



A GREAT START

Annual Report 2013

Choice
Properties^{REIT}TM

ABOUT US

Choice Properties Real Estate Investment Trust is an owner, manager and developer of well-located retail and commercial properties across Canada. Choice Properties' portfolio spans approximately 36.3 million square feet of gross leasable area and comprises 435 properties, primarily anchored by its principal tenant, Loblaw Companies Limited, Canada's largest food retailer. Choice Properties' strategy is to create value by enhancing and optimizing its portfolio through development, accretive acquisitions and active management.



PROPERTIES

435

With a portfolio of 435 properties valued at \$7.3 billion, Choice Properties has quickly established itself as a major player in the Canadian retail real estate industry

SQUARE FEET

36.3

(IN MILLIONS)

With 36.3 million square feet of leasable space in both primary and secondary markets, Choice Properties reaches Canadian consumers from coast to coast

FAIR VALUE

\$7.3

(IN BILLIONS)

With a fair market value of \$7.3 billion, Choice Properties has a solid base from which to grow through development, acquisitions and active management

ASSETS BY TYPE

RETAIL



424

WAREHOUSE



9

OFFICE



1

LAND



1

A strong portfolio with solid growth potential from 3.5M square feet of at-grade excess density, a dedicated pipeline of acquisitions from Loblaw's remaining portfolio, and experienced internal management to maximize occupancy and profitability

LETTER TO UNITHOLDERS

On behalf of our entire team, I am very pleased to present the inaugural Annual Report of Choice Properties REIT. You will find reflected in the pages that follow the passion and confidence we share about the future of our new real estate entity and our plans to create value through development opportunities inherent in our properties, acquisitions that will grow our asset base, and effective leasing strategies and property management that will enhance the long-term value of our portfolio.

Choice Properties was created in July of 2013 to maximize the long-term value of a portfolio of retail-focused properties previously held by our principal tenant, Loblaw Companies Limited. Raising \$460 million of equity, our Initial Public Offering (IPO) was the largest and one of the most successful initial public offerings of the year in Canada. Since then, we have focused on a clear and straightforward growth strategy to create a leading Canadian retail real estate entity with the goal of providing our Unitholders with stable and predictable monthly cash distributions, as well as long-term appreciation in the value of their investment.

We are in the business of owning, managing and developing retail-focused commercial property. For the members of our management team, it's what we do best. Our Chief Financial Officer, Bart Munn, has spent the past 30 years in senior executive roles with commercial real estate companies. For nearly two decades, our Chief Operating Officer, Jane Marshall, was involved in the acquisition, development and management of Loblaw Companies' retail properties, many of which are now part of the Choice Properties portfolio.

Drawing on our collective experience and knowledge of the commercial real estate business in Canada, we recognize the significant opportunities inherent in our portfolio. Approximately 3.5 million square feet of additional undeveloped, Gross Leasable Area (GLA) is available to Choice Properties. This development potential will be a key driver of incremental growth in net operating income and return on capital. Although we will of course seek to acquire from third parties leasable properties with potential to add value to our portfolio, Loblaw's stated intention to sell the balance of its real estate holdings to Choice Properties over time provides us with a dedicated acquisition pipeline to further expand our footprint. In addition, Choice Properties has the enviable benefit of reliable, steady income from long-term leases with Loblaw, which is Canada's largest grocery retailer. Loblaw's preeminent brands and extensive range of familiar banners deliver high traffic across all demographics and consumer segments, from value to premium shoppers. Given the non-discretionary nature of grocery

products, this daily consumer traffic is consistent despite changes in the economy. We believe these unique aspects of our business clearly differentiate Choice Properties from other Canadian REITs and represent a truly compelling proposition for investors.

In our first fiscal year, which comprised six months of operation, Choice Properties REIT made excellent progress and delivered financial results slightly ahead of plan, with Funds from Operations of \$158.9 million or \$0.437 per unit compared to our adjusted forecast of \$151.1 million or \$0.427 per unit. Following our IPO, we acquired 12 additional properties, including seven single-tenant and four multi-tenant properties, as well as a parcel of land with significant development potential. The parcel of land, located in a prime retail node in Surrey, BC, has approximately 20 acres of development potential. We plan to build a Real Canadian Superstore® for Loblaw on the property, which will leave an additional 125,000 square feet of prime retail GLA for future development. The 12 acquisitions expanded our portfolio by almost one million square feet of GLA. In addition, we have already commenced construction on two of the newly acquired properties located in Ontario, which have marked the launch of our development program.

At the same time, we have maintained our high occupancy rate, entered into leasing agreements for more than 350,000 square feet of GLA, and invested \$8.9 million in capital expenditure to maintain and enhance the quality and value of our properties.

We also took important steps during the year to strengthen the foundation of our business with the implementation of new systems and processes. This included the first phase of an enterprise resource planning system that will give us the operating and reporting flexibility and visibility necessary to execute our growth strategy to create value for our Unitholders.

As we look ahead to 2014, Choice Properties REIT is well on its way to creating value for our Unitholders. We expect to deliver the two properties currently under construction in Q2 and commence construction on our parcel of land in Surrey, BC. Each will add to our rental revenue and contribute to profitability. We will continue to pursue acquisitions in the year ahead, both from the remaining real estate held by Loblaw and from other vendors with properties that align well with our growing portfolio. Our experienced team of real estate professionals will actively focus on initiatives to maximize occupancy and profitability through leasing, merchandising and capital investment that will drive increased traffic and attract tenants.

I'm proud of what we have accomplished so far. The passion and commitment of our entire team to position Choice Properties as a compelling retail real estate enterprise and grow value for our Unitholders are driving our momentum. Together, we are off to a great start!



John R. Morrison
President and Chief Executive Officer



SENIOR MANAGEMENT

John R. Morrison

President and Chief Executive Officer

John Morrison is the President and Chief Executive Officer of Choice Properties. Prior to joining Choice Properties, Mr. Morrison was President and Chief Executive Officer of Primaris Real Estate Investment Trust. Prior to serving in that role, he was President, Real Estate Management, at Oxford Properties Group. He is also former Vice Chairman of the Urban Land Institute Toronto District Council. Mr. Morrison is on the Board of Trustees for the International Council of Shopping Centers, and currently serves on the Executive Committee as Divisional Vice President for Canada.

Bart Munn, CPA, CA

Executive Vice President, Chief Financial Officer

Bart Munn is the Chief Financial Officer of Choice Properties. From December 2005 to April 2013, Mr. Munn was the Chief Financial Officer of Calloway Real Estate Investment Trust. From 1999 to 2005, he served as Vice President and Chief Financial Officer of Morguard Corporation, a publicly traded owner and manager of commercial and residential real estate. Mr. Munn is a Chartered Accountant.

S. Jane Marshall

Executive Vice President, Chief Operating Officer

Jane Marshall is the Chief Operating Officer of Choice Properties. Prior to joining Choice Properties, Ms. Marshall held several senior executive positions with Loblaw and its subsidiaries since joining the company in 1993. Most recently, she held the position of Executive Vice President, Loblaw Properties Limited and Business Strategy. In this role, she was responsible for the acquisition and management of Loblaw's portfolio of owned retail, warehouse and office space as well as its leased locations. Ms. Marshall also led Loblaw's acquisition of T&T Supermarket® Inc., the purchase and redevelopment of Maple Leaf Gardens in conjunction with Ryerson University and the roll-out of Joe Fresh® retail locations in the United States.

2013 ACHIEVEMENTS

Largest initial public offering in Canada in 2013

.....

With \$460 million* raised in the public equity market, Choice Properties' IPO was the largest in Canada this year and was completed in conjunction with raising \$600 million in senior unsecured debentures

Acquisitions of \$186 million

.....

Subsequent to the IPO, an additional 12 retail properties were acquired, including three properties with development potential, at a cost of \$186 million

High occupancy rate

.....

Since its IPO, Choice Properties has been able to maintain high occupancy of 97.7%

Development program

.....

Choice Properties launched its development program in 2013 and had more than 95,000 square feet under development as at December 31, 2013

*includes over-allotment of \$60 million

FORWARD-LOOKING STATEMENTS

This Annual Report for Choice Properties REIT contains forward-looking statements about the Trust's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. 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 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 future growth potential, prospects and opportunities, industry trends, future levels of indebtedness, current tax laws, current economic conditions and no new competition in the market that leads to reduced revenues and profitability. 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 Choice Properties' actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including, but not limited to: those discussed in the forward-looking statements disclaimer found on pages 3 to 4 and the Enterprise Risks and Risk Management section on pages 23 to 34 of the Management's Discussion and Analysis of the 2013 Annual Report – Financial Review. Other risks and uncertainties not presently known to the Trust could also cause actual results or events to differ materially from those expressed in its forward-looking statements. 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.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Choice Properties identified specific financial and operational measures to monitor the progress of its short- and long-term objectives. Selected information is set out below:

	December 31, 2013 ⁽⁴⁾
Total assets	\$ 7,447,742
Long-term debt and Class C LP Units	\$ 3,376,167
Debt to total assets ⁽¹⁾	47.0%
Debt service coverage ⁽¹⁾	3.4x
Debt to EBITDA ^{(1) (2)}	7.4x
Indebtedness ⁽³⁾ – weighted average term to maturity	5.0 years
Indebtedness ⁽³⁾ – weighted average effective interest rate	3.4%
Indebtedness ⁽³⁾ – % at fixed interest rates	100.0%
Number of properties	435
Gross Leasable Area (in million square feet)	36.3
Future estimated development area (in million square feet)	3.5
Remaining weighted average lease term	12.7 years
Average base rent (per occupied square foot)	\$ 14.32
Occupancy	97.7%
Rental revenue	\$ 318,507
Cash flow from operating activities	\$ 196,328
Net Operating Income ⁽²⁾	\$ 222,267
Net income	\$ 67,148
Net income per unit diluted	\$ 0.185
Funds from Operations ⁽²⁾ per unit diluted	\$ 0.437
Funds from Operations ⁽²⁾ payout ratio	73.0%
Adjusted Funds from Operations ⁽²⁾ per unit diluted	\$ 0.360
Adjusted Funds from Operations ⁽²⁾ payout ratio	88.6%
Distributions per unit	\$ 0.318917
Weighted average Units outstanding – diluted	363,767,339

⁽¹⁾ Debt ratios include Class C LP Units but exclude Exchangeable Units. The ratios are non-GAAP financial measures calculated based on the Trust Indenture as supplemented.

⁽²⁾ See "Non-GAAP Financial Measures" beginning on page 36 of the Management's Discussion and Analysis of the 2013 Annual Report – Financial Review.

⁽³⁾ Indebtedness includes Debentures and Transferor Notes only.

⁽⁴⁾ Based on operations beginning July 5, 2013.



FUN FACT

More than

18

MILLION

Canadians
live within five
kilometres of a
Choice property

GROWTH STRATEGY

Our strategy to grow and enhance our portfolio of unrivalled properties in order to create and deliver value to all our stakeholders is as basic as 1, 2, 3.



1.

DEVELOPMENT

Creating value through development and redevelopment of 3.5 million square feet of at-grade excess density currently available in our portfolio and other attractive opportunities with Loblaw or other partners

2.

ACQUISITIONS

Growing our asset base through accretive acquisitions including a dedicated pipeline of properties from Loblaw and desirable assets from other vendors with additional potential development, geographic and tenant diversification, and opportunity for enhancement

3.

ACTIVE MANAGEMENT

Increasing cash flow and value of our properties through initiatives to enhance performance including leasing and merchandising strategies and effective capital investment in our properties

BOARD OF TRUSTEES

Kerry D. Adams

Ms. Adams currently serves as President of K. Adams & Associates Limited. She is a member of the Bank of Nova Scotia's Master Trust and Pension Investment and Administration Committees.

Ms. Adams is a Fellow Chartered Accountant and a Fellow Chartered Professional Accountant and holds a B.A. (Honours Economics) from Queen's University. Ms. Adams is an Institute-certified Director of the Institute of Corporate Directors.

In addition to her public board experience, Ms. Adams served as a Commissioner and Director of the OSC (1996 to 2003), and Chair of its Investor Education Fund (2000 to 2006), and was a member of the IROC board and governance committee from 2008 to 2011. Ms. Adams has also served as a Director of Walmart Canada Bank, President of Widcor Limited and Widcor Financial and she was a partner at KPMG Peat Marwick.

Christie J.B. Clark

Mr. Clark, a corporate director, is a former Chief Executive Officer and senior partner of PricewaterhouseCoopers LLP. Prior to being elected as Chief Executive Officer, Mr. Clark was a National Managing Partner and a member of the firm's Executive Committee from 2001 to 2006.

Mr. Clark graduated from Queen's University with a B.Comm. and the University of Toronto with an M.B.A. He is a Fellow Chartered Accountant and a Fellow Chartered Professional Accountant.

In addition to public company board memberships, Mr. Clark is Chair of the board of the Canadian Partnership Against Cancer Corporation, Chair of the Finance Committee of Alpine Canada and a member of the Advisory Council of Queen's University School of Business.

Graeme M. Eadie

Mr. Eadie is the Senior Vice President, Head of Real Estate Investments for Canada Pension Plan Investment Board, where he is responsible for the global real estate program which encompasses both equity and debt investments. Prior to joining the Canada Pension Plan Investment Board, Mr. Eadie held multiple positions at Cadillac Fairview, including Chief Financial Officer, Chief Operating Officer and President.

Mr. Eadie graduated from the University of British Columbia with a B.Comm. and Master of Science, Business Administration.

Mr. Eadie is currently a director of Aliance Shopping Centers S.A. He also previously served as a trustee of Morguard Real Estate Investment Trust and was a director of the Ontario Realty Corporation.

Michelle Felman

Ms. Felman, corporate director, is a former Executive Vice President, Acquisitions of Vornado Realty Trust. Prior to joining Vornado, Ms. Felman held the positions of Managing Director, Portfolio Acquisitions and Business Ventures and Managing Director, Business Development at GE Capital, Real Estate Division.

Ms. Felman graduated from the University of California, Berkeley with a B.A. (Honours), and from The Wharton School at the University of Pennsylvania with an M.B.A. where she is currently an adjunct professor.

Ms. Felman serves on the Executive Committee of The Zell-Lurie Center at the University of Pennsylvania, and formerly served on the Fisher Center Policy Advisory Board at the University of California and was formerly a trustee of Big Brothers Big Sisters of New York. Ms. Felman is also a former director of LNR Property LLC.

Michael P. Kitt

Mr. Kitt is Executive Vice President, Canada of Oxford Properties Group. Prior to joining Oxford Properties, Mr. Kitt held various senior roles at Cadillac Fairview, leading both its Investment and Development Groups.

Mr. Kitt graduated from the University of Manitoba with a B.Comm. and holds a CFA designation.

John R. Morrison

John Morrison is the President and Chief Executive Officer of Choice Properties. Prior to joining Choice Properties, Mr. Morrison was President and Chief Executive Officer of Primaris Real Estate Investment Trust. Prior to serving in that role, he was President, Real Estate Management, at Oxford Properties Group. He is also former Vice Chairman of the Urban Land Institute Toronto District Council. Mr. Morrison is on the Board of Trustees for the International Council of Shopping Centers, and currently serves on the Executive Committee as Divisional Vice President for Canada.

Daniel F. Sullivan

Mr. Sullivan, a corporate director, held the position of Consul General for Canada in New York City from 2006 to 2010. Prior to Mr. Sullivan's appointment as Consul General for Canada, he spent a majority of his career in the financial services sector, with a focus on the real estate sector, including serving as Deputy Chairman of Scotia Capital Inc., the corporate and investment banking division of Scotiabank.

Mr. Sullivan graduated from Columbia University with a B.A. and M.B.A. and holds an M.B.A. from the University of Toronto.

Mr. Sullivan is a director of Allied Properties Real Estate Investment Trust, Carius Energy Trust, the Ontario Teachers' Pension Plan and IMP Group International Inc. Mr. Sullivan is a former Chairman and director of The Toronto Stock Exchange and former Chairman of the Investment Dealers Association of Canada. Mr. Sullivan is also a former director of Allstream Inc., Cadillac Fairview Corporation, Camco Inc., Monarch Development Corporation and Schneider Corporation. Mr. Sullivan has served on advisory boards or committees of Canada Post Corporation, Canada Deposit Insurance Corporation, the Canadian Securities Administrators and the Ontario Securities Commission.

Paul R. Weiss

Mr. Weiss, a corporate director, spent his career with KPMG LLP Canada serving as a member of the Management Committee and as a member of the International Global Audit Steering Group, and is also the former Managing Partner for KPMG LLP Canada's Canadian Audit Practice. Earlier in his career, Mr. Weiss was responsible for KPMG LLP Canada's real estate practice.

Mr. Weiss graduated from Carleton University with a B.Comm. and is a Fellow Chartered Accountant and a Fellow Chartered Professional Accountant.

In addition to public board memberships, Mr. Weiss is a director of Empire Life Insurance Company. Mr. Weiss is a former director of ING Bank of Canada. Mr. Weiss is past Chairman and director of Soulpepper Theatre Company and past Chairman of Toronto Rehab Foundation.

Galen G. Weston

Mr. Weston is Executive Chairman of Loblaw. He previously held several senior executive positions with Loblaw and its subsidiaries. Prior to joining Loblaw, he was an investment banking analyst for Salomon Brothers in the UK.

Mr. Weston graduated from Harvard University with a B.A. and from Columbia University with an M.B.A.

In addition to his public board memberships, Mr. Weston is a director of Wittington Investments, Limited.



UNITHOLDER INFORMATION

Head Office

Choice Properties Real Estate
Investment Trust
22 St. Clair Avenue East,
Suite 800
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 of
Trustees retains 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
15th day of the following month.

Independent Auditors

KPMG LLP
Chartered Accountants
Toronto, Canada

Registrar and Transfer Agent

Canadian Stock Transfer
Company Inc.
P.O. Box 700, Station B
Montreal, Quebec
H3B 3K3
Tel: 416-682-3860
Toll free: 1-800-387-0825
(Canada and US)
Toll free fax: 1-888-249-6189
E-mail: inquiries@canstockta.com
Website: www.canstockta.com

Investor Relations

Tel: 416-960-6990
Toll free: 1-855-322-2122
E-mail: investor@choicereit.ca
Website: 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.

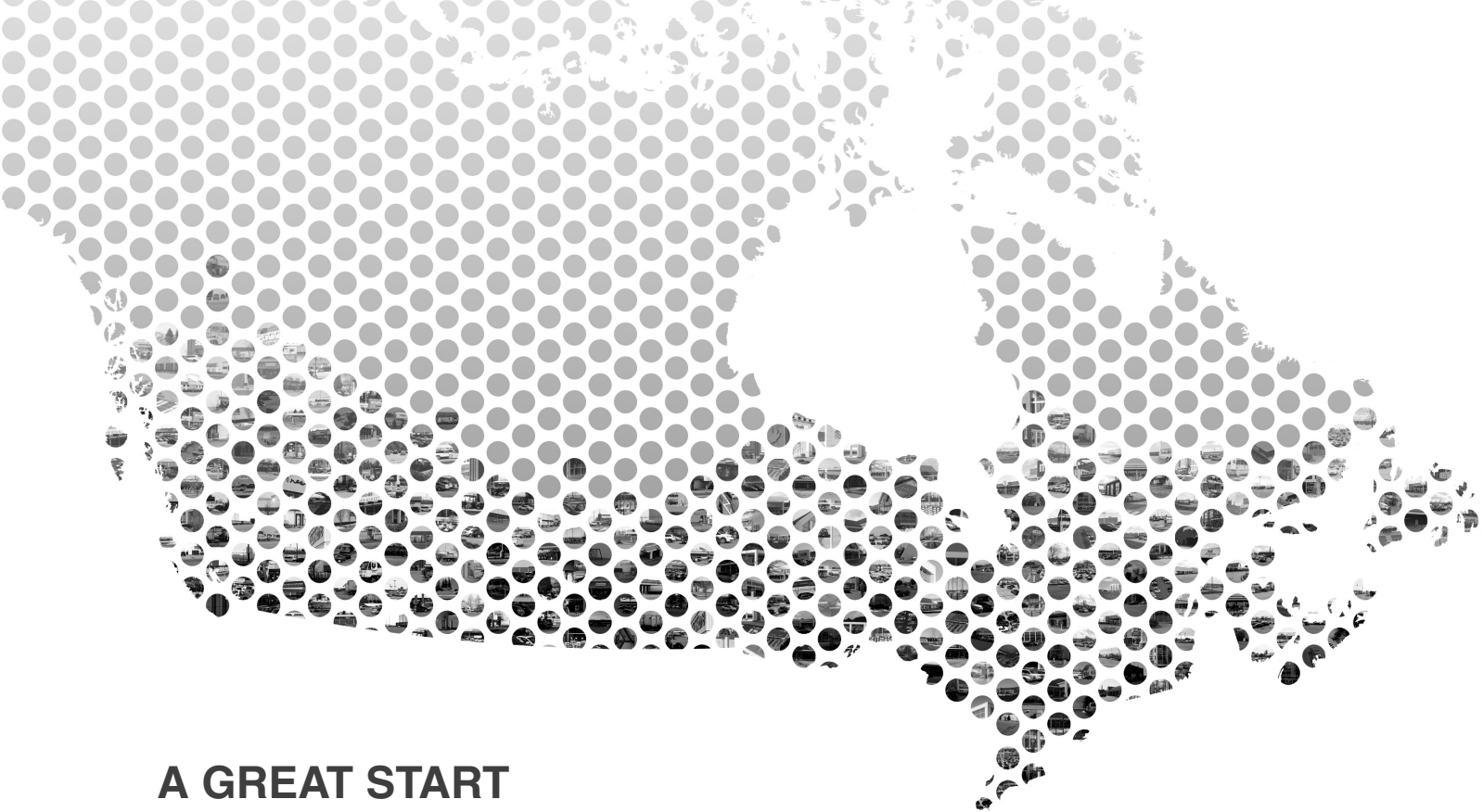


WHY INVEST IN CHOICE PROPERTIES?

- ➔ **36.3M square feet of well-located property spanning the country**
- ➔ **Canada's leading food retailer as principal tenant and anchor, providing regular consumer traffic and stable and secure income from long-term leases**
- ➔ **Existing opportunity for development and redevelopment of up to 3.5 million square feet of at-grade excess density**
- ➔ **A dedicated pipeline for growth from Loblaw's remaining portfolio of properties**
- ➔ **A strong balance sheet and investment-grade ratings**
- ➔ **Internal management with deep experience and passion for successfully developing and managing retail real estate**

www.choicereit.ca





A GREAT START

Annual Report 2013 – Financial Review

Choice
Properties ^{REIT} TM

Footnote Legend

- + To be read in conjunction with “Forward-Looking Statements” beginning on page 3.
- * See “Non-GAAP Financial Measures” beginning on page 36.

Note: Tables, charts and graphs have their own footnote legends where applicable.

2013 ANNUAL REPORT MANAGEMENT'S DISCUSSION AND ANALYSIS

1.	Forward-Looking Statements	3
2.	Overview	4
3.	Objectives and Strategies	5
4.	Key Performance Indicators	6
5.	Investment Properties	7
6.	Long Term Debt and Class C LP Units	8
	6.1 Financial Covenants	9
7.	Results of Operations	10
8.	Other Measures of Performance	16
9.	Quarterly Results of Operations	18
10.	Liquidity and Capital Resources	19
	10.1 Sources of Liquidity	19
	10.2 Credit Ratings	19
	10.3 Major Cash Flow Components	19
	10.4 Unit Equity	20
	10.5 Contractual Obligations	21
11.	Related Party Transactions	21
12.	Enterprise Risks and Risk Management	23
	12.1 Operating Risks and Risk Management	24
	12.2 Financial Risks and Risk Management	31
	12.3 Risk Factors Related to the Business of the Trust's Key Tenant	33
13.	Internal Control over Financial Reporting	34
14.	Critical Accounting Estimates and Judgments	35
15.	Future Accounting Standards	36
16.	Outlook	36
17.	Non-GAAP Financial Measures	36
18.	Adjusted Forecast	37
19.	Additional Information	39

The following Management's Discussion and Analysis ("MD&A") for Choice Properties Real Estate Investment Trust and its subsidiaries (collectively, "Choice Properties" or the "Trust") should be read in conjunction with the audited consolidated financial statements and the accompanying notes prepared for the period ended December 31, 2013, and the "Forward-Looking Statements" section below. In addition, the following MD&A should be read in conjunction with Choice Properties' equity and debt prospectuses dated June 26, 2013 (collectively the "Prospectus"). The Trust's annual audited consolidated financial statements and accompanying notes for the period ended December 31, 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Trust and its subsidiaries.

This MD&A is dated February 14, 2014. Disclosure contained in this document is current to that date, unless otherwise noted.

All amounts in this MD&A are in thousands of Canadian dollars, except unit and square foot amounts.

Certain income and expense measurements that must be recognized under GAAP are not necessarily appropriate to evaluate Choice Properties' underlying operating performance. For this reason, management uses certain non-GAAP financial measures to exclude the impact of these items when analyzing operating performance. Choice Properties uses the following non-GAAP financial measures: Funds from Operations* ("FFO"), Adjusted Funds from Operations* ("AFFO"), Net Operating Income* ("NOI"), and Earnings Before Interest, Taxes, Depreciation and Amortization* ("EBITDA") which are widely used for evaluating a Canadian Real Estate Investment Trust ("REIT")'s performance. 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 Choice Properties.

1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements about Choice Properties' objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. As Choice Properties is a new entrant into the real estate investment trust market and has only been operating since July 2013, it is required to compare its results to forecasted results rather than historical results. As such, specific statements with respect to anticipated future results can be found in various sections of this MD&A, included but not limited to Section 3 "Objectives and Strategies", Section 5 "Investment Properties", Section 10 "Liquidity and Capital Resources" and Section 16 "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 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 future growth potential, prospects and opportunities, industry trends, future levels of indebtedness, current tax laws, current economic conditions and no new competition in the market that leads to reduced revenues and profitability. 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 Choice Properties' actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including, those described in Section 12 "Enterprise Risks and Risk Management" of this MD&A. Such risks and uncertainties include:

- the inability of Choice Properties to maintain and leverage its relationship with Loblaw Companies Limited ("Loblaw"), including in respect of (i) Loblaw's retained interest in Choice Properties and its current intention with respect thereto, (ii) the services to be provided to Choice Properties (whether directly or indirectly) by Loblaw, (iii) expected transactions to be entered into between Loblaw and Choice Properties (including Choice Properties' acquisition of certain interests in properties held by Loblaw) and (iv) the Strategic Alliance Agreement;
- changes in Loblaw's business, activities or circumstances which may impact Choice Properties, including Loblaw's inability to make rent payments or perform its obligations under the Loblaw leases;
- failure to manage its growth effectively in accordance with its growth strategy or acquire assets on an accretive basis;
- failure to meet its forecasted financial results for the periods set out in the "Financial Forecast" section of the IPO Prospectus;
- changes in Choice Properties' capital expenditure and fixed cost requirements;
- the inability of the Partnership to make distributions or other payments or advances;
- the inability of Choice Properties to obtain financing;
- changes in Choice Properties degree of leverage;

- changes in laws or regulatory regimes which may affect Choice Properties, including changes in the tax treatment of the Trust and its distributions to Unitholders or the inability of the Trust to continue to qualify as a “mutual fund trust” and as a “real estate investment trust”, as such terms are defined in the Income Tax Act (Canada); and
- changes in Choice Properties’ competitiveness in the real estate market or the unavailability of desirable commercial real estate space.

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. Additional risks and uncertainties are discussed in Choice Properties’ materials filed with the Canadian securities regulatory authorities from time to time, including the “Enterprise Risks and Risk Management” section of this MD&A on pages 23 to 34 of the Trust’s 2013 Annual Report. 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 MD&A. 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.

2. OVERVIEW

Choice Properties is one of Canada’s largest retail REITs. As at December 31, 2013, the portfolio comprised 435 properties with a total Gross Leasable Area (“GLA”) of 36.3 million square feet. Choice Properties’ portfolio included 424 retail properties, nine warehouse properties, one office complex and one parcel of land. The retail properties were made up of: (i) 270 properties with a stand-alone retail store operating under a Loblaw-owned banner; (ii) 149 properties anchored by a retail store operating under a Loblaw-owned banner that also contain one or more ancillary tenants; and (iii) 5 properties containing only ancillary tenants. The office complex consisted of two office buildings and the warehouse properties included two properties that host three warehouses each.

The immediate parent of Choice Properties is Loblaw, which held an 82.2% effective interest in Choice Properties. Loblaw’s immediate parent is George Weston Limited (“GWL”), which held a 5.4% effective interest in Choice Properties.

Public Offerings and Acquisition of Initial Properties

Initial Public Offering Choice Properties completed an initial public offering (“IPO”) of Trust Units (“Units”), which closed July 5, 2013. Choice Properties raised gross proceeds of \$400,000 through the issuance of 40,000,000 Units at a price of \$10.00 per Trust Unit (the “IPO Price”). Costs relating to the IPO were approximately \$40,661 and were applied against the gross proceeds of the IPO and charged against Unitholders’ Equity.

Concurrently with the IPO, subsidiaries of GWL (other than Loblaw and its subsidiaries) purchased 20,000,000 Units from Choice Properties at the IPO Price for a total subscription price of \$200,000.

On July 17, 2013, pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the IPO, Choice Properties issued an additional 6,000,000 Units, resulting in net proceeds of \$57,000.

Issuance of Senior Unsecured Debentures On July 5, 2013, Choice Properties issued \$600,000 in public debentures by way of \$400,000 five-year Series A senior unsecured debentures (the “Series A Debentures”) with a coupon rate of 3.554% and 10-year \$200,000 Series B senior unsecured debentures (the “Series B Debentures”) with a coupon rate of 4.903% (collectively the “Debentures”). Costs relating to the issuance of the Debentures were \$2,950 and were applied against the gross proceeds thereof.

Acquisition of Initial Properties Upon formation on July 5, 2013, Choice Properties acquired the initial portfolio of properties from Loblaw consisting of 425 properties (the “Initial Properties”) with a total GLA of approximately 35.3 million square feet. Choice Properties acquired the Initial Properties from subsidiaries of Loblaw, through an investment in a newly created limited partnership (the “Partnership”), for a purchase price of \$6,924,639, and issued to Loblaw \$2,600,000 interest bearing Transferor Notes (the “Transferor Notes”), \$544,821 of Class A LP Notes, \$215,000 of Class B LP Notes, \$925,000 of Class C LP Units and \$2,724,979 Class B LP Units (the “Exchangeable Units”).

Debt and Equity Transactions On July 5, 2013, the proceeds from the issuance of Units and the Debentures were used to repay the Class A LP Notes and \$600,000 of the Transferor Notes. At the same time, the Class B LP Notes, held by Loblaw, were exchanged for 21,500,000 Units.

On July 17, 2013, Choice properties repaid an additional \$60,000 of the Transferor Notes from the proceeds of the over-allotment Unit issuance.

3. OBJECTIVES AND STRATEGIES

Choice Properties' objectives are to:

- provide Unitholders with stable, predictable and growing monthly cash distributions;
- enhance the value of Choice Properties' assets in order to maximize long-term Unitholder value; and
- expand Choice Properties' asset base while also increasing its AFFO* per unit, including through accretive acquisitions and site intensification.

Choice Properties' strategy is to grow and enhance its portfolio of well-located properties in order to create and deliver value to all of the Trust's stakeholders.

Future growth will be achieved through development and redevelopment of properties for highest and best-use, acquisitions of assets of similar quality that meet or exceed the Trust's investment criteria and active management of properties to maximize occupancy and profitability.

Development Choice Properties intends to create value through development and redevelopment of existing excess land which have at-grade site intensification potential, to grow its retail shopping centre asset base. Over the longer term, Choice Properties also looks to benefit from select opportunities for mixed-use development in urban areas*.

Acquisitions Choice Properties plans to grow its asset base through accretive acquisitions including a dedicated pipeline of properties from Loblaw and desirable assets from other vendors with additional potential development, geographic and tenant diversification, and opportunity for enhancement.

Active Management Choice Properties expects to increase cash flow and value of its portfolio through initiatives to enhance performance including leasing and merchandising strategies and effective capital investment in properties.

4. KEY PERFORMANCE INDICATORS

Choice Properties identified specific key financial and operational performance indicators to monitor objectives. Certain key performance indicators are set out below:

	December 31, 2013 ⁽⁴⁾
Total assets	\$ 7,447,742
Long term debt and Class C LP Units	\$ 3,376,167
Debt to total assets ⁽¹⁾	47.0%
Debt service coverage ⁽¹⁾	3.4x
Debt to EBITDA ^{(1) (2)}	7.4x
Indebtedness ⁽³⁾ – weighted average term to maturity	5.0 years
Indebtedness ⁽³⁾ – weighted average effective interest rate	3.4%
Indebtedness ⁽³⁾ – % at fixed interest rates	100.0%
Number of properties	435
Gross Leasable Area (in million square feet)	36.3
Future estimated development area (in million square feet)	3.5
Remaining weighted average lease term	12.7 years
Average base rent (per occupied square foot)	\$ 14.32
Occupancy	97.7%
Rental revenue	\$ 318,507
Cash flow from operating activities	\$ 196,328
Net Operating Income ⁽²⁾	\$ 222,267
Net income	\$ 67,148
Net income per unit diluted	\$ 0.185
Funds from Operations ⁽²⁾ per unit diluted	\$ 0.437
Funds from Operations ⁽²⁾ payout ratio	73.0%
Adjusted Funds from Operations ⁽²⁾ per unit diluted	\$ 0.360
Adjusted Funds from Operations ⁽²⁾ payout ratio	88.6%
Distributions per unit	\$ 0.318917
Weighted average Units outstanding – diluted	363,767,339

(1) Debt ratios include Class C LP Units but exclude Exchangeable Units. The ratios are non-GAAP financial measures calculated based on the Trust Indenture as supplemented.

(2) See “Non-GAAP Financial Measures” beginning on page 36.

(3) Indebtedness includes Debentures and Transferor Notes only.

(4) Based on operations beginning July 5, 2013.

5. INVESTMENT PROPERTIES

At December 31, 2013, the Trust's portfolio consisted of 36.3 million square feet of GLA, with a fair value of \$7,287,759. The properties were well diversified throughout Canada and comprised 424 retail locations, nine warehouse properties, one office complex and one parcel of land. The occupancy rate was 97.7% at December 31, 2013, compared to 97.6% as September 30, 2013 and 97.9% as disclosed in the Prospectus.

(unaudited) (in millions of square feet)	GLA	Occupied GLA	Occupancy
Loblaws-banners	32.1	32.1	100.0%
Ancillary tenants	4.2	3.4	80.1%
Total	36.3	35.5	97.7%

Development Activities The portfolio has opportunities to develop an additional 3.5 million square feet of potential GLA. Upon initial review of the portfolio, Choice Properties identified approximately 25 sites with short and medium term development potential (within the next five years). These projects are predominately in Ontario and Western Canada, with additional opportunities in the major markets of Quebec and Atlantic Canada. Once fully developed, these sites are expected to represent approximately one million square feet of incremental GLA.

Acquisition of Investment Properties During 2013, Choice Properties acquired additional properties consistent with its growth strategy.

During the fourth quarter of 2013, the Trust acquired investment properties which added approximately one million square feet to GLA. These properties, with a fair value of approximately \$186,000, were funded by the issuance of 11,576,883 Exchangeable Units for \$116,086 and approximately \$73,000 of cash. Below is a listing of the properties acquired after the Initial Properties (the "Acquisitions"):

Location	Acquisition Date	Banner	Property Type	GLA (in square feet)
Acquisitions from Loblaw				
Highway 7, Porter's Lake, NS	October 22, 2013	Atlantic Superstore	Multi-tenant retail	54,300
Main Street, Salisbury, NB	October 22, 2013	Save Easy	Multi-tenant retail	17,291
Hurontario Street, Collingwood, ON	October 22, 2013	Loblaws	Stand-alone retail	57,795
Yonge Street, Toronto, ON	October 22, 2013	Loblaws	Stand-alone retail	33,700
Avenue Road, Toronto, ON	October 22, 2013	no frills	Stand-alone retail	13,299
Bullock Drive, Markham, ON	October 22, 2013	N/A	Multi-tenant retail	12,102
Lakeshore Boulevard, Toronto, ON ⁽¹⁾	October 22, 2013	no frills	Stand-alone retail	32,011
Highway 8, Stoney Creek, ON ⁽¹⁾	October 22, 2013	Fortinos	Multi-tenant retail	92,546
SE Marine Drive, Vancouver, BC	October 22, 2013	Real Canadian Superstore	Stand-alone retail and warehouse	621,177
Wilson Avenue, Toronto, ON	December 19, 2013	no frills	Multi-tenant retail	47,344
160th Street, Surrey, BC	December 19, 2013	N/A	Land	N/A
				981,565
Acquisition from Third Party				
Oxford Street, London, ON	October 28, 2013	N/A	Multi-tenant retail	5,538

⁽¹⁾ Properties under construction

Two of the acquired properties were third-party retail tenancies adjacent to an existing stand-alone Loblaw property owned by Choice Properties. As a result of this adjacency, these two properties have been grouped with their associated stand-alone Loblaw banner store and re-categorized as multi-tenant properties.

As part of the Acquisitions, Choice Properties commenced construction on two of these properties. At 3730 Lakeshore Blvd. in Toronto, ON, the Trust is constructing approximately 20,000 square feet of GLA for two ancillary tenants and at 103 Highway 8, in Stoney Creek, ON, the Trust is constructing a new Fortinos grocery store of approximately 75,000 square feet. The total investment for the two projects is approximately \$20,500 with an expected blended yield of 7.1%+. These two development projects remain on target to be completed in 2014.

Valuation Method Investment properties were measured at fair value, which was primarily determined by using a combination of the discounted cash flow model and the direct capitalization model. Under the discounted cash flow model, discount rates were applied to the projected annual operating cash flows, generally over a term of ten years, including a terminal value based on a capitalization rate applied to the estimated NOI* in the eleventh year of the model. Under the direct capitalization model, the overall capitalization rate was applied to stabilized NOI*, adjusting for cash inflows and outflows required to achieve the stabilized NOI*, and deducting the present value of future capital expenditures over a 10-year time horizon.

Valuations are most sensitive to changes in discount rates and capitalization rates. Choice Properties receives quarterly capitalization rate reports from independent external appraisers and these reports support the Trust's view on the valuation assumptions used. Below are the key assumptions used in the modeling process for appraisals.

	Weighted average at December 31, 2013	Weighted average at July 5, 2013
Discount rate	7.08%	7.00%
Terminal capitalization rate	6.50%	6.45%
Overall capitalization rate	6.18%	6.16%
Discount horizon (years)	10	10

No value for excess land is included in the fair value of the Trust's investment properties as at December 31, 2013. Choice Properties will compensate Loblaw, over time, with an intensification fee determined by the site intensification payment grid contained in the Prospectus, should Choice Properties pursue further development, intensification and/or redevelopment on the Initial Properties within 20 years of IPO.

6. LONG TERM DEBT AND CLASS C LP UNITS

As at December 31, 2013, Choice Properties' outstanding long term debt and Class C LP Units were as follows:

	Principal outstanding December 31, 2013	Weighted average coupon rate
Transferor Notes	\$ 1,940,000	3.25%
Senior Unsecured Debentures	600,000	4.00%
Class C LP Units	925,000	5.00%
Principal balance outstanding	\$ 3,465,000	3.85%

Transferor Notes On July 5, 2013, in connection with the acquisition of the Initial Properties, Choice Properties issued a series of 10 notes totaling \$2,600,000 to Loblaw. During 2013, Choice Properties repaid \$660,000 of Transferor Notes. The outstanding Transferor Notes have maturity dates ranging from May 20, 2014 to September 20, 2022, and interest is paid semi-annually.

Senior Unsecured Debentures As part of the IPO on July 5, 2013, Choice Properties issued five-year \$400,000 principal amount of Series A Debentures and 10-year \$200,000 principal amount of Series B Debentures. The Series A Debentures bear interest at the rate of 3.554% per annum, and the Series B Debentures bear interest at the rate of 4.903% per annum, both payable in equal semi-annual installments on January 5 and July 5 in each year commencing on January 5, 2014. The Debentures had a weighted average maturity of 6.7 years and a weighted average interest rate of 4.0%.

On February 6, 2014, the Trust completed the issuance of \$250,000 principal amount of Series C Senior Unsecured Debentures with a seven-year term and a coupon rate of 3.498% per annum and \$200,000 principal amount of Series D Senior Unsecured Debentures with a 10-year term and a coupon rate of 4.293% per annum. The net proceeds from the offering will be used by the Trust to repay \$440,000 of Transferor Notes held by Loblaw, and for general business purposes.

Class C LP Units (authorized - unlimited) On July 5, 2013, the Trust's subsidiary issued 92,500,000 Class C LP Units, at the IPO Price. Loblaw exercised its right to defer payment of distributions on the Class C LP Units until January 1, 2014.

Debt Maturities In order to reduce refinancing risk, Choice Properties staggered debt maturities and future financing obligations to ensure no large maturities in any one year. The weighted average term to maturity for the Transferor Notes and the Debentures is approximately 5.0 years.

For the period ended December 31, 2013	Transferor Notes	Senior Unsecured Debentures	Class C LP Units	December 31, 2013 Total
2014	\$ 90,000	\$ —	\$ —	\$ 90,000
2015	350,000	—	—	350,000
2016	300,000	—	—	300,000
2017	200,000	—	—	200,000
2018	—	400,000	—	400,000
Thereafter	1,000,000	200,000	925,000	2,125,000
Total	\$ 1,940,000	\$ 600,000	\$ 925,000	\$ 3,465,000

Credit Facility On July 5, 2013, Choice Properties entered into a credit agreement for a \$500,000 five-year senior unsecured committed credit facility (the “Credit Facility”) provided by a syndicate of lenders, which contains certain financial covenants and other covenants which are consistent with a credit facility of this nature. This Credit Facility is available for general business purposes including property acquisitions and development activities, and the refinancing of indebtedness. The Credit Facility bears interest at variable rates: prime plus 0.45% or bankers’ acceptance rate plus 1.45%. Pricing is contingent on Choice Properties’ credit rating from either Dominion Bond Rating Service (“DBRS”) and Standard & Poor’s (“S&P”).

As of December 31, 2013, there were no amounts drawn on this facility.

6.1 Financial Covenants

Choice Properties has certain key financial and non-financial covenants in its Debentures, Transferor Notes and the Credit Facility which include maintaining certain leverage and debt service ratios, as defined in the respective agreements. These ratios are measured by the Trust on an ongoing basis to ensure compliance with the agreements. As at December 31, 2013, Choice Properties was in compliance with each of the covenants under these agreements.

For the purposes of calculating the debt to total assets ratio (the leverage covenant) under the Trust Indenture as supplemented, Choice Properties determines the fair value of its investment properties using a capitalization factor equal to the simple average of the rolling eight quarter weighted average capitalization rates used by the Trust to calculate the fair value of its investment properties for financial statement reporting purposes. For the first seven fiscal quarters, such averages will be calculated on a rolling-up basis until eight fiscal quarters have been completed. For the purposes of these calculations, the Trust shall be deemed to have completed four fiscal quarters prior to December 31, 2013, with the weighted average capitalization rates for each of these four quarters deemed to be equal to 6.16%.

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

		December 31, 2013
Debt to Total Assets Ratio⁽¹⁾	Limit: Maximum including Class C LP Units and convertible debt (of nil) is 65.0%	47.0%
Debt Service Coverage Ratio⁽¹⁾	Limit: Minimum 1.5x	3.4x

(1) Debt ratios include Class C LP Units but exclude Exchangeable Units. The ratios are non-GAAP financial measures calculated based on the Trust Indenture as supplemented.

7. RESULTS OF OPERATIONS

Choice Properties' results of operations cover the period of ownership of the Initial Properties from July 5 to December 31, 2013 ("Operating Year"), and are compared to the financial forecast presented in the Prospectus (the "Forecast") as required for new issuers. The Forecast covered the period from July 1, 2013 to June 30, 2014 and assumed the Initial Properties had been acquired July 1, 2013. To increase comparability between the Forecast and the actual results, the Forecast has been adjusted to reflect the period of operations from July 5 to December 31, 2013 (the "Adjusted Forecast"). See Section 18, "Adjusted Forecast" of this MD&A for the proration of the Forecast. The results summarized below are for the three months (or fourth quarter) ended and the Operating Year ended December 31, 2013.

For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual (audited)	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Rental Revenue						
Base rent	\$ 124,960	\$ 122,582	\$ 2,378	\$ 243,072	\$ 240,574	\$ 2,498
Operating expense recoveries	6,687	5,505	1,182	11,361	9,816	1,545
Property tax recoveries	32,980	33,948	(968)	63,734	66,383	(2,649)
Other revenue	225	293	(68)	340	368	(28)
	164,852	162,328	2,524	318,507	317,141	1,366
Property Operating Costs						
Recoverable operating costs	7,617	6,503	1,114	12,731	11,608	1,123
Property taxes	33,985	34,998	(1,013)	65,821	68,436	(2,615)
Non-recoverable operating costs	767	472	295	1,204	806	398
Net Property Income	122,483	120,355	2,128	238,751	236,291	2,460
Other Income (Expense)						
General and administrative expenses ⁽²⁾	(4,789)	(6,054)	1,265	(12,234)	(15,806)	3,572
Amortization of other assets	(188)	(335)	147	(472)	(670)	198
Interest income	144	—	144	324	—	324
Interest expense and other financing charges	(192,878)	(79,391)	(113,487)	(303,510)	(155,578)	(147,932)
Fair value adjustment on investment properties	68,750	—	68,750	144,289	—	144,289
Net Income (Loss)	\$ (6,478)	\$ 34,575	\$ (41,053)	\$ 67,148	\$ 64,237	\$ 2,911

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013. See "Adjusted Forecast" on page 37.

(2) General and administrative expenses include certain one-time start-up costs incurred before July 5, 2013.

Rental Revenue Rental revenue for Choice Properties is comprised primarily of base rent, and recoveries collected from tenants for operating expenses and property taxes.

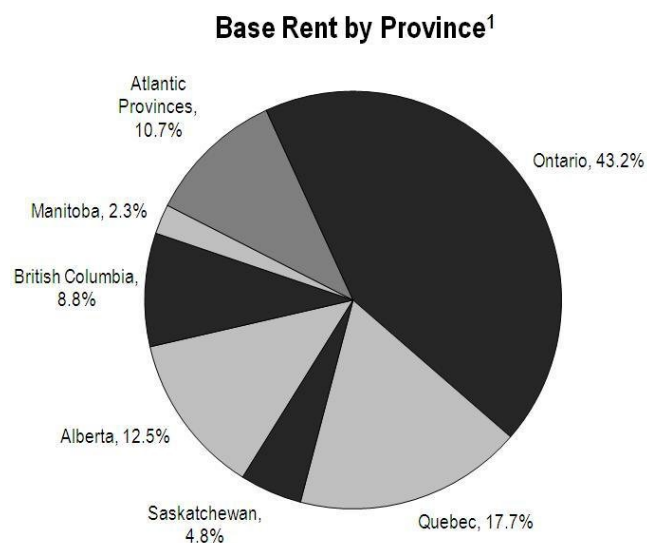
For the fourth quarter ended December 31, 2013, rental revenue of \$164,852 was \$2,524 or 1.6% higher than the Adjusted Forecast, and positively impacted by an increase of \$2,378 to base rent due to the Acquisitions. Choice Properties recovered 95.4% of recoverable operating expenses and property taxes, a 0.3% increase from the forecasted recovery rate of 95.1% due to improved recoveries of operating expenses.

For the Operating Year ended December 31, 2013, rental revenue of \$318,507 was \$1,366 or 0.4% higher than the Adjusted Forecast and positively impacted by an increase of \$2,498 to base rent. Choice Properties recovered 95.6% of recoverable operating expenses and property taxes, a 0.4% increase from the forecasted recovery rate of 95.2% due to improved recoveries of operating expenses. Property tax recoveries were in-line with the forecast.

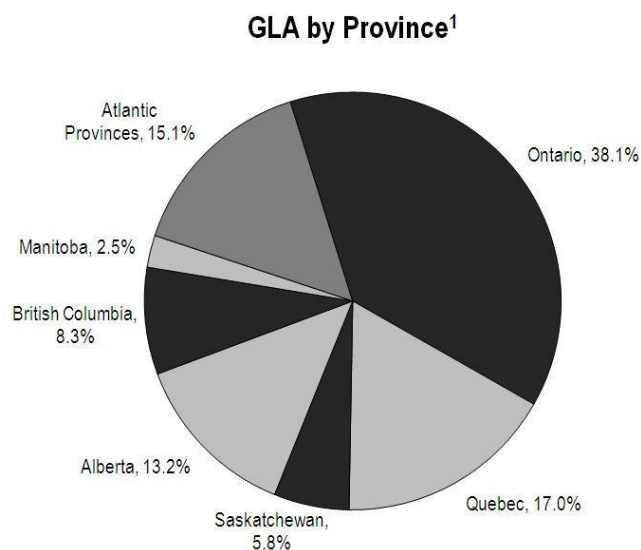
For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual (audited)	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Initial Properties	\$ 161,959	162,328	\$ (369)	\$ 315,614	317,141	\$ (1,527)
Acquisitions	2,893	—	\$ 2,893	2,893	—	\$ 2,893
Total Revenue	\$ 164,852	162,328	2,524	\$ 318,507	317,141	1,366

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013. See "Adjusted Forecast" on page 37.

The following charts illustrate the diversification of Choice Properties' portfolio is across Canada:



(1) For the Operating Year as at December 31, 2013



(1) As at December 31, 2013

Concentration Loblaw is Choice Properties' largest tenant. At December 31, 2013, Loblaw represented 88.5% of total GLA and 90.0% of annual base minimum rent. The weighted average lease term to maturity on the Loblaw leases was 13.6 years. The first maturity of a Loblaw lease does not occur until 2023. Loblaw leased 32.1 million square feet of GLA, with approximately 84.0%, 14.1% and 1.9% of such GLA attributable to retail, warehouse and office space, respectively.

The remainder of Choice Properties' portfolio was leased to ancillary tenants with a weighted average lease term of 4.8 years. Current lease maturities of ancillary tenants are less than 12.7% of the ancillary portfolio in any of the next five years.

Leasing Activities After accounting for GLA leased to Loblaw, approximately 4.2 million square feet of GLA was available to lease to tenants that benefit from the consumer traffic that the food retailer attracts to the shopping centre. Choice Properties' leasing and development activities were focused on driving value by adding tenants in business sectors that complement grocery anchor tenants.

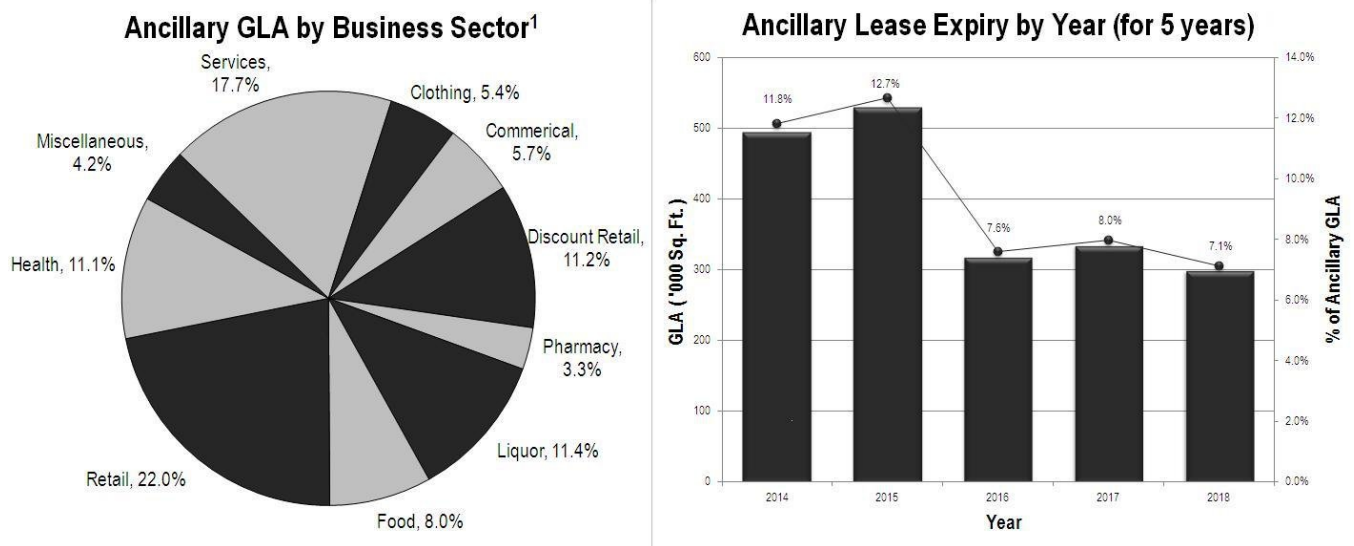
The future financial performance of investment properties is impacted by occupancy rates, trends in rental rates achieved on leasing or renewing space currently leased, and contractual increases in rent. In the fourth quarter, Choice Properties entered into binding leases or offers to lease totaling 236,496 square feet (351,648 for the Operating Year), of which approximately 76.2% of the GLA represented the renewal of expiring leases (71.0% for the Operating Year). The rental activity for lease renewals in the Operating Year was as follows:

(unaudited)	Expiring GLA	Renewing GLA	Percentage Renewed	Original Base Rent per sq. ft.	Renewed Base Rent per sq. ft.	Percentage Incremental Base Rent
Third quarter 2013	116,470	69,403	59.6%	\$ 8.48	\$ 8.60	1.4 %
Fourth quarter 2013	185,475	180,106	97.1%	\$ 9.77	\$ 9.71	(0.6)%
Operating Year - Total renewals	301,945	249,509	82.6%	\$ 11.01	\$ 11.02	0.1 %
Less: Large format tenant ⁽¹⁾	(24,987)	(24,987)	—	\$ 16.00	\$ 10.00	(37.5)%
Operating Year - Net renewals	276,958	224,522	81.1%	\$ 10.45	\$ 11.14	6.6 %
Fourth quarter - Net renewals	160,488	155,119	96.7%	\$ 8.77	\$ 9.66	10.1 %

(1) Large format tenants occupy at least 20,000 square feet of GLA. In the fourth quarter, one large format tenant, representing 25,000 square feet of GLA, was granted a significant rent reduction for a two year term as an interim solution while the Trust evaluates future alternatives.

Choice Properties' objective is to improve tenant mix, increase tenancy and maintain a strong tenant foundation which complement grocery anchor. As part of its strategy, Choice Properties actively manages leasing operations. As at December 31, 2013, the Trust entered into binding leases or offers to lease total approximately 26.3% of the leases maturing in 2014, with average base rental increase of 10.4%.

The following graphs show ancillary GLA by business sector and lease expiry of ancillary tenant for the next five years:



(1) As at December 31, 2013.

Net Operating Income* All Properties For the fourth quarter ended December 31, 2013, NOI* of \$114,108, was \$1,851 higher than the Adjusted Forecast of \$112,257. The Acquisitions contributed \$2,152 to the increase which was partially offset by a \$301 decrease from the Initial Properties.

For the Operating Year ended December 31, 2013, NOI* of \$222,267 was \$1,817 higher than the Adjusted Forecast of \$220,450. The Acquisitions contributed \$2,152 to the increase which was partially offset by a \$335 decrease from the Initial Properties.

For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Rental revenue	164,852	162,328	\$ 2,524	\$ 318,507	\$ 317,141	\$ 1,366
Reverse - Straight-line rent	(8,375)	(8,098)	(277)	(16,484)	(15,841)	(643)
	156,477	154,230	2,247	302,023	301,300	723
Property operating costs	(42,369)	(41,973)	(396)	(79,756)	(80,850)	1,094
Net Operating Income⁽²⁾	\$ 114,108	\$ 112,257	\$ 1,851	\$ 222,267	\$ 220,450	\$ 1,817

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013. See "Adjusted Forecast" on page 37.

(2) See "Non-GAAP Financial Measures" beginning on page 36.

Net Operating Income* Initial Properties For the fourth quarter ended December 31, 2013, NOI* of \$111,956, was \$301 lower than the Adjusted Forecast of \$112,257. Non-recoverable expenses contributed \$342 to the decline and the reversal of straight-line rent revenues contributed \$136. These declines were partially offset by increases in net operating expense recoveries of \$137 and base rent increase of \$40.

For the Operating Year ended December 31, 2013, NOI* of \$220,115 was \$335 lower than the Adjusted Forecast of \$220,450. Non-recoverable expenses contributed \$446 to the decline, the reversal of straight-line rent revenues contributed \$502, net property tax recoveries were down by \$11 and other revenue contributed \$27. These declines were partially offset by increases in net operating expense recoveries of \$491 and base rent increase of \$160.

For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Rental revenue	\$ 161,959	162,328	\$ (369)	\$ 315,614	\$ 317,141	\$ (1,527)
Reverse - Straight-line rent	(8,234)	(8,098)	(136)	(16,343)	(15,841)	(502)
	153,725	154,230	(505)	299,271	301,300	(2,029)
Property operating costs	(41,769)	(41,973)	204	(79,156)	(80,850)	1,694
Net Operating Income⁽²⁾	\$ 111,956	\$ 112,257	\$ (301)	\$ 220,115	\$ 220,450	\$ (335)

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013. See "Adjusted Forecast" on page 37.

(2) See "Non-GAAP Financial Measures" beginning on page 36.

General and Administrative Expenses Choice Properties has built initial systems, processes and structures to manage the property portfolio, and has put in place a dedicated team across Canada, which was reflected in general and administrative expenses. The Adjusted Forecast of general and administrative expenses reflected Choice Properties' best estimate of legal fees, trustee fees, public entity costs, transfer agent fees, insurance costs, salaries, benefits and incentive compensation for the Trust at that time.

For the fourth quarter ended December 31, 2013, general and administrative expenses of \$4,789 were \$1,265 lower than the Adjusted Forecast, primarily driven by lower salary and related costs due to staggered hiring of Choice Properties' management team members. The decline is also partly attributable to a year-to-date reduction of \$450 in one-time start-up costs due to a delay in implementing certain components of the enterprise resource planning system.

For the Operating Year ended 2013, general and administrative expenses of \$12,234 were \$3,572 lower than the Adjusted Forecast. The lower than forecasted expenditures is primarily driven by lower salary and related costs due to staggered hiring of Choice Properties' management team members and a year-to-date reduction of \$1,050 in one-time start-up costs due to a delay in implementing certain components of the enterprise resource planning system.

For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual (audited)	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Internal expenses of the Trust	\$ 3,031	\$ 4,209	\$ 1,178	\$ 5,415	\$ 8,418	\$ 3,003
Public entity costs	295	608	313	892	1,340	448
Professional fees	38	—	(38)	3,077	3,574	497
Net services agreements	1,425	1,237	(188)	2,850	2,474	(376)
General and administrative expenses⁽²⁾	4,789	6,054	1,265	12,234	15,806	3,572
General and administrative expenses (net of one-time start-up costs)	\$ 5,239	\$ 6,054	\$ 815	\$ 9,710	\$ 12,232	2,522
As a percent of revenue	3.2%	3.7%	0.5%	3.0%	3.9%	0.9%

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013, and excludes depreciation of fixtures and equipment. See "Adjusted Forecast" on page 37.

(2) General and administrative expenses includes certain one-time start-up costs incurred before July 5, 2013.

Interest Expense and Other Financing Charges For the fourth quarter ended December 31, 2013, interest expense and other financing charges of \$192,878 were \$113,487 higher than the Adjusted Forecast. The increase was primarily due to fair value adjustments on Exchangeable Units of \$111,976 and \$1,703 of distributions related to additional Exchangeable Units issued in the fourth quarter related to the Acquisitions.

For the Operating Year ended 2013, Choice Properties incurred interest expense and other financing charges of \$303,510, which was \$147,932 higher than Adjusted Forecast. The increase was primarily due to fair value adjustments on Exchangeable Units of \$147,401, and \$1,703 distributions related to additional Exchangeable Units issued in the fourth quarter related to the Acquisitions. This was partially offset by lower interest expense of \$833 due to the early repayment of \$60,000 of Transferor Notes with the proceeds from the exercise of the over-allotment option on July 17, 2013.

For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual (audited)	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Interest on Transferor Notes ⁽²⁾	\$ 16,085	\$ 16,333	\$ 248	\$ 31,128	\$ 31,961	\$ 833
Distributions on Class C LP Units ⁽²⁾	11,541	11,658	117	22,692	22,809	117
Interest on Unsecured Senior Debentures	6,054	6,055	1	11,846	11,838	(8)
Interest on Credit Facility	387	362	(25)	741	709	(32)
Amortization of debt discounts and premiums	640	479	(161)	678	920	242
Amortization of debt placement costs	211	223	12	417	437	20
Interest expense (for use in Debt Service Coverage calculation)	34,918	35,110	192	67,502	68,674	1,172
Distributions on Exchangeable Units ⁽²⁾	45,984	44,281	(1,703)	88,607	86,904	(1,703)
Fair value adjustment on Exchangeable Units	111,976	—	(111,976)	147,401	—	(147,401)
Interest expense and other financing charges⁽³⁾	\$ 192,878	\$ 79,391	\$ (113,487)	\$ 303,510	\$ 155,578	\$ (147,932)

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013. See "Adjusted Forecast" on page 37.

(2) Related party amounts.

(3) No interest amounts were capitalized.

Net Income / Loss For the fourth quarter and Operating Year ended December 31, 2013, net loss was impacted by fluctuations in market values not considered in the Adjusted Forecast.

Excluding the non-cash fair value adjustments, the fourth quarter would have resulted in a net income of \$36,748 which is \$2,173 higher than the Adjusted Forecast. The increase is primarily attributable to NOI* from Acquisitions of \$2,152 and savings from general and administrative expenses of \$1,265. These increases are partially offset by higher interest expense and other financing charges of \$1,511 primarily due to distributions on Exchangeable Units issued in the fourth quarter.

Similarly, excluding the non-cash fair value adjustments, the Operating Year would have resulted in a net income of \$70,260 which is \$6,023 higher than the Adjusted Forecast. The increase is primarily attributable to NOI* from Acquisitions of \$2,152 and savings from general and administrative expenses of \$3,572. These increases are partially offset by higher interest expense and other financing charges of \$531 primarily due to distributions on Exchangeable Units.

For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual (audited)	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Net income / (loss)	\$ (6,478)	\$ 34,575	(41,053)	\$ 67,148	\$ 64,237	\$ 2,911
Fair value adjustment on Exchangeable Units ⁽²⁾	111,976	—	111,976	147,401	—	147,401
Fair value adjustment on investment properties ⁽²⁾	(68,750)	—	(68,750)	(144,289)	—	(144,289)
Net income before fair value adjustments	\$ 36,748	\$ 34,575	\$ 2,173	\$ 70,260	\$ 64,237	\$ 6,023

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013. See "Adjusted Forecast" on page 37.

(2) See "Non-GAAP Financial Measures" beginning on page 36.

8. OTHER MEASURES OF PERFORMANCE

Funds from Operations* For the fourth quarter ended December 31, 2013, FFO* of \$82,764 was \$3,908 higher than the Adjusted Forecast, primarily attributable to an increase in NOI* of \$2,152 from the Acquisitions and savings of \$1,265 from general and administrative expenses.

For the fourth quarter ended December 31, 2013, FFO* per unit on a diluted basis of \$0.225 had a favourable variance of \$0.002 compared to the Adjusted Forecast of \$0.223, driven by the incremental NOI* from the Acquisitions and savings in general and administrative expense, partially offset by the dilutive impact of the additional 6,000,000 Trust Units outstanding as at December 31, 2013 that were issued upon exercise of the over-allotment option, as described in the Overview section of this MD&A. The additional Exchangeable Units, issued in connection with the Acquisitions, are not dilutive to the FFO* per unit calculation due to the NOI* generated by the acquired properties.

For the Operating Year ended 2013, FFO* of \$158,892 was \$7,751 higher than the Adjusted Forecast of \$151,141, primarily attributed to an increase in NOI* of \$2,152 from the Acquisitions and savings of \$3,572 from general and administrative expense.

FFO* per unit for the Operating Year ended 2013 of \$0.437 had a favourable variance of \$0.010 per unit on a diluted basis compared to the Adjusted Forecast of \$0.427, primarily due to favourable FFO* partially offset by the issuance of additional units as a result of the over-allotment, which were not included in the Adjusted Forecast.

For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Net income / (loss)	\$ (6,478)	\$ 34,575	(41,053)	\$ 67,148	\$ 64,237	\$ 2,911
Fair value adjustment on Exchangeable Units	111,976	—	111,976	147,401	—	147,401
Fair value adjustment on investment properties	(68,750)	—	(68,750)	(144,289)	—	(144,289)
Fair value adjustment on unit-based compensation	24	—	24	17	—	17
Distributions on Exchangeable Units	45,984	44,281	1,703	88,607	86,904	1,703
Amortization of tenant improvement allowances	8	—	8	8	—	8
Funds from Operations⁽²⁾	\$ 82,764	\$ 78,856	\$ 3,908	\$ 158,892	\$ 151,141	\$ 7,751
FFO ⁽²⁾ per unit - basic	\$ 0.225	\$ 0.223	\$ 0.002	\$ 0.437	\$ 0.427	\$ 0.010
FFO ⁽²⁾ per unit - diluted	\$ 0.225	\$ 0.223	\$ 0.002	\$ 0.437	\$ 0.427	\$ 0.010
FFO ⁽²⁾ payout ratio	72.2%	72.9%	0.7%	73.0%	74.7%	1.7%
Distributions per unit	\$ 0.162501	\$ 0.162501	—	\$ 0.318917	\$ 0.318917	—
Weighted average Units outstanding - basic	367,911,089	353,997,871	13,913,218	363,642,405	353,997,871	9,644,534
Weighted average Units outstanding - diluted	368,059,697	353,997,871	14,061,826	363,767,339	353,997,871	9,769,468
Number of Units outstanding, end of period	371,688,983	353,997,871	17,691,112	371,688,983	353,997,871	17,691,112

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013. See "Adjusted Forecast" on page 37.

(2) See "Non-GAAP Financial Measures" beginning on page 36.

Adjusted Funds from Operations* For the fourth quarter ending December 31, 2013, AFFO* of \$64,680 was \$1,012 higher than the Adjusted Forecast. The favourable variance from the calculation of FFO* is partially offset by higher property capital expenditures of \$2,323 and higher leasing capital expenditures of \$208 in the quarter. Capital expenditures were higher than Adjusted Forecast in the fourth quarter due to projects that were carried over from the third quarter.

For the fourth quarter ended December 31, 2013, AFFO* per unit of \$0.176 was lower than the Adjusted Forecast of \$0.180 by \$0.004. The positive variance from the calculation of AFFO* was diluted by the additional Units outstanding that were issued upon exercise of the over-allotment, as described in the Overview section of this MD&A.

For the Operating Year ended December 31, 2013, AFFO* of \$130,939 was \$6,407 higher than the Adjusted Forecast of \$124,532. The favourable variance from the FFO* calculation is the primary contributor to the favourable variance in AFFO*.

AFFO* per unit as presented, for the Operating Year ended December 31, 2013, of \$0.360 had a favourable variance of \$0.008 per unit on a diluted basis compared to the Adjusted Forecast of \$0.352. The positive variance is driven from an increase in AFFO* partially offset by the issuance of additional units as a result of the over-allotment, which were not included in the Adjusted Forecast.

In the Operating Year, property capital expenditures were lower than the Adjusted Forecast due to a delay in project start dates. Property capital expenditures for the Operating Year have been adjusted to better reflect Choice Properties' annual expectations. Were AFFO* to be calculated deducting only the actual capital expenditures of \$8,934, AFFO* would be \$136,651 or \$0.376 per unit on a diluted basis.

The Prospectus discussed an annualized Forecast AFFO* payout ratio of 90.7% on an annualized distribution of \$0.65 per unit. The AFFO* payout ratio for the Operating Year ended December 31, 2013 is 88.6%, an improvement of approximately 2.1%. The positive variance is due to actual AFFO* in excess of Forecast and lower distributions as operations did not commence until July 5, 2013. These positive variances are partially offset by the increase in the number of Units outstanding.

For the periods ended December 31, 2013 (unaudited)	Three Months			Operating Year		
	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)	Actual	Adjusted Forecast ⁽¹⁾	Variance Favourable/ (Unfavourable)
Funds from Operations ⁽²⁾	\$ 82,764	\$ 78,856	\$ 3,908	\$ 158,892	\$ 151,141	\$ 7,751
Business start-up costs	(450)	—	(450)	2,524	3,574	(1,050)
Straight-line rental revenue	(8,375)	(8,098)	(277)	(16,484)	(15,841)	(643)
Amortization of finance charges	851	702	149	1,095	1,357	(262)
Unit-based compensation expense	438	225	213	808	335	473
Property capital expenditures - incurred	(7,769)	(7,323)	(446)	(8,934)	(14,646)	5,712
Property capital expenditures - normalized ⁽³⁾	(1,877)	—	(1,877)	(5,712)	—	(5,712)
Leasing capital expenditures	(902)	(694)	(208)	(1,250)	(1,388)	138
Adjusted Funds from Operations⁽²⁾	\$ 64,680	\$ 63,668	\$ 1,012	\$ 130,939	\$ 124,532	\$ 6,407
AFFO ⁽²⁾ per unit - basic	\$ 0.176	\$ 0.180	\$ (0.004)	\$ 0.360	\$ 0.352	\$ 0.008
AFFO ⁽²⁾ per unit - diluted	\$ 0.176	\$ 0.180	\$ (0.004)	\$ 0.360	\$ 0.352	\$ 0.008
AFFO ⁽²⁾ payout ratio	92.3%	90.3%	(2.0)%	88.6%	90.6%	2.0%
Distributions per unit	\$ 0.162501	\$ 0.162501	—	\$ 0.318917	\$ 0.318917	—
Weighted average Units outstanding - basic	367,911,089	353,997,871	13,913,218	363,642,405	353,997,871	9,644,534
Weighted average Units outstanding - diluted	368,059,697	353,997,871	14,061,826	363,767,339	353,997,871	9,769,468
Number of Units outstanding, end of period	371,688,983	353,997,871	17,691,112	371,688,983	353,997,871	17,691,112

(1) The Forecast has been adjusted to reflect operations commencing July 5, 2013. See "Adjusted Forecast" on page 37.

(2) See "Non-GAAP Financial Measures" beginning on page 36.

(3) Anticipated property capital expenditure is approximately \$14,646 for a half year period; however, only \$8,934 was spent for fiscal year ended December 31, 2013.

Property Capital and Leasing Capital Expenditures are deducted from FFO* to arrive at AFFO*. Property Capital expenditures are mostly recoverable from tenants over the useful life of the improvement.

Property Capital Choice Properties differentiates between those capital expenditures incurred to sustain the properties versus capital incurred to achieve a long-term improvement in the enterprise's ability to generate incremental cash flow. Capital expenditures incurred on existing space would usually be considered costs of sustaining productive capacity, and are recovered over the life of the improvement. Whereas, acquisitions and the development of existing assets are capital expenditures that Choice Properties considers as increasing the productive capacity of the enterprise and are more project-oriented.

Until Choice Properties develops a history of property capital spending, the 10-year average Forecast figure presented in the Prospectus will be used for analysis. Based on the 10-year average forecasted property capital spending level of \$29,292, property capital expenditures are expected to be approximately \$0.81 per square foot or approximately \$0.08 per diluted unit per annum*.

As at December 31, 2013, Choice Properties incurred \$8,934 of property capital expenditures. Property capital expenditures are comprised of non-recoverable structural improvements of \$483 and recoverable capital improvements of \$8,451, which are recoverable from tenants under the terms of their leases over the useful life of the improvements. Recoverable capital improvements may include, but are not limited to, items such as parking lot resurfacing and roof replacement. These items are recorded as part of investment properties and the recoveries from tenants are recorded as revenue. As at December 31, 2013, Choice Properties had a recoverable capital improvements balance of \$8,430 and expects to recover the majority of the expenditures from tenants over the useful lives of the improvements*.

Leasing Capital Leasing capital varies with tenant demand and the balance between new and renewal leasing. Capital expenditures relating to securing new tenants are generally higher than the costs to renew existing tenants. Choice Properties incurred \$1,250 of leasing costs to-date in 2013, which was comprised of \$834 in tenant improvement allowances and \$416 in direct leasing costs.

Choice Properties endeavours to fund property capital and leasing capital from cash flow from operations*.

9. QUARTERLY RESULTS OF OPERATIONS

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

	Third Quarter ⁽¹⁾	Fourth Quarter	Operating Year ⁽¹⁾
Number of Properties	425	435	435
Gross Leasable Area (in million square feet)	35.3	36.3	36.3
Occupancy	97.6%	97.7%	97.7%
Rental revenue	\$ 153,655	\$ 164,852	\$ 318,507
Net Operating Income ⁽²⁾	\$ 108,159	\$ 114,108	\$ 222,267
Cash flow from operating activities	\$ 117,470	\$ 78,858	\$ 196,328
Funds from Operation ⁽²⁾ per unit diluted	\$ 0.212	\$ 0.225	\$ 0.437
Adjusted Funds from Operation ⁽²⁾ per unit diluted	\$ 0.184	\$ 0.176	\$ 0.360
Adjusted Funds from Operations ⁽²⁾ payout ratio	85.0%	92.3%	88.6%
Distributions per unit	\$ 0.156416	\$ 0.162501	\$ 0.318917
Number of Units outstanding	359,997,871	371,688,983	371,688,983
Total Assets (in millions)	\$ 7,174	\$ 7,448	\$ 7,448
Debt to total assets ⁽³⁾	49.4%	47.0%	47.0%
Debt service coverage ⁽³⁾	3.3x	3.4x	3.4x

(1) Based on operations beginning on July 5, 2013.

(2) See "Non-GAAP Financial Measures" beginning on page 36.

(3) Debt ratios include Class C LP Units but exclude Exchangeable Units. The ratios are non-GAAP financial measures calculated based on the Trust Indenture as supplemented.

Fourth quarter results were primarily impacted by investment property acquisitions and issuances of additional Units. AFFO* per unit and the payout ratio were also impacted by an increase in capital expenditures in the fourth quarter. This increase is driven by delays in project start dates in the third quarter, Choice Properties' first quarter of operations.

10. LIQUIDITY AND CAPITAL RESOURCES

10.1 Sources of Liquidity

Choice Properties expects to fund its ongoing operations and finance future growth primarily through the use of (i) existing cash, (ii) cash flow from operations (iii) short term financing through its Credit Facility, and (iv) subject to market conditions, the issuance of equity and unsecured debentures (including LP Units). Given its reasonable access to capital markets, Choice Properties does not foresee any material impediments in obtaining financing to satisfy its short and long term financial obligations, including its capital investment commitments*.

As at December 31, 2013	2013
Cash and cash equivalents	\$ 51,405
Unused Credit Facility	500,000
Liquidity	\$ 551,405

Base Shelf Prospectus On September 3, 2013, Choice Properties filed a Short Form Base Shelf Prospectus allowing for the issuance, from time to time, of Units and debt securities, having an aggregate offering price of up to \$2 billion. The Short Form Base Shelf Prospectus is valid for a 25-month period. Subsequent to the Operating Year, Choice Properties completed the issuance of \$450,000 Senior Unsecured Debentures under the Base Shelf Prospectus, please refer to Section 6 “Long Term Debt and Class C LP Units” of this MD&A for more details.

10.2 Credit Ratings

Choice Properties’ Units and 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, Choice Properties’ most significant tenant for the foreseeable future, largely based on Loblaw’s significant ownership position in the Trust and the strategic integration between the Trust and Loblaw. The following table sets out the current credit rating of Choice Properties:

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

10.3 Major Cash Flow Components

For the periods ended December 31, 2013	Three Months (unaudited)	Operating Year (audited)
Cash flow from operating activities	\$ 78,858	\$ 196,328
Cash flow used in investing activities	(83,356)	(111,882)
Cash flow used in financing activities	(26,635)	(33,041)
Increase in cash and cash equivalents	\$ (31,133)	\$ 51,405

Cash Flow from Operating Activities In both the fourth quarter and operating year ended December 31, 2013, the positive cash flow from operating activities was driven by cash from net income before non-cash items; offset by an increase in working capital.

Cash flows from operating activities will be used to fund on-going operations, and expenditures for leasing capital and property capital.

Cash Flow used in Investing Activities The acquisition of properties in the fourth quarter was funded substantially by the issuance of Class B LP Units valued at \$116,086 and cash consideration of \$73,316. The Trust also spent \$10,040 on additions to investment properties in the fourth quarter.

In the Operating Year, in addition to the Acquisitions, the purchase of the Initial Properties, was funded substantially by non-cash consideration of \$6,923,039 and cash consideration of \$23,910. During the Operating Year, \$11,785 was invested in investment properties and \$2,871 in administrative capital.

Cash Flow used in Financing Activities In the fourth quarter, financing activities were primarily interest payments of \$12,358 on Transferor Notes and on the Credit Facility, and distributions of \$13,070 on Units.

In the Operating Year, a portion of the non-cash consideration issued for the acquisition of the Initial Properties, in the amount of \$1,144,821, was retired with net proceeds of \$1,156,267 from the issuance of Units and Debentures in the IPO. On July 17, 2013, a further \$60,000 of the non-cash consideration was retired with the net proceeds of \$57,000 from the exercise of the over-allotment option. Cash flows from operating activities were used to make \$17,345 of interest payments on Transferor Notes and on the Credit Facility, and \$22,017 of distributions on Units.

10.4 Unit Equity

Equity, for the purposes of this MD&A, includes both Units and Exchangeable Units, which are economically equivalent to Units and receive distributions equal to the Unit distributions.

	December 31, 2013
Units issued July 5, 2013	81,500,000
Units issued July 17, 2013	6,000,000
Exchangeable Units issued July 5, 2013	272,497,871
Exchangeable Units issued October 22, 2013	9,925,671
Exchangeable Units issued December 19, 2013	1,651,212
Units issued in connection with the Distribution Reinvestment Plan	114,229
Total number of Units	371,688,983

During the fourth quarter, Choice Properties announced the implementation of a Distribution Reinvestment Plan ("DRIP") which allows eligible Unitholders to elect to have their cash distributions used to purchase Units and receive a bonus distribution of Units equal in value to 3% of each distribution. The DRIP began with eligible Unitholders of record November 29, 2013 and the first issuance of Units from the DRIP was December 16, 2013.

Distributions In accordance to the Board of Trustees approved distribution policy, during 2013, Choice Properties declared \$116,518 in distributions, including distributions to holders of Exchangeable Units, which are reported as interest expense. Loblaw exercised its right to defer payment of distributions on the Exchangeable Units until January 1, 2014.

	Year ended December 31, 2013
Distributions declared (including distributions on Exchangeable Units)	\$ 116,518
Cash provided by operating activities	\$ 196,328
AFFO ⁽¹⁾	\$ 130,939
Surplus of cash provided by operating activities over distributions declared	\$ 79,810
Surplus of cash provided by AFFO ⁽¹⁾ over distributions declared	\$ 14,421

(1) See "Non-GAAP Financial Measures" beginning on page 36.

In determining the amount of distributions to be made to Unitholders, Choice Properties' Trustees consider many factors, including provisions in its Declaration of Trust, macro-economic and industry specific environment, 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 of Trustees regularly review Choice Properties' rate of distributions to ensure an appropriate level of cash distributions.

At its most recent meeting on February 14, 2014, the Board of Trustees reviewed the current rate of distributions of \$0.65 per unit per annum and resolved to maintain this rate at this time.

The carrying value of the Trust's investment properties exceeds their tax base. The tax treatment of the 2013 distributions is: 22.7% return of capital, 77.3% income and 0% capital gain. That composition may change over time, thus affecting the after tax return to Unitholders.

10.5 Contractual Obligations

The undiscounted future principal and interest payments on Choice Properties' debt instruments, distribution and redemption payments on Class C LP Units, and other contractual obligations as at December 31, 2013 are as follows:

	2014	2015	2016	2017	2018	Thereafter	Total
Transferor Notes	\$ 151,650	\$ 405,050	\$ 345,300	\$ 237,800	\$ 34,800	\$ 1,087,000	\$ 2,261,600
Debentures	24,022	24,022	24,022	24,022	424,022	249,030	769,140
Class C LP Units	46,250	46,250	46,250	46,250	46,250	1,366,132	1,597,382
Other ⁽¹⁾	7,673	—	—	—	—	—	7,673
Total	\$ 229,595	\$ 475,322	\$ 415,572	\$ 308,072	\$ 505,072	\$ 2,702,162	\$ 4,635,795

(1) At December 31, 2013, Choice Properties also has commitments of \$7,673 for future expenditures, \$6,961 for development projects and \$712 for property capital maintenance.

11. RELATED PARTY TRANSACTIONS

Choice Properties' parent corporation is Loblaw, which held an 82.2% effective interest in the Trust through ownership of 21,500,000 Units and all the Exchangeable Units as at December 31, 2013. Loblaw's parent, GWL, held an approximate 63% ownership of Loblaw's outstanding common shares, and held a 5.4% effective interest in Choice Properties, through ownership of 20,107,810 Units, as at December 31, 2013.

In addition to key holdings of debt and equity, Loblaw is Choice Properties' largest tenant representing approximately 90.0% of Choice Properties' annual base minimum rent and 88.5% of its GLA as at December 31, 2013.

Choice Properties' policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Acquisitions Subsequent to the purchase of the Initial Properties on July 5, 2013, Choice Properties acquired investment properties from Loblaw with a fair value of approximately \$184,200 during 2013. Please refer to Section 5 "Investment Properties" for additional information.

Distribution Reinvestment Plan During the year, Choice Properties issued 107,810 Units to GWL under the DRIP.

Strategic Alliance Agreement On July 5, 2013, Loblaw and Choice Properties entered into a Strategic Alliance Agreement, which created a series of rights and obligations between Choice Properties and Loblaw (and certain of its subsidiaries). This agreement establishes a preferential and mutually beneficial business and operating relationship. The initial term of the agreement is for ten years from July 5, 2013, with an automatic renewal for a second term that will continue until the earlier of: (i) 20 years from July 5, 2013; and (ii) the date on which Loblaw ceases to own a majority effective interest in Choice Properties on a fully-diluted basis.

Services Agreements On July 5, 2013, Loblaw and Choice Properties entered into a one year renewable services agreement. This agreement provides Choice Properties with administrative and other support services such as property and facility management services, internal audit services, and such other services as may be reasonably required from time to time. Loblaw will provide these services to Choice Properties for a fixed fee equal to \$6,400 for the first year of Choice Properties' operations. Subsequent to the initial year of operations, the agreement will cover services that Choice Properties has not yet internalized.

On July 5, 2013, Choice Properties and Loblaw entered into a second services agreement with a one year term. This agreement provides Loblaw with administration and support services, such as leasing, analysis, valuation and development, on an as needed basis. Choice Properties will provide these services for a fixed fee equal to \$700.

The transactions with Loblaw were comprised as follows:

For the periods ended December 31, 2013 (unaudited)	Three Months	Operating Year (audited)
Rental revenue	\$ 148,098	\$ 286,653
Net services agreements expense	\$ 1,425	\$ 2,850
Interest expense	\$ 73,610	\$ 142,427

The net balance due to Loblaw was comprised as follows:

As at December 31, 2013	2013
Accounts receivable and other assets	\$ 93,391
Long term debt and Class C LP Units	(2,865,000)
Accounts payable and other liabilities	(170,833)
Net due to Loblaw	\$ (2,942,442)

The balance sheet also includes distributions payable to GWL of \$1,089.

Loblaw holds all of Exchangeable Units and Class C LP Units Issued by the Partnership. Loblaw has elected to defer receipt of all distributions declared by the Partnership until the first date following the end of the fiscal year. 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. As at December 31, 2013, distributions totaling \$111,299 were declared and accrued, and a loan of \$92,057 was made to Loblaw. In January 2014, distributions accrued and payable for Class B and C LP Units of \$92,057 were cleared with the note receivable from Loblaw. On January 15, 2014, a new loan was made to Loblaw for \$19,242.

12. ENTERPRISE RISKS AND RISK MANAGEMENT

Choice Properties is committed to establishing a framework that ensures risk management is an integral part of its activities. To ensure its continued growth and success, risks are identified and managed through Choice Properties' Enterprise Risk Management ("ERM") program. The Choice Properties Board has approved an ERM policy and will oversee the ERM program through approval of the Trust's risks and risk prioritization. The ERM program assists all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach, methodology and tools 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 management activities and develop a risk-based internal audit plan.

Risks are not eliminated through the ERM program. Risks are identified and managed within understood risk tolerances. The ERM program is designed to:

- promote a culture of awareness of risk management and compliance within Choice Properties;
- facilitate corporate governance by providing a consolidated view of risks across Choice Properties and insight into the methodologies for identification, assessment, measurement and monitoring of the risks;
- assist in developing consistent risk management methodologies and tools across the organization; and
- enable Choice Properties to focus on its key risks in the business planning process and reduce harm to financial performance through responsible risk management.

Risk identification and assessments are important elements of the Trust's ERM framework. An annual ERM assessment will be completed to assist in the update and identification of internal and external risks, which are both strategic and operational in nature. Key risks affecting the Trust are prioritized under four categories: financial; operational; reputational and compliance risks. The annual ERM assessment will be carried out through interviews, surveys and/or facilitated workshops with management and the Choice Properties Board. 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 its strategies and achieve its objectives. Risk owners are assigned relevant risks and key risk indicators are developed. At least semi-annually, management will provide an update to the Audit Committee on the status of the top 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 risk level will be assessed to monitor potential long term risk impacts, which may assist in risk mitigation planning activities.

Accountability for oversight of the management of each risk is allocated by the Choice Properties Board either to the full Board or to Committees of the Board.

The operating, financial, reputational and compliance risks and risk management strategies are discussed below. Any of these risks has the potential to negatively affect Choice Properties and its financial performance. The Trust has risk management strategies, including insurance programs, that are intended to mitigate the potential impact of these risks. However, these strategies do not guarantee that the associated risks will be mitigated or will not materialize or that events or circumstances will not occur that could negatively affect the reputation, operations or financial condition or performance of the Trust. Choice Properties faces a variety of significant and diverse risks, many of which are inherent in the business conducted by Choice Properties and the tenants of the properties. Described below are certain risks that could materially adversely affect Choice Properties. Other risks and uncertainties that Choice Properties does not presently consider to be material, or of which Choice Properties is not presently aware, may become important factors that affect Choice Properties' future financial condition and results of operations. The occurrence of any of the risks discussed below could materially and adversely affect the business, prospects, financial condition, results of operations or cash flow of Choice Properties. Prospective purchasers of securities of Choice Properties should carefully consider these risks before investing in any such securities.

12.1 Operating Risks and Risk Management

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

Real Property Ownership and Tenant Risk	Systems Implementation
Competition	Financial Forecast
Capital Expenditures and Fixed Costs	Current Economic Environment
Environmental Matters	Reliance on Key Personnel
Regulation	Asset Class Diversification
Acquisitions and Associated Undisclosed Defects and Obligations	Property Development, Redevelopment and Renovation Risks
Natural Disasters	Litigation Risks
Lack of Operating History	Significant Ownership by Loblaw
Operational Risk	Acquisition of Future Properties from Loblaw
Geographic Concentration	Leasing Restrictions Under the Strategic Alliance Agreement
Reliance on the Partnership	Sale and Financing Provisions Under the Strategic Alliance Agreement
Appraisals	Potential Conflicts of Interest with Loblaw
General Insured and Uninsured Risks	Risks Associated with Service Arrangements

Real Property Ownership and Tenant Risks 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 for a number of reasons. 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. Furthermore, at any time, a 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.

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 the largest tenant. Choice Properties derives the 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. The loss of an anchor tenant at any leasable area could cause a reduction in Choice Properties' cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

Competition Choice Properties will compete with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Some of the competitors' properties may be newer or better located and certain of these competitors may have greater financial and other resources and greater operating flexibility than Choice Properties. An increase in the availability of funds for investment or an increase in interest in real estate property investments may increase the competition for real estate property investments, thereby increasing purchase prices and reducing the yield on them. The existence of competing managers and owners could have a material adverse effect on Choice Properties' ability to lease space and on the rents it is

able to charge, and could adversely affect revenues and its ability to meet its obligations and its ability to make distributions to Unitholders. Real estate ownership is generally subject to numerous factors and risks, including changes in general economic conditions (such as the availability, terms and cost of mortgage financing and other types of credit), local economic conditions (such as an oversupply of properties or a reduction in demand for real estate in the area), the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs.

Capital Expenditures and Fixed Costs 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 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. 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 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 Choice Properties' properties are substantially refurbished and Choice Properties' properties are not, the net operating income derived from, and the value of, Choice Properties' 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' cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

Environmental Matters As an owner of real property in Canada, Choice Properties is subject to various federal, provincial, territorial and municipal laws relating to environmental matters. Such laws provide that Choice Properties could be, or become, liable for environmental harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties. Further, liability may be incurred by Choice Properties with respect to the release of such substances from or to Choice Properties' properties. These laws often impose liability regardless of whether the property owner knew of, or was responsible for, the presence of such substances. Additional liability may be incurred by Choice Properties with respect to the release of such substances from Choice Properties' properties to properties owned by third parties, including properties adjacent to Choice Properties' properties or with respect to the exposure of persons to such substances. These laws also govern the maintenance and removal of materials containing asbestos in the event of damage, demolition or renovation of a property and also govern emissions of, and exposure to, asbestos fibers in the air.

The portfolio may contain ground contamination, hazardous substances and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances above the allowable or recommended thresholds, or other environmental risks could be associated with the buildings. Some of the properties have, or have had, tenants that would or currently use, hazardous, toxic or other regulated substances. For example, retail gas stations and dry-cleaning operations are currently located, or have been located in the past, at some of the properties.

In such cases, Choice Properties will bear the risk of cost-intensive assessment, remediation or removal of such ground contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against Choice Properties. The remediation of any pollution and the related additional measures Choice Properties would have to undertake could have a materially adverse effect on Choice Properties and could involve considerable additional costs. Choice Properties will also be exposed to the risk that recourse against the polluter or the previous owners of the properties might not be possible. Moreover, the existence or even the mere suspicion of the existence of ground contamination, hazardous materials or other residual pollution can adversely affect the value of a property and Choice Properties' ability to lease or sell such property.

Choice Properties' operating policy is to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property and to have Phase II environmental site assessment work completed where recommended in a Phase I environmental site assessment. Although such environmental site assessments would provide Choice Properties with some level of assurance about the condition of such properties, Choice Properties may become subject to liability for undetected contamination or other environmental conditions at its properties.

Choice Properties intends to make the necessary capital and operating expenditures to comply with environmental laws and address any material environmental issues and such costs relating to environmental matters that may have a material adverse effect on Choice Properties' business, financial condition or results of operations and decrease or eliminate the amount of cash available for distribution to Unitholders. However, environmental laws can change and Choice Properties may become subject to even more stringent environmental laws in the future, with increased enforcement of laws by the government. Compliance with more stringent environmental laws, which may be more rigorously enforced, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition, may have a material adverse effect on Choice Properties' financial condition and results of operations and decrease or eliminate the amount of cash available for distribution to Unitholders.

Regulation Choice Properties is subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in applicable federal, provincial, territorial, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting Choice Properties (including with retroactive effect). Any changes in the laws to which Choice Properties is subject could adversely affect the rights and title to the properties. It is impossible to predict whether there will be any future changes in the regulatory regimes to which Choice Properties will be subject or the effect of any such change on its investments.

Acquisitions and Associated Undisclosed Defects and Obligations Choice Properties' objectives and strategy contemplates, among other things, growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions and leasing the properties, in all cases subject to the terms of the Strategic Alliance Agreement. Choice Properties intends to make acquisitions and dispositions of properties in accordance with its growth strategy. If Choice Properties is unable to manage its growth effectively, it could adversely impact Choice Properties' financial position and results of operations and decrease or eliminate the amount of cash available for distribution to Unitholders. There can be no assurance as to the pace of growth through property acquisitions or that Choice Properties will be able to acquire assets on an accretive basis and, as such, there can be no assurance that distributions to Unitholders will be maintained or increased in the future.

Acquired properties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on the operations and financial results of Choice Properties. Representations and warranties given by third parties to Choice Properties may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. Furthermore, it is not always possible to obtain from the seller the records and documents that are required in order to fully verify that the buildings to be acquired are constructed in accordance, and that their use complies, with planning laws and building code requirements. Accordingly, in the course of acquiring a property, specific risks might not be or might not have been recognized or correctly evaluated. These circumstances could lead to additional costs and could have a material adverse effect on rental income of the relevant properties or the sale prices of such properties upon a disposition of such properties.

Choice Properties' ability to acquire properties on satisfactory terms and successfully integrate and operate them is subject to the following additional risks: (a) Choice Properties may be unable to acquire desired properties because of (i) constraints imposed by the terms of the Strategic Alliance Agreement, or (ii) competition from other real estate investors with more capital, including other real estate operating companies, REITs and investment funds; (b) Choice Properties may acquire properties that are not accretive to results upon acquisition, and Choice Properties may not successfully manage and lease those properties to meet its expectations; (c) competition from other potential acquirers may significantly increase the purchase price of a desired property; (d) Choice Properties may be unable to generate sufficient cash from operations, or obtain the necessary debt or equity financing to consummate an acquisition or, if obtainable, financing may not be on satisfactory terms; (e) Choice Properties may need to spend more than budgeted amounts to make necessary improvements or renovations to acquired properties; (f) agreements for the acquisition of properties are typically subject to customary conditions to closing, including satisfactory completion of due diligence investigations, and Choice Properties may spend significant time and money on potential acquisitions that Choice Properties does not consummate; (g) the process of acquiring or pursuing the acquisition of a new property may divert the attention of Choice Properties' senior management team from existing business operations; (h) Choice Properties may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations; (i) market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and (j) Choice Properties may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

In addition, after the acquisition of a property, the market in which the acquired property is located may experience unexpected changes that adversely affect the property's value. The occupancy of properties that are acquired may decline during Choice Properties' ownership, and rents that are in effect at the time a property is acquired may decline thereafter.

If Choice Properties cannot complete property acquisitions on favourable terms, or operate acquired properties to meet Choice Properties' goals or expectations, Choice Properties' business, financial condition, results of operations and cash flow, the per unit trading price and its ability to satisfy debt service obligations and to make distributions to Unitholders could be materially and adversely affected.

Natural Disasters While Choice Properties has insurance to cover a substantial portion of the cost of natural disasters, Choice Properties' insurance includes customary deductible amounts and certain items may not be covered by insurance. Future natural disasters may adversely affect Choice Properties' operations and properties and, more specifically, may cause Choice Properties to experience reduced rental revenue (including from increased vacancy), incur clean-up costs or otherwise incur costs in connection with such events. Any of these events may have a material adverse effect on Choice Properties' business, cash flows, financial condition and results of operations and its ability to make distributions to Unitholders.

Lack of Operating History Choice Properties is a relatively new entity with a short operating history. Although Choice Properties expects to benefit from the experience that its management team has gained while working at Loblaw and elsewhere, Choice Properties may be less successful in implementing its business strategy than a more seasoned real estate entity. As a result, Choice Properties may experience significant fluctuations in its operating results and rate of growth, which may vary from those projected by management. No assurance can be given that Choice Properties will be successful in implementing its business strategy or that it will achieve expected future operating results which could have a material adverse effect on Choice Properties' cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

Operational Risk Operational risk is the risk of direct or indirect loss that may result from an inadequate or failed technology, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings. Management continues to endeavour to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls will be constantly reviewed and if deemed necessary improvements will be implemented.

Geographic Concentration The investment properties are all located in Canada, the majority of which are located in Ontario, Quebec and Alberta. As a result, Choice Properties' performance, the market value of the investment properties, the income generated and Choice Properties' performance are particularly sensitive to changes in the economic condition and regulatory environment of Ontario, Quebec and Alberta. Adverse changes in the economic condition or regulatory environment of Ontario, Quebec or Alberta may have a material adverse effect on Choice Properties' business, cash flows, financial condition and results of operations and its ability to make distributions to Unitholders.

Reliance on the Partnership Choice Properties is dependent on the business of the Partnership for NOI*. The cash distributions made to Unitholders are dependent on the ability of the Partnership to make distributions in respect of the Partnership units of the Partnership, including the Class C LP Units which are entitled to distributions in priority to the Class A LP Units held by Choice Properties (subject to certain exceptions). The ability of the Partnership to make distributions or make other payments or advances to Choice Properties will depend on the Partnership's results of operations and may be restricted by, among other things, applicable tax and other laws and regulations and may be subject to contractual restrictions contained in any instruments governing the indebtedness of the Partnership, any priority distribution contained in the Limited Partnership Agreement and any other agreements governing the Partnership. If the Partnership is unable to make distributions or other payments or advances to Choice Properties, such failure could have a material adverse effect on Choice Properties' financial condition or results of operations and its ability to make distributions to Unitholders.

Appraisals Choice Properties retained an independent professional appraiser to provide estimates of the fair market value range in respect of each of the investment properties. Caution should be exercised in the evaluation and use of appraisal results, which are estimates of market value at a specific point in time. In general, appraisals represent only the analysis and opinion of qualified experts as of the effective date of such appraisals and are not guarantees of present or future value. There is no assurance that the assumptions employed in determining the appraised values of the investment properties are correct as of this date.

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 Appraisals.

General Insured and Uninsured Risks Choice Properties carries general liability, umbrella liability and/or excess liability insurance with limits which are typically obtained for similar real estate portfolios and otherwise acceptable to the Board. For property risks, Choice Properties carries “All Risks” property insurance, including but not limited to, flood, earthquake and loss of rental income insurance (with at least a twelve month indemnity period). Choice Properties also carries boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature, such as from war or nuclear accident) which are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. Choice Properties does have insurance for earthquake risks, subject to certain policy limits and deductibles. Choice Properties does not carry title insurance on any of the investment properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance, Choice Properties could lose all or part of its investment in, and anticipated profits and cash flows from, such property.

When Choice Properties’ current insurance policies expire, Choice Properties may encounter difficulties in obtaining or renewing property or casualty insurance on its properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (e.g., earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if Choice Properties is able to renew its policies at levels and with limitations consistent with its current policies, Choice Properties cannot be sure that it will be able to obtain such insurance at premiums that are reasonable. If Choice Properties is unable to obtain adequate insurance on its properties for certain risks, it could cause Choice Properties to be in default under specific covenants on certain of its indebtedness or other contractual commitments that it has which require Choice Properties to maintain adequate insurance on its properties. Without adequate protection against risk of loss, if its properties experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on Choice Properties’ business, cash flows, financial condition and results of operations and its ability to make distributions to Unitholders.

Systems Implementation Part of Choice Properties’ Information Technology (“IT”) strategic plan is to adopt a new IT system which requires continued focus and investment. Failure to successfully implement new modules to the new IT system or disruption in the current IT system during the implementation period could result in a lack of accurate data to enable management to effectively achieve its strategic plan or manage the day-to-day operations of the business. Security of the IT system is a critical element to the operations of Choice Properties. Any start up failure or failure pertaining to system security, disruptions or duplication of processes could have an adverse effect on the operations of Choice Properties and could negatively affect the reputation, operations and financial performance of Choice Properties.

Financial Forecast The forecasted results contained in the IPO Prospectus were prepared at the time of the IPO using assumptions, with an effective date of May 21, 2013, that reflected management’s intended course for the periods covered, given the judgment of management as to the most probable set of economic conditions. There can be no assurance that the assumptions reflected in the forecast will prove to be accurate. In fact, as a result of the acquisition of additional properties by Choice Properties and certain other events that occurred subsequent to the IPO, certain assumptions reflected in the financial forecast are out of date. Actual results for the remainder of the Forecast Period may vary significantly from the forecasted results and those variations may be material. There is no representation by Choice Properties that actual results achieved during the remainder of the Forecast Period will be the same, in whole or in part, as those forecasted in the IPO Prospectus. See “Forward-Looking Statements”.

Current Economic Environment Continued concerns about the uncertainty over whether the economy will be adversely affected by inflation, deflation or stagflation, and 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 Choice Properties’ 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 due to Choice Properties, which could have a material adverse effect on Choice Properties.

Reliance on Key Personnel The management and governance of Choice Properties depends on the services of certain key personnel, including certain executive officers and the Trustees. The inability to attract and retain qualified and experienced personnel or the loss of the services of any key personnel could have a material adverse effect on Choice Properties and adversely affect Choice Properties’ financial condition and results of operations and decrease or eliminate the amount of cash available for distribution to Unitholders. Choice Properties does not have key man insurance on any of its key employees.

Asset Class Diversification Choice Properties’ investments are not widely diversified by asset class. Substantially all of Choice Properties’ investments are in retail properties. A lack of asset class diversification increases risk because retail properties are subject to its own set of risks, such as vacancies and rising operating costs.

Property Development, Redevelopment and Renovation Risks Choice Properties may engage in development, redevelopment or major renovation activities with respect to certain properties. If it does so, it will be subject to certain risks, including: (a) the availability and pricing of financing on satisfactory terms or at all; (b) the availability and timely receipt of zoning and other regulatory 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 it does not complete; (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 flow 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) delays with respect to obtaining, or the inability to obtain, necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws; (k) occupancy rates and rents of a completed project may not be sufficient to make the project profitable; (l) 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 (m) the availability and pricing of financing to fund Choice Properties' development activities on favourable terms or at all.

The above risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the initiation of redevelopment activities or the completion of redevelopment activities once undertaken. In addition, redevelopment projects entail risks that investments may not perform in accordance with expectations and can carry an increased risk of litigation (and its attendant risks) with contractors, subcontractors, suppliers, partners and others. Any of these risks could have an adverse effect on Choice Properties' financial condition, results of operations, cash flow, the trading price of the Units, distributions to Unitholders and its ability to satisfy principal and interest obligations on its outstanding debt.

Litigation Risks In the normal course of Choice Properties' operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to Choice Properties and, as a result, could have a material adverse effect on Choice Properties' assets, liabilities, business, financial condition and results of operations. Even if Choice Properties prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from Choice Properties' business operations, which could have a material adverse effect on Choice Properties' cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

Significant Ownership by Loblaw Loblaw holds an approximate 82.2% effective interest in the Trust through ownership of 21,500,000 Units and all of the Class B LP Units, where each Class B LP Unit is attached to a Special Voting Unit of the Trust, providing for voting rights in the Trust. Loblaw also holds all of the Class C LP Units.

The Class C LP Units provide Loblaw with an interest in the Partnership that entitles Loblaw to distributions, in priority to distributions to holders of the Class A LP Units, Class B LP Units and GP Unit, subject to certain exceptions. The annual distribution rate on the Class C LP Units is 5%, distributed on a monthly basis. See "The Partnership and Description of Partnership Units - Partnership Units" and "The Partnership and Description of Partnership Units - Distributions" as described in the Prospectus.

In addition, the Declaration of Trust grants Loblaw the right to nominate certain Trustees of the Trust based on Loblaw's direct and indirect ownership interest in the Trust in the event that Loblaw's effective ownership interest in the Trust on a fully-diluted basis is less than 50%. See "Declaration of Trust and Description of the Units - Nomination of Trustees" as described in the Prospectus.

For so long as Loblaw maintains a significant effective interest in the Trust, Loblaw will have the ability to exercise certain influence with respect to the affairs of the Trust and to significantly affect the outcome of the votes of Voting Unitholders, and may have the ability to prevent or approve, as the case may be, various matters or transactions involving the Trust. Moreover, Loblaw's current effective voting interest in the Trust is large enough that it could approve, through one or more written resolutions, various matters that require an ordinary or extraordinary resolution of voting Unitholders pursuant to the Declaration of Trust. Accordingly, a meeting of Voting Unitholders may not be called by the Trust if the applicable matter requiring voting Unitholder approval has already been approved by a written resolution of Loblaw.

Accordingly, the Units may be less liquid and trade at a relative discount compared to such Units in circumstances where Loblaw did not have the ability to influence or determine matters affecting the Trust. Additionally, Loblaw's significant effective interest in the Trust may discourage transactions involving a change of control of the Trust, including transactions in which an investor, as a holder of the Units, might otherwise receive a premium for its Units over the then-current market price. Pursuant to the Exchange Agreement, each Class B LP Unit is exchangeable at the option of the holder for one Unit of the Trust (subject to customary anti-dilution adjustments). If Loblaw exchanges some or all of its

Class B LP Units for Units and subsequently sells such Units in the public market (following the expiration of the contractual hold period of 18 months following Closing), the market price of the Units may decrease. Moreover, despite the fact that Loblaw has advised the Trust that its current expectation is that it will continue to own a majority effective interest in the Trust for at least the next 10 years, the perception in the public market that these sales will occur could also produce such an effect.

Acquisition of Future Properties from Loblaw Choice Properties' ability to expand its asset base and increase AFFO* per unit through acquisitions will be significantly affected by its ability to leverage its relationship with Loblaw to access opportunities to acquire additional properties that satisfy its investment criteria, all in accordance with the Strategic Alliance Agreement. Loblaw's current intention is to offer to sell to Choice Properties additional properties that it owns from time to time, subject to market conditions, although no assurance can be given in that regard. There can be no assurance that Choice Properties will be able to access such opportunities and acquire additional properties or do so on favourable terms. In addition, there can be no assurance that the right of first offer granted to Choice Properties by Loblaw to acquire Loblaw's interest in certain properties will be exercised or that Loblaw will dispose of interests in its properties. The inability of Choice Properties to expand its asset base by virtue of its relationship with Loblaw or pursuant to the right of first offer may have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and its ability to make distributions to Unitholders.

Leasing Restrictions under the Strategic Alliance Agreement For so long as the Strategic Alliance Agreement is in effect, Choice Properties will be subject to significant restrictions with respect to Supermarket Tenants other than Loblaw. In certain cases, the Trust will not be able to enter into leases with such prospective tenants without the consent of Loblaw, which may be withheld in Loblaw's absolute discretion. Choice Properties may also be limited in achieving higher rents or longer term leases with Supermarket Tenants other than Loblaw owing to the operation of the right of first offer to lease in favour of Loblaw. Moreover, Loblaw has a right of first offer to lease any available space within a Trust property that can be used as a supermarket. In any case, these restrictions may result in the inability of Choice Properties to access otherwise viable commercial Supermarket Lease opportunities and may have a material adverse effect on its business, cash flows, financial condition and results of operations and its ability to make distributions to Unitholders.

Sale and Financing Provisions under the Strategic Alliance Agreement Under the Strategic Alliance Agreement, the Trust has granted a right of first offer in favour of Loblaw in the event that the Trust intends to sell any of its properties (other than a sale from one Subsidiary of the Trust to another). In the event that the Trust desires to sell a property, the existence of this right of first offer in favour of Loblaw could limit the number of purchasers of such property, make it more difficult to sell such property and/or decrease the potential purchase price that could be obtained for such property, which, in turn, could have a material adverse effect on the Trust. Further, pursuant to the Strategic Alliance Agreement, the Trust may also, subject to certain exceptions, provide financing to Loblaw at any time Loblaw proposes to obtain certain loans from a non-Loblaw party that are intended to be secured against a property that the Trust could acquire under the terms of its investment guidelines and operating policies. The provision of such financing to Loblaw could divert the time, attention and funds available to the Trust from the Trust's core business and the return to the Trust, if any, generated from such financing activities may not be as attractive as those generated by the Trust's core business.

Potential Conflicts of Interest with Loblaw Loblaw is not limited or restricted in any way from owning, acquiring, constructing, developing or redeveloping Loblaw associated properties, and may itself compete with Choice Properties in seeking tenants and for the purchase, development and operation of desirable commercial properties. In the case of shopping centre properties, although Loblaw is required in certain circumstances under the Strategic Alliance Agreement to provide the Trust with certain opportunities, including rights of first opportunity to acquire or to participate in construction, development or redevelopment, those circumstances are not comprehensive and exclude circumstances in which Loblaw intends to complete the acquisition, construction or development for strategic purposes and involve more than one property owned by it. In addition, there can be no assurance that the Trust will be able to access such opportunities. As a result, Loblaw may compete with the Trust in seeking tenants for, and in the development and operation of, shopping centre properties.

Loblaw's continuing businesses may lead to other conflicts of interest between Loblaw and the Trust. The Trust may not be able to resolve any such conflicts and, even if it does, the resolution may be less favourable to the Trust than if it were dealing with a party that was not a holder of a significant interest in the Trust. Because of Loblaw's significant holdings in the Trust, the Trust may not have the leverage to negotiate any required amendments to agreements with Loblaw, including the Strategic Alliance Agreement, on terms as favourable to the Trust as those the Trust could secure with a party that was not a significant effective Unitholder.

Risks Associated with Service Arrangements Choice Properties relies on Loblaw with respect to the provision of certain services, as described under “Arrangements with Loblaw - Services Agreement” in the Prospectus. This means that certain of the Trust’s day-to-day operational matters are dependent upon Loblaw’s ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If Loblaw fails to perform its obligations under the Services Agreement, the Trust may experience a material adverse impact on its business operations. The Trust may be unable to duplicate the quality and depth of the services available to it by handling such services internally or by retaining another service provider.

The Services Agreement may be terminated in certain circumstances and is only renewable on certain conditions. Accordingly, there can be no assurance that the Trust will continue to have the benefit of Loblaw’s services. If Loblaw should cease for whatever reason to provide such services, the cost of obtaining substitute services will likely be greater than the cost-recovery fee basis that the Trust will pay Loblaw under the Services Agreement, and this may materially adversely affect the Trust’s ability to meet its objectives and execute its strategy which could materially and adversely affect the Trust’s cash flows, operating results and financial condition and its ability to make distributions to Unitholders. Choice Properties also relies on other third party vendors to provide certain services. The lack of an effective process for contract tendering, drafting, review and approval may pose a risk for the Trust. Choice Properties is in the process of developing vendor management processes and strategies. If such processes or strategies are not developed or executed properly, this may negatively affect the reputation, operations and financial performance of Choice Properties.

12.2 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:

Liquidity and Capital Availability Risk	Unit Price Risk
Liquidity of Real Property	Credit Risk
Interest Rate Risk	Degree of Leverage

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 flow generated by the investment properties is devoted to servicing such outstanding debt, there can be no assurance that Choice Properties will continue to generate sufficient cash flow from operations to meet interest payment and principal repayment obligations upon an applicable maturity date. If Choice Properties is unable to meet interest or principal payment obligations, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of Choice Properties to make or renegotiate interest or principal payments or obtain additional equity, debt or 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.

Choice Properties’ current indebtedness may not be able to be refinanced or the terms of such refinancing may not be as favourable as the terms of existing indebtedness, which may reduce AFFO*.

The real estate industry is highly capital intensive. Choice Properties requires access to capital to maintain its properties, refinance its indebtedness as well as to fund its growth strategy and certain capital expenditures from time to time. Although Choice Properties expects to have access to the Credit Facility, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on terms favourable to it for future property acquisitions, refinancing its indebtedness, financing or refinancing of properties, funding operating expenses or other general business purposes. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to limitations set forth in the Declaration of Trust and the Trust Indenture, as supplemented.

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 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.

Interest Rate Risk The majority of Choice Properties’ debt is financed at fixed rates with maturities staggered over 10 years, thereby mitigating the exposure to changes in interest rates. Choice Properties analyzes its interest rate exposure and the impact of rising and falling interest rates on a regular basis.

To the extent that Choice Properties incurs variable rate indebtedness (such as under the Credit Facility), this will result in fluctuations in Choice Properties' cost of borrowing as interest rates change. To the extent that interest rates rise, Choice Properties' operating results and financial condition could be materially adversely affected and decrease the amount of cash available for distribution to Unitholders. The Credit Facility, the outstanding Transferor Notes and the Debentures also contain covenants that require Choice Properties 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 will require extensive financial resources to implement its future investment and growth strategy. When concluding financing agreements or extending such agreements, Choice Properties will depend on its ability to agree on terms, including in respect of interest payments and, if applicable, amortization that will not impair Choice Properties' desired AFFO* and that do not restrict its ability to make distributions to Unitholders. In addition to the Credit Facility, Choice Properties may enter into future financing agreements with variable interest rates. However, an increase in interest rates could result in a significant increase in the amount paid by Choice Properties to service debt, resulting in a decrease in or the elimination of distributions to Unitholders, which could materially adversely affect the trading price of the Units.

Unit Price Risk Choice Properties is exposed to Unit price risk as a result of the issuance of Class B LP Units, which are economically equivalent to and exchangeable for Units, as well as the issuance of unit-based compensation. Class B LP Units and unit-based compensation liabilities are recorded at their fair value based on market trading prices. 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 cash and cash equivalents, short term investments, security deposits and rent receivables.

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).

The risk related to cash and cash equivalents, short term investments and security deposits 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) making Choice Properties more vulnerable to a downturn in business or the economy in general and (iii) a larger portion of Choice Properties' cash flow 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. 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 plus Class C LP Units.

12.3 Risk Factors Related to the Business of the Trust's Key Tenant

Risks Associated with the Acquisition of Shoppers Drug Mart Corporation	Economic Environment
Risk Associated with Loblaw's Business and Activities	Franchisee Independence and Relationships
Food Safety and Public Health	Trademark and Brand Protection
Competitive Environment	

Risks Associated with the Acquisition of Shoppers Drug Mart Corporation In July, 2013, Loblaw, the largest tenant of the REIT, entered into an arrangement agreement to acquire all of the outstanding common shares of Shoppers Drug Mart Corporation. Based on previous disclosure by Loblaw, the transaction is subject to various regulatory approvals, including approvals under the Competition Act (Canada) and by the TSX. It is anticipated that the transaction will be completed during the first quarter of 2014.

The process of review by the Competition Bureau is proceeding. There is no certainty as to the outcome of the review on Loblaw and whether such outcome could affect properties that either the REIT has leased to Loblaw or properties currently owned by Loblaw and that Loblaw intends to sell to the REIT at some future date. At this time, the REIT has no reason to believe that any such outcome would be material to the REIT.

Risks Associated with Loblaw's Business and Activities Loblaw is Choice Properties' principal securityholder, lender and tenant. As a result, Loblaw's decisions, actions or inactions including significant acquisitions or divestitures, material changes (as such term is defined under the *Securities Act* (Ontario)) and events or circumstances that could negatively affect the credit rating of Loblaw, may negatively impact Choice Properties and materially and adversely affect Choice Properties' reputation, cash flows, operating results and financial condition.

Food Safety and Public Health Loblaw is subject to risks associated with food safety and general merchandise product defects, including Loblaw's control brand products. Loblaw could be adversely affected in the event of a significant outbreak of food-borne illness or other public health concerns related to food or general merchandise products. The occurrence of such events or incidents could result in harm to Loblaw's customers, negative publicity or damage to Loblaw's brands and could lead to unforeseen liabilities from legal claims or otherwise. Failure to trace or locate any contaminated or defective products could affect Loblaw's ability to be effective in a recall situation. Any of these events, as well as the failure to maintain the cleanliness and health standards at store level, could negatively affect the reputation, operations and financial performance of Loblaw which, consequently, could materially adversely affect the Trust and its ability to make distributions to Unitholders.

Competitive Environment The retail industry in Canada is highly competitive. If Loblaw is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be negatively affected.

Loblaw's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. Loblaw is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery market. Loblaw's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities. Failure by Loblaw to sustain its competitive position could negatively affect the financial performance of Loblaw which, consequently, could materially adversely affect the financial performance of the Trust and its ability to make distributions to Unitholders.

Economic Environment Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global, national or regional economic volatility. These factors could negatively affect Loblaw's revenue and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could negatively affect the financial performance of Loblaw which, consequently, could materially adversely affect the financial performance of the Trust and its ability to make distributions to Unitholders.

Franchisee Independence and Relationships A substantial portion of Loblaw's revenues and earnings comes from amounts paid by franchisees. Franchisees are independent businesses and, as a result, their operations may be negatively affected by factors beyond Loblaw's control which, in turn, could negatively affect Loblaw's reputation, operations and financial performance. Revenues and earnings could also be negatively affected, and Loblaw's reputation could be harmed, if a significant number of franchisees were to experience operational failures, health and safety exposures or were unable to pay Loblaw for products, rent or fees. Loblaw's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply with existing legislation could negatively affect operations and could add administrative costs and burdens, any of which could affect Loblaw's relationship with its franchisees. Loblaw provides various services to the franchisees to assist with management of store operations and dedicated personnel manage Loblaw's obligations to its franchisees. Despite these efforts, relationships with franchisees could pose significant risks if they are disrupted, which could negatively affect the reputation, operations and financial performance of Loblaw. Supply chain or system changes by Loblaw could cause or be perceived to cause disruptions to franchise operations and could result in negative effects on franchisee financial performance. Reputational damage or adverse consequences for Loblaw, including litigation and disruption to revenue from franchise stores could result. Any of the aforementioned adverse impacts on Loblaw could, in turn, materially adversely affect the financial performance of the Trust and its ability to make distributions to Unitholders.

Trademark and Brand Protection A decrease in value of Loblaw's trademarks, banners or control brands, as a result of adverse events, changes to the branding strategies or otherwise, could negatively affect the reputation, operations and financial performance of Loblaw which, consequently, could negatively impact the reputation, operations and financial performance of the Trust and its ability to make distributions to Unitholders.

13. 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 National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Chief Executive Officer and the Chief Financial Officer 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, 2013.

Internal Control over Financial Reporting

Management is also 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), the Chief Executive Officer and the Chief Financial Officer have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in "Internal Control - Integrated Framework" (1992) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework). Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2013.

In designing such controls, it should be recognized that due to inherent limitations, any controls, 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 Control over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting during the period beginning on October 1, 2013 and ending on December 31, 2013, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management determined that no material changes occurred during this period.

14. 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 this MD&A, 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.

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 the 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.

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.

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) relating to the nature of its assets and revenue (the "REIT Conditions"). Choice Properties uses judgment in reviewing the REIT Conditions and assessing its interpretation and application to the REIT's assets and revenue, and it 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.

15. FUTURE ACCOUNTING STANDARDS

Financial Instruments In 2011, amendments were issued to IAS 32, “Financial Instruments: Presentation”. These amendments are required to be applied for periods beginning on or after January 1, 2014. Choice Properties does not expect any significant impacts on its consolidated financial statements as a result of these amendments.

In 2013, the IASB issued amendments to, IFRS 9, “Financial Instruments” (“IFRS 9”), issued in 2010, which will ultimately replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The current issuance of IFRS 9 includes the first and third phases of the project, which provide guidance on the classification and measurement of financial assets and financial liabilities and hedge accounting. The mandatory effective date of the standard has not been determined due to the incomplete status of the second phase of the project, impairment. The effective date of the entire standard will be determined closer to the completion of the remaining phase. Choice Properties is currently assessing the impact of the new standard on its consolidated financial statements.

Levies In 2013, the IASB issued IFRIC 21, “Levies” (“IFRIC 21”). The IFRIC addresses accounting for a liability to pay a levy within the scope of IAS 37, “Provisions, contingent liabilities and contingent assets” (“IAS 37”). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, “Income Taxes” and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. Choice Properties is currently assessing the impact of the new interpretation on its consolidated financial statements.

16. OUTLOOK

Choice Properties is focused on building its business platform and is dedicated to enhancing and growing its asset base to consistently create and deliver value to Unitholders. While the economic environment, particularly with respect to interest rates, introduces uncertainty, Choice Properties remains on plan with its Forecast, as presented in the Trust’s IPO prospectus dated June 26, 2013, and expects to realize the growth opportunities inherent in its portfolio. The Trust continues to execute on opportunities including existing at-grade excess density available for development and redevelopment, a dedicated pipeline of assets from Loblaw’s remaining portfolio and potential to strengthen underlying operations through improved leasing strategies and active property management. Over the longer-term, Choice Properties will seek to further expand through its development program in partnership with Loblaw and third parties and purchase third-party assets that meet its investment criteria.

17. NON-GAAP FINANCIAL MEASURES

Choice Properties uses the following non-GAAP financial measures: FFO, AFFO, NOI and EBITDA. The Trust 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.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing underlying operating performance, as the excluded items are not necessarily reflective of Choice Properties’ underlying operating performance or impact the comparability of financial performance between periods. From time to time, the Trust may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded REITs, and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

Net Operating Income NOI from operations is defined as cash rental revenue from investment properties less property operating costs. NOI is used as a key indicator of performance as it represents a measure over which management has control. The Trust evaluates performance of management by comparing the performance of the portfolio adjusted for the effects of certain items and current year acquisitions. The Trust's method of calculating NOI may differ from other issuers' methods and, accordingly, may not be comparable to NOI reported by other issuers.

See the "Results of Operations" section of this MD&A for a reconciliation of NOI to property revenue and expenses, which are GAAP measures.

Funds from Operations FFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. Choice Properties calculates its FFO in accordance with the Real Property Association of Canada White Paper on Funds from Operations for IFRS issued in November 2012. The purpose of the White Paper was to provide reporting issuers and investors with greater guidance on the definition of FFO and to help promote more consistent disclosure from reporting issuers.

An advantage of the FFO measure is improved comparability between Canadian and foreign REITs. FFO adds back to net income items that do not arise from operating activities, such as fair value adjustments. FFO, however, still includes non-cash revenues related to accounting for straight-line rent and makes no deduction for the recurring capital expenditures necessary to sustain the existing earnings stream.

See the "Other Measures of Performance" section of this MD&A for a reconciliation of FFO to net income, which is a GAAP measure.

Funds from Operations Payout Ratio FFO payout ratio is calculated as the distributions per unit divided by the FFO per unit diluted.

Adjusted Funds from Operations AFFO is a supplemental measure of operating performance widely used in the real estate industry. Choice Properties calculates AFFO by adjusting FFO for non-cash income and expense items such as amortization of straight-line rents and finance charges. FFO is also adjusted for expenditures for maintaining productive capacity required for sustaining property infrastructure and revenue from real estate properties and direct leasing costs. Property capital expenditures do not occur evenly over the fiscal year. The property capital expenditures in the AFFO calculation are adjusted to reflect an average annual spending level.

There is currently no standard industry-defined measure of AFFO. As such, Choice Properties' method of calculating AFFO may differ from that of other real estate entities and, accordingly, may not be comparable to such amounts reported by other issuers.

See the "Other Measures of Performance" section of this MD&A for a reconciliation of AFFO to net income, which is a GAAP measure.

Adjusted Funds from Operations Payout Ratio AFFO payout ratio is calculated as the distributions per unit divided by the AFFO per unit diluted.

Earnings Before Interest, Taxes, Depreciation and Amortization EBITDA is used in some of the Trust's debt metrics in place of net income because it excludes major non-cash items and interest expense. For the quarter and Operating Year ended December 31, 2013, EBITDA is as follows:

For the periods ended December 31, 2013 (unaudited)	Three Months	Operating Year
Net Income / (Loss)	\$ (6,478)	\$ 67,148
Fair value adjustment on investment properties	(68,750)	(144,289)
Fair value adjustment on unit-based compensation	24	17
Interest expense and other financing charges	192,878	303,510
Amortization of other assets	188	472
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ 117,862	\$ 226,858

18. ADJUSTED FORECAST

The Forecast of Choice Properties' financial results presented in the Prospectus covered the period beginning July 1, 2013 to June 30, 2014. The actual results included in this MD&A and the consolidated financial statements report operating revenue and expenses, and interest charges beginning July 5, 2013 to December 31, 2013. To increase comparability between the Forecast for actual results, the Forecast has been adjusted.

For the periods ended (unaudited)	Forecast as presented in the Prospectus Q4 2013	Forecast as presented in the Prospectus Q3 2013	Adjustments	Adjusted Forecast reflects operations beginning July 5 to December 31, 2013
Revenue				
Base rent	\$ 122,582	\$ 122,582	\$ (4,590)	\$ 240,574
Operating expense recoveries	5,505	4,554	(243)	9,816
Property tax recoveries	33,948	33,948	(1,513)	66,383
Other revenue	293	84	(9)	368
	162,328	161,168	(6,355)	317,141
Expenses				
Recoverable operating costs	6,503	5,392	(287)	11,608
Property taxes	34,998	34,998	(1,560)	68,436
Non-recoverable operating costs	472	355	(21)	806
Net Property Income	120,355	120,423	(4,487)	236,291
Other Income (Expenses)				
General administrative expenses ⁽²⁾	(6,054)	(9,752)	—	(15,806)
Amortization of other assets	(335)	(335)	—	(670)
Interest income	—	—	—	—
Interest expense and other financing charges	(79,391)	(79,377)	3,190	(155,578)
Net Income	34,575	30,959	(1,297)	64,237
Interest on Exchangeable Units	44,281	44,281	(1,658)	86,904
Funds from Operations⁽¹⁾	78,856	75,240	(2,955)	151,141
Business start-up costs (one-time)	—	3,574	—	3,574
Straight-line rental revenue	(8,098)	(8,098)	355	(15,841)
Amortization of finance charges	702	688	(33)	1,357
Unit-based compensation expense	225	110	—	335
Depreciation for fixtures and equipment	335	335	(670)	—
Property capital expenditures	(7,323)	(7,323)	—	(14,646)
Leasing capital expenditures	(694)	(694)	—	(1,388)
Adjusted Funds from Operations⁽¹⁾	\$ 64,003	\$ 63,832	\$ (3,303)	\$ 124,532
FFO⁽¹⁾ per unit	\$ 0.223	\$ 0.213	\$ (0.009)	\$ 0.427
AFFO⁽¹⁾ per unit	\$ 0.180	\$ 0.181	\$ (0.009)	\$ 0.352
Distributions per unit	\$ 0.162501	\$ 0.162501	\$ (0.006085)	\$ 0.318917
Weighted average Units outstanding - basic	353,997,871	353,997,871		353,997,871
Weighted average Units outstanding - diluted	353,997,871	353,997,871		353,997,871
Number of Units outstanding, end of period	353,997,871	353,997,871		353,997,871

(1) See "Non-GAAP Financial Measures" beginning on page 36.

(2) General and administrative expenses includes certain one-time start-up costs incurred before July 5, 2013.

19. ADDITIONAL INFORMATION

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. The Trust is listed on the Toronto Stock Exchange ("TSX") under the symbol CHP.UN.

Financial Results

Management’s Statement of Responsibility for Financial Reporting	41
Independent Auditor’s Report	42
Consolidated Balance Sheet	43
Consolidated Statement of Income and Comprehensive Income	44
Consolidated Statement of Changes in Unitholders’ Equity	45
Consolidated Statement of Cash Flows	46
Notes to the Consolidated Financial Statements	47
Note 1. Nature and Description of the Trust	47
Note 2. Significant Accounting Policies	47
Note 3. Critical Accounting Judgments and Estimates	51
Note 4. Future Accounting Standards	51
Note 5. Public Offerings and Acquisition of Initial Properties	52
Note 6. Acquisitions	54
Note 7. Investment Properties	54
Note 8. Accounts Receivable and Other Assets	56
Note 9. Long Term Debt and Class C LP Units	57
Note 10. Trade Payables and Other Liabilities	59
Note 11. Unit Equity	59
Note 12. Unit-Based Compensation	60
Note 13. Rental Revenue	61
Note 14. Interest Expense and Other Financing Charges	62
Note 15. Employee Costs	62
Note 16. Segment Information	62
Note 17. Capital Management	63
Note 18. Financial Instruments	63
Note 19. Financial Risk Management	64
Note 20. Contingent Liabilities and Financial Guarantees	65
Note 21. Related Party Transactions	65
Note 22. Subsequent Events	67
Note 23. Supplementary Information	67
Earnings Coverage Exhibit to the Audited Consolidated Financial Statements	68

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 - Financial Review ("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 ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 14, 2014

[signed]

John R. Morrison

President and Chief Executive Officer

[signed]

Bart Munn, CPA, CA

Executive Vice President, Chief Financial Officer



KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Choice Properties Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Choice Properties Real Estate Investment Trust, which comprise the consolidated balance sheet as at December 31, 2013, the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the period from May 21, 2013 (date of formation) to December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Choice Properties Real Estate Investment Trust as at December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the period from May 21, 2013 (date of formation) to December 31, 2013 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

February 14, 2014
Toronto, Canada

Choice Properties Real Estate Investment Trust Consolidated Balance Sheet

(in thousands of Canadian dollars)	As at December 31, 2013
Assets	
Non-current Assets	
Investment properties (note 7)	\$ 7,287,759
Accounts receivable and other assets (note 8)	7,693
	7,295,452
Current Assets	
Accounts receivable and other assets (note 8)	100,885
Cash and cash equivalents	51,405
	152,290
Total Assets	\$ 7,447,742
Liabilities and Unitholders' Equity	
Non-current Liabilities	
Long term debt and Class C LP Units (note 9)	\$ 3,286,442
Exchangeable Units (note 11)	2,988,466
Trade payables and other liabilities (note 10)	379
	6,275,287
Current Liabilities	
Long term debt due within one year (note 9)	89,725
Trade payables and other liabilities (note 10)	211,078
	300,803
Total Liabilities	6,576,090
Unitholders' Equity	871,652
Total Liabilities and Unitholders' Equity	\$ 7,447,742

Contingent Liabilities and Financial Guarantees (note 20)
Subsequent Events (note 22)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

[signed]
Galen G. Weston
Board of Trustees Chairman

[signed]
Paul R. Weiss
Audit Committee Chairman

Choice Properties Real Estate Investment Trust
Consolidated Statement of Income and Comprehensive Income

For the period from May 21, 2013 (date of formation) to December 31, 2013
(in thousands of Canadian dollars)

	2013
Net Property Income	
Rental revenue from investment properties (note 13)	\$ 318,507
Property operating costs (note 23)	79,756
Net Property Income	238,751
Other Income (Expenses)	
General and administrative expenses (note 23)	(12,234)
Amortization of other assets	(472)
Interest income	324
Interest expense and other financing charges (note 14)	(303,510)
Fair value adjustment on investment properties (note 7)	144,289
Net Income and Comprehensive Income	\$ 67,148

See accompanying notes to the consolidated financial statements.

Choice Properties Real Estate Investment Trust
Consolidated Statement of Changes in Unitholders' Equity

For the period from May 21, 2013 (date of formation) to December 31, 2013 (in thousands of Canadian dollars)	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity, May 21, 2013	\$ —	\$ —	\$ —	\$ —
Net Income	—	67,148	—	67,148
Distributions	—	—	(27,911)	(27,911)
Issuance of Units under the distribution reinvestment plan (note 11)	1,148	—	—	1,148
Issuance of Units, net of costs (note 11)	831,267	—	—	831,267
Unitholders' Equity, December 31, 2013	\$ 832,415	\$ 67,148	\$ (27,911)	\$ 871,652

See accompanying notes to the consolidated financial statements.

Choice Properties Real Estate Investment Trust

Consolidated Statement of Cash Flows

For the period from May 21, 2013 (date of formation) to December 31, 2013
(in thousands of Canadian dollars)

	2013
Operating Activities	
Net Income	\$ 67,148
Amortization of straight-line rent	(16,484)
Amortization of tenant improvement allowances	8
Net interest expense / income and other financing charges	303,186
Amortization of other assets	472
Value of unit-based compensation granted (note 12)	825
Fair value adjustment on investment properties	(144,289)
Change in non-cash working capital (note 23)	(13,612)
Direct leasing costs	(416)
Tenant improvement allowances	(834)
Interest received	324
Cash Flows from Operating Activities	196,328
Investing Activities	
Acquisition of initial properties (note 5)	(23,910)
Acquisitions of investment properties (note 6)	(73,316)
Additions to buildings and building improvements	(3,334)
Additions to recoverable improvements	(8,451)
Additions to fixtures and equipment	(2,871)
Cash Flows used in Investing Activities	(111,882)
Financing Activities	
Long term debt	
Issued - Senior Unsecured Debentures (note 9)	600,000
Retired - Transferor Notes (note 5)	(660,000)
Retired - Class A LP Notes (note 5)	(544,821)
Capitalization of debt placement costs	(5,125)
Interest paid	(17,345)
Issuance of Trust Units	660,000
Trust Unit issue costs	(43,733)
Distributions to Unitholders	(22,017)
Cash Flows used in Financing Activities	(33,041)
Change in cash and cash equivalents	51,405
Cash and cash equivalents, beginning of period	—
Cash and Cash Equivalents, end of period	\$ 51,405
Supplemental disclosure of non-cash operating, investing and financing activities:	
Value of Units issued under distribution reinvestment plan (note 11)	\$ 1,148
Issuance of Class A LP Notes (note 5)	544,821
Transferor Notes, net of fair value adjustment (note 5)	2,561,976
Issuance of Exchangeable Units (notes 5 and 6)	2,841,065
Class C LP Units, net of fair value adjustment (note 5)	876,263
Issuance of Trust Units (note 5)	215,000

See accompanying notes to the consolidated financial statements.

Choice Properties Real Estate Investment Trust Notes to the Consolidated Financial Statements

For the period from May 21, 2013 (date of formation) to December 31, 2013 (in thousands of Canadian dollars except where otherwise indicated)

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 (the "Declaration of Trust") dated May 21, 2013. Choice Properties owns income-producing commercial properties located in Canada. The principal, registered, and head office of Choice Properties is located at 22 St. Clair Avenue East, Toronto, Ontario, M4T 2S5.

The immediate parent of Choice Properties is Loblaw Companies Limited ("Loblaw"), which held an 82.2% effective interest in Choice Properties. Loblaw's immediate parent is George Weston Limited ("GWL"), which held a 5.4% effective interest in Choice Properties.

The subsidiaries of the Trust included in Choice Properties' consolidated financial statements are Choice Properties Limited Partnership (the "Partnership") and Choice Properties GP Inc.

Note 2. Significant Accounting Policies

Statement of Compliance The consolidated financial statements of Choice Properties are prepared in accordance with International Financial Reporting Standards ("IFRS") 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 14, 2014.

Basis of Preparation The consolidated financial statements were prepared on a historical cost basis except for the following items that were measured at fair value:

- investment properties as described in note 7;
- liabilities for unit-based compensation arrangements as described in note 12; and
- Class B LP Units (the "Exchangeable Units") which are exchangeable for Trust Units ("Units") at the option of the holder as described in note 11.

The consolidated financial statements are presented in Canadian dollars.

Basis of Consolidation The consolidated financial statements include the accounts of Choice Properties and other entities that the Trust controls. Control exists when Choice Properties has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. Choice Properties reassesses control on an ongoing basis.

Investment Properties Investment properties include income producing properties and properties under development that are held by Choice Properties to earn rental income or for capital appreciation or both.

Acquired investment properties are initially measured at cost, including directly attributable acquisition costs, if the transaction is deemed to be an asset acquisition.

Subsequent capital expenditures are recorded to investment properties only when it is probable that future economic benefits of the expenditure will flow to Choice Properties and the cost can be measured reliably. All other repair and maintenance costs are expensed when incurred. Costs capitalized to investment properties include:

- Costs capitalized, due to construction or development, include site intensification fees, borrowing costs, professional fees and property taxes;
- Initial direct leasing costs, incurred by Choice Properties in negotiating and arranging tenant leases; and
- Payments to tenants under lease obligations which are characterized either as tenant improvements, tenant inducements or building cost. The obligation is determined to be a building cost, and not a leasing cost, when the payment is for construction from which Choice Properties will receive benefit after the tenant vacates. The obligation is determined to be a tenant improvement when the payment to the tenant was spent on leasehold improvements. Otherwise, the obligations under the lease are treated as tenant inducements. Both tenant improvements and tenant inducements are amortized on a straight-line basis over the term of the lease as a reduction of revenue.

Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence. If market evidence is not available, Choice Properties uses alternative valuation methods such as recent transaction prices in less active markets or discounted cash flow projections. The portfolio is internally appraised and external valuations are also performed each quarter for a portion of the portfolio. Substantially all properties will be subject to an external valuation at least once over a 5-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. Related fair value gains and losses are recognized in net income in the year in which they arise.

Gains or losses from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount and are recognized in net income in the year of disposal.

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

Financial Instruments Financial assets and liabilities are recognized when Choice Properties becomes a party to the contractual provision of the financial instrument. Financial instruments, upon initial recognition, are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, or other financial liabilities. Financial instruments are included on the consolidated balance sheet and measured after initial recognition at fair value, except for loans and receivables, held-to-maturity financial assets, and other financial liabilities, which are measured at amortized cost.

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

	Classification	Measurement
Financial assets		
Accounts receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Fair value through profit or loss	Fair value
Financial liabilities		
Long term debt and Class C LP Units:		
Transferor Notes	Other financial liabilities	Amortized cost
Senior Unsecured Debentures	Other financial liabilities	Amortized cost
Class C LP Units	Other financial liabilities	Amortized cost
Trade payable and other liabilities	Other financial liabilities	Amortized cost
Exchangeable Units	Fair value through profit or loss	Fair value

The Trust has not classified any assets as held to maturity.

Exchangeable Units The Class B LP Units of Choice Properties' subsidiary are exchangeable into Trust Units at the option of the holder. Loblaw holds all of the Exchangeable Units. These Exchangeable Units are considered puttable instruments and are required to be classified as financial liabilities at fair value through profit or loss. The distributions paid on the Exchangeable Units are accounted for as interest expense.

Class C LP Units The Class C LP Units held by Loblaw provide for fixed cumulative monthly distributions from the Partnership to the holder of the Class C LP Units to be paid in priority, subject to certain restrictions. These Class C LP Units are redeemable at Loblaw's option and the Trust has the option to settle the redemption payment in cash, Exchangeable Units, or any combination thereof. The Class C LP Units have been classified as financial liabilities and are carried at amortized cost. Distributions on the Class C LP Units are accounted for as interest expense.

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

- Fair Value Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Fair Value 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
- Fair Value 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.

Transaction costs, other than those related to financial instruments classified as fair value through profit or loss which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in net income.

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:

Type	Valuation approach
<i>Accounts Receivable, Cash and Cash Equivalents, and Accounts Payable</i>	The carrying amount approximates fair value due to the short term maturity of these instruments.
<i>Exchangeable Units</i>	Fair value is based on the market trading prices of Choice Properties' Units.
<i>Long term debt and other financial instruments</i>	The 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 the Company 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.

Impairment of Financial Assets An assessment of whether there is objective evidence that the Company's assets or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the estimated future cash flows occur after their initial recognition and the loss can be reliably measured. If such objective evidence has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial assets' original effective interest rate. Impairment losses are recorded in the consolidated statement of earnings with the carrying amount of the financial assets 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 an event occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statement of earnings. The impairment reversal is 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.

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.

Revenue Recognition 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.

Rental revenue includes base rents earned from tenants under lease agreements, realty tax and operating cost recoveries and other incidental income. Base rent revenue, including predetermined rent adjustments in lease agreements, is recognized as revenue on a straight-line basis over the term of the underlying leases. Other revenue is recognized as the service is provided and when collection is reasonably assured.

Property tax and operating cost recoveries are recognized in the period that recoverable costs are chargeable to tenants. Percentage participation rents are recognized when tenants' specified sales targets have been met as set out in the lease agreements.

Short Term Employee Benefits Short term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short term employee benefit obligations are measured on an undiscounted basis and are recognized in net income as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if Choice Properties has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post Employment Benefits Choice Properties participates in certain Loblaw defined contribution pension plans. Choice Properties' obligation to Loblaw is limited to the annual contributions to the plan. Accordingly, the contributions are accounted for based on Choice Properties' proportionate share of contributions due.

Cash-Settled Unit-Based Compensation Unit Options, Restricted Units ("RUs") and Trustee Deferred Units ("DUs") issued by Choice Properties are accounted for as cash-settled awards.

Choice Properties' 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 share price as at the balance sheet date;
- 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.

RUs 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 an 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.

Members of the Choice Properties' Board of Trustees, who are not management of Choice Properties, 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 the amount payable to employees in respect of these cash settled awards plan is re-measured at each balance sheet date, and a compensation expense is recognized in general and administrative expenses over the vesting period for each tranche with a corresponding change in the liability.

Income Taxes Choice Properties qualifies as a "mutual fund trust" under the Income Tax Act (Canada). The Trustees intend to annually distribute all taxable income directly earned by the Trust to Unitholders and to deduct such distributions for income tax purposes.

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. However, distributions paid by a SIFT as return of capital should generally not be subject to tax.

Under the SIFT rules, the taxation regime will not apply to a real estate investment trust ("REIT") that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). Choice Properties has reviewed the SIFT rules and has assessed its interpretation and application to the REIT's assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, Choice Properties has determined that it meets the REIT Conditions and accordingly, no net current income tax expense or deferred income tax assets or liabilities have been recorded in the consolidated financial statements.

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.

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 the 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.

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.

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) relating to the REIT Conditions. Choice Properties uses judgment in reviewing the REIT Conditions and assessing its interpretation and application to the REIT's assets and revenue, and it 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. Future Accounting Standards

Financial Instruments In 2011, amendments were issued to IAS 32, "Financial Instruments: Presentation". These amendments are required to be applied for periods beginning on or after January 1, 2014. Choice Properties does not expect any significant impacts on its consolidated financial statements as a result of these amendments.

In 2013, the IASB issued amendments to, IFRS 9, "Financial Instruments" ("IFRS 9"), issued in 2010, which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The current issuance of IFRS 9 includes the first and third phases of the project, which provide guidance on the classification and measurement of financial assets and financial liabilities and hedge accounting. The mandatory effective date of the standard has not been determined due to the incomplete status of the second phase of the project, impairment. The effective date of the entire standard will be determined closer to the completion of the remaining phase. Choice Properties is currently assessing the impact of the new standard on its consolidated financial statements.

Levies In 2013, the IASB issued IFRIC 21, “Levies” (“IFRIC 21”). The IFRIC addresses accounting for a liability to pay a levy within the scope of IAS 37, “Provisions, contingent liabilities and contingent assets” (“IAS 37”). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, “Income Taxes” and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. Choice Properties is currently assessing the impact of the new interpretation on its consolidated financial statements.

Note 5. Public Offerings and Acquisition of Initial Properties

On July 5, 2013 (the “Closing Date”), Choice Properties completed public offerings of equity and debt. Choice Properties also acquired a portfolio of investment properties on the Closing Date.

Initial Public Offering

Choice Properties completed an initial public offering (the “IPO”) of Units, which closed July 5, 2013. Choice Properties raised gross proceeds of \$400,000 through the issuance of 40,000,000 Units at a price of \$10.00 per Trust Unit (the “IPO Price”). Costs relating to the IPO were approximately \$40,661 and were applied against the gross proceeds of the IPO and charged against Unitholders’ Equity.

Concurrently with the IPO, subsidiaries of GWL (other than Loblaw and its subsidiaries) purchased 20,000,000 Units from Choice Properties at the IPO Price for a total subscription price of \$200,000.

On July 17, 2013, pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the IPO, Choice Properties issued a further 6,000,000 Units, resulting in net proceeds, after payment of the underwriters’ fees, of \$57,000.

Issuance of Senior Unsecured Debentures

Choice Properties issued \$600,000 in public debentures by way of \$400,000 five-year Series A senior unsecured debentures (the “Series A Debentures”) with a coupon rate of 3.554% and 10-year \$200,000 Series B senior unsecured debentures (the “Series B Debentures”) with a coupon rate of 4.903% (collectively the “Debentures”). The Debentures had a weighted average maturity of 6.7 years and a weighted average interest rate of 4.0%. Costs relating to the issuance of the Debentures were \$2,950 and were applied against the gross proceeds thereof.

Acquisition of Initial Properties

In connection with the IPO, Choice Properties acquired from subsidiaries of Loblaw (collectively, the “Transferors”), through an investment in the newly created Partnership, a portfolio of 425 properties (the “Initial Properties”), comprising of 415 retail properties, one office complex and nine warehouse properties. The retail properties are made up of: (i) 267 properties with a stand-alone retail store operating under a Loblaw-owned banner; (ii) 143 properties anchored by a retail store operating under a Loblaw-owned banner that also contain one or more ancillary tenants; and (iii) five properties containing only ancillary tenants. The office complex consists of two office buildings and the warehouse properties include two properties that host two and three warehouses respectively.

In connection with the closing of the IPO, the Partnership acquired from a trust established for the benefit of the Transferors (the “Transferor Trust”), \$2.6 billion aggregate principal amount of interest bearing notes issued by the Transferors to the Transferor Trust (the “Transferor Trust Notes”) in exchange for the issuance of \$2.6 billion aggregate principal amount of interest bearing notes payable to the Transferor Trust (the “Transferor Notes”).

In exchange for the Initial Properties, Choice Properties issued, or assigned, as the case may be: (i) Exchangeable Units of the Partnership (accompanied by an equivalent number of Special Voting Units); (ii) Class C LP Units of the Partnership; (iii) Class A LP Notes of the Partnership; (iv) Class B LP Notes of the Partnership; and (v) the Transferor Notes. The purchase price allocated to the Initial Properties was \$6,923,039 before transaction costs. The purchase of the Initial Properties has been accounted for as an asset acquisition.

The fair value of the initial consideration has been allocated, to the identifiable assets acquired and liabilities assumed based on their fair values, at the date of acquisition, as follows:

Investment properties (including acquisition costs of \$1,600)	\$ 6,924,639
Accounts receivable and other assets	63,093
Other liabilities	(40,783)
Net assets acquired	\$ 6,946,949

Consideration provided for the acquisition and related acquisition costs was as follows:

Class A LP Notes ⁽¹⁾	\$ 544,821
Transferor Notes ⁽²⁾	2,561,976
Class C LP Units ⁽³⁾	876,263
Class B LP Units	2,724,979
Class B LP Notes ⁽⁴⁾	215,000
Non-cash consideration	6,923,039
Cash consideration	23,910
Total cost of the acquisitions	\$ 6,946,949

- (1) On the Closing Date, Choice Properties redeemed all of the outstanding Class A LP Notes for \$544,821 of cash from the net proceeds of the issuance of 60,000,000 Units.
- (2) On closing, the Transferor Notes of \$2,600,000 were recorded net of a fair value adjustment of \$38,024. Also on the Closing Date, Choice Properties used the proceeds of the issuance of the Debentures (see note 9) to repay \$600,000 of the Transferor Notes, reducing the aggregate principal amount of Transferor Notes outstanding from \$2,600,000 to \$2,000,000.
- (3) On closing, the Trust's subsidiary issued 92,500,000 Class C LP Units, which were recorded as \$925,000 less a fair value adjustment of \$48,737.
- (4) On the Closing Date, Loblaw exchanged all of the Class B LP Notes for 21,500,000 Units.

The Initial Properties also includes excess land as described in note 7. Accordingly, no value for the excess land is included in the purchase price above.

Debt and Equity Transactions

On July 5, 2013, Choice Properties used cash proceeds of the Debentures and the Units issued upon completion of the IPO to repay \$600,000 of Transferor Notes and \$544,821 of Class A LP Notes, and acquired and immediately canceled \$215,000 of Class B LP Notes in consideration for the issuance of 21,500,000 Units to certain Transferors.

On July 17, 2013, proceeds of the issuance of Trust Units upon exercise of the over-allotment option, and cash, were used to repay \$60,000 of the Transferor Notes.

Note 6. Acquisitions

During 2013, Choice Properties made the following acquisitions from Loblaw (unless otherwise noted):

Location	Date of Acquisition	Property Type	Investment Properties	Other Assets	Other Liabilities	Net Assets Acquired	Consideration		Acquisition Costs included in Investment Properties	
							Exchangeable Units Issued	Cash		
Toronto	ON	October 22	Retail	\$ 12,508	\$ 39	\$ (26)	\$ 12,521	\$ 8,782	\$ 3,739	\$ 90
Salisbury	NB	October 22	Retail	862	12	(3)	871	6	865	19
Toronto	ON	October 22	Retail	4,141	3	(8)	4,136	3,253	883	35
Stoney Creek	ON	October 22	Retail	11,824	113	(57)	11,880	6,073	5,807	96
Porter's Lake	NS	October 22	Retail	5,755	27	(19)	5,763	3,048	2,715	122
Markham	ON	October 22	Retail	5,254	15	(13)	5,256	4,246	1,010	24
Toronto	ON	October 22	Retail	8,283	43	(33)	8,293	3,857	4,436	97
Collingwood	ON	October 22	Retail	12,099	52	(33)	12,118	5,429	6,689	73
Vancouver	BC	October 22	Warehouse	91,447	157	(192)	91,412	64,215	27,197	2,173
London ⁽¹⁾	ON	October 28	Retail	1,804	8	(2)	1,810	—	1,810	46
Toronto	ON	December 19	Retail	9,059	—	(19)	9,040	8,028	1,012	15
Surrey	BC	December 19	Land only	26,284	18	—	26,302	9,149	17,153	574
				\$ 189,320	\$ 487	\$ (405)	\$ 189,402	\$ 116,086	\$ 73,316	\$ 3,364

(1) Acquired from a third party vendor.

Note 7. Investment Properties

As at December 31	2013
Balance, beginning of period	\$ —
Acquisition of Initial Properties (including acquisition costs of \$1,600) (note 5)	6,924,639
Acquisitions of investment properties (including acquisition costs of \$3,364) (note 6)	189,320
Capital expenditures - building and recoverable improvements	11,785
Capitalized direct leasing costs and tenant improvement allowances	1,250
Fair value adjustment on investment properties	144,289
Amortization of straight-line rent and tenant improvement allowances included in revenue	16,476
Balance, end of period	\$ 7,287,759

Included in certain investment properties acquired from Loblaw is excess land, with development potential. At the time of acquisition, no value was placed on this land. As a result, Choice Properties did not pay Loblaw for this excess land. Choice Properties will compensate Loblaw, over time, with an intensification fee determined by a site intensification payment grid as outlined in the Strategic Alliance Agreement, should Choice Properties pursue further development, intensification and/or redevelopment on the Initial Properties.

External Appraisals

As part of the IPO, all 425 acquired properties were externally valued by independent nationally-recognized appraisers. Properties acquired in the fourth quarter were also externally valued. A breakdown of the aggregate fair value of properties externally appraised since acquisition each quarter, in accordance with the Trust's policy, is as follows:

	2013	
	Number of properties	Fair value
September 30	17	\$ 336,703
December 31	19	450,860
Total	36	\$ 787,563

Choice Properties has engaged independent nationally-recognized valuation firms to appraise the investment properties such that substantially all of the portfolio will be externally appraised at least once over a five-year period.

Internal Appraisals

Fair values were primarily determined by using a combination of the discounted cash flow model and the direct capitalization model. Under the discounted cash flow model, discount rates were applied to the projected annual operating cash flows, generally over a term of 10 years, including a terminal value based on a capitalization rate applied to the estimated net operating income in the eleventh year of the model. Under the direct capitalization model, an overall market capitalization rate is applied to stabilized net operating income, adjusting for cash inflows and outflows required to achieve the stabilized net operating income*, and deducting the present value of future capital expenditures over a 10-year time horizon.

Valuations are most sensitive to changes in capitalization rates. Choice Properties receives quarterly capitalization rate reports from independent external appraisers and these reports support the Trust's view on the investment metrics used. Below are the key rates used in the modeling process for both internal and external appraisals.

	Weighted average
Discount rate	7.08%
Terminal capitalization rate	6.50%
Overall capitalization rate	6.18%
Discount horizon (years)	10

Fair Value Sensitivity

The following table summarizes capitalization rate sensitivity:

Capitalization rate sensitivity increase (decrease)	Weighted average overall capitalization rate	Fair value of investment properties	Fair value variance	% change
(0.75)%	5.43%	\$ 8,294,356	\$ 1,006,597	14 %
(0.50)%	5.68%	\$ 7,929,287	\$ 641,528	9 %
(0.25)%	5.93%	\$ 7,595,000	\$ 307,241	4 %
December 31, 2013	6.18%	\$ 7,287,759	\$ —	— %
0.25 %	6.43%	\$ 7,004,409	\$ (283,350)	(4)%
0.50 %	6.68%	\$ 6,742,268	\$ (545,491)	(7)%
0.75 %	6.93%	\$ 6,499,040	\$ (788,719)	(11)%

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

Note 8. Accounts Receivable and Other Assets

As at December 31		2013
Net rent receivable (net of allowance for doubtful accounts of \$117)	\$	2,383
Due from related party ⁽¹⁾		1,334
Notes receivable from related party ⁽²⁾		92,057
Fixtures and equipment (net of accumulated amortization of \$472)		2,399
Prepaid property taxes		563
Credit facility finance fees (net of accumulated amortization of \$217)		1,958
Prepaid other		7,884
Accounts receivable and other assets	\$	108,578

Classified as:		
Non-current	\$	7,693
Current		100,885
	\$	108,578

(1) Net rent receivable from Loblaw.

(2) Non-interest bearing short term note repaid by Loblaw in January 2014 (see note 11).

Note 9. Long Term Debt and Class C LP Units

As at December 31	2013
Transferor Notes⁽¹⁾ (interest semi-annually)	
Series 3 3.00%, due 2014, effective interest 1.92%	\$ 90,000
Series 4 3.00%, due 2015, effective interest 2.27%	350,000
Series 5 3.00%, due 2016, effective interest 2.57%	300,000
Series 6 3.00%, due 2017, effective interest 2.99%	200,000
Series 7 3.00%, due 2019, effective interest 3.79%	200,000
Series 8 3.60%, due 2020, effective interest 3.94%	300,000
Series 9 3.60%, due 2021, effective interest 4.33%	200,000
Series 10 3.60%, due 2022, effective interest 4.61%	300,000
Senior Unsecured Debentures (interest semi-annually)	
Series A 3.554%, due 2018, effective interest 3.554%	400,000
Series B 4.903%, due 2023, effective interest 4.903%	200,000
Class C LP Units⁽¹⁾ (distributions monthly)	
Tranche 1 5.00%, redemption rights beginning 2027, effective interest 5.46%	300,000
Tranche 2 5.00%, redemption rights beginning 2028, effective interest 5.51%	300,000
Tranche 3 5.00%, redemption rights beginning 2029, effective interest 5.57%	325,000
	3,465,000
Net debt discounts and premiums - (net of accumulated amortization of \$678)	(86,083)
Debt placement costs - (net of accumulated amortization of \$200)	(2,750)
Long term debt and Class C LP Units	\$ 3,376,167

Classified as:

Non-current	\$ 3,286,442
Current	89,725
	\$ 3,376,167

(1) Due to Loblaw.

The weighted average effective interest rate for the long term debt is 3.43%.

Transferor Notes On July 5, 2013, in connection with the acquisition of investment properties, Choice Properties issued a series of 10 notes totaling \$2,600,000, which were recorded net of a fair value adjustment of \$38,024 on initial recognition. The notes have maturity dates ranging from October 15, 2013 to September 20, 2022. Interest is paid semi-annually.

During 2013, Choice Properties repaid all of Series 1 and 2 Notes totaling \$600,000, plus \$60,000 of Series 3 Note. At December 31, 2013, the Transferor Notes had a weighted average interest rate of 3.25%.

Senior Unsecured Debentures As part of the IPO on July 5, 2013, Choice Properties issued \$400,000 of 3.554% Series A senior unsecured debentures due July 5, 2018 and \$200,000 of 4.903% Series B senior unsecured debentures due July 5, 2023 with semi-annual installments due on January 5 and July 5 in each year commencing on January 5, 2014. Debt placement costs of \$2,950 were incurred and recorded against the principal owing. These costs are amortized using the effective interest method and recorded to interest expense and other financing charges (note 14).

Class C LP Units (authorized - unlimited) On July 5, 2013, the Trust's subsidiary issued 92,500,000 Class C LP Units, which were recorded as \$925,000 less a fair value adjustment of \$48,737 on initial recognition. The Class C LP Units have an annual distribution rate of 5.00% and a weighted average effective rate of 5.52%. Loblaw exercised its right to defer payment of distributions on the Class C LP Units until January 1st of the year following the year in which distribution become payable. A short term non-interest bearing loan was made to Loblaw equal to the amount of the deferred distributions payable during 2013 that was satisfied in January 2014. Loblaw holds all of the outstanding Class C LP Units, which are redeemable, at Loblaw's option, based on the following schedule:

Class C LP Unit redemption periods	Numbers of Class C LP Units eligible for redemption
July 5, 2027 and thereafter	30,000,000
July 5, 2028 and thereafter	30,000,000
July 5, 2029 and thereafter	32,500,000

The Trust has the option to settle the redemption payment with cash, Exchangeable Units, or any combination thereof.

Committed Credit Facility Choice Properties has a \$500,000 five-year senior unsecured committed credit facility provided by a syndicate of lenders, which contains certain financial covenants and matures July 5, 2018. The credit facility bears interest at variable rates: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. Pricing is contingent on Choice Properties' credit rating. Debt placement costs of \$2,175 were incurred and were recorded as part of accounts receivable and other assets. These costs are amortized on a straight line basis and recorded to interest expense and other finance charges (note 14).

The facility contains certain financial covenants. As at December 31, 2013, the Trust was in compliance with all of its covenants (see note 17) and no amount was drawn on the credit facility.

Schedule of Repayments The schedule of repayment of long term debt and Class C LP Units, based on maturity and redemption rights is as follows:

	2014	2015	2016	2017	2018	Thereafter	Total
Transferor Notes	\$ 90,000	\$ 350,000	\$ 300,000	\$ 200,000	\$ —	\$ 1,000,000	\$ 1,940,000
Senior Unsecured Debentures	—	—	—	—	400,000	200,000	600,000
Class C LP Units	—	—	—	—	—	925,000	925,000
Total	\$ 90,000	\$ 350,000	\$ 300,000	\$ 200,000	\$ 400,000	\$ 2,125,000	\$ 3,465,000

Note 10. Trade Payables and Other Liabilities

As at December 31	2013	
Trade accounts payable	\$	2,934
Accrued liabilities		19,005
Accrued interest expense		12,231
Due to related party ⁽¹⁾		126,717
Unit-based compensation		825
Distributions payable ⁽²⁾		4,746
Tenant deposits		1,590
Deferred revenue ⁽³⁾		43,409
Trade payables and other liabilities	\$	211,457
Classified as:		
Non-current	\$	379
Current		211,078
	\$	211,457

(1) Includes distributions accruing on Exchangeable Units of \$88,607, and Class C LP Units (see note 11) of \$22,692, interest payable on Transferor Notes of \$14,343 and other liabilities due to Loblaw of \$1,075.

(2) Includes \$1,165 payable to Loblaw and \$1,089 payable to GWL.

(3) Includes \$42,951 rent from Loblaw received in advance.

Note 11. Unit Equity

Trust Units (authorized - unlimited) Each 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, the Unitholders have the right to require Choice Properties to redeem its Units on demand. Upon receipt of the 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 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.

Units Outstanding

As at December 31	2013	
	Units	Amount
Units, beginning of period	—	\$ —
Issuance of Units under the distribution reinvestment plan	114,229	1,148
Units issued, net of costs ⁽¹⁾	87,500,000	831,267
Units, end of period	87,614,229	\$ 832,415
Exchangeable Units, beginning of period	—	\$ —
Exchangeable Units issued, net of costs	284,074,754	2,841,065
Fair value adjustment	—	147,401
Exchangeable Units, end of period	284,074,754	\$ 2,988,466
Total Units and Exchangeable Units, end of period	371,688,983	

(1) Choice Properties issued 81,500,000 Units on July 5, 2013 and 6,000,000 Units on July 17, 2013.

Choice Properties' Board retains full discretion with respect to the timing and quantum of distributions. 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 and Class C LP 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. Loblaw has elected to defer the distributions in full on both the Exchangeable Units and Class C LP Units.

Distribution Reinvestment Plan During 2013, Choice Properties implemented a Distribution Reinvestment Plan ("DRIP") and issued 114,229 Units under the DRIP at a three percent (3%) discount to market prices.

Note 12. Unit-Based Compensation

Choice Properties' unit-based compensation expense recognized in general and administrative expenses and liability was:

	2013
Unit Option plan expense	\$ 295
Restricted Unit plan expense	195
Deferred Unit plan expense	335
Unit-based compensation expense and liability	\$ 825
Fair value adjustments included in the above	\$ 17

Unit Option Plan Choice Properties maintains a Unit Option plan for certain employees. Under this plan, Choice Properties may grant Options totaling up to 4,075,000 Units. The following is a summary of Choice Properties' Unit Option plan activity:

	2013	
	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of period	—	\$ —
Granted	1,196,866	10.04
Outstanding Unit Options, end of period	1,196,866	\$ 10.04
Unit Options exercisable, end of period	—	\$ —

The assumptions used to measure the fair value of the Unit Options under the Black-Scholes model at December 31 were as follows:

	2013
Expected average distribution yield	6.179%
Expected average Unit price volatility	19.049% - 30.183%
Average risk-free interest rate	1.632% - 1.992%
Expected average life of options	4.0 to 5.5 Years

Estimated forfeiture rates are incorporated into the measurement of the Unit Option expense. The forfeiture rate applied as at December 31, 2013 was nil.

Restricted Unit Plan The following is a summary of Choice Properties' Restricted Unit plan activity:

(Number of awards)	2013
Outstanding Restricted Units, beginning of period	—
Granted	105,948
Reinvested	2,798
Outstanding Restricted Units, end of period	108,746

There were no RUs vested as at December 31, 2013.

Deferred Unit Plan A summary of the Deferred Unit plan activity is as follows:

(Number of awards)	2013
Outstanding Deferred Units, beginning of period	—
Granted	31,758
Reinvested	178
Outstanding Deferred Units, end of period	31,936

All the DUs were vested as at December 31, 2013.

Note 13. Rental Revenue

Rental revenue is comprised of the following:

	Loblaw	Ancillary	2013
Base rent	\$ 221,263	\$ 21,809	\$ 243,072
Operating expense recoveries	7,474	3,887	11,361
Property tax recoveries	57,765	5,969	63,734
Other revenue	151	189	340
Rental revenue	\$ 286,653	\$ 31,854	\$ 318,507

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 grocery anchor stores. 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 expense and property tax recoveries.

Future base rent revenue for the years ended December 31 are as follows:

2014	\$	465,985
2015		461,670
2016		459,510
2017		459,499
2018		460,070
Thereafter		4,199,645
Total	\$	6,506,379

Note 14. Interest Expense and Other Financing Charges

		2013
Transferor Notes ⁽¹⁾	\$	31,128
Distributions on Class C LP Units ⁽¹⁾		22,692
Unsecured Senior Debentures		11,846
Interest on committed credit facility		741
Net amortization of debt discounts and premiums		678
Amortization of debt placement costs		417
Distributions on Exchangeable Units ⁽¹⁾		88,607
Fair value adjustment on Exchangeable Units		147,401
Interest expense and other financing charges	\$	303,510

(1) Related party amounts.

Note 15. Employee Costs

The following amounts were expensed in relation to Choice Properties' employees:

		2013
Salaries, wages and benefits	\$	3,684
Post-employment benefits		64
Unit-based compensation		490
Employee costs	\$	4,238

Note 16. Segment Information

Choice Properties' assets are in, and its revenue is derived from, the Canadian real estate industry segment. Approximately 90.0% of Choice Properties' gross rent and 88.5% of gross leasable area is attributable to its largest tenant, and related party, Loblaw.

Note 17. Capital Management

In order to maintain or adjust its capital structure, Choice Properties may increase or decrease the amount of distributions paid to Unitholders, issue new Units and debt, or repay debt. 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 development; and
- minimizing its cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

On September 3, 2013, Choice Properties filed a Short Form Base Shelf Prospectus allowing for the issuance, from time to time, of Units and debt securities, or any combination thereof, having an aggregate offering price of up to \$2 billion. This document is valid for a 25-month period.

Choice Properties has certain key covenants in its Debentures, Transferor Notes, and 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. As at December 31, 2013, Choice Properties was in compliance with each of the key financial covenants under these agreements.

Note 18. Financial Instruments

The following table provides a comparison of the carrying and fair values for each classification of financial instruments as at December 31, 2013:

	Fair value instruments required to be classified as Fair Value through Profit or Loss ("FVTPL")	Fair value instruments designated as FVTPL	Loans and receivables (Amortized cost)	Other financial liabilities (Amortized cost)	Total carrying amount	Total fair value
Cash and cash equivalents	\$ —	51,405	\$ —	\$ —	\$ 51,405	\$ 51,405
Accounts receivable	—	—	3,717	—	3,717	3,717
Notes receivable related party	—	—	92,057	—	92,057	92,057
Total financial assets	\$ —	\$ 51,405	\$ 95,774	\$ —	\$ 147,179	\$ 147,179
Trade payables and other liabilities ⁽¹⁾	\$ —	\$ —	\$ —	\$ 210,632	\$ 210,632	\$ 210,632
Long term debt and Class C LP Units	—	—	—	3,376,167	3,376,167	3,358,935
Exchangeable Units	2,988,466	—	—	—	2,988,466	2,988,466
Total financial liabilities	\$ 2,988,466	\$ —	\$ —	\$ 3,586,799	\$ 6,575,265	\$ 6,558,033

(1) Excluding unit-based compensation liabilities

The following table presents the fair value hierarchy of financial assets and financial liabilities as at December 31, 2013:

	Level 1	Level 2	Level 3	Fair value
Financial assets				
Designated as FVTPL	\$ 4,424	\$ 46,981	\$ —	\$ 51,405
Loans and receivables (amortized cost)	—	95,774	—	95,774
Total financial assets	\$ 4,424	\$ 142,755	\$ —	\$ 147,179
Financial liabilities				
Required to be classified as FVTPL	\$ 2,988,466	\$ —	\$ —	\$ 2,988,466
Other financial liabilities (amortized cost)	—	3,569,567	—	3,569,567
Total financial liabilities	\$ 2,988,466	\$ 3,569,567	\$ —	\$ 6,558,033

There were no transfers between levels of the fair value hierarchy during the period.

Note 19. Financial Risk Management

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

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 cash and cash equivalents, short term investments, security deposits and rent receivables.

The risk related to cash and cash equivalents, short term investments and security deposits is reduced by policies and guidelines that require Choice Properties to enter into transactions only with Canadian financial 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.

Choice Properties mitigates the risk of credit loss relating 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 rents receivable. The allowance is determined on a tenant-by-tenant basis based on the specific factors related to the tenant.

Market Risk Choice Properties is exposed to market risk as a result of changes in factors such as interest rates and the market price of the Trust's Units.

Interest Rate Risk The majority of Choice Properties' debt is financed at fixed rates with maturities staggered over 10 years, thereby mitigating the exposure to changes in interest rates. Choice Properties analyzes its interest rate exposure and the impact of rising and falling interest rates on a regular basis. At December 31, 2013, none of the consolidated indebtedness was financed at variable rates.

To the extent that Choice Properties incurs variable rate indebtedness (such as under the credit facility), this may result in fluctuations in Choice Properties' cost of borrowing as interest rates change. To the extent that interest rates rise, Choice Properties' operating results and financial condition could be materially adversely affected and decrease the amount of cash available for distribution to Unitholders. Choice Properties' credit facility, the Transferor Notes 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.

Unit Price Risk Choice Properties is exposed to Unit price risk as a result of the issuance of Exchangeable Units as well as the issuance of unit-based compensation. Exchangeable Units and unit-based compensation liabilities are recorded at their fair value based on market trading prices. Exchangeable Units and unit-based compensation negatively impact net income when the Unit price rises and positively impact net income when Unit prices decline. 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 as follows:

- Exchangeable Units \$284,075; and
- Unit-based compensation liabilities \$173.

Liquidity Risk 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 flow generated by the investment properties is devoted to servicing outstanding debt, there can be no assurance that Choice Properties will continue to generate sufficient cash flow from operations to meet interest payment and principal repayment obligations upon an applicable maturity date. If Choice Properties is unable to meet interest or principal payment obligations, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of Choice Properties to make or renegotiate interest or principal payments or obtain additional equity, debt or 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 maintain its properties, refinance its indebtedness as well as to fund its growth strategy and certain capital expenditures from time to time. Although Choice Properties expects to have access to the revolving credit facility, there can be no assurance that Choice Properties will otherwise have access to sufficient capital or access to capital on terms favourable to Choice Properties for future property acquisitions, refinancing its indebtedness, financing or refinancing of properties, funding operating expenses or other general business purposes. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to limitations set forth in the Declaration of Trust and the Trust Indenture, as supplemented.

Maturity Analysis The undiscounted future principal and interest payments on Choice Properties' debt instruments and distribution and redemption payments on Class C LP Units are as follows:

	2014	2015	2016	2017	2018	Thereafter	Total
Transferor Notes	\$ 151,650	\$ 405,050	\$ 345,300	\$ 237,800	\$ 34,800	\$ 1,087,000	\$ 2,261,600
Debentures	24,022	24,022	24,022	24,022	424,022	249,030	769,140
Class C LP Units	46,250	46,250	46,250	46,250	46,250	1,366,132	1,597,382
Total	\$ 221,922	\$ 475,322	\$ 415,572	\$ 308,072	\$ 505,072	\$ 2,702,162	\$ 4,628,122

Note 20. 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.

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.

Guarantees Choice Properties issues letters of credit to support performance guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at December 31, 2013, the aggregate gross potential liability related to these letters of credit totaled \$20,029.

Choice Properties' credit facility and Debentures are guaranteed by each of the General Partner, the Partnership and any other person that becomes a subsidiary of Choice Properties (with some 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.

Note 21. Related Party Transactions

Choice Properties' parent corporation is Loblaw, which held an 82.2% effective interest in the Trust through ownership of 21,500,000 Units and all the Exchangeable Units as at December 31, 2013. Loblaw's parent, GWL, held an approximate 63% ownership of Loblaw's outstanding common shares, and held a 5.4% effective interest in Choice Properties, through ownership of 20,107,810 Units, as at December 31, 2013.

Choice Properties' policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Acquisitions As disclosed in note 6, Choice Properties acquired investment properties from Loblaw with a fair value of approximately \$184,200.

Distribution Reinvestment Plan During the year, Choice Properties issued 107,810 Units to GWL under the DRIP (see note 11).

Strategic Alliance Agreement On July 5, 2013, Loblaw and Choice Properties entered into a Strategic Alliance Agreement, which created a series of rights and obligations between Choice Properties and Loblaw (and certain of its subsidiaries). This agreement establishes a preferential and mutually beneficial business and operating relationship. The initial term of the agreement is for ten years from July 5, 2013, with an automatic renewal for a second term that will continue until the earlier of: (i) 20 years from July 5, 2013; and (ii) the date on which Loblaw ceases to own a majority effective interest in Choice Properties on a fully-diluted basis.

Services Agreements On July 5, 2013, Loblaw and Choice Properties entered into a one year renewable services agreement. This agreement provides Choice Properties with administrative and other support services such as property and facility management services, internal audit services, and such other services as may be reasonably required from time to time. Loblaw will provide these services to Choice Properties for a fixed fee equal to \$6,400 for the first year of Choice Properties' operations. Subsequent to the initial year of operations, the agreement will cover services that Choice Properties has not yet internalized.

On July 5, 2013, Choice Properties and Loblaw entered into a second services agreement with a one year term. This agreement provides Loblaw with administration and support services, such as leasing, analysis, valuation and development, on an as needed basis. Choice Properties will provide these services for a fixed fee equal to \$700.

Transactions with Loblaw were comprised as follows:

	2013
Rental revenue	\$ 286,653
Net services agreements expense	\$ 2,850
Interest expense	\$ 142,427

The net balance due to Loblaw was comprised as follows:

	2013
As at December 31	
Accounts receivable and other assets	\$ 93,391
Long term debt and Class C LP Units	(2,865,000)
Accounts payable and other liabilities	(170,833)
Net due to Loblaw	\$ (2,942,442)

The balance sheet also includes distributions payable to GWL of \$1,089.

Loblaw holds all of Exchangeable Units and Class C LP Units Issued by the Partnership. Loblaw has elected to defer receipt of all distributions declared by the Partnership until the first date following the end of the fiscal year. 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. As at December 31, 2013, distributions totaling \$111,299 were declared and accrued, and a loan of \$92,057 was made to Loblaw. In January 2014, distributions accrued and payable for Class B and C LP Units of \$92,057 were cleared with the note receivable from Loblaw. On January 15, 2014, a new loan was made to Loblaw for \$19,242.

Key Personnel Choice Properties key personnel are comprised of the Trustees and certain members of the executive team of Choice Properties. Compensation of key personnel was as follows:

	2013
Salaries, trustee fees, incentives and short-term employee benefits	\$ 2,009
Unit-based compensation	766
Compensation of key personnel	\$ 2,775

Note 22. Subsequent Events

On February 6, 2014, the Trust completed the issuance of \$250,000 principal amount of Series C Senior Unsecured Debentures with a seven-year term and a coupon rate of 3.498% per annum and \$200,000 principal amount of Series D Senior Unsecured Debentures with a 10-year term and a coupon rate of 4.293% per annum. The net proceeds from the offering will be used by the Trust to repay \$440,000 of Transferor Notes held by Loblaw, and for general business purposes.

Note 23. Supplementary Information**Property Operating Costs**

	2013
Recoverable operating costs	\$ 12,731
Property taxes	65,821
Non-recoverable operating costs	1,204
Property operating costs	\$ 79,756

General and Administrative Expenses

	2013
Salaries, benefits and employee costs	\$ 4,766
Professional fees	3,077
Public entity costs	892
Other	649
Services Agreement with related party	3,200
Total general and administrative expenses	12,584
Less: Services Agreement charged to related parties	(350)
General and administrative expenses	\$ 12,234

Change in Non-Cash Operating Working Capital

	2013
Accounts receivable and other assets	\$ (108,578)
Add back: Fixtures and equipment	2,399
Add back: Credit facility finance fees	1,958
Add back: Amounts from acquired properties	63,580
Trades payable and other liabilities	211,457
Less: Distributions payable	(4,746)
Less: Unit-based compensation	(825)
Less: Net change to accrued interest	(137,669)
Less: Amounts from acquired properties	(41,188)
Change in non-cash working capital	\$ (13,612)

Earnings Coverage Exhibit to the Audited Consolidated Financial Statements

As the Trust was created on May 21, 2013, it does not have historical financial statements for the 12-months period ended December 31, 2012. Similarly, the REIT also does not have historical financial statements for the 12-months period ended December 31, 2013. As the Trust's IPO was completed on July 5, 2013, the financial statements cover the period from July 5, 2013 to December 31, 2013 and also include year-to-date numbers from May 21, 2013 (the date of the Trust's formation) to December 31, 2013. Although the financial statements cover an year-to-date period, as applicable, the Trust did not have operations during each day of these periods as the Trust only commenced operations upon closing of the IPO on July 5, 2013. As a result, the financial statements only reflect actual operations of the Trust from July 5, 2013. Accordingly, for the purposes of the earnings coverage ratios presented below, references to the period ended December 31, 2013 refer to the period from July 5, 2013 to December 31, 2013.

As of December 31, 2013, the Trust's earnings coverage ratio, after giving pro forma effect to transactions involving the issuances of long-term debt and changes in indebtedness not reflected in the financial information of the Trust for the period ended December 31, 2013 and all servicing costs that have been, or are expected to be, incurred in connection therewith, but without giving effect to changes in income taxes which result from the change in interest expense for the period ended December 31, 2013 is as follows:

(Unaudited)

Earnings coverage ratio	1.2x
Earnings coverage ratio excluding fair value adjustments and distributions on Class B LP Units	3.3x

The earnings coverage ratio on is equal to net income (before deducting interest expense) divided by all interest and servicing costs on short term and long term debt. For purposes of calculating the earnings coverage ratio, distributions paid on the Class B LP units are included in interest expense.

Corporate Information

Corporate Profile

Choice Properties Real Estate Investment Trust is an owner, manager and developer of well-located commercial real estate across Canada. Choice Properties' portfolio spans approximately 36.3 million square feet of gross leasable area and consists of 435 properties primarily focused on supermarket-anchored shopping centres, stand-alone supermarkets and other retail properties. Choice Properties' strategy is to create value by enhancing and optimizing its property portfolio, which was built over thirty years by Loblaw, the Trust's principal tenant, and largest Unitholder and lender. Choice Properties' strong alliance with Loblaw positions it well for future growth.

Head Office

Choice Properties Real Estate Investment Trust
22 St. Clair Avenue East, Suite 800
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 15th day of the following month.

Independent Auditors

KPMG LLP
Chartered Accountants
Toronto, Canada

Registrar and Transfer Agent

Canadian Stock Transfer Company Inc.
P.O. Box 700, Station B
Montreal, QC, H3B 3K3
Tel: (416) 682-3860
Toll free: 1-800-387-0825 (Canada and US)
Fax: 1 (888) 249-6189
E-Mail: inquiries@canstockta.com
Website: www.canstockta.com

Investor Relations

Tel: 416-960-6990
Toll free: 1-855-322-2122
Email: investor@choicereit.ca
Website: 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. 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

Trustees

Galen G. Weston
Executive Chairman, Loblaw

Christie J.B. Clark²
Corporate Director

Michael P. Kitt^{1,2}
Executive Vice President, Canada for
Oxford Properties Group

John Morrison
President and Chief Executive Officer,
Choice Properties REIT

Graeme Eadie¹
Senior Vice President, Head of Real Estate
Investments for Canada Pension Plan
Investment Board

Daniel F. Sullivan²
Corporate Director

Kerry D. Adams^{1,2}
President, K. Adams & Associates Limited

Michelle Felman²
Corporate Director

Paul R Weiss¹
Corporate Director

(1) Audit Committee.

(2) Governance, Compensation and Nominating Committee.

Choice Properties ^{REIT} TM

www.choicereit.ca

Ce rapport est disponible en français.

