

Unaudited interim financial statements of
**Choice Properties Real Estate
Investment Trust**
Period from May 21, 2013 (*date of formation*) to June 30, 2013

Choice Properties Real Estate Investment Trust
Balance Sheet

	As at
(Canadian dollars) (unaudited)	June 30, 2013
Assets	
Cash	\$ 10.00
Total Assets	\$ 10.00
Unitholder's Equity	
Unitholder's equity	\$ 10.00
Total Unitholder's Equity	\$ 10.00

See accompanying notes to the unaudited interim financial statements.

Choice Properties Real Estate Investment Trust
Statement of Changes in Unitholder's Equity

For the period from May 21, 2013 (date of formation) to June 30, 2013
(Canadian dollars) (unaudited)

Unitholder's Equity, Beginning of Period	\$ -
Issuance of unit on formation	10.00
Unitholder's Equity, End of Period	\$ 10.00

See accompanying notes to the unaudited interim financial statements.

Choice Properties Real Estate Investment Trust
Statement of Cash Flow

For the period from May 21, 2013 (date of formation) to June 30, 2013
(Canadian dollars) (unaudited)

Financing Activity	
Issuance of unit on formation	\$ 10.00
Increase in cash	10.00
Cash, beginning of period	–
Cash, End of Period	\$ 10.00

See accompanying notes to the unaudited interim financial statements.

Choice Properties Real Estate Investment Trust
Notes to the Unaudited Interim Financial Statements

For the period from May 21, 2013 (date of formation) to June 30, 2013
(in thousands of Canadian dollars except where otherwise indicated) (unaudited)

1. Nature and Description of the Reporting Entity

Choice Properties Real Estate Investment Trust (“Choice Properties”) is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario and established pursuant to a declaration of trust dated May 21, 2013 (the “Declaration of Trust”). Choice Properties has been formed primarily to own income-producing commercial properties located in Canada. The principal, registered and head office of Choice Properties is located at 22 St. Clair Avenue East, Suite 800, Toronto, Ontario, M4T 2S5.

2. Significant Accounting Policies

Statement of Compliance

The unaudited interim financial statements of Choice Properties have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described herein.

These unaudited interim financial statements were approved by the Board of Trustees of Choice Properties and authorized for issuance on August 13, 2013.

Basis of Presentation

The unaudited interim financial statements of Choice Properties are presented in Canadian dollars.

Cash

Cash consists of cash on hand and unrestricted cash.

Unitholder’s Equity

The unit issued by Choice Properties (the “Trust Unit”) is redeemable at the option of the holder and, therefore, is considered a puttable instrument in accordance with International Accounting Standard 32, Financial Instruments – Presentation (“IAS 32”). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity.

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

The Trust Unit meets the conditions of IAS 32 and is, therefore, classified and accounted for as equity.

Income Taxes

Choice Properties is a “mutual fund trust” and a “real estate investment trust” as defined in the Income Tax Act (Canada). Under current tax legislation, a “real estate investment trust” is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to Unitholders. Choice Properties qualifies as a “real estate investment trust” and will make distributions not less than the amount necessary to ensure that Choice Properties will not be liable to pay income taxes.

3. Unitholder’s Equity

Unitholder’s Equity of Choice Properties is as follows:

(Canadian dollars) (unaudited)	Trust Units	As at June 30, 2013
Issued and outstanding:		
Trust Units (authorized – unlimited)	1	\$ 10.00

4. Subsequent Events

Subsequent to June 30, 2013, Choice Properties completed public offerings of Units and Unsecured Debentures. Choice Properties also acquired a portfolio of income-producing commercial properties.

Initial Public Offering

Choice Properties completed an initial public offering of Trust Units (the "IPO"), which closed on July 5, 2013 (the "Closing Date"). Choice Properties raised gross proceeds of \$400,000 through the issuance of 40,000,000 Trust Units at a price of \$10.00 per Trust Unit (ten dollars) the Offering Price. Costs relating to the IPO were approximately \$39,526 and were applied against the gross proceeds of the IPO and charged against Unitholders' Equity.

Concurrently with the IPO, two subsidiaries of George Weston Limited ("GWL") (other than Loblaw Companies Limited ("Loblaw") and its subsidiaries), Loblaw's majority shareholder, purchased 20,000,000 Trust Units from Choice Properties at the Offering Price for a total subscription price of \$200,000.

On July 17, 2013, pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the IPO, Choice Properties issued a further 6,000,000 Trust Units, resulting in net proceeds, after payment of the underwriters' fees, of \$57,000.

Issuance of Unsecured Debentures

On July 5, 2013, Choice Properties completed an offering (the "Debt Offering") of \$400,000 aggregate principal amount of Series A Debentures and \$200,000 aggregate principal amount of Series B Debentures (collectively, the "Debentures"). The Series A Debentures and Series B Debentures mature on July 5, 2018 and July 5, 2023, respectively. Costs relating to the issuance of the Debentures were \$2,950 and were applied against the gross proceeds thereof. The Series A Debentures and Series B Debentures bear interest at a rate of 3.554% and 4.903% per annum, respectively and interest is payable semi-annually in arrears. The Debentures are reported at their amortized cost.

Acquisition of the Initial Properties

In connection with the IPO, Choice Properties acquired from subsidiaries of Loblaw (collectively, the "Transferors"), through an investment in a newly created limited partnership (the "Partnership"), a portfolio of 425 properties, comprising of 415 retail properties, one office complex and nine warehouse properties (collectively, the "Initial Properties"). The retail properties are made up of: (i) 267 properties with a stand-alone retail store operating under a Loblaw-owned banner; (ii) 143 properties anchored by a retail store operating under a Loblaw-owned banner that also contain one or more third-party tenants; and (iii) 5 properties containing only third-party tenants. The office complex consists of two office buildings and the warehouse properties include two properties that host three warehouses each.

In connection with the closing of the IPO, the Partnership acquired from a trust established for the benefit of the Transferors (the "Transferor Trust"), \$2.6 billion aggregate principal amount of interest bearing notes issued by the Transferors to the Transferor Trust (the "Transferor Trust Notes") in exchange for the issuance of \$2.6 billion aggregate principal amount of interest bearing notes payable to the Transferor Trust (the "Transferor Notes").

In exchange for the Initial Properties, Choice Properties issued, or assigned, as the case may be: (i) Class B LP Units of the Partnership (accompanied by an equivalent number of Special Voting Units); (ii) Class C LP Units of the Partnership; (iii) Class A LP Notes of the Partnership; (iv) Class B LP Notes of the Partnership; and (v) the Transferor Trust Notes. The purchase price of the Initial Properties was \$6,923,039 before transaction costs. The purchase of the Initial Properties has been accounted for as an asset acquisition.

The identifiable net assets acquired are as follows:

	As at July 5, 2013
(in thousands of Canadian dollars) (unaudited)	
Investment properties	\$ 6,924,639
Fixed assets	5,354
Total net assets acquired	\$ 6,929,993

Consideration provided for the acquisition and related acquisition costs of the Initial Properties was as follows:

(in thousands of Canadian dollars) (unaudited)	As at July 5, 2013
Class A LP Notes	\$ 544,821
Transferor Notes	2,561,976
Class C LP Units	876,263
Class B LP Units	2,724,979
Class B LP Notes	215,000
	<u>\$ 6,923,039</u>
Cost of fixed assets	5,354
Cash transaction costs	1,600
Total cost of the acquisitions	<u>\$ 6,929,993</u>

Debt and Equity Transactions

On the Closing Date, Choice Properties used cash proceeds of the Debentures and the Trust Units issued upon completion of the IPO to repay \$600,000 of Transferor Notes and \$544,821 of Class A LP Notes, and acquired and then cancelled \$215,000 of Class B LP Notes in consideration for the issuance of 21,500,000 Trust Units to certain Transferors.

Class A LP Notes On the Closing Date, Choice Properties redeemed all of the outstanding Class A LP Notes for \$544,821 in cash using certain proceeds of the IPO.

Transferor Notes Transferor Notes were issued to the Transferor Trust and range in maturities from 2014 to 2022. On the Closing Date, Choice Properties used, among other funds, the proceeds of the issuance of the Debentures to repay \$600,000 of the Transferor Notes, reducing the then outstanding amount of Transferor Notes from \$2,600,000 to \$2,000,000. After giving effect to the repayment, the weighted average annual coupon rate and effective annual interest rate of the Transferor Notes are 3.24% and 3.32%, respectively. The Transferor Notes have been recorded on initial recognition at fair value, net of a fair value adjustment of \$38,024, and will be subsequently measured at amortized cost.

On July 17, 2013, Choice Properties used, among other funds, the proceeds from the exercise of the underwriters' over-allotment option from the IPO to early redeem an additional \$60,000 of the Transferor Notes.

Class C LP Units The Class C LP Units entitle the holder thereof to a fixed cumulative monthly distribution in priority to distributions made to holders of Class B LP Units, subject to certain exceptions. The annual distribution rate on the Class C LP Units is 5%, distributed on a monthly basis. Loblaw holds all of the outstanding Class C LP Units. The Class C LP Units, with an aggregate amount of capital ascribed thereto of \$925,000, have been recorded net of a fair value adjustment of \$48,737 on initial recognition, and will subsequently be measured at amortized cost.

Class B LP Units Class B LP Units are economically equivalent to Trust Units, receive distributions equal to the distributions paid on the Trust Units and are exchangeable at the holder's option into Trust Units. Loblaw holds all of the outstanding Class B LP Units. The Class B LP Units have been recorded at fair value on initial recognition and will subsequently be measured at fair value through profit and loss.

Class B LP Notes As of the Closing Date, the Transferors sold all of the Class B LP Notes to Choice Properties for 21,500,000 Trust Units. All of the Class B LP Notes were subsequently cancelled as part of the IPO transaction.

As of the Closing Date, Loblaw held an approximate 83.1% effective interest in Choice Properties through ownership of 21,500,000 Trust Units and all of the Class B LP Units that are exchangeable for Trust Units at the option of the holder. After the exercise of the over-allotment option on July 17, 2013, Loblaw held an approximate 81.7% effective interest in Choice Properties.

As of the Closing Date, after giving effect to the exercise of the underwriters' over-allotment option, Loblaw's parent, GWL, held an approximate 5.6% direct interest in Choice Properties.

Loblaw and GWL have agreed to a contractual hold period of 18 months following the Closing Date pursuant to the underwriting agreement entered into between Choice Properties, Loblaw and the underwriters in connection with the IPO.

Credit Facility

On the Closing Date, Choice Properties entered into an agreement for a \$500,000 5-year senior unsecured committed credit facility provided by a syndicate of lenders, which contains certain financial covenants.