

## COMPUTATION OF CAPITAL GAIN ON THE REDEMPTION OF CREIT UNITS

On May 4, 2018, Choice Properties Real Estate Investment Trust (“Choice REIT”) completed its acquisition of Canadian Real Estate Investment Trust (“CREIT”) which resulted in a deemed year end for CREIT. In regards to the acquisition, CREIT unitholders had the option to elect to receive either cash consideration of \$53.75 per CREIT unit or 4.2835 Choice REIT units for each CREIT unit held, subject to proration to account for a fixed aggregate amount of cash consideration.

The following examples illustrate the Canadian income tax mechanics of the redemption process. These examples are not intended to be legal or tax advice. Unitholders should therefore consult their tax advisors on their particular circumstances.

### **Example 1: Redemption of CREIT Unit for Cash Consideration**

For unitholders that elected to receive cash consideration, the redemption is considered to be a disposition for Canadian income tax purposes where a capital gain or loss would generally be realized. The proceeds of disposition per CREIT unit is equal to the \$53.75 cash consideration received, less the \$50.60 capital gain allocated as reported on the 2018 CREIT T3 Statement of Trust slip. Accordingly, net proceeds of disposition equal \$3.15, as reported on the 2018 CREIT T5008 Statement of Securities Transactions.

Assume a unitholder has elected to receive cash consideration for their 1 CREIT unit with an adjusted cost base (ACB) of \$40.00 prior to the May 4, 2018 redemption. For the purposes of this example, the ACB calculation has already accounted for historical return of capital as well as for the return of capital reduction reported on the 2018 CREIT T3 Statement of Trust Income slip.

The hypothetical unitholder's 2018 net capital gain from the disposition of the CREIT unit should be as follows:

<b>Capital Gain per T3 Slip</b>	<b>\$50.60</b>
<u>Redemption of CREIT Unit:</u>	
Proceeds of Disposition per T5008 Slip	\$ 3.15
ACB	\$40.00
<b>Capital Loss on Redemption of CREIT Unit</b>	<b>(\$36.85)</b>
<b>Net Capital Gain</b>	<b>\$13.75</b>

Note that the above capital gain is in addition to the normal income inclusions from CREIT's distributions as provided per the T3 summary.

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### **Example 2: Redemption of CREIT Unit for 4.2835 Choice REIT Units**

For unitholders that elected to receive 4.2835 Choice REIT units per CREIT unit, it is CREIT and Choice REIT's intention to file the required election under section 132.2 of the Income Tax Act (Canada) in the manner and time prescribed, such that the redemption of the units will be on a tax-deferred basis. Accordingly, this redemption should not result in any tax gain or loss for the unitholder. The cumulative ACB of the Choice REIT units received should equal the cumulative ACB of the exchanged CREIT units.

Assume a unitholder has elected to receive 4.2835 Choice REIT units for their 1 CREIT unit with an adjusted cost base (ACB) of \$40.00 prior to the May 4, 2018 redemption. For the purposes of this

example, the ACB calculation has already accounted for historical return of capital, as well as for the return of capital reduction reported on the 2018 CREIT T3 Statement of Trust Income slip.

The hypothetical unitholder's Choice REIT unit ACB following the May 4<sup>th</sup>, 2018 transaction should be as follows:

	ACB / Unit	Units Held	Total ACB
CREIT Units	\$40.00	1	\$40.00
Conversion Factor	4.2835	4.2835	
<b>Choice REIT Units</b>	<b>\$9.3382</b>	<b>4.2835</b>	<b>\$40.00</b>

Note that the CREIT unit is also entitled to the normal income inclusions from CREIT's distributions as provided per the T3 summary.

**Example 3: Combination of CREIT Units redeemed for Cash Consideration and Choice REIT Units.**

Assume a unitholder with two CREIT units has elected to receive cash consideration for one CREIT unit and Choice REIT units for the other CREIT unit. The hypothetical unitholder's total adjusted cost base (ACB) for the two units is \$80.00 prior to the May 4, 2018 redemption, for an ACB of \$40.00 per unit. For the purposes of this example, the ACB calculation has already accounted for historical return of capital, as well as for the return of capital reduction reported on the 2018 CREIT T3 Statement of Trust Income slip.

In line with Example 1, the hypothetical unitholder's 2018 net capital gain from the redemption of the first CREIT unit for cash is as follows:

<b>Capital Gain per T3 Slip</b>	<b>\$50.60</b>
<u>Redemption of CREIT Unit:</u>	
Proceeds of Disposition per T5008 Slip	\$ 3.15
Prorated ACB of Disposed Unit / Total Units	\$40.00
<b>Capital Loss on Redemption of CREIT Unit</b>	<b>(\$36.85)</b>
<b>Net Capital Gain</b>	<b>\$13.75</b>

In line with Example 2, The hypothetical unitholder's Choice REIT unit ACB from the redemption of the second CREIT unit for Choice REIT units should be as follows:

	ACB / Unit	Units Held	Total ACB
CREIT Units	\$40.00	1	\$40.00
Conversion Factor	4.2835	4.2835	
<b>Choice REIT Units</b>	<b>\$9.3382</b>	<b>4.2835</b>	<b>\$40.00</b>

Note that the above capital gain is in addition to the normal income inclusions from CREIT's distributions as provided per the T3 summary.