; (e) the potential that Choice Properties may expend funds on and devote management time to projects which are not completed; (f) construction or redevelopment costs of a project, including certain fees payable to Loblaw under the Strategic Alliance Agreement, may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable; (g) the time required to complete the construction or redevelopment of a project or to lease-up the completed project may be greater than originally anticipated, thereby adversely affecting Choice Properties' cash flows and liquidity; (h) the cost and timely completion of construction (including risks beyond Choice Properties' control, such as weather, labour conditions or material shortages); (i) contractor and subcontractor disputes, strikes, labour disputes or supply disruptions; (j) occupancy rates and rents of a completed project may not be sufficient to make the project profitable; (k) Choice Properties' ability to dispose of properties redeveloped with the intent to sell could be impacted by the ability of prospective buyers to obtain financing given the current state of the credit markets; and (l) the availability and pricing of financing to fund Choice Properties' development activities on favourable terms or availability at all.

The above risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the initiation of development activities or the completion of development activities once undertaken. In addition, development projects entail risks that investments may not perform in accordance with expectations and can carry an increased risk of litigation (and its accompanying risks) with contractors, subcontractors, suppliers, partners and others. Any failure by Choice Properties to develop quality assets and effectively manage all development, redevelopment and major renovation initiatives may negatively impact the reputation and financial performance of the Trust.

#### Asset Management

Certain significant expenditures, including property taxes, maintenance costs, debt service payments, insurance costs and related charges, must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. In order to retain desirable rentable space, increase tenant demand and to generate adequate revenue over the long-term, Choice Properties must maintain or, in some cases, improve each property's condition to meet market demand. Property management services, including lease management and facility repairs and maintenance must be executed in a timely and cost-effective manner. Maintaining a rental property in accordance with market standards can entail significant costs, which Choice Properties may not be able to recover from its tenants. All of the Loblaw Leases contain exclusions on certain operating costs and/or tax recoveries. In addition, property tax reassessments based on updated appraised values may occur, which Choice Properties may not be able to recover from its tenants. As a result, Choice Properties may bear the economic cost of such operating costs and/or taxes which may adversely impact the financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders. Numerous factors, including the age of the relevant building, the materials used at the time of construction or currently unknown building code violations could result in substantial unbudgeted costs for refurbishment or modernization. In addition, the timing and amount of capital expenditures may indirectly affect the amount of cash available for distribution to Unitholders. Distributions may be reduced, or even eliminated, at times when Choice Properties deems it necessary to make significant capital or other expenditures.

If the actual costs of maintaining or upgrading a property exceed Choice Properties' estimates, or if hidden defects are discovered during maintenance or upgrading which are not covered by insurance or contractual warranties, additional and unexpected costs will be incurred. If similar properties located in the vicinity of one of the Properties are substantially refurbished and the Property is not similarly refurbished, the net operating income derived from, and the value of, such Property could be reduced. Any failure by Choice Properties to undertake appropriate maintenance and refurbishment work in response to the factors described above could adversely affect the rental income that is earned from such properties. Any such event could have a material adverse effect on Choice Properties' business, cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

In addition, a failure by Choice Properties to adequately allocate operational capital could negatively impact occupancy levels, attraction of high-quality tenants and lease renewals, which could have a material adverse effect on Choice Properties' operations and financial performance.

### **Demographic and Tenant Changes**

A large portion of Choice Properties' existing real estate portfolio is comprised of necessity-based retail tenants. Shifting consumer preferences toward e-commerce may result in a decrease in the demand for physical space by retail tenants. The failure of Choice Properties to adapt to changes in the retail landscape, including finding new tenants to replace any lost income stream from existing tenants that reduce the amount of physical space they rent from Choice Properties, could adversely affect Choice Properties' operations or financial performance.

### **Information and Cyber Security**

Choice Properties requires segregation and protection of its information, including security over tenant lease details, employee information, financial records and operational data ("Confidential Information"). Some of this Confidential Information is held and managed by third-party service providers. Any failure in data security or any system vulnerability (internal or external) could result in harm to the reputation or competitive position of the Trust. To reduce the level of vulnerability, the Trust has implemented security measures, including monitoring and testing, maintenance of protective systems and contingency plans, to protect and to prevent unauthorized access of Confidential Information and to reduce the likelihood of disruptions to its IT systems.

Despite these measures, all of the Trust's information systems, including its back-up systems and any third-party service provider systems that it employs, are vulnerable to damage, interruption, disability or failures due to a variety of reasons, including physical theft, fire, power loss, computer and telecommunication failures or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other known or unknown disruptive events.

The Trust or its third-party service providers may be unable to anticipate, timely identify or appropriately respond to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to breach the Trust's security measures or those of our third-party service providers' information systems.

As cyber threats evolve and become more difficult to detect and successfully defend against, one or more cyber threats might defeat the Trust's security measures or those of its third-party service providers. Moreover, employee error or malfeasance, faulty password management or other irregularities may result in a breach of the Trust's or its third-party service providers' security measures, which could result in a breach of Confidential Information.

If the Trust does not allocate and effectively manage the resources necessary to build and sustain a reliable IT infrastructure, fails to timely identify or appropriately respond to cybersecurity incidents, or the Trust's or its third-party service providers' information systems are damaged, destroyed, shut down, interrupted or cease to function properly, the Trust's business could be disrupted and the Trust could, among other things, be subject to: the loss of or failure to attract new tenants; the loss of revenue; the loss or unauthorized access to Confidential Information or other assets; the loss of or damage to trade secrets; damage to its reputation; litigation; regulatory enforcement actions; violation of privacy, security or other laws and regulations; and remediation costs.

### **Data Governance and Decision Support**

Choice Properties depends on relevant and reliable information to operate its business. As the volume of data being generated and reported continues to increase across Choice Properties, data accuracy, quality and governance are required for effective decision making. Failure by Choice Properties to leverage data in a timely manner may adversely affect its ability to execute its strategy and therefore its financial performance.

### **Business Continuity**

Choice Properties' ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, development site work stoppages, prolonged IT systems failure, terrorist activity, power failures or other national or international catastrophes. Ineffective contingency planning, business interruptions, crises or potential disasters could adversely affect the reputation, operations and financial performance of the Trust.

### **Economic Environment**

Continued concerns about the uncertainty over whether the economy will be adversely affected by the systemic impact of unemployment, volatile energy costs, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and weakened business and consumer confidence. This difficult operating environment could adversely affect Choice Properties' ability to generate revenues, thereby reducing its operating income and earnings. It could also have a material adverse effect on the ability of Choice Properties' operators to maintain occupancy rates in the properties, which could harm Choice Properties' financial condition. If these economic conditions continue, Choice Properties' tenants may be unable to meet their rental payments and other obligations owing to Choice Properties, which could have a material adverse effect on Choice Properties.



### **Property Valuation Process**

Choice Properties conducts a valuation assessment of its properties on a quarterly basis. As property values fluctuate over time in response to market factors, or as underlying assumptions and inputs to the valuation model change, the fair value of the Trust's portfolio could change materially. Choice Properties is responsible for the reasonableness of the assumptions and for the accuracy of the inputs into the property valuation model. Errors in the inputs to the valuation model or inappropriate assumptions may result in an inaccurate valuation of the Properties. In addition to a market activity report that is tailored to Choice Properties' portfolio, management uses the market information obtained in external appraisals, across multiple firms, commissioned during the reporting period to assess whether changes to market-related assumptions are required for the balance of the portfolio. The Trust is responsible for monitoring the value of its portfolio going forward and evaluating the impact of any changes in property value over time. Any changes in the value of the Properties may impact Unitholder value.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the above-mentioned valuations.

### **Capitalization Rate Risk**

The fair market property valuation process is dependent on several inputs, including the current market capitalization rate. Risks associated with the Trust's property valuation model include fluctuations in the current market capitalization rate which can significantly impact the value of the Trust's overall real estate portfolio. In addition, the Trust is subject to certain financial and non-financial covenants in the Trust Debentures and the Revolving Credit Facility that include maintaining certain leverage ratios. Changes in the market capitalization rate could impact the Trust's property valuation which in turn could impact financial covenants.

### **Talent Management and Succession Planning**

Choice Properties' continued growth is dependent on its ability to hire, retain and develop its leaders and other key personnel. Any failure to effectively attract talented and experienced employees and to establish adequate succession planning and retention strategies could result in a lack of requisite knowledge, skill and experience. This could erode the Trust's competitive position or result in increased costs and competition for, or high turn-over of, employees. Any of the foregoing could negatively affect the Trust's ability to operate its business and execute its strategies, which in turn, could adversely affect its reputation, operations or financial performance.

### **Tenant Concentration**

Investment properties generate income through rent payments made by tenants, and particularly rent payments made by Loblaw as Choice Properties' largest tenant. Upon the expiry of any lease, there can be no assurance that the lease will be renewed, or the tenant replaced. Furthermore, the terms of any subsequent lease may be less favourable than the existing lease, including the addition of restrictive covenants. In addition, historical occupancy rates and rents are not necessarily an accurate prediction of future occupancy rates. Choice Properties' cash flows and financial position would be adversely affected if its tenants (and especially Loblaw) were to become unable to meet their obligations under their leases or if a significant amount of available space in the Properties was not able to be leased on economically favourable lease terms. In the event of default by a tenant, Choice Properties may experience delays or limitations in enforcing its rights as lessor and incur substantial costs in protecting its investment. In addition, restrictive covenants and the terms of the Strategic Alliance Agreement may narrow the field of potential tenants at a property and could contribute to difficulties in leasing space to new tenants.

Choice Properties' net income could also be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of Loblaw, as Choice Properties' largest tenant. Choice Properties derives a large majority of its annual base minimum rent from Loblaw. Consequently, revenues are dependent on the ability of Loblaw to meet its rent obligations and Choice Properties' ability to collect rent from Loblaw. If Loblaw were to terminate its tenancies, default on or cease to satisfy its payment obligations, it would have a material adverse effect on Choice Properties' financial condition or results of operations and its ability to make distributions to Unitholders.

The closing of an anchor store at a Property could also have a material adverse effect on the value of that property. Vacated anchor tenant space also tends to adversely affect the entire property because of the loss of the departed anchor tenant's power to draw customers to the property, which in turn may cause other tenants' operations to suffer and adversely affect such other tenants' ability to pay rent or perform any other obligations under their leases. No assurance can be given that Choice Properties will be able to quickly re-lease space vacated by an anchor tenant on favourable terms, if at all. In addition, certain leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, and there can be no assurance that such tenants will continue to occupy such premises. Furthermore, at any time, an anchor tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of the tenant and thereby cause a reduction in Choice Properties' cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

## 13.2 Financial Risks and Risk Management

Choice Properties is exposed to a number of financial risks, which have the potential to affect its operating and financial performance. The following is a summary of Choice Properties' financial risks:

### Interest Rate Risk

Choice Properties requires extensive financial resources to complete the implementation of its strategy. Successful implementation of Choice Properties' strategy will require cost effective access to additional funding. There is a risk that interest rates may increase which could impact long-term borrowing costs and negatively impact financial performance.

The majority of Choice Properties' debt is financed at fixed rates with maturities staggered over 26 years, thereby mitigating the exposure to near term changes in interest rates. To the extent that Choice Properties incurs variable rate indebtedness (such as borrowings under the revolving credit facility), this will result in fluctuations in Choice Properties' cost of borrowing as interest rates change. If interest rates rise, Choice Properties' operating results and financial condition could be materially adversely affected and the amount of cash available for distribution to Unitholders would be decreased.

Choice Properties' revolving credit facility and the debentures also contain covenants that require it to maintain certain financial ratios on a consolidated basis. If Choice Properties does not maintain such ratios, its ability to make distributions to Unitholders may be limited or suspended.

Choice Properties analyzes its interest rate risk and the impact of rising and falling interest rates on operating results and financial condition on a regular basis.

### Liquidity and Capital Availability Risk

Liquidity risk is the risk that Choice Properties cannot meet a demand for cash or fund its obligations as they come due. Although a portion of the cash flows generated by Choice Properties is devoted to servicing such outstanding debt, there can be no assurance that Choice Properties will continue to generate sufficient cash flows from operations to meet interest payments and principal repayment obligations upon an applicable maturity date. If Choice Properties is unable to meet interest payments or principal repayment obligations, it could be required to renegotiate such payments or issue additional equity or debt or obtain other financing. The failure of Choice Properties to make or renegotiate interest or principal payments or issue additional equity or debt or obtain other financing could materially adversely affect Choice Properties' financial condition and results of operations and decrease or eliminate the amount of cash available for distribution to Unitholders.

The real estate industry is highly capital intensive. Choice Properties requires access to capital to fund operating expenses, to maintain its properties, to fund its strategy and certain other capital expenditures from time to time, and to refinance indebtedness. Although Choice Properties expects to have access to the revolving credit facility, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favourable terms. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to limitations set forth in the Declaration of Trust, the Indenture, as supplemented by the Supplemental Indenture, and the Fifth Supplemental Assumed Indenture. Failure by Choice Properties to access required capital could have a material adverse effect on its financial condition or results of operations and its ability to make distributions to Unitholders.

Liquidity and capital availability risks are mitigated by maintaining appropriate levels of liquidity, by diversifying the Trust's sources of funding, by maintaining a well-diversified debt maturity profile and actively monitoring market conditions.

### Liquidity of Real Property

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit Choice Properties' ability to vary its portfolio promptly in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and during an economic recession Choice Properties may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for Choice Properties to dispose of properties at lower prices in order to generate sufficient cash for operations and for making distributions to Unitholders.

### Unit Price Risk

Choice Properties is exposed to Unit price risk as a result of the issuance of the Class B LP Units, which are economically equivalent to and exchangeable for Units, as well as the issuance of unit-based compensation. The Class B LP Units and unit-based compensation liabilities are recorded at their fair value based on market trading prices. The Class B LP Units and unit-based compensation negatively impact operating income when the Unit price rises and positively impact operating income when the Unit price declines.

**Credit Risk**

Choice Properties is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to Choice Properties. Exposure to credit risk relates to rent receivables, cash and cash equivalents, short-term investments, security deposits, derivatives and mortgages, loans and notes receivable.

Choice Properties mitigates the risk of credit loss related to rent receivables by evaluating the creditworthiness of new tenants, obtaining security deposits wherever permitted by legislation, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant (except Loblaw). Choice Properties establishes an allowance for doubtful accounts that represents the estimated losses with respect to rent receivables. The allowance is determined on a tenant-by-tenant basis based on the specific factors related to the tenant.

The risk related to cash and cash equivalents, short-term investments, security deposits, derivatives and mortgages, loans and notes receivable is reduced by policies and guidelines that require Choice Properties to enter into transactions only with Canadian financial and government institutions that have a minimum short-term rating of "A-2" and a long-term credit rating of "A-" from S&P or an equivalent credit rating from another recognized credit rating agency and by placing minimum and maximum limits for exposures to specific counterparties and instruments.

Despite such mitigation efforts, if Choice Properties' counterparties default, it could have a material adverse impact on Choice Properties' financial condition or results of operations and its ability to make distributions to Unitholders.

**Degree of Leverage**

Choice Properties' degree of leverage could have important consequences to Unitholders, including: (i) Choice Properties' ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general business purposes, (ii) a larger portion of Choice Properties' cash flows being dedicated to the payment of the principal of and interest on, its indebtedness, thereby reducing the amount of funds available for distributions to Unitholders, and (iii) making Choice Properties more vulnerable to a downturn in business or the economy in general. Under the Declaration of Trust, the maximum amount that Choice Properties can leverage is (i) 60% excluding any convertible Indebtedness and (ii) 65% including any convertible Indebtedness.

To reduce this risk, Choice Properties actively monitors its degree of leverage to ensure it is within acceptable levels.

Any of these risks could have an adverse effect on Choice Properties' financial condition, results of operations, cash flows, the trading price of the Units, distributions to Unitholders and its ability to satisfy principal and interest obligations on its outstanding debt.



## 14. OUTLOOK <sup>(2)</sup>

Choice Properties is Canada's premier diversified REIT with a real estate platform that is positioned to deliver both income stability and long-term growth for our investors, underpinned by disciplined financial management.

Our income producing property portfolio provides a solid foundation for stable cash flows through effective management and portfolio diversification. The portfolio is diversified by both geography and product type including retail, industrial, office and residential assets. Overall, we expect that our income producing portfolio will continue to operate at high occupancy levels and will deliver low single digit same asset NOI growth.

Our development initiatives provide us with the best opportunity to add high-quality real estate to our portfolio at a reasonable cost. We have a mix of development projects ranging in size, scale and complexity, including retail intensification projects which provide incremental growth to our existing sites, to larger, more complex major mixed-use developments which will drive net asset value growth in the future.

The majority of our active development pipeline is focused on growing our rental residential portfolio. We now have six high-quality rental residential projects underway in Ontario, with five projects in the GTA and one project in Ottawa. To date, we are under construction with two of the projects in the GTA and we expect to commence construction on two additional projects in 2020, including one project in Brampton located next to the Mount Pleasant GO Station and one in the Westboro neighborhood of Ottawa. We have invested approximately \$120 million into these residential developments, with an additional \$425 million of additional spending planned on these six residential projects.

In addition to our ongoing residential development, we are evaluating opportunities within our portfolio to redevelop and transform some of our grocery anchored retail projects into large scale major mixed-use projects. We are in the early planning stages with four major mixed-use sites and we expect that these initiatives will be a significant part of our growth going forward.

We will continue to improve our portfolio quality. Where we have opportunities to acquire properties with favourable market fundamentals, we expect that these acquisitions will be financed primarily through the disposition of non-core properties. While this may neutralize near term cash flow growth, we feel this trade will result in greater growth over the long term.

Our disciplined approach to financial management is based on a conservative approach to leverage and financing risk. Over the past year, we reduced our overall leverage ratio and improved our debt maturity profile. In 2020, we will continue to seek out opportunities, when available, to strengthen our balance sheet by extending our debt maturities with longer term debt.



## 15. NON-GAAP FINANCIAL MEASURES

The financial statements of Choice Properties are prepared in accordance with IFRS. However, in this MD&A, a number of measures are presented that do not have any standardized meaning under IFRS. Such measures and related per-unit amounts therefore should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with GAAP and may not be comparable to similar measures presented by other real estate investment trusts or enterprises. These terms are defined below and are cross referenced, as applicable, to a reconciliation elsewhere in this MD&A to the most comparable IFRS measure. Choice Properties believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Trust for the reasons outlined below.

Non-GAAP Measure	Description	Reconciliation
<i>Proportionate Share</i>	<ul style="list-style-type: none"> <li>Represents financial information adjusted to reflect the Trust’s equity accounted investments and its share of net income (losses) from equity accounted investments on a proportionately consolidated basis at the Trust’s ownership percentage of the related investment.</li> <li>Management views this method as relevant in demonstrating the Trust’s ability to manage the underlying economics of the related investments, including the financial performance and cash flows and the extent to which the underlying assets are leveraged, which is an important component of risk management.</li> </ul>	Section 2, “Balance Sheet”
<i>Net Operating Income (“NOI”), Accounting Basis</i>	<ul style="list-style-type: none"> <li>Defined as property rental revenue including straight line rental revenue, reimbursed contract revenue and lease surrender revenue, less direct property operating expenses and realty taxes, and excludes certain expenses such as interest expense and indirect operating expenses in order to provide results that reflect a property’s operations before consideration of how it is financed or the costs of operating the entity in which it is held.</li> <li>Management believes that NOI is an important measure of operating performance for the Trust’s commercial real estate assets that is used by real estate industry analysts, investors and management, while also being a key input in determining the fair value of the Choice Properties portfolio.</li> </ul>	Section 7.1, “Net Income and Segment NOI Reconciliation”
<i>NOI, Cash Basis</i>	<ul style="list-style-type: none"> <li>Defined as property rental revenue excluding straight line rental revenue, direct property operating expenses and realty taxes and excludes certain expenses such as interest expense and indirect operating expenses in order to provide results that reflect a property’s operations before consideration of how it is financed or the costs of operating the entity in which it is held.</li> <li>Useful measure in understanding period-over-period changes in income from operations due to occupancy, rental rates, operating costs and realty taxes.</li> </ul>	Section 7.1, “Net Income and Segment NOI Reconciliation”
<i>Same-Asset NOI, Cash Basis and Same-Asset NOI, Accounting Basis</i>	<ul style="list-style-type: none"> <li>Same-asset NOI is used to evaluate the period-over-period performance of those properties owned and operated by Choice Properties since January 1, 2018, inclusive.</li> <li>NOI from properties that have been (i) purchased, (ii) disposed, or (iii) subject to significant change as a result of new development, redevelopment, expansion, or demolition (collectively, “Transactions”) are excluded from the determination of same-asset NOI.</li> <li>Same-asset NOI, Cash Basis is useful in evaluating the realization of contractual rental rate changes embedded in lease agreements and/or the expiry of rent-free periods, while also being a useful measure in understanding period-over-period changes in NOI due to occupancy, rental rates, operating costs and realty taxes, before considering the changes in NOI that can be attributed to the Transactions, the Acquisition Transaction and development activities.</li> </ul>	Section 7.2, “Net Operating Income Summary”

<p><i>Funds from Operations</i> ("FFO")</p>	<ul style="list-style-type: none"> <li>• Calculated in accordance with the Real Property Association of Canada's ("REALpac") <i>White Paper on Funds from Operations &amp; Adjusted Funds from Operations for IFRS</i> issued in February 2019.</li> <li>• Management considers FFO to be a useful measure of operating performance as it adjusts for items included in net income (or net loss) that do not arise from operating activities or do not necessarily provide an accurate depiction of the Trust's past or recurring performance, such as adjustments to fair value of Exchangeable Units, investment properties and unit-based compensation. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes.</li> <li>• Management uses and believes that FFO is a useful measure of the Trust's performance that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes, acquisition activities and interest costs.</li> </ul>	<p>Section 15.3, "Funds from Operations"</p>
<p><i>Adjusted Funds from Operations</i> ("AFFO")</p>	<ul style="list-style-type: none"> <li>• Calculated in accordance with REALpac's <i>White Paper on Funds from Operations &amp; Adjusted Funds from Operations for IFRS</i> issued in February 2019.</li> <li>• Management considers AFFO to be a useful measure of operating performance as it further adjusts FFO for capital expenditures that sustain income producing properties and eliminates the impact of straight-line rent. AFFO is impacted by the seasonality inherent in the timing of executing property capital projects.</li> <li>• In calculating AFFO, FFO is adjusted by excluding straight-line rent adjustments, as well as costs incurred relating to internal leasing activities and property capital projects. Working capital changes, viewed as short-term cash requirements or surpluses, are deemed financing activities pursuant to the methodology and are not considered when calculating AFFO.</li> <li>• Capital expenditures which are excluded and not deducted in the calculation of AFFO comprise those which generate a new investment stream, such as constructing a new retail pad during property expansion or intensification, development activities or acquisition activities.</li> <li>• Accordingly, AFFO differs from FFO in that AFFO excludes from its definition certain non-cash revenues and expenses recognized under IFRS, such as straight-line rent, but also includes capital and leasing costs incurred during the period which are capitalized for IFRS purposes. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes.</li> </ul>	<p>Section 15.4, "Adjusted Funds from Operations"</p>
<p><i>Adjusted Cash Flow from Operations</i> ("ACFO")</p>	<ul style="list-style-type: none"> <li>• Calculated in accordance with REALpac's <i>White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS</i> issued in February 2019.</li> <li>• Management views ACFO as a useful measure of the cash generated from operations after providing for operating capital requirements, and in evaluating the ability of Choice Properties to fund distributions to Unitholders. ACFO adjusts cash flows from operations as calculated under GAAP including, but not limited to, removing the effects of distributions on Exchangeable Units, deducting amounts for property capital expenditures to sustain existing GLA and for leasing capital expenditures.</li> <li>• The resulting ACFO will include the impact of the seasonality of property capital expenditures and the impact of fluctuations from normal operating working capital, such as changes to net rent receivable from tenants, trade accounts payable and accrued liabilities.</li> <li>• From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes.</li> </ul>	<p>Section 15.5, "Adjusted Cash Flow from Operations"</p>

<p><i>Earnings before Interest, Taxes, Depreciation, Amortization and Fair Value ("EBITDAFV")</i></p>	<ul style="list-style-type: none"> <li>Defined as net income attributable to Unitholders, reversing, where applicable, income taxes, interest expense, amortization expense, depreciation expense, adjustments to fair value and other adjustments as allowed in the Trust Indentures, as supplemented.</li> <li>Management believes EBITDAFV is useful in assessing the Trust's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders.</li> </ul>	<p>Section 15.8, "Earnings before Taxes, Depreciation, Amortization and Fair Value"</p>
<p><i>Cash Retained after Distributions</i></p>	<ul style="list-style-type: none"> <li>Represents the portion of ACFO retained within Choice Properties which can be used to invest in new acquisitions, development properties and capital activity.</li> </ul>	<p>Section 15.6, "Distribution Excess / Shortfall Analysis"</p>
<p><i>Total Debt</i></p>	<ul style="list-style-type: none"> <li>Defined as variable rate debt (construction loans, credit facility and term loan) and fixed rate debt (senior unsecured debentures and mortgages), as measured on a proportionate share basis, and does not include the Exchangeable Units which are included as part of Unit Equity on account of the Exchangeable Units being economically equivalent and receiving equal distributions to the Trust Units.</li> <li>Total Debt is also presented on a net basis to include the impact of other finance charges such as debt placement costs and discounts or premiums.</li> </ul>	<p>Section 4.3, "Components of Total Debt"</p>
<p><i>Debt to Total Assets</i></p>	<ul style="list-style-type: none"> <li>Determined by dividing Total Debt (as defined above) by total assets as presented on a proportionate basis and can be interpreted as the proportion of the Trust's assets that are financed by debt.</li> <li>Management believes this ratio is useful in evaluating the Trust's flexibility to incur additional financial leverage.</li> </ul>	<p>Section 4.4, "Financial Condition"</p>
<p><i>Debt Service Coverage</i></p>	<ul style="list-style-type: none"> <li>Calculated as EBITDAFV divided by interest expense on the Total Debt and all regularly scheduled principal payments made with respect to indebtedness during such period (other than any balloon, bullet or similar principal payable at maturity or which repays such indebtedness in full). This ratio is calculated based on the Trust Indentures, as supplemented.</li> <li>The debt service coverage ratio is useful in determining the ability of Choice Properties to service the interest requirements of its outstanding debt.</li> </ul>	<p>Section 4.4, "Financial Condition"</p>
<p><i>Debt to EBITDAFV and Normalized Debt to EBITDAFV</i></p>	<ul style="list-style-type: none"> <li>Calculated as Total Debt divided by EBITDAFV.</li> <li>This ratio is used to assess the financial leverage of Choice Properties, to measure its ability to meet financial obligations and to provide a snapshot of its balance sheet strength.</li> <li>Management also presents this metric on a trailing 12-month normalized basis to exclude the proforma results of the Acquisition Transaction, lease surrender revenue and the Oak Street disposition.</li> </ul>	<p>Section 4.4, "Financial Condition"</p>
<p><i>Interest Coverage</i></p>	<ul style="list-style-type: none"> <li>Calculated as EBITDAFV divided by interest expense on the Total Debt incurred by Choice Properties for the period.</li> <li>The interest coverage ratio is useful in determining Choice Properties' ability to service the interest requirements of its outstanding debt.</li> </ul>	<p>Section 4.4, "Financial Condition"</p>

## 15.1 Investment Properties Reconciliation

To expand the portfolio and participate in development opportunities, Choice Properties owns varying interests in real estate entities which hold investment properties. Under GAAP, many of these interests are recorded as equity accounted joint ventures and, as such, the Trust's portion of the investment properties of these entities is presented on the balance sheet as a summarized value, not as part of the total investment properties. While the reconciliation for Choice Properties' balance sheet on a GAAP basis to a proportionate share basis is detailed in Section 2, "Balance Sheet", the following continuity schedules present Choice Properties' investment properties inclusive of its proportionate share ownership in equity accounted joint ventures for the periods ended as indicated:

As at December 31, 2019 (\$ thousands)	Three Months			Year Ended		
	GAAP Basis	Reconciliation	Proportionate Share Basis <sup>(i)</sup>	GAAP Basis	Reconciliation	Proportionate Share Basis <sup>(i)</sup>
Balance, beginning of period <sup>(ii)</sup>	\$ 14,178,538	\$ 1,113,462	\$ 15,292,000	\$ 14,501,000	\$ 1,011,000	\$ 15,512,000
Acquisitions of investment properties <sup>(ii)</sup>	53,465	—	53,465	109,526	43,588	153,114
Capital expenditures						
Development capital	11,299	18,056	29,355	67,750	66,120	133,870
Building improvements	749	703	1,452	2,227	4,588	6,815
Capitalized interest	826	92	918	4,424	1,274	5,698
Operating capital expenditures						
Property capital	18,973	(114)	18,859	30,264	394	30,658
Direct leasing costs	2,796	303	3,099	7,331	841	8,172
Tenant improvement allowances	6,696	717	7,413	19,536	1,881	21,417
Amortization of straight-line rent	5,433	189	5,622	25,146	1,039	26,185
Transfers to assets held for sale	(68,678)	—	(68,678)	(97,800)	—	(97,800)
Transfer from equity accounted investment	181,909	(181,909)	—	181,909	(181,909)	—
Dispositions	(24,286)	—	(24,286)	(467,908)	—	(467,908)
Foreign currency translation	(2,328)	—	(2,328)	(5,971)	—	(5,971)
Adjustment to fair value of investment properties	7,608	(13,499)	(5,891)	(4,434)	(10,816)	(15,250)
<b>Balance, as at December 31, 2019</b>	<b>\$ 14,373,000</b>	<b>\$ 938,000</b>	<b>\$ 15,311,000</b>	<b>\$ 14,373,000</b>	<b>\$ 938,000</b>	<b>\$ 15,311,000</b>

- (i) The opening balance for the three months on a GAAP basis has been adjusted to exclude a financial real estate asset which is included as part of the proportionate share reconciliation adjustments at the beginning of the period. Refer to Section 3.2 of this MD&A for details.
- (ii) Includes acquisition costs.



## 15.2 Net Operating Income

The following table reconciles net income (loss), as determined in accordance with GAAP, to NOI, Cash Basis for the periods ended as indicated. Refer to Section 7, “Results of Operations - Segment Information” and Section 15, “Non-GAAP Financial Measures”, of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
<b>Net income (loss)</b>	<b>\$ 293,261</b>	\$ 281,099	\$ 12,162	<b>\$ (581,357)</b>	\$ 649,577	\$(1,230,934)
Add (deduct) impact of the following:						
Straight-line rental revenue	(5,433)	(8,033)	2,600	(25,146)	(34,076)	8,930
Reimbursed contract revenue	7,100	—	7,100	7,100	—	7,100
Lease surrender revenue	(1,306)	(409)	(897)	(3,678)	(10,886)	7,208
General and administrative expenses	9,760	9,506	254	39,292	34,975	4,317
Fee income	(1,530)	(1,134)	(396)	(4,556)	(3,523)	(1,033)
Net interest expense and other financing charges	133,893	138,552	(4,659)	551,843	551,146	697
Interest income	(456)	(4,095)	3,639	(11,551)	(14,224)	2,673
Share of income from equity accounted joint ventures	5,296	(8,116)	13,412	(24,366)	(16,222)	(8,144)
Acquisition transaction costs and other related expenses	—	11,044	(11,044)	8,363	141,493	(133,130)
Adjustment to fair value of unit-based compensation	(1,744)	(707)	(1,037)	7,109	(4,792)	11,901
Adjustment to fair value of Exchangeable Units	(206,680)	(214,479)	7,799	932,009	(593,706)	1,525,715
Adjustment to fair value of investment properties	(7,608)	18,548	(26,156)	4,434	88,575	(84,141)
Income taxes	(78)	200	(278)	(798)	538	(1,336)
<b>Net Operating Income, Cash Basis</b>	<b>224,475</b>	221,976	2,499	<b>898,698</b>	788,875	109,823
Adjustments for equity accounted joint ventures	10,474	10,531	(57)	42,622	25,297	17,325
<b>Proportionate Share Net Operating Income, Cash Basis</b>	<b>\$ 234,949</b>	\$ 232,507	\$ 2,442	<b>\$ 941,320</b>	\$ 814,172	\$ 127,148

### 15.3 Funds from Operations

The following table reconciles net income, as determined in accordance with GAAP, to Funds from Operations for the periods ended as indicated. Refer to Section 7, “Results of Operations - Segment Information” and Section 15, “Non-GAAP Financial Measures”, of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
<b>Net income (loss)</b>	<b>\$ 293,261</b>	<b>\$ 281,099</b>	<b>\$ 12,162</b>	<b>\$ (581,357)</b>	<b>\$ 649,577</b>	<b>\$ (1,230,934)</b>
Acquisition transaction costs and other related expenses	—	11,044	(11,044)	8,363	141,493	(133,130)
Adjustment to fair value of unit-based compensation	(1,744)	(707)	(1,037)	7,109	(4,792)	11,901
Adjustment to fair value of Exchangeable Units	(206,680)	(214,479)	7,799	932,009	(593,706)	1,525,715
Adjustment to fair value of investment properties	(7,608)	18,548	(26,156)	4,434	88,575	(84,141)
Adjustment to fair value of investment property held in equity accounted joint ventures	13,499	1,240	12,259	10,816	5,254	5,562
Interest otherwise capitalized for development in equity accounted joint ventures	1,387	1,140	247	4,978	3,102	1,876
Exchangeable Units distributions	72,143	72,143	—	288,573	271,089	17,484
Internal expenses for leasing	1,615	1,644	(29)	6,151	5,428	723
Income taxes	(78)	200	(278)	(798)	538	(1,336)
<b>Funds from Operations</b>	<b>\$ 165,795</b>	<b>\$ 171,872</b>	<b>\$ (6,077)</b>	<b>\$ 680,278</b>	<b>\$ 566,558</b>	<b>\$ 113,720</b>
Accelerated amortization of debt premium <sup>(i)</sup>	—	—	—	—	37,282	(37,282)
<b>Funds from Operations, for management purposes<sup>(ii)</sup></b>	<b>\$ 165,795</b>	<b>\$ 171,872</b>	<b>\$ (6,077)</b>	<b>\$ 680,278</b>	<b>\$ 603,840</b>	<b>\$ 76,438</b>
FFO per Unit - diluted <sup>(ii)</sup>	<b>\$ 0.237</b>	<b>\$ 0.256</b>	<b>\$ (0.019)</b>	<b>\$ 0.987</b>	<b>\$ 1.033</b>	<b>\$ (0.046)</b>
FFO payout ratio - diluted <sup>(ii)</sup>	<b>78.1%</b>	<b>71.9%</b>	<b>6.2%</b>	<b>75.0%</b>	<b>71.4%</b>	<b>3.6%</b>
Distribution declared per Unit	<b>\$ 0.185</b>	<b>\$ 0.185</b>	<b>\$ —</b>	<b>\$ 0.740</b>	<b>\$ 0.740</b>	<b>\$ —</b>
Weighted average Units outstanding - diluted	<b>700,544,380</b>	<b>670,486,393</b>	<b>30,057,987</b>	<b>689,285,790</b>	<b>584,605,228</b>	<b>104,680,562</b>

(i) For 2018, FFO per unit on a diluted basis and the FFO payout ratio were calculated using FFO for management purposes which excludes the impact of the accelerated amortization of the debt premium.

(ii) FFO payout ratio is calculated as cash distributions declared divided by FFO.

## 15.4 Adjusted Funds from Operations

The following table reconciles FFO to AFFO for the periods ended as indicated. Refer to Section 7, “Results of Operations - Segment Information” and Section 15, “Non-GAAP Financial Measures”, of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
<b>Funds from Operations</b>	<b>\$ 165,795</b>	<b>\$ 171,872</b>	<b>\$ (6,077)</b>	<b>\$ 680,278</b>	<b>\$ 566,558</b>	<b>\$ 113,720</b>
Accelerated amortization of debt premium <sup>(i)</sup>	—	—	—	—	37,282	(37,282)
<b>Funds from Operations, for management purposes<sup>(ii)</sup></b>	<b>165,795</b>	<b>171,872</b>	<b>(6,077)</b>	<b>680,278</b>	<b>603,840</b>	<b>76,438</b>
Add (deduct) impact of the following:						
Internal expenses for leasing	(1,615)	(1,644)	29	(6,151)	(5,428)	(723)
Straight-line rental revenue	(5,622)	(8,365)	2,743	(26,185)	(35,064)	8,879
Property capital	(18,859)	(42,655)	23,796	(30,658)	(57,737)	27,079
Direct leasing costs	(3,099)	(3,999)	900	(8,172)	(11,842)	3,670
Tenant improvements	(7,413)	(4,877)	(2,536)	(21,417)	(10,391)	(11,026)
<b>Adjusted Funds from Operations</b>	<b>\$ 129,187</b>	<b>\$ 110,332</b>	<b>\$ 18,855</b>	<b>\$ 587,695</b>	<b>\$ 483,378</b>	<b>\$ 104,317</b>
AFFO per unit - diluted <sup>(i)</sup>	<b>\$ 0.184</b>	<b>\$ 0.165</b>	<b>\$ 0.019</b>	<b>\$ 0.853</b>	<b>\$ 0.827</b>	<b>\$ 0.026</b>
AFFO payout ratio - diluted <sup>(ii)</sup>	<b>100.3%</b>	<b>112.0%</b>	<b>(11.7)%</b>	<b>86.8%</b>	<b>89.2%</b>	<b>(2.4)%</b>
Distribution declared per Unit	<b>\$ 0.185</b>	<b>\$ 0.185</b>	<b>\$ —</b>	<b>\$ 0.740</b>	<b>\$ 0.740</b>	<b>\$ —</b>
Weighted average Units outstanding - diluted	<b>700,544,380</b>	<b>670,486,393</b>	<b>30,057,987</b>	<b>689,285,790</b>	<b>584,605,228</b>	<b>104,680,562</b>

(i) For 2018, AFFO per unit on a diluted basis and the AFFO payout ratio were calculated using AFFO for management purposes which excludes the impact of the accelerated amortization of the debt premium.

(ii) AFFO payout ratio is calculated as cash distributions declared divided by AFFO.

## 15.5 Adjusted Cash Flow from Operations

The following table reconciles cash flows from operating activities to ACFO, as determined in accordance with GAAP, for the periods ended as indicated. Refer to Section 4.6, "Unit Equity" and Section 15, "Non-GAAP Financial Measures", of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
<b>Cash flows from operating activities</b>	<b>\$ 207,460</b>	<b>\$ 200,465</b>	<b>\$ 6,995</b>	<b>\$ 580,556</b>	<b>\$ 405,192</b>	<b>\$ 175,364</b>
Add (deduct) impact of the following:						
Net interest expense and other financing charges in excess of interest paid <sup>(i)</sup>	(97,352)	(102,423)	5,071	(289,691)	(235,424)	(54,267)
Distributions on Exchangeable Units included in net interest expense and other financing charges	72,143	72,143	—	288,573	271,089	17,484
Interest and other income in excess of interest received <sup>(ii)</sup>	1,125	835	290	5,453	4,195	1,258
Interest otherwise capitalized for development in equity accounted joint ventures	1,387	1,140	247	4,978	3,102	1,876
Portion of internal expenses for leasing relating to development activity	808	822	(14)	3,076	2,714	362
Property capital expenditures on a proportionate share basis	(18,859)	(42,655)	23,796	(30,658)	(57,737)	27,079
Leasing capital expenditures on a proportionate share basis	(10,512)	(8,876)	(1,636)	(29,589)	(22,233)	(7,356)
Acquisition transaction costs and other related expenses	—	11,044	(11,044)	8,363	141,493	(133,130)
Adjustments for proportionate share of income from equity accounted joint ventures <sup>(iii)</sup>	8,203	9,356	(1,153)	35,182	21,476	13,706
Adjustment for changes in non-cash working capital items not indicative of sustainable operating cash flows <sup>(iv)</sup>	(27,767)	(32,807)	5,040	21,407	(42,496)	63,903
<b>Adjusted Cash Flow from Operations</b>	<b>\$ 136,636</b>	<b>\$ 109,044</b>	<b>\$ 27,592</b>	<b>\$ 597,650</b>	<b>\$ 491,371</b>	<b>\$ 106,279</b>
Cash distributions declared	129,546	123,612	5,934	510,333	431,392	78,941
<b>Cash retained after distributions<sup>(iv)</sup></b>	<b>\$ 7,090</b>	<b>\$ (14,568)</b>	<b>\$ 21,658</b>	<b>\$ 87,317</b>	<b>\$ 59,979</b>	<b>\$ 27,338</b>
<b>ACFO payout ratio<sup>(iv)</sup></b>	<b>94.8%</b>	<b>113.4%</b>	<b>(18.6)%</b>	<b>85.4%</b>	<b>87.8%</b>	<b>(2.4)%</b>

- (i) The timing of the recognition of interest expense and income differs from the payment and collection. The ACFO calculations for the periods ended December 31, 2019 and December 31, 2018 were adjusted for this factor to make the periods more comparable<sup>(2)</sup>.
- (ii) Excludes adjustment to fair value of investment properties for equity accounted joint ventures.
- (iii) ACFO is adjusted each quarter for fluctuations in non-cash working capital due to the timing of transactions for realty taxes prepaid or payable, and prepaid insurance. The payments for these operating expenses tend to have quarterly, seasonal fluctuations that even out on an annual basis. ACFO is also adjusted each quarter to remove fluctuations in non-cash working capital due to capital expenditure accruals, which are not related to sustainable operating activities.
- (iv) Adjusted Cash Flow from Operations payout ratio is calculated as the cash distributions declared divided by the ACFO.

Based on the Real Property Association of Canada's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2019, Choice Properties adjusts ACFO for amounts included in the net change in non-cash working capital, a component of cash flows from operating activities, to eliminate fluctuations that are not indicative of sustainable cash available for distribution. The resulting remaining impacts on ACFO from changes in non-cash working capital are calculated below:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Net change in non-cash working capital <sup>(i)</sup>	<b>\$ 33,507</b>	\$ 28,025	\$ 5,482	<b>\$ (21,094)</b>	\$ 40,077	\$ (61,171)
Adjustment for changes in non-cash working capital items not indicative of sustainable operating cash flows	(27,767)	(32,807)	5,040	21,407	(42,496)	63,903
<b>Net non-cash working capital increase included in ACFO</b>	<b>\$ 5,740</b>	<b>\$ (4,782)</b>	<b>\$ 10,522</b>	<b>\$ 313</b>	<b>\$ (2,419)</b>	<b>\$ 2,732</b>

- (i) As calculated under GAAP and disclosed in the Trust's consolidated financial statements and the accompanying notes in this Annual Report.

## 15.6 Distribution Excess / Shortfall Analysis

The tables below summarize the excess or shortfall of certain GAAP and non-GAAP measures over cash distributions declared:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Cash flows from operating activities	\$ 207,460	\$ 200,465	\$ 6,995	\$ 580,556	\$ 405,192	\$ 175,364
Less: Cash distributions declared	(129,546)	(123,612)	(5,934)	(510,333)	(431,392)	(78,941)
<b>Excess (shortfall) of cash flows provided by operating activities over cash distributions declared</b>	<b>\$ 77,914</b>	<b>\$ 76,853</b>	<b>\$ 1,061</b>	<b>\$ 70,223</b>	<b>\$ (26,200)</b>	<b>\$ 96,423</b>

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Net income (loss)	\$ 293,261	\$ 281,099	\$ 12,162	\$ (581,357)	\$ 649,577	\$(1,230,934)
Add: Distributions on Exchangeable Units included in net interest expense and other financing charges	72,143	72,143	—	288,573	271,089	17,484
Net income (loss) attributable to Unitholders excluding distributions on Exchangeable Units	365,404	353,242	12,162	(292,784)	920,666	(1,213,450)
Less: Cash distributions declared	(129,546)	(123,612)	(5,934)	(510,333)	(431,392)	(78,941)
<b>Excess (shortfall) of net income (loss) attributable to Unitholders, less distributions on Exchangeable Units, over cash distributions declared</b>	<b>\$ 235,858</b>	<b>\$ 229,630</b>	<b>\$ 6,228</b>	<b>\$ (803,117)</b>	<b>\$ 489,274</b>	<b>\$(1,292,391)</b>

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
Adjusted Cash Flow from Operations <sup>(1)</sup>	\$ 136,636	\$ 109,044	\$ 16,953	\$ 597,650	\$ 491,371	\$ 106,279
Less: Cash distributions declared	(129,546)	(123,612)	(5,934)	(510,333)	(431,392)	(78,941)
<b>Excess of ACFO after distributions</b>	<b>\$ 7,090</b>	<b>\$ (14,568)</b>	<b>\$ 21,658</b>	<b>\$ 87,317</b>	<b>\$ 59,979</b>	<b>\$ 27,338</b>

Choice Properties' shortfall of net income (loss) attributable to Unitholders, less distributions on Exchangeable Units, over cash distributions declared for the year ended December 31, 2019 was primarily attributable to accounting fair value adjustments related to Exchangeable Units.

Management anticipates that distributions declared will, in the foreseeable future, continue to vary from net income as this GAAP measure includes adjustments to fair value and other non-cash items<sup>(2)</sup>.

## 15.7 Net Interest Expense and Other Financing Charges Reconciliation

The following table reconciles net interest expense and other financing charges on a proportionate share basis to net interest expense and other financing charges as determined in accordance with GAAP for the three months and year ended December 31, 2019:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	Proportionate Share Basis <sup>(i)</sup>	Consolidation and eliminations <sup>(ii)</sup>	GAAP Basis	Proportionate Share Basis <sup>(i)</sup>	Consolidation and eliminations <sup>(ii)</sup>	GAAP Basis
Interest on senior unsecured debentures	\$ 47,861	\$ —	\$ 47,861	\$ 182,522	\$ —	\$ 182,522
Interest on mortgages	14,738	(2,439)	12,299	62,324	(10,417)	51,907
Interest on credit facility and term loans	2,256	—	2,256	28,352	—	28,352
<b>Subtotal (for use in Debt Service Coverage<sup>(i)</sup> calculation)</b>	<b>64,855</b>	<b>(2,439)</b>	<b>62,416</b>	<b>273,198</b>	<b>(10,417)</b>	<b>262,781</b>
Distributions on Exchangeable Units <sup>(ii)</sup>	72,143	—	72,143	288,573	—	288,573
<b>Subtotal (for use in EBITDAFV<sup>(i)</sup> calculation)</b>	<b>136,998</b>	<b>(2,439)</b>	<b>134,559</b>	<b>561,771</b>	<b>(10,417)</b>	<b>551,354</b>
Interest on right of use asset	69	—	69	281	—	281
Effective interest rate amortization of debt discounts and premiums	(882)	(41)	(923)	(3,553)	(167)	(3,720)
Effective interest rate amortization of debt placement costs	1,048	(34)	1,014	8,470	(118)	8,352
Capitalized interest	(918)	92	(826)	(5,698)	1,274	(4,424)
<b>Net interest expense and other financing charges</b>	<b>\$ 136,315</b>	<b>\$ (2,422)</b>	<b>\$ 133,893</b>	<b>\$ 561,271</b>	<b>\$ (9,428)</b>	<b>\$ 551,843</b>

(i) Reconciling items adjust Choice Properties' proportionate share of joint ventures to reflect the equity method of accounting under GAAP.

(ii) Represents interest on indebtedness due to related parties.

## 15.8 Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value

The following table reconciles net income, as determined in accordance with GAAP, to EBITDAFV for the periods ended as indicated. Refer to Section 15, "Non-GAAP Financial Measures" of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2019	2018	Change	2019	2018	Change
<b>Net income (loss)</b>	<b>\$ 293,261</b>	\$ 281,099	\$ 12,162	<b>\$ (581,357)</b>	\$ 649,577	\$(1,230,934)
Add (deduct) impact of the following:						
Accelerated amortization of debt premium	—	—	—	—	37,282	(37,282)
Acquisition transaction costs and other related expenses	—	11,044	(11,044)	8,363	141,493	(133,130)
Adjustment to fair value of unit-based compensation	(1,744)	(707)	(1,037)	7,109	(4,792)	11,901
Adjustment to fair value of Exchangeable Units	(206,680)	(214,479)	7,799	932,009	(593,706)	1,525,715
Adjustment to fair value of investment properties	(7,608)	18,548	(26,156)	4,434	88,575	(84,141)
Adjustment to fair value of investment property held in equity accounted joint ventures	13,499	1,240	12,259	10,816	5,254	5,562
Interest expense <sup>(i)</sup>	136,998	130,080	6,918	561,771	237,055	324,716
Amortization of other assets	383	—	383	1,311	495	816
Income taxes	(78)	200	(278)	(798)	538	(1,336)
<b>Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value (EBITDAFV)</b>	<b>\$ 228,031</b>	\$ 227,025	\$ 1,006	<b>\$ 943,658</b>	\$ 561,771	\$ 381,887

(i) As calculated in Section 15.7, "Net Interest Expense and Other Financing Charges Reconciliation" of this MD&A.

(This page has been left blank intentionally.)

D75 J124D

D75 J122D

D75 J124C

D75 J124B

D75 J124A

SIZE: 90.5X29X30.5CM



D75 J120D

D75 J118D

D75 J116D

# Financial Statements

---

D75 J116C

D75 J116B

D75 J116A

---

## Financial Results

---

<b>Management's Statement of Responsibility for Financial Reporting</b>	80
<b>Independent Auditor's Report</b>	81
<b>Consolidated Balance Sheets</b>	85
<b>Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)</b>	86
<b>Consolidated Statements of Changes in Equity</b>	87
<b>Consolidated Statements of Cash Flows</b>	88
<b>Notes to the Consolidated Financial Statements</b>	89
Note 1. Nature and Description of the Trust	89
Note 2. Significant Accounting Policies	89
Note 3. Critical Accounting Judgments and Estimates	97
Note 4. Acquisition of Canadian Real Estate Investment Trust ("CREIT")	98
Note 5. Investment Property and Other Transactions	100
Note 6. Investment Properties	102
Note 7. Equity Accounted Joint Ventures	104
Note 8. Co-Ownership Property Interests	105
Note 9. Subsidiaries	106
Note 10. Mortgages, Loans and Notes Receivable	106
Note 11. Intangible Assets	108
Note 12. Accounts Receivable and Other Assets	108
Note 13. Long Term Debt	109
Note 14. Credit Facility and Term Loans	111
Note 15. Unitholders' Equity	112
Note 16. Income Taxes	114
Note 17. Trade Payables and Other Liabilities	115
Note 18. Unit-Based Compensation	115
Note 19. Rental Revenue	118
Note 20. Property Operating Costs	118
Note 21. Interest Income	118
Note 22. Fee Income	118
Note 23. Net Interest Expense and Other Financing Charges	119
Note 24. General and Administrative Expenses	119
Note 25. Financial Risk Management	120
Note 26. Financial Instruments	123
Note 27. Capital Management	123
Note 28. Supplementary Information	123
Note 29. Segment Information	123
Note 30. Contingent Liabilities and Financial Guarantees	123
Note 31. Related Party Transactions	127
Note 32. Subsequent Events	131

## **Management’s Statement of Responsibility for Financial Reporting**

The management of Choice Properties Real Estate Investment Trust (the “Trust”) is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements, Management’s Discussion and Analysis and all other information in the Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is also responsible to provide reasonable assurance that assets are safeguarded, and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls over financial reporting. A dedicated control compliance team reviews and evaluates internal controls, the results of which are shared with management on a quarterly basis. KPMG LLP, whose report follows, are the independent auditors engaged to audit the consolidated financial statements of the Trust.

The Board of Trustees, acting through an Audit Committee comprised solely of directors who are independent, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the Unitholders. The Audit Committee meets regularly with senior and financial management and the independent auditors to discuss internal controls, auditing activities and financial reporting matters. The independent auditors and internal auditors have unrestricted access to the Audit Committee. These consolidated financial statements and Management’s Discussion and Analysis have been approved by the Board of Trustees for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.

Toronto, Canada  
February 12, 2020

***[signed]***

**Rael Diamond**

President and Chief Executive Officer

***[signed]***

**Mario Barrafato**

Chief Financial Officer



KPMG LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto ON M5H 2S5  
Canada  
Tel 416-777-8500  
Fax 416-777-8818

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Choice Properties Real Estate Investment Trust

### ***Opinion***

We have audited the consolidated financial statements of Choice Properties Real Estate Investment Trust (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Page 2

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2019 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report thereon. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



Page 4

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

*KPMG LLP*

---

Chartered Professional Accountants, Licensed Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Tony Marino.

Toronto, Canada

February 12, 2020

**Choice Properties Real Estate Investment Trust**  
**Consolidated Balance Sheets**

(in thousands of Canadian dollars)	Note	As at December 31, 2019	As at December 31, 2018
			<i>Note 2</i>
<b>Assets</b>			
Investment properties	6	\$ 14,373,000	\$ 14,501,000
Equity accounted joint ventures	7	606,089	734,167
Mortgages, loans and notes receivable	10	332,286	213,410
Intangible assets	11	30,000	30,000
Accounts receivable and other assets	12	95,030	39,925
Assets held for sale	6	97,800	—
Cash and cash equivalents		41,990	30,713
<b>Total Assets</b>		<b>\$ 15,576,195</b>	<b>\$ 15,549,215</b>
<b>Liabilities and Equity</b>			
Long term debt	13	\$ 6,413,452	\$ 6,062,951
Credit facility and term loans	14	127,233	1,114,407
Exchangeable Units	15	5,424,368	4,492,359
Trade payables and other liabilities	17	513,124	379,512
<b>Total Liabilities</b>		<b>12,478,177</b>	<b>12,049,229</b>
<b>Equity</b>			
Unitholders' equity		3,090,217	3,492,185
Non-controlling interests	9	7,801	7,801
<b>Total Equity</b>		<b>3,098,018</b>	<b>3,499,986</b>
<b>Total Liabilities and Equity</b>		<b>\$ 15,576,195</b>	<b>\$ 15,549,215</b>

Contingent Liabilities and Financial Guarantees (note 30)  
 Subsequent Events (notes 6, 15 and 32)  
 See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Trustees

**[signed]**  
**Galen G. Weston**  
 Board of Trustees Chair

**[signed]**  
**Paul R. Weiss**  
 Audit Committee Chair



**Choice Properties Real Estate Investment Trust**  
**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**

(in thousands of Canadian dollars)	Note	Year Ended	
		December 31, 2019	December 31, 2018
<b>Net Operating Income</b>			
Rental revenue	19	\$ 1,288,554	\$ 1,148,273
Property operating costs	20	(368,132)	(314,436)
		<b>920,422</b>	<b>833,837</b>
<b>Other Income and Expenses</b>			
Interest income	21	11,551	14,224
Fee income	22	4,556	3,523
Net interest expense and other financing charges	23	(551,843)	(551,146)
General and administrative expenses	24	(39,292)	(34,975)
Share of income from equity accounted joint ventures	7	24,366	16,222
Acquisition transaction costs and other related expenses	4	(8,363)	(141,493)
Adjustment to fair value of unit-based compensation	18	(7,109)	4,792
Adjustment to fair value of Exchangeable Units	15	(932,009)	593,706
Adjustment to fair value of investment properties	6	(4,434)	(88,575)
<b>Income (Loss) before income taxes</b>		<b>(582,155)</b>	<b>650,115</b>
Income taxes	16	798	(538)
<b>Net Income (Loss)</b>		<b>\$ (581,357)</b>	<b>\$ 649,577</b>
<b>Net Income (Loss)</b>		<b>\$ (581,357)</b>	<b>\$ 649,577</b>
<b>Other Comprehensive Income (Loss)</b>			
Foreign exchange (loss) gain on currency translation		(6,589)	6,772
Unrealized (loss) gain on designated hedging instruments	26	(2,044)	597
Other comprehensive income (loss)		(8,633)	7,369
<b>Comprehensive Income (Loss)</b>		<b>\$ (589,990)</b>	<b>\$ 656,946</b>

See accompanying notes to the consolidated financial statements

**Choice Properties Real Estate Investment Trust**  
**Consolidated Statements of Changes in Equity**

For the year ended December 31, 2019 (in thousands of Canadian dollars)	Attributable to Choice Properties' Unitholders							
	Note	Trust Units	Cumulative net income	Accumulated other comprehensive income	Cumulative distributions to Unitholders	Total Unitholders' equity	Non- controlling interests	Total equity
Equity, December 31, 2018		\$ 2,978,343	\$ 942,406	\$ 7,369	\$ (435,933)	\$ 3,492,185	\$ 7,801	\$ 3,499,986
Net loss		—	(581,357)	—	—	(581,357)	—	(581,357)
Other comprehensive loss		—	—	(8,633)	—	(8,633)	—	(8,633)
Distributions		—	—	—	(221,750)	(221,750)	—	(221,750)
Units issued, net of costs	15	380,758	—	—	—	380,758	—	380,758
Distribution in Units	15	21,721	—	—	(21,721)	—	—	—
Issuance of Units under unit- based compensation arrangements	15	31,136	—	—	—	31,136	—	31,136
Repurchase of Units for unit- based compensation arrangements	15	(2,122)	—	—	—	(2,122)	—	(2,122)
<b>Equity, December 31, 2019</b>		<b>\$ 3,409,836</b>	<b>\$ 361,049</b>	<b>\$ (1,264)</b>	<b>\$ (679,404)</b>	<b>\$ 3,090,217</b>	<b>\$ 7,801</b>	<b>\$ 3,098,018</b>

For the year ended December 31, 2018 (in thousands of Canadian dollars)	Attributable to Choice Properties' Unitholders							
	Note	Trust Units	Cumulative net income	Accumulated other comprehensive income	Cumulative distributions to Unitholders	Total Unitholders' equity	Non- controlling interests	Total equity
Equity, December 31, 2017		\$ 911,081	\$ 292,829	\$ —	\$ (275,630)	\$ 928,280	\$ 8,701	\$ 936,981
Net income		—	649,577	—	—	649,577	—	649,577
Other comprehensive income		—	—	7,369	—	7,369	—	7,369
Distributions		—	—	—	(160,303)	(160,303)	—	(160,303)
Units issued, net of costs	15	2,056,628	—	—	—	2,056,628	—	2,056,628
Issuance of Units under the Distribution Reinvestment Plan	15	1,487	—	—	—	1,487	—	1,487
Issuance of Units under unit- based compensation arrangements	15	16,261	—	—	—	16,261	—	16,261
Repurchase of Units for unit- based compensation arrangements	15	(7,114)	—	—	—	(7,114)	—	(7,114)
Distribution from non- controlling interests	9	—	—	—	—	—	(900)	(900)
Equity, December 31, 2018		\$ 2,978,343	\$ 942,406	\$ 7,369	\$ (435,933)	\$ 3,492,185	\$ 7,801	\$ 3,499,986

See accompanying notes to the consolidated financial statements

**Choice Properties Real Estate Investment Trust**  
**Consolidated Statements of Cash Flows**

(in thousands of Canadian dollars)	Note	Year Ended	
		December 31, 2019	December 31, 2018
<b>Operating Activities</b>			
Net income (loss)		\$ (581,357)	\$ 649,577
Straight-line rental revenue	6	(25,146)	(34,076)
Net interest expense and other financing charges	23	551,843	551,146
Interest paid		(262,152)	(278,440)
Interest income	21	(11,551)	(14,224)
Interest income received		6,098	10,029
Unit-based compensation expense	18	11,838	2,456
Share of income in equity accounted joint ventures	7	(24,366)	(16,222)
Adjustment to fair value of Exchangeable Units	15	932,009	(593,706)
Adjustment to fair value of investment properties	6	4,434	88,575
Net change in non-cash working capital	28	(21,094)	40,077
<b>Cash Flows from Operating Activities</b>		<b>580,556</b>	<b>405,192</b>
<b>Investing Activities</b>			
Acquisition of CREIT, net of cash acquired	4	—	(1,619,099)
Acquisitions of investment properties	5	(85,447)	(108,833)
Acquisition of financial real estate asset	5, 12	(23,462)	—
Additions to investment properties	6	(127,108)	(274,203)
Contributions to equity accounted joint ventures	7	(86,252)	(27,656)
Distributions from equity accounted joint ventures	7	56,457	25,339
Mortgages, loans and notes receivable advances	10	(203,432)	(247,555)
Mortgages, loans and notes receivable repayments	10	62,933	541,970
Proceeds from dispositions	5	467,908	127,195
<b>Cash Flows from (used in) Investing Activities</b>		<b>61,597</b>	<b>(1,582,842)</b>
<b>Financing Activities</b>			
Proceeds from issuance of debentures, net of debt placement costs	13	746,078	1,940,089
Repayments of debentures	13	(300,000)	(525,000)
Net advances (repayments) of mortgages payable, net of placement costs	13	(97,903)	11,400
Net advances on construction loans	13	3,512	11,747
Repayment on conversion of Class C LP Units	4	—	(98,659)
Net advances (repayments) of credit facility and term loans, net of placement costs	14	(993,000)	481,737
Issuance of units	15	395,056	—
Trust Unit issuance costs	15	(14,298)	(283)
Cash received on exercise of options	15	24,133	9,920
Cash paid on vesting of restricted and performance units	15	(2,239)	(1,677)
Repurchase of Units for unit-based compensation arrangement	15	(2,122)	(7,114)
Distributions paid on Exchangeable Units		(170,513)	(471,829)
Distributions paid on Trust Units		(219,580)	(147,475)
Distribution to non-controlling interests	9	—	(900)
<b>Cash Flows from (used in) Financing Activities</b>		<b>(630,876)</b>	<b>1,201,956</b>
Change in cash and cash equivalents		11,277	24,306
Cash and cash equivalents, beginning of year		30,713	6,407
<b>Cash and Cash Equivalents, End of Year</b>		<b>\$ 41,990</b>	<b>\$ 30,713</b>

Supplemental disclosure of non-cash operating, investing and financing activities (note 28)  
See accompanying notes to the consolidated financial statements

## Notes to the Consolidated Financial Statements

### Note 1. Nature and Description of the Trust

Choice Properties Real Estate Investment Trust (“Choice Properties” or the “Trust”) is an unincorporated, open-ended mutual fund trust governed by the laws of the Province of Ontario and established pursuant to a declaration of trust amended and restated as of May 2, 2018, as may be amended from time to time (the “Declaration of Trust”). Choice Properties, Canada’s preeminent diversified real estate investment trust, is the owner, manager and developer of a high-quality portfolio of commercial retail, industrial, office and residential properties across Canada. The principal, registered, and head office of Choice Properties is located at 22 St. Clair Avenue East, Suite 500, Toronto, Ontario, M4T 2S5. Choice Properties’ trust units (“Trust Units” or “Units”) are listed on the Toronto Stock Exchange (“TSX”) and are traded under the symbol “CHP.UN”.

Choice Properties commenced operations on July 5, 2013 when it issued Units and debt for cash pursuant to an initial public offering (the “IPO”) and completed the acquisition of 425 properties from Loblaw Companies Limited and its subsidiaries (“Loblaw”). Pursuant to a reorganization transaction on November 1, 2018, Loblaw spun out its 61.6% effective interest in Choice Properties to George Weston Limited (“GWL”). As at December 31, 2019, GWL held a 62.9% direct effective interest in Choice Properties.

The active subsidiaries of the Trust included in Choice Properties’ consolidated financial statements are Choice Properties Limited Partnership (the “Partnership”), Choice Properties GP Inc. (the “General Partner”) and CPH Master Limited Partnership (“CPH Master LP”).

### Note 2. Significant Accounting Policies

#### a. Statement of Compliance

The consolidated financial statements of Choice Properties are prepared in accordance with International Financial Reporting Standards (“IFRS” or “GAAP”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described herein. These consolidated financial statements were authorized for issuance by Choice Properties’ Board of Trustees (“Board”) on February 12, 2020.

#### b. Basis of Preparation

The consolidated financial statements are prepared on a historical cost basis except for investment properties (note 6), Class B LP Units (the “Exchangeable Units”) which are exchangeable for Trust Units at the option of the holder (note 15), liabilities for unit-based compensation arrangements (note 18) and certain financial instruments (note 26). The consolidated financial statements are presented in Canadian dollars, which is the Trust’s functional currency.

In the current year, the Trust modified the presentation of its consolidated balance sheet to be based on the liquidity method, whereby all assets and liabilities are presented in ascending order of liquidity, while the notes to the consolidated financial statements distinguish between current and non-current assets and liabilities. The Trust also modified the presentation of its consolidated statements of cash flows, whereby interest paid is presented as a cash flow from operating activities in the current year, as opposed to a cash flow from investing activities as in the prior year. Choice Properties considers this presentation to be reliable and more relevant to the Trust’s business. The comparative amounts in the consolidated balance sheet and consolidated statement of cash flows have been reclassified to conform to the current year presentation.

#### c. Basis of Consolidation

The consolidated financial statements include the accounts of Choice Properties and other entities controlled by the Trust (its subsidiaries). Control is achieved when the Trust has power over the entity, has exposure, or rights, to variable returns from its involvement with the entity, and has the ability to use its power to affect its returns. Choice Properties reassesses control on an ongoing basis.

Consolidation of a subsidiary begins when the Trust obtains control over the subsidiary and ceases when the Trust loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of income and comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When Choice Properties does not own all of the equity in a subsidiary, the non-controlling equity interest is disclosed in the consolidated balance sheet as a separate component of total equity. Changes in the Trust’s ownership interests in subsidiaries that do not result in the Trust losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Trust’s interests and any non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Unitholders of the Trust. When the Trust loses control of a subsidiary, for example through sale or partial sale, a gain or loss is recognized and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

## Notes to the Consolidated Financial Statements

### d. Business Combinations

When an investment is acquired, the Trust considers the substance of the assets and activities of the acquisition in determining whether the acquisition represents an asset acquisition or a business combination. The transaction is considered to be a business combination if the acquired investment meets the definition of a business in accordance with IFRS 3, "Business Combinations", being an integrated set of activities and assets that are capable of being managed for the purposes of providing a return to Unitholders.

The acquisition of a business is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at fair value on the date of acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Acquisition-related costs are recognized in the consolidated statement of income as incurred.

If the acquisition of an investment does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the acquisition date, and no goodwill is recognized. Acquisition-related costs are capitalized to the investment at the time the acquisition is completed.

### e. Joint Arrangements

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on the Trust's rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement.

#### *Joint Ventures*

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Trust's investments in joint ventures are recorded using the equity method and are initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Trust's share of the profit or loss and other comprehensive income of the joint venture. The Trust's share of the joint venture's profit or loss is recognized in the Trust's consolidated statements of income and comprehensive income.

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

A joint venture is considered to be impaired if there is objective evidence of impairment, as a result of one or more events that occurred after initial recognition of the joint venture, and that event has a negative impact on the future cash flows of the joint venture that can be reliably estimated.

#### *Joint Operations*

A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The financial statements of the joint operations are prepared for the same reporting period as the Trust. Where necessary, adjustments are made to bring the accounting policies in line with those of the Trust. The Trust accounts for its interests in joint operations by recognizing its proportionate share of jointly controlled assets, liabilities, revenues and expenses.

### f. Investment Properties

Investment properties include income producing properties and properties under development that are held by the Trust to earn rental income or for capital appreciation or both. The Trust accounts for its investment properties in accordance with International Accounting Standard ("IAS") 40, "Investment Properties".

Subsequent to initial recognition, investment properties are measured at fair value in accordance with the valuation policy discussed in Note 6. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statement of income in the period in which they arise. Investment properties are de-recognized when disposed.

### *Income Producing Properties*

Additions to income producing properties are expenditures incurred for the expansion and/or redevelopment of existing income producing properties that result in additional gross leasable area and are considered revenue producing capital expenditures. Extending and improving the productive capacity of leasable area of existing income producing properties owned by the Trust requires significant on-going capital expenditures. The Trust considers its operating capital expenditures to be the following:

- Property capital: Major expenditures such as parking lot resurfacing and roof replacements which are significant items of improvement incurred pursuant to a capital plan are capitalized and recoverable from tenants under the terms of their leases over the useful life of the improvements. All other repair and maintenance costs are expensed when incurred.
- Direct leasing costs: These include direct third-party brokerage fees incurred in the successful negotiation of a lease.
- Tenant improvement allowances: Amounts expended to meet the Trust's lease obligations are characterized as either tenant improvements, which are owned by the Trust, or tenant inducements. An expenditure is determined to be a tenant improvement when it primarily benefits and / or is owned by the Trust. In such circumstances, the Trust is considered to have acquired an asset which is recorded as an addition to income producing properties. Tenant inducements are amortized on a straight-line basis over the term of the lease as a reduction of revenue.

### *Properties Under Development*

The cost of land and buildings under development (consisting of commercial development sites, density or intensification rights and related infrastructure) are specifically identifiable costs incurred in the period before construction is complete. Costs capitalized in development capital include:

- Permits, architect fees, hard construction costs;
- Payments to tenants under lease obligations when the payment is reimbursement for construction which Choice Properties will receive benefit after the tenant vacates; and
- Site intensification payments, project management fees, professional fees, and property taxes.

Directly attributable borrowing costs associated with acquiring or constructing a qualifying investment property are capitalized. Capitalization of borrowing costs commences when the activities necessary to prepare an asset for development or redevelopment begin, and ceases once the asset is substantially complete, or if there is a prolonged period where development activity is interrupted. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments.

Properties under development are transferred to income producing properties, at their fair value, upon practical completion. The Trust considers practical completion to have occurred when the property is capable of operating in the manner intended by management.

### **g. Assets Held for Sale**

An investment property is classified as held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property, and its sale must be highly probable, generally within one year. Upon designation as held for sale, the investment property continues to be measured at fair value and is presented separately on the consolidated balance sheets.

### **h. Financial Instruments**

Financial assets and liabilities are recognized when Choice Properties becomes a party to the contractual provision of the financial instrument.

#### *Classification and Measurement*

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured on two categories: amortized cost or FVTPL. Derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9, "Financial Instruments" are not separated, but the hybrid financial instrument as a whole is assessed for classification.

The classification and measurement of financial assets based on the Trust's business model for managing these financial assets and their contractual cash flow characteristics, is summarized as follows:

- Assets held for the purpose of collecting contractual cash flows that represent solely payments of principal and interest ("SPPI") are measured at amortized cost;

## Notes to the Consolidated Financial Statements

- Assets held within a business model where assets are held for both the purpose of collecting contractual cash flows and selling financial assets prior to maturity, and the contractual cash flows represent solely payments of principal and interest, are measured at FVOCI; and
- Assets held within another business model or assets that do not have contractual cash flow characteristics that are SPPI are measured at FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, unless the Trust identifies changes in its business model in managing financial assets and would reassess the classification of financial assets. All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

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

<b>Asset/Liability</b>	<b>Classification and Measurement Basis</b>
Accounts receivable	Amortized cost
Mortgages, loans and notes receivable - SPPI	Amortized cost
Mortgages, loans and notes receivable - FVTPL	FVTPL
Financial real estate asset	FVTPL
Cash and cash equivalents	Amortized cost
Long term debt:	
Senior unsecured debentures	Amortized cost
Mortgages payable	Amortized cost
Construction loans	Amortized cost
Credit facility and term loans	Amortized cost
Trade payable and other liabilities	Amortized cost
Designated hedging derivatives	FVTPL
Exchangeable Units	FVTPL

### *Impairment*

An allowance for expected credit losses (“ECL”) is recognized at each balance sheet date for all financial assets measured at amortized cost or those measured at FVOCI, except for investments in equity instruments. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

Impairment losses, if incurred, would be recorded as expenses in the consolidated statement of income and comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss would be reversed through the consolidated statement of income and comprehensive income. The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

### *Fair Value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Trust takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such basis, unless otherwise noted.

Choice Properties measures financial assets and financial liabilities under the following fair value hierarchy. The different levels have been defined as follows:

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 (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Acquisition costs, other than those related to financial instruments classified as FVTPL which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

#### *Valuation process*

The determination of the fair value of financial instruments is performed by Choice Properties' treasury and financial reporting departments on a quarterly basis. The following table describes the valuation techniques used in the determination of the fair values of financial instruments:

<b>Type</b>	<b>Valuation approach</b>
Accounts receivable, cash and cash equivalents, and accounts payable	The carrying amount approximates fair value due to the short-term maturity of these instruments.
Mortgages, loans and notes receivable and financial real estate asset	The fair value of each mortgage, loan and note receivable is based on the current market conditions for financing with similar terms and risks.
Unit Options	Fair value of each tranche is valued separately using a Black-Scholes option pricing model.
Restricted Units, Performance Units and Trustee Deferred Units	Fair value is based on closing market trading price of Choice Properties' Units.
Exchangeable Units	Fair value is based on closing market trading price of Choice Properties' Units.
Long term debt	Fair value is based on the present value of contractual cash flows, discounted at Choice Properties' current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

#### *Derecognition of Financial Instruments*

Financial assets are derecognized when the contractual rights to receive cash flows and benefits from the financial asset expire, or if Choice Properties transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. The difference between the assets carrying amount and the sum of the consideration received and receivable is recognized in net income.

Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in net income.

#### **i. Mortgages, Loans and Notes Receivable**

The Trust's mortgages, loans and notes receivable are classified into two categories: (1) those held for the purpose of collecting contractual cash flows that represent SPPI and are classified and measured at amortized cost; and (2) those that do not meet the SPPI criteria that are classified and measured at FVTPL.

Interest income for mortgages and loans receivable is recognized using the effective interest method. At the end of each reporting period management reviews its SPPI mortgages, loans and notes receivable to determine whether there is an event or change in circumstance that indicates a possible impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to measure any impairment loss and an allowance for expected credit losses is recorded.

An impairment indicator is present when there is objective evidence of impairment as a result of one or more events, such as a deterioration in the credit quality of the borrower to the extent that there is a reasonable doubt as to the timely collection of the principal and interest. An impairment loss is recognized if the present value of estimated future cash flows discounted at the original effective interest rate inherent in the loan is less than its carrying value and is measured as the difference between the two amounts. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, impairment is recognized if either (a) the fair value of the underlying security, net of any realization costs and amounts legally required to be paid to the borrowers, or (b) the observable market price for the loan, is less than the carrying value. The



## Notes to the Consolidated Financial Statements

valuation of such amounts is subjective and is based upon assumptions regarding market conditions that could differ materially from actual results in future periods.

### j. Intangible Assets

Indefinite life intangible assets are measured at cost less any accumulated impairment loss. These assets are not amortized but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. At each balance sheet date, the Trust reviews the carrying amount of its intangible assets to determine whether there is any indication of impairment. If such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. The recoverable amount of the intangible asset is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the intangible asset discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, net of estimates of costs of disposal. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Impairment losses and reversals are recognized in general and administrative expenses.

### k. Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash on hand and marketable investments with an original maturity date of 90 days or less from the date of acquisition.

### l. Financial Derivative Instruments

The Trust does not use derivative instruments for speculative purposes. Any embedded derivative instruments that may be identified are separated from their host contract and recorded on the consolidated balance sheet at fair value. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair values of the derivative instruments are recorded in net earnings unless the derivative qualifies and is effective as a hedging item in a designated hedging relationship. The Trust has cash flow hedges which are used to manage exposure to fluctuations in interest rates. The effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. If the change in fair value of the hedging item is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net income. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net income.

### m. Foreign Currency Translation

The functional currency of the Trust is the Canadian dollar. The assets and liabilities of foreign operations that have a functional currency different from that of the Trust are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting foreign currency exchange gains or losses are recognized in the foreign currency translation adjustment as part of other comprehensive income ("OCI"). When such foreign operation is disposed of, the related foreign currency translation reserve is recognized in net earnings as part of the gain or loss on disposal. On the partial disposal of such foreign operation, the relevant proportion is reclassified to net income.

Asset and liabilities denominated in foreign currency held in foreign operations that have the same functional currency as the Trust are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting foreign currency exchange gains or losses are recognized in net income. Revenue and expenses of foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are transacted.

The Trust has a property in the United States that is considered a foreign operation, which is financially and operationally independent from its Canadian business. Assets and liabilities of this foreign operation are translated at the rate of exchange in effect at the balance sheet date while revenue and expense items are translated at the average exchange rate for the period. Gains or losses on translation are included in OCI as foreign currency translation gains or losses. When there is a reduction in the net investment as a result of a dilution or sale, or reduction in equity of the foreign operation as a result of a dividend, amounts previously recognized in accumulated other comprehensive income ("AOCI") are reclassified to net income.

### n. Exchangeable Units

The Class B LP Units of the Trust's subsidiary, the Partnership, are exchangeable into Trust Units at the option of the holder. GWL holds all Exchangeable Units. These Exchangeable Units are considered puttable instruments and are required to be classified as financial liabilities at FVTPL. Distributions paid on the Exchangeable Units are accounted for as interest expense.

### o. Trust Units

With certain restrictions, Choice Properties' Units are redeemable at the option of the holder, and, therefore, are considered puttable instruments in accordance with IAS 32, "Financial Instruments - Presentation" ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity.

To be presented as equity, a puttable instrument must meet all of the following conditions: (i) it must entitle the holder to a pro-rata share of the entity's net assets in the event of the entity's dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in (ii) above must have identical features; (iv) other than the redemption feature, there can be no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the instrument must be based substantially on the profit or loss of the entity or change in fair value of the instrument. The Trust Units meet the conditions of IAS 32 and accordingly are presented as equity in the consolidated financial statements.

#### **p. Revenue Recognition**

##### *Property Rental Revenue*

Choice Properties has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for its leases with tenants as operating leases. The Trust commences revenue recognition on its leases based on a number of factors. In most cases, revenue recognition under a lease begins when the tenant takes possession of, or controls, the physical use of the leased property. Generally, this occurs on the later of the lease commencement date, or when the Trust is required to make additions to the leased property in the form of tenant improvements, upon substantial completion of such additions.

The Trust enters as a lessor into lease agreements that fall within the scope of IFRS 16, "Leases" ("IFRS 16") which are classified as operating leases. The Trust's revenues are earned from lease contracts with tenants and include both a lease component and a non-lease component. The Trust recognizes revenue from lease components on a straight-line basis over the lease term, including the recovery of property tax and insurance, and is included in revenue in the consolidated statements of income due to its operating nature, except for contingent rental income which is recognized when it arises. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually due from the tenant.

The lease agreements include certain services offered to tenants such as cleaning, utilities, security, landscaping, snow removal, property maintenance costs, as well as other support services. The consideration charged to tenants for these services includes fees charged based on a percentage of the rental income and reimbursement of certain expenses incurred. The Trust has determined that these services constitute a distinct non-lease component (transferred separately from the right to use the underlying asset) and are within the scope of IFRS 15, "Revenue from Contracts with Customers". These property management services are considered one performance obligation, meeting the criteria for over time recognition and are recognized in the period that recoverable costs are incurred, or services are performed.

##### *Interest Income*

Interest income is the interest earned on the amounts advanced under the Trust's mezzanine loans, vendor take-back loans and joint venture financing arrangements together with bank interest earned from deposits. Interest income is recognized in accordance with the terms set out in the financing arrangements using the effective interest method.

##### *Fee Income*

Fee income consists mainly of property management fees, leasing fees, project management fees and other miscellaneous fees. Property management fees are generally based on a percentage of property revenues and are recognized when earned in accordance with the property management or co-ownership agreements. Leasing fees are incurred when the Trust is the leasing manager for co-owned properties and are recognized when earned in accordance with the property management or co-ownership agreements.

##### *Lease Termination Income*

Lease termination income represents amounts earned from tenants in connection with the cancellation or the early termination of their remaining lease obligations and is recognized when a lease termination agreement is signed, and collection is reasonably assured.

#### **q. Unit-Based Compensation**

The Trust has five unit-based compensation plans. The (1) Unit Option, (2) Restricted Unit ("RU"), (3) Performance Unit ("PU"), (4) Trustee Deferred Unit ("DU") and (5) Unit-Settled Restricted Unit ("URU") plans are accounted for as cash-settled awards. The fair value in respect of each plan is re-measured at each balance sheet date. Compensation expense is recognized in general and administrative expenses over the vesting period for each tranche with a corresponding change in the liability.

##### *Unit Option Plan*

Unit Options have a five to ten year term, vest 25% cumulatively on each anniversary date of the grant and are exercisable at the designated Unit price, which is based on the greater of the volume weighted average trading price of a Unit for the five trading days prior to the date of grant or the trading day immediately preceding the grant date. The fair value of each tranche is valued separately using a Black-Scholes option pricing model, and includes the following assumptions:

- The expected distribution yield is estimated based on the expected annual distribution prior to the balance sheet date and the closing unit price as at the balance sheet date;

## Notes to the Consolidated Financial Statements

- The expected Unit price volatility is estimated based on the average volatility of investment grade entities in the Standard & Poor's/TSX REIT Index over a period consistent with the expected life of the options;
- The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the balance sheet date for a term to maturity equal to the expected life of the options; and
- The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on expectations of option holder behaviour.

### *Restricted Unit Plan*

Restricted Units entitle certain employees to receive the value of the RU award in cash or Units at the end of the applicable vesting period, which is usually three years in length. The RU plan provides for the crediting of additional RUs in respect of distributions paid on Units for the period when a RU is outstanding. The fair value of each RU granted is measured based on the market value of a Unit at the balance sheet date.

### *Performance Unit Plan*

Performance Units entitle certain employees to receive the value of the PU award in cash or Units at the end of the applicable performance period, which is usually three years in length, based on the Trust achieving certain performance conditions. The PU plan provides for the crediting of additional PUs in respect of distributions paid on Units for the period when a PU is outstanding. The fair value of each PU granted is measured based on the market value of a Unit and an estimate of the performance conditions being met at the balance sheet date.

### *Trustee Deferred Unit Plan*

Non-management members of the Board are required to receive a portion of their annual retainer in the form of DUs and may also elect to receive up to 100% of their remaining fees in DUs. Distributions paid earn fractional DUs, which are treated as additional awards. DUs vest upon grant. The fair value of each DU granted is measured based on the market value of a Unit at the balance sheet date.

### *Unit-Settled Restricted Unit Plan*

Unit-Settled Restricted Units are accounted for as cash-settled awards. Typically, full vesting of the URUs would not occur until the employee had remained with Choice Properties for three or five years from the grant date. Depending on the nature of the grant, the URUs are subject to a six- or seven-year holding period during which the Units cannot be disposed. The fair value of each URU granted is measured based on the market value of a Unit at the balance sheet date, less a discount to account for the vesting and holding period restriction placed on the URUs.

## r. **Income Taxes**

Choice Properties qualifies as a "mutual fund trust" and a real estate investment trust ("REIT") under the Income Tax Act (Canada). Certain legislation relating to the federal income taxation of Specified Investment Flow Through trusts or partnerships ("SIFT") provide that certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income and that the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations.

Under the SIFT rules, the taxation regime will not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions") and distributions may be deducted against the REIT's taxable income. Choice Properties has reviewed the SIFT rules and has assessed its interpretation and application to its assets and revenue and has determined that it meets the REIT Conditions. The Trustees intend to annually distribute all taxable income directly earned by Choice Properties to Unitholders and to deduct such distributions for income tax purposes and, accordingly, no net current income tax expense or deferred income tax assets or liabilities have been recorded in the consolidated financial statements related to its Canadian investment properties.

The Trust also consolidates certain taxable entities in Canada and in the United States for which current and deferred income taxes are recorded. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using 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 using the asset and liability method of accounting for temporary differences arising between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Deferred tax is measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset is recognized for temporary differences as well as unused tax losses and credits 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities where the Choice Properties intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recorded on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Trust and it is probable that the temporary difference will not reverse in the foreseeable future.

**s. Accounting Standard Implemented in 2019**

In January 2016, the IASB issued IFRS 16 replacing IAS 17, “Leases” (“IAS 17”) and related interpretations. The standard introduced a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance or operating leases. The Trust adopted IFRS 16 using the modified retrospective approach effective January 1, 2019. Under this method, the standard was applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Trust’s incremental borrowing rate as at January 1, 2019. The Trust elected to measure all its right-of-use assets at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.

The Trust elected the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied IFRS 16 only to contracts that were previously identified as leases;
- Applied the exemption to not recognize right-of-use assets and lease liabilities with less than 12 months of lease term;
- Excluded initial direct costs from measuring right-of-use assets; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As at January 1, 2019, the Trust recognized right-of-use lease liabilities of \$7,955 recorded in trade payables and other liabilities and right-of-use assets of \$7,955 recorded in accounts receivable and other assets on its balance sheet. The nature and timing of the related expenses will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

**Note 3. Critical Accounting Judgments and Estimates**

The preparation of the consolidated financial statements requires management to make judgments and estimates in applying Choice Properties’ accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Within the context of these consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management’s historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that Choice Properties believes could have the most significant impact on the amounts recognized in the consolidated financial statements. Choice Properties’ significant accounting policies are disclosed in note 2.

**a. Investment Properties**

*Judgments Made in Relation to Accounting Policies Applied*

Judgment is applied in determining whether certain costs are additions to the carrying value of investment properties, identifying the point at which substantial completion of a development property occurs, and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Choice Properties also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. Choice Properties considers all the properties it has acquired to date to be asset acquisitions.

*Key Sources of Estimation*

The fair value of investment properties is dependent on available comparable transactions, future cash flows over the holding period and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flows involves assumptions relating to occupancy, rental rates and residual value. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

## Notes to the Consolidated Financial Statements

### b. Joint Arrangements

#### *Judgments Made in Relation to Accounting Policies Applied*

Judgment is applied in determining whether the Trust has joint control and whether the arrangements are joint operations or joint ventures. In assessing whether the joint arrangements are joint operations or joint ventures, management applies judgment to determine the Trust's rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement.

### c. Leases

#### *Judgments Made in Relation to Accounting Policies Applied*

Choice Properties is required to make judgments in determining whether certain leases are operating or finance leases, in particular long-term leases. All tenant leases where Choice Properties is the lessor have been determined to be operating leases.

### d. Income Taxes

#### *Judgments Made in Relation to Accounting Policies Applied*

Choice Properties is a mutual fund trust and a REIT as defined in the *Income Tax Act (Canada)*. Choice Properties is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. Choice Properties is a REIT if it meets the prescribed conditions under the *Income Tax Act (Canada)*. Choice Properties uses judgment in reviewing these conditions in assessing its interpretation and application to its assets and revenue.

Choice Properties has determined that it qualifies as a REIT for the current period. Choice Properties expects to continue to qualify as a REIT under the *Income Tax Act (Canada)*, however, should it no longer qualify, it would not be able to flow through its taxable income to Unitholders and would therefore be subject to tax.

### **Note 4. Acquisition of Canadian Real Estate Investment Trust ("CREIT")**

On May 4, 2018, Choice Properties completed its acquisition of CREIT (the "Acquisition Transaction"), an unincorporated, closed-end real estate investment trust that traded on the TSX, by acquiring all the assets and assuming all the liabilities for total consideration of \$3,708,429. The consideration was comprised of \$1,651,518 in cash with the balance funded through the issuance of 182,836,481 Trust Units.

In connection with the acquisition, Choice Properties arranged a new \$1,500,000 committed revolving credit facility. Concurrent with closing of the acquisition, Choice Properties repaid and cancelled its existing credit facilities and those acquired from CREIT.

Also, concurrent with the closing of the acquisition, Choice Properties converted all its outstanding Class C LP Units held by Loblaw into 70,881,226 Class B LP Units ("Exchangeable Units"). A conversion difference of \$98,659 was paid to Loblaw in cash. These Exchangeable Units were subject to an undertaking by Loblaw, and subsequently confirmed by GWL, to the TSX that restrict its voting rights and the exercise of its exchange transfer rights to be consistent with the terms of the converted Class C LP Units.

(\$ thousands)	As at May 4, 2018
<b>Assets</b>	
Investment properties	\$ 4,729,687
Equity accounted joint ventures	683,289
Mortgages, loans and notes receivable	195,597
Intangible assets	30,000
Accounts receivable and other assets	50,645
Cash and cash equivalents	32,419
<b>Total assets</b>	<b>5,721,637</b>
<b>Liabilities</b>	
Mortgages payable	1,309,677
Senior unsecured debentures	451,853
Constructions loans	9,583
Credit facility	70,000
Trade payables and other liabilities	169,421
Restricted unit plan liability	2,674
<b>Total liabilities</b>	<b>2,013,208</b>
<b>Net Assets Acquired</b>	<b>\$ 3,708,429</b>
<b>Consideration</b>	
Cash	\$ 1,651,518
Units issued	2,056,911
<b>Total Consideration</b>	<b>\$ 3,708,429</b>

The Trust had one year from the date of acquisition to finalize the fair value of the assets acquired and the liabilities assumed. The Trust finalized its purchase price allocation during the quarter ended March 31, 2019.

For the year ended December 31, 2019, the Trust incurred acquisition transaction costs and other related expenses comprised of advisory fees, personnel and other integration costs of \$8,363 (2018 - \$141,493).

## Notes to the Consolidated Financial Statements

### Note 5. Investment Property and Other Transactions

During the year ended December 31, 2019, Choice Properties completed the following acquisitions:

Location	Date of Acquisition	Segment	Ownership Interest	Purchase Price	Purchase Price incl. Related Costs	Consideration		
						Net Debt Repayment	Mortgage Receivable Settlement	Cash
<b>Consolidated investments</b>								
Kingston, ON	Mar 7	Retail	100%	\$ 6,660	\$ 6,813	\$ —	\$ —	\$ 6,813
Toronto, ON	Mar 7	Retail	100%	29,658	30,386	—	—	30,386
Acquisitions from Loblaw				36,318	37,199	—	—	37,199
Toronto, ON	Dec 13	Industrial	100%	13,250	13,786	—	—	13,786
Acquisition from GWL				13,250	13,786	—	—	13,786
Toronto, ON	Mar 29	Land <sup>(i)</sup>	50%	18,000	18,862	—	—	18,862
Toronto, ON	Oct 7	Retail <sup>(ii)</sup>	100%	10,500	10,918	—	—	10,918
Milton, ON	Nov 1	Industrial	15% <sup>(iii)</sup>	13,760	14,034	—	11,749	2,285
Milton, ON	Nov 1	Industrial	15% <sup>(iii)</sup>	14,440	14,727	—	12,330	2,397
Acquisitions from third-parties				56,700	58,541	—	24,079	34,462
<b>Total acquisitions in consolidated investments</b>				<b>106,268</b>	<b>109,526</b>	<b>—</b>	<b>24,079</b>	<b>85,447</b>
<b>Equity Accounted Joint Ventures</b>								
Calgary, AB	May 6	Industrial	50%	20,000	20,126	13,537	1,401	5,188
<b>Total acquisitions from third-parties in equity accounted joint ventures</b>				<b>20,000</b>	<b>20,126</b>	<b>13,537</b>	<b>1,401</b>	<b>5,188</b>
<b>Financial real estate asset</b>								
Langford, BC	Sep 25	Retail <sup>(iv)</sup>	100%	22,800	23,462	—	—	23,462
<b>Acquisitions of financial real estate asset from Loblaw</b>				<b>22,800</b>	<b>23,462</b>	<b>—</b>	<b>—</b>	<b>23,462</b>
<b>Total acquisitions</b>				<b>\$ 149,068</b>	<b>\$ 153,114</b>	<b>\$ 13,537</b>	<b>\$ 25,480</b>	<b>\$ 114,097</b>

(i) Land is currently under development for residential purposes and classified as properties under development.

(ii) Property acquired from third-party includes a Loblaw lease (note 31).

(iii) Represents additional ownership interest acquired increasing the ownership interest in this property to 100%. As a result, this property has been transferred from an equity accounted joint venture to a consolidated investment as of the acquisition date.

(iv) The acquired property has been recognized as a financial asset classified at FVTPL under IFRS (note 12).

During the year ended December 31, 2019, Choice Properties completed the following dispositions:

Location	Date of Disposition	Segment	Ownership Interest	Sale Price excl. Selling Costs	Consideration	
					Cash	
<b>Consolidated investments</b>						
Olds, AB (parcel)	Jan 7	Retail	50%	\$ 600	\$ 600	
Brampton, ON	Apr 15	Development	50%	15,229	15,229	
Cowansville, QC <sup>(i)</sup>	Aug 7	Retail	100%	1,475	1,475	
Portfolio of 30 assets across Canada <sup>(ii)</sup>	Sep 30	Retail/Industrial	100%	426,318	426,318	
Strathcona County, AB	Nov 22	Development	50%	15,786	15,786	
Red Deer, AB <sup>(i)</sup>	Dec 2	Retail	100%	8,500	8,500	
<b>Total dispositions</b>				<b>\$ 467,908</b>	<b>\$ 467,908</b>	

(i) Property dispositions included a Loblaw lease (note 31).

(ii) Choice Properties sold a 30-property portfolio consisting of 27 stand-alone retail properties and 3 distribution centres that were leased to Loblaw with an average lease term of approximately twelve years (note 31).

During the year ended December 31, 2018, excluding the acquisition of CREIT (note 4), Choice Properties completed the following acquisitions:

Location	Date of Acquisition	Segment	Ownership Interest	Purchase Price	Purchase Price incl. Related Costs	Consideration		
						Other liabilities (assets) assumed, net	Debt assumed	Cash
<b>Consolidated investments</b>								
Sainte-Julie, QC	Jul 3	Land	75%	\$ 1,575	\$ 1,616	\$ (9)	\$ —	\$ 1,625
Calgary, AB	Nov 14	Retail	100%	31,780	31,780	251	—	31,529
Bedford, NS	Nov 14	Retail	100%	8,950	9,084	(16)	—	9,100
Kanata, ON	Nov 14	Retail	100%	14,660	14,758	160	—	14,598
Acquisitions from Loblaw				56,965	57,238	386	—	56,852
Langley, BC	Dec 7	Industrial	100%	20,280	20,866	70	—	20,796
Acquisition from GWL				20,280	20,866	70	—	20,796
Toronto, ON	Jan 10	Land	100%	2,775	2,950	22	—	2,928
Riviere-du-Loup, QC	Jan 22	Retail	100%	2,350	2,409	2	—	2,407
Toronto, ON	Jan 31	Land	100%	2,807	2,990	3	—	2,987
Sherbrooke, QC	Feb 1	Retail	100%	4,470	4,561	—	—	4,561
Toronto, ON	Mar 20	Retail	100%	17,000	17,915	118	2,805	14,992
Ottawa, ON	May 29	Land	100%	2,024	2,086	—	—	2,086
Calgary, AB	Oct 1	Retail	100%	1,224	1,224	—	—	1,224
Acquisitions from third-parties				32,650	34,135	145	2,805	31,185
<b>Total acquisitions</b>				<b>\$ 109,895</b>	<b>\$ 112,239</b>	<b>\$ 601</b>	<b>\$ 2,805</b>	<b>\$ 108,833</b>

During the year ended December 31, 2018, Choice Properties completed the following dispositions:

Location	Date of Disposition	Segment	Ownership Interest	Sale Price excl. Selling Costs	Consideration	
					Cash	
<b>Consolidated investments</b>						
Victoriaville, QC	Jun 21	Retail	100%	\$ 2,745	\$	2,745
Portfolio of 7 assets in Dartmouth, NS	Aug 27	Industrial	100%	17,300		17,300
Ottawa, ON	Oct 1	Office	50%	3,150		3,150
Calgary, AB	Dec 4	Office	50%	104,000		104,000
<b>Total dispositions</b>				<b>\$ 127,195</b>	<b>\$</b>	<b>127,195</b>



## Notes to the Consolidated Financial Statements

### Note 6. Investment Properties

(\$ thousands)	Note	Income producing properties	Properties under development	Year ended December 31, 2019	Year ended December 31, 2018
Balance, beginning of year		\$ 14,261,616	\$ 239,384	\$ 14,501,000	\$ 9,551,000
Acquisition of CREIT	4	—	—	—	4,729,687
Acquisitions of investment properties - including acquisition costs of \$3,258 (2018 - \$2,344)	5	89,747	19,779	109,526	112,239
Capital expenditures					
Development capital <sup>(i)</sup>		—	67,750	67,750	187,856
Building improvements		2,227	—	2,227	7,741
Capitalized interest <sup>(ii)</sup>	23	—	4,424	4,424	4,880
Operating capital expenditures					
Property capital		30,264	—	30,264	57,586
Direct leasing costs		7,331	—	7,331	11,392
Tenant improvement allowances		19,536	—	19,536	9,628
Amortization of straight-line rent		25,146	—	25,146	34,076
Transfer to assets held for sale		(97,800)	—	(97,800)	—
Transfer from equity accounted investments	7	177,675	4,234	181,909	—
Transfers from properties under development		148,621	(148,621)	—	—
Dispositions	5	(436,893)	(31,015)	(467,908)	(123,869)
Foreign currency translation		(5,971)	—	(5,971)	7,359
Adjustment to fair value of investment properties		(11,499)	7,065	(4,434)	(88,575)
<b>Balance, end of year</b>		<b>\$ 14,210,000</b>	<b>\$ 163,000</b>	<b>\$ 14,373,000</b>	<b>\$ 14,501,000</b>

(i) Development capital included \$4,577 of site intensification payments paid to Loblaw (December 31, 2018 - \$5,858) (note 31).

(ii) Interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.70% (December 31, 2018 - 3.63%).

Included in certain investment properties acquired from Loblaw is excess land with development potential. Choice Properties will compensate Loblaw, over time, with intensification payments determined by a site intensification payment grid as outlined in the Strategic Alliance Agreement (note 31), should Choice Properties pursue activity resulting in the intensification of such excess land. The fair value of this excess land has been recorded in the consolidated financial statements.

As at December 31, 2019, the Trust classified its only US retail property as an asset held for sale. The sale of the property to a third party closed on January 24, 2020, at a sale price of \$97,800, excluding transaction costs, for cash consideration (note 32).

#### Valuation Methodology and Process

The investment properties (including those owned through equity accounted joint ventures) are measured at fair value using valuations prepared by the Trust's internal valuation team. The team reports directly to the Chief Financial Officer, with the valuation processes and results reviewed by Management at least once every quarter. The valuations exclude any portfolio premium or value for the management platform and reflect the highest and best use for each of the Trust's investment properties. As part of Management's internal valuation program, the Trust considers external valuations performed by independent national real estate valuation firms for a cross-section of properties that represent different geographical locations and asset classes across the Trust's portfolio. On a quarterly basis, the valuation team reviews and updates, as deemed necessary, the valuation models to reflect current market data. Updates may be made to capitalization rates, discount rates, market rents, as well as current leasing and/or development activity, renewal probability, downtime on lease expiry, vacancy allowances, and expected maintenance costs.

When an external valuation is obtained, the internal valuation team assesses all major inputs used by the independent valuers in preparing their valuation reports and holds discussions with the independent valuers on the reasonableness of their assumptions. The reports are then used by the internal valuation team for consideration in preparing the valuations as reported in these consolidated financial statements.

### *Income Producing Properties*

Income producing properties are valued using the discounted cash flow method. Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life, generally over a minimum term of 10 years, including a terminal value based on the application of a capitalization rate applied to estimated net operating income, a non-GAAP measure, in the terminal year. This method involves the projection of a series of cash flows for the specific asset. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The terminal capitalization rate is separately determined and may differ from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, new and renewed leasing and related re-leasing, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the related asset class. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic cash flows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

### *Properties Under Development*

Properties under active development are generally valued with reference to market land values and costs invested to date. Where significant leasing and construction is in place and the future income stream is reasonably determinable, the development property is valued on a discounted cash flow basis which includes cash outflows for future capital outlays, construction and development costs. Development risks such as planning, zoning, licenses, and building permits are considered in the valuation process. Properties not under active development, such as land parcels held for future development, are valued based on comparable sales of commercial land.

### **Significant Valuation Assumptions**

The following table highlights the significant assumptions used in determining the fair value of the Trust's income producing properties by asset class:

	<b>As at December 31, 2019</b>		<b>As at December 31, 2018</b>	
<b>Total Investment Properties</b>	<b>Range</b>	<b>Weighted average</b>	<b>Range</b>	<b>Weighted average</b>
Discount rate	<b>5.00% - 11.45%</b>	6.77%	5.00% - 11.45%	6.82%
Terminal capitalization rate	<b>4.25% - 10.95%</b>	6.11%	4.25% - 10.95%	6.15%
Overall capitalization rate	<b>4.00% - 10.70%</b>	5.84%	4.00% - 10.70%	5.88%
<b>Retail</b>				
Discount rate	<b>5.00% - 11.45%</b>	6.89%	5.00% - 11.45%	6.87%
Terminal capitalization rate	<b>4.50% - 10.95%</b>	6.24%	4.25% - 10.95%	6.22%
Overall capitalization rate	<b>4.00% - 10.70%</b>	5.97%	4.00% - 10.70%	5.95%
<b>Industrial</b>				
Discount rate	<b>5.25% - 9.00%</b>	6.51%	5.25% - 9.00%	6.91%
Terminal capitalization rate	<b>4.75% - 8.50%</b>	5.78%	4.50% - 8.50%	6.15%
Overall capitalization rate	<b>4.25% - 8.25%</b>	5.48%	4.25% - 8.25%	5.84%
<b>Office</b>				
Discount rate	<b>5.00% - 8.25%</b>	6.05%	5.00% - 8.25%	6.07%
Terminal capitalization rate	<b>4.25% - 7.50%</b>	5.29%	4.25% - 7.50%	5.33%
Overall capitalization rate	<b>4.00% - 7.00%</b>	5.13%	4.00% - 7.00%	5.16%

The key assumptions and inputs used in the valuation techniques to estimate the fair value of investment properties are classified as Level 3 in the fair value hierarchy as certain inputs for the valuation are not based on observable market data points.

## Notes to the Consolidated Financial Statements

### Independent Appraisals

Properties are typically independently appraised at the time of acquisition. In addition, Choice Properties has engaged independent nationally-recognized valuation firms to appraise its investment properties such that the majority of the portfolio will be independently appraised at least once over a four-year period. When an independent appraisal is obtained, the internal valuation team assesses all major inputs used by the independent valuers in preparing their reports and holds discussions with them on the reasonableness of their assumptions. The reports are then used by the internal valuation team for consideration in preparing the valuations as reported in these consolidated financial statements.

The properties independently appraised each year represent a subset of the property types and geographic distribution of the overall portfolio. A breakdown of the aggregate fair value of investment properties independently appraised each quarter, in accordance with the Trust's policy, is as follows:

(\$ thousands except where otherwise indicated)	2019		2018	
	Number of investment properties	Fair value	Number of investment properties	Fair value
March 31	22	\$ 785,000	26	\$ 711,000
June 30	26	800,000	27	603,000
September 30	18	645,000	26	593,000
December 31	19	800,000	26	884,000
<b>Total</b>	<b>85</b>	<b>\$ 3,030,000</b>	<b>105</b>	<b>\$ 2,791,000</b>

### Fair Value Sensitivity

The following table summarizes fair value sensitivity for the portion of the Trust's investment properties which is most sensitive to changes in capitalization rates:

Capitalization rate sensitivity increase/(decrease) (\$ thousands)	Weighted average overall capitalization rate	Fair value of investment properties	Fair value variance	% Change
(0.75)%	5.09%	\$ 16,492,000	\$ 2,119,000	15 %
(0.50)%	5.34%	15,719,000	1,346,000	9 %
(0.25)%	5.59%	15,016,000	643,000	4 %
— %	5.84%	14,373,000	—	— %
0.25%	6.09%	13,783,000	(590,000)	(4)%
0.50%	6.34%	13,239,000	(1,134,000)	(8)%
0.75%	6.59%	12,737,000	(1,636,000)	(11)%

### Note 7. Equity Accounted Joint Ventures

Choice Properties accounts for its investments in joint ventures using the equity method. These investments hold primarily development properties and some income producing properties. The table below summarizes the Trust's investment in joint ventures.

	Note	As at December 31, 2019		As at December 31, 2018	
		Number of joint ventures	Ownership interest	Number of joint ventures	Ownership interest
Retail		16	25% - 75%	16	25% - 75%
Industrial <sup>(i)</sup>		2	50%	4	50% - 85%
Residential		3	47% - 50%	3	47% - 50%
Mixed-use, with related party	31	1	40%	1	40%
<b>Total equity accounted joint ventures</b>		<b>22</b>		<b>24</b>	

(i) During the year, the Trust acquired its partner's interest in two equity accounted joint ventures, thereby increasing its ownership interest to 100%. As a result, these interests have been transferred from an equity accounted joint ventures to consolidated investments as of the acquisition date.

Summarized financial information for equity accounted joint ventures at 100% and Choice Properties' ownership interest are set out below:

(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Current assets	\$ 42,049	\$ 36,990
Non-current assets	1,768,542	1,924,527
Current liabilities	(197,728)	(220,641)
Non-current liabilities	(435,659)	(342,082)
Net assets at 100%	\$ 1,177,204	\$ 1,398,794
<b>Investment in equity accounted joint ventures</b>	<b>\$ 606,089</b>	<b>\$ 734,167</b>

(\$ thousands)	Year ended December 31, 2019	Year ended December 31, 2018
Rental revenue	\$ 119,633	\$ 70,851
Property operating costs	(43,124)	(22,890)
Interest expense	(17,304)	(10,220)
Interest income	3,085	2,070
Adjustment to fair value of investment properties	(32,006)	(17,396)
Net income and comprehensive income at 100%	\$ 30,284	\$ 22,415
<b>Share of net income and comprehensive income in equity accounted joint ventures</b>	<b>\$ 24,366</b>	<b>\$ 16,222</b>

The following table reconciles the changes in cash flows from equity accounted joint ventures:

(\$ thousands)	Year ended December 31, 2019
Balance, beginning of year	\$ 734,167
Contributions to equity accounted joint ventures	86,252
Distributions from equity accounted joint ventures	(56,457)
Total cash flow activities	29,795
Transfers from equity accounted joint ventures to consolidated investments <sup>(i)</sup>	(182,239)
Share of income from equity accounted joint ventures	24,366
Total non-cash activities	(157,873)
<b>Balance, end of year</b>	<b>\$ 606,089</b>

(i) Represents additional ownership interest acquired increasing the ownership interest in this property to 100%. As a result, this property has been transferred from an equity accounted joint venture to a consolidated investment as of the acquisition date. Balance includes investment properties and working capital. Refer to Note 5 for additional details on investment properties.

#### Note 8. Co-Ownership Property Interests

Choice Properties has the following co-owned property interests and includes its proportionate share of the related assets, liabilities, revenue and expenses of these properties in the consolidated financial statements.

	As at December 31, 2019		As at December 31, 2018	
	Number of co-owned properties	Ownership interest	Number of co-owned properties	Ownership interest
Retail	28	50% - 75%	29	50% - 75%
Industrial	2	50% - 67%	2	50% - 67%
Office	6	50 %	6	50%
Residential	6	50 %	6	50%
Land, held for development	2	50%	2	50% - 75%
<b>Total co-ownership property interests</b>	<b>44</b>		<b>45</b>	

Summarized financial information for co-ownerships at 100% and Choice Properties' ownership interest are set out below:

(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Current assets	\$ 70,608	\$ 40,237
Non-current assets	2,847,694	2,811,218
Current liabilities	(146,875)	(324,774)
Non-current liabilities	(1,083,544)	(987,778)
Net assets at 100%	\$ 1,687,883	\$ 1,538,903
<b>Choice Properties' proportionate share</b>	<b>\$ 865,056</b>	<b>\$ 696,340</b>

(\$ thousands)	Year ended December 31, 2019	Year ended December 31, 2018
Rental revenue	\$ 260,134	\$ 195,778
Property operating costs	(101,091)	(77,060)
Interest expense	(45,302)	(38,896)
Interest income	—	146
Adjustment to fair value of investment properties	(130,430)	(48,010)
Net income and comprehensive income at 100%	(16,689)	31,958
<b>Proportionate share of net income (loss) and comprehensive income in co-ownerships</b>	<b>\$ (10,181)</b>	<b>\$ 15,745</b>

#### Note 9. Subsidiaries

On November 7, 2014, Choice Properties acquired a 70% controlling interest in Choice Properties PRC Brampton Limited Partnership ("Brampton LP"), a subsidiary which holds land intended for future retail development in Brampton, Ontario. As a result, Choice Properties consolidated the results of this subsidiary and recognized a 30% non-controlling interest for the interests of PL Ventures Ltd., a subsidiary of PenEquity Realty Corporation ("PenEquity"). Operating activities have not begun at Brampton LP. In the year ended December 31, 2019, Brampton LP did not distribute to the partners (December 31, 2018 - \$3,000 was distributed to the partners, of which \$900 was attributable to non-controlling interests).

#### Note 10. Mortgages, Loans and Notes Receivable

(\$ thousands)	Note	As at December 31, 2019	As at December 31, 2018
Mortgages receivable <sup>(i)</sup>		\$ 185,350	\$ 181,605
Loans receivable <sup>(i)</sup>		5,649	5,579
Notes receivable from related party <sup>(i)</sup>	31	144,287	26,226
Allowance for expected credit losses	21	(3,000)	—
<b>Mortgages, loans and notes receivable</b>		<b>\$ 332,286</b>	<b>\$ 213,410</b>
Classified as:			
Non-current		\$ 99,523	\$ 88,300
Current		232,763	125,110
		<b>\$ 332,286</b>	<b>\$ 213,410</b>

(i) The fair value of the mortgages, loans and notes receivable includes \$85,809 classified as FVTPL and \$246,300 classified as amortized cost (December 31, 2018 - \$75,692 and \$137,718, respectively) (note 26).

## Mortgages and Loans Receivable

Mortgages and loans receivable represent amounts advanced under mezzanine loans, joint venture financing, vendor take-back financing and other arrangements. Choice Properties mitigates its risk by diversifying the number of entities and assets to which it loans funds. As at December 31, 2019, the Trust has recorded an allowance for expected credit losses of \$3,000 (December 31, 2018 - nil).

	December 31, 2019		December 31, 2018	
	Weighted average effective interest rate	Weighted average term to maturity (years)	Weighted average effective interest rate	Weighted average term to maturity (years)
Mortgages receivable	7.52%	2.0	7.14%	2.0
Loans receivable	8.00%	1.1	8.00%	2.2
<b>Total</b>	<b>7.54%</b>	<b>2.0</b>	<b>7.17%</b>	<b>2.0</b>

## Notes Receivable from Related Party

Non-interest-bearing short-term notes totalling \$26,226 were repaid by GWL in January 2019 (note 31). Non-interest-bearing short-term notes totalling \$144,287 were issued during 2019 to GWL and repaid in January 2020 (note 31).

## Schedules of Maturity and Cash Flow Activities

The schedule of repayment of mortgages, loans and notes receivable based on maturity and redemption rights is as follows:

(\$ thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Principal repayments							
Mortgages receivable	\$ 81,671	\$ 16,813	\$ 54,612	\$ 3,546	\$ 18,073	\$ 6,129	\$ 180,844
Loans receivable	5,261	350	—	—	—	—	5,611
Notes receivable from related party	144,287	—	—	—	—	—	144,287
<b>Total principal repayments</b>	<b>231,219</b>	<b>17,163</b>	<b>54,612</b>	<b>3,546</b>	<b>18,073</b>	<b>6,129</b>	<b>330,742</b>
Interest accrued	1,544	—	—	—	—	—	1,544
<b>Total repayments</b>	<b>\$ 232,763</b>	<b>\$ 17,163</b>	<b>\$ 54,612</b>	<b>\$ 3,546</b>	<b>\$ 18,073</b>	<b>\$ 6,129</b>	<b>\$ 332,286</b>

The following table reconciles the changes in cash flows from investing activities for mortgages, loans and notes receivable:

(\$ thousands)	Mortgages receivable	Loans receivable	Notes receivable from related party	Year ended
				December 31, 2019
				Mortgages, loans and notes receivable
Balance, beginning of year	\$ 181,605	\$ 5,579	\$ 26,226	\$ 213,410
Advances	57,264	1,881	144,287	203,432
Repayments	(34,890)	(1,817)	(26,226)	(62,933)
Interest received	(7,991)	(447)	—	(8,438)
Total cash flow activities	14,383	(383)	118,061	132,061
Settlement upon acquisition of equity accounted joint ventures	(24,079)	—	—	(24,079)
Allowance for credit losses	(3,000)	—	—	(3,000)
Interest accrued	13,441	453	—	13,894
Total non-cash activities	(13,638)	453	—	(13,185)
<b>Balance, end of year</b>	<b>\$ 182,350</b>	<b>\$ 5,649</b>	<b>\$ 144,287</b>	<b>\$ 332,286</b>

Choice Properties invests in mortgages and loans to facilitate acquisitions. Credit risks arise in the event that the borrowers default on repayment of their mortgages and loans to the Trust. Choice Properties' receivables, including mezzanine financings, are typically subordinate to prior ranking mortgage charges and generally represent equity financing for the Trust's co-owners or development partners. Not all of the Trust's mezzanine financing activities will result in acquisitions. At the time of advancing financing, the Trust's co-owners or development partners would typically have some of the equity invested in the form of cash with the balance being financed by third-party lenders and Choice Properties.

In the event of a large commercial real estate market correction, the fair market value of an underlying property may be unable to support the investment. The Trust mitigates this risk by obtaining guarantees and registered mortgage charges, which are often cross-collateralized on several different commercial properties that are in various stages of development.

## Notes to the Consolidated Financial Statements

### Note 11. Intangible Assets

Choice Properties' intangible assets relate to the third-party revenue streams associated with property and asset management contracts for co-ownership property interests and joint ventures. The Trust has the continuing rights, based on the co-ownership agreements, to property and asset management fees from investment properties where it manages the interests of co-owners. As at December 31, 2019, the value of the intangibles assets was \$30,000 (December 31, 2018 - \$30,000). The key assumptions and inputs used in the valuation techniques to estimate the fair value of intangible assets are classified as Level 3 in the fair value hierarchy as certain inputs for the valuation are not based on observable market data points. Based on the annual impairment test performed, no provisions were recorded at December 31, 2019 (December 31, 2018 - nil).

### Note 12. Accounts Receivable and Other Assets

(\$ thousands)	Note	As at December 31, 2019	As at December 31, 2018
Net rent receivable <sup>(i)</sup> - net of allowance for doubtful accounts of \$5,159 (2018 - \$5,017)		\$ 8,284	\$ 8,095
Accrued recovery income		24,485	6,238
Other receivables		9,901	7,068
Due from related parties <sup>(ii)</sup>	31	756	1,339
Restricted cash		679	946
Prepaid property taxes		10,905	6,338
Prepaid insurance		313	1,119
Other assets		7,921	5,520
Right-of-use assets - net of accumulated amortization of \$988 (2018 - nil)	2	6,967	—
Financial real estate asset	5, 31	22,800	—
Deferred tax asset	16	410	—
Deferred acquisition costs and deposits on land		1,427	2,226
Designated hedging derivatives	26	182	1,036
<b>Accounts receivable and other assets</b>		<b>\$ 95,030</b>	<b>\$ 39,925</b>
Classified as:			
Non-current		\$ 35,367	\$ 1,950
Current		59,663	37,975
		<b>\$ 95,030</b>	<b>\$ 39,925</b>

(i) Includes net rent receivable of \$71 from Loblaw (December 31, 2018 - \$421).

(ii) Other net receivables due from related parties includes \$nil from Loblaw and \$756 from GWL (December 31, 2018 - \$1,339 and \$nil, respectively).

## Note 13. Long Term Debt

(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Senior unsecured debentures	\$ 5,158,342	\$ 4,711,134
Mortgages payable	1,230,268	1,330,487
Construction loans	24,842	21,330
<b>Long term debt</b>	<b>\$ 6,413,452</b>	<b>\$ 6,062,951</b>
Classified as:		
Non-current	\$ 5,697,841	\$ 5,566,915
Current	715,611	496,036
	<b>\$ 6,413,452</b>	<b>\$ 6,062,951</b>

### Senior Unsecured Debentures

(\$ thousands)				As at December 31, 2019	As at December 31, 2018
Series	Issuance / Assumption Date	Maturity Date	Effective Interest Rate		
B	Jul 5, 2013	Jul 5, 2023	4.90%	\$ 200,000	\$ 200,000
C	Feb 8, 2014	Feb 8, 2021	3.50%	250,000	250,000
D	Feb 8, 2014	Feb 8, 2024	4.29%	200,000	200,000
E	Feb 5, 2015	Sep 14, 2020	2.30%	250,000	250,000
F	Nov 24, 2015	Nov 24, 2025	4.06%	200,000	200,000
G	Mar 7, 2016	Mar 7, 2023	3.20%	250,000	250,000
H	Mar 7, 2016	Mar 7, 2046	5.27%	100,000	100,000
I	Jan 12, 2018	Mar 21, 2022	3.01%	300,000	300,000
J	Jan 12, 2018	Jan 10, 2025	3.55%	350,000	350,000
K	Mar 8, 2018	Sep 9, 2024	3.56%	550,000	550,000
L	Mar 8, 2018	Mar 8, 2028	4.18%	750,000	750,000
M	Jun 11, 2019	Jun 11, 2029	3.53%	750,000	—
7	Jul 4, 2013	Sep 20, 2019	3.04%	—	200,000
8	Jul 4, 2013	Apr 20, 2020	3.20%	300,000	300,000
9	Jul 4, 2013	Sep 20, 2021	3.57%	200,000	200,000
10	Jul 4, 2013	Sep 20, 2022	3.84%	300,000	300,000
B-C	May 4, 2018	Jan 15, 2021	3.06%	100,000	100,000
C-C	May 4, 2018	Nov 30, 2019	2.60%	—	100,000
D-C	May 4, 2018	Jan 18, 2023	3.30%	125,000	125,000
<b>Total principal outstanding</b>				<b>5,175,000</b>	<b>4,725,000</b>
Debt discounts and premiums - net of accumulated amortization of \$14,857 (2018 - \$13,531)				<b>(1,349)</b>	<b>(22)</b>
Debt placement costs - net of accumulated amortization of \$9,130 (2018 - \$6,674)				<b>(15,309)</b>	<b>(13,844)</b>
<b>Senior unsecured debentures</b>				<b>\$ 5,158,342</b>	<b>\$ 4,711,134</b>

As at December 31, 2019, the senior unsecured debentures had a weighted average effective interest rate of 3.67% and a weighted average term to maturity of 5.1 years (December 31, 2018 - 3.61% and 5.1 years, respectively). Senior unsecured debentures Series B through Series M were issued by the Trust, Series B-C through D-C were assumed by the Trust, and Series 7 through Series 10 were issued by the Partnership.

On June 11, 2019, Choice Properties issued, on a private placement basis, \$750,000 aggregate principal amount of series M senior unsecured debentures of the Trust bearing interest at a rate of 3.53% per annum maturing on June 11, 2029. The net proceeds of the issuance were used to repay existing indebtedness, including the redemption in full of the \$200,000 aggregate principal amount of the 3.00% series 7 senior unsecured debentures due September 20, 2019 and the \$100,000 aggregate principal amount of the 2.56% series C-C senior unsecured debentures due November 30, 2019.



## Notes to the Consolidated Financial Statements

On May 4, 2018, as part of the acquisition of CREIT (note 4), Choice Properties assumed \$450,000 aggregate principal amount of senior unsecured debentures together with accrued but unpaid interest in four series:

- Series A-C, \$125,000 aggregate principal due July 24, 2018, with an effective interest rate of 3.68% per annum;
- Series B-C, \$100,000 aggregate principal due January 15, 2021, with an effective interest rate of 3.06% per annum;
- Series C-C, \$100,000 aggregate principal due November 30, 2019, with an effective interest rate of 2.60% per annum; and
- Series D-C, \$125,000 aggregate principal due January 18, 2023, with an effective interest rate of 3.30% per annum.

The Series B-C, C-C, and D-C debentures have been guaranteed by each of the General Partner, the Partnership and certain other subsidiaries of Choice Properties. In the case of default by the Trust, the indenture trustee will be entitled to seek redress from the guarantors for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of the Trust. These guarantees are intended to eliminate structural subordination, which would otherwise arise as a consequence of Choice Properties' assets being primarily held in various subsidiaries of the Trust. On July 24, 2018, Choice Properties redeemed, at par, \$125,000 Series A-C senior unsecured debentures at the original maturity date.

On March 8, 2018, Choice Properties issued, on a private placement basis: (1) \$550,000 aggregate principal amount of Series K senior unsecured debentures of the Trust bearing interest at a rate of 3.56% per annum maturing on September 9, 2024; and, (2) \$750,000 aggregate principal amount of Series L senior unsecured debentures of the Trust bearing interest at a rate of 4.18% due March 8, 2028.

On January 12, 2018, Choice Properties issued, on a private placement basis: (1) \$300,000 aggregate principal amount of Series I senior unsecured debentures of the Trust bearing interest at a rate of 3.01% per annum maturing on March 21, 2022; and, (2) \$350,000 aggregate principal amount of Series J senior unsecured debentures of the Trust bearing interest at a rate of 3.55% due January 10, 2025.

### Mortgages Payable

(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Mortgage principal	\$ 1,230,569	\$ 1,328,280
Net debt discounts and premiums - net of accumulated amortization of \$4,461 (2018 - \$2,068)	207	2,600
Debt placement costs - net of accumulated amortization of \$129 (2018 - \$52)	(508)	(393)
<b>Mortgages payable</b>	<b>\$ 1,230,268</b>	<b>\$ 1,330,487</b>

As at December 31, 2019, the mortgages had a weighted average effective interest rate of 4.05% and a weighted average term to maturity of 5.6 years (December 31, 2018 - 4.08% and 6.0 years, respectively). The mortgages are secured by charges on 56 investment properties (2018 - 59 investment properties) with a carrying value of \$2,450,687 (2018 - \$2,630,633).

### Construction Loans

As at December 31, 2019, \$24,842 was outstanding on the construction loans (December 31, 2018 - \$21,330), with a weighted average effective interest rate of 3.77% and a weighted average term to maturity of 0.9 years (December 31, 2018 - 4.30% and 1.1 years, respectively).

For the purpose of financing the development of certain retail, industrial and residential properties, various investments in equity accounted joint ventures and co-ownerships have variable rate non-revolving construction facilities in which certain subsidiaries of the Trust guarantee its own share. These construction loans, which mature throughout 2020 to 2022, have a maximum amount available to be drawn at the Trust's ownership interest of \$225,477, of which \$194,902 relates to equity accounted joint ventures as at December 31, 2019 (December 31, 2018 - \$216,921 and \$184,346 respectively).

### Schedules of Repayments and Cash Flow Activities

The schedule of principal repayment of long-term debt, based on maturity, is as follows:

(\$ thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Senior unsecured debentures	\$ 550,000	\$ 550,000	\$ 600,000	\$ 575,000	\$ 750,000	\$ 2,150,000	\$ 5,175,000
Mortgages payable	154,503	120,088	198,743	106,112	153,904	497,219	1,230,569
Construction loans	12,016	12,826	—	—	—	—	24,842
<b>Total</b>	<b>\$ 716,519</b>	<b>\$ 682,914</b>	<b>\$ 798,743</b>	<b>\$ 681,112</b>	<b>\$ 903,904</b>	<b>\$ 2,647,219</b>	<b>\$ 6,430,411</b>

The following table reconciles the changes in cash flows from financing activities for long term debt:

	Year ended December 31, 2019			
(\$ thousands)	Senior unsecured debentures	Mortgages payable	Construction loans	Long term debt
Balance, beginning of year	\$ 4,711,134	\$ 1,330,487	\$ 21,330	\$ 6,062,951
Issuances	750,000	12,000	3,512	765,512
Repayments	(300,000)	(109,711)	—	(409,711)
Debt placement costs	(3,922)	(192)	—	(4,114)
Total cash flow activities	446,078	(97,903)	3,512	351,687
Amortization of debt discounts and premiums	(1,326)	(2,393)	—	(3,719)
Amortization of debt placement costs	2,456	77	—	2,533
Total non-cash activities	1,130	(2,316)	—	(1,186)
<b>Balance, end of year</b>	<b>\$ 5,158,342</b>	<b>\$ 1,230,268</b>	<b>\$ 24,842</b>	<b>\$ 6,413,452</b>

#### Note 14. Credit Facility and Term Loans

(\$ thousands)	As at December 31, 2019	As at December 31, 2018
<b>Credit facility</b>		
\$1,500,000 syndicated <sup>(i)</sup>	\$ 132,000	\$ 325,000
Debt placement costs - net of accumulated amortization of \$5,715 (2018 - \$4,285)	(4,767)	(6,197)
Credit facility	127,233	318,803
<b>Term loans</b>		
Unsecured term loan maturing May 4, 2022	—	175,000
Unsecured term loan maturing May 4, 2023	—	625,000
Debt placement costs - net of accumulated amortization of \$nil (2018 - \$717)	—	(4,396)
Term loans	—	795,604
<b>Credit facility and term loans</b>	<b>\$ 127,233</b>	<b>\$ 1,114,407</b>
Classified as:		
Non-current	\$ 127,233	\$ 1,114,407
Current	—	—
	<b>\$ 127,233</b>	<b>\$ 1,114,407</b>

(i) Choice Properties has an accordion commitment from the lenders which allows the Trust to increase the limit by an additional \$500,000 (subject to certain conditions).

## Notes to the Consolidated Financial Statements

### Credit Facility

Choice Properties has a \$1,500,000 senior unsecured committed revolving credit facility maturing May 4, 2023, provided by a syndicate of lenders. The credit facility bears interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB. Choice Properties has an accordion commitment from the lenders which allows the Trust to increase the limit by an additional \$500,000 (subject to certain conditions). As at December 31, 2019, \$132,000 was drawn under the syndicated facility.

The credit facility contains certain financial covenants. As at December 31, 2019, the Trust was in compliance with all its financial covenants for the credit facility.

### Term Loans

At December 31, 2018, Choice Properties had two unsecured term loans outstanding from a syndicate of lenders: a \$175,000 term loan maturing on May 4, 2022 and a \$625,000 term loan maturing on May 4, 2023. On June 11, 2019, Choice Properties repaid in full the \$175,000 unsecured term loan maturing on May 4, 2022 and repaid \$225,000 of the unsecured term loan maturing on May 4, 2023, using a portion of the net proceeds from the issuance of the Series M senior unsecured debentures (note 13). On September 30, 2019, Choice Properties repaid the remaining \$400,000 balance on the unsecured term loan maturing on May 4, 2023, using a portion of the net proceeds from the investment properties sold during the year (note 5).

Prior to being repaid, the term loans were charged interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. This pricing was contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB.

### Schedule of Cash Flow Activities

The following table reconciles the changes in cash flows from financing activities for credit facility and term loans:

			Year ended December 31, 2019
(\$ thousands)	Credit facility	Term loans	Credit facility and term loans
Balance, beginning of year	\$ 318,803	\$ 795,604	\$ 1,114,407
Net repayments of \$1,500,000 syndicated credit facility	(193,000)	—	(193,000)
Repayment of unsecured term loan maturing May 4, 2022	—	(175,000)	(175,000)
Repayment of unsecured term loan maturing May 4, 2023	—	(625,000)	(625,000)
Total cash flow activities	(193,000)	(800,000)	(993,000)
Amortization of debt placement costs - non-cash activities	1,430	4,396	5,826
<b>Balance, end of year</b>	<b>\$ 127,233</b>	<b>\$ —</b>	<b>\$ 127,233</b>

### Note 15. Unitholders' Equity

#### *Trust Units (authorized - unlimited)*

Each Trust Unit ("Unit") represents a single vote at any meeting of Unitholders and entitles the Unitholder to receive a pro-rata share of all distributions. With certain restrictions, a Unitholder has the right to require Choice Properties to redeem its Units on demand. Upon receipt of a redemption notice by Choice Properties, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit as determined by a market formula and shall be paid in accordance with the conditions provided for in the Declaration of Trust.

#### *Exchangeable Units (authorized - unlimited)*

Exchangeable Units issued by the Partnership are economically equivalent to Units, receive distributions equal to the distributions paid on the Units and are exchangeable, at the holder's option, to Units. As at December 31, 2019 and 2018, all Exchangeable Units were held by GWL.

The 70,881,226 Exchangeable Units issued on May 4, 2018 in connection with the Acquisition Transaction (note 4) contain voting and exchange restrictions which will expire based on the following schedule:

Voting and exchange rights restriction period expiration dates	Numbers of Exchangeable Units eligible for voting and transfer
July 5, 2027	22,988,505
July 5, 2028	22,988,505
July 5, 2029	24,904,216

### Special Voting Units

Each Exchangeable Unit is accompanied by one Special Voting Unit which provides the holder thereof with a right to vote on matters respecting the Trust equal to the number of Units that may be obtained upon the exchange of the Exchangeable Units for which each Special Voting Unit is attached.

### Units Outstanding

	Note	As at December 31, 2019		As at December 31, 2018	
		Units	Amount	Units	Amount
(\$ thousands except where otherwise indicated)					
Units, beginning of year		278,202,559	\$ 2,978,343	94,300,965	\$ 911,081
Units issued through equity financing, net of issuance costs	4	30,042,250	380,758	182,836,481	2,056,628
Units issued under the Distribution Reinvestment Plan		—	—	125,749	1,487
Distribution in Units		1,569,400	21,721	—	—
Consolidation of Units		(1,569,400)	—	—	—
Units issued under unit-based compensation arrangements	18	2,203,950	31,136	1,516,670	16,261
Units repurchased for unit-based compensation arrangement		(155,890)	(2,122)	(577,306)	(7,114)
<b>Units, end of year</b>		<b>310,292,869</b>	<b>\$ 3,409,836</b>	<b>278,202,559</b>	<b>\$ 2,978,343</b>
Exchangeable Units, beginning of year		389,961,783	\$ 4,492,359	319,080,557	\$ 4,259,724
Units issued	4	—	—	70,881,226	826,341
Adjustment to fair value of Exchangeable Units		—	932,009	—	(593,706)
<b>Exchangeable Units, end of year</b>		<b>389,961,783</b>	<b>\$ 5,424,368</b>	<b>389,961,783</b>	<b>\$ 4,492,359</b>
<b>Total Units and Exchangeable Units, end of year</b>		<b>700,254,652</b>		<b>668,164,342</b>	

### Units Issued through Equity Financing

On May 9, 2019, the Trust completed a bought deal equity offering of 30,042,250 Units at a price of \$13.15 per Unit, for aggregate gross proceeds of approximately \$395,056, and net proceeds of approximately \$380,758. As part of this bought deal, GWL acquired 3,805,000 Units. In connection with the Acquisition Transaction in May 2018, Choice Properties issued 182,836,481 Units at a price of \$11.25 per unit, for aggregate gross and net proceeds of totalling approximately \$2,056,628.

### Distribution in Units and Consolidation of Units

As a result of the increase in taxable income generated primarily from the sale transactions in the year ended December 31, 2019, the Board declared a special non-cash distribution on December 31, 2019 of 1,569,400 Units at \$0.07 per Unit totalling \$21,721. Immediately following the issuance of Units, the Units were consolidated such that each unitholder held the same number of Units after the consolidation as each unitholder held prior to the special non-cash distribution. As at December 31, 2019, the special distribution declared was recorded to Trust Units in accordance with IAS 32, "Financial Instruments: Presentation".

### Units Issued under Unit-Based Compensation Arrangements

Units were issued in connection with settlements under the Unit Option Plan and the Unit-Settled Restricted Unit Plan (note 18).

### Units Repurchased for Unit-Based Compensation Arrangement

Choice Properties may from time to time purchase Units in accordance with the rules prescribed under applicable stock exchange or regulatory policies. On September 18, 2018, Choice Properties received approval from the TSX to purchase up to 13,880,839 Units during the twelve-month period from September 20, 2018 to September 19, 2019, under a Normal Course Issuer Bid ("NCIB").

On November 15, 2019, Choice Properties received approval from the TSX to purchase up to 25,856,839 Units during the twelve-month period from November 19, 2019 to November 18, 2020, by way of a NCIB over the facilities of the TSX or through alternative trading systems. During the year ended December 31, 2019, in connection with Choice Properties' Unit-Settled Restricted Unit Plan, Choice Properties acquired Units which were then granted to certain employees and are subject to vesting conditions and disposition restrictions.

### Distributions

Choice Properties' Board retains full discretion with respect to the timing and quantum of distributions, however the total income distributed will not be less than the amount necessary to ensure the Trust will not be liable to pay income taxes under Part I of the Income Tax Act (Canada) for the year ended December 31, 2019 (note 16). The taxable income allocated to the Trust and Exchangeable Unitholders may vary in certain taxation years. Over time, such differences, in aggregate, will be minimal.

## Notes to the Consolidated Financial Statements

In the year ended December 31, 2019, Choice Properties declared cash distributions of \$0.740 per unit (December 31, 2018 - \$0.740), or \$532,054 in aggregate, including distributions to holders of Exchangeable Units, which are reported as interest expense (December 31, 2018 - \$431,392). Distributions declared to Unitholders of record at the close of business on the last business day of a month are paid on or about the 15th day of the following month.

The holders of Exchangeable Units may elect to defer receipt of all, or a portion of distributions declared by the Partnership until the first date following the end of the fiscal year. If the holder elects to defer, the Partnership will loan the holder the amount equal to the deferred distribution without interest, and the loan will be due and payable in full on the first business day following the end of the fiscal year the loan was advanced.

### Distribution Reinvestment Plan (“DRIP”)

Choice Properties instituted a DRIP that allows eligible Unitholders to elect to automatically reinvest their regular monthly cash distributions in additional Units and to receive a bonus distribution in Units equivalent to 3% of each distribution. The DRIP provides an efficient and cost-effective way for Choice Properties to issue additional equity to its existing Unitholders while offering Unitholders the opportunity to increase their ownership in Choice Properties on a regular basis without incurring any commission or brokerage fees. Cash not distributed by Choice Properties due to the issuance of additional Units under the DRIP is used by Choice Properties for future property acquisitions, capital improvements and working capital purposes.

Units issued under the DRIP will be issued directly from treasury at a price based on the volume-weighted average closing price for the five trading days immediately preceding the relevant distribution date. Choice Properties reserves the right to amend, suspend or terminate the DRIP at any time, but such actions will have no retroactive effect that would prejudice the interests of DRIP participants. All administrative costs associated with the operation of the DRIP will be paid by Choice Properties.

To date, Choice Properties has reserved for issuance with the TSX an aggregate of 9,075,000 additional Units to accommodate the ongoing purchase of Units under the DRIP. Persons who do not reside in Canada for purposes of the Tax Act are not permitted to participate in the DRIP.

On April 25, 2018, the Board temporarily suspended the DRIP commencing with the distribution declared in May 2018. On February 12, 2020, the Board approved an amendment and reinstatement of the DRIP. The Board also approved the elimination of the 3% bonus distribution under the amended DRIP. During the year ended December 31, 2019, there were no Units issued under the DRIP (December 31, 2018 - 125,749 Units).

### Note 16. Income Taxes

The Trust is taxed as a “mutual fund trust” and a REIT under the *Income Tax Act (Canada)*. The Trustees intend to distribute all of the Trust’s taxable income to the Unitholders and accordingly, the Trust is not taxable on its Canadian investment property income. The Trust is subject to taxation on certain taxable entities in Canada and the United States.

Income taxes recognized in the consolidated statements of income (loss) and comprehensive income (loss) was as follows:

(\$ thousands)	Year Ended	
	December 31, 2019	December 31, 2018
Current income taxes	\$ (181)	\$ (49)
Deferred income taxes	979	(489)
<b>Income tax recovery (expense)</b>	<b>\$ 798</b>	<b>\$ (538)</b>

A deferred income tax asset of \$410 (note 12) was recognized due to temporary differences between the carrying value and the tax basis of net assets held in the Trust’s taxable subsidiaries (December 31, 2018 - liability of \$509 (note 17)).

## Note 17. Trade Payables and Other Liabilities

(\$ thousands)	Note	As at December 31, 2019	As at December 31, 2018
Trade accounts payable		\$ 9,430	\$ 15,740
Accrued liabilities and provisions		83,010	77,561
Accrued acquisition transaction costs and other related expenses		38,999	38,176
Accrued capital expenditures <sup>(i)</sup>		60,807	73,504
Accrued interest expense		61,352	60,442
Due to related party <sup>(ii)</sup>	31	179,111	50,274
Unit-based compensation	18	11,408	11,125
Distributions payable <sup>(iii)</sup>		19,326	17,156
Right-of-use lease liabilities	2	7,138	—
Tenant deposits		16,882	13,868
Deferred revenue		22,850	19,536
Designated hedging derivatives	26	2,811	1,621
Deferred tax liability	16	—	509
<b>Trade payables and other liabilities</b>		<b>\$ 513,124</b>	<b>\$ 379,512</b>
Classified as:			
Non-current		\$ 12,267	\$ 6,530
Current		500,857	372,982
		<b>\$ 513,124</b>	<b>\$ 379,512</b>

(i) Includes payable to Loblaw of \$5,278 for construction allowances (2018 - nil).

(ii) Includes distributions accrued on Exchangeable Units of \$168,334 payable to GWL (December 31, 2018 - \$50,274) and \$3,676 payable for Services Agreement expense and other related party charges (note 31).

(iii) Includes payable to GWL of \$3,124 (December 31, 2018 - \$2,889).

## Note 18. Unit-Based Compensation

Choice Properties' unit-based compensation expense was:

(\$ thousands)	Year Ended	
	December 31, 2019	December 31, 2018
Unit Option plan	\$ 5,187	\$ (3,578)
Restricted Unit plans	4,161	5,511
Performance Unit plan	593	183
Trustee Deferred Unit plan	1,897	340
<b>Unit-based compensation expense</b>	<b>\$ 11,838</b>	<b>\$ 2,456</b>
Recorded in:		
General and administrative expenses	\$ 4,729	\$ 7,248
Adjustment to fair value of unit-based compensation	7,109	(4,792)
	<b>\$ 11,838</b>	<b>\$ 2,456</b>

As at December 31, 2019, the carrying value of the unit-based compensation liability was \$11,408 (December 31, 2018 - \$11,125) (note 17).

## Notes to the Consolidated Financial Statements

### Unit Option Plan

Choice Properties maintains a Unit Option plan for certain employees. Under this plan, Choice Properties may grant Unit Options totalling up to 19,744,697 Units, as approved at the annual and special meeting of Unitholders on April 29, 2015. The Unit Options vest in tranches over a period of four years. The following is a summary of Choice Properties' Unit Option plan activity:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number of awards	Weighted average exercise price/unit	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	3,764,107	\$ 11.66	4,403,857	\$ 11.56
Granted	—	\$ —	724,571	\$ 11.92
Exercised	(2,048,060)	\$ 11.04	(899,566)	\$ 11.01
Cancelled	(417,439)	\$ 11.96	(464,755)	\$ 12.41
Expired	(11,294)	\$ 14.21	—	\$ —
<b>Outstanding Unit Options, end of year</b>	<b>1,287,314</b>	<b>\$ 12.51</b>	<b>3,764,107</b>	<b>\$ 11.66</b>
Unit Options exercisable, end of year	561,779	\$ 12.27	2,287,879	\$ 11.24

The assumptions used to measure the fair value of the Unit Options under the Black-Scholes model (level 2) were as follows:

	As at December 31, 2019	As at December 31, 2018
Expected average distribution yield	5.38%	6.42%
Expected average Unit price volatility	13.87% - 18.27%	14.39% - 25.19%
Average risk-free interest rate	0.02% - 1.74%	0.02% - 1.88%
Expected average life of options	0.1 - 3.6 Years	0.1 - 4.6 Years

The following table details the Unit Options outstanding as at December 31, 2019:

Exercise Price	Expiry Date	Number of Unit Options outstanding as at December 31, 2019	Remaining weighted average life (in years)
\$11.51	2022	174,589	2.2
\$12.39	2023	371,575	3.2
\$14.19	2024	291,097	4.2
\$11.92	2025	450,053	5.1
<b>\$11.51 to \$14.19</b>		<b>1,287,314</b>	<b>3.4</b>

### Restricted Unit Plans

Choice Properties has a Restricted Unit Plan and a Unit-Settled Restricted Unit Plan as described below.

#### Restricted Unit Plan

Restricted Units ("RU") entitle certain employees to receive the value of the RU award in cash or Units at the end of the applicable vesting period, which is usually three years in length. The RU plan provides for the crediting of additional RUs in respect of distributions paid on Units for the period when a RU is outstanding. The fair value of each RU granted is measured based on the market value of a Trust Unit at the balance sheet date. There were no RUs vested as at December 31, 2019 (December 31, 2018 - nil).

The following is a summary of Choice Properties' RU plan activity:

(Number of awards)	Year ended December 31, 2019	Year ended December 31, 2018
Outstanding Restricted Units, beginning of year	446,341	359,154
Granted	239,483	215,002
Reinvested	26,547	28,029
Exercised	(106,355)	(118,670)
Cancelled	(121,472)	(37,174)
<b>Outstanding Restricted Units, end of year</b>	<b>484,544</b>	<b>446,341</b>

### Unit-Settled Restricted Unit Plan

Under the terms of the Unit-Settled Restricted Unit (“URU”) plan, certain employees are granted URUs which are subject to vesting conditions and disposition restrictions. Typically, full vesting of the URUs will not occur until the employee has remained with Choice for three or five years from the date of grant. Depending on the nature of the grant, the URUs are subject to a six- or seven-year holding period during which the Units cannot be disposed. There were 1,147,753 URUs vested, but still subject to disposition restrictions as at December 31, 2019 (December 31, 2018 - 1,110,761).

The following is a summary of Choice Properties’ URU plan activity for units not yet vested:

(Number of awards)	Year ended December 31, 2019	Year ended December 31, 2018
Outstanding Unit-Settled Restricted Units, beginning of year	717,815	—
Assumed in conjunction with the Acquisition Transaction	—	626,128
Granted	155,946	577,306
Forfeited	(40,796)	(28,946)
Vested	(208,546)	(456,673)
<b>Outstanding Unit-Settled Restricted Units, end of year</b>	<b>624,419</b>	<b>717,815</b>

### Performance Unit Plan

Performance Units (“PU”) entitle certain employees to receive the value of the PU award in cash or Units at the end of the applicable performance period, which is usually three years in length, based on the Trust achieving certain performance conditions. The PU plan provides for the crediting of additional PUs in respect of distributions paid on Units for the period when a PU is outstanding. The fair value of each PU granted is measured based on the market value of a Trust Unit at the balance sheet date. There were no PUs vested as at December 31, 2019 (December 31, 2018 - nil).

The following is a summary of Choice Properties’ PU plan activity:

(Number of awards)	Year ended December 31, 2019	Year ended December 31, 2018
Outstanding Performance Units, beginning of year	104,449	79,612
Granted	50,686	44,374
Reinvested	5,867	6,727
Exercised	(58,282)	(18,906)
Cancelled	(21,471)	(16,194)
Added by performance factor	22,619	8,836
<b>Outstanding Performance Units, end of year</b>	<b>103,868</b>	<b>104,449</b>

### Trustee Deferred Unit Plan

Non-management members of the Board are required to receive a portion of their annual retainer in the form of Deferred Units (“DU”) and may also elect to receive up to 100% of their remaining fees in DUs. Distributions paid earn fractional DUs, which are treated as additional awards. The fair value of each DU granted is measured based on the market value of a Unit at the balance sheet date. All DUs vest when granted, however, they cannot be exercised while Trustees are members of the Board.

The following is a summary of Choice Properties’ DU plan activity:

(Number of awards)	Year ended December 31, 2019	Year ended December 31, 2018
Outstanding Trustee Deferred Units, beginning of year	302,589	283,704
Granted	68,123	56,705
Reinvested	17,046	17,631
Cancelled	(185)	(1,108)
Exercised	(110,434)	(54,343)
<b>Outstanding Trustee Deferred Units, end of year</b>	<b>277,139</b>	<b>302,589</b>



## Notes to the Consolidated Financial Statements

### Note 19. Rental Revenue

Rental revenue is comprised of the following:

(\$ thousands)	Related Parties <sup>(i)</sup>	Third-party	Year ended December 31, 2019	Related Parties <sup>(i)</sup>	Third-party	Year ended December 31, 2018
Base rent	\$ 546,662	\$ 343,703	\$ 890,365	\$ 545,273	\$ 253,667	\$ 798,940
Property tax and insurance recoveries	154,264	96,549	250,813	151,803	67,623	219,426
Operating cost recoveries	55,170	85,209	140,379	47,070	61,680	108,750
Lease surrender and other revenue	3,912	10,185	14,097	10,218	10,939	21,157
Reimbursed contract revenue	(7,100)	—	(7,100)	—	—	—
<b>Rental Revenue</b>	<b>\$ 752,908</b>	<b>\$ 535,646</b>	<b>\$ 1,288,554</b>	<b>\$ 754,364</b>	<b>\$ 393,909</b>	<b>\$ 1,148,273</b>

(i) Refer to Note 31, Related Party Transactions

Choice Properties enters into long-term lease contracts with tenants for space in its properties. Initial lease terms are generally between three and ten years for commercial units and longer terms for food store anchors. Leases generally provide for the tenant to pay Choice Properties base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating cost, property tax and insurance recoveries. Many of the leases with Loblaw are for stand-alone retail sites. Loblaw is directly responsible for the operating costs on such sites.

Future base rent revenue, excluding adjustments for straight-line rent, for the years ended December 31 is as follows:

(\$ thousands)	
2020	\$ 886,665
2021	861,298
2022	826,148
2023	764,028
2024	674,792
Thereafter	2,911,054
<b>Total</b>	<b>\$ 6,923,985</b>

### Note 20. Property Operating Costs

(\$ thousands)	Year Ended	
	December 31, 2019	December 31, 2018
Property taxes and insurance	\$ 263,687	\$ 229,862
Recoverable operating costs	100,811	80,958
Non-recoverable operating costs	3,634	3,616
<b>Property operating costs</b>	<b>\$ 368,132</b>	<b>\$ 314,436</b>

### Note 21. Interest Income

(\$ thousands)	Note	Year Ended	
		December 31, 2019	December 31, 2018
Interest income on mortgages and loans receivable	10	\$ 13,999	\$ 10,691
Expected credit losses on mortgages and loans receivable	10	(3,000)	—
Other interest income		552	3,461
Other income		—	72
<b>Interest income</b>		<b>\$ 11,551</b>	<b>\$ 14,224</b>

**Note 22. Fee Income**

(\$ thousands)	Note	Year Ended	
		December 31, 2019	December 31, 2018
Fees charged to related party	31	\$ 922	\$ 899
Fees charged to third-parties		3,634	2,624
<b>Fee income</b>		<b>\$ 4,556</b>	<b>\$ 3,523</b>

**Note 23. Net Interest Expense and Other Financing Charges**

(\$ thousands)	Note	Year Ended	
		December 31, 2019	December 31, 2018
Interest on senior unsecured debentures		\$ 182,522	\$ 164,010
Distributions on Class C LP Units <sup>(i)</sup>	4	—	15,417
Interest on mortgages and construction loans		51,907	35,293
Interest on credit facility and term loans		28,352	29,780
Interest on right-of-use lease liabilities	17	281	—
Effective interest rate amortization of debt discounts and premiums	13	(3,720)	(2,387)
Accelerated amortization of debt premium on conversion of Class C LP Units		—	37,282
Effective interest rate amortization of debt placement costs	13, 14	8,352	5,542
Distributions on Exchangeable Units <sup>(i)</sup>	31	288,573	271,089
		556,267	556,026
Less: Capitalized interest <sup>(ii)</sup>	6	(4,424)	(4,880)
<b>Net interest expense and other financing charges</b>		<b>\$ 551,843</b>	<b>\$ 551,146</b>

(i) Represents interest on indebtedness due to related parties.

(ii) Interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.70% (2018 - 3.63%).

**Note 24. General and Administrative Expenses**

(\$ thousands)	Note	Year Ended	
		December 31, 2019	December 31, 2018
Salaries, benefits and employee costs		\$ 42,772	\$ 40,960
Investor relations and other public entity costs		2,276	1,643
Professional fees		4,512	1,920
Services Agreement expense charged by related party	31	3,095	2,335
Amortization of other assets		1,311	495
Other		8,256	7,226
<b>Total general and administrative expenses</b>		<b>62,222</b>	<b>54,579</b>
Less:			
Capitalized to investment properties		(3,055)	(3,261)
Allocated to recoverable operating expenses		(19,875)	(16,343)
<b>General and administrative expenses</b>		<b>\$ 39,292</b>	<b>\$ 34,975</b>

## Notes to the Consolidated Financial Statements

### Note 25. Financial Risk Management

As a result of holding and issuing financial instruments, Choice Properties is exposed to credit risk, market risk and liquidity and capital availability risk. The following is a description of those risks and how the exposures are managed:

#### a. Credit Risk

Choice Properties is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to Choice Properties. Exposure to credit risk relates to rent receivables, cash and cash equivalents, short-term investments, security deposits, derivatives and mortgages, loans and notes receivable.

Choice Properties mitigates the risk of credit loss related to rent receivables by evaluating the creditworthiness of new tenants, obtaining security deposits wherever permitted by legislation, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant (except Loblaw). Choice Properties establishes an allowance for doubtful accounts that represents the estimated losses with respect to rent receivables. The allowance is determined on a tenant-by-tenant basis based on the specific factors related to the tenant.

The risk related to cash and cash equivalents, short-term investments, security deposits, derivatives and mortgages, loans and notes receivable is reduced by policies and guidelines that require Choice Properties to enter into transactions only with Canadian financial and government institutions that have a minimum short-term rating of "A-2" and a long-term credit rating of "A-" from S&P or an equivalent credit rating from another recognized credit rating agency and by placing minimum and maximum limits for exposures to specific counterparties and instruments.

Despite such mitigation efforts, if Choice Properties' counterparties default, it could have a material adverse impact on Choice Properties' financial condition or results of operations and its ability to make distributions to Unitholders.

#### b. Market Risk

##### *Interest Rate Risk*

Choice Properties requires extensive financial resources to complete the implementation of its strategy. Successful implementation of Choice Properties' strategy will require cost effective access to additional funding. There is a risk that interest rates may increase which could impact long-term borrowing costs and negatively impact financial performance.

The majority of Choice Properties' debt is financed at fixed rates with maturities staggered over 26 years, thereby mitigating the exposure to near term changes in interest rates. To the extent that Choice Properties incurs variable rate indebtedness (such as borrowings under the revolving credit facility), this will result in fluctuations in Choice Properties' cost of borrowing as interest rates change. If interest rates rise, Choice Properties' operating results and financial condition could be materially adversely affected and the amount of cash available for distribution to Unitholders would be decreased.

Choice Properties' revolving credit facility and the debentures also contain covenants that require it to maintain certain financial ratios on a consolidated basis. If Choice Properties does not maintain such ratios, its ability to make distributions to Unitholders may be limited or suspended.

Choice Properties analyzes its interest rate risk and the impact of rising and falling interest rates on operating results and financial condition on a regular basis. An increase of 1.0% per annum in the variable component of the interest rate for the credit facility would result in an increase to liabilities and a decrease in net income of \$15,000 (2018 - \$15,000) (assuming fully drawn credit facility).

##### *Unit Price Risk*

Choice Properties is exposed to Unit price risk as a result of the issuance of the Class B LP Units, which are economically equivalent to and exchangeable for Units, as well as the issuance of unit-based compensation. The Class B LP Units and unit-based compensation liabilities are recorded at their fair value based on market trading prices. The Class B LP Units and unit-based compensation negatively impact operating income when the Unit price rises and positively impact operating income when the Unit price declines.

An increase of \$1.00 in the underlying price of Choice Properties' Units would result in an increase to liabilities and decrease in net income to Class B LP Units of \$389,962 (2018 - \$389,962) and Unit-based compensation liabilities of \$1,560 (2018 - \$2,694).

#### c. Liquidity and Capital Availability Risk

Liquidity risk is the risk that Choice Properties cannot meet a demand for cash or fund its obligations as they come due. Although a portion of the cash flows generated by Choice Properties is devoted to servicing such outstanding debt, there can be no assurance that Choice Properties will continue to generate sufficient cash flows from operations to meet interest payments and principal repayment obligations upon an applicable maturity date. If Choice Properties is unable to meet

interest payments or principal repayment obligations, it could be required to renegotiate such payments or issue additional equity or debt or obtain other financing. The failure of Choice Properties to make or renegotiate interest or principal payments or issue additional equity or debt or obtain other financing could materially adversely affect Choice Properties' financial condition and results of operations and decrease or eliminate the amount of cash available for distribution to Unitholders.

The real estate industry is highly capital intensive. Choice Properties requires access to capital to fund operating expenses, to maintain its properties, to fund its strategy and certain other capital expenditures from time to time, and to refinance indebtedness. Although Choice Properties expects to have access to the revolving credit facility, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favourable terms. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to limitations set forth in the Declaration of Trust, the Indenture, as supplemented by the Supplemental Indenture, and the Fifth Supplemental Assumed Indenture. Failure by Choice Properties to access required capital could have a material adverse effect on its financial condition or results of operations and its ability to make distributions to Unitholders.

Liquidity and capital availability risks are mitigated by maintaining appropriate levels of liquidity, by diversifying the Trust's sources of funding, by maintaining a well-diversified debt maturity profile and actively monitoring market conditions.

The undiscounted future principal and interest payments on Choice Properties' debt instruments are as follows:

(\$ thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Senior unsecured debentures	\$ 731,805	\$ 716,807	\$ 748,558	\$ 702,403	\$ 857,465	\$ 2,506,455	\$ 6,263,493
Mortgages payable	201,090	160,720	231,795	135,035	177,295	582,985	1,488,920
Construction loans <sup>(i)</sup>	12,016	12,826	—	—	—	—	24,842
Credit facility <sup>(i)</sup>	—	—	—	132,000	—	—	132,000
<b>Total</b>	<b>\$ 944,911</b>	<b>\$ 890,353</b>	<b>\$ 980,353</b>	<b>\$ 969,438</b>	<b>\$ 1,034,760</b>	<b>\$ 3,089,440</b>	<b>\$ 7,909,255</b>

(i) Excludes interest on the revolving credit facility and construction loans at a floating interest rate.

## Note 26. Financial Instruments

The following table presents the fair value hierarchy of financial assets and liabilities, excluding those classified as amortized cost that are short term in nature.

(\$ thousands)	Note	As at December 31, 2019				As at December 31, 2018			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>									
Fair value through profit and loss:									
Mortgages, loans and notes receivable	10	\$ —	\$ —	\$ 85,809	\$ 85,809	\$ —	\$ —	\$ 75,692	\$ 75,692
Financial real estate asset	12	—	—	22,800	22,800	—	—	—	—
Designated hedging derivatives	12	—	182	—	182	—	1,036	—	1,036
Amortized cost:									
Mortgages, loans and notes receivable - SPPI	10	—	—	246,300	246,300	—	—	137,718	137,718
Cash and cash equivalents		41,990	—	—	41,990	30,713	—	—	30,713
<b>Liabilities</b>									
Fair value through profit and loss:									
Exchangeable Units	15	5,424,368	—	—	5,424,368	4,492,359	—	—	4,492,359
Unit-based compensation	17	—	11,408	—	11,408	—	11,125	—	11,125
Designated hedging derivatives	17	—	2,811	—	2,811	—	1,621	—	1,621
Amortized cost:									
Long term debt	13	—	6,627,647	—	6,627,647	—	6,096,363	—	6,096,363
Credit facility and term loans	14	—	127,233	—	127,233	—	1,114,407	—	1,114,407

The carrying value of the Trust's assets and liabilities approximated fair value except for long term debt. The fair value of Choice Properties' senior unsecured debentures was calculated using market trading prices for similar instruments, whereas the fair values for the mortgages was calculated by discounting future cash flows using appropriate discount rates. There were no transfers between levels of the fair value hierarchy during the periods.

## Notes to the Consolidated Financial Statements

### Designated Hedging Derivatives

Designated hedging derivatives consist of interest rate swaps to hedge the interest rate associated with an equivalent amount of variable rate mortgages. The Trust did not enter into any new designated hedging derivatives during the year ended December 31, 2019.

The impact of the hedging instruments on the consolidated balance sheets is as follows:

(\$ thousands)	Notional Amount	Net Asset (Liability)	Line Item in Balance Sheet	Fair Value Gain (Loss) Recorded in OCI
<b>As at December 31, 2019</b>				
Interest rate swaps	\$ 276,700	\$ (2,629)	Other assets or Other liabilities	\$ (2,044)
<b>As at December 31, 2018</b>				
Interest rate swaps	321,700	585	Other assets or Other liabilities	597

### Note 27. Capital Management

In order to maintain or adjust its capital structure, Choice Properties may issue new Units and debt, repay debt, or adjust the amount of distributions paid to Unitholders. Choice Properties manages its capital structure with the objective of:

- complying with the guidelines set out in its Declaration of Trust;
- complying with debt covenants;
- maintaining credit rating metrics consistent with those of investment grade REITs;
- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future growth and development; and
- minimizing its cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

On January 9, 2018, Choice Properties filed a Short Form Base Shelf Prospectus allowing for the issuance of up to \$2,000,000 of Units and debt securities, or any combination thereof over a 25-month period.

Financing activity during the year ended December 31, 2019 and 2018, consisted of the repayment and issuance of various senior unsecured debentures (note 13), the repayment of the Trust's term loans (note 14) and completion of a bought deal equity offering (note 15).

Choice Properties has certain key covenants in its debentures and its committed credit facility. The key financial covenants include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by the Trust on an ongoing basis to ensure compliance with the agreements. Choice Properties was in compliance with each of the key financial covenants under these agreements as at December 31, 2019 and December 31, 2018.

The following schedule details the capitalization of Choice Properties:

(\$ thousands)	Note	As at December 31, 2019	As at December 31, 2018
<b>Liabilities</b>			
Senior unsecured debentures	13	\$ 5,175,000	\$ 4,725,000
Mortgages payable	13	1,230,569	1,328,280
Construction loans	13	24,842	21,330
Credit facility	14	132,000	325,000
Term loans	14	—	800,000
Exchangeable units	15	5,424,368	4,492,359
<b>Equity</b>			
Unitholders' equity	15	3,090,217	3,492,185
Non-controlling interests	15	7,801	7,801
<b>Total</b>		<b>\$ 15,084,797</b>	<b>\$ 15,191,955</b>

## Note 28. Supplementary Information

### Change in Non-Cash Working Capital

(\$ thousands)	Note	Year Ended	
		December 31, 2019	December 31, 2018
Net change in accounts receivable and other assets	12	\$ (55,105)	\$ (12,941)
Add back (deduct):			
Additions to right of use assets	2	7,955	—
Allowance for expected credit losses	10	3,000	—
Change to designated hedging derivative assets		(854)	1,036
Other assets from the Acquisition Transaction	4	—	47,505
Acquisition of financial real estate asset	12	23,462	—
Net assets from acquired properties	5	—	149
Net change in trade payables and other liabilities	17	133,612	(49,264)
Add back (deduct):			
Additions to lease liabilities	2	(7,955)	—
Net change in distributions payable		(2,170)	(11,341)
Net change in unit-based compensation liability		(283)	2,888
Net change to accrued interest expense		(118,970)	234,679
Change to designated hedging derivative liabilities		(1,190)	(1,621)
Other liabilities assumed from the Acquisition Transaction	4	—	(166,351)
Liabilities from acquired properties	5	—	(750)
Impact of currency translation <sup>(i)</sup>		(2,596)	(3,912)
<b>Change in non-cash working capital</b>		<b>\$ (21,094)</b>	<b>\$ 40,077</b>

(i) For the year ended December 31, 2019, the impact of currency translation on cash held in foreign currency was \$511 (2018 - \$225).

## Notes to the Consolidated Financial Statements

### Note 29. Segment Information

Choice Properties operates in three reportable segments: retail, industrial and office. The segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, determined to be the CEO of the Trust. The CEO measures and evaluates the performance of the Trust based on net operating income, cash basis.

Net operating income, cash basis, is defined as property rental revenue less straight line rental revenue, direct property operating expenses and realty taxes and excludes certain expenses such as interest expense and indirect operating expenses in order to provide results that reflect a property's operations before consideration of how it is financed or the costs of operating the entity in which it is held. The amounts are presented by property type below and included in these consolidated financial statements at the proportionate share. The remaining net income (loss) items and the balance sheet are reviewed on a consolidated basis by the CEO and therefore are not included in the segmented disclosure below.

Prior to the second quarter of 2018, Choice Properties operated one reportable segment, retail, with all operations carried out in Canada. Following the Acquisition Transaction, the Trust operates in three reportable segments: retail, industrial and office.

The chart below presents net income (loss) for the year ended December 31, 2019, in a manner consistent with internal reporting and the accounting policies of the segments presented here are the same as the Trust's accounting policies as described in note 2.

(\$ thousands)	Retail	Industrial	Office	Consolidation and eliminations <sup>(i)</sup>	Year ended December 31, 2019
Rental revenue	\$ 1,061,600	\$ 184,304	\$ 108,479	\$ (65,829)	\$ 1,288,554
Property operating costs	(301,238)	(48,012)	(41,050)	22,168	(368,132)
<b>Net Operating Income, Accounting Basis</b>	<b>760,362</b>	<b>136,292</b>	<b>67,429</b>	<b>(43,661)</b>	<b>920,422</b>
Less:					
Straight-line rent	(19,189)	(4,867)	(2,129)	1,039	(25,146)
Reimbursed contract revenue	6,706	318	76	—	7,100
Lease surrender revenue	(3,415)	(73)	(190)	—	(3,678)
<b>Net Operating Income, Cash Basis</b>	<b>744,464</b>	<b>131,670</b>	<b>65,186</b>	<b>(42,622)</b>	<b>898,698</b>
Add back: cash basis reconciling items					21,724
Net operating income, accounting basis					920,422
Interest income					11,551
Fee income					4,556
Net interest expense and other financing charges					(551,843)
General and administrative expenses					(39,292)
Share of income from equity accounted joint ventures					24,366
Acquisition transaction costs and other related expenses					(8,363)
Adjustment to fair value of unit-based compensation					(7,109)
Adjustment to fair value of Exchangeable Units					(932,009)
Adjustment to fair value of investment properties					(4,434)
<b>Loss before Income Taxes</b>					<b>(582,155)</b>
Income taxes					798
<b>Net Loss</b>					<b>\$ (581,357)</b>

(i) Reconciling items adjust Choice Properties' proportionate share of joint ventures to reflect the equity method of accounting under IFRS.

The chart below presents net income (loss) for the year ended December 31, 2018, in a manner consistent with internal reporting and the accounting policies of the segments presented here are the same as the Trust's accounting policies as described in note 2.

(\$ thousands)	Retail	Industrial	Office	Consolidation and eliminations <sup>(i)</sup>	Year ended December 31, 2018
Rental revenue	\$ 954,417	\$ 143,804	\$ 89,315	\$ (39,263)	\$ 1,148,273
Property operating costs	(254,818)	(37,669)	(34,926)	12,977	(314,436)
Net Operating Income, Accounting Basis	699,599	106,135	54,389	(26,286)	833,837
Less:					
Straight-line rent	(27,994)	(5,416)	(1,655)	989	(34,076)
Lease surrender revenue	(10,325)	(6)	(555)	—	(10,886)
Net Operating Income, Cash Basis	661,280	100,713	52,179	(25,297)	788,875
Add back: cash basis reconciling items					44,962
Net Operating Income, Accounting Basis					833,837
Interest income					14,224
Fee income					3,523
Net interest expense and other financing charges					(551,146)
General and administrative expenses					(34,975)
Share of income from equity accounted joint ventures					16,222
Acquisition transaction costs and other related expenses					(141,493)
Adjustment to fair value of unit-based compensation					4,792
Adjustment to fair value of Exchangeable Units					593,706
Adjustment to fair value of investment properties					(88,575)
Loss before Income Taxes					650,115
Income taxes					(538)
Net Income					\$ 649,577

(i) Reconciling items adjust Choice Properties' proportionate share of joint ventures to reflect the equity method of accounting under IFRS.



## Notes to the Consolidated Financial Statements

### Note 30. Contingent Liabilities and Financial Guarantees

Choice Properties is involved in and potentially subject to various claims by third-parties arising from the normal course of conduct of its business including regulatory, property and environmental claims. In addition, Choice Properties is potentially subject to regular audits from federal and provincial tax authorities, and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers Choice Properties' exposure to such claims and litigation, to the extent not covered by Choice Properties' insurance policies or otherwise provided for, not to be material to the consolidated financial statements, but they may have a material impact in future periods.

#### a. Legal Proceedings

Choice Properties is potentially the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all these proceedings and claims is uncertain. Based on information currently available, any proceedings and claims, individually and in the aggregate, are not expected to have a material impact on Choice Properties.

#### b. Guarantees

Choice Properties issues letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at December 31, 2019, the aggregate gross potential liability related to these letters of credit totaled \$36,110 including \$1,790 posted by Loblaw with the Province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from Loblaw subsequent to the IPO (note 31) (December 31, 2018 - \$38,540 including \$3,248 posted by Loblaw).

Choice Properties' credit facility and senior unsecured debentures are guaranteed by each of the General Partner, the Partnership and any other person that becomes a subsidiary of Choice Properties (with certain exceptions). In the case of default by the Trust, the indenture trustee will be entitled to seek redress from the guarantors for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of the Trust. These guarantees are intended to eliminate structural subordination, which would otherwise arise as a consequence of Choice Properties' assets being primarily held in various subsidiaries of the Trust.

CPH Master LP guarantees certain debt assumed by purchasers in connection with past dispositions of properties made by CREIT before the Acquisition Transaction. These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risks arise in the event that the purchasers default on repayment of their debt. These credit risks are mitigated by the recourse which the Trust has under these guarantees, in which case the Trust would have a claim against the underlying property. The estimated amount of debt at December 31, 2019 subject to such guarantees, and therefore the maximum exposure to credit risk, was \$36,690 with an estimated weighted average remaining term of 3.5 years (December 31, 2018 - \$37,700 and 4.5 years, respectively).

#### c. Commitments

Choice Properties has entered into contracts for development and sustainable capital projects and has other contractual obligations such as operating rents. The Trust is committed to future payments of approximately \$553,844, of which \$184,633 relates to equity accounted joint ventures as at December 31, 2019 (December 31, 2018 - \$315,209 and \$149,344 respectively).

The Trust held debt obligations in the amount of \$193,172 in its equity accounted joint ventures as at December 31, 2019 (December 31, 2018 - \$144,702). Generally, the Trust is only liable for its proportionate share of the obligations of the co-ownerships and equity accounted joint ventures in which it participates, except in limited circumstances. Credit risk arises in the event that the partners default on the payment of their proportionate share of such obligations. This credit risk is mitigated as the Trust generally has recourse under its co-ownership agreements and joint venture arrangements in the event of default of its partners, in which case the Trust's claim would be against both the underlying real estate investments and the partners that are in default. Management believes that the assets of its co-ownerships and joint ventures are sufficient for the purpose of satisfying any obligation of the Trust should the Trust's partner default.

### Note 31. Related Party Transactions

Choice Properties' parent corporation is GWL, which held a 62.9% direct effective interest in the Trust through ownership of 50,661,415 Units and 100% of the Exchangeable Units as at December 31, 2019. GWL is also the parent company of Loblaw, with ownership of 52.2% of Loblaw's outstanding common shares as at December 31, 2019.

On November 1, 2018, Loblaw and GWL completed a reorganization under which Loblaw spun out its effective interest in Choice Properties to GWL. Prior to the reorganization, Loblaw held a 61.6% direct effective interest in the Trust through ownership of 21,500,000 Units and 100% of the Exchangeable Units as at October 31, 2018. The reorganization had no significant impact on the ongoing relationship between Loblaw and Choice Properties. All current agreements and arrangements with Loblaw remain in place and Loblaw continues to be Choice Properties' largest tenant.

In the ordinary course of business, Choice Properties' enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

#### Transactions with GWL

##### Acquisitions

On December 13, 2019, Choice Properties acquired an industrial property from GWL for a purchase price of \$13,250, excluding transaction costs. The acquisition was settled with cash (note 5).

On December 7, 2018, Choice Properties acquired an industrial property from GWL for a purchase price of \$20,280, excluding transaction costs. The acquisition was settled with cash (note 5).

##### Services Agreement

During 2019, GWL provided Choice Properties with administrative and other support services for \$3,095 (2018 - nil).

##### Operating Lease

Effective May 1, 2019, GWL entered into a sub-lease arrangement with Choice Properties for office space, which expired on December 31, 2019. In the year ended December 31, 2019, Choice Properties earned sub-lease income of \$756 from GWL.

Effective January 1, 2018, Choice Properties entered into a sub-lease for additional office space with Weston Foods, a subsidiary of GWL, with a term effective until the end of the existing lease in 2024. Over the term of the sub-lease, lease payments will total \$1,282.

##### Distributions on Exchangeable Units and Notes Receivable

Subsequent to the reorganization on November 1, 2018, GWL holds all of the Exchangeable Units issued by the Partnership. During the year December 31, 2019, distributions declared on the Exchangeable Units totalling \$168,334 were payable to GWL (December 31, 2018 - \$50,274).

Subsequent to the reorganization on November 1, 2018, GWL assumed the notes receivable from Loblaw entities of \$26,226. On the first business day of 2019, distributions payable for Exchangeable Units of \$26,226 were paid and the corresponding notes receivable from GWL were cancelled.

##### Trust Unit Distributions

In the year ended December 31, 2019, Choice Properties declared cash distributions of \$36,551 on the Units held by GWL, and \$3,546 in non-cash distributions paid by the issuance of additional Trust Units (December 31, 2018 - \$21,416 and \$nil). As at December 31, 2019, \$3,124 of Trust Unit distributions declared were payable to GWL (December 31, 2018 - \$2,889).

##### Transaction Summary as Reflected in the Consolidated Financial Statements

Transactions with GWL recorded in the consolidated statements of income (loss) and comprehensive income (loss) were comprised as follows:

(\$ thousands)	Note	Year Ended	
		December 31, 2019	December 31, 2018
Rental revenue	19	\$ 3,547	\$ 2,296
Services Agreement expense	24	(3,095)	—
Interest expense and other financing charges	23	(288,573)	(48,095)
Office rent expense		(183)	(183)

## Notes to the Consolidated Financial Statements

The balances due from (to) GWL and subsidiaries were as follows:

(\$ thousands)	Note	As at December 31, 2019	As at December 31, 2018
Notes receivable	10	\$ 144,287	\$ 26,226
Other receivables	12	756	—
Exchangeable Units	15	(5,424,368)	(4,492,359)
Accrued liabilities	17	(3,676)	—
Distributions payable on Exchangeable Units	17	(168,334)	(50,274)
Distributions payable	17	(3,124)	(2,889)
<b>Due to GWL and subsidiaries</b>		<b>\$ (5,454,459)</b>	<b>\$ (4,519,296)</b>

### Transactions and Agreements with Loblaw

#### Acquisitions

Included in the investment properties acquired as part of the Acquisition Transaction were 17 properties containing a Loblaw food or drug store, with annual rental revenue of approximately \$12,841 (note 4).

In the year ended December 31, 2019, Choice Properties acquired two investment properties and one financial real estate asset from Loblaw with an aggregate purchase price of \$59,118, excluding transaction costs. The acquisitions were settled with cash (note 5).

#### Dispositions

On September 30, 2019, Choice Properties completed the disposition of a portfolio of 30 income producing properties which had Loblaw leases for an aggregate sale price of \$426,318, excluding transaction costs (note 5). Immediately prior to the closing date, Loblaw and Choice Properties agreed to amend certain applicable leases such that each lease had a remaining term of at least 12 years and Choice Properties' right to collect future capital recoveries by the purchaser would be waived.

In the year ended December 31, 2019, Choice Properties completed two dispositions of retail properties which had Loblaw leases, for an aggregate sale price of \$9,975, excluding transaction costs (note 5).

#### Lease Surrender Payments

In the year ended December 31, 2019, Loblaw made lease surrender payments of \$3,156 to the Trust (2018 - \$10,204) (note 19).

#### Reimbursed contract revenue

On certain properties sold to Choice Properties, the revenue received with respect to solar rooftop leases was incorrectly allocated to Choice Properties. During the year ended December 31, 2019, Choice Properties reimbursed Loblaw \$7,100 for revenue received in prior periods, and Choice Properties and Loblaw acknowledged that all future revenue and liabilities relating to the solar rooftop leases and related rooftop repair costs belong to Loblaw.

#### Site Intensification Payments

Included in certain investment properties acquired from Loblaw is excess land with development potential. Choice Properties will compensate Loblaw, over time, with intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess lands. The payments to Loblaw are calculated in accordance with a payment grid, set out in the Strategic Alliance Agreement, that takes into account the region, market ranking and type of use for the property.

Choice Properties compensated Loblaw with intensification payments of \$4,577 in connection with completed gross leasable area for which tenants have taken possession during the year ended December 31, 2019 (December 31, 2018 - \$5,858).

#### Strategic Alliance Agreement

The Strategic Alliance Agreement creates a series of rights and obligations between Choice Properties and Loblaw intended to establish a preferential and mutually beneficial business and operating relationship. The Strategic Alliance Agreement expires on July 5, 2023. The Strategic Alliance Agreement provides Choice Properties with important rights that are expected to meaningfully contribute to the Trust's growth. Subject to certain exceptions, rights include:

- Choice Properties will have the right of first offer to purchase any property in Canada that Loblaw seeks to sell;
- Loblaw will be generally required to present shopping centre property acquisitions in Canada to Choice Properties to allow the Trust a right of first opportunity to acquire the property itself; and
- Choice Properties has the right to participate in future shopping centre developments involving Loblaw.

Included in certain investment properties acquired from Loblaw is excess land with development potential. In accordance with the Strategic Alliance Agreement, Choice Properties will compensate Loblaw, over time, with intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess land. The payments to Loblaw will be calculated in accordance with a payment grid that takes into account the region, market ranking and type of use for the property.

#### Services Agreement

During 2018, Loblaw provided Choice Properties with administrative and other support services for an annualized amount of \$2,335. This agreement was terminated on December 31, 2018.

#### Property Management Agreement

Choice Properties provides Loblaw with property management services for Loblaw's properties with third-party tenancies on a fee for service basis with automatic one-year renewals.

#### Sublease Administration Agreement

On July 17, 2017, in connection with Loblaw's sale of substantially all of its gas bar operations, Choice Properties agreed to provide Loblaw with certain administrative services in respect of the subleases on a fee for service basis for an initial five-year term with automatic one-year renewals.

#### Letters of Credit

As at December 31, 2019, letters of credit totalling \$1,790 were posted by Loblaw with the Province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from Loblaw (December 31, 2018 - \$3,248) (note 30).

#### Distributions on Exchangeable and Class C LP Units

During the year ended December 31, 2018, distributions declared on the Exchangeable Units and Class C LP Units totalling \$222,994 and \$15,417, respectively, were paid to Loblaw.

#### Conversion of Class C LP Units

Concurrent with the closing of the Acquisition Transaction, Choice Properties converted all its outstanding Class C LP Units into 70,881,226 Exchangeable Units. A conversion difference of \$98,659 was due to Loblaw and settled in cash. These Exchangeable Units were subject to an undertaking by Loblaw, and subsequently confirmed by GWL, to the TSX that restrict its voting rights and the exercise of its exchange transfer rights to be consistent with the terms of the converted Class C LP Units.

The reorganization under which Loblaw spun out its effective interest in Choice Properties to GWL, included all the issued and outstanding Exchangeable Units, of which 70,881,226 Exchangeable Units continue to be subject to restrictions for voting and exchange transfer rights.

#### Trust Unit Distributions

During the year ended December 31, 2018, Choice Properties declared distributions of \$13,258 on the Units held by Loblaw prior to the transfer of its effective interest in Choice Properties to GWL.

#### Transaction Summary as Reflected in the Consolidated Financial Statements

Loblaw is also Choice Properties' largest tenant, representing approximately 58.2% of Choice Properties' rental revenue and 56.3% of its gross leasable area for the year ended December 31, 2019 (December 31, 2018 - 68.0% and 58.9%, respectively). Transactions with Loblaw recorded in the consolidated statements of income (loss) and comprehensive income (loss) were comprised as follows:

(\$ thousands)	Note	Year Ended	
		December 31, 2019	December 31, 2018
Rental revenue	19	\$ 749,361	\$ 752,621
Fee income	28	922	899
Services Agreement expense	24	—	(2,335)
Interest expense and other financing charges	23	—	(238,411)

The balances due from (to) Loblaw were as follows:

(\$ thousands)	Note	As at December 31,	As at December 31,
		2019	2018
Rent receivable and other receivables	12	\$ 71	\$ 1,760
Construction allowances payable	17	(5,278)	—
Reimbursed contract payable	17	(7,100)	—

## Notes to the Consolidated Financial Statements

### Transactions with Other Related Parties

#### Operating Lease

In 2014, Choice Properties entered into a ten-year lease for office space with Wittington Properties Limited (“Wittington”), GWL’s parent company. Lease payments will total \$2,664 over the term of the lease.

#### Joint Venture

On December 9, 2014, Choice Properties and its joint venture partner, Wittington, completed the acquisition of 500 Lake Shore Boulevard West in Toronto, Ontario for \$15,576 from Loblaw (note 7). Wittington is the development and construction manager for the commercial space. Wittington’s parent company is Wittington Investments, Limited, which holds a majority interest in GWL. Choice Properties contributed \$13,240 to the joint venture and received distributions of nil during the year ended December 31, 2019 (December 31, 2018 - contributions \$7,080 and distributions \$7,200). Operating activities have not begun at the property; however, the joint venture earned interest income during the year ended December 31, 2019 of \$86 (2018 - \$2,070).

Summarized financial information for the Trust’s share of the related party equity accounted joint venture is set out below:

(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Current assets	\$ 7,107	\$ 4,891
Non-current assets	117,500	88,329
Current liabilities	(17,565)	(11,075)
Net assets at 100%	\$ 107,042	\$ 82,145
Investment in equity accounted joint venture at 40%	\$ 42,817	\$ 32,858

(\$ thousands)	Year Ended	
(\$ thousands)	December 31, 2019	December 31, 2018
Interest income	\$ 86	\$ 2,070
Adjustment to fair value of investment property	(8,581)	(473)
Net income and comprehensive income at 100%	\$ (8,495)	\$ 1,597
Share of income and comprehensive income in equity accounted joint venture at 40%	\$ (3,398)	\$ 639

### Transactions with Key Personnel

Choice Properties’ key personnel are comprised of Trustees and certain members of the executive team of Choice Properties. Compensation of key personnel was as follows:

(\$ thousands)	December 31, 2019	December 31, 2018
Salaries, trustee fees, incentives and short-term employee benefits	\$ 4,405	\$ 3,671
Unit-based compensation recorded in:		
General and administrative expenses	2,687	4,564
Adjustment to fair value of unit-based compensation	1,088	(3,566)
<b>Compensation of key personnel</b>	<b>\$ 8,180</b>	<b>\$ 4,669</b>

**Note 32. Subsequent Events**

On January 20, 2020, Choice Properties Limited Partnership, redeemed in full, at par, the \$300,000 aggregate principal amount of the Series 8 senior unsecured debentures due on April 20, 2020, at a redemption price equal to \$1,000 plus accrued and unpaid interest for \$300,000.

On January 24, 2020, Choice Properties completed the disposition of a retail property in the U.S. at a sale price of \$97,800, excluding transaction costs, for cash consideration.

On February 11, 2020, Choice Properties completed the acquisition of a development property in Coquitlam, British Columbia for \$21,150, excluding transaction costs, for cash consideration.

On February 12, 2020, the Board approved the redemption in full, by Choice Properties Limited Partnership, of \$250,000 aggregate principal amount of the Series E senior unsecured debentures due on September 14, 2020, at a redemption price equal to \$1,000 plus accrued and unpaid interest for \$250,000.

Subsequent to the year ended December 31, 2019, Choice Properties entered into an agreement to dispose of an office property in Halifax, Nova Scotia, at a sale price of \$26,700, excluding transaction costs, for cash consideration.

## Corporate Profile

Choice Properties, Canada's preeminent diversified real estate investment trust, is the owner, manager and developer of a high-quality portfolio comprising 726 properties totalling 65.8 million square feet of gross leasable area. The portfolio is comprised of retail properties, predominantly leased to necessity-based tenants, industrial, office and residential assets concentrated in attractive markets and offers an impressive and substantial development pipeline. Choice Properties' strategic alliance with its principal tenant, Loblaw Companies Limited, the country's leading retailer, is a key competitive advantage providing long-term growth opportunities.

## Conference Call and Webcast

Management will host a conference call on Thursday, February 13, 2020 at 11:00AM (ET) with a simultaneous audio webcast. To access via teleconference, please dial (647) 427-7450 or (888) 231-8191 toll free. A playback will be made available two hours after the event at (416) 849-0833, access code: 5992745. The link to the audio webcast will be available on [www.choicereit.ca](http://www.choicereit.ca) in the "Events and Webcast" section under "News and Events".

## Head Office

Choice Properties Real Estate Investment Trust  
22 St. Clair Avenue East, Suite 500  
Toronto, Ontario M4T 2S5  
Tel: 416-960-6990  
Toll free: 1-855-322-2122  
Fax: 905-861-2326

## Stock Exchange Listing and Symbol

The Trust's Units are listed on the Toronto Stock Exchange and trade under the symbol "CHP.UN"

## Distribution Policy

Choice Properties' Board retains full discretion with respect to the timing and quantum of distributions. Declared distributions are paid to Unitholders of record at the close of business on the last business day of a month on or about the 15<sup>th</sup> day of the following month.

## Independent Auditors

KPMG LLP  
Chartered Professional Accountants  
Toronto, Canada

## Registrar and Transfer Agent

AST Trust Company (Canada)  
P.O. Box 700, Station B  
Montreal, QC, H3B 3K3  
Tel: (416) 682-3860  
Tel toll free: 1-800-387-0825 (Canada and US)  
Fax: (514) 985-8843  
Fax toll free: 1 (888) 249-6189 (Canada and US)  
E-Mail: [inquiries@astfinancial.com](mailto:inquiries@astfinancial.com)  
Website: [www.astfinancial.com/ca-en](http://www.astfinancial.com/ca-en)

## Investor Relations

Tel: 416-960-6990  
Toll free: 1-855-322-2122  
Email: [investor@choicereit.ca](mailto:investor@choicereit.ca)  
Website: [www.choicereit.ca](http://www.choicereit.ca)

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR), [www.sedar.com](http://www.sedar.com). Choice Properties holds a conference call shortly following the release of its quarterly results. These calls are archived in the Investor Relations section of the Trust's website, [www.choicereit.ca](http://www.choicereit.ca).

## Trustees

### Galen G. Weston - Chairman

Executive Chairman, Loblaw Companies Limited  
Chairman and Chief Executive Officer, George Weston Limited

### Graeme M. Eadie<sup>2</sup>

Corporate Director

### R. Michael Latimer<sup>2</sup>

President and Chief Executive Officer, OMERS

### Paul R. Weiss<sup>1</sup>

Corporate Director

### Kerry D. Adams<sup>2</sup>

President, K. Adams & Associates Limited

### Anthony R. Graham

President and Chief Executive Officer of Sumarria Inc.

### Nancy H.O. Lockhart<sup>2</sup>

Corporate Director

### Christie J.B. Clark<sup>1</sup>

Corporate Director

### Karen A. Kinsley<sup>1</sup>

Corporate Director

### Dale R. Ponder<sup>1</sup>

Co-Chair, Osler, Hoskin and Harcourt LLP

<sup>1</sup> Audit Committee

<sup>2</sup> Governance, Compensation and Nominating Committee



**Head Office**

22 St. Clair Avenue East, Suite 500  
Toronto, Ontario M4T 2S5

---

**Choice**  
**Properties**<sup>REIT</sup>