Condensed consolidated interim financial statements of

SLATE RETAIL REIT

For the three months ended March 31, 2018

(Unaudited)

Slate Retail REIT
Condensed consolidated interim financial statements

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SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(unaudited – in thousands of United States dollars, unless otherwise stated)

	Note	March 31, 2018	December 31, 2017
ASSETS			
Non-current assets			
Properties	*4, 5*	**$ 1,422,245**	$ 1,454,463
Interest rate swaps	*6*	**14,953**	10,607
Other assets	*7*	**2,677**	2,827
		1,439,875	1,467,897
Current assets			
Other assets	*7*	**12,262**	11,444
Prepaids		**2,069**	2,919
Accounts receivable	*8*	**11,220**	9,876
Cash and cash equivalents	*9*	**12,970**	7,383
		38,521	31,622
Total assets		**$ 1,478,396**	$ 1,499,519
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	*10*	**$ 866,857**	$ 880,353
Other liabilities		**2,859**	2,869
REIT units	*11*	**418,648**	457,590
Exchangeable units of subsidiaries	*11*	**21,245**	24,075
Deferred income taxes	*12*	**62,794**	63,537
		1,372,403	1,428,424
Current liabilities			
Debt	*10*	**5,406**	2,693
Accounts payable and accrued liabilities	*13*	**19,691**	17,289
Distributions payable		**3,238**	3,249
		28,335	23,231
Unitholders' equity		**77,658**	47,864
Total liabilities and unitholders' equity		**$ 1,478,396**	$ 1,499,519

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

SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME

(unaudited – in thousands of United States dollars, unless otherwise stated)

	Note		Three months ended March 31, 2018		2017
Rental revenue	*14*	**$**	**36,544**	$	27,233
Property operating expenses			**(24,519)**		(16,907)
Other expenses	*15*		**(2,476)**		(2,019)
Interest expense and other financing costs, net	*16*		**(8,156)**		(4,934)
Transaction costs	*4, 17*		**(722)**		(354)
Change in fair value of properties	*5*		**(6,557)**		14,638
Net (loss) income before income taxes and unit income (expense)			**(5,886)**		17,657
Deferred income tax recovery (expense)	*12*		**1,879**		(6,552)
Unit income (expense)	*18*		**30,710**		(2,453)
Net income		**$**	**26,703**	$	8,652

SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(unaudited – in thousands of United States dollars, unless otherwise stated)

	Note		Three months ended March 31, 2018		2017
Net income		**$**	**26,703**	$	8,652
Items to be subsequently reclassified to profit or loss:					
Gain on cash flow hedges of interest rate risk, net of tax	*6*		**3,485**		337
Reclassification of cash flow hedges of interest rate risk to income	*6*		**(275)**		143
Other comprehensive income			**3,210**		480
Comprehensive income		**$**	**29,913**	$	9,132

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

SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY
(unaudited – in thousands of United States dollars, unless otherwise stated)

		Retained earnings		Accumulated other comprehensive income ("AOCI")		Capital reserve		Total
Balance, December 31, 2017 [(1)]	$	41,337	$	7,832	$	(1,424)	**$**	**47,745**
Net income and comprehensive income		26,703		3,210		—		**29,913**
Balance, March 31, 2018	**$**	**68,040**	**$**	**11,042**	**$**	**(1,424)**	**$**	**77,658**

(1) Restated for the adoption of IFRS 9, *Financial Instruments*. Refer to Note 3(i).

		Retained (deficit) earnings		AOCI		Capital reserve		Total
Balance, December 31, 2016	$	(5,850)	$	4,342	$	(1,424)	$	(2,932)
Net income and comprehensive income		8,652		480		—		9,132
Balance, March 31, 2017	$	2,802	$	4,822	$	(1,424)	$	6,200

SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(unaudited – in thousands of United States dollars, unless otherwise stated)

		Three months ended March 31,	
	Note	**2018**	2017
OPERATING ACTIVITIES			
Net income		**$ 26,703**	$ 8,652
Items not affecting cash:			
Deferred income tax (recovery) expense	*12*	**(1,879)**	6,552
Straight-line rent	*5*	**(1,135)**	(401)
Change in fair value of properties	*5*	**6,557**	(14,638)
IFRIC 21 property tax adjustment	*5*	**13,834**	9,486
Interest expense and other financing costs	*16*	**8,156**	4,934
Cash interest paid, net		**(8,000)**	(4,912)
Unit (income) expense	*18*	**(30,710)**	2,453
Changes in non-cash working capital items		**2,266**	1,602
		15,792	13,728
INVESTING ACTIVITIES			
Acquisitions		**—**	(32,972)
Dispositions	*4*	**16,637**	11,250
Funds held in escrow		**(633)**	(11,072)
Note advances	*7, 22*	**—**	(1,248)
Capital	*5*	**(734)**	(526)
Leasing costs	*5*	**(618)**	(101)
Tenant improvements	*5*	**(1,753)**	(244)
Development and expansion capital	*5*	**(843)**	(2,913)
		12,056	(37,826)
FINANCING ACTIVITIES			
Revolver advances	*10*	**—**	33,240
Revolver and mortgage repayments	*10*	**(11,121)**	(60,378)
Issuance of REIT units, net of costs	*11*	**—**	57,742
Normal course issuer bid	*11*	**(2,534)**	—
Redemption of exchangeable units of subsidiaries	*11*	**—**	(35)
REIT units distributions, net of DRIP units issued	*11, 18*	**(8,132)**	(7,226)
Exchangeable units of subsidiaries distributions	*18*	**(474)**	(508)
		(22,261)	22,835
Increase (decrease) in cash and cash equivalents		**$ 5,587**	$ (1,263)
Cash and cash equivalents, beginning of the period		**7,383**	13,431
Cash and cash equivalents, end of the period		**$ 12,970**	$ 12,168

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

1. Description of the REIT and operations

Slate Retail REIT (the "REIT") is an unincorporated, open-ended mutual fund trust 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 properties (the "properties") in the United States of America (the "U.S.") with a focus on grocery-anchored retail properties.

The class U units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbols SRT.U and SRT.UN. The principal, registered, and head office of the REIT is 121 King Street West, Suite 200, Toronto, Ontario, M5H 3T9.

The objectives of the REIT are to:

i. provide unitholders with stable cash distributions from a portfolio of diversified revenue-producing commercial real estate properties in the U.S. with a focus on grocery-anchored retail properties;

ii. enhance the value of the REIT's assets in order to maximize long-term unitholder value through active management; and

iii. expand the asset base of the REIT and increase the REIT's earnings on a per unit basis, including through accretive acquisitions.

2. Basis of preparation

i. Statement of compliance

These condensed consolidated interim financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board.

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on May 1, 2018.

iii. Basis of measurement

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

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

iv. Functional and presentation currency

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

3. Significant accounting policies

A summary of significant accounting policies is included in Note 3 "Significant accounting policies" of the audited comparative consolidated financial statements of the REIT as at and for the year ended December 31, 2017. These consolidated financial statements follow the same accounting policies and methods of computation as used in the REIT's most recent annual consolidated financial statements, except as described below. These consolidated financial statements do not include all the information and disclosures required in the annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the REIT's audited comparative consolidated financial statements as at and for the year ended December 31, 2017.

i. Application of new and revised IFRSs

The REIT has adopted the following new accounting standards:

IFRS 9, Financial Instruments ("IFRS 9")

The REIT has applied IFRS 9 effective January 1, 2018. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and provides new guidance on the classification and measurement, impairment and hedge accounting for financial instruments in addition to clarification for the treatment of modifications of financial liabilities that do not result in extinguishment. IFRS 9 is required to be adopted retrospectively with certain available transition provisions.

Details of these new requirements as well as their impact on the REIT's consolidated financial statements are described below. The REIT has applied the standard on a retrospective basis using the available transitional provision to not restate comparatives. Accordingly, an adjustment has been made to retained earnings at January 1, 2018 as described below.

Classification and measurement

IFRS 9 requires a new approach for the classification and measurement of financial assets based on the REIT's business models for managing these financial assets and their contractual cash flow characteristics. This approach is summarized as follows:

- Assets held for the purpose of collecting contractual cash flows that represent solely payments of principal and interest are measured at amortized cost.
- Assets held within a business model where assets are both held for the purpose of collecting contractual cash flows or sold prior to maturity and the contractual cash flows represent solely payments of principal and interest are measured at fair value through other comprehensive income ("FVTOCI").
- Assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest are measured at fair value through profit or loss ("FVTPL").

The REIT has completed a review of its financial instruments held including performing a cash flow and business model assessment. As a result, the REIT determined that cash and cash equivalents, accounts receivable, tax incremental financing ("TIF") notes receivable, financial assets within other assets, and notes receivable currently measured at amortized cost will continue to be measured at amortized cost, and that the REIT's interest rate swaps will continue to be measured at FVTPL.

Impairment

IFRS 9 requires the use of an expected credit loss ("ECL") impairment model for financial assets measured at amortized cost or debt instruments measured at FVTOCI. The ECL model uses an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

The REIT measures the loss allowance at an amount equal to lifetime ECL for trade receivables. The loss allowance for the TIF receivable and notes receivable is also measured at an amount equal to lifetime expected losses. The REIT evaluates each receivable on a specific basis for collectability in addition to the ECL model in general. The REIT's measurement of financial assets primarily related to accounts receivables resulted in a reduction of retained earnings at January 1, 2018 in the amount of $6 thousand.

Hedge accounting

IFRS 9 expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. This new standard did not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it allows more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

In accordance with IFRS 9's transition provisions for hedge accounting, the REIT has chosen as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 for the REIT's existing hedge relationships.

Financial liabilities

Generally, IFRS 9 did not introduce changes to the classification of financial liabilities. The REIT will continue to measure its financial liabilities at amortized cost.

IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in profit or loss at the date of modification. This did not have a material impact on the REIT's measurement of its financial liabilities. The REIT's measurement of financial liabilities resulted in a reduction to retained earnings at January 1, 2018 in the amount of $113 thousand.

(unaudited – in thousands of United States dollars, unless otherwise stated)

Disclosures in relation to the initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, January 1, 2018.

Financial instrument	IAS 39 measurement category	IFRS 9 measurement category	Carrying amount under IAS 39	Carrying amount under IFRS 9
Financial assets				
Cash	Loans and receivables	Amortized cost	$ 5,380	$ 5,380
Cash equivalents	FVTPL	FVTPL	2,003	2,003
Interest rate swaps	FVTPL (1)	FVTPL (1)	10,607	10,607
Accounts receivable	Loans and receivables	Amortized cost	9,876	9,870
TIF notes receivable	Loans and receivables	Amortized cost	3,312	3,312
Financial assets within other assets	Loans and receivables	Amortized cost	118	118
Notes receivable	Loans and receivables	Amortized cost	10,841	10,841
Financial liabilities				
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	17,289	17,289
Distributions payable	Amortized cost	Amortized cost	3,249	3,249
Revolver, term loans and mortgages	Amortized cost	Amortized cost	879,914	880,027
TIF notes payable	Amortized cost	Amortized cost	3,132	3,132
Financial liabilities within other liabilities	Amortized cost	Amortized cost	2,869	2,869
REIT units	FVTPL	FVTPL	457,590	457,590
Exchangeable units of subsidiaries	FVTPL	FVTPL	24,075	24,075

(1) Interest rate swaps are held in a hedge relationship, such that fair value movements are recognized in other comprehensive income as opposed to profit or loss.

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

IFRS 15 replaces IAS 18, *Revenue,* and IAS 11, *Construction contracts,* and is effective January 1, 2018. The REIT has elected to apply the standard on a modified retrospective basis.

The adoption of the new standard did not have a material impact to the REIT's consolidated statements of income. The recovery of costs related to common area maintenance services is considered within the scope of IFRS 15 and the REIT has concluded that the pattern of revenue recognition remains unchanged. As a result of the adoption of IFRS 15, the REIT discloses revenue recognized from contracts with customers related to common area maintenance recoveries separately from other sources of revenue, including those included within gross leases. Refer to Note 14 for the incremental disclosures required by IFRS 15.

In addition, the REIT assessed that it is a principal in relation to property taxes that are paid directly by the tenants to the relevant taxing authority as the REIT is primarily responsible for fulfilling the promise to satisfy its property tax obligations. As a result, the REIT recognizes the gross amount of consideration for property taxes paid directly by tenants. There was no adjustment to opening retained earnings on the date of adoption of this standard.

No impact on the consolidated statements of cash flow as a result of adoption.

ii. Future accounting policies

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases* ("IAS 17"), and IFRIC 4, *Determining whether an arrangement contains a lease,* and is effective January 1, 2019. The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.

(unaudited – in thousands of United States dollars, unless otherwise stated)

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 REIT has established an impact assessment and implementation team to evaluate the impacts of IFRS 16 on its consolidated financial statements. Currently, the REIT has completed the issue identification phase of the transition and has commenced its evaluation of the resulting impact on its consolidated financial statements, reporting system, internal controls and disclosures required by the standard.

4. Dispositions

The REIT disposed of three property outparcels during the three months ended March 31, 2018 as follows:

	Outparcel at Westhaven Town Centre	Outparcel at Mooresville Consumer Square	Outparcel at Norwin Town Square	Total
Disposition date	January 9, 2018	February 12, 2018	March 16, 2018	
Number of outparcels	1	1	1	**3**
Location	Franklin, Tennessee	Mooresville, North Carolina	North Huntingdon, Pennsylvania	
Sales price	$ 9,100	$ 6,450	$ 1,360	**$ 16,910**
Working capital	(140)	(129)	(4)	**(273)**
Disposition costs	(285)	(353)	(84)	**(722)**
Net proceeds	**$ 8,675**	**$ 5,968**	**$ 1,272**	**$ 15,915**

5. Properties

On March 31, 2018, the REIT owned 86 properties. The change in properties is as follows:

	Note	Three months ended March 31, 2018	2017
Beginning of the period		**$ 1,454,463**	$ 1,072,923
Acquisitions		**—**	33,453
Capital		**734**	526
Leasing costs		**618**	101
Tenant improvements		**1,753**	244
Development and expansion capital		**843**	2,913
Straight-line rent		**1,135**	401
Dispositions	*4*	**(16,910)**	(11,250)
IFRIC 21 property tax adjustment		**(13,834)**	(9,486)
Change in fair value		**(6,557)**	14,638
End of the period		**$ 1,422,245**	$ 1,104,463

Valuation assumptions used to estimate the fair value of the REIT's properties are as follows:

	March 31, 2018	December 31, 2017
Capitalization rate range	**6.25% – 11.0%**	6.25% – 9.50%
Weighted average capitalization rate	**7.28%**	7.25%
Impact on fair value due to 25 basis point change in capitalization rates	**$ 50,309**	$ 51,730
Impact on fair value due to $100,000 change in underlying annual stabilized income	**$ 1,374**	$ 1,380

(unaudited – in thousands of United States dollars, unless otherwise stated)

Under the fair value hierarchy, the fair value of the REIT's properties is determined using the overall income capitalization method using Level 3 inputs.

6. Interest rate swaps

The REIT has entered into two pay-fixed receive-float interest rate swap contracts to hedge the cash flow risk associated with monthly U.S. London Interbank Offering Rate ("LIBOR") based interest payments on a portion of the REIT's floating rate debt.

The terms of the interest rate swaps are as follows:

Effective date	November 2, 2016	September 1, 2017
Pay-fixed rate	1.104%	1.715%
Notional amount	$ 300,000	$ 100,000
Receive-floating rate	One-month U.S. LIBOR	One-month U.S. LIBOR
Maturity date	February 26, 2021	September 22, 2022

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the period is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2017		$ 10,607	$ (2,775)	$ 7,832
Change in fair value of cash flow hedge of interest rate risk		4,718	(1,233)	3,485
Net payments received	*16*	(372)	97	(275)
Balance, March 31, 2018		**$ 14,953**	**$ (3,911)**	**$ 11,042**

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2016		$ 7,033	$ (2,691)	$ 4,342
Change in fair value of cash flow hedge of interest rate risk		548	(211)	337
Net payments made	*16*	234	(91)	143
Balance, March 31, 2017		**$ 7,815**	**$ (2,993)**	**$ 4,822**

7. Other assets

Other assets are comprised of the following:

	Note	March 31, 2018	December 31, 2017
Current			
TIF notes receivable		**$ 510**	$ 510
Note receivable (1) (2)	*22*	**9,398**	9,398
Funds held in escrow		**244**	93
Other (1)	*22*	**2,110**	1,443
		12,262	11,444
Non-current			
TIF notes receivable		**2,652**	2,802
Funds held in escrow		**25**	25
		2,677	2,827
Total		**$ 14,939**	$ 14,271

(1) Other includes repurchased class U units held in trust that were canceled subsequent to March 31, 2018, equity transaction costs and interest accrued on a loan arrangement, recorded as a note receivable, from the REIT to a U.S. based entity in which Slate Asset Management L.P. has a significant interest. Refer to Note 22 "Related parties" for detail.

(2) The note receivable was classified as current as the REIT expects it will be realized within the next twelve months.

(unaudited – in thousands of United States dollars, unless otherwise stated)

TIF notes receivable are issued by the City of St. Paul and by the City of Brainerd in Minnesota, related to the REIT's Phalen Retail Centre and East Brainerd Mall properties, respectively. The TIF notes obligate each municipality to pay certain tax increments resulting from increases, if any, from a reference amount in the taxable valuation of the respective property to the REIT.

8. Accounts receivable

Accounts receivable is comprised of the following:

	March 31, 2018	December 31, 2017
Rent receivable	$ 5,969	$ 3,519
Allowance for doubtful accounts	(368)	(322)
Accrued recovery income	3,551	5,148
Other receivables	2,068	1,531
Total	$ 11,220	$ 9,876

Rent receivable consists of base rent and operating expense recoveries. Accrued recovery income represents amounts that have not been billed to the tenants and are generally billed and paid subsequent to the year in which they were incurred.

The change in allowance for doubtful accounts is as follows:

	Three months ended March 31,	
	2018	2017
Beginning of the period	$ (328)	$ (212)
Allowance for doubtful accounts	(193)	(102)
Bad debt write-off	56	62
Bad debt recovery	97	31
End of the period	$ (368)	$ (221)

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

The aging analysis of rent receivable past due but not impaired, net of allowance for doubtful accounts, is as follows:

	March 31, 2018	December 31, 2017
Current to 30 days	$ 4,404	$ 2,405
31 to 60 days	297	223
61 to 90 days	160	65
Greater than 90 days	740	504
Total	$ 5,601	$ 3,197

9. Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments available on demand and is comprised of the following:

	March 31, 2018	December 31, 2017
Cash	$ 10,961	$ 5,380
Money market funds	2,009	2,003
Total	$ 12,970	$ 7,383

(unaudited – in thousands of United States dollars, unless otherwise stated)

10. Debt

Debt held by the REIT at March 31, 2018 is as follows:

	Maturity	Remaining extension options	Coupon (1)	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn (2)
Revolver (2) (3)	February 26, 2020	One 1-year	L+200 bps (2)	N/A (4)	N/A (4)	$ 362,500	$ 149,814	$ 212,686
Term loan (2)	February 26, 2021	None	L+200 bps (2)	N/A (4)	N/A (4)	362,500	362,500	—
Term loan 2 (2)	February 9, 2023	None	L+200 bps (2)	N/A (4)	N/A (4)	250,000	250,000	—
Mortgage	March 1, 2021	None	5.75%	1	25,467	11,158	11,158	—
Mortgage	January 1, 2025	None	3.80%	3	76,008	45,073	45,073	—
Mortgage	June 15, 2025	None	4.14%	6	96,938	56,583	56,583	—
TIF notes payable (5)	February 28, 2019	None	L+350 bps	—	3,336	2,995	2,995	—
Total						**$1,090,809**	**$ 878,123**	**$ 212,686**

(1) "L" means LIBOR and "bps" means basis points.
(2) Debt available to be drawn is subject to certain covenants as provided in the REIT's lending agreements, including generally, a maximum of 65% Consolidated Total Indebtedness to Gross Asset Value. The calculation of Consolidated Total Indebtedness to Gross Asset Value is provided in Note 20 "Capital Management". The revolver, term loan and term loan 2 provide for different spreads over one-month U.S. LIBOR depending on the ratio of Consolidated Total Indebtedness to Gross Asset Value. The applicable spread where Consolidated Total Indebtedness to Gross Asset Value is; (i) less than or equal to 45% is 155 bps; (ii) greater than 45% but less than or equal to 55% is 175 bps; (iii) greater than 55% but less than or equal to 60% is 200 bps; and (iv) greater than 60% is 225 bps.
(3) The revolver requires a stand-by fee to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.
(4) The revolver, term loan and term loan 2 are secured by a general pledge of equity of certain subsidiaries of the REIT. Collectively, those subsidiaries hold an interest in 76 of the REIT's properties.
(5) The TIF notes receivable are pledged as security for the TIF notes payable. Interest on the TIF notes payable is equal to a three-month U.S. LIBOR, plus 350 bps. The interest rate for the three months ended March 31, 2018 was 5.19%.

The carrying value of debt held by the REIT at March 31, 2018 is as follows:

	Effective rate (1)	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments and costs (2)	Carrying amount	Current	Non-current
Revolver	3.60%	$ 149,814	$ (2,186)	$ 1,010	$ 148,638	$ —	$ 148,638
Term loan	3.60%	362,500	(3,877)	1,957	360,580	—	360,580
Term loan 2	3.63%	250,000	(1,827)	125	248,298	—	248,298
Mortgage	5.75%	11,158	2,003	(1,069)	12,092	306	11,786
Mortgage	3.80%	45,073	(1,549)	353	43,877	991	42,886
Mortgage	4.14%	56,583	(1,079)	311	55,815	1,146	54,669
TIF notes payable	5.19%	2,995	(163)	131	2,963	2,963	—
Total		**$ 878,123**	**$ (8,678)**	**$ 2,818**	**$ 872,263**	**$ 5,406**	**$ 866,857**

(1) The effective interest rate for revolver, term loan and term loan 2 includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. The revolver, term loan and term loan 2 effective rates are based on the applicable U.S. LIBOR rate under borrowings as at March 31, 2018.
(2) Excludes the impact of any available extension options not yet exercised.

During the period ended March 31, 2018, the REIT made principal repayments totaling $11.2 million on the REIT's revolving credit facility (the "revolver") and mortgages funded by cash received from the disposal of three property outparcels and cash on hand.

11. REIT units and exchangeable units of subsidiaries

As at March 31, 2018, the REIT has the following class A units, class I units and class U units issued and outstanding (collectively, the "REIT units"), in thousands of units:

	Class U	Class A	Class I
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	43,433	294	282

Each class of the REIT's units and each class of the exchangeable units issued by the REIT's subsidiaries are presented as financial liabilities in accordance with IAS 32, *Financial Instruments: Presentation*.

Each REIT unit confers the right to one vote at any meetings of REIT unitholders. The REIT is also authorized to issue an unlimited number of special voting units. Special voting units are only issued in tandem with the issuance of securities redeemable for or exchangeable into REIT units. The special voting units do not have any economic entitlement in the REIT with respect to distributions but provide the holder with the same voting rights in the REIT as a holder of REIT units. The GAR B exchangeable units are accompanied by an equivalent number of special voting units.

Each REIT unit entitles the holder to the same rights and obligations as any other REIT unitholder and no REIT unitholder is entitled to any privilege, priority or preference in relation to any other holder of REIT units, subject to the proportionate entitlement of the holders of class A units, class I units and class U units of the REIT to participate in distributions made by the REIT including distributions of net income, net realized capital gains or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities, based on their respective conversion ratios for class U units. REIT units will be fully paid and non-assessable when issued and are transferable.

The REIT's Declaration of Trust grants holders of class A units and class I units of the REIT the right to convert all or any portion of their class A units and class I units of the REIT, at any time (the "conversion date"), into class U units by giving written notice to the REIT. On the applicable conversion date, the REIT will deliver to the class A unitholder or class I unitholder the applicable number of class U units for each class A unit or class I unit converted by such unitholder.

With certain restrictions, the unitholders have the right to require the REIT to redeem their units on demand. Upon receipt of the redemption notice by the REIT, all rights to and under the units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit as determined by a market formula and shall be paid in accordance with the conditions provided for in the Declaration of Trust.

Effective March 15, 2018 the REIT elected to suspend its distribution reinvestment plan ("DRIP"), which allowed holders of REIT units to elect to receive their distributions in the form of class U units.

Exchangeable units of subsidiaries

Class B units of Slate Retail One L.P. and Slate Retail Two L.P. and exchangeable limited partnership units of GAR B (collectively, the "exchangeable units of subsidiaries") all of which are subsidiaries of the REIT, are redeemable by the holder, for cash or class U units of the REIT at the option of the REIT. Distributions paid on exchangeable units of subsidiaries are recorded as unit expense in the period in which they become payable.

Normal course issuer bid

The REIT has a normal course issuer bid ("NCIB") which was most recently renewed on May 26, 2017. The NCIB will remain in effect until the earlier of May 25, 2018 or the date on which the REIT has purchased an aggregate of 3.4 million class U units, representing 10% of the REIT's public float of 34.4 million class U units at the time of entering the bid through the facilities of the TSX.

For the three months ended March 31, 2018, 0.3 million class U units have been purchased and subsequently canceled under the NCIB for a total cost, including transaction costs, of $2.5 million at an average price of $9.49. Subsequent to the quarter, an additional 0.2 million class U units have been purchased and subsequently canceled under the NCIB aggregating to a total of 0.5 million class U units purchased and subsequently canceled under the NCIB for a total cost, including transaction costs, of $4.5 million at an average price of $9.58.

REIT units and exchangeable units of subsidiaries outstanding during the period and their respective class U equivalent amounts if converted is as follows, in thousands of units:

	REIT units			Exchangeable units of subsidiaries			
Class / type	**U**	**A**	**I**	**SR1 (1)**	**SR2 (1)**	**GAR B**	**Total class U units equivalent**
Balance, December 31, 2017	43,482	309	282	220	1,603	496	**46,411**
Issued under the DRIP	117	—	—	—	—	—	**117**
Repurchased under NCIB	(267)	—	—	—	—	—	**(267)**
Exchanges	101	(15)	—	—	—	(86)	**—**
Balance, March 31, 2018	43,433	294	282	220	1,603	410	**46,261**
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
Class U units equivalent	**43,433**	**296**	**299**	**220**	**1,603**	**410**	46,261

	REIT units			Exchangeable units of subsidiaries			
Class / type	**U**	**A**	**I**	**SR1 (1)**	**SR2 (1)**	**GAR B**	**Total class U units equivalent**
Balance, December 31, 2016	32,267	334	322	220	1,747	545	**35,456**
Issued under the DRIP	18	—	—	—	—	—	**18**
Issued under equity offerings	5,560	—	—	—	—	—	**5,560**
Redeemed	—	—	—	—	(3)	—	**(3)**
Exchanges	61	(1)	(40)	—	(18)	—	**—**
Balance, March 31, 2017	37,906	333	282	220	1,726	545	**41,031**
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
Class U units equivalent	**37,906**	**336**	**298**	**220**	**1,726**	**545**	41,031

(1) "SR1" and "SR2" mean Slate Retail One exchangeable units and Slate Retail Two exchangeable units respectively.

The change in the carrying amount of REIT units and exchangeable units of subsidiaries is as follows:

	REIT units	**Exchangeable units of subsidiaries**	**Total**
Balance, December 31, 2017	$ 457,590	$ 24,075	**$ 481,665**
Issued under the DRIP	1,147	—	**1,147**
Repurchased under NCIB	(2,534)	—	**(2,534)**
Exchanges	846	(846)	**—**
Change in fair value	(38,401)	(1,984)	**(40,385)**
Balance, March 31, 2018	**$ 418,648**	**$ 21,245**	$ 439,893

	REIT units	**Exchangeable units of subsidiaries**	**Total**
Balance, December 31, 2016	$ 369,277	$ 28,162	**$ 397,439**
Issued under the DRIP	197	—	**197**
Issued under rights offering	57,742	—	**57,742**
Redeemed	—	(35)	**(35)**
Exchanges	198	(198)	**—**
Change in fair value	(5,202)	(639)	**(5,841)**
Balance, March 31, 2017	**$ 422,212**	**$ 27,290**	**$ 449,502**

For the three month period ended March 31, 2018, the REIT declared distributions of $9.3 million (March 31, 2017 – $7.8 million) on REIT units and $0.5 million (March 31, 2017 – $0.5 million) on exchangeable units of subsidiaries which were recorded as unit expense.

Deferred unit plans

Effective August 13, 2014, and as amended March 20, 2018, the REIT adopted a deferred unit incentive plan ("DUP") whereby Trustees of the REIT, who are not also members of management, may elect to receive all or a portion of their Trustee fees in the form of deferred units that vest immediately upon grant.

On March 23, 2016, the REIT adopted a DUP for Officers of the REIT whereby Officers may elect to receive deferred class U units, which represent a right to receive class U units, in lieu of an equivalent amount of asset management fees for management services rendered by Slate Asset Management L.P. (the "Manager").

The deferred units are equivalent in value to REIT units and accumulate additional deferred units at the same rate that distributions are paid on REIT units in relation to the market value of REIT units.

The change in deferred units is as follows, in thousands of units:

	Three months ended March 31,	
	2018	2017
Beginning of the period	**71**	55
Reinvested distributions	**2**	1
Issuances	**9**	4
End of the period	**82**	60
Fair value of units	**$ 780**	$ 658

Weighted average class U units outstanding

The following is the weighted average number of class U units outstanding on a fully diluted basis, in thousands of units:

	Three months ended March 31,	
	2018	2017
Weighted average class U units outstanding	**43,551**	37,277
Class A units	**300**	336
Class I units	**298**	220
Exchangeable units of subsidiaries	**2,252**	1,954
Deferred units	**78**	60
Total	**46,479**	39,847

Class U units outstanding

The following is the total number of class U units outstanding, if all class U equivalent amounts are converted, in thousands of units:

	Three months ended March 31,	
	2018	2017
Class U units outstanding	**43,433**	37,906
Class A units	**296**	336
Class I units	**299**	298
Exchangeable units of subsidiaries	**2,233**	2,491
Deferred units	**82**	60
Total	**46,343**	41,091

(unaudited – in thousands of United States dollars, unless otherwise stated)

12. Income taxes

The REIT qualifies as a mutual fund trust for Canadian income tax purposes. The REIT intends to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for Canadian income tax purposes. Accordingly, no provision for current income taxes payable is required, except for amounts incurred in Investment L.P.

Investment L.P. and GAR B made an election to be classified as corporations for U.S. federal tax purposes. Investment L.P. and GAR B are subject to U.S. federal and state income taxation on their allocable shares in Slate Retail One L.P., a subsidiary of the REIT, and any subsidiary limited partnership thereof.

The REIT is therefore subject to U.S. federal income taxation on its allocable share of rental income derived directly or indirectly through such subsidiary limited partnerships, on a net basis taking into account allowable deductions. Investment L.P. is subject to a combined federal and state income tax rate of 26.15% (December 31, 2017 – 26.15%). Current taxes in Investment L.P. have been reduced to nil. To the extent U.S. taxes are paid by Investment L.P. such amounts will be creditable against an investor's Canadian federal income tax liability to the extent permitted by Canadian tax law.

13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

		March 31, 2018		December 31, 2017
Trade payables and accrued liabilities	**$**	**11,995**	$	10,609
Prepaid rent		**4,347**		3,665
Tenant improvements payable		**270**		387
Other payables		**3,079**		2,628
Total	**$**	**19,691**	$	17,289

Included in trade payables and accrued liabilities are operating expenses, property taxes, and capital and leasing expenses. Other payables include trustee fees, accrued interest payable and other non-operating items.

14. Revenue

Revenue is comprised of the following:

	Three months ended March 31,			
		2018		2017
Rental revenue	**$**	**27,028**	$	20,105
Common area maintenance recoveries		**3,632**		2,655
Property tax and insurance recoveries		**4,816**		3,075
Other revenue [(1)]		**1,068**		1,398
Total	**$**	**36,544**	$	27,233

[(1)] Other revenue includes straight-line rent, ground rent, termination fees, percentage rent and other recoveries.

The REIT enters into long-term lease contracts with tenants for space in the REIT's properties. Leases generally provide for the tenant to pay base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating costs and realty tax recoveries. Certain leases have limitations or escalation restrictions on the amount of recoveries or cost reimbursements, which the tenant is obligated to pay regardless of the actual costs incurred by the REIT to operate and maintain the properties.

The REIT's existing leases have a weighted average outstanding term of 5.0 years (December 31, 2017 – 4.9 years) certain of which include clauses to enable periodic upward revisions in rental rates.

(unaudited – in thousands of United States dollars, unless otherwise stated)

The future minimum lease payments from the REIT's non-cancellable operating leases as a lessor are as follows:

	March 31, 2018	December 31, 2017
In one year or less	**$ 106,913**	$ 108,328
In more than one year but not more than five years	**303,185**	311,767
In more than five years	**143,447**	163,104
Total	**$ 553,545**	$ 583,199

15. Other expenses

Other expenses are comprised of the following:

		Three months ended March 31,	
	Note	**2018**	2017
Asset management fees	*22*	**$ 1,479**	$ 1,099
Bad debt expense		**144**	22
Professional fees and other		**734**	593
Franchise and business taxes		**119**	305
Total		**$ 2,476**	$ 2,019

16. Interest expense and other financing costs, net

Interest expense and other financing costs, net are comprised of the following:

		Three months ended March 31,	
	Note	**2018**	2017
Interest on debt and finance charges	*10*	**$ 8,342**	$ 4,678
Interest rate swaps, net settlement	*6*	**(342)**	234
Interest income		**(21)**	(13)
Interest income on notes receivable	*22*	**(185)**	(158)
Amortization of finance charges	*10*	**457**	294
Amortization of MTM premium	*10*	**(86)**	(86)
Interest income on TIF notes receivable		**(26)**	(31)
Interest expense on TIF notes payable		**39**	38
Amortization of deferred gain on TIF notes receivable		**(22)**	(22)
Total		**$ 8,156**	$ 4,934

17. Transaction costs

Transaction costs for the three month period ended March 31, 2018 were $0.7 million (three month period ended March 31, 2017 – $0.4 million). Transaction costs are comprised of costs related to the disposition of property outparcels.

18. Unit (income) expense

Unit expense is comprised of the following:

		Three months ended March 31,	
	Note	**2018**	2017
REIT units distributions	*11*	**$ 9,273**	$ 7,802
Exchangeable units of subsidiaries distributions	*11*	**469**	506
Change in fair value of REIT units	*11*	**(38,468)**	(5,216)
Change in fair value of exchangeable units of subsidiaries	*11*	**(1,984)**	(639)
Total		**$ (30,710)**	$ 2,453

(unaudited – in thousands of United States dollars, unless otherwise stated)

19. Financial instruments

Except as noted, the carrying value of financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values in other financial liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The carrying amounts and fair values of the REIT's financial instruments are as follows:

	March 31, 2018		December 31, 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**$ 12,970**	**$ 12,970**	$ 7,383	$ 7,383
Accounts receivable	**11,220**	**11,220**	9,876	9,876
Interest rate swaps	**14,953**	**14,953**	10,607	10,607
TIF notes receivable	**3,162**	**3,336**	3,312	3,336
Financial assets within other assets (1)	**244**	**244**	118	118
Notes receivable	**11,026**	**11,026**	10,841	10,841
Total financial assets	**$ 53,575**	**$ 53,749**	$ 42,137	$ 42,161
Financial liabilities				
Accounts payable and accrued liabilities	**19,691**	**19,691**	17,289	17,289
Distributions payable	**3,238**	**3,238**	3,249	3,249
Revolver	**148,638**	**149,814**	158,991	160,314
Term loan	**360,580**	**362,500**	360,313	362,500
Term loan 2	**248,298**	**250,000**	248,214	250,000
Mortgages	**111,784**	**112,814**	112,396	113,409
TIF notes payable	**2,963**	**2,995**	3,132	3,173
Financial liabilities within other liabilities (2)	**2,859**	**2,859**	2,869	2,869
REIT units	**418,648**	**418,648**	457,590	457,590
Exchangeable units of subsidiaries	**21,245**	**21,245**	24,075	24,075
Total financial liabilities	**$ 1,337,944**	**$ 1,343,804**	$ 1,388,118	$ 1,394,468

(1) Relates to funds held in escrow included in other assets.
(2) Relates to rental security deposits included in other liabilities.

(unaudited – in thousands of United States dollars, unless otherwise stated)

The fair value hierarchy of financial assets and financial liabilities is as follows:

March 31, 2018	Level 1	Level 2	Level 3	Fair value
Cash and cash equivalents	$ 12,970	$ —	$ —	$ 12,970
Accounts receivable	—	11,220	—	11,220
Interest rate swaps	—	14,953	—	14,953
TIF notes receivable	—	—	3,336	3,336
Other assets (1)	244	—	—	244
Notes receivable	—	11,026	—	11,026
Total financial assets	**$ 13,214**	**$ 37,199**	**$ 3,336**	**$ 53,749**
Accounts payable and accrued liabilities	—	19,691	—	19,691
Distributions payable	—	3,238	—	3,238
Revolver	—	149,814	—	149,814
Term loan	—	362,500	—	362,500
Term loan 2	—	250,000	—	250,000
Mortgages	—	112,814	—	112,814
TIF notes payable	—	2,995	—	2,995
Other liabilities (2)	2,859	—	—	2,859
REIT units	418,648	—	—	418,648
Exchangeable units of subsidiaries	21,245	—	—	21,245
Total financial liabilities	**$ 442,752**	**$ 901,052**	**$ —**	**$ 1,343,804**

(1) Relates to funds held in escrow included in other assets.
(2) Relates to rental security deposits included in other liabilities.

20. Capital management

The REIT's capital management objectives are to:

i. ensure compliance with the REIT's Declaration of Trust;

ii. ensure compliance with restrictions in debt agreements; and

iii. provide sufficient liquidity to operate the REIT's properties, fund obligations as they become due and build unitholder value.

Procedures to monitor compliance with the Declaration of Trust and debt agreements are performed as a part of the overall management of operations and periodically by review of the REIT's board of trustees and reporting to the REIT's lender. In order to maintain or adjust the capital structure, the REIT may issue trust units, debentures or mortgage debt, adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce or increase debt.

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

	March 31, 2018	December 31, 2017
Debt	**$ 872,263**	$ 883,046
REIT units	**418,648**	457,590
Exchangeable units of subsidiaries	**21,245**	24,075
Unitholders' equity	**77,658**	47,864
Total	**$ 1,389,814**	$ 1,412,575

(unaudited – in thousands of United States dollars, unless otherwise stated)

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

	March 31, 2018	December 31, 2017
Gross book value	**$ 1,478,396**	$ 1,499,519
Debt	**$ 872,263**	$ 883,046
Leverage ratio [(1)]	**59.0%**	58.9%

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

The REIT's revolver, term loan and term loan 2 are subject to financial and other covenants. The following are the primary financial covenants, with all terms defined by the respective lending agreement:

	Threshold	**March 31, 2018**	December 31, 2017
Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value	< 65%	**59.9%**	60.5%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x [(1)]	> 1.50x	**2.82x**	2.74x

(1) Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, as defined by the Amended and Restated Credit Agreement for the revolver and term loan, and the Credit Agreement for term loan 2.

21. Risk management

The REIT's risk management policies are established to identify, analyze and manage the risks faced by the REIT and to implement appropriate procedures to monitor risks and adherence to established controls. Risk management policies and systems are reviewed periodically in response to the REIT's activities and to ensure applicability.

In the normal course of business, the main risks arising from the REIT's use of financial instruments include credit risk, liquidity risk and market risk. These risks, and the actions taken to manage them, include:

i. Credit risk

Credit risk is the risk of financial loss to the REIT associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments and loan arrangements and TIF receivables. The risk is mitigated by carrying out appropriate credit checks and related due diligence on the significant tenants.

For the period ended March 31, 2018, one individual tenant accounted for 7.7% of the REIT's base rent.

ii. Liquidity risk

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they fall due. The REIT's approach to managing liquidity is to ensure sufficient financial resources are available to meet its liabilities as they become due. This includes monitoring of cash, current receivables, current payables, and non-current liabilities as they become current.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to the demand for and the perceived desirability of such investments. Such illiquidity can limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were required to liquidate a real property investment promptly, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

(unaudited – in thousands of United States dollars, unless otherwise stated)

The REIT's contractual commitments are as follows as of March 31, 2018:

	Total contractual cash flow	In one year or less	In more than one year but not more than three years	In more than three years but not more than five years	In more than five years
Accounts payable and accrued liabilities	$ 19,691	$ 19,691	$ —	$ —	$ —
Revolver (1)	149,814	—	149,814	—	—
Revolver interest payable (1) (2)	13,958	6,930	7,028	—	—
Term loan (1)	362,500	—	362,500	—	—
Term loan interest payable (1)	48,780	15,482	33,298	—	—
Term loan 2 (3)	250,000	—	—	250,000	—
Term loan 2 interest payable (3)	56,880	10,677	24,049	22,154	—
Mortgages	112,814	2,443	15,388	4,912	90,071
Mortgage interest payable	28,149	4,651	8,982	7,394	7,122
TIF notes payable	2,995	358	2,637	—	—
TIF notes interest payable	220	151	69	—	—
REIT units	418,648	400	800	800	416,648
Exchangeable units of subsidiaries	21,245	—	—	—	21,245
Total contractual commitments	**$ 1,485,694**	**$ 60,783**	**$ 604,565**	**$ 285,260**	**$ 535,086**

(1) Revolver and term loan interest payable is calculated on $149.8 million and $362.5 million (balance outstanding) using an estimated "all in" interest rate of 4.27% under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR forward curve plus the specified margin for the LIBOR rate option under the revolver and term loan resulting in an anticipated increase to the "all-in" interest rate to 4.80%. The total revolver and term loan interest payable is calculated until maturity of the initial term.

(2) Includes stand-by fee on the revolver to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.

(3) Term loan 2 interest payable is calculated on $250.0 million (balance outstanding) using an estimated "all in" Interest rate of 4.27% under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR curve plus the specified margin for the LIBOR rate option under the term loan 2 and results in an anticipated increase to the "all-in" interest rate to 4.78%. The total term loan 2 interest payable is calculated until maturity.

iii. Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The REIT manages its financial instruments with the objective of mitigating any potential interest rate risks. For the revolver, term loan, term loan 2 and TIF notes payable, interest rate on the loans will vary depending on changes in base rate and/or U.S. LIBOR rate. The REIT is subject to interest rate risks mainly from non-current debt that has variable interest rate. The REIT manages these cash flow interest rate risks using pay-fixed received-float interest rate swap contracts to swap the floating-rate payments on the credit facility for fixed rate payments.

Assuming all fixed-rate debt remain outstanding, each 25-basis point change in interest rates would result in a $0.9 million change in annual interest expense.

(unaudited – in thousands of United States dollars, unless otherwise stated)

Cash flow sensitivity analysis

The interest rate profile of variable rate interest bearing debt and associated interest rate sensitivity to changes in interest rates is as follows:

	March 31, 2018	December 31, 2017
Variable-rate instruments		
Revolver	**$ 149,814**	$ 160,314
Term loan	**362,500**	362,500
Term loan 2	**250,000**	250,000
TIF notes payable	**2,995**	3,173
Effect of interest rate swaps	**(400,000)**	(400,000)
Total effective floating rate debt	**$ 365,309**	$ 375,987
Annual impact of a 25 bps change on interest rates	**$ 913**	$ 940

iv. Unit price risk

The REIT is exposed to unit price risk as a result of the issuance of REIT units and exchangeable units of subsidiaries. REIT units and exchangeable units of subsidiaries have been classified as liabilities and measured at fair value based on market trading prices. REIT units and exchangeable units of subsidiaries negatively impact net income (loss) when the unit price rises and positively impact net income (loss) when unit prices decline. An increase of $1.00 in the underlying price of REIT units results in an increase to liabilities and a decrease (increase) in net income (loss) of $44.0 million. An increase of $1.00 in the underlying price of exchangeable units of subsidiaries results in an increase to liabilities and a decrease (increase) in net income (loss) of $2.2 million.

v. Currency risk

Currency risk is associated with a fluctuation in the value of the U.S. dollar relative to other foreign currencies. Although not material, the REIT is exposed to currency risk as certain transactions related to payment of the REIT's expenses are denominated in Canadian dollars.

22. Related parties

Pursuant to the terms of a management agreement dated April 15, 2014, the Manager provides all management services to the REIT. The Manager agreed to provide certain services in connection with the business of the REIT, including: the structuring of the REIT, liaising with legal and tax counsel; identifying properties for acquisition; maintaining ongoing relationships with the lenders in respect of the mortgage loans for the properties; conducting continuous analysis of market conditions; and advising with respect to the disposition of the properties. In return for its service, the Manager receives the following fees:

i an asset management fee equal to 0.4% of the total assets of the REIT;

ii an acquisition fee in an amount equal to 0.75% of the gross purchase price of each property (or interest in a property), including the price, due diligence costs, closing costs, legal fees, and additional capital costs for all properties indirectly acquired by the REIT; and

iii an annual incentive fee, calculated in arrears, in an aggregate amount equal to 15% of the REIT's funds from operation per class U unit as derived from the annual financial statements of the REIT in excess of $1.31, subject to ordinary course adjustments for certain transactions affecting the class U units and increasing annually by 50% of the increase in the U.S. consumer price index.

These transactions are in the normal course of operations and are measured at the exchange amount which is the consideration established and agreed to by the parties.

Fees to the Manager are as follows:

	Three months ended March 31, 2018	2017
Asset management	**$ 1,479**	$ 1,099
Acquisition	**—**	250
Total	**$ 1,479**	$ 1,349

(unaudited – in thousands of United States dollars, unless otherwise stated)

Trustee fees

The REIT's key personnel include trustees and officers of the REIT. For the three month period ended March 31, 2018, Trustee fees amounted to $0.1 million (March 31, 2017 – $0.1 million).

Strategic acquisition loan

On October 20, 2015, the REIT provided a loan secured by a property to a U.S. based entity in which the Manager has a significant interest as part of the REIT's strategic acquisition loan arrangement. The loan is in the amount of $7.7 million, bears interest at 8.0% and matures on October 19, 2020. The REIT advanced an additional $1.7 million under the loan arrangement in the 2017 year.

Interest receivable on the loan as at March 31, 2018 was $1.6 million (March 31, 2017 – $0.9 million). As part of the strategic acquisition loan arrangement the REIT has the ability, but not the obligation, to purchase the property upon conversion of the property to a grocery-anchored retail centre.

23. Segmented information

The REIT has only one business segment. The REIT owns and operates properties in the U.S. The REIT identifies each property as an individual segment and has aggregated them into a single segment based on similarity in the nature of the tenants and operational processes.

24. Supplemental cash flow information

Changes in liabilities arising from financing activities are as follows:

		Cash flows	Non-cash changes			
	December 31, 2017	Financing activities [(1)]	Fair value changes	Amortization of MTM adjustments and costs	Issuances of DRIP and exchanges of units [(2)]	March 31, 2018
Revolver [(1)]	$ 158,991	$ (10,500)	$ —	$ 147	$ —	$ 148,638
Term loan [(1)]	360,313	—	—	267	—	360,580
Term loan 2	248,214	—	—	84	—	248,298
Mortgages	112,396	(594)	—	(18)	—	111,784
TIF notes payable	3,132	(177)	—	8	—	2,963
REIT units	457,590	(2,534)	(38,401)	—	1,993	418,648
Exchangeable units of subsidiaries	24,075	—	(1,984)	—	(846)	21,245
Total	**$ 1,364,711**	**$ (13,805)**	**$ (40,385)**	**$ 488**	**$ 1,147**	**$ 1,312,156**

(1) Changes in financial assets that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to Note 6 "Interest rate swaps" for more detail.
(2) Includes exchanges of exchangeable units of subsidiaries into class U units.

25. Subsequent events

i. On April 6, 2018, in connection with the REIT's NCIB, the REIT has entered into an automatic securities repurchase plan with its designated broker in order to facilitate purchases of class U units. The automatic securities repurchase plan allows for purchases by the REIT of class U units at points in time when the REIT would ordinarily not be permitted to make purchases due to regulatory restrictions or self-imposed blackout periods. The automatic securities repurchase plan is expected to terminate on May 3, 2018.

ii. On April 16, 2018, the REIT declared monthly distributions of $0.07 per class U unit. Holders of class A units, class I units and units of subsidiaries of the REIT were also entitled to receive a distribution at the respective conversion rate attributable to the units.

iii. On April 17, 2018, the REIT disposed of an outparcel at Waterbury located in Waterbury, Connecticut. The outparcel was sold for $3.3 million.

iv. On May 1, 2018, unitholders approved a special resolution authorizing and approving an amendment and restatement of the declaration of trust of the REIT (the “Third A&R DOT”) for the purpose of making the features of the class A units, class I units and class U units consistent among all three classes, among other things. Also on May 1, 2018, the board of trustees of the REIT approved the subdivision of each of the: (i) class A units issued and outstanding on May 3, 2018 (the “Record Date”) on the basis of a subdivision ratio of one pre-subdivision class A unit for 1.0078 post-subdivision class A units; and (ii) class I units issued and outstanding on the Record Date on the basis of a subdivision ratio of one pre-subdivision class I unit for 1.0554 class I units (the "Subdivision"). The Third A&R DOT and the Subdivision will be undertaken contemporaneously and the impact of such actions will not change the relative economics of the different classes of units of the REIT. As a consequence of the Subdivision, the proportionate entitlement of the class A units and class I units with respect to distributions from the REIT will be adjusted to 1.0 and all class A units, class I units and class U units will have equal rights with respect to distributions from the REIT, redemptions of units and on the termination of the REIT. Upon completion of the Subdivision, each class A unit and each class I unit will remain convertible into a class U unit but the conversation ratio will be on a one-for-one-basis. Management of the REIT anticipates that the Subdivision and the Third A&R DOT will result in the class A units, class I units and class U units being treated as equity of the REIT under IFRS as opposed to their current presentation as a liability, which management of the REIT believes is appropriate. The Subdivision is expected to be completed at 8:00 a.m. (Toronto time) on May 11, 2018.