

CHOICE PROPERTIES REAL ESTATE INVESTMENT TRUST

Management's Discussion and Analysis of Financial Condition and Results of Operations

(in thousands of Canadian dollars except where otherwise indicated)

The following Management's Discussion and Analysis ("MD&A") for Choice Properties Real Estate Investment Trust ("Choice Properties") should be read in conjunction with the unaudited interim financial statements and the accompanying notes prepared for the period from May 21, 2013 (date of formation) to June 30, 2013 and Choice Properties' prospectuses dated June 26, 2013 (the "Prospectuses"). In addition, the following MD&A should be read in conjunction with Choice Properties' "Forward Looking Statements" below.

This MD&A is dated August 13, 2013. Disclosure contained in this document is current to that date, unless otherwise noted. Additional information relating to Choice Properties is available on SEDAR at www.sedar.com.

Forward-Looking Statements

This MD&A contains forward-looking statements about Choice Properties' objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", and "should" and similar expressions, as they relate to Choice Properties and its Management.

Forward-looking statements reflect Choice Properties' current estimates, beliefs and assumptions, which are based on Management's perception of historic trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. 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. This MD&A contains forward-looking statements concerning Choice Properties' business strategy and objectives, a distribution reinvestment plan ("DRIP") and a Base Shelf Prospectus.

Numerous risks and uncertainties could cause Choice Properties' actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to:

- Choice Properties' relationship with Loblaw Companies Limited ("Loblaw"), including in respect of (i) Loblaw's retained interest in Choice Properties and its current intention with respect thereto, (ii) the services to be provided to Choice Properties (whether directly or indirectly) by Loblaw, (iii) expected transactions to be entered into between Loblaw and Choice Properties (including Choice Properties' acquisition of certain interests in properties held by Loblaw) and (iv) the Strategic Alliance Agreement;
- Choice Properties' intention with respect to, and ability to execute, its internal and external growth strategies;
- the forecasted financial results of Choice Properties, including the assumptions contained in such forecast, for the periods set out in the "Financial Forecast" section of the Prospectuses;
- Choice Properties' capital expenditure requirements and capital expenditures to be made by Choice Properties;
- Choice Properties' distribution policy and the distributions to be paid to holders of trust units ("Unitholders");
- the distributions to be paid to holders of Partnership Units;
- Choice Properties' ability to execute on its debt strategy;
- Choice Properties' access to available sources of debt and/or equity financing;
- future compensation and governance practices by Choice Properties;
- future legislative and regulatory developments which may affect Choice Properties;
- the expected tax treatment of Choice Properties and its distributions to Unitholders;
- Choice Properties' ability to meet its stated obligations;
- Choice Properties' ability to expand its asset base and make accretive acquisitions;
- the percentage of cash distributions to be paid to Unitholders that will be tax deferred in 2013; and
- the ability of Choice Properties to qualify as a "mutual fund trust", as defined in the Tax Act, and as a "real estate investment trust", as defined in the SIFT Rules.

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. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect Choice Properties' expectations only as of the date of filing this MD&A. 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.

Basis of Presentation

Canadian Generally Accepted Accounting Principles ("GAAP") for Canadian publically accountable profit-oriented enterprises are International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Financial data provided in this MD&A has been prepared in accordance with IFRS.

Non-GAAP Financial Measures

Under IFRS, certain expenses and income must be recognized that are not necessarily reflective of the underlying cash flows or operating performance of Choice Properties. Funds from operations ("FFO"), adjusted funds from operations ("AFFO"), net operating income ("NOI") and earnings before interest, taxes, depreciation and amortization ("EBITDA") are widely used non-GAAP measures of a Canadian real estate investment trust's ("REIT") performance. These non-GAAP measures exclude the impact of certain items and are used internally when analyzing underlying cash flows and operating performance and by Management when comparing Choice Properties to industry data or to others in the marketplace. These non-GAAP financial measures are also helpful in assessing underlying cash flows and operating performance on a consistent basis.

These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other REITs, and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

Business Overview

Choice Properties is an unincorporated, open-ended real estate investment trust 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.

Business Strategy and Objectives

The objectives of Choice Properties are to: (a) provide Unitholders with stable, predictable and growing monthly cash distributions on a tax-efficient basis; (b) enhance the value of Choice Properties' assets in order to maximize long-term Unitholder value; and (c) expand Choice Properties' asset base while also increasing its AFFO per Unit, including through accretive acquisitions and site intensification.

These objectives will be achieved through:

- proactive management of its income-producing commercial properties, including capitalizing on intensification opportunities and realizing the contractual rent escalations embedded in its leases;
- future acquisitions, including rights of first offer to acquire additional properties from Loblaw, a disciplined acquisition program, and targeting attractive new development opportunities; and
- maintenance of a strong balance sheet.

Risks and Uncertainties

Choice Properties faces a variety of significant and diverse risks, many of which are inherent in the business to be conducted by Choice Properties and the tenants of the properties. As described in the Prospectuses, there are certain risks that could materially adversely affect Choice Properties. Other risks and uncertainties that Choice Properties does not presently consider to be material, or of which Choice Properties is not presently aware, may become important factors that affect Choice Properties' future financial condition and financial performance. The occurrence of any of the risks discussed in the Prospectuses could materially and adversely affect the business, prospects, financial condition, financial performance or cash flow of Choice Properties.

Results of Operations

Except for the formation and initial capitalization of Choice Properties, there were no transactions related to operations that occurred during the period from May 21, 2013 to June 30, 2013.

Sources of Liquidity

Credit Facility Upon closing of its initial public offering, Choice Properties entered into a credit agreement for a \$500,000 5-year senior unsecured committed credit facility (the "Credit Facility") provided by a syndicate of lenders, which contains certain financial covenants.

Choice Properties expects that future operating cash flows as well as amounts available to be drawn against its Credit Facility will enable it to finance its ongoing business requirements, including working capital and capital investment program over the next twelve months. In addition, Choice Properties does not foresee any impediments in obtaining financing to satisfy its long term financial obligations.

Credit Ratings DBRS Limited ("DBRS") and Standard & Poor's Ratings Service ("S&P") have assigned Choice Properties with certain credit ratings, trends and outlooks. The following table sets out the current credit ratings of Choice Properties:

Credit Ratings (Canadian Standards)	DBRS		S&P	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer Rating	BBB	--	BBB	Stable
Senior Unsecured Debentures	BBB	--	BBB	Stable

In connection with the definitive agreement entered into by Loblaw to acquire all of the outstanding common shares of Shoppers Drug Mart Corporation, DBRS placed the credit ratings of Choice Properties under review with developing implications and S&P placed Choice Properties on credit watch with negative implications. On August 2, 2013, S&P announced that it had concluded its review and confirmed the ratings of Loblaw and Choice Properties at BBB with a Stable outlook. Choice Properties expects DBRS to complete its review in the upcoming weeks.

Capital Structure

As at June 30, 2013, Choice Properties had not yet commenced operations. Pursuant to the Declaration of Trust, an initial trust unit (a "Unit" or "Trust Unit") was issued for \$10.00 ("ten dollars") in cash on May 21, 2013. On July 5, 2013, Choice Properties completed its initial public offering of Trust Units (the "IPO"), as more fully discussed under "Subsequent Events".

Distributions Choice Properties initially intends to make monthly cash distributions of \$0.054167 per Unit to Unitholders. 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. The first distribution will be for the period from July 5, 2013 to August 31, 2013 and will be made on September 15, 2013 in the amount of \$0.102249 per Unit. Choice Properties intends to make subsequent monthly distributions in the estimated amount of \$0.054167 per Unit, commencing October 15, 2013. Despite the distribution policy, the Board of Trustees of Choice Properties retains full discretion with respect to the timing and quantum of distributions.

Subject to regulatory approvals, Choice Properties intends to implement a DRIP, pursuant to which resident Canadian Unitholders will be entitled to elect to have all of the cash distributions of Choice Properties payable to such person automatically reinvested in additional Trust Units and will receive a further distribution of Trust Units equal to 3% of each distribution that was reinvested by them.

Subsequent Events

Initial Public Offering On June 26, 2013, Choice Properties entered into an underwriting agreement (the "Underwriting Agreement") and filed an equity prospectus for purposes of completing 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 Units at a price of \$10.00 per Unit (the "Offering Price"). Costs relating to the IPO were \$39,526 and were applied against the gross proceeds of the IPO and charged against Unitholders' equity. Additional costs of \$3,574 were incurred to set up the operations and will be reported as part of general and administrative expenses.

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

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

Issuance of Unsecured Debentures On June 26, 2013, Choice Properties entered into an agency agreement and filed a debt prospectus to issue \$400,000 aggregate principal amount of Series A Debentures and \$200,000 aggregate principal amount of Series B Debentures (collectively, the "Debentures") which closed on July 5, 2013. The Series A Debentures and Series B Debentures are due July 5, 2018 and July 5, 2023, respectively. Costs relating to the issuance of the Debentures were approximately \$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.

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.

Debt and Equity Transactions On the Closing Date, Choice Properties used, among other funds, the 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 Units to certain Transferors. On the Closing Date, the resulting debt and equity structure was as follows:

	Initial Property Acquisition	Trust Units and Unsecured Debenture Issuance	Transactions on Closing Date	Resulting Debt and Equity Positions
Debt and Class C LP Units:				
Unsecured Debentures Series A		398,125 ⁽¹⁾		398,125
Unsecured Debentures Series B		198,925 ⁽¹⁾		198,925
Transferor Notes	2,561,976 ⁽²⁾		(600,000) ⁽⁶⁾	1,961,976
Class A LP Notes	544,821		(544,821) ⁽⁶⁾	-
Class B LP Notes	215,000		(215,000)	-
	3,321,797	597,050	(1,359,821)	2,559,026
Class C LP Units	876,263 ⁽³⁾			876,263
	4,198,060	597,050	(1,359,821)	3,435,289
Trust and Exchangeable Units:				
Trust Units		556,900 ^{(4),(5)}	215,000	771,900
Class B LP Units ⁽⁷⁾	2,724,979 ⁽⁴⁾			2,724,979
	2,724,979	556,900	215,000	3,496,879
Total Debt and Equity	6,923,039	1,153,950	(1,144,821)	6,932,168

(1) Net of debt placement costs.

(2) Net of fair value adjustments of \$38,024.

(3) The aggregate capital ascribed to Class C LP Units is treated as a liability for financial reporting purposes but is subordinated to debt and is reflected net of fair value adjustments of \$48,737.

(4) Net of transaction costs and expenses incurred to set up the operations totaling \$43,100.

(5) 81,500,000 Units and 272,497,871 Class B LP Units issued on the Closing Date; totaling 353,997,871 Units on a fully-diluted basis.

(6) Paid using funds raised from issuance of Units and the Debentures issued on closing of the IPO.

(7) Classified under IFRS as debt on the unaudited interim financial statements.

Exercise of Over-Allotment Option On July 17, 2013, the underwriters exercised the over-allotment option and an additional 6,000,000 Units were issued for net proceeds of \$57,000.

On July 17, 2013, Choice Properties repaid, at par, \$60,000 of the Transferor Notes due May 20, 2014.

Base Shelf Prospectus Choice Properties intends to file a Base Shelf Prospectus which would allow for the issuance of Trust Units and debt securities over a 25 month period.

Related Party Transactions and Arrangements

As of the Closing Date, Loblaw, the parent of Choice Properties, held an approximate 83.1% effective interest in Choice Properties through ownership of 21,500,000 Units and all of the Class B LP Units that are exchangeable for Units at the option of the holder. Following the closing of 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 over-allotment, GWL, Loblaw's parent, held an approximate 5.6% direct interest in Choice Properties.

Each of Loblaw and GWL has agreed to a contractual hold period of 18 months following the Closing Date pursuant to the Underwriting Agreement.

In addition to key holdings of debt and equity, a certain subsidiary of Loblaw is Choice Properties' largest tenant representing approximately 91.2% of Choice Properties' annual base minimum rent and 88.3% of its gross leasable area as at the Closing Date.

Strategic Alliance Agreement On the Closing Date, Loblaw and Choice Properties entered into a Strategic Alliance Agreement, which creates a series of rights and obligations between Choice Properties and Loblaw (and certain of its subsidiaries). This agreement's intention establishes a preferential and mutually beneficial business and operating relationship. The initial term of the agreement is for 10 years from the Closing Date, with an automatic renewal for a second term that will continue until the earlier of: (i) 20 years from the Closing Date; and (ii) the date on which Loblaw ceases to own a majority effective interest in Choice Properties on a fully-diluted basis.

Services Agreements On the Closing Date, Loblaw and Choice Properties entered into a one year renewable services agreement. This agreement provides Choice Properties with administrative and other support services such as property and facility management services and such other services as may be reasonably required from time to time. Loblaw will provide these services to Choice Properties for a fixed fee equal to \$6,400 for the first year of Choice Properties' operations. Subsequent to the initial year of operations, the agreement will cover services that Choice Properties has not yet internalized.

On the Closing Date, Choice Properties and Loblaw entered into a second services agreement with a one year term. This agreement provides Loblaw with administration and support services, such as leasing, analysis, valuation and development, on an as needed basis. Choice Properties will provide these services for a fixed fee equal to \$700.