

# Shaping the Future

2017 ANNUAL REPORT



Choice  
Properties<sup>REIT</sup>

Choice Properties Real Estate Investment Trust is an owner, manager and developer of well-located retail and commercial real estate across Canada. Our portfolio spans approximately 44.1 million square feet of gross leasable area (“GLA”) and consists of 546 properties focused on shopping centres anchored by supermarkets and drug stores as well as stand-alone supermarkets and drug stores. Choice Properties’ strategy is to create value by enhancing and optimizing our portfolio through accretive acquisitions, strategic development and active management. Our principal tenant and largest Unitholder is Loblaw Companies Limited (“Loblaw”), Canada’s largest retailer. Choice Properties’ strong alliance with Loblaw positions it well for future growth.

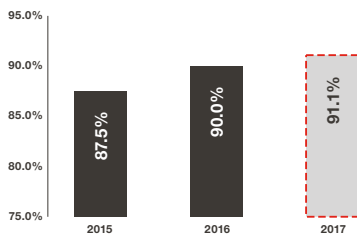
## OCCUPANCY RATE OF

# 98.9%

(AS AT DECEMBER 31, 2017)

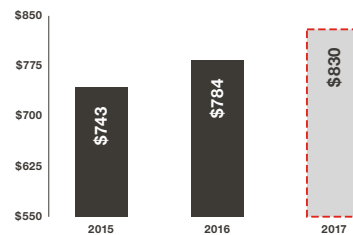
## FINANCIAL AND OPERATIONAL HIGHLIGHTS

### ANCILLARY OCCUPANCY



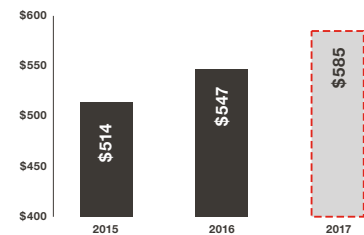
### RENTAL REVENUE<sup>(1)</sup>

(in millions)

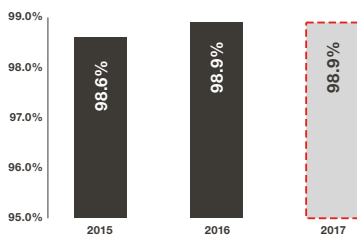


### NET OPERATING INCOME

(in millions)

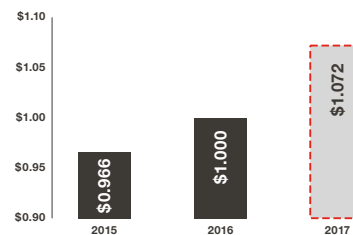


### TOTAL OCCUPANCY



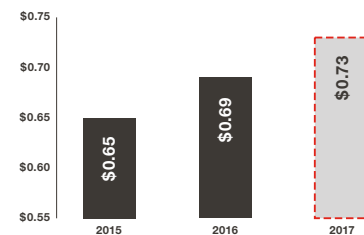
### FUNDS FROM OPERATIONS

(per unit)



### DISTRIBUTIONS

(per unit)



(1) GAAP measure of rental revenue for the year ended December 31, 2017 includes \$1 million attributable to non-controlling interests.

With properties in hundreds of communities across Canada, Choice Properties is expanding its development expertise to leverage its robust pipeline of mixed-use opportunities and unlock the potential of its real estate with complete communities for the future.



← **FRONT COVER**  
**WEST BLOCK, 500 LAKE SHORE BLVD. W.,  
TORONTO, ONTARIO**

A historical landmark reimagined as an urban community, combining residences and commerce with the local culture and vibrancy of one of Toronto's most prominent intersections at Lake Shore and Bathurst

↑ **ABOVE**  
**GOLDEN MILE, 1880 EGLINTON AVE. E.,  
TORONTO, ONTARIO**

The modernization of a traditional suburban shopping centre into a transit-oriented mixed-use community that benefits from government investment in building Toronto's Eglinton Crosstown LRT

Choice Properties is at a pivotal moment of growth and opportunity. As we expand our business into mixed-use development, we must expand our role as an integrated part of communities across Canada. We approach this responsibility with pride, commitment and thoughtful vision.



↑ **ABOVE**  
**CARIBOO MALL, 435–455 NORTH RD.,  
COQUITLAM, BRITISH COLUMBIA**

The creation of a livable, dynamic community that revitalizes this shopping centre to include residences with convenient access to the Metro Vancouver Skytrain

→ **BACK COVER**  
**BLOOR AND DUNDAS WEST,  
2280 DUNDAS ST. W., TORONTO, ONTARIO**

The development of a complete community in an established transit hub, providing a vibrant place to live, work, play and shop with an integrated connection to Union–Pearson Express, West Toronto Railpath, TTC subway and easy access to streetcars and buses

## 2017 HIGHLIGHTS

### ACQUISITIONS

12 properties<sup>(1)</sup>  
**517,000** square feet of GLA  
**3** parcels of land for future development  
**\$126M** in value<sup>(2)</sup>  
**\$7.0M** in NOI with an implied capitalization rate of **6.5%**<sup>(3)</sup>

### DEVELOPMENT

Completed **347,000** square feet of new GLA  
 Delivered GLA to **81** new spaces at **16** sites  
 Generated a return on investment of **~8%**  
**Ongoing progress** with mixed-use projects

### ACTIVE MANAGEMENT

Signed leases for **589,000** square feet of GLA  
 Increased rent by **8.1%** for renewing leases  
 Invested **\$45M** to maintain portfolio quality  
 High total occupancy of **98.9%**



2332 160th Street, Surrey, British Columbia

**\$9.6B**  
**FAIR VALUE**  
 OF ESSENTIALLY UNENCUMBERED  
 INVESTMENT PORTFOLIO



124 Clair Road East, Guelph, Ontario



92 Cardinal Léger, Pincourt, Quebec



509 Main Street, Montague, Prince Edward Island

### FINANCIAL MANAGEMENT

DEBT TO  
 TOTAL ASSETS<sup>(4)</sup>

**44.3%**

DEBT SERVICE  
 COVERAGE<sup>(4)</sup>

**3.7x**

WEIGHTED AVERAGE  
 INTEREST RATE<sup>(5)</sup>

**3.62%**

WEIGHTED AVERAGE  
 TERM TO MATURITY<sup>(5)</sup>

**4.5 years**

(1) Net of four properties that were combined with existing adjacent Choice Properties–owned sites on acquisition.

(2) Excludes acquisition costs.

(3) Represents the NOI and capitalization rate for income-producing properties only.

(4) Debt ratios include Class C LP Units but exclude Exchangeable Units – see Section 8, "Liquidity and Capital Resources", of this MD&A. The ratios are non-GAAP financial measures calculated based on the trust indentures as supplemented.

(5) Indebtedness reflects senior unsecured debentures only.

## FELLOW UNITHOLDERS,

Choice Properties is well-positioned in the Canadian REIT landscape. Our unmatched pipeline of retail and mixed-use development opportunities, combined with the stability of a portfolio of long-term leases, gives us the flexibility and capacity to invest in the right projects at the right time. This has led to stable, predictable value creation for our Unitholders and I am pleased to report that we have once again delivered strong performance in 2017.

In 2017, we achieved important goals in each of our core growth drivers – acquisition, development and active management – delivering positive operational and financial results for the year. We further expanded our portfolio with acquisitions totaling \$126 million in value, including three parcels of land for future development. In addition, we met our target to complete 347,000 square feet of new GLA, which delivered a return on investment of approximately 8%. We also continued to successfully retain existing key tenants and attract new ones maintaining our impressive occupancy rate of approximately 99% across the total portfolio.

Our 2017 financial performance mirrored this operational success with year-over-year growth of 5.9% and 6.9% in rental revenue and net operating income, respectively. Year-over-year growth in funds from operations (FFO) per unit was 7.2%. These results are underscored by a 5.8% increase in declared distributions, compared to 2016. This strong performance in 2017 was aided by the support and guidance of our Board of Trustees. On behalf of the entire Choice Properties team, I want to thank our Board members for their ongoing commitment.

### **Today, we are at a pivotal point in our evolution.**

The retail landscape in Canada is changing, and we are changing with it. With the completion of over a million square feet of new retail space across Canada in just four years, we are building on our successes to **shape the future** of Canadian communities and neighbourhoods.

Owning, developing and managing properties that are everyday destinations for millions of shoppers have provided us with valuable insight into how Canadians move through their daily lives. As brick and mortar retail continues to adapt to new technology and constantly changing consumer preferences, retail real estate will also change. Choice Properties is committed to being at the forefront of change.

Since day one, we have been laying the groundwork for our expansion into building complete communities through mixed-use development projects. In 2017, we moved from the important and necessary planning phase to concrete action and a new level of engagement with our community partners and stakeholders. This year, we opened our first Community Idea Centre to connect with neighbours at our site in the heart of the Bloor-Dundas West transit hub; we continued to make significant progress on the construction of our landmark West Block property in downtown Toronto; we started the pre-planning process to launch our mixed-use project in Coquitlam, British Columbia; and we filed an official plan amendment to transform our Golden Mile site into a transit-oriented, mixed-use community. In addition, we took steps to assemble the right collection of properties as we plan for building complete communities that will meet the needs of the future.

Looking ahead to 2018, we expect to launch more mixed-use projects while continuing to focus on growth through acquisition and on generating solid, stable and secure cash flows. We entered the year with a successful debt offering, raising \$650 million in senior unsecured debentures, improving our financial flexibility while reducing our refinancing risk.

With our clear strategy, deep management experience in the real estate sector, and our strategic alliance with Loblaw, we are committed to building new and relevant communities for Canadians.



**John R. Morrison**

President and Chief Executive Officer



# Shaping the Future

2017 ANNUAL REPORT | Financial Review



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

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## Management's Discussion and Analysis

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### Footnotes

- (1) See Section 17, "Non-GAAP Financial Measures", of this MD&A.
- (2) To be read in conjunction with Section 1, "Forward-Looking Statements", of this MD&A.

## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Choice Properties Real Estate Investment Trust ("Choice Properties" or the "Trust") should be read in conjunction with the Trust's consolidated financial statements and the accompanying notes in this Annual Report for the years ended December 31, 2017 and December 31, 2016. In addition, the MD&A should be read in conjunction with the Trust's "Forward-Looking Statements" in Section 1, of this MD&A.

Choice Properties' consolidated financial statements and the accompanying notes for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). These consolidated financial statements include the accounts of the Trust and other entities that the Trust controls and are reported in thousands of Canadian dollars, except where otherwise noted. A glossary of terms and ratios used throughout this Annual Report can be found beginning on page 89.

Choice Properties reports non-GAAP financial measures, including, but not limited to, Net Operating Income<sup>(1)</sup> ("NOI"), Funds from Operations<sup>(1)</sup> ("FFO"), Adjusted Cash Flow from Operations<sup>(1)</sup> ("ACFO") and Earnings before Interest, Taxes, Depreciation, Amortization and Fair Value<sup>(1)</sup> ("EBITDAFV"), which are widely used for evaluating the performance of Canadian real estate investment trusts ("REITs"). 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. The measures do not have any standardized definitions prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other reporting insurers. Refer to Section 17, "Non-GAAP Financial Measures", of this MD&A, for definitions and reconciliations to GAAP financial measures.

The information in this MD&A is current to February 13, 2018, unless otherwise noted.

### 1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements about Choice Properties' objectives, outlook, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities, and legal and regulatory matters. Specific statements with respect to anticipated future results can be found in various sections of this MD&A, including but not limited to Section 3 "Objectives and Strategy", Section 5 "Investment Properties", Section 6 "Consolidated Results of Operations", Section 7 "Other Measures of Performance", Section 8 "Liquidity and Capital Resources", Section 9 "Quarterly Results of Operations" 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, outlook and expected future developments, as well as other factors it believes are appropriate in the circumstances. Choice Properties' expectation of operating and financial performance is based on certain assumptions, including assumptions about the Trust's future growth potential, prospects and opportunities, industry trends, future levels of indebtedness, tax laws, economic conditions and competition. Management's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. Choice Properties can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Trust's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the "Enterprise Risks and Risk Management" section of this MD&A and the Trust's Annual Information Form ("AIF") for the year ended December 31, 2017, which is hereby incorporated by reference. Such risks and uncertainties include:

- changes in timing to obtain municipal approvals, development costs, and tenant leasing and occupancy of properties under development, redevelopment, or intensification;
- failure to manage its growth effectively in accordance with its growth strategy or acquire assets on an accretive basis;
- changes in economic conditions, including changes in interest rates and the rate of inflation;
- shifting consumer preferences toward electronic commerce may result in a decrease in demand for physical space by retail tenants;
- failure to realize benefits from investments in Choice Properties' new Information Technology ("IT") systems, the inability of Choice Properties' IT infrastructure to support the requirements of Choice Properties' business;
- changes in Choice Properties' competitiveness in the real estate market or the unavailability of desirable commercial real estate assets;
- failure of third-party vendors, developers, co-owners or strategic partners to provide adequate services at optimal rates, complete projects or fulfill contractual obligations;
- the inability of Choice Properties Limited Partnership to make distributions or other payments or advances;
- the inability of Choice Properties to obtain financing;
- 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; (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 properties held by Loblaw); and (iv) the Strategic Alliance Agreement between Choice Properties and Loblaw;

- 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 its leases;
- 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)*;
- changes in Choice Properties' capital expenditure and fixed cost requirements; and
- changes in Choice Properties' degree of financial leverage.

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 Trust's 2017 AIF. 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.

## 2. OVERVIEW

Choice Properties is an owner, manager and developer of well-located retail and other commercial properties across Canada. Choice Properties is one of Canada's largest retail REITs, with a portfolio comprised of 546 properties with a total Gross Leasable Area ("GLA") of 44.1 million square feet as at December 31, 2017. Choice Properties' portfolio includes 525 retail properties, 14 industrial properties, one office complex, and six undeveloped parcels of land. The retail properties are made up of: (i) 318 properties with a stand-alone Loblaw-bannered retail store; (ii) 199 properties anchored by a retail store operating under a Loblaw banner that also contain one or more ancillary tenants; and (iii) eight properties containing only ancillary tenants.

The parent company of Choice Properties is Loblaw, which held an 82.4% direct effective interest in Choice Properties as at December 31, 2017. Loblaw's majority shareholder is George Weston Limited ("GWL"), which also held a 6.1% direct effective interest in Choice Properties as at December 31, 2017.

## 3. OBJECTIVES AND STRATEGY<sup>(2)</sup>

Choice Properties' objectives are to:

- provide Unitholders with stable, predictable and growing monthly cash distributions;
- expand Choice Properties' asset base while also increasing its FFO<sup>(1)</sup> per unit, including through accretive acquisitions and site intensification; and
- enhance the value of Choice Properties' assets in order to maximize long-term Unitholder value.

Choice Properties' strategy is to grow its portfolio and distributable income by leveraging its sizable base of assets, its relationship with Loblaw and its solid capital structure. The Trust is focused on driving growth through acquisitions of assets that meet or exceed the Trust's investment criteria, the development and redevelopment of properties to their highest and best use, and active management of properties to maximize their occupancy and profitability. Choice Properties closely monitors market and economic conditions to ensure its strategy remains aligned with its business environment.

The Trust's strategy includes:

**Acquisitions** Choice Properties plans to grow its asset base through accretive acquisitions, including those from a dedicated pipeline of properties from Loblaw and desirable assets from other vendors, that offer geographic and tenant diversification and potential development opportunities.

**Development** Choice Properties believes that development and redevelopment of properties for their highest and best use are key drivers of incremental and accretive growth. Choice Properties' development program intends to leverage the Trust's grocery anchored asset base with a focus on retail and mixed-use developments. The Trust's pipeline of development opportunities includes: (i) excess density within its existing portfolio that is available for at-grade intensification, (ii) redevelopment of its properties in key markets for mixed-use, and (iii) greenfield retail or mixed-use developments.

**Active Management** Choice Properties is an internally managed trust that employs experienced and regionally focused staff to actively manage its properties. Choice Properties expects to increase cash flow and the value of its portfolio through initiatives to enhance operating performance, including leasing and merchandising strategies and effective capital investment in its properties.

## Management's Discussion and Analysis

### 3.1 Annual Highlights

During 2017, Choice Properties:

- Reported rental revenue of \$829,834, an increase of \$46,260, or 5.9%, compared with \$783,574 in the year ended December 31, 2016;
- Reported net income of \$405,345 an increase of \$628,417 compared with a net loss of \$223,072 in 2016. The year ended 2017 included a fair value adjustment gain of \$197,721 (2016 - loss of \$406,906);
- Reported FFO<sup>(1)</sup> per unit diluted of \$1.072, an increase of \$0.072, or 7.2%, compared with \$1.000 in 2016;
- Acquired 12 properties including three parcels of land with future development potential. The retail properties added approximately 517,000 square feet of GLA, at a weighted average capitalization rate of approximately 6.2%;
- Constructed 267,000 square feet of new GLA, that included 66,000 square feet for projects targeted for completion in 2018 and contributed to the completion of all 2017 projects, which totaled 347,000 square feet and yielded approximately 8%;
- Maintained ancillary occupancy and increased organic NOI<sup>(1)</sup> for the year by 3.2% to \$545,190 from \$528,320 in 2016; and
- Increased annual distributions from \$0.71 per unit to \$0.74 per unit effective as of May 31, 2017, for a monthly increase of 4.2% or \$0.0025 per unit.

#### 4. KEY PERFORMANCE INDICATORS AND SELECTED FINANCIAL INFORMATION

Choice Properties has identified key financial and operating performance indicators that were derived from, and should be read in conjunction with, the consolidated financial statements of the Trust dated December 31, 2017 and 2016. The analysis of the indicators focuses on trends and significant events affecting the financial condition and results of operations of the Trust.

As at or for the years ended December 31 (\$ thousands except where otherwise indicated) (unaudited)	2017	2016	2015
Number of properties	546	535	519
Gross leasable area ("GLA") (in millions of square feet)	44.1	43.6	41.6
Remaining weighted average lease term	10.0 years	10.7 years	11.6 years
Average base rent (per occupied square foot)	\$ 13.51	\$ 13.21	\$ 12.90
Occupancy	98.9%	98.9%	98.6%
Rental revenue <sup>(i)</sup>	\$ 829,834	\$ 783,574	\$ 743,100
Cash flows from operating activities <sup>(ii)</sup>	\$ 504,314	\$ 530,622	\$ 528,526
Net operating income <sup>(1)</sup>	\$ 584,690	\$ 546,752	\$ 514,265
Net income (loss) <sup>(i)</sup>	\$ 405,345	\$ (223,072)	\$ (155,276)
Net income (loss) per unit diluted <sup>(i)</sup>	\$ 0.981	\$ (0.544)	\$ (0.386)
FFO <sup>(1)</sup> per unit diluted	\$ 1.072	\$ 1.000	\$ 0.966
FFO <sup>(1)</sup> payout ratio	68.1%	69.0%	67.3%
ACFO <sup>(1)</sup>	\$ 363,119	\$ 339,152	\$ 312,582
ACFO <sup>(1)</sup> payout ratio	82.7%	83.2%	83.6%
Distribution declared per unit	\$ 0.7300	\$ 0.6900	\$ 0.6500
Weighted average Units outstanding – diluted	413,208,961	410,034,555	402,582,183
Total assets	\$ 9,923,511	\$ 9,435,322	\$ 8,905,889
Long term debt and Class C LP Units	\$ 3,737,030	\$ 3,928,714	\$ 3,881,390
Debt to total assets <sup>(iii)</sup>	44.3%	44.5%	44.5%
Debt service coverage <sup>(iii)</sup>	3.7x	3.5x	3.6x
Debt to EBITDAFV <sup>(1)(iii)</sup>	7.1x	7.2x	7.3x
Indebtedness <sup>(iv)</sup> – weighted average term to maturity	4.5 years	5.2 years	4.7 years
Indebtedness <sup>(iv)</sup> – weighted average coupon rate	3.62%	3.58%	3.50%

- (i) GAAP measures of rental revenue and net income (loss), for the year ended December 31, 2017, include \$930 attributable to non-controlling interests (2016 and 2015 - nil and nil, respectively).
- (ii) Cash flows from operating activities excludes interest paid.
- (iii) Debt ratios include Class C LP Units but exclude Exchangeable Units, see Section 8, "Liquidity and Capital Resources", of this MD&A. The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.
- (iv) Indebtedness reflects senior unsecured debentures only.

Consolidated results for the last three fiscal years were primarily impacted by growth. Accretive acquisitions added approximately 0.5 million, 1.2 million, and 2.7 million square feet of GLA in the fiscal years ended 2017, 2016 and 2015, respectively. These acquisitions were key drivers of increases in rental revenue, cash flows from operating activities and NOI<sup>(1)</sup>. Additionally, development activities added approximately 1.2 million square feet of GLA in the combined three year period, which will contribute to growth in the future<sup>(2)</sup>.

The Trust maintained strong balance sheet metrics that were well within the covenants contained in Choice Properties' Declaration of Trust and Choice Properties' Trust Indentures, as supplemented. Since December 31, 2013 the Trust has raised \$1,250,000 through the issuance of senior unsecured debentures at interest rates ranging from 2.297% to 5.268% and maturity dates ranging from 5 to 28 years. Subsequent to December 31, 2017, the Trust raised an additional \$650,000 through the issuance of senior unsecured debentures which extended the weighted average term to maturity from 4.5 years to 4.7 years and reduced the weighted average coupon rate from 3.62% to 3.56%.

## Management's Discussion and Analysis

### 5. INVESTMENT PROPERTIES

Choice Properties is the owner, manager and developer of well-located retail and other commercial properties across Canada. The following is a continuity schedule for the Trust's investment properties for the years ended as indicated:

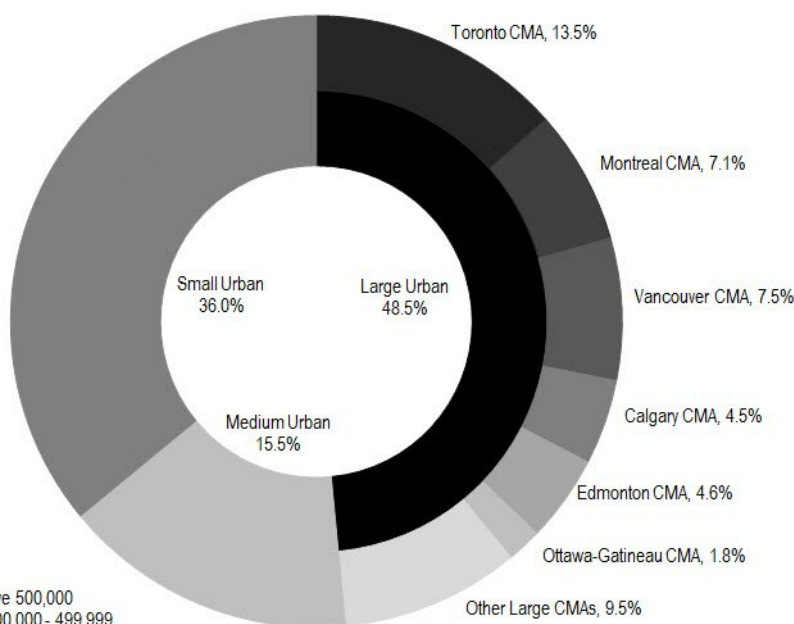
(\$ thousands)	Income producing properties	Properties under development	Year ended	
			December 31, 2017	December 31, 2016
Balance, beginning of year	\$ 9,031,603	\$ 66,397	\$ 9,098,000	\$ 8,561,000
Acquisitions of investment properties <sup>(i)</sup>	119,874	8,480	128,354	195,276
Capital expenditures <sup>(ii)</sup>	100,094	19,155	119,249	149,093
Operating capital expenditures	49,378	—	49,378	47,576
Dispositions	(38,179)	—	(38,179)	—
Amortization of straight-line rent and tenant improvement allowances	33,944	—	33,944	36,010
Transfers from properties under development	68,087	(68,087)	—	—
Adjustment to fair value of investment properties	144,639	15,615	160,254	109,045
<b>Balance, end of year</b>	<b>\$ 9,509,440</b>	<b>\$ 41,560</b>	<b>\$ 9,551,000</b>	<b>\$ 9,098,000</b>

(i) Includes acquisition costs.

(ii) Capital expenditures include capitalized interest.

The Trust's properties are well located and well suited within their respective markets. The portfolio is diversified between large, medium and small urban markets across Canada, with the majority of its base rent generated from large and medium urban markets, often in close proximity to major commercial arteries with easy highway access and high visibility. As at December 31, 2017, the Trust's property portfolio demographics by market size and within the top six markets are summarized below:

#### Base Rent by Urban Markets<sup>(i)(ii)</sup>



#### DEFINITIONS

Large Urban: CMA with Population above 500,000  
 Medium Urban: CMA with Population 100,000 - 499,999  
 Small Urban: Other areas with population below 99,999

(i) Base rent for the year ended December 31, 2017, including straight-line rent.

(ii) Based on the definitions of Census Metropolitan Area (CMA) from Statistics Canada published in 2016.

Approximately 64.0% of the portfolio's base rent for the year ended December 31, 2017 was derived from large and medium urban markets. Approximately 48.5% of the portfolio's base rent was generated from large urban markets, with a particular concentration in Toronto, Montreal and Vancouver.

## 5.1 Valuation Method

Investment properties were measured at fair value, primarily determined using the discounted cash flow method. Under this methodology, discount rates were applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value based on a capitalization rate applied to the estimated NOI<sup>(1)</sup> in the terminal year. The portfolio is internally 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.

Valuations are most sensitive to changes in capitalization rates. Choice Properties' valuation inputs, including capitalization rates, are supported by quarterly reports from independent nationally-recognized valuation firms. Below are the key rates used in the valuation process for both internal and independent appraisals:

	As at December 31, 2017		As at December 31, 2016	
	Range	Weighted average	Range	Weighted average
Discount rate	5.50% - 11.25%	7.02%	5.75% - 11.25%	7.05%
Terminal capitalization rate	4.75% - 10.50%	6.39%	5.00% - 10.50%	6.43%
Overall capitalization rate	4.50% - 10.50%	6.07%	4.75% - 10.50%	6.12%

For the year ended December 31, 2017, Choice Properties recorded a gross fair value increase of \$453,000 on income producing properties and properties under development, comprised of acquisitions of \$128,354, capital and operating expenditures of \$168,627 and amortization of straight-line rent and tenant improvement allowances of \$33,944, and a net upward adjustment to fair value of \$160,254 due to changes in underlying cash flows and adjustments to underlying assumptions in valuation models, partially offset by proceeds of \$38,179 for dispositions of capital assets.

Included in certain investment properties acquired from Loblaw is excess land with development potential. Choice Properties will compensate Loblaw, over time, with intensification payments determined by a site intensification payment grid as outlined in the Strategic Alliance Agreement (see Section 13, "Related Party Transactions", of this MD&A), should Choice Properties pursue activity resulting in the intensification of such excess land. The fair value of this excess land has been recorded in the consolidated financial statements.

## Management's Discussion and Analysis

### 5.2 Acquisition of Investment Properties

The following table summarizes the investment properties acquired in the year ended December 31, 2017. For a detailed list of all properties acquired in 2017 and 2016, refer to Section 18, "Additional Information", of this MD&A.

(\$ thousands except where otherwise indicated) (unaudited)	Number of properties	GLA (in square feet)	Purchase price <sup>(i)</sup>	Debt assumed	Exchangeable Units issued	Cash
<b>Acquisitions from Loblaw:</b>						
Fourth Quarter of 2017:						
Portfolio of retail properties	3	243,594	\$ 56,550	\$ —	\$ 11,840	\$ 44,710
Land for development in Toronto, Ontario	1	—	2,800	—	2,651	149
Land for development in Hamilton, Ontario	1	—	2,350	—	141	2,209
<b>Total Acquisitions from Loblaw</b>	<b>5</b>	<b>243,594</b>	<b>61,700</b>	<b>—</b>	<b>14,632</b>	<b>47,068</b>
<b>Acquisitions from third-parties:</b>						
Fourth Quarter of 2017:						
Retail property in Mont-Saint Hilaire, Quebec	1	57,482	15,400	6,601	—	8,799
Retail property in Marieville, Quebec	1	20,000	2,900	—	—	2,900
Third Quarter of 2017:						
Retail property in St-Raymond-de-Portneuf, Quebec	1	25,000	3,850	—	—	3,850
Land for development in Spruce Grove, Alberta	1	—	3,200	—	—	3,200
Retail property in Uxbridge, Ontario	1	40,097	9,435	—	—	9,435
Land in Ancienne Lorette, Quebec <sup>(ii)</sup>	—	—	910	—	—	910
Land in Toronto, Ontario <sup>(ii)(iii)</sup>	—	3,152	5,026	—	—	5,026
Land in Toronto, Ontario <sup>(ii)</sup>	—	—	5,500	—	—	5,500
Second Quarter of 2017:						
Retail property in Brooks, Alberta	1	35,635	8,402	—	—	8,402
First Quarter of 2017:						
Retail property in Winkler, Manitoba <sup>(ii)</sup>	—	11,647	2,747	—	—	2,747
Retail property in Selkirk, Manitoba	1	80,411	7,100	—	—	7,100
<b>Total Acquisitions from third-parties</b>	<b>7</b>	<b>273,424</b>	<b>64,470</b>	<b>6,601</b>	<b>—</b>	<b>57,869</b>
<b>Total Acquisitions</b>	<b>12</b>	<b>517,018</b>	<b>\$ 126,170</b>	<b>\$ 6,601</b>	<b>\$ 14,632</b>	<b>\$ 104,937</b>

(i) Purchase price excludes acquisition costs.

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

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

#### Acquisitions in the Fourth Quarter of 2017

In the fourth quarter, Choice Properties acquired two retail properties, in Mont-Saint Hilaire, and Marieville, Quebec from third-party vendors for a combined purchase price of \$18,300, excluding acquisition costs. The acquisitions added 77,482 square feet of GLA including a Loblaw lease of 20,000 square feet. The acquired properties were accretive, with a weighted average capitalization rate of approximately 6.2%.

On December 5, 2017, Choice Properties acquired a portfolio of five properties from Loblaw, including three stand-alone retail properties and two parcels of land. The aggregate purchase price of \$61,700, excluding acquisition costs, was settled through the issuance of 1,092,052 Exchangeable Units and cash. The acquired income producing properties were immediately accretive, with a weighted average capitalization rate of approximately 6.4%. The acquisition added three Loblaw leases with GLA of 243,594 square feet and opportunities to develop up to 80,000 square feet, including two new Loblaw food stores, totaling approximately 59,000 square feet.

#### Additional Acquisitions in 2017

In the first quarter, Choice Properties acquired retail properties in Winkler and Selkirk, Manitoba from third-party vendors, for a combined purchase price of \$9,847, excluding acquisition costs. The acquisitions added 92,058 square feet of GLA, including a 23,620 square foot Loblaw food store on the Selkirk site. The acquired properties were accretive, with a weighted average capitalization rate of approximately 7.6%. The Selkirk site is expected to be redeveloped, with an expected capitalization rate of approximately 9.0% upon completion<sup>(2)</sup>.

In the second quarter, Choice Properties acquired a retail property in Brooks, Alberta from a third-party vendor, for a purchase price of \$8,402, excluding acquisition costs. The acquisition added 35,635 square feet of GLA including a 25,134 square foot Loblaw food store. The acquired property was accretive, with a capitalization rate of approximately 6.5%.



In the third quarter, Choice Properties acquired two retail properties, in St-Raymond, Quebec and Uxbridge, Ontario, from third-party vendors for a combined purchase price of \$13,285, excluding acquisition costs. The acquisitions added 65,097 square feet of GLA including two Loblaw leases totaling 49,292 square feet. The acquired properties were accretive, with a weighted average capitalization rate of approximately 6.9%. Choice Properties also acquired parcels of land in Ancienne Lorette, Quebec, Spruce Grove, Alberta, and two parcels of land in Toronto, Ontario, from third-party vendors, for a combined purchase price of \$14,636, excluding acquisition costs. These parcels of land provide opportunities for future development.

### 5.3 Development Activities

During the year ended December 31, 2017, Choice Properties made progress on its development program as illustrated below:

(\$ thousands except where otherwise indicated) (unaudited)	Expected total development GLA to be completed (in square feet)	Development GLA constructed prior to 2017 <sup>(ii)</sup> (in square feet)	Development GLA constructed in 2017 <sup>(ii)</sup> (in square feet)	Remaining development GLA expected to be completed (in square feet)	Actual or expected range of project yields <sup>(iii)</sup>	Expected total project spend <sup>(iv)</sup>	Life-to-date project spend	Expected cost to complete
<b>2017 projects completed or substantially completed</b>								
Intensification	145,000	53,000	92,000	—	9%	\$ 30,600	\$ 29,700	\$ 900
Greenfield	202,000	93,000	109,000	—	7%	80,000	79,200	800
	<b>347,000</b>	<b>146,000</b>	<b>201,000</b>	<b>—</b>	<b>8%</b>	<b>110,600</b>	<b>108,900</b>	<b>1,700</b>
<b>Projects to be completed in 2018</b>								
Intensification	256,000	—	66,000	190,000	6% - 9%	88,900	24,600	64,300
Redevelopment	44,000	—	—	44,000	6% - 8%	9,900	4,400	5,500
Greenfield	66,000	—	—	66,000	7% - 8%	22,800	15,000	7,800
	<b>366,000</b>	<b>—</b>	<b>66,000</b>	<b>300,000</b>	<b>6% - 9%</b>	<b>121,600</b>	<b>44,000</b>	<b>77,600</b>
<b>Projects to be completed in 2019</b>								
Intensification	167,000	—	—	167,000	7% - 9%	66,700	2,600	64,100
Redevelopment	162,000	—	—	162,000	6% - 9%	37,900	9,700	28,200
Greenfield	38,000	—	—	38,000	6% - 7%	9,000	2,400	6,600
	<b>367,000</b>	<b>—</b>	<b>—</b>	<b>367,000</b>	<b>6% - 9%</b>	<b>113,600</b>	<b>14,700</b>	<b>98,900</b>
<b>Projects to be completed in 2020</b>								
Development projects <sup>(i)</sup>	<b>296,000</b>	<b>—</b>	<b>—</b>	<b>296,000</b>	<b>6% - 9%</b>	<b>118,100</b>	<b>8,000</b>	<b>110,100</b>
<b>Total</b>	<b>1,376,000</b>	<b>146,000</b>	<b>267,000</b>	<b>963,000</b>	<b>6% - 9%</b>	<b>\$ 463,900</b>	<b>\$ 175,600</b>	<b>\$ 288,300</b>

- (i) 2020 projects are in various stages of early development. Due to the long-term nature of these projects and ongoing adjustments in expectations concerning timing, occupancy and costs, some data points are not available.
- (ii) GLA is defined as constructed when it is ready for tenant's possession, which can be earlier than the project's completion date.
- (iii) The yields for completed or substantially completed projects are presented on a weighted average basis.
- (iv) For the purpose of calculating the expected yield, project spend includes land acquisition costs and intensification payments to be made to Loblaw.

**Activity in the quarter** Choice Properties constructed 63,000 square feet for projects expected to be completed in 2018, delivering 19 new retail spaces for third-party tenants, primarily at intensification sites in Ontario.

**Activity in the year to date** Choice Properties constructed 267,000 square feet, delivering 80 new retail spaces towards its 2017 and 2018 projects.

**2017 Projects Completed** Including construction initiated in prior quarters, Choice Properties substantially completed all 347,000 square feet of the development projects targeted for completion in 2017. The projects include the intensification of existing properties and greenfield development. Intensification projects completed comprised a 50,000 square foot expansion of a bakery leased to a subsidiary of George Weston Limited ("GWL") in Mississauga, Ontario and 95,000 square feet for 22 retail spaces, including a new Loblaw liquor store. Completed greenfield projects comprised a 17,000 square foot Shoppers Drug Mart and 106,000 square feet for 34 retail spaces in Surrey, British Columbia; a 29,000 square foot Loblaw food store in Edmonton, Alberta; 32,000 square feet for 16 retail spaces in Guelph, Ontario; and 18,000 square feet for 7 retail spaces in Barrie, Ontario. The weighted average yields for projects substantially completed in 2017 was 8%.

In the year ended December 31, 2017, the Trust compensated Loblaw with intensification payments of \$5,793 in respect of completed GLA for which tenants have taken possession during 2017.

## Management's Discussion and Analysis

Time-lines for development projects span many months, or in some cases several years, and tenants are expected to take possession when individual units are developed. Choice Properties continues to refine its development pipeline based in part on municipal approvals, tenant leasing, and development costs. Choice Properties expects to invest a total of approximately \$353,300 (including costs spent to date) to develop up to 1,029,000 square feet of GLA by the end of 2020. Development yields are expected to be accretive upon tenant occupancy<sup>(2)</sup>.

The following table indicates the anticipated square footage to be completed in each year, and the total cumulative expected capital cost to complete the projects, including investments made in prior years<sup>(2)</sup>:

(\$ thousands except where otherwise indicated) (unaudited)	2018		2019		2020		Total
Potential development GLA (in square feet)		366,000		367,000	\$	296,000	1,029,000
Estimated total project capital	\$	121,600	\$	113,600	\$	118,100	\$ 353,300
Expected NOI <sup>(1)</sup> yield		6% - 9%		6% - 9%		6% - 9%	6% - 9%
Estimated total capital annual spend	\$	198,000	\$	204,000	\$	250,000	\$ 652,000

### 5.4 Active Management

#### Leasing Activity

Choice Properties' leasing activities are focused on driving value by adding ancillary tenants in business sectors that complement the food and drug store anchor tenants. The following table summarizes the change in occupied GLA and average base rent for the year ended December 31, 2017:

(in square feet except where otherwise indicated) (unaudited)	Occupied GLA	Occupancy	Average base rent (per square foot)
Occupied, December 31, 2016	43,041,000	98.9%	\$ 13.21
Tenant openings	175,000		\$ 19.37
Tenant closures	(56,000)		\$ 13.20
Tenant expiries	(262,000)		\$ 15.13
Tenant renewals	178,000		\$ 19.40
Developments	236,000		\$ 28.17
GLA taken off-line	(137,000)		N/A
Acquisitions	488,000		\$ 14.36
Dispositions	(37,000)		\$ 13.32
Re-certifications	(5,000)		N/A
<b>Occupied, December 31, 2017</b>	<b>43,621,000</b>	<b>98.9%</b>	<b>\$ 13.51</b>

Choice Properties' principal tenant, Loblaw, represents 87.6% of the Trust's GLA (December 31, 2016 - 88.3%). The remaining GLA is designated ancillary space for leasing primarily to third-party tenants. As at December 31, 2017, Choice Properties' portfolio GLA, occupied GLA, and occupancy rates were as follows:

(in millions of square feet except where otherwise indicated) (unaudited)	As at December 31, 2017			As at December 31, 2016		
	Portfolio GLA	Occupied GLA	Occupancy (%)	Portfolio GLA	Occupied GLA	Occupancy (%)
Loblaw banners	38.7	38.7	100.0%	38.5	38.5	100.0%
Ancillary tenants	5.4	4.9	91.1%	5.1	4.5	90.0%
<b>Total</b>	<b>44.1</b>	<b>43.6</b>	<b>98.9%</b>	<b>43.6</b>	<b>43.0</b>	<b>98.9%</b>

As at December 31, 2017, Loblaw represented approximately 88.2% (December 31, 2016 - 90.0%) of annual base rent. The weighted average lease term-to-maturity on the Loblaw leases was 10.3 years at December 31, 2017 (December 31, 2016 - 11.2 years). The first maturity of a Loblaw lease does not occur until 2019. Loblaw leases 38.7 million square feet of GLA, with approximately 82.8%, 15.8% and 1.4% of such GLA attributed to retail, industrial and office space, respectively.

Choice Properties has approximately 5.4 million square feet of GLA designated to lease to ancillary tenants that benefit from the consumer traffic that a food and drug retailer attracts to a shopping centre. As at December 31, 2017, 4.9 million square feet was leased to ancillary tenants with an average base rent per square foot of \$15.48 and a weighted average lease term to maturity of 5.7 years (December 31, 2016 - \$14.03 and 5.8 years, respectively).

The future financial performance of investment properties will be impacted by occupancy rates, trends in rental rates achieved on new leasing or renewing space currently leased, and contractual increases in rent<sup>(2)</sup>. Rental activity by quarter varies based on the mix of tenants renewing.

In the three months ended December 31, 2017, Choice Properties entered into leases totaling approximately 140,000 square feet with an average lease term of 8.8 years. The leasing activity for the portfolio is shown below:

For the three months ended December 31 (in square feet except where otherwise indicated) (unaudited)	2017		2016	
	GLA	Average base rent (per square foot)	GLA	Average base rent (per square foot)
Tenant openings	42,000	\$ 18.10	69,000	\$ 19.28
Held for redevelopment	—	\$ —	20,000	\$ 3.43
Tenant renewals	42,000	\$ 13.58	112,000	\$ 13.50
Same Property	84,000	\$ 15.84	201,000	\$ 14.48
Developments	56,000	\$ 27.96	215,000	\$ 23.40
<b>Total</b>	<b>140,000</b>	<b>\$ 20.69</b>	<b>416,000</b>	<b>\$ 19.09</b>

In the year end ended December 31, 2017, Choice Properties entered into leases totaling approximately 589,000 square feet with an average lease term of 8.6 years. The leasing activity for the portfolio is shown below:

For the year ended December 31 (in square feet except where otherwise indicated) (unaudited)	2017		2016	
	GLA	Average base rent (per square foot)	GLA	Average base rent (per square foot)
Tenant openings	175,000	\$ 19.37	234,000	\$ 15.27
Held for redevelopment	—	\$ —	20,000	\$ 3.43
Tenant renewals	178,000	\$ 19.40	446,000	\$ 15.43
Same Property	353,000	\$ 19.39	700,000	\$ 15.03
Developments	236,000	\$ 28.17	785,000	\$ 20.09
<b>Total</b>	<b>589,000</b>	<b>\$ 22.91</b>	<b>1,485,000</b>	<b>\$ 17.71</b>

The details of renewals are as follows:

For the periods ended December 31 (in square feet except where otherwise indicated) (unaudited)	Three Months		Year End	
	2017	2016	2017	2016
Square footage renewed (in square feet)	42,000	112,000	178,000	446,000
Average base rent per square foot	\$ 13.58	\$ 13.50	\$ 19.40	\$ 15.43
Percentage increase in average base rent per square foot	12.7%	7.0%	8.1%	7.7%
Renewal retention rate	58.2%	65.4%	67.9%	69.5%

## Management's Discussion and Analysis

The lease maturity profile for ancillary tenants as at December 31, 2017 was as follows:

(unaudited)	Ancillary GLA (in square feet)	Expiring ancillary GLA as a percentage of ancillary GLA	Expiring ancillary GLA as a percentage of total GLA	Annualized base rent (\$ thousands)	Average base rent (per square foot)
Month-to-month	137,000	2.5%	0.3%	\$ 1,891	\$ 13.80
2018	535,000	9.8%	1.2%	6,807	\$ 12.69
2019	345,000	6.3%	0.8%	5,620	\$ 16.22
2020	740,000	13.6%	1.7%	10,816	\$ 14.61
2021	496,000	9.1%	1.1%	6,463	\$ 13.03
2022	550,000	10.1%	1.3%	8,902	\$ 16.18
2023 & Beyond	2,156,000	39.7%	4.9%	43,888	\$ 20.30
Vacant	485,000	8.9%	1.1%	—	\$ —
<b>Portfolio Ancillary Total</b>	<b>5,444,000</b>	<b>100.0%</b>	<b>12.4%</b>	<b>\$ 84,387</b>	<b>\$ 15.48</b>

### Operating Capital Expenditures

**Property Capital** Property capital expenditures incurred to sustain the investment properties' existing GLA are considered to be operational and are deducted in the calculation of ACFO<sup>(1)</sup>. During the year ended December 31, 2017, Choice Properties incurred \$44,962 of property capital expenditures, which are recoverable from tenants under the terms of their leases over the useful life of the improvements (2016 - \$42,192). Recoverable capital improvements may include 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. The balance yet to be recovered was \$137,961 as at December 31, 2017 (December 31, 2016 - \$100,683), the majority of which Choice Properties expects to recover from tenants over the useful life of the improvements<sup>(2)</sup>.

Management expects annual property capital expenditures to be approximately \$1.00 per square foot based on the GLA anticipated to be owned at the end of the fiscal year. This GLA includes estimates management made at the beginning of the fiscal year for anticipated acquisition and development activities during the year<sup>(2)</sup>.

**Leasing Capital** Capital expenditures for leasing activities, such as leasing commissions or tenant improvement allowances, are considered to be operational and are also deducted in the calculation of ACFO<sup>(1)</sup>. Choice Properties incurred \$1,927 of tenant improvement allowances and \$2,489 of direct leasing costs during the year ended December 31, 2017 (2016 - \$2,307 and \$3,077, respectively).

Leasing capital varies with tenant demand and the balance between new and renewal leasing, as capital expenditures relating to securing new tenants are generally higher than the costs relating to renewing existing tenants.

Choice Properties endeavours to fund operating capital from cash flows from operations<sup>(2)</sup>.

### 5.5 Dispositions of Investment Properties

On November 28, 2017, a retail property in Quebec, with a fair value of \$3,434, was sold for cash consideration.

### Other Transactions

On July 17, 2017, the Trust sold certain gas bar capital assets with a fair value of \$34,745 to Loblaw, for cash, in order to facilitate the sale of substantially all of Loblaw's gas bar operations to Brookfield Business Partners L.P. The gas bar capital assets were leased to Loblaw as part of the respective tenant leases between the Trust and Loblaw. The tenant leases between the Trust and Loblaw related to these investment properties remained substantially unchanged.

## 6. CONSOLIDATED RESULTS OF OPERATIONS

Choice Properties' financial results for the years ended December 31, 2017 and December 31, 2016 are summarized below:

For the years ended December 31 (\$ thousands)	2017	2016	Variance favourable / (unfavourable)
<b>Rental Revenue</b>			
Base rent	\$ 604,228	\$ 578,188	\$ 26,040
Property tax and operating cost recoveries	217,093	202,368	14,725
Other revenue	8,513	3,018	5,495
	<b>829,834</b>	<b>783,574</b>	<b>46,260</b>
<b>Property Operating Costs</b>			
Recoverable property taxes and operating costs	(208,854)	(198,865)	(9,989)
Non-recoverable operating costs	(620)	(1,375)	755
<b>Net Property Income</b>	<b>\$ 620,360</b>	<b>\$ 583,334</b>	<b>\$ 37,026</b>
<b>Other Expenses</b>			
General and administrative expenses	(23,329)	(28,857)	5,528
Property management and other administration fees charged to related party	1,270	740	530
Amortization of other assets	(934)	(930)	(4)
Net interest expense and other financing charges	(394,826)	(372,842)	(21,984)
Interest and other income	4,829	2,309	2,520
Share of income from joint venture	254	80	174
<b>Net Income before Adjustments to Fair Value</b>	<b>\$ 207,624</b>	<b>\$ 183,834</b>	<b>\$ 23,790</b>
Adjustment to fair value of Exchangeable Units	38,212	(529,591)	567,803
Adjustment to fair value of investment properties	160,254	109,045	51,209
Adjustment to fair value of investment property held in equity accounted joint venture	(745)	13,640	(14,385)
<b>Net Income (Loss)</b>	<b>\$ 405,345</b>	<b>\$ (223,072)</b>	<b>\$ 628,417</b>

**Net Income (Loss)** For the year ended December 31, 2017, net income of \$405,345, was greater by \$628,417, compared to the net loss of \$223,072 in 2016, primarily due to favourable changes of \$567,803 and \$51,209 in the adjustment to the fair value of Exchangeable Units and the adjustment to the fair value of investment properties, respectively, partially offset by an unfavourable change of \$14,385 in the adjustment to the fair value of investment property held in an equity accounted joint venture. Adjustments to fair value can vary widely from year to year as they are impacted by market factors such as the Trust's Unit price and market capitalization rates.

Excluding the adjustments to fair value, net income for the year ended December 31, 2017 was \$23,790 higher than 2016 due to a \$37,026 increase in net property income, a \$5,528 decrease to general and administrative expenses (which includes a favourable change of \$3,841 in the adjustment to the fair value of unit-based compensation), and a \$2,520 increase in interest and other income (which includes a \$2,000 transactional fee), partially offset by a \$21,984 increase in net interest and other financing charges. Net property income increased due to acquisitions of income producing properties and development of additional GLA. Net interest expense and other financing charges was impacted by the increase to the Trust's distribution rate as distributions to Exchangeable Units are treated as an expense to the Trust. Net income for the year ended December 31, 2017 also included \$930 attributable to non-controlling interests (2016 - nil).

## Management's Discussion and Analysis

**Rental Revenue** Rental revenue is comprised primarily of base rent and recoveries from tenants for property taxes, operating costs and qualifying capital expenditures. Growth in rental revenue is materially impacted by newly acquired assets. To better measure certain key performance factors, management further analyzes rental revenue for income producing properties owned by the Trust throughout the current and comparative reporting periods, ("Same Properties"), to remove the impact of recent property acquisition and disposition transactions.

For the years ended December 31 (\$ thousands) (unaudited)	2017	2016	Variance favourable / (unfavourable)
Same Properties <sup>(i)</sup>	\$ 805,630	\$ 766,726	\$ 38,904
Acquisitions net of disposition <sup>(ii)</sup>	24,204	16,848	7,356
<b>Total Revenue</b>	<b>\$ 829,834</b>	<b>\$ 783,574</b>	<b>\$ 46,260</b>

- (i) There were 515 income producing properties that were owned throughout both the years ended December 31, 2017 and December 31, 2016 ("Same Properties").
- (ii) Properties acquired subsequent to December 31, 2015 (see Section 18, "Additional Information") net of disposition in November 2017 (see Section 5.5, "Dispositions of Investment Properties").

During the year ended December 31, 2017, rental revenue increased by \$46,260, or 5.9% compared to 2016. The growth was attributable to an increase of \$38,904 in revenue from Same Properties and additional rental revenue of \$7,356 attributable to the net properties acquired in 2016 and 2017.

The growth in revenue from Same Properties was attributable to an increase of \$23,011 in base rent, an increase of \$8,231 in recovery of operating expenses, a \$4,807 increase in revenue generated from the recovery of capital expenditures, and a \$2,855 increase in other revenues. The \$23,011 increase in base rent from Same Properties included revenue from newly developed GLA of \$13,094 and increases from higher average rents per square foot on ancillary leases.

In addition, total revenue for the year ended December 31, 2017 included \$5,620 (2016 - \$721) of lease surrender revenue received from Loblaw. Lease surrender revenue of \$2,520 was earned in connection with the disposition and \$3,100 was related to a development included in Same Properties, of which, \$930 was attributable to the non-controlling interests.

Rental revenue includes certain non-cash amounts. Rental revenue is recorded on a straight-line basis over the full term of a lease, which results in a difference between cash rent received and revenue recognized for accounting purposes. The amortization of tenant improvement allowances is also included in rental revenue. During the year ended December 31, 2017, the net amount of these items positively impacted rental revenue by \$33,944 (2016 - \$36,010).

**Property Operating Costs** Property operating costs are comprised primarily of expenses to manage and maintain the properties for the benefit of the tenants, including realty taxes, that are recoverable under the leases of most tenants. Non-recoverable operating costs include expenses that do not directly benefit the tenants.

For the years ended December 31 (\$ thousands) (unaudited)	2017	2016	Variance Favourable / (Unfavourable)
Same Properties <sup>(i)</sup>	\$ 203,520	\$ 195,669	\$ (7,851)
Acquisitions net of disposition <sup>(ii)</sup>	5,954	4,571	(1,383)
<b>Total Property Operating Costs</b>	<b>\$ 209,474</b>	<b>\$ 200,240</b>	<b>\$ (9,234)</b>

- (i) There were 515 income producing properties that were owned throughout both the years ended December 31, 2017 and December 31, 2016 ("Same Properties").
- (ii) Properties acquired subsequent to December 31, 2015 (see Section 18, "Additional Information") net of disposition in November 2017 (see Section 5.5, "Dispositions of Investment Properties").

During the year ended December 31, 2017, property operating costs increased by \$9,234 or 4.6% compared to 2016, which was attributable to an increase of \$7,851 from Same Properties, and \$1,383 from the net properties acquired in 2016 and 2017. The increase in total property operating costs from Same Properties was attributable to an increase of \$8,610 in recoverable operating costs, partially offset by a decrease of \$759 of non-recoverable operating costs due to the partial reversal of the allowance for bad debts. Non-recoverable operating costs include expenditures that can vary by year.

## General and Administrative Expenses

For the years ended December 31 (\$ thousands) (unaudited)	2017	2016	Variance favourable / (unfavourable)
Internal expenses of the Trust	\$ 27,782	\$ 31,256	\$ 3,474
Investor relations and other public entity costs	1,892	2,185	293
Professional fees	1,515	2,310	795
Services Agreement expense charged by related party <sup>(i)</sup>	2,580	2,932	352
	<b>33,769</b>	38,683	4,914
Less:			
Capitalized to investment properties	(3,035)	(2,635)	400
Allocated to recoverable operating expenses	(7,405)	(7,191)	214
<b>General and administrative expenses</b>	<b>\$ 23,329</b>	<b>\$ 28,857</b>	<b>\$ 5,528</b>
Less:			
Adjustment to fair value of unit-based compensation <sup>(ii)</sup>	(468)	(4,309)	(3,841)
Property management and other administration fees charged to related party <sup>(i)(ii)</sup>	(1,270)	(740)	530
Internal expenses for leasing <sup>(ii)</sup>	(2,336)	(2,135)	201
<b>Adjusted general and administrative expenses<sup>(ii)</sup></b>	<b>\$ 19,255</b>	<b>\$ 21,673</b>	<b>\$ 2,418</b>
<b>As a percentage of revenue</b>	<b>2.3%</b>	<b>2.8%</b>	<b>0.5%</b>

(i) The Services Agreement, Property Management Agreement and Sublease Administration Agreement are described in section 13, "Related Party Transactions", of this MD&A.

- (ii) Adjusted general and administrative expenses, used in the calculation of general and administrative expenses as a percent of revenue excludes:
- a. fair value adjustments for unit-based compensation, which fluctuates with Unit prices;
  - b. the property management fee and sublease administration fee charged to a related party, which compensate Choice Properties for additional costs incurred; and
  - c. internal expenses for leasing, to increase comparability between real estate entities that capitalize the expenses.

Adjusted general and administrative expenses, for the year ended December 31, 2017, of \$19,255, or 2.3% when expressed as a percentage of revenue, decreased \$2,418, or 0.5% when expressed as a percentage of revenue, compared to 2016.

General and administrative expenses, are impacted by transactions that can vary by year and the timing of when expenses are incurred. On an annual basis, the fluctuations, due to the timing of expenses, are minimized and adjusted general and administrative expenses expressed as a percentage of revenue becomes comparable year-over-year. Choice Properties targets general and administrative expense spending to be approximately 2.5% of total revenue<sup>(2)</sup>.

## Management's Discussion and Analysis

### Net Interest Expense and Other Financing Charges

For the years ended December 31 (\$ thousands) (unaudited)	2017	2016	Variance favourable / (unfavourable)
Interest on senior unsecured debentures	\$ 103,625	\$ 108,788	\$ 5,163
Distributions on Class C LP Units <sup>(i)</sup>	46,250	46,250	—
Interest on mortgage	110	181	71
Interest on credit facilities	11,799	3,776	(8,023)
<b>Subtotal (for use in Debt Service Coverage calculation)</b>	<b>\$ 161,784</b>	<b>\$ 158,995</b>	<b>\$ (2,789)</b>
Distributions on Exchangeable Units <sup>(i)</sup>	232,199	218,961	(13,238)
<b>Subtotal (for use in EBITDAFV<sup>(i)</sup> calculation)</b>	<b>\$ 393,983</b>	<b>\$ 377,956</b>	<b>\$ (16,027)</b>
Effective interest rate amortization of debt discounts and premiums	1,560	(522)	(2,082)
Effective interest rate amortization of debt placement costs	1,638	1,639	1
Capitalized interest	(2,355)	(3,549)	(1,194)
Gain on settlement of bond forward contracts	—	(2,682)	(2,682)
<b>Net interest expense and other financing charges</b>	<b>\$ 394,826</b>	<b>\$ 372,842</b>	<b>\$ (21,984)</b>

(i) Represents interest on indebtedness due to Loblaw.

For the year ended December 31, 2017, net interest expense and other financing charges increased by \$21,984 or 5.9% compared to 2016. The increase was due to distributions on the Exchangeable Units as a result of a higher distribution rate and additional Exchangeable Units issued as partial consideration for properties acquired from Loblaw in 2016 and 2017, and interest incurred on credit facilities as a result of larger average drawn balances, partially offset by the decline in interest on senior unsecured debentures due to the repayment in 2017. Net interest expense and other financing charges also included a gain on the settlement of bond forward contracts of \$2,682 in the year ended December 31, 2016.



## 7. OTHER MEASURES OF PERFORMANCE

In addition to the GAAP measures already described, Choice Properties' management utilizes non-GAAP measures to analyze performance. See Section 17, "Non-GAAP Financial Measures", of this MD&A, for details on how these measures are defined, calculated and reconciled to GAAP financial measures and why management analyzes these measures. NOI<sup>(1)</sup> and FFO<sup>(1)</sup> for the years ended December 31, 2017 and December 31, 2016 are summarized below:

For the years ended December 31 (\$ thousands except where otherwise indicated) (unaudited)	2017	2016	Variance Favourable / (Unfavourable)
Net Operating Income <sup>(1)</sup>	\$ 584,690	\$ 546,752	\$ 37,938
NOI <sup>(1)</sup> for Same Properties, with the same GLA	\$ 545,190	\$ 528,320	\$ 16,870
Funds from Operations <sup>(1)</sup>	\$ 442,935	\$ 410,135	\$ 32,800
FFO <sup>(1)</sup> per unit basic	\$ 1.076	\$ 1.003	\$ 0.073
FFO <sup>(1)</sup> per unit diluted	\$ 1.072	\$ 1.000	\$ 0.072
FFO <sup>(1)</sup> payout ratio - diluted	68.1%	69.0%	0.9%
Distribution declared per unit	\$ 0.7300	\$ 0.6900	\$ 0.0400
Weighted average Units outstanding - basic	411,490,052	409,023,586	2,466,466
Weighted average Units outstanding - diluted	413,208,961	410,034,555	3,174,406
Number of Units outstanding, end of year	413,381,522	410,557,333	2,824,189

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

There is no industry-defined definition of NOI<sup>(1)</sup>. Refer to Section 17.1, "Net Operating Income", of this MD&A, for a definition of NOI<sup>(1)</sup> and a reconciliation to net income (loss) determined in accordance with GAAP.

**Net Operating Income<sup>(1)</sup>** For the year ended December 31, 2017, NOI<sup>(1)</sup> increased \$37,938, or 6.9%, compared to 2016, driven by an increase of \$32,134 from Same Properties, and \$5,804 from the net properties acquired in 2016 and 2017.

**Net Operating Income<sup>(1)</sup> for Same Properties, with the same GLA** To better measure certain key performance factors, management further analyzes NOI<sup>(1)</sup> for the income producing properties owned by the Trust throughout the current and comparative reporting periods, Same Properties, to remove the impact of recent property acquisition and disposition transactions. Management further refines the analysis to exclude any NOI<sup>(1)</sup> from developments which increased GLA in the comparative periods.

For the year ended December 31, 2017, NOI<sup>(1)</sup> for Same Properties, measured with the same GLA, increased by \$16,870 or 3.2%, compared to 2016, primarily due to an increase of \$11,549 in base rent and net recoveries, which was driven by rent steps in Loblaw leases and higher average rents per square foot on ancillary leases. The increase was also due to higher revenue generated from the recovery of capital expenditures of \$4,807 and a decrease of \$759 in non-recoverable operating expenses, partially offset by a decrease of \$245 in other revenues.

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

Choice Properties calculates its FFO<sup>(1)</sup> in accordance with the Real Property Association of Canada's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2017. Refer to Section 17.2, "Funds from Operations", of this MD&A, for a reconciliation of FFO<sup>(1)</sup> to net income (loss) determined in accordance with GAAP.

For the year ended December 31, 2017, FFO<sup>(1)</sup> increased by \$32,800 or 8.0% compared to 2016. The year-over-year growth was due to an increase in net property income of \$36,320 (which included lease surrender revenue, net of the portion attributable to non-controlling interests, of \$4,690), an increase in interest and other income of \$2,520 (which includes a \$2,000 transactional fee), a decrease in general and administrative expenses of \$1,888, an increase in the fees charged to related party of \$530, and \$174 from the share of income from joint venture. These increases to FFO<sup>(1)</sup> were partially offset by a \$8,628 increase in interest and other financing charges, and a \$4 increase in amortization of other assets. The increase to interest and other financing charges of \$8,628 included the impact of a gain from the settlement of bond forward contracts of \$2,682 in the first quarter of 2016 (2017 - nil).

For the year ended December 31, 2017, FFO<sup>(1)</sup> per unit on a diluted basis increased by \$0.072 or 7.2% compared to 2016.

## Management's Discussion and Analysis

### 8. LIQUIDITY AND CAPITAL RESOURCES

#### 8.1 Major Cash Flow Components

For the periods ended December 31 (\$ thousands)	Three Months (unaudited)			Year End (audited)		
	2017	2016	Source/ (Use)	2017	2016	Source/ (Use)
Cash and cash equivalents, beginning of period	\$ —	\$ 1,784	\$ (1,784)	\$ 5,113	\$ 44,354	\$ (39,241)
Cash flows from operating activities	194,777	233,767	(38,990)	504,314	530,622	(26,308)
Cash flows used in investing activities	(134,069)	(106,441)	(27,628)	(249,504)	(373,192)	123,688
Cash flows used in financing activities	(54,301)	(123,997)	69,696	(253,516)	(196,671)	(56,845)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 6,407</b>	<b>\$ 5,113</b>	<b>\$ 1,294</b>	<b>\$ 6,407</b>	<b>\$ 5,113</b>	<b>\$ 1,294</b>

#### Cash Flows from Operating Activities

The year-over-year quarterly decrease in cash flows from operating activities for the three months ended December 31, 2017 of \$38,990 was primarily due to the decrease in non-cash working capital, driven by a reduction in the ending balance of trade payables and other liabilities.

The year-over-year decrease in cash flows from operating activities for the year ended December 31, 2017 of \$26,308 was primarily due to the decrease in non-cash working capital, driven by a reduction in the ending balance of trade payables and other liabilities.

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

#### Cash Flows used in Investing Activities

The year-over-year quarterly increase in cash flows used in investing activities for the three months ended December 31, 2017 of \$27,628 was primarily due to the increases in acquisitions of and additions to investment properties in the current quarter compared to the same period in the prior year plus contributions to equity investment.

The year-over-year decrease in cash flows used in investing activities for the year ended December 31, 2017 of \$123,688 was primarily due to decreases in acquisitions of and additions to investment properties in 2017 compared to 2016, plus the proceeds received from dispositions.

#### Cash Flows used in Financing Activities

The year-over-year quarterly decrease in cash flows used in financing activities for the three months ended December 31, 2017 of \$69,696 was primarily due to a net increase in advances on the credit facilities in the current quarter compared to the same period in the prior year.

The year-over-year increase in cash flows used in financing activities for the year ended December 31, 2017 of \$56,845 was primarily due to a lower amount of new debt issued in 2017 than in 2016.

## 8.2 Liquidity and Capital Structure

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

(\$ thousands)	As at December 31, 2017	As at December 31, 2016	Variance favourable / (unfavourable)
Cash and cash equivalents	\$ 6,407	\$ 5,113	\$ 1,294
Unused portion of the credit facilities	189,000	578,000	(389,000)
<b>Liquidity</b>	<b>\$ 195,407</b>	<b>\$ 583,113</b>	<b>\$ (387,706)</b>

### Credit Facilities

Choice Properties has a \$500,000 senior unsecured committed revolving credit facility provided by a syndicate of lenders. On August 9, 2017, the Trust extended the maturity of the credit facility to July 5, 2022. The credit facility bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. Certain conditions of the credit facility are contingent on Choice Properties' credit rating remaining at "BBB".

At December 31, 2017, Choice Properties also had a bi-lateral \$250,000 senior unsecured committed revolving credit facility with a major Canadian financial institution maturing December 21, 2018. The interest on the credit facility was at variable rates of either: Prime plus 0.25% or Bankers' Acceptance rate plus 1.25%. Certain conditions of the credit facility were contingent on Choice Properties' credit rating remaining at "BBB". Should certain conditions not have been met, the credit facility would have become secured against select properties. Subsequent to December 31, 2017, the Trust repaid and cancelled this credit facility.

As at December 31, 2017, \$311,000 was drawn under the syndicated credit facility and \$250,000 was drawn under the bi-lateral credit facility (December 31, 2016 - \$172,000 and nil, respectively).

### Base Shelf Prospectus

On January 9, 2018, Choice Properties filed a new 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 \$2,000,000. This prospectus is effective for a 25-month period from the date of issuance. On January 12, 2018, Choice Properties issued \$650,000 of senior unsecured debentures under this prospectus.

### Long Term Debt and Class C LP Units

The following outlines the changes to Choice Properties' outstanding long term debt and Class C LP Units in the year ended December 31, 2017:

For the year ended December 31, 2017 (\$ thousands)	Senior unsecured debentures	Mortgages	Class C LP Units	Total long term debt and Class C LP Units	Weighted average coupon rate
Principal balance outstanding, beginning of year	\$ 3,050,000	\$ 2,927	\$ 925,000	\$ 3,977,927	3.91%
Issuance:					
Mortgage assumed	—	6,601	—	6,601	2.58%
Repayment:					
Series 6 senior unsecured debentures	(200,000)	—	—	(200,000)	3.00%
Mortgages	—	(1,208)	—	(1,208)	6.83%
<b>Principal balance outstanding, end of year</b>	<b>\$ 2,850,000</b>	<b>\$ 8,320</b>	<b>\$ 925,000</b>	<b>\$ 3,783,320</b>	<b>3.96%</b>

## Management's Discussion and Analysis

### Senior Unsecured Debentures

On January 12, 2018, Choice Properties issued \$300,000 and \$350,000 aggregate principal amount of Series I and J senior unsecured debentures due March 21, 2022 and January 10, 2025, respectively. The Series I unsecured debentures bear interest at a rate of 3.010% per annum, with semi-annual installments of interest due on March 21 and September 21 in each year, commencing March 21, 2018. The Series J unsecured debentures bear interest at a rate of 3.546% per annum, with semi-annual installments of interest due on January 10 and July 10 of each year, commencing July 10, 2018. The offering in January 2018 was made under the Short Form Base Shelf Prospectus dated January 9, 2018.

On February 12, 2018, Choice Properties completed the early retirement of Series A senior unsecured debentures at a redemption price equal to \$1,007.200 per \$1,000 principal amount of Series A debentures, together with accrued and unpaid interest.

At December 31, 2017 the weighted average coupon rate and the weighted average term to maturity on Choice Properties' senior unsecured debentures was 3.62% (December 31, 2016 - 3.58%) and 4.5 years (December 31, 2016 - 5.2 years), respectively.

On January 23, 2017, Choice Properties redeemed, at par, \$200,000 Series 6 senior unsecured debentures with an original maturity date of April 20, 2017. The redemption was funded by a draw on the credit facilities.

On March 7, 2016, Choice Properties redeemed, at par, \$300,000 Series 5 senior unsecured debentures with an original maturity date of April 20, 2016.

On March 7, 2016, Choice Properties issued \$250,000 and \$100,000 of Series G and H senior unsecured debentures due March 7, 2023 and March 7, 2046, respectively, under the Short Form Base Shelf Prospectus dated October 14, 2015. The Series G senior unsecured debentures bear interest at a rate of 3.196% per annum and the Series H senior unsecured debentures bear interest rate at 5.268%.

### Financial Derivative Instruments

The Trust may use derivative instruments from time to time to offset certain of its financial risks. On January 20, 2016, Choice Properties entered into certain bond forward contracts with a notional value of \$300,000. The contracts were settled on March 4, 2016, resulting in a gain of \$2,682. The Trust has not entered into any other derivative instruments during the years ended December 31, 2017 or 2016.

### Off-Balance Sheet Arrangements

Choice Properties issues letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at December 31, 2017, the aggregate gross potential liability related to these letters of credit totaled \$33,352 including \$5,231 posted by Loblaw with the province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from Loblaw subsequent to the initial public offering (December 31, 2016 - \$31,205 including \$6,465 posted by Loblaw).

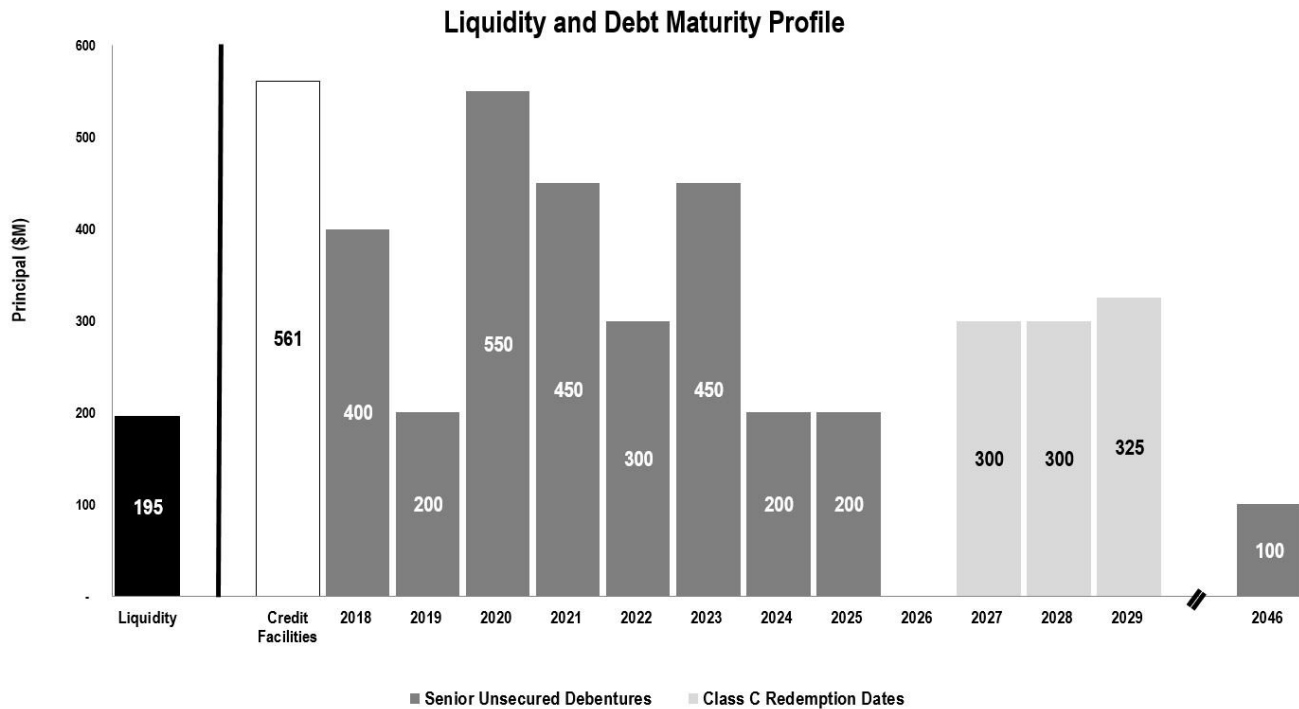
### Class C LP Units (authorized - unlimited)

As at December 31, 2017, Loblaw holds all of the 92,500,000 outstanding Class C LP Units (December 31, 2016 - 92,500,000 Units), which are redeemable at Loblaw's option, beginning in 2027. Choice Properties has the option to settle the redemption payment with cash, Exchangeable Units, or any combination thereof.

### Maturities of Long Term Debt and Class C LP Units

As at December 31, 2017 (\$ thousands)	Senior unsecured debentures	Mortgages	Class C LP Units	Total
2018	\$ 400,000	\$ 383	\$ —	\$ 400,383
2019	200,000	1,803	—	201,803
2020	550,000	6,134	—	556,134
2021	450,000	—	—	450,000
2022	300,000	—	—	300,000
Thereafter	950,000	—	925,000	1,875,000
<b>Total principal balance outstanding</b>	<b>\$ 2,850,000</b>	<b>\$ 8,320</b>	<b>\$ 925,000</b>	<b>\$ 3,783,320</b>

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



### Financial Covenants

Choice Properties is subject to certain financial and non-financial covenants in its senior unsecured debentures and its credit facilities that include maintaining certain leverage and debt service ratios. These ratios are monitored by management on an ongoing basis to ensure compliance. Choice Properties was in compliance with all of these covenants as at December 31, 2017 and December 31, 2016.

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

(unaudited)		As at December 31, 2017	As at December 31, 2016
<b>Debt to Total Assets Ratio<sup>(i)</sup></b>	Limit: Maximum including Class C LP Units and convertible debt is 65.0%	<b>44.3%</b>	44.5%
<b>Debt Service Coverage Ratio<sup>(i)</sup></b>	Limit: Minimum 1.5x	<b>3.7x</b>	3.5x

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

## Management's Discussion and Analysis

### 8.3 Credit Ratings

Choice Properties' debt securities are rated by two independent credit rating agencies: DBRS and S&P. Choice Properties' ratings are linked to and equivalent to those of Loblaw, largely because of Loblaw's significant ownership position in the Trust, Loblaw's position as Choice Properties' most significant tenant for the foreseeable future, and the strategic relationship between the Trust and Loblaw.

Choice Properties has maintained its BBB credit rating with both S&P and DBRS. On November 17, 2017, DBRS confirmed the rating at BBB with a positive trend. On June 30, 2017, S&P confirmed the rating at BBB with a stable outlook. A credit rating of BBB- or higher is an investment grade rating.

The following table sets out the current credit ratings of Choice Properties:

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

### 8.4 Unit Equity

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

	Year ended December 31, 2017	Year ended December 31, 2016
Number of Units and Exchangeable Units, beginning of year	410,557,333	408,063,609
Units issued in connection with the Distribution Reinvestment Plan	1,694,763	1,549,693
Units issued under unit-based compensation arrangement	37,374	65,318
Exchangeable Units issued in connection with investment properties acquired from Loblaw	1,092,052	878,713
<b>Number of Units and Exchangeable Units, end of year</b>	<b>413,381,522</b>	<b>410,557,333</b>

#### Distribution Reinvestment Plan

Choice Properties has a Distribution Reinvestment Plan ("DRIP") which enables eligible Unitholders to elect to automatically reinvest their regular monthly cash distributions in additional Units and to receive a bonus distribution in Units equivalent to 3% of each distribution. In the year ended December 31, 2017, Choice Properties issued 1,694,763 Units under the DRIP (year ended December 31, 2016 - 1,549,693 Units) including 1,359,193 Units to GWL (year ended December 31, 2016 - 1,265,160 Units). As of December 31, 2017, GWL is no longer participating in the DRIP. On average, 12.9% of Unitholders other than Loblaw and GWL participated in the DRIP in the year ended December 31, 2017 (year ended December 31, 2016 - 11.2%).

#### Distributions

In the year ended December 31, 2017, Choice Properties declared \$300,452 in distributions (2016 - \$282,320), including distributions to holders of Exchangeable Units, which are reported as interest expense, and non-cash distributions provided under the DRIP. Non-cash distributions have the effect of increasing the number of Units outstanding and therefore increase the aggregate dollar amount of distributions over time, assuming a stable cash component of distributions on a per unit basis.

In 2016, Choice Properties increased annual distributions from \$0.65 per unit to \$0.67 per unit effective as of January 29, 2016 and further increased distribution to \$0.71 per unit per annum effective as of July 29, 2016 for a total increase of 9.2%.

In 2017, Choice Properties increased annual distributions from \$0.71 per unit to \$0.74 per unit (an increase of 4.2% or \$0.0025 per unit monthly) effective as of May 31, 2017.

At its most recent meeting on February 13, 2018, the Board of Trustees reviewed and approved the current rate of distributions of \$0.74 per unit per annum.

The distributions declared for the periods ended December 31, 2017 and December 31, 2016 were as follows:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance favourable / (unfavourable)	2017	2016	Variance favourable / (unfavourable)
Total distributions declared	\$ 76,312	\$ 72,848	\$ 3,464	\$ 300,452	\$ 282,320	\$ 18,132
Less: Distributions reinvested through the DRIP	(5,539)	(5,532)	(7)	(22,383)	(19,587)	(2,796)
Net distributions declared	\$ 70,773	\$ 67,316	\$ 3,457	\$ 278,069	\$ 262,733	\$ 15,336

In determining the amount of distributions to be made to Unitholders, Choice Properties' Board of Trustees considers many factors, including provisions in its Declaration of Trust, macro-economic and industry specific environments, the overall financial condition of the Trust, future capital requirements, debt covenants, and taxable income. In accordance with Choice Properties' Distribution Policy, management and the Board of Trustees regularly review Choice Properties' rate of distributions to assess the stability of cash and non-cash distributions.

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

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance favourable / (unfavourable)	2017	2016	Variance favourable / (unfavourable)
Cash flows from operating activities	\$ 194,777	\$ 233,767	\$ (38,990)	\$ 504,314	\$ 530,622	\$ (26,308)
Less: Interest paid on financing activities	(12,737)	(13,893)	1,156	(163,237)	(156,297)	(6,940)
Cash flows from operating activities less interest paid	\$ 182,040	\$ 219,874	\$ (37,834)	\$ 341,077	\$ 374,325	\$ (33,248)
Less: Total distributions declared	(76,312)	(72,848)	(3,464)	(300,452)	(282,320)	(18,132)
<b>Excess of cash flows provided by operating activities, less interest paid, over total distributions declared</b>	<b>\$ 105,728</b>	<b>\$ 147,026</b>	<b>\$ (41,298)</b>	<b>\$ 40,625</b>	<b>\$ 92,005</b>	<b>\$ (51,380)</b>

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance favourable / (unfavourable)	2017	2016	Variance favourable / (unfavourable)
Net income (loss)	\$ 36,533	\$ 255,574	\$ (219,041)	\$ 405,345	\$ (223,072)	\$ 628,417
Less: Net income attributable to non- controlling interests	(930)	—	(930)	(930)	—	(930)
Add: Distributions on Exchangeable Units included in net interest expense and other financing charges	58,895	56,444	2,451	232,199	218,961	13,238
Net income (loss) attributable to Unitholders excluding distributions on Exchangeable Units	\$ 94,498	\$ 312,018	\$ (217,520)	\$ 636,614	\$ (4,111)	\$ 640,725
Less: Total distributions declared	(76,312)	(72,848)	(3,464)	(300,452)	(282,320)	(18,132)
<b>Excess (shortfall) of net income (loss) attributable to Unitholders, less distributions on Exchangeable Units, over total distributions declared</b>	<b>\$ 18,186</b>	<b>\$ 239,170</b>	<b>\$ (220,984)</b>	<b>\$ 336,162</b>	<b>\$ (286,431)</b>	<b>\$ 622,593</b>

## Management's Discussion and Analysis

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance favourable / (unfavourable)	2017	2016	Variance favourable / (unfavourable)
Adjusted Cash Flow from Operations <sup>(1)</sup>	\$ 102,565	\$ 92,369	\$ 10,196	\$ 363,119	\$ 339,152	\$ 23,967
Less: Total distributions declared	(76,312)	(72,848)	(3,464)	(300,452)	(282,320)	(18,132)
<b>Excess of cash provided by ACFO<sup>(1)</sup> over total distributions declared</b>	<b>\$ 26,253</b>	<b>\$ 19,521</b>	<b>\$ 6,732</b>	<b>\$ 62,667</b>	<b>\$ 56,832</b>	<b>\$ 5,835</b>

The excess of cash flows provided by operating activities less interest paid over total distributions declared for the three months ended December 31, 2017 includes seasonal fluctuations in non-cash working capital, such as the timing of semi-annual debenture installments. While cash flows from operating activities are generally sufficient to cover distribution requirements, timing of cash outflows may result in shortfalls during particular quarters of the Trust's fiscal year. These seasonal or short-term fluctuations could be funded from other sources, such as the credit facilities. The cash flows provided by operating activities for the year ended December 31, 2017, were in excess of total distributions declared.

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

ACFO<sup>(1)</sup> excludes most of the short-term fluctuations in non-cash working capital, such as property tax installments, and the timing of semi-annual debenture installments, although some fluctuations between quarters for operational cash flows still exist. ACFO<sup>(1)</sup> also adjusts cash flows from operating activities for the working capital required for capital expenditures to maintain productive capacity of the investment properties. As such, management includes this non-GAAP measure in its assessment of cash flow available for distributions. The table below calculates the ACFO<sup>(1)</sup> payout ratio:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance favourable / (unfavourable)	2017	2016	Variance favourable / (unfavourable)
Total distributions declared	\$ 76,312	\$ 72,848	\$ 3,464	\$ 300,452	\$ 282,320	\$ 18,132
Adjusted Cash Flow from Operations <sup>(1)</sup>	\$ 102,565	\$ 92,369	\$ 10,196	\$ 363,119	\$ 339,152	\$ 23,967
ACFO <sup>(1)</sup> payout ratio	74.4%	78.9%	4.5%	82.7%	83.2%	0.5%

Choice Properties calculates its ACFO<sup>(1)</sup> in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2017. Refer to Section 17.3, "Adjusted Cash Flow from Operations", of this MD&A, for a reconciliation of ACFO<sup>(1)</sup> to cash flows from operating activities, as determined in accordance with GAAP.

For the three months ended December 31, 2017, ACFO<sup>(1)</sup> increased by \$10,196 compared to the same period in 2016. The primary drivers for the year-over-year increase were a \$13,086 increase in net property income and a \$2,158 increase in interest and other income, partially offset by a \$6,141 unfavourable fluctuation from operating working capital (see Section 17.3, "Adjusted Cash Flow from Operations"), such as changes to net rent receivable from tenants, trade accounts payable and accrued liabilities.

For the three months ended December 31, 2017, the ACFO<sup>(1)</sup> payout ratio was 74.4% compared to 78.9% for the same period in 2016. The decrease was primarily driven by the growth in net property income, which included lease surrender revenue, net of the portion attributable to non-controlling interests, of \$4,690 and an increase in interest and other income driven by a \$2,000 transactional fee.



For the year ended December 31, 2017, ACFO<sup>(1)</sup> increased by \$23,967 compared to 2016. The primary drivers for the year-over-year increase were a \$38,162 increase in net property income, a \$2,520 increase in interest and other income and a \$2,328 decrease in general and administrative expenses. These increase were partially offset by a \$12,099 unfavourable fluctuation from operating working capital (see Section 17.3, “Adjusted Cash Flow from Operations”), such as changes to net rent receivable from tenants, trade accounts payable and accrued liabilities, a \$5,946 increase in interest and other financing charges (net of the impact of the gain on settlement in 2016) and an increase in operating capital expenditures of \$1,802.

For the year ended December 31, 2017, the ACFO<sup>(1)</sup> payout ratio was 82.7% compared to 83.2% in 2016. The decrease was primarily driven by the increase in net property income.

Management anticipates the annual ACFO<sup>(1)</sup> payout ratio to be approximately 85%<sup>(2)</sup>. Based on current facts and assumptions, management does not anticipate cash distributions will be reduced or suspended in the foreseeable future<sup>(2)</sup>.

**Tax Treatment** The carrying value of the Trust’s investment properties exceeds their tax base. Choice Properties’ historic tax treatment of distributions has been as follows:

For the years ended December 31 (unaudited)	2017	2016	2015	2014	2013
Return of Capital	2.9%	3.1%	9.4%	17.1%	22.7%
Income	96.4%	92.9%	90.5%	81.8%	77.3%
Capital Gain	0.7%	4.0%	0.1%	1.1%	—%
	100.0%	100.0%	100.0%	100.0%	100.0%

## 8.5 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, 2017 were as follows:

(\$ thousands) (unaudited)	2018	2019	2020	2021	2022	Thereafter	Total
Senior unsecured debentures	\$ 503,263	\$ 289,047	\$ 627,648	\$ 512,133	\$ 350,560	\$ 1,124,808	\$ 3,407,459
Mortgages	584	2,008	6,238	—	—	—	8,830
Credit facilities <sup>(i)</sup>	250,000	—	—	—	311,000	—	561,000
Class C LP Units	46,250	46,250	46,250	46,250	46,250	1,181,058	1,412,308
Other <sup>(ii)</sup>	99,607	1,030	1,033	1,051	1,043	3,270	107,034
<b>Total</b>	<b>\$ 899,704</b>	<b>\$ 338,335</b>	<b>\$ 681,169</b>	<b>\$ 559,434</b>	<b>\$ 708,853</b>	<b>\$ 2,309,136</b>	<b>\$ 5,496,631</b>

(i) Excludes interest on the revolving credit facilities.

(ii) As at December 31, 2017, Choice Properties had commitments of approximately \$72,777 for future capital expenditures related to ongoing development and sustainable capital projects, and other contractual obligations such as operating rents. The Trust was also committed to future payments of approximately \$34,257 in relation to its interests in other entities.

## Management's Discussion and Analysis

### 9. QUARTERLY RESULTS OF OPERATIONS

#### 9.1 Results by Quarter

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

##### Selected Quarterly Information

(\$ thousands except where otherwise indicated) (unaudited)	Fourth Quarter 2017	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016	First Quarter 2016
Number of properties	546	540	537	536	535	530	529	519
Gross Leasable Area (in millions of square feet)	44.1	43.8	43.8	43.7	43.6	42.9	42.5	41.6
Occupancy	98.9%	98.9%	98.9%	98.8%	98.9%	98.8%	98.8%	98.7%
Rental revenue <sup>(i)</sup>	\$ 211,025	\$ 206,750	\$ 208,626	\$ 203,433	\$ 197,713	\$ 196,275	\$ 197,348	\$ 192,238
Net Operating Income <sup>(1)</sup>	\$ 152,832	\$ 145,422	\$ 144,012	\$ 142,424	\$ 139,745	\$ 137,835	\$ 136,727	\$ 132,445
Net income (loss) <sup>(i)</sup>	\$ 36,533	\$ 303,095	\$ 41,467	\$ 24,250	\$ 255,574	\$ 213,718	\$ (559,709)	\$ (132,655)
Net income (loss) per unit <sup>(i)</sup>	\$ 0.088	\$ 0.736	\$ 0.101	\$ 0.059	\$ 0.623	\$ 0.522	\$ (1.369)	\$ (0.325)
Net income (loss) per unit diluted <sup>(i)</sup>	\$ 0.088	\$ 0.733	\$ 0.100	\$ 0.059	\$ 0.621	\$ 0.521	\$ (1.366)	\$ (0.324)
Cash flows from operating activities <sup>(ii)</sup>	\$ 194,777	\$ 164,042	\$ 107,541	\$ 37,954	\$ 233,767	\$ 158,275	\$ 108,527	\$ 30,053
FFO <sup>(1)</sup> per unit - diluted	\$ 0.282	\$ 0.263	\$ 0.262	\$ 0.264	\$ 0.251	\$ 0.248	\$ 0.249	\$ 0.251
ACFO <sup>(1)</sup>	\$ 102,565	\$ 81,940	\$ 87,838	\$ 90,776	\$ 92,369	\$ 88,369	\$ 80,060	\$ 78,354
ACFO <sup>(1)</sup> payout ratio	74.4%	92.9%	85.4%	80.3%	78.9%	82.2%	85.5%	87.3%
Distribution declared per unit	\$ 0.1850	\$ 0.1850	\$ 0.1825	\$ 0.1775	\$ 0.1775	\$ 0.1775	\$ 0.1675	\$ 0.1675
Market price per Unit - closing	\$ 13.35	\$ 13.29	\$ 13.84	\$ 13.84	\$ 13.47	\$ 13.81	\$ 14.20	\$ 12.37
Number of Units outstanding	413,381,522	411,842,153	411,385,591	410,957,673	410,557,333	409,244,667	408,860,283	408,459,152
Total assets	\$ 9,923,511	\$ 9,702,006	\$ 9,512,207	\$ 9,380,140	\$ 9,435,322	\$ 9,155,648	\$ 8,949,641	\$ 8,729,848
Long term debt and Class C LP Units	\$ 3,737,030	\$ 3,729,733	\$ 3,729,417	\$ 3,728,836	\$ 3,928,714	\$ 3,928,649	\$ 3,928,664	\$ 3,929,021
Debt to total assets <sup>(iii)</sup>	44.3%	44.6%	45.8%	46.3%	44.5%	45.9%	46.5%	45.9%
Debt service coverage <sup>(iii)</sup>	3.7x	3.6x	3.6x	3.6x	3.5x	3.6x	3.6x	3.6x

- (i) GAAP measures of rental revenue and net income (loss), for the fourth quarter of 2017, include \$930 attributable to non-controlling interests.
- (ii) Cash flows from operating activities are presented before deducting interest paid. Presentation of the prior periods has been updated to exclude leasing capital expenditures.
- (iii) Debt ratios include Class C LP Units but exclude Exchangeable Units. The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.

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

## 9.2 Fourth Quarter Results

Choice Properties' financial results for the three months ended December 31, 2017 and December 31, 2016 are summarized below:

For the three months ended December 31, (\$ thousands) (unaudited)	2017	2016	Variance favourable / (unfavourable)
<b>Rental Revenue</b>			
Base rent	\$ 152,723	\$ 148,343	\$ 4,380
Property tax and operating cost recoveries	51,831	48,819	3,012
Other revenue	6,471	551	5,920
	<b>211,025</b>	197,713	13,312
<b>Property Operating Costs</b>			
Recoverable property taxes and operating costs	(49,337)	(48,121)	(1,216)
Non-recoverable operating costs	166	(688)	854
<b>Net Property Income</b>	<b>\$ 161,854</b>	\$ 148,904	\$ 12,950
<b>Other Income and Expenses</b>			
General and administrative expenses	(6,744)	(6,387)	(357)
Property management fee charged to related party	267	191	76
Amortization of other assets	(235)	(233)	(2)
Net interest expense and other financing charges	(100,397)	(97,028)	(3,369)
Interest and other Income	2,744	586	2,158
Share of income from joint venture	69	80	(11)
<b>Net Income before Adjustments to Fair Value</b>	<b>\$ 57,558</b>	\$ 46,113	\$ 11,445
Adjustment to fair value of Exchangeable Units	(19,026)	107,800	(126,826)
Adjustment to fair value of investment properties	(2,504)	101,661	(104,165)
Adjustment to fair value of investment property held in equity accounted joint venture	505	—	505
<b>Net Income</b>	<b>\$ 36,533</b>	\$ 255,574	\$ (219,041)

**Net Income** For the three months ended December 31, 2017, net income was \$36,533, a decrease of \$219,041 compared to the net income of \$255,574 for the same period in 2016. The decrease was primarily due to unfavourable changes of \$126,826 and \$104,165 in the adjustment to the fair value of Exchangeable Units and the adjustment to the fair value of investment properties, respectively. Adjustments to fair value can vary widely from quarter to quarter as they are impacted by market factors such as the Trust's Unit price and market capitalization rates.

Excluding the adjustments to fair value, net income for the three months ended December 31, 2017 was \$11,445 higher than the same period in 2016 primarily because the increase in net property income of \$12,950 and the increase in interest and other income of \$2,158 (which includes a \$2,000 transactional fee) were greater than the \$3,396 increase in net interest expense and other financing charges. Net property income increased due to acquisitions of income producing properties and development of additional GLA. Net interest expense and other financing charges was impacted by the increase to the Trust's distribution rate as distributions to Exchangeable Units are treated as an expense to the Trust. Net income for the three months ended December 31, 2017 also included \$930 attributable to non-controlling interests (2016 - nil).

## Management's Discussion and Analysis

**Rental Revenue** Rental revenue is comprised primarily of base rent and recoveries from tenants for property taxes, operating costs and qualifying capital expenditures. Growth in rental revenue is materially impacted by newly acquired assets. To better measure certain key performance factors, management further analyzes rental revenue for income producing properties owned by the Trust throughout the current and comparative reporting periods ("Same Properties"), to remove the impact of recent property acquisition and disposition transactions.

For the three months ended December 31, (\$ thousands) (unaudited)	2017	2016	Variance favourable / (unfavourable)
Same Properties <sup>(i)</sup>	\$ 204,455	\$ 196,716	\$ 7,739
Acquisitions net of disposition <sup>(ii)</sup>	6,570	997	5,573
<b>Total Revenue</b>	<b>\$ 211,025</b>	<b>\$ 197,713</b>	<b>\$ 13,312</b>

- (i) There were 526 income producing properties that were owned throughout the three months ended December 31, 2017 and December 31, 2016, the Same Properties.  
(ii) Properties acquired subsequent to September 30, 2016 (see Section 18, "Additional Information") net of disposition in November 2017 (see Section 5.5, "Dispositions of Investment Properties").

During the three months ended December 31, 2017, rental revenue increased by \$13,312, or 6.7% compared to the same period in 2016. The growth was attributable to an increase of \$7,739 in revenue from Same Properties and additional rental revenue of \$5,573 attributable to the net properties acquired subsequent to September 30, 2016.

The growth in revenue from Same Properties was attributable to an increase of \$3,284 in other revenues, an increase of \$2,805 in base rent, a \$1,205 increase in revenue generated from the recovery of capital expenditures, and a \$445 increase in recovery of operating expenses. The \$2,805 increase in base rent from Same Properties included an increase from newly developed GLA of \$1,910 and increases from higher average rents per square foot on ancillary leases.

In addition, total revenue for the three months ended December 31, 2017 included \$5,620 (2016 - nil) of lease surrender revenue received from Loblaw. Lease surrender revenue of \$2,520 was earned in connection with the disposition and \$3,100 was related to a development included in Same Properties, of which, \$930 was attributable to the non-controlling interests.

Rental revenue includes certain non-cash amounts. Rental revenue is recorded on a straight-line basis over the full term of a lease, which results in a difference between cash rent received and revenue recognized for accounting purposes. The amortization of tenant improvement allowances is also included in rental revenue. During the three months ended December 31, 2017, the net amount of these items positively impacted rental revenue by \$7,886 (2016 - \$8,952).

**Property Operating Costs** Property operating costs are comprised primarily of expenses to manage and maintain the properties for the benefit of the tenants, including realty taxes, that are recoverable under the leases of most tenants. Non-recoverable operating costs include expenses that do not directly benefit the tenants.

For the three months ended December 31, (\$ thousands) (unaudited)	2017	2016	Variance Favourable / (Unfavourable)
Same Properties <sup>(i)</sup>	\$ 47,521	\$ 48,300	\$ 779
Acquisitions net of disposition <sup>(ii)</sup>	1,650	509	(1,141)
<b>Total Property Operating Costs</b>	<b>\$ 49,171</b>	<b>\$ 48,809</b>	<b>\$ (362)</b>

- (i) There were 526 income producing properties that were owned throughout the three months ended December 31, 2017 and December 31, 2016, the Same Properties.  
(ii) Properties acquired subsequent to September 30, 2016 (see Section 18, "Additional Information") net of disposition in November 2017 (see Section 5.5, "Dispositions of Investment Properties").

For the three months ended December 31, 2017, property operating costs increased by \$362 or 0.7% compared to the same period in 2016, attributable to a decrease of \$779 from Same Properties, and an increase \$1,141 from the net acquisitions. The decrease in total property operating costs from Same Properties was attributable a decrease of \$851 in non-recoverable operating costs, partially offset by an increase of \$72 in recoverable operating costs. Non-recoverable operating costs include expenditures that can vary by year. The fourth quarter of 2017 included the partial reversal of the allowance for bad debts.

## General and Administrative Expenses

For the three months ended December 31, (\$ thousands) (unaudited)	2017	2016	Variance favourable / (unfavourable)
Internal expenses of the Trust	\$ 8,446	\$ 7,595	\$ (851)
Investor relations and other public entity costs	433	346	(87)
Professional fees	282	643	361
Services Agreement expense charged by related party <sup>(i)</sup>	645	733	88
	<b>9,806</b>	9,317	(489)
Less:			
Capitalized to investment properties	(1,004)	(719)	285
Allocated to recoverable operating expenses	(2,058)	(2,211)	(153)
<b>General and administrative expenses</b>	<b>\$ 6,744</b>	<b>\$ 6,387</b>	<b>\$ (357)</b>
Less:			
Adjustment to fair value of unit-based compensation <sup>(ii)</sup>	(267)	225	492
Property management fee and other administration fees charged to related party <sup>(i)(ii)</sup>	(267)	(191)	(76)
Internal expenses for leasing <sup>(ii)</sup>	(709)	(518)	191
<b>Adjusted general and administrative expenses<sup>(ii)</sup></b>	<b>\$ 5,501</b>	<b>\$ 5,903</b>	<b>\$ 402</b>
<b>As a percentage of revenue</b>	<b>2.6%</b>	<b>3.0%</b>	<b>0.4%</b>

(i) The Services Agreement, Property Management Agreement and Sublease Administration Agreement are described in section 13, "Related Party Transactions", of this MD&A.

- (ii) Adjusted general and administrative expenses, used in the calculation of general and administrative expenses as a percent of revenue excludes:
- a. fair value adjustments for unit-based compensation, which fluctuates with Unit prices;
  - b. the property management fee charged to related party, which compensates Choice Properties for additional costs incurred; and
  - c. internal expenses for leasing, to increase comparability between real estate entities that capitalize the expenses.

Adjusted general and administrative expenses, for the three months ended December 31, 2017, decreased \$402, or 0.4% when expressed as a percentage of revenue, over the same period in 2016. The decreases were driven by timing of expenses and growth in revenues for the quarter. On an annual basis, the fluctuations, due to the timing of expenses, are minimized and adjusted general and administrative expenses expressed as a percentage of revenue becomes comparable year-over-year.

## Management's Discussion and Analysis

### Net Interest Expense and Other Financing Charges

For the three months ended December 31, (\$ thousands) (unaudited)	2017	2016	Variance favourable / (unfavourable)
Interest on senior unsecured debentures	\$ 26,028	\$ 27,540	\$ 1,512
Distributions on Class C LP Units <sup>(i)</sup>	11,562	11,562	—
Interest on mortgage	30	36	6
Interest on credit facilities	3,551	1,405	(2,146)
<b>Subtotal (for use in Debt Service Coverage calculation)</b>	<b>\$ 41,171</b>	<b>\$ 40,543</b>	<b>\$ (628)</b>
Distributions on Exchangeable Units <sup>(i)</sup>	58,895	56,444	(2,451)
<b>Subtotal (for use in EBITDAFV<sup>(1)</sup> calculation)</b>	<b>\$ 100,066</b>	<b>\$ 96,987</b>	<b>\$ (3,079)</b>
Effective interest rate amortization of debt discounts and premiums	525	97	(428)
Effective interest rate amortization of debt placement costs	415	424	9
Capitalized interest	(609)	(480)	129
<b>Net interest expense and other financing charges</b>	<b>\$ 100,397</b>	<b>\$ 97,028</b>	<b>\$ (3,369)</b>

(i) Represents interest on indebtedness due to Loblaw.

For the three months ended December 31, 2017, net interest expense and other financing charges increased by \$3,369 or 3.5% compared to the same period in 2016. The increase was primarily due to distributions on the Exchangeable Units as a result of a higher distribution rate and additional Exchangeable Units issued as partial consideration for properties acquired from Loblaw subsequent to September 30, 2016, and interest incurred on credit facilities as a result of greater draws, partially offset by the decline in interest on senior unsecured debentures due to the repayment in 2017.

### 9.3 Other Measures of Fourth Quarter Performance

In addition to the GAAP measures already described, Choice Properties' management utilizes non-GAAP measures to analyze performance. See Section 17, "Non-GAAP Financial Measures", of this MD&A, for details on how these measures are defined, calculated and reconciled to GAAP financial measures and why management analyzes these measures. NOI<sup>(1)</sup> and FFO<sup>(1)</sup> for the three months ended December 31, 2017 and December 31, 2016 are summarized below:

For the three months ended December 31 (\$ thousands except where otherwise indicated) (unaudited)	2017	2016	Variance favourable / (unfavourable)
Net Operating Income <sup>(1)</sup>	\$ 152,832	\$ 139,745	\$ 13,087
NOI <sup>(1)</sup> for Same Properties, with the same GLA	\$ 140,103	\$ 135,445	\$ 4,658
Funds from Operations <sup>(1)</sup>	\$ 116,843	\$ 103,141	\$ 13,702
FFO <sup>(1)</sup> per unit basic	\$ 0.283	\$ 0.251	\$ 0.032
FFO <sup>(1)</sup> per unit diluted	\$ 0.282	\$ 0.251	\$ 0.031
FFO <sup>(1)</sup> payout ratio - diluted	65.6%	70.8%	5.2%
Distribution declared per unit	\$ 0.1850	\$ 0.1775	\$ 0.0075
Weighted average Units outstanding - basic	412,388,639	410,104,744	2,283,895
Weighted average Units outstanding - diluted	414,285,762	411,272,728	3,013,034
Number of Units outstanding, end of period	413,381,522	410,557,333	2,824,189

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

There is no industry-defined definition of NOI<sup>(1)</sup>. Refer to Section 17.1, "Net Operating Income", of this MD&A, for a definition of NOI<sup>(1)</sup> and a reconciliation to net income (loss) determined in accordance with GAAP.

**Net Operating Income<sup>(1)</sup>** For the three months ended December 31, 2017, NOI<sup>(1)</sup> increased \$13,087, or 9.4%, compared to the same period in 2016, driven by an increase of \$8,738 from Same Properties, and \$4,349 from the net properties acquired subsequent to September 30, 2016.

**Net Operating Income<sup>(1)</sup> for Same Properties, with the same GLA** To better measure certain key performance factors, management further analyzes NOI<sup>(1)</sup> for the income producing properties owned by the Trust throughout the current and comparative reporting periods, Same Properties, to remove the impact of recent property acquisition and disposition transactions. Management further refines the analysis to exclude any NOI<sup>(1)</sup> from developments which increased GLA in the comparative periods.

For the three months ended December 31, 2017, NOI<sup>(1)</sup> for Same Properties, measured with the same GLA, increased \$4,658, or 3.4%, compared to the same period in 2016, primarily due to an increase of \$2,418 in base rent and net recoveries, which was driven by rent steps in Loblaw leases and higher average rents per square foot on ancillary leases. The increase was also due to higher revenue generated from the recovery of capital expenditures of \$1,205, an increase of \$184 in other revenues and a decrease of \$851 in non-recoverable operating expenses.

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

Choice Properties calculates its FFO<sup>(1)</sup> in accordance with the Real Property Association of Canada's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2017. Refer to Section 17.2, "Funds from Operations", of this MD&A, for a reconciliation of FFO<sup>(1)</sup> to net income (loss) determined in accordance with GAAP.

For the three months ended December 31, 2017, FFO<sup>(1)</sup> increased by \$13,702 or 13.3% compared to the same period in 2016. The year-over-year growth was due to an increase in net property income of \$12,019 (which included lease surrender revenue, net of the portion attributable to non-controlling interests, of \$4,690), an increase in interest and other income of \$2,158 (which includes a \$2,000 transactional fee), a decrease in general and administrative expenses of \$326, and an increase in the fees charged to related party of \$76. These increases to FFO<sup>(1)</sup> were partially offset by a \$864 increase in interest and other financing charges, a \$11 decrease from the share of income from joint venture and a \$2 increase in amortization of other assets.

For the three months ended December 31, 2017, FFO<sup>(1)</sup> per unit on a diluted basis increased by \$0.031 or 12.4% compared to the same period in 2016.

## Management's Discussion and Analysis

### 10. 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" ("NI 52-109"), 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, 2017.

### 11. 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 NI 52-109, the President and 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 (COSO Framework)' (2013) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, they have concluded that the design and operation of the Trust's internal controls over financial reporting were effective as at December 31, 2017.

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. Additionally, management is required to use judgment in evaluating controls and procedures.

**Changes in Internal Control over Financial Reporting** There were no changes in the Trust's internal controls over financial reporting in the fourth quarter of 2017 that materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

### 12. ENTERPRISE RISKS AND RISK MANAGEMENT

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

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

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

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

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

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



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

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

The following risks are a subset of the key risks identified through the ERM program. They should be read in conjunction with the full set of risks inherent in the Trust's business, as included in the Trust's AIF for the year ended December 31, 2017, which is hereby incorporated by reference.

## 12.1 Operating Risks and Risk Management

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

Property Development, Redevelopment and Renovation Risks	Competition
Strategic Execution, Capabilities and Growth	Vendor Management, Partnerships and Third-Party Service Providers
Shift of Retailers from Brick and Mortar Stores	Current Economic Environment
Information Technology Implementations and Data Management	

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

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

**Strategic Execution, Capabilities and Growth** There is a risk that key operational capabilities, including resources, processes and technology, may not be adequately suited or developed for the needs of Choice Properties' current state or for its growth strategy. Furthermore, Choice Properties' growth strategy must be appropriately executed to deliver long term growth for the Trust. If Choice Properties is not successful in implementing operational capabilities and ensuring scalability of operations for future growth, the reputation and financial performance of the Trust may be negatively impacted.

**Shift of Retailers from Bricks and Mortar Stores** Shifting consumer preferences toward e-commerce may result in a decrease in the demand for physical space by retail tenants. The failure of Choice Properties to adapt to changes in the retail landscape, including finding new tenants to replace any lost income stream from existing tenants that reduce the amount of physical space they rent from Choice Properties, could adversely affect Choice Properties' financial performance.

## Management's Discussion and Analysis

**IT Systems Implementations and Data Management** Management depends on relevant and reliable information for decision making and financial reporting. As the volume of data being generated and reported by the Trust increases and evolves, Choice Properties continues to undertake investments in IT systems to store, process and leverage such data.

The failure to successfully migrate to new IT systems, or disruptions which may arise as a result of the transition to new IT systems, could result in a lack of relevant and reliable information to enable management to effectively achieve its strategic plan or manage the operations of the Trust, which could negatively affect the reputation, operations and financial performance of the Trust.

In addition, any significant loss of data or failure to maintain reliable data could negatively affect the reputation, operations and financial performance of the Trust because management depends on relevant and reliable information for decision making purposes.

**Vendor Management, Partnerships and Third-Party Service Providers** Choice Properties currently relies on third-party vendors, developers, co-owners and strategic partners to provide the Trust with various services or to complete projects. The lack of an effective process for developing joint venture arrangements or for contract tendering, drafting, review, approval and monitoring may pose a risk for the Trust. Choice Properties may not be able to negotiate contract terms, services' levels and rates that are optimal for Choice Properties. In addition, co-owners or joint venture partners may fail to fund their share of capital, may not comply with the terms of any governing agreements or may incur reputational damage which could negatively impact the Trust. Inefficient, ineffective or incomplete vendor management / partnership strategies, policies and procedures could impact the Trust's reputation, operations and/or financial performance.

**Current Economic Environment** Continued concerns about the uncertainty over whether the economy will be adversely affected by inflation 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 the properties, which could harm Choice Properties' financial condition. If these economic conditions continue, Choice Properties' tenants may be unable to meet their rental payments and other obligations owing to Choice Properties, which could have a material adverse effect on Choice Properties.

### 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:

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

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

The majority of Choice Properties' debt is financed at fixed rates with maturities staggered over 28 years, thereby mitigating the exposure to near term changes in interest rates. To the extent that Choice Properties incurs variable rate indebtedness (such as borrowings under the revolving credit facility), this will result in fluctuations in Choice Properties' cost of borrowing as interest rates change. If interest rates rise, Choice Properties' operating results and financial condition could be materially adversely affected and the amount of cash available for distribution to Unitholders would be decreased.

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

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

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

The real estate industry is highly capital intensive. Choice Properties requires access to capital to fund operating expenses, to maintain its properties, to fund its growth strategy and certain other capital expenditures from time to time, and to refinance indebtedness. Although Choice Properties expects to have access to the existing revolving credit facility, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favourable terms. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to limitations set forth in the Declaration of Trust and the Trust Indentures, 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 and capital availability risks are mitigated by maintaining appropriate levels of liquidity, by diversifying the Trust's sources of funding, by maintaining a well-diversified debt maturity profile and actively monitoring market conditions.

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

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

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

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

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

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

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

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

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

## Management's Discussion and Analysis

### 13. RELATED PARTY TRANSACTIONS

Choice Properties' parent corporation is Loblaw, which held an 82.4% effective interest in the Trust through ownership of 21,500,000 Units and all of the Exchangeable Units as at December 31, 2017 (December 31, 2016 - 82.7% and 21,500,000 Units respectively). Loblaw's controlling shareholder, GWL, held approximately 48.7% ownership of Loblaw's outstanding common shares and a 6.1% direct interest in Choice Properties, through ownership of 25,356,415 Units as at December 31, 2017 (December 31, 2016 - 5.8% and 23,997,222 Units respectively).

Loblaw is also Choice Properties' largest tenant, representing approximately 88.2% of Choice Properties' annual base rent and 87.6% of its GLA as at December 31, 2017 (December 31, 2016 - 90.0% and 88.3% respectively).

In 2017, Choice Properties acquired 5 investment properties from Loblaw. The acquisitions added approximately 244,000 square feet of GLA at a purchase price of \$61,700, excluding acquisition costs. The acquisitions from Loblaw are disclosed in Section 5.2, "Acquisition of Investment Properties", of this MD&A.

In 2016, Choice Properties acquired 15 investment properties from Loblaw. The acquisitions added approximately 1,075,000 square feet of GLA at a purchase price of \$158,060, excluding acquisition costs and other adjustments. For a detailed list of all properties acquired from Loblaw in 2017 and 2016, refer to Section 18, "Additional Information", of this MD&A.

On December 9, 2014, Choice Properties and its joint venture partner, Wittington Properties Limited ("Wittington") completed the acquisition of the West Block project at Lake Shore Boulevard and Bathurst Street in Toronto, Ontario for \$15,576 from Loblaw via 500 LS Limited Partnership. Wittington's parent company is Wittington Investments, Limited, which holds a majority interest in GWL. The joint venture partners intend to develop the West Block project into a mixed-used property. Choice Properties contributed \$13,760 to the joint venture and did not receive any distributions during the year ended December 31, 2017 (year ended December 31, 2016 - contributions nil and distributions \$4,000). Operating activities have not begun at the property, however the joint venture did earn interest income during the years ended December 31, 2017 and 2016.

In addition to leases and purchase agreements, other agreements between Choice Properties and Loblaw include:

#### **Strategic Alliance Agreement**

The Strategic Alliance Agreement creates a series of rights and obligations between Choice Properties and Loblaw intended to establish a preferential and mutually beneficial business and operating relationship. Its initial term is for ten-years from the initial public offering, and will continue until the earlier of 20 years from the initial public offering and the date, if any, on which Loblaw ceases to own a majority interest, on a fully-diluted basis in the Trust. The Strategic Alliance Agreement provides Choice Properties with important rights that are expected to meaningfully contribute to the Trust's growth. Subject to certain exceptions, rights include:

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

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

#### **Services Agreement**

Loblaw provides Choice Properties with administrative and other support services.

#### **Property Management Agreement**

Choice Properties agreed to provide Loblaw with property management services for Loblaw's properties with third-party tenancies on a fee for service basis for an initial two-year term with automatic one-year renewals.

#### **Sublease Administration Agreement**

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

Choice Properties' policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. The related party transactions are disclosed in Note 21 to the consolidated financial statements for the years ended December 31, 2017 and 2016.

## 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 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.

### 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.

### Joint Arrangements

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

### 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.

## Management's Discussion and Analysis

### 15. ACCOUNTING STANDARDS

#### Accounting Standards Implemented in 2017

The Trust implemented the amendments to IAS 7, "Statement of Cash Flows", in the first quarter of 2017 to provide disclosures on changes in liabilities arising from financing activities, including both cash and non-cash flow changes.

#### Future Accounting Standards

**IFRS 15** In 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), replacing IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively with cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with restatement of the comparative period.

IFRS 15 contains a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard.

The Trust will adopt IFRS 15, and the related interpretations, in its consolidated financial statements for the annual period beginning on January 1, 2018. The Trust is completing its evaluation of IFRS 15, including an assessment of the transition method that will be used on the adoption of the standard. Management does not expect that IFRS 15 will have a material impact on the amount and timing of revenue recognized. However, additional disclosure requirements may result in separate disclosure of revenue for service components that are part of a lease, such as a non-lease component.

**IFRS 9** In 2014, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"), replacing IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") and related interpretations. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge model. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with the cumulative effects of initial application recorded in opening retained earnings as a January 1, 2018, with no restatement of the comparative period.

The Trust will adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018 and is completing its evaluation of the impact of this standard on each of its financial instruments. Based upon the Trust's existing financial instruments and related accounting policies at December 31, 2017, the principal areas impacted are: classification and measurement of financial assets, presentation of fair value changes for certain financial liabilities designated at fair value through profit or loss, and impairment of financial assets. IFRS 9 also requires new disclosures.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss; and IFRS 9 eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as fair value through profit or loss are recognized in profit or loss; whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and the remaining amount of change in fair value is presented in profit or loss.

The Trust is still assessing the potential impact on non-substantial modifications made to financial instruments measured at amortized cost. Under IFRS 9, the amortized cost is recalculated on modifications which result in the recognition of a gain or loss, whereas under IAS 39 no gain or loss is recorded.

Exchangeable Units will continue to be classified as financial liabilities at fair value through profit or loss and there will be no material impact on adoption of IFRS 9 related to these financial liabilities.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking expected credit loss ("ECL") model. Applying the ECL model will require considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments and contract assets. Upon adoption of IFRS 9, the Trust will change the models used to measure impairment of financial assets, such as rents and notes receivable.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Trust does not currently apply hedge accounting in its consolidated financial statements.

Based on its assessment, the Trust does not expect the standard will have a material impact on the consolidated financial statements.

**IFRS 16** In January 2016, the IASB issued IFRS 16, “Leases” (“IFRS 16”), replacing IAS 17, “Leases” and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. For leases where the Trust is the lessee, the option exists of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. While early adoption is permitted, if IFRS 15 has already been adopted, the Trust will not early adopt IFRS 16.

The Trust intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. It is expected that IFRS 16 will affect the Trust in its capacity as lessee of office space. The Trust will recognize a liability for the present value of future lease liabilities and record a corresponding asset on the balance sheet. The nature and timing of the related expenses will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Trust is currently assessing the impact of the standard on the consolidated financial statements. In particular, the Trust is assessing how the new standard may impact the identification of lease and non-lease components, including the allocation of consideration to each lease and non-lease component. The standard requires this allocation to be completed in accordance with the guidance in IFRS 15, that is, on the basis of relative stand-alone selling prices.

## **16. OUTLOOK <sup>(2)</sup>**

Choice Properties continues to drive value creation through accretive acquisitions, strategic development and active management of its portfolio of properties. This strategy supports the Trust’s goal to expand its asset base and increase monthly distributions to unitholders.

Choice Properties is well positioned to meet its current obligations and to invest for future growth. The Trust’s competitive advantages include: a sizable asset base that is geographically diverse across Canada; long-term leases and a strategic alliance with Loblaw; and an existing development pipeline, supported by sound financial management focused on maintaining a solid balance sheet and its investment grade credit ratings. With these key differentiators, Choice Properties believes that it is well positioned to achieve its strategic goals within a potentially rising interest rate environment and despite an increasingly competitive landscape, underscored by ever changing square footage requirements in the retail industry.

For 2018, Choice Properties expects to:

- Acquire additional properties from Loblaw and third-party vendors on an accretive basis when opportunities arise;
- Invest approximately \$198 million to complete developments coming online in 2018 and toward development projects, including mixed-use projects, targeted for completion in future years;
- Maintain a total occupancy rate of approximately 98%, with the occupancy rate for ancillary GLA in the 90% range; and
- Continue to align growth in distributions with stable, growing cash flows.

## **17. NON-GAAP FINANCIAL MEASURES**

Choice Properties reports non-GAAP financial measures, including, but not limited to, Net Operating Income (“NOI”), Funds from Operations (“FFO”), Adjusted Cash Flow from Operations (“ACFO”), and Earnings before Interest, Taxes, Depreciation, Amortization and Fair Value (“EBITDAFV”). 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.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under IFRS when analyzing operating performance, as the excluded items are not necessarily reflective of Choice Properties’ underlying operating performance or do not necessarily impact the comparability of financial performance between periods.

These measures do not have a standardized meaning prescribed by IFRS 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 IFRS.

## Management's Discussion and Analysis

### 17.1 Net Operating Income

NOI is a supplemental measure of operating performance widely used in the real estate industry. Choice Properties calculates NOI as rental revenue, excluding straight-line rent, from investment properties less property operating costs. NOI is a key performance indicator, as it evaluates the results of the portfolio and represents a measure over which management has control. It is also a key input in determining the fair value of the portfolio.

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

See Section 7, "Other Measures of Performance" and section 9.3, "Other Measures of Fourth Quarter Performance", of this MD&A, for a discussion on this non-GAAP measure. The following table reconciles net income (loss), as determined in accordance with GAAP, to NOI for the periods ended as indicated:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance Favourable / (Unfavourable)	2017	2016	Variance Favourable / (Unfavourable)
<b>Net income (loss)</b>	<b>\$ 36,533</b>	<b>\$ 255,574</b>	<b>\$ (219,041)</b>	<b>\$ 405,345</b>	<b>\$ (223,072)</b>	<b>\$ 628,417</b>
Add (deduct) impact of the following:						
Net income attributable to non-controlling interests	(930)	—	(930)	(930)	—	(930)
Straight-line rental revenue	(8,092)	(9,159)	1,067	(34,740)	(36,582)	1,842
General and administrative expenses	6,744	6,387	357	23,329	28,857	(5,528)
Property management and other administration fees charged to related party	(267)	(191)	(76)	(1,270)	(740)	(530)
Amortization of other assets	235	233	2	934	930	4
Net interest expense and other financing charges	100,397	97,028	3,369	394,826	372,842	21,984
Interest and other income	(2,744)	(586)	(2,158)	(4,829)	(2,309)	(2,520)
Share of income from joint venture	(69)	(80)	11	(254)	(80)	(174)
Adjustment to fair value of Exchangeable Units	19,026	(107,800)	126,826	(38,212)	529,591	(567,803)
Adjustment to fair value of investment properties	2,504	(101,661)	104,165	(160,254)	(109,045)	(51,209)
Adjustment to fair value of investment property held in equity accounted joint venture	(505)	—	(505)	745	(13,640)	14,385
<b>Net Operating Income</b>	<b>\$ 152,832</b>	<b>\$ 139,745</b>	<b>\$ 13,087</b>	<b>\$ 584,690</b>	<b>\$ 546,752</b>	<b>\$ 37,938</b>



To better measure certain key performance factors, management further analyzes NOI for the income producing properties owned by the Trust throughout the current and comparative reporting periods, Same Properties, to remove the impact of recent property acquisition and disposition transactions. Management further refines the analysis to exclude any NOI from developments, which increased GLA in the comparative periods. The number of Same Properties were 526 and 515 for the three months and years ended, respectively, December 31, 2017 and December 31, 2016. The following table analyzes the components of NOI:

For the three months ended December 31 (\$ thousands) (unaudited)	2017			2016		
	Same Properties	Acquisitions net of disposition <sup>(i)</sup>	All Properties	Same Properties	Acquisitions net of disposition <sup>(i)</sup>	All Properties
Rental revenue	\$ 204,455	\$ 6,570	\$ 211,025	\$ 196,716	\$ 997	\$ 197,713
Revenue attributable to non- controlling interests <sup>(ii)</sup>	(930)	—	(930)	—	—	—
Less: Straight-line rental revenue	(7,951)	(141)	(8,092)	(9,101)	(58)	(9,159)
	195,574	6,429	202,003	187,615	939	188,554
Property operating costs	(47,521)	(1,650)	(49,171)	(48,300)	(509)	(48,809)
<b>Net Operating Income</b>	<b>\$ 148,053</b>	<b>\$ 4,779</b>	<b>\$ 152,832</b>	<b>\$ 139,315</b>	<b>\$ 430</b>	<b>\$ 139,745</b>
Less: NOI from developed GLA <sup>(iii)</sup>	(5,780)	(135)	(5,915)	(3,870)	(65)	(3,935)
Less: NOI from lease surrender on property under development <sup>(ii)</sup>	(2,170)	—	(2,170)	—	—	—
<b>NOI excluding development activities</b>	<b>\$ 140,103</b>	<b>\$ 4,644</b>	<b>\$ 144,747</b>	<b>\$ 135,445</b>	<b>\$ 365</b>	<b>\$ 135,810</b>

- (i) Properties acquired subsequent to September 30, 2016 (see Section 18, "Additional Information") net of disposition in November 2017 (see Section 5.5, "Dispositions of Investment Properties").
- (ii) Same Properties' rental revenue for the three months ended December 31, 2017 included \$3,100 of lease surrender revenue related to a property under development, of which, \$930 was attributable to the non-controlling interests.
- (iii) GLA developed in the comparative periods.

For the years ended December 31 (\$ thousands) (unaudited)	2017			2016		
	Same Properties	Acquisitions net of disposition <sup>(i)</sup>	All Properties	Same Properties	Acquisitions net of disposition <sup>(i)</sup>	All Properties
Rental revenue	\$ 805,630	\$ 24,204	\$ 829,834	\$ 766,726	\$ 16,848	\$ 783,574
Revenue attributable to non- controlling interests <sup>(ii)</sup>	(930)	—	(930)	—	—	—
Less: Straight-line rental revenue	(33,602)	(1,138)	(34,740)	(35,613)	(969)	(36,582)
	771,098	23,066	794,164	731,113	15,879	746,992
Property operating costs	(203,520)	(5,954)	(209,474)	(195,669)	(4,571)	(200,240)
<b>Net Operating Income</b>	<b>\$ 567,578</b>	<b>\$ 17,112</b>	<b>\$ 584,690</b>	<b>\$ 535,444</b>	<b>\$ 11,308</b>	<b>\$ 546,752</b>
Less: NOI from developed GLA <sup>(iii)</sup>	(20,218)	(531)	(20,749)	(7,124)	(65)	(7,189)
Less: NOI from lease surrender on property under development <sup>(ii)</sup>	(2,170)	—	(2,170)	—	—	—
<b>NOI excluding development activities</b>	<b>\$ 545,190</b>	<b>\$ 16,581</b>	<b>\$ 561,771</b>	<b>\$ 528,320</b>	<b>\$ 11,243</b>	<b>\$ 539,563</b>

- (i) Properties acquired subsequent to December 31, 2015 (see Section 18, "Additional Information") net of disposition in November 2017 (see Section 5.5, "Dispositions of Investment Properties").
- (ii) Same Properties' rental revenue for the year ended December 31, 2017 included \$3,100 of lease surrender revenue related to a property under development, of which, \$930 was attributable to the non-controlling interests.
- (iii) GLA developed in the comparative years.

## Management's Discussion and Analysis

### 17.2 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's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2017. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of FFO and to help promote more consistent disclosure from reporting issuers. An advantage, of the FFO measure, is improved comparability between Canadian and foreign real estate investment trusts. FFO is intended to be used as a sustainable, economic earnings metric.

Choice Properties considers FFO to be a useful measure of operating performance as it adjusts for items included in net income (or net loss) that do not arise from operating activities or do not necessarily provide an accurate depiction of the Trust's past or recurring performance, such as adjustments to fair value of Exchangeable Units, investment properties and unit-based compensation.

See Section 7, "Other Measures of Performance" and section 9.3, "Other Measures of Fourth Quarter Performance", of this MD&A, for a discussion on this non-GAAP measure. The following table reconciles net income (loss), as determined in accordance with GAAP, to FFO for the periods ended as indicated:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance Favourable / (Unfavourable)	2017	2016	Variance Favourable / (Unfavourable)
<b>Net income (loss)</b>	<b>\$ 36,533</b>	\$ 255,574	\$ (219,041)	<b>\$ 405,345</b>	\$ (223,072)	\$ 628,417
Add (deduct) impact of the following:						
Net income attributable to non-controlling interests	(930)	—	(930)	(930)	—	(930)
Adjustment to fair value of Exchangeable Units	19,026	(107,800)	126,826	(38,212)	529,591	(567,803)
Adjustment to fair value of investment properties	2,504	(101,661)	104,165	(160,254)	(109,045)	(51,209)
Adjustment to fair value of unit-based compensation	267	(225)	492	468	4,309	(3,841)
Adjustment to fair value of investment property held in equity accounted joint venture	(505)	—	(505)	745	(13,640)	14,385
Interest otherwise capitalized for development in equity accounted joint venture	138	84	54	442	324	118
Exchangeable Units distributions	58,895	56,444	2,451	232,199	218,961	13,238
Amortization of tenant improvement allowances	206	207	(1)	796	572	224
Internal expenses for leasing	709	518	191	2,336	2,135	201
<b>Funds from Operations</b>	<b>\$ 116,843</b>	\$ 103,141	\$ 13,702	<b>\$ 442,935</b>	\$ 410,135	\$ 32,800
FFO per unit - diluted	\$ 0.282	\$ 0.251	\$ 0.031	\$ 1.072	\$ 1.000	\$ 0.072
FFO payout ratio - diluted <sup>(i)</sup>	65.6%	70.8%	5.2%	68.1%	69.0%	0.9%
Distribution declared per unit	\$ 0.1850	\$ 0.1775	\$ 0.0075	\$ 0.7300	\$ 0.6900	\$ 0.0400
Weighted average Units outstanding - diluted	414,285,762	411,272,728	3,013,034	413,208,961	410,034,555	3,174,406

(i) Funds from Operations payout ratio is calculated as the distribution declared per unit divided by the FFO per unit diluted.

### 17.3 Adjusted Cash Flow from Operations

ACFO 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 ACFO in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2017. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric.

Choice Properties considers ACFO an input to determining the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. As such, ACFO includes a number of adjustments to cash flows from operations, as calculated under GAAP, including, but not limited to, removing the effects of distributions on Exchangeable Units, deducting amounts for property capital expenditures to sustain existing GLA and for leasing capital expenditures, and eliminating seasonal and other fluctuations in working capital. The resulting ACFO will continue to include the impact of fluctuations from normal operating working capital, such as changes to net rent receivable from tenants, trade accounts payable and accrued liabilities.

Prior to the issuance of the February 2017 White Paper, there was no industry standard to calculate a sustainable, economic cash flow metric. In prior quarters, Choice Properties used an internally derived measure, calculated by adjusting FFO for various non-cash items. As such, Choice Properties' method of calculating sustainable cash flow may have differed from that of other real estate entities and, accordingly, may not have been comparable to such amounts reported by other issuers. Choice no longer reports the internally derived measure, and ACFO, as calculated using the February 2017 White Paper, is the replacement sustainable, economic cash flow metric, for the current quarter and all previous quarters.

## Management's Discussion and Analysis

See Section 8.4, "Unit Equity", of this MD&A, for a discussion on this non-GAAP measure. The following table reconciles ACFO to cash flows from operating activities, as determined in accordance with GAAP, for the periods ended as indicated:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance Favourable / (Unfavourable)	2017	2016	Variance Favourable / (Unfavourable)
<b>Cash flows from operating activities</b>	<b>\$ 194,777</b>	\$ 233,767	\$ (38,990)	<b>\$ 504,314</b>	\$ 530,622	\$ (26,308)
Interest paid	(12,737)	(13,893)	1,156	(163,237)	(156,297)	(6,940)
Cash flows from operating activities less interest paid	<b>182,040</b>	219,874	(37,834)	<b>341,077</b>	374,325	(33,248)
Add (deduct) impact of the following:						
Net income attributable to non-controlling interests	(930)	—	(930)	(930)	—	(930)
Net interest expense and other financing charges in excess of interest paid <sup>(i)</sup>	(87,660)	(83,135)	(4,525)	(231,589)	(216,545)	(15,044)
Distributions on Exchangeable Units included in net interest expense and other financing charges <sup>(ii)</sup>	<b>58,895</b>	56,444	2,451	<b>232,199</b>	218,961	13,238
Gain on settlement of bond forward contracts	—	—	—	—	(2,682)	2,682
Interest and other income in excess of interest received <sup>(i)</sup>	<b>64</b>	573	(509)	<b>398</b>	2,207	(1,809)
Interest otherwise capitalized for development in equity accounted joint venture	<b>138</b>	84	54	<b>442</b>	324	118
Share of income from joint venture	<b>69</b>	80	(11)	<b>254</b>	80	174
Portion of internal expenses for leasing relating to development activity	<b>354</b>	259	95	<b>1,168</b>	1,068	100
Property capital expenditures - incurred	(20,661)	(16,343)	(4,318)	(44,962)	(42,192)	(2,770)
Property capital expenditures - normalized <sup>(iii)</sup>	<b>9,449</b>	4,151	5,298	—	—	—
Leasing capital expenditures - incurred	(973)	(1,354)	381	(4,416)	(5,384)	968
Adjustment for changes in non-cash working capital items which are not indicative of sustainable operating cash flows <sup>(iv)</sup>	(38,220)	(88,264)	50,044	<b>69,478</b>	8,990	60,488
<b>Adjusted Cash Flow from Operations</b>	<b>\$ 102,565</b>	\$ 92,369	\$ 10,196	<b>\$ 363,119</b>	\$ 339,152	\$ 23,967
Total distributions declared	<b>76,312</b>	72,848	3,464	<b>300,452</b>	282,320	18,132
<b>Excess of cash provided by ACFO over total distributions declared</b>	<b>\$ 26,253</b>	\$ 19,521	\$ 6,732	<b>\$ 62,667</b>	\$ 56,832	\$ 5,835
<b>ACFO payout ratio<sup>(v)</sup></b>	<b>74.4%</b>	78.9%	4.5%	<b>82.7%</b>	83.2%	0.5%

- (i) The timing of the recognition of interest expense and income differs from the payment and collection. The ACFO calculations for the periods ended December 31, 2017 and December 31, 2016 were adjusted for this factor to make the quarters more comparable<sup>(2)</sup>.
- (ii) Although the add-back of distributions on Exchangeable Units is not specifically detailed in the Real Property Association of Canada's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2017, management includes the add-back because the distributions on the Exchangeable Units are included in the total distributions declared, which is consistent with the intent of the White Paper. Management considers the distributions on Exchangeable Units to be a financing activity, not an operating activity.
- (iii) Seasonality impacts the timing of property capital expenditures. The ACFO calculations for the three months ended December 31, 2017 and December 31, 2016 were adjusted for this factor to make the quarters more comparable based on the annual anticipated spend of approximately \$1.00 per square foot (see Section 5.4, "Active Management")<sup>(2)</sup>.
- (iv) ACFO is adjusted each quarter for fluctuations in non-cash working capital due to the timing of transactions for realty taxes prepaid or payable, and prepaid insurance. The payments for these operating expenses tend to have quarterly, seasonal fluctuations that even out on an annual basis. Also, variability in non-cash working capital was created, in the first quarter of 2017, when rental payments for January 2017, of \$57,135, plus the related sales taxes payable, of \$6,334, were received in advance from Loblaw. ACFO is also adjusted each quarter to remove fluctuations in non-cash working capital due to capital expenditure accruals, which are not related to sustainable operating activities.
- (v) Adjusted Cash Flow from Operations payout ratio is calculated as the total distributions declared divided by the ACFO.

Based on the Real Property Association of Canada's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2017, Choice Properties adjusts ACFO for amounts included in the net change in non-cash working capital, a component of cash flows from operating activities, to eliminate fluctuations that are not indicative of sustainable cash available for distribution. The resulting remaining impacts on ACFO from changes in non-cash working capital are calculated below:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance Favourable / (Unfavourable)	2017	2016	Variance Favourable / (Unfavourable)
Net change in non-cash working capital <sup>(i)</sup>	\$ 43,179	\$ 99,364	\$ (56,185)	\$ (68,735)	\$ 3,852	\$ (72,587)
Adjustment for changes in non-cash working capital items which were not indicative of sustainable operating cash flows	(38,220)	(88,264)	50,044	69,478	8,990	60,488
<b>Net non-cash working capital increase included in ACFO</b>	<b>\$ 4,959</b>	<b>\$ 11,100</b>	<b>\$ (6,141)</b>	<b>\$ 743</b>	<b>\$ 12,842</b>	<b>\$ (12,099)</b>

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

## Management's Discussion and Analysis

The following table reconciles ACFO to cash flows from operating activities for the prior periods in fiscal year 2016:

For the periods (\$ thousands) (unaudited)	Annual 2016	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016	First Quarter 2016
<b>Cash flows from operating activities<sup>(i)</sup></b>	\$530,622	\$233,767	\$158,275	\$108,527	\$ 30,053
Interest paid	(156,297)	(13,893)	(43,520)	(13,335)	(85,549)
Cash flows from operating activities less interest paid	374,325	219,874	114,755	95,192	(55,496)
Add (deduct) impact of the following:					
Net interest expense and other financing charges in excess of interest paid <sup>(ii)</sup>	(216,545)	(83,135)	(52,775)	(78,854)	(1,781)
Distributions on Exchangeable Units included in net interest expense and other financing charges <sup>(iii)</sup>	218,961	56,444	56,287	53,115	53,115
Gain on settlement of bond forward contracts	(2,682)	—	—	—	(2,682)
Interest income in excess of interest received <sup>(ii)</sup>	2,207	573	557	541	536
Interest otherwise capitalized for development in equity accounted joint venture	324	84	82	158	—
Share of income from joint venture	80	80	—	—	—
Portion of internal expenses for leasing relating to development activity	1,068	259	273	302	234
Property capital expenditures - incurred	(42,192)	(16,343)	(24,074)	(1,759)	(16)
Property and leasing capital expenditures - normalized <sup>(iv)</sup>	—	4,151	14,074	(8,241)	(9,984)
Leasing capital expenditures - incurred	(5,384)	(1,354)	(2,395)	(191)	(1,444)
Adjustment for changes in non-cash working capital items which are not indicative of sustainable operating cash flows <sup>(v)</sup>	8,990	(88,264)	(18,415)	19,797	95,872
<b>Adjusted Cash Flow from Operations</b>	\$339,152	\$ 92,369	\$ 88,369	\$ 80,060	\$ 78,354
Total distributions declared	282,320	72,848	72,617	68,461	68,394
<b>Excess of cash provided by ACFO over total distributions declared</b>	\$ 56,832	\$ 19,521	\$ 15,752	\$ 11,599	\$ 9,960
<b>ACFO payout ratio<sup>(vi)</sup></b>	83.2%	78.9%	82.2%	85.5%	87.3%

- (i) Presentation of the prior periods has been updated to exclude leasing capital expenditures.
- (iii) The timing of the recognition of interest expense and income differs from the payment and collection. The ACFO calculations were adjusted for this factor to make the quarters more comparable<sup>(2)</sup>.
- (iii) Although the add-back of distributions on Exchangeable Units is not specifically detailed in the Real Property Association of Canada's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2017, management includes the add-back because the distributions on the Exchangeable Units are included in the total distributions declared, which is consistent with the intent of the White Paper. Management considers the distributions on Exchangeable Units to be a financing activity, not an operating activity.
- (iv) Seasonality impacts the timing of capital expenditures. The ACFO calculations were adjusted for this factor to make the quarters more comparable<sup>(2)</sup>.
- (v) ACFO is adjusted each quarter for fluctuations in non-cash working capital due to the timing of transactions for realty taxes prepaid or payable, and prepaid insurance. The payments for these operating expenses tend to have quarterly, seasonal fluctuations that even out on an annual basis. ACFO is also adjusted each quarter to remove fluctuations in non-cash working capital due to capital expenditure accruals, which are not related to sustainable operating activities. The variability created when rent was received in advance from Loblaw, and the related sales taxes payable, has also been removed.
- (vi) Adjusted Cash Flow from Operations payout ratio is calculated as the total distributions declared divided by the ACFO.

The impacts on ACFO from changes in non-cash working capital, after adjustments in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2017, for prior periods in fiscal year 2016 are calculated below:

For the periods (\$ thousands) (unaudited)	Annual 2016	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016	First Quarter 2016
Net change in non-cash working capital <sup>(i)</sup>	\$ 3,852	\$ 99,364	\$ 25,377	\$ (22,778)	\$ (98,111)
Adjustment for changes in non-cash working capital items which were not indicative of sustainable operating cash flows	8,990	(88,264)	(18,415)	19,797	95,872
<b>Net non-cash working capital increase (decrease) included in ACFO</b>	\$ 12,842	\$ 11,100	\$ 6,962	\$ (2,981)	\$ (2,239)

- (i) As calculated under GAAP.

The reconciliation of ACFO to cash flows from operating activities and the calculation of the ACFO payout ratio, for the year ended December 31, 2015, were included in Choice Properties' 2017 quarter end reports available online at [www.sedar.com](http://www.sedar.com).

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

Choice Properties believes EBITDAFV is useful in assessing the Trust's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. In addition, EBITDAFV removes the non-cash impact of the adjustments to fair value. The following table reconciles net income (loss), as determined in accordance with GAAP, to EBITDAFV for the periods ended as indicated:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2017	2016	Variance Favourable / (Unfavourable)	2017	2016	Variance Favourable / (Unfavourable)
<b>Net income (loss)</b>	<b>\$ 36,533</b>	\$ 255,574	\$ (219,041)	<b>\$ 405,345</b>	\$ (223,072)	\$ 628,417
Add (deduct) impact of the following:						
Net income attributable to non-controlling interests	(930)	—	(930)	(930)	—	(930)
Adjustment to fair value of Exchangeable Units	19,026	(107,800)	126,826	(38,212)	529,591	(567,803)
Adjustment to fair value of investment properties	2,504	(101,661)	104,165	(160,254)	(109,045)	(51,209)
Adjustment to fair value of unit-based compensation	267	(225)	492	468	4,309	(3,841)
Adjustment to fair value of investment property held in equity accounted joint venture	(505)	—	(505)	745	(13,640)	14,385
Interest expense <sup>(i)</sup>	100,066	96,987	3,079	393,983	377,956	16,027
Amortization of other assets	235	233	2	934	930	4
<b>Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value</b>	<b>\$ 157,196</b>	\$ 143,108	\$ 14,088	<b>\$ 602,079</b>	\$ 567,029	\$ 35,050

(i) As calculated in Section 6, "Results of Operations" and Section 9.2 "Fourth Quarter Results", of this MD&A.

## Management's Discussion and Analysis

### 18. 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](http://www.sedar.com). The Trust is listed on the Toronto Stock Exchange ("TSX") under the symbol CHP.UN.

The following details the acquisitions during the year ended December 31, 2017 as discussed in Section 5.2, "Acquisition of Investment Properties", of this MD&A:

Location	Acquisition Date	Property Type	GLA (in square feet)	Occupancy (upon acquisition)
<b>Acquisitions from Loblaw</b>				
Hamilton, ON	December 5, 2017	Land	N/A	N/A
Toronto, ON	December 5, 2017	Land	N/A	N/A
Guelph St., Georgetown, ON	December 5, 2017	Stand-alone retail	113,265	100%
Markham Rd., Markham, ON	December 5, 2017	Stand-alone retail	55,890	100%
Dundas St. West, Oakville, ON	December 5, 2017	Stand-alone retail	74,439	100%
<b>Acquisitions from Third-Parties</b>				
Cargill Rd., Winkler, MB <sup>(i)</sup>	February 1, 2017	Multi-tenant retail	11,647	64%
Main St., Selkirk, MB	March 16, 2017	Multi-tenant retail	80,411	71%
Alberta St. West, Brooks, AB	June 14, 2017	Multi-tenant retail	35,635	96%
Rue Saint Cyrille, Saint Raymond, QC	July 10, 2017	Stand-alone retail	25,000	100%
Toronto, ON <sup>(i)</sup>	July 17, 2017	Land <sup>(ii)</sup>	3,152	N/A
Ancienne Lorette, QC <sup>(i)</sup>	July 20, 2017	Land	N/A	N/A
Spruce Grove, AB	July 27, 2017	Land	N/A	N/A
Toronto, ON <sup>(i)</sup>	July 27, 2017	Land	N/A	N/A
Banff Rd., Uxbridge, ON	September 28, 2017	Multi-tenant retail	40,097	96%
Sir Wilfrid-Laurier Blvd., Mont-Saint Hilaire, QC	November 1, 2017	Multi-tenant retail	57,482	100%
Rue Ouellette, Marieville, QC	December 18, 2017	Stand-alone retail	20,000	100%
			517,018	94%

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

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

The following details the acquisitions for the year ended December 31, 2016:

Location	Acquisition Date	Property Type	GLA (in square feet)	Occupancy (upon acquisition)
<b>Acquisitions from Loblaw</b>				
King St., Harrow, ON	May 12, 2016	Stand-alone retail	10,671	100%
Carrick St., Thunder Bay, ON	May 12, 2016	Stand-alone retail	140,181	100%
Fraser Hwy., Surrey, BC	May 12, 2016	Stand-alone retail	41,029	100%
East Hastings St., Vancouver, BC	May 12, 2016	Stand-alone retail	21,060	100%
118 Ave. NW, Edmonton, AB	May 12, 2016	Stand-alone retail	10,482	100%
Westpark Blvd., Fort Saskatchewan, AB	May 12, 2016	Stand-alone retail	17,237	100%
Notre Dame Ave., Winnipeg, MB	May 12, 2016	Stand-alone retail	25,346	100%
Philip Pl., Kincardine, ON	May 12, 2016	Multi-tenant retail	46,221	56%
Main St., Lake Country, BC	May 12, 2016	Multi-tenant retail	13,624	75%
Lougheed Hwy., Pitt Meadows, BC	May 12, 2016	Industrial	355,316	100%
Neilson Rd., Toronto, ON	October 26, 2016	Stand-alone retail	17,065	100%
Huron Walk, Manitouwadge, ON	October 26, 2016	Multi-tenant retail	21,598	95%
South Service Rd., Mississauga, ON	October 26, 2016	Multi-tenant retail	129,381	100%
DeWare Dr., Moncton, NB	October 26, 2016	Industrial	225,990	100%
Edmonton, AB	October 26, 2016	Land	N/A	N/A
<b>Acquisitions from Third-Parties</b>				
139 Ave. NW, Edmonton, AB	August 17, 2016	Multi-tenant retail	67,181	93%
Ryan Rd., Courtenay, BC <sup>(i)</sup>	December 22, 2016	Multi-tenant retail	32,652	88%
Beaver Ave., Beaverton, ON <sup>(i)</sup>	December 22, 2016	Multi-tenant retail	3,891	100%
			1,178,925	97%

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



## Consolidated Financial Statements

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## 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 as issued by the International Accounting Standards Board. It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

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

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

Toronto, Canada  
February 13, 2018

***[signed]***

**John R. Morrison**

President and Chief Executive Officer

***[signed]***

**Bart Munn, CPA, CA**

Executive Vice President, Chief Financial Officer



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## 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 sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

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

Chartered Professional Accountants, Licensed Public Accountants

February 13, 2018  
Toronto, Canada

## Choice Properties Real Estate Investment Trust Consolidated Balance Sheets

(in thousands of Canadian dollars)	As at December 31, 2017	As at December 31, 2016
<b>Assets</b>		
Non-current Assets		
Investment properties (note 6)	\$ 9,551,000	\$ 9,098,000
Equity accounted joint venture (note 7)	32,339	19,070
Accounts receivable and other assets (note 8)	5,565	5,888
Notes receivable (note 9)	2,556	2,360
	<b>9,591,460</b>	<b>9,125,318</b>
Current Assets		
Accounts receivable and other assets (note 8)	21,419	14,882
Notes receivable (note 9)	304,225	290,009
Cash and cash equivalents	6,407	5,113
	<b>332,051</b>	<b>310,004</b>
<b>Total Assets</b>	<b>\$ 9,923,511</b>	<b>\$ 9,435,322</b>
<b>Liabilities and Equity</b>		
Non-current Liabilities		
Long term debt and Class C LP Units (note 10)	\$ 3,336,942	\$ 3,726,991
Credit facilities (note 10)	311,000	172,000
Exchangeable Units (note 11)	4,259,724	4,283,304
Trade payables and other liabilities (note 12)	2,713	1,397
	<b>7,910,379</b>	<b>8,183,692</b>
Current Liabilities		
Long term debt and Class C LP Units (note 10)	400,088	201,723
Credit facilities (note 10)	250,000	—
Trade payables and other liabilities (note 12)	426,063	472,762
	<b>1,076,151</b>	<b>674,485</b>
<b>Total Liabilities</b>	<b>8,986,530</b>	<b>8,858,177</b>
Equity		
Unitholders' equity	928,280	569,374
Non-controlling interests (note 7)	8,701	7,771
<b>Total Equity</b>	<b>936,981</b>	<b>577,145</b>
<b>Total Liabilities and Equity</b>	<b>\$ 9,923,511</b>	<b>\$ 9,435,322</b>

Contingent Liabilities and Financial Guarantees (note 20).  
Subsequent Events (notes 9, 10, and 17).

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees

**[signed]**  
**Anthony R. Graham**  
Board of Trustees Chair

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

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

(in thousands of Canadian dollars)	Year ended December 31, 2017	Year ended December 31, 2016
<b>Net Property Income</b>		
Rental revenue from investment properties (note 14)	\$ 829,834	\$ 783,574
Property operating costs (note 22)	(209,474)	(200,240)
	<b>620,360</b>	<b>583,334</b>
<b>Other Income and Expenses</b>		
General and administrative expenses (note 22)	(23,329)	(28,857)
Property management and other administration fees charged to related party (note 21)	1,270	740
Amortization of other assets	(934)	(930)
Net interest expense and other financing charges (note 15)	(394,826)	(372,842)
Interest and other income	4,829	2,309
Share of income (loss) and comprehensive income (loss) in equity accounted joint venture (note 7)	(491)	13,720
Adjustment to fair value of Exchangeable Units (note 11)	38,212	(529,591)
Adjustment to fair value of investment properties (note 6)	160,254	109,045
<b>Net Income (Loss) and Comprehensive Income (Loss)</b>	<b>\$ 405,345</b>	<b>\$ (223,072)</b>
<b>Net Income (Loss) and Comprehensive Income (Loss) attributable to:</b>		
Choice Properties' Unitholders	\$ 404,415	\$ (223,072)
Non-controlling interests (note 7)	930	—
	<b>\$ 405,345</b>	<b>\$ (223,072)</b>

See accompanying notes to the consolidated financial statements.

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

For the year ended December 31, 2017 (in thousands of Canadian dollars)	Attributable to Choice Properties Unitholders				Non-controlling interests	Total equity
	Trust Units	Cumulative net income (loss)	Cumulative distributions to Unitholders	Total Unitholders' equity		
Equity, December 31, 2016	\$ 888,337	\$ (111,586)	\$ (207,377)	\$ 569,374	\$ 7,771	\$ 577,145
Net income	—	404,415	—	404,415	930	405,345
Distributions	—	—	(68,253)	(68,253)	—	(68,253)
Issuance of Units under the Distribution Reinvestment Plan (note 11)	22,383	—	—	22,383	—	22,383
Issuance of Units under unit-based compensation arrangement (note 11)	361	—	—	361	—	361
<b>Equity, December 31, 2017</b>	<b>\$ 911,081</b>	<b>\$ 292,829</b>	<b>\$ (275,630)</b>	<b>\$ 928,280</b>	<b>\$ 8,701</b>	<b>\$ 936,981</b>

For the year ended December 31, 2016 (in thousands of Canadian dollars)	Attributable to Choice Properties Unitholders				Non-controlling interests	Total equity
	Trust Units	Cumulative net income (loss)	Cumulative distributions to Unitholders	Total Unitholders' equity		
Equity, December 31, 2015	\$ 867,849	\$ 111,486	\$ (144,018)	\$ 835,317	\$ 7,756	\$ 843,073
Net loss	—	(223,072)	—	(223,072)	—	(223,072)
Distributions	—	—	(63,359)	(63,359)	—	(63,359)
Issuance of Units, under the Distribution Reinvestment Plan (note 11)	19,587	—	—	19,587	—	19,587
Issuance of Units, under unit-based compensation arrangement (note 11)	901	—	—	901	—	901
Contribution from non-controlling interests	—	—	—	—	15	15
Equity, December 31, 2016	\$ 888,337	\$ (111,586)	\$ (207,377)	\$ 569,374	\$ 7,771	\$ 577,145

See accompanying notes to the consolidated financial statements.

## Choice Properties Real Estate Investment Trust

### Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Year ended December 31, 2017	Year ended December 31, 2016
<b>Operating Activities</b>		
Net income (loss)	\$ 405,345	\$ (223,072)
Straight-line rental revenue	(34,740)	(36,582)
Amortization of tenant improvement allowances	796	572
Amortization of other assets	934	930
Net interest expense and other financing charges (note 15)	394,826	372,842
Interest and other income	(4,829)	(2,309)
Unit-based compensation expense (note 13)	4,261	7,461
Share of loss (income) from joint venture (note 7)	491	(13,720)
Adjustment to fair value of Exchangeable Units (note 11)	(38,212)	529,591
Adjustment to fair value of investment properties (note 6)	(160,254)	(109,045)
Interest and other income received	4,431	102
Net change in non-cash working capital (note 22)	(68,735)	3,852
<b>Cash Flows from Operating Activities</b>	<b>504,314</b>	<b>530,622</b>
<b>Investing Activities</b>		
Acquisitions of investment properties (note 5)	(107,013)	(183,688)
Additions to investment properties (notes 6)	(166,272)	(193,120)
Additions to fixtures and equipment	(638)	(384)
Equity investment distribution (contribution) (note 7)	(13,760)	4,000
Proceeds of disposition (note 6)	38,179	—
<b>Cash Flows used in Investing Activities</b>	<b>(249,504)</b>	<b>(373,192)</b>
<b>Financing Activities</b>		
Long term debt		
Issued - Senior unsecured debentures, net of debt placement costs (note 10)	—	347,714
Principal repayments - Senior unsecured debentures (note 10)	(200,000)	(300,000)
Principal repayments - Mortgage (note 10)	(1,208)	(1,212)
Gain on settlement of bond forward contracts (note 15)	—	2,682
Credit facilities		
Net advances (note 10)	389,000	172,000
Debt placement costs (note 10)	(275)	(275)
Notes receivable		
Issued to related party (note 9)	(277,588)	(263,574)
Repaid by related party (note 9)	263,574	248,463
Cash received on exercise of options	235	732
Cash paid on vesting of restricted units	(1,161)	(1,493)
Interest paid	(163,237)	(156,297)
Distributions paid on Exchangeable Units	(217,324)	(202,204)
Distributions paid to Unitholders	(45,532)	(43,222)
Contribution from non-controlling interests	—	15
<b>Cash Flows used in Financing Activities</b>	<b>(253,516)</b>	<b>(196,671)</b>
Change in cash and cash equivalents	1,294	(39,241)
Cash and cash equivalents, beginning of year	5,113	44,354
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 6,407</b>	<b>\$ 5,113</b>

Supplemental disclosure of non-cash operating, investing and financing activities (note 22).  
See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

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

Choice Properties Real Estate Investment Trust (“Choice Properties” or the “Trust”) is an unincorporated, open-ended mutual fund trust governed by the laws of the Province of Ontario and established pursuant to a declaration of trust (the “Declaration of Trust”) dated May 21, 2013. Choice Properties is an owner, manager and developer of well-located retail and other commercial real estate across Canada. The principal, registered, and head office of Choice Properties is located at 22 St. Clair Avenue East, Suite 500, Toronto, Ontario, M4T 2S5. Choice Properties’ trust units (“Trust Units” or “Units”) are listed on the Toronto Stock Exchange and are traded under the symbol “CHP.UN”.

Choice Properties commenced operations on July 5, 2013 when it issued Units and debt for cash pursuant to an initial public offering (the “IPO”) and completed the acquisition of 425 properties from Loblaw Companies Limited and its subsidiaries (“Loblaw”).

The parent of Choice Properties is Loblaw, which held a 82.4% direct effective interest in Choice Properties as at December 31, 2017. Loblaw’s controlling shareholder is George Weston Limited (“GWL”), which owns approximately 48.7% of Loblaw’s outstanding common shares and a 6.1% direct effective interest in Choice Properties as at December 31, 2017.

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

### 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” or “GAAP”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described herein.

These consolidated financial statements were authorized for issuance by Choice Properties’ Board of Trustees (“Board”) on February 13, 2018.

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

- investment properties as described in note 6;
- Class B LP Units (the “Exchangeable Units”) which are exchangeable for Trust Units at the option of the holder as described in note 11; and
- liabilities for unit-based compensation arrangements as described in note 13.

The consolidated financial statements are presented in Canadian dollars, which is the Trust’s functional currency.

**Basis of Consolidation** The consolidated financial statements include the accounts of Choice Properties and other entities that the Trust controls. Subsidiaries are entities over which the Trust has control. Choice Properties controls an entity when the Trust has power over the entity, has exposure, or rights, to variable returns from its involvement with the entity, and has the ability to use its power to affect its returns. Choice Properties reassesses control on an ongoing basis.

When Choice Properties does not own all of the equity in a subsidiary, the non-controlling equity interest is disclosed in the consolidated balance sheet as a separate component of total equity. Transactions with non-controlling interests are treated as transactions with equity owners of the Trust. Changes in the Trust’s ownership interest in its subsidiaries are accounted for as equity transactions. Transactions and balances between the Trust and its subsidiaries have been eliminated on consolidation.

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

**Joint Ventures** A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

The Trust’s investment in a joint venture is recorded using the equity method and is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Trust’s share of the profit or loss and other comprehensive income of the joint venture. The Trust’s share of the joint venture’s profit or loss is recognized in the Trust’s consolidated statements of income and comprehensive income.

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



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

**Joint Operations** A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement.

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

The Trust recognizes its proportionate share of assets, liabilities, revenues and expenses of joint operations.

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

Acquired investment properties are initially measured at cost, including directly attributable acquisition costs, when the transactions are deemed to be asset acquisitions.

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 discounted cash flow projections or recent transaction prices in less active markets. 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.

Properties under development are transferred to income producing properties, at their fair value, upon practical completion of a development. The Trust considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where the Trust has pre-leased space under development and the lease requires the Trust to construct tenant improvements which enhance the value of the property, practical completion is considered to occur on completion of such improvements.

Investment properties that are expected to be recovered primarily through sale rather than through continued use are classified as held for sale. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the investment property is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan.

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.

Subsequent 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.

**Capital Expenditures** Capital expenditures include development capital and building improvements.

Development capital includes costs from expansion or redevelopment projects on existing income producing properties and development projects on properties under development. These projects result in additional gross leasable area and improved productive capacity. Costs capitalized in development capital include:

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

Building improvements include costs capitalized due to structural changes to income producing properties, not directly associated with expansion, redevelopment or development projects, such as permit fees, architect fees and hard construction costs.

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

## Notes to the Consolidated Financial Statements

**Operating Capital Expenditures** Operating capital expenditures incurred to sustain the income producing properties' productive capacity include:

- property capital expenditures, such as parking lot resurfacing and roof replacement, which are recoverable from tenants under the terms of their leases over the useful life of the improvements;
- initial direct leasing costs incurred by Choice Properties with third-parties in negotiating and arranging tenant leases; and
- payments to tenants under lease obligations.

Payments to tenants based on lease obligations are characterized either as tenant improvements, or tenant inducements. 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.

**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
<b>Financial assets</b>		
Accounts receivable	Loans and receivables	Amortized cost
Notes receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Fair value through profit or loss	Fair value
<b>Financial liabilities</b>		
Long term debt and Class C LP Units:		
Senior unsecured debentures	Other financial liabilities	Amortized cost
Class C LP Units	Other financial liabilities	Amortized cost
Mortgages	Other financial liabilities	Amortized cost
Credit facilities	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 the Trust's subsidiary, the Partnership, 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.

Acquisition 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, notes 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>Unit Options</i>	Fair value of each tranche is valued separately using a Black-Scholes option pricing model.
<i>Restricted Units, Performance Units and Trustee Deferred Units</i>	Fair value is based on the closing market trading prices of Choice Properties' Units.
<i>Exchangeable Units</i>	Fair value is based on the closing market trading prices of Choice Properties' Units.
<i>Long term debt and Class C LP Units</i>	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.

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

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

**Impairment of Financial Assets** An assessment of whether there is objective evidence that the Trust's assets or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or portfolio 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 net income 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 net income. 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.

## Notes to 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 defined contribution pension plans sponsored by Loblaw. 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"), Performance Units ("PUs"), 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 a RU is outstanding. The fair value of each RU granted is measured based on the market value of a Unit at the balance sheet date.

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

The fair value of the amount payable to employees and Trustees 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. Any income retained in the Trust would be taxed at the highest marginal tax rate applicable to individuals in the calendar year.

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.

### **Accounting Standards Implemented in 2017**

The Trust implemented the amendments to IAS 7, “Statement of Cash Flows”, in the first quarter of 2017 to provide disclosures on changes in liabilities arising from financing activities, including both cash and non-cash flow changes.

### **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.

#### **Joint Arrangements**

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

#### **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.

## Notes to the Consolidated Financial Statements

### 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

**IFRS 15** In 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), replacing IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively with cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with restatement of the comparative period.

IFRS 15 contains a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard.

The Trust will adopt IFRS 15, and the related interpretations, in its consolidated financial statements for the annual period beginning on January 1, 2018. The Trust is completing its evaluation of IFRS 15, including an assessment of the transition method that will be used on the adoption of the standard. Management does not expect that IFRS 15 will have a material impact on the amount and timing of revenue recognized. However, additional disclosure requirements may result in separate disclosure of revenue for service components that are part of a lease, such as a non-lease component.

**IFRS 9** In 2014, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"), replacing IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") and related interpretations. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge model. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with the cumulative effects of initial application recorded in opening retained earnings as a January 1, 2018, with no restatement of the comparative period.

The Trust will adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018 and is completing its evaluation of the impact of this standard on each of its financial instruments. Based upon the Trust's existing financial instruments and related accounting policies at December 31, 2017, the principal areas impacted are: classification and measurement of financial assets, presentation of fair value changes for certain financial liabilities designated at fair value through profit or loss, and impairment of financial assets. IFRS 9 also requires new disclosures.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss; and IFRS 9 eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as fair value through profit or loss are recognized in profit or loss; whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and the remaining amount of change in fair value is presented in profit or loss.

The Trust is still assessing the potential impact on non-substantial modifications made to financial instruments measured at amortized cost. Under IFRS 9, the amortized cost is recalculated on modifications which result in the recognition of a gain or loss, whereas under IAS 39 no gain or loss is recorded.

Exchangeable Units will continue to be classified as financial liabilities at fair value through profit or loss and there will be no material impact on adoption of IFRS 9 related to these financial liabilities.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking expected credit loss ("ECL") model. Applying the ECL model will require considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or those measured at fair

value through other comprehensive income, except for investments in equity instruments and contract assets. Upon adoption of IFRS 9, the Trust will change the models used to measure impairment of financial assets, such as rents and notes receivable.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Trust does not currently apply hedge accounting in its consolidated financial statements.

Based on its assessment, the Trust does not expect the standard will have a material impact on the consolidated financial statements.

**IFRS 16** In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), replacing IAS 17, "Leases" and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. For leases where the Trust is the lessee, the option exists of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. While early adoption is permitted, if IFRS 15 has already been adopted, the Trust will not early adopt IFRS 16.

The Trust intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. It is expected that IFRS 16 will affect the Trust in its capacity as lessee of office space. The Trust will recognize a liability for the present value of future lease liabilities and record a corresponding asset on the balance sheet. The nature and timing of the related expenses will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Trust is currently assessing the impact of the standard on the consolidated financial statements. In particular, the Trust is assessing how the new standard may impact the identification of lease and non-lease components, including the allocation of consideration to each lease and non-lease component. The standard requires this allocation to be completed in accordance with the guidance in IFRS 15, that is, on the basis of relative stand-alone selling prices.

## Note 5. Acquisitions

During the year ended December 31, 2017, Choice Properties completed the following acquisitions:

Location	Date of acquisition	Property type	Investment properties	Other assets	Other liabilities	Net assets acquired	Consideration			Acquisition costs included in investment properties
							Debt assumed	Exchangeable Units issued	Cash	
Toronto, ON	December 5	Land	\$ 2,864	\$ —	\$ —	\$ 2,864	\$ —	\$ 2,651	\$ 213	\$ 64
Hamilton, ON	December 5	Land	2,391	—	—	2,391	—	141	2,250	41
Various (3 properties)	December 5	Retail	57,065	—	—	57,065	—	11,840	45,225	515
Acquisitions from Loblaw			62,320	—	—	62,320	—	14,632	47,688	620
Winkler, MB	February 1	Retail	2,825	—	(25)	2,800	—	—	2,800	78
Selkirk, MB	March 16	Retail	7,125	—	(91)	7,034	—	—	7,034	25
Brooks, AB	June 14	Retail	8,427	50	(36)	8,441	—	—	8,441	25
St-Raymond-de-Portneuf, QC	July 10	Retail	3,919	—	—	3,919	—	—	3,919	69
Toronto, ON	July 17	Land	5,343	2	(20)	5,325	—	—	5,325	317
Ancienne Lorette, QC	July 20	Land	940	—	—	940	—	—	940	30
Spruce Grove, AB	July 27	Land	3,225	9	—	3,234	—	—	3,234	25
Toronto, ON	July 28	Land	5,829	20	(9)	5,840	—	—	5,840	329
Uxbridge, ON	September 28	Retail	9,692	33	(42)	9,683	—	—	9,683	257
Mont-Saint Hilaire, QC	November 1	Retail	15,741	38	(42)	15,737	6,601	—	9,136	341
Marieville, QC	December 18	Retail	2,968	5	—	2,973	—	—	2,973	68
Acquisitions from third-parties			66,034	157	(265)	65,926	6,601	—	59,325	1,564
<b>Total Acquisitions</b>			<b>\$ 128,354</b>	<b>\$ 157</b>	<b>\$ (265)</b>	<b>\$ 128,246</b>	<b>\$ 6,601</b>	<b>\$ 14,632</b>	<b>\$ 107,013</b>	<b>\$ 2,184</b>

## Notes to the Consolidated Financial Statements

During the year ended December 31, 2016, Choice Properties completed the following acquisitions:

Location	Date of acquisition	Property type	Investment properties	Other assets	Other liabilities	Net assets acquired	Consideration			Acquisition costs included in investment properties
							Debt assumed	Exchangeable Units issued	Cash	
Various (9 properties)	May 12	Retail	\$ 72,836	\$ 83	\$ (257)	\$ 72,662	\$ —	\$ —	\$ 72,662	\$ 1,446
Pitt Meadows, BC	May 12	Industrial	47,369	—	(136)	47,233	—	—	47,233	1,619
Moncton, NB <sup>(i)</sup>	October 26	Industrial	19,715	—	(24)	19,691	—	9,537	10,154	382
Edmonton, AB <sup>(i)</sup>	October 26	Land	3,056	—	—	3,056	—	219	2,837	59
Various <sup>(i)</sup> (3 properties)	October 26	Retail	18,834	60	(94)	18,800	—	2,062	16,738	426
Acquisitions from Loblaw			161,810	143	(511)	161,442	—	11,818	149,624	3,932
Edmonton, AB	August 17	Retail	19,686	343	(109)	19,920	—	—	19,920	20
Courtenay, BC	December 22	Retail	12,957	397	(26)	13,328	—	—	13,328	388
Beaverton, ON	December 22	Retail	823	2	(9)	816	—	—	816	35
Acquisitions from third-parties			33,466	742	(144)	34,064	—	—	34,064	443
<b>Total Acquisitions</b>			<b>\$ 195,276</b>	<b>\$ 885</b>	<b>\$ (655)</b>	<b>\$ 195,506</b>	<b>\$ —</b>	<b>\$ 11,818</b>	<b>\$ 183,688</b>	<b>\$ 4,375</b>

(i) Investment properties and Exchangeable Units values both included adjustments totaling (\$182) to reflect the decrease of the fair value of the Exchangeable Units on the closing date compared to the volume weighted average value of the units referenced in the purchase and sale agreement.

### Note 6. Investment Properties

(\$ thousands)	Income producing properties	Properties under development	Year ended	Year ended
			December 31, 2017	December 31, 2016
Balance, beginning of year	\$ 9,031,603	\$ 66,397	\$ 9,098,000	\$ 8,561,000
Acquisitions of investment properties - including acquisition costs of \$2,184 (2016 - \$4,375) (note 5)	119,874	8,480	128,354	195,276
Capital expenditures:				
Development capital <sup>(i)</sup>	93,876	17,909	111,785	133,448
Building improvements	5,109	—	5,109	12,096
Capitalized interest <sup>(ii)</sup> (note 15)	1,109	1,246	2,355	3,549
Operating capital expenditures:				
Property capital (note 22)	44,962	—	44,962	42,192
Direct leasing costs	2,489	—	2,489	3,077
Tenant improvement allowances	1,927	—	1,927	2,307
Amortization of straight-line rent and tenant improvement allowances - included in revenue	33,944	—	33,944	36,010
Dispositions	(38,179)	—	(38,179)	—
Adjustment to fair value of investment properties	144,639	15,615	160,254	109,045
Transfers from properties under development	68,087	(68,087)	—	—
<b>Balance, end of year</b>	<b>\$ 9,509,440</b>	<b>\$ 41,560</b>	<b>\$ 9,551,000</b>	<b>\$ 9,098,000</b>

(i) Development capital included \$5,793 of site intensification payments (note 21) paid to Loblaw (December 31, 2016 - \$6,582). Also included in development capital was a payment of \$1,542 (note 21) received from Loblaw (December 31, 2016 - nil).

(ii) Interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.43% (December 31, 2016 - 3.45%).



On July 17, 2017, Choice Properties sold certain gas bar capital assets, with a fair value of \$34,745, to Loblaw for cash consideration equivalent to the fair value of the assets. The disposition was made to facilitate the sale of substantially all of Loblaw's gas bar operations to Brookfield Business Partners L.P. ("Brookfield") (note 21).

On November 28, 2017, a retail property in Quebec, with a fair value of \$3,434, was sold for cash consideration. Prior to the sale, Choice Properties received a lease surrender payment from Loblaw of \$2,520 (note 14).

Included in certain investment properties acquired from Loblaw is excess land with development potential. Choice Properties will compensate Loblaw, over time, with intensification payments determined by a site intensification payment grid as outlined in the Strategic Alliance Agreement (note 21), should Choice Properties pursue activity resulting in the intensification of such excess land. The fair value of this excess land has been recorded in the consolidated financial statements.

### Independent Appraisals

All properties were independently appraised at the time of acquisition. In addition, Choice Properties has engaged independent nationally-recognized valuation firms to appraise the investment properties such that substantially all of the portfolio will be independently appraised at least once over a five-year period.

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

(\$ thousands except where otherwise indicated)	2017		2016	
	Number of properties	Fair value	Number of properties	Fair value
March 31	25	\$ 600,000	24	\$ 477,000
June 30	25	559,000	22	624,000
September 30	27	681,000	19	401,000
December 31	25	475,000	31	705,000
<b>Total</b>	<b>102</b>	<b>\$ 2,315,000</b>	<b>96</b>	<b>\$ 2,207,000</b>

### Internal Appraisals

The investment properties were measured at fair value, which was primarily determined by using the discounted cash flow method. Under the discounted cash flow methodology, discount rates were applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value of the investment properties based on a capitalization rate applied to the estimated net operating income, a non-GAAP measure, in the terminal year.

The Trust has an internal valuation team. On a quarterly basis, for properties that are not independently appraised that quarter, the valuation team reviews and updates, as deemed necessary, the valuation models to reflect current market data. Updates may be made to capitalization rates, discount rates, market rents, as well as current leasing and/or development activity, renewal probability, downtime on lease expiry, vacancy allowances, and expected maintenance costs.

The capitalization rates and discount rates used by the internal valuation team are based on location, size and quality of the properties and are obtained through quarterly reports from independent nationally-recognized appraisers.

Below are the key rates used in the valuation models for both internal and independent appraisals.

	Weighted average	
	As at December 31, 2017	As at December 31, 2016
Discount rate	7.02%	7.05%
Terminal capitalization rate	6.39%	6.43%
Overall capitalization rate	6.07%	6.12%

## Notes to the Consolidated Financial Statements

### Fair Value Sensitivity

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

Capitalization rate sensitivity increase/(decrease) (\$ thousands)	Weighted average overall capitalization rate	Fair value of investment properties	Fair value variance	% change
(0.75)%	5.32%	\$ 10,897,670	\$ 1,346,670	14 %
(0.50)%	5.57%	\$ 10,408,479	\$ 857,479	9 %
(0.25)%	5.82%	\$ 9,961,320	\$ 410,320	4 %
December 31, 2017	6.07%	\$ 9,551,000	\$ —	— %
0.25%	6.32%	\$ 9,173,146	\$ (377,854)	(4)%
0.50%	6.57%	\$ 8,824,051	\$ (726,949)	(8)%
0.75%	6.82%	\$ 8,500,552	\$ (1,050,448)	(11)%

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

### Note 7. Interests in Other Entities

#### Joint Venture

On December 9, 2014, Choice Properties and its joint venture partner, Wittington Properties Limited ("Wittington") completed the acquisition of the West Block project at Lake Shore Boulevard and Bathurst Street ("500 Lake Shore") in Toronto, Ontario for \$15,576 from Loblaw via 500 LS Limited Partnership. Wittington's parent company is Wittington Investments, Limited, which holds a majority interest in GWL. The joint venture partners intend to develop 500 Lake Shore into a mixed-used property.

Limited Partnership	Country of Formation	Location	Ownership Interest as at December 31, 2017 and December 31, 2016
500 LS Limited Partnership	Canada	500 Lake Shore Blvd. West, Toronto, ON	40%

Choice Properties contributed \$13,760 to the joint venture and did not receive any distributions during the year ended December 31, 2017 (year ended December 31, 2016 - contributions nil and distributions \$4,000). Operating activities have not begun at the property, however the joint venture did earn interest income during the years ended December 31, 2017 and 2016. In the first quarter of 2016, the fair value of property increased as certain zoning approvals were obtained related to achieving additional developmental density at the site.

Summarized financial information for Choice Properties' share of the equity accounted investment is set out below:

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Current assets	\$ 47,021	\$ 24,439
Non-current assets	80,045	64,244
Current liabilities	(46,219)	(41,007)
Net assets at 100%	\$ 80,847	\$ 47,676
Investment in equity accounted joint venture	\$ 32,339	\$ 19,070

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Interest income	\$ 634	\$ 200
Adjustment to fair value of investment property	(1,863)	34,100
Net income (loss) and comprehensive income (loss) at 100%	\$ (1,229)	\$ 34,300
Share of income (loss) and comprehensive income (loss) in equity accounted joint venture	\$ (491)	\$ 13,720

### Subsidiary

On November 7, 2014, Choice Properties acquired a 70% controlling interest in Choice Properties PRC Brampton Limited Partnership, a subsidiary which holds land intended for future retail development. As a result, Choice Properties consolidated the results of this subsidiary and recognized a 30% non-controlling interest for the interests of PL Ventures Ltd., a subsidiary of PenEquity Realty Corporation ("PenEquity").

Limited Partnership	Country of Formation	Location	Ownership Interest as at December 31, 2017 and December 31, 2016
Choice Properties PRC Brampton Limited Partnership	Canada	Mayfield/Chinguacousy, Brampton, ON	70%

Operating activities have not begun at the property. During the year, a lease surrender payment of \$3,100 was received from Loblaw upon termination of a lease agreement scheduled to commence upon completion of development (note 14). The following is included in Choice Properties' consolidated financial statements relating to the subsidiary:

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Current assets	\$ 3,170	\$ 98
Non-current assets	25,881	25,844
Current liabilities	(25)	(16)
Non-current liabilities	(23)	(23)
Net assets at 100%	\$ 29,003	\$ 25,903
Non-controlling interests at 30%	\$ 8,701	\$ 7,771

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Other rental revenue	\$ 3,100	\$ —
Net income and comprehensive income at 100%	\$ 3,100	\$ —
Non-controlling interests at 30%	\$ 930	\$ —

## Notes to the Consolidated Financial Statements

### Joint Operation

On January 30, 2015, Choice Properties entered into a co-ownership agreement with PFC Fernbank Corp. ("Fernbank"), a subsidiary of PenEquity and Phoenix Fernbank Inc., to acquire a parcel of land in Kanata, Ontario. This is a longer-term development project with the construction of a food store anchored retail centre anticipated to commence in the future.

Choice Properties recognized its 50% proportionate share of the assets held jointly in the co-ownership, of the parcel of land, and funded its partners' collective 50% interest of the purchase price through a mezzanine loan (note 9).

There was no operating activity during the years ended December 31, 2017 or 2016. Summarized financial information for Choice Properties' proportionate share of the property is set out below:

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Current assets	\$ —	\$ —
Non-current assets	4,249	4,176
Current liabilities	(199)	(126)
Net assets at 100%	\$ 4,050	\$ 4,050
Choice Properties' proportionate share at 50%	\$ 2,025	\$ 2,025

### Note 8. Accounts Receivable and Other Assets

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Net rent receivable - net of allowance for doubtful accounts of \$928 (2016 - \$1,312) <sup>(i)</sup>	\$ 3,516	\$ 5,304
Due from related party <sup>(ii)</sup>	2,577	—
Construction inventory	6,925	2,856
Fixtures and equipment - net of accumulated amortization of \$3,594 (2016 - \$2,660)	5,102	5,398
Prepaid property taxes	3,156	4,040
Prepaid insurance	347	403
Prepaid other	5,361	2,769
<b>Accounts receivable and other assets</b>	<b>\$ 26,984</b>	<b>\$ 20,770</b>
Classified as:		
Non-current	\$ 5,565	\$ 5,888
Current	21,419	14,882
	<b>\$ 26,984</b>	<b>\$ 20,770</b>

(i) Includes \$520 net rent receivable from Loblaw (December 31, 2016 - nil).

(ii) Other net receivables due from Loblaw (December 31, 2016 - nil).

**Note 9. Notes Receivable**

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Notes receivable from related party	\$ 277,588	\$ 263,574
Notes receivable from third-parties	29,193	28,795
<b>Notes receivable</b>	<b>\$ 306,781</b>	<b>\$ 292,369</b>
Classified as:		
Non-current	\$ 2,556	\$ 2,360
Current	304,225	290,009
	<b>\$ 306,781</b>	<b>\$ 292,369</b>

**Notes receivable from related party** Non-interest bearing short term notes totaling \$263,574 were repaid by Loblaw in January 2017. During 2017, non-interest bearing short term notes totaling \$277,588 were issued to Loblaw and repaid in January 2018 (note 21).

**Notes receivable from third-parties** On December 24, 2014, Choice Properties provided mezzanine financing to Penady (Barrie) Ltd., a subsidiary of PenEquity and its partner, in the form of a two-year mortgage of \$22,500 at an interest rate of 8% per annum, with an option to extend. On October 20, 2016, Choice Properties issued an extension to September 29, 2017 at an interest rate of 9% per annum. The agreement was subsequently extended a few times, with the most recent extending the maturity date to April 30, 2018, with no change in the interest rate of 9% per annum. The balance, as at December 31, 2017, included accrued interest of \$4,137 (December 31, 2016 - \$3,935), of which \$3,935 is payable on maturity.

On January 30, 2015, Choice Properties also provided a five-year mezzanine loan of \$2,025 at an interest rate of 8% per annum to Fernbank with respect to the co-ownership in Kanata, Ontario (note 7). The balance, as at December 31, 2017, included accrued interest of \$531 payable on maturity (December 31, 2016 - \$335).

## Notes to the Consolidated Financial Statements

### Note 10. Long Term Debt and Class C LP Units

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
<b>Senior Unsecured Debentures</b> (interest semi-annually)		
Series A 3.554%, due 2018, effective interest 3.554%	\$ 400,000	\$ 400,000
Series B 4.903%, due 2023, effective interest 4.903%	200,000	200,000
Series C 3.498%, due 2021, effective interest 3.498%	250,000	250,000
Series D 4.293%, due 2024, effective interest 4.293%	200,000	200,000
Series E 2.297%, due 2020, effective interest 2.297%	250,000	250,000
Series F 4.055%, due 2025, effective interest 4.055%	200,000	200,000
Series G 3.196%, due 2023, effective interest 3.196%	250,000	250,000
Series H 5.268%, due 2046, effective interest 5.268%	100,000	100,000
Series 6 3.00%, due 2017, effective interest 2.23%	—	200,000
Series 7 3.00%, due 2019, effective interest 3.04%	200,000	200,000
Series 8 3.60%, due 2020, effective interest 3.20%	300,000	300,000
Series 9 3.60%, due 2021, effective interest 3.57%	200,000	200,000
Series 10 3.60%, due 2022, effective interest 3.84%	300,000	300,000
Debt discounts and premiums - net of accumulated amortization of (\$12,007) (2016 - (\$11,058))	(351)	598
Debt placement costs - net of accumulated amortization of \$4,332 (2016 - \$3,032)	(6,326)	(7,626)
<b>Mortgages</b> (interest monthly)		
7.42%, due 2017, effective interest 2.80%	—	1,044
3.15%, due 2019, effective interest 2.45%	1,736	1,883
2.58%, due 2020, effective interest 2.58%	6,584	—
Debt discount - net of accumulated amortization of (\$260) (2016 - (\$185))	41	116
<b>Class C LP Units<sup>(i)</sup></b> (distributions monthly)		
Tranche 1 5.00%, redemption rights beginning 2027, effective interest 5.46%	300,000	300,000
Tranche 2 5.00%, redemption rights beginning 2028, effective interest 5.51%	300,000	300,000
Tranche 3 5.00%, redemption rights beginning 2029, effective interest 5.57%	325,000	325,000
Debt premium - net of accumulated amortization of \$10,562 (2016 - \$7,978)	(38,176)	(40,760)
<b>Other</b>		
Credit facilities' debt placement costs - net of accumulated amortization of \$1,854 (2016 - \$1,516)	(1,478)	(1,541)
<b>Long term debt and Class C LP Units</b>	<b>\$ 3,737,030</b>	<b>\$ 3,928,714</b>
Classified as:		
Non-current	\$ 3,336,942	\$ 3,726,991
Current	400,088	201,723
	<b>\$ 3,737,030</b>	<b>\$ 3,928,714</b>

(i) Represents amounts due to Loblaw.

**Senior Unsecured Debentures** On January 12, 2018, Choice Properties issued \$300,000 and \$350,000 aggregate principal amount of Series I and J senior unsecured debentures due March 21, 2022 and January 10, 2025, respectively. The Series I unsecured debentures bear interest at a rate of 3.010% per annum, with semi-annual installments of interest due on March 21 and September 21 in each year, commencing March 21, 2018. The Series J unsecured debentures bear interest at a rate of 3.546% per annum, with semi-annual installments of interest due on January 10 and July 10 of each year, commencing July 10, 2018. The offering in January 2018 was made under the Short Form Base Shelf Prospectus dated January 9, 2018 (note 17).

On February 12, 2018, Choice Properties completed the early retirement of Series A senior unsecured debentures at a redemption price equal to \$1,007.200 per \$1,000 principal amount of Series A debentures, together with accrued and unpaid interest.

As at December 31, 2017, the senior unsecured debentures had a weighted average effective interest rate of 3.61% (December 31, 2016 - 3.52%). Senior unsecured debentures Series A through Series H were issued by the Trust and Series 6 through Series 10 were issued by the Partnership.

On January 23, 2017, Choice Properties redeemed, at par, \$200,000 Series 6 senior unsecured debentures with an original maturity date of April 20, 2017.

On March 7, 2016, Choice Properties redeemed, at par, \$300,000 Series 5 senior unsecured debentures with an original maturity date of April 20, 2016.

On March 7, 2016, Choice Properties issued \$250,000 and \$100,000 aggregate principal amount of Series G and H senior unsecured debentures due March 7, 2023 and March 7, 2046, respectively. The Series G senior unsecured debentures bear interest at a rate of 3.196% per annum and the Series H senior unsecured debentures bear interest at a rate of 5.268% per annum, with semi-annual installments of interest due on March 7 and September 7 in each year, commencing in September 2016. Debt placement costs of \$2,286 are amortized using the effective interest method and recorded to net interest expense and other financing charges (note 15). The offering in March 2016 was made under the Short Form Base Shelf Prospectus dated October 14, 2015.

On January 20, 2016, Choice Properties entered into certain bond forward contracts with a notional value of \$300,000. The contracts were settled on March 4, 2016, resulting in a gain of \$2,682 (note 15).

Debt placement costs incurred were recorded against the principal owing and are amortized using the effective interest method and recorded to net interest expense and other financing charges (note 15).

**Mortgage** In connection with the property acquired from a third-party on November 1, 2017, Choice Properties assumed a mortgage which is secured by the acquired property. The mortgage bears interest at a fixed rate of 2.58% per annum and matures in 2020.

**Class C LP Units (authorized - unlimited)** 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.

**Credit Facilities** Choice Properties has a \$500,000 senior unsecured committed revolving credit facility provided by a syndicate of lenders maturing July 5, 2022. The credit facility bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. Certain conditions of the credit facility are contingent on Choice Properties' credit rating remaining at "BBB".

At December 31, 2017, Choice Properties also had a bi-lateral \$250,000 senior unsecured committed revolving credit facility with a major Canadian financial institution maturing December 21, 2018. The interest on the credit facility was at variable rates of either: Prime plus 0.25% or Bankers' Acceptance rate plus 1.25%. Certain conditions of the credit facility were contingent on Choice Properties' credit rating remaining at "BBB". Should certain conditions not have been met, the credit facility would have become secured against select properties. Subsequent to December 31, 2017, the Trust repaid and cancelled this credit facility.

As at December 31, 2017, \$311,000 was drawn on the syndicated credit facility (December 31, 2016 - \$172,000) and \$250,000 was drawn under the bi-lateral credit facility (December 31, 2016 - nil). As at December 31, 2017, the balance of the unamortized debt placement costs was \$1,478 (December 31, 2016 - \$1,541).

The credit facilities contain certain financial covenants. As at December 31, 2017, the Trust was in compliance with all of its financial covenants (note 17).

## Notes to the Consolidated Financial Statements

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

(\$ thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Senior unsecured debentures	\$ 400,000	\$ 200,000	\$ 550,000	\$ 450,000	\$ 300,000	\$ 950,000	\$ 2,850,000
Mortgages	383	1,803	6,134	—	—	—	8,320
Class C LP Units	—	—	—	—	—	925,000	925,000
<b>Total</b>	<b>\$ 400,383</b>	<b>\$ 201,803</b>	<b>\$ 556,134</b>	<b>\$ 450,000</b>	<b>\$ 300,000</b>	<b>\$ 1,875,000</b>	<b>\$ 3,783,320</b>

The following table reconciles the changes in cash flows from financing activities for long term debt and Class C LP Units, and credit facilities:

(\$ thousands)	Year ended December 31, 2017	
	Long-term Debt and Class C LP Units	Credit Facilities
Balance, beginning of year	\$ 3,928,714	\$ 172,000
Repayment of Series 6 senior unsecured debentures	(200,000)	—
Mortgage repayments	(1,208)	—
Debt placement costs	(275)	—
Net credit facility advances	—	389,000
Total financing cash flow activities	(201,483)	389,000
Assumption of mortgage (note 5)	6,601	—
Amortization of debt discounts and premiums	1,560	—
Amortization of debt placement costs	1,638	—
Total financing non-cash activities	9,799	—
<b>Balance, end of year</b>	<b>\$ 3,737,030</b>	<b>\$ 561,000</b>



## 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, a Unitholder has the right to require Choice Properties to redeem its Units on demand. Upon receipt of a redemption notice by Choice Properties, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit as determined by a market formula and shall be paid in accordance with the conditions provided for in the Declaration of Trust.

**Exchangeable Units (authorized - unlimited)** Exchangeable Units issuable by the Partnership are economically equivalent to Units, receive distributions equal to the distributions paid on the Units and are exchangeable, at the holder's option, to Units.

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

### Units Outstanding

(\$ thousands except where otherwise indicated)	As at December 31, 2017		As at December 31, 2016	
	Units	Amount	Units	Amount
Units, beginning of year	92,568,828	\$ 888,337	90,953,817	\$ 867,849
Issuance of Units under the Distribution Reinvestment Plan	1,694,763	22,383	1,549,693	19,587
Units issued under unit-based compensation arrangement	37,374	361	65,318	901
<b>Units, end of year</b>	<b>94,300,965</b>	<b>\$ 911,081</b>	92,568,828	\$ 888,337
Exchangeable Units, beginning of year	317,988,505	\$ 4,283,304	317,109,792	\$ 3,741,895
Exchangeable Units issued				
October 26, 2016 (note 5)	—	—	878,713	11,818
December 5, 2017 (note 5)	1,092,052	14,632	—	—
Adjustment to fair value of Exchangeable Units	—	(38,212)	—	529,591
<b>Exchangeable Units, end of year</b>	<b>319,080,557</b>	<b>\$ 4,259,724</b>	317,988,505	\$ 4,283,304
<b>Total Units and Exchangeable Units, end of year</b>	<b>413,381,522</b>		410,557,333	

**Distributions** Choice Properties' Board of Trustees retains full discretion with respect to the timing and quantum of distributions, however the total income distributed will not be less than the amount necessary to ensure the Trust will not be liable to pay income taxes under Part I of the *Income Tax Act (Canada)* for the year ending December 31, 2017. In April 2017, Choice Properties announced an increase in the annual distribution by 4.2% to \$0.74 per unit. The increase was effective for Unitholders of record on May 31, 2017. In the year ended December 31, 2017, Choice Properties declared distributions of \$0.73 per unit (year ended December 31, 2016 - \$0.69), or \$300,452 in aggregate, including non-cash distributions provided under the Distribution Reinvestment Plan ("DRIP") and distributions to holders of Exchangeable Units, which are reported as interest expense (year ended December 31, 2016 - \$282,320). 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** Choice Properties has a DRIP that allows Unitholders to use the monthly cash distributions paid on their existing Units to purchase additional Units directly from the Trust. Unitholders who elect to participate in the DRIP receive a further distribution, payable in Units, equal in value to 3% of each cash distribution. In the year ended December 31, 2017, Choice Properties issued 1,694,763 Units under the DRIP (year ended December 31, 2016 - 1,549,693 Units).

## Notes to the Consolidated Financial Statements

### Note 12. Trade Payables and Other Liabilities

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Trade accounts payable	\$ 9,737	\$ 9,159
Accrued liabilities	56,469	50,801
Accrued interest expense	34,495	35,948
Due to related party <sup>(i)</sup>	301,117	301,072
Unit-based compensation	14,013	11,039
Distributions payable <sup>(ii)</sup>	5,815	5,477
Tenant deposits	501	532
Deferred revenue <sup>(iii)</sup>	6,629	60,131
<b>Trade payables and other liabilities</b>	<b>\$ 428,776</b>	<b>\$ 474,159</b>
Classified as:		
Non-current	\$ 2,713	\$ 1,397
Current	426,063	472,762
	<b>\$ 428,776</b>	<b>\$ 474,159</b>

(i) Includes distributions accruing on Exchangeable Units of \$251,013 (December 31, 2016 - \$236,138) and Class C LP Units of \$50,104 (December 31, 2016 - \$50,104), and other net liabilities due to Loblaw of nil (December 31, 2016 - \$14,830).

(ii) Includes \$1,326 payable to Loblaw and \$1,563 payable to GWL (December 31, 2016 - \$1,272 and \$1,420, respectively).

(iii) Includes nil rent from Loblaw received in advance (December 31, 2016 - \$57,135).

### Note 13. Unit-Based Compensation

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

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Unit Option plan	\$ 1,077	\$ 4,173
Restricted Unit plan	1,728	1,773
Performance Unit plan	711	346
Trustee Deferred Unit plan	745	1,169
<b>Unit-based compensation expense</b>	<b>\$ 4,261</b>	<b>\$ 7,461</b>
Adjustment to fair value included in the above	\$ 468	\$ 4,309

As at December 31, 2017, the carrying value of total unit-based compensation was \$14,013 (December 31, 2016 - \$11,039) (note 12).

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

	Year ended December 31, 2017		Year ended December 31, 2016	
	Number of awards	Weighted average exercise price/unit	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	3,990,231	\$ 11.25	3,499,656	\$ 11.05
Granted	451,000	\$ 14.20	655,266	\$ 12.38
Exercised	(37,374)	\$ 10.24	(65,318)	\$ 11.21
Cancelled	—	\$ —	(99,373)	\$ 11.76
<b>Outstanding Unit Options, end of year</b>	<b>4,403,857</b>	<b>\$ 11.56</b>	<b>3,990,231</b>	<b>\$ 11.25</b>
Unit Options exercisable, end of year	2,308,008	\$ 10.99	1,764,241	\$ 10.95

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

	Year ended December 31, 2017	Year ended December 31, 2016
Expected average distribution yield	5.54%	5.27%
Expected average Unit price volatility	10.03% - 16.88%	16.30% - 19.16%
Average risk-free interest rate	0.01% - 1.85%	0.49% - 1.06%
Expected average life of options	0.1 - 4.8 Years	0.5 to 4.7 Years

## Notes to the Consolidated Financial Statements

The following table details the Unit Options outstanding as at December 31, 2017:

Exercise Price	Number of Unit Options outstanding as at December 31, 2017	Remaining weighted average life (in years)
\$10.04	603,477	2.5
\$10.81	809,486	3.2
\$10.61	10,879	3.3
\$10.72	24,038	3.9
\$11.51	1,662,893	4.2
\$11.28	215,518	4.9
\$12.38	621,669	5.2
\$12.79	4,897	5.9
\$14.21	430,576	6.2
\$13.93	20,424	6.3
\$10.04 to \$14.21	4,403,857	4.1

**Restricted Unit Plan** 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 Trust Unit at the balance sheet date. There were no RUs vested as at December 31, 2017 (December 31, 2016 - nil).

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

(Number of awards)	Year ended December 31, 2017	Year ended December 31, 2016
Outstanding Restricted Units, beginning of year	264,691	267,721
Granted	160,361	93,561
Reinvested	17,517	15,927
Settled	(83,398)	(106,370)
Cancelled	(17)	(6,148)
<b>Outstanding Restricted Units, end of year</b>	<b>359,154</b>	<b>264,691</b>

**Performance Unit Plan** PUs entitle certain employees to receive the value of the PU award in cash or Units at the end of the applicable performance period, which is usually three years in length, based on the Trust achieving certain performance conditions. The PU plan provides for the crediting of additional PUs in respect of distributions paid on Units for the period when an PU is outstanding. The fair value of each PU granted is measured based on the market value of a Trust Unit at the balance sheet date. PUs were first granted in 2016; there were no PUs vested as at December 31, 2017 (December 31, 2016 - nil).

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

(Number of awards)	Year ended December 31, 2017	Year ended December 31, 2016
Outstanding Performance Units, beginning of year	39,696	—
Granted	36,099	39,772
Reinvested	3,817	1,678
Cancelled	—	(1,754)
<b>Outstanding Performance Units, end of year</b>	<b>79,612</b>	39,696

**Trustee Deferred Unit Plan** 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. The fair value of each DU granted is measured based on the market value of a Unit at the balance sheet date. All DUs vest when granted, however, they cannot be exercised while Trustees are members of the Board.

A summary of the DU plan activity is as follows:

(Number of awards)	Year ended December 31, 2017	Year ended December 31, 2016
Outstanding Trustee Deferred Units, beginning of year	218,992	158,778
Granted	51,865	50,844
Reinvested	12,847	9,370
<b>Outstanding Trustee Deferred Units, end of year</b>	<b>283,704</b>	218,992

## Notes to the Consolidated Financial Statements

### Note 14. Rental Revenue

Rental revenue is comprised of the following:

(\$ thousands)	Loblaw <sup>(i)</sup>	Ancillary <sup>(ii)</sup>	Year ended		Year ended	
			December 31, 2017	December 31, 2016		
Base rent	\$ 532,647	\$ 71,581	\$ 604,228	\$ 520,180	\$ 58,008	\$ 578,188
Property tax recoveries	141,789	18,490	160,279	141,943	16,489	158,432
Operating cost recoveries	42,840	13,974	56,814	31,736	12,200	43,936
Other revenue	5,620	2,893	8,513	723	2,295	3,018
<b>Rental revenue</b>	<b>\$ 722,896</b>	<b>\$ 106,938</b>	<b>\$ 829,834</b>	<b>\$ 694,582</b>	<b>\$ 88,992</b>	<b>\$ 783,574</b>

- (i) Loblaw revenue includes lease surrender payments of \$5,620 (note 21) for the year ended December 31, 2017 (2016 - nil). Included in the lease surrender revenue was \$930 attributable to non-controlling interests.
- (ii) Ancillary revenue includes \$2,154 received from leases to subsidiaries of GWL for the year ended December 31, 2017 (2016 - \$1,799).

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

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

(\$ thousands)	
2018	\$ 587,812
2019	591,384
2020	591,943
2021	591,848
2022	592,222
Thereafter	3,227,033
<b>Total</b>	<b>\$ 6,182,242</b>

## Note 15. Net Interest Expense and Other Financing Charges

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Interest on senior unsecured debentures	\$ 103,625	\$ 108,788
Distributions on Class C LP Units <sup>(i)</sup>	46,250	46,250
Interest on mortgages	110	181
Interest on credit facilities	11,799	3,776
Effective interest rate amortization of debt discounts and premiums (note 10)	1,560	(522)
Effective interest rate amortization of debt placement costs (note 10)	1,638	1,639
Distributions on Exchangeable Units <sup>(i)</sup>	232,199	218,961
	<b>397,181</b>	379,073
Gain on settlement of bond forward contracts (note 10)	—	(2,682)
	<b>397,181</b>	376,391
Capitalized interest <sup>(ii)</sup>	(2,355)	(3,549)
Net interest expense and other financing charges	<b>\$ 394,826</b>	\$ 372,842

(i) Represents interest on indebtedness due to Loblaw.

(ii) Interest was capitalized to qualifying development projects based on an annual weighted average interest rate of 3.43% (2016 - 3.45%).

## Note 16. Employee Costs

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

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Salaries, wages and benefits	\$ 17,180	\$ 19,103
Post-employment benefits	422	407
Unit-based compensation	3,516	6,292
<b>Employee costs<sup>(i)</sup></b>	<b>\$ 21,118</b>	<b>\$ 25,802</b>

(i) Before considering amounts capitalized to investment properties or amounts allocated to recoverable operating expenses.

## Notes to the Consolidated Financial Statements

### 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 growth and development; and
- minimizing its cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

On January 9, 2018, Choice Properties filed a new 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 \$2,000,000. This prospectus is effective for a 25-month period from the date of issuance. On January 12, 2018, Choice Properties issued \$650,000 of senior unsecured debentures under this prospectus (note 10).

On January 12, 2018, Choice Properties issued \$300,000 and \$350,000 aggregate principal amount of Series I and J senior unsecured debentures due March 21, 2022 and January 10, 2025, respectively. The Series I unsecured debentures bear interest at a rate of 3.010% per annum and the Series J unsecured debentures bear interest at a rate of 3.546% (note 10).

On February 12, 2018, Choice Properties completed the early retirement of Series A senior unsecured debentures at a redemption price equal to \$1,007.200 per \$1,000 principal amount of Series A debentures, together with accrued and unpaid interest (note 10).

Subsequent to December 31, 2017, Choice Properties repaid and cancelled the bi-lateral \$250,000 unsecured committed revolving credit facility (note 10).

On January 23, 2017, Choice Properties redeemed, at par, \$200,000 Series 6 senior unsecured debentures with an original maturity date of April 20, 2017.

Choice Properties has certain key covenants in its debentures and its committed credit facilities. The key financial covenants include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by the Trust on an ongoing basis to ensure compliance with the agreements. Choice Properties was in compliance with each of the key financial covenants under these agreements as at December 31, 2017 and December 31, 2016.

The following schedule details the capitalization of Choice Properties:

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
<b>Liabilities</b>		
Senior unsecured debentures (note 10)	\$ 2,850,000	\$ 3,050,000
Mortgages (note 10)	8,320	2,927
Class C LP Units (note 10)	925,000	925,000
Credit facilities (note 10)	561,000	172,000
Exchangeable Units (note 11)	4,259,724	4,283,304
<b>Equity</b>		
Unitholders' equity	930,217	569,374
Non-controlling interests (note 7)	8,701	7,771
<b>Total</b>	<b>\$ 9,542,962</b>	<b>\$ 9,010,376</b>



## Note 18. Fair Value Measurements

The following table presents the fair value hierarchy of assets and liabilities measured at fair value in the consolidated balance sheet after initial recognition and assets and liabilities not measured at fair value in the consolidated balance sheet but for which the fair value is disclosed in the notes to the consolidated financial statements:

(\$ thousands)	As at December 31, 2017				As at December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Investment properties (note 6)	\$ —	\$ —	\$ 9,551,000	\$ 9,551,000	\$ —	\$ —	\$ 9,098,000	\$ 9,098,000
Cash and cash equivalents	6,407	—	—	6,407	5,113	—	—	5,113
<b>Liabilities:</b>								
Long term debt and Class C LP Units	—	3,889,628	—	3,889,628	—	4,129,035	—	4,129,035
Credit facilities (note 10)	—	561,000	—	561,000	—	172,000	—	172,000
Exchangeable Units (note 11)	4,259,724	—	—	4,259,724	4,283,304	—	—	4,283,304
Unit-based compensation (note 12)	—	14,013	—	14,013	—	11,039	—	11,039

The carrying value of the Trust's assets and liabilities approximated fair value except for long term debt and Class C LP Units. The fair value of Choice Properties' senior unsecured debentures was calculated using market trading prices for similar instruments. Whereas, the fair values for the mortgages and the Class C LP Units were calculated by discounting future cash flows using appropriate discount rates.

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

## Note 19. Financial Risk Management

As a result of holding and issuing financial instruments, Choice Properties is exposed to credit risk, market risk and liquidity risk and capital availability 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 rent receivables, cash and cash equivalents, short term investments, security deposits and notes receivable.

Choice Properties mitigates the risk of credit loss related to rent receivables by evaluating the creditworthiness of new tenants and joint venture partners, obtaining security deposits wherever permitted by legislation, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant (except Loblaw). Choice Properties establishes an allowance for doubtful accounts that represents the estimated losses with respect to rent receivables. The allowance is determined on a tenant-by-tenant basis based on the specific factors related to the tenant (note 8).

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

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

**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 28 years, thereby mitigating the exposure to near term changes in interest rates. To the extent that Choice Properties incurs variable rate indebtedness (such as under the credit facilities), this will result in fluctuations in Choice Properties' cost of borrowing as interest rates change. If interest rates rise, Choice Properties' operating results and financial condition could be materially adversely affected and decrease the amount of cash available for distribution to Unitholders.

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

## Notes to the Consolidated Financial Statements

Choice Properties' credit facilities 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. An increase of 1.0% per annum in the variable component of the credit facilities' interest rates would result in an increase to liabilities and a decrease in net income of \$7,500 (2016 - \$7,500) (assuming fully drawn credit facilities).

**Unit Price Risk** Choice Properties is exposed to unit price risk as a result of the issuance of Exchangeable Units, which are economically equivalent to and exchangeable for 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 operating income when the unit price rises and positively impact operating income when the unit price declines. An increase of \$1.00 in the underlying price of Choice Properties' Units would result in an increase to liabilities, and decrease in net income as follows:

- Exchangeable Units \$319,081 (2016 - \$317,989); and
- Unit-based compensation liabilities \$3,573 (2016 - \$2,649).

**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 such outstanding debt, there can be no assurance that Choice Properties will continue to generate sufficient cash flow from operations to meet interest payments and principal repayment obligations upon an applicable maturity date. If Choice Properties is unable to meet interest or principal repayment obligations, it could be required to renegotiate such payments or issue additional equity or debt or obtain other financing. The failure of Choice Properties to make or renegotiate interest or principal payments or issue additional equity or debt or obtain other financing could materially adversely affect Choice Properties' financial condition and results of operations and decrease or eliminate the amount of cash available for distribution to Unitholders.

The real estate industry is highly capital intensive. Choice Properties requires access to capital to fund operating expenses, to maintain its properties, to fund its growth strategy and certain other capital expenditures from time to time, and to refinance indebtedness. Although Choice Properties expects to have access to credit facilities, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favourable terms. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to limitations set forth in the Declaration of Trust and the Trust Indentures, 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 and capital availability risks are mitigated by maintaining appropriate levels of liquidity, by diversifying the Trust's sources of funding, by maintaining a well-diversified debt maturity profile and actively monitoring market conditions.

**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:

(\$ thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Senior unsecured debentures	\$ 503,263	\$ 289,047	\$ 627,648	\$ 512,133	\$ 350,560	\$ 1,124,808	\$ 3,407,459
Mortgage	584	2,008	6,238	—	—	—	8,830
Credit facilities <sup>(i)</sup>	250,000	—	—	—	311,000	—	561,000
Class C LP Units	46,250	46,250	46,250	46,250	46,250	1,181,058	1,412,308
<b>Total</b>	<b>\$ 800,097</b>	<b>\$ 337,305</b>	<b>\$ 680,136</b>	<b>\$ 558,383</b>	<b>\$ 707,810</b>	<b>\$ 2,305,866</b>	<b>\$ 5,389,597</b>

(i) Excludes interest on the revolving credit facilities at a floating interest rate.

### 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 guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at December 31, 2017, the aggregate gross potential liability related to these letters of credit totaled \$33,352 including \$5,231 posted by Loblaw with the province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from Loblaw subsequent to the IPO (note 21) (December 31, 2016 - \$31,205 including \$6,465 posted by Loblaw).

Choice Properties' credit facilities and senior unsecured debentures are guaranteed by each of the General Partner, the Partnership and any other person that becomes a subsidiary of Choice Properties (with certain exceptions). In the case of default by the Trust, the indenture trustee will be entitled to seek redress from the guarantors for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of the Trust. These guarantees are intended to eliminate structural subordination, which would otherwise arise as a consequence of Choice Properties' assets being primarily held in various subsidiaries of the Trust.

**Commitments** Choice Properties has entered into contracts for development and sustainable capital projects and has other contractual obligations such as operating rents. The Trust is committed to future payments of approximately \$72,777 as at December 31, 2017 (December 31, 2016 - \$43,540). The Trust was also committed to future payments of approximately \$34,257 in relation to its interests in other entities.

#### **Note 21. Related Party Transactions**

Choice Properties' parent corporation is Loblaw, which held a 82.4% direct effective interest in the Trust through ownership of 21,500,000 Units and 100% of the Exchangeable Units as at December 31, 2017 (December 31, 2016 - 82.7% direct effective interest, 21,500,000 Units and 100% Exchangeable Units, respectively). Loblaw's controlling shareholder, GWL, owns approximately 48.7% of Loblaw's outstanding common shares and a 6.1% direct effective interest in Choice Properties, through ownership of 25,356,415 Units as at December 31, 2017 (December 31, 2016 - 5.8% and 23,997,222 Units respectively).

In the ordinary course of business, Choice Properties' enters into various transactions with related parties. Choice Properties' policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

#### **Transactions and Agreements with Loblaw**

**Acquisitions** In the year ended December 31, 2017, Choice Properties acquired 5 investment properties from Loblaw with a fair value of \$61,700, excluding acquisition costs. The acquisitions were settled by the issuance of 1,092,052 Exchangeable Units, which had a value of \$14,632 at the time of the acquisitions, and cash (note 5).

In 2016, Choice Properties acquired 15 investment properties from Loblaw with a fair value of \$157,878, excluding acquisition costs. The acquisitions were funded through the issuance of 878,713 Exchangeable Units, which had a fair value of \$11,818 at the time of the acquisitions, and cash (note 5).

**Dispositions** On July 17, 2017, the Trust sold certain gas bar capital assets with a fair value of \$34,745 to Loblaw, for cash, in order to facilitate the sale of substantially all of Loblaw's gas bar operations to Brookfield. The gas bar capital assets were leased to Loblaw as part of the respective tenant leases between the Trust and Loblaw. The tenant leases between the Trust and Loblaw related to these investment properties remained substantially unchanged.

**Lease Surrender Payments** During the year Loblaw made lease surrender payments of \$5,620 (2016 - nil) (note 14). Included in the lease surrender revenue was \$930 attributable to non-controlling interests.

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

Choice Properties compensated Loblaw with intensification payments of \$5,793 in connection with completed gross leasable area for which tenants have taken possession during the year ended December 31, 2017 (December 31, 2016 - \$6,582).

**Development Capital Payment** During the year, Loblaw reimbursed Choice Properties \$1,542 towards the construction of a building for the benefit of an adjacent tenant (2016 - nil).

**Strategic Alliance Agreement** The Strategic Alliance Agreement created a series of rights and obligations between Choice Properties and Loblaw, intended to establish a preferential and mutually beneficial business and operating relationship. The Agreement expires on July 5, 2023, ten years from the IPO, however, if Loblaw continues to own a majority interest, on a fully-diluted basis in the Trust, the Agreement will expire on July 5, 2033. If at any time after July 5, 2023 Loblaw ceases to own a majority interest in the Trust, on a fully-diluted basis, the Agreement will expire on that date.

## Notes to the Consolidated Financial Statements

**Services Agreement** Loblaw provides Choice Properties with administrative and other support services.

**Property Management Agreement** Choice Properties agreed to provide Loblaw with property management services for Loblaw's properties with third-party tenancies on a fee for service basis for an initial two-year term with automatic one-year renewals.

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

**Letters of Credit** As at December 31, 2017, letters of credit totaling \$5,231 were posted by Loblaw with the province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from Loblaw (December 31, 2016 - \$6,465) (note 20).

**Land Transfer Tax Assessment** The Ontario Ministry of Finance assessed the Trust \$10,850 for land transfer tax, penalties and interest on the acquisition of properties from Loblaw in the IPO. Choice Properties was fully indemnified by Loblaw. During the year ended December 31, 2016, Loblaw made a payment to the Ministry of Finance for the full amount of the assessment, pending the result of the appeal. During the year, the assessment was settled and the appeal withdrawn.

**Distributions on LP Units and Notes Receivable** Loblaw holds all of the Exchangeable Units and Class C LP Units issued by the Partnership. Loblaw has elected to defer receipt of all distributions from the Partnership until the first business day following the end of the fiscal year. Distributions declared and accrued on the last business day of a month become payable on or about the 15th day of the following month. On this day the Partnership loans the holder an amount equal to the deferred distribution without interest, and the loan is 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, 2017, distributions totaling \$278,449 were declared, \$301,117 were payable, and a note receivable of \$277,588 was outstanding from Loblaw (December 31, 2016 - \$265,211, \$286,242 and \$263,574 respectively). On the first business day of 2018, distributions payable for Exchangeable Units of \$231,338 and Class C LP Units of \$46,250 were paid and the notes receivable from Loblaw were cancelled (January 2017 - paid \$217,324 and \$46,250, respectively, and the notes receivable from Loblaw were cancelled).

**Trust Unit Distributions** In the year ended December 31, 2017, Choice Properties declared distributions of \$15,695 on the Units held by Loblaw (year ended December 31, 2016 - \$14,835).

**Transaction Summary as Reflected in the Consolidated Financial Statements** Loblaw is also Choice Properties' largest tenant, representing approximately 88.2% of Choice Properties' annual base rent and 87.6% of its gross leasable area as at December 31, 2017 (December 31, 2016 - 90.0% and 88.3% respectively). During the quarter ended March 31, 2017, Choice Properties agreed to amend certain existing leases with Loblaw which will result in increased revenues of approximately \$650 per annum to Choice Properties, subject to certain conditions. Transactions with Loblaw recorded in the consolidated statements of income (loss) and comprehensive income (loss) were comprised as follows:

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Rental revenue (note 14)	\$ 722,896	\$ 694,582
Property management and other administration fees	1,270	740
Services Agreement expense (note 22)	(2,580)	(2,932)
Interest expense and other financing charges (note 15)	(278,449)	(265,211)

The balances due from (to) Loblaw were as follows:

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Rent receivable and other receivables (note 8)	\$ 3,097	\$ —
Notes receivable (note 9)	277,588	263,574
Class C LP Units (note 10)	(925,000)	(925,000)
Exchangeable Units (note 11)	(4,259,724)	(4,283,304)
Distributions payable and other liabilities (note 12)	(302,443)	(359,479)
<b>Net due to Loblaw</b>	<b>\$ (5,206,482)</b>	<b>\$ (5,304,209)</b>

## Transactions with GWL and Other Related Parties

**Joint Venture** On December 9, 2014, Choice Properties and its joint venture partner, Wittington, completed the acquisition of 500 Lake Shore in Toronto, Ontario for \$15,576 from Loblaw (note 7). Wittington is the development and construction manager for the commercial space. Wittington's parent company is Wittington Investments, Limited, which holds a majority interest in GWL. Choice Properties contributed \$13,760 to the joint venture and did not receive any distributions during the year ended December 31, 2017 (year ended December 31, 2016 - contributions nil and distributions \$4,000). Operating activities have not begun at the property, however the joint venture did earn interest income during the years ended December 31, 2017 and 2016.

**Operating Lease** Choice Properties entered into a ten-year lease at for office space with GWL's parent company that commenced in 2014. Lease payments will total \$2,664 over the term of the lease. Effective January 1, 2018, Choice Properties entered into a sub-lease for additional office space, with a subsidiary of GWL, with a term effective until the end of the existing lease in 2024. Over the term of the sub-lease, lease payments will total \$1,282.

**Trust Unit Distributions** In the year ended December 31, 2017, Choice Properties declared distributions of \$18,045 on the Units held by GWL (year ended December 31, 2016 - \$16,164). In the year ended December 31, 2017, the Trust issued 1,359,193 Units to GWL under the DRIP (year ended December 31, 2016 - 1,265,160 Units). As of December 31, 2017, GWL is no longer participating in the DRIP (note 11).

**Transaction Summary as Reflected in the Consolidated Financial Statements** Transactions with GWL and other related parties recorded in the consolidated statements of income (loss) and comprehensive income (loss) were comprised as follows:

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Rental revenue (note 14)	\$ 2,154	\$ 1,799
Office rent expense	(616)	(629)

The balances due to GWL and other related parties were as follows:

(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Distributions payable (note 12)	\$ (1,563)	\$ (1,420)

## Transactions with Key Personnel

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

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Salaries, trustee fees, incentives and short-term employee benefits	\$ 3,859	\$ 4,396
Unit-based compensation	3,206	5,610
<b>Compensation of key personnel</b>	<b>\$ 7,065</b>	<b>\$ 10,006</b>

## Notes to the Consolidated Financial Statements

### Note 22. Supplementary Information

#### Property Operating Costs

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Property taxes	\$ 164,976	\$ 162,690
Recoverable operating costs	43,878	36,175
Non-recoverable operating costs	620	1,375
<b>Property operating costs</b>	<b>\$ 209,474</b>	<b>\$ 200,240</b>

#### General and Administrative Expenses

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Salaries, benefits and employee costs	\$ 22,907	\$ 27,667
Investor relations and other public entity costs	1,892	2,185
Professional fees	1,515	2,310
Other	4,875	3,589
Services Agreement expense charged by related party	2,580	2,932
Total general and administrative expenses	33,769	38,683
Less:		
Capitalized to investment properties	(3,035)	(2,635)
Allocated to recoverable operating expenses	(7,405)	(7,191)
<b>General and administrative expenses</b>	<b>\$ 23,329</b>	<b>\$ 28,857</b>

#### Change in Non-Cash Working Capital

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Net change in accounts receivable and other assets	\$ (6,214)	\$ (4,656)
Add back (deduct): Net change in fixtures and equipment	(296)	(546)
Amounts from acquired properties (note 5)	157	885
Net change in trade payables and other liabilities	(45,383)	34,628
Add back (deduct): Net change in distributions payable	(338)	(550)
Net change in unit-based compensation liability	(2,974)	(5,799)
Net change to accrued interest expense	(13,422)	(19,455)
Amounts from acquired properties (note 5)	(265)	(655)
<b>Change in non-cash working capital</b>	<b>\$ (68,735)</b>	<b>\$ 3,852</b>

### Supplemental Disclosure of Non-Cash Operating, Investing and Financing Activities

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Value of Units issued under distribution reinvestment plan (note 11)	\$ 22,383	\$ 19,587
Value of options underlying Units issued under unit-based compensation plan	126	169
Debt assumed on acquisition of investment properties (note 5)	6,601	—
Issuance of Exchangeable Units (note 5)	14,632	11,818

### Recoverable Property Capital

(\$ thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Balance yet to be recovered, beginning of the year	\$ 100,683	\$ 63,929
Add: Recoverable expenditures incurred during the year (note 6)	44,962	42,192
Less: Recoverable during the year	(7,684)	(5,438)
<b>Balance yet to be recovered, end of the year</b>	<b>\$ 137,961</b>	<b>\$ 100,683</b>

## Glossary of Terms

Term	Definition	Term	Definition
<b>Adjusted Cash Flow from Operations</b>	Cash Flows from Operations adjusted to become a better measure of sustainable, economic cash flows by removing the effects of distributions on Exchangeable Units, deducting amounts for property capital expenditures to sustain existing GLA and for leasing capital expenditures, and eliminating seasonal and other fluctuations in working capital (see Section 17, "Non-GAAP Financial Measures", of Management's Discussion and Analysis).	<b>Funds From Operations Payout Ratio</b>	Distribution declared per unit divided by the Funds from Operations per unit diluted (see Section 17, "Non-GAAP Financial Measures", of the Management's Discussion and Analysis).
<b>Adjusted Cash Flow from Operations Payout Ratio</b>	Total distributions declared, including distributions to holders of Exchangeable Units, divided by Adjusted Cash Flow from Operations (see Section 17, "Non-GAAP Financial Measures", of Management's Discussion and Analysis).	<b>Greenfield</b>	Development on vacant land.
<b>Debt to Total Assets</b>	Debt divided by total assets. Debt includes Class C LP Units but excludes Exchangeable Units. This ratio is a non-GAAP financial measure calculated based on the Trust Indentures, as supplemented.	<b>Intensification</b>	Development of income producing properties with excess density.
<b>Debt Service Coverage</b>	Earnings Before Interest, Taxes, Depreciation, Amortization, and adjustments to Fair Value divided by interest expense on long-term debt and distributions on Class C LP Units and all regularly scheduled principal payments made with respect to indebtedness during such period (other than any balloon, bullet or similar principal payable at maturity or which repays such indebtedness in full). This ratio is a non-GAAP financial measure calculated based on the Trust Indentures, as supplemented.	<b>Net Operating Income</b>	Rental revenue less straight-line rental revenue, property operating costs and amounts attributable to non-controlling interests (see Section 17, "Non-GAAP Financial Measures", of Management's Discussion and Analysis).
<b>Debt to EBITDAFV</b>	Debt divided by Earnings Before Interest, Taxes, Depreciation, Amortization, and adjustments to Fair Value. Debt includes Class C LP Units but excludes Exchangeable Units.	<b>Same Properties</b>	Investment properties owned by the Trust during both the current and comparative periods.
<b>Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value</b>	Net income, attributable to Unitholders, plus, where applicable, income taxes, interest expense, amortization expense, depreciation expense, and adjustments to fair value (see Section 17, "Non-GAAP Financial Measures", of Management's Discussion and Analysis).	<b>Same Properties with the Same GLA</b>	Investment properties owned by the Trust during both the current and comparative periods excluding any development activities at the properties which increased GLA.
<b>Funds From Operations</b>	Net income adjusted for items that do not arise from operating activities, such as adjustments to fair value, depreciation and amortization, and adjustments for non-controlling interests, as defined by the Real Property Association of Canada White Paper on Funds from Operations for IFRS issued in April 2014 (see Section 17, "Non-GAAP Financial Measures", of Management's Discussion and Analysis).	<b>Redevelopment</b>	Reset and renovation of existing income producing properties.



## Board of Trustees

### Kerry D. Adams<sup>1,2</sup>

Ms. Adams currently serves as President of K. Adams & Associates Limited. She is the Chair of Scotia Institutional Real Estate Inc. Advisory Committee. 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 serves as a member of Fidelity Investments Canada ULC's Independent Review Committee. She also served as a Commissioner and Director of the Ontario Securities Commission, and Chair of its Investor Education Fund, and was a member of the IIROC board and governance committee. 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.

### Graeme M. Eadie<sup>1</sup>

Mr. Eadie is the Senior Managing Director for the Canada Pension Plan Investment Board. 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 in 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.

### Anthony R. Graham

Mr. Graham is Vice Chair and a director of Wittington Investments, Limited and also President and Chief Executive Officer of Sumarria Inc. He is a former Vice Chair and director of National Bank Financial. In addition to the public companies listed below, Mr. Graham is a director of Graymont Limited, Wittington Properties Limited, Selfridges Group Limited, and Grupo Calidra, S.A. de C.V. Mr. Graham is also a former Chair and Director of President's Choice Bank. Mr. Graham was awarded an Honorary Doctor of Laws degree from Brock University. Mr. Graham serves as Chair of the Ontario Arts Foundation and the Shaw Festival Theatre Endowment Foundation. He also serves as Vice Chair of Business for the Arts, and as a director of the Art Gallery of Ontario, Canadian Institute for Advanced Research, Luminato Festival, St. Michael's Hospital and the Trans Canada Trail Foundation.

### John R. Morrison

Mr. 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. In 2014, Mr. Morrison earned the Institute-certified Director designation. Mr. Morrison is a Trustee of Automotive Properties REIT and former Trustee of the International Council of Shopping Centers, where he served on the Executive Committee, and is now Divisional Vice President for Canada.

### Paul R. Weiss<sup>1</sup>

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 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. Mr. Weiss is a director of Bell Canada, BCE Inc. and Torstar Corporation. Mr. Weiss is a former director of Bell Aliant Inc., ING Bank of Canada and Empire Life Insurance Company. Mr. Weiss is past Chair of Soulpepper Theatre Company and past Chair of Toronto Rehab Foundation.

### Christie J.B. Clark<sup>2</sup>

Mr. Clark, a corporate director, is former Chief Executive Officer and senior partner of PricewaterhouseCoopers LLP. Prior to being elected as its CEO, Mr. Clark was a National Managing Partner and a member of the firm's Executive Committee. 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. Mr. Clark is a director of Loblaw Companies Limited, Air Canada, Hydro One Inc. and Hydro One Limited. In addition to his public company board memberships, Mr. Clark is a member of the Board of the Canadian Olympic Committee and a member of the Advisory Council of the Stephen J.R. Smith School of Business at Queen's University.

### Michelle Felman<sup>2</sup>

Ms. Felman, a 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 was an adjunct professor for four years. She is currently an adjunct professor at Columbia University. 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 currently a trustee of The Partners Group, a global private equity firm based in Zug, Switzerland, and serves as Chair of its investment oversight committee.

### Michael P. Kitt<sup>1,2</sup>

Mr. Kitt is the Executive Vice President and Chief Financial Officer of Oxford Properties Group. Previously, Mr. Kitt held the positions of Executive Vice President of Canada and Executive Vice President, Global Development at Oxford Properties. Prior to joining Oxford Properties, Mr. Kitt held various senior roles at Cadillac Fairview Corporation, leading both its Investment and Development Groups. Mr. Kitt graduated from the University of Manitoba with a B.Comm. and holds a CFA designation.

### Daniel F. Sullivan<sup>2</sup>

Mr. Sullivan, a corporate director, held the position of Consul General for Canada in New York City from 2006 to 2011. Prior to Mr. Sullivan's appointment as Consul General, he spent a majority of his career in the financial services sector, with a focus on real estate, including serving as Deputy Chair of Scotia Capital Inc., the corporate and investment banking division of Scotiabank. Mr. Sullivan graduated from Columbia University with a B.A. and an M.B.A., and he also holds an M.B.A. from the University of Toronto. Mr. Sullivan is a Trustee of Allied Properties Real Estate Investment Trust and Crius Energy Trust, and is a director of Ontario Teachers' Pension Plan and IMP Group International Inc. Mr. Sullivan is a former Chair and director of The Toronto Stock Exchange and former Chair 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.

<sup>1</sup> Audit Committee.

<sup>2</sup> Governance, Compensation and Nominating Committee.

## Corporate Profile

Choice Properties Real Estate Investment Trust is an owner, manager and developer of well-located retail and other commercial real estate across Canada. Choice Properties' portfolio spans approximately 44.1 million square feet of gross leasable area and consists of 546 properties primarily focused on supermarket and drug store anchored shopping centres, stand-alone supermarkets and drug stores, 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. Choice Properties' strong alliance with Loblaw positions it well for future growth.

## Conference Call and Webcast

Senior management will host a conference call to discuss the results on February 14, 2018 at 10:00AM (ET). To access via teleconference, please dial (647) 427-7450. A playback will be made available two hours after the event at (416) 849-0833, access code: 82552274. To access the conference call via webcast, a link is available at [www.choicereit.ca](http://www.choicereit.ca) in the "Events and Webcast" section under "News and Events".

## Head Office

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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.

## Annual Meeting of Unitholders

April 26, 2018 at 11:00am  
Vantage Venues (formerly St. Andrew's Club & Conference Centre)  
Garden Suite  
150 King Street West, 16<sup>th</sup> Floor  
Toronto, Ontario Canada

## Independent Auditors

KPMG LLP  
Chartered Professional 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](mailto:inquiries@canstockta.com)  
Website: [www.canstockta.com](http://www.canstockta.com)

## Investor Relations

Tel: 416-960-6990  
Toll free: 1-855-322-2122  
Email: [investor@choicereit.ca](mailto:investor@choicereit.ca)  
Website: [www.choicereit.ca](http://www.choicereit.ca)

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR), [www.sedar.com](http://www.sedar.com). Choice Properties holds a conference call shortly following the release of its quarterly results. These calls are archived in the Investor Relations section of the Trust's website, [www.choicereit.ca](http://www.choicereit.ca).

Ce rapport est disponible en français.

## EXECUTIVE TEAM



*From left to right:*

**Kim Lee**

Vice President, Investor Relations and Business Intelligence

**Adam Walsh**

Vice President, General Counsel and Secretary

**Bart Munn**

Executive Vice President and Chief Financial Officer

**Lesley Gibson**

Vice President, Financial Reporting

**John R. Morrison**

President and Chief Executive Officer

**Kristine Hill**

Vice President, Human Resources

**Dallas Wingerak**

Vice President, Real Estate and Operations, Western Canada

**Robert Yamamoto**

Vice President, Development

**Evan Williams**

Vice President, Real Estate and Operations, Eastern Canada

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## A CHOICE INVESTMENT

**44.1 million square feet of well-located retail properties across Canada**

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**Canada's leading food and drug retailer is the principal tenant and anchor, providing regular consumer traffic as well as stable, secure and growing income from long-term leases**  
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**An attractive development pipeline comprising excess density for intensification, sites for redevelopment and land for greenfield construction throughout our portfolio**

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**A dedicated source of acquisition opportunities from Loblaw's remaining portfolio of properties**  
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**A strong balance sheet and investment-grade credit ratings**

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**Internal management with deep experience and a passion for successfully developing and managing retail real estate**  
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# Choice Properties<sup>REIT</sup><sup>®</sup>



# 2017 ANNUAL REPORT

PROPERTY SERVICES

OFFICE PROPERTIES

CHICAGO