



Office  
REIT

**Q3 2015**  
TSX: SOT.UN

## DEAR FELLOW UNITHOLDERS

*"Wide diversification is only required when investors do not understand what they are doing."*

- Warren Buffett

This November marks the first anniversary of our stewardship of Slate Office REIT. During this time - which has passed remarkably fast - our focus has been consistently on enhancing the REIT's governance, management and strategic plan. We have achieved numerous milestones marking progress in the ongoing transformation of the REIT into a pure-play office strategy. The third quarter was no exception.

### **It all comes down to cost basis**

Commercial real estate can be complicated, but at Slate we firmly believe that it doesn't have to be. Our approach to Slate Office REIT falls in line with this philosophy. In the last 12 months we've looked for opportunities to acquire well located, well tenanted, Class A office buildings for less than it would cost to build them. This reduces risk, protects capital and increases returns. With a low cost basis in our real estate, we get to work and leverage our expertise as operators to unlock value potential - combining tactical capital improvement programs with aggressive marketing strategies.

If you've succeeded in acquiring well-located real estate at a good price and then executed on a well-defined strategy, the final step is highly achievable; leasing space to the best tenants.

### **Transformative lease transaction with SNC-Lavalin**

In September, we completed a major lease extension with SNC-Lavalin at Sheridan Park in Mississauga, Ontario. The deal is an excellent example of the advantages of a low cost basis, allowing us to develop a custom-tailored, state-of-the-art solution for SNC-Lavalin for significantly less than what it would cost to lease a new office development.

An existing tenant of the REIT, SNC-Lavalin's committed to a 10-year deal under which Slate Office will develop a new campus-style research and development facility that will house the global headquarters of SNC-Lavalin's nuclear division. The lease is significant not only from the standpoint that it secures a high-quality tenant on a long-term basis, but it is also a testament to a key aspect of Slate's vision: that older-vintage properties in excellent locations can be re-imagined as high-quality modern facilities suitable for leading companies.

### **Bolstering our revenue base**

Q3 also marks the first full quarter of revenue from the REIT's Atlantic Canada portfolio, which we acquired on June 30, 2015. Considerable time and resources have been put towards integrating this 2.9 million square foot portfolio into our platform, and now we begin to truly reap the benefits of this acquisition.

Slate is now the largest provider of office space in Atlantic Canada. In addition to a group of stable, prime office assets, the portfolio includes key re-development and disposition opportunities that we will focus on in the months ahead as we continue to drive unitholder value.

Two weeks ago, we also completed the acquisition of the remaining 20% interest in the Data Centre in Winnipeg, Manitoba. This state-of-the-art facility is occupied by MTS on a long-term lease and serves as a highly stable revenue source for the REIT.

**The proof is in the results**

Slate Office has enjoyed a busy and successful year as demonstrated by growth in per unit Adjusted Funds from Operations, which has increased \$0.06 or 33% over the previous quarter and \$0.08 or 150% over the same period last year. Year to date, our dedicated asset management team has completed over 680,000 of lease transactions and we continue to achieve meaningful rental rate increases, largely attributable to our proactive and hands-on approach to leasing and tenant relations.

Payout ratio is a key measure of the impact of Slate's management on both the REIT's financial health and the long-term viability of our business plan. When we assumed responsibility for the REIT one year ago, the payout ratio unitholders' distributions as a proportion of Adjusted Funds from Operations (akin to free cash flow) - was approximately 120%. At the close of Q3, this ratio has been reduced to just over 78%. The Atlantic Canada portfolio acquisition and the completion of the Data Centre have contributed greatly to this marked improvement in the REIT's performance and sustainability of the unitholder distribution. We are committed to this conservative approach as a way of enabling us to reinvest in the Slate Office portfolio while having adequate liquidity to take advantage of new growth opportunities.

To be a prudent manager of Slate Office REIT, we must also be efficient allocators of capital. In this regard, and with a dramatically improved financial position over one year ago, we have purchased for cancellation, via a normal course issuer bid (NCIB), over 250,000 units of the REIT. We believe that buying units at a significant discount to the intrinsic value of the real estate is a highly accretive, and cost efficient, use of capital.

We have accomplished a lot in one year but we remain focused on the work ahead - continuing to drive unitholder value through prudent, strategic acquisitions, an aggressive hands-on approach to management and leasing and a disciplined approach to handling the balance sheet.

We thank our unitholders for their continued trust and support.

Sincerely,

A handwritten signature in blue ink, appearing to read "S. Antoniak".

Scott Antoniak  
Chief Executive Officer  
November 5, 2015



Office  
REIT

**Management's Discussion and Analysis**

**Q3 2015**

TSX: SOT.UN

**September 30, 2015**

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

## Section 1. OBJECTIVES

### Basis of Presentation

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") for the three and nine months ended September 30, 2015 has been prepared and includes material financial information as of November 5, 2015. This MD&A should be read in conjunction with the audited consolidated financial statements of Slate Office REIT ("Slate Office" or the "REIT"), formerly known as FAM Real Estate Investment Trust, for the year ended December 31, 2014 and the unaudited condensed consolidated interim financial statements as at and for the nine months ended September 30, 2015, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All dollar amounts in this MD&A are in Canadian dollars.

Additional information relating to the REIT, including the REIT's annual information form for the year ended December 31, 2014 is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Forward-Looking Statements

Certain information herein constitutes "forward-looking statements" within the meaning of applicable securities legislation. Forward-looking statements include statements about management's expectations regarding objectives, plans, goals, strategies, future growth, operating results and performance, business prospects and opportunities of the REIT. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "might", "should", "seeks", "intends", "plans", "pro-forma", "estimates" or "anticipates"; or variations of such words; and phrases or statements that certain actions, events or results "may", "could" or "might" occur or be achieved; or the negative connotation thereof. Forward-looking statements are made based on reasonable assumptions, however, there is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are based on numerous assumptions of factors that if untrue, could cause actual results to differ materially from those that are implied by such forward-looking statements. These factors include but are not limited to: general and local economic and real estate business conditions; the financial condition of tenants; occupancy rates; rental rates; the ability of the REIT to refinance maturing debt; the REIT's ability to source and complete accretive acquisitions; changes in government, environmental and tax regulations; inflation and interest rate fluctuations; the REIT's ability to obtain equity or debt financing for additional funding requirements; and adequacy of insurance.

Forward-looking statements are subject to risks and uncertainties, many of which are beyond the REIT's control. These risks and uncertainties include, but are not limited to: risks related to general and local financial conditions including available equity and debt financing at reasonable costs and interest rate fluctuations; operational risks including timely leasing of vacant space and re-leasing of occupied space on expiration of current leases on terms at current or anticipated rental rates; tenant defaults and bankruptcies; uncertainties of acquisition activities including availability of suitable property acquisitions and integration of acquisitions; competition including development of properties in close proximity to the REIT's properties; loss of key management and employees; governmental, environmental, taxation and other regulatory risks; litigation risks and other risks and factors described from time to time in the documents filed by the REIT with the securities regulators.

The REIT has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements. However, there may be other factors that could cause results to not be as anticipated, estimated or intended. Forward-looking statements are provided to inform readers about management's current expectations and plans and allow investors and others to better understand the REIT's operating environment. However, readers should not place undue reliance on forward-looking statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, or of the timing that such performance or results will be achieved. Forward-looking statements included in this MD&A are made as of November 5, 2015 and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are included in this MD&A, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities

laws. Additional information about risks and uncertainties is contained in the REIT's annual information form for the year ended December 31, 2014 available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Non-IFRS Financial Measures**

The REIT has included certain non-IFRS financial measures throughout this MD&A. Management believes that in addition to conventional measures prepared in accordance with IFRS, investors in the real estate industry use these non-IFRS financial measures to evaluate the REIT's performance and ability to generate cash flows. Accordingly, these non-IFRS financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for performance measures prepared in accordance with IFRS. In addition, they do not have standardized meanings and may not be comparable to measures used by other issuers in the real estate industry or other industries. The non-IFRS financial measures included in this MD&A are as follows:

### ***Net operating income ("NOI")***

The REIT calculates net operating income as revenue from investment properties less property operating expenses.

### ***Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")***

The REIT calculates Adjusted EBITDA as net income before income taxes, depreciation and amortization, fair value adjustments to investment properties and financial instruments, realized gains or losses on disposals of investment properties, share of net income or loss from equity accounted investment, and finance costs excluding interest income.

### ***Funds From Operations ("FFO ") and Adjusted Funds From Operations ("AFFO")***

Funds From Operations ("FFO") and Adjusted Funds From Operations ("AFFO") are commonly acceptable and meaningful indicators of financial performance for the commercial real estate industry. However, FFO and AFFO are not measures defined under IFRS.

The REIT calculates FFO in accordance with the *Real Property Association of Canada ("REALpac") White Paper on FFO for IFRS* which was revised April 2014. Specifically, the REIT calculates FFO as net income calculated in accordance with IFRS; adjusted for distributions on Class B LP units; costs expensed as a result of an acquisition accounted for as a business combination; finance income recognized on finance lease receivable with MTS at the Data Centre; share of net income from Data Centre; share of FFO from equity accounted investment; defeasance costs; and most non-cash expenses including: amortization of capitalized leasing costs; property disposition costs; fair value adjustments to subscription receipts and Class B LP units and warrants which are puttable instruments classified as financial liabilities; fair value adjustments to investment properties and gain recorded on extinguishment of subscription receipts.

In calculating AFFO, the REIT makes certain adjustments to FFO for certain items including: amortization of straight-line rent; accretion on the vendor take-back loan; amortization of deferred transaction costs; fair value adjustments to interest rate swaps; normalized direct leasing costs and capital expenditures; de-recognition and amortization of mark-to-market adjustments on mortgages refinanced or discharged; defeasance costs; guaranteed income supplement; and the interest rate and capital expenditure subsidies (as described under "Section 4 – Financial Condition, Interest Rate and Capital Expenditures Subsidies" of this MD&A) and net income from the Data Centre which is occupied by Manitoba Telecom Services Inc. ("MTS") which is accounted for as a finance lease (as described under Section 3 - "Finance Income on Finance Lease") . The method applied by the REIT to calculate AFFO may differ from methods applied by other issuers in the real estate industry and therefore may not be comparable with measures reported by such issuers.

### ***Change in calculation of AFFO***

During the period ended March 31, 2015, the REIT successfully entered into a lease with the Province of Manitoba for 74,248 square feet ("sq. ft.") at 114 Garry with a rent increase from \$10.25 per sq. ft. to \$19.54 per sq. ft. This lease which is for a 25 year period, requires the REIT to incur capital and leasing costs over a two year time frame that will benefit the REIT over the lease period. As a result, beginning January 1, 2015, the REIT has normalized its reserves for capital expenditures and leasing costs in deriving AFFO. The REIT previously

calculated AFFO using the actual capital expenditures and capitalized leasing costs incurred. The following table summarizes the AFFO as previously calculated and the current method of calculating AFFO:

	Three months ended				For the cumulative period ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
AFFO - as previously calculated	\$ 2,268	\$ 2,029	\$ 2,357	\$ 128	\$ 2,268	\$ 4,297	\$ 6,654	\$ 6,782
AFFO per unit - as previously calculated	\$ 0.19	\$ 0.15	\$ 0.16	\$ 0.01	\$ 0.19	\$ 0.34	\$ 0.49	\$ 0.48
AFFO	\$ 2,055	\$ 2,228	\$ 2,387	\$ 850	\$ 2,055	\$ 4,283	\$ 6,670	\$ 7,520
AFFO per unit	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.05	\$ 0.17	\$ 0.34	\$ 0.49	\$ 0.53

### **Core - FFO**

Management believes that the computation of FFO includes certain items that are not indicative of the results provided by the REIT's operating portfolio and affect the comparability of the REIT's period-over-period performance. These items include, but are not limited to, fair value adjustments to interest rate swaps, defeasance costs, and Special Committee related expenses. Therefore, in addition to FFO, management uses Core - FFO to normalize for such items. Management believes that Core - FFO is a useful supplemental measure, however this may not be comparable to the adjusted or modified FFO of other REITs.

### **Debt to Adjusted EBITDA leverage ratio and Net Debt to Adjusted EBITDA leverage ratio**

The REIT calculates its leverage ratio using two methods: 1) the average debt outstanding divided by annualized Adjusted EBITDA and 2) the average debt outstanding net of cash at period end divided by annualized Adjusted EBITDA. Debt consists of mortgages payable, vendor take-back loan, and the revolving credit facilities, term loan facilities and Data Centre debt facilities at face value, excluding deferred transaction costs. These ratios are widely used and meaningful metrics for the assessment of creditworthiness and leverage capacity. The Debt to Adjusted EBITDA leverage ratio indicates the number of years required for the REIT's unleveraged operating earnings (i.e. before depreciation, amortization, transaction costs, gains or losses, fair value adjustments, and taxes) to cover or repay all outstanding debts. The Net Debt to Adjusted EBITDA ratio takes into consideration the cash on hand to decrease debt.

### **Indebtedness ratio (also referred to as Debt to Gross Book Value, or "Debt/GBV")**

The REIT calculates its indebtedness ratio as total debt divided by total assets at period-end. The indebtedness ratio is a measure of the REIT's financial risk and determines the percentage of the REIT's assets financed by debt.

### **Interest coverage ratio**

The REIT calculates the interest coverage ratio as Adjusted EBITDA for the period divided by interest expensed during the period. Specifically, interest expense is computed as net finance costs adjusted for the interest rate subsidy and interest income, less non-cash items including gains and losses from interest rate swaps, de-recognition or amortization of mark-to-market adjustments on mortgages, amortization of deferred financing costs, accretion on the vendor take-back loan, distributions on Class B LP units, and defeasance costs. The interest coverage ratio is a measure of the REIT's ability to service its debt.

### **Debt service coverage ratio**

The REIT calculates the debt service coverage ratio as Adjusted EBITDA divided by the debt service requirements for the period, whereby the debt service requirements reflects principal repayments and interest expensed during the period. Payments related to defeasance,

prepayment penalties, or payments upon discharge of a mortgage are excluded from the calculation. The debt service coverage ratio is a measure of the REIT's ability to meet annual interest and principal payments.

### ***AFFO pay-out ratio***

The REIT calculates the AFFO pay-out ratio as total distributions divided by AFFO for the period. The AFFO pay-out ratio is a measure of the REIT's ability to sustain its total distributions, when compared to its cash flow capacity.

### **Review and Approval by the Board of Trustees**

The Board of Trustees approved the contents of this MD&A on November 5, 2015.

### **Core Business and Objectives**

Slate Office REIT's trust units and warrants are listed on the Toronto Stock Exchange ("TSX") and traded under the symbols "SOT.UN" and "SOT.WT", respectively.

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 as of December 17, 2014, as amended on March 16, 2015 and May 25, 2015. On December 28, 2012, the REIT completed its initial public offering of offered units, comprised of trust units and warrants, and acquired a portfolio of 27 income-producing office, industrial, and retail properties located in four provinces and one territory of Canada (the "Initial Properties"). The REIT had no operations prior to December 28, 2012.

The objectives of the REIT are to: (i) provide unitholders with stable and growing cash distributions from investment properties initially focused in Canada, on a tax efficient basis; (ii) enhance the value of the REIT's assets and maximize long-term trust unit value through active management; and (iii) expand the asset base of the REIT and increase the REIT's AFFO per trust unit, including through accretive acquisitions.

### **Management and Strategy**

#### **Overview**

The REIT is an unincorporated, open-ended investment trust settled under, and governed by, the laws of the Province of Ontario. The REIT focuses on acquiring, owning and leasing a diversified portfolio of revenue-producing commercial real estate properties in Canada with an emphasis on commercial office properties. The principal, registered and head office of the REIT is 121 King St W, Suite 200, Toronto, ON M5H 3T9.

#### *Management by Slate Asset Management LP*

The REIT is externally managed and operated by Slate Management Corporation (the "Manager"), formerly Huntingdon Capital Corp., a wholly-owned subsidiary of Slate Asset Management LP ("Slate"), a leading real estate investment platform with over \$3.0 billion in assets under management.

Slate has a highly experienced team of real estate professionals and has a proven track record of success in real estate investment and management. Management's interests are significantly aligned with the unitholders of the REIT through its significant ownership position.

Slate has been managing the REIT since November 2014 and since then has been focused on the following strategic objectives:

- i. repositioning itself as a pure play office REIT with growth focused on high-quality downtown and suburban office properties; and,
- ii. becoming an institutional quality investment vehicle that leverages Slate's sophisticated and professional management resources.



During the quarter ended September 30, 2015, the REIT achieved significant milestones towards its strategic objectives:

- The REIT acquired an additional 30% equity ownership in the Data Centre from the other 50% limited partner (the "Partner"). The Mezzanine Loan provided to the Partner to fund their share of the Data Centre development plus accrued interest was converted into an additional 30% equity interest in the property. Subsequent to quarter end, the REIT acquired the remaining 20% interest in the property by way of exercise of the put-call option as contemplated in the limited partnership for \$5.2 million increasing the REIT's ownership to 100%. The Data Centre is occupied by MTS on a long term lease and serves as a highly stable revenue source for the REIT.
- This quarter marks the first full quarter of revenue recognized from the REIT's Atlantic Canada portfolio which was acquired from Fortis Properties on June 30, 2015 (the "Portfolio Properties" and the "Co-owned Properties"). Considerable time and resources have been put towards integrating this 2.9 million square foot portfolio into the REIT's platform.
- The REIT continues to execute on the internal growth strategy with hands on operations and aggressive leasing strategies being key components. During the quarter, the REIT completed 41,197 square feet of new leasing and 255,715 square feet of lease renewals. The most notable transaction in the quarter was a renewal with SNC Nuclear, which impacted two buildings currently owned by the REIT (long-term renewal of 99,801 square feet at 2285 Speakman and a short-term renewal of 95,982 square feet at 2599 Speakman). One building was purchased by the REIT subsequent to quarter end and therefore not included in these statistics (long-term lease for 115,582 square feet at 2251 Speakman). The long-term lease at 2251 Speakman represents the largest lease transaction in the GTA West market in 2015 and will spearhead the REIT's revitalization of Sheridan Park.
- The REIT repurchased 170,596 trust units for cancellation during the third quarter through NCIB as it provided a compelling value proposition. The approved NCIB was approximately 20.0% utilized this quarter.

As a manager and the largest single unitholder, with an approximate 19% interest in the REIT as at September 30, 2015, Slate remains highly motivated to increase the value of the portfolio and provide stable, reliable and growing returns to the REIT's unitholders.

## Section 2. FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

(\$000s unless otherwise noted and except per unit amounts)	September 30, 2015	June 30, 2015	September 30, 2014
<b>Portfolio:</b>			
Number of properties	48	48	28
Gross leasable area ("GLA") in square feet ("sq. ft.")	5,054,812	5,262,636	1,829,103
Total assets	\$ 813,571	\$ 801,946	\$ 289,500
Total debt	\$ 500,580	\$ 493,235	\$ 136,757
Occupancy	89.2%	90.0%	94.8%

(\$000s unless otherwise noted and except per unit amounts)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
<b>Operating:</b>				
Revenue from investment properties	\$ 29,133	\$ 7,991	\$ 57,604	\$ 24,170
Net operating income	14,325	4,843	29,955	14,535
Net income and comprehensive income	4,830	4,652	14,080	2,426
Weighted average number of trust units (000s)	35,565	14,973	25,319	13,516
FFO	8,609	2,587	17,127	5,850
FFO per unit (basic and diluted)	\$ 0.24	\$ 0.17	\$ 0.68	\$ 0.43
Core - FFO	9,860	2,940	19,177	8,468
Core - FFO per unit (basic and diluted)	\$ 0.28	\$ 0.19	\$ 0.76	\$ 0.63
AFFO <sup>(2)</sup>	8,547	2,387	15,782	6,670
AFFO per unit (basic and diluted) <sup>(2)</sup>	\$ 0.24	\$ 0.16	\$ 0.62	\$ 0.49
Distributions per unit <sup>(1)</sup>	\$ 0.19	\$ 0.19	\$ 0.38	\$ 0.38
AFFO pay-out ratio	78.0%	118.0%	96.0%	115.0%
Cash distributions per unit – basic and diluted <sup>(1)</sup>	\$ 0.19	\$ 0.12	\$ 0.38	\$ 0.38

(1) Distribution per unit is based on the monthly distribution per unit of \$0.0625.

(2) AFFO for the comparative period was restated, as disclosed under the "Non-IFRS Financial Measures" of this MD&A.

	September 30, 2015	June 30, 2015	September 30, 2014
<b>Financing:</b>			
Weighted average debt interest rate*	3.5%	3.9%	4.7%
Interest coverage ratio (times)	2.9x	2.7x	3.0x
Debt to Adjusted EBITDA leverage ratio (times)	8.9x	9.7x	7.8x
Net Debt to Adjusted EBITDA leverage ratio (times)	8.6x	9.6x	7.4x

\*At period end

## Recent Developments

### Fortis Acquisition

The third quarter marks the first full quarter of revenue from the REIT's Atlantic Canada portfolio which we acquired in the second quarter of 2015. The June 30, 2015 acquisition, which consists principally of high quality office buildings located in major markets in Atlantic Canada, significantly enhances the REIT's position as an office REIT. The acquisition nearly doubles the REIT's asset base and creates a national footprint with 48 properties and total gross leasable area ("GLA") of 5.1 million square feet. The transaction delivers on the REIT's stated growth strategy and focus on office assets.

The Portfolio comprises some of Atlantic Canada's highest-quality commercial buildings, including ten office buildings, one mixed-use office complex and three retail centres totaling 2.8 million square feet of GLA. Notable regional addresses include Maritime Centre in Halifax, Nova Scotia; the Blue Cross Centre in Moncton, New Brunswick; and Fortis Place in St. John's, Newfoundland. The REIT's proportionate interest in the Portfolio and Co-owned Properties comprises 2.5 million square feet of GLA.

### Major Lease Extension

In September 2015, the REIT entered into a binding agreement with SNC-Lavalin, whereby SNC-Lavalin will extend its lease on a long term basis from the REIT of approximately 215,000 square feet in Mississauga's Sheridan Park for an initial term of 10 years. In connection with this lease, the REIT will invest approximately \$46 million to revitalize two key properties in Sheridan Park which will house SNC-Lavalin's nuclear sector.

Subsequent to quarter end, in connection with the REIT's investments in Sheridan Park, on October 1, 2015, the Trust completed the acquisition of an office property from Slate Management for consideration of \$9.2 million, before transaction costs of \$0.2 million. The purchase of the property was financed through a combination of \$7.8 million in cash borrowed from the revolving operating facility and the issuance of 211,342 Class B LP units at a price of \$7.06 per unit.

### Asset Disposition

Consistent with our strategy of migrating towards a pure play office REIT, on September 3, 2015, the REIT completed the sale of one of its industrial properties in Milton, Ontario for total consideration of \$22.5 million.

### Data Centre and Occupancy

During the third quarter, the Mezzanine Loan provided to a 50% limited partner to fund their share of the Data Centre development with a due date of July 31, 2015, was converted into a further 30% equity ownership interest in the partnership. Subsequent to the quarter, the REIT purchased the remaining 20% equity interest for \$5.2 million by way of the exercise of the put-call option as contemplated in the limited partnership agreement. As a result of these transactions, the REIT has increased its ownership to 100%.

### Debt Extension and Restructuring

The Trust has agreed with its lender to extend the maturity of the revolving credit facility to November 30, 2017 and increased the availability to a maximum \$35 million, subject to providing additional information which the Trust expects to complete by November 30, 2015. The availability is subject to certain borrowing base tests of the secured properties. Interest rates decreased by 0.25% to 0.50% depending on the type of borrowing.

## Portfolio Performance

### Same Property Portfolio

	Occupancy Rate (%)		Gross Leasable Area (sq. ft.)			
	September 30, 2015	June 30, 2015	As at September 30, 2015		As at June 30, 2015	
			Total	%	Total	%
Ontario	90.6%	88.0%	1,510,510	30.2%	1,510,510	30.3%
Manitoba	99.3%	98.9%	859,856	17.2%	859,856	17.1%
Saskatchewan	66.6%	68.2%	84,243	1.7%	84,243	1.7%
Alberta	45.6%	45.6%	113,451	2.3%	113,451	2.3%
Northwest Territories	100.0%	100.0%	15,475	0.3%	15,475	0.3%
Newfoundland	78.9%	82.3%	752,419	15.0%	752,419	15.0%
New Brunswick	89.2%	91.7%	1,120,644	22.4%	1,120,644	22.4%
Nova Scotia	95.1%	96.2%	547,014	10.9%	547,014	10.9%
<b>Total</b>	<b>89.1%</b>	<b>89.4%</b>	<b>5,003,612</b>	<b>100.0%</b>	<b>5,003,612</b>	<b>100.0%</b>

The above Same Property Portfolio analysis provides a comparison of properties that were owned by the REIT at both the end of the second quarter and the end of the third quarter in the current year.

On a quarter-over-quarter basis, the in-place occupancy for the same property portfolio decreased from 89.4% to 89.1%, equivalent to a reduction of 17,200 square feet. This reduction is the net result of 59,099 square feet of new vacancy offset by 41,899 square feet of new leases that commenced during the quarter. The majority of additional vacancy is represented by tenants in the Fortis Properties acquisition portfolio of the Portfolio Properties and the Co-owned Properties, that were underwritten to vacate upon lease expiry.

During the quarter, the REIT completed 41,197 square feet of new leasing and 255,715 square feet of renewals. The most notable transaction in the quarter was a renewal with SNC Nuclear, which impacted two buildings currently owned by the REIT (long-term renewal of 99,801 square feet at 2285 Speakman and a short-term renewal of 95,982 square feet at 2599 Speakman) and one building that was purchased by the REIT subsequent to quarter end and therefore not included in these statistics (long-term lease for 115,582 square feet at 2251 Speakman). The long-term lease at 2251 Speakman represents the largest lease transaction in the GTA West market in 2015 and will spearhead the REIT's revitalization of Sheridan Park.

On a quarter-over-quarter basis, the committed occupancy rate, which includes completed lease transactions with commencement dates subsequent to quarter-end, decreased from 90.1% to 90.0%. Net rents on new deals increased by 8.1% over building in-place rents on a weighted-average basis and rental rates on renewals increased by 22.6% over the previous contractual rents on a weighted-average basis.

### Property Portfolio Including Acquisitions & Dispositions

	Occupancy Rate (%)		Gross Leasable Area (sq. ft.)			
	September 30, 2015	June 30, 2015	As at September 30, 2015		As at June 30, 2015	
			Total	%	Total	%
Ontario	90.6%	89.8%	1,510,510	29.9%	1,769,470	33.5%
Manitoba	99.3%	98.9%	911,056	18%	859,856	16.3%
Saskatchewan	66.6%	68.2%	84,243	1.7%	84,243	1.6%
Alberta	45.6%	45.6%	113,451	2.2%	113,451	2.2%
Northwest Territories	100%	100.0%	15,475	0.3%	15,475	0.3%
New Brunswick	78.9%	91.7%	752,419	14.9%	752,483	14.3%
Newfoundland	89.2%	82.3%	1,120,644	22.2%	1,120,644	21.3%
Nova Scotia	95.1%	96.2%	547,014	10.8%	547,014	10.5%
<b>Total</b>	<b>89.2%</b>	<b>90.0%</b>	<b>5,054,812</b>	<b>100.0%</b>	<b>5,262,636</b>	<b>100.0%</b>

The above analysis on the Property Portfolio including acquisitions and dispositions provides a comparison of properties that were owned by the REIT at the end of the second quarter and the properties that were owned by the REIT at the end of the third quarter. The third quarter statistics include the lease commencement of the Data Centre in Winnipeg, Manitoba and for the disposition of 505 Industrial in Milton, Ontario.

The in-place occupancy of the REIT, including acquisition and disposition activity decreased from 90.0% to 89.2%. The committed occupancy from quarter to quarter decreased from 91.4% to 90.1%. Committed occupancy increases to 90.3% including properties acquired subsequent to the quarter-end.

### Tenant Base Profile

As part of the strategy to move to a pure play office REIT, the quality and covenant of the tenants has increased as a result of the REIT's recent acquisition of the Portfolio Properties from Fortis Properties. The following is a list of the REIT's top 10 largest tenants.

Rank	Tenant	GLA (SF)	% of Base Rent	Weighted Average Lease Term
1	Bell Canada	503,144	8.6%	4.8
2	MTS	53,639 (1)	7.3%	14.0
3	Government of Canada	229,008	7.3%	5.8
4	SNC Nuclear	223,401	5.1%	7.1
5	Medavie Blue Cross	155,470	4.0%	3.9
6	Province of New Brunswick	127,851	3.8%	5.2
7	Province of Nova Scotia	131,877	2.6%	1.7
8	Province of Manitoba	112,761	2.3%	19.0
9	Province of Newfoundland and Labrador	83,368	2.3%	0.7
10	Minacs	103,179	2.3%	1.2

(1) Subsequent to quarter end the REIT increased its ownership in the Data Centre to 100% which increased the MTS GLA to 66,439.

### Net operating income

The REIT achieved NOI of \$14.3 million for the three months ended and \$30.0 million for the nine months ended September 30, 2015, compared to \$4.8 million and \$14.5 million for the same periods in 2014 attributable to portfolio growth most notably from the acquisition of the Portfolio Properties and Co-owned Properties in June 2015 and the acquisition of the portfolio in the Greater Toronto Area in December 2014 (the "Suburban Office properties").

### Funds From Operations

FFO was \$8.6 million or \$0.24 per unit for the three months ended September 30, 2015. After adjusting for the non-cash fair value loss on the interest rate swaps of \$0.8 million (\$0.02 per unit) and defeasance costs of \$0.5 million (\$0.02) per unit, Core - FFO was \$9.9 million or \$0.28 per unit.

FFO was \$2.6 million or \$0.17 per unit for the three months ended September 30, 2014. After adjusting for the non-cash fair value loss on the interest rate swaps of \$0.2 million (\$0.01 per unit) and special committee related expenses of \$0.2 million (\$0.01 per unit), the Core - FFO was \$2.9 million or \$0.19 per unit.

FFO was \$17.1 million or \$0.68 for the nine months ended September 30, 2015. After adjusting for the non-cash fair value loss on the interest rate swaps of \$1.6 million (\$0.07 per unit) and defeasance costs of \$0.5 million (\$0.02) per unit, Core - FFO was \$19.2 million or \$0.76 per unit.

FFO was \$5.9 million or \$0.43 per unit for the three months ended September 30, 2014. After adjusting for the non-cash fair value loss on the interest rate swaps of \$2.1 million (\$0.16 per unit) and special committee related expenses of \$0.5 million (\$0.04 per unit), the Core - FFO was \$8.5 million or \$0.63 per unit.

The increase in Core - FFO is attributable to accretive growth in the portfolio throughout 2015 and the commencement of the Data Centre lease.

#### **Adjusted Funds From Operations**

AFFO was \$8.5 million or \$0.24 per unit for the three months ended September 30, 2015, compared to \$2.4 million or \$0.16 per unit in the prior period. The increase in AFFO is due to the growth in Core - FFO.

AFFO was \$15.8 million of \$0.62 per unit for the nine months ended September 30, 2015, compared to \$6.7 million or \$0.49 per unit for the nine months ended September 30, 2015.

#### **Pay-out Ratio**

The distribution pay-out ratio as a percentage of AFFO was 78.0% for the three months ended September 30, 2015, compared to the pay-out ratio of 118% for the same period in 2014. The distribution pay-out ratio as a percentage of AFFO was 96.0% for the nine months ended September 30, 2015, compared to the pay-out ratio of 115% for the same period in 2014. The decrease in pay-out ratio is mainly due to the overall growth of portfolio from the acquisitions in June 2015 and December 2014 and the commencement of the Data Centre lease on June 5, 2015.

## Section 3. REVIEW OF FINANCIAL AND OPERATIONAL RESULTS

### Summary of Selected Financial Information

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Revenue from investment properties	\$ 29,133	\$ 7,991	\$ 57,604	\$ 24,170
Property operating expenses	(14,808)	(3,148)	(27,649)	(9,635)
Net operating income	14,325	4,843	29,955	14,535
General and administration	(1,217)	(487)	(2,608)	\$ (1,539)
Special Committee related expenses	—	(184)	—	(522)
Finance costs, net	(6,127)	(2,180)	(8,986)	(8,421)
Finance income on finance lease receivable	691	—	691	—
Share of net income from equity accounted investment	106	1,033	2,547	924
Fair value adjustments to financial instruments	(1,218)	2,509	1,979	2,219
Fair value adjustments on investment properties	(332)	(882)	(7,871)	(4,770)
Mark to market and other adjustments on acquisition of Data Centre	(547)	—	(547)	—
Property disposition costs	(851)	—	(1,080)	—
Net income (loss) and comprehensive income (loss)	\$ 4,830	\$ 4,652	\$ 14,080	\$ 2,426
Total assets*	813,571	289,500		
Total debt <sup>(1)*</sup>	500,580	136,757		

\* At period-end

(1) Includes mortgages payable, vendor take-back loan, and amounts drawn under revolving, operating and term facilities.

### Review of Financial Results

#### Revenue from Investment Properties

Revenue from investment properties includes rent from tenants under lease agreements, straight-line rental income, percentage rents, property taxes and operating cost recoveries, and other incidental income.

For the three months ended September 30, 2015, revenue from investment properties was \$29.1 million compared to \$8.0 million for the same period in 2014. For the nine months ended September 30, 2015, revenue from investment properties was \$57.6 million compared to \$24.2 million for the same period in 2014. The increase in revenue from investment properties was driven by incremental revenues from the acquisition of the Portfolio Properties and Co-owned Properties in June 2015 and the Suburban Office properties in December 2014.

#### Property Operating Expenses

Property operating expenses consist of property taxes, property management fees, and other expenses such as common area costs, utilities, and insurance. The majority of the REIT's property operating expenses are recoverable from tenants in accordance with the terms of the tenants' lease agreements. Operating cost recoveries are included in revenue from investment properties and amounted to \$10.4 million for the three months and \$21.9 million for the nine months ended September 30, 2015, compared to \$2.9 million and \$8.7 million for the same periods in 2014.

For the three months ended September 30, 2015, property operating expenses were \$14.8 million compared to \$3.1 million for the same period in 2014. For the nine months ended September 30, 2015, property operating expenses were \$27.6 million compared to \$9.6 million for the same period in 2014. The increase in property operating expenses of \$11.7 million for the three month period (\$18.0 million for

nine month period) was primarily due to incremental expenses related to the acquisition of the Portfolio Properties and Co-owned Properties in June 2015 and the Suburban Office properties in December 2014.

### **General and administration**

General and administration expenses are primarily comprised of asset management fees, property acquisition fees, professional fees, trustee fees, and other reporting fees.

For the three and nine months ended September 30, 2015, general and administration expenses increased by \$0.7 million and \$1.1 million respectively, compared to the prior period. The increase was due to the growth of the portfolio.

### **Special Committee related expenses**

In February 2014, the REIT established a Special Committee to assess the implications of the Manager's strategic review on the REIT. Special Committee related expenses include legal, financial advisory and trustee fees. No such related expenses were incurred in the current period as the Special Committee completed its mandate.

### **Finance costs, net**

Finance costs is presented net of interest income, and is comprised of the following:

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Mortgage interest	\$ 2,657	\$ 1,506	\$ 7,896	\$ 4,526
Interest on other debt	1,695	21	1,887	142
Distributions on Class B LP units	951	559	2,854	1,675
Accretion on vendor take-back loan	—	73	—	217
Interest on vendor take-back loan	47	70	185	208
Amortization of deferred transaction costs	253	63	399	189
Amortization of mark-to-market adjustment on mortgages	(142)	(55)	(262)	(166)
Fair value loss on interest rate swaps	779	169	1,578	2,096
Interest income	(113)	(226)	(682)	(466)
Gain on extinguishment of subscription receipts	—	—	(4,869)	—
	<b>\$ 6,127</b>	<b>\$ 2,180</b>	<b>\$ 8,986</b>	<b>\$ 8,421</b>

For the three months ended September 30, 2015, finance costs resulted in expenses of \$6.1 million compared to \$2.2 million in the prior quarter. The increase relates to the increase in the size of the REIT from the portfolio acquisitions.

For the nine months ended September 30, 2015, finance costs were \$9.0 million compared to \$8.4 million for the same period in 2014. In the period ended June 30, 2015, the REIT had a gain on the extinguishment of subscription receipts of \$4.9 million relating to the issuance of units for the Portfolio Properties and Co-owned Properties. On June 10, 2015, the REIT issued 10,820,000 subscription receipts at \$7.40 per subscription receipt. On June 30, 2015, on closing of the Portfolio Properties from Fortis, one Trust Unit was automatically issued in exchange for each outstanding subscription receipt. The trading price of the Units on June 30, 2015 was \$6.95 and, as the subscription receipts were accounted for as financial liabilities in accordance with IAS 32, the REIT realized a gain on the extinguishment of subscription receipts of \$4.9 million. This gain was offset by an increase of \$5.1 million in mortgage and debt interest payments associated with the increase in the size of the portfolio.



### ***Finance income on finance lease receivable***

The REIT has a 15 year lease with MTS for the Data Centre. The terms of the lease meet the requirements for classification of the lease as a finance lease because the minimum lease payments amount to at least substantially all of the fair value of the leased asset. As a result of this classification, a portion of revenue earned on the property is recorded as interest income on finance lease. Interest income recognized on the finance lease for the quarter ended September 30, 2015 was \$0.7 million. There was no income earned in the comparable period in 2014.

The REIT makes certain non-IFRS adjustments for the contributions made by the Data Centre to its FFO, AFFO and NOI to account for the difference between accounting under IFRS and the lease contributions under a cash basis.

### ***Share of net income from equity accounted investment***

During the three months and nine months ended September 30, 2015, the REIT recorded income of \$0.1 million and \$2.5 million from its equity accounted investment in the Data Centre compared to income of \$1.0 million and \$0.9 million for the same periods in 2014. Equity income is largely driven by a fair value adjustment to its investment property under development. No additional equity income was recognized in August and September 2015 as a result of the REIT's acquisition of an additional 30% of the Data Centre to an 80% controlling interest on July 31, 2015. The REIT began consolidating the Data Centre effective July 31, 2015 as a result of the acquisition.

### ***Fair value adjustments to financial instruments***

The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis at the option of the unitholder. Under IFRS, the Class B LP units are considered puttable financial instruments to the REIT, and are recognized in the consolidated financial statements as financial liabilities measured at fair value through profit or loss. The fair value is re-measured at the end of each reporting period based on the quoted closing price of the trust units into which they are exchangeable.

During the three months ended September 30, 2015, the REIT recognized a \$1.2 million unrealized fair value loss related to the Class B LP units, as a result of an increase in the REIT's share price from \$6.95 at June 30, 2015 to \$7.19 at September 30, 2015, increasing the resulting liability.

During the nine months ended September 30, 2015, the REIT recognized \$2.0 million unrealized fair value gain related to the Class B LP units, as a result of a decline in the REIT's share price from \$7.58 at December 31, 2014 to \$7.19 at September 30, 2015.

Under IFRS, the trust unit purchase warrants issued on December 28, 2012 in connection with the REIT's initial public offering are considered puttable instruments to the REIT, and are recognized in the consolidated financial statements as financial liabilities measured at fair value through profit or loss. The fair value is re-measured at the end of each reporting period based on the quoted closing price of the warrants.

During the three months and nine months ended September 30, 2015 and 2014, the fair value adjustment to warrants were nominal.

### ***Fair value adjustments to investment properties***

In accordance with IFRS, the REIT measures its investment properties at fair value at the end of each reporting period. The fair values of investment properties are determined either internally by management or externally by nationally-recognized qualified third party appraisers using a number of approaches including the discounted cash flow and direct capitalization approaches.

During the nine months ended September 30, 2015, the REIT's investment properties increased from \$448.0 million to \$728.1 million. The change included:

- \$304.0 million from the acquisition of Fortis properties (see Recent Development section), plus \$4.6 million of transaction costs and other adjustments
- \$7.3 million in capital expenditures and direct leasing expenses

- \$1.3 million of net amortization of leasing expenses and straight-line rents included in revenue
- (\$29.2) million from the disposition of investment property
- (\$7.9) million fair value loss. This fair value loss include the write off of the Fortis transaction costs of \$5.5 million, offset by changes in unrealized gains and losses on the other investment properties.

### **Property disposition costs**

Consistent with the REIT's strategy to become a pure play office REIT, an industrial property located in Milton, Ontario was sold in the quarter for proceeds \$22.5 million. The REIT incurred professional fees and defeasance costs associated with this disposition of \$0.9 million. Similarly, in the second quarter of 2015, the REIT completed a sale of an industrial property located in Winnipeg, Manitoba for proceeds of \$6.7 million. Transaction costs of \$0.2 million were incurred on this transaction.

### **Income taxes**

The REIT is a mutual fund trust and real estate investment trust pursuant to the Income Tax Act (Canada). Under the Income Tax Act (Canada), so long as the REIT meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"), the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. Management intends to operate the REIT in a manner that enables the REIT to continue to meet the REIT Conditions and to distribute all of its taxable income to unitholders. Therefore, the REIT has not recognized any current or deferred income taxes in its condensed consolidated interim financial statements for the three and nine months ended September 30, 2015 and 2014.

### **Segmented Information**

The REIT has earned income from eight geographic locations to date:

(\$000s unless otherwise noted)	<b>Net Operating Income</b>							
	<b>Three months ended September 30, 2015</b>		<b>Three months ended September 30, 2014</b>		<b>Nine months ended September 30, 2015</b>		<b>Nine months ended September 30, 2014</b>	
	<b>Total</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>	<b>Total</b>	<b>Percentage (%)</b>
<b>Central</b>								
Ontario	\$ 4,551	31.8%	2,284	47.2%	\$ 15,285	51.0%	\$ 6,761	46.6%
Manitoba	1,950	13.6%	1,930	39.9%	5,949	19.9%	5,491	37.8%
<b>West</b>								
Alberta	62	0.4%	342	7.1%	480	1.6%	1,281	8.8%
Saskatchewan	224	1.6%	153	3.2%	472	1.6%	295	2.0%
Northwest Territories	113	0.8%	134	2.6%	344	1.1%	707	4.8%
<b>Atlantic Canada</b>								
New Brunswick	3,886	27.1%	—	—	3,886	13.0%	—	—
Newfoundland	1,834	12.8%	—	—	1,705	5.7%	—	—
Nova Scotia	1,705	11.9%	—	—	1,834	6.1%	—	—
	<b>\$ 14,325</b>	<b>100.0%</b>	<b>\$ 4,843</b>	<b>100.0%</b>	<b>\$ 29,955</b>	<b>100.0%</b>	<b>\$ 14,535</b>	<b>100.0%</b>

## Ontario

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
# of properties (period-end)	14	4	14	4
Owned GLA (000s of sq. ft.) (period-end)	1,511	693	1,511	693
Occupancy rate (%) (period-end)	90.6%	98.8%	90.6%	98.8%
Revenue from investment properties	\$ 9,042	\$ 3,721	\$ 29,020	\$ 11,179
Property operating expenses	(4,491)	(1,437)	(13,735)	(4,418)
Net operating income	\$ 4,551	\$ 2,284	\$ 15,285	\$ 6,761

NOI for the properties in Ontario increased by \$2.3 million for the three months ended September 30, 2015, when compared to the same period in 2014. NOI for the properties in Ontario increased by \$8.5 million for the nine months ended September 30, 2015, when compared to the same period in 2014. The increase in NOI was due to the growth in portfolio from the acquisition of the Suburban Office properties in December 2014.

## Manitoba

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
# of properties (period-end)	21	18	21	18
Owned GLA (000s of sq. ft.) (period-end)	911	923	911	923
Occupancy rate (%) (period-end)	99.3%	98.7%	99.3%	98.7%
Revenue from investment properties	\$ 3,223	\$ 3,217	\$ 9,975	\$ 9,624
Property operating expenses	(1,273)	(1,287)	(4,026)	(4,133)
Net operating income	\$ 1,950	\$ 1,930	\$ 5,949	\$ 5,491
Net operating income from Data Centre	1,067	—	1,067	—
Total Net operating income including Data Centre	\$ 3,017	\$ 1,930	\$ 7,016	\$ 5,491

NOI for the Manitoba properties increased for both the three and nine months ended September 30, 2015, when compared to the same periods in 2014. This increase in NOI was due to the increase in rental revenues associated with the 25 year lease renewal at 114 Garry Street and the adjustment for the Data Centre net operating income on a non-IFRS basis.

## Alberta

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
# of properties (period-end)	4	4	4	4
Owned GLA (000s of sq. ft.) (period-end)	113	113	113	113
Occupancy rate (%) (period-end)	45.6%	100.0%	45.6%	100.0%
Revenue from investment properties	\$ 177	\$ 521	\$ 880	\$ 1,722
Property operating expenses	(115)	(179)	(400)	(441)
Net operating income	\$ 62	\$ 342	\$ 480	\$ 1,281

NOI for properties in Alberta decreased by \$0.3 million for the three months ended period, when compared to the same period in 2014. NOI for properties in Alberta decreased by \$0.8 million for the nine months ended period, when compared to the same period in 2014. The decline was due to a tenant bankruptcy which impacted 96th Street in Grand Prairie and 35 Martin Way in Brooks, which led to the termination of the tenant leases.

## Saskatchewan

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
# of properties (period-end)	1	1	1	1
Owned GLA (000s of sq. ft.) (period-end)	84	84	84	84
Occupancy rate (%) (period-end)	66.6%	76.7%	66.6%	76.7%
Revenue from investment properties	\$ 428	\$ 373	\$ 1,165	\$ 800
Property operating expenses	(204)	(220)	(693)	(505)
Net operating income	\$ 224	\$ 153	\$ 472	\$ 295

NOI for the property in Saskatchewan in the current quarter has increased over the prior year's third quarter results due to a renewal of a major government tenant at higher rental rates and more favourable operating cost recoveries.

## Northwest Territories

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
# of properties (period-end)	1	1	1	1
Owned GLA (000s of sq. ft.) (period-end)	15	15	15	15
Occupancy rate (%) (period-end)	100.0%	100.0%	100.0%	100.0%
Revenue from investment properties	\$ 136	\$ 161	\$ 437	\$ 845
Property operating expenses	(23)	(27)	(93)	(138)
Net operating income	\$ 113	\$ 134	\$ 344	\$ 707

NOI for the property in the Northwest Territories in the current periods was relatively comparable to the prior year.

## New Brunswick

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
# of properties (period-end)	3	—	3	—
Owned GLA (000s of sq. ft.) (period-end)	1,121	—	1,121	—
Occupancy rate (%) (period-end)	89.2%	—	89.2%	—
Revenue from investment properties	9,267	—	9,267	—
Property operating expenses	(5,381)	—	(5,381)	—
Net operating income	\$ 3,886	—	\$ 3,886	—

NOI is from the acquisition of the Portfolio Properties and the Co-owned Properties on June 30, 2015. As a result of this recent acquisition, there are no comparative figures for the prior year.

## Newfoundland

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
# of properties (period-end)	10	—	10	—
Owned GLA (000s of sq. ft.) (period-end)	752	—	752	—
Occupancy rate (%) (period-end)	78.9%	—	78.9%	—
Revenue from investment properties	3,532	—	3,532	—
Property operating expenses	(1,698)	—	(1,698)	—
Net operating income	\$ 1,834	—	\$ 1,834	—

NOI is from the acquisition of the Portfolio Properties and the Co-owned Properties on June 30, 2015. As a result of this recent acquisition, there are no comparative figures for the prior year.

### Nova Scotia

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
# of properties (period-end)	1	—	1	—
Owned GLA (000s of sq. ft.) (period-end)	547	—	547	—
Occupancy rate (%) (period-end)	95.1%	—	95.1%	—
Revenue from investment properties	3,328	—	3,328	—
Property operating expenses	(1,623)	—	(1,623)	—
Net operating income	\$ 1,705	—	\$ 1,705	—

NOI is from the acquisition of the Portfolio Properties and the Co-owned Properties on June 30, 2015. As a result of this recent acquisition, there are no comparative figures for the prior year.

### Funds From Operations

The reconciliation of FFO to net income is as follows:

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Net income	\$ 4,830	\$ 4,652	\$ 14,080	\$ 2,426
Add (deduct):				
Amortization of leasing costs	59	36	163	122
Distribution on Class B LP units	951	559	2,854	1,675
Data Centre acquisition costs	96	—	96	—
Finance income on finance lease receivable	(691)	—	(691)	—
Data Centre net income	994	—	994	—
Share of net income from equity accounted investment	(106)	(1,033)	(2,547)	(924)
Fair value adjustments to financial instruments	1,218	(2,509)	(1,979)	(2,219)
Fair value adjustments to investment properties	332	882	7,871	4,770
Mark to market and other adjustments on acquisition of Data Centre	547	—	547	—
Property disposition costs	851	—	1,080	—
Defeasance costs included in property disposition costs	(472)	—	(472)	—
Gain on extinguishment of subscription receipts	—	—	(4,869)	—
<b>FFO</b>	<b>\$ 8,609</b>	<b>\$ 2,587</b>	<b>\$ 17,127</b>	<b>\$ 5,850</b>
Add (deduct):				
Fair value adjustments to interest rate swaps	779	169	1,578	2,096
Defeasance costs	472	—	472	—
Special Committee related expenses	—	184	—	522
<b>Core - FFO</b>	<b>9,860</b>	<b>2,940</b>	<b>19,177</b>	<b>8,468</b>
Weighted average number of units outstanding (000s) <sup>(1)</sup>				
Basic and diluted	35,565	14,973	25,319	13,516
FFO per unit (basic and diluted)	\$ 0.24	\$ 0.17	\$ 0.68	\$ 0.43
Core - FFO per unit (basic and diluted)	\$ 0.28	\$ 0.19	\$ 0.76	\$ 0.63

(1) The basic and diluted weighted average number of units outstanding includes the weighted average of all REIT units and Class B LP units.

FFO was \$8.6 million or \$0.24 per unit for the three months ended September 30, 2015. After adjusting for the non-cash fair value loss on the interest rate swaps of \$0.8 million (\$0.02 per unit) and defeasance costs of \$0.5 million (\$0.02) per unit, Core - FFO was \$9.9 million or \$0.28 per unit.

FFO was \$2.6 million or \$0.17 per unit for the three months ended September 30, 2014. After adjusting for the non-cash fair value loss on the interest rate swaps of \$0.2 million (\$0.01 per unit) and special committee related expenses of \$0.2 million (\$0.01 per unit), the Core - FFO was \$2.9 million or \$0.19 per unit.

FFO was \$17.1 million of \$0.68 for the nine months ended September 30, 2015. After adjusting for the non-cash fair value loss on the interest rate swaps of \$1.6 million (\$0.07 per unit) and defeasance costs of \$0.5 million (\$0.02) per unit, Core - FFO was \$19.2 million or \$0.76 per unit.

FFO was \$5.9 million or \$0.43 per unit for the three months ended September 30, 2014. After adjusting for the non-cash fair value loss on the interest rate swaps of \$2.1 million (\$0.16 per unit) and special committee related expenses of \$0.5 million (\$0.04 per unit), the Core - FFO was \$8.5 million or \$0.63 per unit.

The increase in Core - FFO is attributable to accretive growth in the portfolio throughout 2015.

## Adjusted Funds from Operations

The reconciliation of AFFO to the REIT's FFO is as follows:

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
FFO	\$ 8,609	\$ 2,587	\$ 17,127	\$ 5,850
Add (deduct):				
Interest rate subsidy <sup>(1)</sup>	189	116	378	307
Guaranteed income supplement	246	—	488	—
Accretion on vendor take-back loan	—	73	—	217
Amortization of deferred transaction costs	253	63	399	189
Amortization of mark-to-market adjustments on mortgages	(142)	(55)	(262)	(166)
Amortization of straight-line rent	(426)	(82)	(1,401)	(369)
Normalized direct leasing costs and capital expenditures	(1,433)	(484)	(2,997)	(1,454)
Defeasance costs	472	—	472	—
Fair value loss on interest rate swaps	779	169	1,578	2,096
<b>AFFO<sup>(3)</sup></b>	<b>\$ 8,547</b>	<b>\$ 2,387</b>	<b>\$ 15,782</b>	<b>\$ 6,670</b>
Weighted average number of units outstanding (000s) <sup>(2)</sup>				
Basic and diluted	35,565	14,973	25,319	13,516
<b>AFFO per unit (basic and diluted)</b>	<b>\$ 0.24</b>	<b>\$ 0.16</b>	<b>\$ 0.62</b>	<b>\$ 0.49</b>

(1) The interest rate subsidy is described in further detail under "Section 4 – Financial Condition, Interest Rate and Capital Expenditures Subsidies" of this MD&A.

(2) The basic and diluted weighted average number of units outstanding includes the weighted average of all REIT units and Class B LP units.

(3) AFFO for the comparative period was restated, as disclosed under the "Non-IFRS Financial Measures" of this MD&A.

AFFO was \$8.5 million or \$0.24 per unit for the three months ended September 30, 2015, compared to \$2.4 million or \$0.16 per unit in the prior period. The increase in AFFO is due to the growth in Core - FFO.

AFFO was \$15.8 million of \$0.62 per unit for the nine months ended September 30, 2015, compared to \$6.7 million or \$0.49 per unit for the nine months ended September 30, 2014.

## Distributions

The REIT's Board of Trustees has full discretion with respect to the timing and extent of distributions, including the adoption, amendment or revocation of any distribution policy. In determining the amount of monthly cash distributions paid to unitholders, the Board of Trustees applies discretionary judgment to forward-looking cash flow information, including forecasts and budgets. As net income calculated in accordance with IFRS recognizes certain revenues and expenses at time intervals that do not match the receipt of or the payment of cash, the Board of Trustees considers AFFO when establishing cash distributions to unitholders, as well as other factors. The excess of AFFO over cash distributions represents a measure of operating cash flow retained in the business.

It is the REIT's intention to make distributions to unitholders at least equal to the amount of net income and net realized capital gains of the REIT as is necessary to ensure that the REIT will not be liable for current income taxes.

The REIT has a distribution reinvestment plan (the "DRIP"), where eligible unitholders, which include 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 distributions declared during the nine months ended September 30, 2015 resulted in 37,727 trust units issued under the DRIP.

During the nine months ended September 30, 2015 and 2014, the REIT declared monthly distributions of \$0.0625 per unit. The distributions were paid on or about the 15<sup>th</sup> day of the month following declaration.

The following table summarizes the distribution payments for the three months and nine months ended September 30, 2015 and 2014:

(\$000s)	Three months ended September 30, 2015		Nine months ended September 30, 2015	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 5,376	\$ 951	\$ 11,677	\$ 2,854
Distributions reinvested in trust units	337	—	615	—
Distributions declared	5,713	951	12,292	2,854
Less: distributions payable, end of period	(1,899)	(317)	(1,899)	(317)
Plus: distributions payable, beginning of period	934	317	934	317
<b>Distributions paid or settled</b>	<b>\$ 4,748</b>	<b>\$ 951</b>	<b>\$ 11,327</b>	<b>\$ 2,854</b>

(\$000s)	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 1,869	\$ —	\$ 5,135	\$ —
Distributions reinvested in trust units	383	559	868	1,675
Distributions declared	2,252	559	6,003	1,675
Less: distributions payable, end of period	(753)	(186)	(753)	(186)
Plus: distributions payable, beginning of period	746	186	561	186
<b>Distributions paid or settled</b>	<b>\$ 2,245</b>	<b>\$ 559</b>	<b>\$ 5,811</b>	<b>\$ 1,675</b>

As at September 30, 2015, approximately 8.4% of the trust units outstanding were subscribed to the REIT's DRIP.

The following table reconciles AFFO to cash flow from operating activities reported in the consolidated financial statements of the REIT for the three months and nine months ended September 30, 2015 and 2014:

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
<b>Cash flow from operating activities</b>	<b>\$ 5,678</b>	<b>\$ 2,365</b>	<b>\$ 19,625</b>	<b>\$ 7,943</b>
Add (deduct):				
Changes in non-cash working capital	790	(395)	(7,260)	(2,267)
Normalized direct leasing costs and capital expenditures	(1,433)	(484)	(2,997)	(1,454)
Distributions on Class B LP units	951	559	2,854	1,675
Data Centre net income	994	—	994	—
Mark to market and other adjustments on acquisition of Data Centre	547	—	547	—
Guaranteed income supplement	246	—	488	—
Interest rate subsidy <sup>(1)</sup>	189	116	378	307
Defeasance costs	472	—	472	—
Interest income accrued	113	226	682	240
<b>AFFO</b>	<b>\$ 8,547</b>	<b>\$ 2,387</b>	<b>\$ 15,783</b>	<b>\$ 6,444</b>

(1) The interest rate subsidy is described in further detail under "Section 4 – Financial Condition, Interest Rate and Capital Expenditures Subsidies" of this MD&A.

The table below illustrates the REIT's cash flow capacity, based on AFFO, in comparison to its cash distributions:

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
AFFO	<b>\$ 8,547</b>	<b>\$ 2,387</b>	<b>\$ 15,783</b>	<b>\$ 6,444</b>
Total distributions paid or payable in cash – trust units and Class B LP units	<b>6,426</b>	<b>1,869</b>	<b>8,231</b>	<b>5,135</b>
<b>Excess of AFFO cash distributions</b>	<b>\$ 2,121</b>	<b>\$ 518</b>	<b>\$ 7,552</b>	<b>\$ 1,309</b>

The accretive Portfolio Properties and Co-Owned Properties acquisitions in June 2015 and increased ownership in the Data Centre in the quarter has contributed to the positive AFFO over cash distributions.

## Summary of Selected Quarterly Information

(\$000s, except per unit amount)	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Revenues from investment properties	<b>\$ 29,133</b>	<b>\$ 14,390</b>	<b>\$ 14,082</b>	<b>\$ 8,917</b>	<b>\$ 7,991</b>	<b>\$ 7,972</b>	<b>\$ 8,207</b>	<b>\$ 8,228</b>
Net income (loss) and comprehensive income (loss)	<b>4,830</b>	<b>10,480</b>	<b>(1,230)</b>	<b>435</b>	<b>4,652</b>	<b>(1,872)</b>	<b>(354)</b>	<b>1,827</b>
Per Unit								
- Basic <sup>(1)</sup>	<b>\$ 0.19</b>	<b>\$ 0.52</b>	<b>\$ (0.08)</b>	<b>\$ 0.03</b>	<b>\$ 0.39</b>	<b>\$ (0.18)</b>	<b>\$ (0.04)</b>	<b>\$ 0.20</b>
- Diluted	<b>\$ 0.19</b>	<b>\$ 0.52</b>	<b>\$ (0.08)</b>	<b>\$ 0.06</b>	<b>\$ 0.18</b>	<b>\$ (0.18)</b>	<b>\$ (0.04)</b>	<b>\$ 0.20</b>

(1) The weighted average number of basic units reflects the REIT units, and excludes the Class B LP units.

The growing trend in revenues from investment properties was largely driven by the acquisition of the Portfolio Properties and Co-owned Properties in June 2015 and the Suburban Office properties in December 2014. Net income (loss) and comprehensive income (loss) for each of the periods in the table above reflect fluctuations arising from fair value adjustments on investment properties, Class B LP units, warrants, interest rate swaps and gain on extinguishment of subscription receipts.



## Section 4. FINANCIAL CONDITION

### Liquidity and Capital Resources

The principal liquidity needs of the REIT arise from working capital requirements; debt servicing and repayment obligations, which include mortgages payable, amounts drawn on the revolving and term credit facilities and a vendor take-back loan; 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.

Cash flows from operating the REIT's property portfolio, available funding under the REIT's revolving operating and credit facilities and cash on hand represent the primary sources of liquidity. Cash flows from operations are dependent upon rental occupancy levels, rental rates, collection of rents, recoveries of operating costs and operating costs.

### Debt Strategy

The REIT's obligations with respect to debt repayments, redemption of outstanding trust units which are puttable at the option of the unitholders and funding requirements for future investment property acquisitions will be primarily funded by refinancing the REIT's maturing debt, financing unencumbered properties, or future issuances of trust units and debentures.

The REIT's overall borrowing objective is to obtain secured financing, with terms to maturity that are appropriate having regard to the lease maturity profiles of the underlying properties and which allows the REIT to (i) achieve and maintain staggered debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period and (ii) fix rates and extend loan terms when borrowing conditions are favourable; and (iii) provide flexibility with respect to property operations. Subject to market conditions and the growth of the REIT, management currently intends to maintain total indebtedness at approximately 55% of the REIT's gross book value ("GBV"). The success of this strategy is dependent upon debt market parameters existing at the time of borrowing, as well as the particular features and quality of the underlying assets being financed. If this strategy is unsuccessful, debt principal repayments would be funded by operating cash flows, additional draws under the REIT's revolving credit facility, financing of unencumbered income-producing properties or by issuances of equity or debt securities.

In accordance with the amended and restated Declaration of Trust ("DOT") dated December 17, 2014, as amended on March 16, 2015 and May 25, 2015, the REIT may not incur or assume any indebtedness if, after giving effect to the incurring or assumption of such indebtedness, the total indebtedness of the REIT would exceed 65% of the GBV of the REIT's assets. The REIT's indebtedness ratio at September 30, 2015 was 61.5% which was higher than the stated target level of approximately 55%, but lower than the level permitted in the Declaration of Trust. This is expected to be temporary as the REIT intends to align its capital structure to return to the stated target level following the expected disposition of the REIT's retail and industrial properties.

### Indebtedness Ratio

(\$000s unless otherwise noted)	As at September 30, 2015	As at December 31, 2014
Mortgages payable	\$ 292,788	\$ 270,559
Vendor take-back loan	—	9,180
Revolving operating facility	190,600	—
Revolving credit facility	3,569	1,500
Term loan facility	10,500	—
ST facility	709	0
MRST facility	2,414	0
Total debt at period end	\$ 500,580	\$ 281,239
Total assets at period end	813,571	476,670
Indebtedness ratio	61.5%	59.0%

Interest rates and debt maturities are reviewed regularly by the REIT's Board of Trustees to ensure the appropriate debt management strategies are implemented.

## Leverage and Interest Coverage Ratios

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Weighted average:				
Mortgages payable	\$ 291,651	\$ 128,077	\$ 278,480	\$ 129,072
Vendor take-back loan	—	9,180	—	9,180
Other debt	163,907	—	70,436	2,801
Weighted average amount of indebtedness	\$ 455,558	\$ 137,257	\$ 348,916	\$ 141,053
Deduct: Weighted average amount of cash	(13,384)	(6,239)	(7,093)	(4,885)
Weighted average amount of indebtedness, net of cash	\$ 442,174	\$ 131,018	\$ 341,823	\$ 136,168

(\$000s unless otherwise noted)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Adjusted EBITDA	\$ 12,782	\$ 4,398	\$ 26,719	\$ 12,940
Debt to Adjusted EBITDA leverage ratio (times)	8.9x	7.8x	9.8x	8.2x
Net Debt to Adjusted EBITDA leverage ratio (times)	8.6x	7.4x	9.6x	7.9x
Interest expense	\$ 4,399	\$ 1,597	\$ 9,968	\$ 4,569
Interest coverage ratio (times)	2.9x	2.8x	2.7x	2.8x
Debt service requirements:				
Interest expense	\$ 4,399	\$ 1,597	\$ 9,968	\$ 4,569
Principal repayments	1,018	1,002	3,091	2,977
Total debt service requirements	\$ 5,417	\$ 2,599	\$ 13,059	\$ 7,546
Debt service coverage ratio (times)	2.4x	1.7x	2.0x	1.7x

The interest coverage ratio and debt service coverage ratio for the three months and nine months ended September 30, 2015 have remained consistent with the comparative periods.

## Debt Repayment Schedule

The following table outlines the REIT's annual principal payments and maturity schedule, together with the annual weighted average interest rates:

For the years ending December 31,	Annual Principal Payments (\$000s)	Principal Repayments on Maturity (\$000s)	Total (\$000s)	Percentage (%)	Weighted Average Contractual Interest Rate (%)(1)(2)
2015 (remaining three months)	\$ 1,901	\$ 15,204	\$ 17,105	3.4%	5.4%
2016	4,955	1,510	6,465	1.3%	4.4%
2017	5,075	161,240	166,315	33.2%	3.3%
2018	4,356	209,265	213,621	42.7%	3.1%
2019	4,321	18,595	22,916	4.6%	4.4%
Thereafter	32,407	41,751	74,158	14.8%	4.3% (3)
	\$ 53,015	\$ 447,565	\$ 500,580	100.0%	

(1) Pursuant to the acquisition agreement with the Manager, the total purchase price payable for the Initial Properties acquired on December 28, 2012 was reduced by \$1.9 million in respect of an interest rate subsidy. The interest rate subsidy will be used to subsidize the REIT's mortgage interest payments to achieve an annual blended cash interest rate of 4.5% for the years 2013 to 2017.

(2) Includes payments under interest rate swaps.

(3) Represents the weighted average interest rate as at December 31, 2019.

## Total Debt Repayments

The following table outlines the repayment schedule for the REIT's total debt with fixed repayment terms:

(\$000s)	For the periods ending December 31,						
	Total	2015 <sup>(1)</sup>	2016	2017	2018	2019	Thereafter
Mortgages payable	\$ 292,788	\$ 12,804	\$ 6,325	\$ 155,668	\$ 22,868	\$ 22,757	\$ 72,366
Revolving operating facility	190,600	—	—	—	190,600	—	—
Revolving credit facility	3,569	3,569	—	—	—	—	—
Term loan facility	10,500	—	—	10,500	—	—	—
ST facility	709	709	—	—	—	—	—
MRST facility	2,414	23	140	147	153	159	1,792
	<b>\$ 500,580</b>	<b>\$ 17,105</b>	<b>\$ 6,465</b>	<b>\$ 166,315</b>	<b>\$ 213,621</b>	<b>\$ 22,916</b>	<b>\$ 74,158</b>

(1) For the remaining three months of 2015.

On September 30, 2015, in connection with the acquisition of the Portfolio Properties, the REIT entered into a revolving operating facility maturing on June 30, 2018, bearing interest at the Canadian Bankers' Acceptance rate plus 2.00%, and is secured by each of the Portfolio Properties. As at September 30, 2015, \$190.6 million was drawn on the revolving operating facility. The revolving operating facility is secured by the Portfolio Properties and the amount available for drawdown under the revolving loan facility is computed on the lesser of the margined fair market value and the refinancing amount of the Portfolio Properties, up to a maximum of \$230.0 million.

In connection with the acquisition of the Co-owned Properties, the REIT and the Co-owner entered into a \$105.0 million term loan facility of which the REIT's 10% share is \$10.5 million. The term loan facility has a maturity date of June 30, 2017 and the interest rate is based on the Canadian Bankers' Acceptance rate plus 2.13%. As at September 30, 2015, the REIT's share of the loan facility was \$10.5 million.

The Trust has a revolving credit facility that expires on November 30, 2015, bearing interest of prime plus 1.25% per annum and a standby fee of 0.5% charged quarterly in arrears based on the average daily undrawn amount. The revolving credit facility is secured by four investment properties. The amount available for drawdown under the revolving credit facility is computed on the 12 month trailing net operating income and the appraised values of the secured properties, up to a maximum of \$17.0 million, subject to achieving a minimum occupancy threshold by the secured investment properties. As at September 30, 2015, the REIT had \$3.6 million outstanding on the revolving credit facility, and was compliant with all financial covenants.

Subsequent to quarter end, the Trust has agreed with its lender to extend the maturity of the revolving credit facility to November 30, 2017 and increased the availability to a maximum \$35 million, subject to providing additional information which the Trust expects to complete by November 30, 2015. The availability is subject to certain borrowing base tests of the secured properties. Interest rates decreased by 25bps to 50bps depending on the type of borrowing.

As partial consideration for the acquisition of the Initial Properties on December 28, 2012, the REIT entered into a vendor take-back loan agreement with the Manager. The unsecured loan has a face value of \$9.2 million bearing interest at 3.0% per annum payable quarterly, with the principal originally due in full on December 28, 2014. During the third quarter of 2015, the vendor take-back loan was fully repaid.

## Interest rate swaps

As at September 30, 2015, the REIT has interest rate swaps that entitle the REIT to receive interest at floating rates and pay interest at a fixed rate.

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. At September 30, 2015, the REIT had the following interest rate swap agreements:

	Notional amount	Effective interest rate	Maturity date	Unrealized loss for the nine months ended September 30, 2015	Cumulative unrealized loss at September 30, 2015
\$	3,700	5.89%	1-Feb-25	\$ 37	\$ 671
	22,060	4.60%	14-Aug-23	701	2,183
	23,679	3.68%	1-May-23	840	963
				1,578	3,817

## Financial Condition

The REIT's primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of the REIT's obligations through current cash and cash equivalents, cash flows from operations, the REIT's revolving credit facility, and refinancing of mortgages.

The following table provides an overview of the REIT's cash flows from operating, financing and investing activities for the three months and nine months ended September 30, 2015 and 2014.

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Net change in cash related to:				
Operating	\$ 5,678	\$ 2,365	\$ 19,625	\$ 7,943
Investing	25,005	(514)	(292,635)	(7,970)
Financing	(39,931)	(2,876)	275,888	13,545
Increase in cash	\$ (9,248)	\$ (1,025)	\$ 2,878	\$ 13,518

The increase in net cash flow for the three months and nine months ended September 30, 2015 compared to the same periods in 2014 was the result of the following factors:

- Operating – cash flows for the three and nine months ended September 30, 2015 increased when compared to the same period in 2014, mainly due the increase in non-cash working capital items assumed on the acquisition of the Portfolio Properties and the Co-owned Properties from Fortis. In addition, interest on mortgages payable and other debt has increased in the period as a result of the acquisition of the Portfolio Properties and Co-owned Properties in June 2015 and the Suburban Office properties in December 2014. NOI increased from the growth in the portfolio and the timing of cash receipts and settlement of payables. These increases are offset by fair value adjustments to financial instruments, the distributions on Class B LP units distributions in cash, and interest paid on mortgage payable.
- Investing – cash flows for the three and nine months ended September 30, 2015 were primarily related to the acquisition of Portfolio Properties and Co-Owned Properties from Fortis for cash consideration of \$313.5 million plus certain other adjustments, net of proceeds received from the disposition of 505 Industrial and 110 Lawson of \$28.1 million.
- Financing – cash flows for the three and nine months ended September 30, 2015 were from the proceeds on the issuance of trust units and draws on the new revolving credit facility and term facility in connection with the Fortis transaction. These sources were offset by the increase in transaction costs on the equity offering and new debt, as well as distributions paid on trust units in cash.

## 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 trust units are traded on the TSX with a closing ask price of \$6.95 as at September 30, 2015.

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. There were no preferred units created or issued during the nine months ended September 30, 2015.

As at September 30, 2015, the total number of trust units outstanding was 30,382,655. As at November 5, 2015, the total number of trust units outstanding was 30,295,596.

### Potential trust units

	Number of Units	
	September 30, 2015	December 31, 2014
Class B LP units	5,073,818	5,073,818
Warrants	1,598,550	1,598,550
	<b>6,672,368</b>	6,672,368

The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis, subject to anti-dilution adjustments. Each Class B LP unit is accompanied by one special voting unit of the REIT providing the same voting rights in the REIT as the trust units of the REIT and is entitled to distributions of cash equal to the cash distributions paid to holders of trust units by the REIT. The Class B LP units are recognized in the REIT's consolidated financial statements as financial liabilities measured at fair value through profit and loss. Upon exchange into trust units of the REIT, the carrying amount of the liability representing the fair value of the Class B LP units on exchange date will be reclassified to unitholders' equity. During the three months and nine months ended September 30, 2015, there were no Class B LP units exchanged for the REIT's trust units.

As at September 30, 2015, the total number of Class B LP units outstanding was 5,073,818.

Each whole 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. The warrants are recognized in the consolidated financial statements of the REIT as financial liabilities measured at fair value through profit or loss. Upon exercise, the carrying amount of the liability representing the fair value of the warrants on exercise date will be reclassified to unitholders' equity. The warrants are traded on the TSX with a closing ask price of \$6.95 as at September 30, 2015.

As at September 30, 2015, the total number of warrants outstanding was 1,598,550.

### Deferred Unit Plan

Effective May 26, 2015, the REIT adopted a Deferred Unit Plan ("DUP"). Trustees of the REIT who are neither full nor part-time employees of the REIT, Slate, or any of their subsidiaries, are eligible to participate in the 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 REIT units on the date of the redemption request.

The REIT measures deferred units as a liability at their fair value, which is equivalent to the fair value of trust units. Changes in the measurement of deferred units is recorded as a gain or loss.

As at September 30, 2015, the total number of deferred units outstanding was 9,510.

## Interest Rate and Capital Expenditures Subsidies

On December 28, 2012, in connection with the acquisition of the Initial Properties, the total purchase price payable by the REIT was reduced by \$4.9 million in respect of interest rate and capital expenditures subsidies. Of the amount retained, \$1.9 million is to be used to subsidize the REIT's interest payments on mortgages payable (including interest paid under the interest rate swap) related to the Initial Properties to achieve a blended cash interest rate of 4.5% for the five year period to December 2017, representing the market interest rate on similar debt. The remaining \$3.0 million retained is to be used to subsidize capital expenditures on the Initial Properties in excess of the normalized maintenance capital expenditure level of \$675,000 on an annual basis for the five year period to December 2017. The capital expenditures subsidy is recorded as a contra account to investment properties and is reduced as the subsidy is utilized.

The amounts retained for both the interest rate and capital expenditures subsidies can be utilized by the REIT for operational matters but must be ultimately replenished to fund the required interest payments and capital expenditures. The table below summarizes the movements related to the interest rate subsidy:

(\$000s)	Nine months ended September 30, 2015	Twelve months ended December 31, 2014
Balance, beginning of period	\$ 853	\$ 1,271
Amortization of interest rate subsidy	(378)	(418)
Balance, end of period	\$ 475	\$ 853

The interest rate subsidy of \$0.4 million was utilized during the nine months ended September 30, 2015 to reflect the blended interest rate of 4.5% on the mortgages payable related to the Initial Properties.

The table below summarizes the movements related to the capital expenditures subsidy:

(\$000s)	Nine months ended September 30, 2015	Twelve months ended December 31, 2014
Balance, beginning of period	\$ 2,668	\$ 2,736
Subsidy utilized	—	(68)
Balance, end of period	\$ 2,668	\$ 2,668

## Related Party Transactions

The REIT has a Management Agreement with the Manager, as disclosed in the consolidated financial statements for the year ended December 31, 2014. During the three months and nine months ended September 30, 2015 and 2014, the REIT incurred the following costs in connection with the Management Agreement:

(\$000s)	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Property management fees	\$ 857	\$ 232	\$ 1,628	\$ 686
Asset management fees	603	212	1,315	618
Leasing, financing, and construction management fees	172	143	1,651	314
Acquisition fees	96	—	2,456	95
	\$ 1,728	\$ 587	\$ 7,050	\$ 1,713

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 REIT's properties. For the three months ended September 30, 2015, property administration fees were \$1.6 million,

compared to \$0.3 million for the same period in 2014. For the nine months ended September 30, 2015, property administration fees were \$3.2 million, compared to \$0.8 million for the same period in 2014. The increase in property management fees in the period is due to the increased growth in the portfolio through acquisitions. These fees are recovered from the tenants by the REIT and payable by the REIT to the Manager under the terms of the Management Agreement. As at September 30, 2015, included in accounts payable and other liabilities is \$0.3 million due to the Manager (December 31, 2014 - \$1.0 million).

Acquisition fees for the acquisition of the Portfolio and Co-owned Properties of \$2.3 million was incurred in the period ended September 30, 2015. An acquisition fee of \$0.1 million was paid to the Manager as a result of the additional 30% acquisition of the Data Centre. As well, financing fees of \$0.7 million were incurred in relation to the new revolving loan facilities obtained in order to finance the acquisition.

As at September 30, 2015, included in accounts receivable is a receivable from the Manager of \$1.3 million (December 31, 2014 - \$3.8 million) related to properties acquired in December 2014.

## Section 5. SIGNIFICANT ACCOUNTING POLICIES, CRITICAL JUDGMENTS AND KEY ESTIMATES

### ***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 REIT 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, 2018. The REIT 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 improvement in 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.

### ***Critical Judgments & Estimates***

The preparation of these 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. Estimates are based on historical experience and on various assumptions that are reasonable under the circumstances. Actual results could differ from the estimated amounts.

### **Critical Judgments**

The critical judgments made by management, apart from those involving estimations, that have the most significant effect on the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period are as follows:

#### ***Business combinations***

The REIT 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 REIT has determined that its acquisition of an additional 30% investment in Data Centre on July 31, 2105 resulted in an acquisition of control and constituted a business combination. The REIT has determined that the acquisitions of the investment properties on June 30, 2015 and December 17, 2014 both constituted asset acquisitions.

#### ***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. Assets under leases that transfer to the tenant substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Assets classified



as operating leases are not recognized in the statement of financial position. The Trust has determined that its lease for the Data Center qualified as a finance lease as at September 30, 2015.

### ***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.

### ***Income taxes***

The REIT 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.

### ***Assets and liabilities held for sale***

The REIT 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 September 30, 2015, the REIT has determined that there were no assets or group of assets and liabilities that met the specified criteria.

### **Key Estimates**

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

#### ***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.

## **Section 6. RISKS AND UNCERTAINTIES**

For a full list and explanation of the REIT's risks and uncertainties, please refer to the REIT's Annual Information Form for the year ended December 31, 2014, available on SEDAR.

## Section 7. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as such terms are defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109").

DC&P are those controls and other procedures that are designed to provide reasonable assurance that all material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are those controls and other procedures that are designed to ensure that material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the REIT's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The REIT has adopted the *Internal Control – Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission for the design of its ICFR for the nine months ended September 30, 2015.

As required by NI 52-109, the REIT's CEO and CFO have evaluated the effectiveness of the REIT's DC&P and ICFR. Based on such evaluations, they have concluded that the design and operation of the REIT's DC&P and ICFR, as applicable, are adequately designed and effective, as at September 30, 2015. No changes were made in the REIT's design of ICFR during the nine months ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

In designing such controls, it should be recognized that due to inherent limitations, any controls or control systems, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected or prevented. These inherent limitations include, without limitation, (i) the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Appendix A - Property Table as at September 30, 2015

A summary of details of the REIT's property portfolio as at September 30, 2015 is set out in the table below.

Asset Class	Property Address	Property Name	City, Province	Year Built / Renovated / Expanded	(sq. ft.)	GLA Occupancy
<b>OFFICE</b>						
1	1870 Albert Street	Saskatchewan Place	Regina, SK	1985	84,243	66.6%
2	280 Broadway Avenue <sup>(1)</sup>		Winnipeg, MB	1957	112,642	99.0%
3	585 Century Street	Century Business Park	Winnipeg, MB	1959	9,680	100.0%
4	1680 Ellice Avenue	Century Business Park	Winnipeg, MB	1980	29,843	100.0%
5	1700 Ellice Avenue	Century Business Park	Winnipeg, MB	1956 / 1959	30,268	100.0%
6	220 Cree Crescent		Winnipeg, MB	1980	18,000	100.0%
7	1030 – 1040 Empress Street		Winnipeg, MB	1956 / 1983	33,478	100.0%
8	114 Garry Street		Winnipeg, MB	1950 / 1995	74,248	100.0%
9	1336 – 1340 Sargent Avenue		Winnipeg, MB	1950 / 1995	42,092	100.0%
10	895 Waverley Street		Winnipeg, MB	1991	34,364	100.0%
11	1000 Waverley Street		Winnipeg, MB	1966 / 1998	58,668	91.0%
12	Data Centre		Winnipeg, MB	2015	51,200	100.0%
13	4211 Yonge Street		Toronto, ON	1982	170,972	95.4%
14	1189 Colonel Sam Drive		Oshawa, ON	2001	103,179	100.0%
15	2655 – 2695 North Sheridan	The Promontory	Mississauga, ON	1987 / 1989	159,752	100.0%
16	7030, 7050, 7100 Woodbine	Woodbine Complex	Markham, ON	1984 / 2011	359,833	86.2%
17	135 Queens Plate		Toronto, ON	1989 / 2012	93,581	88.7%
18	1 Eva Road		Toronto, ON	1978 / 2011	91,068	82.3%
19	2400 – 2430 Meadowpine		Mississauga, ON	1990	59,095	91.8%
20	5395 – 5409 Eglinton Avenue	Centennial Centre	Toronto, ON	1985	235,299	84.3%
21	2285 Speakman Drive		Mississauga, ON	1981	126,270	100.0%
22	2599 Speakman Drive		Mississauga, ON	1971 / 2011	111,461	86.1%
23	644 Main Street	Blue Cross Centre	Moncton, NB	1988 / 2006	320,818	97.7%
24	39 King Street <sup>(2)</sup>	Brunswick Square	Saint John, NB	1976	507,804	88.7%
25	440 King Street	King's Place	Fredericton, NB	1974 / 2001	292,022	80.8%
26	1505 Barrington Street	Maritime Center	Halifax, NS	1977 / 1985	547,014	95.1%
27	100 New Gower Street	Cabot Place	St. John's, NL	1987	13,463	100.0%
28	10 Factory Lane	Fort William Building	St. John's, NL	1980	188,170	100.0%
29	139 Water Street	Fortis Building	St. John's, NL	1968 / 1994	82,648	43.5%
30	5 Springdale Street	Fortis Place	St. John's, NL	2014	14,391	100.0%
31	4 Herald Avenue	Fortis Tower	Corner Brook, NL	2014	67,203	96.5%
32	140 Water Street	TD Place	St. John's, NL	1980 / 2013	9,744	88.3%
33	173 Water Street	Water Street Properties	St. John's, NL	Various	71,541	43.7%
<b>TOTAL – OFFICE</b>					<b>4,204,054</b>	<b>88.6%</b>

Asset Class	Property Address	Property Name	City, Province	Year Built / Renovated / Expanded	(sq. ft.)	GLA Occupancy
<b>INDUSTRIAL</b>						
34	35 Martin Way		Brooks, AB	2005	28,400	0.0%
35	5404 36th Street SE		Calgary, AB	1980	36,000	100.0%
36	7001 96th Street		Grande Prairie, AB	1980	33,280	0.0%
37	891 – 895 Century Street		Winnipeg, MB	1961 / 1968	51,841	100.0%
38	130 Lawson Crescent		Winnipeg, MB	1999	25,672	100.0%
39	119 – 130 Plymouth Street		Winnipeg, MB	1977 / 1999	43,364	100.0%
40	1271 Sargent Avenue		Winnipeg, MB	1981 / 1984	40,893	100.0%
41	1855 Sargent Avenue		Winnipeg, MB	1953 / 1998	77,500	100.0%
42	1935 Sargent Avenue <sup>(3)</sup>		Winnipeg, MB	1962 / 1997	113,864	100.0%
<b>TOTAL – INDUSTRIAL</b>					<b>450,814</b>	<b>91.3%</b>
<b>RETAIL</b>						
43	230 Airport Boulevard	Fraser Mall	Gander, NL	1970	98,883	69.3%
44	195 – 207 Ville Marie Drive	Marystown Mall	Marystown, NL	1969 / 1979	91,990	69.8%
45	125 – 185 First Street		Cochrane, AB	1998	15,771	100.0%
46	200 Manitoba 10	Flin Flon Wal-Mart	Flin Flon, MB	2002	63,439	100.0%
47	307 – 311 Airport Road	Airport Road Shopping Centre	Yellowknife, NWT	2001 / 2003 (7)	15,475	100.0%
48	2 Herald Avenue	Millbrook Mall	Corner Brook, NL	1966 / 1992	114,386	91.4%
<b>TOTAL – RETAIL</b>					<b>399,944</b>	<b>91.8%</b>
<b>TOTAL PROPERTIES</b>					<b>5,054,812</b>	<b>89.2%</b>

**Notes:**

(1) Includes a seven-storey office building at 280 Broadway Avenue, a three-storey multi-family residential building located at 70 Smith Street and two parking lots located at 286 Broadway Avenue and 68 Smith Street; excludes occupancy from residential tenants at 70 Smith Street.

(2) Includes Delta Brunswick Hotel.

(3) Leasehold interest with ground lease expiring in 2036.