Choice Properties REIT

# 2020 First Quarter Report


*7020 4th St NW | Calgary AB*

*175 Bloor St E | Toronto ON*

# Letter to Unitholders

Fellow Unitholders,

The current COVID-19 pandemic continues to have a significant impact on the world we live in, our employees and our tenants. We have taken thoughtful actions to mitigate the effects of COVID-19 on our day-to-day business operations and continue to focus on the best interests of our employees, tenants and other stakeholders. While it is early and the full impact of the COVID-19 pandemic cannot be predicted, we remain confident that our business model and disciplined approach to financial management will allow us to weather the storm.

As one of Canada's largest landlords, we understand that we have an important role to play in helping Canadians and their businesses during these unprecedented and challenging times. With many of our tenants being negatively impacted by the pandemic, we have agreed to assist qualifying small businesses and independent tenants who requested rent relief with rent deferrals for 60 days, effective April 1, 2020. We have also been in discussions with our larger tenants who have been adversely affected by COVID-19.

Our portfolio of office, retail and industrial properties is well occupied, at 97.5%, and leased to high quality tenants across Canada. We expect that COVID-19 will have the most notable impact on retail tenants, however, over 75% of our retail portfolio is leased to either grocery stores, pharmacies or other necessity-based tenants with stable business operations. We are confident that the high-quality of our retail properties and our strong tenant base will help mitigate the impact of COVID-19 pandemic on our overall business. We remain committed to owning high-quality assets with long term value propositions.

Our strong balance sheet provides the flexibility necessary to help insulate Choice Properties in the face of broader market volatility. From a liquidity perspective, we have approximately $1.3 billion available under our credit facility. During 2019, we made significant progress in strengthening our balance sheet, including refinancing our unsecured debt maturities, lowering our leverage and improving our overall liquidity. Additionally, in the first quarter of 2020 we issued $500 million of unsecured debentures, the proceeds of which were used in part to repay all debentures maturing in 2020.

We are confident that the strategic and operating decisions we have made across our business well-positions us to withstand this pandemic and help 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 Choice Properties is running as smoothly and effectively as possible.

We thank you for your continued support and confidence during these challenging times.

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

April 22, 2020


*Rendering of West Block | Toronto ON*

# Management's Discussion and Analysis

(1) See Section 13, "Non-GAAP Financial Measures", of this MD&A.
(2) To be read in conjunction with the "Forward-Looking Statements" included in the Notes for Readers located on page 4 of this MD&A.

# Notes for Readers

*Please refer to the Choice Properties Real Estate Investment Trust ("Choice Properties" or the "Trust") unaudited consolidated financial statements for the three months ended March 31, 2020 and accompanying notes ("Q1 2020 Financial Statements") when reading this Management's Discussion and Analysis ("MD&A") as well as the Trust's Audited Financial Statements and MD&A for the year ended December 31, 2019. In addition, this MD&A should be read in conjunction with the Trust's "Forward-Looking Statements" as listed below. Choice Properties' Q1 2020 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 13, "Non-GAAP Financial Measures" for a list of defined non-GAAP financial measures and reconciliations thereof.*

*On May 4, 2018, Choice Properties completed the acquisition of Canadian Real Estate Investment Trust ("CREIT") for total consideration of $3.7 billion (the "Acquisition Transaction"). The impact of the Acquisition Transaction on the Trust's operating results and key performance indicators is discussed throughout this MD&A.*

**This First Quarter Report, including this MD&A,** contains forward-looking statements about Choice Properties' objectives, outlook, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities, and legal and regulatory matters. Specific statements with respect to anticipated future results and events can be found in various sections of this MD&A, including but not limited to, Section 3, "Investment Properties", Section 5, "Results of Operations", Section 6, "Leasing Activity", Section 7, "Results of Operations - Segment Information", and Section 12, "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, outlook and expected future developments, as well as other factors it believes are appropriate in the circumstances.

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

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

- the duration and impact of the COVID-19 pandemic on the business, operations and financial condition of Choice Properties;
- failure by Choice Properties to realize the anticipated benefits associated with its strategic priorities and major initiatives, including failure to develop quality assets and effectively manage development, redevelopment, and renovation initiatives;
- failure by Choice Properties to effectively and efficiently manage its property and leasing management processes;
- failure by Choice Properties to anticipate, identify and react to demographic changes, including shifting consumer preferences toward electronic commerce, which may result in a decrease in demand for physical space by retail tenants;
- the inability of Choice Properties' information technology infrastructure to support the requirements of Choice Properties' business, failure by Choice Properties to identify and respond to business disruptions, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms or other known or unknown cyber security or data breaches;
- changes in economic conditions, including changes in interest rates and the rate of inflation; and
- changes in Choice Properties' competitiveness in the real estate market.

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

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

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

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 March 31, 2020, GWL had a 62.9% direct effective interest in Choice Properties.

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

**The information in this MD&A is current to April 22, 2020, unless otherwise noted.**

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


SHOPPERS
DRUG MART

# Our Portfolio Mix

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

*North Barrie Crossing Shopping Centre | Barrie ON*

## Retail Portfolio

The retail portfolio is primarily focused on necessity-based retail tenants. Management views the retail portion of the portfolio as the foundation for maintaining reliable cash flow. In addition to having a national footprint concentrated in Canada's largest markets, stability is attained through 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.

## 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 product that appeals to a wide range of potential users, so that the leasing or re-leasing time frame is reduced.

*Great Plains Business Park | Calgary AB*


*Calgary Place | Calgary AB*

## Office Portfolio

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

## Residential Portfolio [(i)]

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.

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


*VIA123 | Toronto ON*

Choice Properties REIT

# Our Portfolio Mix

## RETAIL

| 576 | 97.8% | 46.2M |
|---|---|---|
| Properties | Occupancy | sq. ft. GLA |

## INDUSTRIAL

| 113 | 97.7% | 16.1M |
|---|---|---|
| Properties | Occupancy | sq. ft. GLA |

## OFFICE

| 14 | 92.9% | 3.1M |
|---|---|---|
| Properties | Occupancy | sq. ft. GLA |

## RESIDENTIAL (i)

| 3 | | 0.2M |
|---|---|---|
| Properties | | sq. ft. GLA |

## DEVELOPMENT

| 11 | 2 | 5 |
|---|---|---|
| Retail | Industrial | Residential |

## TOTAL

| 724 | 97.5% | 65.6M |
|---|---|---|
| Properties (ii) | Occupancy | sq. ft. GLA |

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


AMA
Atlantic
Superstore
SUBWAY

# Development Program

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 a significant amount of intensification and redevelopment opportunities and a long-term pipeline of potential mixed use development projects, Choice Properties is well positioned for long-term growth and value creation.

*2280 Dundas St W | Toronto ON*

2211-20th Sideroad Rd | Innisfil ON

Oshawa Gateway | Oshawa ON


Rendering of Golden Mile | Toronto ON


Rendering of 390 Dufferin St | Toronto ON

## Intensification

Intensifications are focused on adding retail density within the existing portfolio. As at March 31, 2020, Choice Properties had 21 ongoing intensification projects representing a total of 371,000 square feet.

## Greenfield Development

Development activities include greenfield projects that are primarily focused on unenclosed retail shopping centres and industrial parks. As at March 31, 2020, Choice Properties had 17 greenfield development projects in the pipeline that, upon completion, will comprise approximately 1.1 million square feet. A total of $240.9 million has been invested to date in the pipeline. The Trust currently expects to invest a total of $37.2 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.

## Major Mixed Use Development

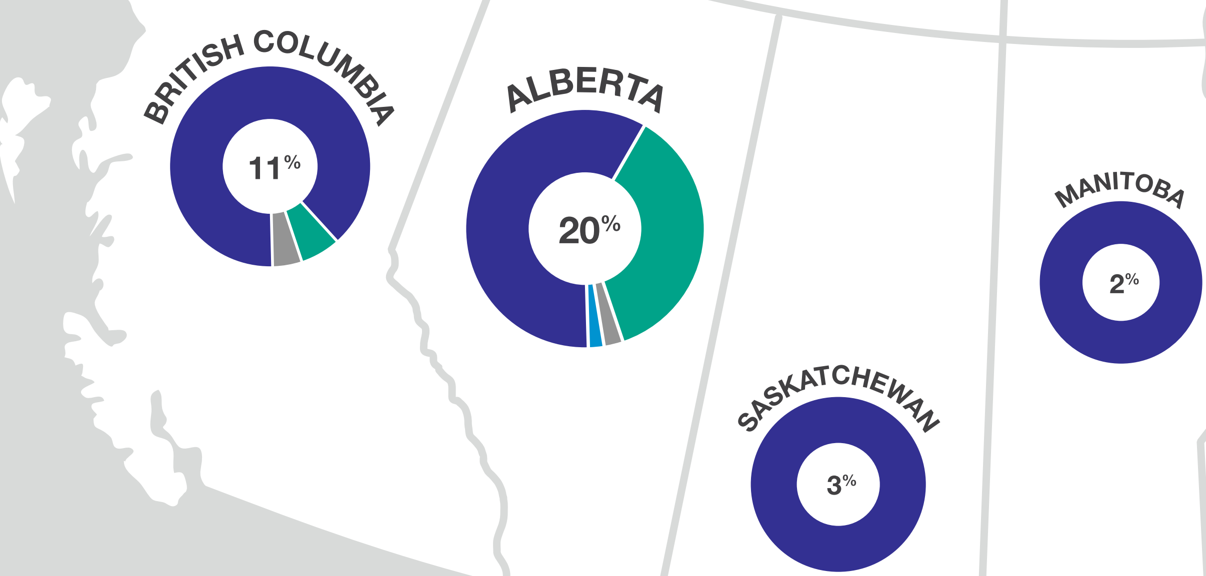
Choice Properties currently has a number of sites planned for major mixed-use development with four of these sites in an active pre-development stage. The four properties are in key urban markets, including three sites in Toronto, Ontario, and one in Coquitlam, British Columbia. These developments are residential focused, mixed use communities with close proximity to public transportation. A total of $31.4 million has been invested to date on land acquisition and other initial development costs. The Trust expects to invest an additional $20.8 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.

## Residential

Choice Properties has six residential projects in the pipeline representing 1,246 residential units. As at March 31, 2020, a total of $150.1 million had been invested in these projects and Choice Properties expects to invest an additional $391.9 million[(2)] to complete the developments.

# Ownership by Asset Class

Net operating income, cash basis(ii), shown in percentage below

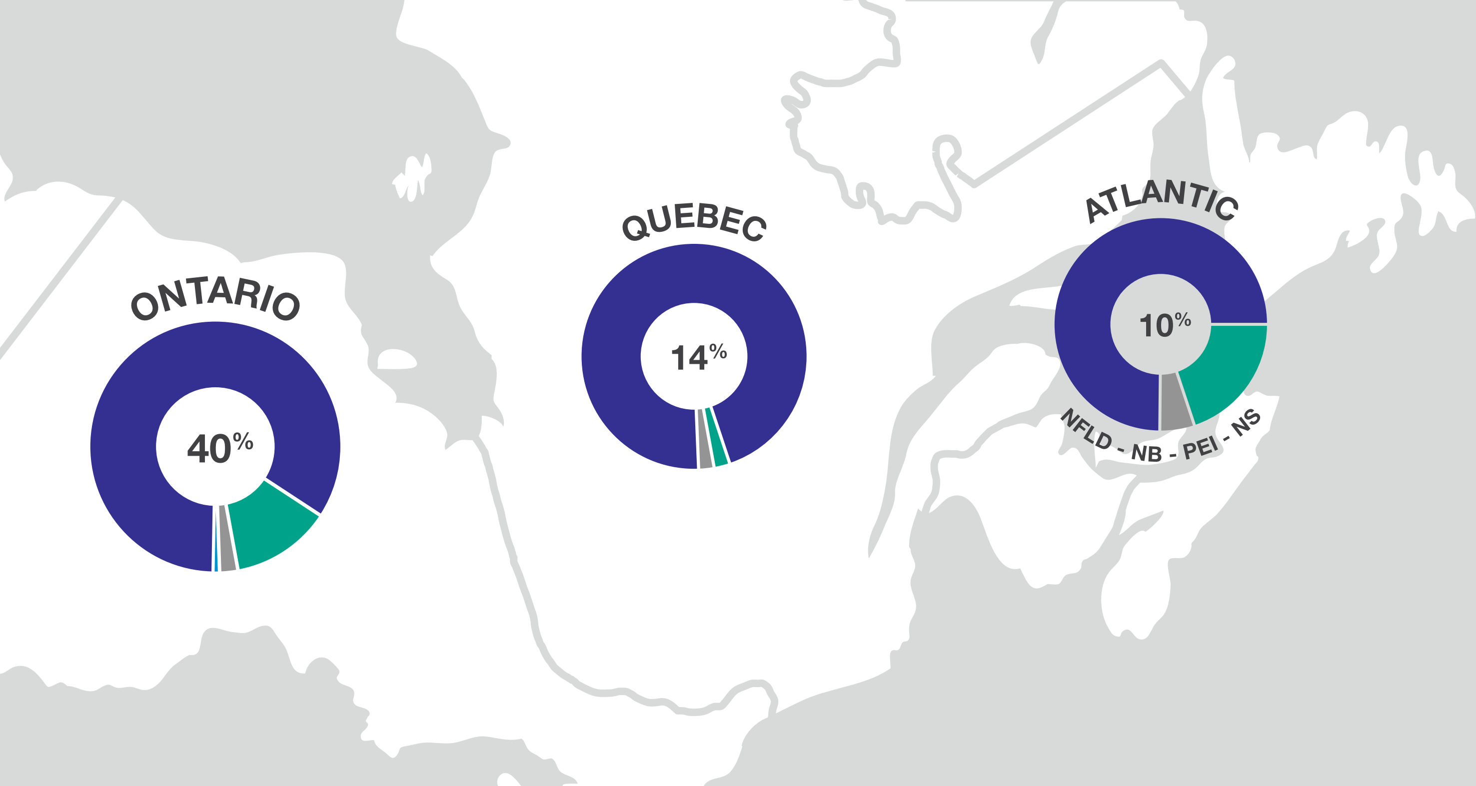



| | British Columbia | Alberta | Saskatchewan | Manitoba | Ontario |
|---|---|---|---|---|---|
| **Total** | **45** | **135** | **17** | **14** | **279** |
| Retail | 40 | 79 | 17 | 14 | 234 |
| Industrial | 3 | 52 | 0 | 0 | 38 |
| Office | 2 | 2 | 0 | 0 | 6 |
| Residential | 0 | 2 | 0 | 0 | 1 |

*(i) As at March 31, 2020.*
*(ii) For the three months ended March 31, 2020.*

**706** INCOME PRODUCING **PROPERTIES** [(i)]

| | |
|---|---|
| 576 | RETAIL |
| 113 | INDUSTRIAL |
| 14 | OFFICE |
| 3 | RESIDENTIAL |




### Quebec

| Total | 113 |
|---|---|
| Retail | 109 |
| Industrial | 2 |
| Office | 2 |
| Residential | 0 |

### New-foundland

| Total | 9 |
|---|---|
| Retail | 8 |
| Industrial | 1 |
| Office | 0 |
| Residential | 0 |

### New-Brunswick

| Total | 28 |
|---|---|
| Retail | 26 |
| Industrial | 2 |
| Office | 0 |
| Residential | 0 |

### Prince Edward Island

| Total | 4 |
|---|---|
| Retail | 4 |
| Industrial | 0 |
| Office | 0 |
| Residential | 0 |

### Nova Scotia

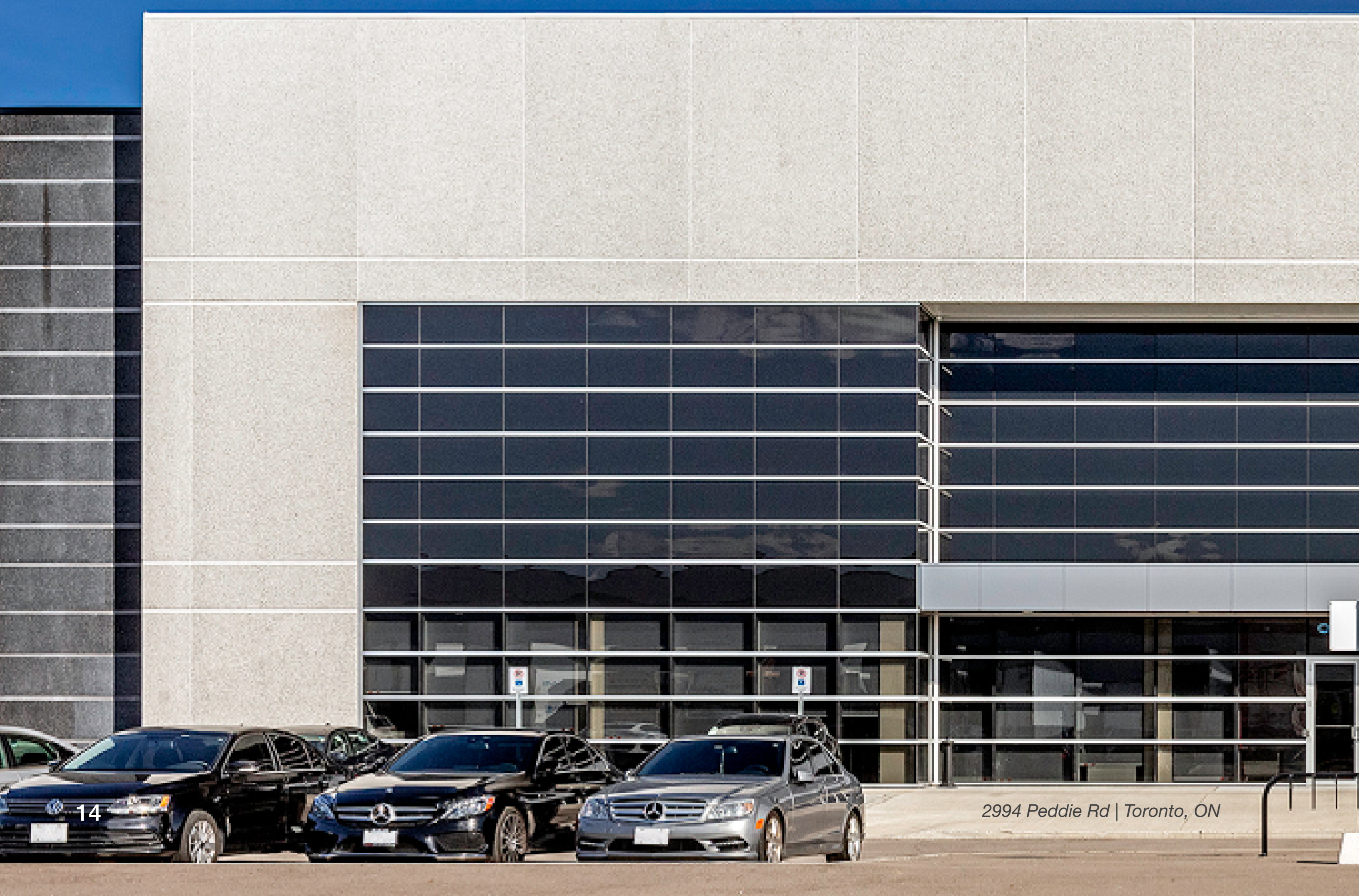
| Total | 62 |
|---|---|
| Retail | 45 |
| Industrial | 15 |
| Office | 2 |
| Residential | 0 |

# Highlights for Q1 2020

**$0.244**
FFO per unit diluted [(1)]

**+1.8%**
Same-asset NOI, Cash Basis [(1)]

**97.5%**
Occupancy



*2994 Peddie Rd | Toronto, ON*

**7.5x**

**Normalized Debt to EBITDAFV [1]**

**$325M**

**Rental Revenue (IFRS)**

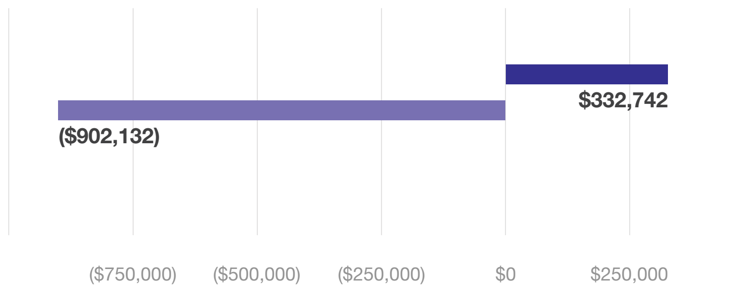
# Key Performance Indicators and Selected Financial Information

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

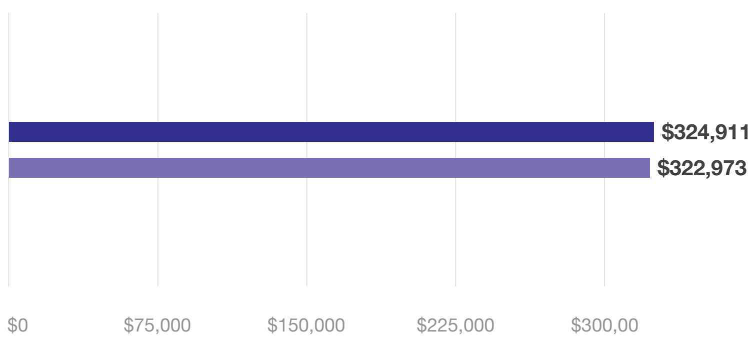
**Q1 2020** **Q1 2019**

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

**NET INCOME (IFRS)**
The quarterly increase was mainly due to a favourable change in the adjustment to fair value on Exchangeable Units, partially offset by an unfavourable change in the fair value for investment properties as a result of an increase in the risk premium associated with certain retail, industrial and office properties.

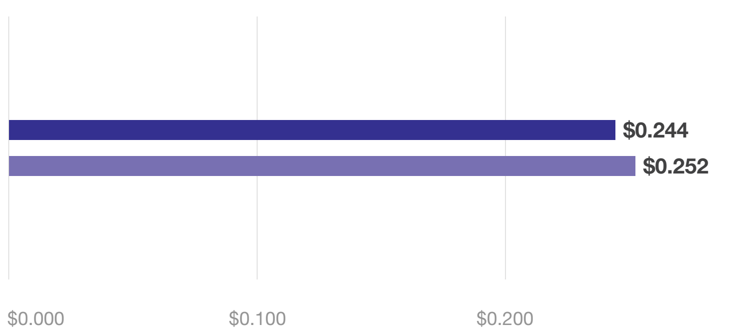


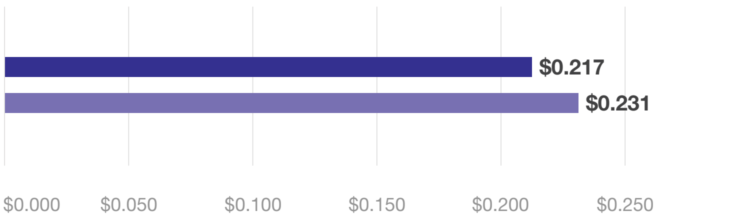

**RENTAL REVENUE (IFRS)**
The increase was primarily due to increased leasing activity across the portfolio and additional capital recoveries, in addition to the contribution from completed development transfers and acquisitions, partially offset by the forgone revenue from the September 2019 disposition 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 primarily due to lower borrowing costs as a result of a reduction in indebtedness in the second quarter of 2019, partially offset by a reduction in NOI attributable to the Oak Street disposition.

On a per unit basis, the decline was due to a higher weighted average number of units outstanding as a result of the May 2019 equity offering.

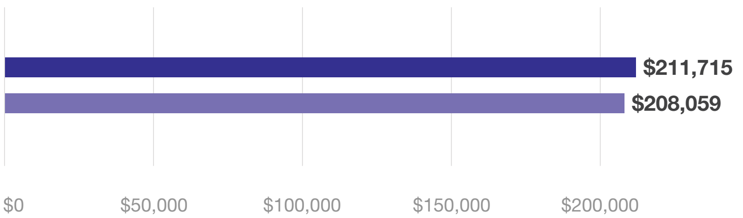





**AFFO PER UNIT DILUTED** [(1)]

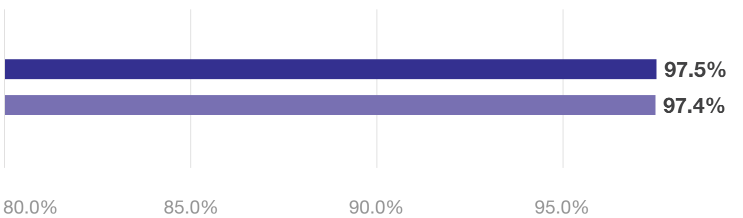
Adjusted funds from operations declined primarily due to increased spending on tenant improvements, major maintenance costs, partially offset by a reduction in straight line rental revenue.

On a per unit basis, for the three months ended March 31, 2020, reported AFFO per unit diluted was $0.217, and the payout ratio was 85.4%.



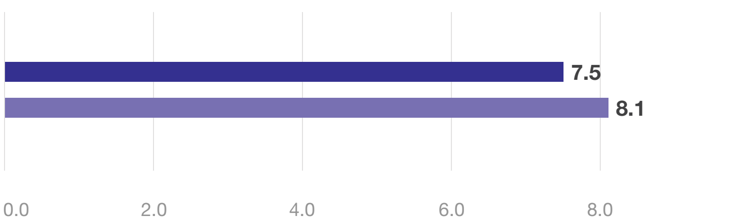

**SAME-ASSET NOI, CASH BASIS** [(1)]

The increase of 1.8% for the three months ended March 31, 2020, was primarily due to the contribution from contractual rental steps in the retail segment coupled with increased leasing activity across the portfolio.




**PERIOD END OCCUPANCY**

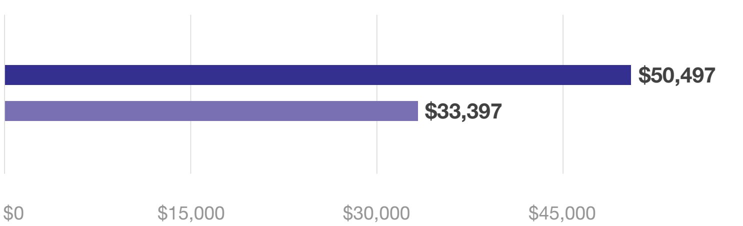
Overall period end occupancy increased marginally compared to the prior year, primarily due to increased occupancy in the Atlantic and Western industrial portfolios.




**NORMALIZED DEBT TO EBITDAFV** [(1)]

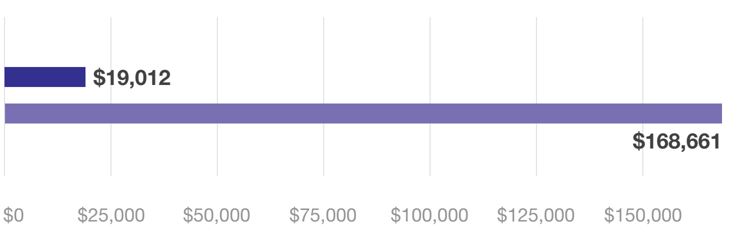
Debt to EBITDAFV on a 12-month normalized basis excluded the non-GAAP and proforma results from the Oak Street disposition.

The improvement in normalized debt to EBITDAFV is primarily due to develaraging from the capital raised through the May 2019 equity offering and proceeds from the Oak Street disposition.




**DEVELOPMENT SPENDING (PROPORTIONATE)** [(1)]

Development activity reflects spending on 20 active projects during the three months ended March 31, 2020.




**TRANSFERS FROM PROPERTIES UNDER DEVELOPMENT TO INCOME PRODUCING (PROPORTIONATE)** [(1)]

As at March 31, 2020, six phases were transferred during the quarter from properties under development to income producing.

# First Quarter Financial Performance

During the three months ended March 31, 2020

## Operating Performance

- Reported net income for the quarter of $332.7 million. Included in this amount was a $386.1 million increase attributed to the adjustment to the fair value of the Exchangeable Units attributable to the unit price decrease for Choice Properties during the quarter.
- Reported FFO per unit diluted[(1)] for the quarter was $0.244. Operational results were relatively unchanged from the fourth quarter of 2019, as the decline in net operating income from the first quarter dispositions was partially offset by a reduction in interest expense.
- AFFO per unit diluted[(1)] for the quarter was $0.217, reflecting an 85.4% payout ratio.
- Same-asset NOI on a cash basis[(1)] increased by 1.8% over the same quarter in 2019 primarily due to the contribution from contractual rental steps in the retail portfolio coupled with increased leasing activity across the portfolio.
- Period end occupancy remained strong at 97.5%, with retail at 97.8%, industrial at 97.7% and office at 92.9%.
- Net fair value loss on investment properties was $148.2 million on a proportionate share basis[(1)] primarily due to increased risk premiums for non-Loblaw anchored retail and Alberta industrial and office properties.

## Investing and Financing

- Acquired one retail income producing property in Coquitlam, British Columbia, for $21.8 million.
- Sold the Trust's only US asset, a 173,000 sq ft retail property in Chicago, Illinois, for $97.8 million. Also sold a 50% interest in a residential property in Edmonton, Alberta for $9.7 million, a 130,000 sq ft office property in Halifax, Nova Scotia for $26.7 million, and a parcel of excess land at a retail property in Creston, British Columbia for $0.4 million.
- Ongoing investment in the development program with $50.5 million of spending during the quarter on intensification, greenfield, major mixed use and residential development projects on a proportionate share basis[(1)].
- Transferred $19.0 million of properties under development to income producing status, delivering 40,000 sq ft of new GLA on a proportionate share basis[(1)].
- Completed $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.
- 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.
- Ended the quarter with a debt-to-gross book value[(1)] at 43.9%, and normalized debt to EBITDAFV[(1)] and interest coverage ratios[(1)] of 7.5 and 3.6 times, respectively.
- Strong liquidity position with $1.3 billion of available credit and an $11.8 billion pool of unencumbered properties.

*Rendering of 39 East Liberty St | Toronto ON*

*110 Yonge St | Toronto ON*

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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 unaudited interim period condensed consolidated financial statements of the Trust dated March 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 periods ended March 31<br>($ thousands except where otherwise indicated) | | 2020 | | 2019 |
|---|---|---|---|---|
| Number of investment properties | | **724** | | 756 |
| GLA (in millions of square feet) | | **65.6** | | 67.7 |
| Occupancy* | | **97.5%** | | 97.4% |
| Total assets (IFRS) | **$** | **15,325,461** | $ | 15,692,088 |
| Total liabilities (IFRS) | **$** | **(11,953,370)** | $ | (13,137,260) |
| Rental revenue (IFRS) | **$** | **324,911** | $ | 322,973 |
| Net income (loss) | **$** | **332,742** | $ | (902,132) |
| Net income (loss) per unit diluted | **$** | **0.475** | $ | (1.346) |
| FFO[1] per unit diluted* | **$** | **0.244** | $ | 0.252 |
| FFO[1] payout ratio* | | **75.9%** | | 73.1% |
| AFFO[1] per unit diluted* | **$** | **0.217** | $ | 0.231 |
| AFFO[1] payout ratio* | | **85.4%** | | 80.0% |
| Distribution declared per Unit | **$** | **0.185** | $ | 0.185 |
| Weighted average number of Units outstanding – diluted | | **700,625,695** | | 670,451,259 |
| Debt to total assets[i]* | | **43.8%** | | 47.6% |
| Debt service coverage[i]* | | **3.1x** | | 3.0x |
| Normalized Debt to EBITDAFV[1][ii]* | | **7.5x** | | 8.1x |
| Indebtedness[iii] – weighted average term to maturity* | | **6.1 years** | | 5.1 years |
| Indebtedness[iii] – weighted average interest rate* | | **3.76%** | | 3.74% |

* 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 March 31, 2020, Debt to EBITDAFV calculated on a trailing 12-month normalized basis excludes the effect of the Oak Street disposition. As at March 31, 2019, Debt to EBITDAFV calculated on a trailing 12-month normalized basis includes the proforma results of the Acquisition Transaction.

(iii) Indebtedness reflects senior unsecured debentures and mortgages only.

## 2. BALANCE SHEET

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

| | As at March 31, 2020 | | | As at December 31, 2019 | | |
|---|---|---|---|---|---|---|
| ($ thousands) | GAAP Basis | Reconciliation | Proportionate Share Basis[1] | GAAP Basis | Reconciliation | Proportionate Share Basis[1] |
| **Assets** | | | | | | |
| Investment properties | $ 14,253,000 | $ 963,000 | $ 15,216,000 | $ 14,373,000 | $ 938,000 | $ 15,311,000 |
| Equity accounted joint ventures | 603,059 | (603,059) | — | 606,089 | (606,089) | — |
| Mortgages, loans and notes receivable | 231,180 | — | 231,180 | 332,286 | — | 332,286 |
| Intangible assets | 29,750 | — | 29,750 | 30,000 | — | 30,000 |
| Accounts receivable and other assets | 128,830 | (13,172) | 115,658 | 95,030 | (12,219) | 82,811 |
| Assets held for sale | — | — | — | 97,800 | — | 97,800 |
| Cash and cash equivalents | 79,642 | 13,952 | 93,594 | 41,990 | 9,494 | 51,484 |
| **Total Assets** | $ 15,325,461 | $ 360,721 | $ 15,686,182 | $ 15,576,195 | $ 329,186 | $ 15,905,381 |
| **Liabilities and Equity** | | | | | | |
| Long term debt | $ 6,327,796 | $ 319,608 | $ 6,647,404 | $ 6,413,452 | $ 314,798 | $ 6,728,250 |
| Credit facility | 235,591 | — | 235,591 | 127,233 | — | 127,233 |
| Exchangeable Units | 5,038,306 | — | 5,038,306 | 5,424,368 | — | 5,424,368 |
| Trade payables and other liabilities | 351,677 | 41,113 | 392,790 | 513,124 | 14,388 | 527,512 |
| Total Liabilities | 11,953,370 | 360,721 | 12,314,091 | 12,478,177 | 329,186 | 12,807,363 |
| Equity | | | | | | |
| Unitholders' equity | 3,364,290 | — | 3,364,290 | 3,090,217 | — | 3,090,217 |
| Non-controlling interests | 7,801 | — | 7,801 | 7,801 | — | 7,801 |
| Total Equity | 3,372,091 | — | 3,372,091 | 3,098,018 | — | 3,098,018 |
| **Total Liabilities and Equity** | $ 15,325,461 | $ 360,721 | $ 15,686,182 | $ 15,576,195 | $ 329,186 | $ 15,905,381 |

### Balance Sheet Analysis (GAAP Basis)

| Line Item | $ Change | Variance Commentary |
|---|---|---|
| Investment properties | $ (120,000) | The decrease compared to December 31, 2019 is primarily attributable to the fair value loss on investment properties of $136,000 and the dispositions of an office property in Halifax, Nova Scotia and a residential property in Edmonton, Alberta for $37,000, offset by the acquisition of a property in Coquitlam, British Columbia for $22,000 and capital and operating capital expenditures of $31,000. |
| Equity accounted joint ventures | (3,030) | The net decrease was primarily attributable to the change in fair value of properties held in joint ventures, offset by increased capital spending and a change in working capital due to timing. |
| Mortgages, loans and notes receivable | (101,106) | The decrease was primarily attributable to the timing of distributions paid for Exchangeable Units of the Trust held by GWL, which are deferred in exchange for advances on notes receivable. This decrease was partially offset by additional mortgage receivable advances during the quarter as discussed in Section 3.10. |
| Working Capital | 232,899 | Net change was primarily a function of timing of business activities. |
| Long-term debt and credit facility | 22,702 | The net increase was primarily due to credit facility advances of $108,000 and issuance of Series N and Series O debentures, totaling $500,000, offset by the early redemption of the Series E and Series 8 debentures ($550,000), in addition to a reduction in mortgages payable through a combination of repayments and debt assumed by the purchasers of the office and residential properties sold in the quarter. |
| Exchangeable Units | (386,062) | As this liability is measured at fair value, the change was due to the decrease in the unit price for Choice Properties since December 31, 2019. |
| Unitholders' equity | 274,073 | Net increase was primarily due to the 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 one financial real estate asset which is not included with its investment properties as prepared under GAAP. Refer to Section 13.1, "Investment Properties Reconciliation", for a reconciliation of the continuity of investment properties determined in accordance with GAAP.

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

| As at and for the period ended March 31, 2020 ($ thousands) | Income producing properties | Properties under development | **Investment Properties[i]** |
|---|---|---|---|
| GAAP balance, December 31, 2019 | $ 14,210,000 | $ 163,000 | **$ 14,373,000** |
| Adjustments to reflect equity accounted joint ventures and financial real estate asset on a proportionate share basis[i] | 675,000 | 263,000 | **938,000** |
| Non-GAAP proportionate share balance, December 31, 2019 | 14,885,000 | 426,000 | **15,311,000** |
| Acquisitions of investment properties[ii] | 21,840 | — | **21,840** |
| Capital expenditures | | | |
| Development capital[iii] | — | 49,705 | **49,705** |
| Building improvements | 869 | — | **869** |
| Capitalized interest[iv] | — | 792 | **792** |
| Operating capital expenditures | | | |
| Property capital | 2,259 | — | **2,259** |
| Direct leasing costs | 2,733 | — | **2,733** |
| Tenant improvement allowances | 7,469 | — | **7,469** |
| Amortization of straight-line rent | 4,364 | — | **4,364** |
| Transfers from properties under development | 19,012 | (19,012) | **—** |
| Dispositions | (36,825) | — | **(36,825)** |
| Adjustment to fair value of investment properties | (144,721) | (3,485) | **(148,206)** |
| **Non-GAAP proportionate share balance, March 31, 2020** | **$ 14,762,000** | **$ 454,000** | **$ 15,216,000** |

(i) Refer to Section 13.1, "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 $409 of site intensification payments paid to Loblaw for the three months ended March 31, 2020 (December 31, 2019 - $4,577).
(iv) Interest was capitalized to qualifying development projects based on a weighted average interest rate of3.72% (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 unaudited interim condensed 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 those within equity accounted joint ventures) by asset class:

| As at March 31, 2020 | **Retail** | **Industrial** | **Office** | **Total Investment Properties** |
|---|---|---|---|---|
| Discount rate | 7.00% | 6.59% | 6.04% | **6.87%** |
| Terminal capitalization rate | 6.24% | 5.78% | 5.25% | **6.10%** |
| Overall capitalization rate | 6.08% | 5.56% | 5.09% | **5.94%** |

| 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% |

**Rate Commentary**

| | |
|---|---|
| Retail | Increased discount rates +25 bps compared to December 31, 2019, reflecting the increased risk premiums associated with non-Loblaw anchored retail properties. |
| Industrial | Increased discount rates +25 bps in the Alberta industrial segment due to the expected impact of lower oil prices on the demand for industrial space, excluding Loblaw anchored distribution centres. |
| Office | Capitalization rates in this sector remain relatively consistent with the prior quarter. Increased discount rates +50 bps for the Calgary office portfolio reflecting the lower price of oil. |

### 3.2 Investment Property Transactions

**Acquisitions of Investment Properties**

The following table summarizes the investment properties acquired in the three months ended March 31, 2020:

| ($ thousands except where otherwise indicated) | | | | | | | Consideration |
|---|---|---|---|---|---|---|---|
| **Location** | **Date of Acquisition** | **Segment** | **Ownership Interest** | **GLA (square feet)** | **Purchase Price** | **Purchase Price incl. Related Costs** | **Cash** |
| **Acquisitions from third-parties** | | | | | | | |
| Coquitlam, BC | February 11 | Retail | 100% | 9,400 | $ 21,150 | $ 21,840 | $ 21,840 |
| **Total acquisitions** | | | | **9,400** | **$ 21,150** | **$ 21,840** | **$ 21,840** |

**Disposition of Investment Properties and Assets Held for Sale**

The following table summarizes the dispositions in the three months ended March 31, 2020:

| ($ thousands except where otherwise indicated) | | | | | Consideration | |
|---|---|---|---|---|---|---|
| **Location** | **Date of Disposition** | **Segment** | **Ownership Interest** | **Sale Price excl. Selling Costs** | **Cash** | **Debt Assumed By Purchaser** |
| **Assets held for sale** | | | | | | |
| Chicago, USA | January 24 | Retail | 100% | $ 97,800 | $ 97,800 | $ — |
| **Dispositions of assets held for sale** | | | | **97,800** | **97,800** | **—** |
| **Investment properties** | | | | | | |
| Edmonton, AB | January 29 | Residential | 50% | 9,750 | 2,561 | 7,189 |
| Creston, BC | February 3 | Retail (parcel) | 100% | 375 | 375 | — |
| Halifax, NS | February 13 | Office | 100% | 26,700 | 8,956 | 17,744 |
| **Dispositions of investment properties** | | | | **36,825** | **11,892** | **24,933** |
| **Total dispositions** | | | | **$ 134,625** | **$ 109,692** | **$ 24,933** |

### 3.3 Development Activities

Choice Properties believes that 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 in large markets, including retail and industrial projects (see Section 3.5, "Greenfield Development"), (iii) major mixed use development in urban markets (see Section 3.6, "Major Mixed-Use Development") and (iv) residential development (see Section 3.7, "Residential").

Choice Properties' development program, at the Trust's ownership share[1], as at March 31, 2020 is summarized below:

| ($ thousands except where otherwise indicated) | GLA (square feet) | | | Total Investment[i] | | | |
|---|---|---|---|---|---|---|---|
| **Project type** | **Currently under development** | **Future[2] development** | **Total development** | **To-date** | **In progress[2](ii)** | **Future[2](iii)** | **Total** |
| **Intensification** | | | | | | | |
| Retail - Active | 76,000 | 39,000 | 115,000 | $ 16,242 | $ 2,992 | $ 19,562 | **$ 38,796** |
| Retail - In Planning | — | 256,000 | 256,000 | 6,693 | — | 88,323 | **95,016** |
| **Subtotal intensification** | **76,000** | **295,000** | **371,000** | **22,935** | **2,992** | **107,885** | **133,812** |
| **Greenfield development** | | | | | | | |
| Retail | 250,000 | 304,000 | 554,000 | 209,684 | 31,860 | 41,773 | **283,317** |
| Industrial | 79,000 | 450,000 | 529,000 | 31,261 | 5,346 | 37,513 | **74,120** |
| **Subtotal greenfield development** | **329,000** | **754,000** | **1,083,000** | **240,945** | **37,206** | **79,286** | **357,437** |
| **Major mixed use** | | | | | | | |
| Major mixed use | — | — | — | 31,426 | 20,765 | — | **52,191** |
| **Subtotal major mixed use** | **—** | **—** | **—** | **31,426** | **20,765** | **—** | **52,191** |
| **Residential** | | | | | | | |
| Residential | 999,000 | — | 999,000 | 150,058 | 391,912 | — | **541,970** |
| **Subtotal residential** | **999,000** | **—** | **999,000** | **150,058** | **391,912** | **—** | **541,970** |
| **Total development - cost** | **1,404,000** | **1,049,000** | **2,453,000** | **$ 445,364** | **$ 452,875** | **$ 187,171** | **$ 1,085,410** |
| **Total development - fair value** | | | | **$ 454,000** | | | |

(i) Compiled on a non-GAAP proportionate share basis. Investment to-date was compiled on a cash basis, excluding adjustments to fair value of on-going projects.
(ii) In progress investments relate to estimated spending on projects that have commenced.
(iii) Future investments relate to planned projects that have not yet commenced.

### 3.4 Intensification

Intensifications are focused on adding retail density within the existing portfolio. As at March 31, 2020, Choice Properties had 21 ongoing intensification projects representing a total of 371,000 square feet. This includes:

- 7 intensification projects under active development representing 115,000 square feet and a total investment of approximately $38.8 million to complete(2) over the next two to three years; and
- 14 intensification projects in planning representing 256,000 square feet. If proceeded with as planned, these projects will require a total investment of approximately $95.0 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 unenclosed retail shopping centres and industrial parks. As at March 31, 2020, Choice Properties had 17 greenfield development projects in the pipeline that, upon completion, will comprise approximately 1.1 million square feet. A total of $240.9 million has been invested to date in the pipeline. The Trust currently expects to invest a total of $37.2 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 seven greenfield properties under active development as at March 31, 2020, representing 327,000 square feet. Included in this total are:

- Six retail properties representing 248,000 square feet, of which 92% has been pre-leased; and
- One industrial project representing 79,000 square feet. In certain instances, industrial development will commence on a speculative basis as the time to construct an industrial building is greater than the lead time required by tenants.

As at March 31, 2020, a total of $86.5 million has been invested in these seven developments. The Trust expects to invest an additional $29.4 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 March 31, 2020 are as follows:

| ($ thousands except where otherwise indicated) | | GLA (square feet) | | | Total investment(i) | | |
|---|---|---|---|---|---|---|---|
| Project / Location | Ownership % | Committed to lease | Not committed to lease | Total | To-date | In progress(2) | Total |
| **Retail** | | | | | | | |
| 1 Harvest Pointe, Edmonton, AB | 50% | 3,000 | 2,000 | **5,000** | $ 2,345 | $ 50 | **$ 2,395** |
| 2 Harvest Hills, Edmonton, AB | 50% | 49,000 | — | **49,000** | 4,899 | 11,216 | **16,115** |
| 3 Sunwapta West (Coopers) Lands, Edmonton, AB | 50% | 63,000 | — | **63,000** | 3,309 | 8,699 | **12,008** |
| 4 Erin Ridge Retail Lands, St. Albert, AB | 50% | 25,000 | — | **25,000** | 6,382 | 2,068 | **8,450** |
| 5 Oshawa Retail Lands, Oshawa, ON | 50% | 5,000 | 1,000 | **6,000** | 1,753 | 242 | **1,995** |
| 6 Bathurst & Lake Shore, Toronto, ON | 40% | 84,000 | 16,000 | **100,000** | 54,964 | 5,160 | **60,124** |
| **Subtotal retail** | | **229,000** | **19,000** | **248,000** | **73,652** | **27,435** | **101,087** |
| **Industrial** | | | | | | | |
| 1 Great Plains Business Park, Calgary, AB | 50% | 79,000 | — | **79,000** | 12,880 | 1,967 | **14,847** |
| **Subtotal industrial** | | **79,000** | **—** | **79,000** | **12,880** | **1,967** | **14,847** |
| **Total active greenfield development** | | **308,000** | **19,000** | **327,000** | **$ 86,532** | **$ 29,402** | **$ 115,934** |
| **Total non-active greenfield development** | | | | | **$ 154,413** | **$ 7,804** | |
| **Total greenfield development** | | | | | **$ 240,945** | **$ 37,206** | |

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

### 3.6 Major Mixed-Use Development

Choice Properties currently has a number of sites planned for major mixed-use development with four of these sites in an active pre-development stage. The four properties are in key urban markets, including three sites in Toronto, Ontario, and one in Coquitlam, British Columbia. These developments are residential focused, mixed use communities in close proximity to public transportation. A total of $31.4 million has been invested to date on land acquisition and other initial development costs. The Trust expects to invest an additional $20.8 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 seven acre site is in the City of Coquitlam in the Greater Vancouver Area. The site is well located and transit oriented, in close proximity to Lougheed Town Centre Station on the Vancouver SkyTrain system. The current redevelopment plans contemplate a mixed-use project with a focus on high density residential and retail at grade.

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

**1806-1880 Eglinton Ave E., Toronto, ON**
The approximately 19 acre site is located along Eglinton Avenue in the Golden Mile district of Toronto. The current redevelopment plans contemplate a large, mixed use master-plan community to be built in phases with a focus on high density residential and retail uses. The site is directly adjacent to new transit stations along the first phase of the Eglinton Crosstown LRT, which is currently under construction.

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

**2280 Dundas St. W., Toronto, ON**
The approximately 15 acre site is located at the southeast corner of Dundas Street West and Bloor Street West in Toronto. The site is at the intersection of several major transit corridors including a TTC subway station, a GO train station and the Union-Pearson Express train. The current redevelopment plans contemplate a large mixed-use community integrated with the surrounding transit services with a focus on high density residential, office, retail and other community uses.

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

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

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

## 3.7 Residential

Choice Properties has six residential projects in the pipeline representing 1,246 residential units. As at March 31, 2020, a total of $150.1 million had been invested in these projects and Choice Properties expects to invest an additional $391.9 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 March 31, 2020, are as follows:

| ($ thousands except where otherwise indicated) | | | GLA (square feet) | | | Total investment[(iii)] | | |
|---|---|---|---|---|---|---|---|---|
| Project / Location | Ownership % | Number of Units[(ii)] | Commercial under development | Residential under development | Total | To-date | In progress[(2)(ii)] | Total |
| **Residential** | | | | | | | | |
| 1 Bovaird West - Block 4, Brampton, ON[(i)] | 50% | 149 | — | 149,000 | **149,000** | $ 5,839 | $ 80,660 | **$ 86,499** |
| 2 Richmond Road, Ottawa, ON[(i)] | 100% | 253 | — | 203,000 | **203,000** | 7,785 | 75,780 | **83,565** |
| 3 Dufferin Street, Toronto, ON | 47% | 187 | 32,000 | 156,000 | **188,000** | 70,190 | 20,473 | **90,663** |
| 4 East Liberty, Toronto, ON | 47% | 207 | — | 127,000 | **127,000** | 40,061 | 38,854 | **78,915** |
| 5 Sheppard Ave West, Toronto, ON[(i)] | 50% | 100 | 5,000 | 64,000 | **69,000** | 5,079 | 33,759 | **38,838** |
| 6 Grosvenor-Grenville, Toronto, ON[(i)] | 50% | 350 | 8,000 | 255,000 | **263,000** | 21,104 | 142,386 | **163,490** |
| **Total residential** | | **1,246** | **45,000** | **954,000** | **999,000** | **$ 150,058** | **$ 391,912** | **$ 541,970** |

(i) Preliminary stages of development.

(ii) Choice Properties' share.

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

## 3.8 Completed Developments

For the three months ended March 31, 2020, Choice Properties transferred the following from properties under development to income producing properties as presented on a proportionate share basis:

| ($ thousands except where otherwise indicated) | | | | |
|---|---|---|---|---|
| **Project / Location** | **Property type** | **Ownership %** | **Transferred GLA (square feet)** | **Cost of assets transferred** |
| **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, Armprior, ON | Retail | 100% | 7,967 | 3,142 |
| **Subtotal intensification** | | | **33,669** | **15,459** |
| **Greenfield development** | | | | |
| 1 Oshawa Retail Lands, Oshawa, ON | Retail | 50% | 6,384 | 2,325 |
| **Subtotal greenfield development** | | | **6,384** | **2,325** |
| **Total Transferred Properties at Cost** | | | **40,053** | **$ 17,784** |
| **Total Transferred Properties at Fair Value** | | | | **$ 19,012** |

## 3.9 Development Project Capital

Choice Properties expects to invest a total of approximately $449 million, at the Trust's ownership share[(1)], by the end of the year 2022[(2)].

| ($ thousands) | 2020 remainder | 2021 | 2022 | Total |
|---|---|---|---|---|
| Intensification | $ 17,000 | $ 27,000 | $ 14,000 | $ 58,000 |
| Greenfield development | 27,000 | 20,000 | 16,000 | 63,000 |
| Major mixed use | 2,000 | 7,000 | 7,000 | 16,000 |
| Residential | 82,000 | 103,000 | 127,000 | 312,000 |
| **Estimated total capital annual spend[(i)]** | **$ 128,000** | **$ 157,000** | **$ 164,000** | **$ 449,000** |

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

## 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 March 31, 2020** | As at December 31, 2019 |
|---|---|---|
| Mortgages receivable | **$ 228,071** | $ 185,350 |
| Loans receivable | **6,109** | 5,649 |
| Notes receivable from related party | **—** | 144,287 |
| Allowance for expected credit losses | **(3,000)** | (3,000) |
| **Mortgages, loans and notes receivable** | **$ 231,180** | $ 332,286 |

The non-interest bearing short term notes receivable of $144,287 were repaid by GWL in January 2020.

During the three months ended March 31, 2020, the borrower on the Trust's $23,000 mortgage receivable for an asset in Barrie, Ontario, defaulted on its loan. In addition to being secured by the property, the mortgage receivable was also cross-collateralized by two other properties where the Trust is a joint venture partner with the borrower. After default, the Trust repaid the senior lender's debt of $43,000 such that the Trust became the only secured creditor on the property. The Trust then applied to the court for a receiver, who was subsequently appointed. The Trust is currently evaluating a bid for the property and is also working with the receiver to ensure proper management of the property and sale process. An allowance for expected credit losses of $3,000 has been recorded to date for this mortgage receivable.

## 4. LIQUIDITY AND CAPITAL RESOURCES

### 4.1 Major Cash Flow Components

| For the periods ended March 31 ($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| Cash and cash equivalents, beginning of period | $ 41,990 | $ 30,713 | $ 11,277 |
| Cash flows from operating activities | 104,147 | 94,171 | 9,976 |
| Cash flows from (used in) investing activities | 162,513 | (96,485) | 258,998 |
| Cash flows from (used in) financing activities | (229,008) | 2,372 | (231,380) |
| **Cash and cash equivalents, end of period** | $ 79,642 | $ 30,771 | $ 48,871 |

**Cash Flows from Operating Activities**

**Three Months**

The increase in cash flows from operating activities was primarily due to a decline in interest paid as a result of lower borrowing costs from a reduction in indebtedness compared to the same period in 2019 coupled with a reduction in acquisition transaction and other related costs.

Cash flows from operating activities are 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 primarily related to investment property transactions, with the Trust receiving proceeds from various dispositions during the current quarter, compared to net acquisitions in the prior year comparative period. In addition, the change in the timing of settlement for notes receivables from GWL contributed to an increase in cash flows from investing activities.

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

**Three Months**

The decrease in cash used in financing activities was primarily attributable to the refinancing of long term debt completed in the current quarter and an increase in distributions paid on the Exchangeable Units due to the settlement of the related party notes receivable, partially offset by a reduction in net draws on the Trust's credit facility.

## 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 March 31, 2020 | | As at December 31, 2019 | | Change |
|---|---|---|---|---|---|---|
| Cash and cash equivalents - non-GAAP proportionate share basis[1] | $ | 93,594 | $ | 51,484 | $ | 42,110 |
| Unused portion of the credit facility | | 1,260,000 | | 1,368,000 | | (108,000) |
| **Liquidity** | $ | 1,353,594 | $ | 1,419,484 | $ | (65,890) |
| **Unencumbered assets - non-GAAP proportionate share basis[1]** | $ | 11,850,000 | $ | 11,800,000 | $ | 50,000 |

**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 March 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 | $ | 25,013 | $ | 117,805 | 1.1 | 3.70% |
| Credit facility | | 240,000 | | 240,000 | 3.1 | 3.10% |
| less: Debt placement costs | | (4,409) | | (4,409) | | |
| Variable rate debt | | 260,604 | | 353,396 | 2.4 | 3.30% |
| Senior unsecured debentures | | 5,125,000 | | 5,125,000 | 6.3 | 3.69% |
| Mortgages | | 1,197,269 | | 1,426,651 | 5.4 | 4.01% |
| less: Debt placement costs, discounts and premiums | | (19,486) | | (22,052) | | |
| Fixed rate debt | | 6,302,783 | | 6,529,599 | 6.1 | 3.76% |
| **Total debt, net** | $ | 6,563,387 | $ | 6,882,995 | | |

| 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 | | 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 2020 to 2022, have a maximum amount available to be drawn at the Trust's ownership interest of $225,477 (December 31, 2019 - $225,477).

As at March 31, 2020, $117,805 was drawn and the construction loans had a weighted average effective interest rate of 3.70% and a weighted average term to maturity of 1.1 years.

### Credit Facility

Choice Properties has a $1,500,000 senior unsecured committed revolving credit facility maturing May 4, 2023, provided by a syndicate of lenders. The credit facility bears interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB. As at March 31, 2020, $240,000 was drawn under the syndicated facility.

The credit facility contains certain financial covenants. As at March 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.

### Summary of Total Debt Activities

The following outlines the net changes to the components of Choice Properties' variable rate debt on a non-GAAP proportionate share basis during the three months ended March 31, 2020:

| For the three months ended March 31, 2020<br>($ thousands) | | Credit facility | | Construction loans | | Total variable rate debt |
|---|---|---|---|---|---|---|
| Principal balance outstanding, beginning of period | $ | 132,000 | $ | 114,601 | $ | 246,601 |
| Net advances | | 108,000 | | 3,204 | | 111,204 |
| **Principal balance outstanding, end of period** | **$** | **240,000** | **$** | **117,805** | **$** | **357,805** |

The following outlines the changes to the components of Choice Properties' fixed rate debt on a non-GAAP proportionate share basis during the three months ended March 31, 2020**:**

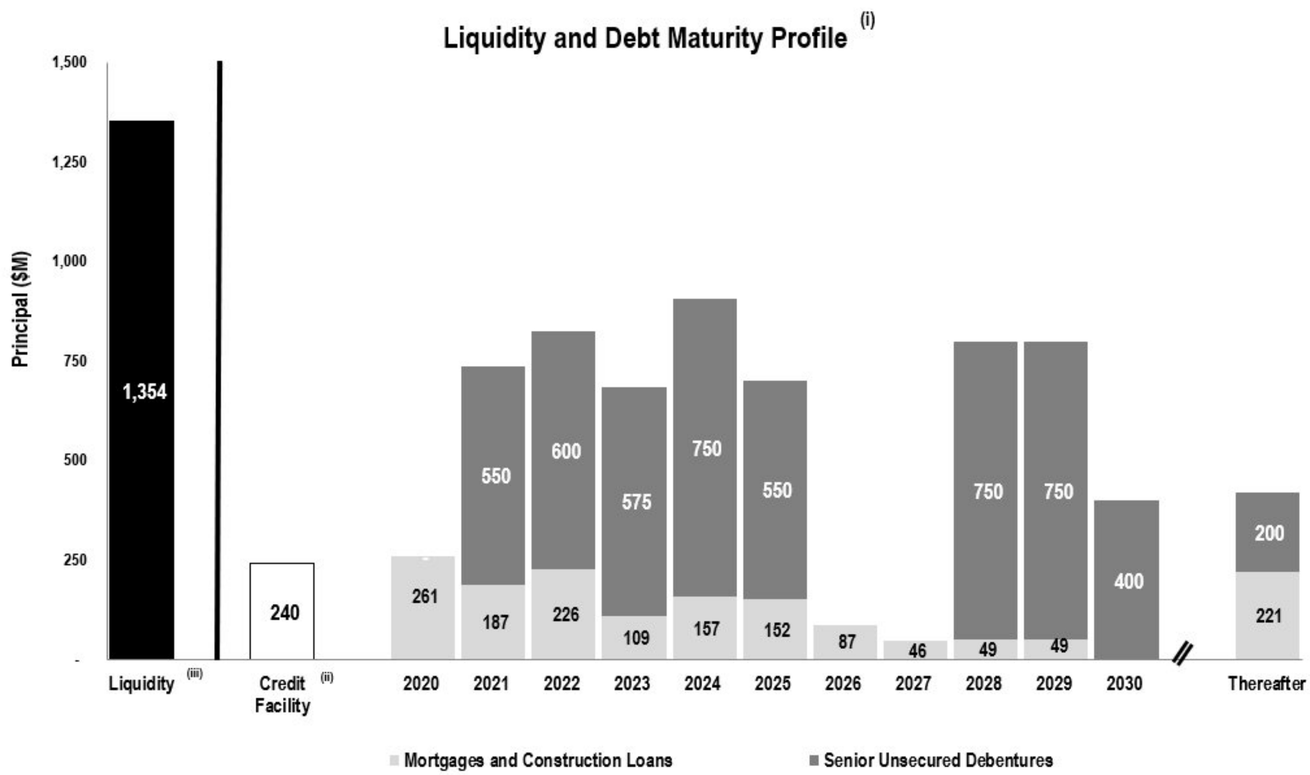
| For the three months ended March 31, 2020<br>($ thousands) | | Senior unsecured debentures | | Mortgages payable | | Total fixed rate debt |
|---|---|---|---|---|---|---|
| Principal balance outstanding, beginning of period | $ | 5,175,000 | $ | 1,458,224 | $ | 6,633,224 |
| Issuances | | 500,000 | | 3,240 | | 503,240 |
| Repayments | | (550,000) | | (9,880) | | (559,880) |
| Assumed by purchaser | | — | | (24,933) | | (24,933) |
| **Principal balance outstanding, end of period** | **$** | **5,125,000** | **$** | **1,426,651** | **$** | **6,551,651** |

## Schedules of Repayments and Cash Flow Activities

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

| As at March 31, 2020 ($ thousands) | Credit facility | Construction loans | Senior unsecured debentures | Mortgages payable | Total |
|---|---|---|---|---|---|
| 2020 remainder | $ — | $ 36,950 | $ — | $ 224,277 | **$ 261,227** |
| 2021 | — | 60,088 | 550,000 | 126,636 | **736,724** |
| 2022 | — | 20,767 | 600,000 | 205,653 | **826,420** |
| 2023 | 240,000 | — | 575,000 | 109,278 | **924,278** |
| 2024 | — | — | 750,000 | 157,184 | **907,184** |
| Thereafter | — | — | 2,650,000 | 603,623 | **3,253,623** |
| **Total debt outstanding** | **$ 240,000** | **$ 117,805** | **$ 5,125,000** | **$ 1,426,651** | **$ 6,909,456** |

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




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

### 4.4 Financial Condition

Choice Properties is subject to certain financial and non-financial covenants in its senior unsecured debentures, credit facility and term loans, that include maintaining certain leverage and debt service ratios. These ratios are monitored by management on an ongoing basis to ensure compliance. Choice Properties was in compliance with all these covenants as at March 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 March 31, 2020** | As at December 31, 2019 |
|---|---|---|---|
| **Debt to Total Assets Ratio**(i) | Limit: Maximum excluding convertible debt is 60.0% | **43.8%** | 43.1% |
| **Debt Service Coverage Ratio**(i) | Limit: Minimum 1.5x | **3.1x** | 3.0x |
| **Debt to EBITDAFV**(1)(i)(ii)(iv) | | **7.3x** | 7.3x |
| **Interest Coverage Ratio**(1)(iii) | | **3.6x** | 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 13.8, "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 13.7, "Net Interest Expense and Other Financing Charges Reconciliation", for a reconciliation of proportionate share basis to GAAP basis for net interest expense and other financing charges used in the ratio.

(iv) On an unadjusted basis the debt to EBITDAFV at March 31, 2020 is 7.3x. On September 30, 2019, Choice Properties completed the Oak Street disposition and utilized the proceeds to repay debt. The debt to EBITDAFV ratio is calculated on a trailing 12-month basis which would include the earnings of the properties sold as part of the Oak Street disposition. Normalized to exclude the income (loss) from the Oak Street disposition, the Debt/EBITDAFV ratio as at March 31, 2020 is 7.5x (December 31, 2019 - 7.5x).

### 4.5 Credit Ratings

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

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

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

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

## 4.6 Unit Equity

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

| | Three months ended March 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Units, beginning of period | 310,292,869 | 278,202,559 |
| Units issued through equity financing | — | 30,042,250 |
| Distribution in Units | — | 1,569,400 |
| Consolidation of Units | — | (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 period** | 310,441,663 | 310,292,869 |
| Exchangeable Units, beginning and end of period | 389,961,783 | 389,961,783 |
| **Total Units and Exchangeable Units, end of period** | 700,403,446 | 700,254,652 |

**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 15, 2019, Choice Properties received approval from the TSX to purchase up to 25,856,839 Units during the twelve-month period from November 19, 2019 to November 18, 2020, by way of a NCIB over the facilities of the TSX or through alternative trading systems.

**Units Issued under Unit-Based Compensation Arrangements**
Units were issued in connection with settlements under the Trust's Unit Option Plan and the Unit-Settled Restricted Unit Plan.

**Units Repurchased for Unit-Based Compensation Arrangement**
The Trust acquired Units under its NCIB during the three months ended March 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 three months ended March 31, 2020, Choice Properties declared $129,561 in distributions (March 31, 2019 - $123,745), including distributions to holders of Exchangeable Units, which are reported as interest expense.

The distributions declared for the periods ended March 31, 2020 and March 31, 2019 were as follows:

| | Three Months | | |
|---|---|---|---|
| For the periods ended March 31<br>($ thousands) | 2020 | 2019 | Change |
| **Total distributions declared** | $ 129,561 | $ 123,745 | $ 5,816 |

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.

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

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

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

On April 25, 2018, the Board temporarily suspended the DRIP commencing with the distribution declared in May 2018. On February 12, 2020, the Board approved an amendment and reinstatement of the DRIP. The Board also approved the elimination of the 3% bonus distribution under the amended DRIP. Subsequent to the Board approval on February 12, 2020 and in response to market disruptions caused by the COVID-19 pandemic, the Trust made the decision to continue suspending the DRIP. The DRIP will remain suspended until further notice.

At its most recent meeting on April 22, 2020, the Board reviewed and approved the current rate of distributions of $0.74 per unit per annum. In determining the amount of distributions to be made to Unitholders, Choice Properties' Board considers many factors, including provisions in its Declaration of Trust, macro-economic and industry specific environments, the overall financial condition of the Trust, future capital requirements, debt covenants, and taxable income. In accordance with Choice Properties' Distribution Policy, management and the Board regularly review Choice Properties' rate of distributions to assess the stability of cash and non-cash distributions.

## 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 installments, and the timing of semi-annual debenture installments, although some fluctuations between quarters for operational cash flows still exist. ACFO[1] also adjusts cash flows from operating activities for the working capital required for operating capital expenditures to maintain productive capacity of the investment properties which adds volatility to the values due to seasonality of capital projects. Management includes this non-GAAP measure in its assessment of cash flow available for distributions. Refer to Section 13.5, "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:

| | Three Months | | |
|---|---|---|---|
| For the periods ended March 31<br>($ thousands) | **2020** | 2019 | Change |
| Adjusted Cash Flow from Operations[1] | **$ 176,309** | $ 158,856 | $ 17,453 |
| Cash distributions declared | **(129,561)** | (123,745) | (5,816) |
| Cash retained after cash distributions | **$ 46,748** | $ 35,111 | $ 11,637 |
| ACFO[1] payout ratio | **73.5%** | 77.9% | (4.4)% |

### Three Months

ACFO increased primarily as a result of a favourable change in non-cash working capital partially offset by an increase in operating capital expenditures.

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

### 4.8 Financial Instruments

Designated hedging derivatives consist of interest rate swaps to hedge the interest rate associated with an equivalent amount of variable rate mortgages. The Trust did not enter into any new designated hedging derivatives during the three months ended March 31, 2020.

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

| ($ thousands) | | Notional Amount | | Net Asset (Liability) | Line Item in Balance Sheet |
|---|---|---|---|---|---|
| **As at March 31, 2020** | | | | | |
| Interest rate swaps | $ | 276,700 | $ | (7,926) | Other assets or Other liabilities |
| **As at December 31, 2019** | | | | | |
| Interest rate swaps | | 276,700 | | (2,629) | Other assets or Other liabilities |

The fair value loss recorded in OCI for the three months ended March 31, 2020 was $5,297 (March 31, 2019 - $3,255).

### 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 March 31, 2020, the aggregate gross potential liability related to these letters of credit totaled $35,534 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).

## 5. RESULTS OF OPERATIONS

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

| | Three Months | | | |
|---|---|---|---|---|
| For the periods ended March 31<br>($ thousands) | **2020** | 2019 | Change | % Change |
| **Net Operating Income** | | | | |
| Rental revenue | **$ 324,911** | $ 322,973 | $ 1,938 | 0.6 % |
| Property operating costs | **(98,820)** | (93,720) | (5,100) | 5.4 % |
| | **226,091** | 229,253 | (3,162) | (1.4)% |
| **Other Income and Expenses** | | | | |
| Interest income | **3,493** | 3,815 | (322) | (8.4)% |
| Fee income | **1,248** | 957 | 291 | 30.4 % |
| Net interest expense and other financing charges | **(133,879)** | (138,211) | 4,332 | (3.1)% |
| General and administrative expenses | **(9,686)** | (9,863) | 177 | (1.8)% |
| Share of income (loss) from equity accounted joint ventures | **(4,267)** | 17,413 | (21,680) | (124.5)% |
| Amortization of intangible assets | **(250)** | — | (250) | — % |
| Foreign exchange gain reclassified from other comprehensive income | **1,184** | — | 1,184 | — % |
| Acquisition transaction costs and other related expenses | **(1,589)** | (4,155) | 2,566 | (61.8)% |
| Adjustment to fair value of unit-based compensation | **633** | (6,962) | 7,595 | (109.1)% |
| Adjustment to fair value of Exchangeable Units | **386,062** | (990,504) | 1,376,566 | (139.0)% |
| Adjustment to fair value of investment properties | **(136,298)** | (3,455) | (132,843) | 3,844.9 % |
| **Income (Loss) before Income Taxes** | **332,742** | (901,712) | 1,234,454 | (136.9)% |
| Income taxes | **—** | (420) | 420 | (100.0)% |
| **Net Income (Loss)** | **$ 332,742** | $ (902,132) | $ 1,234,874 | (136.9)% |

### Net Income (Loss)

**Three Months**

The quarterly increase was mainly due to a year-over-year gain from the fair value adjustment on Exchangeable Units and unit-based compensation, coupled with a reduction in net interest expense and acquisition transactions costs, partially offset by an unfavourable change in the fair value for investment properties and reduced contribution from equity accounted joint ventures.

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 March 31 ($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| **Net Operating Income** | | | |
| Rental revenue | **$ 324,911** | $ 322,973 | $ 1,938 |
| Property operating costs | **(98,820)** | (93,720) | (5,100) |
| | **$ 226,091** | $ 229,253 | $ (3,162) |

**Three Months**

The decrease in net operating income was primarily driven by the sale of properties during the year ended December 31, 2019 and in the three months ended March 31, 2020, offset by contributions from acquisitions, increased leasing activity across the portfolio and additional revenue from completed development transfers.

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 March 31 ($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| Interest income on mortgages and loans receivable | **$ 3,111** | $ 3,683 | $ (572) |
| Income from financial real estate asset | **370** | — | 370 |
| Other interest income | **12** | 132 | (120) |
| **Interest Income** | **$ 3,493** | $ 3,815 | $ (322) |

**Three Months**

The decline in interest income is primarily due to timing of advances and repayments made on the mortgages and loans receivable, with fewer mortgages being outstanding for full quarter as compared to the prior year.

### Fee Income

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

| For the periods ended March 31 ($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| Fees charged to related party | **$ 220** | $ 247 | $ (27) |
| Fees charged to third-parties | **1,028** | 710 | 318 |
| **Fee Income** | **$ 1,248** | $ 957 | $ 291 |

**Three Months**

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

## Net Interest Expense and Other Financing Charges

| For the periods ended March 31 ($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| Interest on senior unsecured debentures | $ 46,359 | $ 42,400 | $ 3,959 |
| Interest on mortgages | 12,373 | 13,488 | (1,115) |
| Interest on credit facility and term loans | 3,016 | 11,409 | (8,393) |
| Interest on right-of-use asset | 64 | 72 | (8) |
| Distributions on Exchangeable Units(i) | 72,143 | 72,143 | — |
| Effective interest rate amortization of debt discounts and premiums | (599) | (959) | 360 |
| Effective interest rate amortization of debt placement costs | 1,223 | 1,201 | 22 |
| Capitalized interest | (700) | (1,543) | 843 |
| **Net interest expense and other financing charges** | $ 133,879 | $ 138,211 | $ (4,332) |

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

### Three Months

The decline in interest expense is mainly due to:

(a) a reduction in interest expense from the term loans as the balance was fully repaid as of September 30, 2019;

(b) a reduction in interest expense from the credit facility through the use of proceeds from the May 2019 equity offering; and

(c) a decline in mortgage principal balances due to repayments contributing to a lower interest expense;

(d) partially offset by a net increase in interest charges from the senior unsecured debentures due to a higher principal amount outstanding as compared to the prior year.

## General and Administrative Expenses

| For the periods ended March 31 ($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| Salaries, benefits and employee costs | $ 12,393 | $ 11,166 | $ 1,227 |
| Investor relations and other public entity costs | 652 | 519 | 133 |
| Professional fees | 777 | 482 | 295 |
| Information technology costs | 818 | 848 | (30) |
| Services Agreement expense charged by related party(i) | 774 | 689 | 85 |
| Amortization of other assets | 415 | 255 | 160 |
| Other | 874 | 1,209 | (335) |
| | 16,703 | 15,168 | 1,535 |
| Less: | | | |
| Capitalized to investment properties | (1,437) | (653) | (784) |
| Allocated to recoverable operating expenses | (5,580) | (4,652) | (928) |
| **General and administrative expenses** | $ 9,686 | $ 9,863 | $ (177) |

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

### Three Months

General and administrative expenses were consistent compared to the prior period, as higher salary related costs were partially offset by an increase in the amount capitalized to investment properties and an increase in the amount allocated to recoverable operating costs.

## Foreign Exchange Gain

For the three months ended March 31, 2020, foreign exchange gain reclassified from other comprehensive income was $1,184 (2019 - $nil).

## Acquisition Transaction Costs and Other Related Expenses

For the three months ended March 31, 2020, costs totalling $1,589 were expensed (2019 - $4,155).

## 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 details the changes for in-place occupancy by segment for the three months ended March 31, 2020:

| (in thousands of square feet except where otherwise indicated) | December 31, 2019 | | | | | | | | | Three Months March 31, 2020 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Leasable | Occupied | Occupied % | Expiries | New | Renewals | Subtotal: Absorption | Portfolio changes[i] | New/ (Disposed) vacancy | **Leasable** | **Occupied** | **Occupied %** |
| Retail | 46,315 | 45,371 | 98.0% | (425) | 116 | 244 | (65) | (141) | 4 | **46,178** | **45,165** | **97.8%** |
| Industrial | 16,142 | 15,807 | 97.9% | (566) | 276 | 243 | (47) | 2 | (9) | **16,135** | **15,762** | **97.7%** |
| Office | 3,188 | 2,975 | 93.3% | (55) | 10 | 33 | (12) | (130) | (8) | **3,050** | **2,833** | **92.9%** |
| **Total** | 65,645 | 64,153 | 97.7% | (1,046) | 402 | 520 | (124) | (269) | (13) | **65,363** | **63,760** | **97.5%** |

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

### Three Months

Period end occupancy reduced slightly from 97.7% at December 31, 2019 to 97.5% at March 31, 2020. During the quarter, Choice Properties had negative absorption of 124,000 sq ft mainly due to vacancies in the Quebec retail and Western industrial portfolios. Portfolio changes during the quarter primarily related to the disposition of a retail property in the United States and an office property in Halifax, Nova Scotia.

Choice Properties' principal tenant, Loblaw, represents 56.6% of its total GLA (December 31, 2019 - 56.3%). At March 31, 2020, the weighted average lease term-to-maturity on the Loblaw leases was 8.1 years (December 31, 2019 - 8.2 years).

| | **As at March 31, 2020** | | | As at December 31, 2019 | | |
|---|---|---|---|---|---|---|
| (in millions of square feet except where otherwise indicated) | **Portfolio GLA** | **Occupied GLA** | **Occupancy (%)** | Portfolio GLA | Occupied GLA | Occupancy (%) |
| Loblaw banners | **37.0** | **37.0** | **100.0%** | 37.0 | 37.0 | 100.0% |
| Third-party tenants | **28.4** | **26.8** | **94.4%** | 28.7 | 27.2 | 94.8% |
| **Total commercial GLA** | **65.4** | **63.8** | **97.5%** | 65.7 | 64.2 | 97.7% |

The lease maturity profile for Choice Properties' portfolio as at March 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 | 356 | 90 | 446 | 0.7% | $ 5,105 | $ 11.45 |
| 2020 remainder | 2,220 | — | 2,220 | 3.4% | 26,395 | 11.89 |
| 2021 | 2,996 | 130 | 3,126 | 4.8% | 42,340 | 13.54 |
| 2022 | 3,424 | 67 | 3,491 | 5.3% | 49,404 | 14.15 |
| 2023 | 3,501 | 3,890 | 7,391 | 11.2% | 105,143 | 14.23 |
| 2024 | 2,913 | 2,943 | 5,856 | 9.0% | 81,488 | 13.92 |
| 2025 | 3,198 | 3,262 | 6,460 | 9.9% | 82,273 | 12.74 |
| 2026 & Thereafter | 8,168 | 26,602 | 34,770 | 53.2% | 572,421 | 16.46 |
| Vacant | 1,603 | — | 1,603 | 2.5% | — | — |
| **Total** | **28,379** | **36,984** | **65,363** | **100.0%** | **$ 964,569** | **$ 14.76** |

| (in thousands of square feet except where otherwise indicated) | Retail segment GLA | Retail segment Expiring GLA as a % of total GLA | Industrial segment GLA | Industrial segment Expiring GLA as a % of total GLA | Office segment GLA | Office segment Expiring GLA as a % of total GLA | Total GLA | Total Expiring GLA as a % of total GLA |
|---|---|---|---|---|---|---|---|---|
| Month-to-month | 332 | 0.5% | 77 | 0.1% | 37 | 0.1% | 446 | 0.7% |
| 2020 remainder | 845 | 1.3% | 1,205 | 1.8% | 170 | 0.3% | 2,220 | 3.4% |
| 2021 | 1,882 | 2.9% | 1,051 | 1.6% | 193 | 0.3% | 3,126 | 4.8% |
| 2022 | 1,635 | 2.5% | 1,475 | 2.3% | 381 | 0.6% | 3,491 | 5.3% |
| 2023 | 5,061 | 7.7% | 1,993 | 3.0% | 337 | 0.5% | 7,391 | 11.2% |
| 2024 | 4,119 | 6.3% | 1,465 | 2.2% | 272 | 0.4% | 5,856 | 9.0% |
| 2025 | 4,116 | 6.3% | 2,165 | 3.3% | 179 | 0.3% | 6,460 | 9.9% |
| 2026 & Thereafter | 27,175 | 41.6% | 6,331 | 9.7% | 1,264 | 1.9% | 34,770 | 53.2% |
| Vacant | 1,013 | 1.5% | 373 | 0.7% | 217 | 0.3% | 1,603 | 2.5% |
| **Total** | **46,178** | **70.6%** | **16,135** | **24.7%** | **3,050** | **4.7%** | **65,363** | **100.0%** |

### Top 10 Tenants

Choice Properties' ten largest tenants for the three months ended March 31, 2020, represented approximately 64.0% 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 | 56.1% | 36,984 |
| 2. | Canadian Tire | 2.4% | 1,817 |
| 3. | TJX Companies | 1.0% | 608 |
| 4. | Dollarama | 0.9% | 494 |
| 5. | Staples | 0.7% | 426 |
| 6. | TD Canada Trust | 0.6% | 156 |
| 7. | GoodLife | 0.6% | 314 |
| 8. | Sobeys | 0.6% | 338 |
| 9. | Liquor Control Board of Ontario (LCBO) | 0.6% | 212 |
| 10. | Lowe's | 0.5% | 522 |
| **Total** | | **64.0%** | **41,871** |

## 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 to net income as determined in accordance with GAAP for the three months ended March 31, 2020:

| ($ thousands) | Retail | Industrial | Office | Proportionate Share Basis[1] | Consolidation and eliminations[i] | GAAP Basis |
|---|---|---|---|---|---|---|
| Rental revenue, excluding straight-line rent and lease surrender revenue | $ 266,009 | $ 43,394 | $ 26,535 | $ 335,938 | $ (15,167) | $ 320,771 |
| Property operating costs | (82,228) | (12,003) | (10,176) | (104,407) | 5,587 | (98,820) |
| **Net Operating Income, Cash Basis[1]** | **183,781** | **31,391** | **16,359** | 231,531 | (9,580) | 221,951 |
| Straight-line rent | 3,165 | 837 | 362 | 4,364 | (339) | 4,025 |
| Lease surrender revenue | 9 | — | 106 | 115 | — | 115 |
| **Net Operating Income, Accounting Basis** | **186,955** | **32,228** | **16,827** | 236,010 | (9,919) | 226,091 |
| **Other Income and Expenses** | | | | | | |
| Interest income | | | | 3,505 | (12) | 3,493 |
| Fee income | | | | 1,248 | — | 1,248 |
| Net interest expense and other financing charges | | | | (136,169) | 2,290 | (133,879) |
| General and administrative expenses | | | | (9,686) | — | (9,686) |
| Share of income (loss) from equity accounted joint ventures | | | | — | (4,267) | (4,267) |
| Amortization of intangible assets | | | | (250) | — | (250) |
| Foreign exchange gain reclassified from other comprehensive income | | | | 1,184 | — | 1,184 |
| Acquisition transaction costs and other related expenses | | | | (1,589) | — | (1,589) |
| Adjustment to fair value of unit-based compensation | | | | 633 | — | 633 |
| Adjustment to fair value of Exchangeable Units | | | | 386,062 | — | 386,062 |
| Adjustment to fair value of investment properties | | | | (148,206) | 11,908 | (136,298) |
| **Income before Income Taxes** | | | | 332,742 | — | 332,742 |
| Income taxes | | | | — | — | — |
| **Net Income** | | | | $ 332,742 | $ — | $ 332,742 |

(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 13.2, "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 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 15 months ended March 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 to incorporate Choice Properties' investment in co-owned properties as if they were owned directly, for the three months ended March 31, 2020 and March 31, 2019 is summarized below.

### Summary - Accounting Basis

| For the periods ended March 31 ($ thousands) | Three Months | | | |
|---|---|---|---|---|
| | **2020** | 2019 | Change | % Change |
| Rental revenue | **$ 307,084** | $ 298,464 | $ 8,620 | 2.9 % |
| Straight line rent | **3,678** | 6,318 | (2,640) | (41.8)% |
| Property operating costs | **(95,369)** | (90,405) | (4,964) | 5.5 % |
| Same-Asset NOI, Accounting Basis | **215,393** | 214,377 | 1,016 | 0.5 % |
| Transactions | **20,502** | 25,445 | (4,943) | |
| Lease surrender revenue | **115** | (4) | 119 | |
| **Total NOI, Accounting Basis** | **$ 236,010** | $ 239,818 | $ (3,808) | |

### Summary - Cash Basis

| For the periods ended March 31 ($ thousands) | Three Months | | | |
|---|---|---|---|---|
| | **2020** | 2019 | Change | % Change |
| Rental revenue | **$ 307,084** | $ 298,464 | $ 8,620 | 2.9% |
| Property operating costs | **(95,369)** | (90,405) | (4,964) | 5.5% |
| Same-Asset NOI, Cash Basis | **211,715** | 208,059 | 3,656 | 1.8% |
| Transactions | **19,816** | 24,550 | (4,734) | |
| **Total NOI, Cash Basis** | **$ 231,531** | $ 232,609 | $ (1,078) | |

### Three Months

The increase in same-asset NOI on both an accounting and cash basis for the three months ended March 31, 2020 as compared to March 31, 2019, was primarily due to the contribution from contractual rental steps in the retail segment coupled with higher rates on renewal and new leasing activity across the portfolio.

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

### Retail Segment

| For the periods ended March 31 ($ thousands) | Three Months 2020 | 2019 | Change | % Change |
|---|---|---|---|---|
| Rental revenue | **$ 243,197** | $ 236,297 | $ 6,900 | 2.9% |
| Property operating costs | **(75,023)** | (70,435) | (4,588) | 6.5% |
| Same-Asset NOI, Cash Basis | **168,174** | 165,862 | 2,312 | 1.4% |
| Transactions | **15,607** | 17,998 | (2,391) | |
| **Total NOI, Cash Basis** | **$ 183,781** | $ 183,860 | $ (79) | |

#### Three Months

Same-asset retail NOI increased 1.4% on a cash basis compared to 2019. The increase is primarily driven by leasing activity and contractual rent steps across in the Ontario, British Columbia, Saskatchewan and Quebec 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 March 31 ($ thousands) | Three Months 2020 | 2019 | Change | % Change |
|---|---|---|---|---|
| Rental revenue | **$ 38,024** | $ 37,505 | $ 519 | 1.4% |
| Property operating costs | **(10,496)** | (10,449) | (47) | 0.4% |
| Same-Asset NOI, Cash Basis | **27,528** | 27,056 | 472 | 1.7% |
| Transactions | **3,863** | 5,932 | (2,069) | |
| **Total NOI, Cash Basis** | **$ 31,391** | $ 32,988 | $ (1,597) | |

#### Three Months

Same-asset industrial NOI increased 1.7% on a cash basis compared to 2019. The increase is primarily driven by leasing activity and contractual rent steps across the portfolio. The decline in transaction NOI was mainly due to the distribution centres sold as part of the Oak Street disposition, partially offset by the contribution from acquisitions and development transfers.

### Office Segment

| For the periods ended March 31 ($ thousands) | Three Months 2020 | 2019 | Change | % Change |
|---|---|---|---|---|
| Rental revenue | **$ 25,863** | $ 24,662 | $ 1,201 | 4.9% |
| Property operating costs | **(9,850)** | (9,521) | (329) | 3.5% |
| **Same-Asset NOI, Cash Basis** | **16,013** | 15,141 | 872 | 5.8% |
| Transactions | **346** | 620 | (274) | |
| **Total NOI, Cash Basis** | **$ 16,359** | $ 15,761 | $ 598 | |

#### Three Months

Same-asset office NOI increased 5.8% on a cash basis compared to 2019. The increase was primarily due to positive leasing activity in the Alberta, Ontario and British Columbia regions. The decline in transaction NOI is due to the sale of an office property in the current quarter.

### 7.3 Other Key Performance Indicators

FFO[1] and AFFO[1] are included in the Trust's summary of key performance indicators. See Section 13, "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 ended March 31, 2020 and March 31, 2019 are summarized below:

| For the periods ended March 31<br>($ thousands) | Three Months | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| Funds from Operations[1] | **$ 170,670** | $ 169,260 | $ 1,410 |
| FFO[1][i] per unit basic | **$ 0.244** | $ 0.253 | $ (0.009) |
| FFO[1][i] per unit diluted | **$ 0.244** | $ 0.252 | $ (0.008) |
| FFO[1][i] payout ratio - diluted | **75.9%** | 73.1% | 2.8% |
| Adjusted Funds from Operations[1] | **$ 151,773** | $ 154,673 | $ (2,900) |
| AFFO[1][i] per unit basic | **$ 0.217** | $ 0.231 | $ (0.014) |
| AFFO[1][i] per unit diluted | **$ 0.217** | $ 0.231 | $ (0.014) |
| AFFO[1][i] payout ratio - diluted | **85.4%** | 80.0% | 5.4% |
| Distribution declared per Unit | **$ 0.185** | $ 0.185 | $ — |
| Weighted average Units outstanding - basic | **700,307,857** | 668,611,764 | 31,696,093 |
| Weighted average Units outstanding - diluted | **700,625,695** | 670,451,259 | 30,174,436 |
| Number of Units outstanding, end of period | **700,403,446** | 669,312,915 | 31,090,531 |

**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 13.3, "Funds from Operations", for a reconciliation of FFO[1] to net income determined in accordance with GAAP.

**Three Months**

Funds from operations increased primarily due to lower borrowing costs as a result of a reduction in indebtedness in the second quarter of 2019, partially offset by a reduction in NOI attributable to the Oak Street disposition.

On a per unit basis, the decline was due to a higher weighted average number of units outstanding as a result of the May 2019 equity offering, with the proceeds used to lower the Trust's debt level.

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**Adjusted Funds from Operations ("AFFO")[1]**

Choice Properties calculates its AFFO[1] in accordance with the Real Property Association of Canada's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2019. From time to time the Trust may enter into transactions that materially impact the calculation and are eliminated from the calculation for management's review purposes. Refer to Section 13.4, "Adjusted Funds from Operations", for a reconciliation of AFFO[1] to net income determined in accordance with GAAP.

**Three Months**

AFFO declined primarily due to increased spending on tenant improvements, major maintenance costs and direct leasing costs, partially offset by a reduction in straight line rental revenue.

The increase in the AFFO payout ratio was primarily as a result of the higher weighted average number of units outstanding following the May 2019 equity offering, leading to increased cash distributions, coupled with the marginal decline in AFFO year-over-year as noted above.

## Operating Capital Expenditures

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

| For the periods ended March 31<br>($ thousands) | Three Months | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| Property capital | $ 2,259 | $ 650 | $ 1,609 |
| Leasing capital: | | | |
| Direct leasing costs | 2,733 | 1,160 | 1,573 |
| Tenant improvement allowances | 7,469 | 4,107 | 3,362 |
| **Total operating capital expenditures, proportionate share basis**[1] | **$ 12,461** | $ 5,917 | $ 6,544 |

### 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 three months ended March 31, 2020, Choice Properties incurred $2,259 of property capital expenditures, which may be recoverable from tenants under the terms of their leases over the useful life of the improvements (2019 - $650). 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

### 8.1 Results by Quarter

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

**Selected Quarterly Information**

| ($ thousands except where otherwise indicated) | **First Quarter 2020** | Fourth Quarter 2019 | Third Quarter 2019 | Second Quarter 2019 | First Quarter 2019 | Fourth Quarter 2018 | Third Quarter 2018 | Second Quarter 2018 |
|---|---|---|---|---|---|---|---|---|
| Number of investment properties | **724** | 726 | 726 | 756 | 756 | 753 | 751 | 757 |
| Gross leasable area (in millions of square feet) | **65.6** | 65.8 | 65.5 | 68.0 | 67.7 | 66.8 | 66.8 | 67.0 |
| Occupancy | **97.5%** | 97.7% | 97.8% | 97.7% | 97.4% | 97.7% | 97.7% | 97.6% |
| Rental revenue (IFRS) | **$ 324,911** | $ 317,986 | $ 323,306 | $ 324,289 | $ 322,973 | $ 322,793 | $ 315,584 | $ 294,648 |
| Net income (loss) | **$ 332,742** | $ 293,261 | $ (210,796) | $ 238,310 | $ (902,132) | $ 281,099 | $ 62,620 | $ (321,133) |
| Net income (loss) per Unit | **$ 0.475** | $ 0.419 | $ (0.301) | $ 0.341 | $ (1.348) | $ 0.421 | $ 0.094 | $ (0.481) |
| Net income (loss) per Unit diluted | **$ 0.475** | $ 0.419 | $ (0.301) | $ 0.347 | $ (1.346) | $ 0.419 | $ 0.093 | $ (0.557) |
| Net operating income, cash basis(1) | **$ 231,531** | $ 234,949 | $ 239,047 | $ 234,715 | $ 232,609 | $ 232,506 | $ 229,969 | $ 201,914 |
| FFO(1) | **$ 170,670** | $ 165,795 | $ 174,982 | $ 170,241 | $ 169,260 | $ 171,872 | $ 169,683 | $ 156,600 |
| FFO(1) per Unit - diluted | **$ 0.244** | $ 0.237 | $ 0.250 | $ 0.248 | $ 0.252 | $ 0.256 | $ 0.253 | $ 0.272 |
| AFFO(1) | **$ 151,773** | $ 129,187 | $ 152,032 | $ 151,803 | $ 154,673 | $ 110,332 | $ 137,544 | $ 140,333 |
| AFFO(1) per Unit - diluted | **$ 0.217** | $ 0.184 | $ 0.217 | $ 0.221 | $ 0.231 | $ 0.165 | $ 0.205 | $ 0.243 |
| 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 | **$ 12.92** | $ 13.91 | $ 14.44 | $ 13.68 | $ 14.06 | $ 11.52 | $ 12.07 | $ 12.11 |
| Units outstanding, period end | **700,403,446** | 700,254,652 | 700,247,802 | 699,572,174 | 669,312,915 | 668,164,342 | 667,847,540 | 667,224,978 |
| Debt to total assets(i) | **43.8%** | 43.1% | 43.5% | 45.0% | 47.6% | 47.2% | 47.2% | 48.6% |
| Debt service coverage(i) | **3.1x** | 3.0x | 3.1x | 3.0x | 3.0x | 3.0x | 3.1x | 3.5x |

(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 held a 62.9% direct effective interest in the Trust through ownership of 50,661,415 Units and all of the Exchangeable Units as at March 31, 2020. GWL is also the parent company of Loblaw, with ownership of 52.1% of Loblaw's outstanding common shares as at March 31, 2020.

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

In the ordinary course of business, Choice Properties' enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration agreed upon by the related parties. Loblaw represents approximately 56.1% of Choice Properties' quarterly rental revenue on a proportionate share basis, and 56.6% of its commercial GLA as at March 31, 2020 (December 31, 2019 - 56.3% and 56.3%, respectively).

**Acquisitions and Dispositions**
There were no related party investment property transactions during the three months ended March 31, 2020.

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 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.

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

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

**Site Intensification Payments**
Choice Properties compensated Loblaw with intensification payments of $409 in connection with completed gross leasable area for which tenants took possession during the three months ended March 31, 2020 (December 31, 2019 - $4,577).

**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.

**Services Agreement**
GWL provides Choice Properties with corporate, administrative and other support services for an annualized cost of $3,095 (2019 - $3,095). For the three months ended March 31, 2020, the total cost was $774 (2019 - $689).

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

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

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

**Distributions on Exchangeable Units and Notes Receivable**
GWL holds all of the Exchangeable Units issued by Choice Properties Limited Partnership, a subsidiary of Choice Properties. During the three months ended March 31, 2020, distributions declared on the Exchangeable Units totalling $24,047 were payable to GWL (December 31, 2019 - $168,334).

**Trust Unit Distributions**
In the three months ended March 31, 2020, Choice Properties declared cash distributions of $9,372 on the Units held by GWL (December 31, 2019 - $36,551). There were no non-cash distributions paid by the issuance of additional Trust Units during the three months ended March 31, 2020 (December 31, 2019 - $3,546). As at March 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 ("Wittington"), completed the acquisition of the West Block project at Lake Shore Boulevard and Bathurst Street in Toronto, Ontario for $15,576 from Loblaw. Wittington's parent company is Wittington Investments, Limited, which holds a majority interest in GWL. The joint venture partners intend to develop the West Block project into a mixed-used property. Choice Properties contributed $4,200 to the joint venture and received distributions of nil during the three months ended March 31, 2020 (December 31, 2019 - contributions of $13,240 and distributions of nil). Operating activities have not begun at the property; however, the joint venture did earn interest income during the three months ended March 31, 2020 of $145 (2019 - $34).

## 10. INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures.

**Changes in Internal Control over Financial Reporting**
There were no changes in Choice Properties' internal controls over financial reporting in the first quarter of 2020 that materially affected or are reasonably likely to materially affect the Trust's internal control over financial reporting.

## 11. ENTERPRISE RISKS AND RISK MANAGEMENT

A detailed full set of risks applicable to the Choice Properties' business are included in the Trust's AIF for the year ended December 31, 2019 and MD&A in the 2019 Annual Report, which are hereby incorporated by reference. The 2019 Annual Report and AIF are available online on www.sedar.com; those risks and risk management strategies remain unchanged. In addition, the Trust has identified a new risk factor related to the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", which is further discussed below.

### COVID-19

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

The Trust has already taken and will continue to take actions to mitigate the effects of COVID-19, keeping in mind the interests of its employees, tenants and other stakeholders. Management established a COVID-19 response team to coordinate critical aspects of crisis management and has been communicating regularly with tenants. The Trust has received a large number of rent deferral requests from tenants across the country and some tenants have withheld rent. Small businesses and independent tenants who have requested such relief, on a case by case basis, have been offered a two-month deferment of rent for April and May. Contingency planning is being advanced from both an operational and financial perspective and appropriate cost-control measures are being implemented. The Trust also continues to assess and mitigate against the risk of temporary or longer-term labour shortages or disruptions, including impact on the Trust's ongoing development projects. The Trust has mandated that employees work from home to the full extent possible, has increased sanitation and health and safety measures at its properties and restricted access to its office buildings. The Trust's response to the COVID-19 pandemic is guided by the World Health Organization and public health authorities. The Trust continues to act according to direction provided by the Federal, Provincial and Municipal governments to control the spread of COVID-19. 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 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, 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 negatively impacted the market price for the equity securities of the Trust. Governments and central banks have responded with monetary and fiscal interventions intended to stabilize economic conditions. However, it is not currently known how these interventions will impact debt and equity markets or the economy generally. 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 outbreak 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. IMPACT OF COVID-19[2]

Choice Properties is Canada's preeminent diversified REIT with a real estate platform that is positioned to deliver both income stability and long-term growth for our investors, underpinned by disciplined financial management. While it is early and the full impact of the COVID-19 pandemic cannot be predicted, we remain confident that our business model and disciplined approach to financial management will allow us to weather the impact of COVID-19.

As one of Canada's largest landlords, we have an important role to play in helping Canadians and their businesses during these unprecedented and challenging times. Accordingly, we have agreed to assist qualifying small businesses and independent tenants with a rent deferral for 60 days, effective April 1, 2020.

In addition to the qualifying small businesses and independent tenants that we agreed to assist with rent deferrals, we have received numerous letters from other tenants asking for rental concessions or simply stating that they are not going to pay their rent during the pandemic. The amounts deferred for qualifying tenants are due to be repaid over a 12-month period and as of April 22, 2020, were approximately $5 million of monthly contractual rent. We have also been in discussions with our larger tenants who have been adversely affected by COVID-19 and will consider rent deferral requests on a case by case basis.

April rents have now come due, and as of April 22, 2020, we received 86% of the contractual rents for April, as set out in the table below:

| | % Collected |
|---|---|
| **Retail** | **84%** |
| **Industrial** | **97%** |
| **Office** | **89%** [1] |
| **Total** | **86%** |

[1] Uncollected portion primarily relates to retail tenants in office buildings

Over the next few months, we intend to work with our tenants on an individual basis to find solutions. The dynamic nature of the situation, which continues to evolve day-to-day, makes the longer-term financial impacts on Choice Properties difficult to predict.

From a liquidity perspective, using the most recent information available, with approximately $1.3 billion available under our credit facility, and no significant debt maturities for the remainder of the year, we are well-positioned to weather the current market volatility and any negative impacts on the business, however, we will continue to evaluate and monitor this as the situation prolongs.

In the short term our development initiatives will be impacted by temporary delays due to work stoppages, labour shortages, permitting challenges and delays in supply chains. We expect near-term delays to our on-going projects in terms of construction spending and expected completion dates. We also expect delays to the commencement of construction for new development projects. Work on planning and rezoning initiatives is expected to continue. While such delays are expected to be short-term in nature, we are confident that our development initiatives will, in the long-term, provide us with opportunities to add high-quality real estate to our portfolio at a reasonable cost.

Additionally, we are continuing to review the value of our properties affected by either the COVID-19 pandemic or current oil price collapse. We remain committed to owning high-quality assets with long term value propositions.

It is impossible to forecast the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on Choice Properties' business and operations, both in the short term and in the long term. Certain aspects of the Trust's business and operations that could be potentially impacted include rental income, occupancy, tenant improvements, future demand for space and market rents, which all ultimately impact the underlying valuation of investment property. Refer to Section 11, "Enterprise Risks and Risk Management" for a discussion about the risks associated with the COVID-19 pandemic.

## 13. NON-GAAP FINANCIAL MEASURES

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

| Non-GAAP Measure | Description | Reconciliation |
|---|---|---|
| *Proportionate Share* | • Represents financial information adjusted to reflect the Trust's equity accounted investments and its share of net income (losses) from equity accounted investments on a proportionately consolidated basis at the Trust's ownership percentage of the related investment.<br>• 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. | Section 2, "Balance Sheet" |
| *Net Operating Income ("NOI"), Accounting Basis* | • 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.<br>• 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. | Section 7.1, "Net Income and Segment NOI Reconciliation" |
| *NOI, Cash Basis* | • 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.<br>• Useful measure in understanding period-over-period changes in income from operations due to occupancy, rental rates, operating costs and realty taxes. | Section 7.1, "Net Income and Segment NOI Reconciliation" |
| *Same-Asset NOI, Cash Basis*<br><br>*and*<br><br>*Same-Asset NOI, Accounting Basis* | • 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.<br>• 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.<br>• Same-asset NOI, Cash Basis is useful in evaluating the realization of contractual rental rate changes embedded in lease agreements and/or the expiry of rent-free periods, while also being a useful measure in understanding period-over-period changes in NOI due to occupancy, rental rates, operating costs and realty taxes, before considering the changes in NOI that can be attributed to the Transactions, the Acquisition Transaction and development activities. | Section 7.2, "Net Operating Income Summary" |

| | | |
|---|---|---|
| *Funds from Operations ("FFO")* | • Calculated in accordance with the Real Property Association of Canada's ("REALpac") *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2019.<br>• 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.<br>• 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. | Section 15.3, "Funds from Operations" |
| *Adjusted Funds from Operations ("AFFO")* | • Calculated in accordance with REALpac's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2019.<br>• 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.<br>• 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.<br>• 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.<br>• 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. | Section 15.4, "Adjusted Funds from Operations" |
| *Adjusted Cash Flow from Operations ("ACFO")* | • Calculated in accordance with REALpac's *White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS* issued in February 2019.<br>• 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.<br>• 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.<br>• 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. | Section 15.5, "Adjusted Cash Flow from Operations" |

| | | |
|---|---|---|
| *Earnings before Interest, Taxes, Depreciation, Amortization and Fair Value ("EBITDAFV")* | • 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.<br>• 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 15.8, "Earnings before Taxes, Depreciation, Amortization and Fair Value" |
| *Cash Retained after Distributions* | • Represents the portion of ACFO retained within Choice Properties which can be used to invest in new acquisitions, development properties and capital activity. | Section 15.6, "Distribution Excess / Shortfall Analysis" |
| *Total Debt* | • 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.<br>• 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* | • 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.<br>• 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 | • 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.<br>• 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*<br><br>*and*<br><br>*Normalized Debt to EBITDAFV* | • Calculated as Total Debt divided by EBITDAFV.<br>• 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.<br>• Management also presents this metric on a trailing 12-month normalized basis to exclude the proforma results of the Acquisition Transaction, lease surrender revenue and the Oak Street disposition. | Section 4.4, "Financial Condition" |
| *Interest Coverage* | • Calculated as EBITDAFV divided by interest expense on the Total Debt incurred by Choice Properties for the period.<br>• 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" |

### 13.1 Investment Properties Reconciliation

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

| | Three Months | | |
|---|---|---|---|
| As at March 31, 2020<br>($ thousands) | **GAAP Basis** | **Reconciliation** | **Proportionate Share Basis**[1] |
| Balance, beginning of period | **$ 14,373,000** | $ 938,000 | **$ 15,311,000** |
| Acquisitions of investment properties[i] | **21,840** | — | **21,840** |
| Capital expenditures | | | |
| Development capital | **15,032** | 34,673 | **49,705** |
| Building improvements | **662** | 207 | **869** |
| Capitalized interest | **700** | 92 | **792** |
| Operating capital expenditures | | | |
| Property capital | **2,154** | 105 | **2,259** |
| Direct leasing costs | **2,406** | 327 | **2,733** |
| Tenant improvement allowances | **6,304** | 1,165 | **7,469** |
| Amortization of straight-line rent | **4,025** | 339 | **4,364** |
| Dispositions | **(36,825)** | — | **(36,825)** |
| Adjustment to fair value of investment properties | **(136,298)** | (11,908) | **(148,206)** |
| **Balance, as at March 31, 2020** | **$ 14,253,000** | **$ 963,000** | **$ 15,216,000** |

(i) Includes acquisition costs.

## 13.2 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 13, "Non-GAAP Financial Measures", for further details about this non-GAAP measure.

| For the periods ended March 31<br>($ thousands) | Three Months 2020 | Three Months 2019 | Three Months Change |
|---|---|---|---|
| **Net income (loss)** | **$ 332,742** | $ (902,132) | $ 1,234,874 |
| Add (deduct) impact of the following: | | | |
| Straight-line rental revenue | **(4,025)** | (6,987) | 2,962 |
| Lease surrender revenue | **(115)** | — | (115) |
| General and administrative expenses | **9,686** | 9,863 | (177) |
| Fee income | **(1,248)** | (957) | (291) |
| Net interest expense and other financing charges | **133,879** | 138,211 | (4,332) |
| Interest income | **(3,493)** | (3,815) | 322 |
| Share of income (loss) from equity accounted joint ventures | **4,267** | (17,413) | 21,680 |
| Amortization of intangible assets | **250** | — | 250 |
| Foreign exchange gain reclassified from other comprehensive income | **(1,184)** | — | (1,184) |
| Acquisition transaction costs and other related expenses | **1,589** | 4,155 | (2,566) |
| Adjustment to fair value of unit-based compensation | **(633)** | 6,962 | (7,595) |
| Adjustment to fair value of Exchangeable Units | **(386,062)** | 990,504 | (1,376,566) |
| Adjustment to fair value of investment properties | **136,298** | 3,455 | 132,843 |
| Income taxes | **—** | 420 | (420) |
| **Net Operating Income, Cash Basis** | **221,951** | 222,266 | (315) |
| Adjustments for equity accounted joint ventures | **9,580** | 10,343 | (763) |
| **Proportionate Share Net Operating Income, Cash Basis** | **$ 231,531** | $ 232,609 | $ (1,078) |

## 13.3 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 13, "Non-GAAP Financial Measures", for further details about this non-GAAP measure.

| For the periods ended March 31<br>($ thousands) | Three Months 2020 | Three Months 2019 | Three Months Change |
|---|---|---|---|
| **Net income (loss)** | **$ 332,742** | $ (902,132) | $ 1,234,874 |
| Add (deduct) impact of the following: | | | |
| Amortization of intangible assets | **250** | — | 250 |
| Foreign exchange gain reclassified from other comprehensive income | **(1,184)** | — | (1,184) |
| Acquisition transaction costs and other related expenses | **1,589** | 4,155 | (2,566) |
| Adjustment to fair value of unit-based compensation | **(633)** | 6,962 | (7,595) |
| Adjustment to fair value of Exchangeable Units | **(386,062)** | 990,504 | (1,376,566) |
| Adjustment to fair value of investment properties | **136,298** | 3,455 | 132,843 |
| Adjustment to fair value of investment property held in equity accounted joint ventures | **11,908** | (8,933) | 20,841 |
| Interest otherwise capitalized for development in equity accounted joint ventures | **1,547** | 1,225 | 322 |
| Exchangeable Units distributions | **72,143** | 72,143 | — |
| Internal expenses for leasing | **2,072** | 1,461 | 611 |
| Income taxes | **—** | 420 | (420) |
| **Funds from Operations** | **$ 170,670** | $ 169,260 | $ 1,410 |
| FFO per Unit - diluted(i) | **$ 0.244** | $ 0.252 | $ (0.008) |
| FFO payout ratio - diluted(i)(ii) | **75.9%** | 73.1% | 2.8% |
| Distribution declared per Unit | **$ 0.185** | $ 0.185 | $ — |
| Weighted average Units outstanding - diluted | **700,625,695** | 670,451,259 | 30,174,436 |

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

### 13.4 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 13, "Non-GAAP Financial Measures", for further details about this non-GAAP measure.

| For the periods ended March 31<br>($ thousands) | Three Months<br>2020 | <br>2019 | <br>Change |
|---|---|---|---|
| **Funds from Operations** | **$ 170,670** | $ 169,260 | $ 1,410 |
| Add (deduct) impact of the following: | | | |
| Internal expenses for leasing | **(2,072)** | (1,461) | (611) |
| Straight-line rental revenue | **(4,364)** | (7,209) | 2,845 |
| Property capital | **(2,259)** | (650) | (1,609) |
| Direct leasing costs | **(2,733)** | (1,160) | (1,573) |
| Tenant improvements | **(7,469)** | (4,107) | (3,362) |
| **Adjusted Funds from Operations** | **$ 151,773** | $ 154,673 | $ (2,900) |
| AFFO per unit - diluted[i] | **$ 0.217** | $ 0.231 | $ (0.014) |
| AFFO payout ratio - diluted[i][ii] | **85.4%** | 80.0% | 5.4% |
| Distribution declared per Unit | **$ 0.185** | $ 0.185 | $ — |
| Weighted average Units outstanding - diluted | **700,625,695** | 670,451,259 | 30,174,436 |

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

## 13.5 Adjusted Cash Flow from Operations

The following table reconciles cash flows from operating activities to ACFO, as determined in accordance with GAAP, for the periods ended as indicated. Refer to Section 4.6, "Unit Equity" and Section 13, "Non-GAAP Financial Measures", for further details about this non-GAAP measure.

| For the periods ended March 31<br>($ thousands) | Three Months<br>2020 | <br>2019 | <br>Change |
|---|---|---|---|
| **Cash flows from operating activities** | **$ 104,147** | $ 94,171 | $ 9,976 |
| Add (deduct) impact of the following: | | | |
| Net interest expense and other financing charges in excess of interest paid(i) | **(41,801)** | (39,614) | (2,187) |
| Distributions on Exchangeable Units included in net interest expense and other financing charges | **72,143** | 72,143 | — |
| Interest and other income in excess of interest received(i) | **1,350** | 2,066 | (716) |
| Interest otherwise capitalized for development in equity accounted joint ventures | **1,547** | 1,225 | 322 |
| Portion of internal expenses for leasing relating to development activity | **1,036** | 375 | 661 |
| Property capital expenditures on a proportionate share basis | **(2,259)** | (650) | (1,609) |
| Leasing capital expenditures on a proportionate share basis | **(10,202)** | (5,267) | (4,935) |
| Acquisition transaction costs and other related expenses | **1,589** | 4,155 | (2,566) |
| Adjustments for proportionate share of income from equity accounted joint ventures(ii) | **7,641** | 8,480 | (839) |
| Adjustment for changes in non-cash working capital items not indicative of sustainable operating cash flows(iii) | **41,118** | 21,772 | 19,346 |
| **Adjusted Cash Flow from Operations** | **$ 176,309** | $ 158,856 | $ 17,453 |
| Cash distributions declared | **129,561** | 123,745 | 5,816 |
| **Cash retained after distributions(iv)** | **$ 46,748** | $ 35,111 | $ 11,637 |
| **ACFO payout ratio(iv)** | **73.5%** | 77.9% | (4.4)% |

(i) The timing of the recognition of interest expense and income differs from the payment and collection. The ACFO calculations for the periods ended March 31, 2020 and March 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) Adjusted Cash Flow from Operations payout ratio is calculated as the cash distributions declared divided by the ACFO.

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

| For the periods ended March 31<br>($ thousands) | Three Months<br>2020 | <br>2019 | <br>Change |
|---|---|---|---|
| Net change in non-cash working capital(i) | **$ (19,220)** | $ (19,186) | $ (34) |
| Adjustment for changes in non-cash working capital items not indicative of sustainable operating cash flows | **41,118** | 21,772 | 19,346 |
| **Net non-cash working capital increase included in ACFO** | **$ 21,898** | $ 2,586 | $ 19,312 |

(i) As calculated under GAAP and disclosed in the Trust's unaudited interim period condensed consolidated financial statements.

## 13.6 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 March 31<br>($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| Cash flows from operating activities | $ 104,147 | $ 94,171 | $ 9,976 |
| Less: Cash distributions declared | (129,561) | (123,745) | (5,816) |
| **Excess (shortfall) of cash flows provided by operating activities over cash distributions declared** | $ (25,414) | $ (29,574) | $ 4,160 |

| For the periods ended March 31<br>($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| Net income (loss) | $ 332,742 | $ (902,132) | $ 1,234,874 |
| Add: Distributions on Exchangeable Units included in net interest expense and other financing charges | 72,143 | 72,143 | — |
| Net income (loss) attributable to Unitholders excluding distributions on Exchangeable Units | 404,885 | (829,989) | 1,234,874 |
| Less: Cash distributions declared | (129,561) | (123,745) | (5,816) |
| **Excess (shortfall) of net income (loss) attributable to Unitholders, less distributions on Exchangeable Units, over cash distributions declared** | $ 275,324 | $ (953,734) | $ 1,229,058 |

| For the periods ended March 31<br>($ thousands) | Three Months 2020 | 2019 | Change |
|---|---|---|---|
| Adjusted Cash Flow from Operations[(1)] | $ 176,309 | $ 158,856 | $ 17,453 |
| Less: Cash distributions declared | (129,561) | (123,745) | (5,816) |
| **Excess of ACFO after distributions** | $ 46,748 | $ 35,111 | $ 11,637 |

Choice Properties' shortfall of cash flows provided by operating activities over cash distributions declared for the three months ended March 31, 2020 was primarily due to the timing of the semi-annual interest payments on the senior unsecured debentures and fluctuations in non-cash working capital. Management believes the shortfall in the three months ended March 31, 2020 will not result in an economic return of capital in the 2020 fiscal year[(2)].

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

## 13.7 Net Interest Expense and Other Financing Charges Reconciliation

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

| For the three months ended March 31 ($ thousands) | 2020 Proportionate Share Basis[1] | 2020 Consolidation and eliminations[i] | 2020 GAAP Basis | 2019 Proportionate Share Basis[1] | 2019 Consolidation and eliminations[i] | 2019 GAAP Basis |
|---|---|---|---|---|---|---|
| Interest on senior unsecured debentures | $ 46,359 | $ — | $ 46,359 | $ 42,400 | $ — | $ 42,400 |
| Interest on mortgages | 14,681 | (2,308) | 12,373 | 15,798 | (2,310) | 13,488 |
| Interest on credit facility and term loans | 3,016 | — | 3,016 | 11,409 | — | 11,409 |
| **Subtotal (for use in Debt Service Coverage[1] calculation)** | 64,056 | (2,308) | 61,748 | 69,607 | (2,310) | 67,297 |
| Distributions on Exchangeable Units[ii] | 72,143 | — | 72,143 | 72,143 | — | 72,143 |
| **Subtotal (for use in EBITDAFV[1] calculation)** | 136,199 | (2,308) | 133,891 | 141,750 | (2,310) | 139,440 |
| Interest on right of use asset | 64 | — | 64 | 72 | — | 72 |
| Effective interest rate amortization of debt discounts and premiums | (558) | (41) | (599) | (918) | (41) | (959) |
| Effective interest rate amortization of debt placement costs | 1,256 | (33) | 1,223 | 1,201 | — | 1,201 |
| Capitalized interest | (792) | 92 | (700) | (1,543) | — | (1,543) |
| **Net interest expense and other financing charges** | $ 136,169 | $ (2,290) | $ 133,879 | $ 140,562 | $ (2,351) | $ 138,211 |

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

## 13.8 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 13, "Non-GAAP Financial Measures", for further details about this non-GAAP measure.

| For the periods ended March 31 ($ thousands) | Three Months 2020 | Three Months 2019 | Three Months Change |
|---|---|---|---|
| **Net income (loss)** | $ 332,742 | $ (902,132) | $ 1,234,874 |
| Add (deduct) impact of the following: | | | |
| Acquisition transaction costs and other related expenses | 1,589 | 4,155 | (2,566) |
| Adjustment to fair value of unit-based compensation | (633) | 6,962 | (7,595) |
| Adjustment to fair value of Exchangeable Units | (386,062) | 990,504 | (1,376,566) |
| Adjustment to fair value of investment properties | 136,298 | 3,455 | 132,843 |
| Adjustment to fair value of investment property held in equity accounted joint ventures | 11,908 | (8,933) | 20,841 |
| Interest expense[i] | 136,199 | 141,740 | (5,541) |
| Amortization of other assets | 415 | 255 | 160 |
| Income taxes | — | 420 | (420) |
| **Earnings Before Interest, Taxes, Depreciation, Amortization and Fair Value (EBITDAFV)** | $ 232,456 | $ 236,426 | $ (3,970) |

(i) As calculated in Section 13.7, "Net Interest Expense and Other Financing Charges Reconciliation".

Horizon Business Park | Edmonton AB

# Financial Statements

## Financial Results

## Choice Properties Real Estate Investment Trust
## Condensed Consolidated Balance Sheets

| (in thousands of Canadian dollars)<br>(unaudited) | Note | | **As at**<br>**March 31, 2020** | | As at<br>December 31, 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investment properties | 4 | **$** | **14,253,000** | $ | 14,373,000 |
| Equity accounted joint ventures | 5 | | **603,059** | | 606,089 |
| Mortgages, loans and notes receivable | 8 | | **231,180** | | 332,286 |
| Intangible assets | 9 | | **29,750** | | 30,000 |
| Accounts receivable and other assets | 10 | | **128,830** | | 95,030 |
| Assets held for sale | 3 | | **—** | | 97,800 |
| Cash and cash equivalents | | | **79,642** | | 41,990 |
| **Total Assets** | | **$** | **15,325,461** | $ | 15,576,195 |
| | | | | | |
| **Liabilities and Equity** | | | | | |
| Long term debt | 11 | **$** | **6,327,796** | $ | 6,413,452 |
| Credit facility | 12 | | **235,591** | | 127,233 |
| Exchangeable Units | 13 | | **5,038,306** | | 5,424,368 |
| Trade payables and other liabilities | 15 | | **351,677** | | 513,124 |
| Total Liabilities | | | **11,953,370** | | 12,478,177 |
| | | | | | |
| Equity | | | | | |
| Unitholders' equity | | | **3,364,290** | | 3,090,217 |
| Non-controlling interests | 7 | | **7,801** | | 7,801 |
| Total Equity | | | **3,372,091** | | 3,098,018 |
| **Total Liabilities and Equity** | | **$** | **15,325,461** | $ | 15,576,195 |

Contingent Liabilities and Financial Guarantees (note 27)
Subsequent Events (note 29)
See accompanying notes to the unaudited interim period condensed consolidated financial statements

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

| (in thousands of Canadian dollars) (unaudited) | Note | Three Months March 31, 2020 | Three Months March 31, 2019 |
|---|---|---|---|
| **Net Operating Income** | | | |
| Rental revenue | 17 | **$ 324,911** | $ 322,973 |
| Property operating costs | 18 | **(98,820)** | (93,720) |
| | | **226,091** | 229,253 |
| **Other Income and Expenses** | | | |
| Interest income | 19 | **3,493** | 3,815 |
| Fee income | 20 | **1,248** | 957 |
| Net interest expense and other financing charges | 21 | **(133,879)** | (138,211) |
| General and administrative expenses | 22 | **(9,686)** | (9,863) |
| Share of income (loss) from equity accounted joint ventures | 5 | **(4,267)** | 17,413 |
| Amortization of intangible assets | 9 | **(250)** | — |
| Foreign exchange gain reclassified from other comprehensive income | | **1,184** | — |
| Acquisition transaction costs and other related expenses | | **(1,589)** | (4,155) |
| Adjustment to fair value of unit-based compensation | 16 | **633** | (6,962) |
| Adjustment to fair value of Exchangeable Units | 13 | **386,062** | (990,504) |
| Adjustment to fair value of investment properties | 4 | **(136,298)** | (3,455) |
| **Income (Loss) before income taxes** | | **332,742** | (901,712) |
| Income taxes | 14 | **—** | (420) |
| **Net Income (Loss)** | | **$ 332,742** | $ (902,132) |
| | | | |
| **Net Income (Loss)** | | **$ 332,742** | $ (902,132) |
| **Other Comprehensive Income (Loss)** | | | |
| Foreign exchange (loss) gain on currency translation | | **1,016** | (2,723) |
| Foreign exchange gain on currency translation reclassified to earnings | | **(1,184)** | — |
| Unrealized (loss) gain on designated hedging instruments | 23 | **(5,297)** | (3,255) |
| Other comprehensive income (loss) | | **(5,465)** | (5,978) |
| **Comprehensive Income (Loss)** | | **$ 327,277** | $ (908,110) |

See accompanying notes to the unaudited interim period condensed consolidated financial statements

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

| For the three months ended March 31, 2020 (in thousands of Canadian dollars) (unaudited) | Note | **Attributable to Choice Properties' Unitholders** Trust Units | Cumulative net income | Accumulated other comprehensive income | 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 | | — | 332,742 | — | — | 332,742 | — | 332,742 |
| Other comprehensive loss | | — | — | (5,465) | — | (5,465) | — | (5,465) |
| Distributions | | — | — | — | (57,399) | (57,399) | — | (57,399) |
| Issuance of Units under unit-based compensation arrangements | 13 | 4,841 | — | — | — | 4,841 | — | 4,841 |
| Reclassification of vested Unit-Settled Restricted Units liability to equity | 13 | 1,700 | — | — | — | 1,700 | — | 1,700 |
| Repurchase of Units for unit-based compensation arrangements | 13 | (2,346) | — | — | — | (2,346) | — | (2,346) |
| **Equity, March 31, 2020** | | **$ 3,414,031** | **$ 693,791** | **$ (6,729)** | **$ (736,803)** | **$ 3,364,290** | **$ 7,801** | **$ 3,372,091** |

| For the three months ended March 31, 2019 (in thousands of Canadian dollars) (unaudited) | Note | Attributable to Choice Properties' Unitholders Trust Units | Cumulative net income | Accumulated other comprehensive income | Cumulative distributions to Unitholders | Total Unitholders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| Equity, December 31, 2018 | | $ 2,978,343 | $ 942,406 | $ 7,369 | $ (435,933) | $ 3,492,185 | $ 7,801 | $ 3,499,986 |
| Net loss | | — | (902,132) | — | — | (902,132) | — | (902,132) |
| Other comprehensive loss | | — | — | (5,978) | — | (5,978) | — | (5,978) |
| Distributions | | — | — | — | (51,602) | (51,602) | — | (51,602) |
| Issuance of Units under unit-based compensation arrangements | 13 | 15,532 | — | — | — | 15,532 | — | 15,532 |
| Reclassification of vested Unit-Settled Restricted Units liability to equity | 13 | 1,119 | — | — | — | 1,119 | — | 1,119 |
| Repurchase of Units for unit-based compensation arrangements | 13 | (2,097) | — | — | — | (2,097) | — | (2,097) |
| Equity, March 31, 2019 | | $ 2,992,897 | $ 40,274 | $ 1,391 | $ (487,535) | $ 2,547,027 | $ 7,801 | $ 2,554,828 |

See accompanying notes to the unaudited interim period condensed consolidated financial statements

## Choice Properties Real Estate Investment Trust
## Condensed Consolidated Statements of Cash Flows

| (in thousands of Canadian dollars) (unaudited) | Note | Three Months March 31, 2020 | Three Months March 31, 2019 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income (loss) | | **$ 332,742** | $ (902,132) |
| Straight-line rental revenue | 4 | **(4,025)** | (6,987) |
| Net interest expense and other financing charges | 21 | **133,879** | 138,211 |
| Interest paid | | **(92,078)** | (98,597) |
| Interest income | 19 | **(3,493)** | (3,815) |
| Interest income received | | **2,143** | 1,749 |
| Unit-based compensation expense | 16 | **630** | 8,382 |
| Share of income (loss) from equity accounted joint ventures | 5 | **4,267** | (17,413) |
| Amortization of intangible assets | 9 | **250** | — |
| Foreign exchange gain reclassified from other comprehensive income | | **(1,184)** | — |
| Adjustment to fair value of Exchangeable Units | 13 | **(386,062)** | 990,504 |
| Adjustment to fair value of investment properties | 4 | **136,298** | 3,455 |
| Net change in non-cash working capital | 25 | **(19,220)** | (19,186) |
| **Cash Flows from Operating Activities** | | **104,147** | 94,171 |
| **Investing Activities** | | | |
| Acquisitions of investment properties | 3 | **(21,840)** | (56,061) |
| Additions to investment properties | 4 | **(26,558)** | (29,450) |
| Contributions to equity accounted joint ventures | 5 | **(9,384)** | (11,138) |
| Distributions from equity accounted joint ventures | 5 | **8,147** | 12,385 |
| Mortgages, loans and notes receivable advances | 8 | **(47,467)** | (40,346) |
| Mortgages, loans and notes receivable repayments | 8 | **149,923** | 27,525 |
| Proceeds from dispositions | 3 | **109,692** | 600 |
| **Cash Flows from (used in) Investing Activities** | | **162,513** | (96,485) |
| **Financing Activities** | | | |
| Proceeds from issuance of debentures, net of debt placement costs | 11 | **497,207** | — |
| Repayments of debentures | 11 | **(550,000)** | — |
| Net advances (repayments) of mortgages payable, net of placement costs | 11 | **(8,367)** | (18,627) |
| Net advances on construction loans | 11 | **171** | 2,266 |
| Net advances (repayments) of credit facility and term loans, net of placement costs | 12 | **108,000** | 160,000 |
| Cash received on exercise of options | | **1,799** | 12,219 |
| Cash paid on vesting of restricted and performance units | | **(1,633)** | (1,738) |
| Repurchase of Units for unit-based compensation arrangement | 13 | **(2,346)** | (2,097) |
| Distributions paid on Exchangeable Units | | **(216,430)** | (98,117) |
| Distributions paid on Trust Units | | **(57,409)** | (51,534) |
| **Cash Flows from (used in) Financing Activities** | | **(229,008)** | 2,372 |
| Change in cash and cash equivalents | | **37,652** | 58 |
| Cash and cash equivalents, beginning of period | | **41,990** | 30,713 |
| **Cash and Cash Equivalents, End of Period** | | **$ 79,642** | $ 30,771 |

Supplemental disclosure of non-cash operating, investing and financing activities (note 25)
See accompanying notes to the unaudited interim period condensed consolidated financial statements

## Note 1. Nature and Description of the Trust

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

Choice Properties commenced operations on July 5, 2013 when it issued Units and debt for cash pursuant to an initial public offering (the "IPO") and completed the acquisition of 425 properties from Loblaw Companies Limited and its subsidiaries ("Loblaw"). Pursuant to a reorganization transaction on November 1, 2018, Loblaw spun out its 61.6% effective interest in Choice Properties to George Weston Limited ("GWL"). As at March 31, 2020, GWL held a 62.9% direct effective interest in Choice Properties.

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

## Note 2. Significant Accounting Policies

The significant accounting policies and critical accounting estimates and judgments as disclosed in Choice Properties' 2019 audited annual consolidated financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements. The unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

### Statement of Compliance

The unaudited interim period condensed consolidated financial statements of Choice Properties are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These unaudited interim period condensed consolidated financial statements should be read in conjunction with the Trust's audited annual consolidated financial statements and accompanying notes for the year ended December 31, 2019.

These unaudited interim period condensed consolidated financial statements were authorized for issuance by Choice Properties' Board of Trustees ("Board") on April 22, 2020.

## Note 3. Investment Property and Other Transactions

During the three months ended March 31, 2020, Choice Properties completed the following acquisitions:

| ($ thousands) | | | | | | Consideration |
|---|---|---|---|---|---|---|
| **Location** | **Date of Acquisition** | **Segment** | **Ownership Interest** | **Purchase Price** | **Purchase Price incl. Related Costs** | **Cash** |
| **Consolidated investments** | | | | | | |
| Coquitlam, BC | February 11 | Retail | 100% | $ 21,150 | $ 21,840 | $ 21,840 |
| **Acquisitions from third-parties** | | | | **21,150** | **21,840** | **21,840** |
| **Total acquisitions** | | | | **$ 21,150** | **$ 21,840** | **$ 21,840** |

The following table summarizes the investment properties sold in the three months ended March 31, 2020:

| ($ thousands except where otherwise indicated) | | | | | Consideration | |
|---|---|---|---|---|---|---|
| **Location** | **Date of Disposition** | **Segment** | **Ownership Interest** | **Sale Price excl. Selling Costs** | **Cash** | **Debt Assumed By Purchaser** |
| **Assets held for sale** | | | | | | |
| Chicago, USA | January 24 | Retail | 100% | $ 97,800 | $ 97,800 | $ — |
| **Dispositions of assets held for sale** | | | | **97,800** | **97,800** | **—** |
| **Investment properties** | | | | | | |
| Edmonton, AB | January 29 | Residential | 50% | 9,750 | 2,561 | 7,189 |
| Creston, BC | February 3 | Retail (parcel) | 100% | 375 | 375 | — |
| Halifax, NS | February 13 | Office | 100% | 26,700 | 8,956 | 17,744 |
| **Dispositions of investment properties** | | | | **36,825** | **11,892** | **24,933** |
| **Total dispositions** | | | | **$ 134,625** | **$ 109,692** | **$ 24,933** |

## Note 4. Investment Properties

| ($ thousands) | Note | **Income producing properties** | **Properties under development** | **Three months ended March 31, 2020** | Year ended December 31, 2019 |
|---|---|---|---|---|---|
| Balance, beginning of period | | **$ 14,210,000** | **$ 163,000** | **$ 14,373,000** | $ 14,501,000 |
| Acquisitions of investment properties - including acquisition costs of $690 (2019 - $3,258) | 3 | **21,840** | **—** | **21,840** | 109,526 |
| Capital expenditures | | | | | |
| Development capital(i) | | **—** | **15,032** | **15,032** | 67,750 |
| Building improvements | | **662** | **—** | **662** | 2,227 |
| Capitalized interest(ii) | 21 | **—** | **700** | **700** | 4,424 |
| Operating capital expenditures | | | | | |
| Property capital | | **2,154** | **—** | **2,154** | 30,264 |
| Direct leasing costs | | **2,406** | **—** | **2,406** | 7,331 |
| Tenant improvement allowances | | **6,304** | **—** | **6,304** | 19,536 |
| Amortization of straight-line rent | | **4,025** | **—** | **4,025** | 25,146 |
| Transfer to assets held for sale | | **—** | **—** | **—** | (97,800) |
| Transfer from equity accounted investments | | **—** | **—** | **—** | 181,909 |
| Transfers from properties under development | | **15,352** | **(15,352)** | **—** | — |
| Dispositions | 3 | **(36,825)** | **—** | **(36,825)** | (467,908) |
| Foreign currency translation | | **—** | **—** | **—** | (5,971) |
| Adjustment to fair value of investment properties | | **(132,918)** | **(3,380)** | **(136,298)** | (4,434) |
| **Balance, end of period** | | **$ 14,093,000** | **$ 160,000** | **$ 14,253,000** | $ 14,373,000 |

(i) Development capital included $409 of site intensification payments paid to Loblaw (December 31, 2019 - $4,577) (note 28).
(ii) Interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.72% (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 28), should Choice Properties pursue activity resulting in the intensification of such excess land. The fair value of this excess land has been recorded in the consolidated financial statements.

**Valuation Methodology and Process**

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

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

Refer to Note 29, "Subsequent Events" for discussion of the impact of COVID-19 on the Trust'sbusiness and operations, including the valuation of investment properties.

*Income Producing Properties*

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

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

*Properties Under Development*

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

### Significant Valuation Assumptions

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

| | As at March 31, 2020 | | As at December 31, 2019 | |
|---|---|---|---|---|
| **Total Investment Properties** | **Range** | **Weighted average** | Range | Weighted average |
| Discount rate | **5.00% - 11.45%** | **6.87%** | 5.00% - 11.45% | 6.77% |
| Terminal capitalization rate | **4.25% - 10.95%** | **6.11%** | 4.25% - 10.95% | 6.11% |
| Overall capitalization rate | **4.00% - 10.70%** | **5.93%** | 4.00% - 10.70% | 5.84% |
| **Retail** | | | | |
| Discount rate | **5.00% - 11.45%** | **7.00%** | 5.00% - 11.45% | 6.89% |
| Terminal capitalization rate | **4.50% - 10.95%** | **6.24%** | 4.50% - 10.95% | 6.24% |
| Overall capitalization rate | **4.00% - 10.70%** | **6.08%** | 4.00% - 10.70% | 5.97% |
| **Industrial** | | | | |
| Discount rate | **5.25% - 9.00%** | **6.57%** | 5.25% - 9.00% | 6.51% |
| Terminal capitalization rate | **4.50% - 8.50%** | **5.78%** | 4.75% - 8.50% | 5.78% |
| Overall capitalization rate | **4.25% - 8.25%** | **5.54%** | 4.25% - 8.25% | 5.48% |
| **Office** | | | | |
| Discount rate | **5.00% - 8.50%** | **6.04%** | 5.00% - 8.25% | 6.05% |
| Terminal capitalization rate | **4.25% - 7.75%** | **5.25%** | 4.25% - 7.50% | 5.29% |
| Overall capitalization rate | **4.00% - 7.50%** | **5.09%** | 4.00% - 7.00% | 5.13% |

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

### 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 valuators in preparing their reports and holds discussions with them on the reasonableness of their assumptions. The reports are then used by the internal valuation team for consideration in preparing the valuations as reported in these consolidated financial statements.

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| ($ thousands except where otherwise indicated) | **Number of investment properties** | **Fair value** | Number of investment properties | Fair value |
| March 31 | **18** | **$ 765,000** | 22 | $ 785,000 |
| June 30 | **—** | **—** | 26 | 800,000 |
| September 30 | **—** | **—** | 18 | 645,000 |
| December 31 | **—** | **—** | 19 | 800,000 |
| **Total** | **18** | **$ 765,000** | 85 | $ 3,030,000 |

**Fair Value Sensitivity**

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

| Capitalization rate sensitivity increase/(decrease) ($ thousands) | Weighted average overall capitalization rate | | Fair value of investment properties | | Fair value variance | % Change |
|---|---|---|---|---|---|---|
| (0.75)% | 5.18% | $ | 16,315,000 | $ | 2,062,000 | 15 % |
| (0.50)% | 5.43% | | 15,565,000 | | 1,312,000 | 9 % |
| (0.25)% | 5.68% | | 14,880,000 | | 627,000 | 4 % |
| —% | 5.93% | | 14,253,000 | | — | — % |
| 0.25% | 6.18% | | 13,675,000 | | (578,000) | (4)% |
| 0.50% | 6.43% | | 13,145,000 | | (1,108,000) | (8)% |
| 0.75% | 6.68% | | 12,655,000 | | (1,598,000) | (11)% |

## Note 5. 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 March 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 | 28 | **1** | **40%** | 1 | 40% |
| **Total equity accounted joint ventures** | | **22** | | 22 | |
| Choice Properties' investment in equity accounted joint ventures ($ thousands) | | | **$ 603,059** | | $ 606,089 |

| ($ thousands) | Three Months<br>**March 31, 2020** | March 31, 2019 |
|---|---|---|
| Choice Properties' share of income (loss) and comprehensive income (loss) from equity accounted joint ventures | **$ (4,267)** | $ 17,413 |

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

| ($ thousands) | | **Three months ended March 31, 2020** |
|---|---|---|
| Balance, beginning of period | **$** | **606,089** |
| Contributions to equity accounted joint ventures | | **9,384** |
| Distributions from equity accounted joint ventures | | **(8,147)** |
| Total cash flow activities | | **1,237** |
| Share of income (loss) from equity accounted joint ventures | | **(4,267)** |
| Total non-cash activities | | **(4,267)** |
| **Balance, end of period** | **$** | **603,059** |

## Note 6. 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 unaudited interim period condensed consolidated financial statements.

| | **As at March 31, 2020** | | As at December 31, 2019 | |
|---|---|---|---|---|
| | **Number of co-owned properties** | **Ownership interest** | Number of co-owned properties | Ownership interest |
| Retail | **28** | **50% - 75%** | 28 | 50% - 75% |
| Industrial | **2** | **50% - 67%** | 2 | 50% - 67% |
| Office | **6** | **50%** | 6 | 50% |
| Residential | **5** | **50%** | 6 | 50% |
| Land, held for development | **2** | **50%** | 2 | 50% |
| **Total co-ownership property interests** | **43** | | 44 | |

## Note 7. 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 three months ended March 31, 2020 and March 31, 2019, Brampton LP did not distribute to the partners.

## Note 8. Mortgages, Loans and Notes Receivable

| ($ thousands) | Note | **As at March 31, 2020** | As at December 31, 2019 |
|---|---|---|---|
| Mortgages receivable(i) | | **$ 228,071** | $ 185,350 |
| Loans receivable(i) | | **6,109** | 5,649 |
| Notes receivable from related party(i) | 28 | **—** | 144,287 |
| Allowance for expected credit losses | | **(3,000)** | (3,000) |
| **Mortgages, loans and notes receivable** | | **$ 231,180** | $ 332,286 |
| Classified as: | | | |
| Non-current | | **$ 102,743** | $ 99,523 |
| Current | | **128,437** | 232,763 |
| | | **$ 231,180** | $ 332,286 |

(i) The fair value of the mortgages, loans and notes receivable includes $82,608 classified as FVTPL and $147,733 classified as amortized cost (December 31, 2019 - $85,809 and $246,300, respectively) (note 23).

### 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 March 31, 2020, the Trust has recorded an allowance for expected credit losses of $3,000 (December 31, 2019 - $3,000).

| | **March 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 | **7.80%** | **1.5** | 7.52% | 2.0 |
| Loans receivable | **8.00%** | **4.4** | 8.00% | 1.1 |
| **Total** | **7.81%** | **1.6** | 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 28). No notes have been issued in 2020.

### Schedules of Maturity and Cash Flow Activities

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

| ($ thousands) | 2020 Remainder | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Principal repayments | | | | | | | |
| Mortgages receivable | $ 99,048 | $ 40,629 | $ 54,904 | $ 3,603 | $ 18,915 | $ 6,127 | **$ 223,226** |
| Loans receivable | — | — | — | — | 6,109 | — | **6,109** |
| **Total principal repayments** | **99,048** | **40,629** | **54,904** | **3,603** | **25,024** | **6,127** | **229,335** |
| Interest accrued | 1,845 | — | — | — | — | — | **1,845** |
| **Total repayments** | **$ 100,893** | **$ 40,629** | **$ 54,904** | **$ 3,603** | **$ 25,024** | **$ 6,127** | **$ 231,180** |

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

| | | | | Three months ended March 31, 2020 |
|---|---|---|---|---|
| ($ thousands) | Mortgages receivable[(i)] | Loans receivable | Notes receivable from related party | Mortgages, loans and notes receivable |
| Balance, beginning of period | $ 182,350 | $ 5,649 | $ 144,287 | **$ 332,286** |
| Advances | 46,936 | 531 | — | **47,467** |
| Repayments | (5,602) | (34) | (144,287) | **(149,923)** |
| Interest received | (1,601) | (160) | — | **(1,761)** |
| Total cash flow activities | 39,733 | 337 | (144,287) | **(104,217)** |
| Interest accrued | 2,988 | 123 | — | **3,111** |
| **Balance, end of period** | **$ 225,071** | **$ 6,109** | **$ —** | **$ 231,180** |

(i) Mortgages receivable is presented net of allowance for expected credit losses of $3,000 (December 31, 2019 - $3,000).

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

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

During the three months ended March 31, 2020, the borrower on the Trust's $23,000 mortgage receivable for an asset in Barrie, Ontario, defaulted on its loan. In addition to being secured by the property, the mortgage receivable was also cross-collateralized by two other properties where the Trust is a joint venture partner with the borrower. After default, the Trust repaid the senior lender's debt of $43,000 such that the Trust became the only secured creditor on the property. The Trust then applied to the court for a receiver, who was subsequently appointed. The Trust is currently evaluating a bid for the property and is also working with the receiver to ensure proper management of the property and sale process. An allowance for expected credit losses of $3,000 has been recorded to date for this mortgage receivable.

## Note 9. 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 March 31, 2020, the carrying value, net of accumulated amortization, was $29,750 (December 31, 2019 - $30,000).

## Note 10. Accounts Receivable and Other Assets

| ($ thousands) | Note | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|---|
| Net rent receivable(i) - net of allowance for doubtful accounts of $5,624 (2019 - $5,159) | | **$ 11,093** | $ 8,284 |
| Accrued recovery income | | **33,214** | 24,485 |
| Other receivables | | **11,488** | 9,901 |
| Due from related parties(ii) | 28 | **1,193** | 756 |
| Restricted cash | | **677** | 679 |
| Prepaid property taxes | | **25,073** | 10,905 |
| Prepaid insurance | | **3,438** | 313 |
| Other assets | | **11,041** | 7,921 |
| Right-of-use assets - net of accumulated amortization of $1,377 (2019 - $988) | | **6,578** | 6,967 |
| Financial real estate asset | | **22,800** | 22,800 |
| Deferred tax asset | 14 | **410** | 410 |
| Deferred acquisition costs and deposits on land | | **1,706** | 1,427 |
| Designated hedging derivatives | 23 | **119** | 182 |
| **Accounts receivable and other assets** | | **$ 128,830** | $ 95,030 |

| | | |
|---|---|---|
| Classified as: | | |
| Non-current | **$ 37,156** | $ 35,367 |
| Current | **91,674** | 59,663 |
| | **$ 128,830** | $ 95,030 |

(i) Includes net rent receivable of $123 from Loblaw (December 31, 2019 - $71).
(ii) Other net receivables due from related parties includes $1,193 from GWL (December 31, 2019 - $756).

## Note 11. Long Term Debt

| ($ thousands) | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Senior unsecured debentures | **$ 5,105,983** | $ 5,158,342 |
| Mortgages payable | **1,196,800** | 1,230,268 |
| Construction loans | **25,013** | 24,842 |
| **Long term debt** | **$ 6,327,796** | $ 6,413,452 |

| | | |
|---|---|---|
| Classified as: | | |
| Non-current | **$ 5,815,597** | $ 5,697,841 |
| Current | **512,199** | 715,611 |
| | **$ 6,327,796** | $ 6,413,452 |

### Senior Unsecured Debentures

($ thousands)

| Series | Issuance / Assumption Date | Maturity Date | Effective Interest Rate | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|---|---|---|
| B | Jul 5, 2013 | Jul 5, 2023 | 4.90% | **$ 200,000** | $ 200,000 |
| C | Feb 8, 2014 | Feb 8, 2021 | 3.50% | **250,000** | 250,000 |
| D | Feb 8, 2014 | Feb 8, 2024 | 4.29% | **200,000** | 200,000 |
| E | Feb 5, 2015 | Sep 14, 2020 | 2.30% | **—** | 250,000 |
| 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** | — |
| 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** | 100,000 |
| D-C | May 4, 2018 | Jan 18, 2023 | 3.30% | **125,000** | 125,000 |
| **Total principal outstanding** | | | | **5,125,000** | 5,175,000 |
| Debt discounts and premiums - net of accumulated amortization of $15,281 (2019 - $14,857) | | | | **(1,773)** | (1,349) |
| Debt placement costs - net of accumulated amortization of $9,988 (2019 - $9,130) | | | | **(17,244)** | (15,309) |
| **Senior unsecured debentures** | | | | **$ 5,105,983** | $ 5,158,342 |

As at March 31, 2020, the senior unsecured debentures had a weighted average effective interest rate of 3.69% and a weighted average term to maturity of 6.3 years (December 31, 2019 - 3.67% and 5.1 years, respectively). Senior unsecured debentures Series B through Series O 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.

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.

## Mortgages Payable

| ($ thousands) | | As at March 31, 2020 | | As at December 31, 2019 |
|---|---|---|---|---|
| Mortgage principal | **$** | **1,197,269** | $ | 1,230,569 |
| Net debt discounts and premiums - net of accumulated amortization of $4,636 (2019 - $4,461) | | **32** | | 207 |
| Debt placement costs - net of accumulated amortization of $136 (2019 - $129) | | **(501)** | | (508) |
| **Mortgages payable** | **$** | **1,196,800** | $ | 1,230,268 |

As at March 31, 2020, the mortgages had a weighted average effective interest rate of 4.06% and a weighted average term to maturity of 5.4 years (December 31, 2019 - 4.05% and 5.6 years, respectively).

### Construction Loans

As at March 31, 2020, $25,013 was outstanding on the construction loans (December 31, 2019 - $24,842), with a weighted average effective interest rate of 3.77% and a weighted average term to maturity of 0.7 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 2020 to 2022, have a maximum amount available to be drawn at the Trust's ownership interest of $225,477, of which $194,902 relates to equity accounted joint ventures as at March 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) | 2020 remainder | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Senior unsecured debentures | $ — | $ 550,000 | $ 600,000 | $ 575,000 | $ 750,000 | $ 2,650,000 | **$ 5,125,000** |
| Mortgages payable | 145,320 | 102,711 | 198,508 | 105,869 | 153,655 | 491,206 | **1,197,269** |
| Construction loans | 12,187 | 12,826 | — | — | — | — | **25,013** |
| **Total** | **$ 157,507** | **$ 665,537** | **$ 798,508** | **$ 680,869** | **$ 903,655** | **$ 3,141,206** | **$ 6,347,282** |

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

| | | | | | | | | **Three months ended March 31, 2020** |
|---|---|---|---|---|---|---|---|---|
| ($ thousands) | | **Senior unsecured debentures** | | **Mortgages payable** | | **Construction loans** | | **Long term debt** |
| Balance, beginning of period | $ | 5,158,342 | $ | 1,230,268 | $ | 24,842 | **$** | **6,413,452** |
| Issuances | | 500,000 | | — | | 171 | | **500,171** |
| Repayments | | (550,000) | | (8,367) | | — | | **(558,367)** |
| Debt placement costs | | (2,793) | | — | | — | | **(2,793)** |
| Total cash flow activities | | (52,793) | | (8,367) | | 171 | | **(60,989)** |
| Assumed by purchaser | | — | | (24,933) | | — | | **(24,933)** |
| Amortization of debt discounts and premiums | | (424) | | (175) | | — | | **(599)** |
| Amortization of debt placement costs | | 858 | | 7 | | — | | **865** |
| Total non-cash activities | | 434 | | (25,101) | | — | | **(24,667)** |
| **Balance, end of period** | **$** | **5,105,983** | **$** | **1,196,800** | **$** | **25,013** | **$** | **6,327,796** |

## Note 12. Credit Facility

| ($ thousands) | | As at March 31, 2020 | | As at December 31, 2019 |
|---|---|---|---|---|
| **Credit facility** | | | | |
| $1,500,000 syndicated | **$** | **240,000** | $ | 132,000 |
| Debt placement costs - net of accumulated amortization of $6,073 (2019 - $5,715) | | **(4,409)** | | (4,767) |
| **Credit facility** | **$** | **235,591** | $ | 127,233 |
| Classified as: | | | | |
| Non-current | **$** | **235,591** | $ | 127,233 |
| Current | | **—** | | — |
| | **$** | **235,591** | $ | 127,233 |

### Credit Facility

Choice Properties has a $1,500,000 senior unsecured committed revolving credit facility maturing May 4, 2023, provided by a syndicate of lenders. The credit facility bears interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at BBB. As at March 31, 2020, $240,000 was drawn under the syndicated facility.

The credit facility contains certain financial covenants. As at March 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:

| | | Three months ended March 31, 2020 |
|---|---|---|
| ($ thousands) | | **Credit facility** |
| Balance, beginning of period | **$** | **127,233** |
| Net advances of $1,500,000 syndicated credit facility | | **108,000** |
| Amortization of debt placement costs - non-cash activities | | **358** |
| **Balance, end of period** | **$** | **235,591** |

## Note 13. 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 March 31, 2020** | | As at December 31, 2019 | |
|---|---|---|---|---|---|
| ($ thousands except where otherwise indicated) | | **Units** | **Amount** | Units | Amount |
| Units, beginning of period | | **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 |
| Distribution in Units | | **—** | **—** | 1,569,400 | 21,721 |
| Consolidation of Units | | **—** | **—** | (1,569,400) | — |
| Units issued under unit-based compensation arrangements | 16 | **307,877** | **4,841** | 2,203,950 | 29,055 |
| Reclassification of vested Unit-Settled Restricted Units liability to equity | | **—** | **1,700** | — | 2,081 |
| Units repurchased for unit-based compensation arrangements | 16 | **(159,083)** | **(2,346)** | (155,890) | (2,122) |
| **Units, end of period** | | **310,441,663** | **$ 3,414,031** | 310,292,869 | $ 3,409,836 |
| Exchangeable Units, beginning of period | | **389,961,783** | **$ 5,424,368** | 389,961,783 | $ 4,492,359 |
| Adjustment to fair value of Exchangeable Units | | **—** | **(386,062)** | — | 932,009 |
| **Exchangeable Units, end of period** | | **389,961,783** | **$ 5,038,306** | 389,961,783 | $ 5,424,368 |
| **Total Units and Exchangeable Units, end of period** | | **700,403,446** | | 700,254,652 | |

### 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 15, 2019, Choice Properties received approval from the TSX to purchase up to 25,856,839 Units during the twelve-month period from November 19, 2019 to November 18, 2020, by way of a NCIB over the facilities of the TSX or through alternative trading systems.

### Units Issued under Unit-Based Compensation Arrangements
Units were issued in connection with settlements under the Trust's Unit Option Plan and the Unit-Settled Restricted Unit Plan (note 16).

### Units Repurchased for Unit-Based Compensation Arrangement
The Trust acquired Units under its NCIB during the three months ended March 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 14). 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 three months ended March 31, 2020, Choice Properties declared cash distributions of $0.185 per unit (March 31, 2019 - $0.1850), or $129,561 in aggregate, including distributions to holders of Exchangeable Units, which are reported as interest expense (March 31, 2019 - $123,745). Distributions declared to Unitholders of record at the close of business on the last business day of a month are paid on or about the 15th day of the following month.

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

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

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

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

On April 25, 2018, the Board temporarily suspended the DRIP commencing with the distribution declared in May 2018. On February 12, 2020, the Board approved an amendment and reinstatement of the DRIP. The Board also approved the elimination of the 3% bonus distribution under the amended DRIP. Subsequent to the Board approval on February 12, 2020 and in response to market disruptions caused by the COVID-19 pandemic, the Trust made the decision to continue suspending the DRIP. 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 14. 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:

| | Three Months | |
|---|---|---|
| ($ thousands) | **March 31, 2020** | March 31, 2019 |
| Current income taxes | **$ —** | $ 233 |
| Deferred income taxes | **—** | 187 |
| **Income tax expense** | **$ —** | $ 420 |

A deferred income tax asset of $410 (note 10) 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 15. Trade Payables and Other Liabilities

| ($ thousands) | Note | | As at March 31, 2020 | | As at December 31, 2019 |
|---|---|---|---|---|---|
| Trade accounts payable | | **$** | **19,122** | $ | 9,430 |
| Accrued liabilities and provisions | | | **100,744** | | 83,010 |
| Accrued acquisition transaction costs and other related expenses | | | **38,970** | | 38,999 |
| Accrued capital expenditures(i) | | | **52,034** | | 60,807 |
| Accrued interest expense | | | **31,086** | | 61,352 |
| Due to related party(ii) | 28 | | **28,762** | | 179,111 |
| Unit-based compensation | 16 | | **9,656** | | 11,408 |
| Distributions payable(iii) | | | **19,316** | | 19,326 |
| Right-of-use lease liabilities | | | **6,757** | | 7,138 |
| Tenant deposits | | | **16,158** | | 16,882 |
| Deferred revenue | | | **21,027** | | 22,850 |
| Designated hedging derivatives | 23 | | **8,045** | | 2,811 |
| **Trade payables and other liabilities** | | **$** | **351,677** | $ | 513,124 |
| | | | | | |
| Classified as: | | | | | |
| Non-current | | **$** | **15,261** | $ | 12,267 |
| Current | | | **336,416** | | 500,857 |
| | | **$** | **351,677** | $ | 513,124 |

(i) Includes payable to Loblaw of $1,460 for accrued intensification liabilities and construction allowances (2019 - $5,278).
(ii) Includes distributions accrued on Exchangeable Units of $24,047 payable to GWL (2019 - $168,334) and $4,419 payable for shared costs incurred by GWL (2019 - $3,676), the Services Agreement expense and other related party charges (note 28).
(iii) Includes distributions payable to GWL of $3,124 (December 31, 2019 - $3,124).

## Note 16. Unit-Based Compensation

Choice Properties' unit-based compensation expense was:

| | Three Months | | | |
|---|---|---|---|---|
| ($ thousands) | | March 31, 2020 | | March 31, 2019 |
| Unit Option plan | **$** | **(283)** | $ | 5,415 |
| Restricted Unit plans | | **778** | | 1,572 |
| Performance Unit plan | | **57** | | 422 |
| Trustee Deferred Unit plan | | **78** | | 973 |
| **Unit-based compensation expense** | **$** | **630** | $ | 8,382 |
| Recorded in: | | | | |
| General and administrative expenses | **$** | **1,263** | $ | 1,420 |
| Adjustment to fair value of unit-based compensation | | **(633)** | | 6,962 |
| | **$** | **630** | $ | 8,382 |

As at March 31, 2020, the carrying value of the unit-based compensation liability was $9,656 (December 31, 2019 - $11,408) (note 15).

### 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:

| | **Three months ended March 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 period | **1,287,314** | **$** | **12.51** | 3,764,107 | $ | 11.66 |
| Exercised | **(148,794)** | **$** | **12.09** | (2,048,060) | $ | 11.04 |
| Cancelled | **(32,427)** | **$** | **12.44** | (417,439) | $ | 11.96 |
| Expired | **—** | **$** | **—** | (11,294) | $ | 14.21 |
| **Outstanding Unit Options, end of period** | **1,106,093** | **$** | **12.57** | 1,287,314 | $ | 12.51 |
| Unit Options exercisable, end of period | **723,928** | **$** | **12.60** | 561,779 | $ | 12.27 |

### 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 March 31, 2020 (December 31, 2019 - nil).

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

| (Number of awards) | **Three months ended March 31, 2020** | Year ended December 31, 2019 |
|---|---|---|
| Outstanding Restricted Units, beginning of period | **484,544** | 446,341 |
| Granted | **69,227** | 239,483 |
| Reinvested | **6,501** | 26,547 |
| Exercised | **(70,989)** | (106,355) |
| Cancelled | **(6,120)** | (121,472) |
| **Outstanding Restricted Units, end of period** | **483,163** | 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 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 730,551 URUs vested but still subject to disposition restrictions as at March 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) | **Three months ended March 31, 2020** | Year ended December 31, 2019 |
|---|---|---|
| Outstanding Unit-Settled Restricted Units, beginning of period | **624,419** | 717,815 |
| Granted | **159,083** | 155,946 |
| Cancelled | **—** | (40,796) |
| Vested | **(160,839)** | (208,546) |
| **Outstanding Unit-Settled Restricted Units, end of period** | **622,663** | 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 March 31, 2020 (December 31, 2019 - nil).

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

| (Number of awards) | **Three months ended March 31, 2020** | Year ended December 31, 2019 |
|---|---|---|
| Outstanding Performance Units, beginning of period | **103,868** | 104,449 |
| Granted | **59,273** | 50,686 |
| Reinvested | **1,538** | 5,867 |
| Exercised | **(38,233)** | (58,282) |
| Cancelled | **(2,931)** | (21,471) |
| Added by performance factor | **8,850** | 22,619 |
| **Outstanding Performance Units, end of period** | **132,365** | 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) | **Three months ended March 31, 2020** | Year ended December 31, 2019 |
|---|---|---|
| Outstanding Trustee Deferred Units, beginning of period | **277,139** | 302,589 |
| Granted | **22,046** | 68,123 |
| Reinvested | **3,621** | 17,046 |
| Cancelled | **—** | (185) |
| Exercised | **—** | (110,434) |
| **Outstanding Trustee Deferred Units, end of period** | **302,806** | 277,139 |

## Note 17. Rental Revenue

Rental revenue is comprised of the following:

| ($ thousands) | **Related Parties(i)** | **Third-party** | **Three months ended March 31, 2020** | Related Parties(i) | Third-party | Three months ended March 31, 2019 |
|---|---|---|---|---|---|---|
| Base rent | **$ 131,096** | **$ 87,085** | **$ 218,181** | $ 138,027 | $ 84,058 | $ 222,085 |
| Property tax and insurance recoveries | **38,832** | **25,773** | **64,605** | 39,251 | 24,409 | 63,660 |
| Operating cost recoveries | **17,003** | **22,374** | **39,377** | 13,963 | 20,982 | 34,945 |
| Lease surrender and other revenue | **—** | **2,748** | **2,748** | — | 2,283 | 2,283 |
| **Rental Revenue** | **$ 186,931** | **$ 137,980** | **$ 324,911** | $ 191,241 | $ 131,732 | $ 322,973 |

(i) Refer to Note 28, 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.

## Note 18. Property Operating Costs

| ($ thousands) | | Three Months March 31, 2020 | | March 31, 2019 |
|---|---|---|---|---|
| Property taxes and insurance | $ | 68,213 | $ | 66,781 |
| Recoverable operating costs | | 29,198 | | 26,179 |
| Non-recoverable operating costs | | 1,409 | | 760 |
| **Property operating costs** | $ | 98,820 | $ | 93,720 |

## Note 19. Interest Income

| ($ thousands) | Note | | Three Months March 31, 2020 | | March 31, 2019 |
|---|---|---|---|---|---|
| Interest income on mortgages and loans receivable | 8 | $ | 3,111 | $ | 3,683 |
| Income from financial real estate asset | 10 | | 370 | | — |
| Other interest income | | | 12 | | 132 |
| **Interest income** | | $ | 3,493 | $ | 3,815 |

## Note 20. Fee Income

| ($ thousands) | Note | | Three Months March 31, 2020 | | March 31, 2019 |
|---|---|---|---|---|---|
| Fees charged to related party | 28 | $ | 220 | $ | 247 |
| Fees charged to third-parties | | | 1,028 | | 710 |
| **Fee income** | | $ | 1,248 | $ | 957 |

## Note 21. Net Interest Expense and Other Financing Charges

| ($ thousands) | Note | | Three Months March 31, 2020 | | March 31, 2019 |
|---|---|---|---|---|---|
| Interest on senior unsecured debentures | | $ | 46,359 | $ | 42,400 |
| Interest on mortgages and construction loans | | | 12,373 | | 13,488 |
| Interest on credit facility and term loans | | | 3,016 | | 11,409 |
| Interest on right-of-use lease liabilities | 15 | | 64 | | 72 |
| Effective interest rate amortization of debt discounts and premiums | 11 | | (599) | | (959) |
| Effective interest rate amortization of debt placement costs | 11, 12 | | 1,223 | | 1,201 |
| Distributions on Exchangeable Units[i] | 28 | | 72,143 | | 72,143 |
| | | | 134,579 | | 139,754 |
| Less: Capitalized interest[ii] | 4 | | (700) | | (1,543) |
| **Net interest expense and other financing charges** | | $ | 133,879 | $ | 138,211 |

(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 3.72% (2019 - 3.71%).

## Note 22. General and Administrative Expenses

| ($ thousands) | Note | Three Months March 31, 2020 | March 31, 2019 |
|---|---|---|---|
| Salaries, benefits and employee costs | | **$ 12,393** | $ 11,166 |
| Investor relations and other public entity costs | | **652** | 519 |
| Professional fees | | **777** | 482 |
| Information technology costs | | **818** | 848 |
| Services Agreement expense charged by related party | 28 | **774** | 689 |
| Amortization of other assets | | **415** | 255 |
| Other | | **874** | 1,209 |
| Total general and administrative expenses | | **16,703** | 15,168 |
| Less: | | | |
| Capitalized to investment properties | | **(1,437)** | (653) |
| Allocated to recoverable operating expenses | | **(5,580)** | (4,652) |
| **General and administrative expenses** | | **$ 9,686** | $ 9,863 |

## Note 23. 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.

| | | As at March 31, 2020 | | | | As at December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| ($ thousands) | Note | **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 | 8 | **$ —** | **$ —** | **$ 82,608** | **$ 82,608** | $ — | $ — | $ 85,809 | $ 85,809 |
| Financial real estate asset | 10 | **—** | **—** | **22,800** | **22,800** | — | — | 22,800 | 22,800 |
| Designated hedging derivatives | 10 | **—** | **119** | **—** | **119** | — | 182 | — | 182 |
| Amortized cost: | | | | | | | | | |
| Mortgages, loans and notes receivable - SPPI | 8 | **—** | **—** | **147,733** | **147,733** | — | — | 246,300 | 246,300 |
| Cash and cash equivalents | | **79,642** | **—** | **—** | **79,642** | 41,990 | — | — | 41,990 |
| **Liabilities** | | | | | | | | | |
| Fair value through profit and loss: | | | | | | | | | |
| Exchangeable Units | 13 | **5,038,306** | **—** | **—** | **5,038,306** | 5,424,368 | — | — | 5,424,368 |
| Unit-based compensation | 15 | **—** | **9,656** | **—** | **9,656** | — | 11,408 | — | 11,408 |
| Designated hedging derivatives | 15 | **—** | **8,045** | **—** | **8,045** | — | 2,811 | — | 2,811 |
| Amortized cost: | | | | | | | | | |
| Long term debt | 11 | **—** | **6,517,155** | **—** | **6,517,155** | — | 6,627,647 | — | 6,627,647 |
| Credit facility | 12 | **—** | **235,591** | **—** | **235,591** | — | 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. The Trust did not enter into any new designated hedging derivatives during the three months ended March 31, 2020.

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

| ($ thousands) | | Notional Amount | | Net Asset (Liability) | Line Item in Balance Sheet |
|---|---|---|---|---|---|
| **As at March 31, 2020** | | | | | |
| Interest rate swaps | $ | 276,700 | $ | (7,926) | Other assets or Other liabilities |
| **As at December 31, 2019** | | | | | |
| Interest rate swaps | | 276,700 | | (2,629) | Other assets or Other liabilities |

The fair value loss recorded in OCI for the three months ended March 31, 2020 was $5,297 (March 31, 2019 - $3,255).

## Note 24. Capital Management

In order to maintain or adjust its capital structure, Choice Properties may issue new Units and debt, repay debt, or adjust the amount of distributions paid to Unitholders. For further discussion on how Choice Properties manages its capital structure, refer to Note 27, “Capital Management”, of the Trust’s 2019 audited annual consolidated financial statements.

## Note 25. Supplementary Information

### Change in Non-Cash Working Capital

| | | Three Months | | | |
|---|---|---|---|---|---|
| ($ thousands) | Note | | **March 31, 2020** | | March 31, 2019 |
| Net change in accounts receivable and other assets | 10 | **$** | **(33,800)** | $ | (23,762) |
| Add back (deduct): | | | | | |
| Additions to right of use assets | | | **—** | | 7,955 |
| Change to designated hedging derivative assets | 10 | | **(63)** | | (418) |
| Net change in trade payables and other liabilities | 15 | | **(161,447)** | | (46,354) |
| Add back (deduct): | | | | | |
| Additions to lease liabilities | | | **—** | | (7,955) |
| Net change in distributions payable | 15 | | **10** | | (68) |
| Net change in unit-based compensation liability | 15 | | **1,752** | | (2,212) |
| Net change to accrued interest expense | | | **176,142** | | 57,202 |
| Change to designated hedging derivative liabilities | 15 | | **(5,234)** | | (2,836) |
| Impact of currency translation[i] | | | **3,420** | | (738) |
| **Change in non-cash working capital** | | **$** | **(19,220)** | $ | (19,186) |

(i) For the three months ended March 31, 2020, the impact of currency translation on cash held in foreign currency was $938 (2019 - $165).

## Note 26. Segment Information

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

Net operating income, cash basis, is defined as property rental revenue less straight line rental revenue, 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 income for the three months ended March 31, 2020, in a manner consistent with internal reporting. The accounting policies of the segments presented here are the same as those as described in note 2 of the annual financial statements.

| ($ thousands) | Retail | Industrial | Office | Consolidation and eliminations[i] | Three months ended March 31, 2020 |
|---|---|---|---|---|---|
| Rental revenue | $ 269,183 | $ 44,231 | $ 27,003 | $ (15,506) | $ 324,911 |
| Property operating costs | (82,228) | (12,003) | (10,176) | 5,587 | (98,820) |
| **Net Operating Income, Accounting Basis** | **186,955** | **32,228** | **16,827** | **(9,919)** | **226,091** |
| Less: | | | | | |
| Straight-line rent | (3,165) | (837) | (362) | 339 | (4,025) |
| Lease surrender revenue | (9) | — | (106) | — | (115) |
| **Net Operating Income, Cash Basis** | **183,781** | **31,391** | **16,359** | **(9,580)** | **221,951** |
| Add back: cash basis reconciling items | | | | | 4,140 |
| Net operating income, accounting basis | | | | | 226,091 |
| Interest income | | | | | 3,493 |
| Fee income | | | | | 1,248 |
| Net interest expense and other financing charges | | | | | (133,879) |
| General and administrative expenses | | | | | (9,686) |
| Share of income (loss) from equity accounted joint ventures | | | | | (4,267) |
| Amortization of intangible assets | | | | | (250) |
| Foreign exchange gain reclassified from other comprehensive income | | | | | 1,184 |
| Acquisition transaction costs and other related expenses | | | | | (1,589) |
| Adjustment to fair value of unit-based compensation | | | | | 633 |
| Adjustment to fair value of Exchangeable Units | | | | | 386,062 |
| Adjustment to fair value of investment properties | | | | | (136,298) |
| **Income before income taxes** | | | | | **332,742** |
| Income taxes | | | | | — |
| **Net income** | | | | | **$ 332,742** |

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

The chart below presents net loss for the three months ended March 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 of the annual financial statements.

| ($ thousands) | Retail | Industrial | Office | Consolidation and eliminations(i) | Three months ended March 31, 2019 |
|---|---|---|---|---|---|
| Rental revenue | $ 266,149 | $ 46,835 | $ 26,616 | $ (16,627) | $ 322,973 |
| Property operating costs | (76,849) | (12,632) | (10,301) | 6,062 | (93,720) |
| Net Operating Income, Accounting Basis | 189,300 | 34,203 | 16,315 | (10,565) | 229,253 |
| Less: | | | | | |
| Straight-line rent | (5,440) | (1,215) | (554) | 222 | (6,987) |
| Net Operating Income, Cash Basis | 183,860 | 32,988 | 15,761 | (10,343) | 222,266 |
| Add back: cash basis reconciling items | | | | | 6,987 |
| Net Operating Income, Accounting Basis | | | | | 229,253 |
| Interest income | | | | | 3,815 |
| Fee income | | | | | 957 |
| Net interest expense and other financing charges | | | | | (138,211) |
| General and administrative expenses | | | | | (9,863) |
| Share of income (loss) from equity accounted joint ventures | | | | | 17,413 |
| Acquisition transaction costs and other related expenses | | | | | (4,155) |
| Adjustment to fair value of unit-based compensation | | | | | (6,962) |
| Adjustment to fair value of Exchangeable Units | | | | | (990,504) |
| Adjustment to fair value of investment properties | | | | | (3,455) |
| Income before income taxes | | | | | (901,712) |
| Income taxes | | | | | (420) |
| Net Loss | | | | | $ (902,132) |

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

## Note 27. Contingent Liabilities and Financial Guarantees

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

### 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 March 31, 2020, the aggregate gross potential liability related to these letters of credit totaled $35,534 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 28) (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 March 31, 2020 subject to such guarantees, and therefore the maximum exposure to credit risk, was $36,439 with an estimated weighted average remaining term of 3.3 years (December 31, 2019 - $36,690 and 3.5 years, respectively).

### c. Commitments

Choice Properties has entered into contracts for development and sustainable capital projects and has other contractual obligations such as operating rents. The Trust is committed to future payments of approximately $490,581, of which $132,012 relates to equity accounted joint ventures as at March 31, 2020 (December 31, 2019 - $553,844 and $184,633 respectively).

The Trust held debt obligations in the amount of $195,825 in its equity accounted joint ventures as at March 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 28. Related Party Transactions

Choice Properties' parent corporation is GWL, which held a 62.9% direct effective interest in the Trust through ownership of 50,661,415 Units and 100% of the Exchangeable Units as at March 31, 2020. GWL is also the parent company of Loblaw, with ownership of 52.1% of Loblaw's outstanding common shares as at March 31, 2020.

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

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

### Transactions and Agreements with GWL

**Acquisitions**
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.

**Services Agreement**
GWL provides Choice Properties with corporate, administrative and other support services for an annualized cost of $3,095 (2019 - $3,095).

**Operating Lease**
From May 1, 2019 to December 31, 2019, GWL a sub-leased office space from Choice Properties. During the year ended December 31, 2019, Choice Properties earned sub-lease income of $756 from GWL.

Effective January 1, 2018, Choice Properties entered into a sub-lease for additional office space with Weston Foods, a subsidiary of GWL, with a term effective until the end of the existing lease in 2024. Over the term of the sub-lease, lease payments will total $1,282.

**Distributions on Exchangeable Units and Notes Receivable**
GWL holds all of the Exchangeable Units issued by Choice Properties Limited Partnership, a subsidiary of Choice Properties. During the three months ended March 31, 2020, distributions declared on the Exchangeable Units totalling $72,143 of which $24,047 were payable to GWL (December 31, 2019 - $168,334).

**Trust Unit Distributions**
In the three months ended March 31, 2020, Choice Properties declared cash distributions of $9,372 on the Units held by GWL (December 31, 2019 - $36,551). There were no non-cash distributions paid by the issuance of additional Trust Units during the three months ended March 31, 2020 (December 31, 2019 - $3,546). As at March 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:

| | | Three Months | |
|---|---|---|---|
| ($ thousands) | Note | **March 31, 2020** | March 31, 2019 |
| Rental revenue | 17 | **$ 827** | $ 644 |
| Services Agreement expense | 22 | **(774)** | (689) |
| Interest expense and other financing charges | 21 | **(72,143)** | (72,143) |

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

| ($ thousands) | Note | | **As at March 31, 2020** | | As at December 31, 2019 |
|---|---|---|---|---|---|
| Notes receivable | 8 | **$** | **—** | $ | 144,287 |
| Other receivables | 10 | | **1,193** | | 756 |
| Exchangeable Units | 13 | | **(5,038,306)** | | (5,424,368) |
| Accrued liabilities | 15 | | **(4,419)** | | (3,676) |
| Distributions payable on Exchangeable Units | 15 | | **(24,047)** | | (168,334) |
| Distributions payable | 15 | | **(3,124)** | | (3,124) |
| **Due to GWL and subsidiaries** | | **$** | **(5,068,703)** | $ | (5,454,459) |

**Transactions and Agreements with Loblaw**

**Acquisitions**
In the year ended December 31, 2019, Choice Properties acquired two investment properties and one financial real estate asset from Loblaw with an aggregate purchase price of $59,118, excluding transaction costs. The acquisitions were settled with cash.

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

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

**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.

**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 $409 in connection with completed gross leasable area for which tenants took possession during the three months ended March 31, 2020 (December 31, 2019 - $4,577).

**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.

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

**Letters of Credit**
As at March 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 27).

**Transaction Summary as Reflected in the Consolidated Financial Statements**
Loblaw is also Choice Properties' largest tenant, representing approximately 57.3% of Choice Properties' rental revenue and 56.6% of its gross leasable area for the three months ended March 31, 2020 (March 31, 2019 - 61.9% and 58.4%, respectively). Transactions with Loblaw recorded in the consolidated statements of income (loss) and comprehensive income (loss) were comprised as follows:

| | | Three Months | |
|---|---|---|---|
| ($ thousands) | Note | **March 31, 2020** | March 31, 2019 |
| Rental revenue | 17 | **$ 186,104** | $ 190,597 |
| Fee income | 20 | **220** | 247 |

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

| ($ thousands) | Note | **As at March 31, 2020** | As at December 31, 2019 |
|---|---|---|---|
| Rent receivable and other receivables | 10 | **$ 123** | $ 71 |
| Accrued intensification liabilities | 15 | **(1,460)** | — |
| Construction allowances payable | 15 | **—** | (5,278) |
| Reimbursed contract payable | 15 | **(295)** | (7,100) |

**<u>Transactions with Other Related Parties</u>**

**Operating Lease**
In 2014, Choice Properties entered into a ten-year lease for office space with Wittington Properties Limited ("Wittington"), GWL's parent company. Lease payments will total $2,664 over the term of the lease.

**Joint Venture**
On December 9, 2014, Choice Properties and its joint venture partner, Wittington, completed the acquisition of 500 Lake Shore Boulevard West in Toronto, Ontario for $15,576 from Loblaw (note 5). Wittington is the development and construction manager for the commercial space. Wittington's parent company is Wittington Investments, Limited, which holds a majority interest in GWL. Choice Properties contributed $4,200 to the joint venture and received distributions of nil during the three months ended March 31, 2020 (December 31, 2019 - contributions $13,240 and distributions $nil). Operating activities have not begun at the property; however, the joint venture earned interest income during the three months ended March 31, 2020 of $145 (2019 - $34).

Summarized financial information for the Trust's share of the related party equity accounted joint venture is set out below:

| ($ thousands) | | As at March 31, 2020 | | As at December 31, 2019 |
|---|---|---|---|---|
| Current assets | **$** | **6,104** | $ | 7,107 |
| Non-current assets | | **136,285** | | 117,500 |
| Current liabilities | | **(19,839)** | | (17,565) |
| Net assets at 100% | **$** | **122,550** | $ | 107,042 |
| Investment in equity accounted joint venture at 40% | **$** | **49,020** | $ | 42,817 |

| | | **Three Months** | | |
|---|---|---|---|---|
| ($ thousands) | | **March 31, 2020** | | March 31, 2019 |
| Interest income | **$** | **145** | $ | 34 |
| Adjustment to fair value of investment property | | **(545)** | | — |
| Net income and comprehensive income at 100% | **$** | **(400)** | $ | 34 |
| Share of income and comprehensive income in equity accounted joint venture at 40% | **$** | **(160)** | $ | 14 |

### Note 29. Subsequent Events

Subsequent to the quarter end, 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 globally 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.

The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government's interventions. As a result of COVID-19, the Trust has agreed to assist small businesses and independent tenants with rent deferrals and has received numerous letters from other tenants asking for rental concessions or stating that they are not going to pay rent during the pandemic. Subsequent to quarter end, April rents were due, and as of April 22, 2020, the Trust received 86% of the contractual rents. It is too early to determine how much rent will be withheld in the months ahead.

The Trust also expects COVID-19-related delays to development initiatives and the commencement of construction for new projects. The Trust expects near-term delays to on-going projects in terms of construction spending and expected completion dates, as well as delays to the commencement of construction for new development projects. Work on planning and rezoning initiatives is expected to continue.

The Trust is also continuing to review its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic, as well as the current oil price collapse. The Trust expects that COVID-19 will have the most notable impact on its retail portfolio, of which over 75% of this portfolio is leased to either grocery stores, pharmacies or other necessity-based tenants with stable business operations. The carrying value for the Trust's investment properties reflects its best estimate for the highest and best use as at March 31, 2020 (Note 4).

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 Trusts' business and operations, both in the short term and in the long term. In a long term scenario, certain aspects of the REIT'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.

## Corporate Profile

Choice Properties, Canada's preeminent diversified real estate investment trust, is the owner, manager and developer of a high-quality portfolio comprising 724 properties totalling 65.6 million square feet of gross leasable area. Choice Properties owns a portfolio comprised of retail properties predominantly leased to necessity-based tenants; industrial, office and residential assets concentrated in attractive markets; and offers an impressive and substantial development pipeline. Choice Properties' strategic alliance with its principal tenant, Loblaw Companies Limited, the country's leading retailer, is a key competitive advantage providing long-term growth opportunities.

## Conference Call and Webcast

Management will host a conference call on Thursday, April 23, 2020 at 11:00AM (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: 9137276. The link to the audio webcast will be available on www.choicereit.ca in the "Events and Webcast" section under "News and Events".

## Annual Meeting of Unitholders

Choice Properties' Annual Meeting of Unitholders will take place on Friday, April 24, 2020 at 10:00AM (ET). Due to the public health impact of the COVID-19 pandemic and in consideration of the health and safety of our Unitholders, employees and the broader community, this year's meeting will be held in a virtual meeting format only, by way of a live webcast. Unitholders can attend the meeting by joining the live webcast online at https://web.lumiagm.com/166996853. Refer to "How do I attend and participate in the virtual Meeting?" in the Management Proxy Circular which can be viewed online at www.choicereit.ca or under Choice Properties' SEDAR profile at www.sedar.com, for detailed instructions on how to attend and vote at the meeting. The webcast of the meeting will be archived on our website following the meeting. Please refer to the investor relations page at www.choicereit.ca for additional details on the virtual meeting.


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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
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Tel toll free: 1-800-387-0825 (Canada and US)
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**Investor Relations**
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Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR), www.sedar.com. Choice Properties holds a conference call shortly following the release of its quarterly results. These calls are archived in the Investor Relations section of the Trust's website, www.choicereit.ca.

Ce rapport est disponible en français.


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