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REIT

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Consolidated financial statements of

SLATE OFFICE REIT

For the years ended December 31, 2017 and 2016

SLATE OFFICE REIT
CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Slate Office REIT,

We have audited the accompanying consolidated financial statements of Slate Office REIT which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Slate Office REIT as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 28, 2018

Winnipeg, Canada

SLATE OFFICE REIT
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

	Note	**December 31, 2017**	December 31, 2016
ASSETS			
Non-current assets			
Properties	*4*	**$ 1,279,509**	$ 946,939
Finance lease receivable	*7*	**58,632**	60,965
Derivatives	*12*	**273**	—
Other assets	*8*	**2,234**	2,600
Restricted cash		**594**	1,404
		1,341,242	1,011,908
Current assets			
Finance lease receivable	*7*	**2,333**	2,191
Other assets	*8*	**3,018**	3,162
Deposits on properties	*27*	**2,509**	—
Accounts receivable	*9*	**6,599**	4,009
Cash		**9,153**	4,252
		23,612	13,614
Total assets		**$ 1,364,854**	$ 1,025,522
LIABILITIES AND EQUITY			
Non-current liabilities			
Debt	*10*	**$ 612,738**	$ 462,644
Other liabilities	*11*	**4,573**	4,416
Derivatives	*12*	**811**	2,482
Class B LP units	*13*	**43,021**	41,753
		661,143	511,295
Current liabilities			
Debt	*10*	**182,853**	142,309
Other liabilities	*11*	**2,548**	2,852
Accounts payable and accrued liabilities	*14*	**33,762**	23,354
		219,163	168,515
Total liabilities		**880,306**	679,810
Equity		**484,548**	345,712
Total liabilities and equity		**$ 1,364,854**	$ 1,025,522

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

SLATE OFFICE REIT
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

		Year ended December 31,	
	Note	**2017**	2016
Rental revenue	*17*	**$ 152,136**	$ 122,190
Property operating expenses	*21*	**(81,931)**	(66,062)
Finance income on finance lease receivable	*7*	**3,908**	4,041
Interest income		**88**	71
Interest and finance costs	*19*	**(26,509)**	(18,781)
General and administrative	*18*	**(5,754)**	(4,205)
Change in fair value of properties	*4*	**15,126**	7,933
Change in fair value of financial instruments	*20*	**(1,182)**	602
Disposition costs	*6*	**(146)**	(322)
Depreciation of hotel asset	*4*	**(799)**	(590)
Net income before Class B LP units		**$ 54,937**	$ 44,877
Change in fair value of Class B LP units	*13*	**(1,268)**	(4,493)
Distributions to Class B LP unitholders	*16*	**(3,964)**	(3,964)
Net income and comprehensive income		**$ 49,705**	$ 36,420

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

SLATE OFFICE REIT
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands of Canadian dollars)

	Note		Trust units		Retained earnings		Total equity
December 31, 2016		**$**	**310,201**	**$**	**35,511**	**$**	**345,712**
Issuances, net of costs	*15*		**127,760**		**—**		**127,760**
Distributions	*16*		**—**		**(39,643)**		**(39,643)**
Units issued pursuant to DRIP	*15*		**1,014**		**—**		**1,014**
Net income and comprehensive income			**—**		**49,705**		**49,705**
December 31, 2017		**$**	**438,975**	**$**	**45,573**	**$**	**484,548**
December 31, 2015		$	227,030	$	25,127	$	252,157
Issuances, net of costs	*15*		82,689		—		82,689
Distributions	*16*		—		(26,062)		(26,062)
Units issued pursuant to DRIP	*15*		866		—		866
Repurchases of units	*15*		(384)		26		(358)
Net income and comprehensive income			—		36,420		36,420
December 31, 2016		$	310,201	$	35,511	$	345,712

SLATE OFFICE REIT
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

		Year ended December 31,	
	Note	**2017**	2016
Operating activities			
Net income and comprehensive income		**$ 49,705**	$ 36,420
Items not affecting cash:			
Straight-line rent and other changes	*4*	**(1,370)**	(2,083)
Change in fair value of financial instruments	*20*	**1,182**	(602)
Change in fair value of properties	*4*	**(15,126)**	(7,933)
Change in fair value of Class B LP units	*13*	**1,268**	4,493
Depreciation of hotel asset	*4*	**799**	590
Interest income		**(88)**	(71)
Interest received		**88**	71
Interest and finance costs	*19*	**26,509**	18,781
Interest paid		**(24,300)**	(17,916)
Subscription receipt equivalent amount paid	*19*	**(926)**	—
Finance income on finance lease receivable	*7*	**(3,908)**	(4,041)
Finance interest payments received	*7*	**3,908**	4,041
Distributions to Class B LP unitholders	*16*	**3,964**	3,964
Distributions paid to Class B LP unitholders	*16*	**(3,964)**	(3,964)
Working capital items		**3,831**	4,917
		41,572	36,667
Investing activities			
Acquisition of properties	*5*	**(102,010)**	(75,089)
Deposits on properties	*27*	**(2,509)**	—
Principal payments received on finance lease receivable	*7*	**2,191**	2,058
Capital expenditures	*4*	**(24,396)**	(24,345)
Direct leasing costs	*4*	**(40,020)**	(15,418)
Proceeds from dispositions of property	*6*	**4,213**	2,299
		(162,531)	(110,495)
Financing activities			
Proceeds from issuance of units	*15*	**123,259**	87,152
Unit issuance costs	*15*	**(5,499)**	(4,463)
Repurchases of units	*15*	**—**	(358)
Debt financing advanced	*26*	**96,369**	21,660
Debt principal payments	*26*	**(7,213)**	(3,717)
Transaction costs on debt	*26*	**(2,141)**	(882)
Repayments on revolving facilities, net	*26*	**(41,300)**	(5,700)
Distributions on REIT units	*16*	**(37,615)**	(24,529)
		125,860	69,163
Increase (decrease) in cash		**4,901**	(4,665)
Cash, beginning of period		**4,252**	8,917
Cash, end of period		**$ 9,153**	$ 4,252

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

1. Description of the REIT and operations

Slate Office REIT (the "REIT") is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated December 17, 2014, as amended on May 25, 2015 and March 21, 2016 (the "Declaration of Trust"). At December 31, 2017, the REIT's portfolio consists of 38 commercial properties located in Canada. The units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbol "SOT.UN".

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

2. Basis of presentation

i. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on February 28, 2018.

iii. Basis of measurement

The consolidated financial statements have been prepared on a going concern basis and are measured at historical cost except for the following items, which are measured at fair value:

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

iv. Functional and presentation currency

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

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently in these consolidated financial statements.

i. Basis of consolidation

These consolidated financial statements include the accounts of the REIT and its subsidiaries in accordance with IFRS 10, *Consolidated Financial Statements*. Intercompany transactions and balances have been eliminated upon consolidation. A subsidiary is an entity over which the REIT has control. Control exists when the REIT has power over an investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of a subsidiary are changed when necessary to align them with the policies applied by the REIT in these consolidated financial statements.

Changes in the REIT's ownership interests in subsidiaries that do not result in the REIT losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the REIT's interests and any non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the unitholders of the REIT. When the REIT loses control of a subsidiary, for example through sale or partial sale, a gain or loss is recognized and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

ii. Joint arrangements

A joint arrangement is a contractual arrangement in which the REIT has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the return of an arrangement. The REIT classifies joint arrangements as either joint operations or joint ventures.

A joint operation is a joint arrangement wherein the parties have rights to the assets and obligations for the liabilities. The REIT's interest in a joint operation is accounted for based on the REIT's interest in those assets, liabilities, revenues, and expenses.

A joint venture is a joint arrangement wherein the parties have rights to the net assets. The REIT's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the REIT's share of net assets of the joint venture since the acquisition date. The consolidated statement of income reflects the REIT's share of the results of operations of the joint venture. Any change in other comprehensive income of the joint venture is presented as part of the REIT's consolidated statement of comprehensive income.

iii. Investment properties

Investment properties include land and buildings held primarily to earn rental income or for capital appreciation or for both, rather than for administrative purposes, for use in the production or supply of goods and services or for sale in the ordinary course of business. The REIT accounts for its investment properties in accordance with IAS 40, *Investment Property* ("IAS 40"). For acquired investment properties that meet the definition of a business, the acquisition is accounted for as a business combination. Acquisitions of investment properties that do not meet the definition of a business are initially measured at cost including directly attributable expenses.

Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence at the statement of financial position date including, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases less future cash outflows in respect of operating expenses. Changes in fair value are recorded in net income in the period in which they arise.

The carrying amount of investment properties includes straight-line rent receivable and direct leasing costs.

Direct leasing costs include leasing commissions, lease incentives, and legal fees directly attributable to negotiating and arranging a lease. Lease incentives that are spent on leasehold improvements are referred to as tenant improvements. All other lease incentives are referred to as tenant inducements. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties and are amortized on a straight-line basis over the term of a lease as a reduction of revenue.

An investment property held under an operating lease that meets the definition of an investment property is recognized in the REIT's consolidated statements of financial position and measured at fair value.

When an investment property is disposed of, the gain or loss is determined as the difference between the disposal proceeds and the carrying amount of the property and is recognized in net income in the period of disposal as changes in fair value of investment property. Costs incurred to dispose of investment properties are recorded in disposition costs.

iv. Business combinations

The REIT accounts for investment property acquisitions as a business combination if the particular assets and set of activities acquired can be operated and managed as a business in its current state. The REIT applies the acquisition method to account for business combinations. The consideration transferred for a business combination is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the REIT. The total consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The REIT recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

Any contingent consideration is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration is recognized as a liability in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") primarily in net income or, in certain circumstances, as a change to other comprehensive income ("OCI"). Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

v. Restricted cash

Restricted cash includes amounts held in reserve for capital improvements and holdbacks as required by mortgages and tenant leases.

vi. Provisions

A provision is recognized if, as a result of a past event, the REIT has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for site remediation in respect of contaminated land, and the related expenses, is recognized when the contamination becomes known.

A provision for decommissioning including site restoration and related expenses is recognized and measured as the present value of estimated future expenditures determined in accordance with local conditions and discounted using a risk-free interest rate with a corresponding amount added to the carrying amount of the related investment property. The provision is accreted over time to reflect the unwinding of the discount. The provision is remeasured at the end of each reporting period to reflect changes in estimates and circumstances, including estimates of future cash flows and risk-free interest rates. All changes to the provision for decommissioning are included in the carrying amount of the related investment property.

vii. Leases

Leases where the REIT, as the lessor, does not transfer substantially all the risks and rewards of ownership of its investment properties are classified as operating leases. Ground leases where the REIT, as the lessee, does not assume substantially all the risks and rewards of ownership are classified as operating leases. Leases that transfer substantially all the risks and rewards of ownership of an asset are classified as finance leases.

viii. Revenue recognition

Revenue from investment properties includes rents from tenants under lease agreements, percentage rents, property tax and operating cost recoveries and other incidental income. The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. This occurs on the lease inception date or, where the REIT is required to make additions to the property in the form of tenant improvements that enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. Straight-line rent receivables, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received.

ix. Expenses

Property operating expenses and general and administrative expenses are recognized in net income in the period in which they are incurred.

x. Other comprehensive income

Comprehensive income consists of net income and OCI. OCI represents changes in an enterprise's equity during a period arising from transactions and other events with non-owner sources.

xi. Income taxes

The REIT is a mutual fund trust and real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust that meets prescribed conditions is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided its taxable income is fully distributed to unitholders. The REIT intends to distribute all of its taxable income to unitholders and therefore has not recognized any current or deferred income taxes in these consolidated financial statements.

xii. Trust units

The REIT's trust units are redeemable at the option of the holder and, therefore, are considered puttable instruments. In accordance with IAS 32, *Financial instruments: presentation* ("IAS 32"), puttable instruments are classified as financial liabilities, except where certain conditions are met; in which case, the puttable instruments are classified as equity. The REIT has determined that it has met the conditions set out in IAS 32 that permit instruments that otherwise meet the definition of a financial liability to be classified as equity. Accordingly, the REIT's trust units are classified and accounted for as equity instruments.

Distributions on trust units are recorded in retained earnings in the period they are approved.

xiii. Class B LP units

Class B limited partnership units ("Class B LP units") of certain limited partnership subsidiaries of the REIT are exchangeable into trust units of the REIT at the option of the holder. As described above, the REIT's trust units are puttable instruments and, therefore, the Class B LP units meet the definition of a financial liability under IAS 32. The Class B LP units are designated as FVTPL. The fair value of the Class B LP units is remeasured at the end of each reporting period with changes in fair value recorded in net income and comprehensive income. Distributions paid on the Class B LP units are recorded in income when declared as distributions to Class B LP unitholders on the consolidated statements of comprehensive income. Upon exchange into REIT units of the REIT, the carrying amount of the liability representing the fair value of the Class B LP units on exchange date is reclassified to unitholders' equity.

xiv. Financial instruments

Financial instruments are classified as one of: (i) held-to-maturity, (ii) loans and receivables, (iii) fair value through profit and loss ("FVTPL"), (iv) available-for-sale, or (v) other financial liabilities. The REIT's has made the following classifications:

Financial instrument	Classification
Cash	Loans and receivables
Restricted cash	Loans and receivables
Accounts receivable	Loans and receivables
Other assets	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Debt	Other financial liabilities
Derivatives	FVTPL
Class B LP units	FVTPL

All financial assets and financial liabilities are measured at fair value on initial recognition.

Transaction costs, other than those related to financial instruments classified as FVTPL, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs include interest, amortization of discounts or premiums relating to borrowings, fees and commissions paid to agents, brokers and advisers, transfer taxes, and duties that are incurred in connection with the arrangement of borrowings.

Subsequent to initial recognition, financial instruments classified as held-to-maturity, loans and receivables or other financial liabilities are measured at amortized cost, using the effective interest method. Financial instruments classified as FVTPL are measured at fair value with gains and losses recognized in net income and comprehensive income. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in OCI.

The REIT derecognizes a financial asset or liability when its contractual rights or obligations expire, or it transfers its rights or obligations in a transaction in which substantially all the risks and rewards of ownership are transferred. Any rights and obligations created or retained by the REIT in a transfer are recognized as separate assets or liabilities.

xv. Compound financial instruments

Components of a financial instrument that contains both a financial liability and an equity component are recognized separately. The carrying amount assigned to the equity component on initial recognition is the residual amount after deducting the fair value of the financial liability from the fair value of the financial instrument as a whole.

Transaction costs relating to the issuance of compound instruments are allocated to the liability and equity components in proportion to the allocation of proceeds.

xvi. Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the REIT takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date, unless otherwise noted.

Except as noted, the carrying value of the REIT 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. Fair value measurements recognized in the statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

i. Level 1: Quoted prices in active markets for identical assets or liabilities that the REIT can access at the measurement date.

ii. Level 2: Inputs other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly.

iii. Level 3: Inputs that are not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

Class B LP units and deferred units are measured at fair value based on the market trading price of REIT units consistent with level 1. Interest rate swaps and interest rate caps are valued using an interest rate valuation methodology and inputs consistent with level 2. All other fair value measurements for non-derivative financial instruments are measured using level 3 inputs. The fair values of derivative instruments are calculated using quoted rates. When such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments.

xvii. Deferred unit incentive plan

The REIT has a deferred unit incentive plan ("Trustee DUP") whereby Trustees of the REIT may elect to receive all or a portion of their Trustee fees in the form of deferred units that vest immediately upon grant. 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, as defined by the DUP. 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 REIT units. The value of deferred units when converted to cash will be equivalent to the market value of REIT units on the date of the redemption request. Deferred units have been classified as a liability and measured at fair value. Changes in the fair value of deferred units is recorded as a gain or loss in net income and comprehensive income in the period of the change.

The REIT also has a deferred unit plan for officers of the REIT ("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 REIT unit. Any units issued under the Officer DUP will result in an equal reduction and offsetting in the asset management fee payable to SMC (defined in note 21), 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 REIT units. The value of the deferred units when converted to cash will be equivalent to the market value of REIT units on the date of the redemption request. Deferred units have been classified as a liability and measured at fair value. Changes in the fair value of deferred units is recorded as a gain or loss in net income and comprehensive income in the period of the change.

xviii. Interest and finance costs

Interest and finance costs comprise interest expense on borrowings, amortization or derecognition of mark-to-market adjustments on assumption of mortgages, amortization of transaction cost, accretion expense and defeasance costs. As described above, distributions to Class B LP unitholders are also considered financing costs under IFRS and are recorded on the consolidated statements of comprehensive income as distributions to Class B LP unitholders.

Transaction costs associated with financial liabilities measured at amortized cost such as mortgages payable and the revolving credit facility are netted against the carrying amount of the related debt instrument and amortized using the effective interest method over the term of the related debt.

xix. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions the REIT may undertake in the future, actual results may differ from these estimates.

a. Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements is discussed below:

Business combinations

The REIT acquires real estate properties. At the time of acquisition, the REIT considers whether or not the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. Consideration is made to the extent to which significant processes are acquired and the extent of ancillary services provided by the property, e.g. maintenance, cleaning, security, bookkeeping, etc. The significance of any process is judged with reference to the guidance in IAS 40 regarding ancillary services.

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill is recognized.

Leases

The REIT makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the REIT is the lessee, are operating or finance leases. Assets under leases that transfer to the tenant substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Assets classified as operating leases are not recognized in the statement of financial position. The REIT has determined that its lease for the Data Centre is a finance lease.

Lease incentives

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

Income taxes

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

Assets and liabilities held for sale

The REIT makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale.

b. Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Estimates that have the most significant impact on the consolidated financial statements include:

Valuation of investment properties

The fair value of investment properties is determined by management, and from time to time in conjunction with independent real estate valuation experts using recognized valuation techniques. The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisers, in their determination of the fair value of the investment properties:

Income approach

This approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the overall income capitalization method and/or the discounted cash flow analysis, as described below:

Overall income capitalization method: Year one income is stabilized and capitalized at a rate appropriate for each investment property. Capitalization rates and estimates of stabilized income are the most significant assumptions in determining fair values under the overall capitalization method. Stabilized net operating income 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' net operating incomes 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: 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 net operating income.

For both methods, capitalization and discount rates are the most significant assumption 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.

The REIT determines the fair value of investment properties based upon either the overall income capitalization rate method or the discounted cash flow method, or in certain circumstances a combination of both methods.

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

xxi. New accounting policy

IAS 7, *Disclosure Initiative* ("IAS 7")

The amendments to IAS 7 require disclosures that enable the evaluation of changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. The amendments to IAS 7 were adopted prospectively for periods beginning on or after January 1, 2017 by the REIT. Supplemental cash flow information disclosures have been included in the REIT's consolidated financial statements (note 26).

xxii. Future accounting policies

IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. This standard also introduces a new expected credit loss model for financial instruments which requires continuous monitoring and forward looking information regarding changes in credit quality, resulting in timely recognition of provisions for expected credit losses.

This new standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The REIT has established an impact assessment and implementation team to evaluate the impacts of IFRS 9 on its consolidated financial statements. To date, the REIT has completed the issue identification phase of the transition and does not expect a material impact to its consolidated financial statements, reporting system or internal controls.

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

IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. The new standards includes a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively.

The adoption of the new standard is not expected to have a material impact to the consolidated statements of income. The REIT's most material revenue stream is base rental revenue, which is outside the scope of IFRS 15. The recovery of costs related to the provision of services is considered within the scope of IFRS 15 and the REIT has concluded that the pattern of revenue recognition will remain unchanged. On the adoption of IFRS 15, the REIT will be required to disclose revenue recognized from contracts with customers separately from other sources of revenue, including those included within gross leases.

No impact on the consolidated statements of cash flow is expected from adoption.

IFRS 16, *Leases* ("IFRS 16")

This standard 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 asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, 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 new standard is effective for annual periods beginning on or after January 1, 2019, which is when the REIT intends to adopt IFRS 16 in its financial statements. The REIT is assessing the impact of this new standard on its consolidated financial statements.

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

4. Properties

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

	Note	Year ended December 31, 2017	2016
Balance, beginning of period		**$ 946,939**	$ 729,089
Acquisitions (1)	5	**256,857**	172,936
Capital expenditures		**24,396**	24,345
Direct leasing costs		**40,020**	15,418
Dispositions	6	**(4,400)**	(4,275)
Depreciation of hotel asset		**(799)**	(590)
Change in fair value		**15,126**	7,933
Straight line rent and other changes		**1,370**	2,083
Balance, end of period		**$ 1,279,509**	$ 946,939

(1) Represents the purchase price and acquisition costs.

Properties at December 31, 2017 are comprised of the REIT's interests in 38 properties, which includes one mixed-use hotel and office asset. The hotel portion of the REIT's mixed-use asset does not meet the definition of an investment property under IAS 40, and accordingly is measured at cost less depreciation, with depreciation charged to income over the estimated useful life of the components of the hotel asset.

The REIT's properties are classified into income producing and development as follows:

	December 31, 2017	December 31, 2016
Income producing	**$ 1,247,967**	$ 907,343
Development	**31,542**	39,596
	$ 1,279,509	$ 946,939

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

	Year ended December 31, 2017	2016
Balance, beginning of period	$ 39,596	$ 33,050
Capital expenditures	9,331	11,225
Direct leasing costs	6,570	213
Change in fair value	(828)	(618)
Straight line rent and other changes	707	(57)
Transfer of 2285 Speakman Drive to income producing properties	(43,302)	—
Transfer of 2599 Speakman Drive from income producing properties	19,468	—
Transfer of 2251 Speakman Drive to income producing properties	—	(30,486)
Transfer of 2285 Speakman Drive from income producing properties	—	26,269
Balance, end of period	**$ 31,542**	**$ 39,596**

The REIT determines the fair value of properties based upon either the overall income capitalization rate method, discounted cash flow method, direct comparison approach or through a combination of methods. All methods are generally accepted appraisal methodologies. The appropriate methodology is selected by management considering the nature of the property and availability of information. 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 and location of the properties. Under the overall income capitalization rate method, year one income is stabilized and capitalized at a rate appropriate for each property. 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 net operating income. 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 evidence, in determining the most appropriate assumptions.

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

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. Under the fair value hierarchy, the fair value of the REIT's properties is determined using the methodology described above and using level 3 inputs.

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

	December 31, 2017			December 31, 2016		
	Discount rate	**Terminal capitalization rate**	**Capitalization rate (1)**	Discount rate	Terminal capitalization rate	Capitalization rate (1)
Minimum	**6.25%**	**6.25%**	**4.37%**	6.75%	6.25%	4.16%
Maximum	**11.00%**	**9.00%**	**11.85%**	11.00%	9.00%	11.92%
Weighted average	**7.27%**	**6.81%**	**6.21%**	7.55%	7.05%	6.37%

(1) Represents the going-in capitalization rate on the REIT's properties based on management's estimate of twelve-month forward NOI. The figures presented are inclusive of both those properties where the direct capitalization approach has been used as well as those properties where the primary valuation methodology was the discounted cash flow approach.

At December 31, 2017, a 25 basis-point increase in discount, terminal capitalization and stabilized capitalization rates would decrease the estimated fair value of the REIT's properties by approximately $50.6 million (December 31, 2016 – $37.2 million).

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

	Number of properties	**Fair Value**
March 31, 2017	1	$ 55,450
June 30, 2017	11	462,459
September 30, 2017	2	83,700
December 31, 2017	5	58,700

5. Acquisitions

On April 25, 2017, the REIT acquired wholly-owned interests in three office properties, West Metro Corporate Centre in Etobicoke, ON ("West Metro Centre") and 250 King Street and 460 Two Nations Crossing in Fredericton, NB for an aggregate purchase price of $154.8 million, net of adjustments. The acquisition of West Metro Centre included the assumption of a mortgage with a principal amount of $75.5 million bearing interest at the Canadian Dealer Offered Rate ("CDOR") plus 185 basis points and maturing in May of 2018.

On May 25, 2017, the REIT acquired a wholly-owned interest in a suburban office complex in Etobicoke, ON ("Commerce West"), for an aggregate purchase price of $89.7 million, net of adjustments. The acquisition of Commerce West included the assumption of a mortgage with a principal amount of $68.3 million bearing interest at a fixed rate of 3.0% and maturing in October of 2020.

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

The net assets acquired in respect of these acquisitions are as follows:

	West Metro Centre	250 King Street	460 Two Nations Crossing	Commerce West	Total
REIT's interest	100%	100%	100%	100%	
Number of properties	1	1	1	1	
Acquisition date	April 25, 2017	April 25, 2017	April 25, 2017	May 25, 2017	
Purchase price (1)	$ 135,613	$ 9,750	$ 9,465	$ 89,660	**$ 244,488**
Transaction costs	7,451	210	202	4,506	**12,369**
Properties	$ 143,064	$ 9,960	$ 9,667	$ 94,166	**$ 256,857**
Working capital	(729)	(154)	(15)	(309)	**(1,207)**
Debt assumed (2)	(75,256)	—	—	(68,384)	**(143,640)**
Total investment	$ 67,079	$ 9,806	$ 9,652	$ 25,473	**$ 112,010**

(1) Net of adjustments from the vendor related to tenant improvements and other.
(2) Includes the impact of the mark-to-market adjustment and financing costs.

Consideration provided for the acquisitions during 2017 was comprised of the following:

	West Metro Centre	250 King Street	460 Two Nations Crossing	Commerce West	Total
Cash	$ 58,291	$ 9,200	$ 9,046	$ 25,473	**$ 102,010**
Trust units (note 15)	8,788	606	606	—	**10,000**
Total investment	$ 67,079	$ 9,806	$ 9,652	$ 25,473	**$ 112,010**

On June 15, 2016, the REIT increased its ownership interest in three office properties located in St. John's, NL (the "St. John's Places") by 19% to 49% for $27.4 million. On September 8, 2016, the REIT acquired the remaining 51% interest in the St. John's Places it did not own for $73.4 million.

On June 30, 2016, the REIT acquired a wholly-owned interest in a suburban office complex in Markham, ON ("Gateway Complex") for $57.5 million. The acquisition of Gateway Complex included an assumption a mortgage with a principal amount of $23.7 million bearing interest at a fixed rate and maturing in December 2021. To compensate the REIT for assuming the mortgage at an above market rate, the purchase and sale agreement provided for an interest rate subsidy to be held in escrow and released to the REIT for the remaining term of the existing mortgage. The interest rate subsidy is recorded as an other asset on the REIT's consolidated statements of financial position.

On September 8, 2016, the REIT acquired a government-tenanted office property from SMC (defined in note 21). The property is located at 365 Hargrave St. in Winnipeg, MB. The acquisition price of 365 Hargrave St. was $12.3 million and the REIT subsequently arranged a mortgage on the property for a 5-year fixed term at 2.65% in the amount of $8.0 million.

The net assets acquired in respect of these acquisitions are as follows:

	Gateway Complex	St. John's Places	St. John's Places	365 Hargrave Street	Total
REIT's interest	100%	19%	51%	100%	
Number of properties	1	3	3	1	
Acquisition date	June 30, 2016	June 15, 2016	September 8, 2016	September 8, 2016	
Purchase price	$ 57,525	$ 27,406	$ 73,437	$ 12,250	$ 170,618
Transaction costs	1,435	274	600	9	2,318
Properties	$ 58,960	$ 27,680	$ 74,037	$ 12,259	$ 172,936
Working capital	(1,390)	126	415	154	(695)
Interest rate subsidy	2,368	—	—	—	2,368
Debt assumed (1)	(26,020)	(19,950)	(53,550)	—	(99,520)
Total cash investment	**$ 33,918**	**$ 7,856**	**$ 20,902**	**$ 12,413**	**$ 75,089**

(1) Includes the impact of the mark-to-market adjustment.

Consideration was comprised of cash for all acquisitions in 2016.

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

6. Dispositions

During the year ended December 31, 2017, the REIT made the following property disposition:

		7001-96th Street
Disposition date		**May 12, 2017**
Location		**Grand Prairie, AB**
Sale price	**$**	**4,400**
Working capital		**(41)**
Disposition costs		**(146)**
Net proceeds	**$**	**4,213**

During the year ended December 31, 2016, the REIT made the following property disposition:

		125-185 First Street East
Disposition date		June 15, 2016
Location		Cochrane, AB
Sale price	$	4,275
Working capital		(223)
Discharge of mortgage		(1,532)
Disposition costs		(221)
Net proceeds	$	2,299

Included in disposition costs are transaction costs directly attributable to property sales and costs of related debt that was extinguished.

7. Finance lease receivable

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

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

		Year ended December 31,		
		2017		2016
Balance, beginning of period	**$**	**63,156**	$	65,214
Lease payments received		**(6,099)**		(6,099)
Finance income on finance lease receivable		**3,908**		4,041
Balance, end of period	**$**	**60,965**	$	63,156

The following is a summary of the undiscounted future minimum lease payments receivable and the imputed interest and principal portions thereof. The principal portion represents the amount recorded on the consolidated statements of financial position at December 31, 2017:

		Future minimum lease payments		Interest portion of minimum lease payments		Principal portion of minimum lease payments
Less than one year	$	6,099	$	3,766	$	2,333
Greater than one year but less than 5 years		25,222		13,386		11,836
Greater than 5 years		61,377		14,581		46,796
					$	**60,965**

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

8. Other assets

Other assets are comprised of the following:

	Note	December 31, 2017	December 31, 2016
Prepaid expenses		**$ 2,492**	$ 2,118
Other assets		**160**	189
Interest rate subsidy	*5*	**1,723**	2,153
Investment tax credit receivable		**877**	1,302
		$ 5,252	$ 5,762

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

	December 31, 2017	December 31, 2016
Current	**$ 3,018**	$ 3,162
Non-current	**2,234**	2,600
	$ 5,252	$ 5,762

In connection with the acquisition of the Gateway Complex on June 30, 2016, the acquisition agreement provided for an interest rate subsidy in the initial amount of $2.4 million in favour of the REIT. This subsidy is to be held in escrow and released to the REIT over the term to maturity of the debt assumed on acquisition in order to compensate the REIT for the assumption of an above market rate mortgage (notes 5 and 10).

In connection with development of the Data Centre, the REIT is eligible for a Manitoba data processing investment tax credit. The REIT expects to receive the tax credit in installments through to 2029. Half of the tax credit is payable to the Data Centre tenant as the credits are received. The tax credit payable is included in other liabilities (note 11).

9. Accounts receivable

Accounts receivable is comprised of the following:

	December 31, 2017	December 31, 2016
Rent receivable	**$ 3,414**	$ 1,559
Accrued recovery income	**482**	1,022
Other amounts receivable	**2,874**	1,525
Allowance	**(171)**	(97)
	$ 6,599	$ 4,009

Rent receivable consists of base rent and operating expense recoveries receivable from tenants. Accrued recovery income represents amounts that have not been billed to tenants and are generally billed and paid in the period following the period to which they relate.

Included in other amounts receivable is $0.3 million (December 31, 2016 – $0.5 million) due from Slate (as defined in note 21) relating to a prior acquisition for future free rent adjustments, tenant inducements and leasing commissions. The receivable will be collected as the related items are paid or incurred in connection with the tenant lease agreements. The receivable is non-interest bearing and unsecured.

The change in allowance for doubtful accounts is as follows:

	December 31, 2017	December 31, 2016
Balance, beginning of period	**$ (97)**	$ (159)
Change in allowance	**(203)**	(120)
Bad debt write-off	**94**	83
Bad debt recovery	**35**	99
Balance, end of period	**$ (171)**	$ (97)

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

An allowance is provided when collection is no longer reasonably assured, which primarily includes bankruptcy, financial difficulty, abandonment and certain tenant disputes.

The aging analysis of rents receivable past due, net of allowance is as follows:

	December 31, 2017	December 31, 2016
Current to 30 days	**$ 2,079**	$ 911
31 to 90 days	**480**	187
Greater than 90 days	**684**	364
	$ 3,243	$ 1,462

10. Debt

Debt held by the REIT at December 31, 2017 is as follows:

	Maturity	**Coupon [4]**	**Properties provided as security**	**Fair value of security**	**Maximum available**	**Principal**	**Letters of credit**	**Available to be drawn [5]**
Mortgages [1][2]	Various	Various	20	$ 746,017	$ 499,693	$ 499,693	$ —	$ —
Revolving operating facility [3]	Jun. 30, 2018	BA+200 bps	7	269,011	171,900	171,900	—	—
Revolving credit facility [3]	Nov. 30, 2019	BA+200 bps	4	59,875	37,000	3,000	197	33,803
Construction facility	May 4, 2021	CDOR+300 bps	1	40,065	19,000	—	—	19,000
Term loan	Jun. 30, 2019	BA+213 bps	5	162,854	120,000	120,000	—	—
Other [6]	Oct. 1, 2025	4.27%	1	60,965	2,549	2,549	—	—
			38	**$1,338,787**	**$ 850,142**	**$ 797,142**	**$ 197**	**$ 52,803**

(1) At December 31, 2017, the weighted average remaining term to maturity of mortgages is 4.3 years with maturities ranging from 0.2 to 12.8 years.
(2) At December 31, 2017, the weighted average interest rate of mortgages is 3.63% with coupons ranging from 2.65% to 4.95%.
(3) Stand-by fees incurred on the unutilized amounts on the revolving operating facility and the revolving credit facility is 0.40%, charged and paid quarterly.
(4) "BA" means the one-month Bankers' Acceptances rate; "CDOR" means the Canadian Dealer Offered Rate; "bps" means basis point or 1/100th of one percent.
(5) Debt is only available to be drawn subject to certain covenants and other requirements.
(6) Secured by the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's properties. The value above represents the carrying value of the finance lease receivable.

The carrying value of debt held by the REIT at December 31, 2017 is as follows:

	Principal	**Mark-to-market ("MTM") adjustments and costs**	**Accumulated amortization of MTM adjustments and costs**	**Carrying amount**	**Current**	**Non-current**
Mortgages	$ 499,693	$ (692)	$ 254	$ 499,255	$ 11,166	$ 488,089
Revolving operating facility	171,900	(2,002)	1,635	171,533	171,533	—
Revolving credit facility	3,000	(227)	10	2,783	—	2,783
Term loan	120,000	(665)	164	119,499	—	119,499
Other facility	2,549	(36)	8	2,521	154	2,367
	$ 797,142	**$ (3,622)**	**$ 2,071**	**$ 795,591**	**$ 182,853**	**$ 612,738**

During the year ended December 31, 2017, the REIT increased an existing mortgage on 4211 Yonge Street by $8.5 million, resulting in a lowered combined interest rate of 3.64% with no change to the loan's maturity.

On April 25, 2017, in conjunction with the acquisition of the West Metro Centre, the REIT assumed a mortgage in the amount of $75.5 million maturing May 1, 2018. On July 27, 2017, the REIT completed a refinancing and extension of this mortgage for a term of 4 years and an additional $20.0 million in proceeds with an interest rate of CDOR plus 2.00%.

On May 25, 2017, in conjunction with the acquisition of Commerce West, the REIT assumed a mortgage in the amount of $68.3 million with a fixed interest rate of 3.0%, maturing October 1, 2020. As the interest rate assumed on the debt was above a comparable market interest rate for similar debt, the REIT recorded a mark-to-market ("MTM") adjustment at the time of assumption in the amount of $0.3 million.

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

On June 30, 2017, the REIT completed the renewal of the REIT's outstanding $105.0 million term loan due June 30, 2017. The terms of the renewal provide for the extension of the term loan to June 30, 2019 and an increase in amount to $120.0 million.

On September 29, 2017, the REIT completed a refinancing of a mortgage on the Johnson Building in the amount of $40.0 million, with a fixed interest rate of 3.25%, maturing September 30, 2020. In conjunction with the financing, the Johnson Building was removed as a secured property from the REIT's revolving operating facility.

On November 30, 2017, the REIT arranged a new mortgage on 114 Garry Street in the amount of $13.0 million with a fixed interest rate of 3.34%, maturing in December 2027. In conjunction with the financing, 114 Garry Street was removed as a secured property from the REIT's revolving credit facility.

On November 30, 2017, the REIT completed the renewal of the REIT's revolving credit facility due November 30, 2017. The terms of the renewal provide for the extension of the term loan to November 30, 2019 and a decrease in amount to $37.0 million.

Debt held by the REIT at December 31, 2016 is as follows:

	Maturity	Coupon (3)	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn (3)
Mortgages (1)(2)	Various	Various	16	$ 385,848	$ 281,608	$ 281,608	$ —	$ —
Revolving operating facility	Jun. 30, 2018	BA+200 bps	8	300,375	210,546	183,200	—	27,346
Revolving credit facility	Nov. 30, 2017	BA+200 bps	5	76,361	45,000	33,000	1,150	10,850
Construction facility	May 4, 2021	CDOR+300 bps	1	35,172	7,501	—	—	7,501
Term loan	Jun. 30, 2017	BA+213 bps	3	143,370	105,000	105,000	—	—
Other facility (4)	Oct. 1, 2025	4.27%	1	63,156	2,900	2,696	—	204
			34	$ 1,004,282	$ 652,555	$ 605,504	$ 1,150	$ 45,901

(1) At December 31, 2016, the weighted average remaining term to maturity of mortgages is 5.9 years with maturities ranging from 1.2 to 13.8 years.
(2) At December 31, 2016, the weighted average interest rate of mortgages is 3.64% with coupons ranging from 2.65% to 4.95%.
(3) Debt is only available to be drawn subject to certain covenants.
(4) Other facility is secured by the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's investment properties. The value above represents the carrying value of the finance lease receivable.

The carrying value of debt held by the REIT at December 31, 2016 is as follows:

	Principal	MTM adjustments and costs	Accumulated amortization of MTM adjustments and costs	Carrying amount	Current	Non-current
Mortgages	$ 281,608	$ 406	$ 302	$ 282,316	$ 4,367	$ 277,949
Revolving operating facility	183,200	(1,962)	938	182,176	—	182,176
Revolving credit facility	33,000	(655)	472	32,817	32,817	—
Term loan	105,000	(66)	46	104,980	104,980	—
Other facility	2,696	(36)	4	2,664	145	2,519
	$ 605,504	$ (2,313)	$ 1,762	$ 604,953	$ 142,309	$ 462,644

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

Future principal payments and maturities, excluding amortization of mark-to-market adjustments and transaction costs on debt as at December 31, 2017 are as follows:

2018	$ 183,219
2019	143,006
2020	110,422
2021	276,442
2022	4,442
Thereafter	79,611
	$ 797,142

In conjunction with the acquisition of 20 South Clark in Chicago, Illinois which occurred subsequent to year-end (note 27) on February 1, 2018, the REIT renewed its revolving operating facility, extending the maturity to February 1, 2021 and adding a United States ("U.S.") dollar borrowing capacity. The available amount of the amended revolving operating facility was increased to $172.0 million and U.S. $56.0 million. 20 South Clark was added to this facility as a secured property, and the REIT was advanced U.S. $55.6 million of the U.S. dollar capacity which was used to finance the acquisition.

11. Other liabilities

Other liabilities are comprised of the following:

	Note	December 31, 2017	December 31, 2016
Security deposits		**$ 5,326**	$ 4,922
Provisions		**865**	1,298
Deferred unit liability	*15*	**491**	397
Investment tax credit payable		**439**	651
		$ 7,121	$ 7,268

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

	December 31, 2017	December 31, 2016
Current	**$ 2,548**	$ 2,852
Non-current	**4,573**	4,416
	$ 7,121	$ 7,268

The REIT is eligible to receive a Manitoba data processing investment tax credit in connection with the development of the Data Centre (note 8). Half of the tax credit to be received is payable to the tenant of the Data Centre, the amount for which is recorded as an other liability. The credit is expected to be received through to 2029 and has been recorded in other liabilities at its discounted amount determined upon establishment of the liability.

12. 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 fix and receive float interest rate swaps and an interest rate cap. 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. The interest rate cap has a $125.0 million notional amount, a strike price of 1.90% based on one month bankers acceptances and a maturity of July 2018.

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. These swaps are not designated as hedging instruments that qualify for hedge accounting under IFRS.

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

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

		Notional amount		Fair value	
Maturity date	**Fixed interest rate (1)**	**December 31, 2017**	December 31, 2016	**December 31, 2017**	December 31, 2016
August 14, 2023	4.60%	**$ 20,645**	$ 21,231	**$ 811**	$ 1,765
May 1, 2023	3.64%	**30,254**	22,664	**(264)**	730
				$ 547	$ 2,495

(1) During the year ended December 31, 2017, the REIT increased an existing mortgage on 4211 Yonge Street by $8.5 million, resulting in a combined interest rate of 3.64% with no change to the loan's maturity (note 10).

The following is a reconciliation of the change in the fair value of derivative instruments which include interest rate swaps and an interest rate cap:

	Year ended December 31,	
	2017	2016
Balance, beginning of period	**$ 2,482**	$ 3,153
Premiums paid	**—**	(52)
Fair value change of interest rate swaps	**(1,948)**	(658)
Fair value change of interest rate cap	**4**	39
Balance, end of period	**$ 538**	$ 2,482

13. Class B LP units

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

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

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

The change in Class B LP units for the years ended December 31, 2017 and 2016 is as follows:

	2017		**2016**	
	Units	**Amount**	Units	Amount
Balance, beginning of period	**5,285,160**	**$ 41,753**	5,285,160	$ 37,260
Fair value change	**—**	**1,268**	—	4,493
Balance, end of period	**5,285,160**	**$ 43,021**	5,285,160	$ 41,753

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	Note	**December 31, 2017**	December 31, 2016
Trade payables and accrued liabilities		**$ 16,184**	$ 17,361
Distributions payable	*16*	**3,889**	2,875
Prepaid rent		**3,817**	2,373
Tenant improvements payable		**9,872**	745
		$ 33,762	$ 23,354

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

15. Unitholders' equity

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

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

The change in trust units during the years ended December 31, 2017 and 2016 is as follows:

		2017			2016		
	Note	**Units**		**Amount**	Units		Amount
Balance, beginning of period		**40,743,637**	**$**	**310,201**	30,041,430	$	227,030
Issued on public offering		**14,820,000**		**123,154**	10,635,637		87,152
Issued on private placement		**1,234,568**		**10,000**	—		—
Issued pursuant to DRIP	*16*	**126,028**		**1,014**	117,383		866
Issued pursuant to DUP		**13,792**		**105**	—		—
Unit issuance costs		**—**		**(5,499)**	—		(4,463)
Repurchase of units		**—**		**—**	(50,813)		(384)
Balance, end of period		**56,938,025**	**$**	**438,975**	40,743,637	$	310,201

Issuances

On March 15, 2017, the REIT issued 14,820,000 subscription receipts at a price of $8.10 per subscription receipt, for gross proceeds of $120.0 million in connection with the acquisition of West Metro Centre, 250 King and 460 Two Nations. Concurrently with the acquisition of those properties on April 25, 2017, the subscription receipts were automatically exchanged for one unit and a cash distribution equivalent payment of $0.0625 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between March 15, 2017 and April 25, 2017). The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs (note 19). The difference between the $8.10 offered price per unit and the closing price of $8.31 per unit on the day of conversion of the subscription receipts to units was recorded in net income and comprehensive income as a $3.1 million fair value change of financial instruments for the year ended December 31, 2017 (note 20). The REIT also completed a private placement for 1,234,568 units at an issuance price of $8.10 for gross proceeds of $10.0 million when the acquisition closed on April 25, 2017 (note 5).

On September 7, 2016, the REIT completed a bought deal offering of 6,104,500 units at an issuance price of $8.45 per unit, for gross proceeds of $51.6 million.

On June 24, 2016, the REIT completed a bought deal offering of 4,531,137 units at an issuance price of $7.85 per unit, for gross proceeds of $35.6 million.

Normal course issuer bid

On March 2, 2017, the REIT renewed its normal course issuer bid ("NCIB"), whereby the REIT may purchase up to 3,890,593 trust units, subject to certain restrictions. The renewed NCIB expires on the earlier of March 1, 2018 and the repurchase of the maximum number of trust units. No trust units were purchased during the year ended December 31, 2017 (December 31, 2016 - 50,813 trust units).

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 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, 2017, the liability associated with the deferred units issued under the Trustee DUP was $0.4 million (December 31, 2016 - $0.3 million), and the number of outstanding deferred units was 51,837 (December 31, 2016 - 42,147 units).

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

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 result in an equal reduction in the asset management fee payable to Slate Management Corporation, based on the trading price of units on the day of issuance.

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

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

At December 31, 2017, the liability associated with deferred units issued under the Officer DUP was $0.1 million (December 31, 2016 - $0.1 million), and the number of deferred units was 8,462 (December 31, 2016 - 7,712).

The change in DUP units during the years ended December 31, 2017 and 2016 is as follows:

		2017		2016	
	Note	**Units**	**Amount**	Units	Amount
Balance, beginning of period		**49,859**	**$ 395**	17,440	$ 123
Issued		**28,488**	**229**	36,006	283
Reinvested distributions		**5,765**	**46**	2,540	20
Redemption of units		**(23,812)**	**(193)**	(6,127)	(48)
Fair value adjustment		**—**	**14**	—	17
Balance, end of period	*11*	**60,300**	**$ 491**	49,859	$ 395

Weighted average units outstanding

The following is the weighted average number of units outstanding during the year ended December 31, 2017 and 2016 on a basic and diluted basis. The diluted weighted average trust units outstanding is determined as if all of the Class B LP units and DUP units have been converted to units of the REIT:

	2017	2016
Basic weighted average units outstanding	**51,806,754**	34,337,516
Impact of Class B LP units	**5,285,160**	5,285,160
Deferred units	**61,364**	29,999
Diluted weighted average units outstanding	**57,153,278**	39,652,675

16. Distributions

Pursuant to the Declaration of Trust, the income of the REIT is distributed on dates and in amounts as determined by the Board of Trustees. During the year ended December 31, 2017, the REIT declared distributions each month of $0.0625 per unit.

The following table summarizes the distributions during the years ended December 31, 2017 and 2016:

	2017		2016	
	Trust units	**Class B LP units**	Trust units	Class B LP units
Distributions declared during the period	**$ 39,643**	**$ 3,964**	$ 26,062	$ 3,964
Add: Distributions payable, beginning of period	**2,545**	**330**	1,878	330
Less: Distributions payable, end of period	**(3,559)**	**(330)**	(2,545)	(330)
Distributions paid or settled during the period	**$ 38,629**	**$ 3,964**	$ 25,395	$ 3,964

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

Distributions during the years ended December 31, 2017 and 2016 were paid or settled as follows:

			2017			2016	
			Trust units		**Class B LP units**		Trust units		Class B LP units
Paid in cash		**$**	**37,615**	**$**	**3,964**	$	24,529	$	3,964
Reinvested in units	*15*		**1,014**		**—**		866		—
		$	**38,629**	**$**	**3,964**	$	25,395	$	3,964

The REIT has a distribution reinvestment program ("DRIP") where unitholders, including holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT. During the year ended December 31, 2017, the REIT declared distributions resulting in 126,028 units (2016 - 117,383 units) issued/issuable under the DRIP.

17. Rental revenue

Rental revenue is comprised of the following:

		Year ended December 31,		
		2017		2016
Property base rent[(1)]	**$**	**82,001**	$	65,202
Operating cost and tax recoveries		**59,749**		46,796
Hotel		**9,016**		8,109
Straight-line rent and other changes		**1,370**		2,083
	$	**152,136**	$	122,190

(1) Includes parking revenue earned at properties.

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

		2017		2016
Not later than one year	**$**	**79,761**	$	64,400
Later than one year and not later than five years		**243,153**		184,978
Later than five years		**180,741**		125,703
	$	**503,655**	$	375,081

Future minimum lease payments for the Data Centre are excluded from the above as the lease is classified as a finance lease. Future minimum lease payments for the Data Centre are disclosed in note 7.

18. General and administrative

General and administrative expenses are comprised of the following:

			Year ended December 31,		
	Note		**2017**		2016
Asset management fees	*21*	**$**	**3,629**		2,665
Professional fees			**497**		549
Trustee fees			**434**		386
Bad debt expense (recovery), net	*9*		**203**		(62)
Pursuit costs			**185**		—
Other			**806**		667
		$	**5,754**	$	4,205

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

19. Interest and finance costs

Interest and finance costs are comprised of the following:

	Year ended December 31, 2017	2016
Mortgage interest	**$ 14,205**	$ 9,438
Interest on other debt	**10,095**	8,478
Amortization of deferred transaction costs	**1,845**	1,159
Amortization of debt mark-to-market adjustment	**(562)**	(294)
Subscription receipts equivalent amount(1)	**926**	—
	$ 26,509	$ 18,781

(1) On April 25, 2017 each subscription receipt issued by the REIT on March 15, 2017 was exchanged for one unit and a cash distribution equivalent payment of $0.0625 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between March 15, 2017 and April 25, 2017). The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs for the year ended December 31, 2017. See also note 15.

20. Change in fair value of financial instruments

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

	Note	Year ended December 31, 2017	2016
Interest rate swaps	*12*	**$ 1,948**	$ 658
Interest rate cap	*12*	**(4)**	(39)
Deferred units	*15*	**(14)**	(17)
Subscription receipts	*15*	**(3,112)**	—
		$ (1,182)	$ 602

The subscription receipts issued by the REIT are settled by delivering a fixed number of the REIT's units for a fixed amount of cash. The REIT's trust units are puttable instruments and therefore the subscription receipts meet the definition of a liability under IAS 32. The subscription receipts are designated as fair value through profit or loss. The fair value of the subscription receipts are remeasured at the end of each reporting period with changes in fair value recorded in net income and comprehensive income. The difference between the $8.10 offered price per unit and the closing price of $8.31 per unit on the day of conversion of the subscription receipts to units was recorded in net income and comprehensive income as a $3.1 million fair value change of financial instruments for the year ended December 31, 2017.

21. Related party transactions

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

SMC and SLAM collectively held the following interests in the REIT:

	December 31, 2017	December 31, 2016
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	**11.2%**	15.1%

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

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 SLAM.
(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.

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

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

	Year ended December 31, **2017**	2016
Property management	**$ 4,199**	$ 3,513
Asset management	**3,629**	2,665
Leasing, financing, and construction management	**5,014**	2,581
Acquisition	**2,050**	1,437
	$ 14,892	$ 10,196

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 $7.4 million for the year ended December 31, 2017 (December 31, 2016 – $5.6 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 following are the assets and liabilities included in the consolidated statement of financial position of the REIT related to SMC and SLAM:

	December 31, 2017	December 31, 2016
Accounts receivable	**$ 461**	$ 469
Accounts payable and accrued liabilities	**1,028**	215
Class B LP units	**43,021**	41,753

On September 8, 2016, the REIT acquired 365 Hargrave St. from SMC for consideration of $12.4 million. No acquisition fees were charged by SMC.

22. Fair values

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

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

Level 1 - quoted prices in active markets;

Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and

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

Level 3 - valuation technique for which significant inputs are not based on observable market data.

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

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

			Fair value		
December 31, 2017	**Note**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Recorded at fair value					
Properties	*4*	$ 1,279,509	$ —	$ —	$ 1,279,509
Derivatives, net	*12*	(538)	—	(538)	—
Class B LP units	*13*	(43,021)	(43,021)	—	—
Fair values disclosed					
Cash		$ 9,153	$ 9,153	$ —	$ —
Restricted cash		594	594	—	—
Debt	*10*	(795,591)	—	(794,932)	—

			Fair value		
December 31, 2016	**Note**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Recorded at fair value					
Properties	*4*	$ 946,939	$ —	$ —	$ 946,939
Derivatives	*12*	(2,482)	—	(2,482)	—
Class B LP units	*13*	(41,753)	(41,753)	—	—
Fair values disclosed					
Cash		$ 4,252	$ 4,252	$ —	$ —
Restricted cash		1,404	1,404	—	—
Debt	*10*	(604,953)	—	(608,623)	—

23. Risk management

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

Liquidity risk

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

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

The liquidity needs of the REIT are funded by cash flows from operating the REIT's investment property portfolio and available credit facilities, with the exception of debt repayment obligations, investment property acquisition funding requirements and obligations to redeem puttable trust units. These are funded by refinancing the REIT's maturing debt, financing unencumbered properties, or future issuances of REIT units and debentures. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy.

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

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated by matching debt maturities with lease renewals to optimize the value of the assets with the leverage to achieve the best value for pricing. In addition, the REIT staggers the maturity dates of the REIT's mortgage portfolio over a number of years.

The following table summarizes the estimated contractual maturities of the REIT's financial liabilities at December 31, 2017:

	Total contractual cash flow	2018	2019-2020	2021-2022	Thereafter
Accounts payable and accrued liabilities	$ 33,762	$ 33,762	$ —	$ —	$ —
Amortizing principal repayments on debt	61,751	9,235	19,023	11,392	22,101
Principal repayments on maturity of debt	735,391	173,984	234,405	269,492	57,510
Interest on debt (1)	85,356	24,408	35,330	17,485	8,133
Interest rate swaps (2)	3,617	689	1,919	1,009	—
Other liabilities	7,121	2,548	1,272	749	2,552
	$ 926,998	**$ 244,626**	**$ 291,949**	**$ 300,127**	**$ 90,296**

(1) Interest amounts on floating rate debt have been determined using rates at December 31, 2017.
(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, 2017 rates.

In connection with the REIT's redevelopment of 2251 and 2285 Speakman Drive as per the SNC-Lavalin lease agreement, the REIT has committed to spend $41.3 million of capital and redevelopment costs. At December 31, 2017, all costs have been spent (December 31, 2016 - $17.5 million). This redevelopment project was funded through working capital and draws from the revolving credit and operating facilities as well as the construction facility.

Interest rate risk

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

Interest rate cash flow risk is minimized by the REIT by having a portion of its mortgages on fixed term arrangements. In addition, the maturity dates of mortgages are staggered over a number of years to mitigate the exposure in any one year. The REIT also utilizes interest rate swaps to fix interest rates on a portion of its floating rate mortgages. On February 5, 2018 the REIT entered into a forward starting interest rate swap to pay fixed and receive floating rate interest payments for a notional amount of $100.0 million on a 5 year term commencing June 29, 2018 (note 27).

At December 31, 2017, excluding the mortgages associated with interest rate swaps, the REIT had a floating rate mortgage and debt of $533.2 million (December 31, 2016 – $465.2 million). The following table presents the annualized impact of a change in floating interest rates of 25 bps on finance costs:

	December 31, 2017	December 31, 2016
Change of 25 bps	**$ 1,333**	$ 1,163

Credit risk

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate due to changes in foreign exchange rates. The REIT is exposed to foreign currency risk as it relates to 20 South Clark, a property located in the U.S. which was purchased subsequent to year end (note 27) as well as monetary assets and liabilities denominated in this currency. In order to mitigate a portion of this risk, the REIT expects to finance its U.S. operations with U.S. dollar denominated debt, acting as a natural hedge. As the REIT looks to acquire additional properties located within the United States, the use of foreign currency forwards will be considered to the extent the REIT's net investment in foreign operations becomes a substantial portion of its operations.

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

24. 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 lenders. In order to maintain or adjust the capital structure, the REIT may issue trust units, debentures or mortgage debt, adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce or increase debt.

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

		December 31, 2017		December 31, 2016
Debt, net	**$**	**795,591**	$	604,953
Class B LP units		**43,021**		41,753
Equity		**484,548**		345,712
	$	**1,323,160**	$	992,418

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 calculated as follows:

		December 31, 2017		December 31, 2016
Total assets	**$**	**1,364,854**	$	1,025,522
Less: Restricted cash		**(594)**		(1,404)
Gross book value		**1,364,260**		1,024,118
Debt, net	**$**	**795,591**	$	604,953
Leverage ratio		**58.3%**		59.1%

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

The REIT's revolving operating facility, revolving credit facility, term loan, construction facility, and some mortgages are subject to financial and other covenants, including customary maximum leverage ratios, interest service coverage ratios, minimum debt service coverage ratios, minimum unitholders' equity among others. The REIT is in compliance with these covenants.

25. Income taxes

The Income Tax Act (Canada) contains legislation affecting the tax treatment of specified investment flow-through (“SIFT”) trusts which include publicly-listed income trusts (the “SIFT Rules”). Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT’s taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital are generally not subject to tax.

The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”). Instead, a real estate investment trust that meets the REIT Conditions is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. 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, 2017 and 2016, and accordingly is not subject to current income taxes. The REIT intends to continue to meet the REIT Conditions and to distribute all its taxable income to its unitholders. Accordingly, the REIT has not recognized any deferred income tax assets or liabilities at December 31, 2017 or December 31, 2016.

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

26. Supplemental cash flow information

Changes in liabilities arising from financing activities are as follows:

		Cash flows				Non-cash changes		
	December 31, 2016	Debt proceeds	Assumption of debt on acquisitions	Debt repayments	Transaction costs	Fair value changes	Amortization of MTM adjustments and costs	December 31, 2017
Mortgages	$ 282,316	$ 81,369	$ 143,640	$ (7,059)	$ (1,201)	$ —	$ 190	$ 499,255
Revolving operating facility	182,176	12,000	—	(23,300)	(40)	—	697	171,533
Revolving credit facility	32,817	47,000	—	(77,000)	(227)	—	193	2,783
Term loan	104,980	15,000	—	—	(673)	—	192	119,499
Other facility	2,664	—	—	(154)	—	—	11	2,521
Class B units	41,753	—	—	—	—	1,268	—	43,021
Total	**$ 646,706**	**$ 155,369**	**$ 143,640**	**$ (107,513)**	**$ (2,141)**	**$ 1,268**	**$ 1,283**	**$ 838,612**

27. Subsequent events

The following events occurred subsequent to December 31, 2017:

i. On each of January and February 15, 2018, the REIT paid monthly distributions of $0.0625 per trust unit. Holders of Class B LP units of the REIT were also paid a distribution of $0.0625 per trust unit.

ii. On February 1, 2018, the REIT acquired a wholly-owned interest in an office building located at 20 South Clark, in downtown Chicago, IL, for an aggregate purchase price of U.S. $85.6 million.

iii. On February 1, 2018, the REIT renewed its revolving operating facility extending the maturity to February 1, 2021. The available amount of the amended revolving operating facility was increased to $172.0 million and U.S. $56.0 million. In conjunction with the acquisition of 20 South Clark, the REIT was advanced U.S. $55.6 million of the U.S. dollar capacity.

iv. On January 19, 2018, the REIT entered into an agreement with Slate Canadian Real Estate Opportunity Fund I LP (the "Fund") to acquire seven office properties located in the Greater Toronto Area and Atlantic Canada, for an aggregate purchase price of $191.4 million (the "Acquisitions"). The Acquisitions are part of a portfolio of real estate assets to be sold by Cominar Real Estate Investment Trust ("Cominar") and which are the subject of a sale contract among the Fund and Cominar. As part of the Acquisitions, the REIT will assume debt of $81.9 million. The closing of the Acquisitions are conditional upon the satisfaction of certain conditions including minority unitholder approval at a meeting of unitholders (the "Unitholder Meeting"). Subject to approval of the Acquisitions at the Unitholder Meeting, the Acquisitions are expected to close at the end of March 2018. The REIT is subject to possible payment of an expense reimbursement of $2.5 million if the Acquisitions are not approved by unitholders or the REIT defaults on the acquisition agreement.

v. On January 26, 2018 the REIT issued 12,778,800 subscription receipts of the REIT (the "Subscription Receipts") at a price of $8.10 per Subscription Receipt for gross proceeds of $103.5 million and $28.8 million of 5.25% convertible unsecured subordinated debentures of the REIT (the "Debentures"). On closing of the Acquisitions: (i) one unit of the REIT will be automatically issued in exchange for each Subscription Receipt without payment of additional consideration or further action by the holder thereof, (ii) an amount per Subscription Receipt equal to the amount per Unit of any cash distributions made by the REIT for which record dates have occurred during the period that the Subscription Receipts are outstanding, net of any applicable withholding taxes, will become payable in respect of each Subscription Receipt, and (iii) the net proceeds from the sale of the Subscription Receipts will be released from escrow to the REIT. The net proceeds from the sale of the Subscription Receipts are being held by an escrow agent pending the fulfillment or waiver of all outstanding conditions precedent to closing of the Acquisitions. If the Acquisitions fail to close as described above by July 31, 2018, or the Acquisitions are terminated at an earlier time, the gross proceeds of the sale of the Subscription Receipts and pro rata entitlement to interest earned or deemed to be earned on the Subscription Receipts, net of any applicable withholding taxes, will be paid to holders of the Subscription Receipts and the Subscription Receipts will be cancelled.

vi. On February 5, 2018 the REIT entered into a $100.0 million notional amount forward starting pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 2.55%, commencing June 29, 2018 with a five year term.