



Condensed consolidated interim financial statements of

**SLATE OFFICE REIT**

For the three months ended March 31, 2017 and 2016

# SLATE OFFICE REIT

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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# SLATE OFFICE REIT

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)  
(unaudited)

	Note	March 31, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Properties	4	\$ 959,249	946,939
Finance lease receivable	5	60,395	60,965
Other assets	6	2,509	2,600
Restricted cash		1,404	1,404
		<b>1,023,557</b>	<b>1,011,908</b>
<b>Current assets</b>			
Finance lease receivable	5	2,226	2,191
Other assets	6	6,243	3,162
Deposits on properties	26	7,700	—
Accounts receivable	7	4,208	4,009
Subscription receipt funds in escrow	8	117,666	—
Cash		2,504	4,252
		<b>140,547</b>	<b>13,614</b>
<b>Total assets</b>		<b>\$ 1,164,104</b>	<b>\$ 1,025,522</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Non-current liabilities</b>			
Debt	9	\$ 477,098	\$ 462,644
Other liabilities	10	3,588	4,019
Derivatives	11	2,502	2,482
Class B LP units	12	42,493	41,753
		<b>525,681</b>	<b>510,898</b>
<b>Current liabilities</b>			
Debt	9	144,798	142,309
Subscription receipts	8	119,153	—
Other liabilities	10	3,310	2,852
Accounts payable and accrued liabilities	13	24,357	23,751
		<b>291,618</b>	<b>168,912</b>
<b>Total liabilities</b>		<b>817,299</b>	<b>679,810</b>
Equity		<b>346,805</b>	<b>345,712</b>
<b>Total liabilities and equity</b>		<b>\$ 1,164,104</b>	<b>\$ 1,025,522</b>

**SLATE OFFICE REIT**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands of Canadian dollars)  
(unaudited)

	Note	Three months ended March 31,	
		2017	2016
Rental revenue	16	\$ 32,318	\$ 27,569
Property operating expenses	20	(17,693)	(15,302)
Finance income on finance lease receivable	5	990	1,022
Interest income		17	15
Interest and finance costs	18	(5,210)	(4,203)
General and administrative	17	(1,149)	(1,040)
Change in fair value of investment properties	4	227	1,938
Change in fair value of financial instruments	19	862	(811)
Depreciation of hotel asset	4	(189)	(136)
<b>Net income before Class B LP units</b>		<b>\$ 10,173</b>	<b>\$ 9,052</b>
Change in fair value of Class B LP units	12	(740)	(4,440)
Distributions to Class B LP unitholders	15	(991)	(991)
<b>Net income and comprehensive income</b>		<b>\$ 8,442</b>	<b>\$ 3,621</b>

**SLATE OFFICE REIT**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**

(in thousands of Canadian dollars)  
(unaudited)

	Note	Trust units	Retained earnings	Total equity
December 31, 2016		\$ 310,201	\$ 35,511	\$ 345,712
Distributions	15	—	(7,645)	(7,645)
Units issued pursuant to DRIP	14	296	—	296
Net income and comprehensive income		—	8,442	8,442
<b>March 31, 2017</b>		<b>\$ 310,497</b>	<b>\$ 36,308</b>	<b>\$ 346,805</b>
December 31, 2015		\$ 227,030	\$ 25,127	\$ 252,157
Distributions	15	—	(5,632)	(5,632)
Units issued pursuant to DRIP	14	465	—	465
Repurchases of units	14	(384)	26	(358)
Net income and comprehensive income		—	3,621	3,621
March 31, 2016		\$ 227,111	\$ 23,142	\$ 250,253

# SLATE OFFICE REIT

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)  
(unaudited)

	Note	Three months ended March 31,	
		2017	2016
<b>Operating activities</b>			
Net income and comprehensive income	\$	8,442	\$ 3,621
Items not affecting cash:			
Straight-line rent and other changes	4	(450)	(493)
Change in fair value of financial instruments	19	(862)	811
Change in fair value of investment properties	4	(227)	(1,938)
Change in fair value of Class B LP units	12	740	4,440
Depreciation of hotel asset	4	189	136
Interest income		(17)	(15)
Interest received		17	15
Interest and finance costs	18	5,210	4,203
Interest paid		(5,005)	(3,947)
Finance income on finance lease receivable	5	(990)	(1,022)
Finance interest payments received	5	990	1,022
Distributions to Class B LP unitholders	15	991	991
Distributions paid to Class B LP unitholders	15	(991)	(991)
Working capital items		(191)	4,258
		7,846	11,091
<b>Investing activities</b>			
Deposits on properties	26	(7,700)	—
Principal payments received on finance lease receivable	5	535	503
Capital expenditures	4	(4,509)	(6,099)
Direct leasing costs	4	(7,313)	(4,198)
		(18,987)	(9,794)
<b>Financing activities</b>			
Repurchases of units	14	—	(358)
Mortgage financing advanced	9	8,500	—
Mortgage principal payments	9	(1,180)	(704)
Transaction costs on debt	9	(82)	(160)
Draws (repayments) of other debt, net	9	9,500	(1,500)
Distributions on REIT units	15	(7,345)	(5,167)
		9,393	(7,889)
<b>Decrease in cash</b>		<b>(1,748)</b>	<b>(6,592)</b>
<b>Cash, beginning of period</b>		<b>4,252</b>	<b>8,917</b>
<b>Cash, end of period</b>	<b>\$</b>	<b>2,504</b>	<b>\$ 2,325</b>

# SLATE OFFICE REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)  
(unaudited)

### 1. Description of the REIT and operations

Slate Office REIT (the "REIT") is an unincorporated, open-ended real estate investment trust constituted in accordance with the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated December 17, 2014, as amended on May 25, 2015 and March 21, 2016 (the "Declaration of Trust"). As of March 31, 2017, the REIT's portfolio consists of 35 commercial properties located in Canada. The units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbol "SOT.UN".

The principal, registered and head office of the REIT is 121 King Street West, Suite 200, Toronto, ON, Canada, M5H 3T9.

### 2. Basis of presentation

#### *i. Statement of compliance*

These condensed consolidated interim financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. As a result, these consolidated financial statements should be read in conjunction with the REIT's audited comparative consolidated financial statements as at and for the year ended December 31, 2016 (the "annual consolidated financial statements").

#### *ii. Approval of the consolidated financial statements*

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on May 8, 2017.

#### *iii. Basis of measurement*

The consolidated financial statements have been prepared on a going concern basis and are measured at historical cost except for the following items:

- Investment properties are measured at fair value; and
- Financial instruments classified as fair value through profit or loss are measured at fair value.

#### *iv. Functional and presentation currency*

These consolidated financial statements are presented in Canadian dollars, which is the REIT's functional currency and the functional currency of all of its subsidiaries.

### 3. Significant accounting policies

#### *i. Significant accounting policies*

These consolidated financial statements have been prepared using the same accounting policies and methods disclosed in the REIT's annual consolidated financial statements for the year ended December 31, 2016, except for the adoption of a new accounting policy discussed below.

#### *ii. New accounting policy*

##### *IAS 7, Disclosure Initiative ("IAS 7")*

The amendments to IAS 7 require disclosures that enable the evaluation of changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. The amendments applied prospectively for annual periods beginning on or after January 1, 2017 and were adopted by the REIT in these consolidated financial statements.

The following are the primary disclosures required for changes in liabilities from financing activities: changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair values.

Supplemental cash flow information disclosures have been included in the REIT's consolidated financial statements (note 25).

#### *iii. Future accounting policies*

##### *IFRS 2, Share based payments ("IFRS 2")*

The amendments to IFRS 2 *Share-based payments* provide clarification on how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction

# SLATE OFFICE REIT

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from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The extent of the impact of adoption of the amendments has not yet been determined.

### IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. This new standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The extent of the impact of adoption of the amendments has not yet been determined.

### IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. The new standards includes a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The extent of the impact of adoption of the amendments has not yet been determined.

### IFRS 16, *Leases* ("IFRS 16")

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The new standard is effective for annual periods beginning on or after January 1, 2019, which is when the REIT intends to adopt IFRS 16 in its financial statements. The extent of the impact of adoption of the standard has not yet been determined.

## 4. Properties

The change in the carrying value of the REIT's properties is as follows:

	Three months ended March 31,	
	2017	2016
Balance, beginning of period	\$ 946,939	\$ 729,089
Capital expenditures	4,509	6,099
Direct leasing costs	7,313	4,198
Depreciation of hotel asset	(189)	(136)
Change in fair value	227	1,938
Straight line rent and other changes	450	493
<b>Balance, end of period</b>	<b>\$ 959,249</b>	<b>\$ 741,681</b>

Included within properties at March 31, 2017 are the REIT's interests in 35 properties, which includes one mixed-use hotel and office asset. The hotel portion of the REIT's mixed-use asset does not meet the definition of an investment property under IAS 40, *Investment Properties*, and accordingly is measured at cost less depreciation, with depreciation charged to income over the estimated useful life of the components of the hotel asset.



# SLATE OFFICE REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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The REIT's properties are classified into income producing and development as follows:

	<b>March 31, 2017</b>	December 31, 2016
Income producing	<b>\$ 918,472</b>	\$ 907,343
Development	<b>40,777</b>	39,596
	<b>\$ 959,249</b>	\$ 946,939

The REIT determines the fair value of investment properties based upon either the overall income capitalization rate method, discounted cash flow method, direct comparison approach or through a combination of methods. All methods are generally accepted appraisal methodologies. If a third party appraisal is not obtained for a property, management uses one or a combination of the overall income capitalization rate method and the discounted cash flow method. In certain circumstances the direct comparison approach is used by comparing properties to similar properties that have sold, but adjusting for differences in the nature and location of the properties. Under the overall income capitalization rate method, year one income is stabilized and capitalized at a rate appropriate for each investment property. Under the discounted cash flow method, fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income. Capitalization and discount rates are the most significant assumption in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other evidence, in determining the most appropriate assumptions.

The fair values of investment properties are measured individually without consideration to their aggregate value on a portfolio basis. No consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT's investment properties taken in aggregate may differ from the fair value of investment properties measured individually in the REIT's consolidated statements of financial position. Under the fair value hierarchy, the fair value of the REIT's investment properties is determined using the methodology described above and using level 3 inputs.

The following table presents a summary of the discount, terminal capitalization and stabilized capitalization rates for the fair value of the REIT's properties:

	<b>March 31, 2017</b>			December 31, 2016		
	Discount rate	Terminal capitalization rate	Capitalization rate <sup>(1)</sup>	Discount rate	Terminal capitalization rate	Capitalization rate <sup>(1)</sup>
Minimum	6.75%	6.25%	4.19%	6.75%	6.25%	4.16%
Maximum	11.00%	9.00%	11.99%	11.00%	9.00%	11.92%
Weighted average	7.43%	6.97%	6.24%	7.55%	7.05%	6.37%

(1) Represents the going-in capitalization rate on the REIT's properties based on management's estimate of twelve-month forward NOI. The figures presented are inclusive of both those properties where the direct capitalization approach has been used as well as those properties where the primary valuation methodology was the discounted cash flow approach.

At March 31, 2017, a 25 basis-point increase in discount, terminal capitalization and stabilized capitalization rates would decrease the estimated fair value of the REIT's properties by approximately \$35.6 million (December 31, 2016 – \$37.2 million).

During the three months ended March 31, 2017, an external appraisal was obtained for one property with a fair value of \$55.5 million. During the year ended December 31, 2016, 11 external appraisals were obtained on various properties for a total fair value of \$354.7 million.

### 5. Finance lease receivable

The REIT owns a fully leased data centre in Winnipeg, MB (the "Data Centre"). The tenant occupying the Data Centre has a lease with an initial term to maturity of 15 years, which commenced on June 5, 2015, with the option to extend for three additional five year terms. The tenant has a one-time option to acquire the property after the initial term of the lease for \$12.0 million. At its inception the lease met the requirements for classification as a finance lease as the minimum lease payments amounted to at least substantially all of the fair value of the leased asset and the tenant has the right to acquire the Data Centre for a price expected to be below the fair value of the property at maturity.

# SLATE OFFICE REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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A reconciliation of the change in the finance lease receivable is as follows:

	March 31, 2017	December 31, 2016
Balance, beginning of period	\$ 63,156	\$ 65,214
Lease payments received	(1,525)	(6,099)
Finance income on finance lease receivable	990	4,041
<b>Balance, end of period</b>	<b>\$ 62,621</b>	<b>\$ 63,156</b>

The following is a summary of the undiscounted future minimum lease payments receivable and the imputed interest and principal portions thereof. The principal portion represents the amount recorded on the consolidated statements of financial position at March 31, 2017:

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	\$ 6,099	\$ 3,873	\$ 2,226
Greater than one year but less than 5 years	24,981	13,923	11,058
Greater than 5 years	66,191	16,854	49,337
		<b>\$</b>	<b>62,621</b>

### 6. Other assets

Other assets are comprised of the following:

	March 31, 2017	December 31, 2016
Prepaid expenses	\$ 5,191	\$ 2,118
Other assets	189	189
Interest rate subsidy	2,045	2,153
Investment tax credit receivable	1,327	1,302
	<b>\$ 8,752</b>	<b>\$ 5,762</b>

Other assets have been classified between current and non-current as follows:

	March 31, 2017	December 31, 2016
Current	\$ 6,243	\$ 3,162
Non-current	2,509	2,600
	<b>\$ 8,752</b>	<b>\$ 5,762</b>

In connection with the acquisition of the Gateway Complex on June 30, 2016, the acquisition agreement provided for an interest rate subsidy in the initial amount of \$2.4 million in favour of the REIT to be held in escrow and released to the REIT over the term to maturity to compensate the REIT for the assumption of an above market mortgage.

In connection with development of the Data Centre, the REIT is eligible for a Manitoba data processing investment tax credit (the "tax credit"). The REIT expects to receive the tax credit in installments through to 2029. A portion of the tax credit is payable to Manitoba Telecom Services ("MTS"). The portion of the tax credit owing to the REIT's previous other limited partner was paid by the REIT in full in 2016. The portion payable to MTS will be paid as the credits are received (note 10). The tax credit receivable has been included in other assets as at March 31, 2017.

# SLATE OFFICE REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)  
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### 7. Accounts receivable

Accounts receivable is comprised of the following:

	March 31, 2017	December 31, 2016
Rent receivable	\$ 1,486	\$ 1,559
Accrued recovery income	1,352	1,022
Other amounts receivable	1,491	1,525
Allowance	(121)	(97)
	<b>\$ 4,208</b>	<b>\$ 4,009</b>

Rent receivable consists of base rent and operating expense recoveries receivable from tenants. Accrued recovery income represents amounts that have not been billed to tenants and are generally billed and paid in a period the following the period to which they relate.

Included in other amounts receivable is \$0.3 million (December 31, 2016 – \$0.5 million) due from Slate (as defined in note 20) relating to an acquisition in 2014 for future free rent adjustments, tenant inducements and leasing commissions. The receivable will be collected as the related items are paid or incurred in connection with the tenant lease agreements. The receivable is non-interest bearing and unsecured.

The change in allowance for doubtful accounts is as follows:

	March 31, 2017	December 31, 2016
Balance, beginning of period	\$ (97)	\$ (159)
Change in allowance	(31)	(120)
Bad debt write-off	—	83
Bad debt recovery	7	99
<b>Balance, end of period</b>	<b>\$ (121)</b>	<b>\$ (97)</b>

An allowance is provided when collection is no longer reasonably assured, which primarily includes bankruptcy, financial difficulty, abandonment and certain tenant disputes.

The aging analysis of rents receivable past due, net of allowance is as follows:

	March 31, 2017	December 31, 2016
Current to 30 days	\$ 951	\$ 911
31 to 90 days	145	187
Greater than 90 days	269	364
	<b>\$ 1,365</b>	<b>\$ 1,462</b>

### 8. Subscription receipts

On March 15, 2017, the REIT completed a bought deal public offering of 14,820,000 subscription receipts at a price of \$8.10 per subscription receipt, for gross proceeds of \$120.0 million. Funds received from the offering are held in escrow and are recognized net of certain fees. The REIT intends to use the proceeds from the sale of subscription receipts to finance, in part, for acquisition of three office properties; West Metro Centre in Toronto, ON and 250 King and 460 Two Nations in Fredericton, NB (the "Acquisitions").

On closing of the Acquisitions, one unit of the REIT ("trust unit") will be issued in exchange for each subscription receipt, without payment of additional consideration. The holders of the subscription receipts, on the date upon which the subscription receipts are exchanged for units of the REIT, are entitled to receive cash distributions equal to the amount per trust unit of any cash distributions made by the REIT for which record dates have occurred during the period from and including March 15, 2017 to the date of the exchange.

The Acquisitions closed on April 25, 2017 and as a result of the Acquisitions, each outstanding subscription receipt was exchanged for one trust unit of the REIT, resulting in the issuance of 14,820,000 trust units to the holders of the subscription receipts (note 26).

The subscription receipts, which are classified as a financial liability, are carried at fair value at March 31, 2017. As a result, a fair value gain of \$0.9 million has been recognized at March 31, 2017. The gain has been included in the change in the fair value of financial instruments (note 19).

# SLATE OFFICE REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)  
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### 9. Debt

During the three months ended March 31, 2017, the REIT increased its existing mortgage on 4211 Yonge Street by \$8.5 million, resulting in a lowered combined interest rate of 3.64% with no change to the loan's maturity.

Debt held by the REIT at March 31, 2017 is as follows:

	Maturity	Coupon <sup>(3)</sup>	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn <sup>(4)</sup>
Mortgages <sup>(1)(2)</sup>	Various	Various	16	\$ 388,921	\$ 288,965	\$ 288,965	\$ —	\$ —
Revolving operating facility	Jun. 30, 2018	BA+200 bps	8	308,597	210,546	192,700	—	17,846
Revolving credit facility	Nov. 30, 2017	BA+200 bps	5	76,789	45,000	33,000	1,150	10,850
Construction facility	May 4, 2021	CDOR+300 bps	1	35,172	7,501	—	—	7,501
Term loan <sup>(5)</sup>	Jun. 30, 2017	BA+213 bps	3	143,370	105,000	105,000	—	—
Other facility <sup>(6)</sup>	Oct. 1, 2025	4.27%	1	62,621	2,900	2,659	—	241
			<b>34</b>	<b>\$1,015,470</b>	<b>\$ 659,912</b>	<b>\$ 622,324</b>	<b>\$ 1,150</b>	<b>\$ 36,438</b>

(1) The weighted average remaining term to maturity of mortgages is 5.7 years with maturities ranging from 0.9 to 13.6 years.

(2) The weighted average interest rate of mortgages is 3.63% with coupons ranging from 2.65% to 4.95%.

(3) "BA" means the one-month Bankers' Acceptances rate; "CDOR" means the Canadian Dealer Offered Rate; "bps" means basis point or 1/100th of one percent.

(4) Debt is only available to be drawn subject to certain covenants.

(5) On May 8, 2017, the REIT entered into a commitment letter with the lender for the renewal of the REIT's outstanding \$105.0 million term loan due June 30, 2017. The terms of the commitment provide for the extension of the term loan to June 30, 2019 and an increase in amount to \$120.0 million.

(6) Other facility is secured by the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's properties. The value above represents the carrying value of the finance lease receivable.

The carrying value of debt held by the REIT at March 31, 2017 is as follows:

	Principal	Mark-to-market ("MTM") adjustments and costs	Amortization of MTM adjustments and costs	Carrying amount	Current	Non-current
Mortgages	\$ 288,965	\$ 332	\$ 275	\$ 289,572	\$ 6,797	\$ 282,775
Revolving operating facility	192,700	(1,962)	1,105	191,843	—	191,843
Revolving credit facility	33,000	(655)	522	32,867	32,867	—
Term loan	105,000	(74)	60	104,986	104,986	—
Other facility	2,659	(36)	5	2,628	148	2,480
	<b>\$ 622,324</b>	<b>\$ (2,395)</b>	<b>\$ 1,967</b>	<b>\$ 621,896</b>	<b>\$ 144,798</b>	<b>\$ 477,098</b>

# SLATE OFFICE REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)  
(unaudited)

Debt held by the REIT at December 31, 2016 is as follows:

	Maturity	Coupon <sup>(3)</sup>	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn <sup>(4)</sup>
Mortgages <sup>(1)(2)</sup>	Various	Various	16	\$ 385,848	\$ 281,608	\$ 281,608	\$ —	\$ —
Revolving operating facility	Jun. 30, 2018	BA+200 bps	8	300,375	210,546	183,200	—	27,346
Revolving credit facility	Nov. 30, 2017	BA+200 bps	5	76,361	45,000	33,000	1,150	10,850
Construction Facility	May 4, 2021	CDOR+300 bps	1	35,172	7,501	—	—	7,501
Term loan	Jun. 30, 2017	BA+213 bps	3	143,370	105,000	105,000	—	—
Other facility <sup>(5)</sup>	Oct. 1, 2025	4.27%	1	63,156	2,900	2,696	—	204
			34	\$ 1,004,282	\$ 652,555	\$ 605,504	\$ 1,150	\$ 45,901

(1) The weighted average remaining term to maturity of mortgages is 5.9 years with maturities ranging from 0.3 to 13.8 years.

(2) The weighted average interest rate of mortgages is 3.64% with coupons ranging from 2.65% to 4.95%.

(3) "BA" means the one-month Bankers' Acceptances rate; "CDOR" means the Canadian Dealer Offered Rate; "bps" means basis point or 1/100th of one percent.

(4) Debt is only available to be drawn subject to certain covenants.

(5) Other facility is secured by the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's properties. The value above represents the carrying value of the finance lease receivable.

The carrying value of debt held by the REIT as at December 31, 2016 is as follows:

	Principal	MTM adjustments and costs	Amortization of MTM adjustments and costs	Carrying amount	Current	Non-current
Mortgages	\$ 281,608	\$ 406	\$ 302	\$ 282,316	\$ 4,367	\$ 277,949
Revolving operating facility	183,200	(1,962)	938	182,176	—	182,176
Revolving credit facility	33,000	(655)	472	32,817	32,817	—
Term loan	105,000	(66)	46	104,980	104,980	—
Other facility	2,696	(36)	4	2,664	145	2,519
	\$ 605,504	\$ (2,313)	\$ 1,762	\$ 604,953	\$ 142,309	\$ 462,644

Future principal payments and maturity schedule, excluding amortization of mark-to-market adjustments and transaction costs, on debt as at March 31, 2017 are as follows:

Remainder of 2017	\$ 141,793
2018	199,962
2019	15,746
2020	5,203
2021	185,301
Thereafter	74,319
	<b>\$ 622,324</b>

### 10. Other liabilities

Other liabilities are comprised the following:

	March 31, 2017	December 31, 2016
Security deposits	\$ 4,937	\$ 4,922
Provisions	1,298	1,298
Investment tax credit payable	663	651
	<b>\$ 6,898</b>	<b>\$ 6,871</b>

# SLATE OFFICE REIT

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Other liabilities have been classified between current and non-current as follows:

	<b>March 31, 2017</b>	December 31, 2016
Current	<b>\$ 3,310</b>	\$ 2,852
Non-current	<b>3,588</b>	4,019
	<b>\$ 6,898</b>	\$ 6,871

The REIT is eligible to receive a Manitoba data processing investment tax credit in connection with the development of the Data Centre (note 6). The portion of the tax credit payable to the tenant of the Data Centre will be paid as the credits are received through to 2029 and has been recorded in other liabilities at March 31, 2017 at its discounted amount determined upon establishment of the liability.

### 11. Derivatives

The REIT has entered into interest rate derivatives to reduce the impact of interest rate risk of certain debt with floating interest rates.

The REIT currently has in place certain pay fix and receive float interest rate swaps and an interest rate cap. The swaps are derivative financial instruments that require a periodic exchange of payments with counter-parties without the exchange of the notional amount on which the payments are based. The recorded interest expense on the underlying mortgages payable reflects payments made and received under the interest rate swaps. These swaps are not designated as hedging instruments that qualify for hedge accounting under IFRS. The interest rate cap has a \$125.0 million notional amount, a strike price of 1.90% based on one month bankers acceptances and a maturity of July 2018. The cost to the REIT was \$0.05 million.

Interest rate derivatives are measured at fair value with fair values estimated as the present value of contractual cash flows based on forward curves and an applicable discount rate.

The following are the terms and fair values of the REIT's interest rate swaps:

<b>Maturity date</b>	<b>Fixed interest rate <sup>(1)</sup></b>	<b>Notional amount</b>		<b>Fair value</b>	
		<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
August 14, 2023	4.60% \$	<b>21,087</b>	\$ 21,231	<b>1,716</b>	\$ 1,765
May 1, 2023	3.64%	<b>30,989</b>	22,664	<b>790</b>	730
			<b>\$ 2,506</b>	\$ 2,495	

(1) During the three months ended March 31, 2017, the REIT increased its existing mortgage on 4211 Yonge Street by \$8.5 million, resulting in a lowered combined interest rate of 3.64% with no change to the loan's maturity (note 9).

The following is a reconciliation of the change in the fair value of derivative instruments:

	<b>March 31, 2017</b>	March 31, 2016
Balance, beginning of period	<b>\$ 2,482</b>	\$ 3,153
Fair value change of interest rate swaps	<b>11</b>	811
Fair value change of interest rate cap	<b>9</b>	—
<b>Balance, end of period</b>	<b>\$ 2,502</b>	\$ 3,964

### 12. Class B LP units

Class B LP units are exchangeable at the option of the holder into trust units of the REIT on a one-for-one basis subject to normal anti-dilution adjustments and are entitled to distributions of cash, as applicable, equal to the cash distributions paid to holders of units by the REIT.

Each Class B LP unit is attached to a special voting unit of the REIT, providing Class B LP unitholders voting rights in the REIT. Special voting units have no economic entitlement in the REIT but entitle the holder to one vote per special voting unit at any meeting of the unitholders of the REIT. Special voting units are not transferable separately from the Class B LP units to which they are attached. Upon the exchange or surrender of a Class B LP units for units of the REIT, the special voting unit attached to a Class B LP unit will automatically be redeemed and canceled.

The Class B LP units are re-measured based on the quoted closing price of REIT units into which they are exchangeable with changes in fair value recognized in net income.

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The change in Class B LP units during the periods is as follows:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Units	Amount	Units	Amount
Balance, beginning of period	5,285,160	\$ 41,753	5,285,160	\$ 37,260
Fair value changes	—	740	—	4,440
<b>Balance, end of period</b>	<b>5,285,160</b>	<b>\$ 42,493</b>	<b>5,285,160</b>	<b>\$ 41,700</b>

### 13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	Note	March 31, 2017	December 31, 2016
Trade payables and accrued liabilities		\$ 18,141	\$ 17,758
Distributions payable	15	2,879	2,875
Prepaid rent		2,321	2,373
Tenant improvements payable		1,016	745
		<b>\$ 24,357</b>	<b>\$ 23,751</b>

### 14. Unitholders' equity

The REIT is authorized to issue an unlimited number of trust units. Each trust unit represents a proportionate undivided beneficial interest and voting right in the REIT and entitles the holder to an equal participation in distributions of the REIT. The trust units are redeemable at the option of the holder at any time.

The REIT is also authorized to create and issue an unlimited number of preferred units, in one or more classes comprised of unlimited series, having terms and conditions as may be determined by the Board of Trustees from time to time. No preferred units have been issued.

The change in trust units during the three months ended March 31, 2017 and 2016 is as follows:

	Note	Three months ended March 31, 2017		Three months ended March 31, 2016	
		Units	Amount	Units	Amount
Balance, beginning of period		40,743,637	\$ 310,201	30,041,430	\$ 227,030
Issued pursuant to DRIP	15	36,747	296	67,619	465
Repurchase of units		—	—	(50,813)	(384)
<b>Balance, end of period</b>		<b>40,780,384</b>	<b>\$ 310,497</b>	<b>30,058,236</b>	<b>\$ 227,111</b>

#### Public offerings

On March 15, 2017, the REIT issued 14,820,000 subscription receipts at an issuance price of \$8.10 per subscription receipt (note 8), for gross proceeds of \$120.0 million in connection with the acquisition of three office properties, the West Metro Centre in Toronto, ON and 250 King and 460 Two Nations in Fredericton, NB. The REIT also completed a private placement for 1,234,568 units at an issuance price of \$8.10 for gross proceeds of \$10.0 million when the acquisition closed on April 25, 2017 (note 26). Upon completion of the acquisitions, the subscription receipts convert into trust units on a one to one basis. The acquisitions closed subsequent to quarter end, and as a result, there is no impact to equity as at March 31, 2017.

On September 7, 2016, the REIT completed a bought deal offering of 6,104,500 units at an issuance price of \$8.45 per unit, for gross proceeds of \$51.6 million.

On June 24, 2016, the REIT completed a bought deal offering of 4,531,137 units at an issuance price of \$7.85 per unit, for gross proceeds of \$35.6 million.

#### Normal course issuer bid

On March 2, 2017, the REIT renewed its normal course issuer bid ("NCIB"), whereby the REIT may purchase up to 3,890,593 trust units, subject to certain restrictions. The renewed NCIB expires on the earlier of March 1, 2018 and the repurchase of the maximum number of trust units. No trust units were purchased during the three months ended March 31, 2017 (March 31, 2016 - 50,813 trust units).

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### *Trustee deferred unit plan*

Effective May 26, 2015, the REIT adopted a deferred unit plan for Trustees of the REIT (the "Trustee DUP"). Trustees who are not employees of the REIT or the Manager, Slate Asset Management L.P., or any of their subsidiaries, are eligible to participate in the Trustee DUP. Participants may elect to receive all or a portion of their annual retainer, meeting fees and additional compensation (including travel fees), in deferred units. One deferred unit, which vests immediately on the grant date, is equivalent to one trust unit. Additional deferred units accumulate at the same rate that distributions are paid on the trust units.

The deferred units may be redeemed by a participant for a period of two years after the participant ceases to be a Trustee of the REIT in whole or in part for cash or trust units. The value of the deferred units when converted to cash will be equivalent to the market value of trust units on the date of the redemption request.

As at March 31, 2017, the liability associated with the deferred units was \$0.5 million (March 31, 2016- \$0.2 million), and the number of outstanding deferred units was 57,566 (March 31, 2016 - 25,802 units).

### *Officer deferred unit plan*

On March 21, 2016, the REIT adopted a deferred unit plan for officers of the REIT (the "Officer DUP"). The Officer DUP provides officers of the REIT the opportunity to receive deferred units of the REIT. The maximum number of deferred units reserved for issuance under the Officer DUP is 1% of total units outstanding. One deferred unit, which vests immediately on the grant date, is equal to one trust unit. Any units issued under the Officer DUP will result in an equal reduction and offsetting in the asset management fee payable to Slate Management Corporation, based on the trading price of units on the day of issuance.

The deferred units may be redeemed by a participant after two years following the date the units were issued in whole or in part for cash or trust units. The value of the deferred units when converted to cash will be equivalent to the market value of trust units on the date of the redemption request.

If a participant ceases to be an officer of the REIT, the deferred units must be redeemed no later than two years following that date.

As at March 31, 2017, the liability associated with deferred units issued under the Officer DUP was \$0.1 million (March 31, 2016 - nil), and the number of deferred units was 7,896 (March 31, 2016 - nil).

The change in DUP units during the three months ended March 31, 2017 and 2016 is as follows:

	March 31, 2017		March 31, 2016	
	Units	Amount	Units	Amount
Balance, beginning of period	49,859	\$ 395	17,436	\$ 123
Issued - Trustee DUP	6,515	53	7,901	61
Reinvested distributions	1,192	9	465	3
Redemption of units	—	—	—	—
Fair value adjustment	—	7	—	16
<b>Balance, end of period</b>	<b>57,566</b>	<b>\$ 464</b>	<b>25,802</b>	<b>\$ 203</b>

### *Weighted average units outstanding*

The following is the weighted average number of units outstanding during the three months ended March 31, 2017 and 2016 on a basic and diluted basis. The diluted weighted average trust units outstanding is determined as if all of the Class B LP units and DUP units to have been converted to units of the REIT:

	March 31, 2017	March 31, 2016
Basic weighted average units outstanding	40,765,560	30,031,846
Impact of Class B LP units	5,285,160	5,285,160
Deferred units	50,449	17,436
<b>Diluted weighted average units outstanding</b>	<b>46,101,169</b>	<b>35,334,442</b>

Subscription receipts issued on March 15, 2017 have not been included in the calculation of diluted weighted average units outstanding as they do not meet the criteria for inclusion as at March 31, 2017.



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### 15. Distributions

Pursuant to the Declaration of Trust, the income of the REIT is distributed on dates and in amounts as determined by the Board of Trustees. During the three months ended March 31, 2017, the REIT declared distributions each month of \$0.0625 per unit.

The following table summarizes the distributions during the three months ended March 31, 2017 and 2016:

	March 31, 2017		March 31, 2016	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 7,435	\$ 991	\$ 5,297	\$ 991
DRIP distributions	210	—	335	—
Distributions declared during the period	7,645	991	5,632	991
Add: Distributions payable, beginning of period	2,545	330	1,878	330
Less: Distributions payable, end of period	(2,549)	(330)	(1,851)	(330)
<b>Distributions paid or settled during the period</b>	<b>\$ 7,641</b>	<b>\$ 991</b>	<b>\$ 5,659</b>	<b>\$ 991</b>

The REIT has a distribution reinvestment program ("DRIP") where unitholders, including holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT. During the three months ended March 31, 2017, the REIT declared distributions resulting in 36,747 units (March 31, 2016 - 67,619 units) issued/ issuable under the DRIP.

### 16. Rental revenue

Rental revenue is comprised of the following:

	Three months ended March 31,	
	2017	2016
Property base rent	\$ 18,140	\$ 15,084
Operating cost and tax recoveries	12,216	10,535
Hotel	1,512	1,457
Straight-line rent and other changes	450	493
	<b>\$ 32,318</b>	<b>\$ 27,569</b>

The REIT has contracted to receive the following future minimum lease payments under non-cancellable operating leases:

	March 31, 2017	December 31, 2016
Not later than one year	\$ 61,838	\$ 64,400
Later than one year and not later than five years	181,773	184,978
Later than five years	153,347	125,703
	<b>\$ 396,958</b>	<b>\$ 375,081</b>

Future minimum lease payments for the Data Centre are excluded from the above as the lease is classified as a finance lease. Future minimum lease payments for the Data Centre are disclosed in note 5.

### 17. General and administrative

General and administrative expenses are comprised of the following:

	Note	Three months ended March 31,	
		2017	2016
Asset management fees	20	\$ 768	\$ 614
Professional fees		114	186
Trustee fees		104	107
Bad debt expense (recovery), net	7	24	(54)
Other		139	187
		<b>\$ 1,149</b>	<b>\$ 1,040</b>

# SLATE OFFICE REIT

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### 18. Interest and finance costs

Interest and finance costs are comprised of the following:

	Three months ended March 31,	
	2017	2016
Mortgage interest	\$ 2,594	\$ 2,125
Interest on other debt	2,411	1,822
Amortization of deferred transaction costs	331	231
Amortization of debt mark-to-market adjustment	(126)	25
	\$ 5,210	\$ 4,203

### 19. Change in fair value of financial instruments

The change in fair value of financial instruments is comprised of the following:

	Note	Three months ended March 31,	
		2017	2016
Interest rate swaps	11	\$ (11)	\$ (811)
Interest rate cap	11	(9)	—
Deferred units	14	(7)	—
Subscription receipts	8	889	—
		\$ 862	\$ (811)

### 20. Related party transactions

The REIT has a management agreement (the "Management Agreement") with Slate Management Corporation ("SMC"), a subsidiary of Slate Asset Management L.P. ("SLAM"), (collectively, "Slate"), whereby SMC as the REIT's manager provides the REIT with the strategic, administrative, property management, leasing, acquisition, financing and construction management services necessary to manage the strategy and day-to-day operations of the REIT and its assets.

SMC and SLAM collectively held the following interests in the REIT:

	March 31, 2017	December 31, 2016
REIT units	1,687,251	1,687,251
Class B LP units	5,285,160	5,285,160
Total	6,972,411	6,972,411
Economic interest	15.1%	15.1%

The Management Agreement provides for the following fees:

Type	Basis
Property management	3% of revenues
Asset management	0.3% of gross book value <sup>(1)</sup>
Leasing	5% on new leases, 2% on renewals <sup>(2)</sup>
Financing	0.25% of debt placed
Construction	5.0% of costs
Acquisition	Variable <sup>(3)</sup>

(1) Gross book value is defined as the book value of the REIT's assets as shown on the previous quarter's consolidated financial statements, less restricted cash.

(2) Leasing fees are charged to the REIT net of any third party brokerage fees paid to leasing agents retained by the REIT. No fee is charged to the REIT where such third party fees are equal to or greater than the lease fee payable to SLAM.

(3) Acquisition fees are 1.0% on the first \$100 million of acquisitions; 0.75% on the next \$100 million of acquisitions and 0.50% for acquisitions in excess of \$200 million.

Property and asset management fees are recorded as property operating and general and administrative expenses, respectively, in the period incurred. Acquisition, construction and leasing fees are recorded as additions to investment properties when payable to SMC.

# SLATE OFFICE REIT

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Financing fees are capitalized to debt placed at the time of closing and amortized to interest expense over the term to maturity of the related debt.

Fees payable during the period to SMC and SLAM for services provided were as follows:

	Three months ended March 31,	
	2017	2016
Property management	\$ 948	\$ 803
Asset management	768	614
Leasing, financing, and construction management	2,017	557
	\$ 3,733	\$ 1,974

Property administration fees are generally recoverable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the REIT's properties. Property administration fees were \$1.5 million for the three months ended March 31, 2017 (March 31, 2016 – \$1.3 million). Administrative fees are recovered from most tenants by the REIT in accordance with the terms of the leases, whereas property management fees payable by the REIT to the Manager are determined in accordance with the Management Agreement.

The following are the assets and liabilities included in the consolidated statement of financial position of the REIT related to SMC and SLAM:

	March 31, 2017	December 31, 2016
Accounts receivable	\$ 434	\$ 469
Accounts payable and accrued liabilities	262	215
Class B LP units	42,493	41,753

On September 8, 2016, the REIT acquired 365 Hargrave St. from SMC for consideration of \$12.4 million. No acquisition fees were charged by SMC.

### 21. Fair values

The REIT uses various methods in estimating the fair values of assets and liabilities recognized and measured at fair value in its consolidated financial statements. The REIT has a management team that has overall responsibility for overseeing all significant fair value measurements. Significant unobservable inputs and valuation adjustments are reviewed on a regular basis. In addition, when third party information is used to measure fair values, supporting evidence is obtained and reviewed to ensure compliance with the IFRS requirements. The following categories in the fair value hierarchy reflect the significance of inputs used in determining fair values:

Level 1 - quoted prices in active markets;

Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and

Level 3 - valuation technique for which significant inputs are not based on observable market data.

The fair values of the REIT's cash, restricted cash, accounts receivable, other assets and accounts payable and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of the REIT's revolving credit facility, revolving operating facility and term loan, approximates their carrying value since the facilities bear interest at floating market interest rates. Mortgages are measured at amortized cost, and their fair values are based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The following tables summarize the fair value measurements recognized on the consolidated statement of financial position or disclosed in the REIT's consolidated financial statements, categorized by fair value hierarchy:

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March 31, 2017	Note	Carrying amount	Fair value			
			Level 1	Level 2	Level 3	
<b>Recorded at fair value</b>						
Properties	4	\$ 959,249	\$ —	\$ —	959,249	
Derivatives	11	(2,502)	—	(2,502)	—	
Subscription receipts	8	(119,153)	(119,153)	—	—	
Class B LP units	12	(42,493)	(42,493)	—	—	
<b>Fair values disclosed</b>						
Cash		\$ 2,504	\$ 2,504	\$ —	—	
Restricted cash		1,404	1,404	—	—	
Subscription receipt funds in escrow	8	117,666	117,666	—	—	
Debt	9	(621,896)	—	(625,544)	—	

December 31, 2016	Note	Carrying amount	Fair value			
			Level 1	Level 2	Level 3	
<b>Recorded at fair value</b>						
Properties	4	\$ 946,939	\$ —	\$ —	946,939	
Derivatives	11	(2,482)	—	(2,482)	—	
Class B LP units	12	(41,753)	(41,753)	—	—	
<b>Fair values disclosed</b>						
Cash		\$ 4,252	\$ 4,252	\$ —	—	
Restricted cash		1,404	1,404	—	—	
Debt	9	(604,953)	—	(608,623)	—	

## 22. Risk management

In the normal course of business, the REIT is exposed to financial risks that arise from its financial instruments. Other than the use of interest rate derivatives related to its floating rate mortgages payable, the REIT does not use hedging transactions to manage risk. As a part of the overall operation of the REIT, management takes steps to avoid undue concentrations of risks. The following describes the types of risks that the REIT is exposed to and its objectives and policies for managing those risk exposures:

### *Liquidity risk*

Liquidity risk is the risk that the REIT will encounter difficulty in meeting its debt and other financial obligations as they mature.

The principal liquidity needs of the REIT arise from working capital requirements; debt servicing and repayment obligations; distributions to unitholders; obligations to redeem outstanding puttable trust units at the option of the unitholders; planned funding of maintenance capital expenditures and leasing costs; and future investment property acquisition funding requirements.

The liquidity needs of the REIT are funded by cash flows from operating the REIT's investment property portfolio and available credit facilities, with the exception of debt repayment obligations, investment property acquisition funding requirements and obligations to redeem puttable trust units. These are funded by refinancing the REIT's maturing debt, financing unencumbered properties, or future issuances of REIT units and debentures. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated by matching debt maturities with lease renewals to optimize the value of the assets with the leverage to achieve the best value for pricing. In addition, the REIT staggers the maturity dates of the REIT's mortgage portfolio over a number of years.

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The following table summarizes the estimated contractual maturities of the REIT's financial liabilities as at March 31, 2017:

	Total contractual cash flow	Remainder of 2017	2018-2019	2020-2021	Thereafter
Accounts payable and other liabilities	\$ 24,357	\$ 24,357	\$ —	\$ —	\$ —
Amortizing principal repayments on debt	48,980	3,793	10,548	10,586	24,053
Principal repayments on maturity of debt	573,344	138,000	205,160	179,918	50,266
Interest on debt <sup>(1)</sup>	60,831	12,939	22,361	16,139	9,392
Interest rate swaps <sup>(2)</sup>	4,139	699	1,343	1,248	849
Other liabilities	6,898	2,842	1,037	891	2,128
	<b>\$ 718,549</b>	<b>\$ 182,630</b>	<b>\$ 240,449</b>	<b>\$ 208,782</b>	<b>\$ 86,688</b>

(1) Interest amounts on floating debt have been determined using floating rates at March 31, 2017.

(2) Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the March 31, 2017 floating rate.

In connection with the REIT's redevelopment of 2251 and 2285 Speakman Drive as per the SNC-Lavalin lease agreement, the REIT has committed to undertake certain improvements, which are estimated to be in aggregate approximately \$40.0 million. At March 31, 2017, \$18.7 million has been spent on the total project (December 31, 2016 - \$17.5 million). This redevelopment project will be funded through working capital and draws from the revolving credit and operating facilities as well as the construction facility.

### *Interest rate risk*

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows or fair values of the REIT's financial instruments.

Interest rate cash flow risk is minimized by the REIT by having a portion of its mortgages on fixed term arrangements. In addition, the maturity dates of mortgages are staggered over a number of years to mitigate the exposure in any one year. The REIT also utilizes interest rate swaps to fix interest rates on a portion of its floating rate mortgages.

As at March 31, 2017, excluding the mortgages associated with interest rate swaps, the REIT had a floating rate mortgage and debt of \$474.7 million (December 31, 2016 – \$465.2 million). The following table presents the annualized impact of a change in floating interest rates of 25 bps on finance costs:

	March 31, 2017	December 31, 2016
Change of 25 bps	1,187	1,163

### *Credit risk*

Credit risk is the risk that the REIT incurs a loss as a result of a counterparty not fulfilling its financial obligation. Credit risk is associated with the REIT's cash, restricted cash and accounts receivable. The REIT controls risks by avoiding undue concentration of assets in any geographic location, in any industry or with any specific tenants. This risk is further mitigated by signing long-term leases with tenants who have investment-grade credit ratings and investing cash and cash equivalents in large financial institutions with strong credit ratings. The REIT has credit policies to address credit risk, which are applied during lease negotiations and may include the analysis of the financial position of the debtor, and a review of credit limits, credit history and credit performance.

### **23. Capital management**

The REIT's capital management objectives are to (i) ensure compliance with the REIT's Declaration of Trust (ii) ensure compliance with restrictions in debt agreements, and (iii) provide sufficient liquidity to operate the REIT's properties, fund obligations as they become due and build unitholder value. Procedures to monitor compliance with the Declaration of Trust and debt agreements are performed as a part of the overall management of operations and periodically by review of the REIT's board of trustees and reporting to the REIT's lenders. In order to maintain or adjust the capital structure, the REIT may issue trust units, debentures or mortgage debt, adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce or increase debt.

# SLATE OFFICE REIT

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The REIT considers its debt and equity instruments to be its capital as follows:

	March 31, 2017	December 31, 2016
Debt, net	\$ 621,896	\$ 604,953
Class B LP units	42,493	41,753
Equity	346,805	345,712
	\$ 1,011,194	\$ 992,418

The Declaration of Trust provides that the REIT is not permitted to exceed financial leverage in excess of 65% of gross book value, as defined by the Declaration of Trust, and calculated as follows:

	March 31, 2017	December 31, 2016
Total assets <sup>(1)</sup>	\$ 1,046,438	\$ 1,025,522
Less: Restricted cash	(1,404)	(1,404)
Gross book value	1,045,034	1,024,118
Debt, net	\$ 621,896	\$ 604,953
Leverage ratio	59.5%	59.1%

(1) Subscription receipt funds held in escrow have been removed from total assets for purposes of calculating the leverage ratio at March 31, 2017. The REIT's leverage ratio including subscription receipt funds held in escrow would be 53.4%.

Additional investment and operating guidelines are provided for by the Declaration of Trust. The REIT is in compliance with these guidelines.

The REIT's revolving operating facility, revolving credit facility, term loan, construction facility, and some mortgages are subject to financial and other covenants, including customary maximum leverage ratios, interest service coverage ratios, minimum debt service coverage ratios, minimum unitholders' equity among others. The REIT is in compliance with these covenants.

### 24. Income taxes

The Income Tax Act (Canada) contains legislation affecting the tax treatment of specified investment flow-through ("SIFT") trusts which include publicly-listed income trusts (the "SIFT Rules"). Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital are generally not subject to tax.

The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). Instead, a real estate investment trust that meets the REIT Conditions is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. The REIT has reviewed the SIFT Rules and has assessed their application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions for the three months ended March 31, 2017 and 2016, and accordingly is not subject to current income taxes. The REIT intends to continue to meet the REIT Conditions and to distribute all its taxable income to its unitholders. Accordingly, the REIT has not recognized any deferred income tax assets or liabilities at March 31, 2017 or March 31, 2016.

# SLATE OFFICE REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)  
(unaudited)

### 25. Supplemental cash flow information

Changes in liabilities arising from financing activities are as follows:

	Cash flows				Non-cash changes				March 31, 2017
	December 31, 2016	Debt proceeds	Debt repayments	Transaction costs	Fair value changes	Amortization of MTM adjustments and costs	Other		
Mortgages	\$ 282,316	\$ 8,500	\$ (1,143)	\$ (74)	\$ —	\$ (27)	\$ —	\$ 289,572	
Revolving operating facility	182,176	9,500	—	—	—	167	—	191,843	
Revolving credit facility	32,817	—	—	—	—	50	—	32,867	
Term loan	104,980	—	—	(8)	—	14	—	104,986	
Other facility	2,664	—	(37)	—	—	1	—	2,628	
Subscription receipts	—	—	—	—	(889)	—	120,042	119,153	
Class B units	41,753	—	—	—	740	—	—	42,493	
<b>Total</b>	<b>\$ 646,706</b>	<b>\$ 18,000</b>	<b>\$ (1,180)</b>	<b>\$ (82)</b>	<b>\$ (149)</b>	<b>\$ 205</b>	<b>\$ 120,042</b>	<b>\$ 783,542</b>	

### 26. Subsequent events

On April 13, 2017, the REIT entered into a firm commitment to sell an industrial investment property located in Grand Prairie, Alberta, for proceeds of \$4.4 million.

On April 15, 2017, the REIT declared a monthly distribution of \$0.0625 per trust unit. Holders of Class B LP units of the REIT were also entitled to receive a distribution of \$0.0625 per trust unit.

On April 19, 2017, the REIT entered into a binding agreement to acquire a suburban office complex, located at 401-405 The West Mall in Etobicoke, Ontario for an aggregate purchase price of \$95.0 million. The transaction is expected to close during the second quarter of 2017.

On April 25, 2017, the acquisition of three office properties, West Metro Centre in Toronto, ON and 250 King and 460 Two Nations in Fredericton, NB, closed. The purchase price was an aggregate amount of \$165.0 million. On closing of the Acquisitions, the subscription receipts issued on March 15, 2017 were exchanged for trust units on a one-for-one basis. The REIT issued 14,820,000 units at a price of \$8.10 for gross proceeds of \$120.0 million. A private placement was also completed for 1,234,568 units at a price of \$8.10 for gross proceeds of \$10.0 million, for combined gross proceeds of \$130.0 million. On date of conversion of the subscription receipts to units, the price per unit was \$8.31 for total value of equity issued of \$123.2 million prior to closing costs, recognizing a loss of \$3.2 million on conversion. Distributions are payable to subscription unit holders as of March 31, 2017, on the date of conversion to trust units. The distributions of \$0.9 will be recorded as a finance cost in the second quarter. In connection with the acquisitions, the REIT assumed an existing mortgage on the West Metro Centre with a principal balance of \$75.7 million and an interest rate of 3.07% maturing on May 1, 2018.

On May 8, 2017, the REIT entered into a commitment letter with the lender for the renewal of the REIT's outstanding \$105.0 million term loan due June 30, 2017. The terms of the commitment provide for the extension of the term loan to June 30, 2019 and an increase in amount to \$120.0 million.