Slate Office REIT

Q4 2019 Quarterly Report

SLATE

Experience gives us the knowledge to execute quickly.


Blue Cross Centre, Moncton, NB

About Slate Office REIT

(TSX: SOT.UN)

Slate Office REIT is an open-ended real estate investment trust. The REIT's portfolio comprises 37 strategic and well positioned real estate assets located primarily across Canada's major population centres and includes two downtown assets in Chicago, Illinois. The REIT is focused on maximizing value through internal organic rental and occupancy growth and strategic acquisitions. Visit slateofficereit.com to learn more.

Slate Office REIT is managed by Slate Asset Management. Slate Asset Management is a leading real estate focused alternative investment platform with over $6 billion in assets under management. Slate is a value-oriented manager and a significant sponsor of all of its private and publicly traded investment vehicles, which are tailored to the unique goals and objectives of its investors. The firm's careful and selective investment approach creates long-term value with an emphasis on capital preservation and outsized returns. Slate is supported by exceptional people, flexible capital and a demonstrated ability to originate and execute on a wide range of compelling investment opportunities. Visit slateam.com to learn more.

Forward-looking Statements

Forward-looking Statements Certain information in this management's discussion and analysis ("MD&A") constitutes "forward-looking statements" within the meaning of applicable securities legislation. These statements reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of Slate Office REIT (the "REIT") including expectations for the current financial year, and include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Statements that contain words such as "could", "should", "would", "can", "anticipate", "expect", "does not expect", "believe", "plan", "budget", "schedule", "estimate", "intend", "project", "will", "may", "might", "continue" and similar expressions or statements relating to matters that are not historical facts constitute forward-looking statements. These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on the REIT's current estimates and assumptions, which are subject to significant risks and uncertainties. The REIT believes that these statements are made based on reasonable assumptions; however, there is no assurance that the events or circumstances reflected in these forward-looking statements will occur or be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to the risks that are more fully discussed under the "Risk Factors" section of the annual information form of the REIT for the year ended December 31, 2019 ("Annual Information Form"). Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: risks incidental to ownership and operation of real estate properties including local real estate conditions; financial risks related to obtaining available equity and debt financing at reasonable costs and interest rate fluctuations; operational risks including timely leasing of vacant space and re-leasing of occupied space on expiration of current leases on terms at current or anticipated rental rates; tenant defaults and bankruptcies; uncertainties of acquisition activities including availability of suitable property acquisitions and integration of acquisitions; competition including development of properties in close proximity to the REIT's properties; loss of key management and employees; potential environmental liabilities; catastrophic events, such as earthquakes and hurricanes; governmental, taxation and other regulatory risks and litigation risks. Forward-looking statements included in this MD&A are made as of February 28, 2020, and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are included in this MD&A, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities laws. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Investors are cautioned against placing undue reliance on forward-looking statements.

Highlights

37

Number of properties

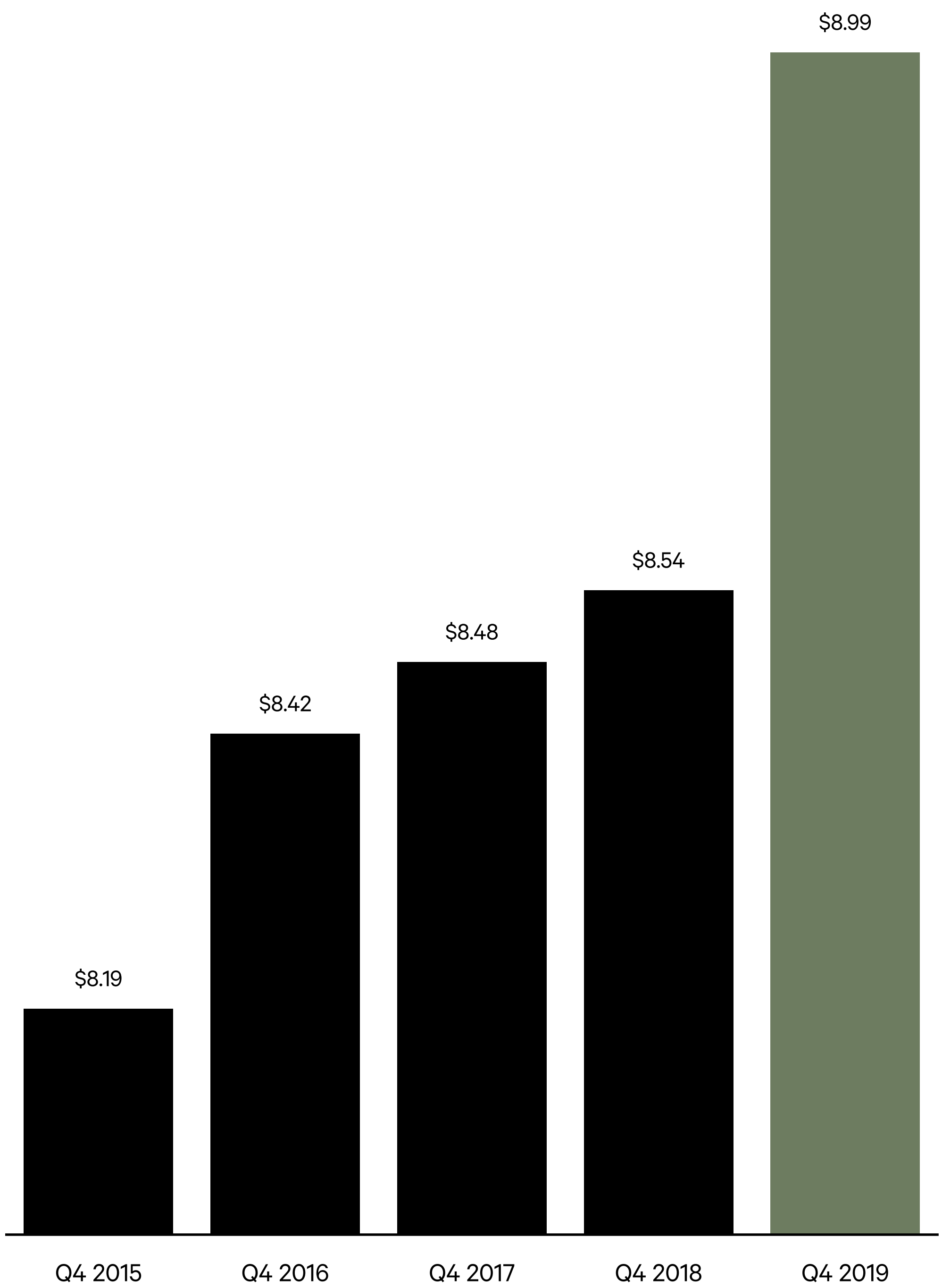
7.1M

Square feet

$1.7B

Total asset value

Net asset value appreciation



Top 5 Tenants

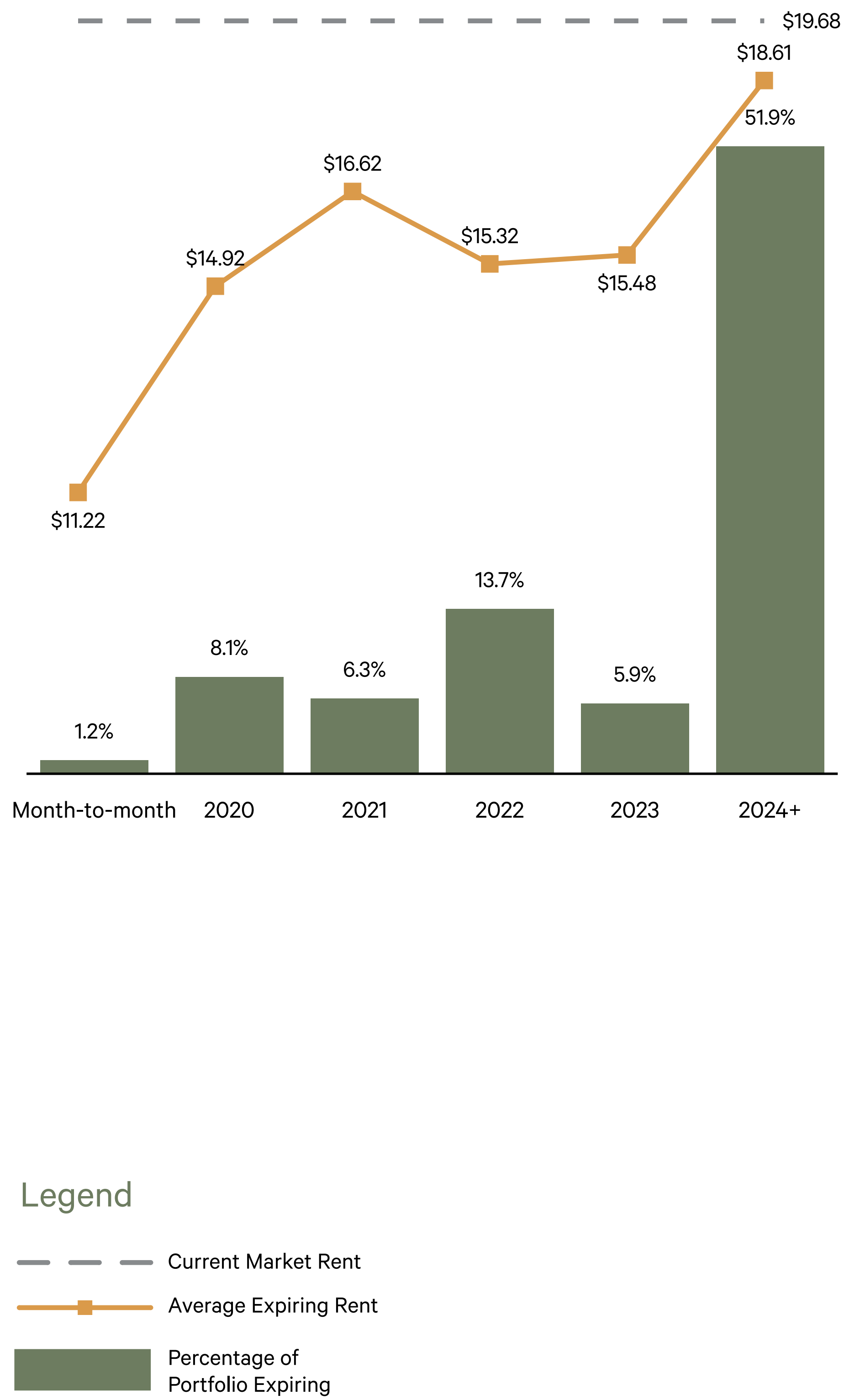
Ranked by Annual Base Rent*

1	6.9%	CIBC
2	6.9%	Bell
3	6.8%	SNC·LAVALIN
4	4.6%	Government of Canada / Gouvernement du Canada — Canada
5	3.4%	THALES

61% of base rent is derived from investment grade or government credit tenants

* As of December 31, 2019

In-Place vs. Market Rents



Slate. Where value investing meets investors with values.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Letter to Unitholders

Dear Fellow Unitholders,

In many ways 2019 was a year of transition for Slate Office REIT. We completed a number of initiatives that bolstered the REITs operating performance and positioned us for growth, both organically and through acquisitions, in 2020 and beyond.

"Slate Office REIT provided unitholders with a total return of 10.7% in 2019"

We strongly believe that these initiatives will enable the REIT to continue in its stated mission of providing unitholders with a compelling total return investment opportunity.

Availability of Capital

In 2019, Slate Office REIT completed five transactions as part of our announced capital recycling program. These transactions generated $171 million of net proceeds which enhance the REIT's liquidity and therefore our ability to acquire new assets, reinvest in our existing portfolio and reduce leverage. Moreover, these transactions along with 4211 Yonge Street were completed at an average leveraged internal rate of return in excess of 22% and a $55 million premium to acquisition cost, proving our ability to generate compelling returns to unitholders through our core functions - the acquisition, management and disposition of real estate assets. This enhanced liquidity will allow us to acquire up to $150 million of new assets, which, at a 7.0% capitalization rate would generate an incremental $10.5 of net operating income on an annual basis.

The availability and use of leverage is critical to any real estate entity. We were very clear at the beginning of 2019 that a reduction in the overall loan to value ratio of Slate Office REIT was an important marker in our future plans. During the year, the REIT's loan to value ratio declined by 440 basis points to 58.7%. We expect this trend to continue naturally through debt amortization and value creation until we reach our objective of maintaining leverage in the 55% range - allowing the REIT to maintain the wherewithal and flexibility to invest both in new assets and in revenue generating initiatives in the existing portfolio.

Furthermore, we took advantage of favourable conditions in the debt market to secure incremental fixed rate financing. At the end of 2019, 91% of the debt obligations of Slate Office REIT are fixed rate in nature, at an average interest rate of 3.9%.

“The REIT completed 719,226 sq. ft. of leasing at an average increase in rent of 19%”

Deal Pipeline
For Slate Office REIT, having a robust pipeline of potential transactions is critical to our success. We, at Slate, have offices throughout North America which allows us access to markets and brokers, providing us with a key competitive advantage. At present, our acquisition team is underwriting over $3 billion of potential office transactions in various markets across North America. While we are not likely to execute on every one of these opportunities, having this breadth allows us to select assets that are the best fit for our strategy and that will provide unitholders with the best returns over the investment horizon.

Last quarter we talked a little bit about the Chicago market. In addition to Chicago, we believe there is a compelling investment thesis to be made for office investment in some of the “sun-belt” markets in the United States. Take Florida as an example. A favourable tax regime, reasonable cost of living, better climate and an additional 900 residents migrating into the state every single day is compelling. Employers also think so, as Florida is one of the largest growth markets for tech and health care jobs in the United States.

Operations
We were very pleased with the operating performance of Slate Office REIT in 2019 and particularly with how we are positioned going forward. During the year, the REIT completed 719,226 square feet of leasing at an average increase in rent of 19%. Overall, the REITs weighted average term to lease maturity is 5.6 years with in-place rents on average 12% below market. This 12% number is critical as it provides for a realizable path for organic, internal growth in net operating income. We estimate this growth to be between 1% and 2% per annum across the whole portfolio.

On a per unit basis, FFO, Core-FFO and AFFO were $0.17, $0.18 and $0.16 per unit, respectively. The REITs AFFO payout ratio for Q4 2019 was 63.6%. With an attractive current annual yield, unitholders are benefiting from a monthly distribution that is both sustainable and attractive relative to our peers.

The REITs IFRS net asset value at December 31, 2019 was $8.99 per unit, an increase of $0.45 or 5.3% year over year. When coupled with the monthly distribution, Slate Office REIT provided unitholders with a total return of 10.7% in 2019.

The Future
We are very excited about the future of Slate Office REIT. In addition to our existing portfolio of high-quality and well diversified assets, we have a robust transaction pipeline and available liquidity to acquire new assets. The hard work that the Slate Office REIT team put in throughout 2019 has us very well positioned to succeed in 2020 and beyond. I thank the team for their efforts and you for your continued support as unitholders.

Sincerely,
Scott Antoniak
Chief Executive Officer
March 2, 2020

Management's Discussion and Analysis

SLATE OFFICE REIT

TSX: SOT.UN

December 31, 2019

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FINANCIAL AND INFORMATIONAL HIGHLIGHTS

(in thousands, except per unit amounts and as otherwise stated)

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Summary of Portfolio Information					
Number of properties	37	38	39	41	41
Gross leasable area ("GLA") [1]	7,113,814	7,336,092	7,492,011	7,582,482	7,582,201
Total assets	$ 1,709,964	$ 1,751,013	$ 1,742,831	$ 1,875,906	$ 1,866,729
Total debt	$ 1,001,947	$ 1,044,297	$ 1,064,353	$ 1,181,621	$ 1,175,826
Occupancy [2]	87.1%	86.3%	87.2%	87.7%	87.6%

	Three months ended				
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Summary of Financial Information					
Revenue	$ 51,329	$ 52,539	$ 54,452	$ 57,200	$ 59,055
Net operating income ("NOI") [3]	$ 24,174	$ 25,435	$ 26,384	$ 27,043	$ 27,358
Same-property NOI change [3,4]	(0.3)%	(1.7)%	1.6%	4.9%	14.5%
Net income	$ 19,813	$ 27,195	$ 9,514	$ 5,919	$ 27,944
Funds from operations ("FFO") [3]	$ 12,600	$ 14,280	$ 13,103	$ 13,543	$ 13,758
Core-FFO [3]	$ 13,236	$ 14,906	$ 13,719	$ 14,150	$ 14,356
Adjusted FFO ("AFFO") [3]	$ 11,498	$ 12,420	$ 12,193	$ 11,766	$ 11,101
IFRS net asset value ("NAV") [3]	$ 659,057	$ 649,423	$ 624,928	$ 634,447	$ 642,878
Per Unit Financial Information					
Weighted average diluted number of trust units (000s)	73,278	73,283	74,093	75,247	75,261
Diluted units outstanding (000s)	73,291	73,277	73,293	74,746	75,300
IFRS NAV per unit [3]	$ 8.99	$ 8.86	$ 8.53	$ 8.49	$ 8.54
FFO per unit [3]	$ 0.17	$ 0.19	$ 0.18	$ 0.18	$ 0.18
Core-FFO per unit [3]	$ 0.18	$ 0.20	$ 0.19	$ 0.19	$ 0.19
AFFO per unit [3]	$ 0.16	$ 0.17	$ 0.16	$ 0.16	$ 0.15
Distributions per unit [3]	$ 0.1000	$ 0.1000	$ 0.1000	$ 0.1583	$ 0.1875
FFO pay-out ratio [3]	58.0 %	51.2 %	56.2%	87.8%	102.5%
Core-FFO payout ratio [3]	55.2 %	49.0 %	53.7%	84.0%	98.2%
AFFO pay-out ratio [3]	63.6 %	58.8 %	60.4%	101.1%	127.0%

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Financial Data					
Loan-to-value ("LTV") ratio	58.7%	59.7%	61.2%	63.1%	63.1%
Weighted average debt interest rate	3.9%	3.9%	4.0%	4.1%	4.3%
Interest coverage ratio (times) [3]	2.2x	2.1x	2.2x	2.0x	2.2x
Net debt to adjusted EBITDA ratio (times) [3]	10.1x	10.2x	10.0x	11.6x	12.5x

[1]Gross leasable area is presented at 100% of the building's GLA, without taking ownership percentage into consideration.
[2]Occupancy is presented at 100% of the building's GLA, without taking ownership percentage into consideration.
[3]The calculation of these non-IFRS financial measures and a reconciliation to relevant IFRS measures are included in Part III and IV.
[4]The percentage change in same-property NOI compares to the NOI attributable to the same-property portfolio for the applicable quarter to its comparative quarter in the prior year.

PART I - OVERVIEW

INTRODUCTION

This MD&A of the financial position and results of operations of the REIT is intended to provide readers with an assessment of performance and summarize the financial position and results of operations of the REIT for the year ended December 31, 2019 . The presentation of the REIT's financial results, including the related comparative information, contained in this MD&A are based on the REIT's consolidated financial statements as at December 31, 2019 and for the years ended December 31, 2019 and 2018 (the "consolidated financial statements"). This MD&A should be read in conjunction with those consolidated financial statements. All dollar amounts are in thousands of Canadian dollars, unless otherwise noted.

The information contained in this MD&A is based on information available to the REIT and is dated as of February 28, 2020, which is also the date the Board of Trustees, upon the recommendation of its Audit Committee, approved the contents of this MD&A.

SLATE OFFICE REIT PROFILE

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 March 1, 2019, as it may be further amended, supplemented or amended and restated from time to time (the "Declaration of Trust"). On December 31, 2019, the REIT owned interests in 37 properties comprised of 34 office properties and 3 non-office properties totaling 7.0 million and 0.1 million square feet, respectively, of GLA. The properties are located in geographically diversified markets in Canada and the United States of America (the "U.S.").

The REIT is externally managed and operated by Slate Management ULC ("SMULC"), an indirect subsidiary of Slate Asset Management (Canada) L.P., (collectively, "Slate" or the "Manager"). Slate has an experienced and dedicated team of real estate professionals with a proven track record of success in real estate investment and management. Management's interests are aligned with the unitholders of the REIT through its sponsorship and as a significant unitholder of the REIT. Slate is the largest unitholder in the REIT, with a 9.5% interest at December 31, 2019 and accordingly, is highly motivated to increase the value of the REIT on a per unit basis and provide reliable returns to the REIT's unitholders. Slate assumed management responsibilities for the REIT in November 2014 with the vision of creating a pure-play office REIT focused on real estate assets with strong fundamentals. This vision was premised on the belief that the office market was changing and a pure-play office REIT would provide a vehicle to capitalize on future opportunities.

Additional information on the REIT, including its Annual Information Form, is available on SEDAR at www.sedar.com and on the REIT's website at www.slateofficereit.com.

NON-IFRS MEASURES

We disclose a number of financial measures in this MD&A that are not measures used under International Financial Reporting Standards ("IFRS"), including net operating income, same property net operating income, funds from operations, core funds from operations, adjusted funds from operations, adjusted funds from operations pay-out ratio, IFRS net asset value, adjusted EBITDA, net debt to adjusted EBITDA ratio, interest coverage ratio and debt service coverage ratio, in addition to certain of these measures on a per unit basis. We utilize these measures for a variety of reasons, including measuring performance, managing the business, capital allocation and the assessment of risk. Descriptions of why these non-IFRS measures are useful to investors and how management uses each measure are included in this MD&A. We believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our business in a manner similar to management. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS measures to the most directly comparable financial measures calculated and presented in accordance with IFRS are included within Part III and IV of this MD&A.

STRATEGY

Our strategy is to own an institutional quality portfolio of assets in major office markets, where millions of people come to work every day. We believe that in seeking out assets that can be purchased at a significant discount to peak and replacement value while retaining stable operating fundamentals allow the potential for superior risk-adjusted returns. We believe that approximately two-thirds of office inventory is often overlooked by large institutional investors for various reasons. The REIT's portfolio of office properties provides diversification, an ability to generate cash flow to provide distributions to unitholders, while also providing the opportunity to grow net asset value on a per unit basis. We have taken note that these characteristics exist in numerous markets throughout Canada and the U.S. and have developed a robust pipeline of assets that meet our investment criteria.

While our primary goals are to grow net asset value on a per unit basis and provide distributions to unitholders, we are focused on the following areas to achieve the REIT's objectives:

- Proactive property and asset management that results in NOI growth while minimizing property and portfolio vacancy exposure;
- Prudent and disciplined management of capital outlays that will maintain and increase the attractiveness of the REIT's portfolio and achieve increased rents;

- Continue to increase the REIT’s financial strength and flexibility through robust balance sheet management;
- Maintain a conservative AFFO pay-out ratio taking into account the REIT's other available opportunities and capital allocation requirements; and
- Continue to selectively dispose of non-strategic assets and reallocate proceeds toward higher yielding assets.

Overall, we believe that the REIT is positioned to grow in the current economic environment and has the ability capitalize on opportunistic transactions.

TOTAL RETURN TO UNITHOLDERS

As described above, our strategy is to grow net asset value on a per unit basis and provide distributions to unitholders. The REIT believes this strategy aligns to the perspective of the REIT's unitholders, as the combination of (i) the change in net asset value on a per unit basis and (ii) distributions received, represent the value provided to them by the REIT.

Over the past number of years, the REIT has consistently provided a meaningful total return to unitholders. In 2019 the REIT created $0.91 of value per unit for unitholders. This represents a 10.7% total annual return and has been provided in two ways, distributions and NAV appreciation. First the REIT has returned $0.46 per unit to unitholders through the REIT's monthly distributions. This distributions represents a 5.4% annual return to investors through distributions alone. The second means of generating value for unitholders is in the form of IFRS NAV per unit appreciation. In 2019 the REIT increased IFRS NAV per unit by $0.45 for a return of 5.3% which has been retained in the REIT and will be used to capitalize on accretive new investment opportunities. It is the objective of management to continue to provide strong total returns to unitholders of the REIT through growing the value of the REIT's portfolio and finding new opportunities for value creation.

In 2018 and 2017, the REIT created $0.82 and $0.81 of value per unit, respectively. Of this a total of $0.75 was returned to unitholders in the form of a distribution and $0.07 (2018) and $0.06 (2017) was retained in the REIT, which served to increase IFRS net asset value. Importantly, this value creation in each of 2018 and 2017 is equivalent to a 9.6% total return on a per unit basis.

A large portion of this total return to unitholders is provided by way of distributions. In 2019, 77.0% of the distributions received by unitholders were treated as a return of capital and 23.0% were treated as capital gains due to the impact of capital gains and depreciation recapture on asset sales and modification of the REIT's distribution to $0.40 annually. For 2018 and 2017, 100.0% of the distributions received by unitholders were treated as a return of capital for taxation purposes compared to 90.2% in 2016, resulting in a meaningful deferral of the taxation of returns being provided.

On April 12, 2019 as part of its ongoing capital recycling program, the REIT disposed of a 25% interest in six office properties in the Greater Toronto Area (the “GTA Office Portfolio”) to an investment fund advised by Wafra Inc. ("Wafra"), a sophisticated global private equity and alternative asset investor, at a valuation of $527.2 million for a 100% interest in the assets. This sale validates a significant portion of our NAV through a third party price. See "Significant Highlights" for further details.

The following reconciliation shows the change in IFRS net asset value of the REIT on a total and per unit basis for the years ended December 31, 2019, 2018 and 2017:

	Year ended December 31, 2019		Year ended December 31, 2018		Year ended December 31, 2017	
	IFRS Net Asset Value [1]	Per Unit	IFRS Net Asset Value [1]	Per Unit	IFRS Net Asset Value [1]	Per Unit
Beginning of period	$ 642,878	$ 8.54	$ 528,051	$ 8.48	$ 387,862	$ 8.42
Core-FFO	56,011	0.76	57,266	0.79	46,684	0.81
Property fair value changes [2]	32,738	0.44	19,659	0.27	15,126	0.26
Other fair value changes	(2,710)	(0.04)	(3,350)	(0.05)	1,930	0.03
Depreciation on hotel	(1,000)	(0.01)	(947)	(0.01)	(799)	(0.01)
Foreign exchange	(2,756)	(0.05)	6,241	0.09	—	—
Unit issuances	—	—	98,586	(0.14)	127,760	(0.12)
Distributions	(36,133)	(0.46)	(54,728)	(0.75)	(43,607)	(0.75)
DRIP units	650	(0.01)	1,459	(0.02)	1,014	(0.01)
Unit repurchases	(12,974)	0.08	(1)	—	—	—
Disposition costs	(12,142)	(0.16)	(2,247)	(0.03)	(146)	—
Other	(5,505)	(0.10)	(7,111)	(0.09)	(7,773)	(0.15)
End of period	**$ 659,057**	**$ 8.99**	**$ 642,878**	**$ 8.54**	**$ 528,051**	**$ 8.48**

[1]Refer to the IFRS Net Asset Value section of this MD&A for the calculation of IFRS net asset value on a total and per unit basis to the REIT's consolidated financial statements.
[2]Includes the impact of IFRIC 21 property tax adjustment.

The following table shows the per unit value created or provided to unitholders in addition to the related total return for the following periods:

	Year ended December 31, 2019			Year ended December 31, 2018			Year ended December 31, 2017		
	Percentage Return		Per Unit	Percentage Return		Per Unit	Percentage Return		Per Unit
IFRS net asset value change	5.3%	$	0.45	0.8%	$	0.07	0.7%	$	0.06
Distributions	5.4%		0.46	8.8%		0.75	8.9%		0.75
Total	**10.7%**	**$**	**0.91**	**9.6%**	**$**	**0.82**	**9.6%**	**$**	**0.81**

Net asset value has been determined using the REIT's consolidated financial statements prepared in accordance with IFRS. It is important to note that the consolidated financial statements of the REIT may not be fully representative of the net asset value of the REIT. Specifically, the fair value of 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 properties taken in aggregate may differ from the fair value of properties measured individually in the REIT's consolidated statements of financial position. The REIT's IFRS net asset value has increased from December 31, 2018 from increases in the fair value of properties of $32.7 million offset by $12.1 million of disposition costs incurred on asset dispositions and a non-cash loss on the fair value of financial instruments of $2.7 million.

IFRS NET ASSET VALUE

IFRS net asset value is a non-IFRS measure and is defined by the REIT as the aggregate of the carrying value of the REIT's equity, Class B LP units and deferred units. Management believes that this measure reflects the residual value of the REIT to equity holders and is used by management on both an aggregate and per unit basis to evaluate the net asset value attributable to unitholders and changes thereon based on the execution of the REIT's strategy.

The following is the calculation of IFRS net asset value on a total and per unit basis at December 31, 2019 and December 31, 2018 to the REIT's consolidated financial statements:

		December 31, 2019		December 31, 2018
Equity	$	627,305	$	611,447
Class B LP units		30,918		31,552
Deferred unit liability		742		636
Deferred tax liability (asset)		92		(757)
IFRS net asset value	**$**	**659,057**	**$**	**642,878**
Diluted number of units outstanding [1]		73,291		75,300
IFRS net asset value per unit	**$**	**8.99**	**$**	**8.54**

[1]Represents the fully diluted number of units outstanding and includes outstanding REIT units, DUP units and Class B LP units.

The current price for the REIT's units reflects a substantial discount to the REIT's IFRS net asset value per unit of $8.99 at December 31, 2019. Management believes that there is a substantive basis to support a net asset value of $8.99 per unit, including:

- Wafra's investment: The price of $527.2 million received from a large sophisticated global investor for six properties in the GTA provides validation for the net asset value of 28% of the REIT's portfolio or 22.5% of the REIT's portfolio after the disposition. Further, the REIT received appraisals for each property that were consistent with the REIT's transaction price.
- Acquisition in the United States: The REIT's acquisition of its two U.S. assets in Chicago, Illinois each occurred in 2018 and accordingly represent recent market trading prices. Management continues to observe multiple comparable sales in the Chicago market at pricing parameters in excess of the REIT's acquisition metrics.

The following is an illustration of the construction of the REIT's IFRS net asset value:

(millions, except per unit amount)		December 31, 2019
GTA Office Portfolio (75% ownership)	$	416.3
Recent U.S. acquisitions		326.9
Other properties		935.1
Debt and working capital		(1,019.2)
IFRS net asset value	**$**	**659.1**
IFRS net asset value per unit	**$**	**8.99**

The following is an illustration of the REIT's valuation used to determine IFRS net asset value at December 31, 2019:

(thousands, except per unit amount)	Atlantic	Ontario	Western	U.S.	December 31, 2019
Trailing twelve month ("TTM") NOI	$ 36,584	$ 41,725	$ 6,310	$ 18,417	$ 103,036
Less: Contribution from disposition properties	(37)	(4,504)	(971)	—	(5,512)
TTM NOI on in-place portfolio	36,547	37,221	5,339	18,417	97,524
Add: Portfolio NOI growth assumption					1,500
TTM NOI on in-place portfolio plus growth assumption					99,024
Capitalization rate					6.19%
Property fair value, excluding vacant and redevelopment					1,600,476
Property fair value of vacant and redevelopment properties					21,609
Data centre					56,145
Working capital					(17,226)
Debt					(1,001,947)
IFRS net asset value					**$ 659,057**
Diluted number of units outstanding					73,291
IFRS net asset value per unit					**$ 8.99**

Through the twelve months preceding December 31, 2019 the REIT disposed of four properties and a 25% interest in six properties which contributed $5.5 million in NOI for same period. The REIT has assumed NOI growth of approximately 1.5% over the next twelve months which implies a capitalization rate of 6.19% when compared to the REIT's IFRS fair value at December 31, 2019 including non-stabilized and redevelopment properties. This further demonstrates the discount between the prevailing trading price and IFRS net asset value which has created a compelling investment opportunity with respect to the units of the REIT.

A reconciliation of the change in IFRS net asset value is included in the Total Return section of this MD&A.

Unit Repurchases

Throughout 2019, management took advantage of the gap between the REIT's prevailing trading price and net asset value. Through its normal course issuer bid ("NCIB") the REIT repurchased 2,132,677 units at a total cost of $13.0 million for the year ended December 31, 2019. In 2020 management intends to focus on the growth of the REIT and will look to deploy capital into accretive investments including asset acquisitions and investment in the current portfolio of assets.

RISKS AND UNCERTAINTIES

The REIT's business is subject to a number of risks and uncertainties which are described in its most recently filed Annual Information Form for the year ended December 31, 2019, available on SEDAR at www.sedar.com. Additional risks and uncertainties not presently known to the REIT or that the REIT currently considers immaterial also may impair its business and operations and cause the price of the REIT's units to decline in value. If any of the noted risks actually occur, the REIT's business may be harmed and the financial condition and results of operations may suffer significantly. In that event, the trading price of the units could decline, and unitholders may lose all or part of their investment.

SIGNIFICANT HIGHLIGHTS

The following are the significant highlights for the year ended December 31, 2019:

Leasing

- In 2019 the REIT completed 719,226 square feet of leasing at an average spread of 18.8%. 465,171 square feet of renewals were completed at 17.5% above expiring rents and 254,055 square feet of new leasing was completed at 20.7% above in-place rents.
- In the fourth quarter of 2019, the REIT completed a total of 190,894 square feet of leasing, comprised of 149,482 square feet of renewals and 41,412 square feet of new lease deals.
- The overall rental rate spread on leasing in the fourth quarter of 2019 was 13.4%. Renewals were 16.3% above expiring rents while new deals were 5.9% above in-place building rent. The weighted average lease term was 5.6 years at December 31, 2019 which is consistent with September 30, 2019.
- Since December 31, 2019, the REIT has leased approximately 40,000 square feet of previously vacant space to a government tenant at 2599 Speakman Drive in Mississauga for a term of 10 years.
- The REIT has also leased approximately 38,000 square feet of previously vacant space at 120 South LaSalle for a term of 10 years, subsequent to December 31, 2019.

Availability of capital

- The REIT has executed $311 million of dispositions since June 2018 at an average 17% premium to purchase price plus closing costs and a levered internal rate of return of 15%, creating significant value for unitholders. Refer to Part II of this MD&A for a summary of the 2019 transactions.
- The 2019 transactions provided $170.8 million of net proceeds which has been used to improve leverage and provides capacity to reinvest into new opportunities which are expected to be accretive for unitholders, growing the REIT's portfolio in 2020 and beyond. With these transactions the REIT has concluded its capital recycling but continues to be opportunistic in redeploying capital into higher yielding assets to drive positive returns.

Financial

- The REIT's LTV has improved to 58.7% at December 31, 2019 from 63.1% at December 31, 2018, an improvement of 4.4% which provides additional balance sheet flexibility for future growth.
- The REIT has increased IFRS NAV to $8.99 per unit at December 31, 2019 from $8.54 per unit at December 31, 2018 which represents a 5.3% annual return in addition to the REIT's distributions of $0.46 per unit year to date. This value creation demonstrates the effectiveness of the REIT's capital allocation strategy providing strong total return to its unitholders through value investing and proactive asset management.
- Net income was $19.8 million for the fourth quarter of 2019.
- FFO and Core-FFO per unit in the fourth quarter of 2019 were $0.17 and $0.18, respectively.
- FFO and Core-FFO in the fourth quarter of 2019 were $12.6 million and $13.2 million, respectively.
- AFFO in the fourth quarter of 2019 was $11.5 million or $0.16 per unit.

PART II - LEASING AND PROPERTY PORTFOLIO

LEASING

The REIT continues to renew and extend leases to drive occupancy and value. In aggregate, 190,894 square feet of leasing was completed, comprised of 149,482 square feet of lease renewals and 41,412 square feet of new lease deals in the fourth quarter of 2019. Leasing spreads in the quarter were 13.4% overall with lease renewals at 16.3% above expiring rents and new deals at 5.9% above building in place rent. Occupancy at December 31, 2019 increased 77 basis points to 87.1% compared to 86.3% at September 30, 2019, while the weighted average lease term is consistent at 5.6 years. The increase in occupancy is due to numerous lease commencements throughout the REIT's portfolio and the disposition of a 68.4% occupied building at a 21% premium to purchase price. Additionally, the REIT has completed new lease deals that are not reflected in the current in place occupancy as the leases commence subsequent to December 31, 2019.

OCCUPANCY

The following is a continuity of the change in the in place occupancy of the REIT's properties:

	Three months ended December 31, 2019			Three months ended September 30, 2019		
	GLA	Occupancy (square feet)	Occupancy (%)	GLA	Occupancy (square feet)	Occupancy (%)
Occupancy, beginning of period	7,336,092	6,333,239	86.3%	7,492,011	6,535,324	87.2%
Dispositions	(225,264)	(154,043)	68.4%	(156,623)	(148,370)	94.7%
Remeasurements	2,986	—	—	704	(482)	—
Change in same property occupancy	—	14,287	—	—	(53,233)	—
Occupancy, end of period	**7,113,814**	**6,193,483**	**87.1%**	**7,336,092**	**6,333,239**	**86.3%**
Redevelopment properties	119,145	17,997	15.1%	119,145	17,997	15.1%
Occupancy, excluding redevelopments	**6,994,669**	**6,175,486**	**88.3%**	**7,216,947**	**6,315,242**	**87.5%**

The REIT's objective is to maintain high levels of occupancy throughout the portfolio. At December 31, 2019 the REIT's occupancy including redevelopment office properties was 87.1%, an increase of 77 basis points from September 30, 2019 due to the disposition of a 68.4% occupied building in November 2019.

LEASE MATURITIES

The REIT generally enters into leases with an initial term to maturity between 2 and 10 years. The weighted average remaining term to maturity at December 31, 2019 was 5.6 years, not including tenants on month-to-month leases. Management considers the current average duration of rents to be indicative of the stability of the portfolio's cash flow generation abilities and diversified maturity risk.

The following table summarizes the composition of the remaining term to maturity of the REIT's leases by region:

	December 31, 2019			September 30, 2019		
	Weighted average years to maturity [1]	GLA	% of GLA	Weighted average years to maturity [1]	GLA	% of GLA
Atlantic	5.3	2,228,314	31.3%	5.2	2,232,021	30.4%
Ontario	5.1	2,611,467	36.7%	5.1	2,742,100	37.4%
Western	7.4	474,266	6.7%	7.7	467,917	6.4%
U.S.	7.0	879,436	12.4%	7.0	891,201	12.1%
	5.6	6,193,483	87.1%	5.6	6,333,239	86.3%
Vacant		920,331	12.9%		1,002,853	13.7%
Total		**7,113,814**	**100.0%**		**7,336,092**	**100.0%**

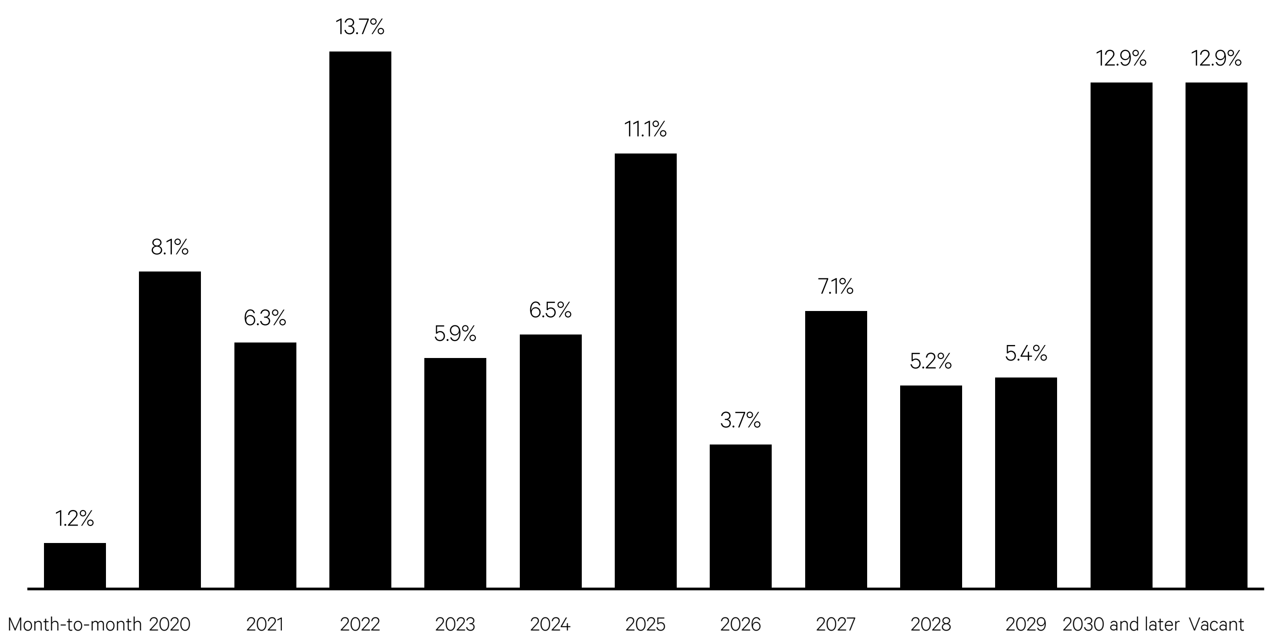
[1]The calculation of weighted average term to maturity does not include month-to-month tenants.

The following is a profile of the maturities of the REIT's leases excluding the impact of tenant extension options at December 31, 2019:

	GLA	% of portfolio	Weighted average in place rent (per square foot) [1]
Month-to-month	81,952	1.2% $	11.22
2020	577,876	8.1%	14.92
2021	449,349	6.3%	16.62
2022	977,514	13.7%	15.32
2023	421,818	5.9%	15.48
2024	463,887	6.5%	20.47
2025	792,093	11.1%	15.03
2026	256,170	3.7%	16.74
2027	503,275	7.1%	17.31
2028	366,842	5.2%	17.14
2029	382,817	5.4%	16.79
2030 and later	919,890	12.9%	23.34
Vacant	920,331	12.9%	
Total / weighted average	**7,113,814**	**100.0% $**	**17.29**

[1]The weighted average in place occupancy is based on in place rents for active expiries.

Lease Maturities



Throughout 2020, 8.1% of the portfolio GLA is maturing and the REIT is focused on these expiries as well as a number of significant proposals in the markets in which it operates. The in place rent of the 2020 maturities is approximately 24% below market rent, providing significant upside opportunity for the REIT upon renewing and re-leasing this space. The REIT has completed approximately 123,000 square feet of new leasing which commences occupancy in 2020 at an average spread of 8.5% to in place rents.

Overall, management expects to continue a trend of positive rental spreads, increased occupancy, improved tenant quality and longer weighted-average lease term. The goal is to continue to drive organic growth in the portfolio and focus on creating meaningful per unit net asset value accretion.

IN PLACE AND MARKET RENTS

During the three months ended December 31, 2019 the REIT completed 190,894 square feet of leasing comprised of both new deals and renewals.

The following table summarizes the REIT's leasing activity during the three months ended December 31, 2019:

	GLA	Number of leases	Weighted average expiring rent (per square foot)	Weighted average new rent (per square foot)	Increase in rent
Renewed leases	149,482	18	$ 13.82	$ 16.07	16.3%
New leases	41,412	9	19.45	20.59	5.9%
Total / weighted average	190,894	27	$ 15.04	$ 17.05	13.4%
Less: leases not renewed / vacated	(58,634)	(21)			
Net total	**132,260**	**6**			

During the quarter, on a weighted average basis, renewed and new leases were completed at a 16.3% and 5.9% increase to expiring rents or building in place rents, respectively.

The weighted-average in-place rent of the REIT's office portfolio at December 31, 2019 is $17.29 per square foot. Management estimates the current weighted average market rate to be $19.68 per square foot for the markets in which the REIT's office properties are located, 12.1% or $2.39 per square foot higher than the REIT's current in place rental rates. This estimate of current market rent is based on management's estimates, third party valuations and leasing data obtained from actual new and renewed leasing activity. While there are no assurances that maturing leases will be renewed at rates in excess of current in place rents, or at all, management compares in place to market rents to determine the future revenue capacity of the REIT's current portfolio and roll-over revenue risk.

The following is a summary of the REIT's new and renewal leasing activity for the past five quarters:

	Renewals			New leases			**Total**	
Quarter	GLA	Number of leases	Rental spread	GLA	Number of leases	Rental spread	**GLA**	**Number of leases**
Q1 2019	157,788	27	10.4%	96,621	19	27.0%	**254,409**	**46**
Q2 2019	85,774	14	27.1%	63,452	15	17.2%	**149,226**	**29**
Q3 2019	72,127	21	18.6%	52,570	15	36.2%	**124,697**	**36**
Q4 2019	149,482	18	16.3%	41,412	9	5.9%	**190,894**	**27**
Total	465,171	80	17.5%	254,055	58	20.7%	**719,226**	**138**

TENANT PROFILE

Management's strategy includes ensuring that the REIT's tenants are diversified and of high credit quality. A higher quality tenant base increases the stability of the REIT's income through economic cycles, which directly relates to their continued ability to meet their lease obligations to the REIT and continue to retain their workforce, which directly impacts their need for office space.

The following are the REIT's top 10 largest tenants by GLA at December 31, 2019, which together represent 41.0% of base rental receipts:

Tenant	Credit rating [1]	GLA	Number of properties	% of base rental receipts	Weighted average lease term (years)
SNC-Lavalin Inc. [2]	BBB (low)	433,800	3	6.8%	5.0
Government of Canada	AAA	342,987	7	4.6%	3.4
Canadian Imperial Bank of Commerce	AA	339,679	4	6.9%	8.8
Province of New Brunswick	A+	314,435	5	3.3%	3.6
Thales Rail Signalling Solutions Inc.	A2	248,262	1	3.4%	5.1
Medavie Blue Cross	Unrated	199,358	4	3.1%	8.4
Bell Canada Enterprises	BBB	167,418	4	6.9%	7.1
Kraft Canada Inc.	BBB-	156,426	1	2.3%	6.4
Johnson Insurance [3]	A	154,018	1	2.1%	10.9
Province of Nova Scotia	AA-	118,604	1	1.6%	6.7
Total		**2,474,987**		**41.0%**	**6.1**

[1] Source: DBRS, Moody's and S&P.
[2] Includes 338,983 square feet of SNC-Lavalin Nuclear Inc.
[3] Johnson Insurance, part of RSA Canada, is a sub-tenant of Bell Canada and will take occupancy in the Johnson building on December 1, 2020.

The REIT's total exposure to the Government of Canada and provinces is approximately 933,000 square feet or 11.7% of base rent with a weighted average lease term of 5.4 years.

PROPERTY PROFILE

The REIT's property portfolio at December 31, 2019, comprises interests in 37 properties, comprised of 34 office properties and 3 non-office properties. The portfolio comprises 7.1 million square feet of GLA. Of the REIT's property portfolio, one of its office properties is currently classified as redevelopment. For a listing of all of the REIT's properties see PART VI of this MD&A.

Acquisition pipeline

The REIT currently has a significant pipeline of active opportunities in the cities in which we operate and in markets that are new to the REIT. While the number of opportunities is high, we will continue to be disciplined in our underwriting and pricing. We will not sacrifice long-term value creation for short-term income and accordingly do not pursue acquisitions that do not meet appropriate return expectations.

In pursuing acquisition properties, we have a bias towards opportunities with the following two characteristics:

- *Meaningful discount to replacement cost*: A property purchased well below replacement cost provides opportunity for investment in leasing or asset repositioning, with favourable economic returns to the REIT in excess of new build. We also believe that price per square foot, if at a meaningful discount to replacement cost, provides prudent downside protection while retaining significant opportunity to attract tenants on a competitive basis, especially when competing against new builds.
- *Opportunity for value creation*: We are focused on opportunities that will create value for unitholders. We are less focused on immediate accretion (i.e. the next quarter) and more focused on finding acquisitions that allow for significant equity creation over the medium term. Properties are attractive to us if they are located in a stable market, in good physical condition and have opportunities to drive value by moving existing rents to market rates and/or increase occupancy through focused leasing or repositioning.

Non-core office properties will often satisfy these two characteristics. In contrast to core assets, which often trade in excess of replacement cost with optimized tenanting, we believe that the risk-return profile of non-core assets remains attractive, and we will continue to seek the best opportunities.

Dispositions

In 2019 the REIT disposed of a number of assets that were either not part of its core strategy, fully valued or opportunistic in nature and looks to redeploy this capital in accretive new opportunities in 2020. The REIT has completed $311 million of dispositions since June 2018 at an average 17% premium to purchase price plus closing costs and a levered internal rate of return of 15%. Below are the dispositions that the REIT completed in 2019:

- On April 12, 2019, the REIT disposed of a 25% interest in six office properties located in the Greater Toronto Area. The sale price for the 25% interest was $131.8 million, implying a 100% value of $527.2 million or $269 per square foot.
- On June 27, 2019, the REIT disposed of 895 Waverley Street and 1000 Waverley Street in Winnipeg, Manitoba (the "Waverley's") for $21.3 million in aggregate which represents an 8.1% premium to the REIT's IFRS value at December 31, 2018.
- On July 4, 2019, the REIT disposed of 225 Duncan Mill Road, in Toronto, ON for $27.3 million. This represents a 19.5% or $4.5 million premium to the REIT's purchase price in March 2018.

- On November 5, 2019, the REIT disposed of 5500 North Service Road in Burlington, ON for $52.2 million which represents a 21% premium on the REIT's purchase price.
- On January 22, 2020, the REIT disposed 4211 Yonge Street in Toronto, ON for $63.0 million and used its net proceeds to repay debt. This represents a 21% or $9.1 million premium to the REIT's purchase price. The proceeds of these dispositions were or will be used to repay debt and are expected to be redeployed into accretive opportunities for the REIT's unitholders in 2020.

Redevelopment properties

Maritime Centre

Although not classified as a redevelopment property, the REIT has budgeted approximately $16 million of return generating capital to significantly enhance Maritime Centre in downtown Halifax, Nova Scotia (www.maritimecentre.ca) which is expected to drive occupancy, rental rates and create a meaningful total return. The project will also include the conversion of the existing food court level to parking which is in high demand in Halifax. This conversion will add more than 100 parking stalls to Maritime Centre. Costs incurred are approximately $6.5 million and the balance is expected to be incurred throughout 2020 and early 2021. Approximately $6 million of costs can be amortized and recovered through the tenant leases while the balance is non-recoverable capital aimed at driving incremental returns. This property is currently 87.8% occupied with an expectation of providing higher rent on new and renewed leases. Maritime Centre has large efficient floor plates of 25,000 square feet split into two wings, north of 15,000 square feet and south of 10,000 square feet, with abundant exposure to natural light. The addition of a new glass façade will see the lobby brought down to the Barrington Street level which will host a 6,000 square foot restaurant. The expected return from this redevelopment is compelling and is a great example of the REIT re-deploying capital into its existing assets to drive out-sized returns.

2599 Speakman Drive

The REIT has classified 2599 Speakman Drive as a redevelopment property at December 31, 2019. 2599 Speakman Drive is one of five properties located in the Sheridan Business Park in Mississauga, ON in which the REIT owns a 100% interest. The GLA of 2599 Speakman Drive is 119,145 square feet. In the second quarter of 2019, the REIT entered into a lease agreement for 18,000 square feet at this property commencing in the fourth quarter of 2019 for a term of 5 years. In the first quarter of 2020 the REIT entered into a lease agreement for 38,000 square feet at this property with a government tenant for a term of 10 years. The REIT is continuing to engage in discussions with prospective tenants to lease the remainder of 2599 Speakman Drive.

IFRS fair value

The REIT's property portfolio at December 31, 2019 had an estimated IFRS fair value of $1.6 billion, with a weighted average going-in capitalization rate of 6.25%. It is important to highlight that this capitalization rate reflects the current economics of the REIT's properties, including its 87.1% in place occupancy which includes its redevelopment assets and current weighted average in place rents of $17.29 per square foot, which management estimates to be on average $2.39 per square foot below estimated market rents. The REIT has estimated the value of $1,501.5 million of its property using a direct capitalization or discounted cash flow methodology including those where third party appraisals have been obtained. The weighted average capitalization rate for these properties is 6.25% (December 31, 2018 - 6.18%). The capitalization rate on the REIT's properties is based on management's estimate of twelve-month forward net operating income or in certain cases stabilized net operating income. The remaining properties of the REIT are values using contracted sale prices. Various properties within the REIT's portfolio are either vacant, or significantly below normalized occupancy, and certain of which are expected to be so for all or a portion of the next twelve-month period.

Overall, the average estimated IFRS fair value per square foot of the REIT's portfolio excluding the Data Centre and Delta Brunswick Hotel is $244 with an average cost to the REIT of $232 per square foot. Management believes that this average value per square foot is significantly lower than replacement cost, which management estimates to be on average between $300 and $400 per square foot. In certain markets, such as St. John's, NL, the cost to construct is significantly higher. Furthermore, the difference between the IFRS fair value per square foot of $244 compared to an average cost to the REIT of $232 per square foot represents approximately $84 million of value creation from ownership, based on the REIT's current portfolio.

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

	December 31, 2019		December 31, 2018	
	Discount rate	Terminal capitalization rate	Discount rate	Terminal capitalization rate
Minimum	6.25%	6.00%	6.25%	6.25%
Maximum	8.75%	8.25%	11.00%	9.00%
Weighted average	7.27%	6.69%	7.36%	6.71%

The fair value of 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 properties taken in aggregate may differ from the fair value of properties measured individually in the REIT's consolidated statements of financial position. The maximum discount rate in the REIT's portfolio decreased to 8.75% at December 31, 2019 compared to 11.00% at December 31, 2018 as a result of third party appraisals at certain of the REIT's properties.

For the year ended December 31, 2019 the REIT recognized a gain on fair value of investment property of $32.7 million. This is a result of agreed upon sale prices, third party appraisals and capital expenditures and leases completed at certain of the REIT's properties during the year ended December 31, 2019.

Property continuity

A continuity of the REIT's property interests is summarized below:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Balance, beginning of period	$ 1,658,126	$ 1,783,261	$ 1,780,413	$ 1,279,509
Acquisitions [1]	—	63	—	499,035
Capital expenditures	9,315	5,141	26,977	17,550
Direct leasing costs	6,166	6,887	29,733	21,680
Dispositions	(45,936)	(43,628)	(228,380)	(78,722)
Depreciation of hotel asset	(261)	(268)	(1,000)	(947)
Foreign exchange	(6,413)	16,764	(16,057)	21,966
Change in fair value	(468)	9,925	32,738	15,288
IFRIC 21 property tax adjustment [2]	2,555	2,107	—	4,371
Straight-line rent and other changes	(999)	161	(2,339)	683
Balance, end of period	**$ 1,622,085**	**$ 1,780,413**	**$ 1,622,085**	**$ 1,780,413**

[1]Acquisitions represents the total purchase price and costs of acquisition.
[2]In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO, Core-FFO or AFFO.

Capital expenditures are incurred by the REIT for maintaining or improving its properties. Certain leases provide the ability to recover all or a portion of these costs from tenants over time. Direct leasing costs generally include tenant improvement construction costs related to new and renewal leasing. The change in carrying value of the REIT's properties during the year ended December 31, 2019 is primarily a result of fair value increases from third party appraisals, agreed upon sale prices and accretive capital and leasing expenditures.

PART III - RESULTS OF OPERATIONS

SUMMARY OF RESULTS OF OPERATIONS

The following is a summary of the results of operations:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Rental revenue	$ 51,329	$ 59,055	$ 215,520	$ 209,899
Property operating expenses	(25,599)	(29,429)	(114,823)	(106,164)
Finance income on finance lease receivable	889	927	3,615	3,765
Interest income	149	124	556	264
Interest and finance costs	(11,117)	(13,951)	(48,988)	(45,862)
General and administrative	(1,941)	(1,982)	(7,708)	(7,486)
Change in fair value of properties	(468)	9,925	32,738	15,288
Change in fair value of financial instruments	6,500	(4,547)	(2,710)	2,401
Disposition costs	(816)	(921)	(12,142)	(2,247)
Depreciation of hotel asset	(261)	(268)	(1,000)	(947)
Deferred income tax recovery	(861)	(199)	(830)	721
Net income before Class B LP units	**$ 17,804**	**$ 18,734**	**$ 64,228**	**$ 69,632**
Change in fair value of Class B LP units	2,537	10,201	634	11,469
Distributions to Class B LP unitholders	(528)	(991)	(2,421)	(3,964)
Net income	**$ 19,813**	**$ 27,944**	**$ 62,441**	**$ 77,137**
Other comprehensive (loss) income to be subsequently reclassified to profit or loss:				
Foreign currency translation (loss) gain	(2,419)	6,336	(6,020)	7,929
Fair value (loss) gain on net investment hedges	676	(3,721)	3,264	(1,688)
Total other comprehensive (loss) income	(1,743)	2,615	(2,756)	6,241
Net income and comprehensive income	**$ 18,070**	**$ 30,559**	**$ 59,685**	**$ 83,378**

NET INCOME BEFORE CLASS B LP UNITS

Net income before Class B LP units is an additional IFRS measure that represents the change in net income, before the impact of fair value adjustments to Class B LP units and distributions to Class B LP unitholders recorded in net income. Management uses and believes that this metric is valuable to users to evaluate net income prior to all residual equity holders, as the Class B LP units are exchangeable into REIT units and are in all material respects economically equivalent to REIT units.

Net income before Class B LP units for the three months ended December 31, 2019 when compared to the same period in 2018 decreased by $0.9 million primarily due to lower property NOI offset by an increase in the fair value of financial instruments which includes interest rate hedges the REIT has executed throughout 2018 and 2019. In addition, the fair value of investment properties decreased compared to the same period in 2018 as the value of the U.S. dollar depreciated compared to the Canadian dollar at December 31, 2019 compared to 2018, reducing the value of the REIT's U.S. assets. The REIT also incurred $0.8 million of disposition costs incurred primarily on the sale of 5500 North Service Road in Burlington, ON. Interest expense also decreased compared to the prior year from the repayment of debt on asset dispositions.

Net income before Class B LP units for the year ended December 31, 2019 was $64.2 million, a decrease of $5.4 million when compared to the same period in the prior year. The decrease is the result of an increase in the fair value of investment properties of $17.5 million from agreed upon sale prices, third party valuations and leasing completed across the portfolio. This is offset by a $5.1 million decrease in the fair value of financial instruments period-over-period which includes the REIT's interest rate protection instruments which have decreased in value due to lower prevailing interest rates and the change in fair value of the REIT's performance payment receivable in respect of a recently completed transaction. Interest and finance costs have increased by $3.1 million from the comparative period as a result of increased debt used to finance a portion of the REIT's acquisition of 120 South LaSalle in August 2018 and the write-off of debt origination costs in the second quarter of 2019 on the disposition of a 25% interest in the GTA Office Porfolio. Disposition costs increased $9.9 million from the prior year as a result of the sale of a 25% interest in the GTA Office Portfolio disposition, 895 and 1000 Waverley in the second quarter of 2019, 225 Duncan Mill Road in Toronto, ON in the third quarter of 2019 and 5500 North Service Road in Burlington, ON in the fourth quarter of 2019.

NET INCOME AND COMPREHENSIVE INCOME

For the three months ended December 31, 2019, the REIT had net income of $19.8 million compared to net income of $27.9 million for the same period in 2018. This decrease is due to lower net income before Class B LP units offset by a lower gain on the fair value of Class B LP units of $7.7 million for the three months ended December 31, 2019. As a result of the REIT's acquisition of 20 South Clark and 120 South LaSalle in Chicago, IL, the REIT recognized net other comprehensive loss of $1.7 million related to a loss on the foreign exchange impact from the REIT's exposure to U.S. cashflows in the properties offset by a gain on the hedge of the REIT's net investment in U.S. operations. Distributions to Class B LP unitholder have decreased for the three months ended December 31, 2019 compared to the same period in the prior year as a result of the REIT's revised distribution rate to $0.40 per unit annually commencing in March 2019 on distributions paid in April 2019.

For the year ended December 31, 2019 net income was $62.4 million compared to $77.1 million for the same period in the prior year. The decrease is due to a gain on the fair value of Class B LP units of $0.6 million for the year ended December 31, 2019 compared to a gain of $11.5 million in the same period in the prior year and lower distributions to Class B LP unitholders and lower net income before Class B LP units. The REIT also recognized net other comprehensive loss of $2.8 million due to its foreign currency translation loss on its U.S. property operations of $6.0 million, offset by a gain on hedges of the REIT's net investment in U.S. operations of $3.3 million.

NET OPERATING INCOME

Net operating income is a non-IFRS measure and is defined by the REIT as rental revenue, excluding non-cash straight-line rent and leasing costs amortized to revenue, less property operating costs prior to IFRIC 21, *Levies* ("IFRIC 21") adjustments. Rental revenue for purposes of measuring NOI excludes revenue recorded as a result of determining rent on a straight-line basis and the amortization of leasing costs in revenue for IFRS, which management believes better reflects the cash generation activity of the REIT's properties. NOI is an important measure of the income generated from the REIT's properties and is used by the REIT in evaluating the performance of its properties.

The following is a calculation of NOI for the three months and year ended December 31, 2019 and 2018:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Revenue	$ 51,329	$ 59,055	$ 215,520	$ 209,899
Property operating expenses	(25,599)	(29,429)	(114,823)	(106,164)
IFRIC 21 property tax adjustment [1]	(2,555)	(2,107)	—	(4,371)
Straight-line rents and other changes	999	(161)	2,339	(683)
Net operating income	**$ 24,174**	**$ 27,358**	**$ 103,036**	**$ 98,681**

[1]In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

The increase in NOI of $4.4 million for the year ended December 31, 2019 compared to the same period in 2018 from the acquisition of 120 South LaSalle in August 2018, 20 South Clark, in Chicago, IL, in February 2018 and a seven asset portfolio in the Greater Toronto Area and Atlantic Canada at the end of March 2018 which contributed to the year-over-year increase. This is offset by the disposition of six assets throughout 2018, a 25% interest in the GTA Office Portfolio in April 2019, 895 and 1000 Waverley in June 2019, 225 Duncan Mill Road in Toronto, ON in July 2019 and 5500 North Service Road in Burlington, ON in November 2019. Despite asset dispositions in 2018 and 2019, the REIT has been able to grow NOI through positive leasing spreads on new and renewed leases and the 2018 acquisitions which have contributed a full year of NOI in 2019.

For the three months ended December 31, 2019, NOI decreased to $24.2 million from $27.4 million for the same period in the prior year. The decrease is a result of the disposition of two properties in December 2018, a 25% interest in the GTA Office Portfolio in April 2019, the disposition of 895 and 1000 Waverley in Winnipeg, MB in June 2019, 225 Duncan Mill Road in Toronto, ON in July 2019 and 5500 North Service Road in Burlington, ON in November 2019.

The following is a reconciliation of the change in NOI for the three months and quarter ended December 31, 2019 compared to the same period in the prior year:

Net operating income, Q4 2018	**$ 27,358**
Change in same-property NOI	(70)
Contribution from acquired properties	—
Impact of foreign exchange rates	(1)
Reduced contribution from sold properties	(3,113)
Net operating income, Q4 2019	**$ 24,174**
Year-over-year change - $	**$ (3,184)**
Year-over-year change - %	**(11.6)%**

The following is a reconciliation of the change in NOI for the three months and quarter ended December 31, 2019 compared to the immediately preceding quarter:

Net operating income, Q3 2019	**$**	**25,435**
Change in same-property NOI		(263)
Impact of foreign exchange rates		(2)
Change in hotel contribution [1]		(529)
Reduced contribution from sold properties		(467)
Net operating income, Q4 2019	**$**	**24,174**
Quarter-over-quarter change - $	**$**	**(1,261)**
Quarter-over-quarter change - %		**(5.0)%**

[1]Contribution from the REIT's hotel is not included in same property changes when compared to the preceding quarter due to the seasonality of its contribution to NOI.

SAME-PROPERTY NOI

Same-property NOI is a non-IFRS measure and is defined by the REIT as rental revenue, excluding non-cash straight-line rent, less property operating costs for those properties owned by the REIT for all of the current period and the relevant comparative period, reported at the REIT's proportionate ownership. Other than on a year-over-year basis, same property NOI excludes the earnings attributable to the REIT's hotel asset due to the seasonality of that asset. Same-property NOI is an important measure of the income generated from the REIT's properties period-over-period, but without consideration of acquisition and disposition activity, and is used by the REIT in evaluating the performance of its properties. The REIT seeks to increase or maintain same-property NOI through high-occupancy, increasing rents on renewal to market rents and by signing leases with embedded rent increases throughout the term of the lease.

Management compares same-property NOI for the current quarter to the immediately preceding quarter and to the same quarter in the preceding year.

Same-property NOI: comparison of the current quarter to the same quarter in the prior year

The same-property NOI comparison for the three months ended December 31, 2019 excludes 25% of NOI from the GTA Office Portfolio for the current and comparative periods where wholly-owned for all or a portion of the relevant period. NOI from any property disposed of prior to December 31, 2019 has been removed on a proportionate disposition basis. The operations of the REIT's hotel asset are included when comparing to the prior year as the seasonal variations are consistent.

	Three months ended			
		December 31, 2019		December 31, 2018
Number of properties		37		37
GLA [1]		7,113,814		7,113,814
Revenue	$	50,858	$	51,745
Operating expenses		(25,283)		(25,292)
IFRIC 21 property tax adjustment		(2,555)		(2,107)
Straight-line rents and other changes		989		(267)
Same-property NOI (including hotel asset)	**$**	**24,009**	**$**	**24,079**
Period-over-period change - $	**$**	**(70)**		
Period-over-period change - %		**(0.3)%**		

[1]Gross leasable area is presented at 100% of the building's GLA, without taking ownership percentage into consideration.

Same-property NOI for the three months ended December 31, 2019 compared to the same period in 2018 decreased by $0.1 million or 0.3%. The decrease is primarily a result of a vacancy at one of the REIT's Greater Toronto Area office properties in August 2019 which was disposed of in January 2020. The NOI contribution from the REIT's hotel asset was consistent year-over-year. The REIT would have experienced an increase of $0.2 million in same-property NOI for the three months ended December 31, 2019 compared to the same period in 2018 if the property disposed of in January 2020 was removed from the same-property comparison.

The REIT has experienced year-over-year same-property NOI growth in six of the last eight quarters. The following is a history of the REIT's year-over-year same-property NOI changes since the beginning of 2018:

	Three months ended							
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Number of properties	37	37	38	32	32	34	33	33
GLA [1]	7,113,814	6,679,828	6,835,104	5,545,552	5,545,479	5,839,915	4,928,372	4,928,372
Same-property NOI change - $	$ (70)	$ (390)	$ 351	$ 899	$ 2,571	$ 2,418	$ 1,729	$ 743
Same-property NOI change - %	(0.3)%	(1.7)%	1.6%	4.9%	14.5%	13.0%	11.7%	5.2%

[1]Gross leasable area is presented at 100% of the building's GLA, without taking ownership percentage into consideration.

Same-property NOI: comparison of the current quarter to the preceding quarter

The same-property NOI comparison to the three months ended September 30, 2019 excludes the impact of properties disposed of prior to December 31, 2019. This includes 5500 North Service Road in Burlington, ON, 225 Duncan Mill Road in Toronto, ON, 895 and 1000 Waverley in Winnipeg, MB and a 25% interest in the GTA Office Portfolio which has been included at 75% of property NOI in each comparative period where wholly-owned for all or a portion of the relevant period. The comparison also excludes the impact of the REIT's hotel asset due to the seasonality of its earnings and contribution to NOI.

	Three months ended	
	December 31, 2019	September 30, 2019
Number of properties	37	37
GLA [1]	7,113,814	7,113,814
Revenue	$ 50,858	$ 51,365
Property operating expenses	(25,283)	(24,693)
IFRIC 21 property tax adjustment	(2,555)	(2,230)
Straight-line rents and other changes	989	361
Same-property NOI (including hotel asset)	24,009	24,803
NOI attributable to hotel asset	(346)	(875)
Same-property NOI (excluding hotel asset)	**$ 23,663**	**$ 23,928**
Quarter-over-quarter change - $	**$ (265)**	
Quarter-over-quarter change - %	**(1.1)%**	

[1]Gross leasable area is presented at 100% of the building's GLA, without taking ownership percentage into consideration.

Same-property NOI, excluding the REIT's hotel asset, for the three months ended December 31, 2019 compared to the most recently completed quarter, decreased by $0.3 million. The decrease in same-property NOI is caused primarily by a vacancy in August 2019 at one of the REIT's Greater Toronto Area properties which has been disposed of subsequent to December 31, 2019.

Looking forward, renewal spreads are expected to be strong as the current in place rent is an estimated 12.1% below market. The REIT's portfolio has vacancies throughout 2020 of 8.1% of it's portfolio GLA with expiring rents estimated to be 24% below market rents. The REIT is actively managing to execute new or renewed leases and is in renewal discussions with most major tenants with upcoming expiries. The REIT has completed approximately 123,000 square feet of new leasing which commences occupancy in 2020 at an average spread of 8.5% to in place rents.

FUNDS FROM OPERATIONS

Funds from operations

Funds from operations ("FFO") is a non-IFRS measure for evaluating real estate operating performance. The REIT calculates FFO in accordance with the definition provided by the Real Property Association of Canada ("RealPAC") in its White Paper on Funds From Operations, as revised in February 2019.

Core-FFO

Core-FFO is a non-IFRS measure which makes certain adjustments to the REIT's calculation of FFO to recognize the REIT's share of lease payments received for its Data Centre asset, which for IFRS purposes is accounted for as a finance lease.

Reconciliation of FFO and Core-FFO

Management believes that FFO and Core-FFO are important measures of the operating performance and are used by the REIT in evaluating the combined performance of its operations including the impact of its capital structure and are useful for investors to evaluate the performance of the REIT.

The following is a reconciliation of FFO and Core-FFO from cash flow from operating activities:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Cash flow from operating activities	$ **15,600**	$ **14,410**	$ **49,296**	$ **49,387**
Add (deduct):				
Leasing costs amortized to revenue	1,445	1,121	5,354	3,289
Disposition costs	816	921	12,142	2,247
Subscription receipts equivalent amount [1]	—	—	—	1,597
Working capital items	(4,168)	(3,054)	(9,914)	(3,686)
Straight-line rent and other changes	(999)	161	(2,339)	683
Interest and other finance costs	(11,117)	(13,951)	(48,988)	(44,265)
Interest paid	10,495	13,159	45,400	41,715
Distributions paid to Class B unitholders	528	991	2,575	3,964
FFO	$ **12,600**	$ **13,758**	$ **53,526**	$ **54,931**
Finance income on finance lease receivable	(889)	(927)	(3,615)	(3,765)
Finance lease payments received	1,525	1,525	6,100	6,100
Core-FFO	$ **13,236**	$ **14,356**	$ **56,011**	$ **57,266**

[1]On March 27, 2018 each subscription receipt issued by the REIT on January 26, 2018 was exchanged for one unit and a cash distribution equivalent payment of $0.125 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between January 26, 2018 and March 27, 2018). The cash distribution equivalent payment of $1.6 million was recorded in interest and finance costs for the year ended December 31, 2019.

The following is a reconciliation of FFO and Core-FFO from net income:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Net income	$ **19,813**	$ **27,944**	$ **62,441**	$ **77,137**
Add (deduct):				
Leasing costs amortized to revenue	1,445	1,121	5,354	3,289
Change in fair value of properties	468	(9,925)	(32,738)	(15,288)
IFRIC 21 property tax adjustment [1]	(2,555)	(2,107)	—	(4,371)
Change in fair value of financial instruments	(6,500)	4,547	2,710	(2,401)
Disposition costs	816	921	12,142	2,247
Depreciation of hotel asset	261	268	1,000	947
Deferred income tax expense (recovery)	861	199	830	(721)
Change in fair value of Class B LP units	(2,537)	(10,201)	(634)	(11,469)
Distributions to Class B unitholders	528	991	2,421	3,964
Subscription receipts equivalent amount [2]	—	—	—	1,597
FFO	$ **12,600**	$ **13,758**	$ **53,526**	$ **54,931**
Finance income on finance lease receivable	(889)	(927)	(3,615)	(3,765)
Finance lease payments received	1,525	1,525	6,100	6,100
Core-FFO	$ **13,236**	$ **14,356**	$ **56,011**	$ **57,266**
Weighted average number of units outstanding [3]	73,278	75,261	73,963	72,192
FFO per unit (diluted)	$ **0.17**	$ **0.18**	$ **0.72**	$ **0.76**
Core-FFO per unit (diluted)	$ **0.18**	$ **0.19**	$ **0.76**	$ **0.79**

[1]In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

[2]On March 27, 2018 each subscription receipt issued by the REIT on January 26, 2018 was exchanged for one unit and a cash distribution equivalent payment of $0.125 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between January 26, 2018 and March 27, 2018). The cash distribution equivalent payment of $1.6 million was recorded in interest and finance costs for the year ended December 31, 2018.

[3]Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

The following is a calculation of FFO and Core-FFO from the REIT's consolidated financial statements:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Rental revenue	$ 51,329	$ 59,055	$ 215,520	$ 209,899
Property operating expenses	(25,599)	(29,429)	(114,823)	(106,164)
Finance income on finance lease receivable	889	927	3,615	3,765
Interest income	149	124	556	264
Interest and finance costs	(11,117)	(13,951)	(48,988)	(45,862)
General and administrative	(1,941)	(1,982)	(7,708)	(7,486)
IFRIC 21 property tax adjustment [1]	(2,555)	(2,107)	—	(4,371)
Leasing costs amortized to revenue	1,445	1,121	5,354	3,289
Subscription receipts equivalent amount [2]	—	—	—	1,597
FFO	**$ 12,600**	**$ 13,758**	**$ 53,526**	**$ 54,931**
Finance income on finance lease receivable	(889)	(927)	(3,615)	(3,765)
Finance lease payments received	1,525	1,525	6,100	6,100
Core-FFO	**$ 13,236**	**$ 14,356**	**$ 56,011**	**$ 57,266**
Weighted average number of units outstanding [3]	73,278	75,261	73,963	72,192
FFO per unit (diluted)	$ 0.17	$ 0.18	$ 0.72	$ 0.76
Core-FFO per unit (diluted)	$ 0.18	$ 0.19	$ 0.76	$ 0.79

[1]In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

[2]On March 27, 2018 each subscription receipt issued by the REIT on January 26, 2018 was exchanged for one unit and a cash distribution equivalent payment of $0.125 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between January 26, 2018 and March 27, 2018). The cash distribution equivalent payment of $1.6 million was recorded in interest and finance costs for the year ended December 31, 2018.

[3]Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

For the three months ended December 31, 2019, FFO was $12.6 million or $0.17 per unit compared to FFO for the three months ended December 31, 2018, which was $13.8 million or $0.18 per unit, representing a decrease of approximately $1.2 million or $0.01 per unit basis. The decrease in FFO is a result of lower NOI from the disposition of 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan MIll Road in Toronto, ON in July 2019, 895 and 1000 Waverley in Winnipeg, MB in June 2019 and a 25% interest in the GTA Office Portfolio on April 12, 2019 in addition to the disposition of two assets in the December 2018. The decrease in NOI is partially offset by reduced interest and finance costs from debt repayment on the REIT's asset dispositions.

Core-FFO for the three months ended December 31, 2019 was $13.2 million compared to $14.4 million for the same period in 2018. Core-FFO per unit has decreased $0.01 to $0.18 for three months ended December 31, 2019 compared to the same period in the prior year. The decrease in Core-FFO is a result of the changes described for FFO.

FFO for the year ended December 31, 2019 was $53.5 million and $54.9 million for the year ended December 31, 2018. FFO decreased year-over-year and is impacted by higher property NOI from the acquisition of 120 South LaSalle in Chicago, IL in August 2018, 20 South Clark in Chicago, IL in February 2018 and a seven asset portfolio in the Greater Toronto Area and Atlantic Canada in March 2018 which contributed to NOI throughout 2019 compared to a partial year in 2018. This increase in NOI is offset by six asset dispositions throughout 2018, the disposition of 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan MIll Road in Toronto, ON in July 2019, 895 and 1000 Waverley in Winnipeg, MB in June 2019 and a 25% interest in the GTA Office Portfolio in April 2019. The net increase in NOI is offset by higher interest costs on debt used to finance acquisitions and $0.7 million of debt origination costs that were expensed during the year ended December 31, 2019 as a result of the GTA Office Portfolio disposition. Core-FFO decreased to $56.0 million for the year ended December 31, 2019 from $57.3 million compared to the prior year for the same reasons as described for FFO.

ADJUSTED FUNDS FROM OPERATIONS

Adjusted FFO ("AFFO") is a non-IFRS measure that is used by management of the REIT, certain of the real estate industry and investors to measure the cash flows generated from operations including certain capital costs, leasing costs, tenant improvements and the impact of non-cash revenue. It is a meaningful measure used to evaluate the extent of cash available for distribution to unitholders. The REIT's use and calculation of AFFO may be different than the use or as disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others.

In calculating AFFO, the REIT makes adjustments to FFO for certain items including: guaranteed income supplements; amortization of deferred transaction costs; de-recognition and amortization of mark-to-market adjustments on mortgages refinanced or discharged; adjustments for interest rate subsidies received; recognition of the REIT's share of lease payments received for its Data Centre asset, which for IFRS purposes is accounted for as a finance lease; amortization of straight-line rent; and normalized direct leasing and capital costs.

Guaranteed income supplements are cash amounts received from vendors or properties acquired by the REIT that are not recognized in income. Such amounts were negotiated between the REIT and certain vendors to compensate the REIT for lost income related to free rent periods and/or vacancies. The REIT was provided an income supplement in the aggregate amount of $2.4 million to be received in equal quarterly installments in each of the eight calendar quarters following the acquisition of a seven asset portfolio in the Greater Toronto Area and Atlantic Canada from Slate Canadian Real Estate Opportunity Fund I L.P. ("SCREO I L.P."). The income supplement from SCREO I L.P. is recorded as an other asset on the consolidated statement of financial position and initially measured at its present value. The REIT recognizes interest income related to the difference between the present value on acquisition and the $2.4 million principal amount of which $2.1 million has been received through to December 31, 2019. Accordingly, the REIT recognizes in AFFO the cash portion received in excess of any amount already included in net income. Also in conjunction with the seven asset portfolio, the REIT entered into a one-year head lease with Cominar REIT whereby Cominar REIT provided payments to the REIT to compensate it for the existing vacancy to the extent the REIT did not otherwise re-lease the vacant space at 225 Duncan Mill Road in Toronto, ON which was disposed of in July 2019. The maximum receivable from Cominar REIT was approximately $3.2 million. Amounts received under the head lease arrangement are not recognized in AFFO for the year ended December 31, 2019 or 2018.

Amortization of deferred transaction costs are costs incurred to obtain debt financing that are recorded in net income, generally, on a systematic basis over the life of the debt to which they relate. The REIT deducts these amounts in determining AFFO as they represent non-cash charges to net income in the current period. Amortization of mark-to-market adjustments are differences between debt assumed in conjunction with a property acquisition and the fair value of the debt on assumption that are recorded in net income, generally, on a systematic basis over the life of the debt to which they relate. The REIT deducts or adds, as applicable, these amounts in determining AFFO as they represent non-cash charges to net income.

The interest rate subsidy is an amount received monthly by the REIT from a vendor of a property acquired by the REIT, to the extent not otherwise recognized in net income. Such amount was negotiated between the REIT and a vendor to compensate the REIT, in part, for assuming debt in conjunction with a property acquisition that was unfavorable to debt that could otherwise have been obtained by the REIT had the vendor made the property available to be purchased on a 'free-and-clear' basis. The REIT adds this amount in determining AFFO as it represents cash received by the REIT not otherwise recognized in net income.

Normalized direct leasing and capital costs are determined as 10% of the net of rental revenue less property operating expenses and represents the normalized on-going costs required to maintain existing space of a stabilized property. Actual amounts will vary from period to period depending on various factors, including but not limited to, the timing of expenditures made and contractual lease obligations.

The method applied by the REIT to calculate AFFO may differ from methods applied by other issuers in the real estate industry and differs from the definition of AFFO as defined by RealPAC in its White Paper, as issued in February 2019.

The following table reconciles AFFO from cash flow from operating activities:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Cash flow from operating activities	**$ 15,600**	**$ 14,410**	**$ 49,296**	**$ 49,387**
Add (deduct):				
Working capital items	(4,168)	(3,054)	(9,914)	(3,686)
Principal repayments on finance lease receivable	636	598	2,485	2,335
Distributions paid to Class B LP unitholders	528	991	2,575	3,964
Subscription receipts equivalent amount [1]	—	—	—	1,597
Disposition costs	816	921	12,142	2,247
Interest rate subsidy	108	108	432	432
Guaranteed income supplements	296	300	1,152	940
Normalized direct leasing and capital costs	(2,318)	(3,173)	(10,291)	(10,416)
AFFO	**$ 11,498**	**$ 11,101**	**$ 47,877**	**$ 46,800**

[1]On March 27, 2018 each subscription receipt issued by the REIT on January 26, 2018 was exchanged for one unit and a cash distribution equivalent payment of $0.125 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between January 26, 2018 and March 27, 2018). The cash distribution equivalent payment of $1.6 million was recorded in interest and finance costs for the year ended December 31, 2018.

The following table reconciles AFFO from NOI:

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Net operating income	**$ 24,174**	**$ 27,358**	**$ 103,036**	**$ 98,681**
Add (deduct):				
General and administrative	(1,941)	(1,982)	(7,708)	(7,486)
Finance lease payments received	1,525	1,525	6,100	6,100
Cash interest	(10,346)	(13,035)	(44,844)	(41,451)
Interest rate subsidy	108	108	432	432
Guaranteed income supplements	296	300	1,152	940
Normalized direct leasing and capital costs	(2,318)	(3,173)	(10,291)	(10,416)
AFFO	**$ 11,498**	**$ 11,101**	**$ 47,877**	**$ 46,800**

A reconciliation of Core-FFO to AFFO is as follows:

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Core-FFO	**$ 13,236**	**$ 14,356**	**$ 56,011**	**$ 57,266**
Add (deduct):				
Amortization of deferred transaction costs	681	889	3,854	2,992
Amortization of debt mark-to-market adjustments	(59)	(97)	(266)	(443)
Amortization of straight-line rent	(446)	(1,282)	(3,015)	(3,971)
Interest rate subsidy	108	108	432	432
Guaranteed income supplements	296	300	1,152	940
Normalized direct leasing and capital costs	(2,318)	(3,173)	(10,291)	(10,416)
AFFO	**$ 11,498**	**$ 11,101**	**$ 47,877**	**$ 46,800**
Weighted average number of units outstanding [1]	73,278	75,261	73,963	72,192
AFFO per unit (diluted)	**$ 0.16**	**$ 0.15**	**$ 0.65**	**$ 0.65**

[1]Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

For the three months ended December 31, 2019, AFFO was $11.5 million or $0.16 per unit, whereas AFFO for the three months ended December 31, 2018 was $11.1 million or $0.15 per unit, representing an increase of $0.4 million or $0.01 on a per unit basis. Cash interest has decreased from debt repayment on various asset dispositions in December 2018 and throughout 2019. This is offset by lower NOI in 2019 compared to the same period in the prior year from the disposition of two assets in December 2018, 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan Mill Road in Toronto, ON in July 2019, 895 and 1000 Waverley in Winnipeg, MB in June 2019 and the 25% interest in the GTA Office Portfolio in April 2019. AFFO for the year ended December 31, 2019 increased to $47.9 million from $46.8 million the prior year and is consistent at $0.65 per unit. The increase is caused by higher NOI from the acquisition of 120 South LaSalle in August 2018, a seven asset portfolio in March 2018 and 20 South Clark in February 2018, offset by the disposition of six assets in 2018 and the previously mentioned dispositions in 2019 and higher interest costs from debt incurred to partly finance asset acquisitions.

Reconciliation of FFO, Core-FFO and AFFO

A reconciliation of net income to FFO, Core-FFO and AFFO is as follows:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Net income	**$ 19,813**	**$ 27,944**	**$ 62,441**	**$ 77,137**
Add (deduct):				
Leasing costs amortized to revenue	1,445	1,121	5,354	3,289
Change in fair value of properties	468	(9,925)	(32,738)	(15,288)
IFRIC 21 property tax adjustment [1]	(2,555)	(2,107)	—	(4,371)
Change in fair value of financial instruments	(6,500)	4,547	2,710	(2,401)
Disposition costs	816	921	12,142	2,247
Depreciation of hotel asset	261	268	1,000	947
Deferred income tax recovery	861	199	830	(721)
Change in fair value of Class B LP units	(2,537)	(10,201)	(634)	(11,469)
Distributions to Class B unitholders	528	991	2,421	3,964
Subscription receipts equivalent amount [2]	—	—	—	1,597
FFO	**12,600**	**13,758**	**53,526**	**54,931**
Finance income on finance lease receivable	(889)	(927)	(3,615)	(3,765)
Finance lease payments received	1,525	1,525	6,100	6,100
Core-FFO	**13,236**	**14,356**	**56,011**	**57,266**
Amortization of deferred transaction costs	681	889	3,854	2,992
Amortization of debt mark-to-market adjustments	(59)	(97)	(266)	(443)
Amortization of straight-line rent	(446)	(1,282)	(3,015)	(3,971)
Interest rate subsidy	108	108	432	432
Guaranteed income supplements	296	300	1,152	940
Normalized direct leasing and capital costs	(2,318)	(3,173)	(10,291)	(10,416)
AFFO	**$ 11,498**	**$ 11,101**	**$ 47,877**	**$ 46,800**

[1]In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

[2]On March 27, 2018 each subscription receipt issued by the REIT on January 26, 2018 was exchanged for one unit and a cash distribution equivalent payment of $0.125 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between January 26, 2018 and March 27, 2018). The cash distribution equivalent payment of $1.6 million was recorded in interest and finance costs for the year ended December 31, 2018.

The following is FFO, Core-FFO and AFFO expressed on a per unit basis:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
FFO per unit (diluted)	$ 0.17	$ 0.18	$ 0.72	$ 0.76
Core FFO per unit (diluted)	0.18	0.19	0.76	0.79
AFFO per unit (diluted)	$ 0.16	$ 0.15	$ 0.65	$ 0.65

DISTRIBUTIONS

The REIT pays monthly distributions to unitholders which are also paid at the same rate to holders of the REIT's Class B LP units. Distributions are paid on or about the 15th day of the month following declaration.

The Board of Trustees continually evaluates the distribution policy of the REIT in consideration of various factors. These factors generally include the REIT's available liquidity to fund distributions, the asset allocation alternatives available to the REIT including acquisitions and their impact, the interest rate environment, the REIT's cost of capital and the expected future cash flows to be generated by the REIT in consideration of the REIT's future cash flow needs, which include funding value add redevelopment opportunities, leasing costs and other capital. Based on these factors the Board of Trustees of the REIT may determine a modification of the REIT's distribution to be beneficial to the REIT.

The REIT has a distribution reinvestment plan ("DRIP"), where eligible unitholders, which include holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT. The distributions declared during the years ended December 31, 2019 and 2018 resulted in 102,601 trust units issued under the DRIP. On May 3, 2019 the REIT's Board of Trustees approved the suspension of the REIT's DRIP commencing with the May 2019 distribution to be paid in June 2019. Management of the REIT believes this is a prudent capital allocation strategy that will retain value for unitholders.

Management, in consultation with the Board of Trustees, continually evaluates the relative attractiveness of the asset allocation alternatives available to the REIT, with a focus on our mission of achieving the best returns for unitholders on a total return basis. The REIT believes that significant investment opportunities exist to continue to grow unitholder value in both the Canadian and U.S. markets and including within its own portfolio. In consideration of the REIT's current equity cost of capital and the attractiveness of the current investment market, the REIT modified its annual distribution to $0.40 per unit from $0.75 per unit beginning with the REIT's March 2019 distribution paid in April 2019. The new distribution rate will result in the REIT retaining $26 million of additional capital annually. The REIT intends to initially use this retained capital to repay debt and reduce leverage in order to create capacity for deployment into attractive new opportunities or reinvestment in the existing portfolio that are accretive to net asset value per unit.

The following table summarizes distributions made during the three months ended December 31, 2019 and 2018 to unitholders of the REIT and Class B LP unitholders:

	Three months ended December 31, 2019			Three months ended December 31, 2018		
	Trust units	Class B LP units	Total	Trust units	Class B LP units	Total
Distributions declared	$ 6,781	$ 528	$ 7,309	$ 13,105	$ 991	$ 14,096
Distributions reinvested in trust units	—	—	—	367	—	367
Distributions, net of DRIP	**$ 6,781**	**$ 528**	**$ 7,309**	**$ 12,738**	**$ 991**	**$ 13,729**

The following table summarizes distributions made during the year ended December 31, 2019 and 2018 to unitholders of the REIT and Class B LP unitholders:

	Year ended December 31, 2019			Year ended December 31, 2018		
	Trust units	Class B LP units	Total	Trust units	Class B LP units	Total
Distributions declared	$ 31,448	$ 2,421	$ 33,869	$ 50,764	$ 3,964	$ 54,728
Distributions reinvested in trust units	536	—	536	1,494	—	1,494
Distributions, net of DRIP	**$ 30,912**	**$ 2,421**	**$ 33,333**	**$ 49,270**	**$ 3,964**	**$ 53,234**

Cash flow from operating activities for the three months ended December 31, 2019 was $15.6 million whereas distributions declared to unitholders of the REIT were $6.8 million. Cash flow from operating activities for the year ended December 31, 2019 was $49.3 million which is higher than distributions declared to unitholders of the REIT of $31.4 million. When distributions are more than cash flow from operating activities the REIT finances such amounts from cash on hand and/or borrowings and represent a return of capital.

Taxation of distributions

The REIT qualifies as a "mutual fund trust" under the Income Tax Act (Canada) (the "Tax Act"). For taxable Canadian resident REIT unitholders, the REIT's distributions are treated as follows for tax purposes over the four most recent years:

Taxation year	Return of capital	Capital gains	Other income
2019 per $ of distribution	77.0%	23.0%	—
2018 per $ of distribution	100.0%	—	—
2017 per $ of distribution	100.0%	—	—
2016 per $ of distribution	90.2%	3.8%	6.0%
2015 per $ of distribution	1.8%	79.8%	18.4%

Of the distributions received by unitholders in 2019, 23.0% were treated as capital gains and 77.0% were treated as return of capital due to the impact of capital gains and depreciation recapture on asset sales and modification of the REIT's distribution to $0.40 annually. For 2018 and 2017, 100.0% of the distributions received by unitholders were treated as a return of capital for taxation purposes compared to 90.2% in 2016, resulting in a meaningful deferral of the taxation of returns being provided.

The rate of capital gains in 2015 are a result of the disposition strategy the REIT executed to dispose of non-office properties in order to reposition the REIT as a pure play office REIT.

FFO, CORE-FFO AND AFFO PAYOUT RATIOS

FFO, Core-FFO and AFFO payout ratios (the "payout ratios") are non-IFRS measures that provide a comparison of the distributions made by the REIT to unitholders compared to FFO, Core-FFO and AFFO generated by the REIT. Management uses these measures to evaluate the REIT's ability to sustain its distributions. The payout ratios are calculated by dividing aggregate distributions made in respect of units of the REIT and Class B LP units by FFO, Core-FFO and AFFO during the period of measurement.

One of the REIT's objectives is to provide a distribution over time that is appropriate in consideration of the REIT's available liquidity to fund distributions, the asset allocation alternatives available to the REIT, the estimated impact on the trading price of the REIT's trust units and the expected future cash flows to be generated by the REIT in consideration of the REIT's future cash flow needs. To the extent these factors change, the Board of Trustees of the REIT will consider adjustments to its distribution policy.

The REIT's AFFO payout ratio for the three months ended December 31, 2019 was 63.6% which the REIT believes to be sustainable and looks to maintain current distribution rates to provide consistent returns to unitholders while providing sufficient cashflow for the REIT to reinvest in the growth of its portfolio.

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

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
FFO	$ 12,600	$ 13,758	$ 53,526	$ 54,931
REIT unit and Class B LP distributions declared	7,309	14,096	33,869	54,728
Excess of FFO over distributions declared	5,291	(338)	19,657	203
Cash retained from DRIP	—	367	536	1,494
Excess of FFO over cash distributions	$ 5,291	$ 29	$ 20,193	$ 1,697
FFO payout ratio	**58.0%**	**102.5%**	**63.3%**	**99.6%**
FFO payout ratio after DRIP [1]	**58.0%**	**99.8%**	**62.3%**	**96.9%**

[1]Impact after DRIP represents actual DRIP levels during the period.

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

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Core-FFO	$ 13,236	$ 14,356	$ 56,011	$ 57,266
REIT unit and Class B LP distributions declared	7,309	14,096	33,869	54,728
Excess of Core-FFO over distributions declared	5,927	260	22,142	2,538
Cash retained from DRIP	—	367	536	1,494
Excess of Core-FFO over cash distributions	$ 5,927	$ 627	$ 22,678	$ 4,032
Core-FFO payout ratio	**55.2%**	**98.2%**	**60.5%**	**95.6%**
Core-FFO payout ratio after DRIP [1]	**55.2%**	**95.6%**	**59.5%**	**93.0%**

[1]Impact after DRIP represents actual DRIP levels during the period.

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

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
AFFO	$ 11,498	$ 11,101	$ 47,877	$ 46,800
REIT unit and Class B LP distributions declared	7,309	14,096	33,869	54,728
Excess/ (shortfall) of AFFO over distributions declared	4,189	(2,995)	14,008	(7,928)
Cash retained from DRIP	—	367	536	1,494
Excess/ (shortfall) of AFFO over cash distributions	$ 4,189	$ (2,628)	$ 14,544	$ (6,434)
AFFO payout ratio	**63.6%**	**127.0%**	**70.7%**	**116.9%**
AFFO payout ratio after DRIP [1]	**63.6%**	**123.7%**	**69.6%**	**113.7%**

[1]Impact after DRIP represents actual DRIP levels during the period.

The FFO, Core-FFO and AFFO pay-out ratios have improved for the year ended December 31, 2019 compared to the same period in 2018 resulting from increased AFFO and the revision of the REIT's distribution to $0.40 annually from $0.75 beginning with the REIT's March 2019 distribution.

SEGMENTED INFORMATION

The REIT has NOI from four geographic locations. The following is the REIT's NOI by geographic region:

	Three months ended December 31,					
	2019			2018		
		NOI	Percentage (%)		NOI	Percentage (%)
Atlantic	$	9,063	37.5%	$	9,745	35.6%
Ontario		9,475	39.2%		12,243	44.8%
Western		1,449	6.0%		1,369	5.0%
U.S.		4,187	17.3%		4,001	14.6%
Total	**$**	**24,174**	**100.0%**	**$**	**27,358**	**100.0%**

	Year ended December 31,					
	2019			2018		
		NOI	Percentage (%)		NOI	Percentage (%)
Atlantic	$	36,584	35.5%	$	37,245	37.7%
Ontario		41,725	40.5%		45,972	46.6%
Western		6,310	6.1%		7,060	7.2%
U.S.		18,417	17.9%		8,404	8.5%
Total	**$**	**103,036**	**100.0%**	**$**	**98,681**	**100.0%**

	Three months ended December 31,				Year ended December 31,			
Atlantic		2019		2018		2019		2018
# of properties		14		14		14		14
Owned GLA (000s of square feet)		2,641		2,643		2,641		2,643
Occupancy rate (%) (period-end)		84.4%		87.3%		84.4%		87.3%
Revenue	$	20,180	$	20,955	$	80,985	$	82,315
Property operating expenses		(11,624)		(11,501)		(46,096)		(45,906)
Straight-line rent and other changes		507		291		1,695		836
NOI	**$**	**9,063**	**$**	**9,745**	**$**	**36,584**	**$**	**37,245**

NOI for the Atlantic properties decreased by $0.7 million for the three months and year ended December 31, 2019 compared to the same period in 2018. The decrease is a result of certain tenant vacancies in the second and third quarter of 2019. Approximately 41,000 square feet was vacated in the second quarter of 2019 and approximately 147,000 square feet was vacated in the third quarter of 2019 which decreased NOI compared to the fourth quarter of 2018.

NOI for the year ended December 31, 2019 decreased due to the disposition of the Water Street Properties, in St. John's, NL on September 28, 2018 and tenant vacancies in the second and third quarters of 2019, offset by the REIT's acquisition of three office buildings in Atlantic Canada in March 2018 as part of a seven asset portfolio.

	Three months ended December 31,				Year ended December 31,			
Ontario		2019		2018		2019		2018
# of properties		13		15		13		15
Owned GLA (000s of square feet)		2,921		3,294		2,921		3,294
Occupancy rate (%) (period-end)		89.4%		87.8%		89.4%		87.8%
Revenue	$	18,166	$	24,983	$	80,663	$	92,767
Property operating expenses		(9,031)		(12,890)		(40,036)		(46,810)
Straight-line rent and other changes		340		150		1,098		15
NOI	**$**	**9,475**	**$**	**12,243**	**$**	**41,725**	**$**	**45,972**

NOI for the three months ended December 31, 2019 was $9.5 million compared to NOI of $12.2 million for the three months ended December 31, 2018, representing a decrease of $2.8 million year-over-year. The decrease in NOI is a result of the disposition of 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan Mill Road in Toronto, ON in July 2019, a 25% interest in the GTA Office Portfolio on April 12, 2019, the disposition of 135 Queen's Plate in Etobicoke, ON in July 2018 and Centennial and Meadowpine in Toronto, ON in December 2018.

For the year ended December 31, 2019 NOI decreased from $46.0 million to $41.7 million as the REIT acquired a seven asset portfolio in March 2018 of which 4 properties are located in the Greater Toronto Area of Ontario. These acquisitions have contributed positively to NOI compared to the respective periods in the prior year and are offset by the disposition of 135 Queen's Plate in Etobicoke, ON in July 2018, Centennial and Meadowpine in Toronto, ON in December 2018, the disposition of a 25% interest in the GTA Office Portfolio on April 12, 2019, 225 Duncan Mill Road in Toronto, ON in July 2019. and 5500 North Service Road in Burlington, ON in November 2019.

	Three months ended December 31,		Year ended December 31,	
Western	2019	2018	2019	2018
# of properties	8	10	8	10
Owned GLA (000s of square feet)	514	608	514	608
Occupancy rate (%) (period-end)	92.3%	91.7%	92.3%	91.7%
Revenue	$ 2,776	$ 3,048	$ 11,824	$ 13,172
Property operating expenses	(1,316)	(1,613)	(5,533)	(5,838)
Straight-line rent and other changes	(11)	(66)	19	(274)
NOI	$ 1,449	$ 1,369	$ 6,310	$ 7,060
NOI from Data Centre	1,525	1,525	6,100	6,100
NOI including Data Centre	**$ 2,974**	**$ 2,894**	**$ 12,410**	**$ 13,160**

NOI for the three months ended December 31, 2019 was $3.0 million including the income from the Data Centre, an increase of $0.1 million over the comparable period despite the disposition of 895 and 1000 Waverley in Winnipeg, MB in June 2019. The Data Centre is accounted for as a finance lease and corresponding interest income is recorded below NOI and principal repayments reduce the balance of the lease receivable. The decrease for the year ended December 31, 2019 is a result the disposition of 895 and 1000 Waverley in Winnipeg, MB which contributed six months of NOI in 2019 compared to twelve months in 2018.

	Three months ended December 31,		Year ended December 31,	
United States	2019	2018	2019	2018
# of properties	2	2	2	2
Owned GLA (000s of square feet)	1,038	1,038	1,038	1,038
Occupancy rate (%) (period-end)	84.7%	85.1%	84.7%	85.1%
Revenue	$ 10,207	$ 10,069	$ 42,048	$ 21,645
Property operating expenses	(3,628)	(3,425)	(23,158)	(7,610)
IFRIC 21 property tax adjustment [1]	(2,555)	(2,107)	—	(4,371)
Straight-line rent and other changes	163	(536)	(473)	(1,260)
NOI	**$ 4,187**	**$ 4,001**	**$ 18,417**	**$ 8,404**

[1]In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

NOI for the three months ended December 31, 2019 was $4.2 million which is an increase of $0.2 million compared to the same period in 2018. For the year ended December 31, 2019, NOI was $18.4 million compared to $8.4 million and is a result of the REIT owning both 120 South LaSalle and 20 South Clark for the full period in 2019 compared to 20 South Clark for 11 months and 120 South LaSalle for 4 month in 2018 .

With both of its US office assets located in Chicago's Central Business District ("CBD"), the REIT is pleased with the current state and growth potential of the city which is the the third largest city in the US. Chicago also has a diverse economy with no one industry contributing more than 14%. Furthermore, for the sixth consecutive year, Chicago has been the US leader in corporate expansions and relocations, adding nearly 100,000 jobs in the CBD. With the increase in jobs, the urban core population of Chicago has increased 50% since 2000 with half of those attributable to people under the age of 35. The city is also crucial to US transportation infrastructure with 21 intermodal rail hubs and 42% of the country's population living within 1,200 kilometers of Chicago. The REIT believes these are all strong metrics that position the city for continued growth and economic stability.

REVENUE

Revenue from properties includes rent from tenants under lease agreements, straight-line rental income, percentage rents, property taxes and operating cost recoveries, parking revenue and other incidental income. The following is a summary of the components of revenue:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Property base rent [1]	$ 24,558	$ 29,263	$ 104,104	$ 105,894
Operating cost recoveries	17,485	18,843	70,202	65,314
Tax recoveries	7,824	7,028	32,980	27,173
Hotel	2,461	2,712	10,573	10,835
Straight-line adjustments and other	(999)	1,209	(2,339)	683
	$ 51,329	**$ 59,055**	**$ 215,520**	**$ 209,899**

[1]Includes parking revenue earned at properties.

For the three months ended December 31, 2019, revenue from properties was $51.3 million, lower than $59.1 million for the same period in 2018. The decrease over prior period is a result of the disposition of two properties in December 2018 in addition to 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan Mill Road in Toronto, ON in July 2019, 895 and 1000 Waverley in June 2019 and a 25% interest in the GTA Office Portfolio in April 2019.

For the year ended December 31, 2019, revenue increased as a result of the acquisition of 20 South Clark in Chicago, IL in February 2018, a seven asset portfolio in Ontario and Atlantic Canada in March 2018 and 120 South LaSalle in Chicago, IL in August 2018 which have contributed to revenue during their period of ownership. This revenue contribution is offset by the disposition of six of the REIT's properties throughout 2018 which no longer contribute to revenue in 2019. The REIT also disposed of 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan Mill Road in Toronto, ON in July 2019, 895 and 1000 Waverley in June 2019 and a 25% interest in the GTA Office Portfolio in April 2019 which reduced revenue in the current period.

PROPERTY OPERATING RECOVERIES AND EXPENSES

Property operating expenses consist of property taxes, property management fees and other expenses such as common area costs, utilities, and insurance. The majority of the REIT's property operating expenses are recoverable from tenants in accordance with the terms of the tenants' lease agreements. Operating cost recoveries are included in revenue from properties and amounted to $17.5 million for the three months ended December 31, 2019 compared to $18.8 million for the same period in 2018 Property tax recoveries increased to $7.8 million for the three months ended December 31, 2019 compared to $7.0 million for the same period in 2018. For the year ended December 31, 2019, operating costs recoveries were $70.2 million compared to $65.3 million in the prior year and property tax recoveries increased to $33.0 million for the year ended December 31, 2019 from the same period in the prior year of $27.2 million.

GENERAL AND ADMINISTRATIVE

General and administrative expenses are primarily comprised of asset management fees, professional fees, trustee fees, and other amounts. For the three months ended December 31, 2019, general and administrative expenses are consistent when compared to the same period in 2018. The increase in expenses is a result of higher marketing costs incurred during the three months ended December 31, 2019. For the year ended December 31, 2019 general and administrative expenses have increased $0.2 million from higher asset management fees due to higher average portfolio value in 2019 offset by lower bad debt expense in 2019.

INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Mortgage interest	$ 6,614	$ 7,867	$ 28,106	$ 25,461
Interest on other debt	3,501	4,912	15,786	14,849
Amortization of deferred transaction costs	681	889	3,854	2,993
Amortization of debt mark-to-market adjustments	(59)	(97)	(266)	(443)
Subscription receipts equivalent amount [1]	—	—	—	1,597
Interest on convertible debentures	380	380	1,508	1,405
	$ 11,117	**$ 13,951**	**$ 48,988**	**$ 45,862**

[1]On March 27, 2018 each subscription receipt issued by the REIT on January 26, 2018 was exchanged for one unit and a cash distribution equivalent payment of $0.125 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between January 26, 2018 and March 27, 2018). The cash distribution equivalent payment of $1.6 million was recorded in interest and finance costs for the year ended December 31, 2018.

For the three months ended December 31, 2019, interest and finance costs were $11.1 million, which has decreased by $2.8 million when compared to the same period in 2018 primarily from debt repayment. Amortization of deferred transaction costs also decreased due to asset refinancing that took place in April 2019.

Interest and finance costs were $49.0 million for the year ended December 31, 2019 compared to $45.9 million for the same period in the prior year. The increase is a result of increased costs of debt used to partially finance the acquisition of 20 South Clark in February 2018, a seven asset portfolio in March 2018 and 120 South LaSalle in August 2019 which is offset by debt repayment on various asset dispositions throughout 2018 and 2019 in addition to one-time non-cash mortgage origination costs of $0.7 million incurred during the year ended December 31, 2019.

FINANCE INCOME ON FINANCE LEASE RECEIVABLE

The REIT has a 15 year lease with Manitoba Telecom Services Inc. for the Data Centre. The terms of the lease at inception met the requirements for classification as a finance lease because the minimum lease payments amounted to at least substantially all of the fair value of the leased asset. As a result of this classification, a portion of the lease payments earned on the property is recorded as interest income on finance lease. Interest income recognized on the finance lease for the year ended December 31, 2019 was $0.9 million, which is comparable to interest income recognized for the same period in 2018.

The REIT makes an adjustment to recognize the contribution made by the Data Centre to its Core-FFO and AFFO to account for the difference between accounting under IFRS and the lease contributions a cash basis. On a cash basis the Data Centre currently contributes approximately $6.1 million annually from lease payments.

CHANGE IN FAIR VALUE OF PROPERTIES

The change in fair value of properties increased $10.4 million for the three months ended December 31, 2019 compared to the comparative period in 2018. A large portion of the change in fair value of properties relates to revaluation of certain of the REIT's assets during the three months ended December 31, 2019 as a result of independent third party appraisals and the impact of IFRIC 21 property tax adjustment of $2.6 million for the three months ended December 31, 2019. The REIT obtained property appraisals for six of its assets with a combined value of $425.4 million during the three months ended December 31, 2019. For the year ended December 31, 2019, the fair value of investment properties increased $32.7 million from agreed upon sale prices, third party appraisals and accretive capital and leasing expenditure.

CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

The change in fair value of financial instruments represents the change in the fair value of the REIT's interest rate swaps, subscription receipts and deferred unit liabilities on deferred units issued to Trustees and Officers of the REIT. For the three months and year ended December 31, 2019, the fair value of financial instruments increased $11.0 million and decreased $5.1 million, respectively, compared to the same periods in 2018 due to prevailing interest rates which impacts the REIT's pay-fixed receive-float interest rate swaps.

INCOME TAXES

The REIT is a mutual fund trust and real estate investment trust pursuant to the Tax Act. Under the Tax Act, so long as the REIT meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"), the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. Management intends to operate the REIT in a manner that enables the REIT to continue to meet the REIT Conditions and to distribute all of its taxable income to unitholders. The REIT has reviewed the SIFT Rules and has assessed their application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions for the years ended December 31, 2019 and 2018, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes is required, except for amounts incurred by the U.S. subsidiary.

The REIT's U.S. subsidiary is subject to federal and state income tax on taxable income from U.S. operations. 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%. The tax effects of temporary differences related to the REIT's properties give rise to the recognition of a deferred tax liability in the amount of $0.0 million.

SELECTED ANNUAL INFORMATION

The following table provides selected financial information for the past three years:

	Year ended December 31,		
	2019	2018	2017
Rental revenue	$ 215,520	$ 209,899	$ 152,136
Net income and comprehensive income	59,685	83,378	49,705
Total assets	1,709,964	1,866,729	1,364,845
Non-current debt	818,621	908,488	612,738
Total debt	1,001,947	1,175,826	795,591
Annual distribution, per unit	(0.46)	0.75	0.75

QUARTERLY INFORMATION

The following is a summary of financial and operational information for the REIT for the eight most recently completed quarters:

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue	$ 51,329	$ 52,539	$ 54,452	$ 57,200	$ 59,055	$ 54,499	$ 52,056	$ 44,289
Operating costs	(25,599)	(25,152)	(26,468)	(37,604)	(29,429)	(26,825)	(26,377)	(23,533)
IFRIC 21 property tax adjustment	(2,555)	(2,330)	(2,212)	7,097	(2,107)	(1,151)	(585)	(528)
Straight-line rent and other	999	378	612	350	(161)	(524)	118	(116)
Net operating income	$ 24,174	$ 25,435	$ 26,384	$ 27,043	$ 27,358	$ 25,999	$ 25,212	$ 20,112
Net income	$ 19,813	$ 27,195	$ 9,514	$ 5,919	$ 27,944	$ 17,697	$ 23,592	$ 7,904
Weighted average diluted units [1]	73,278	73,283	74,093	75,247	75,261	75,203	75,139	62,874
Net income and comprehensive income per unit	$ 0.27	$ 0.37	$ 0.13	$ 0.08	$ 0.37	$ 0.24	$ 0.31	$ 0.13
Distributions [2]	$ 7,309	$ 7,309	$ 7,361	$ 11,890	$ 14,096	$ 14,086	$ 14,077	$ 12,469
Distributions per unit	$ 0.1000	$ 0.1000	$ 0.1000	$ 0.1583	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875
FFO [3]	$ 12,600	$ 14,280	$ 13,103	$ 13,543	$ 13,758	$ 15,071	$ 14,810	$ 11,292
FFO per unit - diluted [3]	$ 0.17	$ 0.19	$ 0.18	$ 0.18	$ 0.18	$ 0.20	$ 0.20	$ 0.18
FFO payout ratio [3]	58.0%	51.2%	56.2%	87.8%	102.5%	93.5%	95.1%	110.4%
Core-FFO [3]	$ 13,236	$ 14,906	$ 13,719	$ 14,150	$ 14,356	$ 15,659	$ 15,389	$ 11,862
Core-FFO per unit - diluted [3]	$ 0.18	$ 0.20	$ 0.19	$ 0.19	$ 0.19	$ 0.21	$ 0.20	$ 0.19
Core-FFO payout ratio [3]	55.2%	49.0%	53.7%	84.0%	98.2%	90.0%	91.5%	105.1%
AFFO [3]	$ 11,498	$ 12,420	$ 12,193	$ 11,766	$ 11,101	$ 12,755	$ 12,836	$ 10,108
AFFO per unit - diluted [3]	$ 0.16	$ 0.17	$ 0.16	$ 0.16	$ 0.15	$ 0.17	$ 0.17	$ 0.16
AFFO payout ratio [3]	63.6%	58.8%	60.4%	101.1%	127.0%	110.4%	109.7%	123.4%
Properties	$1,622,085	$1,658,126	$1,655,665	$1,789,784	$1,780,413	$1,783,261	$1,604,452	$1,581,997
Total assets	$1,709,964	$ 1,751,013	$1,742,831	$1,875,906	$1,866,729	$1,874,600	$1,689,148	$1,660,947
Debt	$1,001,947	$1,044,297	$1,064,353	$ 1,181,621	$1,175,826	$1,194,428	$1,016,926	$1,003,951
IFRS net asset value ("NAV")	$ 659,057	$ 649,423	$ 624,928	$ 634,447	$ 642,878	$ 635,375	$ 628,247	$ 615,963
Diluted units outstanding [1]	73,291	73,277	73,293	74,746	75,300	75,236	75,180	75,107
IFRS NAV per unit	$ 8.99	$ 8.86	$ 8.53	$ 8.49	$ 8.54	$ 8.45	$ 8.36	$ 8.20
LTV ratio	58.7%	59.7%	61.2%	63.1%	63.1%	63.8%	60.2%	60.5%
Net debt to adjusted EBITDA	10.1x	10.2x	10.0x	11.6x	12.5x	14.0x	13.0x	14.3x
Interest coverage ratio [3]	2.2x	2.1x	2.2x	2.0x	2.2x	2.4x	2.5x	2.6x
Debt service coverage ratio [3]	1.7x	1.6x	1.6x	1.7x	1.8x	1.9x	1.9x	2.0x
Leasing activity (square feet)	190,894	124,697	149,226	254,409	158,339	258,248	441,222	225,233
Leasing activity as a % of portfolio	2.7%	1.7%	2.0%	3.4%	2.1%	3.3%	5.9%	3.0%
Weighted average lease term (years)	5.6	5.6	5.5	5.6	5.8	5.7	5.5	5.6
Number of properties	37	38	39	41	41	43	45	45
Office GLA	6,998,980	7,221,258	7,377,177	7,467,648	7,467,367	7,756,469	7,348,159	7,347,765
Total GLA	7,113,814	7,336,092	7,492,011	7,582,482	7,582,201	7,871,383	7,463,073	7,462,679
Occupancy - excluding redevelopment	88.3%	87.5%	88.6%	89.0%	88.9%	88.3%	89.1%	88.2%
Occupancy	87.1%	86.3%	87.2%	87.7%	87.6%	87.1%	86.8%	85.9%

[1] Includes REIT units, the conversion of the Class B LP units and deferred units and is shown in thousands at the end of the respective periods. Weighted average diluted units is the weighted average number of diluted units outstanding during the respective quarter and diluted units outstanding is the diluted units outstanding at the end of the quarter.

[2] Includes distributions made to both unitholders of the REIT and Class B LP unitholders.

[3] The calculation of these non-IFRS financial measures and a reconciliation to relevant IFRS measures are included in Part III and IV.

PART IV - FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

The REIT endeavors to maintain appropriate levels of financial liquidity to meet its business objectives and commitments. Primarily, the REIT utilizes revolving credit facilities to provide this financial liquidity in addition to cash on hand. The revolving credit facilities can be drawn or repaid on short notice, which reduces the need to hold cash and deposits, while also minimizing borrowing rates.

The principal liquidity needs of the REIT arise from working capital requirements, distributions to unitholders, planned funding of maintenance capital expenditures, leasing costs and future property acquisitions. Cash flows from operating the REIT's property portfolio, available funding under the REIT's credit facilities and cash on hand represent the primary sources of liquidity. Cash flows from operations are dependent upon rental occupancy levels, rental rates, the collection of rents, recoveries of operating costs and the level of operating costs.

The REIT's available liquidity is as follows:

	December 31, 2019	December 31, 2018
Cash	$ 6,117	$ 7,192
Undrawn revolving facilities	31,121	21,872
Liquidity	**$ 37,238**	**$ 29,064**

DEBT STRATEGY

The REIT's obligations with respect to debt repayments and funding requirements for future investment property acquisitions will be primarily funded from cash retained after distributions, refinancing the REIT's maturing debt, financing unencumbered properties or future issuances of trust units.

The REIT's overall borrowing objective is to obtain secured financing, with terms to maturity that are appropriate having regard to the lease maturity profiles of the underlying properties and which allows the REIT to achieve and maintain staggered debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period. The REIT also endeavors to have an appropriate amount of fixed rate debt and to extend loan terms when borrowing conditions are favourable, which is actively monitored by management.

The following are the REIT's interest rate hedges at December 31, 2019:

			Notional amount [2]		Fair value	
Maturity date	Floating interest rate [1]	Fixed interest rate	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
June 10, 2021	1 month CDOR	1.87%	$ 63,488	$ —	$ 93	$ —
June 30, 2021	1 month BA	1.94%	35,000	—	15	—
September 10, 2025	1 month U.S. LIBOR	2.18%	131,276	137,887	(4,205)	(1,940)
April 12, 2023	1 month BA	1.90%	58,281	—	294	—
April 12, 2023	1 month CDOR	2.04%	79,614	—	(125)	—
April 12, 2023	1 month CDOR	2.04%	37,596	—	(59)	—
May 1, 2023	1 month BA	3.64%	25,802	29,242	(69)	218
October 30, 2026	1 month BA	2.30%	100,000	100,000	(1,560)	(1,390)
August 14, 2023	1 month BA	4.37%	18,692	20,032	(546)	(658)
February 1, 2024	1 month U.S. LIBOR	1.80%	64,940	—	(650)	—
March 22, 2024	1 month BA	1.90%	100,000	—	439	—
			$ 714,689	**$ 287,161**	**$ (6,373)**	**$ (3,770)**

[1] "BA" means the one-month Bankers' Acceptances rate and "LIBOR" means the one month U.S. London Interbank Offering Rate, and "CDOR" means the Canadian Dollar Offered Rate.
[2] The notional amount of the U.S. dollar pay-fixed receive-float interest rate swap, maturing August 30, 2022 and February 1, 2024, are U.S. $101.1 million and U.S. $50 million respectively.

Including these swaps, the REIT's fixed rate debt has increased to 91.2% at December 31, 2019 (December 31, 2018 - 50.8%).

In conjunction with the sale of the 25% interest of the GTA Office Portfolio, the REIT received incremental debt on five of the six properties, which resulted in $31.5 million of additional proceeds to the REIT at its share and extended those maturities by 1.5 years. This refinancing increased the amount of fixed rate debt by $100.9 million. On April 24, 2019 the REIT entered into a pay-fixed receive-float interest rate swap pertaining to one of its floating rate loans, commencing May 1, 2019. The swap has a notional amount of $64.6 million at an all in rate of 4.14% and expires on June 1, 2021.

On July 5, 2019, the REIT entered into a $35.0 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.94% and a start date of July 5, 2019, expiring June 30, 2021. On July 5, 2019, the REIT also entered into a U.S. $50.0 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.80% and a start date of July 15, 2019, expiring February 1, 2024. Together, these swaps bring the REIT's fixed debt ratio to 91.2%.

The REIT has multiple sources of financing from its various credit facilities which have borrowing capacity available and provide shorter term flexibility to support the REIT's multiple growth-oriented initiatives. Further, in instances where management believes that there are meaningful value creation opportunities, the REIT will generally seek to utilize short-term floating rate financing, to allow for maximum debt proceeds when subsequently utilizing term or mortgage debt upon full execution of management's asset strategy. Additionally, where management has identified properties for potential sale, the REIT will seek to utilize short-term floating rate financing to prevent value erosion on sale from requiring a purchaser to assume potentially above market low leverage debt. While the REIT's credit facilities represent one element of our funding strategy, this will be coupled with the REIT's access to financing alternatives from multiple financial institutions at competitive rates, which the REIT has consistently done. In addition, the REIT's development pipeline and associated construction activities are funded by dedicated construction facilities provided by various banking syndicates at attractive rates for appropriate terms commensurate with each respective project.

Convertible Debentures

On January 26, 2018, the REIT issued $28.8 million of 5.25% convertible unsecured subordinated debentures of the REIT.

The convertible debentures are convertible into freely tradeable 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 February 28, 2023; 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 $10.53 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 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 convertible debentures may not be redeemed by the REIT prior to February 28, 2021. On and from February 28, 2021, and prior to February 28, 2022, 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 February 28, 2022, and prior to February 28, 2023, 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.

Maturity profile

The REIT has two facilities maturing in 2020, totaling $183.3 million. The REIT expects to renew on similar terms upon renewal. The following is a summary of future principal repayments and maturities at December 31, 2019:

2020	$ 183,326
2021	489,969
2022	9,323
2023	240,919
2024	4,730
Thereafter	78,126
	$ 1,006,393

Debt profile

On August 1, 2019, the REIT renewed its term loan for $108.0 million at a rate of BA plus 2.13% expiring June 30, 2021.

On October 31, 2019 the REIT refinanced its revolving credit facility at a rate of BA plus 2.00% maturing February 21, 2021 and with a capacity of $56.0 million following the discharge of one of the REIT's investment properties disposed of on November 5, 2019.

Debt held by the REIT at December 31, 2019 is as follows:

	Maturity	Coupon [1]	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn [2]
Mortgages [3 4 5]	Various	Various	17	$ 1,005,305	$ 589,490	$ 589,490	$ —	$ —
Revolving facilities [5 6 7]	Various	Various	14	519,973	313,307	282,036	150	31,121
Term loan	Jun. 30, 2021	BA+213bps	5	146,899	106,117	106,117	—	—
Convertible debentures	Feb. 28, 2023	5.25%	—	—	28,750	28,750	—	—
			36	**$ 1,672,177**	**$1,037,664**	**$1,006,393**	**$ 150**	**$ 31,121**

[1]"BA" means the one-month Bankers' Acceptances rate and "bps" means basis point or 1/100th of one percent.
[2]Debt is only available to be drawn subject to certain covenants and other requirements.
[3]The weighted average remaining term to maturity of mortgages is 3.1 years with maturities ranging from 0.7 to 10.8 years and the weighted average interest rate of mortgages is 3.78% with coupons ranging from 2.65% to 7.75%.
[4]Security includes the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's properties. The fair value of security includes the carrying value of the finance lease receivable.
[5]Amounts have been translated from U.S. to Canadian dollars using the prevailing exchange rate on December 31, 2019.
[6]Stand-by fees incurred on the unutilized portion of on the revolving operating facility and the revolving credit facility are each 0.40%, charged and paid quarterly.
[7]Principal balance includes $168.3 million and U.S. $53.0 million of operating facilities and a credit facility of $44.9 million. The weighted average remaining term to maturity of revolving facilities is 1.1 years with maturities ranging from 1.1 to 1.1 years and the weighted average interest rate of revolving facilities is 3.94% with coupons ranging from 3.76% to 3.99%.

The carrying value of debt held by the REIT at December 31, 2019 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	$ 589,490	$ (3,344)	$ 999	$ 587,145	$ 183,326	$ 403,819
Revolving facilities	282,036	(2,210)	1,552	281,378	—	281,378
Term loan	106,117	(698)	167	105,586	—	105,586
Convertible debentures [1]	28,750	(1,320)	408	27,838	—	27,838
	$ 1,006,393	**$ (7,572)**	**$ 3,126**	**$ 1,001,947**	**$ 183,326**	**$ 818,621**

[1]Represents 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 amount of $0.2 million, are accounted for separately. These embedded derivative features are included within derivatives on the REIT's consolidated statements of financial position.

INDEBTEDNESS RATIO

The indebtedness ratio is a non-IFRS measure calculated by the REIT. In accordance with the REIT's Declaration of Trust, the REIT's indebtedness may not exceed 65% of gross book value, which is defined by the Declaration of Trust as total assets less restricted cash. The REIT's indebtedness ratio at December 31, 2019 was 58.7% which is lower by 437 basis points compared to December 31, 2018. Subject to market conditions and the growth of the REIT, management's medium term target is to maintain total indebtedness at approximately 55%. The success of this strategy is dependent upon debt market parameters existing at the time of borrowing, as well as the particular features and quality of the underlying assets being financed. Management believes that this objective will require at least two years to achieve. If this strategy is unsuccessful, debt principal repayments may need to be funded by operating cash flows, additional draws under the REIT's revolving credit and operating facilities, financing of unencumbered income-producing properties or by issuances of equity or debt securities.

The REIT's indebtedness level is calculated as follows:

	December 31, 2019	December 31, 2018
Total assets	$ 1,709,964	$ 1,866,729
Less: restricted cash	(4,253)	(3,648)
Gross book value	1,705,711	1,863,081
Debt	$ 1,001,947	$ 1,175,826
Leverage ratio	**58.7%**	**63.1%**

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

ADJUSTED EBITDA

Adjusted EBITDA is a non-IFRS measure and is used by the REIT to monitor the REIT's ability to satisfy and service its debt as well as monitor requirements imposed by the REIT's lenders. Specifically, adjusted EBITDA is used to monitor the REIT's leverage ratio, interest coverage ratio and debt service ratio, which the REIT uses to measure its debt profile and assess its ability to satisfy its obligations, including servicing its debt. Management views adjusted EBITDA as a proxy for operating cash flow prior to interest costs. Adjusted EBITDA represents earnings before interest, income taxes, depreciation, fair value gains (losses) from both financial instruments and investment properties, while also excluding non-recurring items such as transaction costs from dispositions, acquisitions or other events.

The following is a reconciliation from net income to adjusted EBITDA:

	Twelve months ended December 31,	
	2019	2018
Net income	$ 62,441	$ 77,137
Straight line rent and other changes	2,339	(683)
Interest income	(556)	(264)
Interest and finance costs	48,988	44,265
Change in fair value of properties	(32,738)	(15,288)
IFRIC 21 property tax adjustment	—	(4,371)
Change in fair value of financial instruments	2,710	(2,401)
Distributions to Class B shareholders	2,421	3,964
Disposition costs	12,142	2,247
Depreciation of hotel asset	1,000	947
Change in fair value of Class B LP units	(634)	(11,469)
Deferred income tax recovery	830	(721)
Adjusted EBITDA	**$ 98,943**	**$ 93,363**

The following is a calculation of adjusted EBITDA:

	Twelve months ended December 31,	
	2019	2018
Rental revenue	$ 215,520	$ 209,899
Property operating expenses	(114,823)	(106,164)
IFRIC 21 property tax adjustment	—	(4,371)
Finance income on finance lease receivable	3,615	3,765
Straight line rent and other changes	2,339	(683)
Subscription receipt equivalent amount paid	—	(1,597)
General and administrative	(7,708)	(7,486)
Adjusted EBITDA	**$ 98,943**	**$ 93,363**

INTEREST COVERAGE

In addition to the REIT's level of indebtedness calculated in accordance with the REIT's Declaration of Trust, management also monitors certain financial measures, which include the (i) net debt to adjusted EBITDA leverage ratio, (ii) interest coverage ratio, and (iii) the debt service coverage ratio. All of these measures are non-IFRS measures.

Net debt to adjusted EBITDA leverage ratio

The net debt to adjusted EBITDA ratio is used to calculate the financial leverage of the REIT, specifically, its ability to meet financial obligations and to provide a measure of its balance sheet strength. The REIT calculates debt to adjusted EBITDA by dividing the aggregate amount of debt outstanding, less cash on hand, by the trailing twelve month adjusted EBITDA. The net debt to adjusted EBITDA leverage ratio also indicates the number of years required for the REIT’s unleveraged operating earnings (i.e. before depreciation, amortization, transaction costs, gains or losses, fair value adjustments, and taxes) to cover or repay all outstanding debts. The net debt to adjusted EBITDA ratio also takes into consideration the cash on hand to decrease debt.

The following is a calculation of net debt to adjusted EBITDA for the trailing twelve months ended:

		December 31, 2019		December 31, 2018
Debt	$	1,001,947	$	1,175,826
Less: Cash on hand		6,117		7,192
Net debt		995,830		1,168,634
Adjusted EBITDA [1]		98,943		93,363
Net debt to Adjusted EBITDA (times)		**10.1x**		**12.5x**

[1]Adjusted EBITDA is based on actuals for the twelve months preceding the balance sheet date.

Interest coverage ratio

The interest coverage ratio is useful in determining the REIT's ability to service the interest requirements of its outstanding debt. The interest coverage ratio is calculated by dividing adjusted EBITDA by the REIT's interest obligations for the period. Management utilizes this ratio to measure and limit leverage.

The following is a calculation of interest coverage ratio:

	Twelve months ended December 31,			
		2019		2018
Adjusted EBITDA	$	98,943	$	93,363
Interest expense		45,400		41,715
Interest coverage ratio (times)		2.2x		2.2x

Debt service coverage ratio

The debt service coverage ratio is determined as adjusted EBITDA divided by the debt service requirements for the period, whereby the debt service requirements reflects amortizing principal repayments and interest expensed during the period. Payments related to defeasance, prepayment penalties, or payments upon discharge of a mortgage are excluded from the calculation. The debt service coverage ratio is a useful measure and is used by the REIT's management to monitor the REIT's ability to meet annual interest and principal payments.

The following is a calculation of debt service coverage ratio:

	Twelve months ended December 31,			
		2019		2018
Adjusted EBITDA	$	98,943	$	93,363
Interest expense		45,400		41,715
Principal repayments		13,247		12,805
Debt service requirements	$	58,647	$	54,521
Debt service coverage ratio		**1.7x**		**1.7x**

DEBT REPAYMENT SCHEDULE

The following table outlines the REIT's annual principal payments and maturity schedule, together with the weighted average annual interest rates at December 31, 2019:

		Annual Principal Payments		Principal Repayments on Maturity		Total	Percentage (%)	Weighted Average Contractual Interest Rate on Maturing Debt (%)
2020	$	12,050	$	171,276	$	183,326	18.2%	3.8%
2021		11,093		478,876		489,969	48.7%	4.1%
2022		9,323		—		9,323	0.9%	n/a
2023		6,110		234,809		240,919	23.9%	3.7%
2024		4,730		—		4,730	0.5%	n/a
Thereafter		19,628		58,498		78,126	7.8%	3.6%
Weighted average interest rate								**3.9%**

The REIT has managed indebtedness to ensure the REIT is not exposed to liquidity risk due to concentration of debt maturities. As part of this strategy, the REIT is proactive in negotiating renewals for near term debt maturities. The REIT has debt maturing throughout 2020 totaling

$183.3 million which the REIT expects to renew on consistent terms. At December 31, 2019, after the impact of interest rate swaps, the REIT had floating rate mortgage and debt of $88.2 million (December 31, 2018 – $581.0 million).

The following table presents the annualized impact of a change in floating interest rates of 25 basis points on finance costs:

	December 31, 2019	December 31, 2018
Change of 25 bps	$ 221	$ 1,453

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following is a summary of the REIT's contractual obligations over the next five years at December 31, 2019:

	Total contractual cash flow	2020	2021-2022	2023-2024	Thereafter
Accounts payable and accrued liabilities	$ 36,215	$ 36,215	$ —	$ —	$ —
Amortizing principal repayments on debt	62,934	12,050	20,416	10,840	19,628
Principal repayments on maturity of debt	943,459	171,276	478,876	234,809	58,498
Interest on debt [1]	76,214	34,440	25,984	8,673	7,117
Interest rate swaps [2]	5,961	1,089	2,609	1,687	576
Other liabilities	6,273	1,675	1,005	772	2,821
Total	**$ 1,131,056**	**$ 256,745**	**$ 528,890**	**$ 256,781**	**$ 88,640**

[1]Interest amounts on floating debt have been determined using floating rates at December 31, 2019.

[2]Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the December 31, 2019 floating rate.

DERIVATIVES

Interest rate derivatives

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

The REIT currently has in place certain pay-fixed and receive-float interest rate swaps. The swaps are derivative financial instruments that require a periodic exchange of payments with counter-parties without the exchange of the notional amount on which the payments are based. The recorded interest expense on the underlying mortgages payable reflects payments made and received under the interest rate swaps. These swaps are not designated as hedging instruments that qualify for hedge accounting under IFRS.

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.

During the first quarter of 2019, the REIT entered into a $100.0 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.90%, a start date of March 22, 2019 and a five year term. In conjunction with the sale of the 25% interest of the GTA Office Portfolio, the REIT received incremental debt on five of the six properties, which resulted in $31.5 million of additional proceeds to the REIT at its share and extended those maturities by 1.5 years. This refinancing increased the amount of fixed rate debt by $100.9 million. On April 24, 2019 the REIT entered into a pay-fixed receive-float interest rate swap pertaining to one of its floating rate loans, commencing May 1, 2019. The swap is for a notional amount of $64.6 million at an all in rate of 4.14% and expires on June 10, 2021.

On July 5, 2019, the REIT entered into a $35.0 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.94% and a start date of July 5, 2019, expiring June 30, 2021. On July 5, 2019, the REIT also entered into a U.S. $50.0 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.80% and a start date of July 15, 2019, expiring February 1, 2024. These derivatives increased the REIT's fixed debt ratio by 40.4% to 91.2% at December 31, 2019 from 50.8% at December 31, 2018.

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

			Notional amount [2]		Fair value	
Maturity date	Floating interest rate [1]	Fixed interest rate	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
June 10, 2021	1 month CDOR	1.87%	$ 63,488	$ —	$ 93	$ —
June 30, 2021	1 month BA	1.94%	35,000	—	15	—
September 10, 2025	1 month U.S. LIBOR	2.18%	131,276	137,887	(4,205)	(1,940)
April 12, 2023	1 month BA	1.90%	58,281	—	294	—
April 12, 2023	1 month CDOR	2.04%	79,614	—	(125)	—
April 12, 2023	1 month CDOR	2.04%	37,596	—	(59)	—
May 1, 2023	1 month BA	3.64%	25,802	29,242	(69)	218
October 30, 2026	1 month BA	2.30%	100,000	100,000	(1,560)	(1,390)
August 14, 2023	1 month BA	4.37%	18,692	20,032	(546)	(658)
February 1, 2024	1 month U.S. LIBOR	1.80%	64,940	—	(650)	—
March 22, 2024	1 month BA	1.90%	100,000	—	439	—
Total			**$ 714,689**	**$ 287,161**	**$ (6,373)**	**$ (3,770)**

[1]"BA" means the one-month Bankers' Acceptances rate and "LIBOR" means the one month U.S. London Interbank Offering Rate, and "CDOR" means the Canadian Dollar Offered Rate.
[2]The notional amount of the U.S. dollar pay-fixed receive-float interest rate swap, maturing August 30, 2022, is U.S. $101.1 million.

Foreign exchange derivative

The REIT intends to manage its U.S. dollar exposure from its net investment in U.S. operations through foreign exchange swaps. From time to time, the REIT may enter into foreign exchange derivatives to sell U.S. dollars and buy Canadian dollars on a forward basis to mitigate the REIT's exposure to value changes in the Canadian dollar equivalent value of the REIT's equity in its U.S. properties resulting from U.S.-Canadian exchange rates.

The REIT has executed the following hedges in 2019:

On December 28, 2018 the REIT entered into a foreign exchange transaction to sell U.S.$75.0 million at an exchange rate of 1.3606 and purchase Canadian dollars. On March 29, 2019 the REIT entered into an offsetting trade to purchase U.S.$75.0 million and settled on a net basis with the original transaction for a gain of $1.8 million which was recorded in other comprehensive income.

On March 29, 2019 the REIT entered into a foreign exchange transaction to sell U.S. $75.0 million at an exchange rate of 1.3324 and purchase Canadian dollars. On June 11, 2019 the REIT entered into an offsetting trade to purchase U.S. $75.0 million and settled on a net basis with the original transaction for a gain of $0.5 million which was recorded in other comprehensive income.

On November 20, 2019 the REIT entered into a foreign exchange transaction to sell U.S. $75.0 million at an exchange rate of 1.3271 and purchase Canadian dollars. On December 5, 2019 the REIT entered into an offsetting trade to purchase U.S. $75.0 million and settled on a net basis with the original transaction for a gain of $0.7 million which was recorded in other comprehensive income.

FINANCIAL CONDITION

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

The following table provides an overview of the REIT's cash flows from operating, financing and investing activities:

	Year ended December 31,	
	2019	2018
Net change in cash related to:		
Operating	$ 49,296	$ 49,387
Investing	116,572	(384,185)
Financing	(166,909)	332,465
Foreign exchange (loss) gain on cash held in foreign currency	(34)	372
Decrease in cash	**$ (1,075)**	**$ (1,961)**

The change in cash for the year ended December 31, 2019 and 2018 was the result of the following factors:

- Operating – cash flows for the year ended December 31, 2019 decreased by $0.1 million when compared to the same period in 2018. NOI has increased period over period from contributions from acquisition activity offset by asset dispositions throughout 2018 and 2019 and higher interest and finance costs incurred to partially finance asset acquisitions.
- Investing – cash inflows for the year ended December 31, 2019 were $116.6 million compared to cash outflows of $384.2 million in the same period in 2018. The cash inflows in the current period were from the disposition of at 25% interest in the GTA Office Portfolio, 895 and 1000 Waverley, 225 Duncan Mill and 5500 North Service Road compared to the acquisition of 20 South Clark and 120 South LaSalle in Chicago, IL and a seven asset portfolio in the Greater Toronto Area and Atlantic Canada during the year ended December 31, 2019.
- Financing – cash expenditure for the year ended December 31, 2019 primarily relates to the repayment of debt from proceeds on the GTA Office Portfolio, 895 and 1000 Waverley, 225 Duncan Mill and 5500 North Service Road in addition to the repurchase and cancellation of units under the REIT's NCIB, compared to proceeds on debt obtained to finance the acquisition of 20 South Clark, a seven asset portfolio and 120 South LaSalle during the year ended December 31, 2018.

DEFERRED UNIT PLAN

Trustee deferred unit plan

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

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

At December 31, 2019, the liability associated with the Trustee DUP was $0.7 million (December 31, 2018 - $0.6 million), and the number of outstanding deferred units was 116,902 (December 31, 2018 - 97,108 units).

Officer deferred unit plan

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

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

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

As at December 31, 2019, the liability associated with deferred units issued under the Officer DUP was $0.1 million (December 31, 2018 - $0.1 million) and the number of deferred units was 10,106 (December 31, 2018 - 9,332).

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's trust units are traded on the TSX and had a closing price of $5.85 on December 31, 2019.

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

As at December 31, 2019, the total number of trust units outstanding was 67,878,409. As at February 28, 2020, the total number of trust units outstanding was 67,878,409.

Normal course issuer bid

On May 15, 2019, the REIT renewed its normal course issuer bid ("NCIB"), whereby the REIT may purchase up to 6,785,339 trust units, subject to certain restrictions. The renewed NCIB expires on the earlier of May 14, 2020 and the repurchase of the maximum number of trust units. Throughout 2019 the REIT repurchased and cancelled 2,132,677 units for an aggregate cost of $13.0 million. This reduced the number of outstanding REIT units, which is accretive to net asset value and per unit metrics for unitholders.

Potential trust units

	December 31, 2019	December 31, 2018
Class B LP units	5,285,160	5,285,160
Deferred units	127,007	106,440
	5,412,167	**5,391,600**

The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis, subject to anti-dilution adjustments. Each Class B LP unit is accompanied by one special voting unit of the REIT providing the same voting rights in the REIT as the trust units of the REIT and is entitled to distributions of cash equal to the cash distributions paid to holders of trust units by the REIT. The Class B LP units are recognized in the REIT's consolidated financial statements as financial liabilities measured at fair value through profit and loss. Upon exchange into trust units of the REIT, the carrying amount of the liability representing the fair value of the Class B LP units on exchange date will be reclassified to unitholders' equity. During the year ended December 31, 2019, there were no Class B LP units exchanged for the REIT's trust units.

Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the year ended December 31, 2019 and 2018. 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:

	Year ended December 31,	
	2019	2018
Basic weighted average units outstanding	68,567,368	66,831,271
Class B LP units	5,285,160	5,285,160
Deferred units	110,425	75,231
Diluted weighted average units outstanding	**73,962,953**	**72,191,662**

Diluted units outstanding

The following is the diluted number of units outstanding at December 31, 2019 and 2018. The diluted number of units outstanding is determined as if all of the Class B LP units and deferred units have been converted to units of the REIT:

	December 31, 2019	December 31, 2018
Trust units outstanding	67,878,409	69,908,485
Class B LP units	5,285,160	5,285,160
Deferred units	127,007	106,440
Diluted units outstanding	**73,290,576**	**75,300,085**

RELATED PARTY TRANSACTIONS

The REIT has a management agreement (the "Management Agreement") with SMULC, an indirect subsidiary of Slate, whereby SMULC as the REIT's manager provides the REIT with the strategic, administrative, property management, leasing, acquisition and disposition, financing and construction management services necessary to manage the strategy and day-to-day operations of the REIT and its assets.

Slate directly and indirectly held the following interests in the REIT:

	December 31, 2019	December 31, 2018
REIT units	1,687,251	1,687,251
Class B LP units	5,285,160	5,285,160
Total	**6,972,411**	**6,972,411**
Economic interest	**9.5%**	**9.3%**

Since becoming the manager of the REIT in late 2014, Slate has been the largest unitholder in the REIT. Accordingly, Slate is highly motivated to continue to grow the operations and financial position of the REIT on an accretive basis.

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]

[1]Gross revenue is defined as all revenues received by and/or on behalf of the REIT from the leasing and/or licensing of the the REIT's properties.
[2]Gross book value is defined as the book value of the REIT's assets as shown on the previous quarter's consolidated financial statements, less restricted cash.
[3]Leasing fees are charged to the REIT net of any third party brokerage fees paid to leasing agents retained by the REIT. No fee is charged to the REIT where such third party fees are equal to or greater than the lease fee payable to SMULC.
[4]Acquisition fees are 1.0% on the first $100 million of acquisitions; 0.75% on the next $100 million of acquisitions and 0.50% for acquisitions in excess of $200 million.

The REIT incurred the following fees under the Management Agreement:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Property management	$ 1,649	$ 1,589	$ 6,404	$ 5,885
Asset management	1,320	1,447	5,432	5,012
Leasing, financing, and construction	829	462	4,052	2,612
Acquisition	—	11	—	3,302
	$ 3,798	**$ 3,509**	**$ 15,888**	**$ 16,811**

Property administration fees are generally recoverable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the REIT's properties. Property administration fees were $10.4 million for the year ended December 31, 2019 (December 31, 2018 – $10.0 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 for a term of 10 years, commencing November 1, 2019.

As part of the REIT's acquisition of a seven asset portfolio in the Greater Toronto Area and Atlantic Canada on March 27, 2018, the REIT was provided an income supplement in the aggregate amount of $2.4 million to be received in equal quarterly installments in each of the eight calendar quarters following the acquisition of the seven asset portfolio from SCREO I L.P., an entity managed by Slate. The income supplement is recorded as an other asset on the consolidated statement of financial position at amortized cost. During the year ended December 31, 2019, the REIT recorded $51 thousand as interest income in the consolidated statement of income.

The following are the assets and liabilities included in the consolidated statement of financial position of the REIT related to SMULC, Slate and SCREO I L.P.:

	December 31, 2019	December 31, 2018
Income supplement receivable	$ 296	$ 1,445
Accounts receivable	545	533
Accounts payable and accrued liabilities	(843)	(765)
Class B LP units	(30,918)	(31,552)

PART V - ACCOUNTING AND CONTROL

CRITICAL ACCOUNTING ESTIMATES

The REIT has identified the estimate of the fair value of its properties as a critical accounting estimate due to the significance of the estimate to the REIT's financial position and impact of changes on fair value to net income. Estimating the fair value of real property is characterized by uncertainty, both in terms of differences between different methods of valuation but also in the selection of assumptions to reflect the property being valued, certain of which are subjective. There is no assurance that management's, or a third-party's, estimate of fair value would be realized on sale due to the specific and unique aspects of real property, including their location, liquidity, tenants and the local demand and supply of competing properties for tenants.

The REIT determines the fair value of properties based upon either the overall income capitalization rate method or the discounted cash flow method, direct comparison approach or through a combination of methods. All methods are generally accepted appraisal methodologies. If a third party appraisal is not obtained for a property, management uses one or a combination of the overall income capitalization rate method and the discounted cash flow method. In certain circumstances the direct comparison approach is used by comparing properties to similar properties that have sold, but adjusting for differences in the nature, location and other relevant considerations of the properties. The valuation methodology used, or combination of methodologies used, is based on the applicability and reliability of the relative approaches in the context of the subject property.

The fair values of 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 properties taken in aggregate may differ from the fair value of properties measured individually in the REIT's consolidated statements of financial position.

The following is a summary of the methodologies undertaken by management to estimate the fair value of the REIT's properties:

Overall income capitalization approach

The overall income capitalization approach evaluates a property's potential to generate cash flows and converts those cash flows into a present value. Generally, the REIT estimates a stabilized NOI and applies a capitalization rate to that income to estimate fair value. Stabilized NOI is determined as the property's potential gross income that could be generated at full capacity, less a vacancy and collection allowance. The capitalization rate used is derived from analysis of comparable sales data and the relative relationship of other properties' NOI over their sale price. In many cases, industry surveys are available that provide indicative ranges of capitalization rates for recently sold properties or views on value, however, certain adjustments are required to adjust for the specific nature, location and quality of properties.

Discounted cash flow method

Under the discounted cash flow method, fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 NOI. Capitalization and discount rates are the most significant assumptions in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other things, in determining the most appropriate assumptions.

Direct comparison approach

This approach involves comparing properties similar to the property for which fair value is being estimated and making adjustments to reconcile differences in size, location, nature and the quality of the property.

A summary of the significant assumptions used in the REIT's estimate of fair value as at December 31, 2019 is included in this MD&A. Changes in these assumptions would have a significant impact on the REIT's estimate of fair value, which can be impacted by changes in demand for properties similar to those owned by the REIT, expectations of market rents, the covenant quality of tenants and the general economic environment. Further, these changes can occur at different times and magnitudes for each of the REIT's Western, Ontario and Atlantic regions based on the investment environments in each of their respective markets.

NEW ACCOUNTING POLICIES

IFRS 16, Leases ("IFRS 16")

The REIT has applied IFRS 16 effective January 1, 2019. IFRS 16 replaces IAS 17, *Leases* ("IAS 17"), and IFRIC 4, *Determining whether an arrangement contains a lease*. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The adoption of IFRS 16 did not have a material impact to the REIT's consolidated financial statements.

INCOME TAXES AND THE REIT EXCEPTION

The REIT's currently qualifies as a "mutual fund trust" as defined in the Tax Act. In accordance with the REIT's Declaration of Trust, distributions to Unitholders are declared at the discretion of the trustees. The REIT endeavours to distribute to Unitholders, in cash or trust units, in each taxation year its taxable income to such an extent that the REIT will not be liable to income tax under Part I of the Tax Act.

The Tax Act imposes a special taxation regime (the "SIFT Rules") applicable to certain publicly traded income trusts (each a "SIFT"). A SIFT includes a trust resident in Canada with publicly traded units that holds one or more "non-portfolio properties". "Non-portfolio properties" include certain investments in real properties situated in Canada and certain investments in corporations and trusts residents in Canada and in partnerships with specified connections in Canada. Under SIFT Rules, a SIFT is subject to tax in respect of certain distributions that are attributable to the SIFT's "non-portfolio earnings" (as defined in the Tax Act; generally, income (other than certain dividends) from, or capital gains realized on, "non-portfolio properties", which does not include certain investments in non-Canadian entities), at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. The SIFT Rules are not applicable to a SIFT that meets certain specified criteria relating to the nature of its revenues and investments in order to qualify as a real estate investment trust for purposes of the Tax Act (the "REIT Exception"). The REIT qualifies for the REIT Exception as of December 31, 2019.

The REIT's U.S. subsidiary is subject to federal and state income tax on taxable income from the operations of 20 South Clark and 120 South LaSalle. The REIT recognizes deferred tax assets on unused tax losses and deductible temporary tax differences. The REIT recognizes deferred tax liabilities on deferred tax assets and liabilities are measured at prevailing tax rates when such differences are expected to settle, based on tax laws enacted at the reporting date.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS for the year ended December 31, 2019.

As at December 31, 2019 the REIT's CEO and CFO, along with the assistance of others, have designed disclosure controls and procedures to provide reasonable assurance that information required to be disclosed in the various reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In the design of its internal controls the REIT uses the 2013 framework published by the Committee of Sponsoring Organizations of the Treadway Commission. No changes were made in the REIT's design of ICFR for the year ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

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

The REIT's CEO and CFO have evaluated, or caused the evaluation of, under their supervision, the effectiveness of the REIT's DC&P and its ICFR as at December 31, 2019 and have concluded that such DC&P and ICFR were operating effectively.

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

PART VI - PROPERTY TABLE

Details of the REIT's property portfolio at December 31, 2019 is set out in the table below:

Asset Class	Property Address	Property Name	City	Year Built / Renovated / Expanded	Interest	Square feet of GLA	Occupancy
United States Office							
	20 South Clark Street		Chicago, IL	1970 / 2005	100%	381,607	85.1%
	120 South LaSalle Street		Chicago, IL	1929 / 1998	100%	656,264	84.5%
Total United States Office						**1,037,871**	**84.7%**
Greater Toronto Area Office							
	7030, 7050, 7100 Woodbine Avenue & 55, 85 Idema Road	Woodbine & Steeles Corporate Centre	Markham, ON	1984 / 2011	75%	359,541	93.0%
	3000 - 3100 Steeles Avenue East	Gateway Centre	Markham, ON	1982 / 1987	75%	238,819	96.3%
	2655 - 2695 North Sheridan Way	The Sheridan Exchange	Mississauga, ON	1987 / 1989	75%	158,322	85.0%
	2285 Speakman Drive		Mississauga, ON	1981	100%	127,419	100.0%
	2599 Speakman Drive [1]		Mississauga, ON	1971 / 2011	100%	119,145	15.1%
	2251 Speakman Drive		Mississauga, ON	1965 / 2016	100%	115,580	100.0%
	1189 Colonel Sam Drive		Oshawa, ON	2001	100%	103,179	100.0%
	4211 Yonge Street		Toronto, ON	1982	75%	170,679	73.6%
	1 Eva Road		Toronto, ON	1978 / 2011	100%	91,963	87.3%
	185 - 195 The West Mall	West Metro Corporate Centre	Toronto, ON	1986 / 2006	75%	618,384	91.1%
	401 - 405 The West Mall	Commerce West	Toronto, ON	1982 / 2009	75%	412,532	90.6%
	105 Moatfield Drive		Toronto, ON	1982	100%	248,981	100.0%
	95 Moatfield Drive		Toronto, ON	1982	100%	156,426	100.0%
Total Greater Toronto Area Office						**2,920,970**	**89.4%**
Atlantic Office							
	440 King Street	Kings Place	Fredericton, NB	1974 / 2001	100%	295,799	91.9%
	250 King Street		Fredericton, NB	2000	100%	80,162	100.0%
	460 Two Nations Crossing		Fredericton, NB	2008	100%	50,229	100.0%
	570 Queen Street		Fredericton, NB	1989	100%	69,137	89.3%
	644 Main Street	Blue Cross Centre	Moncton, NB	1988 / 2006	100%	320,154	99.3%
	81 Albert Street		Moncton, NB	2002	100%	64,954	100.0%
	39 King Street [2]	Brunswick Square	Saint John, NB	1976	100%	508,118	62.6%
	4 Herald Avenue		Corner Brook, NL	1968 / 1978	100%	73,305	27.4%
	100 New Gower Street	Cabot Place	St. John's, NL	1987	100%	136,167	99.1%
	10 Factory Lane	The Johnson Building	St. John's, NL	1980	100%	188,170	100.0%
	5 Springdale Street	Fortis Place	St. John's, NL	2014	100%	142,973	79.1%
	140 Water Street	TD Place	St. John's, NL	1980 / 2013	100%	102,879	71.7%
	1505 Barrington Street	Maritime Centre	Halifax, NS	1977 / 1985	100%	531,032	87.8%
	84 - 86 Chain Lake Drive		Halifax, NS	2008 / 2011	100%	77,979	85.6%
Total Atlantic Office						**2,641,058**	**84.4%**
Western Office							
	280 Broadway Avenue [3]		Winnipeg, MB	1957	100%	105,341	86.2%
	114 Garry Street		Winnipeg, MB	1950 / 1995	100%	74,246	100.0%
	1450 Waverley Street	Bell MTS Data Centre	Winnipeg, MB	2015	100%	64,000	100.0%
	365 Hargrave Street		Winnipeg, MB	Various	100%	70,719	100.0%
	1870 Albert Street	Saskatchewan Place	Regina, SK	1985	100%	84,775	70.4%
Total Western Office						**399,081**	**90.1%**
Office						**6,998,980**	**86.1%**

[1]Property under redevelopment.
[2]Includes Delta Brunswick Hotel.
[3]Includes a seven-storey office building at 280 Broadway Avenue, a three-storey multi-family residential building located at 70 Smith Street and two parking lots located at 286 Broadway Avenue and 68 Smith Street; excludes occupancy from residential tenants at 70 Smith Street.

Asset Class	Property Address	Property Name	City	Year Built / Renovated / Expanded	Interest	Square feet of GLA	Occupancy
Non-office							
	5404 36th Street SE	Doka Building	Calgary, AB	1980	100%	36,000	100.0%
	200 Manitoba 10	Walmart Flin Flon	Flin Flon, MB	2002	100%	63,439	100.0%
	307 - 311 Airport Road	Airport Road Shopping Centre	Yellowknife, NWT	1984 / 1993	100%	15,395	100.0%
Non-office						**114,834**	**100.0%**
Total Portfolio						**7,113,814**	**87.1%**
Redevelopment							
	2599 Speakman Drive		Mississauga, ON	1971 / 2011	100%	119,145	15.1%
Total Portfolio Excluding Office Redevelopment						**6,994,669**	**88.3%**

Corporate Information

Slate Office REIT is an unincorporated, open-ended investment trust fund under and governed by the laws of the Province of Ontario. The REIT focuses on acquiring, owning and leasing a portfolio of diversified revenue-producing commercial real estate office properties in North America.

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Toronto Stock Exchange Listings
SOT.UN: trust units
SOT.DB: 5.25% convertible unsecured subordinated debentures

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The REIT's website www.slateofficereit.com provides additional information regarding the REIT's portfolio. investment strategy, management and corporate governance. Additionally, the Investor section includes news, presentations, events, regulatory filings and stock information.

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