



West Block
Toronto, ON

Letter to Unitholders

Fellow Unitholders,

By all accounts, 2020 was a challenging year for each of us. The COVID-19 pandemic significantly impacted our communities and our day-to-day lives. In response, we took thoughtful actions to mitigate the effects of the pandemic on our business operations and focused on the best interests of our employees, tenants and other stakeholders. Although we are encouraged by the rollout of vaccines, we remain concerned about the evolving impact of the pandemic on our tenants, including recent enhanced lockdown restrictions in certain parts of the country. The uncertainty we experienced in 2020 is continuing into 2021, but we are ready for it. With that backdrop in mind, we are pleased with our financial results this past quarter, demonstrating that our business model, stable tenant base and disciplined approach to financial management continue to position us well.

Our diversified portfolio of retail, industrial and office properties is well occupied at approximately 97.1% and leased to high-quality tenants across Canada. Our retail portfolio is primarily leased to grocery stores, pharmacies or other necessity-based tenants, who continue to perform well in this environment. Our industrial and office assets provide diversification and added stability to our overall portfolio. This stability is evident by our industry leading rent collections, which were 98% for the fourth quarter.

Our development program continues to provide us with exceptional opportunities to add high-quality real estate to our portfolio at a reasonable cost. In 2020, we completed and transferred to our income producing portfolio \$197.4 million of properties under development, including a mix of at-grade retail intensification, larger scale greenfield development and the first phase of our West Block mixed use development in Downtown Toronto. With our active development pipeline we are expanding our growing presence in the rental residential market and expect two of our larger rental residential projects in Toronto to be completed in 2021. We also recently commenced construction on two new residential projects in the GTA and in Ottawa.

Beyond our development program, and despite the uncertainty from the pandemic, we were successful in executing our capital recycling program in 2020. During the year, we disposed of \$499.4 million in assets, including \$430.6 million of retail assets, at pricing that was above our IFRS fair values. This activity demonstrates the investor demand for strong, grocery anchored retail properties.

We also acquired \$505.7 million of assets in 2020. This included the acquisition of the Weston Centre, a multi-tenant office and retail site that includes a Loblaw grocery store located in mid-town Toronto, and the remaining ownership interest in West Block, a mixed-use site that combines retail shops anchored by a Loblaw grocery store and office space located in downtown Toronto in Q3. Through acquisitions we continued to grow our industrial platform by adding \$169.7 million in highly sought after industrial assets comprising approximately 1.0 million square feet in 2020.

Collectively, we completed over \$1 billion of real estate transactions through our capital recycling program, including \$288.0 million of acquisitions funded with equity consideration. This activity demonstrates our ability to generate stable and growing net operating income, lower our leverage through efficient equity issuance and to improve the overall quality of our portfolio. We expect to continue our capital recycling program in 2021.

Our business is supported by an industry leading balance sheet that provides Choice Properties flexibility in the face of broader market volatility. From a liquidity perspective, we have approximately \$1.5 billion available under our credit facility and \$223.7 million of available cash on our balance sheet at the end of 2020. Throughout the year, we made significant progress in further strengthening our balance sheet, including refinancing our debt maturities, increasing our weighted average term of debt and increasing our available liquidity by issuing \$1 billion of unsecured debentures, the proceeds of which were primarily used to meet all debt maturities until the third quarter of 2021. In September 2020, DBRS Limited upgraded our issuer credit rating from BBB to BBB (high).

Our operating results for the fourth quarter and for the year were strong and reflect the strength and stability of our income producing portfolio. We are confident that the strategic and operating decisions we have made across our business positions us well to withstand the pandemic and assist our tenants where we can. Our top priority remains ensuring the health and well-being of our employees and tenants, and we are working diligently to ensure that our business continues to run as smoothly and effectively as possible.

We thank you for your continued support and confidence.

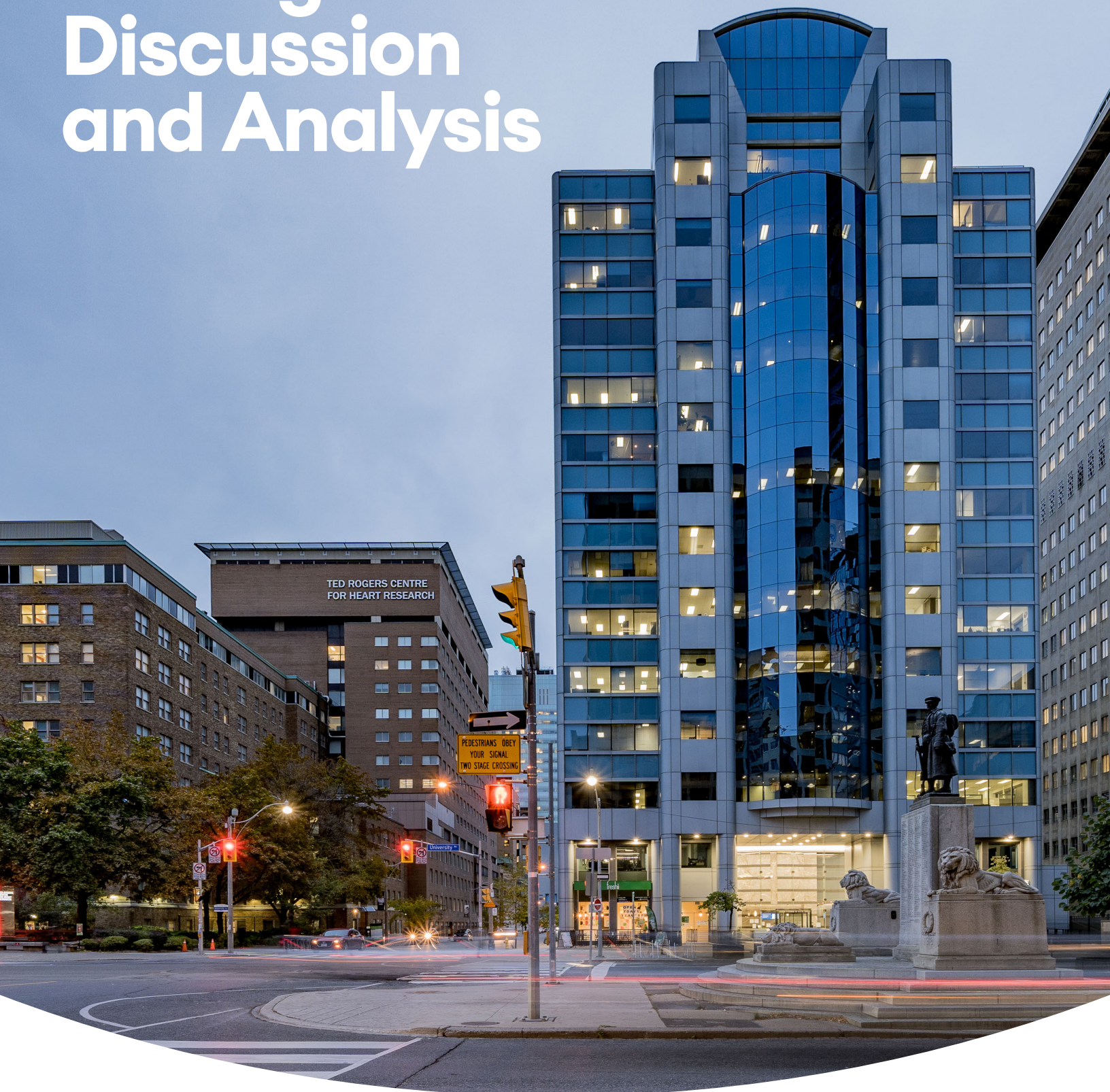
Rael L. Diamond

President & Chief Executive Officer

February 10, 2021

Management's Discussion and Analysis

525 University Ave
Toronto, ON



- (1) See Section 14, “Non-GAAP Financial Measures”, of this MD&A
- (2) To be read in conjunction with the “Forward-Looking Statements” included in the Notes for Readers located on page 3 of this MD&A

Notes for Readers

Please refer to the Choice Properties Real Estate Investment Trust (“Choice Properties” or the “Trust”) audited consolidated financial statements for the year ended December 31, 2020 and accompanying notes (“2020 Financial Statements”) when reading this Management’s Discussion and Analysis (“MD&A”). In addition, this MD&A should be read in conjunction with the Trust’s “Forward-Looking Statements” as listed below. Choice Properties’ 2020 Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS” or “GAAP”) and were authorized for issuance by the Board of Trustees (“Board”).

In addition to using performance measures determined in accordance with IFRS, Choice Properties’ management also measures performance using certain additional non-GAAP measures and provides these measures in this MD&A so that investors may do the same. Such measures do not have any standardized definitions prescribed under IFRS and are, therefore, unlikely to be comparable to similar measures presented by other real estate investment trusts or enterprises. Please refer to Section 14, “Non-GAAP Financial Measures” for a list of defined non-GAAP financial measures and reconciliations thereof.

This Annual Report, including this MD&A, contains forward-looking statements about Choice Properties’ objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities, and legal and regulatory matters. Specific statements with respect to anticipated future results and events can be found in various sections of this MD&A, including but not limited to, Section 3, “Investment Properties”, Section 5, “Results of Operations”, Section 6, “Leasing Activity”, Section 7, “Results of Operations Segment Information”, and Section 13, “Outlook and Impact of COVID-19”. Forward-looking statements are typically identified by words such as “expect”, “anticipate”, “believe”, “foresee”, “could”, “estimate”, “goal”, “intend”, “plan”, “seek”, “strive”, “will”, “may”, “should” and similar expressions, as they relate to Choice Properties and its management.

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

Choice Properties’ expectation of operating and financial performance is based on certain assumptions, including assumptions about the Trust’s future growth potential, prospects and opportunities, industry trends, future levels of indebtedness, tax laws, economic conditions and competition. Management’s estimates, beliefs and assumptions are inherently subject to significant

business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. Choice Properties can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Trust’s actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12 “Enterprise Risks and Risk Management” of this MD&A and the Trust’s Annual Information Form (“AIF”) for the year ended December 31, 2020. Selected highlights of such risks and uncertainties include:

- the duration and impact of the COVID-19 pandemic on the business, operations and financial condition of Choice Properties and its tenants, as well as on consumer behaviours and the economy in general;
- changes in economic conditions, including changes in interest rates and the rate of inflation;
- failure by Choice Properties to effectively and efficiently manage its property and leasing management processes;
- the inability of Choice Properties to make acquisitions and dispositions of properties in accordance with its near and long-term strategies;
- failure by Choice Properties to anticipate, identify and react to demographic changes, including shifting consumer preferences toward digital commerce, which may result in a decrease in demand for physical space by retail tenants; and
- the inability of Choice Properties’ information technology infrastructure to support the requirements of Choice Properties’ business, failure by Choice Properties to identify and respond to business disruptions, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms or other known or unknown cyber security or data breaches.

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

Choice Properties’ financial results are impacted by adjustments to the fair value of the Exchangeable Units, unit-based compensation and investment properties. Exchangeable Units and unit-based compensation liabilities are recorded at their fair value based on the market trading price of the Trust Units, which results in a negative impact to the financial results when the Trust Unit price rises and

a positive impact when the Trust Unit price declines. Investment properties are recorded at fair value based on valuations performed by the Trust’s internal valuations team. These adjustments to fair value impact certain of the GAAP reported figures of the Trust, including net income.

Additional risks and uncertainties are discussed in Choice Properties’ materials filed with the Canadian securities regulatory authorities from time to time, including without limitation, the Trust’s AIF for the year ended December 31, 2020. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect Choice Properties’ expectations only as of the date of this Annual Report. Except as required by applicable law, Choice Properties does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

The Trust was created in 2013 from the owned real estate of Loblaw Companies Limited (“Loblaw”), the Trust’s primary tenant and prior to November 2018, the Trust’s largest Unitholder. On November 1, 2018, Loblaw and George Weston Limited (“GWL”) completed a reorganization under which Loblaw spun out its direct effective interest in Choice Properties to its majority shareholder, GWL. As of December 31, 2020, GWL held a 61.8% direct effective interest in Choice Properties. Choice Properties’ ultimate parent is Wittington Investments, Limited (“Wittington”).

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 information in this MD&A is current to February 10, 2021, unless otherwise noted.

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

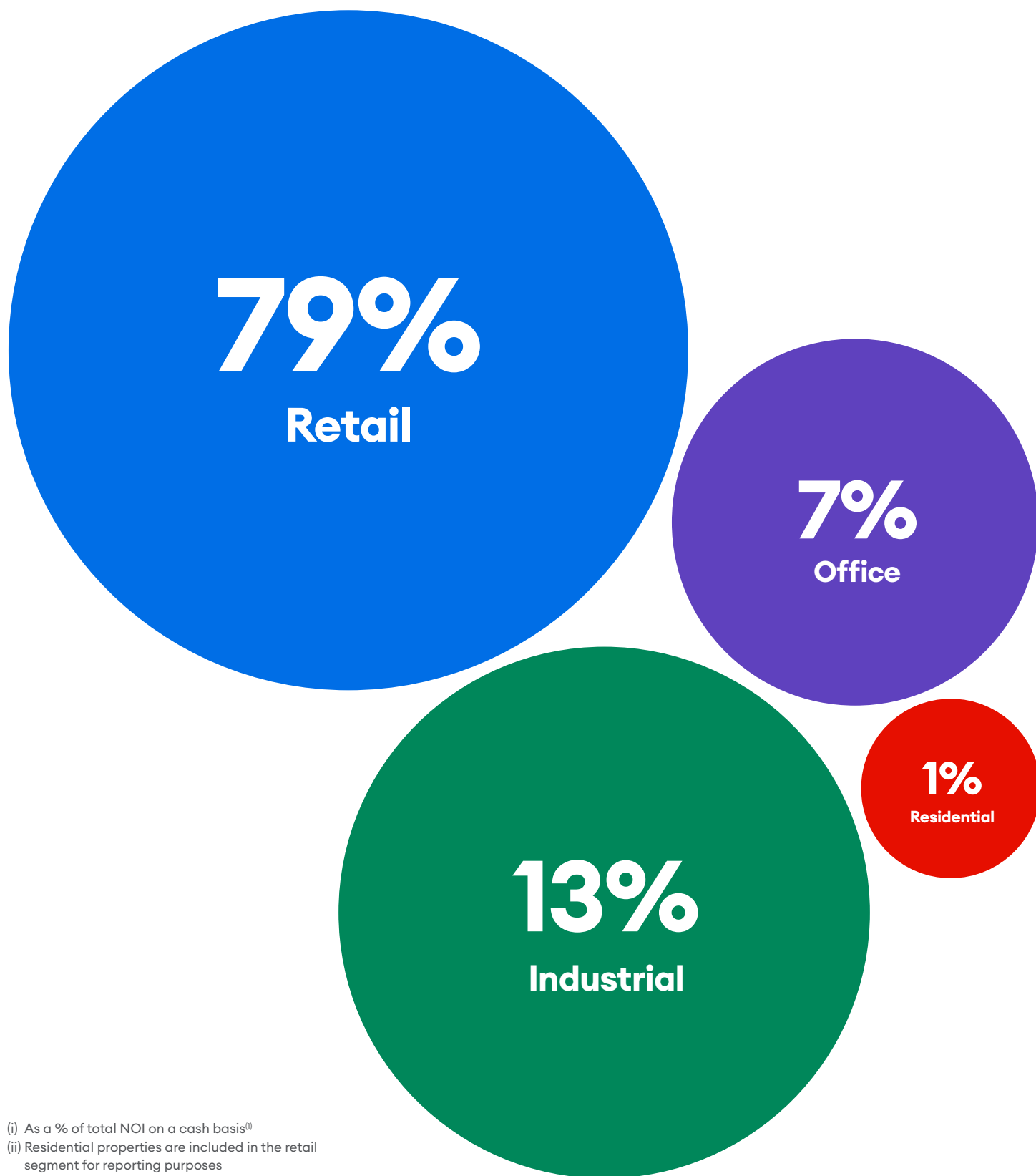


1460 East Hastings St
Vancouver, BC

Our Portfolio Mix

Portfolio Mix by Asset Class⁽ⁱ⁾⁽ⁱⁱ⁾

For the three months ended December 31, 2020



(i) As a % of total NOI on a cash basis⁽¹⁾

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

A Stable Retail Portfolio

Strategic & Diversified Retail Tenant Mix

	% of Retail NOI	Tenants
Grocery Stores & Pharmacy	71%	
Specialty Retailers	6%	
Essential Personal Service	5%	
Restaurants & Cafes	4%	
Fitness & Other Personal Services	4%	
Value Retailers	4%	
Furniture & Home	4%	
Other	2%	
Total	100%	

Calculated as a % of total NOI on a cash basis⁽¹⁾ for the three months ended December 31, 2020

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 a strategic relationship and long-term leases with Loblaw, Canada's largest retailer.

This relationship 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.

Our Portfolio Mix

Industrial Portfolio

The industrial portfolio is centred around 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. 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 a 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 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.



Top: Great Plains Business Park, Calgary, AB
Middle: 175 Bloor St E, Toronto, ON
Bottom: VIA 123, Toronto, ON

Our Portfolio Mix



Retail

573

Properties

97.4%

Occupancy

45.1M

sq. ft. GLA



Industrial

122

Properties

97.3%

Occupancy

17.2M

sq. ft. GLA



Office

15

Properties

92.1%

Occupancy

3.6M

sq. ft. GLA



Residential⁽ⁱ⁾

3

Properties

0.2M

sq. ft. GLA



Development

18

Properties

10 Retail
2 Industrial
6 Residential



Total

731

Properties

97.1%

Occupancy

66.1M

sq. ft. GLA

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

2994 Peddie Rd
Milton, ON



Development Program

Bovaird West
Brampton, ON



Development initiatives are a key component of Choice Properties' business model, providing the opportunity to add high quality real estate at a reasonable cost. Choice Properties has internal development capabilities as well as established relationships with strong real estate developers.

With significant 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.

Development Program

Intensification

Intensifications are focused on adding retail density within the existing portfolio. As at December 31, 2020, Choice Properties had 17 active intensification projects representing a total of 197,000 square feet.

Mixed-Use Development

Choice Properties currently has a number of sites planned for mixed-use development with five of these sites in an active pre-development stage. The five properties are in key urban markets, including four 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 \$55.3 million has been invested to date on land acquisition and other initial development costs.

The Trust expects to invest an additional \$27.5 million⁽²⁾ on pre-development activities for these projects over the next two to five years before beginning construction. The projects are in various phases of pre-development, and Choice Properties continues to work on finalizing the assembly of land parcels for the developments.

Greenfield Development

Development activities include greenfield projects that are primarily focused on unenclosed retail shopping centres and industrial parks. As at December 31, 2020, Choice Properties had 15 greenfield development projects in the pipeline that, upon completion, will comprise approximately 0.5 million square feet. A total of \$176.8 million has been invested to date in the pipeline. The Trust currently expects to invest a total of \$31.4 million⁽²⁾ in the next three to five years.

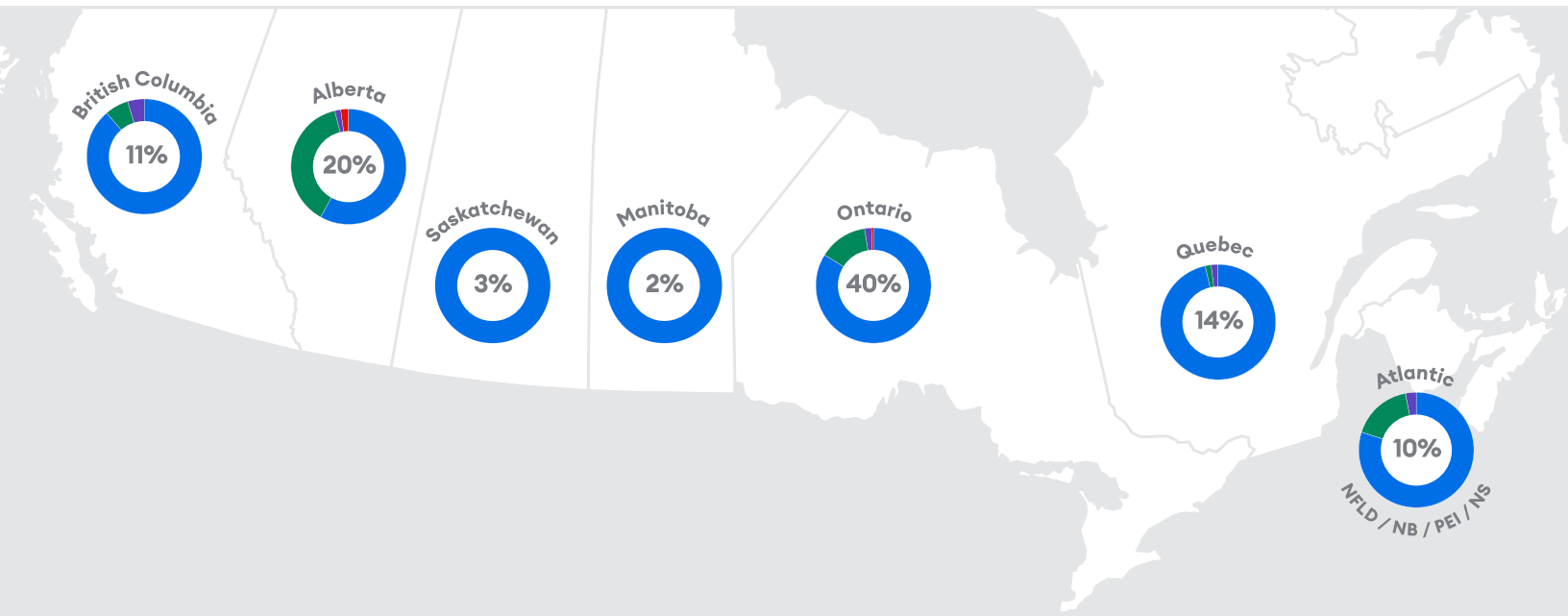
An advantage of greenfield developments is that they lend themselves to phased construction creating flexibility to time developments to take advantage of changing market conditions.

Residential

Choice Properties has six residential projects in the pipeline representing 1,119 residential units. As at December 31, 2020, a total of \$182.7 million had been invested in these projects and Choice Properties expects to invest an additional \$326.8 million⁽²⁾ to complete the developments.

Ownership by Asset Class

Net operating income, cash basis, excluding bad debt expense⁽¹⁾⁽ⁱ⁾, shown in percentage below



● Retail ● Industrial ● Office ● Residential

British Columbia		Alberta		Saskatchewan		Manitoba		Ontario		Quebec		Atlantic	
Total	47	Total	135	Total	17	Total	14	Total	286	Total	113	Total	101
Retail	42	Retail	77	Retail	17	Retail	14	Retail	235	Retail	107	Retail	81
Industrial	3	Industrial	54	Industrial	0	Industrial	0	Industrial	43	Industrial	4	Industrial	18
Office	2	Office	2	Office	0	Office	0	Office	7	Office	2	Office	2
Residential	0	Residential	2	Residential	0	Residential	0	Residential	1	Residential	0	Residential	0

 **573**
Retail

 **122**
Industrial

 **15**
Office

 **3**
Residential

(i) For the three months ended December 31, 2020

Stability & Growth


Huntington Hills
Calgary, AB



Strategic Framework

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

Our high-quality and diversified portfolio provides reliable cash flows and includes an impressive pipeline of future development opportunities. We seek to maximize long term value by taking a disciplined and sustainable approach to property operations and financial management, and by unlocking value through development activities. Our goal is to provide Net Asset Value appreciation, stable NOI growth and capital preservation, all with a long term focus.



Size, Scale and
Reach as Canada's
Largest REIT



Stable Portfolio Backed
by an Established
Operating Platform
with a Proven Track
Record of Success



Transformational
Development Pipeline
Providing Long-Term Value
Creation and Growth



Industry Leading
Balance Sheet
Supported by Prudent
Capital Structure

Environment, Social and Governance

Choice Properties aspires to develop healthy, resilient communities through our dedication to social, economic and environmental sustainability.

Over the past year, Choice Properties has focused on continuing to integrate Environmental, Social and Governance (“ESG”) into the Trust’s corporate strategy, making progress towards our sustainability targets, and enhancing reporting formats that provide visibility on the Trust’s progress and achievements against these objectives.

Improving our ESG Performance

Choice Properties uses the Global Real Estate Sustainability Benchmark (“GRESB”) to evaluate the continued growth and expansion of its ESG program. In 2020, Choice Properties achieved a 16 point increase over its 2019 GRESB score (on a 100-point scale).

ESG and Corporate Strategy

Choice Properties’ focus on ESG is central to its business operations. This is reflected in the Choice Properties mission of “creating enduring value for generations.” The long-term approach to property ownership and management compels Choice Properties to consider opportunities to improve social, economic and environmental sustainability in its operations for the long term. In 2020, Choice Properties began working on its long-term strategy for its ESG Program with a goal of becoming a North American real estate ESG leader. To achieve this goal, Management intends to focus on three areas where Choice Properties can have a significant impact on social and environmental sustainability: Climate Action, Sustainable Developments, and Employee Equity and Wellness. Management looks forward to sharing more on these programs as they are further developed.

Sustainability Targets

Choice Properties has developed sustainability targets to be reached by 2023 relating to energy use, water use, waste, lighting, greenhouse gas emissions, building certifications, and employee volunteering. In 2020, Choice Properties continued to make progress towards achieving its targets. The annual ESG Report, planned to be released in Q2, will provide an update on the Trust’s progress towards these targets.

Visibility and Reporting

Choice Properties is committed to transparency and accuracy in its ESG reporting. In 2020, in its ESG report, Choice Properties followed the Sustainability Accounting Standards Board (“SASB”) reporting standard and also had key indicators verified by a third-party. With these efforts, the Trust’s ESG report received the highest possible grade of “A” from the GRESB Public Disclosure Benchmark.

Environment

Choice Properties continuously works to improve its environmental footprint within both its income producing and development portfolio so that it can do its part to preserve the planet for current and future generations.

Choice Properties' environmental programs include:

- Implementing programs which reduce resource use and emissions at income producing properties;
- Integrating climate-friendly design features into development projects; and
- Achieving green building certifications including BOMA BEST and LEED.

2020 Key Achievements



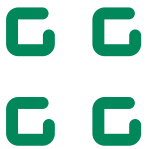
19M ft²

certified under LEED
or BOMA BEST



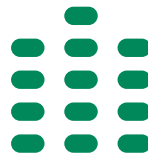
Over 120 sites

upgraded lighting
to LED



4

pillars outlined in
our new Sustainable
Development Standard



9

office energy
audits completed

Social

Choice Properties promotes positive citizenship amongst its colleagues by empowering them to lead philanthropic initiatives for the communities in which they live and work.

Choice Properties has a strong commitment to diversity and inclusion where all people are valued and differences are seen as strengths. The Trust's culture is grounded by its CORE Values – Care, Ownership, Respect and Excellence – and three culture principles – be authentic, build trust and make connections.

2020 Key Achievements



1,330 hours
of paid
volunteer time



\$350,000
raised in support of
charities across Canada



100%
of employees received
Diversity & Inclusion
training



signatory to
the Black North
Initiative

Governance

Choice Properties' Board of Trustees and management team are dedicated to strong governance practices designed to maintain high standards of oversight, accountability, integrity and ethics.

Choice Properties employs a dedicated ESG team whose primary responsibility is to integrate the Trust's Sustainability & Responsibility Commitment into its day-to-day operations. The sustainability team reports progress on this front to the ESG Steering Committee. Choice utilizes five ESG subcommittees to coordinate activities related to its ESG program.

2020 Key Achievements



+16

Point increase over the Trust's 2019 GRESB score (on a 100-point scale)



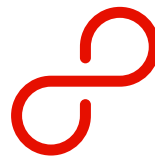
44%

of Board of Trustees and Senior Management collectively identify as female⁽ⁱ⁾



100%

properties assessed for physical climate risk and resiliency



25%

of employees involved in sustainability committees

(i) Defined as those at the Senior Vice President level and above

Cundles & Duckworth
Barrie, ON



Key Performance Indicators and Financial Information

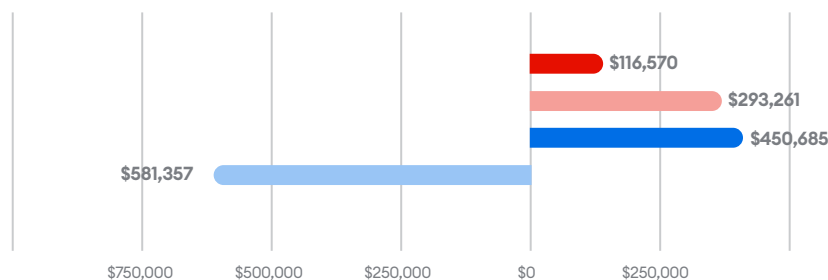
The analysis of the indicators focuses on trends and significant events affecting the financial condition and results of operations.

● Q4 2020 ● Q4 2019 ● YTD 2020 ● YTD 2019

Net Income (Loss)

The quarterly decrease compared to the prior year was mainly due to an unfavourable change in the adjustment to fair value on the Exchangeable Units, partially offset by a favourable change in the fair value of investment properties, including those held within equity accounted joint ventures.

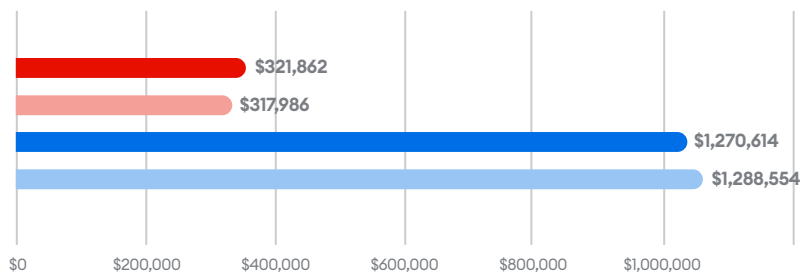
The year-over-year increase was primarily due to a favourable change in the adjustment to fair value on the Exchangeable Units and reduced interest and financing charges, partially offset by declines related to unfavourable changes in the fair value of investment properties and increased bad debt expense.



Rental Revenue (GAAP)

The quarterly increase in revenue was mainly due to the net contribution from acquisitions and development transfers completed in 2020, offset by declines due to dispositions.

The year-to-date decrease was primarily due to the forgone revenue from the September 2019 disposition of a 30-property portfolio for \$426.3 million to an affiliate of Oak Street Real Estate Capital LLC (the "Oak Street disposition").

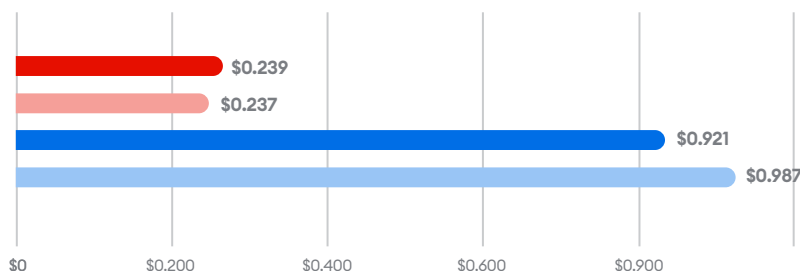


FFO Per Unit Diluted⁽¹⁾

Funds from operations increased in the current quarter primarily due to non-recurring activity in the prior year, coupled with lower borrowing and general and administrative costs, partially offset by higher bad debt expense.

The decrease in FFO on an annual basis was primarily due to a reduction in net operating income attributable to an increase in bad debt expense, partially offset by lower borrowing costs from the use of proceeds from deleveraging activities and capital recycling.

The change on a per unit basis was also impacted by the higher weighted average number of units outstanding as a result of: (i) the May 2019 equity offering where proceeds were used to lower debt levels, (ii) the Trust units issued as consideration for the acquisition of two assets from Wittington in July 2020 and (iii) the Exchangeable Units issued as consideration for the acquisition of six assets from Weston Foods (Canada) Inc., a wholly-owned subsidiary of GWL, in December 2020.



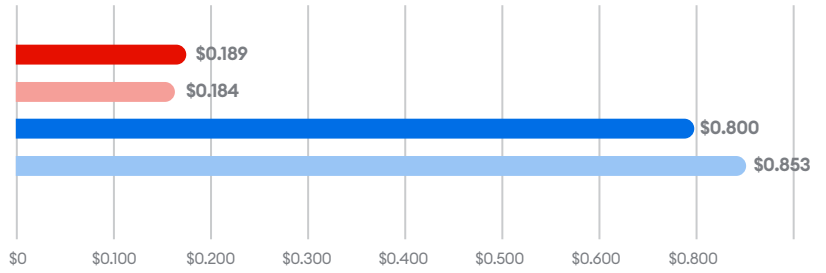
* As at and for the three months and year ended December 31, 2020 and 2019 (\$ thousands except where otherwise indicated)

AFFO Per Unit Diluted⁽¹⁾

Adjusted funds from operations increased during the current quarter primarily due to an increase in FFO.

The decline on an annual basis was mainly due to an overall reduction in funds from operations and increased property capital and internal leasing costs, partially offset by a decline in straight line rent.

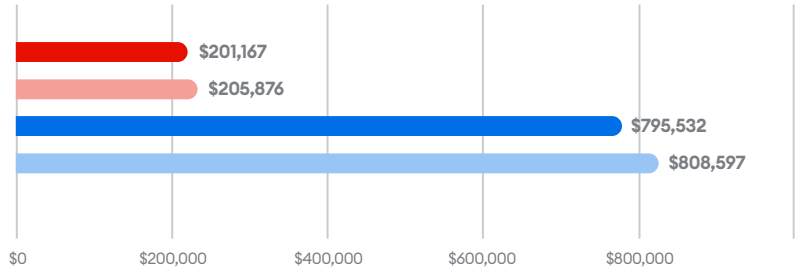
For the year ended December 31, 2020, the AFFO payout ratio was 92.6%.



Same-Asset NOI, Cash Basis⁽¹⁾

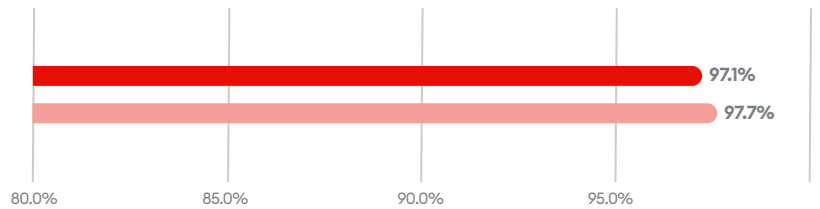
The decrease of 2.3% and 1.6% for the three months and year ended December 31, 2020, respectively, was mainly due to an increase in bad debt expense, offset by the contribution from contractual rental steps in the retail segment.

Excluding bad debt expense, same-asset NOI on a cash basis decreased by 1.3% and increased by 0.9% for the three months and year ended December 31, 2020, respectively.



Period End Occupancy

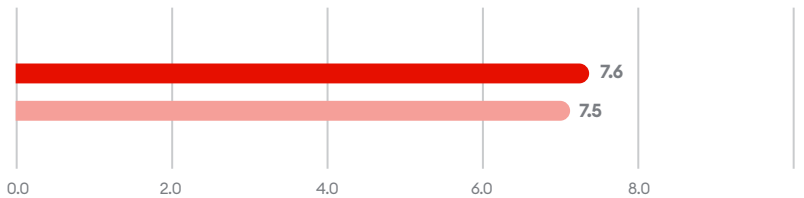
Overall period end occupancy decreased compared to the prior year, primarily due to vacancies in the Ontario and Western retail portfolios, as well as the Western industrial portfolio, partially offset by the contributions from acquisitions, net of dispositions, and development transfers.



Normalized Debt to EBITDAFV⁽¹⁾

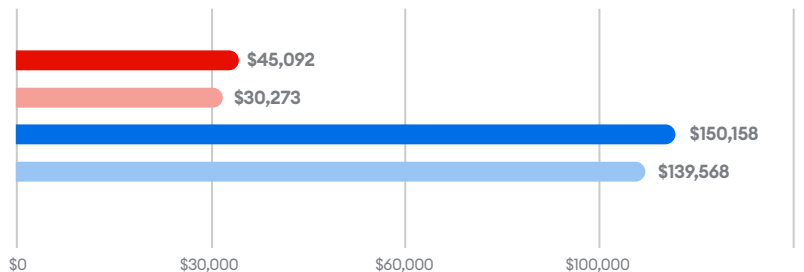
The increase in normalized debt to EBITDAFV is primarily due to an increase in bad debt expense during the fiscal 2020 partially offset by deleveraging from the capital raised through the May 2019 equity offering.

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



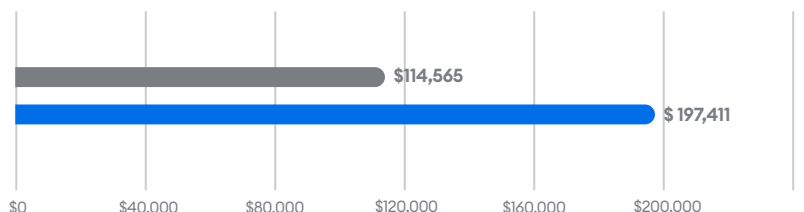
Development Spending (Proportionate)⁽¹⁾

Development activity reflects spending on active projects during the three months and year ended December 31, 2020 and 2019.



Transfers From Properties Under Development to Income Producing (Proportionate)⁽¹⁾

During the year ended December 31, 2020, approximately 438,000 square feet were transferred from properties under development to income producing.





The Weston Centre
Toronto, ON

Fourth Quarter Financial Performance

During the three months ended December 31, 2020

Operating

- Reported net income for the quarter of \$116.6 million. Included in this amount was a \$103.9 million adjustment due to a favourable change in the fair value of investment properties on a proportionate share basis⁽¹⁾, partially offset by \$3.5 million in bad debt expense, and a \$86.4 million decrease related to the adjustment to the fair value of the Exchangeable Units attributable to the unit price increase for Choice Properties during the quarter.
- Reported FFO per unit diluted⁽¹⁾ for the quarter was \$0.239. Excluding the effect of the bad debt expense, FFO per Unit would have been \$0.244.
- AFFO per unit diluted⁽¹⁾ for the quarter was \$0.189. The increase in AFFO reflects an increase in FFO for the quarter and a reduction in tenant improvements and direct leasing costs, partially offset by an increase in project capital costs.
- Same-asset NOI on a cash basis, excluding bad debt expense⁽¹⁾ decreased by 1.3% over the same quarter in 2019 primarily due to lower parking revenue and the timing of capital recoveries from investments in income producing properties, partially offset by contractual rental steps in the retail portfolio. Including bad debt expense, same-asset NOI on a cash basis⁽¹⁾ declined by 2.3%.
- Period end occupancy remained strong at 97.1%, with retail at 97.4%, industrial at 97.3% and office at 92.1%.
- Net fair value gain on investment properties was \$103.9 million on a proportionate share basis⁽¹⁾ primarily due to fair value gains from transaction activity, coupled with a significant fair value gain for a development property that was sold to a third party in February 2021.

Financing

- Utilized net proceeds from current quarter capital activity to repay remaining balance of credit facility.
- Upfinanced a mortgage for a development property with an additional draw of \$5.4 million at 2.40%, maturing in August 2028.

Investing

- Completed \$213.7 million in acquisitions, including:
 - Acquired a portfolio of four industrial assets for \$86.0 million that is 100% leased to a national logistics company with long-term leases in place;
 - Acquired five retail assets from Loblaws for \$46.6 million; and
 - Acquired a portfolio of six industrial properties from Weston Foods (Canada) Inc., a subsidiary of GWL, in exchange for 5.82 million Exchangeable Units, which were valued at \$79.1 million.
 - Completed \$332.4 million in dispositions, including:
 - Sold a 50% non-managing interest in a retail property portfolio to an institutional partner for an aggregate sale price of \$169.0 million, comprising eleven assets and 656,000 square feet;
 - Disposed two retail property portfolios comprising eight assets and 496,000 square feet for an aggregate sale price of \$107.4 million; and
 - Sold two assets in Windsor and a land parcel in Quebec City for gross proceeds of \$56.0 million.
 - Ongoing investment in the development program with \$45.1 million of spending during on a proportionate share basis⁽¹⁾.
 - Transferred \$82.8 million of properties under development to income producing status during the quarter, delivering approximately 180,000 square feet of new GLA on a proportionate share basis⁽¹⁾.
- Ended quarter with debt-to-gross book value⁽¹⁾ at 43.8%, and normalized debt to EBITDAFV⁽¹⁾ and interest coverage ratios⁽¹⁾ of 7.6 and 3.7 times, respectively.
 - Strong liquidity position with approximately \$1.5 billion of available credit and a \$12.2 billion pool of unencumbered properties.

Annual Financial Performance

During the year ended December 31, 2020

Operating

- Reported net income for the year of \$450.7 million. Included in this amount was a \$354.3 adjustment to the fair value of the Exchangeable Units attributable to the unit price decrease for Choice Properties during the year.
- Reported FFO per unit diluted⁽ⁱ⁾ for the year was \$0.924. Excluding the effect of the bad debt expense, FFO per Unit would have been \$0.944.
- AFFO per unit diluted⁽ⁱ⁾ for the year was \$0.800, reflecting an 92.6% payout ratio. The decrease in AFFO reflects the decline in FFO for the year and increased spending on capital projects, partially offset by a reduction in straight- line rental revenue.
- Same-asset NOI on a cash basis, excluding bad debt expense⁽ⁱ⁾ increased by 0.9% over the prior year primarily due to a general reduction in operating and realty tax costs. Including bad debt expense, same-asset NOI on a cash basis⁽ⁱ⁾ declined by 1.6%.
- Period end occupancy remained strong at 97.1%, with retail at 97.4%, industrial at 97.3% and office at 92.1%.

Financing

- Completed a \$500 million dual-tranche offering of senior unsecured debentures, with \$400 million Series N at 2.981% maturing in March 2030 and \$100 million Series O at 3.827% maturing in March 2050.
- Completed the \$500 million offering of Series P senior unsecured debentures at 2.848%, maturing in May 2027.
- Early redeemed at par the \$300 million Series 8 senior unsecured debentures in January 2020 and early redeemed at a \$0.3 million premium the \$250 million Series E senior unsecured debentures in March 2020.
- Early redeemed at par the \$100 million Series B-C senior unsecured debentures with an initial maturity date of January 2021 and the \$250 million senior unsecured debentures with an initial maturity date of February 2021. The early redemption premiums paid for these two senior unsecured debentures was \$6.8 million.

Investing

- Active capital recycling with dispositions of \$499.4 million of which the proceeds were utilized to facilitate acquisitions of \$505.7 million.
- Ongoing investment in the development program with \$150.2 million of spending during the year on intensification, greenfield, mixed-use and residential development projects on a proportionate share basis⁽ⁱ⁾.
- Transferred \$197.4 million of properties under development to income producing status during the year, delivering approximately 438,000 square feet of new GLA on a proportionate share basis⁽ⁱ⁾.

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1. KEY PERFORMANCE INDICATORS AND SELECTED FINANCIAL INFORMATION

Choice Properties has identified key financial and operating performance indicators that were derived from, and should be read in conjunction with, the consolidated financial statements of the Trust dated December 31, 2020 and 2019. 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 year ended December 31 (\$ thousands except where otherwise indicated)	2020	2019	2018
Number of investment properties	731	726	753
GLA (in millions of square feet)	66.1	65.8	66.8
Occupancy*	97.1%	97.7%	97.7%
Total assets (GAAP)	\$ 15,647,242	\$ 15,576,195	\$ 15,549,215
Total liabilities (GAAP)	\$ (12,124,702)	\$ (12,478,177)	\$ (12,049,229)
Rental revenue (GAAP)	\$ 1,270,614	\$ 1,288,554	\$ 1,148,273
Net income (loss)	\$ 450,685	\$ (581,357)	\$ 649,577
Net income (loss) per unit diluted	\$ 0.637	\$ (0.843)	\$ 1.111
FFO ⁽¹⁾ per unit diluted*	\$ 0.921	\$ 0.987	\$ 1.033
FFO ⁽¹⁾ payout ratio*	80.5%	75.0%	71.4%
AFFO ⁽¹⁾ per unit diluted*	\$ 0.800	\$ 0.853	\$ 0.827
AFFO ⁽¹⁾ payout ratio*	92.6%	86.8%	89.2%
Distribution declared per Unit	\$ 0.740	\$ 0.740	\$ 0.740
Weighted average number of Units outstanding – diluted	707,764,714	689,285,790	584,605,228
Debt to total assets ⁽ⁱ⁾	42.7%	43.1%	47.2%
Debt service coverage ⁽ⁱⁱ⁾	3.2x	3.0x	3.0x
Normalized Debt to EBITDAFV ^{(1)(iii)(iv)*}	7.6x	7.5x	8.0x
Indebtedness ^(iv) – weighted average term to maturity*	5.7 years	5.2 years	5.2 years
Indebtedness ^(iv) – weighted average interest rate*	3.65%	3.74%	3.72%

* Denotes a key performance indicator

- (i) Debt ratios exclude Exchangeable Units, see Section 4, "Liquidity and Capital Resources". The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.
- (ii) As at December 31, 2019, Debt to EBITDAFV calculated on a trailing 12-month normalized basis excludes the effect of the Oak Street disposition.
- (iii) Normalized Debt to EBITDAFV, net of cash, was 7.4x at December 31, 2020, 7.2x at December 31, 2019, and 7.9x at December 31, 2018
- (iv) Indebtedness reflects senior unsecured debentures and mortgages only.

2. BALANCE SHEET

The following table reconciles Choice Properties' balance sheet on a GAAP basis to a proportionate share basis⁽¹⁾ as at the dates indicated:

(\$ thousands)	As at December 31, 2020			As at December 31, 2019		
	GAAP Basis	Reconciliation	Proportionate Share Basis ⁽¹⁾	GAAP Basis	Reconciliation	Proportionate Share Basis ⁽¹⁾
Assets						
Investment properties	\$ 14,389,000	\$ 1,015,000	\$ 15,404,000	\$ 14,373,000	\$ 938,000	\$ 15,311,000
Equity accounted joint ventures	573,649	(573,649)	—	606,089	(606,089)	—
Financial real estate assets	68,373	(68,373)	—	22,800	(22,800)	—
Mortgages, loans and notes receivable	263,946	—	263,946	332,286	—	332,286
Intangible assets	29,000	—	29,000	30,000	—	30,000
Accounts receivable and other assets	116,055	562	116,617	72,230	10,581	82,811
Assets held for sale	—	—	—	97,800	—	97,800
Cash and cash equivalents	207,219	16,498	223,717	41,990	9,494	51,484
Total Assets	\$ 15,647,242	\$ 390,038	\$ 16,037,280	\$ 15,576,195	\$ 329,186	\$ 15,905,381
Liabilities and Equity						
Long term debt	\$ 6,485,521	\$ 363,450	\$ 6,848,971	\$ 6,413,452	\$ 314,798	\$ 6,728,250
Credit facility	—	—	—	127,233	—	127,233
Exchangeable Units	5,149,182	—	5,149,182	5,424,368	—	5,424,368
Trade payables and other liabilities	489,999	26,588	516,587	513,124	14,388	527,512
Total Liabilities	12,124,702	390,038	12,514,740	12,478,177	329,186	12,807,363
Equity						
Unitholders' equity	3,514,739	—	3,514,739	3,090,217	—	3,090,217
Non-controlling interests	7,801	—	7,801	7,801	—	7,801
Total Equity	3,522,540	—	3,522,540	3,098,018	—	3,098,018
Total Liabilities and Equity	\$ 15,647,242	\$ 390,038	\$ 16,037,280	\$ 15,576,195	\$ 329,186	\$ 15,905,381

Balance Sheet Analysis (GAAP Basis)

Line Item	\$ Change	Variance Commentary
Investment properties and Assets held for sale	\$ (81,800)	The decrease compared to December 31, 2019 is primarily attributable to an unfavourable fair value adjustment on investment properties of \$220,000, and dispositions of \$509,000, partially offset by various property acquisitions for \$459,000, development and operating capital expenditures of \$132,000, transfers from equity accounted joint ventures of \$43,000 and straight line rent amortization of \$14,000.
Equity accounted joint ventures	(32,440)	Net decrease was primarily attributable to transferring the Trust's 40% interest in a joint venture to investment properties upon acquisition of the joint venture partner's 60% share, coupled with an unfavourable adjustment in the fair value for properties held in joint ventures and higher bad debt expense.
Financial real estate assets	45,573	Net increase was mainly attributable to the acquisition of a portfolio of five assets from Loblaw. These assets have been recognized as financial instruments because they did not meet the criteria of a transfer of control under IFRS 15 due to the sale-leaseback arrangement with Loblaw.
Mortgages, loans and notes receivable	(68,340)	The decrease was primarily attributable to the timing of distributions paid for Exchangeable Units of the Trust held by GWL, which were deferred in exchange for advances on notes receivable. In addition, a specific mortgage receivable was settled upon acquisition of the underlying investment property which was used as security for the mortgage. These declines were partially offset by additional advances to various partners during the year.
Intangible assets	(1,000)	The decrease was attributable to amortization of the Trust's intangible assets during the year.
Working Capital	232,179	Net change was primarily due to proceeds received from the net disposition of investment properties, coupled with a net decline in the distribution payable owing to GWL.
Long term debt and credit facility	(55,164)	Net decrease in debt levels primarily attributable to redemptions of Series E, 8, C, and B-C senior unsecured debentures totaling \$900,000, a \$132,000 reduction in draws on the credit facility, and a \$25,000 net decrease in mortgages payable, partially offset by the issuance of Series N, O and P senior unsecured debentures, totaling \$1,000,000.
Exchangeable Units	(275,186)	As this liability is measured at fair value, the change was primarily due to the decrease in the unit price for Choice Properties since December 31, 2019, partially offset by the issuance of Exchangeable Units as consideration to acquire a portfolio of six industrial assets from GWL in December 2020.
Unitholders' equity	424,522	Net increase was primarily due to the issuance of Trust Units on acquisition of two investment properties, coupled with year-to-date net income, partially offset by distributions to Unitholders.

3. INVESTMENT PROPERTIES

To expand the portfolio and participate in development opportunities, Choice Properties owns varying interests in real estate entities that hold investment properties. Under GAAP, many of these interests are recorded as equity accounted joint ventures and, as such, the Trust's share of the investment properties owned by these entities is presented on the balance sheet as a summarized value, not as part of the total investment properties. In addition, the Trust also has financial real estate assets which are not included with its investment properties as prepared under GAAP. Refer to Section 14.1, "Investment Properties Reconciliation", for a reconciliation of the continuity of investment properties determined in accordance with GAAP.

The following continuity schedule presents Choice Properties' portfolio inclusive of its financial real estate assets and equity accounted joint ventures prepared on a proportionate share basis⁽¹⁾ for the periods ended, as indicated:

As at or for the periods ended December 31, 2020 (\$ thousands)	Three Months			Year Ended		
	Income producing properties	Properties under development	Investment Properties ⁽ⁱ⁾	Income producing properties	Properties under development	Investment Properties ⁽ⁱ⁾
GAAP balance, beginning of period	\$13,845,000	\$ 235,000	\$ 14,080,000	\$14,210,000	\$ 163,000	\$ 14,373,000
Adjustments to reflect investment properties held in equity accounted joint ventures and as financial real estate assets on a proportionate share basis ⁽ⁱⁱ⁾	688,000	253,000	941,000	675,000	263,000	938,000
Non-GAAP proportionate share balance ⁽¹⁾ , beginning of period	14,533,000	488,000	15,021,000	14,885,000	426,000	15,311,000
Acquisitions of investment properties ⁽ⁱⁱⁱ⁾	219,284	—	219,284	423,778	81,893	505,671
Capital expenditures						
Development capital ⁽ⁱⁱⁱ⁾	—	43,256	43,256	—	145,219	145,219
Building improvements	14,890	—	14,890	17,411	—	17,411
Capitalized interest ^(iv)	—	1,836	1,836	—	4,939	4,939
Operating capital expenditures						
Property capital	22,498	—	22,498	33,146	—	33,146
Direct leasing costs	2,091	—	2,091	8,100	—	8,100
Tenant improvement allowances	4,873	—	4,873	20,850	—	20,850
Amortization of straight-line rent	4,231	—	4,231	16,113	—	16,113
Transfer from assets held for sale	32,510	—	32,510	—	—	—
Transfers from properties under development	82,846	(82,846)	—	197,411	(197,411)	—
Dispositions	(66,400)	—	(66,400)	(391,878)	—	(391,878)
Disposition to equity accounted joint venture	—	—	—	(9,734)	—	(9,734)
Adjustment to fair value of investment properties	77,177	26,754	103,931	(273,197)	16,360	(256,837)
Non-GAAP proportionate share balance⁽¹⁾, December 31, 2020	\$14,927,000	\$ 477,000	\$ 15,404,000	\$14,927,000	\$ 477,000	\$ 15,404,000

(i) Refer to Section 14.1, "Investment Properties Reconciliation" for a reconciliation of the continuity of investment properties determined in accordance with GAAP.

(ii) Includes acquisition costs.

(iii) Development capital included \$509 and \$995 of site intensification payments paid to Loblaw for the three months and year ended December 31, 2020, (December 31, 2019 - \$353 and \$4,577).

(iv) Interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.70% (December 31, 2019 - 3.70%).

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

3.1 Valuation Method

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

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

As at December 31, 2020	Retail	Industrial	Office	Total Investment Properties
Discount rate	6.97%	6.52%	6.21%	6.84%
Terminal capitalization rate	6.22%	5.73%	5.32%	6.07%
Overall capitalization rate	6.06%	5.50%	5.15%	5.90%

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

Valuation Commentary

The Trust recorded a favourable adjustment to the fair value of investment properties of \$103.9 million for the three months ended December 31, 2020 and an unfavourable adjustment to the fair value of investment properties of \$256.8 million for the year ended December 31, 2020.

During the three months ended December 31, 2020, the Trust revalued its portfolio primarily through adjustments to contractual changes in cash flows, changes in market rents, pending transactions and macro considerations. Based on external data points, the Trust revalued its small and mid bay industrial portfolio in the Greater Toronto Area, reflecting the strength in leasing fundamentals in this segment and market. In addition, the Trust recognized a fair value increase within the Quebec industrial segment due to securing a lease agreement with a large multi-national e-commerce provider in the fourth quarter. Grocery-anchored retail continued to demonstrate ongoing resilience, resulting in moderate fair value increases due to organic NOI growth within the Loblaw leases. In addition, a \$29.0 million fair value gain related to a development property was recognized after the Trust entered into an agreement to sell the asset. The sale of this property closed in February 2021.

During the three months ended December 31, 2020, management determined that no major changes in discount rates were warranted. The net increase in the fair value of investment properties for the quarter was primarily due to a change in leasing assumptions in the industrial portfolio reflecting the strong underlying fundamentals, substantiated by third party data points, as well as known leasing transactions. In addition, the resiliency and growth of the grocery anchored portfolio also positively contributed to fair value increases for the quarter.

3.2 Investment Property Transactions

Acquisitions of Investment Properties

The following table summarizes the investment properties acquired in the year ended December 31, 2020:

Location	Date of Acquisition	Segment	Ownership Interest Acquired	GLA (square feet)	Purchase Price incl. Related Costs	Consideration				Cash
						Issuance of Trust / Exchangeable Units ⁽ⁱ⁾	Assumed Liabilities	Mortgage Receivable Settlement	Cost to Complete Receivable	
Acquisitions from related parties										
Toronto, ON	Jun 10	Land	100%	N/A	\$ 8,190	\$ —	\$ —	\$ —	\$ —	\$ 8,190
Toronto, ON	Jul 31	Office	100%	328,260	130,754	128,500	—	—	—	2,254
Toronto, ON ⁽ⁱ⁾	Jul 31	Office	60%	262,000	65,350	80,435	—	—	(16,404)	1,319
Portfolio of 5 assets across Canada	Nov 24	Retail	100%	146,000	46,712	—	—	—	—	46,712
Portfolio of 6 assets across Canada	Dec 18	Industrial	100%	835,500	82,357	79,100	2,400	—	—	857
Total acquisitions from related parties				1,571,760	333,363	288,035	2,400	—	(16,404)	59,332
Acquisitions from third-parties										
Coquitlam, BC	Feb 11	Retail	100%	9,400	21,840	—	—	—	—	21,840
Toronto, ON	Apr 9	Land	100%	3,200	8,354	—	—	—	—	8,354
Barrie, ON	Sep 23	Retail	100%	156,460	51,899	—	—	50,000	—	1,899
Portfolio of 4 assets across Canada	Oct 16	Industrial	100%	180,632	87,330	—	—	—	—	87,330
Calgary, AB	Dec 22	Retail	N/A	N/A	2,885	—	—	—	—	2,885
Total acquisitions from third-parties				349,692	172,308	—	—	50,000	—	122,308
Total acquisitions				1,921,452	\$ 505,671	\$ 288,035	\$ 2,400	\$ 50,000	\$ (16,404)	\$ 181,640

(i) Represents the 60% additional ownership interest acquired from Wittington, increasing the Trust's ownership interest in this property to 100%.

(ii) The assets acquired from Wittington were satisfied in full by the issuance of 16,500,000 Units of Choice Properties. The assets acquired from GWL were satisfied in full by the issuance of 5,824,742 Exchangeable Units.

Disposition of Investment Properties and Assets Held for Sale

The following table summarizes the dispositions in the year ended December 31, 2020:

(\$ thousands except where otherwise indicated)

Location	Date of Disposition	Segment	Ownership Interest	Sale Price excl. Selling Costs	Consideration		
					Cash	Lease Receivable	Debt Assumed by Purchaser
Assets held for sale							
Chicago, USA	Jan 24	Retail	100%	\$ 97,800	\$ 97,800	\$ —	\$ —
Dispositions of assets held for sale				97,800	97,800	—	—
Investment properties							
Edmonton, AB	Jan 29	Residential	50%	9,750	2,561	—	7,189
Creston, BC	Feb 3	Retail (parcel)	100%	375	375	—	—
Halifax, NS	Feb 13	Office	100%	26,700	8,956	—	17,744
Milton, ON	Sep 28	Industrial	100%	22,613	22,613	—	—
Portfolio of 11 assets across Canada ⁽ⁱⁱ⁾	Oct 28	Retail	50%	169,040	169,040	—	—
Quebec City, QC	Nov 23	Retail (parcel)	50%	5,000	5,000	—	—
Portfolio of 3 assets across Canada	Nov 27	Retail	100%	64,000	64,000	—	—
Portfolio of 5 assets across Canada ⁽ⁱⁱ⁾	Dec 1	Retail	100%	43,400	43,400	—	—
Windsor, ON ⁽ⁱⁱⁱ⁾	Dec 23	Retail	100%	51,000	51,000	—	—
Dispositions of investment properties				391,878	366,945	—	24,933
Equity accounted joint ventures							
Ottawa, ON	Jul 1	Land	50% ⁽ⁱ⁾	9,734	—	9,734	—
Disposition to equity accounted joint venture				9,734	—	9,734	—
Total dispositions				\$ 499,412	\$ 464,745	\$ 9,734	\$ 24,933

(i) On July 1, 2020, the Trust entered into a 99-year ground lease with an equity accounted joint venture in which the Trust has a 50% ownership interest. On a proportionate share basis⁽¹⁾, the disposition reflects the Trust's joint venture partner's 50% interest in the land held by the joint venture, with the lease receivable at the Trust reflecting the balance owing to the Trust by its joint venture partner for the corresponding ground lease payments.

(ii) Choice Properties sold two portfolios consisting of 16 retail properties that were leased to Loblaw.

(iii) Property disposition included a Loblaw lease.

Acquisitions of Investment Properties

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

(\$ thousands except where otherwise indicated)

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

- (i) Land was under development for residential purposes and classified as properties under development upon acquisition.
(ii) The property was acquired as part of an equity accounted joint venture.
(iii) Represents additional ownership interest acquired increasing the ownership interest in this property to 100%.

Disposition of Investment Properties

The following table summarizes the dispositions in the December 31, 2019:

(\$ thousands except where otherwise indicated)

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

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

3.3 Development Activities

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

Choice Properties' development program on a proportionate share basis⁽¹⁾ as at December 31, 2020 is summarized below:

Project type	GLA (square feet)			Total Investment ⁽ⁱ⁾			
	Currently under development	Future ⁽²⁾ development	Total development	To-date	In progress ⁽²⁾⁽ⁱⁱ⁾	Future ⁽²⁾⁽ⁱⁱⁱ⁾	Total
(\$ thousands except where otherwise indicated)							
Intensification							
Retail - Active	69,000	—	69,000	\$ 15,090	\$ 10,938	\$ —	\$ 26,028
Retail - In Planning	—	128,000	128,000	3,387	—	45,682	49,069
Subtotal intensification	69,000	128,000	197,000	18,477	10,938	45,682	75,097
Greenfield development							
Retail	169,000	91,000	260,000	161,838	28,900	5,396	196,134
Industrial	—	259,000	259,000	14,914	2,498	23,152	40,564
Subtotal greenfield development	169,000	350,000	519,000	176,752	31,398	28,548	236,698
Mixed-use							
Mixed-use	—	—	—	55,253	27,528	—	82,781
Subtotal mixed-use	—	—	—	55,253	27,528	—	82,781
Residential							
Residential	897,000	—	897,000	182,719	326,789	—	509,508
Subtotal residential	897,000	—	897,000	182,719	326,789	—	509,508
Total development - cost	1,135,000	478,000	1,613,000	\$ 433,201	\$ 396,653	\$ 74,230	\$ 904,084
Total development - fair value				\$ 477,000			

(i) Compiled on non-GAAP proportionate share basis⁽¹⁾. Investment to-date compiled on a cash basis, excluding adjustments to fair value of on-going projects.

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

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

3.4 Intensification

Intensifications are focused on adding retail density within the existing portfolio. As at December 31, 2020, Choice Properties had 17 ongoing intensification projects representing a total of 197,000 square feet. This includes:

- 5 intensification projects under active development representing 69,000 square feet and a total investment of approximately \$26.0 million to complete⁽²⁾ over the next one to two years; and
- 12 intensification projects in planning representing 128,000 square feet. If proceeded with as planned, these projects will require a total investment of approximately \$49.1 million to complete⁽²⁾ over the next two to four years.

3.5 Greenfield Development

Development activities include greenfield projects that are primarily focused on retail shopping centres and industrial parks. As at December 31, 2020, Choice Properties had 15 greenfield development projects in the pipeline that, upon completion, will comprise approximately 0.5 million square feet. A total of \$176.8 million has been invested to date in the pipeline. The Trust currently expects to invest a total of \$31.4 million⁽²⁾ in these projects over the next three to five years.

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

Choice Properties had six greenfield retail properties under active development as at December 31, 2020, representing 169,000 square feet, of which 80% had been pre-leased. To-date, a total of \$27.9 million has been invested in these six developments and the Trust expects to invest an additional \$26.1 million to complete the developments before transferring them to income producing properties⁽²⁾.

The greenfield projects, at the Trust's ownership share, currently under active development as at December 31, 2020 are as follows:

Project / Location	Ownership %	GLA (square feet)		Total	Total investment ⁽ⁱ⁾		
		Committed to lease	Not committed to lease		To-date	In progress ⁽²⁾	Total
(\$ thousands except where otherwise indicated)							
Retail							
1 Harvest Pointe, Edmonton, AB	50 %	18,000	—	18,000	\$ 2,759	\$ 5,736	\$ 8,495
2 Harvest Hills, Edmonton, AB	50 %	49,000	7,000	56,000	6,127	9,928	16,055
3 Sunwapta West (Coopers) Lands, Edmonton, AB	50 %	63,000	—	63,000	12,110	790	12,900
4 Erin Ridge Retail Lands, St. Albert, AB	50 %	3,000	—	3,000	1,250	577	1,827
5 Oshawa Retail Lands, Oshawa, ON	50 %	3,000	4,000	7,000	1,281	1,977	3,258
6 Bathurst and Lake Shore, Toronto, ON	100 %	—	22,000	22,000	4,406	7,060	11,466
Total active greenfield development		136,000	33,000	169,000	\$ 27,933	\$ 26,068	\$ 54,001
Total non-active greenfield development					148,819	5,330	
Total greenfield development					\$ 176,752	\$ 31,398	

(i) Compiled on a non-GAAP proportionate share basis⁽¹⁾. Investment to-date was compiled on a cash basis, excluding adjustments to fair value of on-going projects.

3.6 Mixed-Use Development

Choice Properties currently has a number of sites planned for mixed-use development with five of these sites in an active pre-development stage. The five properties are in key urban markets, including four sites in Toronto, Ontario, and one in Coquitlam, British Columbia. These developments are residential focused, mixed-use communities in close proximity to public transportation. A total of \$55.3 million has been invested to date on land acquisition and other initial development costs. The Trust expects to invest an additional \$27.5 million⁽²⁾ on pre-development activities for these projects over the next two to five years before beginning construction. The projects are in various phases of pre-development, and Choice Properties continues to work on finalizing the assembly of land parcels for the developments.

434-455 North Rd., Coquitlam, BC

The approximately 7 acre site is in the City of Coquitlam in the Greater Vancouver Area. The site is well located and transit oriented, in close proximity to Loughheed 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 approval.

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 and Zoning By-law Amendment Applications were submitted to the City of Toronto and the Trust is working with the City on their Secondary Planning Study for the Golden Mile Area.

2280 Dundas St. W., Toronto, ON

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

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

985 Woodbine Ave., Toronto, ON

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

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

685 Warden Ave., Toronto, ON

The approximately 6.5 acre site is located near the intersection of St. Clair Avenue and Warden Avenue in Toronto. The site is adjacent to the Warden TTC subway station. Choice Properties is currently in the early stages of the development concept creation.

3.7 Residential

Choice Properties has six residential projects in the pipeline representing 1,119 residential units. As at December 31, 2020, a total of \$182.7 million had been invested in these projects and Choice Properties expects to invest an additional \$326.8 million⁽²⁾ 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, 2020, are as follows:

Project / Location	Ownership %	Number of Units	GLA ⁽ⁱⁱ⁾ (square feet)		Total	Total investment ⁽ⁱⁱⁱ⁾		
			Commercial under development	Residential under development		To-date	In progress ⁽²⁾	Total
1 Bovaird West, Brampton, ON	50 %	149	—	149,000	149,000	\$ 13,747	\$ 72,752	\$ 86,499
2 Kirkwood Ave., Ottawa, ON ^(iv)	50 %	126	—	101,000	101,000	3,885	47,217	51,102
3 Dufferin St., Toronto, ON	47 %	187	32,000	156,000	188,000	80,159	10,504	90,663
4 East Liberty St., Toronto, ON	47 %	207	—	127,000	127,000	56,974	21,941	78,915
5 Sheppard Ave. West, Toronto, ON ⁽ⁱ⁾	50 %	100	5,000	64,000	69,000	5,880	32,958	38,838
6 Grosvenor-Grenville, Toronto, ON ⁽ⁱ⁾	50 %	350	8,000	255,000	263,000	22,074	141,417	163,491
Total		1,119	45,000	852,000	897,000	\$ 182,719	\$ 326,789	\$509,508

(i) Preliminary stages of development.

(ii) Choice Properties' share.

(iii) Compiled on a non-GAAP proportionate share basis⁽¹⁾. Investment to-date was compiled on a cash basis, excluding adjustments to fair value of on-going projects.

(iv) On July 1, 2020, the Trust entered into a 99-year ground lease with an equity accounted joint venture in which the Trust has a 50% ownership interest. Total investment represents the Trust's share of project costs.

3.8 Completed Developments

For the year ended December 31, 2020, Choice Properties transferred the following from properties under development to income producing properties as presented on a proportionate share basis⁽¹⁾:

(\$ thousands except where otherwise indicated)

Project / Location	Property type	Ownership %	Transferred GLA (square feet)	Cost of assets transferred
Intensification				
1 Mahogany Village Market, Calgary, AB	Retail	100 %	4,322	\$ 2,688
2 Sunwapta Centre, Edmonton, AB	Retail	50 %	3,257	1,336
3 Stony Plain Road, Edmonton, AB	Retail	100 %	2,065	750
4 Mayor McGrath Drive, Lethbridge, AB	Retail	100 %	16,058	7,543
5 Winners Circle, Arnprior, ON	Retail	100 %	7,967	3,142
6 South Edmonton Common, Edmonton, AB	Retail	50 %	3,530	1,584
7 Pioneer Park, Kitchener, ON	Retail	100 %	28,138	8,909
8 Upper Centennial Pkwy, Stoney Creek, ON	Retail	100 %	3,000	281
9 Highway 2A, Lacombe, AB	Retail	100 %	12,639	3,673
Subtotal intensification			80,976	29,906
Greenfield development				
1 Oshawa Retail Lands, Oshawa, ON	Retail	50 %	11,398	4,456
2 Erin Ridge Retail Lands, St. Albert, AB	Retail	50 %	24,636	8,088
3 Harvest Pointe, Edmonton, AB	Retail	50 %	5,593	2,663
4 Bathurst and Lake Shore, Toronto, ON	Mixed-Use	100 %	237,043	125,352
5 Great Plains Business Park, Calgary, AB	Industrial	50 %	78,534	14,718
6 Richmond Rd. (Land), Ottawa, ON ⁽ⁱ⁾	Retail	100 %	n/a	5,490
Subtotal greenfield development			357,204	160,767
Total Transferred Properties at Cost			438,180	\$ 190,673
Total Transferred Properties at Fair Value				\$ 197,411

(i) Represents the ground lease with an equity accounted joint venture to facilitate the Kirkwood Ave. residential development project.

3.9 Development Project Capital

Choice Properties expects to invest a total of approximately \$403 million, at the Trust's ownership share⁽¹⁾, by the end of the year 2023⁽²⁾.

(\$ thousands)

	2021	2022	2023	Total
Intensification	\$ 12,000	\$ 43,000	\$ 1,000	\$ 56,000
Greenfield development	39,000	5,000	—	44,000
Mixed-use	14,000	7,000	5,000	26,000
Residential	90,000	101,000	86,000	277,000
Estimated total capital annual spend⁽ⁱ⁾	\$ 155,000	\$ 156,000	\$ 92,000	\$ 403,000

(i) Compiled on a non-GAAP proportionate share basis⁽¹⁾.

3.10 Mortgages, Loans and Notes Receivable

As a means to generate acquisition opportunities, Choice Properties has established a program with a group of strong real estate developers whereby Choice Properties provides mezzanine and/or co-owner financing. Such financing activities generally provide Choice Properties with an option or other rights to acquire an interest in the developed income producing property. Mortgages and loans receivable represent amounts advanced under mezzanine loans, joint venture financing, vendor take-back financing and other arrangements.

(\$ thousands)	As at December 31, 2020	As at December 31, 2019
Mortgages receivable	\$ 165,470	\$ 185,350
Loans receivable	2,285	5,649
Notes receivable from related party	96,191	144,287
Allowance for expected credit losses on mortgage receivable	—	(3,000)
Mortgages, loans and notes receivable	\$ 263,946	\$ 332,286

Non-interest-bearing short-term notes totalling \$144,287 were repaid by GWL in January 2020. Non-interest-bearing short-term notes totalling \$96,191 were issued during 2020 to GWL and repaid in January 2021.

In the first quarter of 2020, the borrower on the Trust's \$23,000 mortgage receivable for an asset in Barrie, Ontario, defaulted on its loan from the Trust. The loan was secured by a property that is adjacent to a grocery anchored shopping centre owned by the Trust. The loan was also cross-collateralized by two other properties where the Trust is a joint venture partner with the borrower. The Trust's security was subordinate to a senior lender who provided construction financing.

After default, the Trust repaid the borrower's obligation to the senior lender of \$43,000 such that the Trust became the only secured creditor on the property. In the second quarter of 2020, the Trust applied to the court to have a receiver appointed, who launched a process to market and sell the property. The Trust submitted an unconditional bid to the receiver to acquire the property. In September 2020, the Trust's offer was accepted by the court and ownership of the property was transferred by court order to the Trust. Upon close of the acquisition, the allowance for expected credit losses associated with this mortgage receivable was written off.

The Trust has approximately \$160 million of secured mortgages to other third-party borrowers. These loans are with borrowers who are strategic development partners of the Trust and have strong credit metrics.

4. LIQUIDITY AND CAPITAL RESOURCES

4.1 Major Cash Flow Components

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Cash and cash equivalents, beginning of period	\$ 28,301	\$ 54,946	\$ (26,645)	\$ 41,990	\$ 30,713	\$ 11,277
Cash flows from operating activities	255,960	207,460	48,500	621,184	580,556	40,628
Cash flows from (used in) investing activities	43,031	(123,665)	166,696	155,194	61,597	93,597
Cash flows from (used in) financing activities	(120,073)	(96,751)	(23,322)	(611,149)	(630,876)	19,727
Cash and cash equivalents, end of period	\$ 207,219	\$ 41,990	\$ 165,229	\$ 207,219	\$ 41,990	\$ 165,229

Cash Flows from Operating Activities

Three Months

The increase in cash flows from operating activities is mainly due to lower working capital requirements, partially offset by decreased collections in relation to COVID-19.

Year Ended

The increase in cash flows from operating activities is primarily due to lower working capital requirements, partially offset by lower net operating income due to the Oak Street disposition in 2019 and decreased collections in relation to COVID-19.

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

Cash Flows from (used in) Investing Activities

Three Months

The increase in cash flows from investing activities was primarily due to the receipt of proceeds from net dispositions completed in current period, partially offset by an increase in capital spending and net advances to mortgages receivable.

Year Ended

The increase in cash flows from investing activities was primarily due to net repayments of mortgages, loans, and notes receivable and a decrease in contributions to equity accounted joint ventures in the current year, partially offset by an increase in acquisition and capital spending.

Cash Flows from (used in) Financing Activities

Three Months

The increase in cash used in financing activities was primarily due to the use of proceeds from net dispositions completed in the fourth quarter to repay the balance outstanding on the credit facility.

Year Ended

The decrease in cash used in financing activities was mainly attributable to a decrease in the net repayment of borrowings, partially offset by an issuance of Trust units in the prior year comparative period. The decrease was partially offset by an increase in distributions paid on exchangeable units, due to a greater deferral of the distributions in exchange for notes receivable in the prior year.

4.2 Liquidity and Capital Structure

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

(\$ thousands)	As at December 31, 2020	As at December 31, 2019	Change
Cash and cash equivalents - proportionate share basis ⁽¹⁾	\$ 223,717	\$ 51,484	\$ 172,233
Unused portion of the credit facility	1,500,000	1,368,000	132,000
Liquidity	\$ 1,723,717	\$ 1,419,484	\$ 304,233
Unencumbered assets - proportionate share basis⁽¹⁾	\$ 12,200,000	\$ 11,800,000	\$ 400,000

Base Shelf Prospectus

On March 4, 2020, Choice Properties filed a Short Form Base Shelf Prospectus allowing for the issuance of up to \$2,000,000 of Units and debt securities, or any combination thereof over a 25-month period.

4.3 Components of Total Debt

Choice Properties' debt structure was as follows:

As at December 31, 2020 (\$ thousands)	GAAP Basis	Proportionate Share Basis ⁽¹⁾	Proportionate Share Basis ⁽¹⁾	
			Weighted average term to maturity (years)	Weighted average interest rate (%)
Construction loans	\$ 25,193	\$ 166,169	0.8	2.18%
Credit facility	—	—	—	—%
Less: Debt placement costs ⁽⁶⁾	—	—		
Variable rate debt	25,193	166,169	0.8	2.18%
Senior unsecured debentures	5,275,000	5,275,000	6.0	3.61%
Mortgages payable	1,206,638	1,431,451	5.3	3.82%
Less: Debt placement costs, discounts and premiums	(21,310)	(23,649)		
Fixed rate debt	6,460,328	6,682,802	5.7	3.65%
Total debt, net	\$ 6,485,521	\$ 6,848,971		

⁽⁶⁾ Unamortized debt placement costs for the credit facility as at December 31, 2020 of \$3,337 have been included in other assets.

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

Construction Loans

For the purpose of financing the development of certain retail, industrial and residential properties, various investments in equity accounted joint ventures and co-ownerships have variable rate non-revolving construction facilities in which certain subsidiaries of the Trust guarantee its own share. These construction loans, which mature throughout 2021 to 2022, have a maximum amount available to be drawn at the Trust's ownership interest of \$226,145 (December 31, 2019 - \$225,477).

As at December 31, 2020, \$166,169 was drawn and the construction loans had a weighted average effective interest rate of 2.18% and a weighted average term to maturity of 0.8 years.

Credit Facility

Choice Properties has a \$1,500,000 senior unsecured committed revolving credit facility maturing May 4, 2023, provided by a syndicate of lenders. The credit facility bears interest at variable rates of either Prime plus 0.20% or Bankers' Acceptance rate plus 1.20%. The pricing is contingent on Choice Properties' credit ratings from either DBRS and S&P remaining at BBB (high). As at December 31, 2020, \$nil was drawn under the syndicated facility.

The credit facility contains certain financial covenants. As at December 31, 2020, the Trust was in compliance with all its financial covenants for the credit facility.

Senior Unsecured Debentures

On January 20, 2020, Choice Properties redeemed the \$300,000 series 8 senior unsecured debenture bearing interest at 3.60% due April 20, 2020.

On March 3, 2020, Choice Properties completed a \$500,000 dual-tranche offering of senior unsecured debentures on a private placement basis. The first tranche was the \$400,000 series N senior unsecured debenture bearing interest at 2.98% per annum maturing on March 4, 2030, while the second tranche was the \$100,000 series O senior unsecured debenture bearing interest at 3.83% per annum maturing on March 4, 2050. The net proceeds of the issuances were used to repay existing indebtedness, including the early redemption in full on March 13, 2020, of the \$250,000 series E senior unsecured debenture bearing interest at 2.30% due September 14, 2020.

On May 21, 2020, Choice Properties completed a \$500,000 offering on a private placement basis of the series P senior unsecured debenture bearing interest at 2.85% per annum maturing on May 21, 2027. The net proceeds of the issuance were used to repay existing indebtedness, including the early redemptions in full on June 12, 2020, of the \$100,000 series B-C senior unsecured debenture bearing interest at 3.06% due January 15, 2021 and the \$250,000 series C senior unsecured debenture bearing interest at 3.50% due February 8, 2021, as well as to repay all or a portion of the balance drawn on the Trust's credit facility.

Summary of Total Debt Activities

The following outlines the net changes to the components of Choice Properties' variable rate debt on a non-GAAP proportionate share basis⁽¹⁾ during the year ended December 31, 2020:

For the year ended December 31, 2020 (\$ thousands)	Credit facility	Construction loans	Total variable rate debt
Principal balance outstanding, beginning of year	\$ 132,000	\$ 114,601	\$ 246,601
Net advances (repayments)	(132,000)	51,568	(80,432)
Principal balance outstanding, end of year	\$ —	\$ 166,169	\$ 166,169

The following outlines the changes to the components of Choice Properties' fixed rate debt on a non-GAAP proportionate share basis⁽¹⁾ during the year ended December 31, 2020:

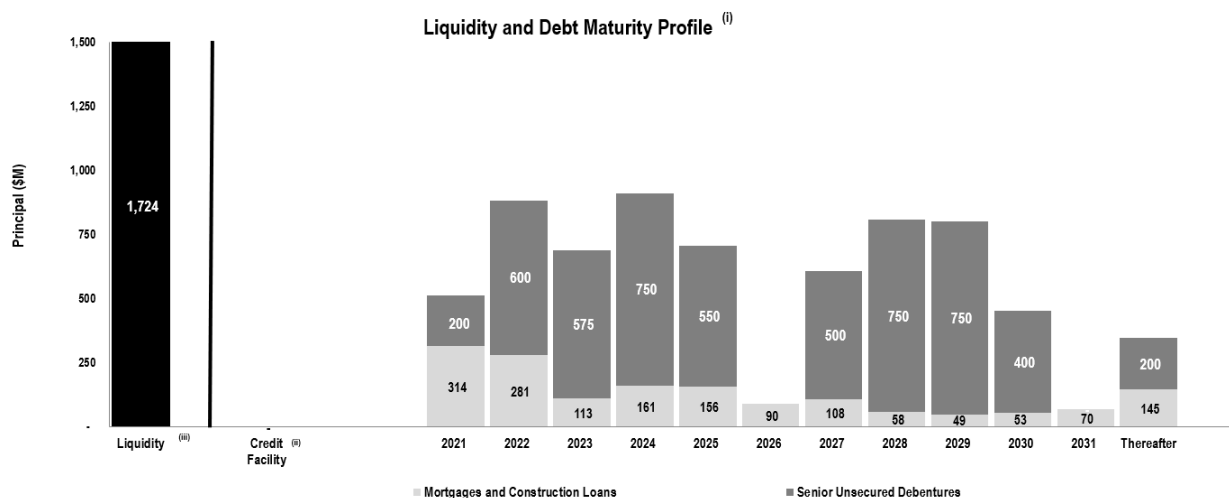
For the year ended December 31, 2020 (\$ thousands)	Senior unsecured debentures	Mortgages payable	Total fixed rate debt
Principal balance outstanding, beginning of year	\$ 5,175,000	\$ 1,458,224	\$ 6,633,224
Issuances and advances	1,000,000	78,049	1,078,049
Repayments	(900,000)	(79,889)	(979,889)
Assumed by purchaser on sale	—	(24,933)	(24,933)
Principal balance outstanding, end of year	\$ 5,275,000	\$ 1,431,451	\$ 6,706,451

Schedules of Repayments and Cash Flow Activities

The schedule of principal repayment of total long term debt, on a proportionate share basis⁽¹⁾, based on maturity, is as follows:

As at December 31, 2020 (\$ thousands)	Credit facility	Construction loans	Senior unsecured debentures	Mortgages payable	Total
2021	\$ —	\$ 108,522	\$ 200,000	\$ 205,012	\$ 513,534
2022	—	57,647	600,000	223,740	881,387
2023	—	—	575,000	112,557	687,557
2024	—	—	750,000	160,556	910,556
2025	—	—	550,000	155,957	705,957
Thereafter	—	—	2,600,000	573,629	3,173,629
Total debt outstanding	\$ —	\$ 166,169	\$ 5,275,000	\$ 1,431,451	\$ 6,872,620

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



- (i) Presented on a proportionate share basis⁽¹⁾.
- (ii) The credit facility matures on May 4, 2023.
- (iii) Includes cash and cash equivalents.

4.4 Financial Condition

Choice Properties is subject to certain financial and non-financial covenants in its senior unsecured debentures, credit facility and term loans, that include maintaining certain leverage and debt service ratios. These ratios are monitored by management on an ongoing basis to ensure compliance. Choice Properties was in compliance with all these covenants as at December 31, 2020 and December 31, 2019.

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

		As at December 31, 2020	As at December 31, 2019
Debt to Total Assets Ratio⁽ⁱ⁾	Limit: Maximum excluding convertible debt is 60.0%	42.7%	43.1%
Debt Service Coverage Ratio⁽ⁱⁱ⁾	Limit: Minimum 1.5x	3.2x	3.0x
Debt to EBITDAFV^{(1)(i)(ii)(iv)}		7.6x	7.3x
Interest Coverage Ratio⁽¹⁾⁽ⁱⁱⁱ⁾		3.7x	3.5x

- (i) Debt ratios exclude Exchangeable Units. The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.
- (ii) Refer to Section 14.8, "Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value", for a reconciliation of net income to EBITDAFV used in this ratio.
- (iii) Refer to Section 14.7, "Net Interest Expense and Other Financing Charges Reconciliation", for a reconciliation of proportionate share basis⁽¹⁾ to GAAP basis for net interest expense and other financing charges used in the ratio.
- (iv) On September 30, 2019, Choice Properties completed the Oak Street disposition and utilized the proceeds to repay debt. The debt to EBITDAFV ratio is calculated on a trailing 12-month basis which would include the earnings of the properties sold as part of the Oak Street disposition. Normalized to exclude the income (loss) from the Oak Street disposition, the Debt/EBITDAFV ratio as at December 31, 2019 was 7.5x.
- (v) Normalized Debt to EBITDAFV, net of cash, was 7.4x at December 31, 2020 and 7.2x at December 31, 2019.

4.5 Credit Ratings

Choice Properties' debt securities are rated by two independent credit rating agencies: DBRS and S&P. Choice Properties' ratings are linked to and equivalent to those of Loblaw, largely because of Loblaw's significant relationship with the Trust, and the contractual arrangements and the strategic relationship between the Trust and Loblaw. On September 17, 2020, DBRS upgraded the Choice Properties rating to BBB (high) with a stable trend, while on June 22, 2020, S&P confirmed the Choice Properties rating at BBB with a stable outlook. A credit rating of BBB- or higher is an investment grade rating.

The following table sets out the current credit ratings for Choice Properties as at December 31, 2020:

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

4.6 Unit Equity

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

	Year ended December 31, 2020	Year ended December 31, 2019
Units, beginning of year	310,292,869	278,202,559
Units issued through equity financing, net of issuance costs	—	30,042,250
Units issued to related party as part of investment properties acquisition	16,500,000	—
Distribution in Units	2,277,457	1,569,400
Consolidation of Units	(2,277,457)	(1,569,400)
Units issued under unit-based compensation arrangements	307,877	2,203,950
Units repurchased for unit-based compensation arrangements	(159,083)	(155,890)
Units, end of year	326,941,663	310,292,869
Exchangeable Units, beginning of year	389,961,783	389,961,783
Units issued to related party as part of investment properties acquisition	5,824,742	—
Exchangeable Units, end of year	395,786,525	389,961,783
Total Units and Exchangeable Units, end of year	722,728,188	700,254,652

Units Issued through Equity Financing

On May 9, 2019, the Trust completed a bought deal equity offering of 30,042,250 Units at a price of \$13.15 per Unit, for aggregate gross proceeds of approximately \$395,056, and net proceeds of approximately \$380,758. As part of this bought deal, GWL acquired 3,805,000 Units.

Units Issued to Related Party as part of Investment Properties Acquisition

During the year ended December 31, 2020, the acquisition of two office assets from Wittington was satisfied in full by the issuance of 16,500,000 Units of Choice Properties, while the acquisition of six industrial assets from GWL was satisfied in full by the issuance of 5,824,742 Exchangeable Units.

Distribution in Units and Consolidation of Units

As a result of the increase in taxable income generated primarily from sale transactions in the year ended December 31, 2020, the Board declared a special non-cash distribution on December 31, 2020, of 2,277,457 Units at \$0.09 per Unit totalling \$29,425. During the year ended December 31, 2019, the Board declared a special non-cash distribution on December 31, 2019, of 1,569,400 Units at \$0.07 per Unit totalling \$21,721.

Immediately following the issuance of Units, the Units were consolidated such that each Unitholder held the same number of Units after the consolidation as each Unitholder held prior to the special non-cash distribution. As at December 31, 2020 and 2019, the special distributions declared were recorded to Trust Units in accordance with IAS 32, "Financial Instruments: Presentation".

Normal Course Issuer Bid ("NCIB")

Choice Properties may from time to time purchase Units in accordance with the rules prescribed under applicable stock exchange or regulatory policies. On November 17, 2020, Choice Properties received approval from the TSX to purchase up to 25,846,904 Units during the twelve-month period from November 19, 2020 to November 18, 2021, by way of a NCIB over the facilities of the TSX or through alternative trading systems. Choice Properties intends to file a Notice of Intention to make a NCIB with the TSX upon the expiry of its current NCIB.

Units Issued under Unit-Based Compensation Arrangements

Units were issued as part of settlements under the Unit Option Plan and grants under the Unit-Settled Restricted Unit Plan.

Units Repurchased for Unit-Based Compensation Arrangement

The Trust acquired Units under its NCIB during the year ended December 31, 2020 and the year ended December 31, 2019, which were then granted to certain employees in connection with the Unit-Settled Restricted Unit Plan, and are subject to vesting conditions and disposition restrictions.

Distributions

In the year ended December 31, 2020, Choice Properties declared \$554,157 in distributions (December 31, 2019 - \$532,054), including distributions to holders of Exchangeable Units, which are reported as interest expense. The distributions declared for the periods ended December 31, 2020 and December 31, 2019 were as follows:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Cash distributions declared	\$ 132,986	\$ 129,546	\$ 3,440	\$ 524,732	\$ 510,333	\$ 14,399
Add: Special non-cash distribution ⁽ⁱ⁾	29,425	21,721	7,704	29,425	21,721	7,704
Total distributions declared	\$ 162,411	\$ 151,267	\$ 11,144	\$ 554,157	\$ 532,054	\$ 22,103

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

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

At its most recent meeting on February 10, 2021, the Board reviewed and approved the current rate of distributions of \$0.74 per unit per annum. In determining the amount of distributions to be made to Unitholders, Choice Properties' Board considers many factors, including provisions in its Declaration of Trust, macro-economic and industry specific environments, the overall financial condition of the Trust, future capital requirements, debt covenants, and taxable income. In accordance with Choice Properties' Distribution Policy, management and the Board regularly review Choice Properties' rate of distributions to assess the stability of cash and non-cash distributions.

Distribution Reinvestment Plan ("DRIP")

Choice Properties instituted a DRIP that allows eligible Unitholders to elect to automatically reinvest their regular monthly cash distributions in additional Units and to receive a bonus distribution in Units equivalent to 3% of each distribution. On April 25, 2018, the Board temporarily suspended the DRIP commencing with the distribution declared in May 2018. In the first quarter of 2020, the Board determined that the DRIP will remain suspended until further notice.

4.7 Adjusted Cash Flow from Operations (“ACFO”)

Adjusted Cash Flow from Operations⁽¹⁾ excludes most of the short-term fluctuations in non-cash working capital, such as property tax instalments, and the timing of semi-annual debenture instalments, 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. Refer to Section 14.5, “Adjusted Cash Flow from Operations”, for a reconciliation of ACFO⁽¹⁾ to cash flows from operating activities, as determined in accordance with GAAP.

The table below summarizes the ACFO⁽¹⁾ metrics:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Adjusted Cash Flow from Operations ⁽¹⁾	\$ 166,221	\$ 136,636	\$ 29,585	\$ 592,610	\$ 597,650	\$ (5,040)
Cash distributions declared	(132,986)	(129,546)	(3,440)	(524,732)	(510,333)	(14,399)
Cash retained after cash distributions	\$ 33,235	\$ 7,090	\$ 26,145	\$ 67,878	\$ 87,317	\$ (19,439)
ACFO ⁽¹⁾ payout ratio	80.0 %	94.8 %	(14.8)%	88.5 %	85.4 %	3.1 %

Three Months

ACFO increased compared to the prior year primarily as a result of an increase in cash flows from operating activities in the current year, mainly due to lower working capital requirements, partially offset by an unfavourable adjustment for changes in non-cash working capital.

ACFO payout ratio decreased primarily due to the increase in ACFO, partially offset by the increased distributions declared as a result of the Trust and Exchangeable Units issued in exchange for assets acquired during the current year.

Year Ended

ACFO decreased primarily due to the unfavourable changes in non-cash working capital and lower acquisition transaction costs, partially offset by the increase in cash flows from operating activities and lower interest expense and financing charges.

ACFO payout ratio increased primarily due to the decline in ACFO coupled with the increased distributions declared as a result of the Trust and Exchangeable Units issued in exchange for assets acquired during the current year.

4.8 Financial Instruments

Designated hedging derivatives consist of interest rate swaps to hedge the interest rate associated with an equivalent amount of variable rate mortgages. During the year ended December 31, 2020, an interest rate swap was settled upon maturity of the underlying variable rate mortgage. In addition, a variable rate mortgage was renewed and upfinanced which resulted in the associated interest rate swap being increased and designated at a higher notional amount. As at December 31, 2020, the interest rates ranged from 1.8% to 4.4% (December 31, 2019 - 1.8% to 5.1%).

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

(\$ thousands)	Maturity Date	Notional Amount	As at December 31, 2020	As at December 31, 2019
Derivative assets				
Interest rate swaps	June 2030	\$ 65,000	\$ 377	\$ 182
Derivative liabilities				
Interest rate swaps	Jan 2021 - Sept 2026	\$ 193,700	\$ 6,560	2,811

The unrealized gain and loss recorded in OCI for the three months and year ended December 31, 2020, was a fair value gain of \$1,677 and loss of \$3,554, respectively (December 31, 2019 - a fair value gain of \$1,793 and loss of \$2,044, respectively).

4.9 Off-Balance Sheet Arrangements

Choice Properties issues letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at December 31, 2020, the aggregate gross potential liability related to these letters of credit totalled \$33,916 including \$1,543 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, 2019 - \$36,110 including \$1,790 posted by Loblaw).

4.10 Contractual Obligations

The undiscounted future principal and interest payments on Choice Properties' debt instruments and other contractual obligations as at December 31, 2020 were as follows:

(\$ thousands)	2021	2022	2023	2024	2025	Thereafter	Total
Senior unsecured debentures	\$ 390,264	\$ 778,549	\$ 732,394	\$ 887,456	\$ 657,400	\$ 3,047,826	\$ 6,493,889
Mortgages payable	254,963	264,818	149,023	191,283	180,032	661,135	1,701,254
Construction loans ⁽ⁱ⁾	108,522	57,647	—	—	—	—	166,169
Credit facility ⁽ⁱ⁾	—	—	—	—	—	—	—
Lease liability	768	753	633	512	351	2,261	5,278
Other ⁽ⁱⁱ⁾	132,083	104,715	86,981	50,033	362	2,005	376,179
Total	\$ 886,600	\$ 1,206,482	\$ 969,031	\$ 1,129,284	\$ 838,145	\$ 3,713,227	\$ 8,742,769

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

(ii) As at December 31, 2020, Choice Properties had commitments of \$376,179 for future capital expenditures related to ongoing development and property capital projects, and other contractual obligations such as operating rents, of which \$54,708 relates to equity accounted joint ventures.

5. RESULTS OF OPERATIONS

Choice Properties' results, as reported under GAAP, for the three months and year ended December 31, 2020 and December 31, 2019 are summarized below:

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Net Operating Income								
Rental revenue	\$ 321,862	\$ 317,986	\$ 3,876	1.2 %	\$1,270,614	\$1,288,554	\$ (17,940)	(1.4)%
Property operating costs	(96,460)	(93,872)	(2,588)	2.8 %	(384,016)	(368,132)	(15,884)	4.3 %
	225,402	224,114	1,288	0.6 %	886,598	920,422	(33,824)	(3.7)%
Other Income and Expenses								
Interest income	2,770	3,456	(686)	(19.8)%	13,639	14,551	(912)	(6.3)%
Fee income	1,136	1,530	(394)	(25.8)%	4,416	4,556	(140)	(3.1)%
Net interest expense and other financing charges	(133,121)	(133,893)	772	(0.6)%	(540,720)	(551,843)	11,123	(2.0)%
General and administrative expenses	(8,778)	(9,760)	982	(10.1)%	(36,718)	(39,292)	2,574	(6.6)%
Allowance for expected credit losses on mortgage receivable	—	(3,000)	3,000	(100.0)%	(7,830)	(3,000)	(4,830)	161.0 %
Share of income (loss) from equity accounted joint ventures	9,036	(5,296)	14,332	(270.6)%	(5,570)	24,366	(29,936)	(122.9)%
Amortization of intangible assets	(250)	—	(250)	— %	(1,000)	—	(1,000)	— %
Foreign exchange gain reclassified from other comprehensive income	—	—	—	— %	1,184	—	1,184	— %
Acquisition transaction costs and other related expenses	—	—	—	— %	(1,589)	(8,363)	6,774	(81.0)%
Other fair value gains (losses), net	1,347	1,744	(397)	(22.8)%	2,210	(7,109)	9,319	(131.1)%
Adjustment to fair value of Exchangeable Units	(86,370)	206,680	(293,050)	(141.8)%	354,286	(932,009)	1,286,295	(138.0)%
Adjustment to fair value of investment properties	103,601	7,608	95,993	N/M	(220,018)	(4,434)	(215,584)	N/M
Income (Loss) before Income Taxes	114,773	293,183	(178,410)	(60.9)%	448,888	(582,155)	1,031,043	(177.1)%
Income tax recovery	1,797	78	1,719	2,203.8 %	1,797	798	999	125.2 %
Net Income (Loss)	\$ 116,570	\$ 293,261	\$ (176,691)	(60.3)%	\$ 450,685	\$ (581,357)	\$1,032,042	(177.5)%

Three Months

The quarterly decrease in net income compared to the prior year was mainly due to an unfavourable change in the adjustment to fair value on the Exchangeable Units, partially offset by a favourable change in the fair value of investment properties, including those held within equity accounted joint ventures.

Year Ended

The year-over-year increase in net income was primarily due to a favourable change in the adjustment to fair value on the Exchangeable Units and reduced interest and financing charges, partially offset by declines related to unfavourable changes in the fair value of investment properties and increased bad debt expense.

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

Rental Revenue and Property Operating Costs

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Net Operating Income						
Rental revenue	\$ 321,862	\$ 317,986	\$ 3,876	\$1,270,614	\$1,288,554	\$ (17,940)
Property operating costs	(96,460)	(93,872)	(2,588)	(384,016)	(368,132)	(15,884)
	\$ 225,402	\$ 224,114	\$ 1,288	\$ 886,598	\$ 920,422	\$ (33,824)

Three Months

Net operating income in the prior year included a non-recurring reimbursement of contract revenue to Loblaw for incorrectly allocated solar rooftop leases of \$7.1 million.

Excluding this amount, net operating income in 2020 would have declined compared to 2019, primarily due to the bad debt expense recorded for tenants affected by the COVID-19 pandemic and the reduced contribution from sold properties, partially offset by contributions from acquisitions and development transfers.

Year Ended

The decrease in net operating income was primarily driven by the bad debt expense recorded for tenants affected by the COVID-19 pandemic and the reduced contribution from sold properties, partially offset by contributions from acquisitions and additional revenue from completed development transfers.

In the current year the Trust and its tenants also benefited from COVID-related realty tax relief measures provided by various municipalities. These measures are reflected in net operating income through a reduction in realty tax expense and a corresponding decline in realty tax recovery 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.

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

Interest Income

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Interest income on mortgages and loans receivable	\$ 3,013	\$ 2,838	\$ 175	\$ 12,309	\$ 13,621	\$ (1,312)
Interest income earned from financial real estate assets	648	378	270	1,741	378	1,363
Interest income (loss) from financial real estate assets due to changes in value	(1,148)	—	(1,148)	(1,148)	—	(1,148)
Other interest income	257	240	17	737	552	185
Interest Income	\$ 2,770	\$ 3,456	\$ (686)	\$ 13,639	\$ 14,551	\$ (912)

Three Months

The decline in interest income is primarily due to the unfavourable changes in value for the financial real estate assets acquired in December 2020, partially offset by income earned from the acquired financial real estate assets.

Year Ended

The decline in interest income is primarily due to timing of advances and repayments made on the mortgages and loans receivable, with fewer mortgages outstanding as compared to the prior year, as well as unfavourable changes in value for the financial real estate assets acquired in December 2020.

These declines were partially offset by full year contribution in income earned from the prior year acquisition of a financial real estate asset and other interest income.

Fee Income

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

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Fees charged to related party	\$ 221	\$ 245	\$ (24)	\$ 858	\$ 922	\$ (64)
Fees charged to third-parties	915	1,285	(370)	3,558	3,634	(76)
Fee Income	\$ 1,136	\$ 1,530	\$ (394)	\$ 4,416	\$ 4,556	\$ (140)

Three Months

Fee income is impacted by changes in the portfolio and the timing of leasing transactions and project activity. Compared to prior year, the decline in fee income can be primarily attributed to a reduction in project and leasing fees, partially offset by an increase in property management fees related to the new co-ownerships entered into by the Trust in the current year.

Year Ended

Fee income is impacted by changes in the portfolio and the timing of leasing transactions and project activity. The decline in fee income can be primarily attributed to a reduction in leasing fees, partially offset by an increase in property management fees related to the new co-ownerships entered into by the Trust in the current year.

Net Interest Expense and Other Financing Charges

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Interest on senior unsecured debentures ⁽ⁱ⁾	\$ 47,826	\$ 47,861	\$ (35)	\$ 196,741	\$ 182,522	\$ 14,219
Interest on mortgages	12,010	12,299	(289)	48,960	51,907	(2,947)
Interest on credit facility and term loans	1,237	2,256	(1,019)	7,316	28,352	(21,036)
Interest on right-of-use asset	41	69	(28)	216	281	(65)
Distributions on Exchangeable Units ⁽ⁱⁱ⁾	72,502	72,143	359	288,932	288,573	359
Amortization of debt discounts and premiums	94	(923)	1,017	(1,806)	(3,720)	1,914
Amortization of debt placement costs	1,038	1,014	24	4,592	8,352	(3,760)
Capitalized interest	(1,627)	(826)	(801)	(4,231)	(4,424)	193
Net interest expense and other financing charges	\$ 133,121	\$ 133,893	\$ (772)	\$ 540,720	\$ 551,843	\$ (11,123)

(i) Includes early redemption premiums of \$6.8 million paid during the year ended December 31, 2020.

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

Three Months

The quarterly decrease was primarily due to a general reduction in indebtedness as the Trust utilized proceeds from transaction activity in the current quarter to repay its credit facility in full, while also benefiting from refinancing activity over the last year at lower interest rates.

Year Ended

The decrease was primarily due to refinancing activity completed over the last year at lower interest rates, in addition to there being lower levels of debt as the term loan was repaid in the prior year.

This decrease was partially offset by an early redemption premium paid of \$6.8 million for two unsecured debentures maturing in 2021 that were repaid in the current year.

General and Administrative Expenses

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Salaries, benefits and employee costs	\$ 12,529	\$ 9,863	\$ 2,666	\$ 47,940	\$ 42,999	\$ 4,941
Investor relations and other public entity costs	523	483	40	2,318	2,128	190
Professional fees	1,197	2,354	(1,157)	4,506	4,519	(13)
Information technology costs	1,420	1,132	288	4,460	3,505	955
Services Agreement expense charged by related party ⁽ⁱ⁾	680	798	(118)	3,095	3,095	—
Amortization of other assets	229	30	199	548	130	418
Office related costs	509	858	(349)	2,590	3,705	(1,115)
Other	(194)	639	(833)	901	2,141	(1,240)
	16,893	16,157	736	66,358	62,222	4,136
Less:						
Capitalized to investment properties	(1,985)	(733)	(1,252)	(6,682)	(3,055)	(3,627)
Allocated to recoverable operating expenses	(6,130)	(5,664)	(466)	(22,958)	(19,875)	(3,083)
General and administrative expenses	\$ 8,778	\$ 9,760	\$ (982)	\$ 36,718	\$ 39,292	\$ (2,574)

(i) The Services Agreement is described in Section 9, "Related Party Transactions".

Three Months

The quarterly decline was primarily due to higher salary related and information technology costs, much of which was capitalized to investment properties and allocated to recoverable operating costs. In addition, the Trust had a decline in professional fees and office related costs compared to prior year primarily due to timing of activity.

Year Ended

The year-to-date decline was primarily due to higher salary related and information technology costs, much of which was capitalized to investment properties and allocated to recoverable operating costs. The Trust also experienced a reduction in office related costs due to the ongoing work from home situation on account of the COVID-19 pandemic.

Other Fair Value Gains (Losses), Net

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Adjustment to fair value of unit-based compensation	\$ (1,369)	\$ 1,744	\$ (3,113)	\$ (506)	\$ (7,109)	\$ 6,603
Fair value gain from release of holdback payable	6,750	—	\$ 6,750	6,750	—	\$ 6,750
Adjustment to fair value on mortgage receivable classified as FVTPL	(4,034)	—	\$ (4,034)	(4,034)	—	(4,034)
Other fair value gains (losses), net	\$ 1,347	\$ 1,744	\$ (397)	\$ 2,210	\$ (7,109)	\$ 9,319

Three Months

In the current quarter the Trust recognized a fair value gain from the derecognition of a holdback payable related to a prior year acquisition that is no longer owing to the vendor.

This fair value gain was partially offset by an unfavourable adjustment to the fair value of unit based compensation relative to the prior year, in addition to an unfavourable adjustment to the fair value of a specific mortgage receivable.

Year Ended

In the current year the Trust recognized a fair value gain from the derecognition of a holdback payable related to a prior year acquisition that is no longer owing to the vendor.

In addition, the Trust also recognized a favourable adjustment to the fair value of unit based compensation relative to the prior year, which was partially offset by an unfavourable adjustment to the fair value of a specific mortgage receivable.

6. LEASING ACTIVITY

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

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

The following table detail the changes for in-place occupancy by segment for the three months ended December 31, 2020:

(in thousands of square feet except where otherwise indicated)	September 30, 2020									Three Months December 31, 2020		
	Leasable	Occupied	Occupied %	Expiries	New	Renewals	Subtotal: Portfolio Absorption changes ⁽ⁱ⁾		Acquired / (Disposed) vacancy	Leasable	Occupied	Occupied %
Retail	46,399	45,221	97.5 %	(767)	239	470	(58)	(1,223)	(68)	45,108	43,940	97.4 %
Industrial	16,064	15,522	96.6 %	(404)	260	186	42	1,134	(40)	17,158	16,699	97.3 %
Office	3,448	3,204	92.9 %	(161)	27	92	(42)	158	(1)	3,604	3,320	92.1 %
Total	65,911	63,947	97.0 %	(1,332)	526	748	(58)	69	(109)	65,870	63,959	97.1 %

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

The following table details the changes for in-place occupancy by segment for the year ended December 31, 2020:

(in thousands of square feet except where otherwise indicated)	December 31, 2019									Year Ended December 31, 2020		
	Leasable	Occupied	Occupied %	Expiries	New	Renewals	Subtotal: Portfolio Absorption changes ⁽ⁱ⁾		Acquired / (Disposed) vacancy	Leasable	Occupied	Occupied %
Retail	46,315	45,371	98.0 %	(1,608)	406	972	(230)	(1,201)	(6)	45,108	43,940	97.4 %
Industrial	16,142	15,807	97.9 %	(2,330)	1,136	970	(224)	1,116	(100)	17,158	16,699	97.3 %
Office	3,188	2,975	93.3 %	(294)	40	175	(79)	425	(9)	3,604	3,320	92.1 %
Total	65,645	64,153	97.7 %	(4,232)	1,582	2,117	(533)	340	(115)	65,870	63,959	97.1 %

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

Three Months

Period end occupancy increased slightly to 97.1% at December 31, 2020 from 97.0% at September 30, 2020. The net increase was primarily due to a general reduction in GLA with net disposition activity during the quarter inclusive of vacancy being partially offset by negative absorption in the Ontario retail portfolio.

Year Ended

Period end occupancy declined from 97.7% at December 31, 2019 to 97.1% at December 31, 2020. Negative absorption during the year was primarily due to vacancies in the Ontario and Western retail portfolios, as well as the Western industrial portfolio, partially offset by the contributions from acquisitions, net of dispositions, and development transfers.

Choice Properties' principal tenant, Loblaw, represents 55.3% of its total GLA (December 31, 2019 - 56.3%). At December 31, 2020, the weighted average lease term-to-maturity on the Loblaw leases was 7.4 years (December 31, 2019 - 8.2 years).

(in millions of square feet except where otherwise indicated)	As at December 31, 2020			As at December 31, 2019		
	Portfolio GLA	Occupied GLA	Occupancy (%)	Portfolio GLA	Occupied GLA	Occupancy (%)
Loblaw banners	36.4	36.4	100.0%	37.0	37.0	100.0%
Third-party tenants	29.4	27.5	93.5%	28.7	27.2	94.8%
Total commercial GLA	65.8	63.9	97.1%	65.7	64.2	97.7%

The lease maturity profile for Choice Properties' portfolio as at December 31, 2020 was as follows:

(in thousands of square feet except where otherwise indicated)	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	433	90	523	0.8 %	\$ 6,559	\$ 12.54
2021	2,253	7	2,260	3.4 %	29,436	13.02
2022	3,239	74	3,313	5.0 %	46,132	13.92
2023	3,264	3,891	7,155	10.9 %	100,223	14.01
2024	3,115	2,922	6,037	9.2 %	83,549	13.84
2025	3,382	3,218	6,600	10.0 %	88,911	13.47
2026	2,494	2,730	5,224	7.9 %	84,433	16.16
2027 & Thereafter	9,341	23,506	32,847	49.9 %	536,216	16.32
Vacant	1,911	—	1,911	2.9 %	—	—
Total	29,432	36,438	65,870	100.0 %	\$ 975,459	\$ 14.81

(in thousands of square feet except where otherwise indicated)	Retail segment		Industrial segment		Office segment		Total	
	GLA	Expiring GLA as a % of total GLA	GLA	Expiring GLA as a % of total GLA	GLA	Expiring GLA as a % of total GLA	GLA	Expiring GLA as a % of total GLA
Month-to-month	442	0.7%	36	0.1%	45	0.2%	523	0.8 %
2021	1,247	1.9%	813	1.2%	200	0.3%	2,260	3.4 %
2022	1,294	2.0%	1,616	2.5%	403	0.6%	3,313	5.0 %
2023	4,826	7.3%	2,002	3.0%	327	0.4%	7,155	10.9 %
2024	4,223	6.4%	1,501	2.3%	313	0.5%	6,037	9.2 %
2025	4,396	6.7%	1,966	3.0%	238	0.4%	6,600	10.0 %
2026	4,200	6.4%	771	1.2%	253	0.4%	5,224	7.9 %
2027 & Thereafter	23,312	35.4%	7,994	12.1%	1,541	2.3%	32,847	49.9 %
Occupied GLA	43,940		16,699		3,320		63,959	
Vacant GLA	1,168	1.8%	459	0.7%	284	0.4%	1,911	2.9 %
Total	45,108	68.6%	17,158	26.1%	3,604	5.5%	65,870	100.0 %

Top 10 Tenants

Choice Properties' ten largest tenants for the three months ended December 31, 2020, represented approximately 63.6% 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 parties to the leases.

Tenants	% of Gross Rental Revenue	GLA (square feet)
1. Loblaw	55.6 %	36,292
2. Canadian Tire	2.1 %	1,605
3. TJX Companies	1.0 %	617
4. Dollarama	1.0 %	522
5. Goodlife	0.8 %	386
6. Staples	0.7 %	426
7. Liquor Control Board of Ontario (LCBO)	0.6 %	220
8. Weston Foods	0.6 %	1,176
9. TD Canada Trust	0.6 %	153
10. Lowe's	0.6 %	522
Total	63.6 %	41,919

7. RESULTS OF OPERATIONS - SEGMENT INFORMATION

7.1 Net Income and Segment NOI Reconciliation

Choice Properties operates in three reportable segments: retail, industrial and office. Management measures and evaluates the performance of the Trust based on net operating income which is presented by segment below at the proportionate share of the related revenue and expenses for these properties, while other net income (loss) items are reviewed on a consolidated GAAP basis.

The following table reconciles net income on a proportionate share basis⁽¹⁾ to net income (loss) as determined in accordance with GAAP for the three months ended December 31, 2020:

(\$ thousands)	Retail	Industrial	Office	Proportionate Share Basis ⁽¹⁾	Consolidation and eliminations ⁽ⁱ⁾	GAAP Basis
Rental revenue, excluding straight-line rental revenue and lease surrender revenue	\$ 255,534	\$ 44,066	\$ 32,910	\$ 332,510	\$ (14,794)	\$ 317,716
Property operating costs	(74,974)	(12,216)	(14,967)	(102,157)	5,697	(96,460)
Net Operating Income, Cash Basis⁽¹⁾	180,560	31,850	17,943	230,353	(9,097)	221,256
Straight line rental revenue	1,338	1,212	1,556	4,106	(889)	3,217
Lease surrender revenue	680	438	173	1,291	(362)	929
Net Operating Income, Accounting Basis	182,578	33,500	19,672	235,750	(10,348)	225,402
Other Income and Expenses						
Interest income				3,093	(323)	2,770
Fee income				1,136	—	1,136
Net interest expense and other financing charges				(135,086)	1,965	(133,121)
General and administrative expenses				(8,778)	—	(8,778)
Share of income (loss) from equity accounted joint ventures				—	9,036	9,036
Amortization of intangible assets				(250)	—	(250)
Other fair value gains (losses), net				1,347	—	1,347
Adjustment to fair value of Exchangeable Units				(86,370)	—	(86,370)
Adjustment to fair value of investment properties				103,931	(330)	103,601
Income before Income Taxes				114,773	—	114,773
Income tax recovery				1,797	—	1,797
Net Income (Loss)				\$ 116,570	\$ —	\$ 116,570

(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⁽¹⁾ to net income (loss) as determined in accordance with GAAP for the year ended December 31, 2020:

(\$ thousands)	Retail	Industrial	Office	Proportionate Share Basis ⁽¹⁾	Consolidation and eliminations ⁽ⁱ⁾	GAAP Basis
Rental revenue, excluding straight-line rental revenue and lease surrender revenue	\$1,031,576	\$ 171,470	\$111,178	\$ 1,314,224	\$ (59,514)	\$ 1,254,710
Property operating costs	(313,898)	(46,700)	(45,545)	(406,143)	22,127	(384,016)
Net Operating Income, Cash Basis⁽¹⁾	717,678	124,770	65,633	908,081	(37,387)	870,694
Straight line rental revenue	8,538	4,172	3,403	16,113	(2,167)	13,946
Lease surrender revenue	1,053	989	278	2,320	(362)	1,958
Net Operating Income, Accounting Basis	727,269	129,931	69,314	926,514	(39,916)	886,598
Other Income and Expenses						
Interest income				13,053	586	13,639
Fee income				4,416	—	4,416
Net interest expense and other financing charges				(548,801)	8,081	(540,720)
General and administrative expenses				(36,718)	—	(36,718)
Allowance for expected credit losses on mortgage receivable				(7,830)	—	(7,830)
Share of income (loss) from equity accounted joint ventures				—	(5,570)	(5,570)
Amortization of intangible assets				(1,000)	—	(1,000)
Foreign exchange gain reclassified from other comprehensive income				1,184	—	1,184
Acquisition transaction costs and other related expenses				(1,589)	—	(1,589)
Other fair value gains (losses), net				2,210	—	2,210
Adjustment to fair value of Exchangeable Units				354,286	—	354,286
Adjustment to fair value of investment properties				(256,837)	36,819	(220,018)
Income before Income Taxes				448,888	—	448,888
Income tax recovery				1,797	—	1,797
Net Income (Loss)				\$ 450,685	\$ —	\$ 450,685

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

7.2 Net Operating Income Summary⁽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 14.2, “Net Operating Income”, of this MD&A, for a definition of NOI⁽¹⁾ and a reconciliation to net income (loss) determined in accordance with GAAP.

Management also measures performance of operating segments using NOI⁽¹⁾ as calculated on a proportionate share basis⁽¹⁾ and, in particular, same-asset NOI which isolates Management’s success at dealing with certain key performance factors. “Same-Asset” refers to those properties that were owned and operated by Choice Properties for the entire 24 months ended December 31, 2020, and where such properties had no changes to income as a result of acquisitions, dispositions, new developments, redevelopments and expansions, intensifications, transfers, or demolitions (collectively, “Transactions”). NOI related to Transactions for the period are presented separately from the same-asset financial results.

Choice Properties’ NOI⁽¹⁾ is calculated on a proportionate share basis⁽¹⁾ to incorporate Choice Properties’ investment in equity accounted joint ventures as if they were owned directly for the three months and year ended December 31, 2020 and December 31, 2019 as summarized below.

Summary - Accounting Basis

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Rental revenue	\$ 287,459	\$ 292,511	\$ (5,052)	(1.7)%	\$ 1,151,769	\$ 1,151,521	\$ 248	— %
Straight line rental revenue	1,326	4,094	(2,768)	(67.6)%	10,340	20,658	(10,318)	(49.9)%
Property operating costs excluding bad debt expense	(84,203)	(86,661)	2,458	(2.8)%	(335,175)	(342,153)	6,978	(2.0)%
Same-Asset NOI, Accounting Basis, excluding bad debt expense	204,582	209,944	(5,362)	(2.6)%	826,934	830,026	(3,092)	(0.4)%
Bad debt expense	(2,089)	38	(2,127)	N/M	(21,062)	(856)	(20,206)	N/M
Same-Asset NOI, Accounting Basis	202,493	209,982	(7,489)	(3.6)%	805,872	829,170	(23,298)	(2.8)%
Transactions NOI including straight line rental revenue, excluding bad debt expense	33,369	30,601	2,768		120,949	138,341	(17,392)	
Bad debt expense	(1,403)	(12)	(1,391)		(2,627)	(6)	(2,621)	
Transactions NOI, Accounting Basis	31,966	30,589	1,377		118,322	138,335	(20,013)	
Reimbursed contract revenue	—	(7,100)	7,100		—	(7,100)	7,100	
Lease surrender revenue	1,291	1,306	(15)		2,320	3,678	(1,358)	
Total NOI, Accounting Basis	\$ 235,750	\$ 234,777	\$ 973		\$ 926,514	\$ 964,083	\$ (37,569)	

Summary - Cash Basis

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Rental revenue	\$ 287,459	\$292,511	\$ (5,052)	(1.7)%	\$1,151,769	\$1,151,521	\$ 248	— %
Property operating costs excluding bad debt expense	(84,203)	(86,673)	2,470	(2.8)%	(335,175)	(342,068)	6,893	(2.0)%
Same-Asset NOI, Cash Basis, excluding bad debt expense	203,256	205,838	(2,582)	(1.3)%	816,594	809,453	7,141	0.9 %
Bad debt expense	(2,089)	38	(2,127)	N/M	(21,062)	(856)	(20,206)	N/M
Same-Asset NOI, Cash Basis	201,167	205,876	(4,709)	(2.3)%	795,532	808,597	(13,065)	(1.6)%
Transactions NOI excluding bad debt expense	30,589	29,085	1,504		115,176	132,729	(17,553)	
Bad debt expense	(1,403)	(12)	(1,391)		(2,627)	(6)	(2,621)	
Transactions NOI, Cash Basis	29,186	29,073	113		112,549	132,723	(20,174)	
Total NOI, Cash Basis	\$ 230,353	\$234,949	\$ (4,596)		\$ 908,081	\$ 941,320	\$ (33,239)	

Three Months

Same-asset NOI on a cash basis in the current quarter included increases from contractual rent steps in the retail segment, partially offset by bad debt provisions and lower parking revenue. In addition, prior year NOI included one-time adjustments for solar revenue and capital recoveries that led to increased NOI in the prior year quarter.

The increase in transaction NOI was primarily due to the contribution from acquisitions and development transfers throughout the year, partially offset by foregone NOI from sold properties.

Year Ended

NOI decreased on a year-to-date basis primarily due to higher bad debt expense recorded on account of COVID-19. Excluding bad debt expense, same-asset NOI increased 0.9% on a cash basis primarily driven by leasing activity and contractual rent steps in the retail segment, in addition to increased contribution across all asset classes.

The decline in transaction NOI was primarily due to the properties sold as part of the Oak Street disposition, partially offset by the contribution from acquisitions and development transfers.

In addition, during the year ended December 31, 2020, the Trust and its tenants benefited from COVID-related realty tax relief measures provided by various municipalities. These measures are reflected in NOI through a reduction in realty tax expense and a corresponding decline in realty tax recovery revenue.

Retail Segment

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Rental revenue	\$224,499	\$228,521	\$ (4,022)	(1.8)%	\$903,061	\$901,559	\$ 1,502	0.2 %
Property operating costs excluding bad debt expense	(63,680)	(66,410)	2,730	(4.1)%	(258,363)	(263,707)	5,344	(2.0)%
Same-Asset NOI, Cash Basis, excluding bad debt expense	160,819	162,111	(1,292)	(0.8)%	644,698	637,852	6,846	1.1 %
Bad debt expense	(1,415)	8	(1,423)	N/M	(18,372)	(687)	(17,685)	N/M
Same-Asset NOI, Cash Basis	159,404	162,119	(2,715)	(1.7)%	626,326	637,165	(10,839)	(1.7)%
Transactions NOI excluding bad debt expense	22,468	24,590	(2,122)		93,850	107,299	(13,449)	
Bad debt expense	(1,312)	(2)	(1,310)		(2,498)	—	(2,498)	
Transactions NOI, Cash Basis	21,156	24,588	(3,432)		91,352	107,299	(15,947)	
Total NOI, Cash Basis	\$180,560	\$186,707	\$ (6,147)		\$717,678	\$744,464	\$ (26,786)	

Three Months

The 0.8% decrease in same-asset NOI excluding bad debt expense was primarily driven by a reduction in capital recoveries from investments in income producing properties due to timing, partially offset by contractual rental steps in the Ontario and Western regions.

Transaction NOI declined primarily due to the foregone income from current year dispositions, partially offset by the contribution from acquisitions and development transfers.

Year Ended

The 1.1% increase in same-asset NOI excluding bad debt expense was primarily driven by leasing activity and contractual rent steps across the Ontario and Western regions.

The decline in transaction NOI was primarily due to the properties sold as part of the Oak Street disposition, partially offset by the contribution from acquisitions and development transfers.

Industrial Segment

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Rental revenue	\$ 37,609	\$ 37,943	\$ (334)	(0.9)%	\$148,856	\$148,767	\$ 89	0.1 %
Property operating costs excluding bad debt expense	(10,451)	(10,017)	(434)	4.3 %	(39,710)	(39,944)	234	(0.6)%
Same-Asset NOI, Cash Basis, excluding bad debt expense	27,158	27,926	(768)	(2.8)%	109,146	108,823	323	0.3 %
Bad debt expense	(177)	4	(181)	N/M	(779)	(49)	(730)	N/M
Same-Asset NOI, Cash Basis	26,981	27,930	(949)	(3.4)%	108,367	108,774	(407)	(0.4)%
Transactions NOI excluding bad debt expense	4,873	3,807	1,066		16,407	22,897	(6,490)	
Bad debt expense	(4)	—	(4)		(4)	(1)	(3)	
Transactions NOI, Cash Basis	4,869	3,807	1,062		16,403	22,896	(6,493)	
Total NOI, Cash Basis	\$ 31,850	\$ 31,737	\$ 113		\$124,770	\$131,670	\$ (6,900)	

Three Months

Same-asset NOI excluding bad debt expense decreased by 2.8% on a cash basis primarily due to a reduction in capital recoveries from investments in income producing properties due to timing,

Transaction NOI increased as compared to the prior year mainly due to the contribution from acquisitions and development transfers.

Year Ended

Same-asset NOI excluding bad debt expense increased by 0.3% on a cash basis primarily due to positive leasing activity in the Ontario region

Transaction NOI decreased as compared to the prior year mainly due to the 2019 Oak Street dispositions. offset by contribution from acquisitions and development transfers.

Office Segment

For the periods ended December 31 (\$ thousands)	Three Months				Year Ended			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Rental revenue	\$ 25,351	\$ 26,047	\$ (696)	(2.7)%	\$ 99,852	\$101,195	\$ (1,343)	(1.3)%
Property operating costs excluding bad debt expense	(10,072)	(10,246)	174	(1.7)%	(37,102)	(38,502)	1,400	(3.6)%
Same-Asset NOI, Cash Basis, excluding bad debt expense	15,279	15,801	(522)	(3.3)%	62,750	62,693	57	0.1 %
Bad debt expense	(497)	26	(523)	N/M	(1,911)	(120)	(1,791)	N/M
Same-Asset NOI, Cash Basis	14,782	15,827	(1,045)	(6.6)%	60,839	62,573	(1,734)	(2.8)%
Transactions NOI excluding bad debt expense	3,248	688	2,560		4,919	2,630	2,289	
Bad debt expense	(87)	(10)	(77)		(125)	(17)	(108)	
Transactions NOI, Cash Basis	3,161	678	2,483		4,794	2,613	2,181	
Total NOI, Cash Basis	\$ 17,943	\$ 16,505	\$ 1,438		\$ 65,633	\$ 65,186	\$ 447	

Three Months

Same-asset NOI excluding bad debt expense decreased by 3.3% on a cash basis primarily due to lower transient parking revenue, partially offset by positive leasing activity in the Ontario and Quebec regions.

The increase in transaction NOI is mainly due to the acquisition of two office assets in Toronto during the prior quarter.

Year Ended

Same-asset NOI excluding bad debt expense on a cash basis was in line with prior year as positive leasing activity in the Ontario and Western regions was partially offset by lower transient parking revenue.

The increase in transaction NOI was mainly due to contributions from the two office assets acquired in July 2020, partially offset by the year-to-date foregone revenue from an office property sold in the first quarter of 2020.

7.3 Other Key Performance Indicators

FFO⁽¹⁾ and AFFO⁽¹⁾ are included in the Trust's summary of key performance indicators. See Section 14, "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 uses these measures. FFO⁽¹⁾ and AFFO⁽¹⁾ for the three months and year ended December 31, 2020 and December 31, 2019 are summarized below:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Funds from Operations ⁽¹⁾	\$ 171,519	\$ 165,795	\$ 5,724	\$ 652,007	\$ 680,278	\$ (28,271)
FFO ^{(1)(f)} per unit basic	\$ 0.239	\$ 0.237	\$ 0.002	\$ 0.922	\$ 0.987	\$ (0.065)
FFO ^{(1)(f)} per unit diluted	\$ 0.239	\$ 0.237	\$ 0.002	\$ 0.921	\$ 0.987	\$ (0.066)
FFO ^{(1)(f)} payout ratio - diluted	77.5 %	78.1 %	(0.6)%	80.5 %	75.0 %	5.5 %
Adjusted Funds from Operations ⁽¹⁾	\$ 136,054	\$ 129,187	\$ 6,867	\$ 566,469	\$ 587,695	\$ (21,226)
AFFO ^{(1)(f)} per unit basic	\$ 0.190	\$ 0.184	\$ 0.006	\$ 0.801	\$ 0.853	\$ (0.052)
AFFO ^{(1)(f)} per unit diluted	\$ 0.189	\$ 0.184	\$ 0.005	\$ 0.800	\$ 0.853	\$ (0.053)
AFFO ^{(1)(f)} payout ratio - diluted	97.7 %	100.3 %	(2.6)%	92.6 %	86.8 %	5.8 %
Distribution declared per Unit	\$ 0.185	\$ 0.185	\$ —	\$ 0.740	\$ 0.740	\$ —
Weighted average Units outstanding - basic	717,789,820	700,251,450	17,538,370	707,545,107	689,016,850	18,528,257
Weighted average Units outstanding - diluted	718,026,576	700,544,380	17,482,196	707,764,714	689,285,790	18,478,924
Number of Units outstanding, end of period	722,728,188	700,254,652	22,473,536	722,728,188	700,254,652	22,473,536

Funds from Operations ("FFO")⁽¹⁾

FFO⁽¹⁾ is calculated in accordance with the Real Property Association of Canada's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2019. From time to time the Trust may enter into transactions that materially impact the calculation and are excluded from the calculation for management's review purposes. Refer to Section 14.3, "Funds from Operations", for a reconciliation of FFO⁽¹⁾ to net income determined in accordance with GAAP.

Three Months

Funds from operations increased in the current quarter primarily due to non-recurring activity in the prior year which included the reimbursement of revenue to Loblaw for incorrectly allocated solar rooftop leases and an allowance for expected credit losses on a mortgage receivable, coupled with lower borrowing and general and administrative costs in the current year, partially offset by higher bad debt expense.

Year Ended

The decrease in FFO on an annual basis was primarily due to a reduction in net operating income attributable to the Oak Street disposition and an increase in bad debt expense, partially offset by lower borrowing costs from the use of proceeds from de-leveraging activities and capital recycling.

The change on a per unit basis was also impacted by the higher weighted average number of units outstanding as a result of: (i) the May 2019 equity offering where proceeds were used to lower debt levels, (ii) the Trust units issued as consideration for the acquisition of two assets from Wittington in July 2020 and (iii) the Exchangeable Units issued as consideration for the acquisition of six assets from Weston Foods (Canada) Inc., a wholly-owned subsidiary of GWL, in December 2020.

Adjusted Funds from Operations (“AFFO”)⁽¹⁾

Choice Properties calculates 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 2019. From time to time the Trust may enter into transactions that materially impact the calculation and are excluded from the calculation for management’s review purposes. Refer to Section 14.4, “Adjusted Funds from Operations”, for a reconciliation of AFFO⁽¹⁾ to net income determined in accordance with GAAP.

<u>Three Months</u>	<u>Year Ended</u>
Adjusted funds from operations increased during the current quarter primarily due to an increase in FFO, a decline in tenant improvements and direct leasing costs, as well as straight line rental revenue, partially offset by an increase in property capital costs.	Adjusted funds from operations declined primarily due to an overall reduction in funds from operations and increased spending on property capital and internal leasing costs, partially offset by a reduction in straight line rental revenue.
The decrease in the AFFO payout ratio was primarily as a result of the increase in the AFFO for the quarter, partially offset by the higher weighted average number of units outstanding as discussed above.	The increase in the AFFO payout ratio was primarily due to the reduction in AFFO during the year, coupled with a higher weighted average number of units outstanding as discussed above.

Operating Capital Expenditures

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

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Property capital	\$ 22,498	\$ 18,859	\$ 3,639	\$ 33,146	\$ 30,658	\$ 2,488
Leasing capital:						
Direct leasing costs	2,091	3,099	(1,008)	8,100	8,172	(72)
Tenant improvement allowances	4,873	7,413	(2,540)	20,850	21,417	(567)
Total operating capital expenditures, proportionate share basis⁽¹⁾	\$ 29,462	\$ 29,371	\$ 91	\$ 62,096	\$ 60,247	\$ 1,849

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, 2020, Choice Properties incurred \$33,146 of property capital expenditures, which may be recoverable from tenants under the terms of their leases over the useful life of the improvements (2019 - \$30,658). Recoverable capital improvements may include items such as parking lot resurfacing and roof replacements. These items are recorded as part of investment properties and the recoveries from tenants are recorded as revenue.

Leasing Capital

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

8. QUARTERLY RESULTS OF OPERATIONS

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

(\$ thousands except where otherwise indicated)	Fourth Quarter 2020	Third Quarter 2020	Second Quarter 2020	First Quarter 2020	Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019	First Quarter 2019
Number of investment properties	731	725	724	724	726	726	756	756
Gross leasable area (in millions of square feet)	66.1	66.1	65.6	65.6	65.8	65.5	68.0	67.7
Occupancy	97.1 %	97.0 %	96.8 %	97.5 %	97.7 %	97.8 %	97.7 %	97.4 %
Rental revenue (GAAP)	\$ 321,862	\$ 308,956	\$ 314,885	\$ 324,911	\$ 317,986	\$ 323,306	\$ 324,289	\$ 322,973
Net income (loss)	\$ 116,570	\$ 97,186	\$ (95,813)	\$ 332,742	\$ 293,261	\$ (210,796)	\$ 238,310	\$ (902,132)
Net income (loss) per Unit	\$ 0.161	\$ 0.136	\$ (0.137)	\$ 0.475	\$ 0.419	\$ (0.301)	\$ 0.341	\$ (1.348)
Net income (loss) per Unit diluted	\$ 0.162	\$ 0.137	\$ (0.137)	\$ 0.475	\$ 0.419	\$ (0.301)	\$ 0.347	\$ (1.346)
Net operating income, cash basis ⁽¹⁾	\$ 230,353	\$ 229,891	\$ 216,431	\$ 231,531	\$ 234,949	\$ 239,047	\$ 234,715	\$ 232,609
FFO ⁽¹⁾	\$ 171,519	\$ 169,173	\$ 140,645	\$ 170,670	\$ 165,795	\$ 174,982	\$ 170,241	\$ 169,260
FFO ⁽¹⁾ per Unit - diluted	\$ 0.239	\$ 0.238	\$ 0.201	\$ 0.244	\$ 0.237	\$ 0.250	\$ 0.248	\$ 0.252
AFFO ⁽¹⁾	\$ 136,054	\$ 147,594	\$ 131,173	\$ 151,773	\$ 129,187	\$ 152,032	\$ 151,803	\$ 154,673
AFFO ⁽¹⁾ per Unit - diluted	\$ 0.189	\$ 0.207	\$ 0.187	\$ 0.217	\$ 0.184	\$ 0.217	\$ 0.221	\$ 0.231
Distribution declared per Unit	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185	\$ 0.185
Market price per Unit - closing	\$ 13.01	\$ 12.78	\$ 12.74	\$ 12.92	\$ 13.91	\$ 14.44	\$ 13.68	\$ 14.06
Units outstanding, period end	722,728,188	716,903,446	700,403,446	700,403,446	700,254,652	700,247,802	699,572,174	669,312,915
Debt to total assets ⁽ⁱ⁾	42.7 %	43.8 %	44.3 %	43.8 %	43.1 %	43.5 %	45.0 %	47.6 %
Debt service coverage ⁽ⁱ⁾	3.2x	3.0x	2.6x	3.1x	3.0x	3.1x	3.0x	3.0x

(i) The Exchangeable Units are excluded from the debt ratio calculations. The ratios are non-GAAP financial measures calculated based on the Trust Indentures, as supplemented.

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

9. RELATED PARTY TRANSACTIONS

Choice Properties' parent corporation is George Weston Limited ("GWL"), which as at December 31, 2020, held a 61.8% direct effective interest in the Trust through ownership of 50,661,415 Units and all of the Exchangeable Units, which are economically equivalent to and exchangeable to Units. GWL is also the parent company of Loblaw, with ownership of 52.6% of Loblaw's outstanding common shares as at December 31, 2020.

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

Loblaw represents approximately 55.6% of Choice Properties' quarterly rental revenue on a proportionate share basis⁽¹⁾ and 55.3% of its commercial GLA as at December 31, 2020 (December 31, 2019 - 56.3% and 56.3%, respectively).

Acquisitions

During the year ended December 31, 2020, Choice Properties acquired six industrial assets from Weston Foods (Canada) Inc., a wholly-owned subsidiary of GWL, for a purchase price of \$81,500, excluding transaction costs. The acquisition was satisfied in full through the issuance of 5,824,742 Exchangeable Units for \$79,100 and assumed liabilities of \$2,400.

During the year ended December 31, 2020, Choice Properties acquired a development property from Loblaw for a purchase price of \$8,100, excluding transaction costs. Choice Properties also acquired from Loblaw five financial real estate assets for a purchase price of \$45,673, excluding transaction costs. Each acquisition was settled with cash.

On July 31, 2020, Choice Properties acquired two real estate assets from Wittington Properties Limited, a subsidiary of Wittington, for an aggregate purchase price of \$208,935, excluding transaction costs, which was satisfied in full by the issuance of 16,500,000 Units of Choice Properties. The transaction was measured at market terms and conditions. The assets acquired included: (i) an office property in Toronto, Ontario, for \$128,500 and (ii) the remaining 60% interest of the joint venture for 500 Lake Shore Boulevard West in Toronto, Ontario, for \$80,435, less a cost-to-complete receivable of \$16,404, giving the Trust 100% ownership of the joint venture.

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

Dispositions

During the year ended December 31, 2020, Choice Properties disposed interests in 17 retail properties which had Loblaw leases for an aggregate sale price of \$263,440, excluding transaction costs.

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

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

Operating Lease

Choice Properties was a tenant in an acquired office asset in Toronto, Ontario, having entered into a ten-year lease with Wittington Properties Limited, in 2014 with lease payments totalling \$2,664 over the term of the lease. As of the acquisition date, Choice Properties derecognized its right-of-use assets and lease liabilities associated with the office lease and ceased paying rent to Wittington Properties Limited.

Lease Surrender Payments

In the year ended December 31, 2019, Loblaw made lease surrender payments of \$3,156 to the Trust.

Services Agreement

For the year ended December 31, 2020, GWL provided Choice Properties with corporate, administrative and other support services for an annualized cost of \$3,095 (2019 - \$3,095).

Strategic Alliance Agreement

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

- Choice Properties has the right of first offer to purchase any property in Canada that Loblaw seeks to sell;
- Loblaw is 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 are calculated in accordance with a payment grid that takes into account the region, market ranking and type of use for the property.

Property Management Agreement

Choice Properties provides Loblaw with property management services for Loblaw's properties with third-party tenancies on a fee for service basis with automatic one-year renewals. The property management agreement was terminated effective December 31, 2020.

Reimbursed Contract Revenue

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

Sublease Administration Agreement

On July 17, 2017, in connection with Loblaw's sale of substantially all of its gas bar operations, Choice Properties agreed to provide Loblaw with certain administrative services in respect of the subleases on a fee for service basis for an initial five-year term with automatic one-year renewals. The sublease administration agreement was terminated effective December 31, 2020.

Site Intensification Payments

Choice Properties compensated Loblaw with intensification payments of \$995 in connection with completed gross leasable area for which tenants took possession during the year ended December 31, 2020 (December 31, 2019 - \$4,577).

Distributions on Exchangeable Units

GWL holds all of the Exchangeable Units issued by Choice Properties Limited Partnership, a subsidiary of Choice Properties. During the three months and year ended December 31, 2020, distributions declared on the Exchangeable Units totalled \$72,502 and \$288,932 (December 31, 2019 - \$72,143 and \$288,573) of which \$120,598 were payable to GWL (December 31, 2019 - \$168,334).

Trust Unit Distributions

In the three months and year ended December 31, 2020, Choice Properties declared cash distributions of \$9,373 and \$37,490 on the Units held by GWL (December 31, 2019 - \$9,372 and \$36,551). For the three months and year ended December 31, 2020, \$4,660 of non-cash distributions were settled through the issuance of additional Trust Units (December 31, 2019 - \$3,546). As at December 31, 2020, \$3,124 of Trust Unit distributions declared were payable to GWL (December 31, 2019 - \$3,124).

Joint Venture

On December 9, 2014, Choice Properties and its joint venture partner, Wittington Properties Limited, completed the acquisition of 500 Lake Shore Boulevard West in Toronto, Ontario, for \$15,576 from Loblaw. Choice Properties accounted for its investment in the joint venture as an equity accounted joint venture until July 31, 2020, when the Trust acquired the remaining 60% interest from Wittington Properties Limited, after which the 100% owned joint venture is accounted for on a consolidated basis. Wittington Properties Limited will continue to act as development and construction manager for the commercial space at 500 Lake Shore Boulevard West until development is completed. The Trust recorded a \$16,404 receivable from Wittington Properties Limited for 60% of the remaining costs to complete the development.

Choice Properties contributed \$6,200 to the joint venture and received distributions of \$nil during the year ended December 31, 2020 (December 31, 2019 - contributions \$13,240 and distributions \$nil). The joint venture earned interest income during the year ended December 31, 2020 of \$2,102 (2019 - \$86).

10. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

a. Investment Properties

Judgments Made in Relation to Accounting Policies Applied

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

Key Sources of Estimation

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

b. Joint Arrangements

Judgments Made in Relation to Accounting Policies Applied

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

c. Leases

Judgments Made in Relation to Accounting Policies Applied

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

d. Income Taxes

Judgments Made in Relation to Accounting Policies Applied

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

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

11. CONTROLS AND PROCEDURES

Internal Controls Over Financial Reporting

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

As required by National Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings” (“NI 52-109”), the President and Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in ‘Internal Control - Integrated Framework (COSO Framework)’ (2013) published by The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that evaluation, they have concluded that the design and operation of the Trust’s internal controls over financial reporting were effective as at December 31, 2020.

In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Controls Over Financial Reporting

There were no changes in the Trust’s internal controls over financial reporting in 2020 that materially affected or are reasonably likely to materially affect the Trust’s internal control over financial reporting.

Disclosure Controls and Procedures

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

As required by NI 52-109, the CEO and CFO have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2020.

12. ENTERPRISE RISKS AND RISK MANAGEMENT

Choice Properties is committed to maintaining a framework that ensures risk management is an integral part of its activities. The effective governance and management of risk within the Trust is a key priority for the Board and management and, to this end, the Trust has adopted an 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 plans throughout the business.

Risks are not eliminated through the ERM program, but rather, are identified and managed in line with the Trust’s risk appetite and within approved 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;
- develop a process to assess and ensure that the Trust engages in activities that are within the approved risk appetite and tolerance levels;
- promote a culture of awareness of risk management and compliance within the Trust;
- assist in developing consistent risk management methodologies and tools across the Trust, including methodologies for the identification, assessment, measurement and monitoring of risks; and
- anticipate and provide early warnings of risks through key risk indicators.

The Board, through the Audit Committee, oversees the ERM program, including a review of the Trust’s risks and risk prioritization, annual approval of the ERM policy and Risk Appetite Statement. The Risk Appetite Statement articulates key aspects of the Trust, values, and brands and provides directional guidance on risk taking. Management is responsible for managing risk and implementing risk mitigation strategies and operating within the approved risk appetite thresholds.

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

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

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

12.1 COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The duration and full impact of the COVID-19 pandemic on the Trust remains unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the future financial results and operations of the Trust.

As a response to the COVID-19 pandemic, the Trust introduced several protocols to protect its employees, tenants and guests including mandating that employees work from home to the full extent possible, increasing sanitation and health and safety measures at its properties and restricting access to its office buildings. The Trust established a COVID-19 response team to coordinate critical aspects of crisis management and continues to actively execute its pandemic plan to ensure business continuity while safeguarding the well being of its employees, tenants, and guests.

As the pandemic evolves, the Trust continues to support its tenants and employees. The Trust implemented additional safety measures at all of its properties, including increased frequency in cleaning and disinfecting as well as physical distancing practices. Furthermore, the Trust will continue to act according to direction provided by the federal, provincial and municipal governments. With the rise in the number of COVID-19 cases globally and mutations of the virus, the Trust continues to prepare for this and other future waves of the pandemic as well as the implications of economic recovery and opening activities. The Trust continues to closely monitor business operations and may take further actions in response to directives of government and public health authorities or that are in the best interests of employees, tenants, suppliers or other stakeholders, as necessary.

These changes and any additional changes in operations in response to COVID-19 could materially adversely impact the financial results of the Trust and may include tenants' ability to pay rent in full or at all, consumer demand for tenants' products or services, impact to the fair value of the Trust's properties and other investments, potential changes in leasing activity, temporary or long-term stoppage of development projects, temporary or long-term labour shortages or disruptions, temporary or long-term impacts on domestic and global supply chains, increased risks to IT systems and networks and the Trust's ability to access capital on acceptable terms or at all. Uncertain economic conditions resulting from the COVID-19 pandemic may, in the short or long term, materially adversely impact operations and the financial performance of the Trust.

The spread of COVID-19 has caused an economic slowdown and increased volatility in financial markets, which has partially negatively impacted the market price for the securities of the Trust. Governments and central banks have responded with monetary and fiscal interventions intended to stabilize economic conditions. However, it remains unknown how these interventions will impact debt and equity markets or the economy generally, including in the long-term. Although the ultimate impact of COVID-19 on the global economy and its duration remains uncertain, disruptions caused by COVID-19 may materially adversely affect the performance of the Trust. Uncertain economic conditions resulting from the COVID-19 pandemic may, in the short or long term, materially adversely impact the Trust's tenants and/or the debt and equity markets, both of which could materially adversely affect the Trust's operations and financial performance.

12.2 Operating Risks and Risk Management

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

Business Continuity

Choice Properties' ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, development site work stoppages, prolonged IT systems failure, terrorist activity, pandemics, power failures or other national or international catastrophes. Any of these events may have a material adverse effect on Choice Properties' reputation, business, cash flows, financial condition and results of operations and its ability to make distributions to Unitholders.

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, pandemics 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.

Asset Management

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

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

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

Demographic and Tenant Changes

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

Information and Cyber Security

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

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

Choice Properties 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 Choice Properties 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 Choice Properties’ or its third-party service providers’ information systems are damaged, destroyed, shut down, interrupted or cease to function properly, Choice Properties’ business could be disrupted and Choice Properties 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.

Property Valuation

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

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

Capitalization Rate Risk

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

Property Development and Construction

Choice Properties engages in development, redevelopment and major renovation activities with respect to certain properties. It is subject to certain risks, including: (a) the availability and pricing of financing on satisfactory terms or availability at all; (b) the availability and timely receipt of zoning, occupancy, land use and other regulatory and governmental approvals; (c) changes in zoning and land use laws; (d) the ability to achieve an acceptable level of occupancy upon completion; (e) the potential that Choice Properties may fail to recover expenses already incurred if it abandons redevelopment opportunities after commencing to explore them; (f) the potential that Choice Properties may expend funds on and devote management

time to projects which are not completed; (g) 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; (h) 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; (i) the cost and timely completion of construction (including risks beyond Choice Properties' control, such as weather, labour conditions or material shortages); (j) contractor and subcontractor disputes, strikes, labour disputes or supply disruptions; (k) occupancy rates and rents of a completed project may not be sufficient to make the project profitable; (l) Choice Properties' ability to dispose of properties redeveloped with the intent to sell could be impacted by the ability of prospective buyers to obtain financing given the current state of the credit markets; and (m) the availability and pricing of financing to fund Choice Properties' development activities on favourable terms or availability at all.

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

Regulatory Compliance

Choice Properties is subject to laws and regulations governing the ownership and leasing of real property, securities, intellectual property, privacy, employment standards and other matters. It is possible that future changes in applicable federal, provincial, municipal, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting the Trust. Also, to retain its tax status as a REIT, Choice Properties must comply with the REIT exception to the SIFT Rules at all times. Choice Properties' failure to comply with the REIT exception would result in certain distributions from the Trust not being deductible in computing its taxable income and the Trust being subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Any non-compliance under the Tax Act or non-compliance with other laws or regulations could subject Choice Properties to civil or regulatory actions, investigations or proceedings, which in turn could negatively impact Choice Properties' operations and financial position. There can be no assurance that the Canadian federal income tax laws respecting real estate investment trusts, or the ways in which these rules are interpreted and applied by the Canada Revenue Agency, will not be changed in a manner which adversely affects Choice Properties and/or Unitholders. It is impossible to predict whether there will be any future changes in the regulatory regimes to which the Trust will be subject or the effect of any such changes on its investments.

Workplace Health and Safety

Choice Properties is subject to various occupational health and safety laws and regulations. Any failure by Choice Properties to adhere to appropriate and established workplace health and safety procedures and to ensure compliance with applicable laws and regulations could have an adverse effect on the operations, financial performance and reputation of Choice Properties.

Environmental Matters

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

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

In such cases, Choice Properties will bear the risk of cost-intensive assessment, remediation or removal of such ground contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against Choice Properties. The remediation of any pollution and the related additional measures Choice Properties would have to undertake could have a materially adverse effect on Choice Properties and could involve considerable

additional costs. Choice Properties will also be exposed to the risk that recourse against the polluter or the previous owners of the Properties might not be possible. Moreover, the existence or even the mere suspicion of the existence of ground contamination, hazardous materials or other residual pollution can adversely affect the value of a property and Choice Properties' ability to lease or sell such property.

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

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

Climate Change Risk

Choice Properties may be exposed to the impact of events caused by climate change, such as natural disasters and serious weather conditions. Such events could interrupt Choice Properties' operations and activities, damage its properties and require Choice Properties to incur additional expenses. Choice Properties' financial position and results from operations could be adversely affected by the materialization of any of the risks identified herein related to climate change.

Furthermore, as a real estate property owner and manager, Choice Properties faces the risk that its properties will be subject to government initiatives and reforms aimed at countering climate change, such as reduction in greenhouse gas emissions. Choice Properties may require operational changes and/or incur financial costs to comply with various reforms. Any failure to adhere and adapt to climate change could result in fines or adversely affect Choice Properties' reputation, operations or financial performance.

Acquisitions and Dispositions

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.

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.

In addition, Choice Properties undertakes strategic property dispositions from time to time in order to recycle its capital and maintain an optimal portfolio composition. Failure to dispose of certain assets not aligned with Choice Properties' investment criteria may adversely affect its operations and financial performance.

Talent Management and Succession Planning

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

Tenant Concentration

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

Choice Properties' net income could also be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of Loblaw, as Choice Properties' largest tenant. Choice Properties derives a large majority of its annual base minimum rent from Loblaw. Consequently, revenues are dependent on the ability of Loblaw to meet its rent obligations and Choice Properties' ability to collect rent from Loblaw. The future financial performance and operating results of Loblaw are subject to inherent risks, uncertainties, and other factors. 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.

Geographic Concentration

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

Data Governance and Decision Support

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

Competition

Choice Properties competes with other investors, developers, 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, joint venture partners, 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.

12.3 Financial Risks and Risk Management

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

Interest Rate Risk

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

The majority of Choice Properties' debt is financed at fixed rates with maturities staggered over 29 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 decrease.

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 strategy and certain other capital expenditures from time to time, and to refinance indebtedness. Although Choice Properties expects to have access to the Revolving Credit Facility, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favourable terms. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to limitations set forth in the Declaration of Trust, the

Indenture, as supplemented by the Supplemental Indenture, and the Fifth Supplemental Assumed Indenture. Failure by Choice Properties to access required capital could have a material adverse effect on its financial condition or results of operations and its ability to make distributions to Unitholders.

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

Liquidity of Real Property

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

Unit Price Risk

Choice Properties is exposed to Unit price risk as a result of the issuance of the Exchangeable Units, which are economically equivalent to and exchangeable for Units, as well as the issuance of unit-based compensation. The Exchangeable Units and unit-based compensation liabilities are recorded at their fair value based on market trading prices. The 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.

Credit Risk

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

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

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

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

Degree of Leverage

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

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

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

Credit Rating Risk

Credit ratings assigned to the Trust, Partnership or any of their respective securities may be changed at any time based on the judgment of the credit rating agencies and may also be impacted by a change in the credit rating of GWL, Loblaw and their respective affiliates. In addition, the Trust, GWL, Loblaw and their respective affiliates may incur additional indebtedness in the future, which could impact current and future credit ratings. A reduction in credit ratings could materially adversely affect the market value of the Trust's outstanding securities and the Trust's access to and cost of financing.

13. OUTLOOK AND IMPACT OF COVID-19⁽²⁾

Choice Properties is a leading Real Estate Investment Trust that creates enduring value through the ownership, operation and development of high-quality commercial and residential properties. Our goal is to provide net asset value appreciation, stable net operating income growth and capital preservation. Although the duration and longer-term impact of the COVID-19 pandemic cannot be predicted at this time, Choice Properties remains confident that its business model and disciplined approach to financial management will enable it to weather the impact of COVID-19.

Our diversified portfolio of office, retail and industrial properties is 97.1% occupied and leased to high-quality tenants across Canada. Our retail portfolio is primarily leased to grocery stores, pharmacies or other necessity-based tenants, who continue to perform well in this environment and the diversification of income provided by our industrial and office assets provides stability to our overall portfolio. This stability is evident by our rent collections, which were 98% for the fourth quarter.

Despite the ongoing impact of the COVID-19 pandemic, Choice Properties continues to advance our development initiatives, which will provide us with the best opportunity to add high-quality real estate to our portfolio at a reasonable cost. We have a mix of development projects ranging in size, scale and complexity, including retail intensification projects which provide incremental growth to our existing sites, to larger, more complex major mixed-use developments which will drive net asset value growth in the future.

The majority of our active development pipeline is focused on growing our rental residential portfolio. We expect to complete construction on two of our rental residential projects underway in Toronto in 2021 and have commenced construction on two additional high-rise residential projects, including one project in Brampton located next to the Mount Pleasant GO Station and one in the Westboro neighbourhood in Ottawa. We have invested approximately \$182.7 million into residential developments to date, and will continue to invest in our development pipeline, with an additional \$326.8 million of spending planned on six residential projects.

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

As evidenced by our capital recycling initiatives during 2020, we continue to seek opportunities to improve our portfolio quality. Furthermore, our disciplined approach to financial management is based on a conservative approach to leverage and financing risk. Over the past year, we reduced our overall leverage ratio and improved our debt maturity profile. In 2021, we will continue to seek out opportunities, when available, to strengthen our balance sheet by extending our debt maturities with longer term debt.

Choice Properties has taken proactive steps to ensure its financial strength and stability during and after the pandemic. Choice Properties' strong balance sheet provides the flexibility necessary to help insulate the Trust in the face of broader market volatility. During 2020, the Trust made significant progress in further strengthening its balance sheet, including refinancing unsecured debt maturities, increasing the weighted average term of debt and increasing available liquidity by issuing \$1 billion of unsecured debentures, the proceeds of which were primarily used to fund all unsecured debt maturities until the third quarter of 2021 and repay amounts drawn on the Trust's revolving credit facility. From a liquidity perspective, the Trust has approximately \$1.7 billion available comprised of \$1.5 billion as the unused portion of the Trust's revolving credit facility and \$223.7 million in cash and cash equivalents, in addition to approximately \$12.2 billion in unencumbered assets.

Update on Rent Collection⁽²⁾

As one of Canada's largest landlords, the Trust continued to support its tenants who have been negatively impacted by the pandemic by providing rent relief through rent deferrals and other arrangements, including participating in the CECRA program. Rent collection for the fourth quarter was at the higher end of collections within the industry and was primarily due to the stability of the Trust's necessity-based portfolio.

For the three months ended December 31, 2020, the Trust collected or expects to collect approximately 98% of contractual rents:

% Collected	Fourth Quarter 2020
Retail	98%
Industrial	100%
Office⁽¹⁾	97%
Total	98%

(1) Uncollected portion primarily relates to retail tenants in office buildings

In determining the expected credit losses on rent receivables, the Trust takes into account the payment history and future expectations of likely default events (i.e. asking for rental concessions, applications for rental relief through government programs such as the CECRA program, or stating they will not be making rental payments on the due date) based on actual or expected insolvency filings or company voluntary arrangements and likely deferrals of payments due, and potential abatements to be granted by the landlord under CECRA. These assessments are made on a tenant-by-tenant basis.

The Trust's assessment of expected credit losses is inherently subjective due to the forward-looking nature of the assessments. As a result, the value of the expected credit loss is subject to a degree of uncertainty and is made on the basis of assumptions which may not prove to be accurate given the uncertainty caused by COVID-19. Based on its review, the Trust recorded bad debt expense of \$3.5 million in property operating costs, on a proportionate share basis⁽¹⁾, during the three months ended December 31, 2020, with a corresponding amount recorded as an expected credit loss against its rent receivables. Of the \$3.5 million bad debt expense recorded in the fourth quarter, approximately \$1.6 million related to uncollected amounts from recurring billings in the period, while the balance pertains to past due amounts for a national retailer and smaller tenants that have declared bankruptcy.

(\$ thousands)	Nine months ended December 31, 2020	As a %
Total recurring tenant billings	\$ 1,100,269	100.0 %
Less: CECRA collections	(10,467)	1.0 %
Less: Amounts received and deferrals repaid to date	(1,059,726)	96.3 %
Balance outstanding	30,076	2.7 %
Total rents expected to be collected pursuant to deferral arrangements	(5,194)	(0.4)%
Total rents to be collected excluding collectible deferrals	24,882	2.3 %
Less: Provision recorded related to recurring tenant billings	(20,883)	(1.9)%
Balance expected to be recovered in time	\$ 3,999	0.4 %

The Trust's provision for recurring tenant billings for the nine months ended December 31, 2020, is comprised of the following:

(\$ thousands)	Nine months ended December 31, 2020
Provisions for CECRA-eligible tenants (reflects 25% landlord share)	\$ (5,371)
Provisions for tenants with negotiated rent abatements	(10,510)
Provisions for additional expected credit losses	(5,002)
Total provision recorded related to recurring tenant billings	\$ (20,883)

14. NON-GAAP FINANCIAL MEASURES

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

Non-GAAP Measure	Description	Reconciliation
Proportionate Share	<ul style="list-style-type: none"> Represents financial information adjusted to reflect the Trust's equity accounted joint ventures and financial real estate assets and its share of net income (losses) from equity accounted joint ventures and financial real estate assets on a proportionately consolidated basis at the Trust's ownership percentage of the related investment. Management views this method as relevant in demonstrating the Trust's ability to manage the underlying economics of the related investments, including the financial performance and cash flows and the extent to which the underlying assets are leveraged, which is an important component of risk management. 	<p>Section 2, "Balance Sheet"</p> <p>Section 7.1, "Net Income and Segment NOI Reconciliation"</p>
Net Operating Income ("NOI"), Accounting Basis	<ul style="list-style-type: none"> Defined as property rental revenue including straight line rental revenue, reimbursed contract revenue and lease surrender revenue, less direct property operating expenses and realty taxes, and excludes certain expenses such as interest expense and indirect operating expenses in order to provide results that reflect a property's operations before consideration of how it is financed or the costs of operating the entity in which it is held. 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. 	<p>Section 7.1, "Net Income and Segment NOI Reconciliation"</p>
NOI, Cash Basis	<ul style="list-style-type: none"> Defined as property rental revenue excluding straight line rental revenue, direct property operating expenses and realty taxes and excludes certain expenses such as interest expense and indirect operating expenses in order to provide results that reflect a property's operations before consideration of how it is financed or the costs of operating the entity in which it is held. Useful measure in understanding period-over-period changes in income from operations due to occupancy, rental rates, operating costs and realty taxes. 	<p>Section 7.1, "Net Income and Segment NOI Reconciliation"</p>
Same-Asset NOI, Cash Basis and Same-Asset NOI, Accounting Basis	<ul style="list-style-type: none"> Same-asset NOI is used to evaluate the period-over-period performance of those properties owned and operated by Choice Properties since January 1, 2019, inclusive. NOI from properties that have been (i) purchased, (ii) disposed, or (iii) subject to significant change as a result of new development, redevelopment, expansion, or demolition (collectively, "Transactions") are excluded from the determination of same-asset NOI. Same-asset NOI, Cash Basis, is useful in evaluating the realization of contractual rental rate changes embedded in lease agreements and/or the expiry of rent-free periods, while also being a useful measure in understanding period-over-period changes in NOI due to occupancy, rental rates, operating costs and realty taxes, before considering the changes in NOI that can be attributed to the Transactions and development activities. 	<p>Section 7.2, "Net Operating Income Summary"</p>

<p>Funds from Operations (“FFO”)</p>	<ul style="list-style-type: none"> • Calculated in accordance with the Real Property Association of Canada’s (“REALpac”) <i>White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS</i> issued in February 2019. • Management considers FFO to be a useful measure of operating performance as it adjusts for items included in net income (or net loss) that do not arise from operating activities or do not necessarily provide an accurate depiction of the Trust’s past or recurring performance, such as adjustments to fair value of Exchangeable Units, investment properties and unit-based compensation. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management’s review purposes. • 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. 	<p>Section 14.3, “Funds from Operations”</p>
<p>Adjusted Funds from Operations (“AFFO”)</p>	<ul style="list-style-type: none"> • Calculated in accordance with REALpac’s <i>White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS</i> issued in February 2019. • Management considers AFFO to be a useful measure of operating performance as it further adjusts FFO for capital expenditures that sustain income producing properties and eliminates the impact of straight-line rent. AFFO is impacted by the seasonality inherent in the timing of executing property capital projects. • In calculating AFFO, FFO is adjusted by excluding straight-line rent adjustments, as well as costs incurred relating to internal leasing activities and property capital projects. Working capital changes, viewed as short-term cash requirements or surpluses, are deemed financing activities pursuant to the methodology and are not considered when calculating AFFO. • 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. 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. 	<p>Section 14.4, “Adjusted Funds from Operations”</p>
<p>Adjusted Cash Flow from Operations (“ACFO”)</p>	<ul style="list-style-type: none"> • Calculated in accordance with REALpac’s <i>White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS</i> issued in February 2019. • Management views ACFO as a useful measure of the cash generated from operations after providing for operating capital requirements, and in evaluating the ability of Choice Properties to fund distributions to Unitholders. ACFO adjusts cash flows from operations as calculated under GAAP including, but not limited to, removing the effects of distributions on Exchangeable Units, deducting amounts for property capital expenditures to sustain existing GLA and for leasing capital expenditures. • 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. 	<p>Section 14.5, “Adjusted Cash Flow from Operations”</p>
<p>FFO, AFFO and ACFO Payout Ratios</p>	<ul style="list-style-type: none"> • FFO, AFFO and ACFO payout ratios are supplementary measures used by Management to assess the sustainability of the Trust’s distribution payments. • The ratios are calculated using cash distributions declared by FFO, AFFO and ACFO, as applicable. 	<p>Section 7.3, “Other Key Performance Indicators”</p>

Earnings before Interest, Taxes, Depreciation, Amortization and Fair Value (“EBITDAFV”)	<ul style="list-style-type: none"> Defined as net income attributable to Unitholders, reversing, where applicable, income taxes, interest expense, amortization expense, depreciation expense, adjustments to fair value and other adjustments as allowed in the Trust Indentures, as supplemented. Management believes EBITDAFV is useful in assessing the Trust’s ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. 	Section 14.8, “Earnings before Taxes, Depreciation, Amortization and Fair Value”
Cash Retained after Distributions	<ul style="list-style-type: none"> Represents the portion of ACFO retained within Choice Properties which can be used to invest in new acquisitions, development properties and capital activity. 	Section 14.6, “Distribution Excess / Shortfall Analysis”
Total Debt	<ul style="list-style-type: none"> Defined as variable rate debt (construction loans and credit facility) and fixed rate debt (senior unsecured debentures and mortgages), as measured on a proportionate share basis, and does not include the Exchangeable Units which are included as part of Unit Equity on account of the Exchangeable Units being economically equivalent and receiving equal distributions to the Trust Units. 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. 	Section 4.3, “Components of Total Debt”
Debt to Total Assets	<ul style="list-style-type: none"> Determined by dividing Total Debt (as defined above) by total assets as presented on a proportionate basis and can be interpreted as the proportion of the Trust’s assets that are financed by debt. Management believes this ratio is useful in evaluating the Trust’s flexibility to incur additional financial leverage. 	Section 4.4, “Financial Condition”
Debt Service Coverage	<ul style="list-style-type: none"> Calculated as EBITDAFV divided by interest expense on the Total Debt and all regularly scheduled principal payments made with respect to indebtedness during such period (other than any balloon, bullet or similar principal payable at maturity or which repays such indebtedness in full). This ratio is calculated based on the Trust Indentures, as supplemented. The debt service coverage ratio is useful in determining the ability of Choice Properties to service the interest requirements of its outstanding debt. 	Section 4.4, “Financial Condition”
Debt to EBITDAFV, Normalized Debt to EBITDAFV, and Normalized Debt to EBITDAFV, net of cash	<ul style="list-style-type: none"> Calculated as Total Debt divided by EBITDAFV. This ratio is used to assess the financial leverage of Choice Properties, to measure its ability to meet financial obligations and to provide a snapshot of its balance sheet strength. Management presents this ratio on a trailing 12-month normalized basis to exclude the proforma results of the Oak Street disposition revenue. Management also presents this ratio on a trailing 12-month normalized basis to exclude the proforma results of the Oak Street disposition, with Total Debt calculated as net of cash and cash equivalents at the measurement date. 	Section 4.4, “Financial Condition”
Interest Coverage	<ul style="list-style-type: none"> Calculated as EBITDAFV divided by interest expense on the Total Debt incurred by Choice Properties for the period. The interest coverage ratio is useful in determining Choice Properties’ ability to service the interest requirements of its outstanding debt. 	Section 4.4, “Financial Condition”

14.1 Investment Properties Reconciliation

To expand the portfolio and participate in development opportunities, Choice Properties owns varying interests in real estate entities which hold investment properties. Under GAAP, many of these interests are recorded as equity accounted joint ventures and, as such, the Trust's portion of the investment properties of these entities is presented on the balance sheet as a summarized value, not as part of the total investment properties. Similarly, Choice Properties owns real estate assets, whereby the acquisition involved a sale-leaseback arrangement with the seller. As a result of the arrangement the Trust did not meet the GAAP definition of control, and as such, these assets are presented on the balance sheet as financial real estate assets and not as part of investment properties. While the reconciliation for Choice Properties' balance sheet on a GAAP basis to a proportionate share basis⁽¹⁾ is detailed in Section 2, "Balance Sheet", the following continuity schedule presents Choice Properties' investment properties inclusive of its proportionate share ownership in equity accounted joint ventures and financial real estate assets for the period ended as indicated:

As at December 31, 2020 (\$ thousands)	Three Months			Year Ended		
	GAAP Basis	Reconciliation	Proportionate Share Basis ⁽¹⁾	GAAP Basis	Reconciliation	Proportionate Share Basis ⁽¹⁾
Balance, beginning of period	\$ 14,080,000	\$ 941,000	\$ 15,021,000	\$ 14,373,000	\$ 938,000	\$ 15,311,000
Acquisitions of investment properties ⁽ⁱ⁾	172,572	46,712	219,284	458,959	46,712	505,671
Capital expenditures						
Development capital	24,987	18,269	43,256	57,693	87,526	145,219
Building improvements	8,532	6,358	14,890	10,948	6,463	17,411
Capitalized interest	1,627	209	1,836	4,231	708	4,939
Operating capital expenditures						
Property capital	22,592	(94)	22,498	33,112	34	33,146
Direct leasing costs	1,051	1,040	2,091	6,519	1,581	8,100
Tenant improvement allowances	4,711	162	4,873	19,269	1,581	20,850
Amortization of straight-line rent	3,217	1,014	4,231	13,946	2,167	16,113
Transfers from assets held for sale	32,510	—	32,510	—	—	—
Transfer from equity accounted joint ventures	—	—	—	42,687	(42,687)	—
Dispositions	(66,400)	—	(66,400)	(391,878)	—	(391,878)
Disposition to equity accounted joint venture	—	—	—	(19,468)	9,734	(9,734)
Adjustment to fair value of investment properties	103,601	330	103,931	(220,018)	(36,819)	(256,837)
Balance, as at December 31, 2020	\$ 14,389,000	\$ 1,015,000	\$ 15,404,000	\$ 14,389,000	\$ 1,015,000	\$ 15,404,000

(i) Includes acquisition costs.

14.2 Net Operating Income

The following table reconciles net income (loss), as determined in accordance with GAAP, to NOI, Cash Basis, for the periods ended as indicated. Refer to Section 7, “Results of Operations - Segment Information” and Section 14, “Non-GAAP Financial Measures”, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Net income (loss)	\$ 116,570	\$ 293,261	\$ (176,691)	\$ 450,685	\$ (581,357)	\$ 1,032,042
Straight line rental revenue	(3,217)	(5,433)	2,216	(13,946)	(25,146)	11,200
Reimbursed contract revenue	—	7,100	(7,100)	—	7,100	(7,100)
Allowance for expected credit losses on mortgage receivable	—	3,000	(3,000)	7,830	3,000	4,830
Lease surrender revenue	(929)	(1,306)	377	(1,958)	(3,678)	1,720
General and administrative expenses	8,778	9,760	(982)	36,718	39,292	(2,574)
Fee income	(1,136)	(1,530)	394	(4,416)	(4,556)	140
Net interest expense and other financing charges	133,121	133,893	(772)	540,720	551,843	(11,123)
Interest income	(2,770)	(3,456)	686	(13,639)	(14,551)	912
Share of income (loss) from equity accounted joint ventures	(9,036)	5,296	(14,332)	5,570	(24,366)	29,936
Amortization of intangible assets	250	—	250	1,000	—	1,000
Foreign exchange gain reclassified from other comprehensive income	—	—	—	(1,184)	—	(1,184)
Acquisition transaction costs and other related expenses	—	—	—	1,589	8,363	(6,774)
Other fair value gains (losses), net	(1,347)	(1,744)	397	(2,210)	7,109	(9,319)
Adjustment to fair value of Exchangeable Units	86,370	(206,680)	293,050	(354,286)	932,009	(1,286,295)
Adjustment to fair value of investment properties	(103,601)	(7,608)	(95,993)	220,018	4,434	215,584
Income tax recovery	(1,797)	(78)	(1,719)	(1,797)	(798)	(999)
Net Operating Income, Cash Basis	221,256	224,475	(3,219)	870,694	898,698	(28,004)
Adjustments for equity accounted joint ventures	9,097	10,474	(1,377)	37,387	42,622	(5,235)
Proportionate Share⁽¹⁾ Net Operating Income, Cash Basis	\$ 230,353	\$ 234,949	\$ (4,596)	\$ 908,081	\$ 941,320	\$ (33,239)

14.3 Funds from Operations

The following table reconciles net income, as determined in accordance with GAAP, to Funds from Operations for the periods ended as indicated. Refer to Section 7, “Results of Operations - Segment Information” and Section 14, “Non-GAAP Financial Measures”, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Net income (loss)	\$ 116,570	\$ 293,261	\$ (176,691)	\$ 450,685	\$ (581,357)	\$ 1,032,042
Amortization of intangible assets	250	—	250	1,000	—	1,000
Foreign exchange gain reclassified from other comprehensive income	—	—	—	(1,184)	—	(1,184)
Acquisition transaction costs and other related expenses	—	—	—	1,589	8,363	(6,774)
Other fair value gains (losses), net	(1,347)	(1,744)	397	(2,210)	7,109	(9,319)
Adjustment to fair value of Exchangeable Units	86,370	(206,680)	293,050	(354,286)	932,009	(1,286,295)
Adjustment to fair value of investment properties	(103,601)	(7,608)	(95,993)	220,018	4,434	215,584
Adjustment to fair value of investment property held in equity accounted joint ventures	(330)	13,499	(13,829)	36,819	10,816	26,003
Interest otherwise capitalized for development in equity accounted joint ventures	1,005	1,387	(382)	5,112	4,978	134
Exchangeable Units distributions	72,502	72,143	359	288,932	288,573	359
Internal expenses for leasing	1,897	1,615	282	7,329	6,151	1,178
Income tax recovery	(1,797)	(78)	(1,719)	(1,797)	(798)	(999)
Funds from Operations	\$ 171,519	\$ 165,795	\$ 5,724	\$ 652,007	\$ 680,278	\$ (28,271)
FFO per Unit - diluted ⁽ⁱ⁾	\$ 0.239	\$ 0.237	\$ 0.002	\$ 0.921	\$ 0.987	\$ (0.066)
FFO payout ratio - diluted ⁽ⁱ⁾	77.5 %	78.1 %	(0.6)%	80.5 %	75.0 %	5.5 %
Distribution declared per Unit	\$ 0.185	\$ 0.185	\$ —	\$ 0.740	\$ 0.740	\$ —
Weighted average Units outstanding - diluted	718,026,576	700,544,380	17,482,196	707,764,714	689,285,790	18,478,924

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

FFO as calculated on a proportionate share basis⁽¹⁾:

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Net operating income, cash basis	\$ 230,353	\$ 234,949	\$ (4,596)	\$ 908,081	\$ 941,320	\$ (33,239)
Straight line rental revenue	4,106	5,622	(1,516)	16,113	26,185	(10,072)
Reimbursed contract revenue	—	(7,100)	7,100	—	(7,100)	7,100
Lease surrender revenue	1,291	1,306	(15)	2,320	3,678	(1,358)
Net operating income, accounting basis	\$ 235,750	\$ 234,777	\$ 973	\$ 926,514	\$ 964,083	\$ (37,569)
Interest income	3,093	3,418	(325)	13,053	15,500	(2,447)
Fee income	1,136	1,530	(394)	4,416	4,556	(140)
Net interest expense and other financing charges	(135,086)	(136,315)	1,229	(548,801)	(561,271)	12,470
Distributions on Exchangeable Units	72,502	72,143	359	288,932	288,573	359
Interest otherwise capitalized for development in equity accounted joint ventures	1,005	1,387	(382)	5,112	4,978	134
General and administrative expenses	(8,778)	(9,760)	982	(36,718)	(39,292)	2,574
Allowance for expected credit losses on mortgage receivable	—	(3,000)	3,000	(7,830)	(3,000)	(4,830)
Internal expenses for leasing	1,897	1,615	282	7,329	6,151	1,178
Funds from Operations	\$ 171,519	\$ 165,795	\$ 5,724	\$ 652,007	\$ 680,278	\$ (28,271)
FFO per Unit - diluted ⁽ⁱ⁾	\$ 0.239	\$ 0.237	\$ 0.002	\$ 0.921	\$ 0.987	\$ (0.066)
FFO payout ratio - diluted ⁽ⁱⁱ⁾	77.5 %	78.1 %	(0.6)%	80.5 %	75.0 %	5.5 %
Distribution declared per Unit	\$ 0.185	\$ 0.185	\$ —	\$ 0.740	\$ 0.740	\$ —
Weighted average Units outstanding - diluted	718,026,576	700,544,380	17,482,196	707,764,714	689,285,790	18,478,924

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

14.4 Adjusted Funds from Operations

The following table reconciles FFO to AFFO for the periods ended as indicated. Refer to Section 7, “Results of Operations - Segment Information” and Section 14, “Non-GAAP Financial Measures”, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Funds from Operations	\$ 171,519	\$ 165,795	\$ 5,724	\$ 652,007	\$ 680,278	\$ (28,271)
Add (deduct) impact of the following:						
Internal expenses for leasing	(1,897)	(1,615)	(282)	(7,329)	(6,151)	(1,178)
Straight line rental revenue	(4,106)	(5,622)	1,516	(16,113)	(26,185)	10,072
Property capital	(22,498)	(18,859)	(3,639)	(33,146)	(30,658)	(2,488)
Direct leasing costs	(2,091)	(3,099)	1,008	(8,100)	(8,172)	72
Tenant improvements	(4,873)	(7,413)	2,540	(20,850)	(21,417)	567
Adjusted Funds from Operations	\$ 136,054	\$ 129,187	\$ 6,867	\$ 566,469	\$ 587,695	\$ (21,226)
AFFO per unit - diluted ⁽ⁱ⁾	\$ 0.189	\$ 0.184	\$ 0.005	\$ 0.800	\$ 0.853	\$ (0.053)
AFFO payout ratio - diluted ⁽ⁱⁱ⁾	97.7 %	100.3 %	(2.6)%	92.6 %	86.8 %	5.8 %
Distribution declared per Unit	\$ 0.185	\$ 0.185	\$ —	\$ 0.740	\$ 0.740	\$ —
Weighted average Units outstanding - diluted	718,026,576	700,544,380	17,482,196	707,764,714	689,285,790	18,478,924

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

14.5 Adjusted Cash Flow from Operations

The following table reconciles cash flows from operating activities to ACFO, as determined in accordance with GAAP, for the periods ended as indicated. Refer to Section 4.7, “Adjusted Cash Flow from Operations” and Section 14, “Non-GAAP Financial Measures”, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Cash flows from operating activities	\$ 255,960	\$ 207,460	\$ 48,500	\$ 621,184	\$ 580,556	\$ 40,628
Add (deduct) impact of the following:						
Net interest expense and other financing charges in excess of interest paid ⁽ⁱ⁾	(95,169)	(97,352)	2,183	(283,306)	(289,691)	6,385
Distributions on Exchangeable Units included in net interest expense and other financing charges	72,502	72,143	359	288,932	288,573	359
Interest and other income in excess of interest received ⁽ⁱⁱ⁾	(617)	4,125	(4,742)	2,094	8,453	(6,359)
Interest otherwise capitalized for development in equity accounted joint ventures	1,005	1,387	(382)	5,112	4,978	134
Allowance for expected credit losses on mortgage receivable	—	(3,000)	3,000	(7,830)	(3,000)	(4,830)
Portion of internal expenses for leasing relating to development activity	949	808	141	3,665	3,076	589
Property capital expenditures on a proportionate share basis	(22,498)	(18,859)	(3,639)	(33,146)	(30,658)	(2,488)
Leasing capital expenditures on a proportionate share basis	(6,964)	(10,512)	3,548	(28,950)	(29,589)	639
Acquisition transaction costs and other related expenses	—	—	—	1,589	8,363	(6,774)
Adjustments for proportionate share of income from equity accounted joint ventures ⁽ⁱⁱⁱ⁾	8,706	8,203	503	31,249	35,182	(3,933)
Adjustment for changes in non-cash working capital items not indicative of sustainable operating cash flows ⁽ⁱⁱⁱ⁾	(47,653)	(27,767)	(19,886)	(7,983)	21,407	(29,390)
Adjusted Cash Flow from Operations	166,221	\$ 136,636	\$ 29,585	592,610	\$ 597,650	\$ (5,040)
Cash distributions declared	132,986	129,546	3,440	524,732	510,333	14,399
Cash retained after distributions	\$ 33,235	\$ 7,090	\$ 26,145	\$ 67,878	\$ 87,317	\$ (19,439)
ACFO payout ratio^(iv)	80.0 %	94.8 %	(14.8)%	88.5 %	85.4 %	3.1 %

(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, 2020 and December 31, 2019 were adjusted for this factor to make the periods more comparable⁽²⁾.

(ii) Excludes adjustment to fair value of investment properties for equity accounted joint ventures.

(iii) ACFO is adjusted each quarter for fluctuations in non-cash working capital due to the timing of transactions for realty taxes prepaid or payable, and prepaid insurance. The payments for these operating expenses tend to have quarterly, seasonal fluctuations that even out on an annual basis. ACFO is also adjusted each quarter to remove fluctuations in non-cash working capital due to capital expenditure accruals, which are not related to sustainable operating activities.

(iv) ACFO payout ratio is calculated as the cash distributions declared divided by the ACFO.

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

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Net change in non-cash working capital ⁽ⁱ⁾	\$ 72,942	\$ 33,507	\$ 39,435	\$ 21,657	\$ (21,094)	\$ 42,751
Adjustment for changes in non-cash working capital items not indicative of sustainable operating cash flows	(47,653)	(27,767)	(19,886)	(7,983)	21,407	(29,390)
Net non-cash working capital increase included in ACFO	\$ 25,289	\$ 5,740	\$ 19,549	\$ 13,674	\$ 313	\$ 13,361

(i) As calculated under GAAP and disclosed in the Trust’s consolidated financial statements.

14.6 Distribution Excess / Shortfall Analysis

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

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Cash flows from operating activities	\$ 255,960	\$ 207,460	\$ 48,500	\$ 621,184	\$ 580,556	\$ 40,628
Less: Cash distributions declared	(132,986)	(129,546)	(3,440)	(524,732)	(510,333)	(14,399)
Excess of cash flows provided by operating activities over cash distributions declared	\$ 122,974	\$ 77,914	\$ 45,060	\$ 96,452	\$ 70,223	\$ 26,229

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Net income (loss)	\$ 116,570	\$ 293,261	\$ (176,691)	\$ 450,685	\$ (581,357)	\$ 1,032,042
Add: Distributions on Exchangeable Units included in net interest expense and other financing charges	72,502	72,143	359	288,932	288,573	359
Net income (loss) attributable to Unitholders excluding distributions on Exchangeable Units	189,072	365,404	(176,332)	739,617	(292,784)	1,032,401
Less: Cash distributions declared	(132,986)	(129,546)	(3,440)	(524,732)	(510,333)	(14,399)
Excess (shortfall) of net income (loss) attributable to Unitholders, less distributions on Exchangeable Units, over cash distributions declared	\$ 56,086	\$ 235,858	\$ (179,772)	\$ 214,885	\$ (803,117)	\$ 1,018,002

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Adjusted Cash Flow from Operations ⁽¹⁾	\$ 166,221	\$ 136,636	\$ 16,953	\$ 592,610	\$ 597,650	\$ (5,040)
Less: Cash distributions declared	(132,986)	(129,546)	(3,440)	(524,732)	(510,333)	(14,399)
Excess of ACFO after distributions	\$ 33,235	\$ 7,090	\$ 26,145	\$ 67,878	\$ 87,317	\$ (19,439)

Choice Properties' cash flows provided by operating activities exceeded its cash distributions declared for the three months and year ended December 31, 2020.

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⁾.

14.7 Net Interest Expense and Other Financing Charges Reconciliation

The following tables reconcile net interest expense and other financing charges on a proportionate share basis to net interest expense and other financing charges as determined in accordance with GAAP for the three months and year ended December 31, 2020 and 2019:

For the three months ended December 31 (\$ thousands)	2020			2019		
	Proportionate Share Basis ⁽ⁱ⁾	Consolidation and eliminations ⁽ⁱⁱ⁾	GAAP Basis	Proportionate Share Basis ⁽ⁱ⁾	Consolidation and eliminations ⁽ⁱⁱ⁾	GAAP Basis
Interest on senior unsecured debentures	\$ 47,826	\$ —	\$ 47,826	\$ 47,861	\$ —	\$ 47,861
Interest on mortgages	14,098	(2,088)	12,010	14,738	(2,439)	12,299
Interest on credit facility and term loans	1,237	—	1,237	2,256	—	2,256
Subtotal (for use in Debt Service Coverage⁽ⁱ⁾ calculation)	63,161	(2,088)	61,073	64,855	(2,439)	62,416
Distributions on Exchangeable Units ⁽ⁱⁱ⁾	72,502	—	72,502	72,143	—	72,143
Subtotal (for use in EBITDAFV⁽ⁱ⁾ calculation)	135,663	(2,088)	133,575	136,998	(2,439)	134,559
Interest on right of use asset	41	—	41	69	—	69
Effective interest rate amortization of debt discounts and premiums	147	(53)	94	(882)	(41)	(923)
Effective interest rate amortization of debt placement costs	1,071	(33)	1,038	1,048	(34)	1,014
Capitalized interest	(1,836)	209	(1,627)	(918)	92	(826)
Net interest expense and other financing charges	\$ 135,086	\$ (1,965)	\$ 133,121	\$ 136,315	\$ (2,422)	\$ 133,893

For the year ended December 31 (\$ thousands)	2020			2019		
	Proportionate Share Basis ⁽ⁱ⁾	Consolidation and eliminations ⁽ⁱⁱ⁾	GAAP Basis	Proportionate Share Basis ⁽ⁱ⁾	Consolidation and eliminations ⁽ⁱⁱ⁾	GAAP Basis
Interest on senior unsecured debentures	\$ 196,741	\$ —	\$ 196,741	\$ 182,522	\$ —	\$ 182,522
Interest on mortgages	57,438	(8,478)	48,960	62,324	(10,417)	51,907
Interest on credit facility and term loans	7,316	—	7,316	28,352	—	28,352
Subtotal (for use in Debt Service Coverage⁽ⁱ⁾ calculation)	261,495	(8,478)	253,017	273,198	(10,417)	262,781
Distributions on Exchangeable Units ⁽ⁱⁱ⁾	288,932	—	288,932	288,573	—	288,573
Subtotal (for use in EBITDAFV⁽ⁱ⁾ calculation)	550,427	(8,478)	541,949	561,771	(10,417)	551,354
Interest on right of use asset	216	—	216	281	—	281
Effective interest rate amortization of debt discounts and premiums	(1,627)	(179)	(1,806)	(3,553)	(167)	(3,720)
Effective interest rate amortization of debt placement costs	4,724	(132)	4,592	8,470	(118)	8,352
Capitalized interest	(4,939)	708	(4,231)	(5,698)	1,274	(4,424)
Net interest expense and other financing charges	\$ 548,801	\$ (8,081)	\$ 540,720	\$ 561,271	\$ (9,428)	\$ 551,843

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

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

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

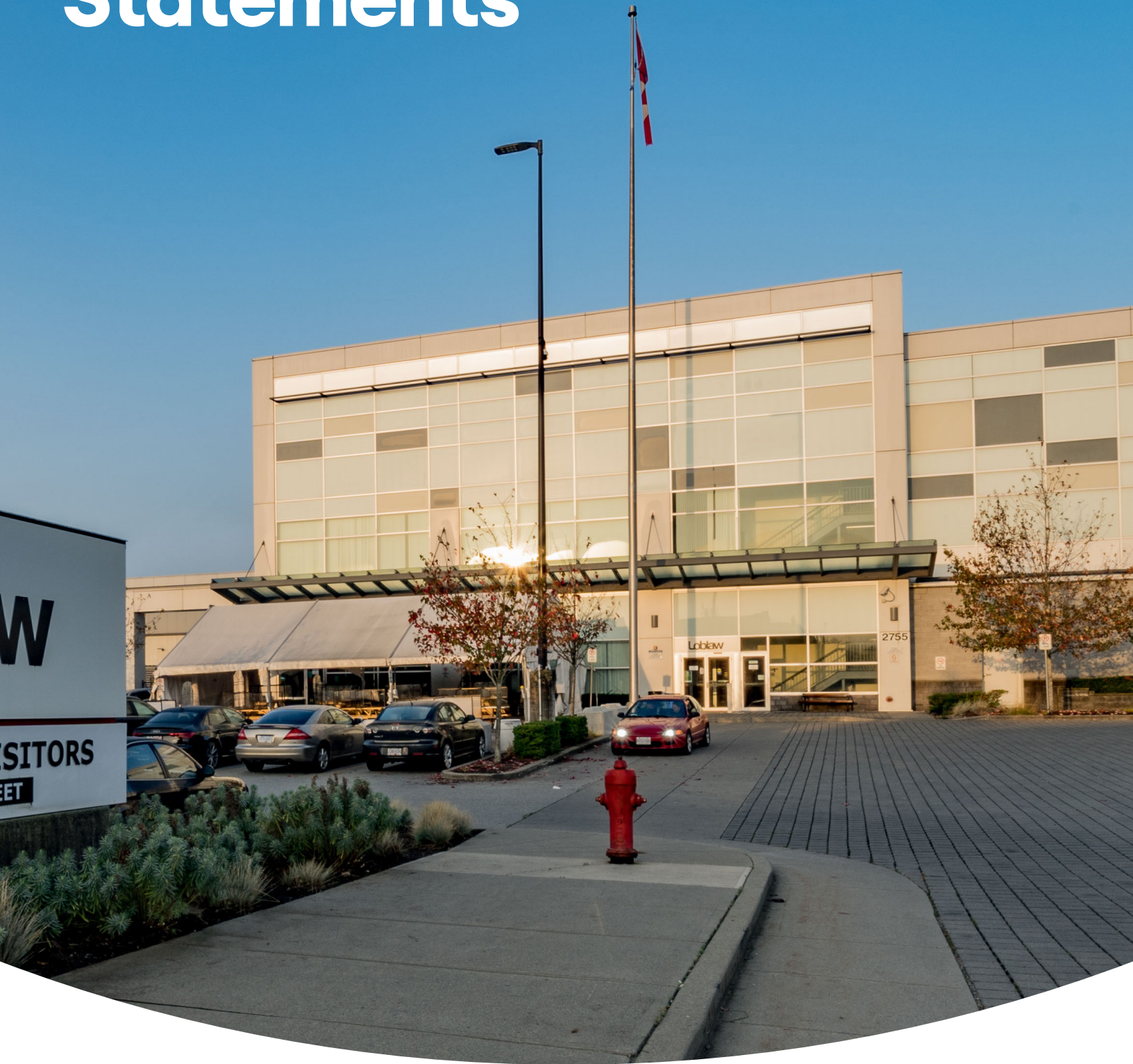
The following table reconciles net income, as determined in accordance with GAAP, to EBITDAFV for the periods ended as indicated. Refer to Section 14, “Non-GAAP Financial Measures”, for further details about this non-GAAP measure.

For the periods ended December 31 (\$ thousands)	Three Months			Year Ended		
	2020	2019	Change	2020	2019	Change
Net income (loss)	\$ 116,570	\$ 293,261	\$ (176,691)	\$ 450,685	\$ (581,357)	\$ 1,032,042
Add (deduct) impact of the following:						
Acquisition transaction costs and other related expenses	—	—	—	1,589	8,363	(6,774)
Other fair value (gains) losses, net	(1,347)	(1,744)	863	(2,210)	7,109	(9,319)
Adjustment to fair value of Exchangeable Units	86,370	(206,680)	293,050	(354,286)	932,009	(1,286,295)
Adjustment to fair value of investment properties	(103,601)	(7,608)	(95,993)	220,018	4,434	215,584
Adjustment to fair value of investment property held in equity accounted joint ventures	(330)	13,499	(13,829)	36,819	10,816	26,003
Interest expense ⁽ⁱ⁾	135,663	136,998	(1,335)	550,427	561,771	(11,344)
Amortization of other assets	229	30	199	548	130	418
Amortization of intangible assets	250	—	250	1,000	—	1,000
Income tax recovery	(1,797)	(78)	(1,719)	(1,797)	(798)	(999)
Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value (EBITDAFV)	\$ 232,007	\$ 227,678	\$ 4,329	\$ 902,793	\$ 942,477	\$ (39,684)

(i) As calculated in Section 14.7, “Net Interest Expense and Other Financing Charges Reconciliation”.

Financial Statements

Loblaw Distribution Centre
Surrey, BC



Financial Results

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Management's Statement of Responsibility for Financial Reporting

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

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

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

Toronto, Canada
February 10, 2021

[signed]

Rael Diamond

President and Chief Executive Officer

[signed]

Mario Barrafato

Chief Financial Officer



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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, 2020 and December 31, 2019
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the fair value of income producing properties

Description of the matter

We draw attention to Note 2g, 3a, and Note 5 of the financial statements. The income producing properties are measured at fair value using valuations prepared by the Trust's internal valuation team. The Entity has recorded income producing properties at fair value for an amount of \$14,199 million.

Significant assumptions in determining the fair value of income producing properties include:

- future cash flows over the holding period
- terminal capitalization rates and discount rates applied to these cash flows.

Why the matter is a key audit matter

We identified the evaluation of the fair value of income producing properties as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of income producing properties and the high degree of estimation uncertainty in determining the fair value of income producing properties. In addition, significant auditor judgment and involvement of those with specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity of the fair value of income producing properties to minor changes in certain significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of income producing properties, we assessed the Entity's ability to accurately forecast by comparing the Entity's future cash flows over the holding period used in the prior year's fair value of income producing properties to actual results.

For a selection of income producing properties, we compared the future cash flows over the holding period to the actual historical cash flows generated by the income producing properties. We took into account the changes in conditions and events affecting the income producing properties to assess the adjustments, or lack of adjustments, made by the Entity in arriving at those future cash flows.



We involved valuations professionals with specialized skills and knowledge, who assisted in evaluating the terminal capitalization rates and discount rates of the overall income producing properties portfolio. These rates were evaluated by comparing them to published reports of real estate industry commentators and considering the various characteristics of the portfolio.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "Annual Report 2020".

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 10, 2021

Choice Properties Real Estate Investment Trust
Consolidated Balance Sheets

(in thousands of Canadian dollars)	Note	As at December 31, 2020	As at December 31, 2019
Assets			
Investment properties	5	\$ 14,389,000	\$ 14,373,000
Equity accounted joint ventures	6	573,649	606,089
Financial real estate assets	9	68,373	22,800
Mortgages, loans and notes receivable	10	263,946	332,286
Intangible assets	11	29,000	30,000
Accounts receivable and other assets	12	116,055	72,230
Assets held for sale	4	—	97,800
Cash and cash equivalents	29 (c)	207,219	41,990
Total Assets		\$ 15,647,242	\$ 15,576,195
Liabilities and Equity			
Long term debt	13	\$ 6,485,521	\$ 6,413,452
Credit facility	14	—	127,233
Exchangeable Units	15	5,149,182	5,424,368
Trade payables and other liabilities	17	489,999	513,124
Total Liabilities		12,124,702	12,478,177
Equity			
Unitholders' equity		3,514,739	3,090,217
Non-controlling interests	8	7,801	7,801
Total Equity		3,522,540	3,098,018
Total Liabilities and Equity		\$ 15,647,242	\$ 15,576,195

Contingent Liabilities and Financial Guarantees (Note 31)
Subsequent Events (Note 33)
See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Trustees

[signed]

Galen G. Weston

Chair, Board of Trustees

[signed]

Karen Kinsley

Chair, Audit Committee

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

(in thousands of Canadian dollars)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Net Operating Income			
Rental revenue	19	\$ 1,270,614	\$ 1,288,554
Property operating costs	20	(384,016)	(368,132)
		886,598	920,422
Other Income and Expenses			
Interest income	21	13,639	14,551
Fee income	22	4,416	4,556
Net interest expense and other financing charges	23	(540,720)	(551,843)
General and administrative expenses	24	(36,718)	(39,292)
Allowance for expected credit losses on mortgage receivable	10	(7,830)	(3,000)
Share of income (loss) from equity accounted joint ventures	6	(5,570)	24,366
Amortization of intangible assets	11	(1,000)	—
Foreign exchange gain reclassified from other comprehensive income		1,184	—
Acquisition transaction costs and other related expenses		(1,589)	(8,363)
Other fair value gains (losses), net	25	2,210	(7,109)
Adjustment to fair value of Exchangeable Units	15	354,286	(932,009)
Adjustment to fair value of investment properties	5	(220,018)	(4,434)
Income (Loss) before income taxes		448,888	(582,155)
Income tax recovery	16	1,797	798
Net Income (Loss)		\$ 450,685	\$ (581,357)
Net Income (Loss)		\$ 450,685	\$ (581,357)
Other Comprehensive Income (Loss)			
Foreign exchange gain (loss) on currency translation		1,016	(6,589)
Foreign exchange gain on currency translation reclassified to earnings		(1,184)	—
Unrealized gain (loss) on designated hedging instruments	27	(3,554)	(2,044)
Other comprehensive income (loss)		(3,722)	(8,633)
Comprehensive Income (Loss)		\$ 446,963	\$ (589,990)

See accompanying notes to the consolidated financial statements

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

		Attributable to Choice Properties' Unitholders						
For the year ended December 31, 2020 (in thousands of Canadian dollars)	Note	Trust Units	Cumulative net income	Accumulated other comprehensive loss	Cumulative distributions to Unitholders	Total Unitholders' equity	Non- controlling interests	Total equity
Equity, December 31, 2019		\$ 3,409,836	\$ 361,049	\$ (1,264)	\$ (679,404)	\$ 3,090,217	\$ 7,801	\$ 3,098,018
Net income		—	450,685	—	—	450,685	—	450,685
Other comprehensive loss		—	—	(3,722)	—	(3,722)	—	(3,722)
Distributions		—	—	—	(235,800)	(235,800)	—	(235,800)
Units issued, net of costs	32	208,935	—	—	—	208,935	—	208,935
Distribution in Units	15	29,425	—	—	(29,425)	—	—	—
Units issued under unit-based compensation arrangements	15	4,841	—	—	—	4,841	—	4,841
Reclassification of vested Unit- Settled Restricted Units liability to equity	15	1,929	—	—	—	1,929	—	1,929
Units repurchased for unit- based compensation arrangements	15	(2,346)	—	—	—	(2,346)	—	(2,346)
Equity, December 31, 2020		\$ 3,652,620	\$ 811,734	\$ (4,986)	\$ (944,629)	\$ 3,514,739	\$ 7,801	\$ 3,522,540

		Attributable to Choice Properties' Unitholders						
For the year ended December 31, 2019 (in thousands of Canadian dollars)	Note	Trust Units	Cumulative net income	Accumulated other comprehensive loss	Cumulative distributions to Unitholders	Total Unitholders' equity	Non- controlling interests	Total equity
Equity, December 31, 2018		\$ 2,978,343	\$ 942,406	\$ 7,369	\$ (435,933)	\$ 3,492,185	\$ 7,801	\$ 3,499,986
Net loss		—	(581,357)	—	—	(581,357)	—	(581,357)
Other comprehensive loss		—	—	(8,633)	—	(8,633)	—	(8,633)
Distributions		—	—	—	(221,750)	(221,750)	—	(221,750)
Units issued, net of costs	15	380,758	—	—	—	380,758	—	380,758
Distribution in Units	15	21,721	—	—	(21,721)	—	—	—
Units issued under unit-based compensation arrangements	15	29,055	—	—	—	29,055	—	29,055
Reclassification of vested Unit- Settled Restricted Units liability to equity	15	2,081	—	—	—	2,081	—	2,081
Units repurchased for unit- based compensation arrangements	15	(2,122)	—	—	—	(2,122)	—	(2,122)
Equity, December 31, 2019		\$ 3,409,836	\$ 361,049	\$ (1,264)	\$ (679,404)	\$ 3,090,217	\$ 7,801	\$ 3,098,018

See accompanying notes to the consolidated financial statements

Choice Properties Real Estate Investment Trust
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Operating Activities			
Net income (loss)		\$ 450,685	\$ (581,357)
Net interest expense and other financing charges	23	540,720	551,843
Interest paid		(257,414)	(262,152)
Interest income	21	(13,639)	(14,551)
Interest income received		11,545	6,098
Share of (income) loss from equity accounted joint ventures	6	5,570	(24,366)
Items not affecting cash and other items	29 (a)	(137,940)	926,135
Net change in non-cash working capital	29 (b)	21,657	(21,094)
Cash Flows from Operating Activities		621,184	580,556
Investing Activities			
Acquisitions of investment properties	4	(134,928)	(85,447)
Acquisition of financial real estate asset	4, 9	(46,712)	(23,462)
Additions to investment properties	5	(127,541)	(127,108)
Additions to financial real estate asset	9	(9)	—
Contributions to equity accounted joint ventures	6	(42,128)	(86,252)
Distributions from equity accounted joint ventures	6	32,549	56,457
Mortgages, loans and notes receivable advances	10	(164,437)	(203,432)
Mortgages, loans and notes receivable repayments	10	173,655	62,933
Proceeds from dispositions	4	464,745	467,908
Cash Flows from (used in) Investing Activities		155,194	61,597
Financing Activities			
Proceeds from issuance of debentures, net	13	994,681	746,078
Repayments of debentures	13	(900,000)	(300,000)
Net advances (repayments) of mortgages payable	13	614	(97,903)
Net advances on construction loans	13	351	3,512
Net advances (repayments) of credit facility and term loans	14	(132,000)	(993,000)
Issuance of units	15	—	395,056
Trust Unit issuance costs	15	—	(14,298)
Cash received on exercise of options	18	1,799	24,133
Cash paid on vesting of restricted and performance units		(2,798)	(2,239)
Repurchase of Units for unit-based compensation arrangement	15	(2,346)	(2,122)
Distributions paid on Exchangeable Units		(336,668)	(170,513)
Distributions paid on Trust Units		(234,782)	(219,580)
Cash Flows from (used in) Financing Activities		(611,149)	(630,876)
Change in cash and cash equivalents		165,229	11,277
Cash and cash equivalents, beginning of year		41,990	30,713
Cash and Cash Equivalents, End of Year	29 (c)	\$ 207,219	\$ 41,990

Supplemental disclosure of non-cash operating 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 amended and restated as of May 2, 2018, as may be amended from time to time (the “Declaration of Trust”). Choice Properties, Canada’s preeminent diversified real estate investment trust, is the owner, manager and developer of a high-quality portfolio of commercial retail, industrial, office and residential properties across Canada. The principal, registered, and head office of Choice Properties is located at 22 St. Clair Avenue East, Suite 700, Toronto, Ontario, M4T 2S5. Choice Properties’ trust units (“Trust Units” or “Units”) are listed on the Toronto Stock Exchange (“TSX”) and are traded under the symbol “CHP.UN”.

Choice Properties commenced operations on July 5, 2013 when it issued Units and debt for cash pursuant to an initial public offering (the “IPO”) and completed the acquisition of 425 properties from Loblaw Companies Limited and its subsidiaries (“Loblaw”). Pursuant to a reorganization transaction on November 1, 2018, Loblaw spun out its 61.6% effective interest in Choice Properties to George Weston Limited (“GWL”). As at December 31, 2020, GWL held a 61.8% direct effective interest in Choice Properties. Choice Properties’ ultimate parent is Wittington Investments, Limited (“Wittington”).

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

Note 2. Significant Accounting Policies

a. Statement of Compliance

The consolidated financial statements of Choice Properties are prepared in accordance with International Financial Reporting Standards (“IFRS” or “GAAP”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described herein. These consolidated financial statements were authorized for issuance by the Choice Properties Board of Trustees (“Board”) on February 10, 2021.

b. Basis of Preparation

The consolidated financial statements are prepared on a historical cost basis except for investment properties (Note 5), financial real estate assets (Note 9), Class B LP Units (the “Exchangeable Units”) which are exchangeable for Trust Units at the option of the holder (Note 15), liabilities for unit-based compensation arrangements (Note 18) and certain financial instruments (Note 27) that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars, which is the Trust’s functional currency.

The Trust presents its consolidated balance sheet based on the liquidity method, whereby all assets and liabilities are presented in ascending order of liquidity, while the notes to the consolidated financial statements distinguish between current and non-current assets and liabilities. Choice Properties considers this presentation to be reliable and more relevant to the Trust’s business. Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

c. Impact of COVID-19

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Trust’s business and operations, both in the short term and in the long term. In a long term scenario, certain aspects of the Trust’s business and operations that could potentially be impacted include rental income, occupancy, tenant inducements, future demand for space, and market rents, which all ultimately impact the underlying valuation of investment property.

In the preparation of these consolidated financial statements, the Trust has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets and liabilities, and the reported amount of its results using the best available information as of December 31, 2020. Actual results could differ from those estimates. The estimates and assumptions that the Trust considers critical and/or could be impacted by COVID-19 include those underlying the valuation of investment properties and financial real estate assets, the carrying amount of its investment in equity accounted joint ventures, the estimate of any expected credit losses on its accounts receivable or mortgages, loans and notes receivable and determining the values of financial instruments for disclosure purposes.

d. Basis of Consolidation

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

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

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

e. Business Combinations

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

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

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

f. Joint Arrangements

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

Joint Ventures

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

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

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

Joint Operations

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

g. Investment Properties

Investment properties include income producing properties and properties under development that are held by the Trust to earn rental income or for capital appreciation or both. The Trust accounts for its investment properties in accordance with International Accounting Standard ("IAS") 40, "Investment Properties". Additionally, an investment property held under a lease is classified as investment property if it meets the definition of investment property. At the inception of the lease the investment property is recognized at the present value of the future minimum lease payments and an equivalent amount is recognized as a lease obligation.

Subsequent to initial recognition, investment properties are measured at fair value in accordance with the valuation policy discussed in Note 5. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statements of income (loss) and comprehensive income (loss) in the period in which they arise. Investment properties are derecognized when disposed.

Income Producing Properties

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

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

Properties Under Development

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

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

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

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

h. Assets Held for Sale

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

i. Financial Instruments

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

Classification and Measurement

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (“FVOCI”), and fair value through profit or loss (“FVTPL”). Financial liabilities are classified and measured based 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” (“IFRS 9”), 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 SPPI are measured at FVTPL.

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

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

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
Financial real estate assets	FVTPL
Cash and cash equivalents	Amortized cost
Long term debt:	
Senior unsecured debentures	Amortized cost
Mortgages payable	Amortized cost
Construction loans	Amortized cost
Credit facility	Amortized cost
Trade payables and other liabilities	Amortized cost
Designated hedging derivatives	FVTPL
Exchangeable Units	FVTPL

Impairment

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

Notes to the Consolidated Financial Statements

Impairment losses, if incurred, would be recorded as expenses in the consolidated statements of income (loss) and comprehensive income (loss) 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 statements of income (loss) and comprehensive income (loss). The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

Fair Value

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Valuation process

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

Type	Valuation approach
Financial real estate assets	Fair value is determined based on valuation methodology described in Note 5.
Mortgages, loans and notes receivable	The fair value of each mortgage, loan and note receivable is based on the current market conditions for financing with similar terms and risks.
Accounts receivable, cash and cash equivalents, and trade payables and other liabilities	The carrying amount approximates fair value due to the short-term maturity of these instruments.
Unit Options	Fair value of each tranche is valued separately using a Black-Scholes option pricing model.
Restricted Units, Performance Units, Trustee Deferred Units and Exchangeable Units	Fair value is based on closing market trading price of Choice Properties' Units.
Unit-Settled Restricted Units ("URU")	Fair value of each grant 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.
Long term debt	Fair value is based on the present value of contractual cash flows, discounted at Choice Properties' current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

Derecognition of Financial Instruments

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

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

j. Mortgages, Loans and Notes Receivable

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

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

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

k. Intangible Assets

Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

l. Rent Receivables

Rent receivables are recognized initially at fair value, subsequently at amortized cost and, where relevant, adjusted for the time value of money. The Trust assesses on a forward-looking basis the expected credit losses associated with its rent receivables. A recognition of a loss allowance is made for the lifetime expected credit losses on initial recognition of the receivable. In determining the expected credit losses the Trust takes into account any recent payment behaviours and future expectations of likely default events. These assessments are made on a tenant-by-tenant basis.

m. Leases

As lessee

The Trust acting as lessee recognizes a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Right-of-use assets

The Trust recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortized on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Lease liabilities

At the commencement date of the lease, the Trust recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Trust and payments of penalties for terminating the lease, if the lease term reflects the Trust exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as rental revenue in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Trust uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset. IFRS 16, "Leases" ("IFRS 16") requires certain adjustments to be expensed, while others are added to the cost of the related right-of-use asset.

As lessor

When the Trust acts as a lessor, it determines and classifies each lease as a finance lease or operating lease at the lease commencement date.

When a lease transfers to the lessee substantially all the risk and rewards of ownership incidental to the ownership of the underlying asset, the lease is classified as a finance lease; otherwise, the lease is classified as an operating lease. To make this assessment, the Trust considers certain indicators including whether the lease is for the major part of the economic life of the asset or the present value of lease payments is substantially all the fair value of the underlying asset.

The majority of the lease agreements entered into by the Trust as a lessor are classified as operating leases. The Trust's policy for these leases are discussed further in the accounting policy for revenue recognition.

At the commencement date of a finance lease, the Trust recognizes a lease receivable at the amount of its net investment in the lease, which is measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees, less any lease incentives payable. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the lessee and payments of penalties for terminating a lease, if the lease term reflects the lessee exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as rental revenue in the period on which the event or condition that triggers the payment occurs.

n. Cash and Cash Equivalents

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

o. 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.

p. Foreign Currency Translation

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

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

Prior to disposing its only investment property in the United States during the year ended December 31, 2020, this investment property was considered a foreign operation, which was financially and operationally independent from its Canadian business. Assets and liabilities of this foreign operation were translated at the rate of exchange in effect at the balance sheet date while revenue and expense items were translated at the average exchange rate for the period. Gains or losses on translation were included in OCI as foreign currency translation gains or losses. When there was a reduction in the net investment as a result of a dilution or sale, or reduction in equity of the foreign operation as a result of a dividend, amounts previously recognized in accumulated other comprehensive income ("AOCI") were reclassified to net income.

q. 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 (the "Exchangeable Units"). GWL holds all the Exchangeable Units. These Exchangeable Units are considered puttable instruments and are required to be classified as financial liabilities at FVTPL. Distributions paid on the Exchangeable Units are accounted for as interest expense.

r. Trust Units

With certain restrictions, the Units of Choice Properties 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.

s. Revenue Recognition

Property Rental Revenue

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

The Trust's revenues are earned from lease contracts with tenants and include both a lease component and a non-lease component. The Trust recognizes revenue from lease components on a straight-line basis over the lease term, including the recovery of property taxes and insurance, which is included in revenue in the consolidated statements of income (loss) and comprehensive income (loss) due to its operating nature, except for contingent rental income which is recognized when it arises. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually due from the tenant.

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

Interest Income

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

Fee Income

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

Lease Termination Income

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

t. Unit-Based Compensation

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

Unit Option Plan

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

- The expected distribution yield is estimated based on the expected annual distribution prior to the balance sheet date and the closing unit price as at the balance sheet date;
- The expected Unit price volatility is estimated based on the average volatility of the Trust over a period consistent with the expected life of the options;
- The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the balance sheet date for a term to maturity equal to the expected life of the options; and
- The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on expectations of option holder behaviour.

Restricted Unit Plan

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

Performance Unit Plan

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

Trustee Deferred Unit Plan

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

Unit-Settled Restricted Unit Plan

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

u. 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.

Note 3. Critical Accounting Judgments and Estimates

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

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

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

a. Investment Properties

Judgments Made in Relation to Accounting Policies Applied

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

Key Sources of Estimation

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

b. Joint Arrangements

Judgments Made in Relation to Accounting Policies Applied

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

c. Leases

Judgments Made in Relation to Accounting Policies Applied

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

d. Income Taxes

Judgments Made in Relation to Accounting Policies Applied

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

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

Notes to the Consolidated Financial Statements

Note 4. Investment Property and Other Transactions

During the year ended December 31, 2020, Choice Properties completed the following acquisitions:

(\$ thousands)										
Location	Date of Acquisition	Segment	Ownership Interest Acquired	Purchase Price	Purchase Price incl. Related Costs	Consideration				
						Issuance of Trust / Exchangeable Units ⁽ⁱ⁾	Assumed Liabilities	Mortgage Receivable Settlement	Cost-to-Complete Receivable	Cash
Consolidated investments										
Toronto, ON	Jun 10	Land	100%	\$ 8,100	\$ 8,190	\$ —	\$ —	\$ —	\$ —	\$ 8,190
Acquisition from Loblaw (Note 32)				8,100	8,190	—	—	—	—	8,190
Portfolio of 6 assets across Canada	Dec 18	Industrial	100%	81,500	82,357	79,100	2,400	—	—	857
Acquisitions from GWL (Note 32)				81,500	82,357	79,100	2,400	—	—	857
Toronto, ON	Jul 31	Office	100%	128,500	130,754	128,500	—	—	—	2,254
Toronto, ON ⁽ⁱ⁾	Jul 31	Office	60%	80,435	65,350	80,435	—	—	(16,404)	1,319
Acquisitions from Wittington (Note 32)				208,935	196,104	208,935	—	—	(16,404)	3,573
Coquitlam, BC	Feb 11	Retail	100%	21,150	21,840	—	—	—	—	21,840
Toronto, ON	Apr 9	Land	100%	8,000	8,354	—	—	—	—	8,354
Barrie, ON	Sep 23	Retail	100%	50,000	51,899	—	—	50,000	—	1,899
Portfolio of 4 assets across Canada	Oct 16	Industrial	100%	85,895	87,330	—	—	—	—	87,330
Calgary, AB	Dec 22	Retail	N/A	1,500	2,885	—	—	—	—	2,885
Acquisitions from third-parties				166,545	172,308	—	—	50,000	—	122,308
Total acquisitions in consolidated investments				465,080	458,959	288,035	2,400	50,000	(16,404)	134,928
Financial real estate assets										
Portfolio of 5 assets across Canada	Nov 24	Retail	100%	45,673	46,712	—	—	—	—	46,712
Acquisitions of financial real estate assets (Note 32)				45,673	46,712	—	—	—	—	46,712
Total acquisitions				\$ 510,753	\$ 505,671	\$ 288,035	\$ 2,400	\$ 50,000	\$ (16,404)	\$ 181,640

- (i) Represents the 60% additional ownership interest acquired from Wittington, increasing the Trust's ownership interest in this property to 100%. As a result, this property has been transferred from an equity accounted joint venture to a consolidated investment as of the acquisition date. Balance includes investment properties and working capital. Refer to Note 32 for additional details.
- (ii) The assets acquired from Wittington were satisfied in full by the issuance of 16,500,000 Units of Choice Properties (Note 32). The assets acquired from GWL were satisfied in full by the issuance of 5,824,742 Exchangeable Units (Note 32).

Notes to the Consolidated Financial Statements

The following table summarizes the investment properties sold in the year ended December 31, 2020:

(\$ thousands except where otherwise indicated)

Location	Date of Disposition	Segment	Ownership Interest	Sale Price excl. Selling Costs	Consideration			
					Cash	Lease Receivable from Equity Accounted Joint Venture	Debt Assumed by Purchaser	
Assets held for sale								
Chicago, USA	Jan 24	Retail	100%	\$ 97,800	\$ 97,800	\$ —	\$ —	
Dispositions of assets held for sale				97,800	97,800	—	—	
Investment properties								
Edmonton, AB	Jan 29	Residential	50%	9,750	2,561	—	7,189	
Creston, BC	Feb 3	Retail (parcel)	100%	375	375	—	—	
Halifax, NS	Feb 13	Office	100%	26,700	8,956	—	17,744	
Milton, ON	Sep 28	Industrial	100%	22,613	22,613	—	—	
Portfolio of 11 assets across Canada ⁽ⁱ⁾	Oct 28	Retail	50%	169,040	169,040	—	—	
Quebec City, QC	Nov 23	Retail (parcel)	50%	5,000	5,000	—	—	
Portfolio of 3 assets across Canada	Nov 27	Retail	100%	64,000	64,000	—	—	
Portfolio of 5 assets across Canada ⁽ⁱⁱ⁾	Dec 1	Retail	100%	43,400	43,400	—	—	
Windsor, ON ⁽ⁱⁱⁱ⁾	Dec 23	Retail	100%	51,000	51,000	—	—	
Dispositions of investment properties				391,878	366,945	—	24,933	
Total dispositions in consolidated investments				489,678	464,745	—	24,933	
Equity accounted joint ventures								
Ottawa, ON	Jul 1	Land	100% ⁽ⁱ⁾	19,468	—	19,468	—	
Disposition to equity accounted joint venture				19,468	—	19,468	—	
Total dispositions				\$ 509,146	\$ 464,745	\$ 19,468	\$ 24,933	

(i) On July 1, 2020, the Trust entered into a 99-year ground lease with an equity accounted joint venture in which the Trust has a 50% ownership interest. Under IFRS 16, this arrangement is accounted for as a disposition by the Trust and the inception of a lease receivable between the Trust and the limited partnership (Note 12). The limited partnership has recognized an acquisition of investment property and a corresponding lease liability as part of this transaction (Note 6).

(ii) Choice Properties sold two portfolios consisting of 16 retail properties that were leased to Loblaw (Note 32).

(iii) Property disposition included a Loblaw lease (Note 32)

Notes to the Consolidated Financial Statements

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

(\$ thousands except where otherwise indicated)

Location	Date of Acquisition	Segment	Ownership Interest	Purchase Price	Purchase Price incl. Related Costs	Consideration		
						Other liabilities (assets) assumed, net	Debt assumed	Cash
Consolidated investments								
Kingston, ON	Mar 7	Retail	100%	\$ 6,660	\$ 6,813	\$ —	\$ —	\$ 6,813
Toronto, ON	Mar 7	Retail	100%	29,658	30,386	—	—	30,386
Acquisitions from Loblaw (Note 32)				36,318	37,199	—	—	37,199
Toronto, ON	Dec 13	Industrial	100%	13,250	13,786	—	—	13,786
Acquisitions from GWL (Note 32)				13,250	13,786	—	—	13,786
Toronto, ON ⁽ⁱ⁾	Mar 29	Land	50%	18,000	18,862	—	—	18,862
Toronto, ON ⁽ⁱⁱ⁾	Oct 7	Retail	100%	10,500	10,918	—	—	10,918
Milton, ON ⁽ⁱⁱⁱ⁾	Nov 1	Industrial	15%	13,760	14,034	—	11,749	2,285
Milton, ON ⁽ⁱⁱⁱ⁾	Nov 1	Industrial	15%	14,440	14,727	—	12,330	2,397
Acquisitions from third-parties				56,700	58,541	—	24,079	34,462
Total acquisitions in consolidated investments				106,268	109,526	—	24,079	85,447
Equity accounted joint ventures								
Calgary, AB	May 6	Industrial	50%	20,000	20,126	13,537	1,401	5,188
Total acquisitions from third-parties in equity accounted joint ventures				20,000	20,126	13,537	1,401	5,188
Financial real estate asset								
Langford, BC	Sep 25	Retail	100%	22,800	23,462	—	—	23,462
Acquisitions of financial real estate asset (Note 32)				22,800	23,462	—	—	23,462
Total acquisitions				\$ 149,068	\$ 153,114	\$ 13,537	\$ 25,480	\$ 114,097

- (i) Land is currently under development for residential purposes and classified as properties under development.
(ii) Property acquired from third-party includes a Loblaw lease (Note 32).
(iii) Represents additional ownership interest acquired increasing the ownership interest in this property to 100%. As a result, this property has been transferred from an equity accounted joint venture to a consolidated investment as of the acquisition date.

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

(\$ thousands)

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

- (i) Property dispositions included a Loblaw lease (Note 32).
(ii) Choice Properties sold a 30-property portfolio consisting of 27 stand-alone retail properties and 3 distribution centres that were leased to Loblaw with an average lease term of approximately twelve years (Note 32).

Note 5. Investment Properties

(\$ thousands)	Note	Income producing properties	Properties under development	Year Ended December 31, 2020	Year ended December 31, 2019
Balance, beginning of year		\$ 14,210,000	\$ 163,000	\$ 14,373,000	\$ 14,501,000
Acquisitions - including purchase costs of \$10,283 (2019 - \$3,258)	4	377,066	81,893	458,959	109,526
Capital expenditures					
Development capital ⁽ⁱ⁾		—	57,693	57,693	67,750
Building improvements		10,948	—	10,948	2,227
Capitalized interest ⁽ⁱⁱ⁾	23	—	4,231	4,231	4,424
Operating capital expenditures					
Property capital		33,112	—	33,112	30,264
Direct leasing costs		6,519	—	6,519	7,331
Tenant improvement allowances		19,269	—	19,269	19,536
Amortization of straight-line rent		13,946	—	13,946	25,146
Transfer to assets held for sale		—	—	—	(97,800)
Transfer from equity accounted joint ventures	6, 32	—	42,687	42,687	181,909
Transfers from properties under development		174,239	(174,239)	—	—
Dispositions	4	(391,878)	—	(391,878)	(467,908)
Disposition to equity accounted joint venture	4	(19,468)	—	(19,468)	—
Foreign currency translation		—	—	—	(5,971)
Adjustment to fair value of investment properties		(234,753)	14,735	(220,018)	(4,434)
Balance, end of year		\$ 14,199,000	\$ 190,000	\$ 14,389,000	\$ 14,373,000

(i) Development capital included \$995 of site intensification payments paid to Loblaw (December 31, 2019 - \$4,577) (Note 32).

(ii) Interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.70% (December 31, 2019 - 3.70%).

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 32) 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.

Valuation Methodology and Process

The investment properties (including those owned through equity accounted joint ventures) are measured at fair value using valuations prepared by the Trust's internal valuation team. The team reports directly to the Chief Financial Officer, with the valuation processes and results reviewed by Management at least once every quarter. The valuations exclude any portfolio premium or value for the management platform and reflect the highest and best use for each of the Trust's investment properties.

As part of Management's internal valuation program, the Trust considers external valuations performed by independent national real estate valuation firms for a cross-section of properties that represent different geographical locations and asset classes across the Trust's portfolio. On a quarterly basis, the valuation team reviews and updates, as deemed necessary, the valuation models to reflect current market data. Updates may be made to significant assumptions related to terminal capitalization rates, discount rates and future cash flow assumptions such as market rents, as well as current leasing and/or development activity, renewal probability, downtime on lease expiry, vacancy allowances, and expected maintenance costs.

When an external valuation is obtained, the internal valuation team assesses all major inputs used by the independent valuers in preparing their valuation reports and holds discussions with the independent valuers on the reasonableness of their assumptions. Where warranted, adjustments will be made to the internal valuations to reflect the assumptions contained in the external valuations. The Trust will record the internal value in its consolidated financial statements.

Income Producing Properties

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

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

Properties Under Development

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

Impact of COVID-19

The Trust reviewed its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic during the year ended December 31, 2020. The Trust expects that COVID-19 will have the most notable impact on its non-grocery anchored retail portfolio. The carrying value for the Trust's investment properties reflects its best estimate for the highest and best use as at December 31, 2020.

It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Trust's business and operations, both in the short term and in the long term. In a long term scenario, certain aspects of the Trust's business and operations that could potentially be impacted include rental income, occupancy, tenant inducements, future demand for space, and market rents, which all ultimately impact the underlying valuation of its investment properties.

Significant Valuation Assumptions

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

	As at December 31, 2020		As at December 31, 2019	
	Range	Weighted average	Range	Weighted average
Total Income Producing Properties				
Discount rate	4.75% - 11.45%	6.83%	5.00% - 11.45%	6.77%
Terminal capitalization rate	4.00% - 10.95%	6.07%	4.25% - 10.95%	6.11%
Retail				
Discount rate	5.00% - 11.45%	6.97%	5.00% - 11.45%	6.89%
Terminal capitalization rate	4.50% - 10.95%	6.23%	4.50% - 10.95%	6.24%
Industrial				
Discount rate	4.75% - 9.00%	6.50%	5.25% - 9.00%	6.51%
Terminal capitalization rate	4.00% - 8.50%	5.73%	4.75% - 8.50%	5.78%
Office				
Discount rate	5.25% - 8.50%	6.21%	5.00% - 8.25%	6.05%
Terminal capitalization rate	4.25% - 7.75%	5.32%	4.25% - 7.50%	5.29%

The significant assumptions and inputs used in the valuation techniques to estimate the fair value of income producing 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.

Independent Appraisals

Properties are typically independently appraised at the time of acquisition. In addition, Choice Properties has engaged independent nationally-recognized valuation firms to appraise its investment properties such that the majority of the portfolio will be independently appraised at least once over a four-year period. When an independent appraisal is obtained, the internal valuation team assesses all major inputs used by the independent valuers in preparing their reports and holds discussions with them on the reasonableness of their assumptions. Where warranted, adjustments will be made to the internal valuations to reflect the assumptions contained in the external valuations. The Trust will record the internal value in its 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:

	2020		2019	
	Number of investment properties	Fair value	Number of investment properties	Fair value
(\$ thousands except where otherwise indicated)				
March 31	18	\$ 765,000	22	\$ 785,000
June 30	18	850,000	26	800,000
September 30	18	675,000	18	645,000
December 31	21	715,000	19	800,000
Total	75	\$ 3,005,000	85	\$ 3,030,000

Notes to the Consolidated Financial Statements

Fair Value Sensitivity

The following table summarizes fair value sensitivity for the Trust's income producing properties which are most sensitive to changes in terminal capitalization rates and discount rates:

Rate Sensitivity	Terminal Capitalization Rate			Discount Rate		
	Weighted Average Terminal Capitalization Rate	Fair Value	Change in Fair Value	Weighted Average Discount Rate	Fair Value	Change in Fair Value
(0.75)%	5.32 %	\$ 15,404,000	\$ 1,205,000	6.09 %	\$ 15,094,000	\$ 895,000
(0.50)%	5.57 %	14,961,000	762,000	6.34 %	14,791,000	592,000
(0.25)%	5.82 %	14,564,000	365,000	6.59 %	14,492,000	293,000
– %	6.07 %	14,199,000	–	6.83 %	14,199,000	–
0.25%	6.32 %	13,873,000	(326,000)	7.08 %	13,923,000	(276,000)
0.50%	6.57 %	13,572,000	(627,000)	7.33 %	13,651,000	(548,000)
0.75%	6.82 %	13,279,000	(920,000)	7.58 %	13,383,000	(816,000)

Note 6. Equity Accounted Joint Ventures

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

	Note	As at December 31, 2020		As at December 31, 2019	
		Number of joint ventures	Ownership interest	Number of joint ventures	Ownership interest
Retail		16	25% - 75%	16	25% - 75%
Industrial		2	50%	2	50%
Residential		3	47% - 50%	3	47% - 50%
Mixed-use, with related party	32	–	– %	1	40%
Land, held for development		1	50 %	–	– %
Total equity accounted joint ventures		22		22	

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

(\$ thousands)	Ownership	As at December 31, 2020					Net assets at 100%
		Current assets	Non-current assets	Current liabilities	Non-current liabilities		
Horizon Business Park LP	50%	\$ 2,935	\$ 214,776	\$ (25,289)	\$ –	\$ 192,422	
Great Plains Business Park LP	50%	2,231	211,374	(4,472)	(17,475)	191,658	
Other joint ventures	25-75%	40,884	1,404,613	(413,693)	(301,007)	730,797	
Net assets at 100%		\$ 46,050	\$ 1,830,763	\$ (443,454)	\$ (318,482)	\$ 1,114,877	
Investment in equity accounted joint ventures		\$ 25,141	\$ 948,938	\$ (218,536)	\$ (181,894)	\$ 573,649	

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(\$ thousands)	Ownership	Rental Revenue	Property operating costs	Interest income	Interest expense	Adjustment to fair value	Net income (loss) and comprehensive income (loss) at 100%
Horizon Business Park LP	50%	\$ 15,353	\$ (4,458)	\$ —	\$ —	\$ (3,110)	\$ 7,785
Great Plains Business Park LP	50%	17,466	(4,599)	(7)	—	(3,089)	9,771
Other joint ventures	25-75%	79,883	(31,470)	2,772	(16,823)	(61,304)	(26,942)
Net income and comprehensive income at 100%		\$ 112,702	\$ (40,527)	\$ 2,765	\$ (16,823)	\$ (67,503)	\$ (9,386)
Share of net income (loss) and comprehensive income (loss) in equity accounted joint ventures		\$ 59,614	\$ (21,986)	\$ 1,496	\$ (9,024)	\$ (35,670)	\$ (5,570)

As at December 31, 2019

(\$ thousands)	Ownership	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets at 100%
Horizon Business Park LP	50%	\$ 1,575	\$ 164,515	\$ (22,134)	\$ —	\$ 143,956
Great Plains Business Park LP	50%	3,527	166,122	(35,095)	—	134,554
Other joint ventures	25-75%	36,947	1,437,905	(140,499)	(435,659)	898,694
Net assets at 100%		\$ 42,049	\$ 1,768,542	\$ (197,728)	\$ (435,659)	\$ 1,177,204
Investment in equity accounted joint ventures (at share)		\$ 19,871	\$ 915,638	\$ (119,117)	\$ (210,303)	\$ 606,089

Year ended December 31, 2019

(\$ thousands)	Ownership	Rental Revenue	Property operating costs	Interest income	Interest expense	Adjustment to fair value	Net income (loss) and comprehensive income (loss) at 100%
Horizon Business Park LP	50%	\$ 7,965	\$ (2,399)	\$ —	\$ —	\$ (17,405)	\$ (11,839)
Great Plains Business Park LP	50%	8,130	(2,720)	—	—	(2,534)	2,876
Other joint ventures	25-50%	103,538	(38,005)	(17,304)	3,085	(12,067)	39,247
Net income and comprehensive income at 100%		\$ 119,633	\$ (43,124)	\$ (17,304)	\$ 3,085	\$ (32,006)	\$ 30,284
Share of net income (loss) and comprehensive income (loss) in equity accounted joint ventures		\$ 65,448	\$ (22,353)	\$ (9,428)	\$ 1,427	\$ (10,728)	\$ 24,366

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

(\$ thousands)	Year ended December 31, 2020
Balance, beginning of year	\$ 606,089
Contributions to equity accounted joint ventures	42,128
Distributions from equity accounted joint ventures	(32,549)
Total cash flow activities	9,579
Transfers from equity accounted joint venture to consolidated investments ⁽ⁱ⁾	(36,449)
Share of income (loss) from equity accounted joint ventures	(5,570)
Total non-cash activities	(42,019)
Balance, end of year	\$ 573,649

(i) Represents the Trust's ownership interest in an equity accounted joint venture that was transferred to a consolidated investment following the acquisition of the remaining 60% interest not already owned. Refer to Note 4 and Note 32 for additional details.

Note 7. 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, 2020		As at December 31, 2019	
	Number of co-owned properties	Ownership interest	Number of co-owned properties	Ownership interest
Retail	39	50% - 75%	28	50% - 75%
Industrial	2	50% - 67%	2	50% - 67%
Office	6	50%	6	50%
Residential	6	50%	6	50%
Land, held for development	1	50%	2	50%
Total co-ownership property interests	54		44	

Note 8. Subsidiaries

On November 7, 2014, Choice Properties acquired a 70% controlling interest in Choice Properties PRC Brampton Limited Partnership ("Brampton LP"), a subsidiary which holds land intended for future retail development in Brampton, Ontario. As a result, Choice Properties consolidated the results of this subsidiary and recognized a 30% non-controlling interest for the interests of PL Ventures Ltd., a subsidiary of PenEquity Realty Corporation ("PenEquity"). Operating activities have not begun at Brampton LP. In the year ended December 31, 2020 and December 31, 2019, Brampton LP did not distribute to the partners.

Note 9. Financial Real Estate Assets

(\$ thousands)	Note	As at December 31, 2020	As at December 31, 2019
Balance, beginning of year		\$ 22,800	\$ —
Acquisitions	4	46,712	22,800
Additions		9	—
Interest income (loss) from financial real estate assets due to changes in value	21	(1,148)	—
Balance, end of year		\$ 68,373	\$ 22,800

Financial real estate assets are land and buildings purchased by the Trust that did not meet the criteria of a transfer of control under IFRS 15 due to the sale-leaseback arrangement with the seller of the asset. In accordance with IFRS 16, the Trust recognized these acquisitions as financial instruments under IFRS 9.

Note 10. Mortgages, Loans and Notes Receivable

(\$ thousands)	Note	As at December 31, 2020	As at December 31, 2019
Mortgages receivable classified as amortized cost ⁽ⁱ⁾		\$ 111,882	\$ 99,541
Mortgages receivable classified as FVTPL		53,588	85,809
Loans receivable classified as amortized cost ⁽ⁱ⁾		2,285	5,649
Notes receivable from related party classified as amortized cost ⁽ⁱ⁾	32	96,191	144,287
Allowance for expected credit losses on mortgage receivable		—	(3,000)
Mortgages, loans and notes receivable		\$ 263,946	\$ 332,286
Classified as:			
Non-current		\$ 117,457	\$ 99,523
Current		146,489	232,763
		\$ 263,946	\$ 332,286

(i) The fair value of the mortgages, loans and notes receivable classified as amortized cost was \$208,700 (December 31, 2019 - \$246,300) (Note 27).

Mortgages and Loans Receivable

Mortgages and loans receivable represent amounts advanced under mezzanine loans, joint venture financing, vendor take-back financing and other arrangements. Choice Properties mitigates its risk by diversifying the number of entities and assets to which it loans funds. As at December 31, 2020, the Trust recorded an allowance for expected credit losses of \$nil (December 31, 2019 - \$3,000).

	December 31, 2020		December 31, 2019	
	Weighted average effective interest rate	Weighted average term to maturity (years)	Weighted average effective interest rate	Weighted average term to maturity (years)
Mortgages receivable	7.31%	2.1	7.52%	2.0
Loans receivable	8.00%	3.7	8.00%	1.1
Total	7.32%	2.2	7.54%	2.0

Notes Receivable from Related Party

Non-interest-bearing short-term notes totalling \$144,287 were repaid by GWL in January 2020 (Note 32). Non-interest-bearing short-term notes totalling \$96,191 were issued during 2020 to GWL and repaid in January 2021 (Note 32).

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)	2021	2022	2023	2024	2025	Thereafter	Total
Principal repayments							
Mortgages receivable	\$ 48,746	\$ 63,000	\$ —	\$ 45,953	\$ —	\$ 6,219	\$ 163,918
Loans receivable	—	—	—	2,285	—	—	2,285
Notes receivable from related party	96,191	—	—	—	—	—	96,191
Total principal repayments	144,937	63,000	—	48,238	—	6,219	262,394
Interest accrued	1,552	—	—	—	—	—	1,552
Total repayments	\$ 146,489	\$ 63,000	\$ —	\$ 48,238	\$ —	\$ 6,219	\$ 263,946

Notes to the Consolidated Financial Statements

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

	December 31, 2020			
(\$ thousands)	Mortgages receivable	Loans receivable	Notes receivable from related party	Mortgages, loans and notes receivable
Balance, beginning of year	\$ 182,350	\$ 5,649	\$ 144,287	\$ 332,286
Advances	65,860	2,386	96,191	164,437
Repayments	(23,658)	(5,710)	(144,287)	(173,655)
Interest received	(8,550)	(517)	—	(9,067)
Total cash flow activities	33,652	(3,841)	(48,096)	(18,285)
Net write-off for expected credit losses on mortgage receivable	(7,830)	—	—	(7,830)
Adjustment to fair value on mortgage receivable classified as FVTPL	(4,034)	—	—	(4,034)
Settlement upon acquisition of investment property	(50,000)	—	—	(50,000)
Transferred to accounts receivable	(500)	—	—	(500)
Interest accrued	11,832	477	—	12,309
Total non-cash activities	(50,532)	477	—	(50,055)
Balance, end of year	\$ 165,470	\$ 2,285	\$ 96,191	\$ 263,946

Choice Properties invests in mortgages and loans to facilitate acquisitions. Credit risks arise if 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 first quarter of 2020, the borrower on the Trust's \$23,000 mortgage receivable for an asset in Barrie, Ontario, defaulted on its loan from the Trust. The loan was secured by a property that is adjacent to a grocery anchored shopping centre owned by the Trust. The loan was also cross-collateralized by two other properties where the Trust is a joint venture partner with the borrower. The Trust's security was subordinate to a senior lender who provided construction financing.

After default, the Trust repaid the borrower's obligation to the senior lender of \$43,000 such that the Trust became the only secured creditor on the property. In the second quarter of 2020, the Trust applied to the court to have a receiver appointed, who launched a process to market and sell the property. The Trust submitted an unconditional bid to the receiver to acquire the property. In September 2020, the Trust's offer was accepted by the court and ownership of the property was transferred by court order to the Trust (Notes 4 and 5). Upon close of the acquisition, the allowance for expected credit losses associated with this mortgage receivable was written off.

The Trust has approximately \$160 million of secured mortgages to other third-party borrowers. These loans are with borrowers who are strategic development partners of the Trust and have strong credit metrics. 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 11. Intangible Assets

Choice Properties' intangible assets relate to the third-party revenue streams associated with property and asset management contracts for co-ownership property interests and joint ventures. The Trust has the continuing rights, based on the co-ownership agreements, to property and asset management fees from investment properties where it manages the interests of co-owners. As at December 31, 2020, the carrying value, net of accumulated amortization of \$1,000 (2019 - \$nil), was \$29,000 (December 31, 2019 - \$30,000).

Note 12. Accounts Receivable and Other Assets

(\$ thousands)	Note	As at December 31, 2020	As at December 31, 2019
Rent receivables ⁽ⁱ⁾ - net of expected credit loss of \$20,041 (2019 - \$5,159)		\$ 19,341	\$ 8,284
Accrued recovery income		13,375	24,485
Lease receivable	4	19,405	—
Other receivables		13,474	9,901
Cost-to-complete receivable	4, 32	13,721	—
Due from related parties ⁽ⁱⁱ⁾	32	—	756
Restricted cash		780	679
Prepaid property taxes		10,070	10,905
Prepaid insurance		185	313
Other assets		17,846	7,921
Right-of-use assets - net of accumulated amortization of \$1,241 (2019 - \$988)		4,081	6,967
Deferred tax asset	16	1,981	410
Deferred acquisition costs and deposits on land		1,419	1,427
Designated hedging derivatives	27	377	182
Accounts receivable and other assets		\$ 116,055	\$ 72,230
Classified as:			
Non-current		\$ 38,104	\$ 12,567
Current		77,951	59,663
		\$ 116,055	\$ 72,230

(i) Includes net rent receivable of \$36 from Loblaw, \$13 from GWL and \$131 from Wittington (December 31, 2019 - \$71, \$nil and \$nil).

(ii) Other net receivables due from related parties includes \$nil from GWL and \$nil from Loblaw (December 31, 2019 - \$756 and \$nil).

Rent receivables

In determining the expected credit losses the Trust takes into account the payment history and future expectations of likely default events (i.e. asking for rental concessions, applications for rental relief through government programs such as the Canada Emergency Commercial Rent Assistance (“CECRA”) program, or stating they will not be making rental payments on the due date) based on actual or expected insolvency filings or company voluntary arrangements and likely deferrals of payments due, and potential abatements to be granted by the landlord under CECRA. These assessments are made on a tenant-by-tenant basis.

The Trust’s assessment of expected credit losses is inherently subjective due to the forward-looking nature of the assessments. As a result, the value of the expected credit loss is subject to a degree of uncertainty and is made on the basis of assumptions which may not prove to be accurate with the unprecedented uncertainty caused by COVID-19.

Note 13. Long Term Debt

(\$ thousands)	As at December 31, 2020	As at December 31, 2019
Senior unsecured debentures	\$ 5,255,529	\$ 5,158,342
Mortgages payable	1,204,799	1,230,268
Construction loans	25,193	24,842
Long term debt	\$ 6,485,521	\$ 6,413,452
Classified as:		
Non-current	\$ 6,158,246	\$ 5,697,841
Current	327,275	715,611
	\$ 6,485,521	\$ 6,413,452

Senior Unsecured Debentures

(\$ thousands)				As at December 31, 2020	As at December 31, 2019
Series	Issuance / Assumption Date	Maturity Date	Effective Interest Rate		
B	Jul. 5, 2013	Jul. 5, 2023	4.90%	\$ 200,000	\$ 200,000
C	Feb. 8, 2014	Feb. 8, 2021	3.50%	—	250,000
D	Feb. 8, 2014	Feb. 8, 2024	4.29%	200,000	200,000
E	Feb. 5, 2015	Sep. 14, 2020	2.30%	—	250,000
F	Nov. 24, 2015	Nov. 24, 2025	4.06%	200,000	200,000
G	Mar. 7, 2016	Mar. 7, 2023	3.20%	250,000	250,000
H	Mar. 7, 2016	Mar. 7, 2046	5.27%	100,000	100,000
I	Jan. 12, 2018	Mar. 21, 2022	3.01%	300,000	300,000
J	Jan. 12, 2018	Jan. 10, 2025	3.55%	350,000	350,000
K	Mar. 8, 2018	Sep. 9, 2024	3.56%	550,000	550,000
L	Mar. 8, 2018	Mar. 8, 2028	4.18%	750,000	750,000
M	Jun. 11, 2019	Jun. 11, 2029	3.53%	750,000	750,000
N	Mar. 3, 2020	Mar. 4, 2030	2.98%	400,000	—
O	Mar. 3, 2020	Mar. 4, 2050	3.83%	100,000	—
P	May 22, 2020	May 21, 2027	2.85%	500,000	—
8	Jul. 4, 2013	Apr. 20, 2020	3.20%	—	300,000
9	Jul. 4, 2013	Sep. 20, 2021	3.57%	200,000	200,000
10	Jul. 4, 2013	Sep. 20, 2022	3.84%	300,000	300,000
B-C	May 4, 2018	Jan. 15, 2021	3.06%	—	100,000
D-C	May 4, 2018	Jan. 18, 2023	3.30%	125,000	125,000
Total principal outstanding				5,275,000	5,175,000
Debt discounts and premiums - net of accumulated amortization of \$15,522 (2019 - \$14,857)				(2,014)	(1,349)
Debt placement costs - net of accumulated amortization of \$12,301 (2019 - \$9,130)				(17,457)	(15,309)
Senior unsecured debentures				\$ 5,255,529	\$ 5,158,342

As at December 31, 2020, the senior unsecured debentures had a weighted average effective interest rate of 3.61% and a weighted average term to maturity of 6.0 years (December 31, 2019 - 3.67% and 5.1 years, respectively). Senior unsecured debentures Series B through Series P were issued by the Trust, Series B-C and D-C were assumed by the Trust, and Series 8 through Series 10 were issued by the Partnership.

Notes to the Consolidated Financial Statements

On January 20, 2020, Choice Properties redeemed the \$300,000 series 8 senior unsecured debenture bearing interest at 3.60% due April 20, 2020.

On March 3, 2020, Choice Properties completed a \$500,000 dual-tranche offering of senior unsecured debentures on a private placement basis. The first tranche was the \$400,000 series N senior unsecured debenture bearing interest at 2.98% per annum maturing on March 4, 2030, while the second tranche was the \$100,000 series O senior unsecured debenture bearing interest at 3.83% per annum maturing on March 4, 2050. The net proceeds of the issuances were used to repay existing indebtedness, including the early redemption in full on March 13, 2020, of the \$250,000 series E senior unsecured debenture bearing interest at 2.30% due September 14, 2020.

On May 21, 2020, Choice Properties completed a \$500,000 offering on a private placement basis of the series P senior unsecured debenture bearing interest at 2.85% per annum maturing on May 21, 2027. The net proceeds of the issuance were used to repay existing indebtedness, including the early redemptions in full on June 12, 2020, of the \$100,000 series B-C senior unsecured debenture bearing interest at 3.06% due January 15, 2021 and the \$250,000 series C senior unsecured debenture bearing interest at 3.50% due February 8, 2021, as well as to repay all or a portion of the balance drawn on the Trust's credit facility. The Trust incurred early repayment charges of \$6.8 million upon redeeming the series B-C and series C debentures.

Mortgages Payable

(\$ thousands)	As at December 31, 2020	As at December 31, 2019
Mortgage principal	\$ 1,206,638	\$ 1,230,569
Net debt discounts and premiums - net of accumulated amortization of \$5,602 (2019 - \$4,461)	(934)	207
Debt placement costs - net of accumulated amortization of \$138 (2019 - \$129)	(905)	(508)
Mortgages payable	\$ 1,204,799	\$ 1,230,268

As at December 31, 2020, the mortgages had a weighted average effective interest rate of 3.83% and a weighted average term to maturity of 5.5 years (December 31, 2019 - 4.05% and 5.6 years, respectively).

Construction Loans

As at December 31, 2020, \$25,193 was outstanding on the construction loans (December 31, 2019 - \$24,842), with a weighted average effective interest rate of 2.42% and a weighted average term to maturity of 0.3 years (December 31, 2019 - 3.77% and 0.9 years, respectively).

For the purpose of financing the development of certain retail, industrial and residential properties, various investments in equity accounted joint ventures and co-ownerships have variable rate non-revolving construction facilities in which certain subsidiaries of the Trust guarantee its own share. These construction loans, which mature throughout 2021 to 2022, have a maximum amount available to be drawn at the Trust's ownership interest of \$226,145, of which \$198,002 relates to equity accounted joint ventures as at December 31, 2020 (December 31, 2019 - \$225,477 and \$194,902, respectively).

Schedules of Repayments and Cash Flow Activities

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

(\$ thousands)	2021	2022	2023	2024	2025	Thereafter	Total
Senior unsecured debentures	\$ 200,000	\$ 600,000	\$ 575,000	\$ 750,000	\$ 550,000	\$ 2,600,000	\$ 5,275,000
Mortgages payable	106,763	216,596	109,150	157,029	152,306	464,794	1,206,638
Construction loans	25,193	—	—	—	—	—	25,193
Total	\$ 331,956	\$ 816,596	\$ 684,150	\$ 907,029	\$ 702,306	\$ 3,064,794	\$ 6,506,831

Notes to the Consolidated Financial Statements

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

	Year ended December 31, 2020			
(\$ thousands)	Senior unsecured debentures	Mortgages payable	Construction loans	Long term debt
Balance, beginning of year	\$ 5,158,342	\$ 1,230,268	\$ 24,842	\$ 6,413,452
Issuances and advances	1,000,000	74,809	351	1,075,160
Repayments	(900,000)	(73,807)	—	(973,807)
Debt placement costs	(5,319)	(388)	—	(5,707)
Total cash flow activities	94,681	614	351	95,646
Assumed by purchaser	—	(24,933)	—	(24,933)
Amortization of debt discounts and premiums	(665)	(1,141)	—	(1,806)
Amortization of debt placement costs	3,171	(9)	—	3,162
Total non-cash activities	2,506	(26,083)	—	(23,577)
Balance, end of year	\$ 5,255,529	\$ 1,204,799	\$ 25,193	\$ 6,485,521

Note 14. Credit Facility

Choice Properties has a \$1,500,000 senior unsecured committed revolving credit facility maturing May 4, 2023, provided by a syndicate of lenders. The credit facility bears interest at variable rates of either Prime plus 0.20% or Bankers' Acceptance rate plus 1.20%. The pricing is contingent on Choice Properties' credit ratings from either DBRS and S&P remaining at BBB (high). As at December 31, 2020, \$nil was drawn under the syndicated facility. The unamortized balance for debt placement costs at December 31, 2020 of \$3,337 have been included in other assets (Note 12) (2019 - \$4,767).

The credit facility contains certain financial covenants. As at December 31, 2020, the Trust was in compliance with all its financial covenants for the credit facility.

Schedule of Cash Flow Activities

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

	Year ended December 31, 2020
(\$ thousands)	
Balance, beginning of year	\$ 127,233
Net repayments of \$1,500,000 syndicated credit facility	(132,000)
Total cash flow activities	(132,000)
Amortization of debt placement costs	1,430
Reclassified to other assets	3,337
Total non-cash activities	4,767
Balance, end of year	\$ —

Note 15. Unitholders' Equity*Trust Units (authorized - unlimited)*

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

Exchangeable Units (authorized - unlimited)

Exchangeable Units issued by the Partnership are economically equivalent to Units, receive distributions equal to the distributions paid on the Units and are exchangeable, at the holder's option, to Units. All Exchangeable Units are held by GWL.

The 70,881,226 Exchangeable Units issued on May 4, 2018 in connection with the acquisition of Canadian Real Estate Investment Trust contain voting and exchange restrictions which will expire based on the following schedule:

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

Special Voting Units

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

Units Outstanding

	Note	As at December 31, 2020		As at December 31, 2019	
		Units	Amount	Units	Amount
(\$ thousands except where otherwise indicated)					
Units, beginning of year		310,292,869	\$ 3,409,836	278,202,559	\$ 2,978,343
Units issued through equity financing, net of issuance costs		—	—	30,042,250	380,758
Units issued to related party as part of investment properties acquisition	32	16,500,000	208,935	—	—
Distribution in Units		2,277,457	29,425	1,569,400	21,721
Consolidation of Units		(2,277,457)	—	(1,569,400)	—
Units issued under unit-based compensation arrangements	18	307,877	4,841	2,203,950	29,055
Reclassification of vested Unit-Settled Restricted Units liability to equity		—	1,929	—	2,081
Units repurchased for unit-based compensation arrangements	18	(159,083)	(2,346)	(155,890)	(2,122)
Units, end of year		326,941,663	\$ 3,652,620	310,292,869	\$ 3,409,836
Exchangeable Units, beginning of year		389,961,783	\$ 5,424,368	389,961,783	\$ 4,492,359
Units issued to related party as part of investment properties acquisition	32	5,824,742	79,100	—	—
Adjustment to fair value of Exchangeable Units		—	(354,286)	—	932,009
Exchangeable Units, end of year		395,786,525	\$ 5,149,182	389,961,783	\$ 5,424,368
Total Units and Exchangeable Units, end of year		722,728,188		700,254,652	

Units Issued through Equity Financing

On May 9, 2019, the Trust completed a bought deal equity offering of 30,042,250 Units at a price of \$13.15 per Unit, for aggregate gross proceeds of approximately \$395,056, and net proceeds of approximately \$380,758. As part of this bought deal, GWL acquired 3,805,000 Units.

Units Issued to Related Party as part of Investment Properties Acquisition

During the year ended December 31, 2020, the acquisition of two office assets from Wittington was satisfied in full by the issuance of 16,500,000 Units of Choice Properties, while the acquisition of six industrial assets from GWL was satisfied in full by the issuance of 5,824,742 Exchangeable Units.

Distribution in Units and Consolidation of Units

As a result of the increase in taxable income generated primarily from sale transactions in the year ended December 31, 2020, the Board declared a special non-cash distribution on December 31, 2020, of 2,277,457 Units at \$0.09 per Unit totalling \$29,425. During the year ended December 31, 2019, the Board declared a special non-cash distribution on December 31, 2019, of 1,569,400 Units at \$0.07 per Unit totalling \$21,721.

Immediately following the issuance of Units, the Units were consolidated such that each Unitholder held the same number of Units after the consolidation as each Unitholder held prior to the special non-cash distribution. As at December 31, 2020 and 2019, the special distributions declared were recorded to Trust Units in accordance with IAS 32, "Financial Instruments: Presentation".

Normal Course Issuer Bid ("NCIB")

Choice Properties may from time to time purchase Units in accordance with the rules prescribed under applicable stock exchange or regulatory policies. On November 17, 2020, Choice Properties received approval from the TSX to purchase up to 25,846,904 Units during the twelve-month period from November 19, 2020 to November 18, 2021, by way of a NCIB over the facilities of the TSX or through alternative trading systems. Choice Properties intends to file a Notice of Intention to make a NCIB with the TSX upon the expiry of its current NCIB.

Units Issued under Unit-Based Compensation Arrangements

Units were issued as part of settlements under the Unit Option Plan and grants under the Unit-Settled Restricted Unit Plan (Note 18).

Units Repurchased for Unit-Based Compensation Arrangement

The Trust acquired Units under its NCIB during the year ended December 31, 2020 and the year ended December 31, 2019, which were then granted to certain employees in connection with the Unit-Settled Restricted Unit Plan, and are subject to vesting conditions and disposition restrictions.

Distributions

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

In the year ended December 31, 2020, Choice Properties declared cash distributions of \$0.740 per unit (December 31, 2019 - \$0.740), or \$554,157 in aggregate, including distributions to holders of Exchangeable Units, which are reported as interest expense (December 31, 2019 - \$532,054). Distributions declared to Unitholders of record at the close of business on the last business day of a month are paid on or about the 15th day of the following month.

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

Distribution Reinvestment Plan ("DRIP")

Choice Properties instituted a DRIP that allows eligible Unitholders to elect to automatically reinvest their regular monthly cash distributions in additional Units and to receive a bonus distribution in Units equivalent to 3% of each distribution. On April 25, 2018, the Board temporarily suspended the DRIP commencing with the distribution declared in May 2018. In the first quarter of 2020, the Board determined that the DRIP will remain suspended until further notice.

Base Shelf Prospectus

On March 4, 2020, Choice Properties filed a Short Form Base Shelf Prospectus allowing for the issuance of up to \$2,000,000 of Units and debt securities, or any combination thereof over a 25-month period.

Note 16. Income Taxes

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

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

(\$ thousands)	Year Ended	
	December 31, 2020	December 31, 2019
Current income tax recovery (expense)	\$ 226	\$ (181)
Deferred income tax recovery (expense)	1,571	979
Income tax recovery	\$ 1,797	\$ 798

A deferred income tax asset of \$1,981 (Note 12) was recognized due to temporary differences between the carrying value and the tax basis of net assets held in the Trust’s taxable subsidiaries (December 31, 2019 - \$410).

Note 17. Trade Payables and Other Liabilities

(\$ thousands)	Note	As at	As at
		December 31, 2020	December 31, 2019
Trade accounts payable		\$ 20,493	\$ 9,430
Accrued liabilities and provisions		108,016	83,010
Accrued acquisition transaction costs and other related expenses		38,655	38,999
Accrued capital expenditures ⁽ⁱ⁾		59,765	60,807
Accrued interest expense		57,171	61,352
Due to related party ⁽ⁱⁱ⁾	32	121,264	179,111
Unit-based compensation	18	12,930	11,408
Distributions payable ⁽ⁱⁱⁱ⁾		20,344	19,326
Right-of-use lease liabilities		4,224	7,138
Tenant deposits		19,867	16,882
Deferred revenue		20,710	22,850
Designated hedging derivatives	27	6,560	2,811
Trade payables and other liabilities		\$ 489,999	\$ 513,124
Classified as:			
Non-current		\$ 13,734	\$ 12,267
Current		476,265	500,857
		\$ 489,999	\$ 513,124

(i) Includes payable to Loblaw of \$7,869 for construction allowances (2019 - \$5,278) (Note 32).

(ii) Includes distributions accrued on Exchangeable Units of \$120,598 payable to GWL (2019 - \$168,334); \$332 payable for shared costs incurred by GWL, the Services Agreement expense and other related party charges (2019 - \$3,676); and \$334 of reimbursed contract revenue and other related party charges payable to Loblaw (2019 - \$nil).

(iii) Includes distributions payable to GWL of \$3,124 and Wittington of \$1,018 (December 31, 2019 - \$3,124 and \$nil) (Note 32).

Note 18. Unit-Based Compensation

(\$ thousands)	Year Ended	
	December 31, 2020	December 31, 2019
Unit Option plan	\$ 202	\$ 5,187
Restricted Unit plans	3,495	4,161
Performance Unit plan	503	593
Trustee Deferred Unit plan	1,144	1,897
Unit-based compensation expense	\$ 5,344	\$ 11,838
Recorded in:		
General and administrative expenses	\$ 4,838	\$ 4,729
Adjustment to fair value of unit-based compensation	506	7,109
	\$ 5,344	\$ 11,838

As at December 31, 2020, the carrying value of the unit-based compensation liability was \$12,930 (December 31, 2019 - \$11,408) (Note 17).

Unit Option Plan

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

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of awards	Weighted average exercise price/unit	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	1,287,314	\$ 12.51	3,764,107	\$ 11.66
Exercised	(148,794)	\$ 12.09	(2,048,060)	\$ 11.04
Cancelled	(54,414)	\$ 13.15	(417,439)	\$ 11.96
Expired	(1,466)	\$ 13.93	(11,294)	\$ 14.21
Outstanding Unit Options, end of year	1,082,640	\$ 12.54	1,287,314	\$ 12.51
Unit Options exercisable, end of year	706,804	\$ 12.56	561,779	\$ 12.27

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, 2020	As at December 31, 2019
Expected average distribution yield	5.54%	5.38%
Expected average Unit price volatility	15.58% - 35.02%	13.87% - 18.27%
Average risk-free interest rate	0.01% - 0.27%	0.02% - 1.74%
Expected average life of options	0.1 - 2.7 Years	0.1 - 3.6 Years

The following table details the Unit Options outstanding as at December 31, 2020:

Exercise Price	Expiry Date	Number of Unit Options outstanding as at December 31, 2020	Remaining weighted average life (in years)
\$11.51	2022	117,954	1.2
\$12.39	2023	328,102	2.2
\$14.20	2024	247,582	3.2
\$11.92	2025	389,002	4.2
\$11.51 to \$14.20		1,082,640	2.7

Notes to the Consolidated Financial Statements

Restricted Unit Plans

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

Restricted Unit Plan

Restricted Units (“RU”) entitle certain employees to receive the value of the RU award in cash or Units at the end of the applicable vesting period, which is usually three years in length. The RU plan provides for the crediting of additional RUs in respect of distributions paid on Units for the period when a RU is outstanding. The fair value of each RU granted is measured based on the market value of a Trust Unit at the balance sheet date. No RUs had vested as at December 31, 2020 (December 31, 2019 - nil).

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

(Number of awards)	Year Ended December 31, 2020	Year ended December 31, 2019
Outstanding Restricted Units, beginning of year	484,544	446,341
Granted	69,227	239,483
Reinvested	24,451	26,547
Exercised	(161,044)	(106,355)
Cancelled	(11,465)	(121,472)
Outstanding Restricted Units, end of year	405,713	484,544

Unit-Settled Restricted Unit Plan

Under the terms of the Unit-Settled Restricted Unit (“URU”) plan, certain employees are granted URUs which are subject to vesting conditions and disposition restrictions. Typically, full vesting of the URUs will not occur until the employee has remained with Choice Properties 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 764,385 URUs vested but still subject to disposition restrictions as at December 31, 2020 (December 31, 2019 - 1,147,753).

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

(Number of awards)	Year Ended December 31, 2020	Year ended December 31, 2019
Outstanding Unit-Settled Restricted Units, beginning of year	624,419	717,815
Granted	159,083	155,946
Cancelled	—	(40,796)
Vested	(194,968)	(208,546)
Outstanding Unit-Settled Restricted Units, end of year	588,534	624,419

Performance Unit Plan

Performance Units (“PU”) entitle certain employees to receive the value of the PU award in cash or Units at the end of the applicable performance period, which is usually three years in length, based on the Trust achieving certain performance conditions. The PU plan provides for the crediting of additional PUs in respect of distributions paid on Units for the period when a PU is outstanding. The fair value of each PU granted is measured based on the market value of a Trust Unit at the balance sheet date. There were no PUs vested as at December 31, 2020 (December 31, 2019 - nil).

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

(Number of awards)	Year Ended December 31, 2020	Year ended December 31, 2019
Outstanding Performance Units, beginning of year	103,868	104,449
Granted	59,273	50,686
Reinvested	7,241	5,867
Exercised	(40,205)	(58,282)
Cancelled	(3,543)	(21,471)
Added by performance factor	9,061	22,619
Outstanding Performance Units, end of year	135,695	103,868

Trustee Deferred Unit Plan

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

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

(Number of awards)	Year Ended December 31, 2020	Year ended December 31, 2019
Outstanding Trustee Deferred Units, beginning of year	277,139	302,589
Granted	76,632	68,123
Reinvested	17,338	17,046
Cancelled	—	(185)
Exercised	(2,819)	(110,434)
Outstanding Trustee Deferred Units, end of year	368,290	277,139

Notes to the Consolidated Financial Statements

Note 19. Rental Revenue

Rental revenue is comprised of the following:

(\$ thousands)	Related Parties ⁽ⁱ⁾	Third-party	Year ended December 31, 2020	Related Parties ⁽ⁱ⁾	Third-party	Year ended December 31, 2019
Base rent	\$ 526,348	\$ 347,929	\$ 874,277	\$ 546,662	\$ 343,703	\$ 890,365
Property tax and insurance recoveries	146,407	96,882	243,289	154,264	96,549	250,813
Operating cost recoveries	57,138	86,034	143,172	55,170	85,209	140,379
Lease surrender and other revenue	27	9,849	9,876	3,912	10,185	14,097
Reimbursed contract revenue	—	—	—	(7,100)	—	(7,100)
Rental revenue	\$ 729,920	\$ 540,694	\$ 1,270,614	\$ 752,908	\$ 535,646	\$ 1,288,554

(i) Refer to Note 32, Related Party Transactions.

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

During the year ended December 31, 2020, the Trust and its tenants benefited from pandemic-related realty tax relief measures provided by various municipalities. These measures are reflected through a reduction in property tax expense (Note 20) and a corresponding decline in property tax recoveries.

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

(\$ thousands)	
2021	\$ 892,451
2022	864,456
2023	807,090
2024	721,675
2025	647,045
Thereafter	2,417,898
Total	\$ 6,350,615

Note 20. Property Operating Costs

(\$ thousands)	Year Ended	
	December 31, 2020	December 31, 2019
Property taxes and insurance	\$ 256,930	\$ 263,687
Recoverable operating costs	103,310	100,811
Non-recoverable operating costs	23,776	3,634
Property operating costs	\$ 384,016	\$ 368,132

Included in non-recoverable operating expenses are expected credit losses of \$21,694 for the year ended December 31, 2020, (2019 - \$777). Refer to Note 12 for discussion on rents receivable and the related expected credit losses.

Note 21. Interest Income

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Interest income on mortgages and loans receivable	10	\$ 12,309	\$ 13,621
Interest income earned from financial real estate assets	9	1,741	378
Interest income (loss) from financial real estate assets due to changes in value	9	(1,148)	—
Other interest income		737	552
Interest income		\$ 13,639	\$ 14,551

Note 22. Fee Income

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Fees charged to related party	32	\$ 858	\$ 922
Fees charged to third-parties		3,558	3,634
Fee income		\$ 4,416	\$ 4,556

Note 23. Net Interest Expense and Other Financing Charges

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Interest on senior unsecured debentures		\$ 196,741	\$ 182,522
Interest on mortgages and construction loans		48,960	51,907
Interest on credit facility and term loans		7,316	28,352
Interest on right-of-use lease liabilities	17	216	281
Amortization of debt discounts and premiums	13	(1,806)	(3,720)
Amortization of debt placement costs	13,14	4,592	8,352
Distributions on Exchangeable Units ⁽ⁱ⁾	32	288,932	288,573
		544,951	556,267
Less: Capitalized interest ⁽ⁱⁱ⁾	5	(4,231)	(4,424)
Net interest expense and other financing charges		\$ 540,720	\$ 551,843

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

(ii) Interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.70% (2019 - 3.70%).

Note 24. General and Administrative Expenses

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Salaries, benefits and employee costs		\$ 47,940	\$ 42,999
Investor relations and other public entity costs		2,318	2,128
Professional fees		4,506	4,519
Information technology costs		4,460	3,505
Services Agreement expense charged by related party	32	3,095	3,095
Amortization of other assets		548	130
Office related costs		2,590	3,705
Other		901	2,141
Total general and administrative expenses		66,358	62,222
Less:			
Capitalized to investment properties		(6,682)	(3,055)
Allocated to recoverable operating expenses		(22,958)	(19,875)
General and administrative expenses		\$ 36,718	\$ 39,292

Note 25. Other Fair Value Gains (Losses), Net

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Adjustment to fair value of unit-based compensation	18	\$ (506)	\$ (7,109)
Fair value gain from release of holdback payable	17	6,750	—
Adjustment to fair value on mortgage receivable classified as FVTPL	10	(4,034)	—
Other fair value gains (losses), net		\$ 2,210	\$ (7,109)

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 and capital availability risk. The following is a description of those risks and how the exposures are managed:

a. Credit Risk

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

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

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

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

b. Market Risk

Interest Rate Risk

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

The majority of Choice Properties' debt is financed at fixed rates with maturities staggered over 29 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 decrease.

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

Choice Properties analyzes its interest rate risk and the impact of rising and falling interest rates on operating results and financial condition on a regular basis. An increase of 1.0% per annum in the variable component of the interest rate for the credit facility would result in an increase to liabilities and a decrease in net income of \$15,000 (2019 - \$15,000) (assuming fully drawn credit facility).

Unit Price Risk

Choice Properties is exposed to Unit price risk as a result of the issuance of the Exchangeable Units, which are economically equivalent to and exchangeable for Units, as well as the issuance of unit-based compensation. The Exchangeable Units and unit-based compensation liabilities are recorded at their fair value based on market trading prices. The 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 due to Exchangeable Units of \$395,787 (2019 - \$389,962) and Unit-based compensation liabilities of \$1,568 (2019 - \$1,560).

c. Liquidity and Capital Availability Risk

Liquidity risk is the risk that Choice Properties cannot meet a demand for cash or fund its obligations as they come due. Although a portion of the cash flows generated by 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 strategy and certain other capital expenditures from time to time, and to refinance indebtedness. Although Choice Properties expects to have access to the Revolving Credit Facility, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favourable terms. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to limitations set forth in the Declaration of Trust, the Indenture, as supplemented by the Supplemental Indenture, and the Fifth Supplemental Assumed Indenture. Failure by Choice Properties to access required capital could have a material adverse effect on its financial condition or results of operations and its ability to make distributions to Unitholders.

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

Notes to the Consolidated Financial Statements

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

(\$ thousands)	2021	2022	2023	2024	2025	Thereafter	Total
Senior unsecured debentures	\$ 390,264	\$ 778,549	\$ 732,394	\$ 887,456	\$ 657,400	\$ 3,047,826	\$ 6,493,889
Mortgages payable	150,512	253,501	141,590	183,851	172,600	542,955	1,445,009
Construction loans ⁽ⁱ⁾	25,193	—	—	—	—	—	25,193
Credit facility ⁽ⁱ⁾	—	—	—	—	—	—	—
Total	\$ 565,969	\$ 1,032,050	\$ 873,984	\$ 1,071,307	\$ 830,000	\$ 3,590,781	\$ 7,964,091

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

Note 27. Financial Instruments

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

(\$ thousands)	Note	As at December 31, 2020				As at December 31, 2019			
		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	10	\$ —	\$ —	\$ 53,588	\$ 53,588	\$ —	\$ —	\$ 85,809	\$ 85,809
Lease receivable	12	—	—	19,405	19,405	—	—	—	—
Financial real estate assets	9	—	—	68,373	68,373	—	—	22,800	22,800
Designated hedging derivatives	12	—	377	—	377	—	182	—	182
Amortized cost:									
Mortgages, loans and notes receivable - SPPI	10	—	—	208,700	208,700	—	—	246,300	246,300
Cash and cash equivalents		207,219	—	—	207,219	41,990	—	—	41,990
Liabilities									
Fair value through profit and loss:									
Exchangeable Units	15	5,149,182	—	—	5,149,182	5,424,368	—	—	5,424,368
Unit-based compensation	17	—	12,930	—	12,930	—	11,408	—	11,408
Designated hedging derivatives	17	—	6,560	—	6,560	—	2,811	—	2,811
Amortized cost:									
Long term debt	13	—	7,071,105	—	7,071,105	—	6,627,647	—	6,627,647
Credit facility	14	—	—	—	—	—	127,233	—	127,233

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

Designated Hedging Derivatives

Designated hedging derivatives consist of interest rate swaps to hedge the interest rate associated with an equivalent amount of variable rate mortgages. During the year ended December 31, 2020, an interest rate swap was settled upon maturity of the underlying variable rate mortgage. In addition, a variable rate mortgage was renewed and upfinanced which resulted in the associated interest rate swap being increased and designated at a higher notional amount. As at December 31, 2020, the interest rates ranged from 1.8% to 4.4% (December 31, 2019 - 1.8% to 5.1%).

Notes to the Consolidated Financial Statements

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

(\$ thousands)	Maturity Date	Notional Amount	As at December 31, 2020	As at December 31, 2019
Derivative assets				
Interest rate swaps	June 2030	\$ 65,000	\$ 377	\$ 182
Derivative liabilities				
Interest rate swaps	Jan 2021 - Sep 2026	\$ 193,700	6,560	2,811

During the year ended December 31, 2020, the Trust recorded an unrealized fair value loss in OCI of \$3,554 (December 31, 2019 - fair value loss of \$2,044).

Note 28. 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 March 4, 2020, Choice Properties filed a Short Form Base Shelf Prospectus allowing for the issuance of up to \$2,000,000 of Units and debt securities, or any combination thereof over a 25-month period.

Financing activity during the year ended December 31, 2020 and 2019, consisted of the repayment and issuance of various senior unsecured debentures (Note 13), the repayment of the Trust's term loans (Note 14), completion of a bought deal equity offering (Note 15) and the issuance of Trust and Exchangeable Units as consideration for investment property acquisitions (Notes 4 and 15).

Choice Properties has certain key covenants in its debentures and its committed credit facility. The key financial covenants include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by the Trust on an ongoing basis to ensure compliance with the agreements. Choice Properties was in compliance with each of the key financial covenants under these agreements as at December 31, 2020 and December 31, 2019.

The following schedule details the capitalization of Choice Properties:

(\$ thousands)	Note	As at December 31, 2020	As at December 31, 2019
Liabilities			
Senior unsecured debentures	13	\$ 5,275,000	\$ 5,175,000
Mortgages payable	13	1,206,638	1,230,569
Construction loans	13	25,193	24,842
Credit facility	14	—	132,000
Exchangeable units	15	5,149,182	5,424,368
Equity			
Unitholders' equity	15	3,514,739	3,090,217
Non-controlling interests	15	7,801	7,801
Total		\$ 15,178,553	\$ 15,084,797

Note 29. Supplemental Cash Flow Information**(a) Items not affecting cash and other items**

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Straight line rental revenue	5	\$ (13,946)	\$ (25,146)
Unit based compensation expense included in general and administrative expenses	18	4,838	4,729
Allowance for expected credit losses on mortgage receivable	10	7,830	3,000
Amortization of intangible assets	11	1,000	—
Foreign exchange gain reclassified from other comprehensive income		(1,184)	—
Adjustment to fair value of Exchangeable Units	15	(354,286)	932,009
Adjustment to fair value of investment properties	5	220,018	4,434
Other fair value (gains) losses, net	25	(2,210)	7,109
Items not affecting cash and other items		\$ (137,940)	\$ 926,135

(b) Net change in non-cash working capital

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Net change in accounts receivable and other assets	12	\$ (43,825)	\$ (28,643)
Add back (deduct):			
Additions to (disposition of) right of use assets	12	(1,841)	7,955
Additions to lease receivable	12	19,468	—
Transfer from mortgage receivable	10	500	—
Cost-to-complete receivable acquired	4, 5	16,404	—
Accounts receivable and other assets transferred from equity accounted joint venture	12	765	—
Deferred financing costs included in other assets	12	3,337	—
Change to designated hedging derivative assets	12	195	(854)
Net change in trade payables and other liabilities	17	(23,125)	133,612
Add back (deduct):			
Disposition of (additions to) lease liabilities	17	1,921	(7,955)
Net change in distributions payable	17	(1,018)	(2,170)
Net change in unit-based compensation liability	17	(1,522)	(283)
Net change to accrued interest expense		53,506	(118,970)
Trade payables and other liabilities transferred from equity accounted joint venture	4, 5	(7,003)	—
Liability assumed on acquisition of investment property	4	(2,400)	—
Change to designated hedging derivative liabilities	17	(3,749)	(1,190)
Release of holdback payable	17, 25	6,750	—
Impact of foreign exchange rate changes		(126)	—
Impact of currency translation		3,420	(2,596)
Net change in non-cash working capital		\$ 21,657	\$ (21,094)

(c) Cash and cash equivalents

(\$ thousands)	As at	
	December 31, 2020	December 31, 2019
Cash	\$ 72,248	\$ 41,990
Short-term investments	134,971	—
Cash and cash equivalents	\$ 207,219	\$ 41,990

Note 30. Segment Information

Choice Properties operates in three reportable segments: retail, industrial and office. The segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, determined to be the Chief Executive Officer (“CEO”) of the Trust. The CEO measures and evaluates the performance of the Trust based on net operating income, cash basis.

Net operating income, cash basis, is defined as property rental revenue less straight line rental revenue, lease surrender revenue, direct property operating expenses and realty taxes and excludes certain expenses such as interest expense and indirect operating expenses in order to provide results that reflect a property’s operations before consideration of how it is financed or the costs of operating the entity in which it is held. The amounts are presented by property type below and included in these consolidated financial statements at the proportionate share. The remaining net income (loss) items and the balance sheet are reviewed on a consolidated basis by the CEO and therefore are not included in the segmented disclosure below.

The chart below presents net operating income for the year ended December 31, 2020, in a manner consistent with internal reporting. The accounting policies of the segments presented here are the same as those described in Note 2.

(\$ thousands)	Retail	Industrial	Office	Consolidation and eliminations ⁽ⁱ⁾	Year ended December 31, 2020
Rental revenue	\$ 1,041,167	\$ 176,631	\$ 114,859	\$ (62,043)	\$ 1,270,614
Property operating costs	(313,898)	(46,700)	(45,545)	22,127	(384,016)
Net Operating Income, Accounting Basis	727,269	129,931	69,314	(39,916)	886,598
Less:					
Straight line rental revenue	(8,538)	(4,172)	(3,403)	2,167	(13,946)
Lease surrender revenue	(1,053)	(989)	(278)	362	(1,958)
Net Operating Income, Cash Basis	717,678	124,770	65,633	(37,387)	870,694
Add back: cash basis reconciling items					15,904
Net operating income, accounting basis					886,598
Interest income					13,639
Fee income					4,416
Net interest expense and other financing charges					(540,720)
General and administrative expenses					(36,718)
Allowance for expected credit losses on mortgage receivable					(7,830)
Share of income (loss) from equity accounted joint ventures					(5,570)
Amortization of intangible assets					(1,000)
Foreign exchange gain reclassified from other comprehensive income					1,184
Acquisition transaction costs and other related expenses					(1,589)
Other fair value gains (losses), net					2,210
Adjustment to fair value of Exchangeable Units					354,286
Adjustment to fair value of investment properties					(220,018)
Income before income taxes					448,888
Income tax recovery					1,797
Net Income (Loss)					\$ 450,685

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

Notes to the Consolidated Financial Statements

The chart below presents net operating income for the year ended December 31, 2019, in a manner consistent with internal reporting. The accounting policies of the segments presented here are the same as those described in Note 2.

(\$ thousands)	Retail	Industrial	Office	Consolidation and eliminations ⁽ⁱ⁾	Year ended December 31, 2019
Rental revenue	\$ 1,061,600	\$ 184,304	\$ 108,479	\$ (65,829)	\$ 1,288,554
Property operating costs	(301,238)	(48,012)	(41,050)	22,168	(368,132)
Net Operating Income, Accounting Basis	760,362	136,292	67,429	(43,661)	920,422
Less:					
Straight line rental revenue	(19,189)	(4,867)	(2,129)	1,039	(25,146)
Reimbursed contract revenue	6,706	318	76	—	7,100
Lease surrender revenue	(3,415)	(73)	(190)	—	(3,678)
Net Operating Income, Cash Basis	744,464	131,670	65,186	(42,622)	898,698
Add back: cash basis reconciling items					21,724
Net operating income, accounting basis					920,422
Interest income					14,551
Fee income					4,556
Net interest expense and other financing charges					(551,843)
General and administrative expenses					(39,292)
Allowance for expected credit losses on mortgage receivable					(3,000)
Share of income (loss) from equity accounted joint ventures					24,366
Acquisition transaction costs and other related expenses					(8,363)
Other fair value gains (losses), net					(7,109)
Adjustment to fair value of Exchangeable Units					(932,009)
Adjustment to fair value of investment properties					(4,434)
Income before income taxes					(582,155)
Income tax recovery					798
Net Income (Loss)					\$ (581,357)

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

Note 31. Contingent Liabilities and Financial Guarantees

Choice Properties is involved in and potentially subject to various claims by third-parties arising from the normal course of conduct of its business including regulatory, property and environmental claims. In addition, Choice Properties is potentially subject to regular audits from federal and provincial tax authorities, and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers Choice Properties' exposure to such claims and litigation, to the extent not covered by Choice Properties' insurance policies or otherwise provided for, not to be material to the consolidated financial statements, but they may have a material impact in future periods.

a. Legal Proceedings

Choice Properties is potentially the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all these proceedings and claims is uncertain. Based on information currently available, any proceedings and claims, individually and in the aggregate, are not expected to have a material impact on Choice Properties.

b. Guarantees

Choice Properties issues letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at December 31, 2020, the aggregate gross potential liability related to these letters of credit totalled \$33,916 including \$1,543 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 32) (December 31, 2019 - \$36,110 including \$1,790 posted by Loblaw).

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

CPH Master LP guarantees certain debt assumed by purchasers in connection with past dispositions of properties made by Canadian Real Estate Investment Trust prior to being acquired by the Trust in May 2018. 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, 2020 subject to such guarantees, and therefore the maximum exposure to credit risk, was \$35,671 with an estimated weighted average remaining term of 2.5 years (December 31, 2019 - \$36,690 and 3.5 years, respectively).

c. Commitments

Choice Properties has entered into contracts for development and property capital projects and has other contractual obligations such as operating rents. The Trust is committed to future payments of approximately \$376,000, of which \$55,000 relates to equity accounted joint ventures as at December 31, 2020 (December 31, 2019 - \$553,844 and \$184,633, respectively).

d. Contingent Liabilities

The Trust held debt obligations in the amount of \$191,873 in its equity accounted joint ventures as at December 31, 2020 (December 31, 2019 - \$193,172). 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 32. Related Party Transactions

Choice Properties' parent corporation is George Weston Limited ("GWL"), which as at December 31, 2020, held a 61.8% direct effective interest in the Trust through ownership of 50,661,415 Units and all of the Exchangeable Units, which are economically equivalent to and exchangeable to Units. GWL is also the parent company of Loblaw, with ownership of 52.6% of Loblaw's outstanding common shares as at December 31, 2020.

In the normal course of operations, 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 GWL

Acquisitions

During the year ended December 31, 2020, Choice Properties acquired six industrial assets from Weston Foods (Canada) Inc., a wholly-owned subsidiary of GWL, for a purchase price of \$81,500, excluding transaction costs. The acquisition was satisfied in full through the issuance of 5,824,742 Exchangeable Units for \$79,100 (Notes 4 and 15) and assumed liabilities of \$2,400 (Note 4).

In the year ended December 31, 2019, Choice Properties acquired an industrial property from GWL for a purchase price of \$13,250, excluding transaction costs. The acquisition was settled with cash (Note 4).

Services Agreement

For the year ended December 31, 2020, GWL provided Choice Properties with corporate, administrative and other support services for an annualized cost of \$3,095 (2019 - \$3,095).

Operating Lease

Effective January 1, 2018, Choice Properties entered into a sub-lease for additional office space with Weston Foods, a subsidiary of GWL, with a term effective until the end of the existing lease in 2024. Over the term of the sub-lease, lease payments will total \$1,282. On July 31, 2020, the Trust acquired the office building in which it was sub-leasing the office space from Weston Foods.

Distributions on Exchangeable Units and Notes Receivable

GWL holds all of the Exchangeable Units issued by Choice Properties Limited Partnership, a subsidiary of Choice Properties. During the year ended December 31, 2020, distributions declared on the Exchangeable Units totalled \$288,932 (December 31, 2019 - \$288,573) of which \$120,598 were payable to GWL (December 31, 2019 - \$168,334).

Trust Unit Distributions

In the year ended December 31, 2020, Choice Properties declared cash distributions of \$37,490 on the Units held by GWL (December 31, 2019 - \$36,551), while \$4,660 of non-cash distributions were settled through the issuance of additional Trust Units (December 31, 2019 - \$3,546). As at December 31, 2020, \$3,124 of Trust Unit distributions declared were payable to GWL (December 31, 2019 - \$3,124).

Transaction Summary as Reflected in the Consolidated Financial Statements

Transactions with GWL recorded in the consolidated statements of income (loss) and comprehensive income (loss) were comprised as follows:

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Rental revenue	19	\$ 4,971	\$ 3,547
Services Agreement expense	24	(3,095)	(3,095)
Interest expense and other financing charges	23	(288,932)	(288,573)
Office rent expense		—	(183)

Notes to the Consolidated Financial Statements

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

(\$ thousands)	Note	As at	
		December 31, 2020	December 31, 2019
Notes receivable	10	\$ 96,191	\$ 144,287
Rent receivable	12	13	—
Other receivables	12	—	756
Exchangeable Units	15	(5,149,182)	(5,424,368)
Accrued liabilities	17	(332)	(3,676)
Distributions payable on Exchangeable Units	17	(120,598)	(168,334)
Distributions payable	17	(3,124)	(3,124)
Due to GWL and subsidiaries		\$ (5,177,032)	\$ (5,454,459)

Transactions and Agreements with Loblaw

Acquisitions

During the year ended December 31, 2020, Choice Properties acquired a development property from Loblaw for a purchase price of \$8,100, excluding transaction costs. Choice Properties also acquired from Loblaw five financial real estate assets for a purchase price of \$45,673, excluding transaction costs. Each acquisition was settled with cash (Note 4).

During the year ended December 31, 2019, Choice Properties acquired two investment properties and one financial real estate asset from Loblaw with an aggregate purchase price of \$59,118, excluding transaction costs. The acquisitions were settled with cash (Note 4).

Dispositions

During the year ended December 31, 2020, Choice Properties disposed interests in 17 retail properties which had Loblaw leases for an aggregate sale price of \$263,440, excluding transaction costs.

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

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

Strategic Alliance Agreement

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

- Choice Properties has the right of first offer to purchase any property in Canada that Loblaw seeks to sell;
- Loblaw is 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 are calculated in accordance with a payment grid that takes into account the region, market ranking and type of use for the property.

Property Management Agreement

Choice Properties provides Loblaw with property management services for Loblaw's properties with third-party tenancies on a fee for service basis with automatic one-year renewals. The property management agreement was terminated effective December 31, 2020.

Lease Surrender Payments

In the year ended December 31, 2019, Loblaw made lease surrender payments of \$3,156 to the Trust.

Reimbursed Contract Revenue

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

Sublease Administration Agreement

On July 17, 2017, in connection with Loblaw’s sale of substantially all of its gas bar operations, Choice Properties agreed to provide Loblaw with certain administrative services in respect of the subleases on a fee for service basis for an initial five-year term with automatic one-year renewals. The sublease administration agreement was terminated effective December 31, 2020.

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 \$995 in connection with completed gross leasable area for which tenants took possession during the year ended December 31, 2020 (December 31, 2019 - \$4,577).

Letters of Credit

As at December 31, 2020, letters of credit totalling \$1,543 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, 2019 - \$1,790) (Note 31).

Transaction Summary as Reflected in the Consolidated Financial Statements

Loblaw is the largest tenant for Choice Properties, representing approximately 57.0% of Choice Properties’ rental revenue for the year ended December 31, 2020 (December 31, 2019 - 58.2%) and 55.3% of its gross leasable area as at December 31, 2020 (December 31, 2019 - 56.3%). Transactions with Loblaw recorded in the consolidated statements of income (loss) and comprehensive income (loss) were comprised as follows:

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Rental revenue	19	\$ 724,292	\$ 749,361
Fee income	22	858	922

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

(\$ thousands)	Note	As at	
		December 31, 2020	December 31, 2019
Rent receivable	12	\$ 36	\$ 71
Accrued liabilities	17	(26)	—
Construction allowances payable	17	(7,869)	(5,278)
Reimbursed contract payable	17	(308)	(7,100)
Due to Loblaw		\$ (8,167)	\$ (12,307)

Transactions and Agreements with Wittington

Acquisitions

On July 31, 2020, Choice Properties acquired two real estate assets from Wittington Properties Limited, a subsidiary of Wittington, for an aggregate purchase price of \$208,935, excluding transaction costs, which was satisfied in full by the issuance of 16,500,000 Units of Choice Properties. The transaction was measured at market terms and conditions. The assets acquired included: (i) an office property in Toronto, Ontario, for \$128,500 and (ii) the remaining 60% interest of the joint venture for 500 Lake Shore Boulevard West in Toronto, Ontario, for \$80,435, less a cost-to-complete receivable of \$16,404, giving the Trust 100% ownership of the joint venture (Note 6).

Notes to the Consolidated Financial Statements

Operating Lease

Choice Properties was a tenant in an acquired office asset in Toronto, Ontario, having entered into a ten-year lease with Wittington Properties Limited, in 2014 with lease payments totalling \$2,664 over the term of the lease. As of the acquisition date, Choice Properties derecognized its right-of-use assets and lease liabilities associated with the office lease and ceased paying rent to Wittington Properties Limited.

Property Management Agreement

Choice Properties provides Wittington with property management services for certain properties with third-party tenancies on a fee for service basis.

Joint Venture

On December 9, 2014, Choice Properties and its joint venture partner, Wittington Properties Limited, completed the acquisition of 500 Lake Shore Boulevard West in Toronto, Ontario, for \$15,576 from Loblaw. Choice Properties accounted for its investment in the joint venture as an equity accounted joint venture until July 31, 2020, when the Trust acquired the remaining 60% interest from Wittington Properties Limited, after which the 100% owned joint venture is accounted for on a consolidated basis. Wittington Properties Limited will continue to act as development and construction manager for the commercial space at 500 Lake Shore Boulevard West until development is completed.

Choice Properties contributed \$6,200 to the joint venture and received distributions of \$nil during the year ended December 31, 2020 (December 31, 2019 - contributions \$13,240 and distributions \$nil). The joint venture earned interest income during the year ended December 31, 2020 of \$2,102 (2019 - \$86).

Summarized financial information for the Trust's share of the related party equity accounted joint venture is set out below:

(\$ thousands)	As at	
	December 31, 2020	December 31, 2019
Current assets	\$ —	\$ 7,107
Non-current assets	—	117,500
Current liabilities	—	(17,565)
Net assets at 100%	\$ —	\$ 107,042
Investment in equity accounted joint venture at 40%	\$ —	\$ 42,817

(\$ thousands)	Year Ended	
	December 31, 2020	December 31, 2019
Share of income (loss) and comprehensive income (loss) in equity accounted joint venture at 40%	\$ (13,305)	\$ (3,398)

Transaction Summary as Reflected in the Consolidated Financial Statements

Transactions with Wittington recorded in the consolidated statements of income (loss) and comprehensive income (loss) were comprised as follows:

(\$ thousands)	Note	Year Ended	
		December 31, 2020	December 31, 2019
Rental revenue	19	\$ 657	\$ —

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

(\$ thousands)	Note	As at	
		December 31, 2020	December 31, 2019
Rent receivable	12	\$ 131	\$ —
Cost-to-complete receivable	12	13,721	—
Distributions payable	17	(1,018)	—
Due from Wittington and subsidiaries		\$ 12,834	\$ —

Transactions with Key Personnel

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

(\$ thousands)	December 31, 2020	December 31, 2019
Salaries, trustee fees, incentives and short-term employee benefits	\$ 3,416	\$ 4,405
Unit-based compensation recorded in:		
General and administrative expenses	3,148	2,687
Adjustment to fair value of unit-based compensation	217	1,088
Compensation of key personnel	\$ 6,781	\$ 8,180

Note 33. Subsequent Events

On February 1, 2021, the Trust completed the disposition of its 50% equity accounted joint venture interest in land held for development for aggregate proceeds of \$66,000, net of transaction and estimated closing costs.

Corporate Profile

Choice Properties is a leading Real Estate Investment Trust that creates enduring value through the ownership, operation and development of high-quality commercial and residential properties.

We believe that value comes from creating spaces that improve how our tenants and communities come together to live, work, and connect. We strive to understand the needs of our tenants and manage our properties to the highest standard. We aspire to develop healthy, resilient communities through our dedication to social, economic, and environmental sustainability. In everything we do, we are guided by a shared set of values grounded in Care, Ownership, Respect and Excellence.

Conference Call and Webcast

Management will host a conference call on Thursday, February 11, 2021 at 10:30AM (ET) with a simultaneous audio webcast. To access via teleconference, please dial (647) 427-7450 or (888) 231-8191. A playback will be made available two hours after the event at (416) 849-0833 or (855) 859-2056, access code: 9790288. The link to the audio webcast will be available on www.choicereit.ca in the “Investors” section under “Events & Webcasts”.

Head Office

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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
Tel toll free: 1-800-387-0825 (Canada and US)
Fax: (514) 985-8843 (outside of Canada and US)
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Investor Relations

Tel: 416-628-7771
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Email: investor@choicereit.ca
Website: www.choicereit.ca

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

Trustees

Galen G. Weston - Chairman

Executive Chairman, Loblaw Companies Limited
Chairman and Chief Executive Officer, George Weston Limited

Kerry D. Adams²

President, K. Adams & Associates Limited

Christie J.B. Clark¹

Corporate Director

L. Jay Cross¹

President, The Howard Hughes Corporation

Graeme M. Eadie²

Corporate Director

Karen A. Kinsley¹

Corporate Director

R. Michael Latimer²

Corporate Director

Nancy H.O. Lockhart²

Corporate Director

Dale R. Ponder¹

Co-Chair, Osler, Hoskin and Harcourt LLP

¹ Audit Committee

² Governance, Compensation and Nominating Committee

Ce rapport est disponible en français.



Head Office

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