

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2023

(unaudited)

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

(unaudited)

	Note	June 30, 2023	December 31, 2022
ASSETS			
Non-current assets			
Investment properties	5	\$ 1,708,814	\$ 1,754,338
Finance lease receivable	6	41,337	43,213
Other assets	7	2,181	538
Derivatives	11	27,945	26,476
Restricted cash		4,072	5,300
		\$ 1,784,349	\$ 1,829,865
Current assets			
Finance lease receivable	6	3,694	3,580
Other assets	7	12,603	5,668
Accounts receivable	8	6,647	10,344
Cash		19,075	19,905
		\$ 42,019	\$ 39,497
Total assets		\$ 1,826,368	\$ 1,869,362
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	9	\$ 884,965	\$ 779,226
Other liabilities	10	5,377	5,918
Deferred taxes	25	13	454
Class B LP units	12	10,465	22,832
		\$ 900,820	\$ 808,430
Current liabilities			
Debt	9	281,441	374,027
Other liabilities	10	1,136	1,222
Accounts payable and accrued liabilities	13	35,977	39,712
Taxes payable		1,178	1,605
		\$ 319,732	\$ 416,566
Total liabilities		\$ 1,220,552	\$ 1,224,996
Unitholders' equity		\$ 605,816	\$ 644,366
Total liabilities and unitholders' equity		\$ 1,826,368	\$ 1,869,362

The accompanying notes are an integral part of the condensed consolidated interim financial statements

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS)

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2023	2022	2023	2022
Rental revenue	16	\$ 48,708	\$ 49,321	\$ 97,800	\$ 96,923
Property operating expenses		(23,396)	(22,237)	(61,328)	(57,102)
Finance income on finance lease receivable	6	717	771	1,448	1,555
Interest income		125	87	213	219
Interest and finance costs	17	(15,543)	(12,705)	(29,939)	(25,426)
General and administrative expenses	18	(3,381)	(2,294)	(8,461)	(4,582)
Change in fair value of financial instruments	19	6,932	12,792	3,444	32,437
Change in fair value of investment properties	5	(41,924)	(3,581)	(37,916)	12,374
Depreciation of hotel asset	5	(241)	(241)	(481)	(481)
Deferred income tax (recovery) expense	25	551	(554)	443	(4,141)
Current income tax expense	25	(255)	(428)	(596)	(692)
Net (loss) income before Class B LP units		\$ (27,707)	\$ 20,931	\$ (35,373)	\$ 51,084
Change in fair value of Class B LP units	12	8,244	2,431	12,367	1,850
Distributions to Class B LP unitholders	15	(159)	(528)	(687)	(1,056)
Net (loss) income		\$ (19,622)	\$ 22,834	\$ (23,693)	\$ 51,878

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2023	2022	2023	2022
Net (loss) income		\$ (19,622)	\$ 22,834	\$ (23,693)	\$ 51,878
Other comprehensive loss to be subsequently reclassified to profit or loss:					
Foreign currency translation (loss) income	14	(5,469)	586	(4,462)	(5,109)
Total other comprehensive (loss) income		(5,469)	586	(4,462)	(5,109)
Comprehensive (loss) income		\$ (25,091)	\$ 23,420	\$ (28,155)	\$ 46,769

The accompanying notes are an integral part of the condensed consolidated interim financial statements

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

(unaudited)

	Note	Trust units	Retained earnings	Accumulated other comprehensive income	Total equity
December 31, 2022		\$ 578,380	\$ 60,819	\$ 5,167	\$ 644,366
Distributions	15	—	(10,395)	—	(10,395)
Net and comprehensive loss		—	(23,693)	(4,462)	(28,155)
June 30, 2023		\$ 578,380	\$ 26,731	\$ 705	\$ 605,816

	Note	Trust units	Retained earnings	Accumulated other comprehensive loss	Total equity
December 31, 2021		\$ 518,888	\$ 109,051	\$ (5,972)	\$ 621,967
Equity offering, net of issuance costs	14	60,666	—	—	60,666
Distributions	15	—	(15,606)	—	(15,606)
Net income and other comprehensive loss		—	51,878	(5,109)	46,769
June 30, 2022		\$ 579,554	\$ 145,323	\$ (11,081)	\$ 713,796

The accompanying notes are an integral part of the condensed consolidated interim financial statements

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

(unaudited)

	Note	Six months ended June 30,	
		2023	2022
OPERATING ACTIVITIES			
Net (loss) income		\$ (23,693)	\$ 51,878
Items not affecting cash:			
Depreciation of hotel asset	5	481	481
Change in fair value of investment properties	5	37,916	(12,374)
IFRIC 21 property tax adjustment	5	6,969	5,938
Straight-line rent and other changes	5	5,513	4,290
Change in fair value of Class B LP units	12	(12,367)	(1,850)
Change in fair value of financial instruments	19	(3,444)	(32,437)
Deferred income tax expense	25	(443)	4,141
Finance income on finance lease receivable	6	(1,448)	(1,555)
Finance interest payments received on finance lease receivable	6	1,448	1,555
Distributions declared to Class B LP unitholders	15	687	1,056
Distributions paid to Class B LP unitholders	15	(810)	(1,056)
Interest income		(213)	(219)
Interest received		213	219
Interest and finance costs	17	29,939	25,426
Interest paid		(27,559)	(21,754)
Subscription receipt equivalent amount paid		—	(1,121)
Changes in working capital items		(5,882)	3,148
		\$ 7,307	\$ 25,766
INVESTING ACTIVITIES			
Acquisition of properties	4	—	(195,612)
Deposit on property		—	16,800
Capital expenditures	5	(4,842)	(15,163)
Leasing costs	5	(9,604)	(7,810)
Principal payments received on finance lease receivable	6	1,762	1,655
		\$ (12,684)	\$ (200,130)
FINANCING ACTIVITIES			
Settlement of Euro forward contract	11	—	(156)
Proceeds from issuance of units	14	—	62,600
Equity issuance costs	14	—	(1,934)
Distributions on REIT units	15	(12,259)	(15,192)
Mortgage advances	26	722	2,402
Issuance of convertible debentures, net	9	—	81,043
Mortgage repayments	26	(5,219)	(4,894)
Financing costs on debt	26	(304)	(4,662)
Draws on revolving and term facilities, net	26	22,026	58,193
		\$ 4,966	\$ 177,400
Foreign exchange (loss) gain on cash held in foreign currency		(419)	9,932
(Decrease) increase in cash		\$ (830)	\$ 12,968
Cash, beginning of period		19,905	9,909
Cash, end of period		\$ 19,075	\$ 22,877

The accompanying notes are an integral part of the condensed consolidated interim financial statements

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

1. DESCRIPTION OF THE REIT AND OPERATIONS

Slate Office REIT (the "REIT") is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated as of March 21, 2016, as amended on March 1, 2019 and as further amended on May 13, 2021, as it may be further amended, supplemented or amended and restated from time to time (the "Declaration of Trust"). At June 30, 2023, the REIT's portfolio consists of 54 commercial properties located in Canada, the United States, and Ireland. The units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbol "SOT.UN".

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

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

2. BASIS OF PREPARATION

i. Statement of compliance

These condensed consolidated interim financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. As a result, these consolidated financial statements should be read in conjunction with the REIT's audited annual consolidated financial statements as at and for the year ended December 31, 2022.

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on August 1, 2023.

iii. Basis of measurement

These consolidated financial statements have been prepared on a going concern basis and measured at historical cost except for investment properties and certain financial instruments including derivatives and Class B LP units, which are measured at fair value.

The application of the going concern basis of presentation assumes that the REIT will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The REIT's borrowings provided by its revolving facility and other debt instruments require compliance with various covenants, which if breached could lead to the need for repayment or reduced availability of drawings. Additionally, changes in interest rates driven by central banks in Canada, the U.S. and Europe seeking to reduce inflationary pressures and the broad market sentiment towards the office sector as a whole have reduced the availability of and increased the cost of financing. The REIT has significant borrowings that will come due in the next 12 months and beyond or have certain debt requirements which, if not met, would have the effect of the debt being in default or reducing the amount of borrowings available as described in Note 9. The REIT is seeking to obtain new financing, to refinance existing maturing debt and in certain cases to favourably amend the terms of existing borrowings. The REIT may not be able to complete such financing activities on terms and conditions acceptable to the REIT or at all, which would have an adverse material effect on the REIT's liquidity.

As a result, there is a material uncertainty which may cast significant doubt on the ability of the REIT to continue as a going concern. The outcome is dependent on the successful completion of the financing activities described above. If the going concern assumption was not appropriate as of June 30, 2023, material adjustments to the carrying values of assets and liabilities would be necessary.

iv. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the REIT's functional currency and the functional currency of all of its subsidiaries, except for subsidiaries directly or indirectly holding property in the United States of America (the "U.S.") for which the functional currency is U.S. dollars and the Republic of Ireland ("Ireland") for which the functional currency is Euros.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the significant accounting policies described below.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

i. Significant accounting policies

These consolidated financial statements have been prepared using the same accounting policies and methods disclosed in the REIT's audited annual consolidated financial statements for the year ended December 31, 2022.

4. ACQUISITIONS

In the six months ended June 30, 2023, the REIT did not acquire any investment properties.

In the six months ended June 30, 2022, the REIT completed the following acquisition:

- On February 7, 2022, the REIT acquired a portfolio of 23 office, life sciences and lite-industrial properties located in Ireland ("Yew Grove"). The total asset value of the portfolio at the time of acquisition was approximately \$264.4 million. The acquisition was partially funded by cash on hand and by:
 - The proceeds of the sale of 11,225,000 subscription receipts ("Subscription Receipts"), which closed on November 19, 2021, at a price of \$4.90 per Subscription Receipt for gross proceeds of approximately \$55.0 million (the "Offering"), and the proceeds of the sale of \$75.0 million aggregate principal amount of 5.50% extendible unsecured subordinated convertible debentures of the REIT (note 9), which closed on November 19, 2021, as well as the sale of an additional \$9.2 million aggregate principal amount of convertible debentures pursuant to the partial exercise of the convertible debenture over-allotment option granted by the REIT to the syndicate of underwriters in connection with the Offering, which closed on December 17, 2021. The subscription receipts became units of the REIT on February 7, 2022;
 - The private placement of 1,183,800 units of the REIT to SLAM at a price of \$4.90 per unit for gross proceeds of approximately \$5.8 million.

A summary of the acquisition is as follows:

	Yew Grove
Acquisition date	February 7, 2022
Location	Ireland
Number of properties	23
REIT's interest	100 %
Purchase price	\$ 257,822
Transaction costs	10,030
Debt principal amount assumed	(72,240)
Investment	\$ 195,612

The investment in the above acquisition has been allocated as follows:

	Yew Grove
Investment properties	\$ 265,597
Working capital	2,255
Debt	(72,240)
Net assets acquired	\$ 195,612

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

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5. INVESTMENT PROPERTIES

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2023	2022	2023	2022
Beginning of period		\$ 1,753,789	\$ 1,856,846	\$ 1,754,338	\$ 1,591,958
Acquisitions ¹	4	—	1,178	—	265,597
Capital expenditures		2,203	8,230	4,842	15,163
Leasing costs		5,124	3,404	9,604	7,810
Depreciation of hotel asset		(241)	(241)	(481)	(481)
Foreign exchange		(10,855)	3,725	(9,091)	(11,906)
Change in fair value		(41,924)	(3,581)	(37,916)	12,374
IFRIC 21 property tax adjustment		3,522	2,931	(6,969)	(5,938)
Straight-line rent and other changes		(2,804)	(2,205)	(5,513)	(4,290)
End of period		\$ 1,708,814	\$ 1,870,287	\$ 1,708,814	\$ 1,870,287

¹Represents the purchase price and transaction costs.

Investment properties at June 30, 2023 are comprised of the REIT's interests in 53 properties, which includes one mixed-use hotel and office asset, and excludes a data centre in Winnipeg, Manitoba (the "Data Centre"), which is classified as a finance lease (note 6). The REIT owns an undivided interest in all investment properties with the exception of five office properties in the Greater Toronto Area in which the REIT owns a 75% interest.

The hotel portion of the REIT's mixed-use asset does not meet the definition of an investment property under IAS 40, *Investment Property*, and accordingly is measured at cost less depreciation and any accumulated impairment losses, with depreciation charged to income over the estimated useful life of the components of the hotel asset.

The REIT determines the fair value of investment properties based upon either the overall income capitalization rate method, discounted cash flow method, direct comparison approach or through a combination of these methods. All methods are generally accepted appraisal methodologies. The appropriate methodology is selected by management and by independent real estate valuation experts considering the nature of the property and availability of information. The direct comparison approach and overall income capitalization method were not used in the six months ended June 30, 2023 and 2022. Under the discounted cash flow method, fair values are primarily determined by discounting the future cash flows, generally over a term of 10 years, including a terminal value based on the application of a terminal capitalization rate to estimated year 11 net operating income. Future cash flows, discount rates and terminal capitalization rates are the most significant assumptions in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other evidence including current market conditions, in determining the most appropriate assumptions. At the balance sheet date there exists a limited number of observable comparable transactions and certain of the observable comparable transactions may have occurred by seller distress, financing pressure or other factors specific to those particular market participants and transactions. Accordingly, estimation uncertainty with determining the fair value of investment properties remains high.

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

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

	June 30, 2023		December 31, 2022	
	Discount rate	Terminal capitalization rate	Discount rate	Terminal capitalization rate
Minimum	6.50%	6.50%	6.50%	6.25%
Maximum	10.75%	10.25%	10.75%	10.25%
Weighted average	7.67%	7.29%	7.64%	7.06%

At June 30, 2023, a 25 basis-point increase in discount and terminal capitalization rates would decrease the estimated fair value of the REIT's investment properties by approximately \$66.1 million (December 31, 2022: \$68.7 million). A 25 basis-point decrease in discount and terminal capitalization rates would increase the estimated fair value of the REIT's investment properties by approximately \$71.0 million (December 31, 2022: \$74.0 million).

The following table summarizes the number of independent appraisals obtained and the aggregate fair value represented by such appraisals:

Three months ended	Number of investment properties	Fair Value
December 31, 2022	6 \$	414,550
March 31, 2023	—	—
June 30, 2023	— \$	—
Total	6 \$	414,550

6. FINANCE LEASE RECEIVABLE

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

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

	Six months ended June 30, 2023	Six months ended June 30, 2022
Beginning of period	\$ 46,793	\$ 50,156
Lease payments received	(3,210)	(3,210)
Finance income on finance lease receivable	1,448	1,555
End of period	\$ 45,031	\$ 48,501

The following is a summary of the undiscounted future minimum lease payments receivable and the imputed interest and principal portions thereof. The principal portion represents the amount recorded on the condensed consolidated interim statement of financial position at June 30, 2023:

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	\$ 6,420	\$ 2,726	\$ 3,694
Greater than one year but less than 5 years	26,714	8,250	18,464
Greater than 5 years	25,032	2,159	22,873
Total			\$ 45,031

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The following is a summary of the undiscounted future minimum lease payments receivable and the imputed interest and principal portions thereof. The principal portion represents the amount recorded on the condensed consolidated interim statement of financial position at December 31, 2022:

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	\$ 6,420	\$ 2,840	\$ 3,580
Greater than one year but less than 5 years	26,546	8,817	17,729
Greater than 5 years	28,410	2,926	25,484
Total		\$	46,793

7. OTHER ASSETS

Other assets are comprised of the following:

	June 30, 2023	December 31, 2022
Prepaid expenses	\$ 5,946	\$ 3,064
Prepaid mortgage principal	5,000	—
Mortgage interest reserves	1,622	—
Vendor-take-back loan	1,500	2,450
Investment tax credit receivable	630	606
Utilities deposits	86	86
Total	\$ 14,784	\$ 6,206

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

	June 30, 2023	December 31, 2022
Current	\$ 12,603	\$ 5,668
Non-current	2,181	538
Total	\$ 14,784	\$ 6,206

On June 30, 2023, the REIT prepaid mortgage principal of \$5.0 million to one of its lenders in order to refinance maturing debt at one of its Ontario properties. Subsequent to June 30, 2023, the loan was refinanced and the prepayment was applied to its principal.

Included in other assets are interest reserves totaling \$1.6 million held by two of the REIT's lenders. The REIT expects the reserves of \$0.9 million and \$0.7 million to be repaid upon maturity, in May and December 2025, respectively.

The REIT was provided a \$2.7 million vendor-take-back loan as partial consideration in connection with the disposition of certain investment properties. The vendor-take-back loan bears interest at 8.0% annually and was due to be repaid in September 2022. Repayment was received subsequent to June 30, 2023. The REIT has provided a \$1.2 million allowance as an expected credit loss.

The REIT is eligible for a Manitoba data processing investment tax credit as a result of its development of the Data Centre. The REIT expects to receive the tax credit in installments through to 2029. Half of the tax credit is payable to the Data Centre tenant as the credits are received. The tax credit payable is included in other liabilities (see note 10).

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

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8. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	June 30, 2023	December 31, 2022
Rent receivable	\$ 2,857	\$ 4,183
Accrued recovery income	963	801
Other amounts receivable	3,360	6,246
Allowance	(533)	(886)
Total	\$ 6,647	\$ 10,344

Rent receivable consists of base rent and operating expense recoveries receivable from tenants.

Accrued recovery income represents amounts that have not been billed to tenants and are generally billed and paid in the period following the period to which they relate.

Included in other amounts receivable are capital expenditures recoverable from tenants.

The change in allowance is as follows:

	Six months ended June 30, 2023	Year ended December 31, 2022
Beginning of period	\$ (886)	\$ (184)
Change in allowance	(299)	(799)
Bad debt write-off	652	97
End of period	\$ (533)	\$ (886)

The REIT measures the allowance at an amount equal to lifetime expected losses by taking into account past default experience and considering both current and potential bankruptcy, abandonment by tenants and certain tenant disputes.

During the six months ended June 30, 2023, the REIT wrote off accounts receivable of \$0.6 million relating to a tenant that has filed for bankruptcy at one of the U.S. properties. The tenant was evicted during the period.

The aging analysis of rents receivable past due but not impaired, net of allowance is as follows:

	June 30, 2023	December 31, 2022
Current to 30 days	\$ 971	\$ 1,534
31 to 90 days	180	610
Greater than 90 days	1,173	1,153
Total	\$ 2,324	\$ 3,297

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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9. DEBT

Debt held by the REIT at June 30, 2023 is as follows:

	Maturity	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn ¹
Mortgages ^{2 3 4}	Various	Various	16	\$ 918,144	\$ 583,957	\$ 583,957	\$ —	\$ —
Revolving facilities ^{4 5 6}	Oct. 14, 2024	Various	15	522,067	325,816	308,618	150	17,048
Term loan ^{4 7}	Apr. 5, 2027	Euribor+265 bps	23	268,003	135,189	135,189	—	—
Convertible debentures ⁸	Various	Various	—	—	157,950	157,950	—	—
Total			54	\$1,708,214	\$1,202,912	\$ 1,185,714	\$ 150	\$ 17,048

¹Debt is only available to be drawn subject to certain covenants and other requirements.

²The weighted average remaining term to maturity of mortgages is 1.4 years with maturities ranging from June 30, 2023 to October 1, 2030 and the weighted average interest rate of mortgages is 5.99% with coupons ranging from 2.53% to 8.51%.

³Security includes the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's investment properties.

⁴Certain amounts have been translated from U.S. dollars and Euros to Canadian dollars using the prevailing exchange rates on June 30, 2023.

⁵Stand-by fees incurred on the unused portion of the revolving credit facility are 50.63 bps, charged and paid quarterly.

⁶Principal balance includes \$243,600 and U.S. \$49,100 of revolving facilities. The maximum availability of the revolving facilities is the lesser of (i) the sum of the margined fair value of the property securing the facility and (ii) the amount which can be serviced (both monthly principal and interest) by the quotient obtained by dividing the net operating income by 1.25 and assuming (a) a 25 year amortization period, and (b) an interest rate compounded semi-annually, equal to the greater of (i) 4.5%, and (ii) the relevant five year government bond yield plus 2.50%. From September 30, 2023 the maximum availability of the revolving facilities is the lesser (calculated on an individual property basis) of (i) the margined fair value of the property securing the facility and (ii) the amount which can be serviced (both monthly principal and interest) by the quotient obtained by dividing the net operating income by 1.4 and assuming (a) a 25 year amortization period, and (b) an interest rate compounded semi-annually, equal to the greater of (i) 4.5%, and (ii) the relevant five year government bond yield plus 2.50%. The calculation of the maximum capacity on a property by property basis and with a greater net operating income divisor from September 30, 2023 is expected to reduce the maximum available by \$45 million. The REIT is working to favourably amend the terms of existing facility by averting a repayment of the revolving facility. The REIT may not be able to obtain amendments on terms and conditions acceptable to the REIT or at all. The remaining term to maturity of revolving facilities is 1.3 years and the weighted average interest rate is 7.49%.

⁷The term loan facility is secured by 23 properties in Ireland.

⁸Principal balance includes \$28,750, \$84,200 and \$45,000 of convertible unsecured subordinated debentures of the REIT. The maturity dates of the convertible debentures range from February 28, 2026 to December 31, 2027, with coupons ranging from 5.50% to 9.00%.

The carrying value of debt held by the REIT at June 30, 2023 is as follows:

	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments, costs and other	Carrying amount	Current	Non-current
Mortgages	\$ 583,957	\$ (3,535)	\$ 2,122	\$ 582,544	\$ 281,441	\$ 301,103
Revolving facilities	308,618	(6,361)	5,157	307,414	—	307,414
Term loan	135,189	(4,958)	1,128	131,359	—	131,359
Convertible debentures ¹	157,950	(14,194)	1,333	145,089	—	145,089
Total	\$ 1,185,714	\$ (29,048)	\$ 9,740	\$ 1,166,406	\$ 281,441	\$ 884,965

¹Represents the debt component of the convertible debentures. The embedded derivative features, which are the holder conversion options and the issuer redemption options, originally recorded in the aggregate amount of \$8.3 million, are accounted for separately. These embedded derivative features are included within derivatives on the REIT's condensed consolidated interim statements of financial position.

On January 27, 2023, the REIT amended the terms of its 5.25% convertible unsecured subordinated debentures, due February 28, 2023. The amendments: (i) increased the interest rate of the Debentures from 5.25% to 9.00%, effective February 28, 2023; (ii) decreased the conversion price of the Debentures from \$10.53 per trust unit of the REIT to \$5.50 per unit; (iii) extended the maturity date of the Debentures from February 28, 2023 to February 28, 2026; and (iv) provided that the Debentures are not redeemable prior to February 28, 2025 and, at any time after February 28, 2025, the REIT will be permitted to redeem the amended Debentures, in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date of the redemption.

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On April 11, 2023, the REIT refinanced one of its Ontario properties for incremental proceeds of \$0.7 million on a two year term with interest only payments at 6.36%.

On April 12, 2023, the REIT extended the maturity on one of its Ontario property's financing at 1 month CDOR plus 3.00%.

On April 12, 2023, the REIT extended the maturity on a second Ontario property's financing at 1 month CDOR plus 1.75%.

On April 28, 2023, the REIT extended the maturity on one of its U.S. property's financing. There was no change to the interest terms of the loan.

On May 16, 2023, the REIT amended the interest rate from U.S. London Interbank Offering Rate ("LIBOR") to Secured Overnight Financing Rate ("SOFR") on one of its U.S. properties financings; following which the REIT has no LIBOR indexed debt.

Debt held by the REIT at December 31, 2022 was as follows:

	Maturity	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn ¹
Mortgages ^{2 3 4}	Various	Various	16	\$ 947,623	\$ 591,592	\$ 591,592	\$ —	\$ —
Revolving facilities ^{4 5 6}	Oct. 14, 2024	Various	15	532,248	330,760	288,110	900	41,750
Term Loan ^{4 7}	Apr. 5, 2027	Euribor+265 bps	23	273,867	135,723	135,723	—	—
Convertible debentures ⁸	Various	Various	—	—	157,950	157,950	—	—
Total			54	\$1,753,738	\$1,216,025	\$ 1,173,375	\$ 900	\$ 41,750

¹Debt was only available to be drawn subject to certain covenants and other requirements.

²The weighted average remaining term to maturity of mortgages was 1.6 years with maturities ranging from 0.3 years to 7.8 years and the weighted average interest rate of mortgages was 4.73% with coupons ranging from 2.53% to 7.70%.

³Security includes the Data Centre, which was accounted for as a finance lease receivable and not included in the REIT's investment properties.

⁴Certain amounts have been translated from U.S. dollars and Euros to Canadian dollars using the prevailing exchange rates on December 31, 2022.

⁵Stand-by fees incurred on the unused portion of the revolving credit facility were 50.63 bps, charged and paid quarterly.

⁶Principal balance includes \$224,000 and U.S. \$47,300 of revolving facilities. The remaining term to maturity of revolving facilities was 1.8 years and the weighted average interest rate was 6.90%.

⁷The term loan facility was secured by 23 properties in Ireland.

⁸Principal balance includes \$28,750, \$84,200 and \$45,000 of convertible unsecured subordinated debentures of the REIT. The maturity dates of the convertible debentures range from February 28, 2023 to December 31, 2027, with coupons ranging from 5.25% to 7.50%.

The carrying value of debt held by the REIT at December 31, 2022 is as follows:

	Principal	MTM adjustments and costs	Accumulated amortization of MTM adjustments, costs and other	Carrying amount	Current	Non-current
Mortgages	\$ 591,592	\$ (3,542)	\$ 1,800	\$ 589,850	\$ 345,277	\$ 244,573
Revolving facilities	288,110	(6,356)	4,435	286,189	—	286,189
Term loan	135,723	(4,783)	660	131,600	—	131,600
Convertible debentures ¹	157,950	(14,269)	1,933	145,614	28,750	116,864
	\$ 1,173,375	\$ (28,950)	\$ 8,828	\$ 1,153,253	\$ 374,027	\$ 779,226

¹Represents the debt component of the convertible debentures. The embedded derivative features, which are the holder conversion option and the issuer redemption option, originally recorded in the aggregate amount of \$7.0 million, are accounted for separately. These embedded derivative features are included within derivatives on the REIT's consolidated statements of financial position.

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Future repayments of mortgages payable by year of maturity at June 30, 2023 are as follows:

	Weighted average interest rate of principal maturities ¹	Amortizing principal payments	Principal maturities	Total repayments
Remainder of 2023	7.76%	\$ 2,598	\$ 276,378	\$ 278,976
2024	3.67%	4,980	—	4,980
2025	4.36%	4,836	247,000	251,836
2026	4.25%	3,264	—	3,264
2027	4.56%	3,243	28,244	31,487
Thereafter	4.38%	7,519	5,895	13,414
	5.99%	\$ 26,440	\$ 557,517	\$ 583,957
Unamortized financing costs				(1,413)
Total				\$ 582,544

¹The weighted average interest rate of principal maturities is calculated using the rates in effect at June 30, 2023.

Future principal payments and maturities for all debt at June 30, 2023 are as follows:

Remainder of 2023	\$ 278,976
2024	313,599
2025	251,836
2026	127,132
2027	200,757
Thereafter	13,414
	\$ 1,185,714
Unamortized financing costs	(19,308)
Total	\$ 1,166,406

Convertible Debentures

On October 24, 2022, the REIT issued \$45.0 million of 7.50% extendible convertible unsecured subordinated debentures of the REIT (the "2022 Convertible Debentures"). The proceeds from the issuance of the 2022 Convertible Debentures were used to proactively pay down secured mortgage debt and partially fund the acquisition of an investment property in Chicago, Illinois.

The 2022 Convertible Debentures are convertible into freely tradable units at the option of the holder at any time prior to the close of business on the earliest of: (i) the last business day before the Final Maturity Date; or (ii) if called for redemption, the business day immediately preceding the date specified by the REIT for redemption of the debentures, at a conversion price of \$5.50 per unit (the "Conversion Price"). Convertible debenture holders converting their debentures will, in addition to the applicable number of units to be received on conversion, receive accrued and unpaid interest, if any, for the period from the last interest payment date on their convertible debentures (or the date of the Offering closing if no interest has yet been paid on the convertible debentures) to and including the last record date set by the REIT occurring prior to the date of conversion for determining the unitholders entitled to receive a distribution on the units.

The 2022 Convertible Debentures may not be redeemed by the REIT prior to December 31, 2025. On and from December 31, 2025, and prior to December 31, 2026, the convertible debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice provided that the volume weighted-average trading price of the units on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2026, and prior to December 31, 2027, the convertible debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice.

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On November 19, 2021, the REIT issued \$84.2 million of 5.50% extendible convertible unsecured subordinated debentures of the REIT (the "2021 Convertible Debentures"). The proceeds from the issuance of the 2021 Convertible Debentures were received on February 7, 2022 and were used to partially fund the acquisition of Yew Grove.

The 2021 Convertible Debentures are convertible into freely tradable units at the option of the holder at any time prior to the close of business on the earliest of: (i) the last business day before the Final Maturity Date; or (ii) if called for redemption, the business day immediately preceding the date specified by the REIT for redemption of the debentures, at a conversion price of \$6.50 per unit. Convertible debenture holders converting their debentures will, in addition to the applicable number of units to be received on conversion, receive accrued and unpaid interest, if any, for the period from the last interest payment date on their convertible debentures (or the date of the Offering closing if no interest has yet been paid on the convertible debentures) to and including the last record date set by the REIT occurring prior to the date of conversion for determining the unitholders entitled to receive a distribution on the units.

The 2021 Convertible Debentures may not be redeemed by the REIT prior to December 31, 2024. On and from December 31, 2024, and prior to December 31, 2025, the convertible debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice provided that the volume weighted-average trading price of the units on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2025, and prior to December 31, 2026, the convertible debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice.

On January 26, 2018, the REIT issued \$28.8 million of 5.25% convertible unsecured subordinated debentures of the REIT (the "2018 Convertible Debentures").

On January 27, 2023, the REIT amended the terms of its 2018 Convertible Debentures. The amendments: (i) increased the interest rate of the Debentures from 5.25% to 9.00%, effective February 28, 2023; (ii) decreased the conversion price of the Debentures from \$10.53 per trust unit of the REIT to \$5.50 per unit; (iii) extended the maturity date of the Debentures from February 28, 2023 to February 28, 2026; and (iv) provided that the Debentures are not redeemable prior to February 28, 2025 and, at any time after February 28, 2025, the REIT will be permitted to redeem the amended Debentures, in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date of the redemption. Convertible debenture holders converting their debentures will, in addition to the applicable number of units to be received on conversion, receive accrued and unpaid interest, if any, for the period from the last interest payment date on their convertible debentures to and including the last record date set by the REIT occurring prior to the date of conversion for determining the unitholders entitled to receive a distribution on the units. On and from February 28, 2025, and prior to February 28, 2026, the convertible debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice.

10. OTHER LIABILITIES

Other liabilities are comprised of the following:

	Note	June 30, 2023	December 31, 2022
Security deposits		\$ 5,423	\$ 5,655
Deferred units	14	775	1,182
Investment tax credit payable		315	303
Total		\$ 6,513	\$ 7,140

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

	June 30, 2023	December 31, 2022
Current	\$ 1,136	\$ 1,222
Non-current	5,377	5,918
Total	\$ 6,513	\$ 7,140

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The REIT is eligible to receive a Manitoba data processing investment tax credit in connection with the development of the Data Centre (see note 7). Half of the tax credit to be received is payable to the tenant of the Data Centre, the amount for which is recorded as an other liability. The credit is expected to be received through to 2029 and has been recorded in other liabilities at its discounted amount determined upon establishment of the liability.

11. DERIVATIVES

Derivatives include interest rate protection instruments, including interest rate swaps and caps, foreign exchange instruments, and derivative features embedded in the REIT's convertible debentures, which include the convertible debenture holder conversion option and the REIT's redemption option.

Derivatives are comprised of the following:

	June 30, 2023	December 31, 2022
Fair value of conversion option on convertible debentures	\$ (879)	\$ (4,216)
Fair value of interest rate swaps	24,028	25,289
Fair value of cross currency swap	805	1,570
Fair value of interest rate caps	3,991	3,833
Derivatives, net	\$ 27,945	\$ 26,476

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

	Six months ended June 30,	
	2023	2022
Fair value, beginning of period	\$ 26,476	\$ (11,118)
Initial recognition of embedded derivatives on issuance of convertible debentures	(1,463)	(2,804)
Fair value change of convertible debenture embedded derivatives	4,800	1,355
Fair value change of interest rate swaps	7,698	24,010
Net payments (receipts) on interest rate swaps	(8,788)	4,255
Foreign exchange loss on U.S. interest rate swap	(171)	3
Fair value change of cross currency interest rate swap	(765)	4,569
Fair value change of interest rate caps	183	—
Foreign exchange loss on U.S. and Euro interest rate caps	(25)	—
Foreign exchange loss of Euro forward contract	—	(547)
Settlement of Euro forward contract	—	156
Fair value, end of period	\$ 27,945	\$ 19,879

Interest rate protection instruments

The REIT enters into interest rate derivatives to reduce the impact of interest rate risk of certain debt with floating interest rates. The REIT currently has in place certain pay-fixed receive-float interest rate swaps and two interest rate caps. Swaps are derivative financial instruments that require a periodic exchange of payments with counter-parties without the exchange of the notional amount on which the payments are based. The recorded interest expense on the underlying mortgages payable reflects payments made and received under the interest rate swaps.

On April 12, 2023, the REIT entered into a \$59.0 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 4.36%, and a start date of April 12, 2023, expiring May 1, 2025.

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

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The following are the terms and fair values of the REIT's interest rate swaps where the REIT pays fixed and receives floating interest rates:

Maturity date	Floating interest rate ¹	Fixed interest rate	Notional amount ²		Fair value	
			June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
April 12, 2023	1 month BA	1.90%	\$ —	\$ 58,281	\$ —	\$ 568
April 12, 2023	1 month CDOR	2.04%	—	73,550	—	704
April 12, 2023	1 month CDOR	2.04%	—	34,735	—	332
August 14, 2023	1 month BA	2.77%	17,053	17,303	(24)	137
February 1, 2024	1 month U.S. SOFR ³	1.80%	66,210	67,770	1,492	2,303
March 22, 2024	1 month CDOR	1.90%	100,000	100,000	2,576	3,436
March 3, 2025	1 month BA	1.23%	62,500	62,500	4,191	4,199
March 3, 2025	1 month BA	1.23%	10,000	10,000	671	672
March 3, 2025	1 month BA	4.31%	8,000	8,000	125	11
May 1, 2025	1 month BA	4.36%	59,003	—	877	—
September 10, 2025	1 month U.S. SOFR ³	2.18%	133,844	136,997	7,310	7,229
October 30, 2026	1 month CDOR	2.30%	100,000	100,000	6,810	5,698
Total			\$ 556,610	\$ 669,136	\$ 24,028	\$ 25,289

¹BA* means the Bankers' Acceptances rate, "SOFR" means the Secured Overnight Financing Rate, and "CDOR" means the Canadian Dollar Offered Rate.

²The notional amount of the U.S. dollar pay-fixed receive-float interest rate swaps, maturing September 10, 2025 and February 1, 2024, are U.S. \$101.1 million and U.S. \$50.0 million respectively.

³The floating interest rate was receive-floating of U.S. London Interbank Offering Rate as at December 31, 2022.

In connection with the Yew Grove acquisition, the REIT entered into a cross currency interest rate swap transaction on November 16, 2021 to pay a fixed rate of 3.72% and receive a fixed rate of 5.50%, effective on January 31, 2022 and maturing on December 31, 2026. Interest payments are payable semi-annually on or around June 30 and December 30, commencing June 30, 2022. During the six months ended June 30, 2023, the REIT recorded a fair value loss of \$0.8 million (June 30, 2022: gain of \$4.6 million), which is recorded in the condensed consolidated interim statement of income (loss).

The following are the terms and fair values of the REIT's cross currency interest rate swap:

Maturity date	Pay Euro interest rate	Receive \$ interest rate	Notional amount ¹		Fair value	
			June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
December 31, 2026	3.72%	5.50%	\$ 75,000	\$ 75,000	\$ 805	\$ 1,570
Total			\$ 75,000	\$ 75,000	\$ 805	\$ 1,570

¹The notional amount of the pay Euro interest rate of 3.72% is €52.5 million and the notional amount of the receive Canadian dollar interest rate of 5.50% is \$75.0 million.

During November 2022, in connection with the acquisition of an investment property in Chicago, Illinois, the REIT entered into a U.S. dollar interest rate cap which had a \$16.1 million notional amount, a strike price of 3.75% based on one-month SOFR and a maturity date of November 1, 2025. In December 2022, the REIT also entered into a Euro interest rate cap which had a \$135.7 million notional amount, a strike price of 1.60% based on the three-month Euro Interbank Offered Rate ("EURIBOR") and a maturity date of July 8, 2024.

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

Maturity date	Strike price	Notional amount ¹		Fair value	
		June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
July 8, 2024	1.60%	\$ 135,189	\$ 135,723	\$ 3,565	\$ 3,454
November 1, 2025	3.75%	\$ 15,758	\$ 16,129	\$ 426	\$ 379
Total		\$ 150,947	\$ 151,852	\$ 3,991	\$ 3,833

¹The notional amounts of the Euro and U.S. dollar interest rate caps are €93.6 million and U.S. \$11.9 million, respectively.

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The following is a summary of the REIT's interest rate caps:

	Six months ended June 30,	
	2023	2022
Beginning of the period	\$ 3,833	\$ —
Fair value changes	183	—
Foreign exchange loss	(25)	—
End of period	3,991	—

Foreign exchange rate protection instruments

In connection with the Yew Grove acquisition in 2022, the REIT entered into a foreign exchange transaction on November 16, 2021 to sell \$45.7 million at an exchange rate of 1.4284 and purchase Euro on January 31, 2022. This transaction was settled on January 31, 2022.

From time to time, the REIT may use forward foreign exchange contracts to hedge against fair value changes in the REIT's U.S. dollar net investment in its U.S. operations arising from fluctuations in the U.S. and Canadian dollar exchange rates, and its Euro net investment in its Irish operations arising from fluctuations in the Euro and Canadian dollar exchange rates. Sources of hedge ineffectiveness include instances where the net investments in U.S. and Irish operations is less or greater than outstanding hedge instruments and potential misalignment between the term of the hedging instrument and the holding term of the REIT's net investment in U.S. and Irish operations.

The REIT entered into one derivative contract and no foreign exchange contracts during the six months ended June 30, 2023 as described above. The REIT settled one foreign exchange transaction during the six months ended June 30, 2022 as described above.

12. CLASS B LP UNITS

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

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

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

The change in Class B LP units for the three months ended June 30, 2023 and 2022 is as follows:

	Three months ended June 30, 2023		Three months ended June 30, 2022	
	Units	Amount	Units	Amount
Beginning of period	5,285,160	\$ 18,709	5,285,160	\$ 27,007
Fair value changes	—	(8,244)	—	(2,431)
End of period	5,285,160	\$ 10,465	5,285,160	\$ 24,576

The change in Class B LP units for the six months ended June 30, 2023 and 2022 is as follows:

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Units	Amount	Units	Amount
Beginning of period	5,285,160	\$ 22,832	5,285,160	\$ 26,426
Fair value changes	—	(12,367)	—	(1,850)
End of period	5,285,160	\$ 10,465	5,285,160	\$ 24,576

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13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Note	June 30, 2023	December 31, 2022
Accounts payable and accrued liabilities		\$ 26,620	\$ 25,974
Distributions payable	15	854	2,841
Prepaid rent		8,503	10,865
Tenant improvements payable		—	32
Total		\$ 35,977	\$ 39,712

14. UNITHOLDERS' EQUITY

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

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

The change in trust units during the three and six months ended June 30, 2023 is as follows:

	Three months ended June 30, 2023		Six months ended June 30, 2023	
	Units	Amount	Units	Amount
Beginning of period	80,023,409	578,380	80,023,409	578,380
End of period	80,023,409	\$ 578,380	80,023,409	\$ 578,380

The change in trust units during the three and six months ended June 30, 2022 is as follows:

	Note	Three months ended June 30, 2022		Six months ended June 30, 2022	
		Units	Amount	Units	Amount
Beginning of period		80,174,209	\$ 579,908	67,765,409	\$ 518,888
Issued on public offering	4	—	—	11,225,000	56,799
Issued on private placement	4	—	—	1,183,800	5,801
Equity issuance costs		—	(354)	—	(1,934)
End of period		80,174,209	\$ 579,554	80,174,209	\$ 579,554

Repurchase of units

On June 22, 2022, the REIT renewed its normal course issuer bid ("NCIB"), whereby the REIT may purchase up to 6,252,619 trust units, subject to certain restrictions. The renewed NCIB expired on June 21, 2023. The REIT did not repurchase any units under its NCIB during the six months ended June 30, 2023 and 2022.

On June 17, 2022, the REIT established an at the market equity program ("ATM program") that allows the REIT to issue, at its discretion, up to \$40.0 million of trust units to the public from time to time through its agents. Issuance pursuant to the ATM program will be made in accordance with the terms of an equity distribution agreement dated June 17, 2022 entered into among the REIT and its agents. The ATM program expired on May 29, 2023. The REIT did not issue units under its ATM program during the six months ended June 30, 2023 and 2022.

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Trustee deferred unit plan

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

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

At June 30, 2023, the liability associated with the deferred units issued under the Trustee DUP was \$0.7 million (December 31, 2022: \$1.1 million), and the number of outstanding deferred units was 377,455 (December 31, 2022: 260,332 units).

Officer deferred unit plan

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

The deferred units may be redeemed by a participant after two years following the date the units were issued in whole or in part for cash or trust units. The value of the deferred units when converted to cash will be equivalent to the market value of trust units on the date of the redemption request. If a participant ceases to be an officer of the REIT, the deferred units must be redeemed no later than two years following that date.

At June 30, 2023, the liability associated with deferred units issued under the Officer DUP was \$27 thousand (December 31, 2022: \$57 thousand), and the number of deferred units was 13,797 units (December 31, 2022: 13,170 units).

The change in DUP units during the three and six months ended June 30, 2023 is as follows:

	Note	Three months ended June 30, 2023		Six months ended June 30, 2023	
		Units	Amount	Units	Amount
Beginning of period		327,100	\$ 1,158	273,502	\$ 1,182
Issued		56,288	108	103,581	270
Reinvested distributions		7,864	18	14,169	45
Fair value adjustment	19	—	(509)	—	(722)
End of period		391,252	\$ 775	391,252	\$ 775

The change in DUP units during the three and six months ended June 30, 2022 is as follows:

	Note	Three months ended June 30, 2022		Six months ended June 30, 2022	
		Units	Amount	Units	Amount
Beginning of period		178,500	\$ 912	163,836	\$ 815
Issued		14,063	65	25,468	125
Reinvested distributions		3,653	18	6,912	35
Fair value adjustment	19	—	(83)	—	(63)
End of period		196,216	\$ 912	196,216	\$ 912

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Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the three and six months ended June 30, 2023 and 2022. The diluted weighted average trust units outstanding is determined as if all of the Class B LP units and deferred units have been converted to units of the REIT:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Basic weighted average units outstanding	80,023,409	80,174,209	80,023,409	77,569,047
Class B LP units	5,285,160	5,285,160	5,285,160	5,285,160
Basic weighted average deferred units outstanding	331,928	180,271	304,405	172,900
Diluted weighted average units outstanding	85,640,497	85,639,640	85,612,974	83,027,107

Diluted units outstanding

The following is the diluted number of units outstanding as at June 30, 2023 and 2022. The diluted number of units outstanding is determined as if all of the Class B LP units and deferred units had been converted to units of the REIT:

	June 30, 2023	June 30, 2022
Trust units outstanding	80,023,409	80,174,209
Class B LP units	5,285,160	5,285,160
Deferred units	391,252	196,216
Diluted units outstanding	85,699,821	85,655,585

Accumulated other comprehensive income (loss) consists of the below:

	Six months ended June 30, 2023			Six months ended June 30, 2022		
	Foreign currency translation	Net investment hedges	Total	Foreign currency translation	Net investment hedges	Total
Beginning of period	\$ 9,987	\$ (4,820)	\$ 5,167	\$ (1,152)	\$ (4,820)	\$ (5,972)
Currency translation	(4,462)	—	(4,462)	(5,109)	—	(5,109)
End of period	\$ 5,525	\$ (4,820)	\$ 705	\$ (6,261)	\$ (4,820)	\$ (11,081)

15. DISTRIBUTIONS

Pursuant to the Declaration of Trust, the income of the REIT is distributed on dates and in amounts as determined by the Board of Trustees. Distributions to Class B LP unitholders are recorded in net income. All distributions settled during the six months ended June 30, 2023 and 2022 have been paid in cash. The REIT announced a decrease in monthly distributions from \$0.0333 to \$0.0100 per unit beginning the month of April 2023.

The following table presents the distributions during the three and six months ended June 30, 2023:

	Three months ended June 30, 2023		Six months ended June 30, 2023	
	Trust units	Class B LP units	Trust units	Class B LP units
Distributions declared during the period	\$ 2,401	\$ 159	\$ 10,395	\$ 687
Add: Distributions payable, beginning of period	2,665	176	2,665	176
Less: Distributions payable, end of period	(801)	(53)	(801)	(53)
Distributions paid during the period	\$ 4,265	\$ 282	\$ 12,259	\$ 810

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The following table presents the distributions during the three and six months ended June 30, 2022:

	Three months ended June 30, 2022		Six months ended June 30, 2022	
	Trust units	Class B LP units	Trust units	Class B LP units
Distributions declared during the period	\$ 8,010	\$ 528	\$ 15,606	\$ 1,056
Add: Distributions payable, beginning of period	2,670	176	2,256	176
Less: Distributions payable, end of period	(2,670)	(176)	(2,670)	(176)
Distributions paid during the period	\$ 8,010	\$ 528	\$ 15,192	\$ 1,056

16. RENTAL REVENUE

Rental revenue is comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Property base rent ¹	\$ 27,419	\$ 26,912	\$ 55,339	\$ 51,303
Operating cost recoveries	14,047	13,728	28,770	29,757
Tax recoveries	7,135	8,195	14,418	16,373
Hotel	2,911	2,691	4,786	3,780
Straight-line rent and other changes	(2,804)	(2,205)	(5,513)	(4,290)
Total	\$ 48,708	\$ 49,321	\$ 97,800	\$ 96,923

¹Includes parking revenue earned at properties.

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

	June 30, 2023	December 31, 2022
Not later than one year	\$ 111,521	\$ 119,654
Later than one year and not later than five years	327,297	363,379
Later than five years	189,529	228,695
Total	\$ 628,347	\$ 711,728

Future minimum lease payments for the Data Centre are excluded from the above as the lease is classified as a finance lease. Future minimum lease payments for the Data Centre are disclosed in note 6.

17. INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Mortgage interest	\$ 8,042	\$ 6,768	\$ 14,771	\$ 13,040
Interest on other debt	3,659	3,174	7,701	6,489
Amortization of financing costs	1,210	1,255	2,400	2,470
Amortization of debt mark-to-market adjustments	(10)	41	(20)	81
Subscription receipts equivalent amount ¹	—	—	—	373
Interest on convertible debentures ^{2,3,4}	2,642	1,467	5,087	2,973
Total	\$ 15,543	\$ 12,705	\$ 29,939	\$ 25,426

¹On February 7, 2022, each subscription receipt issued by the REIT on November 19, 2021 was exchanged for one unit and a cash distribution equivalent payment of \$0.0666 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between December 15, 2021 and January 17, 2022). \$0.4 million was recorded in interest and finance costs for the six months ended June 30, 2022.

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²The convertible debentures issued on January 26, 2018 and amended on January 27, 2023 pay interest at 9.00%. Payments are made semi-annually on or about February 28th and August 30th. The amount above represents the interest accrued and not yet paid.

³The convertible debentures issued on November 19, 2021 pay interest at 5.50%. Payments are made semi-annually on or about June 30th and December 31st. The amount above represents the interest accrued and paid.

⁴The convertible debentures issued on October 24, 2022 pay interest at 7.50%. Payments are made semi-annually on or about June 30th and December 31st. The amount above represents the interest accrued and paid.

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

	Note	Three months ended June 30,		Six months ended June 30,	
		2023	2022	2023	2022
Asset management fees	20	\$ 1,391	\$ 1,483	\$ 2,817	\$ 2,848
Professional fees		505	434	2,975	681
Trustee fees		129	119	320	239
Bad debt expense, net		1,003	(1)	1,338	(18)
Other		353	259	1,011	832
Total		\$ 3,381	\$ 2,294	\$ 8,461	\$ 4,582

19. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2023	2022	2023	2022
Interest rate swaps	11	\$ 8,978	\$ 7,664	\$ 7,698	\$ 24,010
Net payments made (receipts) on interest rate swaps	11	(4,156)	1,715	(8,788)	4,255
Interest rate caps	11	373	—	183	—
Convertible debenture embedded derivatives	11	1,944	1,419	4,800	1,355
Deferred units	14	509	83	722	63
Performance payment		—	(201)	—	(594)
Subscription receipts		—	—	—	(674)
Foreign exchange forwards	11	—	—	—	(547)
Cross currency swap	11	(698)	2,112	(765)	4,569
Loss on extinguishment of debt		(18)	—	(406)	—
Total change in fair value of financial instruments recognized in net income (loss)		\$ 6,932	\$ 12,792	\$ 3,444	\$ 32,437

20. RELATED PARTY TRANSACTIONS

The REIT has a management agreement (the "Management Agreement") with Slate (as defined in note 1), whereby SMULC as the REIT's manager provides the REIT with the strategic, administrative, property management, leasing, acquisition, financing and construction management services necessary to manage the strategy and day-to-day operations of the REIT and its assets. Key management personnel of the REIT are employed by SLAM.

These transactions are in the normal course of operations and are in accordance with the management agreement and are measured at the exchange amount. The exchange amount is the consideration established under contract and as approved by the REIT's Board of Trustees. The REIT's key personnel include trustees and officers of the REIT.

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Slate held the following interests in the REIT:

	June 30, 2023	December 31, 2022
REIT units	2,871,051	2,871,051
Class B LP units	5,285,160	5,285,160
Total	8,156,211	8,156,211
Economic interest	9.5%	9.5%

The Management Agreement provides for the following fees:

Type	Basis
Property management	3% of gross revenue ¹
Asset management	0.3% of gross book value ²
Leasing	5% on new leases, 2% on renewals ³
Financing	0.25% of debt financed
Construction	5.0% of costs
Acquisition	Variable ⁴

¹Gross revenue is defined as all revenues received by and/or on behalf of the REIT from the leasing and/or licensing of the REIT's investment properties.

²Gross book value is defined as the book value of the REIT's assets as shown on the previous quarter's consolidated financial statements, less restricted cash.

³Leasing fees are charged to the REIT net of any third party brokerage fees paid to leasing agents retained by the REIT. No fee is charged to the REIT where such third party fees are equal to or greater than the lease fee payable to Slate.

⁴Acquisition fees are 1.00% on the first \$100 million of acquisitions; 0.75% on the next \$100 million of acquisitions and 0.50% for acquisitions in excess of \$200 million.

Property and asset management fees are recorded as property operating and general and administrative expenses, respectively, in the period incurred. Acquisition, construction and leasing fees are recorded as additions to investment properties when payable to SMULC. Financing fees are capitalized to debt placed at the time of closing and amortized to interest expense over the term to maturity of the related debt.

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Property management	\$ 1,468	\$ 1,479	\$ 2,837	\$ 2,788
Asset management	1,391	1,483	2,817	2,848
Leasing, financing and construction management	373	648	781	1,942
Acquisition	—	—	—	1,993
Transaction fees ¹	—	—	—	2,899
Total	\$ 3,232	\$ 3,610	\$ 6,435	\$ 12,470

¹Fees charged for acquiring Yew Grove's processes and platform.

Property administration fees are generally recoverable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the REIT's investment properties. Property administration fees were \$4.9 million for the six months ended June 30, 2023 (June 30, 2022: \$4.7 million). Administrative fees are recovered from most tenants by the REIT in accordance with the terms of the leases, whereas property management fees payable by the REIT to the Manager are determined in accordance with the Management Agreement. The REIT entered into an agreement to lease approximately 6,000 square feet of office space to Slate at one of its properties at market rents which expires October 31, 2029. In 2022, the REIT agreed to lease approximately 4,000 additional square feet to Slate at the same property and at the same rent rate and expiration. Total rent of \$289 thousand was received under this lease for the six months ended June 30, 2023 (June 30, 2022: \$161 thousand). There were no amounts receivable related to this lease at June 30, 2023 and December 31, 2022.

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

	June 30, 2023	December 31, 2022
Accounts receivable	\$ 32	\$ 412
Accounts payable and accrued liabilities	(548)	(220)
Class B LP units	(10,465)	(22,832)

A trustee of the REIT and a corporation controlled by the trustee, G2S2 Capital Inc., through its wholly-owned subsidiary, Armco Alberta Inc. (collectively, "G2S2"), held the following interests in the REIT:

	June 30, 2023	December 31, 2022
REIT units	15,110,200	13,302,000
Deferred units	8,513	—
Total	15,118,713	13,302,000
Economic interest	17.6%	15.5%

G2S2 also held an aggregate principal amount of \$12.0 million (December 31, 2022: \$9.5 million) of the REIT's convertible debentures as at June 30, 2023. If G2S2 was the sole convertible debenture holder to convert to trust units, it would indirectly own a total of 17,241,608 trust units (December 31, 2022: 15,020,154), representing an economic interest of approximately 19.6% (December 31, 2022: 17.2%) on a diluted basis.

The REIT entered into an agreement to lease approximately 17,000 square feet of office space to G2S2 at one of its properties at market rents which expired June 30, 2023. G2S2 vacated the property subsequent to June 30, 2023. Total rent of \$118 thousand was received under this lease for the six months ended June 30, 2023 (June 30, 2022: \$118 thousand). There were no amounts receivable related to this lease at June 30, 2023 and December 31, 2022.

21. FAIR VALUES

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

The following categories in the fair value hierarchy reflect the significance of inputs used in determining fair values:

- Level 1: Quoted prices in active markets;
- Level 2: Inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3: Valuation technique for which significant inputs are not based on observable market data.

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

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The following tables summarize the fair value measurements recognized on the consolidated statements of financial position or disclosed in the REIT's consolidated financial statements, categorized by fair value hierarchy, excluding current assets and liabilities measured at amortized cost:

June 30, 2023	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets					
Investment properties	5	\$ 1,708,814	\$ —	\$ —	1,708,814
Derivatives, net	11	27,945	—	27,945	—
Restricted cash		4,072	4,072	—	—
Total assets		\$ 1,740,831	\$ 4,072	\$ 27,945	\$ 1,708,814
Liabilities					
Class B LP units	12	(10,465)	(10,465)	—	—
Debt	9	(1,166,406)	—	(1,171,410)	—
Total liabilities		\$ (1,176,871)	\$ (10,465)	\$ (1,171,410)	\$ —

December 31, 2022	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets					
Investment properties	5	\$ 1,754,338	\$ —	\$ —	1,754,338
Derivatives, net	11	26,476	—	26,476	—
Restricted cash		5,300	5,300	—	—
Total assets		\$ 1,786,114	\$ 5,300	\$ 26,476	\$ 1,754,338
Liabilities					
Class B LP units	12	(22,832)	(22,832)	—	—
Debt	9	(1,153,253)	—	(1,156,914)	—
Total liabilities		\$ (1,176,085)	\$ (22,832)	\$ (1,156,914)	\$ —

22. RISK MANAGEMENT

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

Liquidity risk

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

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

The liquidity needs of the REIT are funded by cash flows from operating the REIT's investment property portfolio and available credit facilities, with the exception of debt repayment obligations, investment property acquisition funding requirements and obligations to redeem puttable trust units. These are funded by refinancing the REIT's maturing debt, financing unencumbered properties, or future issuances of REIT units and debentures. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. The REIT's liquidity is also impacted by certain covenants as described in note 23. Continued compliance with the revolving facilities' requirements which are more restrictive from September 30, 2023 and the covenants applicable to the REIT's Declaration of Trust, term loans and mortgages are dependent on the REIT achieving its financial forecasts. Market conditions are difficult to predict and there is no assurance that the REIT will achieve its forecasts. In the event

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of non-compliance, the REIT's lenders have the right to demand repayment of the amounts outstanding under the current lending agreements or pursue other remedies including provision of waivers for financial covenants. The REIT will continue to carefully monitor its compliance with its covenants and seek waivers if such a need arises.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT or on any terms at all. Additionally, changes in interest rates driven by central banks in Canada, the U.S. and Europe seeking to reduce inflationary pressures and broad market sentiment towards the office sector as a whole have reduced the availability of and increased the cost of financing. The REIT seeks to maintain collaborative relationships with its financing counterparties to minimize the impact economic and property markets may have on the REIT's current and future debt. The risk associated with the refinancing of maturing debt is mitigated, in part, by matching debt maturities on mortgages with lease renewals to optimize the value of the assets with the leverage to achieve the best value for pricing. In addition, the REIT staggers the maturity dates of the REIT's debt over a number of years. If the REIT is unable to refinance or obtain new sources of financing, the REIT can reduce discretionary capital expenditures or leasing costs and if required, distributions which all remain at the discretion of the REIT, however, such activities and actions may be insufficient to address changes in liquidity as a result of not being able to obtain financing on terms and conditions acceptable to the REIT or at all.

The following table summarizes the estimated future contractual maturities of the REIT's financial liabilities at June 30, 2023:

	Note	Total contractual cash flow	Remainder of 2023	2024-2025	2026-2027	Thereafter
Accounts payable and accrued liabilities	13	\$ 35,977	\$ 35,977	\$ —	\$ —	\$ —
Amortizing principal repayments on debt	9	40,087	2,598	9,816	20,154	7,519
Principal repayments on maturity of debt	9	1,145,627	276,378	555,619	307,735	5,895
Interest on debt ¹		140,979	46,848	70,316	22,604	1,211
Interest rate swaps ²		(19,088)	(7,517)	(10,556)	(1,015)	—
Other liabilities	10	6,513	1,136	1,253	794	3,330
Total		\$ 1,350,095	\$ 355,420	\$ 626,448	\$ 350,272	\$ 17,955

¹Interest amounts on floating rate debt have been determined using rates at June 30, 2023.

²Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the forward rates determined at June 30, 2023.

Interest rate risk

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

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

At June 30, 2023, after the impact of interest rate swaps and caps, the REIT had floating rate debt of \$203.1 million (December 31, 2022: \$75.4 million). The following table presents the annualized impact of a change in floating interest rates of 25 bps on finance costs:

	June 30, 2023	December 31, 2022
Change of 25 bps	\$ 508	\$ 188

Credit risk

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

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Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate due to changes in foreign exchange rates. Foreign currency forwards may be used from time-to-time to hedge the REIT's net investment in foreign operations. Refer to notes 11 and 19 for details of the REIT's forward currency transactions. The REIT is exposed to foreign currency risk on its foreign exchange forward transaction and its cross currency swap which were set to mitigate the foreign exchange risk of its Irish assets and U.S. assets as well as monetary assets and liabilities denominated in U.S. dollars and Euros. In order to mitigate a portion of this risk, the REIT has financed its U.S. operations with U.S. dollar denominated debt and its Irish operations with Euro denominated debt, acting as a natural hedge.

23. CAPITAL MANAGEMENT

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

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

	June 30, 2023	December 31, 2022
Debt	\$ 1,166,406	\$ 1,153,253
Class B LP units	10,465	22,832
Equity	605,816	644,366
Total	\$ 1,782,687	\$ 1,820,451

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

	June 30, 2023	December 31, 2022
Total assets	\$ 1,826,368	\$ 1,869,362
Less: Restricted cash	(4,072)	(5,300)
Gross book value	\$ 1,822,296	\$ 1,864,062
Debt	1,166,406	1,153,253
Leverage ratio	64.0%	61.9%

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

The REIT's revolving credit facility, term loan, construction facility and some mortgages are subject to financial and other covenants, including customary maximum leverage ratios, interest service coverage ratios, minimum debt service coverage ratios, minimum unitholders' equity and mutual performance conditions among others which may impact the available capacity based on the financial results of the REIT. The REIT was in compliance with these covenants as at June 30, 2023 and 2022.

24. SEGMENTED DISCLOSURES

The REIT operates in Canada, the United States, and Ireland. The following is a summary of investment properties by geographic location:

	June 30, 2023	December 31, 2022
Canada	\$ 1,102,745	\$ 1,118,886
United States	338,066	361,585
Ireland	268,003	273,867
Total	\$ 1,708,814	\$ 1,754,338

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The following is a summary of rental revenue and property operating expenses by geographic location:

	Six months ended June 30, 2023			
	Canada	United States	Ireland	Total
Property revenue	\$ 64,614	\$ 27,440	\$ 11,259	\$ 103,313
Property operating expenses	(36,158)	(15,447)	(2,754)	(54,359)
Net operating income	\$ 28,456	\$ 11,993	\$ 8,505	\$ 48,954
Straight-line rent and other changes				(5,513)
IFRIC 21 property tax adjustment				(6,969)
Finance income on finance lease receivable				1,448
Interest income				213
Interest and finance costs				(29,939)
General and administrative				(8,461)
Change in fair value of financial instruments				3,444
Change in fair value of investment properties				(37,916)
Depreciation of hotel asset				(481)
Deferred income tax recovery				443
Current income tax expense				(596)
Net loss before Class B LP units			\$	(35,373)
Change in fair value of Class B LP units				12,367
Distributions to Class B LP unitholders				(687)
Net loss			\$	(23,693)

	Six months ended June 30, 2022			
	Canada	United States	Ireland	Total
Property revenue	\$ 70,023	\$ 22,598	\$ 8,592	\$ 101,213
Property operating expenses	(36,744)	(12,134)	(2,286)	(51,164)
Net operating income	\$ 33,279	\$ 10,464	\$ 6,306	\$ 50,049
Straight-line rent and other changes				(4,290)
IFRIC 21 property tax adjustment				(5,938)
Finance income on finance lease receivable				1,555
Interest income				219
Interest and finance costs				(25,426)
General and administrative				(4,582)
Change in fair value of financial instruments				32,437
Change in fair value of investment properties				12,374
Depreciation of hotel asset				(481)
Deferred income tax recovery				(4,141)
Current income tax expense				(692)
Net income before Class B LP units			\$	51,084
Change in fair value of Class B LP units				1,850
Distributions to Class B LP unitholders				(1,056)
Net income			\$	51,878

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The following is a summary of rental revenue and property operating expenses by geographic location:

	Three months ended June 30, 2023			
	Canada	United States	Ireland	Total
Property revenue	\$ 32,331	\$ 13,521	\$ 5,660	\$ 51,512
Property operating expenses	(17,661)	(7,680)	(1,577)	(26,918)
Net operating income	\$ 14,670	\$ 5,841	\$ 4,083	\$ 24,594
Straight-line rent and other changes				(2,804)
IFRIC 21 property tax adjustment				3,522
Finance income on finance lease receivable				717
Interest income				125
Interest and finance costs				(15,543)
General and administrative				(3,381)
Change in fair value of financial instruments				6,932
Change in fair value of investment properties				(41,924)
Depreciation of hotel asset				(241)
Deferred income tax expense				296
Net loss before Class B LP units			\$	(27,707)
Change in fair value of Class B LP units				8,244
Distributions to Class B LP unitholders				(159)
Net loss			\$	(19,622)

	Three months ended June 30, 2022			
	Canada	United States	Ireland	Total
Property revenue	\$ 34,947	\$ 11,926	\$ 4,653	\$ 51,526
Property operating expenses	(18,432)	(6,084)	(652)	(25,168)
Net operating income	\$ 16,515	\$ 5,842	\$ 4,001	\$ 26,358
Straight-line rent and other changes				(2,205)
IFRIC 21 property tax adjustment				2,931
Finance income on finance lease receivable				771
Interest income				87
Interest and finance costs				(12,705)
General and administrative				(2,294)
Change in fair value of financial instruments				12,792
Change in fair value of investment properties				(3,581)
Depreciation of hotel asset				(241)
Deferred income tax expense				(982)
Net income before Class B LP units			\$	20,931
Change in fair value of Class B LP units				2,431
Distributions to Class B LP unitholders				(528)
Net income			\$	22,834

Slate Office REIT

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(in thousands of Canadian dollars)

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25. INCOME TAXES

The REIT has reviewed the specified investment flow-through (“SIFT”) trusts which include publicly-listed income trusts (the “SIFT Rules”) and has assessed their application to the REIT’s assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions for the six months ended June 30, 2023 and 2022, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes payable is required, except for amounts incurred by the U.S. and Irish subsidiaries.

As at June 30, 2023 and 2022, there are no taxes payable for the Canadian entity.

The REIT’s U.S. and Irish subsidiaries are subject to income tax on taxable income from U.S. and Irish operations respectively. The REIT recognizes deferred tax assets and liabilities at prevailing tax rates when such differences are expected to settle. Based on tax laws enacted at the reporting date, the U.S. subsidiary is subject to a combined federal and state rate of 28.51%, and the Irish subsidiaries are subject to a tax rate of 25.0% on rental income, and 33.0% on capital gain.

The following is a reconciliation of deferred tax liabilities during the period:

	Six months ended June 30,	
	2023	2022
Beginning of period	\$ (454)	\$ (2,750)
Deferred income tax expense	443	(4,141)
Foreign exchange	(2)	(72)
End of period	\$ (13)	\$ (6,963)

A reconciliation of the expected income taxes based upon the 2023 statutory rates and the income tax recovery recognized during the six months ended June 30, 2023 and 2022 are as follows:

	Six months ended June 30,	
	2023	2022
Net income (loss) before Class B LP units and taxes	\$ (35,220)	\$ 55,917
Canadian statutory tax rate	26.5%	26.5%
	\$ (9,333)	\$ 14,818
Income not subject to tax	4,527	(10,254)
Valuation allowance	5,648	(47)
Tax rate differential	(689)	316
Current and deferred income tax expense	\$ 153	\$ 4,833

Deferred tax assets are recognized to the extent that realization of the related tax benefit through future taxable profits is probable. Management has determined that it is probable that not all the deferred tax assets will be realized through one or a combination of future reversals of temporary differences and taxable income. A valuation allowance has been recorded for the quarter ended June 30, 2023.

At June 30, 2023, a subsidiary of the REIT had U.S. \$7.1 million of U.S. federal and state losses carried forward available to reduce future years’ taxable income. These federal losses do not expire, but are limited to 80% of the subsidiary’s taxable income in a given year.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

26. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities for the six months ended June 30, 2023 are as follows:

	Cash flows				Non-cash changes				June 30, 2023
	December 31, 2022	Proceeds	Payments	Financing costs and other	Foreign exchange	Fair value changes	Amortization of MTM adjustments and costs		
Derivatives, net	\$ (26,476)	\$ —	\$ 8,788	\$ —	\$ 961	\$ (11,218)	\$ —	\$ (27,945)	
Facilities ¹	286,189	22,026	—	(33)	(1,512)	—	744	307,414	
Mortgages ¹	589,850	722	(5,219)	(294)	(3,126)	—	611	582,544	
Term loan	131,600	—	—	(195)	(521)	—	475	131,359	
Convertible debentures ²	145,614	—	—	218	—	(1,293)	550	145,089	
Class B LP units	22,832	—	—	—	—	(12,367)	—	10,465	
Total	\$ 1,149,609	\$ 22,748	\$ 3,569	\$ (304)	\$ (4,198)	\$ (24,878)	\$ 2,380	\$ 1,148,926	

¹Changes in financial instruments that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 11 for more detail.

²Changes in fair value consist of \$1.3 million as the equity option on the amendment to the 2018 Convertible Debentures.

Changes in liabilities arising from financing activities for the six months ended June 30, 2022 are as follows:

	Cash flows				Non-cash changes				June 30, 2022
	December 31, 2021	Proceeds	Payments	Financing costs and other	Assumptions ¹	Foreign exchange	Fair value changes	Amortization of MTM adjustments and costs	
Derivatives, net	\$ 11,118	\$ —	\$ (4,255)	\$ —	\$ —	\$ —	\$ (26,742)	\$ —	\$ (19,879)
Facilities ¹	297,633	12,754	(9,400)	(26)	—	1,142	—	1,267	303,370
Mortgages ¹	638,918	2,402	(4,894)	(26)	—	2,612	—	627	639,639
Bridge loan	—	127,079	(72,240)	(4,547)	72,240	(707)	—	203	122,028
Convertible debentures	108,991	—	—	(63)	—	—	(2,804)	454	106,578
Class B LP units	26,426	—	—	—	—	—	(1,850)	—	24,576
Total	\$ 1,083,086	\$ 142,235	\$ (90,789)	\$ (4,662)	\$ 72,240	\$ 3,047	\$ (31,396)	\$ 2,551	\$ 1,176,312

¹Changes in financial instruments that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 11 for more detail.

27. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2023:

- i. On July 17, 2023, the REIT paid a monthly distribution of \$0.01 per trust unit. Holders of Class B LP units of the REIT were also paid a distribution of \$0.01 per unit.
- ii. On July 19, 2023, The REIT settled a vendor-take-back loan in connection with the disposition of certain investment properties.
- iii. On July 24, 2023 the financing of 120 South LaSalle was extended to August 31, 2023.