

Shaping the Future

REPORT TO UNITHOLDERS

Quarter and year ended December 31, 2018



Choice
Properties^{REIT}

Q4

Footnotes

- (1) See Section 21, "Non-GAAP Financial Measures", of this MD&A.
 - (2) To be read in conjunction with Section 1, "Forward-Looking Statements", of this MD&A.
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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 2018 Fourth Quarter Report for the years ended December 31, 2018 and 2017. 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, 2018 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.

Choice Properties reports non-GAAP financial measures, including, but not limited to, Proportionate Share⁽¹⁾, Net Operating Income⁽¹⁾ ("NOI"), Net Property Income⁽¹⁾, NOI for Same Properties excluding development activities⁽¹⁾, Funds from Operations⁽¹⁾ ("FFO"), Adjusted Funds from Operations⁽¹⁾ ("AFFO"), Adjusted Cash Flow from Operations⁽¹⁾ ("ACFO") Earnings before Interest, Taxes, Depreciation, Amortization and Fair Value⁽¹⁾ ("EBITDAFV"), Cash Retained after Distributions⁽¹⁾, Total Debt⁽¹⁾, Debt to Total Assets⁽¹⁾, Debt Service Coverage⁽¹⁾ and Debt to EBITDAFV⁽¹⁾, which are widely used for evaluating the performance of Canadian real estate investment trusts ("REITs"). Throughout this MD&A, any references to proportionate share basis are non-GAAP measures which include amounts per Choice Properties' consolidated financial statements plus the proportionate share of equity accounted joint ventures. 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 under IFRS and are, therefore, unlikely to be comparable to similar measures presented by other reporting insurers. Refer to Section 21, "Non-GAAP Financial Measures", of this MD&A, for definitions and reconciliations to GAAP financial measures.

On May 4, 2018, Choice Properties completed the \$5.7 billion acquisition of Canadian Real Estate Investment Trust ("CREIT"), as described in Section 4, "Acquisition of Canadian Real Estate Investment Trust" of this MD&A (the "Acquisition Transaction"). The impact of the Acquisition Transaction on the Trust's operating results and key performance indicators are discussed throughout this MD&A.

The information in this MD&A is current to February 13, 2019, unless otherwise noted.

1. FORWARD-LOOKING STATEMENTS

This Fourth Quarter Report, including this MD&A, contains forward-looking statements about Choice Properties' objectives, outlook, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities, and legal and regulatory matters. Specific statements with respect to anticipated future results and events can be found in various sections of this MD&A, including but not limited to: Section 2, "Overview"; Section 4, "Acquisition of Canadian Real Estate Investment Trust"; Section 10, "Investment Properties"; Section 6, "Results of Operations"; Section 7, "Other Measures of Performance"; Section 8, "Reportable Operating Segments' Results of Operations"; Section 11, "Liquidity and Capital Resources"; Section 13, "Quarterly Results of Operations"; and Section 20, "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, strategic initiatives, 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 Choice Properties' 2018 Fourth Quarter Report and the Trust's Annual Information Form ("AIF") for the year ended December 31, 2018, which is hereby incorporated by reference. Such risks and uncertainties include:

- failure to manage its growth effectively in accordance with its near and long-term strategies;
- failure by Choice Properties to realize the strategic benefits from the Acquisition Transaction;
- 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; or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms or other known or unknown cyber security or data breaches;
- shifting consumer preferences toward electronic commerce may result in a decrease in demand for physical space by retail tenants;
- changes in economic conditions, including changes in interest rates and the rate of inflation;
- 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 to make acquisitions and dispositions of properties in accordance with its near and long-term strategies;
- the inability of Choice Properties to maintain and leverage its relationship with Loblaw Companies Limited (“Loblaw”), including in respect of: (i) expected transactions to be entered into between Loblaw and Choice Properties (including Choice Properties’ acquisition of certain properties held by Loblaw); and (ii) 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;
- the inability of Choice Properties to make distributions or other payments or advances;
- the inability of Choice Properties to obtain financing, at all or on commercially acceptable terms;
- 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 2018 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 Fourth Quarter 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 unincorporated, open-ended mutual fund trust governed by the laws of the Province of Ontario and established pursuant to a declaration of trust amended and restated as of May 2, 2018, as may be amended from time to time (the “Declaration of Trust”). Choice Properties’ Trust Units are listed on the Toronto Stock Exchange (“TSX”) and are traded under the symbol “CHP.UN”.

The Trust was created in 2013 from the owned real estate of Loblaw, the Trust’s largest Unitholder and primary tenant. The acquisition of CREIT during the second quarter of 2018 added 209 properties and 22.7 million square feet of Gross Leasable Area (“GLA”) including retail, industrial, office and residential properties to the portfolio and increased the property concentration in major markets across Canada. The acquisition also expanded Choice Properties’ operational and leasing capabilities, complementing the existing in-house development platform.

On November 1, 2018, Loblaw and George Weston Limited (“GWL”) completed a reorganization under which Loblaw spun out its 61.6% direct effective interest in Choice Properties to its majority shareholder, GWL. Immediately following the completion of the reorganization, GWL owned a 65.4% direct effective interest in Choice Properties (which includes the 3.8% interest in Choice Properties owned by GWL prior to the reorganization).

The reorganization will have no significant impact on the ongoing relationship between Loblaw and Choice Properties. All current agreements and arrangements with Loblaw will remain in place and Loblaw will continue to be Choice Properties’ largest tenant.

2.1 Portfolio Mix

Choice Properties is the owner, manager and developer of a high quality portfolio of commercial retail, industrial, office and residential properties across Canada. Choice Properties is one of Canada's largest REITs with a portfolio comprised of 753 properties with a total GLA of approximately 66.8 million square feet as at December 31, 2018. Choice Properties' portfolio includes 599 retail properties, 113 industrial properties, 16 office complexes, 3 multi-family residential buildings and 22 development properties. The retail properties are made up of: (i) 306 properties with a stand-alone Loblaw-bannered retail store; (ii) 230 properties anchored by a retail store operating under a Loblaw banner that also contains one or more third-party tenants; and (iii) 63 properties containing only third-party tenants. The table below outlines the portfolio owned by Choice Properties in each asset class as at December 31, 2018:

(in thousands of square feet except where otherwise indicated)	Income producing properties ⁽ⁱ⁾		Properties under development	Total Portfolio	
	Number of Properties	GLA ⁽ⁱⁱⁱ⁾	Number of Properties	Number of Properties	GLA ⁽ⁱⁱⁱ⁾
Retail	599	47,018	13	612	47,018
Industrial	113	16,457	3	116	16,457
Office	16	3,153	—	16	3,153
Total commercial	728	66,628	16	744	66,628
Residential ⁽ⁱⁱⁱ⁾	3	150	6	9	150
Total	731	66,778	22	753	66,778

(i) Included in income producing properties are locations with additional development potential.

(ii) At Choice Properties' ownership share

(iii) Properties are included in the retail segment for reporting purposes.

The risk and reliability characteristics of each real estate asset class is different, and delivering on the Trust's primary business goals requires:

- a mix of assets that diversifies risks and rewards;
- a strategy that maintains and improves the returns from the assets currently owned; and
- making quality acquisitions that are accretive in the long term.

Retail Portfolio

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

Industrial Portfolio

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

Office Portfolio

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

Residential Portfolio

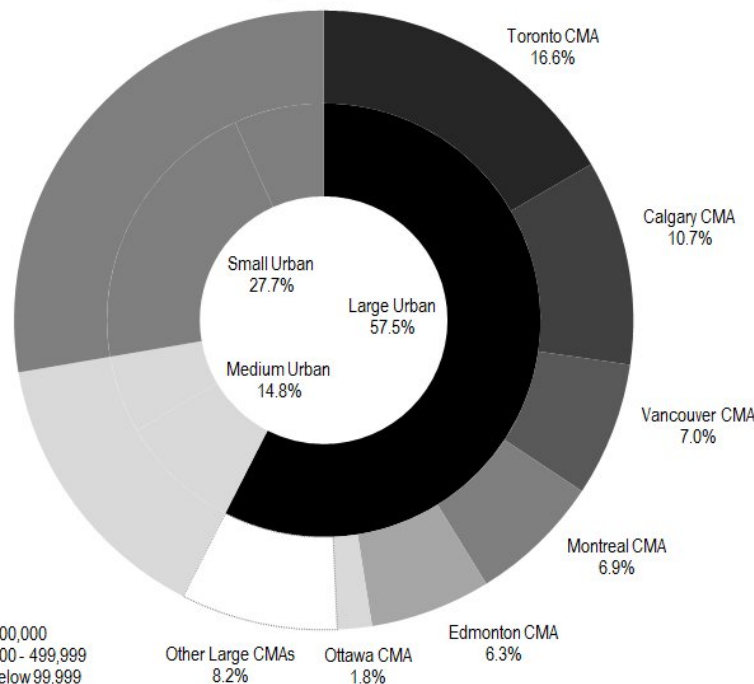
The residential portfolio is a recent addition to the Choice Properties asset mix. Rental residential real estate provides additional income diversification and generates further investment opportunities for asset base growth. Many of these opportunities to develop residential properties are by densifying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

Geographic Diversification

The portfolio is also diversified geographically. This geographic diversification reduces concentration risk and enhances the long-term reliability of the revenue stream from the real estate portfolio. The Trust's properties are well located across Canada, with a concentration in the country's largest markets.

As at December 31, 2018, the Trust's property portfolio demographics by market size, and within the top six markets, are summarized below:

Base Rent by Urban Markets⁽ⁱ⁾⁽ⁱⁱ⁾



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 three months ended December 31, 2018, including straight-line rent.
- (ii) Based on the definitions of Census Metropolitan Area (CMA) from Statistics Canada published in 2016.

Approximately 72.3% of the portfolio's base rent for the three months ended December 31, 2018 was derived from large and medium urban markets. Approximately 57.5% of the portfolio's base rent was generated from large urban markets, with a particular concentration in Toronto, Calgary, Vancouver and Montreal.

Mezzanine Financing Program

As a means to generate acquisition and development opportunities, Choice Properties has established a program with a group of strong real estate developers by providing mezzanine financing and/or co-owner financing for development purposes. Such financing activities generally allow Choice Properties to participate in the development project or provide it with an option to acquire an interest in the developed income property.

Development Activities

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

3. OBJECTIVES AND STRATEGY⁽²⁾

Objectives

Choice Properties' objectives are to:

- provide Unitholders with stable, predictable and reliable cash distributions; and
- enhance the value of Choice Properties' assets in order to maximize long-term value.

Strategy

Choice Properties' strategy is to grow its portfolio and cash flow by leveraging its sizable base of assets, its relationship with Loblaw and its solid capital structure. The Trust is focused on driving growth through the acquisition of assets that meet or exceed the Trust's investment criteria, the development and redevelopment of properties to their highest and best use, and the active management of properties to maximize their occupancy and operating income.

Management expects to achieve Choice Properties' business goals through:

Diversification Choice Properties will continue to accumulate and manage a portfolio of high-quality properties, diversified geographically and by product type.

Acquisitions Choice Properties plans to grow its asset base through acquisitions, including those from Loblaw and desirable assets from other vendors that offer geographic and tenant diversification or potential development opportunities.

Development Choice Properties believes that development and redevelopment of properties for their highest and best use is a key driver of 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 delivering superior service to tenants, maintaining high levels of occupancy, effective capital investment in its properties and disposing of, or redeveloping, non-core assets.

Financial Strength Choice Properties strives to maintain a solid balance sheet with ample liquidity, a staggered debt maturity profile and a competitive cost of capital.

4. ACQUISITION OF CANADIAN REAL ESTATE INVESTMENT TRUST

On May 4, 2018, Choice Properties completed its acquisition of CREIT, an unincorporated, closed-end real estate investment trust that traded on the TSX, by acquiring all the assets and assuming all the liabilities for total consideration of \$3.7 billion. The consideration was comprised of \$1.65 billion in cash with the balance funded through the issuance of 182,836,481 Units.

The Acquisition Transaction brought together two leading Canadian REITs and introduced asset class diversification to Choice Properties, while continuing to leverage its strategic relationship with Loblaw.

The impact of the Acquisition Transaction on the Trust's operating results and key performance indicators are discussed throughout this MD&A.

Summary Description of the Acquired Business

CREIT owned and managed a diversified real estate portfolio consisting of retail, industrial, office and residential properties (including development properties) throughout Canada. As of May 4, 2018, the portfolio comprised 209 properties (including development properties) that contained 28.9 million square feet of gross leasable area, with CREIT's ownership interest at 22.7 million square feet. CREIT's portfolio included:

- **Retail portfolio:** 9.3 million square feet focused on large-scale unenclosed retail centres anchored by food stores and other leading retailers on long-term leases;
- **Industrial portfolio:** 10.2 million square feet focused on distribution facilities, warehouses, and buildings used for light manufacturing of a size and configuration that readily accommodates the diverse needs of a broad range of tenants;
- **Office portfolio:** 3.0 million square feet focused on well-located, quality office buildings in major Canadian markets; and
- **Development portfolio:** 16 retail, industrial and purpose built residential development properties with CREIT's interest in these properties ranging from 25% to 85%.

Sources of Funds for the Acquisition Transaction

Debt Financing In order to fund a portion of the Acquisition Transaction, Choice Properties entered into the following financing arrangements:

- \$550 million in aggregate principal amount of the Series K senior unsecured debentures with an interest rate of 3.556% per annum, maturing on September 9, 2024;
- \$750 million in aggregate principal amount of the Series L senior unsecured debentures with an interest rate of 4.178% per annum, maturing on March 8, 2028;
- \$175 million unsecured term loan maturing May 4, 2022; and
- \$625 million unsecured term loan maturing May 4, 2023.

Choice Properties also arranged a new \$1.5 billion senior unsecured committed revolving credit facility, that was used to replace all pre-existing credit facilities of Choice Properties and CREIT.

Units Issued As part of the consideration, 182,836,481 Units were issued at an issuance price of \$11.25 per unit.

Concurrent with the closing of the Acquisition Transaction, Choice Properties converted all of its outstanding Class C LP Units, held by Loblaw, with a face value of \$925 million into 70,881,226 Exchangeable Units and cash. These Exchangeable Units were subject to an undertaking by Loblaw, and subsequently confirmed by GWL, to the TSX that restrict its voting rights and the exercise of its exchange transfer rights to be consistent with the terms of the converted Class C LP Units.

On November 1, 2018, Loblaw and GWL completed a reorganization under which Loblaw spun out its 61.6% effective interest in Choice Properties to GWL, which included all the issued and outstanding Exchangeable Units, of which 70,881,226 Exchangeable Units continue to be subject to restrictions for voting and exchange transfer rights. As at December 31, 2018, GWL held a 65.4% direct effective interest in the Trust through ownership of 46,856,415 Units and 100% of the Exchangeable Units.

Purchase Price Allocation

The purchase equation is based on management's best estimates of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The Trust has one year to finalize the fair value of the assets acquired and the liabilities assumed, however, the Trust does not expect significant changes from the amounts presented below:

(\$ thousands)	GAAP Basis	Proportionate Share Basis ⁽¹⁾ (unaudited)
Assets		
Investment properties	\$ 4,729,687	\$ 5,677,490
Equity accounted joint ventures	683,289	—
Intangible assets	30,000	30,000
Mortgages, loans and notes receivable	195,597	195,597
Accounts receivable and other assets	50,645	60,030
Cash and cash equivalents	32,419	39,613
Total assets	5,721,637	6,002,730
Liabilities		
Mortgages payable	1,309,677	1,493,383
Senior unsecured debentures	451,853	451,853
Constructions loans	9,583	96,165
Credit facility	70,000	70,000
Trade payables and other liabilities	169,421	180,226
Restricted unit plan liability	2,674	2,674
Total liabilities	2,013,208	2,294,301
Total net assets acquired	\$ 3,708,429	\$ 3,708,429

In the year ended December 31, 2018, Choice Properties incurred acquisition transaction costs and other related expenses of \$141.5 million.

5. 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, 2018 and 2017. 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 three months ended December 31 (\$ thousands except where otherwise indicated) (unaudited)	2018	2017
Number of properties	753	546
Gross leasable area ("GLA") (in millions of square feet)	66.8	44.1
Occupancy*	97.7%	98.9%
Rental revenue	\$ 322,793	\$ 211,231
Cash flows from operating activities ⁽ⁱ⁾	\$ 235,694	\$ 194,285
Net income	\$ 281,099	\$ 36,533
Net income per unit diluted	\$ 0.419	\$ 0.088
NOI ⁽¹⁾ for Same Properties, excluding development activities* ⁽ⁱⁱ⁾	\$ 148,126	\$ 146,011
FFO ⁽¹⁾ per unit diluted*	\$ 0.256	\$ 0.282
FFO ⁽¹⁾ payout ratio*	72.2%	65.6%
AFFO ⁽¹⁾ per unit diluted*	\$ 0.165	\$ 0.209
AFFO ⁽¹⁾ payout ratio*	112.1%	88.5%
ACFO ⁽¹⁾⁽ⁱⁱⁱ⁾	\$ 109,044	\$ 92,624
ACFO ⁽¹⁾⁽ⁱⁱⁱ⁾ payout ratio	113.4%	82.4%
Cash retained after distributions ^{(ii)*}	\$ —	\$ 16,312
Distribution declared per unit	\$ 0.1850	\$ 0.1850
Weighted average number of Units outstanding – diluted	670,486,393	414,285,762
Total assets - proportionate share basis ⁽¹⁾⁽ⁱⁱ⁾	\$ 15,845,781	\$ 9,941,998
Total Debt Principal	\$ 7,479,805	\$ 4,297,012
Debt to total assets ^{(iii)*}	47.2%	44.3%
Debt service coverage ^{(iii)*}	3.0x	3.7x
Debt to EBITDAFV ^{(1)(iv)*}	8.0x	7.1x
Indebtedness ^(v) – weighted average term to maturity*	5.5 years	4.5 years
Indebtedness ^(v) – weighted average coupon rate*	3.74%	3.62%

* Denotes a key performance indicator

- (i) Cash flows from operating activities excludes interest paid.
- (ii) Presentation of values as at or for the three months ended December 31, 2017 have been updated.
- (iii) Debt ratios include Class C LP Units but exclude Exchangeable Units, see Section 11, "Liquidity and Capital Resources", of this MD&A. The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.
- (iv) Calculated on a 12-month normalized basis, excluding lease surrender revenue from Loblaw.
- (v) Indebtedness reflects senior unsecured debentures and mortgages only.

5.1 Fourth Quarter Highlights

During the three months ended December 31, 2018, Choice Properties:

- Reported rental revenue of \$322,793, an increase of \$111,562, or 52.8%, compared with \$211,231 in the fourth quarter of 2017 and net income of \$281,099, an increase of \$244,566, compared to the net income of \$36,533 in the fourth quarter of 2017. Net income for the three months ended December 31, 2018 included acquisition transaction costs and other related expenses of \$11,044 and a net gain on items measured at fair value of \$195,398 (2017 - costs of nil and loss of \$21,498, respectively). The increase in both rental revenue and net income is primarily related to the acquisition of CREIT in May 2018;
- Reported FFO⁽¹⁾ per unit diluted of \$0.256, a slight increase compared to \$0.253 per unit diluted reported in the third quarter of 2018. On a year-over-year basis, FFO⁽¹⁾ per unit diluted decreased by \$0.026, compared to the fourth quarter of 2017. The per unit decrease was primarily attributable to changes in the capital structure arising from the CREIT acquisition;
- Reported AFFO⁽¹⁾ per unit diluted of \$0.165, reflecting a high proportion of annual maintenance capital spending in the fourth quarter;
- Increased quarterly NOI⁽¹⁾ for Same Properties, excluding development activities, by \$2,115, or 1.4%, to \$148,126 compared to \$146,011 in the fourth quarter of 2017;
- Ended the period with overall occupancy of 97.7%, which was consistent with the third quarter of 2018. Slightly negative absorption was offset by a net increase in occupancy arising from property transaction activity and developments coming online. At December 31, 2018, retail occupancy was 98.0%, industrial was 97.8% and office was 92.3%;
- Completed 64,000 square feet of intensification projects, 33,000 square feet of greenfield development projects and 9,000 square feet of redevelopments during the fourth quarter and transferred these projects from properties under development to income producing properties;
- Disposed of income producing properties for total cash consideration of approximately \$107,000, including one office property in Calgary. From these proceeds, approximately \$78,000 was used to fund the acquisition of income producing properties, with the remainder used to pay down the credit facility;
- Reported a net fair value loss on investment properties, on a proportionate share basis⁽¹⁾, of \$19,788 in the quarter, primarily due to a change in lease and capital spending assumptions for specific retail assets;
- Reported a net decrease in outstanding debt, on a proportionate share basis⁽¹⁾, through a \$62,000 net repayment on the credit facility and mortgage repayments of \$9,384, offset by \$10,066 in new mortgage borrowings with a weighted average rate of 4.02% and a term of 5.0 years and \$10,623 in new constructions loan draws; and
- Maintained a strong balance sheet, with a debt to total assets⁽¹⁾ ratio of 47.2% at December 31, 2018, and \$1.2 billion of available room to draw on the credit facility, a debt to EBITDAFV ratio of 8.0 times, and an unencumbered asset pool of \$11.8 billion.

5.2 Key Performance Indicators and Selected Annual Financial Information

As at or for the years ended December 31 (\$ thousands except where otherwise indicated) (unaudited)	2018	2017	2016
Rental revenue	\$ 1,148,273	\$ 830,630	\$ 783,574
Cash flows from operating activities ⁽ⁱ⁾	\$ 683,632	\$ 503,676	\$ 530,622
Net income	\$ 649,577	\$ 405,345	\$ (223,072)
Net income per unit diluted	\$ 1.111	\$ 0.981	\$ (0.544)
NOI ⁽¹⁾ for Same Properties, excluding development activities* ⁽ⁱⁱ⁾	\$ 586,836	\$ 573,308	\$ 528,320
FFO ⁽¹⁾ per unit diluted*	\$ 1.033	\$ 1.072	\$ 1.000
FFO ⁽¹⁾ payout ratio*	71.6%	68.1%	74.0%
AFFO ⁽¹⁾ per unit diluted*	\$ 0.827	\$ 0.863	\$ 0.790
AFFO ⁽¹⁾ payout ratio*	89.5%	84.6%	89.2%
Cash retained after distributions ^{(iii)*}	\$ 57,066	\$ 62,038	\$ 56,832
Distribution declared per unit	\$ 0.7400	\$ 0.7300	\$ 0.7050
Weighted average number of Units outstanding – diluted	584,605,228	413,208,961	410,034,555

* Denotes a key performance indicator

(i) Cash flows from operating activities excludes interest paid.

(ii) Presentation of values as at or for years ended December 31, 2017 and December 31, 2016 have been updated.

5.3 Annual Highlights

During the year ended December 31, 2018, Choice Properties:

- Completed the acquisition of CREIT on May 4, 2018;
- Reported rental revenue of \$1,148,273, an increase of \$317,643, or 38.2%, compared with \$830,630 in 2017 and net income of \$649,577, an increase of \$244,232, compared to the net income of \$405,345 in 2017. Net income for the year ended December 31, 2018 included a net gain on items measured at fair value of \$504,669 (2017 - gain of \$196,457) offset by acquisition transaction costs and other related expenses of \$141,493 (2017 - nil). The increases in both rental revenue and net income are primarily related to the acquisition of CREIT;
- Reported FFO⁽¹⁾ per unit diluted of \$1.033, a decrease of \$0.039 compared to \$1.072 per unit reported in 2017. The per unit decreased was primarily attributable to changes in the capital structure arising from the Acquisition Transaction;
- Reported AFFO⁽¹⁾ per unit diluted of \$0.827, reflecting a payout ratio of 89.5% for the year, compared to 84.6% in 2017;
- Increased NOI⁽¹⁾ for Same Properties, excluding development activities, for the year by \$13,528 or 2.4% to \$586,836 from \$573,308 in 2017;
- Completed 307,000 square feet of intensification projects during the year and transferred these projects from properties under development to income producing properties;
- Acquired eight properties, of which six are income producing and two are properties under development, for an aggregate purchase price of \$112,239. Disposed of ten properties, as part of the capital recycling program with an aggregate sale price of \$127,200; and
- The Distribution Reinvestment Plan was temporarily suspended commencing with distributions declared in May 2018.

6. RESULTS OF OPERATIONS

Choice Properties' financial results, as reported under GAAP, for the three months and years ended December 31, 2018 and December 31, 2017 are summarized below:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Rental Revenue						
Base rent	\$ 222,933	\$ 152,929	\$ 70,004	\$ 798,940	\$ 605,024	\$ 193,916
Property tax and operating cost recoveries	96,216	51,831	44,385	328,176	217,093	111,083
Lease surrender and other revenue	3,644	6,471	(2,827)	21,157	8,513	12,644
	322,793	211,231	111,562	1,148,273	830,630	317,643
Property Operating Costs						
Recoverable property taxes, insurance and operating costs	(90,431)	(49,337)	(41,094)	(310,820)	(208,854)	(101,966)
Non-recoverable operating costs	(1,944)	166	(2,110)	(3,616)	(620)	(2,996)
Net Property Income	230,418	162,060	68,358	833,837	621,156	212,681
Other Expenses						
General and administrative expenses ⁽ⁱ⁾	(9,506)	(6,712)	(2,794)	(34,975)	(23,795)	(11,180)
Property management and other administration fees	1,134	267	867	3,523	1,270	2,253
Net interest expense and other financing charges ⁽ⁱⁱ⁾	(138,552)	(100,397)	(38,155)	(513,864)	(394,826)	(119,038)
Accelerated amortization of debt premium	—	—	—	(37,282)	—	(37,282)
Interest and other income	4,095	2,744	1,351	14,224	4,829	9,395
Share of income from equity accounted joint ventures ⁽ⁱⁱⁱ⁾	9,356	69	9,287	21,476	254	21,222
Net Income before Acquisition Transaction Costs and Other Related Expenses, and Adjustments to Fair Value	96,945	58,031	38,914	286,939	208,888	78,051
Acquisition transaction costs and other related expenses	(11,044)	—	(11,044)	(141,493)	—	(141,493)
Adjustment to fair value of unit-based compensation	707	(267)	974	4,792	(468)	5,260
Adjustment to fair value of Exchangeable Units	214,479	(19,026)	233,505	593,706	38,212	555,494
Adjustment to fair value of investment properties	(18,548)	(2,710)	(15,838)	(88,575)	159,458	(248,033)
Adjustment to fair value of investment properties held in equity accounted joint ventures	(1,240)	505	(1,745)	(5,254)	(745)	(4,509)
Income before Income Taxes	281,299	36,533	244,766	650,115	405,345	244,770
Income taxes	(200)	—	(200)	(538)	—	(538)
Net Income	\$ 281,099	\$ 36,533	\$ 244,566	\$ 649,577	\$ 405,345	\$ 244,232

(i) General and administrative expenses, as presented above, excludes the adjustment to the fair value of unit-based compensation.

(ii) Net interest expense and other financing charges, as presented above, excludes the accelerated amortization of the debt premium on the Class C LP Units.

(iii) Share of income from equity accounted joint ventures, as presented above, excludes the adjustment to the fair value of investment properties held in equity accounted joint ventures.

Net Income

For the three months ended December 31, 2018, the net income of \$281,099 was higher by \$244,566, compared to the net income of \$36,533 in the same period of 2017. The increase was primarily due to a favourable change of \$233,505 to the fair value of Exchangeable Units and the \$69,905 additional net property income earned as a result of the Acquisition Transaction, partially offset by the incremental net interest expense and other financing charges of \$38,155, an unfavourable change of \$15,838 to the fair value of investment properties, and \$11,044 for acquisition transaction costs and other related expenses. 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 income taxes, the acquisition transaction costs and other related expenses and the adjustments to fair value, net income for the three months ended December 31, 2018 was \$38,914 higher than for the fourth quarter of 2017, due to an increase of \$68,358 in net property income, a \$9,287 increase in income from equity accounted joint ventures, a \$1,351 increase in interest and other income, and a \$867 increase in fee revenue, partially offset by an increase of \$38,155 in net interest expense and other financing charges, and an increase of \$2,794 in general and administrative expenses. The Acquisition Transaction contributed \$69,905 in net property income and \$8,763 in income from equity accounted joint ventures.

For the year ended December 31, 2018, net income of \$649,577, was higher by \$244,232, compared to the net income of \$405,345 in 2017. The increase was primarily due to a favourable change of \$555,494 to the fair value of Exchangeable Units, partially offset by an unfavourable change of \$248,033 to the fair value of investment properties, and \$141,493 for acquisition transaction costs and other related expenses. 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 income taxes, the acquisition transaction costs and other related expenses and the adjustments to fair value, net income for the year ended December 31, 2018 was \$78,051 higher than for the same period in 2017 primarily due to an increase of \$212,681 in net property income, a \$21,222 increase in income from equity accounted joint ventures, a \$9,395 increase in interest and other income, and an increase of \$2,253 in fee revenue, partially offset by an increase of \$119,038 in net interest expense and other financing charges, the accelerated amortization of debt premium of \$37,282, and an increase of \$11,180 in general and administrative expenses. The Acquisition Transaction contributed \$188,579 in net property income and \$20,648 in income from equity accounted joint ventures.

Rental Revenue

Rental revenue is comprised primarily of base rent, including straight-line rent, and recoveries from tenants for property taxes, insurance, operating costs and qualifying capital expenditures. Growth in rental revenue is materially impacted by newly acquired or constructed assets. To better measure certain key performance factors, management analyzes rental revenue for the income producing properties owned by the Trust throughout the current and comparative reporting periods, the "Same Properties", to remove the impact of recent property acquisition and disposition transactions, the "Property Transactions", and to remove the Acquisition Transaction.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Same Properties ⁽ⁱ⁾	\$ 214,610	\$ 207,869	\$ 6,741	\$ 848,724	\$ 824,053	\$ 24,671
Property Transactions ⁽ⁱⁱ⁾	2,562	3,362	(800)	19,416	6,577	12,839
	217,172	211,231	5,941	868,140	830,630	37,510
Acquisition Transaction	105,621	—	105,621	280,133	—	280,133
Rental Revenue	\$ 322,793	\$ 211,231	\$ 111,562	\$ 1,148,273	\$ 830,630	\$ 317,643

(i) Same Properties included 538 and 533 income producing properties that were owned throughout the three months and year ended December 31, 2018 and December 31, 2017, respectively.

(ii) Property Transactions included properties acquired, net of dispositions, subsequent to September 30, 2017 and December 31, 2017, for the three months and year ended December 31, 2018 and December 31, 2017, respectively.

During the three months ended December 31, 2018, rental revenue increased by \$111,562, or 52.8%, compared to the same period of 2017, with \$105,621 attributable to the Acquisition Transaction. The growth in revenue excluding the Acquisition Transaction of \$5,941, or 2.8%, was attributable to an increase of \$6,741 from Same Properties, partially offset by a decrease of \$800 from Property Transactions.

The growth in revenue from Same Properties was primarily attributable to a \$3,177 increase in base rent, a \$5,769 increase in recovery of property operating costs and a \$981 increase in the recovery of capital expenditures, partially offset by a \$3,186 decrease in other revenues. The \$3,177 increase in base rent included increases from higher average rents per square foot on third-party leases and \$525 from base rent of newly developed GLA.

During the year ended December 31, 2018, rental revenue increased by \$317,643, or 38.2%, compared to 2017, with \$280,133 attributable to the Acquisition Transaction. The growth in revenue excluding the Acquisition Transaction of \$37,510, or 4.5%, was attributable to an increase of \$24,671 from Same Properties, and an increase of \$12,839 from Property Transactions, including a lease surrender payment of \$6,892 from Loblaw in connection to a property that was sold.

The growth in revenue from Same Properties was attributable to an increase of \$11,531 in base rent, an increase of a \$8,420 in recovery of property operating costs, a \$4,706 increase in revenue generated from the recovery of capital expenditures, and a \$14 increase in other revenues. The \$11,531 increase in base rent included revenue from newly developed GLA of \$7,488 and increases from higher average rents per square foot on third-party leases.

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. During the three months and year ended December 31, 2018, non-cash amounts positively impacted rental revenue by \$8,033 and \$34,076, respectively (2017 - \$8,092 and \$34,740).

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 and insurance, that are recoverable under the leases of most tenants. Non-recoverable operating costs do not directly benefit the tenants and include property management fees paid by the Trust for properties managed by its partners. To better measure certain key performance factors, management analyzes property operating costs for the income producing properties owned by the Trust throughout the current and comparative reporting periods, the "Same Properties", to remove the impact of recent property acquisition and disposition transactions, the "Property Transactions", and to remove the Acquisition Transaction.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Same Properties ⁽ⁱ⁾	\$ 56,053	\$ 49,150	\$ 6,903	\$ 219,526	\$ 208,632	\$ 10,894
Property Transactions ⁽ⁱⁱ⁾	606	21	585	3,356	842	2,514
	56,659	49,171	7,488	222,882	209,474	13,408
Acquisition Transaction	35,716	—	35,716	91,554	—	91,554
Property Operating Costs	\$ 92,375	\$ 49,171	\$ 43,204	\$ 314,436	\$ 209,474	\$ 104,962

- (i) Same Properties included 538 and 533 income producing properties that were owned throughout three months and year ended December 31, 2018 and December 31, 2017, respectively.
- (ii) Property Transactions included properties acquired, net of dispositions, subsequent to September 30, 2017 and December 31, 2017, for the three months and year ended December 31, 2018 and December 31, 2017, respectively.

During the three months ended December 31, 2018, property operating costs increased by \$43,204 or 87.9% compared to the same period of 2017, with \$35,716 attributable to the Acquisition Transaction. Excluding the Acquisition Transaction, property operating costs increased by \$7,488, with a \$6,903 increase from Same Properties and a \$585 increase from Property Transactions. The increase in property operating costs was driven by the timing of expenses, primarily due to the seasonality of when property taxes are assessed.

During the year ended December 31, 2018, property operating costs increased by \$104,962 or 50.1% compared to 2017, with \$91,554 attributable to the Acquisition Transaction. Excluding the Acquisition Transaction, property operating costs increased by \$13,408, or 6.4%, with a \$10,894 increase from Same Properties and a \$2,514 increase from Property Transactions. The increase in property operating costs from Same Properties was primarily related to increased recoverable property operating costs. Non-recoverable property operating costs include expenditures that can vary by year.

General and Administrative Expenses

General and administrative expenses reflect increases to the costs of running Choice Properties' operational platform after the Acquisition Transaction.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Internal expenses of the Trust	\$ 14,696	\$ 8,179	\$ 6,517	\$ 48,583	\$ 27,314	\$ 21,269
Investor relations and other public entity costs	(169)	433	(602)	1,246	1,892	(646)
Professional fees	256	282	(26)	1,920	1,515	405
Amortization of other assets	—	235	(235)	495	934	(439)
Services Agreement expense charged by related party ⁽ⁱ⁾	702	645	57	2,335	2,580	(245)
	15,485	9,774	5,711	54,579	34,235	20,344
Less:						
Capitalized to investment properties	(730)	(1,004)	274	(3,261)	(3,035)	(226)
Allocated to recoverable operating expenses	(5,249)	(2,058)	(3,191)	(16,343)	(7,405)	(8,938)
General and administrative expenses	9,506	6,712	2,794	34,975	23,795	11,180
Deduct the impact of the following:						
Property management and other administration fees ⁽ⁱⁱ⁾	(1,134)	(267)	(867)	(3,523)	(1,270)	(2,253)
Internal expenses for leasing ⁽ⁱⁱ⁾	(1,644)	(709)	(935)	(5,428)	(2,336)	(3,092)
Adjusted general and administrative expenses⁽ⁱⁱ⁾	\$ 6,728	\$ 5,736	\$ 992	\$ 26,024	\$ 20,189	\$ 5,835
As a percentage of revenue	2.1%	2.7%	(0.6)%	2.3%	2.4%	(0.1)%

(i) The Services Agreement, Property Management Agreement and Sublease Administration Agreement are described in the Section 17 "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:

- the property management fees and sublease administration fees which compensate Choice Properties for additional costs incurred;
- internal expenses for leasing, to increase comparability between real estate entities that capitalize these expenses; and
- amortization of other assets.

Adjusted general and administrative expenses, for the three months ended December 31, 2018, of \$6,728, or 2.1% when expressed as a percentage of revenue, increased by \$992, which is a reduction of 0.6% when expressed as a percentage of revenue, compared to the fourth quarter of 2017.

Adjusted general and administrative expenses, for the year ended December 31, 2018, of \$26,024, or 2.3% when expressed as a percentage of revenue, increased by \$5,835, or flat when expressed as a percentage of revenue, compared to the prior year.

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.

Net Interest Expense and Other Financing Charges

In 2018, Choice Properties' capital structure was altered by the Acquisition Transaction, see Section 4, "Acquisition of Canadian Real Estate Investment Trust" and Section 11 "Liquidity and Capital Resources", of this MD&A. The impacts of those changes flow through net interest expense and other financing charges as discussed below.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Interest on senior unsecured debentures	\$ 43,343	\$ 26,028	\$ 17,315	\$ 164,010	\$ 103,625	\$ 60,385
Distributions on Class C LP Units ⁽ⁱ⁾	—	11,562	(11,562)	15,417	46,250	(30,833)
Interest on mortgages	13,343	30	13,313	35,293	110	35,183
Interest on credit facilities and term loans	11,175	3,551	7,624	29,780	11,799	17,981
Subtotal (for use in Debt Service Coverage⁽¹⁾ calculation)	67,861	41,171	26,690	244,500	161,784	82,716
Distributions on Exchangeable Units ⁽ⁱ⁾	72,143	58,895	13,248	271,089	232,199	38,890
Subtotal (for use in EBITDAFV⁽¹⁾ calculation)	140,004	100,066	39,938	515,589	393,983	121,606
Effective interest rate amortization of debt discounts and premiums	(979)	525	(1,504)	(2,387)	1,560	(3,947)
Effective interest rate amortization of debt placement costs	1,238	415	823	5,542	1,638	3,904
Capitalized interest	(1,711)	(609)	(1,102)	(4,880)	(2,355)	(2,525)
Net interest expense and other financing charges	\$ 138,552	\$ 100,397	\$ 38,155	\$ 513,864	\$ 394,826	\$ 119,038

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

For the three months ended December 31, 2018, net interest expense and other financing charges increased by \$38,155 or 38.0% compared to 2017. The increase in interest is primarily driven by the assumption of debt from the Acquisition Transaction, the issuance of debt to fund the Acquisition Transaction (see Section 3, "Acquisition of Canadian Real Estate Investment Trust", of this MD&A) and the issuance of Series I and J senior unsecured debentures in the first quarter of 2018. The increase is also attributable to higher distributions on the Exchangeable Units issued on the conversion of Class C LP Units which happened concurrently with the Acquisition Transaction. In addition, the interest rates on variable rate debt was higher in the three months and year ended December 31, 2018 compared to December 31, 2017.

For the year ended December 31, 2018, net interest expense and other financing charges increased by \$119,038 or 30.1% compared to 2017. The increase in interest is primarily driven by the assumption of debt from the Acquisition Transaction, the issuance of debt to fund the Acquisition Transaction (see Section 3, "Acquisition of Canadian Real Estate Investment Trust", of this MD&A) and the issuance of Series I and J senior unsecured debentures in the first quarter of 2018, as well as the call premium of \$2,880 for the early repayment of Series A senior unsecured debentures in the first quarter of 2018. The increase is also attributable to higher distributions on the Exchangeable Units issued on the conversion of Class C LP Units which happened concurrently with the Acquisition Transaction.

Accelerated Amortization of Debt Premium

Net income for the year ended December 31, 2018 was negatively impacted by the accelerated amortization of the debt premium related to the Class C LP Units. Prior to May 4, 2018, Loblaw held all the Class C LP Units. Concurrent with the Acquisition Transaction, the Class C LP Units were converted to Exchangeable Units. This conversion necessitated the accelerated amortization of the remaining balance of the debt premium of \$37,282.

Property Management and Other Administration Fees

Fees charged to third-parties include property management fees, leasing fees, project management fees relating to co-owned properties which serves as a cash flow supplement to enhance returns from the co-owned assets. Choice Properties provides property management services to Loblaw and also administers certain services in connection with Loblaw's gas bar subleases (see Section 17, "Related Party Transactions" of this MD&A).

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Fees charged to related party	\$ 157	\$ 267	\$ (110)	\$ 899	\$ 1,270	\$ (371)
Fees charged to third-parties	977	—	977	2,624	—	2,624
Property management and other administration fees	\$ 1,134	\$ 267	\$ 867	\$ 3,523	\$ 1,270	\$ 2,253

For the three months ended December 31, 2018, property management and other administration fees increased by \$867 compared to 2017. The increase is primarily due to the new fee revenue stream added as a result of the Acquisition Transaction, partially offset by a decline in fees charged to related party.

For the year ended December 31, 2018, property management and other administration fees increased by \$2,253 compared to 2017. The increase is primarily due to the new fee revenue stream added as a result of the Acquisition Transaction, partially offset by a decline in fees charged to related party on account of additional fees being earned from Loblaw for the initial set-up of the gas bar subleases in the third quarter of 2017.

Interest and Other Income

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Interest income on mortgages and loans receivable	\$ 3,336	\$ 2,722	\$ 614	\$ 10,691	\$ 4,760	\$ 5,931
Other interest income	759	22	256	3,461	69	2,655
Other income	—	—	—	72	—	72
Interest and other income	\$ 4,095	\$ 2,744	\$ 870	\$ 14,224	\$ 4,829	\$ 8,658

For the three months ended December 31, 2018, interest and other income increased by \$870 compared to 2017. The increase is primarily due to interest earned from the mezzanine financing program acquired as part of the Acquisition Transaction.

For the year ended December 31, 2018, interest and other income increased by \$8,658 compared to 2017. The increase is primarily due to the additional interest income earned from the mezzanine financing program acquired as part of the Acquisition Transaction and the interest income earned on the funds held in escrow in anticipation of the Acquisition Transaction.

Acquisition Transaction Costs and Other Related Expenses

For the three months and year ended December 31, 2018, advisory fees, personnel and other costs related to the Acquisition Transaction totaling \$11,044 and \$141,493, respectively, were expensed (2017 - nil and nil, respectively).

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 21, "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.

When management assesses the performance of the Trust, the results of equity accounted joint ventures are disaggregated, such that Choice Properties' proportionate share of the results are represented throughout the compiled consolidated statement of income. Refer to Section 21.1, "Proportionate Share Compilation", of this MD&A, for a reconciliation of net income on a proportionate share basis to net income as determined in accordance with GAAP.

7.1 Net Operating Income ⁽¹⁾

NOI⁽¹⁾ is a supplemental measure of operating performance widely used in the real estate industry. There is no industry-defined definition of NOI⁽¹⁾. Refer to Section 21.2, "Net Operating Income", of this MD&A, for a definition of NOI⁽¹⁾ and a reconciliation to net income determined in accordance with GAAP.

Choice Properties' NOI⁽¹⁾, calculated on a proportionate share basis to incorporate Choice Properties' investment in co-owned properties as if they were owned directly, for the three months and year ended December 31, 2018 and December 31, 2017 are summarized below:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Proportionate Share⁽¹⁾ Rental Revenue, on a cash basis						
Base rent, excluding straight-line rent	\$ 225,013	\$ 144,837	\$ 80,176	\$ 791,105	\$ 570,283	\$ 220,822
Property tax and operating cost recoveries	100,758	51,831	48,927	339,566	217,094	122,472
Lease surrender and other revenue ⁽ⁱ⁾	4,011	5,541	(1,530)	21,801	7,583	14,218
	329,782	202,209	127,573	1,152,472	794,960	357,512
Proportionate Share⁽¹⁾ Property Operating Costs						
Recoverable property taxes, insurance and operating costs	(94,990)	(49,337)	(45,653)	(323,419)	(208,854)	(114,565)
Non-recoverable operating costs	(1,876)	166	(2,042)	(3,995)	(620)	(3,375)
Net Operating Income⁽¹⁾	\$ 232,916	\$ 153,038	\$ 79,878	\$ 825,058	\$ 585,486	\$ 239,572
NOI⁽¹⁾ for Same Properties⁽ⁱⁱ⁾, excluding development activities	\$ 148,126	\$ 146,011	\$ 2,115	\$ 586,836	\$ 573,308	\$ 13,528

(i) Same Properties' lease surrender revenue for the three months and year ended December 31, 2017 excludes \$930 that was attributable to non-controlling interests.

(ii) Same Properties included 538 and 533 income producing properties that were owned throughout the three months and years ended December 31, 2018 and December 31, 2017, respectively.

To better measure certain key performance factors, management analyzes NOI⁽¹⁾ for the income producing properties owned by the Trust throughout the current and comparative reporting periods, the "Same Properties", to remove the impact of recent property acquisition and disposition transactions, the "Property Transactions", and the Acquisition Transaction.

Proportionate Share⁽¹⁾ Rental Revenue, on a cash basis

Proportionate share⁽¹⁾ rental revenue, on a cash basis, is comprised primarily of base rent, excluding straight-line rent, and recoveries from tenants for property taxes, insurance, operating costs and qualifying capital expenditures. Growth in rental revenue is materially impacted by newly acquired or constructed assets.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Same Properties ⁽ⁱ⁾	\$ 208,367	\$ 198,824	\$ 9,543	\$ 820,390	\$ 788,480	\$ 31,910
Property Transactions ⁽ⁱⁱ⁾	2,476	3,385	(909)	19,069	6,480	12,589
	210,843	202,209	8,634	839,459	794,960	44,499
Acquisition Transaction	118,939	—	118,939	313,013	—	313,013
Proportionate Share⁽¹⁾ Rental Revenue, on a cash basis	\$ 329,782	\$ 202,209	\$ 127,573	\$ 1,152,472	\$ 794,960	\$ 357,512

- (i) Same Properties included 538 and 533 income producing properties that were owned throughout the three months and years ended December 31, 2018 and December 31, 2017, respectively.
- (ii) Property Transactions included properties acquired, net of dispositions, subsequent to September 30, 2017 and December 31, 2017, for the three months and years ended December 31, 2018 and December 31, 2017, respectively.

During the three months ended December 31, 2018, proportionate share⁽¹⁾ rental revenue, on a cash basis, increased by \$127,573, or 63.1% compared to the same period of 2017 with \$118,939, or 58.8%, attributable to the Acquisition Transaction. The growth in revenue excluding the Acquisition Transaction of 4.3% was attributable to an increase of \$9,543 in revenue from Same Properties, partially offset by a decrease of \$909 attributable to the Property Transactions. The growth in revenue from Same Properties was primarily driven by an increase of \$5,049 in base rent, a \$5,769 increase in recovery of property operating costs, and a \$981 increase in revenue generated from the recovery of capital expenditures, partially offset by a \$2,256 decrease in other revenues. The \$5,049 increase in base rent from Same Properties included revenue from newly developed GLA of \$2,695, rent steps in Loblaw leases and increases from higher average rents per square foot on third-party leases.

During the year ended December 31, 2018, proportionate share⁽¹⁾ rental revenue, on a cash basis, increased by \$357,512, or 45.0% compared to 2017 with \$313,013, or 39.4%, attributable to the Acquisition Transaction. The growth in revenue excluding the Acquisition Transaction of 5.6% was attributable to an increase of \$31,910 in revenue from Same Properties and additional rental revenue of \$12,589 attributable to the Property Transactions. The growth in revenue from Same Properties was attributable to an increase of \$17,840 in base rent, an increase of a \$8,420 in recovery of property operating costs, a \$4,706 increase in revenue generated from the recovery of capital expenditures, and a \$944 increase in other revenues. The \$17,840 increase in base rent from Same Properties included revenue from newly developed GLA of 7,488, rent steps in Loblaw leases and increases from higher average rents per square foot on third-party leases.

Proportionate Share⁽¹⁾ Property Operating Costs

Proportionate share⁽¹⁾ property operating costs are comprised primarily of expenses to manage and maintain the properties for the benefit of the tenants, including realty taxes and insurance, that are recoverable under the leases of most tenants. Non-recoverable operating costs do not directly benefit the tenants and include property management fees paid by the Trust for properties managed by its partners. Growth in property operating costs is materially impacted by newly acquired or constructed assets.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Same Properties ⁽ⁱ⁾	\$ 56,053	\$ 49,150	\$ 6,903	\$ 219,526	\$ 208,632	\$ 10,894
Property Transactions ⁽ⁱⁱ⁾	606	21	585	3,356	842	2,514
	56,659	49,171	7,488	222,882	209,474	13,408
Acquisition Transaction	40,207	—	40,207	104,532	—	104,532
Proportionate Share⁽¹⁾ Property Operating Costs	\$ 96,866	\$ 49,171	\$ 47,695	\$ 327,414	\$ 209,474	\$ 117,940

- (i) Same Properties included 538 and 533 income producing properties that were owned throughout the three months and years ended December 31, 2018 and December 31, 2017, respectively.
- (ii) Property Transactions included properties acquired, net of dispositions, subsequent to September 30, 2017 and December 31, 2017, for the three months and years ended December 31, 2018 and December 31, 2017, respectively.

During the three months ended December 31, 2018, proportionate share⁽¹⁾ property operating costs increased by \$47,695 or 97.0% compared to the same period of 2017, which was attributable to an increase of \$40,207, or 81.8%, from the Acquisition Transaction, an increase of \$6,903 from Same Properties primarily related to recoverable property operating costs, and an increase of \$585 from the Property Transactions. The increase in proportionate share⁽¹⁾ property operating costs from Same Properties was driven by timing of expenses.

During the year ended December 31, 2018, proportionate share⁽¹⁾ property operating costs increased by \$117,940 or 56.3% compared to 2017, which was attributable to an increase of \$104,532, or 49.9%, from the Acquisition Transaction, \$10,894 from Same Properties, and \$2,514 from the Property Transactions. The increase in total property operating costs from Same Properties was attributable to an increase of \$10,082 in recoverable property operating costs, and an increase of \$812 in non-recoverable property operating costs. Non-recoverable property operating costs include expenditures that can vary by year.

Net Operating Income⁽¹⁾

NOI⁽¹⁾ is calculated on a proportionate share basis to incorporate Choice Properties' investment in co-owned properties as if they were owned directly. Growth in NOI⁽¹⁾ is materially impacted by newly acquired or constructed assets.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Same Properties ⁽ⁱ⁾	\$ 152,314	\$ 149,674	\$ 2,640	\$ 600,864	\$ 579,848	\$ 21,016
Property Transactions ⁽ⁱⁱ⁾	1,870	3,364	(1,494)	15,713	5,638	10,075
	154,184	153,038	1,146	616,577	585,486	31,091
Acquisition Transaction	78,732	—	78,732	208,481	—	208,481
Net Operating Income⁽¹⁾	\$ 232,916	\$ 153,038	\$ 79,878	\$ 825,058	\$ 585,486	\$ 239,572

- (i) Same Properties included 538 and 533 income producing properties that were owned throughout the three months and years ended December 31, 2018 and December 31, 2017, respectively.
- (ii) Property Transactions included properties acquired, net of dispositions, subsequent to September 30, 2017 and December 31, 2017, for the three months and years ended December 31, 2018 and December 31, 2017, respectively.

For the three months ended December 31, 2018, NOI⁽¹⁾ increased \$79,878, or 52.2%, compared to the same period of 2017, which was attributable to an increase of \$78,732, or 51.4%, from the Acquisition Transaction, and \$2,640 from Same Properties, partially offset by \$1,494 from the Property Transactions.

For the year ended December 31, 2018, NOI⁽¹⁾ increased \$239,572, or 40.9%, compared to 2017, which was attributable to an increase of \$208,481, or 35.6%, from the Acquisition Transaction, \$21,016 from Same Properties, and \$10,075 from the Property Transactions.

Net Operating Income⁽¹⁾ for Same Properties, Excluding Development Activities

Management further refines the analysis to exclude any NOI⁽¹⁾ from developments which increased GLA in the comparative periods.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
NOI ⁽¹⁾ for Same Properties ⁽ⁱ⁾ , excluding development activities	\$ 148,126	\$ 146,011	\$ 2,115	\$ 586,836	\$ 573,308	\$ 13,528

- (i) Same Properties included 538 and 533 income producing properties that were owned throughout the three months and years ended December 31, 2018 and December 31, 2017, respectively.

For the three months ended December 31, 2018, NOI⁽¹⁾ for Same Properties, excluding development activities, increased by \$2,115 or 1.4%, compared to 2017. The increase was primarily due to \$2,106 additional base rent and net recoveries, which was driven by rent steps in Loblaw leases and higher average rents per square foot on third-party leases, and a \$981 increase in revenue generated from the recovery of capital expenditures, partially offset by a \$886 increase in non-recoverable operating expenses, and a \$86 decrease in other revenues.

For the year ended December 31, 2018, NOI⁽¹⁾ for Same Properties, excluding development activities, increased by \$13,528 or 2.4%, compared to 2017, primarily due to an increase of \$6,518 in base rent and net recoveries, which was driven by rent steps in Loblaw leases and higher average rents per square foot on third-party leases. The increase was also attributable to an increase of \$4,706 in revenue generated from the recovery of capital expenditures, and a \$3,115 increase in other revenues, partially offset by an increase of \$811 in non-recoverable operating expenses.

7.2 Other Key Performance Indicators

FFO⁽¹⁾ and AFFO⁽¹⁾ are included in the Trust's list of key performance indicators. See Section 21, "Non-GAAP Financial Measures", of this MD&A, for details on how these measures are defined, calculated and reconciled to GAAP financial measures and why management analyzes these measures. FFO⁽¹⁾ and AFFO⁽¹⁾ for the three months and year ended December 31, 2018 and December 31, 2017 are summarized below:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Funds from Operations ⁽¹⁾⁽ⁱ⁾	\$ 171,872	\$ 116,843	\$ 55,029	\$ 603,840	\$ 442,935	\$ 160,905
FFO ⁽¹⁾⁽ⁱ⁾ per unit basic	\$ 0.257	\$ 0.283	\$ (0.026)	\$ 1.038	\$ 1.076	\$ (0.038)
FFO ⁽¹⁾⁽ⁱ⁾ per unit diluted	\$ 0.256	\$ 0.282	\$ (0.026)	\$ 1.033	\$ 1.072	\$ (0.039)
FFO ⁽¹⁾⁽ⁱ⁾ payout ratio - diluted	72.2%	65.6%	6.6%	71.6%	68.1%	3.5%
Adjusted Funds from Operations ⁽¹⁾⁽ⁱ⁾	\$ 110,332	\$ 86,408	\$ 23,924	\$ 483,378	\$ 356,490	\$ 126,888
AFFO ⁽¹⁾⁽ⁱ⁾ per unit basic	\$ 0.165	\$ 0.210	\$ (0.045)	\$ 0.831	\$ 0.866	\$ (0.035)
AFFO ⁽¹⁾⁽ⁱ⁾ per unit diluted	\$ 0.165	\$ 0.209	\$ (0.044)	\$ 0.827	\$ 0.863	\$ (0.036)
AFFO ⁽¹⁾⁽ⁱ⁾ payout ratio - diluted	112.1%	88.5%	23.6%	89.5%	84.6%	4.9%
Distribution declared per unit	\$ 0.1850	\$ 0.1850	\$ —	\$ 0.7400	\$ 0.7300	\$ 0.0100
Weighted average Units outstanding - basic	667,907,648	412,388,639	255,519,009	581,978,014	411,490,052	170,487,962
Weighted average Units outstanding - diluted	670,486,393	414,285,762	256,200,631	584,605,228	413,208,961	171,396,267
Number of Units outstanding, end of period	668,164,342	413,381,522	254,782,820	668,164,342	413,381,522	254,782,820

(i) FFO⁽¹⁾, AFFO⁽¹⁾ and the related per unit amounts and payout ratios were calculated excluding the accelerated amortization of debt premium of \$37,282 (see Section 21, "Non-GAAP Financial Measures", of this MD&A).

Funds from Operations⁽¹⁾

Choice Properties calculates FFO⁽¹⁾ 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 2018. From time to time the Trust may enter into transactions that materially impact the calculation and are excluded from the calculation for management's review purposes. Refer to Section 21.3, "Funds from Operations", of this MD&A, for a reconciliation of FFO⁽¹⁾ to net income determined in accordance with GAAP.

For the three months ended December 31, 2018, FFO⁽¹⁾, increased by \$55,029 or 47.1% compared to 2017. The year-over-year growth was primarily due to an increase in NOI⁽¹⁾ of \$79,878, of which \$78,732 was attributable to the Acquisition Transaction. This increase was partially offset by a \$23,905 increase in interest and other financing charges.

For the three months ended December 31, 2018, FFO⁽¹⁾ per unit on a diluted basis decreased by \$0.026 or 9.2% compared to 2017, primarily as a result of the units issued in relation to the Acquisition Transaction.

For the year ended December 31, 2018, FFO⁽¹⁾, excluding the impact of the accelerated amortization of the debt premium, increased by \$160,905 or 36.3% compared to 2017. The year-over-year growth was primarily due to an increase in NOI⁽¹⁾ of \$239,572, of which \$208,481 was attributable to the Acquisition Transaction. This increase was partially offset by a \$77,488 increase in interest and other financing charges.

For the year ended December 31, 2018, FFO⁽¹⁾ per unit on a diluted basis decreased by \$0.039 or 3.6% compared to 2017, primarily as a result of the units issued in relation to the Acquisition Transaction.

FFO⁽¹⁾ for the year ended December 31, 2018 included lease surrender revenue from Loblaw of \$10,204, net additional interest expense of \$5,581 in connection with the commitments to financing prior to the Acquisition Transaction, and the call premium of \$2,880 for the early repayment of Series A senior unsecured debentures. Excluding these amounts, FFO⁽¹⁾ would have been \$602,097 or \$1.030 per unit on a diluted basis.

Adjusted Funds from Operations⁽¹⁾

Choice Properties calculates its AFFO⁽¹⁾ 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 2018. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes. Refer to Section 21.3, "Funds from Operations", of this MD&A, for a reconciliation of AFFO⁽¹⁾ to net income determined in accordance with GAAP.

For the three months ended December 31, 2018, AFFO⁽¹⁾, increased by \$23,924 or 27.7% compared to 2017. The year-over-year increase was primarily due to an increase in NOI⁽¹⁾ of \$79,878, of which \$78,732 was attributable to the Acquisition Transaction, partially offset by a \$29,897 increase in capital expenditures required to maintain the rental revenue stream of the growing portfolio and a \$23,905 increase in interest and other financing charges.

For the three months ended December 31, 2018, AFFO⁽¹⁾ per unit on a diluted basis decreased by \$0.044 or 21.1% compared to 2017.

For the year ended December 31, 2018, AFFO⁽¹⁾, excluding the impact of the accelerated amortization of the debt premium, increased by \$126,888 or 35.6% compared to 2017. The year-over-year growth was primarily due to an increase in NOI⁽¹⁾ of \$239,572, of which \$208,481 was attributable to the Acquisition Transaction. This increase was partially offset by a \$77,488 increase in interest and other financing charges and a \$30,601 increase in capital expenditures required to maintain the rental revenue stream of the growing portfolio.

For the year ended December 31, 2018, AFFO⁽¹⁾ per unit on a diluted basis decreased by \$0.036 or 4.2% compared to 2017.

AFFO⁽¹⁾ for the year ended December 31, 2018 included lease surrender revenue from Loblaw of \$10,204, net additional interest expense of \$5,581 in connection with the commitments to financing prior to the Acquisition Transaction, and the call premium of \$2,880 for the early repayment of Series A senior unsecured debentures. Excluding these amounts, AFFO⁽¹⁾ would have been \$481,635 or \$0.824 per unit on a diluted basis.

8. REPORTABLE OPERATING SEGMENTS' RESULTS OF OPERATIONS

Prior to the second quarter of 2018, Choice Properties operated one reportable segment, retail. The acquisition of CREIT on May 4, 2018, diversified the asset base, such that the Trust manages operations in three reportable segments, with all material activity carried out in Canada:

- **Retail Segment:** focused on necessity-based retail tenants on long-term leases, including a strong anchor tenant with Loblaw - Canada's largest retailer, the retail portfolio has a national footprint concentrated in Canada's largest markets,
- **Industrial Segment:** consists primarily of distribution facilities, warehouses, and buildings used for light manufacturing of a size and configuration that will readily accommodate the diverse needs of a broad range of tenants; and
- **Office Segment:** focuses on large, well-located buildings in target markets, with an emphasis on the downtown core in some of Canada's largest cities.

Management measures performance of operating segments using NOI⁽¹⁾ as calculated on a proportionate share basis. Refer to Section 21.1, "Proportionate Share Compilation", of this MD&A, for a reconciliation of NOI⁽¹⁾ on a proportionate share basis to net income as determined in accordance with GAAP.

8.1 Retail Segment

Choice Properties' NOI⁽¹⁾ for the retail segment, compiled on a proportionate share basis, for the three months and year ended December 31, 2018 and December 31, 2017, is summarized below:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018 ⁽ⁱ⁾	2017 ⁽ⁱⁱ⁾	Change	2018 ⁽ⁱ⁾	2017 ⁽ⁱⁱ⁾	Change
Proportionate Share⁽¹⁾ Rental Revenue, on a cash basis						
Base rent, excluding straight-line rent	\$ 179,554	\$ 144,837	\$ 34,717	\$ 647,504	\$ 570,284	\$ 77,220
Property tax and operating cost recoveries	74,901	51,831	23,070	265,266	217,093	48,173
Lease surrender and other revenue	1,452	5,541	(4,089)	14,921	7,583	7,338
	255,907	202,209	53,698	927,691	794,960	132,731
Proportionate Share⁽¹⁾ Property Operating Costs						
Recoverable property taxes, insurance and operating costs	(72,203)	(49,337)	(22,866)	(257,434)	(208,854)	(48,580)
Non-recoverable operating costs	(1,552)	166	(1,718)	(2,412)	(620)	(1,792)
	(73,755)	(49,171)	(24,584)	(259,846)	(209,474)	(50,372)
Retail Segment - Net Operating Income⁽¹⁾	\$ 182,152	\$ 153,038	\$ 29,114	\$ 667,845	\$ 585,486	\$ 82,359

(i) Retail operating results for the three months and year ended December 31, 2018, include results for three multi-family residential properties.

(ii) For the three months and year ended December 31, 2017, Choice Properties only reported a retail segment.

8.2 Industrial Segment

Choice Properties' NOI⁽¹⁾ for the industrial segment, compiled on a proportionate share basis, for the three months and year ended December 31, 2018 and December 31, 2017 is summarized below:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017 ⁽ⁱ⁾	Change	2018	2017 ⁽ⁱ⁾	Change
Proportionate Share⁽¹⁾ Rental Revenue, on a cash basis						
Base rent, excluding straight-line rent	\$ 30,186	\$ —	\$ 30,186	\$ 97,907	\$ —	\$ 97,907
Property tax and operating cost recoveries	13,427	—	13,427	39,824	—	39,824
Lease surrender and other revenue	88	—	88	380	—	380
	43,701	—	43,701	138,111	—	138,111
Proportionate Share⁽¹⁾ Property Operating Costs						
Recoverable property taxes, insurance and operating costs	(11,642)	—	(11,642)	(34,670)	—	(34,670)
Non-recoverable operating costs	(78)	—	(78)	(729)	—	(729)
	(11,720)	—	(11,720)	(35,399)	—	(35,399)
Industrial Segment - Net Operating Income⁽¹⁾	\$ 31,981	\$ —	\$ 31,981	\$ 102,712	\$ —	\$ 102,712

(i) For the three months and year ended December 31, 2017, Choice Properties only reported a retail segment.

8.3 Office Segment

Choice Properties' NOI⁽¹⁾ for the office segment, compiled on a proportionate share basis, for the three months and year ended December 31, 2018 and December 31, 2017 is summarized below:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017 ⁽ⁱ⁾	Change	2018	2017 ⁽ⁱ⁾	Change
Proportionate Share⁽¹⁾ Rental Revenue, on a cash basis						
Base rent, excluding straight-line rent	\$ 15,273	\$ —	\$ 15,273	\$ 45,694	\$ —	\$ 45,694
Property tax and operating cost recoveries	12,430	—	12,430	34,476	—	34,476
Lease surrender and other revenue	2,471	—	2,471	6,500	—	6,500
	30,174	—	30,174	86,670	—	86,670
Proportionate Share⁽¹⁾ Property Operating Costs						
Recoverable property taxes, insurance and operating costs	(11,145)	—	(11,145)	(31,315)	—	(31,315)
Non-recoverable operating costs	(246)	—	(246)	(854)	—	(854)
	(11,391)	—	(11,391)	(32,169)	—	(32,169)
Office Segment - Net Operating Income⁽¹⁾	\$ 18,783	\$ —	\$ 18,783	\$ 54,501	\$ —	\$ 54,501

(i) For the three months and year ended December 31, 2017, Choice Properties only reported a retail segment.

9. BALANCE SHEET

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

(\$ thousands) (unaudited)	As at December 31, 2018			As at December 31, 2017		
	GAAP Basis	Reconciliation	Proportionate Share Basis	GAAP Basis	Reconciliation	Proportionate Share Basis
Assets						
Non-current Assets						
Investment properties	\$ 14,501,000	\$ 1,011,000	\$ 15,512,000	\$ 9,551,000	\$ 32,018	\$ 9,583,018
Equity accounted joint ventures	734,167	(734,167)	—	32,339	(32,339)	—
Accounts receivable and other assets	1,950	—	1,950	5,565	—	5,565
Mortgages, loans and notes receivable	88,300	—	88,300	2,556	—	2,556
Intangible assets	30,000	—	30,000	—	—	—
	15,355,417	276,833	15,632,250	9,591,460	(321)	9,591,139
Current Assets						
Accounts receivable and other assets	37,975	9,653	47,628	21,419	8,965	30,384
Mortgages, loans and notes receivable	125,110	—	125,110	304,225	7,486	311,711
Cash and cash equivalents	30,713	10,080	40,793	6,407	2,357	8,764
	193,798	19,733	213,531	332,051	18,808	350,859
Total Assets	\$ 15,549,215	\$ 296,566	\$ 15,845,781	\$ 9,923,511	\$ 18,487	\$ 9,941,998
Liabilities and Equity						
Non-current Liabilities						
Long term debt and Class C LP Units	\$ 5,566,915	\$ 187,794	\$ 5,754,709	\$ 3,338,420	\$ —	\$ 3,338,420
Credit facilities and term loans	1,114,407	—	1,114,407	309,522	—	309,522
Exchangeable Units	4,492,359	—	4,492,359	4,259,724	—	4,259,724
Deferred income taxes	509	—	509	—	—	—
Trade payables and other liabilities	6,021	—	6,021	2,713	—	2,713
	11,180,211	187,794	11,368,005	7,910,379	—	7,910,379
Current Liabilities						
Long term debt and Class C LP Units	496,036	90,649	586,685	400,088	—	400,088
Credit facilities and term loans	—	—	—	250,000	—	250,000
Trade payables and other liabilities	372,982	18,123	391,105	426,063	18,487	444,550
	869,018	108,772	977,790	1,076,151	18,487	1,094,638
Total Liabilities	12,049,229	296,566	12,345,795	8,986,530	18,487	9,005,017
Equity						
Unitholders' equity	3,492,185	—	3,492,185	928,280	—	928,280
Non-controlling interests	7,801	—	7,801	8,701	—	8,701
Total Equity	3,499,986	—	3,499,986	936,981	—	936,981
Total Liabilities and Equity	\$ 15,549,215	\$ 296,566	\$ 15,845,781	\$ 9,923,511	\$ 18,487	\$ 9,941,998

The balance sheet for the year ended December 31, 2018 was materially impacted by the acquisition of CREIT. As a result of the transaction, Choice Properties acquired a portfolio of 209 properties. This increased assets by approximately \$4.7 million for the fair value of investment properties and approximately \$0.7 million for investment in equity accounted joint ventures.

The capital structure of the Trust was also materially impacted by the CREIT acquisition transaction. Choice properties assumed debt balances of approximately \$1.3 million of mortgages payable and approximately \$0.5 million of senior unsecured debentures. In addition, the Trust issued equity of approximately \$2.1 million, senior unsecured debentures of \$1.3 million and term debt of \$800 million.

The portfolio acquired in the CREIT acquisition included 23 properties held in equity accounted joint ventures. Under IFRS, Choice Properties' ownership interest in these properties is summarized as a net value on the balance sheet. When management assesses the Trust, it considers the balance sheet with the proportionate share assets and liabilities of the joint ventures presented throughout.

10. INVESTMENT PROPERTIES

To expand the portfolio and participate in development opportunities, Choice Properties owns varying interests in real estate entities which hold investment properties. Under GAAP, many of these interests are recorded as equity accounted joint ventures and, as such, the Trust's portion of the investment properties of these entities is presented on the balance sheet as a summarized value, not as part of the total investment properties. Refer to Section 21.1, "Proportionate Share Compilation", of this MD&A, for a reconciliation of the continuity of investment properties determined in accordance with GAAP.

The following continuity schedules present Choice Properties' portfolio inclusive of its proportionate share ownership in equity accounted joint ventures for the periods ended, as indicated:

As at and for the three months ended December 31, 2018 (\$ thousands) (unaudited)	Income producing properties	Properties under development ⁽ⁱ⁾	Investment Properties
GAAP balance, September 30, 2018	\$ 14,250,319	\$ 161,681	\$ 14,412,000
Reclassification ⁽ⁱ⁾	(90,312)	90,312	—
GAAP balance, beginning of period	14,160,007	251,993	14,412,000
Adjustments to reflect equity accounted joint ventures on a proportionate share basis ⁽ⁱⁱ⁾	753,920	236,750	990,670
Non-GAAP proportionate share balance, September 30, 2018	14,913,927	488,743	15,402,670
Acquisitions of investment properties ⁽ⁱⁱⁱ⁾	77,712	—	77,712
Capital expenditures			
Development capital	—	84,808	84,808
Building improvements	1,315	—	1,315
Capitalized interest	—	2,866	2,866
Operating capital expenditures			
Property capital	42,655	—	42,655
Direct leasing costs	3,999	—	3,999
Tenant improvement allowances	4,877	—	4,877
Amortization of straight-line rent	8,365	—	8,365
Transfers from properties under development	44,513	(44,513)	—
Dispositions	(103,825)	—	(103,825)
Foreign currency translation	6,346	—	6,346
Adjustment to fair value of investment properties	(19,268)	(520)	(19,788)
Non-GAAP proportionate share balance, December 31, 2018	\$ 14,980,616	\$ 531,384	\$ 15,512,000

(i) The opening balance of properties under development has been adjusted to include intensifications and land assemblies that were previously recorded as part of income producing properties.

(ii) Refer to Section 21.1, "Proportionate Share Compilation", of this MD&A, for a reconciliation of the continuity of investment properties determined in accordance with GAAP.

(iii) Includes acquisition costs.

As at and for the year ended December 31, 2018
(\$ thousands)
(unaudited)

	Income producing properties	Properties under development ⁽ⁱ⁾	Investment Properties
GAAP balance, December 31, 2017	\$ 9,509,440	\$ 41,560	\$ 9,551,000
Reclassification ⁽ⁱ⁾	(57,547)	57,547	—
GAAP balance, December 31, 2017	9,451,893	99,107	9,551,000
Adjustments to reflect equity accounted joint ventures on a proportionate share basis ⁽ⁱⁱ⁾	—	32,018	32,018
Non-GAAP proportionate share balance, December 31, 2017	9,451,893	131,125	9,583,018
Acquisition of CREIT	5,332,339	345,151	5,677,490
Acquisitions of investment properties ⁽ⁱⁱⁱ⁾	90,622	21,617	112,239
Capital expenditures			
Development capital	—	235,561	235,561
Building improvements	7,474	—	7,474
Capitalized interest	—	6,496	6,496
Operating capital expenditures			
Property capital	57,737	—	57,737
Direct leasing costs	11,842	—	11,842
Tenant improvement allowances	10,391	—	10,391
Amortization of straight-line rent	35,064	—	35,064
Transfers from properties under development	193,301	(193,301)	—
Dispositions	(123,869)	(14,973)	(138,842)
Foreign currency translation	7,359	—	7,359
Adjustment to fair value of investment properties	(93,537)	(292)	(93,829)
Non-GAAP proportionate share balance, December 31, 2018	\$ 14,980,616	\$ 531,384	\$ 15,512,000

- (i) The opening balance of properties under development has been adjusted to include intensifications and land assemblies that were previously recorded as part of income producing properties.
- (ii) Refer to Section 21.1, "Proportionate Share Compilation", of this MD&A, for a reconciliation of the continuity of investment properties determined in accordance with GAAP.
- (iii) Includes acquisition costs.

10.1 Valuation Method

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

Valuations are most sensitive to changes in capitalization rates. Choice Properties' valuation inputs, including capitalization rates, are supported by quarterly reports from independent nationally-recognized valuation firms. Below is a summary of the key rates used in the valuation process:

	As at December 31, 2018		As at December 31, 2017	
	Range	Weighted average	Range	Weighted average
Total Investment Properties				
Discount rate	5.00% - 11.45%	6.82%	5.50% - 11.25%	7.02%
Terminal capitalization rate	4.25% - 10.95%	6.15%	4.75% - 10.50%	6.39%
Overall capitalization rate	4.00% - 10.70%	5.88%	4.50% - 10.50%	6.07%
Retail				
Discount rate	5.00% - 11.45%	6.87%	5.50% - 11.25%	7.02%
Terminal capitalization rate	4.25% - 10.95%	6.22%	4.75% - 10.50%	6.39%
Overall capitalization rate	4.00% - 10.70%	5.95%	4.50% - 10.50%	6.07%
Industrial				
Discount rate	5.25% - 9.00%	6.91%		
Terminal capitalization rate	4.50% - 8.50%	6.15%		
Overall capitalization rate	4.25% - 8.25%	5.84%		
Office				
Discount rate	5.00% - 8.25%	6.07%		
Terminal capitalization rate	4.25% - 7.50%	5.33%		
Overall capitalization rate	4.00% - 7.00%	5.16%		

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 17, "Related Party Transactions", of the Trust's 2018 Fourth Quarter Report), 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.

10.2 Investment Property Transactions

Acquisitions of Investment Properties

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

(\$ thousands except where otherwise indicated) (unaudited)	Property Type	Acquisition Date	Ownership Interest	GLA (square feet)	Purchase Price ⁽ⁱⁱⁱ⁾	Occupancy (upon acquisition)
Acquisitions from related parties:						
Third Quarter of 2018:						
Sainte-Julie, QC	Land	July 3, 2018	75%	—	\$ 1,616	N/A
Fourth Quarter of 2018:						
Calgary, AB	Retail	November 14, 2018	100%	104,773	31,780	100%
Bedford, NS	Retail	November 14, 2018	100%	80,103	9,084	100%
Kanata, ON	Retail	November 14, 2018	100%	103,152	14,758	100%
Langley, BC	Industrial	December 7, 2018	100%	130,563	20,866	100%
Total acquisitions from related parties				418,591	78,104	100%
Acquisitions from third-parties:						
First Quarter of 2018:						
Toronto, ON ⁽ⁱ⁾	Land ⁽ⁱⁱ⁾	January 10, 2018	100%	1,860	\$ 2,950	N/A
Riviere-du-Loup, QC	Retail	January 22, 2018	100%	19,363	2,409	100%
Toronto, ON ⁽ⁱ⁾	Land ⁽ⁱⁱ⁾	January 31, 2018	100%	1,900	2,990	N/A
Sherbrooke, QC	Retail	February 1, 2018	100%	22,528	4,561	100%
Toronto, ON ⁽ⁱ⁾	Retail	March 20, 2018	100%	45,285	17,915	97%
Second Quarter of 2018:						
Ottawa, ON	Land	May 29, 2018	100%	N/A	2,086	N/A
Fourth Quarter of 2018:						
Calgary, AB ⁽ⁱ⁾	Retail	October 1, 2018	100%	5,408	1,224	100%
Total acquisitions from third-parties				96,344	34,135	99%
Total Acquisitions				514,935	\$ 112,239	99.7%

(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.

(iii) Purchase price includes acquisition costs.

Dispositions of Investment Properties

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

(\$ thousands except where otherwise indicated) (unaudited)	Property Type	Disposition Date	Ownership Interest	Number of Properties	GLA (square feet)	Sale Price
Dispositions:						
Second Quarter of 2018:						
Victoriaville, QC	Retail	June 21, 2018	100%	1	67,079	\$ 2,750
Third Quarter of 2018:						
Dartmouth, NS ⁽ⁱ⁾	Industrial	August 29, 2018	100%	7	267,159	17,300
Fourth Quarter of 2018:						
Ottawa, ON	Office	October 1, 2018	50%	1	18,750	3,150
Calgary, AB	Office	December 4, 2018	50%	1	527,404	104,000
Total Dispositions				10	880,392	\$ 127,200

(i) Portfolio of seven properties.

10.3 Development Activities

Choice Properties believes that development of properties to their highest and best use is a key driver of incremental and accretive growth. The Trust's pipeline of development opportunities includes: (i) intensification of excess density within its existing portfolio (see Section 10.4, "Intensification"), (ii) redevelopment of properties in key markets (see Section 10.5, "Redevelopment"), (iii) greenfield developments in large markets, including retail and industrial projects (see Section 10.6, "Greenfield Development"), (iv) major mixed use development in urban markets (see Section 10.7, "Major Mixed Use Development") and (v) residential development (see Section 10.8, "Residential").

Choice Properties' development program, at the Trust's ownership share⁽¹⁾, as at December 31, 2018 is summarized below:

Project type	GLA (square feet)			Total investment ⁽ⁱ⁾			
	Currently under development	Future ⁽²⁾ development	Total development	To-date	Planned ⁽²⁾ additional investment	Future ⁽²⁾	Total
(\$ thousands except where otherwise indicated) (unaudited)							
Intensification							
Retail - Active	255,000	44,000	299,000	\$ 76,366	\$ 26,323	\$ 16,270	\$ 118,959
Retail - In Planning	—	331,000	331,000	6,618	—	112,137	118,755
Subtotal intensification	255,000	375,000	630,000	82,984	26,323	128,407	237,714
Redevelopment							
Retail	42,000	—	42,000	—	8,437	—	8,437
Subtotal redevelopment	42,000	—	42,000	—	8,437	—	8,437
Greenfield development							
Retail	231,000	415,000	646,000	211,313	38,119	61,394	310,826
Industrial	705,000	542,000	1,247,000	98,675	10,727	47,749	157,151
Subtotal greenfield development	936,000	957,000	1,893,000	309,988	48,846	109,143	467,977
Major mixed use							
Major mixed use	—	TBD	TBD	28,639	19,482	TBD	48,121
Subtotal major mixed use	—	—	—	28,639	19,482	—	48,121
Residential							
Residential	791,000	—	791,000	78,081	308,254	—	386,335
Subtotal residential	791,000	—	791,000	78,081	308,254	—	386,335
Total development	2,024,000	1,332,000	3,356,000	\$ 499,692	\$ 411,342	\$ 237,550	\$ 1,148,584

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

Properties Under Development Continuity

The change in the net carrying value of properties under development is as follows:

(\$ thousands) (unaudited)	Three months ended	Year ended	Year ended
	December 31, 2018	December 31, 2018	December 31, 2017 ⁽ⁱ⁾
GAAP balance, beginning of period	\$ 161,681	\$ 41,560	\$ 66,397
Reclassification ⁽ⁱ⁾	90,312	57,547	23,687
GAAP balance, beginning of period	251,993	99,107	90,084
Adjustments to reflect equity accounted joint ventures on a proportionate share basis ⁽ⁱⁱ⁾	236,750	32,018	25,697
Non-GAAP proportionate share balance, beginning of period	488,743	131,125	115,781
Development properties from CREIT Acquisition	—	345,151	—
Acquisitions of properties under development ⁽ⁱⁱⁱ⁾	—	21,617	14,309
Transfers to income producing properties	(44,513)	(193,301)	(134,296)
Dispositions	—	(14,973)	—
Development capital	84,808	235,561	118,106
Capitalized interest	2,866	6,496	2,355
Adjustment to fair value	(520)	(292)	14,870
Non-GAAP proportionate share balance, end of period	\$ 531,384	\$ 531,384	\$ 131,125

(i) The opening balance of properties under development, and the 2017 activity were adjusted to include intensifications and land assemblies that were previously recorded as part of income producing properties.

(ii) Refer to Section 21.1, "Proportionate Share Compilation", of this MD&A, for a reconciliation of the continuity of investment properties determined in accordance with GAAP.

(iii) Includes acquisition costs.

10.4 Intensification

Intensifications are focused on adding retail density within the existing portfolio. As at December 31, 2018, Choice Properties had 42 ongoing intensification projects representing a total of 0.6 million square feet:

- 21 intensification projects are under active development representing 0.3 million square feet and a total investment of \$119 million to complete⁽²⁾ over the next two to three years; and
- 21 intensification projects are in planning representing 0.3 million square feet and, if they proceed as planned will require a total investment of \$119 million to complete⁽²⁾ over the next two to four years.

10.5 Redevelopment

Choice Properties' redevelopment activities are focused on the redevelopment of existing retail centres to reposition an asset. As at December 31, 2018, Choice Properties had one redevelopment project:

- Pioneer Park, Kitchener, Ontario is a two-phase redevelopment project currently underway, which will deliver 42,000 square feet at a projected cost of \$8.4 million upon completion⁽²⁾ in 2019.

10.6 Greenfield Development

Choice Properties' development activities include greenfield projects which are primarily focused on unenclosed retail shopping centres and industrial parks. As at December 31, 2018, Choice Properties had 21 greenfield development projects in the pipeline. When complete, these properties will comprise approximately 1.9 million square feet. A total of \$310 million has been invested to date in the pipeline and, in total, the Trust currently expects to invest a total of \$468 million⁽²⁾ in the next three to five years.

Choice Properties' greenfield development projects, at the Trust's ownership share⁽¹⁾, are summarized below:

Project / Location		Ownership %	Land area (acres)	GLA (square feet)			Total investment			
				Currently under development	Future ⁽²⁾ development	Total development	To-date	Planned ⁽²⁾ additional investment	Future ⁽²⁾	Total
Retail										
1	50th & Eilerslie (Phase I - South), Edmonton, AB	50%	6	8,000	53,000	61,000	\$ 9,888	\$ 1,248	\$ 7,831	\$ 18,967
2	50th & Eilerslie (Phase II - North), Edmonton, AB	50%	16	—	189,000	189,000	15,074	1,875	27,189	44,138
3	Erin Ridge, St. Albert, AB	50%	4	4,000	45,000	49,000	7,195	527	3,864	11,586
4	Cundles & Duckworth (Phase IIIA), Barrie, ON	100%	5	15,000	—	15,000	6,269	602	—	6,871
5	Upper Sherman Avenue, Hamilton ON	100%	5	38,000	16,000	54,000	2,463	6,570	5,241	14,274
6	Oshawa Retail Lands, Oshawa, ON	50%	4	8,000	37,000	45,000	7,942	527	3,505	11,974
7	Bathurst & Lakeshore, Toronto, ON	40%	1	100,000	—	100,000	26,512	17,014	—	43,526
8	Erb Street, Waterloo, ON	50%	4	—	30,000	30,000	6,649	111	4,600	11,360
9	Chemin du Fer-A-Cheval, Ste. Julie, QC	75%	6	54,000	—	54,000	7,129	8,072	—	15,201
10	Cornerstone, Prince Albert, SK	50%	6	4,000	45,000	49,000	2,570	237	9,164	11,971
11	Various ⁽ⁱ⁾	50%-70%	275	—	TBD	—	119,622	1,336	TBD	120,958
Subtotal retail			332	231,000	415,000	646,000	211,313	38,119	61,394	310,826
Industrial										
1	Great Plains Business Park, Calgary, AB	50%	11	139,000	120,000	259,000	17,049	2,613	14,248	33,910
2	Horizon Business Park, Edmonton, AB	50%	12	—	259,000	259,000	10,487	301	24,746	35,534
3	190th Street, Surrey, BC	100%	17	—	—	—	61	4,293	TBD	4,354
4	James Snow Parkway (Phase II), Milton, ON	85%	9	—	163,000	163,000	4,234	333	8,755	13,322
5	Peddie Road, Milton, ON	85%	19	566,000	—	566,000	66,844	3,187	—	70,031
Subtotal industrial			68	705,000	542,000	1,247,000	98,675	10,727	47,749	157,151
Total greenfield development			400	936,000	957,000	1,893,000	\$ 309,988	\$ 48,846	\$ 109,143	\$ 467,977

(i) Includes six greenfield projects in preliminary stages of development in Ontario and Alberta.

Active Greenfield Development

One advantage of greenfield developments is that they lend themselves to phased construction which creates flexibility to time developments to take advantage of changing market conditions.

As at December 31, 2018, Choice Properties had ten greenfield properties under active development, representing 936,000 square feet. Included in this total are:

- eight retail centres representing 231,000 square feet, of which 72% have been pre-leased; and
- two industrial projects representing 705,000 square feet, of which 83% have been pre-leased. In certain instances, industrial development will commence on a speculative basis as the time to construct an industrial building is greater than the lead time required by tenants.

A total of \$127 million has been invested to date in these ten developments and the Trust expects to invest an additional \$41 million to complete the developments before transferring them to income producing properties⁽²⁾.

Choice Properties' greenfield projects, at the Trust's ownership share, that are currently under active development as at December 31, 2018 are as follows:

Project / Location		Ownership %	GLA (square feet)			Total investment		
			Committed to lease	Not committed to lease	Total	To-date	Planned ⁽²⁾ additional investment	Total
(\$ thousands except where otherwise indicated) (unaudited)								
Retail								
1	50th & Ellerslie (Phase I - South), Edmonton, AB	50%	6,000	2,000	8,000	\$ 1,708	\$ 1,248	\$ 2,956
2	Erin Ridge, St. Albert, AB	50%	1,000	3,000	4,000	739	527	1,266
3	Cundles & Duckworth (Phase IIIA), Barrie, ON	100%	9,000	6,000	15,000	6,269	602	6,871
4	Upper Sherman Avenue, Hamilton, ON	100%	38,000	—	38,000	2,463	6,570	9,033
5	Oshawa Retail Lands, Oshawa, ON	50%	1,000	7,000	8,000	2,650	527	3,177
6	Bathurst & Lakeshore, Toronto, ON	40%	84,000	16,000	100,000	26,512	17,014	43,526
7	Chemin du Fer-A-Cheval, Ste. Julie, QC	75%	27,000	27,000	54,000	7,129	8,072	15,201
8	Cornerstone, Prince Albert, SK	50%	—	4,000	4,000	986	237	1,223
Subtotal retail			166,000	65,000	231,000	48,456	34,797	83,253
Industrial								
1	Great Plains Business Park, Calgary, AB	50%	19,000	120,000	139,000	11,919	2,613	14,532
2	Peddle Road, Milton, ON	85%	566,000	—	566,000	66,844	3,187	70,031
Subtotal industrial			585,000	120,000	705,000	78,763	5,800	84,563
Total active greenfield development			751,000	185,000	936,000	\$ 127,219	\$ 40,597	\$ 167,816

10.7 Major Mixed Use Development

Choice Properties currently has a number of sites planned for major mixed use development with three of these sites in an active pre-development stage. The three properties are located in key urban markets, including two sites in Toronto, Ontario, and one in Coquitlam, British Columbia. These developments are residential focused, mixed use communities with close proximity to public transportation. A total of \$29 million has been invested to date on land acquisition and other initial development costs. The Trust expects to invest an additional \$19 million on pre-development activities on these projects over the next two to five years before beginning construction. The projects are in various phases of pre-development, and Choice Properties continues to work on finalizing the assembly of land parcels for the developments.

434-455 North Rd., Coquitlam, BC

The approximately 7 acre site is located in the City of Coquitlam in the Greater Vancouver Area. The site is well located and transit oriented, in close proximity to Lougheed Town Centre Station on the Vancouver SkyTrain system. The current redevelopment plans contemplate a mixed use project with a focus on high density residential and retail at grade.

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

1806-1880 Eglinton Ave E., Toronto, ON

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

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

2280 Dundas St. W., Toronto, ON

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

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

10.8 Residential

Choice Properties has seven residential projects in the pipeline representing 791,000 square feet. A total of \$78 million has been invested in these projects to date and Choice Properties expects to invest an additional \$308 million to complete the developments before transferring them to income producing properties. Choice Properties' residential development projects, at the Trust's ownership share⁽¹⁾, as at December 31, 2018, are as follows:

Project / Location	Ownership %	Number of Units ⁽ⁱⁱ⁾	GLA (square feet)				Total investment				
			Commercial under development	Residential under development	Future ⁽²⁾	Total	To-date	Planned ⁽²⁾ additional investment	Future ⁽²⁾	Total	
(\$ thousands except where otherwise indicated) (unaudited)											
Residential											
1 Clareview Estates, Edmonton, AB	50%	TBD	—	—	TBD	TBD	\$ 4,699	\$ 45	TBD	\$	4,744
2 Centre in the Park, Strathcona County, AB	50%	40	9,000	44,000	—	53,000	16,332	107	—		16,439
3 Bovaird West - Block 4, Brampton, ON ⁽ⁱ⁾	50%	136	—	150,000	—	150,000	1,288	71,881	—		73,169
4 Richmond Road, Ottawa, ON ⁽ⁱ⁾	100%	253	—	203,000	—	203,000	5,705	77,861	—		83,566
5 Dufferin Street, Toronto, ON	47%	163	32,000	155,000	—	187,000	28,786	61,877	—		90,663
6 East Liberty Residences, Toronto, ON	47%	182	—	129,000	—	129,000	16,619	62,297	—		78,916
7 Sheppard Ave West, Toronto, ON ⁽ⁱ⁾	50%	100	5,000	64,000	—	69,000	4,652	34,186	—		38,838
Total residential		874	46,000	745,000	—	791,000	\$ 78,081	\$ 308,254	\$ —		\$ 386,335

(i) Preliminary stages of development.

(ii) Choice's share.

10.9 Completed Developments

For the year ended December 31, 2018, Choice Properties transferred, at the Trust's ownership share⁽¹⁾, \$193 million from properties under development to income producing properties as follows:

(\$ thousands except where otherwise indicated)
(unaudited)

Project / Location	Property type	Ownership %	Completed GLA during the year (square feet)	Cost of assets transferred
Intensification				
1 20th Ave. NE, Calgary, AB	Retail	100%	16,000 \$	7,144
2 Mahogany Village Market, Calgary, AB	Retail	100%	14,000	7,348
3 South Edmonton Common, Edmonton, AB	Retail	50%	19,000	7,433
4 Sunwapta Centre, Edmonton, AB	Retail	50%	1,000	430
5 Baseline Rd., Sherwood Park, AB	Retail	100%	8,000	3,747
6 Victoria St., Edmunston, NB	Retail	100%	3,000	1,573
7 Campbell Rd. & Marr Rd., Rothesay, NB	Retail	100%	4,000	2,357
8 Main St. E., Shediac, NB	Retail	100%	14,000	4,901
9 Main St. S, Alexandria, ON	Retail	100%	6,000	2,241
10 Mill St., Angus, ON	Retail	100%	3,000	2,025
11 Lake Shore Blvd. W., Etobicoke, ON	Retail	100%	15,000	5,373
12 20th Sideroad Rd., Innisfil, ON	Retail	100%	24,000	11,970
13 Princess St., Kingston, ON	Retail	100%	5,000	2,243
14 Yonge St., Richmond Hill, ON	Retail	50%	3,000	704
15 Gibb St., Oshawa, ON	Retail	100%	11,000	4,604
16 Greenbank Rd., Ottawa, ON	Retail	100%	17,000	8,116
17 Fiesta Mall, Stoney Creek, ON	Retail	100%	4,000	2,104
18 Weston Rd., Toronto, ON	Retail	100%	7,000	4,080
19 Tecumseh Rd. E., Windsor, ON	Retail	100%	4,000	1,720
20 Aut Duplessis, Anicenne-Lorette, QC	Retail	100%	5,000	1,776
21 Rte. Trans-Canada, Kirkland, QC	Retail	100%	90,000	22,424
22 Rue Bouvier, Lebourgneuf, QC	Retail	100%	16,000	3,700
23 Boul. Saint-Jean, Pierrefond, QC	Retail	100%	2,000	1,164
24 Boul Brien, Repentigny, QC	Retail	100%	6,000	1,584
25 15th Street East, Prince Albert, SK	Retail	100%	3,000	1,301
26 Herald Rd., Saskatoon, SK	Retail	100%	7,000	2,732
Subtotal intensification			307,000	114,794
Redevelopment				
1 Pioneer Park, Kitchener, ON	Retail	100%	91,000	27,533
Subtotal redevelopment			91,000	27,533
Greenfield development				
1 50th & Ellerslie (Phase I - South), Edmonton, AB	Retail	50%	12,000	4,094
2 Vanderbilt Common, Spruce Grove, AB	Retail	100%	29,000	8,872
3 Erin Ridge, St. Albert, AB	Retail	50%	700	305
4 Oshawa Retail Lands, Oshawa, ON	Retail	50%	400	163
5 Overlea Blvd., Toronto, ON	Retail	50%	N/A ⁽ⁱ⁾	23,291
6 Cornerstone, Prince Albert, SK	Retail	50%	14,000	3,398
Subtotal greenfield development			56,100	40,123
Residential				
1 Walker Lakes, Edmonton, AB	Residential	50%	63,000	10,851
Subtotal residential			63,000	10,851
Total Transferred Properties			517,100 \$	193,301

(i) Development completed for 75,000 square feet. The leasing arrangement is structured as a land lease.

10.10 Development Project Capital

Choice Properties expects to invest a total of approximately \$600 million, at the Trust's ownership share⁽¹⁾, by the end of the year 2021⁽²⁾. Development yields are expected to be accretive upon tenant occupancy⁽²⁾.

(\$ thousands) (unaudited)	2019	2020	2021	Total
Intensification	\$ 39,000	\$ 34,000	\$ 65,000	\$ 138,000
Redevelopment	6,000	3,000	—	9,000
Greenfield development	59,000	38,000	39,000	136,000
Major mixed use	11,000	5,000	4,000	20,000
Residential	57,000	117,000	123,000	297,000
Estimated total capital annual spend⁽ⁱ⁾	\$ 172,000	\$ 197,000	\$ 231,000	\$ 600,000

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

10.11 Active Management

Commercial Leasing Activity

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

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

The following tables detail the changes for in-place occupancy, by operating segment, for the three months and year ended December 31, 2018:

(in thousands of square feet except where otherwise indicated) (unaudited)	September 30, 2018										December 31, 2018		
	Leasable	Occupied	Occupied (%)	Expiries	New	Renewals	Subtotal: Absorption	Portfolio changes ⁽ⁱ⁾	Acquired/ (Disposed) vacancy	Leasable	Occupied	Occupied (%)	
Retail	46,638	45,726	98.0%	(616)	100	479	(37)	380	—	47,018	46,069	98.0%	
Industrial	16,326	15,971	97.8%	(428)	153	273	(2)	131	—	16,457	16,100	97.8%	
Office	3,695	3,431	92.9%	(273)	75	154	(44)	(478)	(64)	3,153	2,909	92.3%	
Total	66,659	65,128	97.7%	(1,317)	328	906	(83)	33	(64)	66,628	65,078	97.7%	

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

(in thousands of square feet except where otherwise indicated) (unaudited)	December 31, 2017 ⁽ⁱ⁾										December 31, 2018		
	Leasable	Occupied	Occupied (%)	Expiries	New	Renewals	Subtotal: Absorption	Portfolio changes ⁽ⁱⁱ⁾	Acquired/ (Disposed) vacancy	Leasable	Occupied	Occupied (%)	
Retail	37,084	36,599	98.7%	(1,382)	340	939	(103)	9,573	361	47,018	46,069	98.0%	
Industrial	6,413	6,413	100.0%	(1,017)	477	526	(14)	9,701	343	16,457	16,100	97.8%	
Office	609	609	100.0%	(421)	169	236	(16)	2,316	228	3,153	2,909	92.3%	
Total	44,106	43,621	98.9%	(2,820)	986	1,701	(133)	21,590	932	66,628	65,078	97.7%	

(i) Prior reporting included all of the Trust's properties in the retail segment.

(ii) Represents changes in occupied square footage arising from acquisitions, dispositions, intensifications, expansions, and transfers from properties under development, including the Acquisition Transaction.

Choice Properties' principal tenant, Loblaw, represents 58.9% of the Trust's GLA (December 31, 2017 - 87.6%). As at December 31, 2018, the weighted average lease term-to-maturity on the Loblaw leases was 9.3 years (December 31, 2017 - 10.3 years).

	As at December 31, 2018			As at December 31, 2017		
	Portfolio GLA	Occupied GLA	Occupancy (%)	Portfolio GLA	Occupied GLA	Occupancy (%)
(in millions of square feet except where otherwise indicated) (unaudited)						
Loblaw banners	39.3	39.3	100.0%	38.7	38.7	100.0%
Third-party tenants	27.3	25.8	94.3%	5.4	4.9	91.1%
Total commercial GLA	66.6	65.1	97.7%	44.1	43.6	98.9%

The lease maturity profile for Choice Properties' portfolio as at December 31, 2018 was as follows:

(in thousands of square feet except where otherwise indicated) (unaudited)	Third-party GLA	Loblaw GLA	Total GLA	Expiring GLA as a % of total GLA	Expiring annualized base rent (\$ 000's)	Average expiring base rent (per square foot)
Month-to-month	181	—	181	0.3%	2,563	\$ 14.16
2019	2,374	113	2,487	3.7%	32,771	\$ 13.18
2020	3,328	26	3,354	5.0%	40,319	\$ 12.02
2021	3,475	155	3,630	5.4%	47,518	\$ 13.09
2022	3,099	67	3,166	4.8%	49,383	\$ 15.60
2023	3,355	3,969	7,324	11.0%	103,465	\$ 14.13
2024	1,755	3,176	4,931	7.4%	68,376	\$ 13.87
2025 & Beyond	8,242	31,763	40,005	60.1%	622,182	\$ 15.55
Vacant	1,550	—	1,550	2.3%	—	\$ —
Total	27,359	39,269	66,628	100.0%	\$ 966,577	\$ 14.51

(in thousands of square feet except where otherwise indicated) (unaudited)	Retail segment		Industrial segment		Office segment		Total
	GLA	Expiring GLA as a % of total GLA	GLA	Expiring GLA as a % of total GLA	GLA	Expiring GLA as a % of total GLA	GLA
Month-to-month	163	0.2%	12	—%	6	—%	181
2019	1,205	1.8%	1,016	1.5%	266	0.4%	2,487
2020	1,393	2.1%	1,715	2.6%	246	0.4%	3,354
2021	2,000	3.0%	1,355	2.0%	275	0.4%	3,630
2022	1,723	2.6%	1,072	1.6%	371	0.6%	3,166
2023	5,115	7.7%	1,906	2.9%	303	0.5%	7,324
2024	3,882	5.8%	952	1.4%	97	0.1%	4,931
2025 & Beyond	30,588	45.9%	8,072	12.1%	1,345	2.0%	40,005
Vacant	949	1.4%	357	0.5%	244	0.4%	1,550
Total	47,018	70.6%	16,457	24.7%	3,153	4.7%	66,628

Top 10 Tenants

Choice Properties' ten largest tenants, based upon gross rent for the three months ended December 31, 2018, represent approximately 64.9% of gross rental revenue, as calculated on a proportionate share basis⁽¹⁾. The names noted below may be the names of the parent entities and are not necessarily the covenants under the leases.

Tenants	% of Gross Rental Revenue	GLA (square feet)
1. Loblaw	57.1%	39,269
2. Canadian Tire	2.4%	1,739
3. TJX Companies	1.1%	623
4. Dollarama	0.8%	421
5. Staples	0.7%	426
6. Lowe's	0.6%	522
7. Sobeys	0.6%	332
8. GoodLife	0.6%	314
9. TD Canada Trust	0.5%	147
10. Liquor Control Board of Ontario (LCBO)	0.5%	185
Total	64.9%	43,978

Operating Capital Expenditures

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

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Property capital	\$ 42,655	\$ 20,661	\$ 21,994	\$ 57,737	\$ 44,960	\$ 12,777
Leasing capital:						
Direct leasing costs	3,999	176	3,823	11,842	1,756	10,086
Tenants improvement allowances	4,877	797	4,080	10,391	2,653	7,738
Total operating capital expenditures, proportionate share basis⁽¹⁾	\$ 51,531	\$ 21,634	\$ 29,897	\$ 79,970	\$ 49,369	\$ 30,601

Property Capital Property capital expenditures incurred to sustain the investment properties' existing GLA are considered to be operational and are deducted in the calculation of AFFO⁽¹⁾ and ACFO⁽¹⁾. During the year ended December 31, 2018, Choice Properties incurred \$57,737 of property capital expenditures, which may be recoverable from tenants under the terms of their leases over the useful life of the improvements (2017 - \$44,960). Recoverable capital improvements may include items such as parking lot resurfacing and roof replacements. These items are recorded as part of investment properties and the recoveries from tenants are recorded as revenue.

Leasing Capital Capital expenditures for leasing activities, such as leasing commissions or tenant improvement allowances, are considered to be operational and are also deducted in the calculation of AFFO⁽¹⁾ and ACFO⁽¹⁾. Choice Properties incurred \$10,391 of tenant improvement allowances and \$11,842 of direct leasing costs during the year ended December 31, 2018 (2017 - \$2,653 and \$1,756, 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 for renewing existing tenants.

11. LIQUIDITY AND CAPITAL RESOURCES

11.1 Major Cash Flow Components

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Source/ (Use)	2018	2017	Source/ (Use)
Cash and cash equivalents, beginning of period	\$ 82,006	\$ —	\$ 82,006	\$ 6,407	\$ 5,113	\$ 1,294
Cash flows from operating activities	235,694	194,285	41,409	683,632	503,676	179,956
Cash flows from (used in) investing activities	18,381	(203,968)	222,349	(1,582,842)	(262,880)	(1,319,962)
Cash flows from (used in) financing activities	(305,368)	16,090	(321,458)	923,516	(239,502)	1,163,018
Cash and cash equivalents, end of period	\$ 30,713	\$ 6,407	\$ 24,306	\$ 30,713	\$ 6,407	\$ 24,306

Cash Flows from Operating Activities

The year-over-year quarterly increase in cash flows from operating activities for the three months ended December 31, 2018 of \$41,409 was primarily due to net property income attributable to the Acquisition Transaction.

The year-over-year increase in cash flows from operating activities for the year ended December 31, 2018 of \$179,956 was primarily due to net property income attributable to the Acquisition Transaction.

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

Cash Flows used in Investing Activities

The year-over-year quarterly increase in cash flows from investing activities for the three months ended December 31, 2018 of \$222,349 was primarily due to the proceeds upon disposition of investment properties of \$105,719.

The year-over-year increase in cash flows used in investing activities for the year ended December 31, 2018 of \$1,319,962 was primarily due to the Acquisition Transaction.

Cash Flows from Financing Activities

The year-over-year quarterly increase in cash flows used in financing activities for the three months ended December 31, 2018 of \$321,458 was primarily due to the issuance of new debt to fund the Acquisition Transaction.

The year-over-year increase in cash flows from financing activities for the year ended December 31, 2018 of \$1,163,018 was primarily due to the issuance of new debt to fund the Acquisition Transaction.

11.2 Liquidity and Capital Structure

Choice Properties expects to fund its ongoing operations and finance future growth primarily through the use of: (i) existing cash; (ii) cash flows from operations; (iii) short term financing through the committed credit facility; 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⁽²⁾.

(\$ thousands) (unaudited)	As at December 31, 2018	As at December 31, 2017		Change
Cash and cash equivalents - non-GAAP proportionate share basis	\$ 40,793	\$ 8,764	\$	32,029
Unused portion of the credit facilities	1,175,000	189,000		986,000
Liquidity	\$ 1,215,793	\$ 197,764	\$	1,018,029
Unencumbered assets - non-GAAP proportionate share basis	\$ 11,750,000	\$ 9,019,000	\$	2,731,000

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.

11.3 Components of Total Debt

Choice Properties' debt structure was as follows:

As at December 31, 2018 (\$ thousands)	GAAP Basis	Proportionate Share Basis ⁽¹⁾ (unaudited)	Proportionate Share Basis ⁽¹⁾ (unaudited)	
			Weighted average term to maturity (years)	Weighted average interest rate (%)
Construction loans	\$ 21,330	\$ 119,131	0.8	3.89%
Credit facility	325,000	325,000	4.3	3.76%
Term loans	800,000	800,000	4.1	3.64%
less: Debt placement costs	(10,593)	(10,593)		
Variable rate debt	1,135,737	1,233,538	3.9	3.73%
Senior unsecured debentures	4,725,000	4,725,000	5.1	3.64%
Mortgages	1,328,280	1,510,674	7.1	4.07%
less: Debt placement costs, discounts and premiums	(11,659)	(13,411)		
Fixed rate debt	6,041,621	6,222,263	5.6	3.75%
Total debt, net	\$ 7,177,358	\$ 7,455,801		

As at December 31, 2017 (\$ thousands)	GAAP Basis	Proportionate Share Basis ⁽¹⁾ (unaudited)	Proportionate Share Basis ⁽¹⁾ (unaudited)	
			Weighted average term to maturity (years)	Weighted average interest rate (%)
Credit facilities	\$ 561,000	\$ 561,000	2.9	2.74%
less: Debt placement costs	(1,448)	(1,448)		
Variable rate debt	559,552	559,552	2.9	2.75%
Senior unsecured debentures	2,850,000	2,850,000	4.5	3.62%
Mortgages	8,320	8,320	2.5	2.70%
Class C LP Units	925,000	925,000	10.5	5.00%
less: Debt placement costs, discounts and premiums	(44,812)	(44,812)		
Fixed rate debt	3,738,508	3,738,508	6.0	3.96%
Total debt, net	\$ 4,298,060	\$ 4,298,060		

Construction Loans

Construction loans of \$96,165, as calculated on a non-GAAP proportionate share basis, were assumed as part of the Acquisition Transaction (see Section 4, "Acquisition of Canadian Real Estate Investment Trust", of this MD&A).

For the purpose of financing the development of certain retail, industrial and residential properties, various investments in equity accounted joint ventures and co-ownerships have variable rate non-revolving construction facilities in which certain subsidiaries of the Trust guarantee its own share. These construction loans, which mature throughout 2019 to 2020, have a maximum amount available to be drawn at the Trust's ownership interest of \$145,000 (December 31, 2017 - \$nil).

As at December 31, 2018, \$119,131 was drawn and the construction loans had a weighted average effective interest rate of 3.89% and a weighted average term to maturity of 0.8 years.

Credit Facilities

Choice Properties has a \$1,500,000 senior unsecured committed revolving credit facility provided by a syndicate of lenders maturing May 4, 2023. 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 ratings from DBRS and S&P remaining at "BBB". As at December 31, 2018, \$325,000 was drawn under the syndicated facility of \$1,500,000.

The credit facility contains certain financial covenants. As at December 31, 2018, the Trust was in compliance with all of its financial covenants for the credit facility.

In the first quarter of 2018, Choice Properties repaid and cancelled its bi-lateral \$250,000 senior unsecured committed revolving credit facility with a major Canadian financial institution prior to its maturity on December 21, 2018.

In the second quarter of 2018, Choice Properties repaid and cancelled its syndicated \$500,000 senior unsecured committed revolving credit facility provided by a syndicate of lenders maturing July 5, 2022, and repaid and cancelled the credit facility assumed on the acquisition of CREIT.

Term Loans

Choice Properties has two unsecured term loans provided by a syndicate of lenders - a \$175,000 term loan maturing May 4, 2022 and a \$625,000 term loan maturing May 4, 2023. The term loans bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. This pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at "BBB".

The term loans contain certain financial covenants. As at December 31, 2018, the Trust was in compliance with all of its financial covenants for the term loans.

The following outlines the net changes to Choice Properties' outstanding credit facilities and term loans in the three months ended December 31, 2018:

For the three months ended December 31, 2018 (\$ thousands) (unaudited)	Credit facilities	Term loans	Total credit facilities and term loans
Outstanding principal balance, beginning of period	\$ 387,000	\$ 800,000	\$ 1,187,000
Net repayments	(62,000)	—	(62,000)
Outstanding principal balance, end of period	\$ 325,000	\$ 800,000	\$ 1,125,000

The following outlines the net changes to Choice Properties' outstanding credit facilities and term loans in the year ended December 31, 2018:

For the year ended December 31, 2018 (\$ thousands) (unaudited)	Credit facilities	Term loans	Total credit facilities and term loans
Outstanding principal balance, beginning of year	\$ 561,000	\$ —	\$ 561,000
Net issuances	—	800,000	800,000
Net repayments	(236,000)	—	(236,000)
Outstanding principal balance, end of year	\$ 325,000	\$ 800,000	\$ 1,125,000

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 3.01% 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 3.55% per annum, with semi-annual installments of interest due on January 10 and July 10 of each year, commencing July 10, 2018. Debt placement costs of \$3,251 are amortized using the effective interest method and recorded to net interest expense and other financing charges. The offering 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 \$1,007.220 per \$1,000 principal amount of Series A debentures, together with accrued and unpaid interest.

On March 8, 2018, Choice Properties issued \$550,000 and \$750,000 aggregate principal amount of Series K and L senior unsecured debentures due September 9, 2024 and March 8, 2028, respectively. The Series K unsecured debentures bear interest at a rate of 3.56% per annum, with semi-annual installments of interest due on March 9 and September 9 in each year, commencing September 9, 2018. The Series L unsecured debentures bear interest at a rate of 4.18% per annum, with semi-annual installments of interest due on March 8 and September 8 of each year, commencing September 8, 2018. Debt placement costs of \$6,609, of which \$1,684 were paid from cash on hand, are amortized using the effective interest method and recorded to net interest expense and other financing charges. The offering was conducted on a private placement basis.

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

- Series A-C with \$125,000 aggregate principal due July 24, 2018 bearing interest at a rate of 3.68% per annum;
- Series B-C with \$100,000 aggregate principal due January 15, 2021 bearing interest at a rate of 4.32% per annum, with semi-annual installments of interest due on January 15 and July 15 in each year;
- Series C-C with \$100,000 aggregate principal due November 30, 2019 bearing interest at a rate of 2.56% per annum, with semi-annual installments of interest due on May 30 and November 30 in each year; and
- Series D-C with \$125,000 aggregate principal due January 18, 2023 bearing interest at a rate of 2.95% per annum, with semi-annual installments of interest due on January 18 and July 18 in each year.

On July 24, 2018, Choice Properties redeemed, at par, \$125,000 Series A-C senior unsecured debentures at the original maturity date. The redemption was funded by a draw on the credit facility.

The Series B-C, C-C, and D-C debentures have been guaranteed by each of the Choice Properties GP Inc., Choice Properties Limited Partnership and certain other subsidiaries of Choice Properties. In the case of default by the Trust, the indenture trustee will be entitled to seek redress from the guarantors for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of the Trust. These guarantees are intended to eliminate structural subordination, which would otherwise arise as a consequence of Choice Properties' assets being primarily held in various subsidiaries of the Trust.

At December 31, 2018 the weighted average coupon rate and the weighted average term to maturity on the senior unsecured debentures was 3.64% (December 31, 2017 - 3.62%) and 5.1 years (December 31, 2017 - 4.5 years), respectively.

Mortgages

Mortgages with a principal balance of \$1,490,824, as calculated on a non-GAAP proportionate share basis, were assumed as part of the Acquisition Transaction (see Section 4, "Acquisition of Canadian Real Estate Investment Trust", of this MD&A).

In connection with the property acquired from a third-party vendor on March 20, 2018, Choice Properties assumed a mortgage which is secured by the acquired property. The mortgage bears interest at a fixed rate of 2.86% and matures in 2020.

As at December 31, 2018, the mortgages had a weighted average effective interest rate of 4.07% and a weighted average term to maturity of 7.1 years (December 31, 2017 - 2.70% and 2.5 years, respectively).

Class C LP Units

Concurrent with the closing of the Acquisition Transaction, Choice Properties converted all its outstanding Class C LP Units into 70,881,226 Exchangeable Units and a difference in value was paid to Loblaw in cash, see Section 4, "Acquisition of Canadian Real Estate Investment Trust" of this MD&A.

Summary of Total Debt Activities

The following outlines the changes to Choice Properties' outstanding long term debt and Class C LP Units on a non-GAAP proportionate share basis in the three months ended December 31, 2018:

For the three months ended December 31, 2018 (\$ thousands) (unaudited)	Senior unsecured debentures	Mortgages	Construction loans	Class C LP Units	Total long term debt and Class C LP Units
Principal balance outstanding, beginning of period	\$ 4,725,000	\$ 1,509,992	\$ 108,508	\$ —	\$ 6,343,500
Issuances	—	10,066	10,623	—	20,689
Repayments	—	(9,384)	—	—	(9,384)
Principal balance outstanding, end of period	\$ 4,725,000	\$ 1,510,674	\$ 119,131	\$ —	\$ 6,354,805

The following outlines the changes to Choice Properties' outstanding long term debt and Class C LP Units on a non-GAAP proportionate share basis in the year ended December 31, 2018:

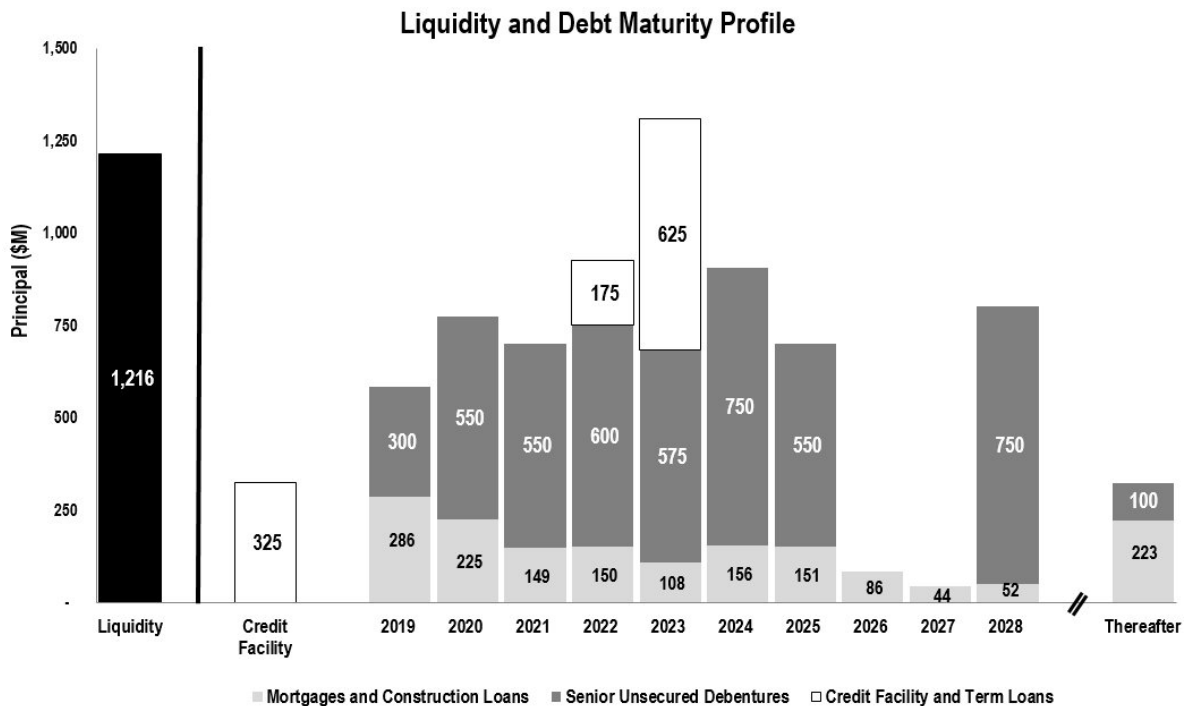
For the year ended December 31, 2018 (\$ thousands) (unaudited)	Senior unsecured debentures	Mortgages	Construction loans	Class C LP Units	Total long term debt and Class C LP Units
Principal balance outstanding, beginning of year	\$ 2,850,000	\$ 8,320	\$ —	\$ 925,000	\$ 3,783,320
Issuances	1,950,000	48,766	22,966	—	2,021,732
Mortgage assumed	—	3,717	—	—	3,717
Debt assumed in Acquisition Transaction	450,000	1,490,824	96,165	—	2,036,989
Repayments	(525,000)	(40,953)	—	—	(565,953)
Conversion of Class C LP Units	—	—	—	(925,000)	(925,000)
Principal balance outstanding, end of year	\$ 4,725,000	\$ 1,510,674	\$ 119,131	\$ —	\$ 6,354,805

Schedules of Repayments and Cash Flow Activities

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

As at December 31, 2018 (\$ thousands)	Credit facility	Term loans	Senior unsecured debentures	Mortgages	Construction loans	Total
2019	—	—	300,000	190,701	94,805	585,506
2020	—	—	550,000	215,917	8,837	774,754
2021	—	—	550,000	133,989	15,489	699,478
2022	—	175,000	600,000	150,451	—	925,451
2023	325,000	625,000	575,000	108,220	—	1,633,220
Thereafter	—	—	2,150,000	711,396	—	2,861,396
Total debt outstanding	\$ 325,000	\$ 800,000	\$ 4,725,000	\$ 1,510,674	\$ 119,131	\$ 7,479,805

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.



11.4 Financial Condition

Choice Properties is subject to certain financial and non-financial covenants in its senior unsecured debentures and its credit facility and term loans that include maintaining certain leverage and debt service ratios. These ratios are monitored by management on an ongoing basis to ensure compliance. Choice Properties was in compliance with all of these covenants as at December 31, 2018 and December 31, 2017.

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

(unaudited)		As at December 31, 2018	As at December 31, 2017
Debt to Total Assets Ratio⁽ⁱ⁾	Limit: Maximum excluding convertible debt is 60.0%	47.2%	44.3%
Debt Service Coverage Ratio⁽ⁱ⁾	Limit: Minimum 1.5x	3.0x	3.7x
Debt to EBITDAFV⁽¹⁾		8.9x	7.1x
Interest Coverage Ratio⁽¹⁾		3.4x	3.7x

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

The debt to EBITDAFV⁽¹⁾ on a 12-month normalized basis, including proforma results of CREIT and excluding lease surrender revenue from Loblaw, would have been 8.0 times.

11.5 Credit Ratings

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

Choice Properties has maintained its BBB credit rating with both S&P and DBRS. On September 5, 2018, DBRS confirmed the rating at BBB with a stable trend and S&P confirmed the rating at BBB with a stable outlook. A credit rating of BBB- or higher is an investment grade rating.

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

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

11.6 Unit Equity

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

	Year ended December 31, 2018	Year ended December 31, 2017
Units, beginning of year	94,300,965	92,568,828
Units issued	182,836,481	—
Issuance of Units under the Distribution Reinvestment Plan	125,749	1,694,763
Units issued under unit-based compensation arrangements	1,516,670	37,374
Units repurchased for unit-based compensation arrangement	(577,306)	—
Units, end of year	278,202,559	94,300,965
Exchangeable Units, beginning of year	319,080,557	317,988,505
Issued in conjunction with acquisition of investment properties December 5, 2017	—	1,092,052
Issued in conjunction with acquisition of CREIT May 4, 2018	70,881,226	—
Exchangeable Units, end of year	389,961,783	319,080,557
Total Units and Exchangeable Units, end of year	668,164,342	413,381,522

Units Repurchased for Unit-Based Compensation Arrangement

On September 18, 2018, Choice Properties received approval from the Toronto Stock Exchange to purchase up to 13,880,839 Trust Units during the twelve-month period from September 20, 2018 to September 19, 2019, under a normal course issuer bid. During the year, the Trust acquired Units which were then granted to certain employees and are subject to vesting conditions and disposition restrictions, in connection with the Unit-Settled Restricted Unit Plan.

Distribution Reinvestment Plan

Choice Properties instituted a Distribution Reinvestment Plan ("DRIP") that allowed 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, 2018, Choice Properties issued 125,749 Units under the DRIP (year ended December 31, 2017 - 1,694,763 Units, including 1,359,193 Units to GWL). As of December 31, 2017, GWL is no longer participating in the DRIP. On April 25, 2018, the Board of Trustees temporarily suspended the DRIP commencing with the distribution declared in May 2018. Choice Properties reserves the right to amend, suspend or terminate the DRIP at any time, but such actions will have no retroactive effect that would prejudice the interests of DRIP participants.

Distributions

In the year ended December 31, 2018, Choice Properties declared \$431,392 in distributions (2017 - \$300,452), 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 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, 2019, 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, 2018 and December 31, 2017 were as follows:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Total distributions declared	\$ 123,612	\$ 76,312	\$ 47,300	\$ 431,392	\$ 300,452	\$ 130,940
Less: Distributions reinvested through the DRIP	—	(5,539)	5,539	(1,487)	(22,383)	20,896
Net distributions declared	\$ 123,612	\$ 70,773	\$ 52,839	\$ 429,905	\$ 278,069	\$ 151,836

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		
	2018	2017	Change	2018	2017	Change
Cash flows from operating activities	\$ 236,594	\$ 194,285	\$ 42,309	\$ 683,632	\$ 503,676	\$ 179,956
Less: Interest paid on financing activities	(36,129)	(12,737)	(23,392)	(278,440)	(163,237)	(115,203)
Cash flows from operating activities less interest paid	200,465	181,548	18,917	405,192	340,439	64,753
Less: Total distributions declared	(123,612)	(76,312)	(47,300)	(431,392)	(300,452)	(130,940)
Excess (shortfall) of cash flows provided by operating activities, less interest paid, over total distributions declared	\$ 76,853	\$ 105,236	\$ (28,383)	\$ (26,200)	\$ 39,987	\$ (66,187)

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Net income	\$ 281,099	\$ 36,533	\$ 244,566	\$ 649,577	\$ 405,345	\$ 244,232
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	72,143	58,895	13,248	271,089	232,199	38,890
Net income attributable to Unitholders excluding distributions on Exchangeable Units	353,242	94,498	258,744	920,666	636,614	284,052
Less: Total distributions declared	(123,612)	(76,312)	(47,300)	(431,392)	(300,452)	(130,940)
Excess of net income attributable to Unitholders, less distributions on Exchangeable Units, over total distributions declared	\$ 229,630	\$ 18,186	\$ 211,444	\$ 489,274	\$ 336,162	\$ 153,112

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Adjusted Cash Flow from Operations ⁽¹⁾⁽ⁱ⁾	\$ 109,044	\$ 92,624	\$ 16,420	\$ 488,458	\$ 362,490	\$ 125,968
Less: Total distributions declared	(123,612)	(76,312)	(47,300)	(431,392)	(300,452)	(130,940)
Excess (shortfall) of ACFO retained after distributions⁽ⁱ⁾	\$ (14,568)	\$ 16,312	\$ (30,880)	\$ 57,066	\$ 62,038	\$ (4,972)

- (i) The Adjusted Cash Flow from Operations⁽¹⁾, the ACFO⁽¹⁾ payout ratio and the cash retained after distributions, for the year ended December 31, 2018, have been calculated excluding the impact of the accelerated amortization of debt premium of \$37,282 (see Section 21, "Non-GAAP Financial Measures", of this MD&A). The Adjusted Cash Flow from Operations⁽¹⁾, the ACFO⁽¹⁾ payout ratio and the cash retained after distributions, for the year ended December 31, 2017, have been adjusted from the prior year's presentation to remove the impact of normalizing capital spending over the year. ACFO⁽¹⁾ is impacted by property capital expenditures that vary from quarter to quarter and year to year.

Choice Properties' shortfall of cash flows provided by operating activities less interest paid over total distributions declared for the year ended December 31, 2018 was specifically impacted by the acquisition transaction costs and other related expenses. These expenditures were anticipated as part of the acquisition of CREIT and, as such, changes were made to the capital structure to compensate. Management believes the shortfall in the year ended December 31, 2018 will not result in an economic return of capital in the 2018 fiscal year.⁽²⁾ Management anticipates that distributions declared will, in the foreseeable future, continue to vary from net income as this GAAP measure includes adjustments to fair value and other non-cash items⁽²⁾.

Adjusted Cash Flow from Operations⁽¹⁾

ACFO⁽¹⁾ 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⁽¹⁾ also adjusts cash flows from operating activities for the working capital required for operating capital expenditures to maintain productive capacity of the investment properties which adds volatility to the values due to seasonality of capital projects. Management includes this non-GAAP measure in its assessment of cash flow available for distributions. The table below summarizes the ACFO⁽¹⁾ metrics:

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Adjusted Cash Flow from Operations ⁽¹⁾⁽ⁱ⁾	\$ 109,044	\$ 92,624	\$ 16,420	\$ 488,458	\$ 362,490	\$ 125,968
Cash retained after distributions ⁽ⁱ⁾	\$ (14,568)	\$ 16,312	\$ (30,880)	\$ 57,066	\$ 62,038	\$ (4,972)
ACFO ⁽¹⁾ payout ratio ⁽ⁱ⁾	113.4%	82.4%	31.0%	88.3%	82.9%	5.4%

- (i) The Adjusted Cash Flow from Operations⁽¹⁾, the ACFO⁽¹⁾ payout ratio and the cash retained after distributions, for the year ended December 31, 2018, have been calculated excluding the impact of the accelerated amortization of debt premium of \$37,282 (see Section 21, "Non-GAAP Financial Measures", of this MD&A). The ACFO⁽¹⁾, the ACFO⁽¹⁾ payout ratio and the cash retained after distributions, for the year ended December 31, 2017, have been adjusted from the prior year's presentation to remove the impact of normalizing capital spending over the year. ACFO⁽¹⁾ is impacted by property capital expenditures that vary from quarter to quarter and year to year.

Choice Properties calculates its ACFO⁽¹⁾ in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2018. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes. Refer to Section 21.5, "Adjusted Cash Flow from Operations", of this MD&A, for a reconciliation of ACFO⁽¹⁾ to cash flows from operating activities, as determined in accordance with GAAP.

For the three months ended December 31, 2018, ACFO⁽¹⁾ increased by \$16,420 compared to 2017. The primary driver for the quarter-over-quarter increase was the Acquisition Transaction leading to an increase of \$79,878 in NOI⁽¹⁾, partially offset by an increase in interest and other financing charges, excluding distributions on Exchangeable Units, of \$24,907 and increased capital spending of \$29,897.

For the year ended December 31, 2018, ACFO⁽¹⁾, excluding the impact of the accelerated amortization of debt premium, increased by \$125,968 compared to 2017. The Acquisition Transaction was the primary driver for the increase leading to an increase of \$239,572 in NOI⁽¹⁾, partially offset by an increase in interest and other financing charges, excluding distributions on Exchangeable Units, of \$80,148 and increased capital spending of \$30,601.

The cash retained after distributions, excluding the impact of the accelerated amortization of debt premium, for the year ended December 31, 2018, was \$57,066, an increase of \$(4,972) compared to the same period in 2017. For the year ended December 31, 2018, the ACFO⁽¹⁾, excluding the impact of the accelerated amortization of debt premium, payout ratio was 88.3% compared to 82.9% in 2017.

11.7 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, 2018, the aggregate gross potential liability related to these letters of credit totaled \$38,540 including \$3,248 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, 2017 - \$33,352 including \$5,231 posted by Loblaw).

11.8 Contractual Obligations

The undiscounted future principal and interest payments on Choice Properties' debt instruments and other contractual obligations as at December 31, 2018 were as follows:

(\$ thousands) (unaudited)	2019	2020	2021	2022	2023	Thereafter	Total
Senior unsecured debentures	\$ 471,957	\$ 707,993	\$ 690,317	\$ 722,068	\$ 675,914	\$ 2,468,225	\$ 5,736,474
Mortgages	247,456	265,887	175,433	184,902	139,205	829,016	1,841,899
Constructions loans	94,805	8,837	15,489	—	—	—	119,131
Credit facilities ⁽ⁱ⁾	—	—	—	—	325,000	—	325,000
Term loans	—	—	—	175,000	625,000	—	800,000
Other ⁽ⁱⁱ⁾	306,066	1,330	1,319	1,313	1,160	4,021	315,209
Total	\$1,120,284	\$ 984,047	\$ 882,558	\$1,083,283	\$1,766,279	\$ 3,301,262	\$ 9,137,713

(i) Excludes interest on the revolving credit facilities.

(ii) As at December 31, 2018, Choice Properties had commitments of approximately \$315,209 for future capital expenditures related to ongoing development and sustainable capital projects, and other contractual obligations such as operating rents, of which \$149,344 relates to equity accounted joint ventures.

12. FINANCIAL INSTRUMENTS

Financial Derivative Instruments Designated hedging derivatives consist of interest rate swaps, which are classified as either current or non-current and included in other assets or liabilities, as applicable. As at December 31, 2018, the Trust had entered into interest rate swaps for original notional amounts of \$321,700 (December 31, 2017 - nil) to hedge the interest rate associated with an equivalent amount of variable rate mortgages. The fair value of the designated hedging derivatives is a net liability of approximately \$585 (December 31, 2017 - nil). The Trust also recorded, in other comprehensive income, fair value losses of \$2,053 and fair value gains of \$597 for the three months and year ended December 31, 2018 (December 31, 2017 - nil and nil, respectively).

The Trust did not enter into any designated hedging derivatives during the year ended December 31, 2017.

13. QUARTERLY RESULTS OF OPERATIONS

13.1 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 2018	Third Quarter 2018	Second Quarter 2018	First Quarter 2018	Fourth Quarter 2017	Third Quarter 2017	Second Quarter 2017	First Quarter 2017
Number of properties	753	751	757	548	546	540	537	536
Gross Leasable Area (in millions of square feet)	66.8	66.8	67.0	44.2	44.1	43.8	43.8	43.7
Occupancy	97.7%	97.7%	97.6%	98.8%	98.9%	98.9%	98.9%	98.8%
Rental revenue ⁽ⁱ⁾	\$ 322,793	\$ 315,584	\$ 294,648	\$ 215,027	\$ 211,025	\$ 206,750	\$ 208,626	\$ 203,433
Net Operating Income ⁽¹⁾	\$ 232,916	\$ 230,236	\$ 211,902	\$ 149,783	\$ 152,832	\$ 145,422	\$ 144,012	\$ 142,424
Net income (loss) ⁽ⁱ⁾	\$ 281,099	\$ 62,620	\$ (321,133)	\$ 626,991	\$ 36,533	\$ 303,095	\$ 41,467	\$ 24,250
Net income (loss) per unit ⁽ⁱ⁾	\$ 0.421	\$ 0.094	\$ (0.481)	\$ 1.516	\$ 0.088	\$ 0.736	\$ 0.101	\$ 0.059
Net income (loss) per unit diluted ⁽ⁱ⁾	\$ 0.419	\$ 0.093	\$ (0.557)	\$ 1.513	\$ 0.088	\$ 0.733	\$ 0.100	\$ 0.059
Cash flows from operating activities ⁽ⁱⁱ⁾	\$ 236,594	\$ 231,974	\$ 87,236	\$ 127,828	\$ 194,777	\$ 164,042	\$ 107,541	\$ 37,954
FFO ⁽¹⁾	\$ 171,872	\$ 169,683	\$ 156,600	\$ 105,685	\$ 116,843	\$ 108,896	\$ 108,360	\$ 108,836
FFO ⁽¹⁾ per unit - diluted	\$ 0.256	\$ 0.253	\$ 0.272	\$ 0.255	\$ 0.282	\$ 0.263	\$ 0.262	\$ 0.264
AFFO ⁽¹⁾	\$ 110,332	\$ 137,544	\$ 140,333	\$ 95,537	\$ 86,408	\$ 76,947	\$ 95,897	\$ 97,229
AFFO ⁽¹⁾ per unit - diluted	\$ 0.165	\$ 0.205	\$ 0.243	\$ 0.231	\$ 0.209	\$ 0.186	\$ 0.232	\$ 0.236
ACFO ⁽¹⁾⁽ⁱⁱⁱ⁾	\$ 109,044	\$ 134,675	\$ 152,754	\$ 94,898	\$ 93,116	\$ 70,870	\$ 97,467	\$ 101,666
ACFO ⁽¹⁾⁽ⁱⁱⁱ⁾ payout ratio	113.4%	91.7%	70.6%	80.6%	82.0%	107.5%	77.0%	71.7%
Distribution declared per unit	\$ 0.1850	\$ 0.1850	\$ 0.1850	\$ 0.1850	\$ 0.1850	\$ 0.1850	\$ 0.1825	\$ 0.1775
Market price per Unit - closing	\$ 11.52	\$ 12.07	\$ 12.11	\$ 11.61	\$ 13.35	\$ 13.29	\$ 13.84	\$ 13.84
Number of Units outstanding	668,164,342	667,847,540	667,224,978	413,459,836	413,381,522	411,842,153	411,385,591	410,957,673
Total assets - proportionate share basis ^(iv)	\$ 15,845,781	\$ 15,937,067	\$ 15,813,137	\$ 11,121,087	\$ 9,923,511	\$ 9,702,006	\$ 9,512,207	\$ 9,380,140
Long term debt and Class C LP Units - proportionate share basis ⁽¹⁾	\$ 6,341,394	\$ 6,330,614	\$ 6,418,780	\$ 5,281,189	\$ 3,737,030	\$ 3,729,733	\$ 3,729,417	\$ 3,728,836
Debt to total assets ^(v)	47.2%	47.2%	48.6%	51.9%	44.3%	44.6%	45.8%	46.3%
Debt service coverage ^(v)	3.0x	3.1x	3.2x	3.5x	3.7x	3.6x	3.6x	3.6x

- (i) GAAP measures of rental revenue and net income 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.
- (iii) ACFO⁽¹⁾ and ACFO⁽¹⁾ payout ratio have been adjusted from the prior year's presentation to remove the impact of normalizing capital spending over the year. ACFO⁽¹⁾ is impacted by property capital expenditures that vary from quarter to quarter and year to year.
- (iv) Prior to the second quarter of 2018, the GAAP basis was used as there was no material difference from equity accounted joint ventures.
- (v) Debt ratio calculations for the fiscal 2017 and the first quarter of 2018 include Class C LP Units. The Exchangeable Units are excluded from the calculations. 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 particular, quarterly results were impacted by the acquisition of CREIT on May 4, 2018. In addition, net income 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.

AFFO⁽¹⁾, ACFO⁽¹⁾ and the ACFO⁽¹⁾ payout ratio are impacted by seasonality in property capital expenditures.

14. 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, 2018.

15. 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 ("CEO") and the Chief Financial Officer ("CFO") have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' (2013) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, they have concluded that the design and operation of the Trust's internal controls over financial reporting were effective as at December 31, 2018.

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 2018 that materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting, except as noted below:

As permitted by the provisions of National Instrument 52-109, "Certification of Disclosures in Issuers' Annual and Interim Filings", management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of CREIT. Choice Properties acquired the assets and liabilities of CREIT and its subsidiaries on May 4, 2018. The assessment on CREIT's design effectiveness of disclosure controls and procedures and the harmonization of the internal controls over financial reporting frameworks is expected to be completed by the first quarter of 2019.

Further details related to the acquisition of CREIT are set out in Section 4, "Acquisition of Canadian Real Estate Investment Trust" and in Note 5, "Acquisition of Canadian Real Estate Investment Trust" of the Trust's audited annual consolidated financial statements for the year ended December 31, 2018.

16. 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.

Following the acquisition of CREIT and the completion of Loblaw's spin-out of Choice Properties, the Trust has undertaken significant work in examining the ERM program to ensure its suitability to its changing business strategy of the Trust, and such work will continue to evolve as management continues to refine the strategy of the Trust.

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, 2018, which is hereby incorporated by reference.

16.1 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 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:

Strategic Execution and Capabilities	Vendor Management, Partnerships and Third-Party Service Providers
Property Development, Redevelopment and Renovation Risks	Security of Information Technology
Information Technology Implementation and Data Management	Current Economic Environment
Demographic Changes	Acquisitions and Associated Undisclosed Defects and Obligations
Competition	Tenant Concentration

Strategic Execution and Capabilities 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, for the purpose of its integration of CREIT, and for the desired future state of the combined businesses. Furthermore, Choice Properties' strategy, including the integration of CREIT, 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.

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.

IT Systems Implementations and Data Management Management depends on relevant and reliable information for decision making and financial reporting. As a result of the data acquired as part of the acquisition of CREIT, 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 system and the significant loss of data or failure to maintain reliable data 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.

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

Competition Choice Properties will compete with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Competitors may have newer or better located properties, greater financial or other resources, or greater operating flexibility than Choice Properties. An increase in the availability of funds for investment or an increase in interest in real estate property investments may increase the competition for real estate property investments, thereby increasing purchase prices and reducing the yield on the investment. Increased competition to lease properties could adversely impact Choice Properties' ability to find suitable tenants at the appropriate rent and may negatively impact the financial performance of the Trust.

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 contracts with 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The majority of Choice Properties' debt is financed at fixed rates with maturities staggered over 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.

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.

17. RELATED PARTY TRANSACTIONS

Choice Properties' parent corporation is GWL, which held an 65.4% effective interest in the Trust through ownership of 46,856,415 Units and all of the Exchangeable Units as at December 31, 2018. GWL is also the parent company of Loblaw, with ownership of 50.4% of Loblaw's outstanding common shares as at December 31, 2018.

On November 1, 2018, Loblaw and GWL completed a reorganization under which Loblaw spun out its effective interest in Choice Properties to GWL. Prior to the reorganization, Loblaw held a 61.6% direct effective interest in the Trust through ownership of 21,500,000 Units and 100% of the Exchangeable Units as at October 31, 2018 (December 31, 2017 - 82.4% direct effective interest, 21,500,000 Units and 100% Exchangeable Units, respectively). The reorganization will have no significant impact on the ongoing relationship between Loblaw and Choice Properties. All current agreements and arrangements with Loblaw will remain in place and Loblaw will continue to be Choice Properties' largest tenant.

In the ordinary course of business, Choice Properties' enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

Loblaw is also Choice Properties' largest tenant, representing approximately 68.0% of Choice Properties' annual base rent and 58.9% of its GLA as at December 31, 2018 (December 31, 2017 - 88.2% and 87.6% respectively).

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

On December 7, 2018, Choice Properties acquired a 100% interest in an industrial property from GWL for a purchase price of \$20,866, excluding acquisition costs.

In 2017, Choice Properties acquired five investment properties from Loblaw. The acquisitions added approximately 244,000 square feet of GLA at a purchase price of \$78,104, excluding acquisition costs.

The acquisitions from related parties are disclosed in Section 10.2, "Investment Property Transactions", 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 \$7,080 to the joint venture and received distributions of \$7,200 during the year ended December 31, 2018 (year ended December 31, 2017 - contributions of \$13,760 and distributions of nil). Operating activities have not begun at the property, however the joint venture did earn interest income during the year ended December 31, 2018 of \$2,070 (2017 - \$634). Also, in 2018, developmental density was sold for a price equal to fair value.

Choice Properties compensated Loblaw with intensification payments of \$5,858 in connection with completed gross leasable area for which tenants have taken possession during the year ended December 31, 2018 (year ended December 31, 2017 - \$5,793).

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

During 2017 and 2018, Loblaw provided 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 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 28 to the consolidated financial statements for the years ended December 31, 2018 and 2017.

18. 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.

19. ACCOUNTING STANDARDS

Accounting Standards Implemented in 2018

On January 1, 2018, Choice Properties implemented IFRS 15, "Revenue from contracts with customers" ("IFRS 15") and IFRS 9, "Financial Instruments" ("IFRS 9"), in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts from implementation of IFRS 15 and IFRS 9 are described below.

IFRS 15 In 2014, the IASB issued IFRS 15 replacing IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

Choice Properties adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively. IFRS 15 permits the use of exemptions and practical expedients. The Trust applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 31, 2017 or are completed on January 1, 2017 do not require restatements.

The implementation of IFRS 15 did not have a significant impact on the Trust's revenue streams. The presentation of insurance expense and the revenue related to the recovery of insurance expense from tenants have been reclassified from operating costs to be grouped with property taxes.

IFRS 9 In 2014, the IASB issued 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 accounting model. IFRS 9 became effective for annual periods beginning on or after January 1, 2018.

Choice Properties implemented the new requirements for classification and measurement, impairment and general hedging on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with no restatement of comparative periods. The Trust also applied related amendments to IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"). Refer to the accounting policy for Financial Instruments for a discussion of the application of this standard.

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

Financial assets are not reclassified subsequent to their initial recognition, unless the Trust identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

The following table summarizes the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Accounts receivable	Loans and receivables	Amortized cost
Mortgages, loans and notes receivable - SPPI	Loans and receivables	Amortized cost
Mortgages, loans and notes receivable - FVTPL	Loans and receivables	Fair value through profit and loss
Cash and cash equivalents	Fair value through profit and loss	Amortized cost
Long term debt and Class C LP Units:		
Senior unsecured debentures	Other liabilities	Amortized cost
Class C LP Units	Other liabilities	Amortized cost
Mortgages	Other liabilities	Amortized cost
Construction loans	Other liabilities	Amortized cost
Credit facilities and term loans	Other liabilities	Amortized cost
Trade payable and other liabilities	Other liabilities	Amortized cost
Designated hedging derivatives	Fair value through profit and loss	Fair value through profit and loss
Exchangeable Units	Fair value through profit and loss	Fair value through profit and loss

Impairment IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The ECL requires 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 is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

Choice Properties adopted the practical expedient to determine ECL on account receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied did not have a material impact on account receivables of the Trust.

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

General Hedging IFRS 9 requires Choice Properties to ensure that hedge accounting relationships are aligned with the Trust's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Trust's risk management strategy is disclosed in the consolidated financial statements of this Fourth Quarter Report, Note 26, *Financial Risk Management*.

Changes to Significant Accounting Policies

In conjunction with the acquisition of CREIT, the Trust adopted the following significant accounting policies during the year:

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

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

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

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

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

Intangible Assets Indefinite life intangible assets are measured at cost less any accumulated impairment loss. At each balance sheet date, the Trust reviews the carrying amount of its intangible assets to determine whether there is any indication of impairment. If such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Intangible assets are tested for impairment at least annually. The recoverable amount of the intangible asset is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the intangible asset discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, net of estimates of costs of disposal. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Impairment losses and reversals are recognized in general and administrative expenses.

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

Foreign Currency Translation The functional currency of the Trust is the Canadian dollar.

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

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

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

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

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

The Trust also consolidates certain taxable entities in Canada and in the United States for which current and deferred income taxes are recorded. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method of accounting for temporary differences arising between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Deferred tax is measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset is recognized for temporary differences as well as unused tax losses and credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

Future Accounting Standards

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.

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 in the final stages of its evaluation of the impact of the standard on the consolidated financial statements. Based on its assessment to date, the Trust does not believe it will have a significant impact on its consolidated financial statements.

20. OUTLOOK ⁽²⁾

On May 4, 2018, Choice Properties completed its acquisition of CREIT. This transformational transaction created Canada’s premier diversified real estate investment trust. Since closing the transaction, the integration of the two businesses has been a priority. In addition to combining the real estate portfolios, the transaction has joined together two of Canada’s leading real estate teams.

Our business has evolved into two primary functional areas: an existing income producing property portfolio and a development business.

Our income producing property portfolio provides a solid foundation for stable cash flows. The portfolio is diversified by both geographic location and product type including retail, industrial, office and residential assets.

- The retail portfolio is focused on necessity-based tenants and is primarily anchored by long-term leases with Loblaw, Canada’s largest retailer. Our retail assets are the foundation for maintaining a reliable cash flow.
- The industrial portfolio is concentrated in Canada’s largest distribution markets. Demand for distribution centres in these markets by both investors and tenants remains strong. Our industrial assets operate under healthy fundamentals with low vacancy rates and increasing rents.
- The office portfolio is focused on large, well-located buildings in Canada’s largest cities. Fundamentals in most of the large office markets in Canada are healthy due to the strength in the economy and job growth. As office property fundamentals in Calgary continue to be challenging, we have significantly reduced our exposure to this market with the recent sale of Sun Life Plaza.
- The residential portfolio is a recent addition to our asset mix. Rental residential provides additional diversification to our income. We will look to grow the residential portfolio primarily through development and are currently developing 874 units.

With a fully integrated management platform with national operating and leasing expertise, we will continue to manage the portfolio to a high level. We will also continue to work with Loblaw and Shoppers Drug Mart to meet their tenant needs as well as explore potential acquisition opportunities.

Our development initiatives provide the opportunity to add high quality real estate to our portfolio and contribute to growth in our net asset value. In the near-term, our development business will focus primarily on retail intensification projects and our well located rental residential projects at various stages of development within the GTA. Beyond our near-term development program, we have a significant pipeline of additional intensification opportunities on existing sites we already own. These development opportunities are residential focused, mixed use communities, many of which are in close proximity to public transportation.

Looking forward, we will continue to focus on financial and operational stability, the advancement of our retail and industrial development projects and the expansion of our multi-residential platform.

21. NON-GAAP FINANCIAL MEASURES

The financial statements for Choice Properties are prepared in accordance with IFRS. However, in this MD&A, a number of measures are presented that are not in accordance with IFRS.

Net income prepared in accordance with IFRS is subject to varying degrees of judgment, and some meaningful differences in accounting policies exist between publicly traded entities in Canada. Accordingly, net income as presented by Choice Properties may not be comparable to net income presented by other real estate entities.

In addition to using performance measures determined in accordance with IFRS, Choice Properties' management also measures its performance using certain additional non-GAAP measures, and provides these measures in this MD&A so that investors may do the same. Such measures and related per-unit amounts are not defined by GAAP and therefore should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with GAAP. Furthermore, the supplemental measures used by management may not be comparable to similar measures presented by other real estate investment trusts or enterprises. These terms are defined in the following paragraphs and are cross referenced, as applicable, to a reconciliation elsewhere in this MD&A to the most comparable IFRS measure.

Proportionate Share

Management presents the proportionate share of its interests in certain joint arrangements that are accounted for using the equity method of accounting in the determination of many of its key performance measures. Management views this method as relevant in demonstrating the Trust's ability to manage the underlying economics of the related investments, including the financial performance and cash flows. This presentation also depicts the extent to which the underlying assets are leveraged, which is an important component of risk management. The financial information in this MD&A presents the consolidated balance sheets and consolidated statements of income on a proportionate basis, which are all non-GAAP measures. The proportionate financial information represents the financial statements on an adjusted basis to reflect the Trust's equity accounted investments and its share of net income (losses) from equity accounted investments on a proportionately consolidated basis at the Trust's ownership percentage of the related investment. Refer to Section 9, "Balance Sheet" and Section 21.1, "Proportionate Share Compilation" for reconciliations to the Consolidated Financial Statements as presented under IFRS to the proportionate share basis.

Net Operating Income ("NOI")

NOI is a supplemental measure of operating performance widely used in the real estate industry. Choice Properties calculates NOI as property rental revenue less straight-line rental revenue, direct property operating expenses and realty taxes. Management believes that NOI is an important measure of operating performance for the Trust's commercial real estate assets that is used by real estate industry analysts, investors and management, while also being a key input in determining the fair value of the Choice Properties portfolio. NOI excludes certain expenses included in the determination of net income such as interest expense and indirect operating expenses. These items are excluded from NOI in order to provide results that reflect the fundamentals of a property's operations before consideration of how a property is financed or the costs of operating the entity in which it is held. A reconciliation from net income to NOI can be found in Section 21.2, "Net Operating Income".

Net Property Income

Net property income is defined by Choice Properties as property rental revenue less direct property operating expenses and realty taxes. Management believes that net property income is a useful measure in understanding period-over-period changes in income from operations due to occupancy, rental rates, operating costs and realty taxes. A reconciliation from net property income to net income can be found in Section 21.1, "Proportionate Share Compilation".

NOI for Same Properties, excluding development activities

To better measure certain key performance factors, management analyzes NOI for the income producing properties owned by the Trust throughout the current and comparative reporting periods, the "Same Properties", to remove the impact of recent property acquisition and disposition transactions, the "Property Transactions", and to remove the Acquisition Transaction. Management further refines the analysis to exclude any NOI from developments, which increased GLA in the comparative periods. Management believes that NOI for Same Properties, excluding development activities is a useful measure in understanding period-over-period changes in NOI due to occupancy, rental rates, operating costs and realty taxes, before considering the changes in NOI that can be attributed to the Property Transactions, the Acquisition Transaction and development activities. The number of Same Properties was 538 and 533 for the three months and year ended December 31, 2018 and December 31, 2017, respectively. A reconciliation from NOI for Same Properties, excluding development activities to total NOI by asset class can be found in Section 21.2, "Net Operating Income".

Funds from Operations ("FFO")

FFO is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. 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 2018. 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. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes. Management uses and believes that FFO is a useful measure of the Trust's performance that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes, acquisition activities and interest costs. A reconciliation from net income to FFO can be found in Section 21.3, "Funds from Operations".

Adjusted Funds from Operations ("AFFO")

Choice Properties calculates AFFO 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 2018. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of AFFO and to help promote more consistent disclosure from reporting issuers. An advantage, of the AFFO measure, is improved comparability between Canadian and foreign real estate investment trusts. AFFO is intended to be used as a recurring, economic earnings measure.

Choice Properties considers AFFO to be a useful measure of operating performance as it further adjusts FFO for capital expenditures that sustain income producing properties and eliminates the impact of straight line rent. AFFO is impacted by the seasonality inherent in the timing of executing property capital projects. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes.

In calculating AFFO, Choice Properties adjusts FFO by excluding straight-line rent adjustments, as well as costs incurred relating to internal leasing activities and property capital projects. Working capital changes, viewed as short-term cash requirements or surpluses, are deemed financing activities pursuant to the methodology and are not considered when calculating AFFO. Capital expenditures which are excluded and not deducted in the calculation of AFFO comprise those which generate a new investment stream, such as constructing a new retail pad during property expansion or intensification, development activities or acquisition activities. Accordingly, AFFO differs from FFO in that AFFO excludes from its definition certain non-cash revenues and expenses recognized under IFRS, such as straight-line rent, but also includes capital and leasing costs incurred during the period which are capitalized for IFRS purposes. A reconciliation from FFO to AFFO can be found in Section 21.4, "Adjusted Funds from Operations".

Adjusted Cash Flow from Operations ("ACFO")

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 2018. 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.

Management is of the view that ACFO is a useful measure of the cash generated from operations after providing for operating capital requirements, and as a result, is also useful in evaluating the ability of Choice Properties to fund distributions to Unitholders. 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. The resulting ACFO will include the impact of the seasonality of property capital expenditures and the impact of fluctuations from normal operating working capital, such as changes to net rent receivable from tenants, trade accounts payable and accrued liabilities. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes. A reconciliation from cash flow from operating activities ACFO can be found in Section 21.5, "Adjusted Cash Flow from Operations".

Earnings before Interest, Taxes, Depreciation, Amortization and Fair Value ("EBITDAFV")

EBITDAFV is defined as net income attributable to Unitholders, plus, where applicable, income taxes, interest expense, amortization expense, depreciation expense, and adjustments to 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 and other adjustments as allowed in the calculation based on the Trust Indentures, as supplemented. A reconciliation from net income to EBITDAFV can be found on Section 21.6, "Earnings before Taxes, Depreciation, Amortization and Fair Value".

Cash Retained after Distributions

The cash retained after distributions represents the portion of ACFO retained within Choice Properties which can be used to invest in new acquisitions and development properties. Refer to calculation in Section 11.6, "Unit Equity".

Total Debt

When calculating debt to total assets, debt service coverage and debt to EBITDAFV, debt is defined as variable rate debt (construction loans, credit facilities and term loans) and fixed rate debt (senior unsecured debentures, mortgages and Class C LP Units), as measured on a proportionate basis. For the purpose of these calculations debt does not include the Exchangeable Units which are included as part of Unit Equity on account of the Exchangeable Units being economically equivalent and receiving equal distributions to the Trust Units.

Total debt is also presented on a net basis to include the impact of other finance charges such as debt placement costs and discounts or premiums

Debt to Total Assets

Debt to total assets is a useful measure to limit the financial leverage of Choice Properties. The ratio is determined by dividing total debt by total assets as presented on a proportionate basis, expressed as a percentage, and can be interpreted as the proportion of the Trust's assets that are financed by debt. Management believes this ratio is useful in evaluating the Trust's flexibility to incur additional leverage.

Debt Service Coverage

The debt service coverage ratio is useful in determining the ability of Choice Properties to service the interest requirements of its outstanding debt. The ratio is calculated as EBITDAFV 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 calculated based on the Trust Indentures, as supplemented.

Debt to EBITDAFV

Debt to EBITDAFV is calculated to assess the financial leverage of Choice Properties, to measure its ability to meet financial obligations and to provide a snapshot of its balance sheet strength. The ratio is calculated as total debt divided by EBITDAFV. Management utilizes this ratio to measure and limit leverage.

21.1 Proportionate Share Compilation

Management measures and evaluates the performance of Choice Properties based on segmented income from property operations which includes a proportionate share of the related revenue and expenses for investments in income producing properties that otherwise are accounted for on an equity basis under GAAP. Prior to the May 4, 2018 acquisition of CREIT, Choice Properties operated in only the retail segment and had no material equity accounted joint ventures, such that management used results as calculated under GAAP to evaluate the performance of the Trust.

The following table reconciles net income on a proportionate share basis to net income as determined in accordance with GAAP for the three months ended December 31, 2018:

(\$ thousands) (unaudited)	Retail	Industrial	Office	Proportionate Share Basis	Consolidation and eliminations ⁽ⁱ⁾	GAAP Basis
Base rent, excluding straight-line rent	\$ 179,554	\$ 30,186	\$ 15,273	\$ 225,013	\$ (10,113)	\$ 214,900
Property tax and operating cost recoveries	74,901	13,427	12,430	100,758	(4,542)	96,216
Lease surrender and other revenue	1,452	88	2,471	4,011	(367)	3,644
Recoverable property taxes, insurance and operating costs	(72,203)	(11,642)	(11,145)	(94,990)	4,559	(90,431)
Non-recoverable operating costs	(1,552)	(78)	(246)	(1,876)	(68)	(1,944)
Net Operating Income	182,152	31,981	18,783	232,916	(10,531)	222,385
Straight-line rent	6,492	1,326	547	8,365	(332)	8,033
Net Property Income	188,644	33,307	19,330	241,281	(10,863)	230,418
General and administrative expenses				(9,506)	—	(9,506)
Property management and other administration fees				1,134	—	1,134
Net interest expense and other financing charges				(140,651)	2,099	(138,552)
Interest and other income				4,687	(592)	4,095
Share of income from joint ventures excluding fair value adjustments				—	9,356	9,356
Acquisition transaction costs and other related expenses				(11,044)	—	(11,044)
Adjustment to fair value of unit-based compensation				707	—	707
Adjustment to fair value of Exchangeable Units				214,479	—	214,479
Adjustment to fair value of investment properties				(19,788)	1,240	(18,548)
Adjustment to fair value of investment property held in equity accounted joint ventures				—	(1,240)	(1,240)
Income before income taxes				281,299	—	281,299
Income taxes				(200)	—	(200)
Net Income				\$ 281,099	\$ —	\$ 281,099

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

The following table reconciles net income on a proportionate share basis to net income as determined in accordance with GAAP for the year ended December 31, 2018:

(\$ thousands)	Retail	Industrial	Office	Proportionate Share Basis (unaudited)	Consolidation and eliminations ⁽ⁱ⁾	GAAP Basis (audited)
Base rent, excluding straight-line rent	\$ 647,504	\$ 97,907	\$ 45,694	\$ 791,105	\$ (26,241)	\$ 764,864
Property tax and operating cost recoveries	265,266	39,824	34,476	339,566	(11,390)	328,176
Lease surrender and other revenue	14,921	380	6,500	21,801	(644)	21,157
Recoverable property taxes, insurance and operating costs	(257,434)	(34,670)	(31,315)	(323,419)	12,599	(310,820)
Non-recoverable operating costs	(2,412)	(729)	(854)	(3,995)	379	(3,616)
Net Operating Income	667,845	102,712	54,501	825,058	(25,297)	799,761
Straight-line rent	27,995	5,416	1,653	35,064	(988)	34,076
Net Property Income	695,840	108,128	56,154	860,122	(26,285)	833,837
General and administrative expenses				(34,975)	—	(34,975)
Property management and other administration fees				3,523	—	3,523
Net interest expense and other financing charges				(519,505)	5,641	(513,864)
Accelerated amortization of debt premium				(37,282)	—	(37,282)
Interest and other income				15,056	(832)	14,224
Share of income from equity accounted joint ventures				—	21,476	21,476
Acquisition transaction costs and other related expenses				(141,493)	—	(141,493)
Adjustment to fair value of unit-based compensation				4,792	—	4,792
Adjustment to fair value of Exchangeable Units				593,706	—	593,706
Adjustment to fair value of investment properties				(93,829)	5,254	(88,575)
Adjustment to fair value of investment property held in equity accounted joint ventures				—	(5,254)	(5,254)
Income before income taxes				650,115	—	650,115
Income taxes				(538)	—	(538)
Net income				\$ 649,577	\$ —	\$ 649,577

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

Investment Properties

To expand the portfolio and participate in development opportunities, Choice Properties owns varying interests in real estate entities which hold investment properties. Under GAAP, many of these interests are recorded as equity accounted joint ventures and, as such, the Trust's portion of the investment properties of these entities is presented on the balance sheet as a summarized value, not as part of the total investment properties. While the reconciliation for Choice Properties' balance sheet on a GAAP basis to a proportionate share basis is detailed in Section 9, "Balance Sheet", the following continuity schedules present Choice Properties' investment properties inclusive of its proportionate share ownership in equity accounted joint ventures for the periods ended as indicated:

As at and for the three months ended December 31, 2018 (\$ thousands) (unaudited)	GAAP Basis	Reconciliation	Proportionate Share Basis
Balance, as at September 30, 2018	\$ 14,412,000	\$ 990,670	\$ 15,402,670
Acquisitions of investment properties ⁽ⁱ⁾	77,712	—	77,712
Capital expenditures			
Development capital	65,543	19,265	84,808
Building improvements	898	417	1,315
Capitalized interest	1,711	1,155	2,866
Operating capital expenditures			
Property capital	42,515	140	42,655
Direct leasing costs	3,857	142	3,999
Tenant improvement allowances	4,757	120	4,877
Amortization of straight-line rent	8,033	332	8,365
Dispositions	(103,824)	(1)	(103,825)
Foreign currency translation	6,346	—	6,346
Adjustment to fair value of investment properties	(18,548)	(1,240)	(19,788)
Balance, as at December 31, 2018	\$ 14,501,000	\$ 1,011,000	\$ 15,512,000

(i) Includes acquisition costs.

As at and for the year ended December 31, 2018 (\$ thousands) (unaudited)	GAAP Basis	Reconciliation	Proportionate Share Basis
Balance, as at December 31, 2017	\$ 9,551,000	\$ 32,018	\$ 9,583,018
Acquisition of CREIT	4,729,687	947,803	5,677,490
Acquisitions of investment properties ⁽ⁱ⁾	112,239	—	112,239
Capital expenditures			
Development capital	187,856	47,705	235,561
Building improvements	7,741	(267)	7,474
Capitalized interest	4,880	1,616	6,496
Operating capital expenditures			
Property capital	57,586	151	57,737
Direct leasing costs	11,392	450	11,842
Tenant improvement allowances	9,628	763	10,391
Amortization of straight-line rent	34,076	988	35,064
Dispositions	(123,869)	(14,973)	(138,842)
Foreign currency translation	7,359	—	7,359
Adjustment to fair value of investment properties	(88,575)	(5,254)	(93,829)
Balance, as at December 31, 2018	\$ 14,501,000	\$ 1,011,000	\$ 15,512,000

(i) Includes acquisition costs.

21.2 Net Operating Income

The following table reconciles net income, as determined in accordance with GAAP, to NOI for the periods ended as indicated. Refer to Section 7, "Other Measures of Performance" and Section 21, "Non-GAAP Financial Measures" of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Net income	\$ 281,099	\$ 36,533	\$ 244,566	\$ 649,577	\$ 405,345	\$ 244,232
Add (deduct) impact of the following:						
Net income attributable to non-controlling interests	—	(930)	930	—	(930)	930
Straight-line rental revenue	(8,033)	(8,092)	59	(34,076)	(34,740)	664
General and administrative expenses	9,506	6,712	2,794	34,975	23,795	11,180
Property management and other administration fees charged to related party	(1,134)	(267)	(867)	(3,523)	(1,270)	(2,253)
Net interest expense and other financing charges	138,552	100,397	37,593	513,864	394,826	119,038
Accelerated amortization of debt premium	—	—	—	37,282	—	37,282
Interest and other income	(4,095)	(2,744)	(1,351)	(14,224)	(4,829)	(9,395)
Share of income from joint ventures	(9,356)	(69)	(9,287)	(21,476)	(254)	(21,222)
Acquisition transaction costs and other related expenses	11,044	—	11,044	141,493	—	141,493
Adjustment to fair value of unit-based compensation	(707)	267	(974)	(4,792)	468	(4,286)
Adjustment to fair value of Exchangeable Units	(214,479)	19,026	(233,505)	(593,706)	(38,212)	(555,494)
Adjustment to fair value of investment properties	18,548	2,710	15,838	88,575	(159,458)	248,033
Adjustment to fair value of investment property held in equity accounted joint ventures	1,240	(505)	1,745	5,254	745	4,509
Income taxes	200	—	200	538	—	538
Net Operating Income	222,385	153,038	69,347	799,761	585,486	214,275
Adjustments for equity accounted joint ventures	10,531	—	10,531	25,297	—	25,297
Proportionate Share Net Operating Income	\$ 232,916	\$ 153,038	\$ 79,878	\$ 825,058	\$ 585,486	\$ 239,572

To better measure certain key performance factors, management 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, Property Transactions and the Acquisition Transaction. Management further refines the analysis to exclude any NOI from developments, which increased GLA in the comparative periods. Refer to Section 7, "Other Measures of Performance" and Section 21, "Non-GAAP Financial Measures" of this MD&A, for further details about this non-GAAP measure.

For the three months ended December 31 (\$ thousands) (unaudited)	2018				2017		
	Same Properties	Acquisition Transaction	Property Transactions ⁽ⁱ⁾	All Properties	Same Properties	Property Transactions ⁽ⁱ⁾	All Properties
Proportionate share rental revenue	\$ 214,610	\$ 120,975	\$ 2,562	\$ 338,147	\$ 207,869	\$ 3,362	\$ 211,231
Revenue attributable to non-controlling interests ⁽ⁱⁱ⁾	—	—	—	—	(930)	—	(930)
Less: Straight-line rent included in rental revenue	(6,243)	(2,036)	(86)	(8,365)	(8,115)	23	(8,092)
Proportionate share rental revenue, on a cash basis	208,367	118,939	2,476	329,782	198,824	3,385	202,209
Proportionate share property operating costs	(56,053)	(40,207)	(606)	(96,866)	(49,150)	(21)	(49,171)
Net Operating Income	\$ 152,314	\$ 78,732	\$ 1,870	\$ 232,916	\$ 149,674	\$ 3,364	\$ 153,038
Less: NOI from developed GLA ⁽ⁱⁱ⁾	(4,188)	N/A	N/A	(4,188)	(3,663)	N/A	(3,663)
NOI, excluding development activities	\$ 148,126	\$ 78,732	\$ 1,870	\$ 228,728	\$ 146,011	\$ 3,364	\$ 149,375

(i) Properties acquired subsequent to September 30, 2017, including properties acquired in the Acquisition Transaction, net of the dispositions (see Section 22, "Additional Information", of this MD&A).

(ii) GLA developed in the comparative periods.

For the years ended December 31 (\$ thousands) (unaudited)	2018				2017		
	Same Properties	Acquisition Transaction	Property Transactions ⁽ⁱ⁾	All Properties	Same Properties	Property Transactions ⁽ⁱ⁾	All Properties
Proportionate share rental revenue	\$ 848,724	\$ 319,396	\$ 19,416	\$ 1,187,536	\$ 824,053	\$ 6,577	\$ 830,630
Revenue attributable to non-controlling interests ⁽ⁱⁱ⁾	—	—	—	—	(930)	—	(930)
Less: Straight-line rent included in rental revenue	(28,334)	(6,383)	(347)	(35,064)	(34,643)	(97)	(34,740)
Proportionate share rental revenue, on a cash basis	820,390	313,013	19,069	1,152,472	788,480	6,480	794,960
Proportionate share property operating costs	(219,526)	(104,532)	(3,356)	(327,414)	(208,632)	(842)	(209,474)
Net Operating Income	\$ 600,864	\$ 208,481	\$ 15,713	\$ 825,058	\$ 579,848	\$ 5,638	\$ 585,486
Less: NOI from developed GLA ⁽ⁱⁱ⁾	(14,028)	N/A	N/A	(14,028)	(6,540)	N/A	(6,540)
NOI, excluding development activities	\$ 586,836	\$ 208,481	\$ 15,713	\$ 811,030	\$ 573,308	\$ 5,638	\$ 578,946

(i) Properties acquired subsequent to December 31, 2017, including properties acquired in the Acquisition Transaction, net of the dispositions (see Section 22, "Additional Information", of this MD&A).

(ii) GLA developed in the comparative periods.

21.3 Funds from Operations

The following table reconciles net income, as determined in accordance with GAAP, to Funds from Operations for the periods ended as indicated. Refer to Section 7, "Other Measures of Performance" and Section 21, "Non-GAAP Financial Measures" of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Net income	\$ 281,099	\$ 36,533	\$ 244,566	\$ 649,577	\$ 405,345	\$ 244,232
Add (deduct) impact of the following:						
Net income attributable to non-controlling interests	—	(930)	930	—	(930)	930
Acquisition transaction costs and other related expenses	11,044	—	11,044	141,493	—	141,493
Adjustment to fair value of unit-based compensation	(707)	267	(974)	(4,792)	468	(5,260)
Adjustment to fair value of Exchangeable Units	(214,479)	19,026	(233,505)	(593,706)	(38,212)	(555,494)
Adjustment to fair value of investment properties	18,548	2,710	15,838	88,575	(159,458)	248,033
Adjustment to fair value of investment property held in equity accounted joint ventures	1,240	(505)	1,745	5,254	745	4,509
Interest otherwise capitalized for development in equity accounted joint ventures	1,140	138	1,002	3,102	442	2,660
Exchangeable Units distributions	72,143	58,895	13,248	271,089	232,199	38,890
Internal expenses for leasing	1,644	709	935	5,428	2,336	3,092
Income taxes	200	—	200	538	—	538
Funds from Operations, as calculated per the White Paper	\$ 171,872	\$ 116,843	\$ 55,029	\$ 566,558	\$ 442,935	\$ 123,623
Accelerated amortization of debt premium ⁽ⁱ⁾	—	—	—	37,282	—	37,282
Funds from Operations, for management purposes⁽ⁱ⁾	\$ 171,872	\$ 116,843	\$ 55,029	\$ 603,840	\$ 442,935	\$ 160,905
FFO per unit - diluted ⁽ⁱ⁾	\$ 0.256	\$ 0.282	\$ (0.026)	\$ 1.033	\$ 1.072	\$ (0.039)
FFO payout ratio - diluted ⁽ⁱ⁾⁽ⁱⁱ⁾	72.2%	65.6%	6.6%	71.6%	68.1%	3.5%
Distribution declared per unit	\$ 0.1850	\$ 0.1850	\$ —	\$ 0.7400	\$ 0.7300	\$ 0.0100
Weighted average Units outstanding - diluted	670,486,393	414,285,762	256,200,631	584,605,228	413,208,961	171,396,267

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

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

21.4 Adjusted Funds from Operations

The following table reconciles FFO to AFFO for the periods ended as indicated. Refer to Section 7, "Other Measures of Performance" and Section 21, "Non-GAAP Financial Measures", of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Funds from Operations, as calculated per the White Paper	\$ 171,872	\$ 116,843	\$ 55,029	\$ 566,558	\$ 442,935	\$ 123,623
Accelerated amortization of debt premium ⁽ⁱ⁾	—	—	—	37,282	—	37,282
Funds from Operations, for management purposes⁽ⁱ⁾	\$ 171,872	\$ 116,843	\$ 55,029	\$ 603,840	\$ 442,935	\$ 160,905
Add (deduct) impact of the following:						
Internal expenses for leasing	(1,644)	(709)	(935)	(5,428)	(2,336)	(3,092)
Straight-line rent - on a proportionate share basis	(8,365)	(8,092)	(273)	(35,064)	(34,740)	(324)
Property capital expenditures - on a proportionate share basis	(42,655)	(20,661)	(21,994)	(57,737)	(44,960)	(12,777)
Leasing capital expenditures - on a proportionate share basis	(8,876)	(973)	(7,903)	(22,233)	(4,409)	(17,824)
Adjusted Funds from Operations, for management purposes	\$ 110,332	\$ 86,408	\$ 23,924	\$ 483,378	\$ 356,490	\$ 126,888
AFFO per unit - diluted ⁽ⁱ⁾	\$ 0.165	\$ 0.209	\$ (0.044)	\$ 0.827	\$ 0.863	\$ (0.036)
AFFO payout ratio - diluted ⁽ⁱ⁾⁽ⁱⁱ⁾	112.1%	88.5%	23.6%	89.5%	84.6%	4.9%
Distribution declared per unit	\$ 0.1850	\$ 0.1850	\$ —	\$ 0.7400	\$ 0.7300	\$ 0.0100
Weighted average Units outstanding - diluted	670,486,393	414,285,762	256,200,631	584,605,228	413,208,961	171,396,267

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

(ii) Adjusted Funds from Operations payout ratio is calculated as the distribution declared per unit divided by the AFFO per unit diluted.

The following tables reconcile AFFO to FFO, as previously disclosed, for the prior periods as indicated:

For the periods (\$ thousands) (unaudited)	Annual 2017	Fourth Quarter 2017	Third Quarter 2017	Second Quarter 2017	First Quarter 2017
Funds from Operations	\$ 442,935	\$ 116,843	\$ 108,896	\$ 108,360	\$ 108,836
Internal expenses for leasing	(2,336)	(709)	(522)	(546)	(559)
Straight-line rent	(34,740)	(8,092)	(8,030)	(9,320)	(9,298)
Property capital expenditures	(44,960)	(20,661)	(22,318)	(1,621)	(360)
Leasing capital expenditures	(4,409)	(973)	(1,070)	(976)	(1,390)
Adjusted Funds from Operations	\$ 356,490	\$ 86,408	\$ 76,956	\$ 95,897	\$ 97,229
AFFO per unit - diluted	\$ 0.863	\$ 0.209	\$ 0.186	\$ 0.232	\$ 0.236
AFFO payout ratio - diluted	84.6%	88.5%	99.5%	78.7%	75.2%
Distribution declared per unit	\$ 0.7300	\$ 0.1850	\$ 0.1850	\$ 0.1825	\$ 0.1775
Weighted average Units outstanding - diluted	413,208,961	414,285,762	413,445,869	413,031,606	412,164,820

For the periods (\$ thousands) (unaudited)	Annual 2016	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016	First Quarter 2016
Funds from Operations	\$ 410,125	\$ 103,131	\$ 101,879	\$ 102,316	\$ 102,799
Internal expenses for leasing	(2,135)	(518)	(546)	(603)	(468)
Straight-line rent	(36,582)	(9,159)	(8,695)	(9,845)	(8,883)
Property capital expenditures	(42,192)	(16,343)	(24,074)	(1,759)	(16)
Leasing capital expenditures	(5,384)	(1,354)	(2,395)	(191)	(1,444)
Adjusted Funds from Operations	\$ 323,832	\$ 75,757	\$ 66,169	\$ 89,918	\$ 91,988
AFFO per unit - diluted	\$ 0.790	\$ 0.184	\$ 0.161	\$ 0.221	\$ 0.225
AFFO payout ratio - diluted	89.2%	100.5%	114.9%	75.8%	74.4%
Distribution declared per unit	\$ 0.7050	\$ 0.1850	\$ 0.1850	\$ 0.1675	\$ 0.1675
Weighted average Units outstanding - diluted	410,034,555	411,272,728	410,254,616	406,798,046	409,095,647

21.5 Adjusted Cash Flow from Operations

The following table reconciles cash flows from operating activities to ACFO, as determined in accordance with GAAP, for the periods ended as indicated. Refer to Section 11.6, "Unit Equity" and Section 21, "Non-GAAP Financial Measures", of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Cash flows from operating activities	\$ 236,594	\$ 194,285	\$ 42,309	\$ 683,632	\$ 503,676	\$ 179,956
Interest paid	(36,129)	(12,737)	(23,392)	(278,440)	(163,237)	(115,203)
Cash flows from operating activities less interest paid	200,465	181,548	18,917	405,192	340,439	64,753
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 ⁽ⁱ⁾	(102,423)	(87,660)	(14,763)	(235,424)	(231,589)	(3,835)
Distributions on Exchangeable Units included in net interest expense and other financing charges	72,143	58,895	13,248	271,089	232,199	38,890
Interest and other income in excess of interest received ⁽ⁱ⁾	835	64	771	4,195	398	3,797
Interest otherwise capitalized for development in equity accounted joint ventures	1,140	138	1,002	3,102	442	2,660
Portion of internal expenses for leasing relating to development activity	822	354	468	2,714	1,168	1,546
Property capital expenditures on a proportionate share basis	(42,655)	(20,661)	(21,994)	(57,737)	(44,960)	(12,777)
Leasing capital expenditures - on a proportionate share basis	(8,876)	(973)	(7,903)	(22,233)	(4,409)	(17,824)
Acquisition transaction costs and other related expenses	11,044	—	11,044	141,493	—	141,493
Adjustments for proportionate share of equity accounted joint ventures ⁽ⁱⁱ⁾	9,356	69	9,287	21,476	254	21,222
Adjustment for changes in non-cash working capital items which are not indicative of sustainable operating cash flows ⁽ⁱⁱⁱ⁾	(32,807)	(38,220)	5,413	(45,409)	69,478	(114,887)
Adjusted Cash Flow from Operations^(iv)	\$ 109,044	\$ 92,624	\$ 16,420	\$ 488,458	\$ 362,490	\$ 125,968
Total distributions declared	123,612	76,312	47,300	431,392	300,452	130,940
Cash retained after distributions^(iv)	\$ (14,568)	\$ 16,312	\$ (30,880)	\$ 57,066	\$ 62,038	\$ (4,972)
ACFO payout ratio^{(iv)(v)}	113.4%	82.4%	31.0%	88.3%	82.9%	5.4%

- (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, 2018 and December 31, 2017 were adjusted for this factor to make the periods more comparable⁽²⁾. Net interest expense and other financing charges in excess of interest paid was calculated for the year ended December 31, 2018 was calculated excluding the impact of the accelerated amortization of debt premium.
- (ii) Includes proportionate share of working capital items.
- (iii) ACFO is adjusted each quarter for fluctuations in non-cash working capital due to the timing of transactions for realty taxes prepaid or payable, and prepaid insurance. The payments for these operating expenses tend to have quarterly, seasonal fluctuations that even out on an annual basis. ACFO is also adjusted each quarter to remove fluctuations in non-cash working capital due to capital expenditure accruals, which are not related to sustainable operating activities.
- (iv) The ACFO, the ACFO payout ratio and the cash retained after distribution, for the year ended December 31, 2018, have been calculated excluding the impact of the accelerated amortization of debt premium. The ACFO, the ACFO payout ratio and the cash retained after distribution for the year ended December 31, 2017, have been adjusted from the prior year's presentation to remove the impact of normalizing capital spending over the year. ACFO is impacted by property capital expenditures that vary from quarter to quarter and year to year.
- (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 2018, 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		
	2018	2017	Change	2018	2017	Change
Net change in non-cash working capital ⁽ⁱ⁾	\$ 27,776	\$ 42,922	\$ (15,146)	\$ 39,568	\$ (68,439)	\$ 108,007
Adjustment for changes in non-cash working capital items which were not indicative of sustainable operating cash flows	(32,807)	(38,220)	5,413	(45,409)	69,478	(114,887)
Net non-cash working capital increase included in ACFO	\$ (5,031)	\$ 4,702	\$ (9,733)	\$ (5,841)	\$ 1,039	\$ (6,880)

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

21.6 Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value

The following table reconciles net income, as determined in accordance with GAAP, to EBITDAFV for the periods ended as indicated. Refer to Section 21, "Non-GAAP Financial Measures" of this MD&A, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands) (unaudited)	Three Months			Year End		
	2018	2017	Change	2018	2017	Change
Net income	\$ 281,099	\$ 36,533	\$ 244,566	\$ 649,577	\$ 405,345	\$ 244,232
Add (deduct) impact of the following:						
Net income attributable to non-controlling interests	—	(930)	930	—	(930)	930
Accelerated amortization of debt premium	—	—	—	37,282	—	37,282
Acquisition transaction costs and other related expenses	11,044	—	11,044	141,493	—	141,493
Adjustment to fair value of unit-based compensation	(707)	267	(974)	(4,792)	468	(5,260)
Adjustment to fair value of Exchangeable Units	(214,479)	19,026	(233,505)	(593,706)	(38,212)	(555,494)
Adjustment to fair value of investment properties	18,548	2,710	15,838	88,575	(159,458)	248,033
Adjustment to fair value of investment property held in equity accounted joint ventures	1,240	(505)	3,825	5,254	745	3,000
Interest expense ⁽ⁱ⁾	140,004	100,066	39,938	515,589	393,983	121,606
Amortization of other assets	—	235	(235)	495	934	(439)
Income taxes	200	—	200	538	—	538
Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value	\$ 236,949	\$ 157,402	\$ 79,547	\$ 840,305	\$ 602,875	\$ 237,430

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

22. ADDITIONAL INFORMATION

Additional information about Choice Properties has been filed electronically with the Canadian securities regulatory authorities through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com. The Trust is listed on the Toronto Stock Exchange ("TSX") under the symbol CHP.UN.

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 Fourth Quarter Report - Financial Review ("Fourth Quarter 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 Fourth Quarter 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 Fourth Quarter Report based on the review and recommendation of the Audit Committee.

Toronto, Canada
February 13, 2019

[signed]

Stephen Johnson

President and Chief Executive Officer

[signed]

Mario Barrafato

Chief Financial Officer



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

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Choice Properties Real Estate Investment Trust

Opinion

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

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheets of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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



Other Information

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

- the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions

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

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

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

We have nothing to report in this regard.

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

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

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada

February 13, 2019

Choice Properties Real Estate Investment Trust Consolidated Balance Sheets

(in thousands of Canadian dollars)	As at December 31, 2018	As at December 31, 2017
Assets		
Non-current Assets		
Investment properties (note 7)	\$ 14,501,000	\$ 9,551,000
Equity accounted joint ventures (note 8)	734,167	32,339
Accounts receivable and other assets (note 11)	1,950	5,565
Mortgages, loans and notes receivable (note 12)	88,300	2,556
Intangible assets (note 13)	30,000	—
	15,355,417	9,591,460
Current Assets		
Accounts receivable and other assets (note 11)	37,975	21,419
Mortgages, loans and notes receivable (note 12)	125,110	304,225
Cash and cash equivalents	30,713	6,407
	193,798	332,051
Total Assets	\$ 15,549,215	\$ 9,923,511
Liabilities and Equity		
Non-current Liabilities		
Long term debt and Class C LP Units (note 14)	\$ 5,566,915	\$ 3,338,420
Credit facilities and term loans (note 15)	1,114,407	309,522
Exchangeable Units (note 16)	4,492,359	4,259,724
Deferred income taxes (note 17)	509	—
Trade payables and other liabilities (note 18)	6,021	2,713
	11,180,211	7,910,379
Current Liabilities		
Long term debt and Class C LP Units (note 14)	496,036	400,088
Credit facilities and term loans (note 15)	—	250,000
Trade payables and other liabilities (note 18)	372,982	426,063
	869,018	1,076,151
Total Liabilities	12,049,229	8,986,530
Equity		
Unitholders' equity	3,492,185	928,280
Non-controlling interests	7,801	8,701
Total Equity	3,499,986	936,981
Total Liabilities and Equity	\$ 15,549,215	\$ 9,923,511

Contingent Liabilities and Financial Guarantees (note 27).
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 and Comprehensive Income

(in thousands of Canadian dollars)	Year ended December 31, 2018	Year ended December 31, 2017
Net Property Income		
Rental revenue (note 20)	\$ 1,148,273	\$ 830,630
Property operating costs (note 29)	(314,436)	(209,474)
	833,837	621,156
Other Income and Expenses		
General and administrative expenses (note 29)	(30,183)	(24,263)
Property management and other administration fees (note 29)	3,523	1,270
Net interest expense and other financing charges (note 21)	(551,146)	(394,826)
Interest and other income (note 22)	14,224	4,829
Share of income (loss) in equity accounted joint ventures (note 8)	16,222	(491)
Acquisition transaction costs and other related expenses (note 5)	(141,493)	—
Adjustment to fair value of Exchangeable Units (note 16)	593,706	38,212
Adjustment to fair value of investment properties (note 7)	(88,575)	159,458
Income before income taxes	650,115	405,345
Income taxes (note 17)	(538)	—
Net Income	\$ 649,577	\$ 405,345
Net Income attributable to:		
Choice Properties' Unitholders	\$ 649,577	\$ 404,415
Non-controlling interests (note 10)	—	930
	\$ 649,577	\$ 405,345
Net Income	\$ 649,577	\$ 405,345
Other comprehensive income		
Foreign exchange gain on currency translation	6,772	—
Unrealized gain on designated hedging instruments	597	—
Other comprehensive income	7,369	—
Comprehensive Income	\$ 656,946	\$ 405,345
Comprehensive Income attributable to:		
Choice Properties' Unitholders	\$ 656,946	\$ 404,415
Non-controlling interests (note 10)	—	930
	\$ 656,946	\$ 405,345

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, 2018 (in thousands of Canadian dollars)	Attributable to Choice Properties' Unitholders						Non- controlling interests	Total equity
	Trust Units	Cumulative net income	Accumulated other comprehensive income	Cumulative distributions to Unitholders	Total Unitholders' equity			
Equity, December 31, 2017	\$ 911,081	\$ 292,829	\$ —	\$ (275,630)	\$ 928,280	\$ 8,701	\$ 936,981	
Net income	—	649,577	—	—	649,577	—	649,577	
Other comprehensive income	—	—	7,369	—	7,369	—	7,369	
Distributions	—	—	—	(160,303)	(160,303)	—	(160,303)	
Units issued, net of costs (note 16)	2,056,628	—	—	—	2,056,628	—	2,056,628	
Issuance of Units under the Distribution Reinvestment Plan (note 16)	1,487	—	—	—	1,487	—	1,487	
Issuance of Units under unit-based compensation arrangements (note 16)	16,261	—	—	—	16,261	—	16,261	
Repurchase of Units for unit-based compensation arrangement (note 16)	(7,114)	—	—	—	(7,114)	—	(7,114)	
Distribution from non-controlling interests (note 10)	—	—	—	—	—	(900)	(900)	
Equity, December 31, 2018	\$ 2,978,343	\$ 942,406	\$ 7,369	\$ (435,933)	\$ 3,492,185	\$ 7,801	\$ 3,499,986	

For the year end 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 16)	22,383	—	—	22,383	—	22,383		
Issuance of Units under unit-based compensation arrangements (note 16)	361	—	—	361	—	361		
Equity, December 31, 2017	\$ 911,081	\$ 292,829	\$ (275,630)	\$ 928,280	\$ 8,701	\$ 936,981		

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, 2018	Year ended December 31, 2017
Operating Activities		
Net income	\$ 649,577	\$ 405,345
Straight-line rental revenue (note 7)	(34,076)	(34,740)
Net interest expense and other financing charges (note 21)	551,146	394,826
Interest and other income (note 22)	(14,224)	(4,829)
Unit-based compensation expense (note 19)	2,456	4,261
Share of (income) loss in equity accounted joint ventures (note 8)	(16,222)	491
Adjustment to fair value of Exchangeable Units (note 16)	(593,706)	(38,212)
Adjustment to fair value of investment properties (note 7)	88,575	(159,458)
Interest and other income received	10,029	4,431
Deferred income taxes (note 17)	509	—
Net change in non-cash working capital (note 29)	39,568	(68,439)
Cash Flows from Operating Activities	683,632	503,676
Investing Activities		
Acquisition of CREIT, net of cash acquired (note 5)	(1,619,099)	—
Acquisitions of investment properties (note 6)	(108,833)	(107,013)
Additions to investment properties (note 7)	(274,203)	(166,272)
Contributions to equity accounted joint ventures (note 8)	(27,656)	(13,760)
Distributions from equity accounted joint ventures (note 8)	25,339	—
Mortgages, loans and notes receivable advances (note 12)	(247,555)	(277,588)
Mortgages, loans and notes receivable repayments (note 12)	541,970	263,574
Proceeds from disposition (note 6)	127,195	38,179
Cash Flows used in Investing Activities	(1,582,842)	(262,880)
Financing Activities		
Proceeds from issuance of debentures, net of debt placement costs (note 14)	1,940,089	—
Repayments of debentures (note 14)	(525,000)	(200,000)
Net advances (repayments) of mortgages payable, net of debt placement costs (note 14)	11,400	(1,208)
Net advances on construction loans (note 14)	11,747	—
Repayment on conversion of Class C LP Units (note 5)	(98,659)	—
Net advances of credit facilities and term loans, net of debt placement costs (note 15)	481,737	388,725
Trust Unit issuance costs (note 16)	(283)	—
Cash received on exercise of options	9,920	235
Cash paid on vesting of restricted units	(1,677)	(1,161)
Repurchase of Units for unit-based compensation arrangement (note 16)	(7,114)	—
Interest paid	(278,440)	(163,237)
Distributions paid on Exchangeable Units	(471,829)	(217,324)
Distributions paid on Trust Units	(147,475)	(45,532)
Distribution to non-controlling interests (note 10)	(900)	—
Cash Flows from (used in) Financing Activities	923,516	(239,502)
Change in cash and cash equivalents	24,306	1,294
Cash and cash equivalents, beginning of year	6,407	5,113
Cash and Cash Equivalents, end of year	\$ 30,713	\$ 6,407

Supplemental disclosure of non-cash operating, investing and financing activities (note 29).
See accompanying 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, Canada’s preeminent diversified real estate investment trust, is the owner, manager and developer of a high quality portfolio of commercial retail, industrial, office and residential properties across Canada. The principal, registered, and head office of Choice Properties is located at 22 St. Clair Avenue East, Suite 500, Toronto, Ontario, M4T 2S5. Choice Properties’ trust units (“Trust Units” or “Units”) are listed on the Toronto Stock Exchange and are traded under the symbol “CHP.UN”.

Choice Properties commenced operations on July 5, 2013 when it issued Units and debt for cash pursuant to an initial public offering (the “IPO”) and completed the acquisition of 425 properties from Loblaw Companies Limited and its subsidiaries (“Loblaw”). Pursuant to a reorganization transaction on November 1, 2018, Loblaw spun out its 61.6% effective interest in Choice Properties to George Weston Limited (“GWL”). As at December 31, 2018, GWL held a 65.4% direct effective interest in Choice Properties.

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

The Trust has three reportable operating segments: retail, industrial and office (note 30). Prior to the acquisition of Canadian Real Estate Investment Trust (“CREIT”) on May 4, 2018 (note 5), the Trust had only one reportable segment, retail.

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, 2019.

Basis of Preparation The consolidated financial statements were prepared on a historical cost basis except for investment properties (note 7); Class B LP Units (the “Exchangeable Units”) which are exchangeable for Trust Units at the option of the holder (note 16); liabilities for unit-based compensation arrangements (note 19); and certain financial instruments (note 25). 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.

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

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

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.

Notes to the Consolidated Financial Statements

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 4-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.

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. 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.

Classification and Measurement

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

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

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

Financial assets are not reclassified subsequent to their initial recognition, unless the Trust identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

Notes to the Consolidated Financial Statements

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

Asset/Liability	Classification and Measurement Basis
Accounts receivable	Amortized cost
Mortgages, loans and notes receivable - SPPI	Amortized cost
Mortgages, loans and notes receivable - FVTPL	FVTPL
Cash and cash equivalents	Amortized cost
Long term debt and Class C LP Units:	
Senior unsecured debentures	Amortized cost
Class C LP Units	Amortized cost
Mortgages payable	Amortized cost
Construction loans	Amortized cost
Credit facilities and term loans	Amortized cost
Trade payable and other liabilities	Amortized cost
Designated hedging derivatives	FVTPL
Exchangeable Units	FVTPL

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

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

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

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

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

Intangible Assets Indefinite life intangible assets are measured at cost less any accumulated impairment loss. At each balance sheet date, the Trust reviews the carrying amount of its intangible assets to determine whether there is any indication of impairment. If such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Intangible assets are tested for impairment at least annually. The recoverable amount of the intangible asset is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the intangible asset discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, net of estimates of costs of disposal. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Impairment losses and reversals are recognized in general and administrative expenses.

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

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, cash and cash equivalents, and accounts payable</i>	The carrying amount approximates fair value due to the short term maturity of these instruments.
<i>Mortgages, loans and notes receivable</i>	The fair value of each mortgage, loan and note receivable is based on the current market conditions for financing with similar terms and risks.
<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.

Notes to the Consolidated Financial Statements

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.

Foreign Currency Translation The functional currency of the Trust is the Canadian dollar.

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

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

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

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

The Trust Units meet the conditions of IAS 32 and accordingly are presented as equity in the consolidated financial statements.

Revenue Recognition Choice Properties has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases.

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

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

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

Post Employment Benefits Choice Properties participates in certain 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.

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

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

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

The Trust also consolidates certain taxable entities in Canada and in the United States for which current and deferred income taxes are recorded. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the Consolidated Financial Statements

Deferred tax is recognized using the asset and liability method of accounting for temporary differences arising between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Deferred tax is measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset is recognized for temporary differences as well as unused tax losses and credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

Accounting Standards Implemented in 2018

On January 1, 2018, Choice Properties implemented IFRS 15, "Revenue from contracts with customers" ("IFRS 15") and IFRS 9, "Financial Instruments" ("IFRS 9"), in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts from implementation of IFRS 15 and IFRS 9 are described below.

IFRS 15 In 2014, the IASB issued IFRS 15 replacing IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

Choice Properties adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively. IFRS 15 permits the use of exemptions and practical expedients. The Trust applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 31, 2017 or are completed on January 1, 2017 do not require restatements.

The implementation of IFRS 15 did not have a significant impact on the Trust's revenue streams. The presentation of insurance expense and the revenue related to the recovery of insurance expense from tenants have been reclassified from operating costs to be grouped with property taxes (notes 20 and 29).

IFRS 9 In 2014, the IASB issued 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 accounting model. IFRS 9 became effective for annual periods beginning on or after January 1, 2018.

Choice Properties implemented the new requirements for classification and measurement, impairment and general hedging on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with no restatement of comparative periods. The Trust also applied related amendments to IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"). Refer to the accounting policy for Financial Instruments for a discussion of the application of this standard.

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

Financial assets are not reclassified subsequent to their initial recognition, unless the Trust identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

The following table summarizes the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Accounts receivable	Loans and receivables	Amortized cost
Mortgages, loans and notes receivable - SPPI	Loans and receivables	Amortized cost
Mortgages, loans and notes receivable - FVTPL	Loans and receivables	Fair value through profit and loss
Cash and cash equivalents	Fair value through profit and loss	Amortized cost
Long term debt and Class C LP Units:		
Senior unsecured debentures	Other liabilities	Amortized cost
Class C LP Units	Other liabilities	Amortized cost
Mortgages	Other liabilities	Amortized cost
Construction loans	Other liabilities	Amortized cost
Credit facilities and term loans	Other liabilities	Amortized cost
Trade payable and other liabilities	Other liabilities	Amortized cost
Designated hedging derivatives	Fair value through profit and loss	Fair value through profit and loss
Exchangeable Units	Fair value through profit and loss	Fair value through profit and loss

Impairment IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The ECL requires 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 is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

Choice Properties adopted the practical expedient to determine ECL on account receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied did not have a material impact on account receivables of the Trust.

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

General Hedging IFRS 9 requires Choice Properties to ensure that hedge accounting relationships are aligned with the Trust's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Trust's risk management strategy is disclosed in Note 26, *Financial Risk Management*.

Notes to the Consolidated Financial Statements

Note 3. Critical Accounting Judgments and Estimates

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

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

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

Investment Properties

Judgments Made in Relation to Accounting Policies Applied Judgment is applied in determining whether certain costs are additions to the carrying value of investment properties, identifying the point at which substantial completion of the property occurs, and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.

Choice Properties also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. Choice Properties considers all the properties it has acquired to date to be asset acquisitions.

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

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)*. Choice Properties uses judgment in reviewing these conditions in assessing its interpretation and application to its assets and revenue.

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

Note 4. Future Accounting Standards

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.

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 in the final stages of its evaluation of the impact of the standard on the consolidated financial statements. Based on its assessment to date, the Trust does not believe it will have a significant impact on its consolidated financial statements.

Note 5. Acquisition of Canadian Real Estate Investment Trust ("CREIT")

On May 4, 2018, Choice Properties acquired all the assets and assumed all the liabilities of CREIT, including outstanding debt, for total consideration of \$3,708,429, comprised of \$1,651,518 of cash and the issuance of 182,836,481 Trust Units (note 16).

In connection with the acquisition, Choice Properties arranged a new \$1,500,000 committed revolving credit facility. Concurrent with closing of the acquisition, Choice Properties repaid and cancelled its existing credit facilities and those acquired from CREIT (note 15).

Also, concurrent with the closing of the acquisition, Choice Properties converted all its outstanding Class C LP Units, held by Loblaw, into Class B LP Units (Exchangeable Units) (note 16). Choice Properties issued 70,881,226 Exchangeable Units, based on the 20-day volume weighted average price of Choice Properties' Trust Units. A conversion difference of \$98,659 was paid to Loblaw in cash. These Exchangeable Units were subject to an undertaking by Loblaw, and subsequently confirmed by GWL, to the TSX that restrict its voting rights and the exercise of its exchange transfer rights to be consistent with the terms of the converted Class C LP Units.

The cash portion of the acquisition and other transactions pursuant to the Plan of Arrangement were financed as follows:

- \$1,300,000 was obtained from issuance of Series K and L senior unsecured debentures (note 14); and
- \$800,000 was obtained through two unsecured term loans of which \$175,000 is due May 4, 2022, and \$625,000 is due May 4, 2023 (note 15).

Notes to the Consolidated Financial Statements

The purchase equation is based on management's best estimates of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The Trust has one year to finalize the fair value of the assets acquired and the liabilities assumed, however, the Trust does not expect significant changes from the amounts presented below:

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

(i) Includes designated hedging derivative asset of \$1,888 and accrued interest income on mortgages, loans and notes receivable of \$1,252.

(ii) Includes designated hedging derivative liability of \$3,070.

In the year ended December 31, 2018, Choice Properties incurred acquisition transaction costs and other related expenses of \$141,493, which were recorded in the consolidated statements of income.

Included in the consolidated statements of income and comprehensive income for the year ended December 31, 2018 are approximately \$280 million in revenue and approximately \$165 million net income related to CREIT since the date of acquisition, excluding the impact of acquisition transaction costs and other related expenses and any adjustment to the fair value of the investment properties acquired.

On a year-to-date pro forma basis, the contribution to the Trust attributable to CREIT for the year ended December 31, 2018 would have amounted to approximately \$420 million in revenue and \$250 million of net income, respectively, excluding the impact of acquisition transaction costs and other related expenses and any adjustment to the fair value of the investment properties acquired. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective January 1, 2018.

Note 6. Investment Property Transactions

Acquisitions of Investment Properties

During the year ended December 31, 2018, excluding the acquisition of CREIT (note 5), Choice Properties completed the following acquisitions:

(\$ thousands)										
Location	Date of acquisition	Segment	Ownership interest	Investment properties	Other assets	Other liabilities	Net assets acquired	Consideration		Acquisition costs included in investment properties
								Debt assumed	Cash	
Sainte-Julie, QC	July 3	Land	75%	\$ 1,616	\$ 9	\$ —	\$ 1,625	\$ —	\$ 1,625	\$ 41
Calgary, AB	November 14	Retail	100%	31,780	—	(251)	31,529	—	31,529	—
Bedford, NS	November 14	Retail	100%	9,084	126	(110)	9,100	—	9,100	134
Kanata, ON	November 14	Retail	100%	14,758	—	(160)	14,598	—	14,598	98
Acquisitions from Loblaw				57,238	135	(521)	56,852	—	56,852	273
Langley, BC	December 7	Industrial	100%	20,866	14	(84)	20,796	—	20,796	586
Acquisition from GWL				20,866	14	(84)	20,796	—	20,796	586
Toronto, ON	January 10	Land	100%	2,950	—	(22)	2,928	—	2,928	175
Riviere-du-Loup, QC	January 22	Retail	100%	2,409	—	(2)	2,407	—	2,407	59
Toronto, ON	January 31	Land	100%	2,990	—	(3)	2,987	—	2,987	183
Sherbrooke, QC	February 1	Retail	100%	4,561	—	—	4,561	—	4,561	91
Toronto, ON	March 20	Retail	100%	17,915	—	(118)	17,797	2,805	14,992	915
Ottawa, ON	May 29	Land	100%	2,086	—	—	2,086	—	2,086	62
Calgary, AB	October 1	Retail	100%	1,224	—	—	1,224	—	1,224	—
Acquisitions from third-parties				34,135	—	(145)	33,990	2,805	31,185	1,485
Total acquisitions				\$ 112,239	\$ 149	\$ (750)	\$ 111,638	\$ 2,805	\$ 108,833	\$ 2,344

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

(\$ thousands)											
Location	Date of acquisition	Segment	Ownership interest	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	100%	\$ 2,864	\$ —	\$ —	\$ 2,864	\$ —	\$ 2,651	\$ 213	\$ 64
Hamilton, ON	December 5	Land	100%	2,391	—	—	2,391	—	141	2,250	41
Various (3 properties)	December 5	Retail	100%	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	100%	2,825	—	(25)	2,800	—	—	2,800	78
Selkirk, MB	March 16	Retail	100%	7,125	—	(91)	7,034	—	—	7,034	25
Brooks, AB	June 14	Retail	100%	8,427	50	(36)	8,441	—	—	8,441	25
St-Raymond-de-Portneuf, QC	July 10	Retail	100%	3,919	—	—	3,919	—	—	3,919	69
Toronto, ON	July 17	Land	100%	5,343	2	(20)	5,325	—	—	5,325	317
Ancienne Lorette, QC	July 20	Land	100%	940	—	—	940	—	—	940	30
Spruce Grove, AB	July 27	Land	100%	3,225	9	—	3,234	—	—	3,234	25
Toronto, ON	July 28	Land	100%	5,829	20	(9)	5,840	—	—	5,840	329
Uxbridge, ON	September 28	Retail	100%	9,692	33	(42)	9,683	—	—	9,683	257
Mont-Saint Hilaire, QC	November 1	Retail	100%	15,741	38	(42)	15,737	6,601	—	9,136	341
Marieville, QC	December 18	Retail	100%	2,968	5	—	2,973	—	—	2,973	68
Acquisitions from third-parties				66,034	157	(265)	65,926	6,601	—	59,325	1,564
Total acquisitions				\$ 128,354	\$ 157	\$ (265)	\$ 128,246	\$ 6,601	\$ 14,632	\$ 107,013	\$ 2,184

Notes to the Consolidated Financial Statements

Dispositions of Investment Properties

On December 4, 2018, Choice Properties sold its 50% interest in an office property in Calgary, Alberta, for a sale price of \$104,000, excluding selling costs, for cash consideration.

On October 1, 2018, Choice Properties sold its 50% interest in an office property in Ottawa, Ontario, at the fair value of \$3,150, for cash consideration.

On August 27, 2018, a portfolio of industrial properties in Dartmouth, Nova Scotia, with a fair value of \$17,300, was sold for cash consideration.

On June 21, 2018, a retail property in Quebec, with a fair value of \$2,745, was sold for cash consideration. On closing, Choice Properties received a lease surrender payment from Loblaw of \$6,892 (note 28) which was included in rental revenue.

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 28) which was included in rental revenue.

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 28).

Note 7. Investment Properties

(\$ thousands)	Income producing properties	Properties under development	Year ended December 31, 2018	Year ended December 31, 2017
Balance, beginning of year	\$ 9,509,440	\$ 41,560	\$ 9,551,000	\$ 9,098,000
Reclassification ⁽ⁱ⁾	(57,547)	57,547	—	—
Balance, beginning of year	9,451,893	99,107	9,551,000	9,098,000
Acquisition of CREIT (note 5)	4,611,045	118,642	4,729,687	—
Acquisitions of investment properties - including acquisition costs of \$2,344 (2017 - \$2,184) (note 6)	90,622	21,617	112,239	128,354
Capital expenditures:				
Development capital ⁽ⁱⁱ⁾	—	187,856	187,856	111,785
Building improvements	7,741	—	7,741	5,109
Capitalized interest ⁽ⁱⁱⁱ⁾ (note 21)	—	4,880	4,880	2,355
Operating capital expenditures:				
Property capital (note 29)	57,586	—	57,586	44,962
Direct leasing costs	11,392	—	11,392	2,489
Tenant improvement allowances	9,628	—	9,628	1,927
Amortization of straight-line rent - included in revenue	34,076	—	34,076	34,740
Transfers from properties under development	188,796	(188,796)	—	—
Foreign currency translation	7,359	—	7,359	—
Dispositions (note 6)	(123,869)	—	(123,869)	(38,179)
Adjustment to fair value of investment properties	(84,653)	(3,922)	(88,575)	159,458
Balance, end of year	\$ 14,261,616	\$ 239,384	\$ 14,501,000	\$ 9,551,000

- (i) The opening balance of properties under development has been adjusted to include intensifications and land assemblies that were previously recorded as part of income producing properties.
- (ii) Development capital included \$5,858 of site intensification payments (note 28) paid to Loblaw (year ended December 31, 2017 - \$5,793). The year ended December 31, 2017, also included a payment of \$1,542 in development capital received from Loblaw (note 28).
- (iii) Interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.63% (year ended December 31, 2017 - 3.43%).

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 28), 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.

Notes to the Consolidated Financial Statements

Independent Appraisals

Properties are typically independently appraised at the time of acquisition. As part of the acquisition of the CREIT's portfolio, a sample of 78 investment properties, with a total value of \$2.7 billion, were independently appraised. In addition, Choice Properties has engaged independent nationally-recognized valuation firms to appraise its investment properties such that substantially all of the portfolio will be independently appraised at least once over a four-year period. When an independent appraisal is obtained, the internal valuation team assesses all major inputs used by the independent valuers in preparing their reports and holds discussions with them on the reasonableness of their assumptions. The reports are then used by the internal valuation team for consideration in preparing the valuations as reported in these consolidated financial statements.

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

(\$ thousands except where otherwise indicated)	2018		2017	
	Number of properties	Fair value	Number of properties	Fair value
March 31	26	\$ 711,000	25	\$ 600,000
June 30	27	603,000	25	559,000
September 30	26	593,000	27	681,000
December 31	26	884,000	25	475,000
Total	105	\$ 2,791,000	102	\$ 2,315,000

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 which reports directly to the Chief Operating Officer, with the valuation processes and results reviewed by management at least once per quarter. On a quarterly basis, the valuation team reviews and updates, as deemed necessary, the valuation models to reflect current market data. Updates may be made to capitalization rates, discount rates, market rents, as well as current leasing and/or development activity, renewal probability, downtime on lease expiry, vacancy allowances, and expected maintenance costs.

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 weighted averages of key rates used in the valuation models for the Trust's investment properties (including those within equity accounted joint ventures) by asset class:

	As at December 31, 2018			
	Retail	Industrial	Office	Total investment properties
Discount rate	6.87%	6.91%	6.07%	6.82%
Terminal capitalization rate	6.22%	6.15%	5.33%	6.15%
Overall capitalization rate	5.95%	5.84%	5.16%	5.88%

	As at December 31, 2017			
	Retail	Industrial	Office	Total investment properties
Discount rate	7.02%	—%	—%	7.02%
Terminal capitalization rate	6.39%	—%	—%	6.39%
Overall capitalization rate	6.07%	—%	—%	6.07%

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.

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)%	5.13%	\$ 16,615,449	\$ 2,114,449	15 %
(0.50)%	5.38%	\$ 15,845,294	\$ 1,344,294	9 %
(0.25)%	5.63%	\$ 15,143,372	\$ 642,372	4 %
0.25%	6.13%	\$ 13,910,909	\$ (590,091)	(4)%
0.50%	6.38%	\$ 13,366,965	\$ (1,134,035)	(8)%
0.75%	6.63%	\$ 12,863,958	\$ (1,637,042)	(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 8. Equity Accounted Joint Ventures

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

	As at December 31, 2018		As at December 31, 2017	
	Number of joint ventures	Ownership interest	Number of joint ventures	Ownership interest
Retail	16	25% - 75%	—	—
Industrial	4	50% - 85%	—	—
Residential	3	47% - 50%	—	—
Mixed-use, with related party (note 28)	1	40%	1	40%
Total equity accounted joint ventures	24		1	
Choice Properties' investment in equity accounted joint ventures (\$ thousands)		\$ 734,167		\$ 32,339

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Choice Properties' share of income (loss) and comprehensive income (loss) in equity accounted joint ventures	\$ 16,222	\$ (491)

The key assumptions and inputs used in the valuation techniques to estimate the fair value of equity accounted joint ventures are classified as Level 3 in the fair value hierarchy as certain inputs for the valuation are not based on observable market data points. The following table reconciles the changes in cash flows from equity accounted joint ventures.

Notes to the Consolidated Financial Statements

(\$ thousands)	Year ended December 31, 2018
Balance, beginning of year	\$ 32,339
Contributions to equity accounted joint ventures	27,656
Distributions from equity accounted joint ventures	(25,339)
Total cash flow activities	2,317
Acquisition of CREIT (note 5)	683,289
Share of income from equity accounted joint ventures	16,222
Total non-cash activities	699,511
Balance, end of year	\$ 734,167

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

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Current assets	\$ 36,990	\$ 47,021
Non-current assets	1,924,527	80,045
Current liabilities	(220,641)	(46,219)
Non-current liabilities	(342,082)	—
Net assets at 100%	\$ 1,398,794	\$ 80,847
Investment in equity accounted joint ventures	\$ 734,167	\$ 32,339

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Rental revenue	\$ 70,851	\$ —
Property operating costs	(22,890)	—
Interest expense	(10,220)	—
Interest income	2,070	634
Adjustment to fair value of investment property	(17,396)	(1,863)
Net income (loss) and comprehensive income (loss) at 100%	\$ 22,415	\$ (1,229)
Share of income (loss) and comprehensive income (loss) in equity accounted joint ventures	\$ 16,222	\$ (491)

Note 9. Co-Ownership Property Interests

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

	As at December 31, 2018		As at December 31, 2017	
	Number of co-owned properties	Ownership interest	Number of co-owned properties	Ownership interest
Retail	29	50% - 75%	—	—
Industrial	2	50% - 67%	—	—
Office	6	50%	—	—
Residential	6	50%	—	—
Land, held for development	2	50% - 75%	1	50%
Total co-ownership property interests	45		1	

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

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Current assets	\$ 40,237	\$ —
Non-current assets	2,811,218	4,249
Current liabilities	(324,774)	(199)
Non-current liabilities	(987,778)	—
Net assets at 100%	\$ 1,538,903	\$ 4,050
Choice Properties' proportionate share	\$ 696,340	\$ 2,025

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Rental revenue	\$ 195,778	\$ —
Property operating costs	(77,060)	—
Interest expense	(38,896)	—
Interest income	146	—
Adjustment to fair value of investment property	(48,010)	—
Net income (loss) and comprehensive income (loss) at 100%	\$ 31,958	\$ —
Choice Properties proportionate share	\$ 15,745	\$ —

Notes to the Consolidated Financial Statements

Note 10. Subsidiaries

On November 7, 2014, Choice Properties acquired a 70% controlling interest in Choice Properties PRC Brampton Limited Partnership ("Brampton LP"), a subsidiary which holds land intended for future retail development. 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
Choice Properties PRC Brampton Limited Partnership	Canada	Mayfield/Chinguacousy, Brampton, ON	70%

While operating activities have not begun at Brampton LP, in the year ended December 31, 2017, 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 28), of which \$930 was attributable to non-controlling interests. In the year ended December 31, 2018, Brampton LP distributed \$3,000 to the partners, of which \$900 was attributable to non-controlling interests.

Note 11. Accounts Receivable and Other Assets

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Net rent receivable - net of allowance for doubtful accounts of \$5,017 (2017 - \$928) ⁽ⁱ⁾	\$ 8,095	\$ 1,107
Accrued recovery income	6,238	2,246
Other receivables	7,068	163
Due from related party ⁽ⁱⁱ⁾	1,339	2,577
Construction inventory	—	6,925
Restricted cash	946	—
Prepaid property taxes	6,338	3,156
Prepaid insurance	1,119	347
Other assets	5,520	9,350
Deferred acquisition costs and deposits on land	2,226	1,113
Designated hedging derivatives (note 25)	1,036	—
Accounts receivable and other assets	\$ 39,925	\$ 26,984
Classified as:		
Non-current	\$ 1,950	\$ 5,565
Current	37,975	21,419
	\$ 39,925	\$ 26,984

(i) Includes net rent receivable of \$421 from Loblaw (December 31, 2017 - \$520).

(ii) Other net receivables due from Loblaw of \$1,339 (December 31, 2017 - \$2,577).

Note 12. Mortgages, Loans and Notes Receivable

(\$ thousands)	As at	
	December 31, 2018	December 31, 2017
Mortgages receivable ⁽ⁱ⁾	\$ 181,605	\$ 29,193
Loans receivable	5,579	—
Notes receivable from related party (note 28)	26,226	277,588
Mortgages, loans and notes receivable	\$ 213,410	\$ 306,781
Classified as:		
Non-current	\$ 88,300	\$ 2,556
Current	125,110	304,225
	\$ 213,410	\$ 306,781

(i) Mortgages receivable includes \$75,692 classified at FVTPL and \$105,913 classified as amortized cost (December 31, 2017 - nil and \$29,193, respectively).

Mortgages and Loans Receivable

Mortgages and loans receivable represent amounts advanced under mezzanine loans, joint venture financing, vendor take-back financing and other arrangements. Choice Properties mitigates its risk by diversifying the number of entities and assets to which it loans funds.

There were no defaults or anticipated defaults by the borrowers for the mortgages and loans receivable. No impairment provisions or expected credit losses were recorded in the year ended December 31, 2018 (year ended December 31, 2017 - nil).

	December 31, 2018		December 31, 2017	
	Weighted average effective interest rate	Weighted average term to maturity (years)	Weighted average effective interest rate	Weighted average term to maturity (years)
Mortgages receivable	7.14%	2.0	8.93%	1.8
Loans receivable	8.00%	2.2	—%	—
Total	7.17%	2.0	8.93%	1.8

Notes Receivable from Related Party

Non-interest bearing short term notes totaling \$277,588 were repaid by Loblaw in January 2018. During 2018, non-interest bearing short term notes totaling \$238,410 were issued to Loblaw (note 28), of which Loblaw repaid \$94,122 on May 4, 2018 and \$118,062 on October 31, 2018. As at November 1, 2018, GWL assumed the notes from Loblaw as a result of the transfer by Loblaw of its effective interest in Choice Properties to GWL and repaid the balance of \$26,226 in January, 2019.

Schedules of Maturity and Cash Flow Activities

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

(\$ thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Principal repayments							
Mortgages receivable	\$ 97,292	\$ 14,289	\$ 27,254	\$ 31,091	\$ 3,247	\$ 6,127	\$ 179,300
Loans receivable	—	4,396	1,152	—	—	—	5,548
Notes receivable from related party	26,226	—	—	—	—	—	26,226
Total principal repayments	123,518	18,685	28,406	31,091	3,247	6,127	211,074
Interest accrued	1,592	744	—	—	—	—	2,336
Total Repayments	\$ 125,110	\$ 19,429	\$ 28,406	\$ 31,091	\$ 3,247	\$ 6,127	\$ 213,410

Notes to the Consolidated Financial Statements

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

(\$ thousands)	Mortgages receivable	Loans receivable	Notes receivable from related party	Year ended December 31, 2018
				Mortgages, loans and notes receivable
Balance, beginning of year	\$ 29,193	\$ —	\$ 277,588	\$ 306,781
Acquisition of CREIT	191,005	4,592	—	195,597
Advances	7,565	1,580	238,410	247,555
Repayments	(51,576)	(622)	(489,772)	(541,970)
Interest received	(6,271)	(225)	—	(6,496)
Total cash flow activities	140,723	5,325	(251,362)	(105,314)
Acquisition of CREIT - accrued interest	1,252	—	—	1,252
Interest accrued	10,437	254	—	10,691
Total non-cash activities	11,689	254	—	11,943
Balance, end of year	\$ 181,605	\$ 5,579	\$ 26,226	\$ 213,410

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

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

Note 13. Intangible Assets

Choice Properties' intangible assets relate to the third-party revenue streams associated with property and asset management contracts for co-ownership property interests and joint ventures. The Trust has the continuing rights, based on the co-ownership agreements, to property and asset management fees from investment properties where it manages the interests of co-owners. As at December 31, 2018, the value of the intangibles assets was \$30,000 (December 31, 2017 - nil). The key assumptions and inputs used in the valuation techniques to estimate the fair value of intangible assets are classified as Level 3 in the fair value hierarchy as certain inputs for the valuation are not based on observable market data points. No impairment provisions were recorded at December 31, 2018.

Note 14. Long Term Debt and Class C LP Units

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Senior unsecured debentures	\$ 4,711,134	\$ 2,843,323
Mortgages payable	1,330,487	8,361
Construction loans	21,330	—
Class C LP Units	—	886,824
Long term debt and Class C LP Units	\$ 6,062,951	\$ 3,738,508
Classified as:		
Non-current	\$ 5,566,915	\$ 3,338,420
Current	496,036	400,088
	\$ 6,062,951	\$ 3,738,508

Senior Unsecured Debentures

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Series A 3.55%, due 2018, effective interest 3.55%	\$ —	\$ 400,000
Series B 4.90%, due 2023, effective interest 4.90%	200,000	200,000
Series C 3.50%, due 2021, effective interest 3.50%	250,000	250,000
Series D 4.29%, due 2024, effective interest 4.29%	200,000	200,000
Series E 2.30%, due 2020, effective interest 2.30%	250,000	250,000
Series F 4.06%, due 2025, effective interest 4.06%	200,000	200,000
Series G 3.20%, due 2023, effective interest 3.20%	250,000	250,000
Series H 5.27%, due 2046, effective interest 5.27%	100,000	100,000
Series I 3.01%, due 2022, effective interest 3.01%	300,000	—
Series J 3.55%, due 2025, effective interest 3.55%	350,000	—
Series K 3.56%, due 2024, effective interest 3.56%	550,000	—
Series L 4.18%, due 2028, effective interest 4.18%	750,000	—
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
Series B-C 4.32%, due 2021, effective interest 3.06%	100,000	—
Series C-C 2.56%, due 2019, effective interest 2.60%	100,000	—
Series D-C 2.95%, due 2023, effective interest 3.30%	125,000	—
Debt discounts and premiums - net of accumulated amortization of (\$13,531) (2017 - (\$12,007))	(22)	(351)
Debt placement costs - net of accumulated amortization of \$6,674 (2017 - \$4,332)	(13,844)	(6,326)
Senior unsecured debentures	\$ 4,711,134	\$ 2,843,323

Notes to the Consolidated Financial Statements

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 3.01% 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 3.55% per annum, with semi-annual installments of interest due on January 10 and July 10 of each year, commencing July 10, 2018. Debt placement costs of \$3,251 are amortized using the effective interest method and recorded to net interest expense and other financing charges (note 21). The offering 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 \$1,007.220 per \$1,000 principal amount of Series A debentures, together with accrued and unpaid interest.

On March 8, 2018, Choice Properties issued \$550,000 and \$750,000 aggregate principal amount of Series K and L senior unsecured debentures due September 9, 2024 and March 8, 2028, respectively. The Series K unsecured debentures bear interest at a rate of 3.56% per annum, with semi-annual installments of interest due on March 9 and September 9 in each year, commencing September 9, 2018. The Series L unsecured debentures bear interest at a rate of 4.18% per annum, with semi-annual installments of interest due on March 8 and September 8 of each year, commencing September 8, 2018. Debt placement costs of \$6,609, of which \$1,684 were paid from cash on hand, are amortized using the effective interest method and recorded to net interest expense and other financing charges (note 21). The offering was conducted on a private placement basis (note 24).

On May 4, 2018, as part of the acquisition of CREIT (note 5), Choice Properties assumed \$450,000 aggregate principal amount of senior unsecured debentures together with accrued but unpaid interest in four series:

- Series A-C with \$125,000 aggregate principal due July 24, 2018 bearing interest at a rate of 3.68% per annum;
- Series B-C with \$100,000 aggregate principal due January 15, 2021 bearing interest at a rate of 4.32% per annum, with semi-annual installments of interest due on January 15 and July 15 in each year;
- Series C-C with \$100,000 aggregate principal due November 30, 2019 bearing interest at a rate of 2.56% per annum, with semi-annual installments of interest due on May 30 and November 30 in each year; and
- Series D-C with \$125,000 aggregate principal due January 18, 2023 bearing interest at a rate of 2.95% per annum, with semi-annual installments of interest due on January 18 and July 18 in each year.

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

On July 24, 2018, Choice Properties redeemed, at par, \$125,000 Series A-C senior unsecured debentures at the original maturity date.

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

As at December 31, 2018, the senior unsecured debentures had a weighted average effective interest rate of 3.61% (December 31, 2017 - 3.61%). Senior unsecured debentures Series B through Series L were issued by the Trust, Series B-C through D-C were assumed by the Trust, and Series 7 through Series 10 were issued by the Partnership.

Mortgages Payable

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Mortgage principal	\$ 1,328,280	\$ 8,320
Net debt discounts and premiums - net of accumulated amortization of (\$2,068) (2017 - (\$260))	2,600	41
Debt placement costs - net of accumulated amortization of \$52 (2017 - nil)	(393)	—
Mortgages payable	\$ 1,330,487	\$ 8,361

Mortgages of \$1,309,677 were assumed as part of the acquisition of CREIT (note 5) including net debt discounts and premiums of \$4,367.

In connection with the property acquired from a third-party vendor on March 20, 2018, Choice Properties assumed a mortgage of \$2,805 which is secured by the acquired property. The mortgage bears interest at a fixed rate of 2.86% and matures in 2020 (note 6).

As at December 31, 2018, the mortgages had a weighted average effective interest rate of 4.08% and a weighted average term to maturity of 6.0 years (December 31, 2017 - 2.70% and 2.5 years, respectively).

Construction Loans

Construction loans of \$9,583 were assumed as part of the acquisition of CREIT (note 5). As at December 31, 2018, \$21,330 was outstanding on construction loans (December 31, 2017 - nil).

For the purpose of financing the development of certain retail, industrial and residential properties, various investments in equity accounted joint ventures and co-ownerships have variable rate non-revolving construction facilities in which certain subsidiaries of the Trust guarantee its own share. These construction loans, which mature throughout 2019 to 2020, have a maximum amount available to be drawn at the Trust's ownership interest of \$145,000 (December 31, 2017 - \$nil).

As at December 31, 2018, the construction loans had a weighted average effective interest rate of 4.30% and a weighted average term to maturity of 1.1 years.

Class C LP Units

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Tranche 1 5.00%, redemption rights beginning 2027, effective interest 5.46%	\$ —	\$ 300,000
Tranche 2 5.00%, redemption rights beginning 2028, effective interest 5.51%	—	300,000
Tranche 3 5.00%, redemption rights beginning 2029, effective interest 5.57%	—	325,000
Debt premium - net of accumulated amortization of \$nil (2017 - \$10,562)	—	(38,176)
Class C LP Units	\$ —	\$ 886,824

Concurrent with the closing of the acquisition of CREIT, Choice Properties converted all its outstanding Class C LP Units into 70,881,226 Exchangeable Units. A difference in value on conversion of \$98,659 was paid to Loblaw in cash (note 5).

Schedules of Repayments and Cash Flow Activities

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

(\$ thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Senior unsecured debentures	\$ 300,000	\$ 550,000	\$ 550,000	\$ 600,000	\$ 575,000	\$ 2,150,000	\$ 4,725,000
Mortgages payable	182,126	136,616	118,259	145,153	105,761	640,365	1,328,280
Construction loans	12,493	8,837	—	—	—	—	21,330
Total	\$ 494,619	\$ 695,453	\$ 668,259	\$ 745,153	\$ 680,761	\$ 2,790,365	\$ 6,074,610

Notes to the Consolidated Financial Statements

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

					Year ended December 31, 2018
(\$ thousands)	Senior unsecured debentures	Mortgages payable	Construction loans	Class C LP Units	Long term debt and Class C LP Units
Balance, beginning of year	\$ 2,843,323	\$ 8,361	\$ —	\$ 886,824	\$ 3,738,508
Proceeds from issuance of Series I through L senior unsecured debentures	1,949,949	—	—	—	1,949,949
Repayment of Series A senior unsecured debentures	(400,000)	—	—	—	(400,000)
Repayment of Series A-C senior unsecured debentures	(125,000)	—	—	—	(125,000)
Advances on construction loans, net	—	—	11,747	—	11,747
Advances of mortgages, net	—	11,845	—	—	11,845
Conversion of Class C LP Units	—	—	—	(98,659)	(98,659)
Debt placement costs	(9,860)	(445)	—	—	(10,305)
Total cash flow activities	1,415,089	11,400	11,747	(98,659)	1,339,577
Acquisition of CREIT (note 5)	451,853	1,309,677	9,583	—	1,771,113
Assumption of mortgage on acquisition of investment properties (note 6)	—	2,805	—	—	2,805
Debt discount expensed on issuance of Series I	51	—	—	—	51
Amortization of debt discounts and premiums	(1,524)	(1,808)	—	894	(2,438)
Amortization of debt placement costs	2,342	52	—	—	2,394
Accelerated amortization of debt premium on conversion of Class C LP Units (note 21)	—	—	—	37,282	37,282
Conversion of Class C LP Units	—	—	—	(826,341)	(826,341)
Total non-cash activities	452,722	1,310,726	9,583	(788,165)	984,866
Balance, end of year	\$ 4,711,134	\$ 1,330,487	\$ 21,330	\$ —	\$ 6,062,951

Note 15. Credit Facilities and Term Loans

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Credit Facilities		
\$1,500,000 syndicated	\$ 325,000	\$ —
\$250,000 bi-lateral	—	250,000
\$500,000 syndicated	—	311,000
Debt placement costs - net of accumulated amortization of \$4,285 (2017 - \$1,854)	(6,197)	(1,478)
Term Loans		
Unsecured term loan maturing May 4, 2022	175,000	—
Unsecured term loan maturing May 4, 2023	625,000	—
Debt placement costs - net of accumulated amortization of \$717 (2017 - nil)	(4,396)	—
Credit facilities and term loans	\$ 1,114,407	\$ 559,522
Classified as:		
Non-current	\$ 1,114,407	\$ 309,522
Current	—	250,000
	\$ 1,114,407	\$ 559,522

Credit Facilities

Choice Properties has a \$1,500,000 senior unsecured committed revolving credit facility provided by a syndicate of lenders maturing May 4, 2023. The credit facility bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. This pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB.

In the first quarter of 2018, Choice Properties repaid and cancelled its bi-lateral \$250,000 senior unsecured committed revolving credit facility with a major Canadian financial institution maturing December 21, 2018.

In the second quarter of 2018, Choice Properties repaid and cancelled its syndicated \$500,000 senior unsecured committed revolving credit facility provided by a syndicate of lenders maturing July 5, 2022, and repaid and cancelled the credit facility assumed on the acquisition of CREIT.

The credit facility contains certain financial covenants. As at December 31, 2018, the Trust was in compliance with all of the financial covenants for the credit facility (note 24).

Term Loans

Choice Properties has a \$175,000 4-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2022. The term loan bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. This pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB.

Choice Properties has a \$625,000 5-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2023. The term loan bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. This pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB.

The term loans contain certain financial covenants. As at December 31, 2018, the Trust was in compliance with all of the financial covenants for the term loans (note 24).

Notes to the Consolidated Financial Statements

Schedule of Cash Flow Activities

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

(\$ thousands)			Year ended December 31, 2018
	Credit facilities	Term loans	Credit facilities and term loans
Balance, beginning of year	\$ 559,522	\$ —	\$ 559,522
Repayment of \$250,000 bi-lateral credit facility	(250,000)	—	(250,000)
Repayment of \$500,000 syndicated credit facility	(311,000)	—	(311,000)
Repayment of credit facility acquired	(70,000)	—	(70,000)
Net advances of \$1,500,000 syndicated credit facility	325,000	—	325,000
Net advances of May 4, 2022 unsecured term loan	—	175,000	175,000
Net advances of May 4, 2023 unsecured term loan	—	625,000	625,000
Debt placement costs	(7,150)	(5,113)	(12,263)
Total cash flow activities	(313,150)	794,887	481,737
Acquisition of CREIT (note 5)	70,000	—	70,000
Amortization of debt placement costs	2,431	717	3,148
Total non-cash activities	72,431	717	73,148
Balance, end of year	\$ 318,803	\$ 795,604	\$ 1,114,407

Note 16. Unitholders' 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. As at December 31, 2018, all the Exchangeable Units were held by GWL.

The 70,881,226 Exchangeable Units issued on May 4, 2018 in connection with the acquisition of CREIT (note 5) contain voting and exchange restrictions which will expire based on the following schedule:

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

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

Units Outstanding

	As at		As at	
	December 31, 2018		December 31, 2017	
(\$ thousands except where otherwise indicated)	Units	Amount	Units	Amount
Units, beginning of year	94,300,965	\$ 911,081	92,568,828	\$ 888,337
Units issued, net of costs (note 5)	182,836,481	2,056,628	—	—
Issuance of Units under the Distribution Reinvestment Plan	125,749	1,487	1,694,763	22,383
Units issued under unit-based compensation arrangements	1,516,670	16,261	37,374	361
Units repurchased for unit-based compensation arrangement	(577,306)	(7,114)	—	—
Units, end of year	278,202,559	\$ 2,978,343	94,300,965	\$ 911,081
Exchangeable Units, beginning of year	319,080,557	\$ 4,259,724	317,988,505	\$ 4,283,304
Issued in conjunction with acquisition of investment properties December 5, 2017 (note 6)	—	—	1,092,052	14,632
Issued in conjunction with acquisition of CREIT May 4, 2018 (note 5)	70,881,226	826,341	—	—
Adjustment to fair value of Exchangeable Units	—	(593,706)	—	(38,212)
Exchangeable Units, end of year	389,961,783	\$ 4,492,359	319,080,557	\$ 4,259,724
Total Units and Exchangeable Units, end of year	668,164,342		413,381,522	

Units Issued In connection with the acquisition of CREIT, Choice Properties issued 182,836,481 Units at a price of \$11.25 per unit, totaling \$2,056,911 and incurred costs of issuance of \$283.

Units Issued under Unit-Based Compensation Arrangements Units were issued in connection with settlements under the Unit Option Plan, the Unit-Settled Restricted Unit Plan and the Trustee Deferred Unit Plan (note 19).

Units Repurchased for Unit-Based Compensation Arrangement On September 18, 2018, Choice Properties received approval from the Toronto Stock Exchange to purchase up to 13,880,839 Trust Units during the twelve-month period from September 20, 2018 to September 19, 2019, under a normal course issuer bid. During the year, the Trust acquired Units which were then granted to certain employees and are subject to vesting conditions and disposition restrictions, in connection with the Unit-Settled Restricted Unit Plan (note 19).

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, 2018 (note 17). The taxable income allocated to the Trust and Exchangeable Unitholders may vary in certain taxation years. Over time, such differences, in aggregate, will be minimal.

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, 2018, Choice Properties declared distributions of \$0.740 per unit (year ended December 31, 2017 - \$0.73), or \$431,392 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, 2017 - \$300,452). Distributions declared to Unitholders of record at the close of business on the last business day of a month are paid on or about the 15th day of the following month.

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

Distribution Reinvestment Plan Choice Properties instituted a DRIP that allowed Unitholders to use the monthly cash distributions paid on their existing Units to purchase additional Units directly from the Trust. Unitholders who elected to participate in the DRIP received a further distribution, payable in Units, equal in value to 3% of each cash distribution. On April 25, 2018, the Board of Trustees temporarily suspended the DRIP. Unitholders that were enrolled in the DRIP began receiving distributions in cash commencing with the distribution declared in May 2018. Choice Properties reserves the right to amend, suspend or terminate the DRIP at any time, but such actions will have no retroactive effect that would prejudice the interests of DRIP participants. For the year ended December 31, 2018, Choice Properties issued 125,749 Units under the DRIP (December 31, 2017 - 1,694,763 Units).

Notes to the Consolidated Financial Statements

Note 17. Income Taxes

The Trust is taxed as a "mutual fund trust" and a REIT under the *Income Tax Act (Canada)*. The Trustees intend to distribute all of the Trust's taxable income to the Unitholders and accordingly, the Trust is not taxable on its Canadian investment property income.

The Trust is subject to taxation on certain taxable entities in Canada and the United States. Income taxes recognized in the consolidated statement of net income was as follows:

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Current income taxes	\$ (49)	\$ —
Deferred income taxes	(489)	—
Income taxes	\$ (538)	\$ —

A deferred income tax liability of \$509 was recognized due to temporary differences between the carrying value and the tax basis of net assets held in the U.S. subsidiary (December 31, 2017 - nil).

Note 18. Trade Payables and Other Liabilities

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Trade accounts payable	\$ 15,740	\$ 9,737
Accrued liabilities and provisions	77,561	35,334
Accrued acquisition transaction costs and other related expenses	38,176	—
Accrued capital expenditures	73,504	21,135
Accrued interest expense	60,442	34,495
Due to related party ⁽ⁱ⁾	50,274	301,117
Unit-based compensation	11,125	14,013
Distributions payable ⁽ⁱⁱ⁾	17,156	5,815
Tenant deposits	13,868	2,801
Deferred revenue	19,536	4,329
Designated hedging derivatives (note 25)	1,621	—
Trade payables and other liabilities	\$ 379,003	\$ 428,776
Classified as:		
Non-current	\$ 6,021	\$ 2,713
Current	372,982	426,063
	\$ 379,003	\$ 428,776

(i) Includes distributions accruing on Exchangeable Units of \$50,274 (December 31, 2017 - \$251,013) and Class C LP Units of nil (December 31, 2017 - \$50,104).

(ii) Includes payable to Loblaw of nil and \$2,889 payable to GWL (December 31, 2017 - \$1,326 and \$1,563, respectively).

Note 19. Unit-Based Compensation

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

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Unit Option plan	\$ (3,578)	\$ 1,077
Restricted Unit plans	5,511	1,728
Performance Unit plan	183	711
Trustee Deferred Unit plan	340	745
Unit-based compensation expense	\$ 2,456	\$ 4,261
Adjustment to fair value included in the above	\$ (4,792)	\$ 468

As at December 31, 2018, the carrying value of total unit-based compensation was \$11,125 (December 31, 2017 - \$14,013) (note 18).

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, 2018		Year ended December 31, 2017	
	Number of awards	Weighted average exercise price/unit	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	4,403,857	\$ 11.56	3,990,231	\$ 11.25
Granted	724,571	\$ 11.92	451,000	\$ 14.20
Exercised	(899,566)	\$ 11.01	(37,374)	\$ 10.24
Cancelled	(464,755)	\$ 12.41	—	\$ —
Outstanding Unit Options, end of year	3,764,107	\$ 11.66	4,403,857	\$ 11.56
Unit Options exercisable, end of year	2,287,879	\$ 11.24	2,308,008	\$ 10.99

The Black-Scholes model (level 2) was used to measure the fair value of the Unit Options.

Notes to the Consolidated Financial Statements

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

	As at December 31, 2018	As at December 31, 2017
Expected average distribution yield	6.42%	5.54%
Expected average Unit price volatility	14.39% - 25.19%	10.03% - 16.88%
Average risk-free interest rate	0.02% - 1.88%	0.01% - 1.85%
Expected average life of options	0.1 - 4.6 Years	0.1 - 4.8 Years

The following table details the Unit Options outstanding as at December 31, 2018:

Exercise Price	Number of Unit Options outstanding as at December 31, 2018	Remaining weighted average life (in years)
\$10.04	442,586	1.5
\$10.81	536,932	2.2
\$10.72	6,009	2.9
\$11.51	1,128,790	3.2
\$11.28	215,518	3.9
\$12.38	486,628	4.2
\$12.79	4,897	4.9
\$14.21	340,015	5.2
\$13.93	20,424	5.3
\$11.92	582,308	6.2
\$10.04 to \$14.21	3,764,107	3.7

Restricted Unit Plans Choice Properties has two Restricted Unit Plans.

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 a RU is outstanding. The fair value of each RU granted is measured based on the market value of a Trust Unit at the balance sheet date. There were no RUs vested as at December 31, 2018 (December 31, 2017 - nil).

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

(Number of awards)	Year ended December 31, 2018	Year ended December 31, 2017
Outstanding Restricted Units, beginning of year	359,154	264,691
Granted	215,002	160,361
Reinvested	28,029	17,517
Settled	(118,670)	(83,398)
Cancelled	(37,174)	(17)
Outstanding Restricted Units, end of year	446,341	359,154

Unit-Settled Restricted Unit Plan Under the terms of the URU plan, certain employees were granted URUs, which are subject to vesting conditions and disposition restrictions. Typically, full vesting of the URUs would not occur until the employee had remained with Choice for three or five years from the date of grant. Depending on the nature of the grant, the URUs are subject to a six- or seven-year holding period during which the Units cannot be disposed. There were 1,110,761 URUs vested, but still subject to disposition restrictions as at December 31, 2018 (December 31, 2017 - nil).

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

(Number of awards)	Year ended December 31, 2018	Year ended December 31, 2017
Outstanding Unit-Settled Restricted Units, beginning of year	—	—
Assumed in conjunction with the acquisition of CREIT	626,128	—
Granted	577,306	—
Forfeited	(28,946)	—
No longer subject to disposition restrictions	(456,673)	—
Outstanding Unit-Settled Restricted Units, end of year	717,815	—

On May 4, 2018, Choice Properties assumed the obligations of CREIT under the CREIT unit-settled restricted unit plan and holders of CREIT restricted units had each CREIT restricted unit redeemed for Units in Choice Properties as part of the acquisition. Plan participants are subject to the same vesting, forfeiture and disposition provisions and such other terms and conditions as were applicable to the CREIT restricted units pursuant to the CREIT restricted unit plan immediately prior to the completion of the acquisition of CREIT.

Notes to the Consolidated Financial Statements

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 a PU is outstanding. The fair value of each PU granted is measured based on the market value of a Trust Unit at the balance sheet date. PUs were first granted in 2016; there were no PUs vested as at December 31, 2018 (December 31, 2017 - nil).

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

(Number of awards)	Year ended December 31, 2018	Year ended December 31, 2017
Outstanding Performance Units, beginning of year	79,612	39,696
Granted	44,374	36,099
Reinvested	6,727	3,817
Cancelled	(16,194)	—
Added by performance factor	8,836	—
Settled	(18,906)	—
Outstanding Performance Units, end of year	104,449	79,612

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, 2018	Year ended December 31, 2017
Outstanding Trustee Deferred Units, beginning of year	283,704	218,992
Granted	56,705	51,865
Reinvested	17,631	12,847
Cancelled	(1,108)	—
Exercised	(54,343)	—
Outstanding Trustee Deferred Units, end of year	302,589	283,704

Note 20. Rental Revenue

Rental revenue is comprised of the following:

(\$ thousands)	Loblaw ⁽ⁱ⁾	Third-party ⁽ⁱⁱ⁾	Year ended December 31, 2018	Loblaw ⁽ⁱ⁾	Third-party ⁽ⁱ⁾	Year ended December 31, 2017
Base rent	\$ 542,977	\$ 255,963	\$ 798,940	\$ 532,647	\$ 72,377	\$ 605,024
Property tax and insurance recoveries	151,803	67,623	219,426	143,721	18,497	162,218
Operating cost recoveries	47,070	61,680	108,750	40,908	13,967	54,875
Other revenue	10,218	10,939	21,157	5,620	2,893	8,513
Rental revenue	\$ 752,068	\$ 396,205	\$ 1,148,273	\$ 722,896	\$ 107,734	\$ 830,630

(i) Loblaw revenue includes lease surrender payments of \$10,204 for the year ended December 31, 2018 (December 31, 2017 - \$5,620 with \$930 attributable to non-controlling interests) (note 28).

(ii) Third-party revenue includes \$2,296 received from leases to subsidiaries of GWL for the year ended December 31, 2018 (2017 - \$2,154).

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

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

(\$ thousands)	
2019	\$ 872,798
2020	850,998
2021	821,240
2022	787,413
2023	728,593
Thereafter	3,200,255
Total	\$ 7,261,297

Note 21. Net Interest Expense and Other Financing Charges

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Interest on senior unsecured debentures	\$ 164,010	\$ 103,625
Distributions on Class C LP Units ⁽ⁱ⁾	15,417	46,250
Interest on mortgages and construction loans	35,293	110
Interest on credit facilities and term loans	29,780	11,799
Effective interest rate amortization of debt discounts and premiums (note 14)	(2,387)	1,560
Accelerated amortization of debt premium on conversion of Class C LP Units (note 14)	37,282	—
Effective interest rate amortization of debt placement costs (notes 14 and 15)	5,542	1,638
Distributions on Exchangeable Units ⁽ⁱ⁾	271,089	232,199
	556,026	397,181
Less: Capitalized interest ⁽ⁱⁱ⁾	(4,880)	(2,355)
Net interest expense and other financing charges	\$ 551,146	\$ 394,826

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

(ii) Interest was capitalized to qualifying development projects based on an annual weighted average interest rate of 3.63% (2017 - 3.43%).

Notes to the Consolidated Financial Statements

Note 22. Interest and Other Income

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Interest income on mortgages and loans receivable	\$ 10,691	\$ 4,760
Other interest income	3,461	69
Other income	72	—
Interest and other income	\$ 14,224	\$ 4,829

Note 23. Employee Costs

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

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Salaries, wages and benefits	\$ 31,787	\$ 17,180
Post-employment benefits	739	422
Unit-based compensation	2,116	3,516
Employee costs⁽ⁱ⁾	\$ 34,642	\$ 21,118

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

Note 24. Capital Management

In order to maintain or adjust its capital structure, Choice Properties may issue new Units and debt, repay debt, or adjust the amount of distributions paid to Unitholders. Choice Properties manages its capital structure with the objective of:

- complying with the guidelines set out in its Declaration of Trust;
- complying with debt covenants;
- maintaining credit rating metrics consistent with those of investment grade REITs;
- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future growth and development; and
- minimizing its cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

On January 9, 2018, Choice Properties filed a 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 14).

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 14).

On February 12, 2018, Choice Properties completed the early retirement of Series A senior unsecured debentures at a redemption price equal to \$1,007.220 per \$1,000 principal amount of Series A debentures, together with accrued and unpaid interest (note 14).

Choice Properties has a \$1,500,000 senior unsecured committed revolving credit facility provided by a syndicate of lenders maturing May 4, 2023. The credit facility bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. This pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB.

In the first quarter of 2018, Choice Properties repaid and cancelled its bi-lateral \$250,000 senior unsecured committed revolving credit facility with a major Canadian financial institution maturing December 21, 2018.

In the second quarter of 2018, Choice Properties repaid and cancelled its syndicated \$500,000 senior unsecured committed revolving credit facility provided by a syndicate of lenders maturing July 5, 2022, and repaid and cancelled the credit facility assumed on the acquisition of CREIT.

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, 2018 and December 31, 2017.

The following schedule details the capitalization of Choice Properties:

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Liabilities		
Senior unsecured debentures (note 14)	\$ 4,725,000	\$ 2,850,000
Mortgages (note 14)	1,328,280	8,320
Class C LP Units (note 5)	—	925,000
Credit facilities (note 15)	325,000	561,000
Term loans (note 15)	800,000	—
Exchangeable Units (note 16)	4,492,359	4,259,724
Equity		
Unitholders' equity	3,492,185	928,280
Non-controlling interests	7,801	8,701
Total	\$ 15,170,625	\$ 9,541,025

Notes to the Consolidated Financial Statements

Note 25. Financial Instruments

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

(\$ thousands)	As at December 31, 2018				As at December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Fair value through profit and loss:								
Mortgages, loans and notes receivable (note 12)	\$ —	\$ —	\$ 75,692	\$ 75,692	\$ —	\$ —	\$ —	\$ —
Designated hedging derivatives (note 11)	—	1,036	—	1,036	—	—	—	—
Amortized cost:								
Mortgages, loans and notes receivable - SPPI (note 12)	—	—	137,668	137,668	—	—	29,193	29,193
Cash and cash equivalents	30,713	—	—	30,713	6,407	—	—	6,407
Liabilities:								
Fair value through profit and loss:								
Long term debt and Class C LP Units	—	6,075,033	—	6,075,033	—	3,889,628	—	3,889,628
Exchangeable Units (note 16)	4,492,359	—	—	4,492,359	4,259,724	—	—	4,259,724
Unit-based compensation (note 18)	—	11,125	—	11,125	—	14,013	—	14,013
Designated hedging derivatives (note 18)	—	1,621	—	1,621	—	—	—	—
Amortized cost:								
Credit facilities and term loans (note 15)	—	1,114,407	—	1,114,407	—	559,522	—	559,522

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.

Designated Hedging derivatives Designated hedging derivatives consist of interest rate swaps, which are classified as either current or non-current and included in other assets or liabilities, as applicable. As at December 31, 2018, the Trust had entered into interest rate swaps for original notional amounts of \$321,700 (December 31, 2017 - nil) to hedge the interest rate associated with an equivalent amount of variable rate mortgages. The fair value of the designated hedging derivatives is a net liability of approximately \$585 (December 31, 2017 - nil). The Trust also recorded, in other comprehensive income, fair value gains of \$597 for the year ended December 31, 2018 (December 31, 2017 - nil). The Trust did not enter into any designated hedging derivatives during the year ended December 31, 2017.

Note 26. 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 11).

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 27 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.

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 \$15,000 (2017 - \$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 \$389,962 (2017 - \$319,081); and
- Unit-based compensation liabilities \$2,694 (2017 - \$3,573).

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.

Notes to the Consolidated Financial Statements

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 are as follows:

(\$ thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Senior unsecured debentures	\$ 471,957	\$ 707,993	\$ 690,317	\$ 722,068	\$ 675,914	\$ 2,468,225	\$ 5,736,474
Mortgage	232,092	180,499	156,428	176,842	134,092	747,863	1,627,816
Constructions loans	12,493	8,837	—	—	—	—	21,330
Credit facilities ⁽ⁱ⁾	—	—	—	—	325,000	—	325,000
Term loans	—	—	—	175,000	625,000	—	800,000
Total	\$ 716,542	\$ 897,329	\$ 846,745	\$ 1,073,910	\$ 1,760,006	\$ 3,216,088	\$ 8,510,620

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

Note 27. 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, 2018, the aggregate gross potential liability related to these letters of credit totaled \$38,540 including \$3,248 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 28) (December 31, 2017 - \$33,352 including \$5,231 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.

CPH Master LP guarantees certain debt assumed by purchasers in connection with past dispositions of properties made by CREIT before the acquisition. These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risks arise in the event that the purchasers default on repayment of their debt. These credit risks are mitigated by the recourse which the Trust has under these guarantees, in which case the Trust would have a claim against the underlying property. The estimated amount of debt at December 31, 2018 subject to such guarantees, and therefore the maximum exposure to credit risk, was \$37,700 with an estimated weighted average remaining term of 4.5 years.

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 \$315,209, of which \$149,344 relates to equity accounted joint ventures as at December 31, 2018 (December 31, 2017 - \$72,777).

The Trust held debt obligations in the amount of \$144,702 in its equity accounted joint ventures as at December 31, 2018. Generally, the Trust is only liable for its proportionate share of the obligations of the co-ownerships and equity accounted joint ventures in which it participates, except in limited circumstances. Credit risk arises in the event that the partners default on the payment of their proportionate share of such obligations. This credit risk is mitigated as the Trust generally has recourse under its co-ownership agreements and joint venture arrangements in the event of default of its partners, in which case the Trust's claim would be against both the underlying real estate investments and the partners that are in default. Management believes that the assets of its co-ownerships and joint ventures are sufficient for the purpose of satisfying any obligation of the Trust should the Trust's partner default.

Note 28. Related Party Transactions

Effective November 1, 2018, Choice Properties' parent corporation is GWL, which held a 65.4% direct effective interest in the Trust through ownership of 46,856,415 Units and 100% of the Exchangeable Units as at December 31, 2018. GWL is also the parent company of Loblaw, with ownership of 50.4% of Loblaw's outstanding common shares as at December 31, 2018.

On November 1, 2018, Loblaw and GWL completed a reorganization under which Loblaw spun out its effective interest in Choice Properties to GWL. Prior to the reorganization, Loblaw held a 61.6% direct effective interest in the Trust through ownership of 21,500,000 Units and 100% of the Exchangeable Units as at October 31, 2018 (December 31, 2017 - 82.4% direct effective interest, 21,500,000 Units and 100% Exchangeable Units, respectively). The reorganization will have no significant impact on the ongoing relationship between Loblaw and Choice Properties. All current agreements and arrangements with Loblaw will remain in place and Loblaw will continue to be Choice Properties' largest tenant.

In the ordinary course of business, Choice Properties' enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

Transactions and Agreements with Loblaw

Acquisitions Included in the investment properties acquired as part of the acquisition of CREIT were 17 properties containing a Loblaw food or drug store, with annual rental revenue of approximately \$12,841 (note 5).

On November 14, 2018, Choice Properties acquired 100% interest in three retail properties from Loblaw for a combined purchase price of \$55,390, excluding acquisition costs, and settled the acquisition with cash (note 6).

On July 3, 2018, Choice Properties acquired a 75% interest in a property from Loblaw for a purchase price of \$1,575, excluding acquisition costs, and settled the acquisition with cash (note 6).

In the year ended December 31, 2017, Choice Properties acquired five investment properties from Loblaw with a fair value of \$61,700, excluding transaction 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 6).

Dispositions On June 21, 2018, a retail property in Quebec, with a fair value of \$2,745, was sold for cash consideration. On closing, Choice Properties received a lease surrender payment from Loblaw of \$6,892 (note 6).

In the year ended December 31, 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.

Lease Surrender Payments In the year ended December 31, 2018, Loblaw made lease surrender payments of \$10,204 to the Trust.

In the year ended December 31, 2017, Loblaw made lease surrender payments of \$5,620. 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 \$5,858 in connection with completed gross leasable area for which tenants have taken possession during the year ended December 31, 2018 (year ended December 31, 2017 - \$5,793).

Development Capital Payment In the year ended December 31, 2017, development capital included a payment of \$1,542 which was received from Loblaw.

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.

Services Agreement During 2017 and 2018, Loblaw provided Choice Properties with administrative and other support services.

Notes to the Consolidated Financial Statements

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 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, 2018, letters of credit totaling \$3,248 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, 2017 - \$5,231) (note 27).

Distributions on LP Units and Notes Receivable Prior to the reorganization on November 1, 2018, Loblaw held all of the Exchangeable Units and Class C LP Units issued by the Partnership. Loblaw had 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. 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 corresponding notes receivable from Loblaw were cancelled (January 2017 - paid \$217,324 and \$46,250, respectively).

During the year ended December 31, 2018, distributions declared on the Exchangeable Units and Class C LP Units totaling \$222,994 and \$15,417, respectively, were payable to Loblaw (December 31, 2017 - \$232,199 and \$46,250, respectively). As at December 31, 2018, there were no notes receivable from Loblaw (December 31, 2017 - \$277,588).

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

The reorganization under which Loblaw spun out its effective interest in Choice Properties to GWL, included all the issued and outstanding Exchangeable Units, of which 70,881,226 Exchangeable Units continue to be subject to restrictions for voting and exchange transfer rights.

Trust Unit Distributions In the year ended December 31, 2018, Choice Properties declared distributions of \$13,258 on the Units held by Loblaw prior to the transfer of its effective interest in Choice Properties to GWL (year ended December 31, 2017 - \$15,695).

Transaction Summary as Reflected in the Consolidated Financial Statements Loblaw is also Choice Properties' largest tenant, representing approximately 68.0% of Choice Properties' base rental revenue and 58.9% of its gross leasable area as at December 31, 2018 (December 31, 2017 - 88.2% and 87.6% 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 and comprehensive income were comprised as follows:

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Rental revenue (note 20)	\$ 752,068	\$ 722,896
Property management and other administration fees (note 29)	899	1,270
Services Agreement expense (note 29)	(2,335)	(2,580)
Interest expense and other financing charges	(238,411)	(278,449)

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

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Rent receivable and other receivables (note 11)	\$ 1,760	\$ 3,097
Notes receivable (note 12)	—	277,588
Class C LP Units (note 14)	—	(925,000)
Exchangeable Units (note 16)	—	(4,259,724)
Distributions payable and other liabilities (note 18)	—	(302,443)
Net due from (to) Loblaw	\$ 1,760	\$ (5,206,482)

Transactions with GWL

Acquisitions On December 7, 2018, Choice Properties acquired a 100% interest in an industrial property from GWL for a purchase price of \$20,280, excluding acquisition costs, and settled the acquisition with cash (note 6).

Operating Lease Choice Properties entered into a ten-year lease 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.

Distributions on Exchangeable Units and Notes Receivable Subsequent to the reorganization on November 1, 2018, GWL holds all of the Exchangeable Units issued by the Partnership. During the year ended December 31, 2018, distributions declared on the Exchangeable Units totaling \$48,095 were payable to GWL (December 31, 2017 - nil).

Subsequent to the reorganization on November 1, 2018, GWL assumed the notes receivable from Loblaw entities of \$26,226 (December 31, 2017 - nil). On the first business day of 2019, distributions payable for Exchangeable Units of \$26,226 were paid and the corresponding notes receivable from GWL were cancelled.

Trust Unit Distributions In the year ended December 31, 2018, Choice Properties declared distributions of \$21,416 on the Units held by GWL (year ended December 31, 2017 - \$18,045). As of December 31, 2017, GWL is no longer participating in the DRIP (note 16). During the year ended December 31, 2017, the Trust issued 1,359,193 Units to GWL under the DRIP.

Transaction Summary as Reflected in the Consolidated Financial Statements Transactions with GWL recorded in the consolidated statements of income and comprehensive income were comprised as follows:

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Rental revenue (note 20)	\$ 2,296	\$ 2,154
Interest expense and other financing charges	48,095	—
Office rent expense	(1,028)	(616)

The balances due from (to) GWL and subsidiaries were as follows:

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Notes receivable (note 12)	\$ 26,226	\$ —
Exchangeable Units (note 16)	(4,492,359)	—
Distributions payable and other liabilities (note 18)	(53,163)	(1,563)
Due to GWL and subsidiaries	\$ (4,519,296)	\$ (1,563)

Notes to the Consolidated Financial Statements

Transactions with Other Related Parties

Joint Venture On December 9, 2014, Choice Properties and its joint venture partner, Wittington Properties Limited (“Wittington”), completed the acquisition of 500 Lake Shore Boulevard West in Toronto, Ontario for \$15,576 from Loblaw (note 8). 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 \$7,080 to the joint venture and received distributions of \$7,200 during the year ended December 31, 2018 (year ended December 31, 2017 - contributions \$13,760 and distributions nil). Operating activities have not begun at the property, however the joint venture did earn interest income during the year ended December 31, 2018 of \$2,070 (2017 - \$634). Also, in 2018, developmental density was sold for a price equal to fair value.

Summarized financial information for Choice Properties’ share of the related party equity accounted joint venture is set out below:

(\$ thousands)	As at December 31, 2018	As at December 31, 2017
Current assets	\$ 4,891	\$ 47,021
Non-current assets	88,329	80,045
Current liabilities	(11,075)	(46,219)
Net assets at 100%	\$ 82,145	\$ 80,847
Investment in equity accounted joint venture at 40%	\$ 32,858	\$ 32,339

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Interest income	\$ 2,070	\$ 634
Adjustment to fair value of investment property	(473)	(1,863)
Net income (loss) and comprehensive income (loss) at 100%	\$ 1,597	\$ (1,229)
Share of income (loss) and comprehensive income (loss) in equity accounted joint venture at 40%	\$ 639	\$ (491)

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, 2018	Year ended December 31, 2017
Salaries, trustee fees, incentives and short-term employee benefits	\$ 2,049	\$ 3,859
Unit-based compensation	620	3,206
Compensation of key personnel	\$ 2,669	\$ 7,065

Note 29. Supplementary Information**Property Operating Costs**

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Property taxes and insurance	\$ 229,862	\$ 167,198
Recoverable operating costs	80,958	41,656
Non-recoverable operating costs	3,616	620
Property operating costs	\$ 314,436	\$ 209,474

General and Administrative Expenses

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Salaries, benefits and employee costs	\$ 36,565	\$ 22,907
Investor relations and other public entity costs	1,246	1,892
Professional fees	1,920	1,515
Services Agreement expense charged by related party	2,335	2,580
Other	7,721	5,809
Total general and administrative expenses	49,787	34,703
Less:		
Capitalized to investment properties	(3,261)	(3,035)
Allocated to recoverable operating expenses	(16,343)	(7,405)
General and administrative expenses	\$ 30,183	\$ 24,263

Property Management and Other Administration Fees

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Fees charged to related party (note 28)	\$ 899	\$ 1,270
Fees charged to third-parties	2,624	—
Property management and other administration fees	\$ 3,523	\$ 1,270

Notes to the Consolidated Financial Statements

Change in Non-Cash Working Capital

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Net change in accounts receivable and other assets	\$ (12,941)	\$ (6,214)
Add back (deduct):		
Change to designated hedging derivative assets	1,036	—
Amounts from acquisition of CREIT (note 5)	47,505	—
Amounts from acquired properties (note 6)	149	157
Net change in trade payables and other liabilities	(49,773)	(45,383)
Add back (deduct):		
Net change in distributions payable	(11,341)	(338)
Net change in unit-based compensation liability	2,888	(2,974)
Net change to accrued interest expense	234,679	(13,422)
Change to designated hedging derivative liabilities	(1,621)	—
Amounts from acquisition of CREIT (note 5)	(166,351)	—
Amounts from acquired properties (note 6)	(750)	(265)
Impact of currency translation ⁽ⁱ⁾	(3,912)	—
Change in non-cash working capital	\$ 39,568	\$ (68,439)

(i) Impact of currency translation includes \$225 impact on cash held in foreign currency for the year ended December 31, 2018.

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

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Net assets from the acquisition of CREIT (note 5)	\$ (5,521,945)	\$ —
Debt assumed on the acquisition of CREIT (note 5):		
Mortgages	1,309,677	—
Debentures	451,853	—
Construction loans	9,583	—
Credit facility	70,000	—
Issuance of Units (note 5)	2,056,911	—
Mortgage assumed on acquisition of investment properties (note 6)	2,805	6,601
Debt discount expensed on issuance of Series I (note 14)	51	—
Issuance of Exchangeable Units (note 16)	826,341	14,632
Value of Units issued under distribution reinvestment plan (note 16)	1,487	22,383
Trust expense component of Units issued under unit-based compensation plan	6,341	126

Recoverable Property Capital

(\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Balance yet to be recovered, beginning of the year	\$ 137,961	\$ 100,683
Add: Recoverable expenditures from the acquisition of CREIT	69,915	—
Add: Recoverable expenditures incurred during the period (note 7)	57,586	44,962
Less: Recoverable during the period	(22,204)	(7,684)
Balance yet to be recovered, end of the year	\$ 243,258	\$ 137,961

Notes to the Consolidated Financial Statements

Note 30. Segment Information

Prior to the second quarter of 2018, Choice Properties operated one reportable segment, retail, with all operations carried out in Canada. Following the acquisition of CREIT on May 4, 2018, the Trust operates in three reportable segments: retail, industrial and office.

The segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, determined to be the CEO of the Trust. The CEO measures and evaluates the performance of the Trust based on net operating income which is presented by property type below and included in these consolidated financial statements at the proportionate share of the related revenue and expenses for these properties while other net income items are reviewed on a consolidated basis. Other net income items and the balance sheet are reviewed on a consolidated basis by the CEO and therefore are not included in the segmented disclosure below.

The chart below presents net income for the year ended December 31, 2018, in a manner consistent with internal reporting and the accounting policies of the segments presented here are the same as the Trust's accounting policies as described in note 2.

(\$ thousands)	Retail	Industrial	Office	Consolidation and eliminations ⁽ⁱ⁾	Year ended December 31, 2018
Rental revenue	\$ 955,686	\$ 143,527	\$ 88,323	\$ (39,263)	\$ 1,148,273
Deduct: Straight-line rent	(27,995)	(5,416)	(1,653)	988	(34,076)
Property operating costs	(259,846)	(35,399)	(32,169)	12,978	(314,436)
Net operating income	667,845	102,712	54,501	(25,297)	799,761
Add back: Straight-line rent					34,076
					833,837
General and administrative expenses					(30,183)
Property management and other administration fees					3,523
Net interest expense and other financing charges					(551,146)
Interest and other income					14,224
Share of income from equity accounted joint ventures					16,222
Acquisition transaction costs and other related expenses					(141,493)
Adjustment to fair value of Exchangeable Units					593,706
Adjustment to fair value of investment properties					(88,575)
Income before income taxes					650,115
Income taxes					(538)
Net income					\$ 649,577

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

Corporate Profile

Choice Properties, Canada's preeminent diversified real estate investment trust, is the owner, manager and developer of a high quality portfolio comprising 753 properties totaling 66.8 million square feet of gross leasable area. The portfolio is comprised of retail properties, predominantly leased to necessity-based tenants, industrial, office and residential assets concentrated in attractive markets and offers an unmatched development pipeline. Choice Properties' strategic alliance with its principal tenant, Loblaw Companies Limited, the country's leading retailer, is a key competitive advantage providing long-term growth opportunities.

Conference Call and Webcast

Management will host a conference call the following day on Thursday, February 14, 2019 at 11:00AM (ET) with a simultaneous audio webcast. To access via teleconference, please dial (647) 427-7450 or (888) 231-8191 toll free. A playback will be made available two hours after the event at (416) 849-0833, access code: 5394967. The link to the audio webcast will be available on www.choicereit.ca in the "Events and Webcast" section under "News and Events".

Head Office

Choice Properties Real Estate Investment Trust
22 St. Clair Avenue East, Suite 500
Toronto, Ontario M4T 2S5
Tel: 416-960-6990
Toll free: 1-855-322-2122
Fax: 905-861-2326

Stock Exchange Listing and Symbol

The Trust's Units are listed on the Toronto Stock Exchange and trade under the symbol "CHP.UN"

Distribution Policy

Choice Properties' Board retains full discretion with respect to the timing and quantum of distributions. Declared distributions are paid to Unitholders of record at the close of business on the last business day of a month on or about the 15th day of the following month.

Independent Auditors

KPMG LLP
Chartered Professional Accountants
Toronto, Canada

Registrar and Transfer Agent

AST Trust Company (Canada)
P.O. Box 700, Station B
Montreal, QC, H3B 3K3
Tel: (416) 682-3860
Toll free: 1-800-387-0825 (Canada and US)
Fax: 1 (888) 249-6189
E-Mail: inquiries@astfinancial.com
Website: www.astfinancial.com/ca-en

Investor Relations

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

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

Ce rapport est disponible en français.

Choice Properties^{REIT}[®]

