

Condensed Consolidated Interim Financial Statements of

SLATE OFFICE REIT

(formerly "FAM Real Estate Investment Trust")

Three months ended March 31, 2015

(Unaudited)

SLATE OFFICE REIT

Condensed Consolidated Interim Statements of Financial Position
(in thousands of Canadian dollars)
(unaudited)

	Note	As at March 31, 2015	As at December 31, 2014
Assets			
Non-current assets:			
Investment properties	4	\$ 448,062	\$ 448,012
Equity accounted investment	6	12,388	11,105
Restricted cash		1,668	1,596
Total non-current assets		462,118	460,713
Current assets:			
Note receivable	7	6,559	6,559
Prepaid expenses and other assets		637	754
Accounts receivable	8	5,113	5,577
Cash		1,866	3,067
Total current assets		14,175	15,957
Total assets		\$ 476,293	\$ 476,670
Liabilities and Unitholders' Equity			
Non-current liabilities:			
Mortgages payable	9	\$ 250,923	\$ 251,853
Security deposits and provisions	10	3,135	3,082
Interest rate swap liabilities	11	3,955	2,239
Class B LP units	13	40,616	38,460
Warrants	14	—	8
Total non-current liabilities		298,629	295,642
Current liabilities:			
Mortgages payable	9	17,931	18,055
Vendor take-back loan	21	9,180	9,180
Revolving credit facility	12	3,176	1,398
Warrants	14	40	—
Accounts payable and other liabilities	15, 21	11,164	12,301
Total current liabilities		41,491	40,934
Total liabilities		340,120	336,576
Unitholders' equity		136,173	140,094
Total liabilities and unitholders' equity		\$ 476,293	\$ 476,670

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Approved by the Board of Trustees

"Pam Spackman" Trustee "Al Mawani" Trustee

SLATE OFFICE REIT

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended March 31, 2015	Three months ended March 31, 2014
Revenue from investment properties		\$ 14,082	\$ 8,207
Property operating expenses	21	(6,454)	(3,442)
Property operating income		7,628	4,765
General and administration	18, 21	(593)	(532)
Special Committee related expenses		—	(118)
Finance costs, net	19	(5,140)	(3,512)
Share of net income from equity accounted investment	6	1,190	—
Fair value adjustments to financial instruments	20	(2,188)	(296)
Fair value adjustments to investment properties	4	(2,127)	(661)
Net loss and comprehensive loss		\$ (1,230)	\$ (354)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

SLATE OFFICE REIT

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

(in thousands of Canadian dollars)

(unaudited)

March 31, 2015	Note	Trust units	Retained earnings	Total
Unitholders' equity, beginning of period		\$ 124,532	\$ 15,562	\$ 140,094
Distributions declared	17	—	(2,802)	(2,802)
Units issued pursuant to Distribution Reinvestment Plan ("DRIP")	16	111	—	111
Net loss and comprehensive loss		—	(1,230)	(1,230)
Unitholders' equity, end of period		\$ 124,643	\$ 11,530	\$ 136,173

March 31, 2014	Note	Trust units	Retained earnings	Total
Unitholders' equity, beginning of period		\$ 77,993	\$ 21,153	\$ 99,146
Distributions declared	17	—	(1,693)	(1,693)
Units issued pursuant to DRIP	16	731	—	731
Net loss and comprehensive loss		—	(354)	(354)
Unitholders' equity, end of period		\$ 78,724	\$ 19,106	\$ 97,830

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

SLATE OFFICE REIT

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended March 31, 2015	Three months ended March 31, 2014
Operating activities:			
Net loss		\$ (1,230)	\$ (354)
Items not affecting cash	25	7,763	3,819
Change in non-cash working capital		(447)	837
Interest paid on mortgages payable		(2,621)	(1,514)
Interest paid on vendor take-back loan		(69)	(69)
Interest paid on revolving credit facility		(53)	(53)
Distributions on Class B LP units	17	(951)	—
Cash flows from operating activities		2,392	2,666
Investing activities:			
Capital expenditures, net of building improvement payable	4	(181)	(51)
Direct leasing expenses, net of tenant improvement payable		(1,428)	(213)
Issuance of note receivable	7	—	(3,000)
Cash flows used in investing activities		(1,609)	(3,264)
Financing activities:			
Mortgage principal payments		(1,034)	(986)
Transaction costs on mortgages and revolving credit facility		(10)	(108)
Advance from revolving credit facility		1,750	3,275
Distributions paid on trust units		(2,690)	(1,515)
Cash flows from (used in) financing		(1,984)	666
Increase (decrease) in cash		(1,201)	68
Cash, beginning of period		3,067	1,785
Cash, end of period		\$ 1,866	\$ 1,853

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

1. Organization

Slate Office REIT (the "Trust" or the "REIT"), formerly known as FAM Real Estate Investment Trust, is an unincorporated, open-ended real estate investment trust which was created pursuant to a Declaration of Trust dated August 27, 2012, as amended and restated on December 27, 2012 and December 17, 2014, under the laws of the Province of Ontario and the applicable laws of Canada. The REIT's trust units and trust unit purchase warrants are listed on the Toronto Stock Exchange ("TSX") and traded under the symbols "SOT.UN" and "SOT.WT", respectively. The registered office of the Trust is located at Suite 2400, 200 Front St West, Toronto, Ontario, Canada.

On December 28, 2012, the Trust completed its initial public offering ("IPO") of offered units, raising gross proceeds of \$58.8 million. The net proceeds of the offering were used as partial consideration for the acquisition of a portfolio of 27 income-producing office, industrial, and retail properties located in four provinces and one territory of Canada (the "Initial Properties"). The Trust had no operations prior to December 28, 2012.

2. Basis of preparation

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34, Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). 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 condensed consolidated interim financial statements should be read in conjunction with the Trust's audited consolidated financial statements for the year ended December 31, 2014 ("Annual Financial Statements").

These financial statements were approved by the Board of Trustees and authorized for issue on May 7, 2015.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on a going concern basis and historical cost basis except for the following material items:

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

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Trust's functional currency.

SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

2. Basis of preparation (continued)

(c) Use of estimates and judgments:

The preparation of these condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results could differ from the estimated amounts.

The critical judgments made by management in the process of applying the Trust's accounting policies, apart from those involving estimations, that have the most significant effect on the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the period are as follows:

(i) Business combinations:

The Trust makes certain judgments based on relevant facts and circumstances to determine whether a set of assets acquired and liabilities assumed constitute a business accounted for as a business combination. The Trust has determined that the acquisition of the investment properties on December 17, 2014 constituted an asset acquisition.

(ii) Leases:

The Trust makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the Trust is the lessee, are operating or finance leases. The Trust has determined that none of its leases are finance leases.

(iii) Lease incentives:

Lease incentives such as rent-free periods and lessee or lessor owned improvements may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties and are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease. This assessment requires the consideration of several factors, including whether the incentives enhance the value of the property, uniqueness of the improvements, and tenant discretion in use of funds.

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Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

2. Basis of preparation (continued)

(c) Use of estimates and judgments (continued):

(iv) Income taxes:

The Trust has determined that it is not subject to income taxes as it intends to continue to meet prescribed conditions under the Income Tax Act (Canada) and make distributions not less than the amount necessary to ensure that it is not liable to pay income taxes under current tax legislation.

(v) Assets and liabilities held for sale:

The Trust makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale. As at March 31, 2015, the Trust has determined that there were no assets or group of assets and liabilities that met the specified criteria.

The key estimates and assumptions made by management about the future and other major sources of estimation uncertainty at the date of the condensed consolidated interim financial statements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial year are as follows:

(i) Valuation of investment properties:

The fair values of investment properties, including the investment property under development held by the equity-accounted investee, are determined by management using recognized valuation techniques with a portion of fair values supported by externally qualified third party appraisers. The critical estimates and assumptions underlying the valuation of investment properties include, among other things, rental revenue from current leases, rental revenue from future leases in light of current conditions, future cash outflows in respect of leasing costs, capital expenditures, property operations, and capitalization and discount rates based on market data within the applicable market segment and geographical location. In addition, critical estimates for the investment property under development also include the exercise of the purchase option by the tenant and the stage of completion. Valuations are most sensitive to changes in discount rates and capitalization rates. Changes to the estimates and assumptions used by management or to local and general economic conditions can result in a significant change to the valuation of investment properties, which will be recognized as fair value adjustments during the periods the changes occur.

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(unaudited)

For the three months ended March 31, 2015

3. Significant accounting policies

New standards applicable in future periods

IFRS 9, *Financial Instruments* ("IFRS 9"), replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and liabilities. 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. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. The Trust is currently evaluating the impact of IFRS 9 on its condensed consolidated interim financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The model features 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. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The new standard is effective for annual periods beginning on or after January 1, 2017. The Trust does not expect the standard to have a material impact on its condensed consolidated interim financial statements.

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. The extent of the impact of adoption has not yet been determined.

SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

4. Investment properties

	Note	March 31, 2015	December 31, 2014
Balance, beginning of period		\$ 448,012	\$ 265,367
Acquisition of investment properties	5	—	183,529
Additions:			
Capital expenditures		203	1,470
Direct leasing expenses		1,430	1,861
Provisions	10	42	94
Fair value adjustments		(2,127)	(4,620)
Amortization of leasing expenses and straight-line rents included in revenue, net		502	311
Balance, end of period		\$ 448,062	\$ 448,012

(a) *Fair value of investment properties:*

Investment properties are measured at fair value at each reporting date. Each of the Trust's investment properties are subject to an external appraisal on a rotating schedule such that each property will be appraised at least once over a two-year period. During the period ended March 31, 2015, there were no investment properties externally appraised as all properties had been appraised within the past two year period. During the period ended December 31, 2014, five investment properties with an aggregate fair value of \$54.8 million were externally appraised.

The valuation process for externally and internally appraised investment properties utilizes the direct capitalization, discounted cash flow, and direct comparison approaches. Under the direct capitalization approach, fair values are determined by capitalizing the stabilized net operating income at the market capitalization rates. Under the discounted cash flow approach, fair values are determined by discounting the expected future cash flows, generally over a term of 10 years, using an appropriate discount rate and including a terminal value based on the application of a terminal capitalization rate ("Terminal cap rate").

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Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

4. Investment properties (continued)

(a) *Fair value of investment properties (continued):*

Valuations are most sensitive to changes in discount rates and capitalization rates, which are set out in the following table:

	March 31, 2015			December 31, 2014		
	Discount rate	Terminal cap rate	Capitalization rate	Discount rate	Terminal cap rate	Capitalization rate
<i>Industrial:</i>						
Minimum	8.00%	7.25%	8.00%	8.00%	7.25%	8.00%
Maximum	9.25%	8.75%	8.00%	9.25%	8.50%	8.00%
Weighted average	8.26%	7.60%	8.00%	8.27%	7.57%	8.00%
<i>Office (including parking lots):</i>						
Minimum	7.25%	6.50%	6.50%	7.25%	6.50%	6.50%
Maximum	8.75%	8.00%	7.50%	8.75%	8.00%	7.50%
Weighted average	7.77%	7.06%	6.60%	7.77%	7.06%	6.60%
<i>Retail:</i>						
Minimum	8.25%	7.50%	6.50%	8.25%	7.25%	6.50%
Maximum	9.50%	9.00%	8.75%	9.50%	9.00%	8.75%
Weighted average	8.72%	8.07%	7.88%	8.72%	8.01%	7.88%

As at March 31, 2015, investment properties with an aggregate fair value of \$449.1 million (December 31, 2014 - \$448.4 million) were pledged as security for outstanding mortgages and the revolving credit facility.

(b) *Capital expenditures subsidies:*

In connection with the acquisition of the Initial Properties from Huntingdon Capital Corp. ("Huntingdon"), the Trust received a \$3.0 million of capital expenditure subsidy, which will be used to subsidize capital expenditures on the Initial Properties in excess of \$675,000 on an annual basis.

The capital expenditures subsidy is recorded as a contra account to investment properties and is reduced as the subsidy is utilized. As at March 31, 2015, the capital expenditures subsidy was \$2.6 million (December 31, 2014 - \$2.6 million).

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

(unaudited)

For the three months ended March 31, 2015

5. Acquisition of investment properties

On December 17, 2014, the Trust completed the acquisition of seven office properties (the "Acquisition Properties") from Slate GTA Suburban Office Inc. ("Suburban Office"), for consideration of \$190.0 million, before transaction costs of \$3.2 million and net closing adjustments of \$5.6 million. The purchase of the Acquisition Properties was financed through a combination of (i) \$144.0 million in cash, (ii) the issuance of 2,794,363 trust units at a price of \$9.00 per unit, and (iii) the issuance of 2,096,686 Class B LP units at a price of \$9.00 per unit of FAM II LP, along with 2,096,686 special voting units that provide the same voting rights as the trust units of the REIT to Slate, and (iv) the REIT's existing liquidity.

The transaction was accounted for as an asset acquisition with the final purchase price allocated as follows:

Net assets acquired:		
Purchase price	\$	190,000
Transaction costs		3,246
Unit price premium		(8,950)
Other adjustments, net		(767)
Investment properties		183,529
Working capital items, net		(4,841)
	\$	178,688
Total consideration:		
Cash paid	\$	147,246
2,794,363 Trust units ¹		25,149
2,096,686 Class B LP units ¹		18,870
Receivable from vendor		(3,627)
Unit price premium		(8,950)
	\$	178,688

1 - Expressed at \$9.00 per unit price, includes unit price premium.

The issuance of the Class B LP units and the trust units at a price of \$9.00 per unit represents an estimated \$1.83 premium per unit over the fair value of the trust units of \$7.17 per unit as at December 17, 2014, resulting in a total premium of \$9.0 million.

In addition, in accordance with the purchase agreement, Suburban Office will fund free rent as well as any outstanding tenant inducements and leasing commissions payable on in-place leases as of the date of the purchase agreement. The free rent adjustment of \$1.1 million is reflected as an other adjustment to the investment properties and the tenant inducements and leasing commissions payable of \$2.5 million are included in the aggregate working capital items. The receivable from Suburban Office of \$3.6 million will be received as the related items are paid or incurred in accordance with the tenant lease agreements. The receivable is non-interest bearing and unsecured and is included in accounts receivable on the consolidated statements of financial position.

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Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

5. Acquisition of investment properties (continued)

The cash portion of the consideration was funded by a \$144.0 million floating rate mortgage with a 24 month term, maturing on December 17, 2016, bearing interest of 2.25% over the 90-day Canadian Bankers' Acceptance rate and secured by each of the Acquisition Properties, with the remainder funded from the Trust's exiting liquidity. The Trust incurred \$3.2 million in transaction costs related to this acquisition. No acquisition fee was paid to the Trust's manager in connection with the Acquisition Properties.

On January 1, 2015, Suburban Office amalgamated with Huntingdon and as a result, amounts owed from Suburban Office are now owed from Huntingdon. As at March 31, 2015, included in accounts receivable is a receivable from the Manager of \$3.4 million (December 31, 2014 - \$3.7 million) related to the Acquisition Properties (note 8).

6. Equity accounted investment

	March 31, 2015	December 31, 2014
Balance, beginning of period	\$ 11,105	\$ —
Initial investment	—	9,501
Acquisition fees	93	103
Share of net income	1,190	1,501
Balance, end of period	\$ 12,388	\$ 11,105

On April 22, 2014, the Trust entered into an agreement to invest in a fully pre-leased 64,000 square feet data centre development in Winnipeg, Manitoba (the "Data Centre development"). The Trust acquired a 50% equity ownership interest in a limited partnership and its general partner (the "Partnership") that will own the Data Centre development through a \$9.5 million investment paid in cash.

In connection with the investment in the Partnership, the Trust also issued a \$6.6 million mezzanine loan (the "Mezzanine Loan") to the other 50% limited partner, an arm's length company to fund a portion of its \$9.5 million capital contribution in the Partnership (note 7).

SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

6. Equity accounted investment (continued)

The following amounts represent summarized financial information about the Partnership's assets and liabilities, reconciled to the carrying amount of the Trust's investment in the Partnership:

	March 31, 2015	December 31, 2014
Assets		
Investment property under development	\$ 56,334	\$ 34,887
Other non-current assets	17	17
Total non-current assets	56,351	34,904
Restricted cash	18,021	35,497
Cash	550	671
Other current assets	485	260
Total current assets	19,056	36,428
Total assets	\$ 75,407	\$ 71,332
Liabilities		
Loan facility	\$ 36,678	\$ 36,675
Non-revolving facility	1,367	196
Prepaid rent	1,050	1,050
Total non-current liabilities	39,095	37,921
Revolving credit facility	856	749
Accounts payable and other liabilities	11,073	10,659
Total current liabilities	11,929	11,408
Total liabilities	51,024	49,329
Net assets	24,383	22,003
Ownership interest in the Partnership	50.0%	50.0%
Trust's share of net assets	12,192	11,002
Acquisition fees	196	103
Trust's net investment	\$ 12,388	\$ 11,105

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Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

6. Equity accounted investment (continued)

The non-current assets include the data centre under development, which was initially measured at cost and is re-measured at fair value at each reporting period. The cost of an investment property under development includes the acquisition cost of the land, pre-construction costs essential to the development of the property, construction costs, realty taxes, and borrowing costs directly attributable to the development. Borrowing costs are capitalized from the commencement of the development until the date of substantial completion. The Partnership considers substantial completion to have occurred when the property is fully commissioned and delivered to the tenant for occupancy.

As at March 31, 2015, capital expenditures of \$44.2 million (December 31, 2014 - \$25.3 million) on the investment property under development were incurred by the Partnership, excluding the non-cash assets contributed by the other 50% limited partner of \$6.0 million.

As at March 31, 2015, the estimated costs to complete the Data Centre development project, excluding financing fees and other professional expenses of an estimated \$0.2 million, is approximately \$8.7 million (December 31, 2014 - \$27.5 million) (on a 100% basis).

The following amounts represent summarized financial information about the Partnership's expenses for the three months ended March 31, 2015, reconciled to the Trust's share of net income:

	March 31, 2015
Interest revenue	\$ 89
Property management fees	(25)
Legal and professional fees	(14)
Finance costs	(307)
Fair value adjustments to investment property	2,637
Net income and comprehensive income	2,380
Ownership interest in the Partnership	50.0%
Share of net income	\$ 1,190

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Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

7. Note receivable

In 2014, the Mezzanine Loan of \$6.6 million was issued to the other 50% limited partner of the Partnership (note 6). The Mezzanine Loan accrues interest at a rate of 13.3% per annum, and is repayable at any time on or before the earlier of (a) rent commencement under the tenant lease and (b) July 31, 2015.

If the Mezzanine Loan is not repaid in full, it will be converted into an additional 30% equity ownership interest in the Partnership. If only a portion of the Mezzanine Loan is repaid, the equity ownership interest conversion will be pro-rated based on the amount outstanding. The remaining 20% equity ownership interest held by the other limited partner is subject to a put-call option. The put-call option becomes effective if at least 50% of the Mezzanine Loan's face value of \$3.3 million is not repaid. Under the put-call option, the Trust will have the option to purchase the other limited partner's remaining equity interest in the Partnership at fair market value. Similarly, the other limited partner will have the option to obligate the Trust to purchase the limited partner's residual equity interest in the Partnership at fair market value.

During the three months ended March 31, 2015, the Trust earned \$0.2 million of interest income in connection with the Mezzanine Loan. The interest receivable on the Mezzanine Loan is included in accounts receivable on the condensed consolidated interim statements of financial position (note 8).

8. Accounts receivable

	Note	March 31, 2015	December 31, 2014
Rents receivable		\$ 581	\$ 301
Accrued recovery income		207	128
Interest receivable on Mezzanine Loan	7	844	601
Amounts receivable from Huntingdon	5, 10	3,525	3,813
Other amounts receivable		165	864
Allowance for doubtful accounts		(209)	(130)
		\$ 5,113	\$ 5,577

SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

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

(unaudited)

For the three months ended March 31, 2015

9. Mortgages payable

	March 31, 2015	December 31, 2014
Mortgages payable	\$ 269,525	\$ 270,559
Mark-to-market adjustment arising on acquisition of the Initial Properties	276	331
Transaction costs	(947)	(982)
	268,854	269,908
Less: current portion	(17,931)	(18,055)
	\$ 250,923	\$ 251,853
Range of interest rates (%)	3.15 - 6.15	3.51 - 6.15
Weighted average contractual interest rate (%)	3.88	4.07
Range of term to maturity (years)	0.00 - 9.85	0.25 - 10.10
Weighted average term to maturity (years)	3.22	3.47

The mortgages payable are secured by mortgage charges registered against the title of specific investment properties, assignment of book debts, assignment of rents and repayment guarantees. Huntingdon has provided a guarantee on a mortgage with a principal balance of \$1.8 million at March 31, 2015 (December 31, 2014 - \$1.8 million). The Trust is required to maintain quarterly and annual debt service, interest service, and loan to value ratios for certain mortgages. As at March 31, 2015 and December 31, 2014 the Trust was compliant with all financial covenants.

Future principal payments, excluding amortization of mark-to-market adjustments and transaction costs, on mortgages payable at March 31, 2015 are as follows:

2015 (remaining nine months)	\$	17,021
2016		158,081
2017		10,084
2018		21,227
2019		21,029
Thereafter		42,083

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

(unaudited)

For the three months ended March 31, 2015

9. Mortgages payable (continued)

The mark-to-market adjustment arising on acquisition of the Initial Properties is amortized using the effective interest method. During the three months ended March 31, 2015, the Trust recorded amortization of \$0.1 million (March 31, 2014 - \$0.1 million) related to the mark-to-market adjustment. These adjustments have been recorded in finance costs (note 19).

10. Security deposits and provisions

	Note	March 31, 2015	December 31, 2014
Provisions	\$	661	\$ 623
Security deposits		2,474	2,459
	\$	3,135	\$ 3,082

The change in provisions during the three months ended March 31, 2015 and the year ended December 31, 2014 are as follows:

	March 31, 2015	December 31, 2014
Balance, beginning of period	\$ 623	\$ 602
Environmental provision	—	139
Environmental expenditures	(4)	(212)
Accretion and revision of estimates	42	94
Balance, end of period	\$ 661	\$ 623

As at March 31, 2015, included in provisions is \$0.1 million (December 31, 2014 - \$0.1 million) related to environmental work required on certain of the Initial Properties for which the Trust will be reimbursed by Huntingdon in accordance with the acquisition agreement. As at March 31, 2015, the amount receivable from Huntingdon of \$0.1 million is included in accounts receivable (December 31, 2014 - \$0.1 million) (note 8).

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

(unaudited)

For the three months ended March 31, 2015

11. Interest rate swaps

As at March 31, 2015, the Trust has interest rate swaps that entitle the Trust to receive interest at floating rates and pay interest at a fixed rate.

The interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. The following tables summarize the interest rate swap agreements outstanding as at March 31, 2015 and December 31, 2014:

Notional amount at March 31, 2015	Effective interest rate	Maturity date	Unrealized loss for the three months ended March 31, 2015	Cumulative unrealized loss at March 31, 2015
\$ 3,771	5.89%	1-Feb-25	\$ 91	\$ 725
22,193	4.60%	14-Aug-23	789	2,271
23,843	3.68%	1-May-23	836	959

Notional amount at December 31, 2014	Effective interest rate	Maturity date	Unrealized loss for the year ended December 31, 2014	Cumulative unrealized loss at December 31, 2014
\$ 3,840	5.89%	1-Feb-25	\$ 76	\$ 634
22,325	4.60%	14-Aug-23	1,471	1,482
24,005	3.68%	1-May-23	1,628	123

12. Revolving credit facility

The Trust has a revolving credit facility that expires on November 30, 2015 and is secured by four investment properties. The interest rate is prime plus 1.25% per annum and a standby fee of 0.5% charged quarterly in arrears based on the average daily undrawn amount.

As at March 31, 2015, the Trust had \$3.3 million drawn on the revolving credit facility (December 31, 2014 - \$1.5 million), and unamortized transaction costs of \$0.1 million (December 31, 2014 - \$0.1 million).

The Trust is required under the revolving credit facility agreement to maintain certain financial ratios at the end of each reporting period and a minimum unitholders' equity balance at all times. As at March 31, 2015 and December 31, 2014, the Trust was compliant with all financial covenants under the revolving credit facility.

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13. Class B LP units

The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis subject to anti-dilution adjustments. As at March 31, 2015, the Class B LP units were re-measured based on the quoted closing price of the trust units into which they are exchangeable. The change in Class B LP units during the three months ended March 31, 2015 and the year ended December 31, 2014 are as follows:

	Note	March 31, 2015		December 31, 2014	
		Units	Amount	Units	Amount
Balance, beginning of period		5,073,818	\$ 38,460	2,977,132	\$ 25,871
Issued in connection with the acquisition of investment properties	5	—	—	2,096,686	15,033
Fair value adjustment		—	2,156	—	(2,444)
Balance, end of period		5,073,818	\$ 40,616	5,073,818	\$ 38,460

During the three months ended March 31, 2015, the Trust declared distributions of \$1.0 million (March 31, 2014 - \$0.6 million) on the Class B LP units, which were recorded as finance costs (note 19).

During the year ended December 31, 2014, FAM II LP issued 2,096,686 Class B LP units to Suburban Office in connection with the purchase of the Acquisition Properties (note 5).

14. Warrants

Each warrant entitles the holder to acquire one trust unit of the REIT at an exercise price of \$10.50 per trust unit at any time until December 28, 2015. As at March 31, 2015, the warrants were re-measured based on the quoted closing price of the warrants. The change in warrants during the three months ended March 31, 2015 and the year ended December 31, 2014 are as follows:

	March 31, 2015		December 31, 2014	
	Warrants	Amount	Warrants	Amount
Balance, beginning of period	1,598,550	\$ 8	1,598,550	\$ 64
Fair value adjustment	—	32	—	(56)
Balance, end of period	1,598,550	\$ 40	1,598,550	\$ 8

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15. Accounts payable and other liabilities

	March 31, 2015		December 31, 2014	
Trade payables and accrued liabilities	\$	7,272	\$	8,089
Prepaid rent		638		912
Tenant improvement payable		3,254		3,300
	\$	11,164	\$	12,301

16. Unitholders' equity

(a) Trust units:

The change in trust units during the three months ended March 31, 2015 and the year ended December 31, 2014 are as follows:

	Note	March 31, 2015		December 31, 2014	
		Units	Amount	Units	Amount
Balance, beginning of period		14,935,795	\$ 124,532	8,974,482	\$ 77,993
Units issued on public offering	16c	—	—	1,955,000	17,302
Units issued on private placement	16c	—	—	831,639	7,360
Units issued in connection with the acquisition of investment properties	16b	—	—	2,794,363	20,036
Issue costs	16c	—	—	—	(1,292)
Units issued pursuant to DRIP		14,190	111	380,311	3,133
Outstanding, end of period		14,949,985	\$ 124,643	14,935,795	\$ 124,532

(b) Issuance of December 2014 trust units:

On December 17, 2014, as partial consideration for the purchase of the Acquisition Properties (note 5), the Trust issued 2,794,363 trust units at fair value of \$7.17 per trust unit for gross proceeds of \$20.0 million.

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16. Unitholders' equity (continued)

(c) Issuance of May 2014 trust units:

On May 13, 2014, in connection with the investment in the Partnership (note 6), the Trust completed a public offering of 1,955,000 trust units, inclusive of 255,000 trust units issued pursuant to the full exercise of the over-allotment option at a price of \$8.85 per trust unit, for gross proceeds of approximately \$17.3 million (the "May 2014 Offering").

Concurrent with the closing of the May 2014 Offering, the Trust issued 831,639 trust units on a private placement basis to Huntingdon, at a purchase price of \$8.85 per trust unit for gross proceeds of \$7.4 million.

After deducting issuance costs of \$1.3 million, net proceeds of \$23.4 million from the May 2014 Offering and the private placement were used to (i) fund the investment in the Partnership including the Mezzanine Loan (notes 6, 7) and any additional amounts payable for closing costs, (ii) repay amounts drawn on the Trust's revolving credit facility, and (iii) for general corporate purposes.

17. Distributions

Pursuant to the Declaration of Trust, the income of the Trust is distributed on dates and in amounts as determined by the Trustees. During the three months ended March 31, 2015, the Trust declared monthly distributions of \$0.0625 per unit. The distributions were paid on or about the 15th day of the month following declaration. The Trust has a 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 and will also receive a "bonus distribution" of units equal in value to 3% of each distribution. The following table summarizes the distributions declared for the three months ended March 31, 2015 and 2014:

	March 31, 2015		March 31, 2014	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 2,685	\$ 951	\$ 1,515	\$ —
DRIP distributions	117	—	178	558
Distributions declared	2,802	951	1,693	558
Less: distributions payable, end of period	(934)	(317)	(566)	(186)
Plus: distributions payable, beginning of period	933	317	561	186
Distributions paid or settled	\$ 2,801	\$ 951	\$ 1,688	\$ 558

The distributions declared during the three months ended March 31, 2015 resulted in 14,764 trust units issued or issuable under the DRIP.

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For the three months ended March 31, 2015

18. General and administration

General and administration expenses for the three months ended March 31, 2015 and 2014 are comprised of the following:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Professional fees	\$ 96	\$ 179
Asset management fees	356	202
Trustee fees	59	76
Other	82	75
	\$ 593	\$ 532

19. Finance costs, net

Net finance costs for the three months ended March 31, 2015 and 2014 are comprised of the following:

	Note	Three months ended March 31, 2015	Three months ended March 31, 2014
Mortgage interest		\$ 2,621	\$ 1,514
Distributions on Class B LP units	17	951	558
Accretion on vendor take-back loan		—	72
Interest on vendor take-back loan		69	69
Interest on revolving credit facility		53	53
Amortization of deferred transaction costs		72	59
Amortization of mark-to-market adjustment on mortgages	9	(55)	(56)
Loss on interest rate swaps	11	1,716	1,291
Interest income	7	(287)	(48)
		\$ 5,140	\$ 3,512

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For the three months ended March 31, 2015

20. Fair value adjustments to financial instruments

During the three months ended March 31, 2015 and 2014, the Trust recognized the following fair value adjustments to financial instruments:

	Note	Three months ended March 31, 2015	Three months ended March 31, 2014
Class B LP units	13	\$ (2,156)	\$ (328)
Warrants	14	(32)	32
		\$ (2,188)	\$ (296)

21. Related party transactions

The Trust has a management agreement (the "Management Agreement") with Huntingdon, whereby Huntingdon as the Trust's manager (the "Manager") will provide the Trust with strategic and administrative, property management, leasing, acquisition and disposition, financing and construction management services necessary to manage the day-to-day operations of the Trust and its assets. The Manager will provide such services using its own employees, including the provision of key personnel to serve as the Chief Executive Officer and Chief Financial Officer of the Trust.

As at March 31, 2015, the Manager held an approximate 34% interest in the Trust through the ownership of 5,073,818 Class B LP units (note 13) and 1,687,251 trust units (note 16).

During the three months ended March 31, 2015 and 2014, the Trust incurred the following costs in connection with the Management Agreement:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Property management fees	\$ 388	\$ 230
Asset management fees	356	202
Leasing, financing, and construction management fees	727	43
Acquisition fees	93	—
	\$ 1,564	\$ 475

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For the three months ended March 31, 2015

21. Related party transactions (continued)

Property administration fees are allowable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the Trust's properties. Property administration fees were \$0.7 million for the three months ended March 31, 2015 (March 31, 2014 - \$0.3 million). These fees are recovered from tenants by the Trust and payable by the Trust to the Manager under the terms of the Management Agreement. As at March 31, 2015, included in accounts payable and other liabilities is an amount owing to the Manager of \$1.2 million (December 31, 2014 - \$1.0 million).

The Trust has a vendor take-back loan agreement with Huntingdon. The unsecured loan has a face value of \$9.2 million bearing interest at 3.0% per annum payable quarterly, with the principal maturing on June 30, 2015.

22. Fair values

The Trust uses various methods in estimating the fair values of assets and liabilities recognized and measured at fair value in its condensed consolidated interim financial statements. The Trust 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. Significant valuation issues are reported to the Audit Committee. 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 Trust's cash, accounts receivable 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 Trust's revolving credit facility approximates its carrying value since the revolving credit facility bears 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 note receivable and the vendor take-back loan are measured at amortized cost, for which fair values approximate face value due to the relatively short period to maturity.

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For the three months ended March 31, 2015

22. Fair values (continued)

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

March 31, 2015	Note	Carrying amount	Level 1	Fair Value Level 2	Level 3
<i>Recorded at fair value:</i>					
Investment properties	4	\$ 448,062	\$ —	\$ —	448,062
Interest rate swap liabilities	11	(3,955)	—	(3,955)	—
Class B LP units	13	(40,616)	—	(40,616)	—
Warrants	14	(40)	(40)	—	—
<i>Fair values disclosed:</i>					
Note receivable	7	6,559	—	—	6,559
Mortgages	9	(268,854)	—	—	(273,540)
Vendor take-back loan		(9,180)	—	—	(9,180)

December 31, 2014	Note	Carrying amount	Level 1	Fair Value Level 2	Level 3
<i>Recorded at fair value:</i>					
Investment properties	4	\$ 448,012	\$ —	\$ —	448,012
Interest rate swap liabilities	11	(2,239)	—	(2,239)	—
Class B LP units	13	(38,460)	—	(38,460)	—
Warrants	14	(8)	(8)	—	—
<i>Fair values disclosed:</i>					
Note receivable	7	6,559	—	—	6,559
Mortgages	9	(269,908)	—	—	(273,696)
Vendor take-back loan		(9,180)	—	—	(9,180)

Transfers between the levels of the fair value hierarchy are deemed to have occurred as of the date of the event or change in circumstances that caused the transfer. During the three months ended March 31, 2015 and year ended December 31, 2014, there were no transfers between the levels of the fair value hierarchy.

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23. Risk management

Refer to the Trust's Annual Financial Statements for a description of the Trust's risk and an explanation of the Trust's risk management policy.

24. Capital management

Refer to the Trust's Annual Financial Statements for a description of the Trust's capital management policy.

25. Supplemental cash flow information

The following table summarizes the items not affecting cash in the condensed consolidated interim statements of cash flows:

	Note	Three months ended March 31, 2015	Three months ended March 31, 2014
Amortization of leasing expenses and straight-line rent, net	4	\$ (502)	\$ (92)
Finance costs, net	19	5,140	3,512
Share of net income from equity accounted investment	6	(1,190)	—
Fair value adjustments to financial instruments	20	2,188	296
Fair value adjustments to investment properties	4	2,127	661
Distributions on Class B LP units reinvested in trust units	17	—	(558)
		\$ 7,763	\$ 3,819