Office
REIT

SLATE

Condensed consolidated interim financial statements of

SLATE OFFICE REIT

For the three and nine months ended September 30, 2018

(unaudited)

SLATE OFFICE REIT
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited)

Table of contents

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

	Note	September 30, 2018	December 31, 2017
ASSETS			
Non-current assets			
Properties	*4*	**$ 1,783,261**	$ 1,279,509
Finance lease receivable	*7*	**56,783**	58,632
Derivatives	*12*	**1,437**	273
Other assets	*8*	**5,024**	2,234
Deferred tax asset	*25*	**920**	—
Restricted cash		**1,845**	594
		1,849,270	1,341,242
Current assets			
Finance lease receivable	*7*	**2,445**	2,333
Other assets	*8*	**9,511**	3,018
Deposit on property		**—**	2,509
Accounts receivable	*9*	**5,471**	6,590
Cash		**7,903**	9,153
		25,330	23,603
Total assets		**$ 1,874,600**	$ 1,364,845
LIABILITIES AND EQUITY			
Non-current liabilities			
Debt	*10*	**$ 1,002,763**	$ 612,738
Other liabilities	*11*	**5,220**	4,573
Derivatives	*12*	**502**	811
Class B LP units	*13*	**41,753**	43,021
		1,050,238	661,143
Current liabilities			
Debt	*10*	**191,665**	182,853
Other liabilities	*11*	**2,156**	2,548
Accounts payable and accrued liabilities	*14*	**36,735**	33,762
		230,556	219,163
Total liabilities		**1,280,794**	880,306
Equity		**593,806**	484,539
Total liabilities and equity		**$ 1,874,600**	$ 1,364,845

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

SLATE OFFICE REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
(in thousands of Canadian dollars)
(unaudited)

		Three months ended September		Nine months ended September	
	Note	**2018**	2017	**2018**	2017
Rental revenue	*17*	**$ 54,499**	$ 41,208	**$ 150,844**	$ 109,756
Property operating expenses	*21*	**(26,825)**	(21,629)	**(76,735)**	(58,155)
Finance income on finance lease receivable	*7*	**937**	973	**2,838**	2,944
Interest income		**63**	15	**140**	56
Interest and finance costs	*19*	**(11,492)**	(7,042)	**(31,911)**	(19,135)
General and administrative	*18*	**(1,790)**	(1,537)	**(5,504)**	(3,965)
Change in fair value of properties	*4*	**4,058**	12,070	**5,363**	9,908
Change in fair value of financial instruments	*20*	**1,784**	969	**6,948**	(1,435)
Disposition costs	*6*	**(1,272)**	(13)	**(1,326)**	(146)
Depreciation of hotel asset	*4*	**(229)**	(204)	**(679)**	(584)
Deferred income tax recovery	*25*	**435**	—	**920**	—
Net income before Class B LP units		**$ 20,168**	$ 24,810	**$ 50,898**	$ 39,244
Change in fair value of Class B LP units	*13*	**(1,480)**	(212)	**1,268**	(740)
Distributions to Class B LP unitholders	*16*	**(991)**	(991)	**(2,973)**	(2,973)
Net income		**$ 17,697**	$ 23,607	**$ 49,193**	$ 35,531

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

		Three months ended September		Nine months ended September	
	Note	**2018**	2017	**2018**	2017
Net income		**$ 17,697**	$ 23,607	**$ 49,193**	$ 35,531
Other comprehensive income to be subsequently reclassified to profit or loss:					
Foreign currency translation		**(995)**	—	**1,593**	—
Fair value gain on net investment hedges	*20*	**2,033**	—	**2,033**	—
Total other comprehensive income		**1,038**	—	**3,626**	—
Net income and comprehensive income		**$ 18,735**	$ 23,607	**$ 52,819**	$ 35,531

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

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

	Note		Trust units		Retained earnings		Accumulated other comprehensive income		Total equity
December 31, 2017 [1]		**$**	**438,975**	**$**	**45,564**	**$**	**—**	**$**	**484,539**
Issuances, net of costs	*15*		**93,020**		**—**		**—**		**93,020**
Distributions	*16*		**—**		**(37,659)**		**—**		**(37,659)**
Units issued pursuant to DRIP	*15*		**1,088**		**—**		**—**		**1,088**
Repurchase of units	*15*		**(1)**		**—**		**—**		**(1)**
Net income and comprehensive income			**—**		**49,193**		**3,626**		**52,819**
September 30, 2018		**$**	**533,082**	**$**	**57,098**	**$**	**3,626**	**$**	**593,806**

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

	Note		Trust units		Retained earnings		Accumulated other comprehensive income		Total equity
December 31, 2016		$	310,201	$	35,511	$	—	$	345,712
Issuances, net of costs	*15*		127,676		—		—		127,676
Distributions	*16*		—		(28,971)		—		(28,971)
Units issued pursuant to DRIP	*15*		773		—		—		773
Net income and comprehensive income			—		35,531		—		35,531
September 30, 2017		$	438,650	$	42,071	$	—	$	480,721

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

		Nine months ended September 30,	
	Note	**2018**	2017
Operating activities			
Net income		**$ 49,193**	$ 35,531
Items not affecting cash:			
Depreciation of hotel asset	*4*	**679**	584
Change in fair value of properties	*4*	**(5,363)**	(9,908)
IFRIC 21 property tax adjustment	*4*	**(2,264)**	—
Straight-line rent and other changes	*4*	**(522)**	(1,255)
Change in fair value of Class B LP units	*13*	**(1,268)**	740
Change in fair value of financial instruments	*20*	**(6,948)**	1,435
Deferred income tax recovery	*25*	**(920)**	—
Interest income		**(140)**	(56)
Interest received		**140**	56
Interest and finance costs	*19*	**31,911**	19,135
Interest paid	*19*	**(28,556)**	(17,283)
Subscription receipt equivalent amount paid	*19*	**(1,597)**	(926)
Finance income on finance lease receivable	*7*	**(2,838)**	(2,944)
Finance interest payments received on finance lease receivable	*7*	**2,838**	2,944
Distributions to Class B LP unitholders	*16*	**2,973**	2,973
Distributions paid to Class B LP unitholders	*16*	**(2,973)**	(2,973)
Working capital items		**632**	(6,122)
		34,977	21,931
Investing activities			
Acquisition of properties	*5*	**(420,359)**	(102,010)
Principal payments received on finance lease receivable	*7*	**1,737**	1,630
Capital expenditures	*4*	**(12,409)**	(18,551)
Direct leasing costs	*4*	**(14,793)**	(25,413)
Proceeds from disposition of property	*6*	**30,911**	4,213
		(414,913)	(140,131)
Financing activities			
Proceeds from issuance of units	*15*	**103,508**	123,154
Unit issuance costs	*15*	**(4,738)**	(5,478)
Repurchases of units	*15*	**(1)**	—
Gain on foreign exchange hedging	*12*	**2,033**	—
Debt financing advanced	*26*	**257,147**	158,500
Issuance of convertible debentures	*26*	**28,750**	—
Cost of issuance of convertible debentures	*26*	**(1,320)**	—
Debt principal payments	*26*	**(24,428)**	(80,135)
Transaction costs on debt	*26*	**(3,211)**	(1,819)
Advances on revolving facilities, net	*26*	**57,061**	(32,300)
Distributions on REIT units	*16*	**(35,764)**	(27,187)
		379,037	134,735
Foreign exchange loss on cash held in foreign currencies		**(351)**	—
(Decrease) increase in cash		**(1,250)**	16,535
Cash, beginning of period		**9,153**	4,252
Cash, end of period		**$ 7,903**	$ 20,787

The accompanying notes are an integral part of these condensed consolidated interim 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 September 30, 2018, the REIT's portfolio consists of 43 commercial properties located in North America. 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 condensed consolidated interim financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. As a result, these consolidated financial statements should be read in conjunction with the REIT's audited comparative consolidated financial statements at and for the year ended December 31, 2017 ("the annual consolidated financial statements").

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on November 5, 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, except for subsidiaries directly or indirectly holding property in the United States of America (the "U.S.") for which the functional currency is U.S. dollars.

3. Significant accounting policies

i. Significant accounting policies

These consolidated financial statements have been prepared using the same accounting policies and methods disclosed in the REIT's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of the new accounting policies disclosed below. Also included below are accounting policies not described in the REIT's annual consolidated financial statements, but which are applicable to transactions occurring for the first time in 2018.

ii. New accounting policies

The following accounting policies have been adopted by the REIT in the current period:

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

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

Details of these new requirements as well as their impact on the REIT's consolidated financial statements are described below. The REIT has applied the standard on a retrospective basis using the available transitional provisions to not restate comparatives.

Classification and measurement

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

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

The REIT has completed its review of its financial instruments including performing a cash flow and business model assessment. As a result, the REIT determined that cash, restricted cash, accounts receivable and financial assets within other assets currently measured at amortized cost will continue to be measured at amortized cost and derivatives will continue to be measured at FVTPL.

Impairment

IFRS 9 requires the use of an expected credit loss ("ECL") impairment model for financial assets measured at amortized cost or debt instruments measured at FVTOCI. The ECL model uses an allowance for expected credit losses regardless of whether there has been an actual loss event.

The REIT measures the loss allowance at an amount equal to lifetime ECL for trade receivables. The REIT evaluates each receivable on a specific basis for collectability using historical experience in addition to the ECL in general. The REIT's measurement of financial assets as a result of the use of the ECL resulted in a reduction of retained earnings at January 1, 2018 in the amount of $9 thousand.

Hedge accounting

IFRS 9 also introduces a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 did not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it provides more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. There was no impact from the adoption of IFRS 9 to hedging relationships as the REIT did not apply hedge accounting prior to the implementation of IFRS 9.

Financial liabilities

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

IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in profit or loss at the date of modification. All of the modifications to the REIT's financial liabilities have resulted in derecognition which is consistent with the REIT's determination under IAS 39.

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

Disclosures in relation to the initial application of IFRS 9

The table below identifies the classification and measurement of financial assets and financial liabilities under IFRS 9 on January 1, 2018 compared to IAS 39 on December 31, 2017:

Financial instrument	IAS 39 measurement category	IFRS 9 measurement category	Carrying amount under IAS 39	Carrying amount under IFRS 9
Cash	Loans and receivables	Amortized cost	$ 9,153	$ 9,153
Restricted cash	Loans and receivables	Amortized cost	594	594
Accounts receivable	Loans and receivables	Amortized cost	6,599	6,590
Other assets	Loans and receivables	Amortized cost	5,252	5,252
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	33,762	33,762
Debt	Other financial liabilities	Amortized cost	795,591	795,591
Derivatives	FVTPL	FVTPL	538	538
Derivatives designated as hedges	FVTOCI	FVTOCI	—	—
Class B LP units	FVTPL	FVTPL	43,021	43,021

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

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

The adoption of the new standard did not have a material impact to the REIT's consolidated statements of income. The recovery of costs related to common area maintenance services is considered within the scope of IFRS 15 and the REIT has concluded that the pattern of revenue recognition remains unchanged. As a result of the adoption of IFRS 15, the REIT discloses revenue recognized from contracts with customers related to common area maintenance recoveries separately from other sources of revenue, including those included within gross leases. Refer to Note 17 for the incremental disclosures required by IFRS 15. There was no adjustment to opening retained earnings on the adoption of this standard.

iii. Supplementary accounting policy disclosure

In 2018, the REIT applied accounting policies for certain transactions, events and conditions that differ in substance or that did not occur in periods prior to 2018. The REIT's significant accounting policies related thereto are described below:

Taxation

Current income tax assets and liabilities are measured at the amount expected to be received from or paid to tax authorities based on the tax rates and laws enacted or substantively enacted at the date of the consolidated statements of financial position. Deferred tax liabilities are measured by applying the appropriate tax rate to temporary differences between the carrying amounts of assets and liabilities, and their respective tax basis. The appropriate tax rate is determined by reference to the rates that are expected to apply to the year and the jurisdiction in which the assets are expected to be realized or the liabilities settled. Deferred tax assets are recorded for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilized. For the determination of deferred tax assets and liabilities for property measured using the fair value model, the presumption is that the carrying amount of an investment property is recovered through sale, as opposed to presuming that the economic benefits of investment property will be substantially consumed through use over time. Current and deferred income taxes are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Foreign exchange

The REIT accounts for its investment in its U.S. wholly owned subsidiaries as U.S. dollar functional currency foreign operations. Assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates in effect at the consolidated statements of financial position dates and revenue and expenses are translated at the average exchange rates for the reporting periods. The foreign currency translation adjustment is recorded as a separate component of accumulated other comprehensive income (loss) until there is a reduction in the REIT’s net investment in the foreign operations. The accumulated unrealized gains or losses arising from the translation of these obligations are recorded as a foreign currency translation adjustment in accumulated other comprehensive income (loss). Assets and liabilities denominated in a currency other than the functional currency are translated into the functional currency at the exchange rates in effect at the consolidated statements of financial position dates and revenue and expenses are translated at the actual exchange rate on the date incurred, with any gain (loss) recorded in net income, unless the asset or liability is designated as a hedge of the REIT's net investment in its U.S. subsidiaries, in which case the related gain (loss) is also included as a foreign currency translation adjustment in accumulated other comprehensive income.

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

Levies

Under IFRS Interpretations Committee Interpretation 21, *Levies* ("IFRIC 21") realty taxes payable by the REIT are considered levies. Based on the guidance of IFRIC 21, the REIT recognizes the full amount of annual U.S. realty tax liabilities at the point in time when the realty tax obligation is imposed.

Convertible debentures

Convertible debentures issued by the REIT are convertible into a fixed number of units at the option of the holder and are redeemable by the REIT under certain conditions. The convertible debentures are separated into their debt component and embedded derivative features and accounted for separately. The debt component of the convertible debentures is recognized initially at the fair value of a similar debt instrument without the embedded derivative features. Subsequent to initial recognition, the debt component is measured at amortized cost using the effective interest method. The embedded derivative features include a holder conversion option at any time and an issuer redemption option under certain conditions. The multiple embedded derivative features are treated as a single compound embedded derivative liability and initially recognized at fair value. Subsequent to initial recognition, changes in fair value are recognized in net income. Upon issuance, any directly attributable costs are allocated to the debt component and embedded derivative liability in proportion to their initial carrying amounts. For the debt component, the transaction costs are reflected in the determination of the effective interest rate. For the embedded derivative liability, the transaction costs are immediately expensed. Upon conversion, the carrying amount of the debt component and the related fair value of the derivative liability as of the date of conversion are transferred to equity. Upon redemption, the redemption proceeds are compared to the carrying amount of the debt component and the related fair value of the embedded derivative extinguished as of the date of redemption, and any gain or loss on redemption is recognized in net income.

iv. Future accounting policies

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 consolidated financial statements. The REIT is assessing the impact of this new standard on its consolidated financial statements.

4. Properties

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2018**	2017	**2018**	2017
Balance, beginning of period		**$ 1,604,452**	$ 1,223,073	**$ 1,279,509**	$ 946,939
Acquisitions (1)	*5*	**197,761**	61	**498,972**	256,857
Capital expenditures		**7,548**	6,843	**12,409**	18,551
Direct leasing costs		**4,482**	11,557	**14,793**	25,413
Dispositions	*6*	**(34,069)**	—	**(35,094)**	(4,400)
Depreciation of hotel asset		**(229)**	(204)	**(679)**	(584)
Foreign exchange		**(2,417)**	—	**5,202**	—
Change in fair value		**4,058**	12,070	**5,363**	9,908
IFRIC 21 property tax adjustment		**1,151**	—	**2,264**	—
Straight line rent and other changes		**524**	539	**522**	1,255
Balance, end of period		**$ 1,783,261**	$ 1,253,939	**$ 1,783,261**	$ 1,253,939

(1) Represents the purchase price, transaction costs and adjustments.

Properties at September 30, 2018 are comprised of the REIT's interests in 43 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, *Investment*

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

Property, 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:

		September 30, 2018		December 31, 2017
Income producing	**$**	**1,763,452**	$	1,247,967
Development		**19,809**		31,542
	$	**1,783,261**	$	1,279,509

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

	Note		**Nine months ended September 30, 2018**		Year ended December 31, 2017
Balance, beginning of period		**$**	**31,542**	$	39,596
Capital expenditures			**880**		9,331
Direct leasing costs			**21**		6,570
Change in fair value			**4,688**		(828)
Sale of Water Street Properties	*6*		**(17,327)**		—
Straight line rent and other changes			**5**		707
Transfer of 2285 Speakman Drive to income producing properties			**—**		(43,302)
Transfer of 2599 Speakman Drive from income producing properties			**—**		19,468
Balance, end of period		**$**	**19,809**	$	31,542

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.

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:

	September 30, 2018			December 31, 2017		
	Discount rate	**Terminal capitalization rate**	**Capitalization rate (1)**	Discount rate	Terminal capitalization rate	Capitalization rate (1)
Minimum	**6.25%**	**6.25%**	**3.27%**	6.25%	6.25%	4.37%
Maximum	**11.00%**	**9.00%**	**12.02%**	11.00%	9.00%	11.85%
Weighted average	**6.47%**	**5.99%**	**6.29%**	7.27%	6.81%	6.21%

(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.

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

At September 30, 2018, 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 $73.2 million (December 31, 2017 – $50.6 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
September 30, 2017	2	83,700
December 31, 2017	5	58,700
March 31, 2018	5	195,700
June 30, 2018	—	—
September 30, 2018	—	—

5. Acquisitions

On February 1, 2018, the REIT acquired a wholly-owned interest in an office building located at 20 South Clark Street, in downtown Chicago, IL, ("20 South Clark") for a price of U.S. $85.6 million, prior to adjustments and transaction costs.

On March 27, 2018, the REIT acquired seven office properties located in the Greater Toronto Area and Atlantic Canada (the "7 Asset Portfolio") for an aggregate purchase price of $191.4 million prior to adjustments and transaction costs, satisfied in part by the assumption of $80.0 million of mortgage debt, net of mark-to-market adjustments of $2.1 million.

On August 30, 2018, the REIT acquired a wholly-owned interest in an office building located at 120 South LaSalle Street, in downtown Chicago, IL, and an adjacent parking garage located at 183 West Monroe Street, in downtown Chicago, IL (collectively "120 South LaSalle") for a price of U.S. $155.5 million prior to adjustments for unpaid tenant inducements of $5.5 million and working capital of $1.6 million.

A summary of these acquisitions are as follows:

	20 South Clark(1)	7 Asset Portfolio	120 South LaSalle(1)	Total
REIT's interest	100%	100%	100%	
Location	Chicago, IL	Various (2)	Chicago, IL	
Number of properties	1	7	1	**9**
Acquisition date	February 1, 2018	March 27, 2018	August 30, 2018	
Purchase price	$ 105,247	$ 191,400	$ 201,839	**$ 498,486**
Transaction costs	2,893	7,835	1,355	**12,083**
Adjustments	(404)	(1,242)	(3,896)	**(5,542)**
Debt principal amount assumed	—	(82,159)	—	**(82,159)**
Net investment	$ 107,736	$ 115,834	$ 199,298	**$ 422,868**

(1) Amounts translated to Canadian dollars using the prevailing exchange rate on the date of acquisition.
(2) Four assets are located in the Greater Toronto Area and three assets are located in Atlantic Canada.

The net investment in the above acquisitions has been allocated as follows:

	20 South Clark(1)	7 Asset Portfolio	120 South LaSalle(1)	Total
Properties	$ 107,117	$ 194,189	$ 197,666	**$ 498,972**
Working capital	619	(614)	1,632	**1,637**
Income supplement (2)	—	2,270	—	**2,270**
Debt (3)	—	(80,011)	—	**(80,011)**
Net assets acquired	$ 107,736	$ 115,834	$ 199,298	**$ 422,868**

(1) Amounts converted to Canadian dollars using the exchange rate on the date of acquisition.
(2) The REIT was provided an income supplement in the aggregate amount of $2.4 million to be received in equal quarterly installments in each of the eight calendar quarters following the acquisition of the 7 Asset Portfolio by Slate Canadian Real Estate Opportunity Fund I L.P. ("SCREO I L.P.") (see note 21). The income supplement is recorded as an other asset on the consolidated statement of financial position and initially measured at its present value.
(3) Includes the impact of mark-to-market adjustments.

Consideration for each acquisition during the nine months ended September 30, 2018 was comprised of cash.

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

6. Dispositions

During the nine months ended September 30, 2018, the REIT made the following property dispositions:

	35 Martin Way	135 Queen's Plate	Water Street Properties	Total
Disposition date	January 15, 2018	July 13, 2018	September 28, 2018	
Location	Brooks, AB	Toronto, ON	St. John's, NL	
Number of properties	1	1	2	**4**
Sale price	$ 1,025	$ 16,740	$ 17,290	**$ 35,055**
Capital adjustments	—	2	37	**39**
Working Capital	—	(136)	(21)	**(157)**
Disposition costs	(54)	(407)	(865)	**(1,326)**
Vendor-take-back loan(1)	—	—	(2,700)	**(2,700)**
Net proceeds	$ 971	$ 16,199	$ 13,741	**$ 30,911**

(1) As partial consideration for disposition of the Water Street Properties, the REIT was provided a vendor-take-back loan (see note 8).

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:

	Nine months ended September 30, 2018	Year ended December 31, 2017
Balance, beginning of period	**$ 60,965**	$ 63,156
Lease payments received	**(4,575)**	(6,099)
Finance income on finance lease receivable	**2,838**	3,908
Balance, end of period	**$ 59,228**	$ 60,965

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 September 30, 2018:

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	$ 6,099	$ 3,654	$ 2,445
Greater than one year but less than 5 years	25,462	12,811	12,651
Greater than 5 years	56,562	12,430	44,132
			$ 59,228

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

8. Other assets

Other assets are comprised of the following:

	September 30, 2018	December 31, 2017
Prepaid expenses	**$ 7,281**	$ 2,492
Interest rate subsidy	**1,400**	1,723
Investment tax credit receivable	**928**	877
Income supplement	**1,724**	—
Vendor-take-back loan	**2,700**	—
Other	**502**	160
	$ 14,535	$ 5,252

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

	September 30, 2018	December 31, 2017
Current	**$ 9,511**	$ 3,018
Non-current	**5,024**	2,234
	$ 14,535	$ 5,252

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.

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

As part of the REIT's acquisition of the 7 Asset Portfolio on March 27, 2018 (see note 5), the REIT was provided an income supplement in the aggregate amount of $2.4 million to be received in equal quarterly installments in each of the eight calendar quarters following the acquisition of the 7 Asset Portfolio by SCREO I L.P. (see note 21). The income supplement is recorded as an other asset on the consolidated statements of financial position at amortized cost.

In connection with the disposition of the Water Street Properties on September 28, 2018 (see note 6), the REIT was provided a $2.7 million vendor-take-back loan as partial consideration. The vendor-take-back loan bears interest at 8.0% annually, matures in August 2020 and is repayable by the borrower at any time.

9. Accounts receivable

Accounts receivable is comprised of the following:

	September 30, 2018	December 31, 2017
Rent receivable	**$ 2,524**	$ 3,405
Accrued recovery income	**1,236**	482
Other amounts receivable	**1,738**	2,874
Allowance	**(27)**	(171)
	$ 5,471	$ 6,590

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, 2017 – $0.3 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.

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

The change in allowance for doubtful accounts is as follows:

	Nine months ended September 30, 2018	Year ended December 31, 2017
Balance, beginning of period	**$ (171)**	$ (97)
Change in allowance	**(273)**	(203)
Bad debt write-off	**352**	94
Bad debt recovery	**65**	35
Balance, end of period	**$ (27)**	$ (171)

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

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

	September 30, 2018	December 31, 2017
Current to 30 days	**$ 1,324**	$ 2,070
31 to 90 days	**308**	480
Greater than 90 days	**865**	684
	$ 2,497	$ 3,234

10. Debt

Debt held by the REIT at September 30, 2018 is as follows:

	Maturity	Coupon (7)	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn (4)
Mortgages (1)(5)(6)	Various	Various	22	$ 923,838	$ 690,816	$ 690,816	$ —	$ —
Revolving facilities (2)(3)(6)	Various	Various	15	558,847	344,368	304,909	206	39,253
Term loan	June 30, 2019	BA+213bps	5	163,423	119,100	119,100	—	—
Bridge loan	Aug. 30, 2019	BA+425bps	1	195,782	57,631	57,631	—	—
Convertible debentures	Feb. 2, 2023	0.0525	—	—	28,750	28,750	—	—
			43	**$1,841,890**	**$1,240,665**	**$1,201,206**	**$ 206**	**$ 39,253**

(1) The weighted average remaining term to maturity of mortgages is 3.8 years with maturities ranging from 1.2 to 12.1 years and the weighted average interest rate of mortgages is 3.88% with coupons ranging from 2.65% to 7.75%.
(2) Stand-by fees incurred on the unutilized portion of on the revolving operating facility and the revolving credit facility are each 0.40%, charged and paid quarterly.
(3) Principal balance includes $172.6 million and U.S. $53.0 million of operating facilities and a credit facility of $63.7 million. The weighted average remaining term to maturity of revolving facilities is 2.1 years with maturities ranging from 1.2 to 2.3 years and the weighted average interest rate of revolving facilities is 3.87% with coupons ranging from 3.76% to 4.26%.
(4) Debt is only available to be drawn subject to certain covenants and other requirements.
(5) Security includes the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's properties. The fair value of security includes the carrying value of the finance lease receivable.
(6) Amounts have been translated from U.S. to Canadian dollars using the prevailing exchange rate on September 30, 2018.
(7) "BA" means the one-month Bankers' Acceptances rate and "bps" means basis point or 1/100th of one percent.

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

The carrying value of debt held by the REIT at September 30, 2018 is as follows:

	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments, costs and other	Carrying amount	Current	Non-current
Mortgages	$ 690,816	$ (3,793)	$ 654	$ 687,677	$ 15,928	$ 671,749
Revolving facilities	304,909	(1,976)	511	303,444	—	303,444
Term loan	119,100	(666)	415	118,849	118,849	—
Bridge loan	57,631	(813)	70	56,888	56,888	—
Convertible debentures(1)	28,750	(1,320)	140	27,570	—	27,570
	$ 1,201,206	**$ (8,568)**	**$ 1,790**	**$ 1,194,428**	**$ 191,665**	**$ 1,002,763**

(1) Represents the debt component of the convertible debentures. The embedded derivative features, which are the holder conversion option and the issuer redemption option, originally recorded in the amount of $0.2 million, are accounted for separately. These embedded derivative features are included within derivatives on the REIT's consolidated statements of financial position.

In conjunction with the acquisition of 20 South Clark in Chicago, IL, which occurred on February 1, 2018, the REIT renewed its revolving operating facility, extending the maturity to February 1, 2021 and providing the ability to borrow in U.S. dollars. The maximum available amount of the 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.

Additionally, with the acquisition of the 7 Asset Portfolio on March 27, 2018, the REIT assumed $82.1 million of mortgage debt relating to four of the acquired properties. Maturities of the assumed debt range from April 30, 2021 to September 30, 2026.

Concurrent with the acquisition of 120 South LaSalle in Chicago, IL which occurred on August 30, 2018, the REIT obtained financing in the amount of U.S. $101.1 million maturing on September 10, 2020 and a bridge loan in the amount of $57.6 million maturing on August 30, 2019. 120 South LaSalle was added to both the senior debt and the bridge loan as a secured property.

Future repayments of mortgages payable by year of maturity are as follows:

	Weighted average interest rate(1)	Scheduled principal amortization	Principal maturities	Total repayments
Remainder of 2018	—%	$ 3,987	$ —	$ 3,987
2019	4.36%	16,085	10,376	26,461
2020	3.75%	15,917	231,870	247,787
2021	3.98%	11,555	245,920	257,475
2022	7.25%	7,617	296	7,913
Thereafter	3.73%	32,284	114,909	147,193
	3.85%	**$ 87,445**	**$ 603,371**	**$ 690,816**
Unamortized debt financing costs				(3,139)
				$ 687,677

(1) The weighted average interest rate is calculated using the rate in effect as at September 30, 2018 and does not include the impact of interest rate swaps.

(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 September 30, 2018 are as follows:

Remainder of 2018	$	3,987
2019		266,891
2020		247,787
2021		498,683
2022		7,913
Thereafter		175,945
	$	**1,201,206**

Convertible Debentures

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

The convertible debentures are convertible into freely tradeable units at the option of the holder at any time prior to the close of business on the earliest of; (i) the last business day before February 28, 2023; or (ii) if called for redemption, the business day immediately preceding the date specified by the REIT for redemption of the debentures, at a conversion price of $10.53 per unit (the "Conversion Price"). Convertible debenture holders converting their debentures will, in addition to the applicable number of units to be received on conversion, receive accrued and unpaid interest, if any, for the period from the last interest payment date on their convertible debentures to and including the last record date set by the REIT occurring prior to the date of conversion for determining the unitholders entitled to receive a distribution on the Units.

The convertible debentures may not be redeemed by the REIT prior to February 28, 2021. On and from February 28, 2021, and prior to February 28, 2022, the convertible debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted-average trading price of the Units on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from February 28, 2022, and prior to February 28, 2023, the convertible debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice.

11. Other liabilities

Other liabilities are comprised of the following:

	Note		**September 30, 2018**		December 31, 2017
Security deposits		**$**	**6,157**	$	5,326
Provisions			**19**		865
Deferred units	*15*		**736**		491
Investment tax credit payable			**464**		439
		$	**7,376**	$	7,121

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

		September 30, 2018		December 31, 2017
Current	**$**	**2,156**	$	2,548
Non-current		**5,220**		4,573
	$	**7,376**	$	7,121

The REIT is eligible to receive a Manitoba data processing investment tax credit in connection with the development of the Data Centre (see 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.

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

12. Derivatives

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

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

	Nine months ended September 30, 2018	2017
Fair value, beginning of period	**$ (538)**	$ (2,482)
Initial recognition of embedded derivatives on issuance of convertible debentures	**(170)**	—
Fair value change of convertible debenture embedded derivatives	**5**	—
Fair value change of interest rate swaps	**1,647**	1,664
Fair value change of interest rate cap	**(9)**	21
Net investment foreign exchange hedges	**2,033**	—
Settlement of net investment foreign exchange hedges	**(2,033)**	—
Fair value, end of period	**$ 935**	$ (797)

Interest rate protection instruments

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 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.

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%, a start date of June 29, 2018 and a five year term.

On September 6, 2018 the REIT entered into a US$101.1 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 2.805%, a start date of August 30, 2018 and a four year term.

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.

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

			Notional amount		Fair value	
Maturity date	**Floating interest rate**[(1)]	**Fixed interest rate**	**September 30, 2018**	December 31, 2017	**September 30, 2018**	December 31, 2017
August 14, 2023	1 month BA	4.60%	**$ 20,188**	$ 20,645	**$ 337**	$ 811
May 1, 2023	1 month BA	3.64%	**29,498**	30,254	**(716)**	(264)
June 29, 2023	1 month BA	2.55%	**100,000**	—	**(379)**	—
August 30, 2022	1 month U.S. LIBOR	2.81%	**130,842**	—	**(342)**	
			$ 280,528	$ 50,899	**$ (1,100)**	$ 547

(1) "BA" means the one-month Bankers' Acceptances rate and "LIBOR" means the one month U.S. London Interbank Offering Rate.

Foreign exchange rate protection instrument

The REIT entered into a foreign exchange transaction on September 6, 2018 to sell US$75.0 million and purchase Canadian dollars. This transaction was designated as a hedging item qualified for hedge accounting. On September 28, 2018 the REIT entered into an offsetting trade to purchase US$75.0 million and settled on a net basis with the original transaction for a gain of $2.1 million which was recorded in other comprehensive income.

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

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 three month period ended September 30, 2018 and 2017 is as follows:

	Three months ended September 30, 2018			Three months ended September 30, 2017		
	Units		**Amount**	Units		Amount
Balance, beginning of period	**5,285,160**	**$**	**40,273**	5,285,160	$	42,281
Fair value change	**—**		**1,480**	—		212
Balance, end of period	**5,285,160**	**$**	**41,753**	5,285,160	$	42,493

The change in Class B LP units for the nine month period ended September 30, 2018 and 2017 is as follows:

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Units		**Amount**	Units		Amount
Balance, beginning of period	**5,285,160**	**$**	**43,021**	5,285,160	$	41,753
Fair value changes	**—**		**(1,268)**	—		740
Balance, end of period	**5,285,160**	**$**	**41,753**	5,285,160	$	42,493

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	Note		**September 30, 2018**		December 31, 2017
Trade payables and accrued liabilities		**$**	**25,058**	$	16,184
Distributions payable	*16*		**4,696**		3,889
Prepaid rent			**4,409**		3,817
Tenant improvements payable			**2,572**		9,872
		$	**36,735**	$	33,762

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.

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

The change in trust units during the three and nine months ended September 30, 2018 is as follows:

		Three months ended September 30, 2018			Nine months ended September 30, 2018		
	Note	**Units**		**Amount**	**Units**		**Amount**
Balance, beginning of period		**69,811,498**	**$**	**532,750**	**56,938,025**	**$**	**438,975**
Issued on public offering		**—**		**—**	**12,778,800**		**97,758**
Issued pursuant to DRIP	*16*	**45,884**		**358**	**140,657**		**1,088**
Unit issuance costs		**—**		**(26)**	**—**		**(4,738)**
Repurchase of units		**—**		**—**	**(100)**		**(1)**
Balance, end of period		**69,857,382**	**$**	**533,082**	**69,857,382**	**$**	**533,082**

The change in trust units during the three and nine months ended September 30, 2017 is as follows:

		Three months ended September 30, 2017			Nine months ended September 30, 2017		
	Note	Units		Amount	Units		Amount
Balance, beginning of period		56,863,722	$	438,462	40,743,637	$	310,201
Issued on public offering		—		—	14,820,000		123,154
Issued on private placement		—		—	1,234,568		10,000
Issued pursuant to DRIP	*16*	30,921		242	96,438		773
Cost of issuance		—		(54)	—		(5,478)
Balance, end of period		56,894,643	$	438,650	56,894,643	$	438,650

Issuances

On January 26, 2018, the REIT issued 12,778,800 subscription receipts at a price of $8.10 per subscription receipt, for gross proceeds of $103.5 million in connection with the acquisition of the 7 Asset Portfolio. Concurrently with the acquisition of those properties on March 27, 2018, the subscription receipts were automatically exchanged for one unit and a cash distribution equivalent payment of $0.125 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between January 26, 2018 and March 27, 2018). The cash distribution equivalent payment of $1.6 million has been recorded in interest and finance costs (see note 19). The difference between the $8.10 offered price per unit and the closing price of $7.65 per unit on the day of conversion of the subscription receipts to units was recorded in net income and comprehensive income as a $5.8 million fair value change of financial instruments for the nine months ended September 30, 2018 (see note 20).

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 September 30, 2018, the liability associated with the deferred units issued under the Trustee DUP was $0.6 million (September 30, 2017 - $0.5 million), and the number of outstanding deferred units was 84,014 (September 30, 2017 - 67,517 units).

Officer deferred unit plan

On March 21, 2016, the REIT adopted a deferred unit plan for officers of the REIT (the "Officer DUP"). The Officer DUP provides officers of the REIT the opportunity to receive deferred units of the REIT. The maximum number of deferred units reserved for issuance under the Officer DUP is 1% of total units outstanding. One deferred unit, which vests immediately on the grant date, is equal to one trust unit. Any units issued under the Officer DUP 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.

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

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 September 30, 2018, the liability associated with deferred units issued under the Officer DUP was $0.1 million (September 30, 2017 - $0.1 million), and the number of deferred units was 9,101 (September 30, 2017 - 8,270).

The change in DUP units during the three and nine months ended September 30, 2018 is as follows:

		Three months ended September 30, 2018			**Nine months ended September 30, 2018**		
	Note	**Units**		**Amount**	**Units**		**Amount**
Balance, beginning of period		**83,492**	**$**	**636**	**60,300**	**$**	**491**
Issued		**7,547**		**61**	**27,472**		**213**
Reinvested distributions		**2,076**		**16**	**5,343**		**41**
Fair value adjustment		**—**		**23**	**—**		**(9)**
Balance, end of period	*11*	**93,115**	**$**	**736**	**93,115**	**$**	**736**

The change in DUP units during the three and nine months ended September 30, 2017 is as follows:

	Three months ended September 30, 2017			Nine months ended September 30, 2017		
	Units		Amount	Units		Amount
Balance, beginning of period	65,725	$	526	49,859	$	395
Issued	8,487		67	21,822		174
Reinvested distributions	1,575		12	4,106		32
Fair value adjustment	—		4	—		8
Balance, end of period	75,787	$	609	75,787	$	609

Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the three and nine months ended September 30, 2018 and 2017. The diluted weighted average trust units outstanding is determined as if all of the Class B LP units and deferred units have been converted to units of the REIT:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Basic weighted average units outstanding	**69,833,460**	56,879,514	**65,803,319**	50,159,332
Class B LP units	**5,285,160**	5,285,160	**5,285,160**	5,285,160
Deferred units	**84,498**	66,502	**73,406**	58,227
Diluted weighted average units outstanding	**75,203,118**	62,231,176	**71,161,885**	55,502,719

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

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 three months ended September 30, 2018, the REIT declared distributions each month of $0.0625 per unit.

The following table summarizes the distributions during the three and nine months ended September 30, 2018:

		Three months ended September 30, 2018			Nine months ended September 30, 2018	
		Trust units	**Class B LP units**		**Trust units**	**Class B LP units**
Distributions declared during the period	**$**	**13,095**	**$ 991**	**$**	**37,659**	**$ 2,973**
Add: Distributions payable, beginning of period		**4,363**	**330**		**3,559**	**330**
Less: Distributions payable, end of period		**(4,366)**	**(330)**		**(4,366)**	**(330)**
Distributions paid or settled during the period	**$**	**13,092**	**$ 991**	**$**	**36,852**	**$ 2,973**

Distributions during the three and nine months ended September 30, 2018 were paid or settled as follows:

	Note		Three months ended September 30, 2018			Nine months ended September 30, 2018	
			Trust units	**Class B LP units**		**Trust units**	**Class B LP units**
Paid in cash		**$**	**12,734**	**$ 991**	**$**	**35,764**	**$ 2,973**
Reinvested in units	*15*		**358**	—		**1,088**	—
		$	**13,092**	**$ 991**	**$**	**36,852**	**$ 2,973**

The following table summarizes the distributions during the three and nine months ended September 30, 2017:

		Three months ended September 30, 2017			Nine months ended September 30, 2017	
		Trust units	Class B LP units		Trust units	Class B LP units
Distributions declared during the period	$	10,666	$ 991	$	28,971	$ 2,973
Add: Distributions payable, beginning of period		3,554	330		2,545	330
Less: Distributions payable, end of period		(3,556)	(330)		(3,556)	(330)
Distributions paid or settled during the period	$	10,664	$ 991	$	27,960	$ 2,973

Distributions during the three and nine months ended September 30, 2017 were paid or settled as follows:

	Note		Three months ended September 30, 2017			Nine months ended September 30, 2017	
			Trust units	Class B LP units		Trust units	Class B LP units
Paid in cash		$	10,422	$ 991	$	27,187	$ 2,973
Reinvested in units	*15*		242	—		773	—
		$	10,664	$ 991	$	27,960	$ 2,973

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 three months ended September 30, 2018, the REIT declared distributions resulting in 45,884 units (September 30, 2017 - 30,921 units) issued/issuable under the DRIP.

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

17. Rental revenue

Rental revenue is comprised of the following:

	Three months ended September 30,		Nine months ended September 30, 2018	
	2018	2017	**2018**	2017
Property base rent[1]	**$ 27,923**	$ 19,935	**$ 76,631**	$ 55,171
Operating cost recoveries	**16,609**	12,632	**46,471**	32,492
Tax recoveries	**7,263**	5,402	**20,145**	14,116
Hotel	**3,228**	2,700	**8,123**	6,722
Straight-line rent and other changes	**(524)**	539	**(526)**	1,255
	$ 54,499	$ 41,208	**$ 150,844**	$ 109,756

(1) Includes parking revenue earned at properties.

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

	September 30, 2018	December 31, 2017
Not later than one year	**$ 120,782**	$ 79,761
Later than one year and not later than five years	**386,275**	243,153
Later than five years	**278,226**	180,741
	$ 785,283	$ 503,655

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:

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2018**	2017	**2018**	2017
Asset management fees	*21*	**$ 1,297**	$ 976	**$ 3,565**	$ 2,616
Professional fees		**147**	158	**662**	386
Trustee fees		**103**	117	**354**	329
Bad debt expense, net		**(10)**	18	**300**	65
Other		**253**	268	**623**	569
		$ 1,790	$ 1,537	**$ 5,504**	$ 3,965

19. Interest and finance costs

Interest and finance costs are comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Mortgage interest	**$ 6,429**	$ 3,920	**$ 17,594**	$ 9,789
Interest on other debt	**3,990**	2,649	**9,938**	7,494
Amortization of deferred transaction costs	**793**	624	**2,103**	1,337
Amortization of debt mark-to-market adjustments	**(100)**	(151)	**(346)**	(411)
Subscription receipts equivalent amount [1]	**—**	—	**1,597**	926
Interest on convertible debentures [2]	**380**	—	**1,025**	—
	$ 11,492	$ 7,042	**$ 31,911**	$ 19,135

(1) On March 27, 2018 each subscription receipt issued by the REIT on January 26, 2018 was exchanged for one unit and a cash distribution equivalent payment of $0.125 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between January 26, 2018 and March 27, 2018). See note 15.
(2) The convertible debentures pay interest at 5.25%, payments are made semi-annually beginning August 31, 2018. The amount above represents the interest accrued up to and including September 30, 2018.

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

20. Change in fair value of financial instruments

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2018**	2017	**2018**	2017
Interest rate swaps	*12*	**$ 1,916**	$ 952	**$ 1,647**	$ 1,664
Interest rate cap	*12*	**—**	21	**(9)**	21
Convertible debenture embedded derivatives	*12*	**(43)**	—	**5**	—
Settlement of gain on foreign exchange hedge	*12*	**(2,033)**	—	**(2,033)**	—
Deferred units	*15*	**(23)**	(4)	**9**	(8)
Subscription receipts	*15*	**—**	—	**5,751**	(3,112)
Foreign exchange forwards (1)		**(66)**	—	**(455)**	—
Total change in fair value of financial instruments		**(249)**	969	**4,915**	(1,435)
Less: Amounts recognized in other comprehensive income		**2,033**	—	**2,033**	—
Recognized in net income		**$ 1,784**	$ 969	**$ 6,948**	$ (1,435)

(1) During the nine month period ended September 30, 2018, the REIT entered into two forward foreign exchange contracts for the purposes of hedging against the purchase of 20 South Clark Street in Chicago, IL. These contracts resulted in a loss of $0.5 million for the nine months ended September 30, 2018.

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 $7.65 per unit on the day of conversion of the subscription receipts to units was recorded in net income and comprehensive income as a $5.8 million fair value change of financial instruments for the nine months ended September 30, 2018.

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:

	September 30, 2018	December 31, 2017
REIT units	**1,687,251**	1,687,251
Class B LP units	**5,285,160**	5,285,160
Total	**6,972,411**	6,972,411
Economic interest	**9.3%**	11.2%

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.

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

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:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Property management	**$ 1,595**	$ 1,185	**$ 4,296**	$ 3,214
Asset management	**1,297**	976	**3,565**	2,616
Leasing, financing and construction management	**905**	735	**2,150**	3,918
Acquisition	**1,007**	—	**3,291**	2,050
	$ 4,804	$ 2,896	**$ 13,302**	$ 11,798

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 $2.7 million and $7.5 million for the three and nine month periods ended September 30, 2018, respectively (September 30, 2017 – $2.3 million and $5.5 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.

As part of the REIT's acquisition of the 7 Asset Portfolio from SCREO I L.P. on March 27, 2018 (see note 5), the REIT was provided an income supplement in the aggregate amount of $2.4 million to be received in equal quarterly installments in each of the eight calendar quarters following the acquisition of the 7 Asset Portfolio by SCREO I L.P., an entity for which SLAM is the manager. The income supplement is recorded as an other asset on the consolidated statements of financial position at amortized cost. During the nine months ended September 30, 2018, the REIT recorded $53 thousand as interest income in the consolidated statements of income.

The following are the assets and liabilities included in the consolidated statements of financial position of the REIT related to SMC, SLAM and SCREO I L.P.:

	September 30, 2018	December 31, 2017
Income supplement receivable	**$ 1,724**	$ —
Accounts receivable	**336**	461
Accounts payable and accrued liabilities	**858**	1,028
Class B LP units	**41,753**	43,021

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

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.

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

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

			Fair value		
September 30, 2018	**Note**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Recorded at fair value					
Properties	*4*	$ 1,783,261	$ —	$ —	$ 1,783,261
Derivatives, net	*12*	935	—	935	—
Class B LP units	*13*	(41,753)	(41,753)	—	—
Fair values disclosed					
Cash		$ 7,903	$ 7,903	$ —	$ —
Restricted cash		1,845	1,845	—	—
Debt	*10*	(1,194,428)	—	(1,195,410)	—

			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	*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)	—

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 and foreign exchange 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.

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.

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

The following table summarizes the estimated contractual maturities of the REIT's financial liabilities at September 30, 2018:

	Total contractual cash flow	Remainder of 2018	2019-2020	2021-2022	Thereafter
Accounts payable and accrued liabilities	$ 36,735	$ 36,735	$ —	$ —	$ —
Amortizing principal repayments on debt	87,447	3,987	32,002	19,172	32,286
Principal repayments on maturity of debt	1,113,759	—	482,676	487,424	143,659
Interest on debt (1)	120,227	11,585	73,846	18,491	16,305
Interest rate swaps (2)	29,785	6,956	20,364	2,465	—
Other liabilities	7,376	1,235	1,556	1,217	3,368
	$ 1,395,329	**$ 60,498**	**$ 610,444**	**$ 528,769**	**$ 195,618**

(1) Interest amounts on floating rate debt have been determined using rates at September 30, 2018.
(2) Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the September 30, 2018 rates.

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.

At September 30, 2018, after the impact of interest rate swaps, the REIT had a floating rate mortgage and debt of $604.6 million (December 31, 2017 – $533.2 million). The following table presents the annualized impact of a change in floating interest rates of 25 bps on finance costs:

	September 30, 2018	December 31, 2017
Change of 25 bps	**$ 1,512**	$ 1,333

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 on February 1, 2018 as well as monetary assets and liabilities denominated in this currency. In order to mitigate a portion of this risk, the REIT has financed its U.S. operations with U.S. dollar denominated debt, acting as a natural hedge. As the REIT continues to explore acquisition opportunities 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 business.

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.

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

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

	September 30, 2018	December 31, 2017
Debt, net	$ 1,194,428	$ 795,591
Class B LP units	41,753	43,021
Equity	593,806	484,548
	$ 1,829,987	$ 1,323,160

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:

	September 30, 2018	December 31, 2017
Total assets	$ 1,874,600	$ 1,364,845
Less: Restricted cash	(1,845)	(594)
Gross book value	1,872,755	1,364,251
Debt, net	$ 1,194,428	$ 795,591
Leverage ratio	63.8%	58.3%

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 facilities, 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 periods ended September 30, 2018 and 2017, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes payable is required, except for amounts incurred by the U.S. subsidiary.

The REIT's U.S. subsidiary is subject to federal and state income tax on taxable income from U.S operations. The REIT recognizes deferred tax assets and liabilities at prevailing tax rates when such differences are expected to settle, based on tax laws enacted at the reporting date. The U.S. subsidiary is subject to a combined federal and state rate of 28.51%.

The tax effects of temporary differences related to the REIT's properties give rise to the recognition of a deferred tax asset in the amount of $0.9 million. The following is a reconciliation of the deferred tax asset during the period:

	September 30, 2018	September 30, 2017
Beginning of the period	$ —	$ —
Deferred income tax recovery	919	—
Foreign exchange	1	—
End of the period	$ 920	$ —

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

A reconciliation of the expected income taxes based upon the 2018 statutory rates and the income tax recovery recognized during the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Net income before Class B LP units and taxes	**$ 19,733**	$ 24,810	**$ 49,978**	$ 39,244
Canadian statutory tax rate	**26.5%**	26.5%	**26.5%**	26.5%
	5,229	6,575	**13,244**	10,400
Income not subject to tax	**5,633**	6,575	**14,099**	10,400
Tax rate differential	**31**	—	**65**	—
Deferred income tax recovery	**$ 435**	$ —	**$ 920**	$ —

26. Supplemental cash flow information

Changes in liabilities arising from financing activities for the nine months ended September 30, 2018 are as follows:

		Cash flows			Non-cash changes				
	December 31, 2017	**Proceeds**	**Payments**	**Transaction costs and other**	**Assump-tions**	**Foreign exchange**	**Fair value changes**	**Amortization of MTM adjustments and costs**	**September 30, 2018**
Derivatives, net	$ (538)	$ 2,033	$ —	$ (170)	$ —	$ —	$ (390)	$ —	**$ 935**
Facilities	174,316	159,721	(33,439)	(1,443)	—	3,421	—	868	**303,444**
Mortgages	501,776	131,195	(24,428)	(955)	80,011	(351)	—	429	**687,677**
Other debt	119,499	57,631	(900)	(813)	—	—	—	320	**175,737**
Convertible debentures	—	28,750	—	(1,320)	—	—	—	140	**27,570**
Class B LP units	43,021	—	—	—	—	—	(1,268)	—	**41,753**

27. Subsequent events

The following events occurred subsequent to September 30, 2018:

i. On October 15, 2018, the REIT paid a monthly distribution 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.