Condensed consolidated interim financial statements of

SLATE RETAIL REIT

For the three and nine months ended September 30, 2019

(Unaudited)

Slate Retail REIT
Condensed consolidated interim financial statements

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

	Note	September 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Properties	*4, 5*	**$ 1,307,410**	$ 1,382,955
Equity investment	*6*	**4,932**	—
Interest rate swaps	*7*	**1,989**	2,818
Other assets	*8*	**2,299**	2,511
		1,316,630	1,388,284
Current assets			
Other assets	*8*	**653**	12,222
Prepaids		**4,687**	2,733
Accounts receivable	*9*	**11,176**	11,985
Cash		**3,690**	1,110
		20,206	28,050
Total assets		**$ 1,336,836**	$ 1,416,334
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	*10*	**$ 709,616**	$ 868,517
Interest rate swaps	*7*	**26,593**	—
Other liabilities		**2,859**	2,945
Exchangeable units of subsidiaries	*11*	**10,528**	19,045
Deferred income taxes	*12*	**56,041**	57,481
		805,637	947,988
Current liabilities			
Debt	*10*	**88,531**	3,045
Accounts payable and accrued liabilities	*13*	**25,479**	22,948
Distributions payable	*18*	**3,133**	3,157
Taxes payable		**171**	1,393
		117,314	30,543
Unitholders' equity		**413,885**	437,803
Total liabilities and unitholders' equity		**$ 1,336,836**	$ 1,416,334

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

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2019**	2018	**2019**	2018
Rental revenue	*14*	**$ 34,545**	$ 35,699	**$ 106,977**	$ 107,912
Property operating expenses		**(5,287)**	(5,126)	**(36,002)**	(34,762)
Other expenses	*15*	**(2,707)**	(2,665)	**(8,238)**	(7,766)
Interest expense and other financing costs, net	*16*	**(9,181)**	(8,865)	**(27,779)**	(25,816)
Share of loss in equity investment	*6*	**126**	—	**34**	—
Disposition costs	*4, 17*	**(2,423)**	(756)	**(5,367)**	(1,626)
Change in fair value of financial instruments	*7*	**(3,671)**	—	**(4,658)**	—
Change in fair value of properties	*5*	**(5,441)**	(18,937)	**(4,461)**	(33,267)
Net income (loss) before income taxes and unit (expense) income		**5,961**	(650)	**20,506**	4,675
Deferred income tax expense	*12*	**(1,238)**	325	**(4,520)**	(202)
Current income tax recovery	*12*	**187**	—	**114**	—
Unit (expense) income	*11,18*	**(397)**	(699)	**(3,793)**	7,005
Net income (loss)		**$ 4,513**	$ (1,024)	**$ 12,307**	$ 11,478

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2019**	2018	**2019**	2018
Net income (loss)		**$ 4,513**	$ (1,024)	**$ 12,307**	$ 11,478
Items to be subsequently reclassified to profit or loss:					
(Loss) gain on cash flow hedges of interest rate risk, net of tax	7	**(837)**	846	**(15,229)**	5,781
Reclassification of cash flow hedges of interest rate risk to income	7	**(312)**	(340)	**(1,575)**	(1,163)
Other comprehensive (loss) income		**(1,149)**	506	**(16,804)**	4,618
Comprehensive income (loss)		**$ 3,364**	$ (518)	**$ (4,497)**	$ 16,096

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

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

	Note	REIT units	Retained earnings	Accumulated other comprehensive income ("AOCI")	Capital reserve	Total
Balance, December 31, 2018		$ 419,008	$ 18,141	$ 2,078	$ (1,424)	**$ 437,803**
Net income and comprehensive loss		—	12,307	(16,804)	—	**(4,497)**
Distributions	*11,18*	—	(26,786)	—	—	**(26,786)**
Repurchases	*11*	(3,474)	—	—	—	**(3,474)**
Exchanges	*11*	10,839	—	—	—	**10,839**
Balance, September 30, 2019		**$ 426,373**	**$ 3,662**	**$ (14,726)**	**$ (1,424)**	**$ 413,885**

	REIT units	Retained earnings	AOCI	Capital reserve	Total
Balance, December 31, 2017	$ —	$ 41,337	$ 7,832	$ (1,424)	$ 47,745
Net income and comprehensive income	—	11,478	4,618	—	16,096
REIT units [(1)]	435,285	—	—	—	435,285
Distributions	—	(15,293)	—	—	(15,293)
Repurchases	(5,468)	7	—	—	(5,461)
Exchanges	210	—	—	—	210
Balance, September 30, 2018	$ 430,027	$ 37,529	$ 12,450	$ (1,424)	$ 478,582

[(1)] Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

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

	Note		Nine months ended September 30, 2019		2018
OPERATING ACTIVITIES					
Net income		**$**	**12,307**	$	11,478
Items not affecting cash:					
Straight-line rent	*5*		**(1,522)**		(2,241)
Change in fair value of financial instruments			**4,658**		—
Change in fair value of properties	*5*		**4,461**		33,267
IFRIC 21 property tax adjustment	*5*		**4,934**		4,670
Deferred income tax expense	*12*		**4,520**		202
Unit expense (income)	*18*		**3,793**		(7,005)
Share of income in equity investment	*6*		**(34)**		—
Interest expense and other financing costs	*16*		**27,779**		25,816
Cash interest paid, net			**(26,680)**		(25,273)
Changes in working capital items			**729**		7,844
			34,945		48,758
INVESTING ACTIVITIES					
Acquisitions	*4*		**—**		(12,594)
Dispositions	*4*		**81,035**		42,371
Contributions to equity investment	*4, 6*		**(3,281)**		—
Proceeds from equity investment	*4*		**10,027**		—
Funds held in escrow			**(162)**		(155)
Capital	*5*		**(1,946)**		(4,158)
Leasing costs	*5*		**(1,073)**		(2,250)
Tenant improvements	*5*		**(4,431)**		(6,139)
Development and expansion capital	*5*		**(6,113)**		(9,274)
			74,056		7,801
FINANCING ACTIVITIES					
Revolver advances	*10, 24*		**32,616**		21,400
Revolver and mortgage repayments	*10, 24*		**(107,318)**		(38,553)
Repurchases of REIT units	*11*		**(3,474)**		(10,208)
REIT units distributions, net of DRIP units issued	*18*		**(26,827)**		(26,533)
Exchangeable units of subsidiaries distributions	*18*		**(1,418)**		(1,410)
			(106,421)		(55,304)
Increase in cash and cash equivalents		**$**	**2,580**	$	1,255
Cash and cash equivalents, beginning of the period			**1,110**		7,383
Cash and cash equivalents, end of the period		**$**	**3,690**	$	8,638

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

1. Description of the REIT and operations

Slate Retail REIT (the "REIT") is an unincorporated, open-ended mutual fund trust under and governed by the laws of the Province of Ontario. The REIT focuses on acquiring, owning and leasing a portfolio of diversified revenue-producing commercial real estate properties (the "properties") in the United States of America (the "U.S.") with a focus on grocery-anchored retail properties.

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

The objectives of the REIT are to:

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

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

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

2. Basis of preparation

i. Statement of compliance

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

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on October 29, 2019.

iii. Basis of measurement

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

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

iv. Functional and presentation currency

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

3. Significant accounting policies

A summary of significant accounting policies is included in note 3 *Significant accounting policies* of the audited comparative consolidated financial statements of the REIT as at and for the year ended December 31, 2018. These consolidated financial statements follow the same accounting policies and methods of computation as used in the REIT's most recent annual consolidated financial statements, except for the adoption of the new accounting policy disclosed below. Also included below is an accounting policy not described in the REIT's annual consolidated financial statements, but which is applicable to a transaction occurring for the first time in 2019.

These consolidated financial statements do not include all the information and disclosures required in the annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the REIT's audited comparative consolidated financial statements as at and for the year ended December 31, 2018.

i. Application of new and revised IFRS

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases* ("IAS 17") and IFRIC 4, *Determining whether an arrangement contains a lease*, and is effective January 1, 2019. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17 while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

The REIT has adopted IFRS 16 initially on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 is recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

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

As a result of the adoption of IFRS 16, the REIT has separately disclosed variable lease payments not connected to an index or rate including property tax recoveries and percentage rents. As a landlord, all of the REIT's leases are considered operating leases under IFRS 16. There was no impact on the statement of financial position, consolidated statement of income or the statement of cash flows as a result of adoption.

ii. Supplementary accounting policy disclosure

In 2019, the REIT applied an accounting policy for a transaction that did not occur in periods prior to 2019. The REIT's significant accounting policy related thereto is described below:

Investments in associates and joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The REIT's investment in a joint venture is recorded using the equity method and is initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the REIT's share of the profit or loss and other comprehensive income of the joint venture. The REIT's share of the joint venture's profit or loss is recognized in the REIT's statement of income and consolidated statement of comprehensive income (loss).

The financial statements of the equity accounted investment are prepared for the same reporting period as the REIT. Where necessary, adjustments are made to bring the accounting policies in line with those of the REIT. A joint venture is considered to be impaired if there is objective evidence of impairment, as a result of one or more events that occurred after initial recognition of the joint venture, and that event has a negative impact on the future cash flows of the joint venture that can be reliably estimated.

4. Acquisition and dispositions

Acquisition

During the nine month period ended September 30, 2019, the REIT acquired a 50% interest in Windmill Plaza, a joint-venture partnership with The Kroger Company. Refer to note 6 *Equity investment* for further details.

Property	Purchase date	Location		Purchase price
Windmill Plaza	January 25, 2019	Sterling Heights, Michigan	$	7,299

The purchase price of the interest in Windmill Plaza was as follows:

Contribution of note receivable and accrued interest	$	11,644
Cash contributions		3,131
Proceeds from partner investment		(7,476)
Purchase price	**$**	**7,299**
Distribution of financing proceeds		(2,551)
Net cost of equity investment	**$**	**4,748**

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

Dispositions

The REIT disposed of seven properties and seven property outparcels during the nine month period ended September 30, 2019 as follows:

Property	Number of outparcels	Disposition date	Location		Sales price
Eastpointe Shopping Center	1	January 11, 2019	Clarksburg, West Virginia	$	1,530
Locust Grove	1	January 22, 2019	Locust Grove, Georgia		1,725
Wellington Park	N/A	February 28, 2019	Cary, North Carolina		15,010
Wausau Pick 'n Save	N/A	March 6, 2019	Wausau, Wisconsin		9,900
Kennywood Shops	N/A	June 13, 2019	Pittsburgh, Pennsylvania		7,000
North Augusta Plaza	1	July 22, 2019	North Augusta, South Carolina		1,360
Wedgewood Commons	3	Various (1)	Stuart, Florida		8,590
Seminole Oaks	N/A	August 26, 2019	Seminole, Florida		11,700
County Line Plaza	N/A	August 27, 2019	Philadelphia, Pennsylvania		9,200
Derry Meadows Shoppes	1	September 9, 2019	Derry, New Hampshire		500
Springboro Plaza	N/A	September 13, 2019	Dayton, Ohio		7,200
Oakland Commons	N/A	September 16, 2019	Bloomington, Illinois		7,520
Total				**$**	**81,235**

(1) The REIT disposed of three property outparcels on July 29, 2019, July 31, 2019 and August 6, 2019, respectively, for a total of $8.6 million.

Sales price	$	81,235
Disposition costs		(5,367)
Working capital items		(200)
Total	**$**	**75,668**

5. Properties

On September 30, 2019, the REIT owned 79 properties. The change in properties is as follows:

	Note	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Beginning of the period		**$ 1,350,664**	$ 1,425,074	**$ 1,382,955**	$ 1,454,463
Acquisition		**—**	21,087	**—**	21,087
Capital		**277**	2,406	**1,946**	4,158
Leasing costs		**357**	783	**1,073**	2,250
Tenant improvements		**837**	1,834	**4,431**	6,139
Development and expansion capital		**1,788**	4,196	**6,113**	9,274
Straight-line rent		**323**	448	**1,522**	2,241
Dispositions	*4*	**(46,070)**	(22,530)	**(81,235)**	(42,740)
IFRIC 21 property tax adjustment		**4,675**	4,574	**(4,934)**	(4,670)
Change in fair value		**(5,441)**	(18,937)	**(4,461)**	(33,267)
End of the period		**$ 1,307,410**	$ 1,418,935	**$ 1,307,410**	$ 1,418,935

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

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

	September 30, 2019	December 31, 2018
Capitalization rate range	**6.00% – 9.50%**	6.25% – 11.40%
Weighted average capitalization rate	**7.50%**	7.50%
Impact on fair value due to 25 basis point change in capitalization rates	**$ 45,230**	$ 46,916
Impact on fair value due to $100,000 change in underlying annual stabilized income	**$ 1,331**	$ 1,332

Under the fair value hierarchy, the fair value of the REIT's properties is determined primarily using the overall income capitalization method using Level 3 inputs. The REIT uses the sales price when a firm contract for the sale of a property exists.

6. Equity investment

The REIT accounts for its investment in Windmill Plaza, a grocery-anchored shopping centre located in Sterling Heights, Michigan, using the equity method. On January 25, 2019, the REIT acquired a 50% partnership interest in Windmill Plaza, in a joint-venture partnership with The Kroger Company for $7.3 million, before transaction costs. Consideration for the partnership interest included settlement of the REIT's note receivable in the amount of $9.4 million and interest receivable of $2.2 million, net of assumed debt and cash on hand.

The change in the REIT's equity investment for the nine month period ended September 30, 2019 is as follows:

	Nine months ended September 30, 2019
Beginning of the period	**$ —**
Contribution of note receivable and accrued interest	**11,644**
Cash contributions	**3,131**
Distribution of financing proceeds	**(2,551)**
Proceeds from partner investment	**(7,476)**
Net cost of equity investment	**$ 4,748**
Capital contributions	**150**
Share of income in equity investment	**34**
End of the period	**$ 4,932**

The following is a summary of the financial position of the REIT's equity investment at September 30, 2019:

	September 30, 2019
Assets	
Property	**$ 21,258**
Current assets	**1,375**
	22,633
Liabilities	
Debt (1)	**$ 10,390**
Other non-current liabilities	**15**
Current liabilities	**2,364**
	12,769
Net assets at 100%	**$ 9,864**
At the REIT's 50% interest	**$ 4,932**

(1) The debt bears interest at a rate of 4.99% at September 30, 2019 and has a maturity date of January 28, 2022.

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

The following is a summary of loss of the REIT's equity investment:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Rental revenue	$ 330	$ 416
Property operating expenses	(44)	(216)
Other expenses	—	30
Interest expense and other financing costs, net	(142)	(300)
Change in fair value of property	108	138
Net income and comprehensive income at 100%	**$ 252**	**$ 68**
At the REIT's 50% interest	**$ 126**	**$ 34**

Management fees

Pursuant to the terms of the property management and leasing agreement and the development services agreement the REIT provides property, leasing and development management services for Windmill Plaza. In return for its services, the REIT receives the following fees:

i property management fees calculated based on gross income of each tenant;

ii development fees for the management of the construction in adherence with the property's development plan; and

iii leasing commissions for all executed leases.

Total management fees earned by the REIT under the agreement were $0.3 million for nine month period ended September 30, 2019.

7. Interest rate swaps

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

The terms of the interest rate swaps are as follows:

Effective date	November 2, 2016	September 1, 2017	August 22, 2018	August 22, 2018	Total/ Weighted average
Pay-fixed rate	1.104%	1.715%	2.884%	2.925%	**2.026%**
Notional amount	$ 300,000	$ 100,000	$ 175,000	$ 175,000	**$ 750,000**
Receive-floating rate	One-month LIBOR	One-month LIBOR	One-month LIBOR	One-month LIBOR	
Maturity date	February 26, 2021	September 22, 2022	August 22, 2023	August 22, 2025	
Remaining term (years)	1.4	3.0	3.9	5.9	**3.2**

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

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the three and nine month periods ended September 30, 2019 is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, June 30, 2019		$ (19,382)	$ 5,077	$ (14,305)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(1,128)	291	(837)
Cumulative loss arising on cash flow hedges to profit or loss		(3,671)	960	(2,711)
Net payments received	*16*	(423)	111	(312)
Balance, September 30, 2019		**$ (24,604)**	**$ 6,439**	**$ (18,165)**

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2018		$ 2,818	$ (740)	$ 2,078
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(20,630)	5,401	(15,229)
Cumulative loss arising on cash flow hedges to profit or loss		(4,658)	1,219	(3,439)
Net payments received	*16*	(2,134)	559	(1,575)
Balance, September 30, 2019		**$ (24,604)**	**$ 6,439**	**$ (18,165)**

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the three and nine month period ended September 30, 2018 is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, June 30, 2018		$ 16,175	$ (4,231)	$ 11,944
Change in fair value of cash flow hedges of interest rate risk		1,170	(324)	846
Net payments received	*16*	(466)	126	(340)
Balance, September 30, 2018		$ 16,879	$ (4,429)	$ 12,450

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2017		$ 10,607	$ (2,775)	$ 7,832
Change in fair value of cash flow hedges of interest rate risk		7,852	(2,071)	5,781
Net payments received	*16*	(1,580)	417	(1,163)
Balance, September 30, 2018		$ 16,879	$ (4,429)	$ 12,450

A reconciliation of the interest rate swap asset and liability fair value positions at September 30, 2019 is as follows:

	September 30, 2019	December 31, 2018
Fair value asset position included in the carrying amount of the hedged item	**$ 1,989**	$ 2,818
Fair value liability position included in the carrying amount of the hedged item	**(26,593)**	—
Total	**$ (24,604)**	$ 2,818

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

8. Other assets

Other assets are comprised of the following:

	Note	September 30, 2019	December 31, 2018
Current			
TIF notes receivable		$ **372**	$ 510
Note receivable	*6*	**—**	9,398
Funds held in escrow		**281**	119
Other [(1)]	*6*	**—**	2,195
		653	12,222
Non-current			
TIF notes receivable		**2,274**	2,486
Funds held in escrow		**25**	25
		2,299	2,511
Total		$ **2,952**	$ 14,733

(1) Other includes interest accrued on a loan arrangement, recorded as a note receivable, from the REIT to a U.S. based entity in which Slate Asset Management L.P. has a significant interest. Refer to note 6 *Equity investment* and note 22 *Related parties* for detail.

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

On January 25, 2019, the note receivable and interest accrued on the note receivable were settled as part of the consideration for the acquisition of Windmill Plaza in a 50% joint-venture partnership with The Kroger Company. Refer to note 6 *Equity investment* for further details.

9. Accounts receivable

Accounts receivable is comprised of the following:

	September 30, 2019	December 31, 2018
Rent receivable	$ **3,389**	$ 3,748
Allowance for doubtful accounts	**(675)**	(741)
Accrued recovery income	**5,559**	6,101
Other receivables	**2,903**	2,877
Total	$ **11,176**	$ 11,985

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

The change in allowance for doubtful accounts is as follows:

	Nine months ended September 30, 2019	2018
Beginning of the period	$ **(741)**	$ (328)
Allowance for doubtful accounts	**(507)**	(435)
Bad debt write-off	**290**	101
Bad debt recovery	**283**	174
End of the period	$ **(675)**	$ (488)

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.

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

The aging analysis of not credit-impaired rent receivable, net of allowance for doubtful accounts, is as follows:

	September 30, 2019	December 31, 2018
Current to 30 days	$ 1,586	$ 2,128
31 to 60 days	253	492
61 to 90 days	89	125
Greater than 90 days	786	262
Total	**$ 2,714**	$ 3,007

10. Debt

Debt held by the REIT at September 30, 2019 is as follows:

	Maturity	Remaining extension options	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn (1)
Revolver (1)(2)	February 26, 2020	One 1-year	L+200 bps (1)(3)	N/A (4)	N/A (4)	$ 362,500	$ 85,199	$ 277,301
Term loan (1)	February 26, 2021	None	L+200 bps (1)(3)	N/A (4)	N/A (4)	362,500	362,500	—
Term loan 2 (1)	February 9, 2023	None	L+200 bps (1)(3)	N/A (4)	N/A (4)	250,000	250,000	—
Mortgage	March 1, 2021	None	5.75%	1	22,084	10,193	10,193	—
Mortgage	January 1, 2025	None	3.80%	3	78,836	43,658	43,658	—
Mortgage	June 15, 2025	None	4.14%	5	78,415	42,185	42,185	—
Mortgage	January 1, 2031	None	5.50%	1	22,596	7,645	7,645	—
Total						**$ 1,078,681**	**$ 801,380**	**$ 277,301**

(1) Debt available to be drawn is subject to certain covenants as provided in the REIT's lending agreements, including generally, a maximum of 65% Consolidated Total Indebtedness to Gross Asset Value. The calculation of Consolidated Total Indebtedness to Gross Asset Value is provided in note 20 *Capital Management*. The revolver, term loan and term loan 2 provide for different spreads over one-month U.S. LIBOR depending on the ratio of Consolidated Total Indebtedness to Gross Asset Value. The applicable spread where Consolidated Total Indebtedness to Gross Asset Value is; (i) less than or equal to 45% is 155 bps; (ii) greater than 45% but less than or equal to 55% is 175 bps; (iii) greater than 55% but less than or equal to 60% is 200 bps; and (iv) greater than 60% is 225 bps.
(2) The revolver requires a stand-by fee to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.
(3) "L" means LIBOR and "bps" means basis points.
(4) The revolver, term loan and term loan 2 are secured by a general pledge of equity of certain subsidiaries of the REIT. Collectively, those subsidiaries hold an interest in 68 of the REIT's properties.

The carrying value of debt held by the REIT at September 30, 2019 is as follows:

	Effective rate (1)	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments and costs (2)	Carrying amount	Current	Non-current
Revolver	4.40%	$ 85,199	$ (2,186)	$ 1,928	$ 84,941	$ 84,941	$ —
Term loan	4.40%	362,500	(3,877)	2,977	361,600	—	361,600
Term loan 2	4.40%	250,000	(1,839)	622	248,783	—	248,783
Mortgage	5.75%	10,193	2,003	(1,550)	10,646	291	10,355
Mortgage	3.80%	43,658	(1,549)	634	42,743	1,046	41,697
Mortgage	4.14%	42,185	(1,079)	560	41,666	1,753	39,913
Mortgage	5.50%	7,645	127	(4)	7,768	500	7,268
Total		**$ 801,380**	**$ (8,400)**	**$ 5,167**	**$ 798,147**	**$ 88,531**	**$ 709,616**

(1) The effective interest rate for the revolver, term loan and term loan 2 includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. The revolver, term loan and term loan 2 effective rates are based on the applicable U.S. LIBOR rate under borrowings as at September 30, 2019.
(2) Excludes the impact of any available extension options not yet exercised.

During the period ended September 30, 2019, the REIT made principal repayments, net of drawdowns totaling $74.7 million on the REIT's revolver and mortgages funded by cash received from the disposal of seven properties and seven property outparcels, and cash from operations.

11. REIT units and exchangeable units of subsidiaries

At September 30, 2019, the REIT has the following REIT units issued and outstanding, in thousands of units:

	Class A	Class I	Class U
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	252	282	42,358

At December 31, 2018 each class of the exchangeable units issued by the REIT's subsidiaries are presented as financial liabilities in accordance with IAS 32, *Financial Instruments: Presentation*.

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

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

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

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

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

Exchangeable units of subsidiaries

Exchangeable units of subsidiaries are redeemable at the option of the holder, for cash or class U units of the REIT as determined by the REIT. Distributions paid on exchangeable units of subsidiaries are recorded as unit expense in the period in which they become payable.

Exchangeable units of subsidiaries 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 as unit expense.

Subdivision

In the 2018 year, the REIT completed various steps to have its units presented as equity in its consolidated financial statements. The changes included the approval of a special resolution of an amendment to and restatement of the Declaration of Trust of the REIT (the “Third A&R DOT”) making the features of the class A units, class I units and class U units identical among all three classes, among other things. Also on May 1, 2018, the board of trustees of the REIT approved the subdivision of each of the: (i) class A units issued and outstanding on May 3, 2018 (the “record date”) on the basis of a subdivision ratio of one pre-subdivision class A unit for 1.0078 post-subdivision class A units; and (ii) class I units issued and outstanding on the record date on the basis of a subdivision ratio of one pre-subdivision class I unit for 1.0554 class I units (the "Subdivision"). The Third A&R DOT and the Subdivision were undertaken contemporaneously and the impact of such actions did not change the relative economics of the different classes of units of the REIT.

The Subdivision was completed on May 11, 2018. As a consequence of the Subdivision, the proportionate entitlement of the class A units and class I units with respect to distributions from the REIT has been adjusted to 1.0 and all class A units, class I units and class U units have equal rights with respect to distributions from the REIT, redemptions of units and on the termination of the REIT. Each class A unit and each class I unit have remained convertible into a class U unit but the conversation ratio is on a one-for-one-basis. The REIT issued an additional 3 thousand class A units and 15 thousand class I units as a result of the Subdivision. The fair value of the REIT units of $435.3 million at May 11, 2018 were classified as equity. Prior to May 11, 2018, units of the REIT were presented as a liability in its consolidated financial statements.

Normal course issuer bid

The REIT has a normal course issuer bid ("NCIB") which was most recently renewed on May 26, 2019. The NCIB remains in effect until the earlier of May 25, 2020 or the date on which the REIT has purchased an aggregate of 3.9 million class U units, representing 10% of the REIT's public float of 38.5 million class U units at the time of entering the NCIB through the facilities of the TSX.

For the nine month period ended September 30, 2019, no class U units have been purchased and subsequently canceled under the NCIB.

Substantial issuer bid

On January 16, 2019, the REIT commenced a substantial issuer bid (the "offer"), pursuant to which the REIT offered to purchase up to 4.2 million class U units at a purchase price of C$12.54 (USD$9.51). On February 20, 2019, the offer expired and the REIT had taken up and paid for 0.3 million class U units for an aggregate cost of $3.2 million or C$4.2 million, excluding fees and expenses related to the offer. The class U units purchased for cancellation under the offer represents 0.8% of the diluted class U units outstanding, immediately prior to the expiry of the offer.

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

	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
Class / type	**U**	**A**	**I**	**SR1** [(1)]	**SR2** [(1)]	**GAR B**	
Balance, December 31, 2018	41,524	292	282	220	1,603	388	**44,309**
Repurchased	(337)	—	—	—	—	—	**(337)**
Exchanges	1,171	(40)	—	(192)	(683)	(256)	**—**
Class U units equivalent, September 30, 2019	**42,358**	**252**	**282**	**28**	**920**	**132**	**43,972**

	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
Class / type	**U**	**A**	**I**	**SR1** [(1)]	**SR2** [(1)]	**GAR B**	
Balance, December 31, 2017	43,482	309	282	220	1,603	496	46,410
Issued	117	—	—	—	—	—	117
Repurchased	(853)	—	—	—	—	—	(853)
Issued under subdivision	—	3	15	—	—	—	—
Exchanges	141	(18)	(15)	—	—	(108)	—
Class U units equivalent, September 30, 2018	42,887	294	282	220	1,603	388	45,674

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

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

	Nine months ended September 30, **2019**	2018
Beginning of the period	$ **19,045**	$ 24,075
Exchanges	**(10,839)**	(1,072)
Change in fair value	**2,322**	(1,258)
End of the period	$ **10,528**	$ 21,745

The change in the carrying amount of REIT units of subsidiaries during the nine month period ended September 30, 2018 is as follows:

		REIT units
Balance, December 31, 2017	$	457,590
Issued under the DRIP		1,147
Repurchases		(4,747)
Exchanges		862
Change in fair value (1)		(19,567)
Balance, May 11, 2018	$	435,285

(1) Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity.

Deferred unit plans

The REIT has a deferred unit incentive plan ("DUP") for trustees of the REIT, who are not also members of management may elect to receive all or a portion of their trustee fees in the form of deferred units that vest immediately upon grant.

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Beginning of the period	**130**	89	**115**	71
Reinvested distributions	**3**	2	**9**	5
Issuances	**5**	4	**14**	19
End of the period	**138**	95	**138**	95
Fair value of units (1)	**$ 1,344**	$ 930	**$ 1,344**	$ 930

(1) At the respective period end date.

Weighted average class U units outstanding

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Class U units	**42,855**	42,596	**41,359**	42,968
Class A units	**252**	294	**260**	297
Class I units	**282**	282	**282**	288
Exchangeable units of subsidiaries	**584**	2,225	**2,135**	2,230
Deferred units	**134**	92	**126**	85
Total	**44,107**	45,489	**44,162**	45,868

Class U units outstanding

The following is the total number of class U units outstanding, if all other units of the REIT, its subsidiaries and its DUP, were converted or exchanged, as applicable, for class U units of the REIT, in thousands of units:

	Nine months ended September 30,	
	2019	2018
Class U units	**42,358**	42,887
Class A units	**252**	294
Class I units	**282**	282
Exchangeable units of subsidiaries	**1,080**	2,211
Deferred units	**138**	95
Total	**44,110**	45,769

12. Income taxes

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

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

The REIT is therefore subject to U.S. federal income taxation on its allocable share of rental income derived directly or indirectly through such subsidiary limited partnerships, on a net basis taking into account allowable deductions. Investment L.P. and GAR B are each subject to a combined federal and state income tax rate of 26.18% (December 31, 2018 – 26.22%). To the extent U.S. taxes are paid by Investment L.P. and GAR B such amounts will be creditable against an investor's Canadian federal income tax liability to the extent permitted by Canadian tax law.

For the three and nine month period ended September 30, 2019, the current income tax recovery was $0.2 million and $0.1 million, respectively, related to branch profit taxes. Total branch profit taxes paid as of September 30, 2019 was $1.0 million (September 30, 2018 – nil). Branch profit tax is tax imposed on U.S. earned income that is repatriated to Canada.

13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	September 30, 2019	December 31, 2018
Trade payables and accrued liabilities	**$ 16,344**	$ 14,500
Prepaid rent	**4,292**	3,656
Tenant improvements payable	**121**	186
Other payables	**4,722**	4,606
Total	**$ 25,479**	$ 22,948

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

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

14. Revenue

Revenue is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Rental revenue	**$ 26,088**	$ 26,879	**$ 79,296**	$ 80,451
Common area maintenance recoveries	**2,789**	2,877	**9,353**	9,389
Property tax and insurance recoveries	**5,018**	4,932	**15,197**	14,619
Percentage rent	**18**	25	**386**	307
Other revenue [1]	**632**	986	**2,745**	3,146
Total	**$ 34,545**	$ 35,699	**$ 106,977**	$ 107,912

[1] Other revenue includes straight-line rent, ground rent, termination fees, storage rent, and non-rental income.

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

The REIT's existing leases have a weighted average outstanding term of 5.1 years (December 31, 2018 – 4.8 years) certain of which include clauses to enable periodic upward revisions in rental rates.

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

	September 30, 2019	December 31, 2018
In one year or less	**$ 101,149**	$ 105,796
In more than one year but not more than five years	**279,718**	287,676
In more than five years	**121,052**	130,339
Total	**$ 501,919**	$ 523,811

15. Other expenses

Other expenses are comprised of the following:

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2019**	2018	**2019**	2018
Asset management fees	*22*	**$ 1,387**	$ 1,487	**$ 4,169**	$ 4,440
Bad debt expense		**389**	234	**668**	799
Professional fees and other		**815**	753	**2,325**	2,118
Franchise and business taxes		**116**	191	**1,076**	409
Total		**$ 2,707**	$ 2,665	**$ 8,238**	$ 7,766

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

16. Interest expense and other financing costs, net

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

	Note	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Interest on debt and finance charges	*10*	**$ 9,244**	$ 9,193	**$ 28,838**	$ 26,822
Interest rate swaps, net settlement	*7*	**(423)**	(532)	**(2,134)**	(1,549)
Foreign exchange forward contract, net settlement		**—**	—	**(24)**	—
Interest income		**(5)**	(27)	**(15)**	(72)
Interest income on notes receivable		**—**	(189)	**(51)**	(562)
Amortization of finance charges	*10*	**497**	511	**1,561**	1,457
Amortization of MTM premium	*10*	**(92)**	(89)	**(273)**	(261)
Interest income on TIF notes receivable		**(18)**	(24)	**(57)**	(75)
Interest expense on TIF notes payable		**—**	44	**—**	122
Amortization of deferred gain on TIF notes		**(22)**	(22)	**(66)**	(66)
Total		**$ 9,181**	$ 8,865	**$ 27,779**	$ 25,816

17. Disposition costs

Disposition costs for the three and nine month periods ended September 30, 2019 were $2.4 million and $5.4 million, respectively (three month period ended September 30, 2018 – $0.8 million, nine month period ended September 30, 2018 – $1.6 million), and relate to costs of the disposition of properties and property outparcels.

18. Unit expense (income)

Unit expense (income) is comprised of the following:

	Note	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
REIT units distributions (1)	*11*	**$ —**	$ —	**$ —**	$ 12,342
Exchangeable units of subsidiaries distributions	*11*	**392**	466	**1,337**	1,404
Change in fair value of DUP		**11**	5	**134**	(41)
Change in fair value of REIT units (1)	*11*	**—**	—	**—**	(19,452)
Change in fair value of exchangeable units of subsidiaries	*11*	**(6)**	228	**2,322**	(1,258)
Total		**$ 397**	$ 699	**$ 3,793**	$ (7,005)

(1) Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 *REIT units and exchangeable units of subsidiaries* for further detail.

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

Unit 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.

The following table summarizes the REIT's distributions and reconciliation to distributions paid or settled:

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2019**	2018	**2019**	2018
Declared					
REIT units distributions	*11*	**$ 9,007**	$ 9,161	**$ 26,884**	$ 27,635
Exchangeable units of subsidiaries distributions	*11*	**392**	466	**1,337**	1,404
		9,399	9,627	**28,221**	29,039
Add: Distributions payable, beginning of period		**3,133**	2,755	**3,157**	1,838
Less: Distributions payable, end of period		**(3,133)**	(3,197)	**(3,133)**	(3,197)
Distributions paid or settled		**$ 9,399**	$ 9,185	**$ 28,245**	$ 27,680
Paid in cash		**$ 9,399**	$ 9,185	**$ 28,245**	$ 26,533
Reinvested in units	*11*	**$ —**	$ —	**$ —**	$ 1,147

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

19. Financial instruments

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

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

		September 30, 2019		December 31, 2018
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Cash	**$ 3,690**	**$ 3,690**	$ 1,110	$ 1,110
Accounts receivable	**11,176**	**11,176**	11,985	11,985
Interest rate swaps	**1,989**	**1,989**	2,818	2,818
TIF notes receivable	**2,646**	**2,703**	2,996	3,038
Financial assets within other assets (1)	**306**	**306**	144	144
Notes and other receivable	**—**	**—**	11,593	11,593
Total financial assets	**$ 19,807**	**$ 19,864**	$ 30,646	$ 30,688
Financial liabilities				
Accounts payable and accrued liabilities	**$ 25,479**	**$ 25,479**	$ 22,948	$ 22,948
Distributions payable	**3,133**	**3,133**	3,157	3,157
Interest rate swaps	**26,593**	**26,593**	—	—
Revolver	**84,941**	**85,199**	143,822	144,543
Term loan	**361,600**	**362,500**	361,086	362,500
Term loan 2	**248,783**	**250,000**	248,533	250,000
Mortgages	**102,823**	**103,681**	118,121	119,040
Financial liabilities within other liabilities (2)	**2,859**	**2,859**	2,945	2,945
Exchangeable units of subsidiaries	**10,528**	**10,528**	19,045	19,045
Total financial liabilities	**$ 866,739**	**$ 869,972**	$ 919,657	$ 924,178

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

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

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

September 30, 2019	Level 1	Level 2	Level 3	Fair value
Financial assets				
Cash	$ 3,690	$ —	$ —	$ 3,690
Accounts receivable	—	11,176	—	11,176
Interest rate swaps	—	1,989	—	1,989
TIF notes receivable	—	—	2,703	2,703
Other assets (1)	306	—	—	306
Total financial assets	**$ 3,996**	**$ 13,165**	**$ 2,703**	**$ 19,864**
Financial liabilities				
Accounts payable and accrued liabilities	$ —	$ 25,479	$ —	$ 25,479
Distributions payable	—	3,133	—	3,133
Interest rate swaps	—	26,593	—	26,593
Revolver	—	85,199	—	85,199
Term loan	—	362,500	—	362,500
Term loan 2	—	250,000	—	250,000
Mortgages	—	103,681	—	103,681
Other liabilities (2)	2,859	—	—	2,859
Exchangeable units of subsidiaries	10,528	—	—	10,528
Total financial liabilities	**$ 13,387**	**$ 856,585**	**$ —**	**$ 869,972**

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

20. Capital management

The REIT's capital management objectives are to:

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

ii. ensure compliance with restrictions in debt agreements; and

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

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

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

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

	September 30, 2019	December 31, 2018
Debt	**$ 798,147**	$ 871,562
Exchangeable units of subsidiaries	**10,528**	19,045
Unitholders' equity	**413,885**	437,803
Total	**$ 1,222,560**	$ 1,328,410

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

	September 30, 2019	December 31, 2018
Gross book value	**$ 1,336,836**	$ 1,416,334
Debt	**798,147**	871,562
Leverage ratio	**59.7%**	61.5%

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

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

	Threshold	**September 30, 2019**	December 31, 2018
Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value	< 65%	**57.5%**	59.6%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x (1)	> 1.50x	**2.23x**	2.40x

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

21. Risk management

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

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

i. Credit risk

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

As of September 30, 2019, one individual tenant accounted for 8.1% (December 31, 2018 – 7.7%) of the REIT's base rent.

ii. Liquidity risk

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

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

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

The REIT's contractual commitments are as follows as at September 30, 2019:

	Total contractual cash flow	In one year or less	In more than one year but not more than three years	In more than three years but not more than five years	In more than five years
Accounts payable and accrued liabilities	$ 25,479	$ 25,479	$ —	$ —	$ —
Revolver (1)	85,199	85,199	—	—	—
Revolver interest payable (1) (2)	1,540	1,540	—	—	—
Term loan (1)	362,500	—	362,500	—	—
Term loan interest payable (1)	18,116	13,137	4,979	—	—
Term loan 2 (3)	250,000	—	—	250,000	—
Term loan 2 interest payable (3)	28,891	9,060	16,822	3,009	—
Mortgages (4)	108,998	3,590	22,250	7,653	75,505
Mortgage interest payable (4)	20,599	4,425	7,458	6,461	2,255
Letters of credit	393	393	—	—	—
Interest rate swap, net of cash outflows	24,640	4,443	7,481	6,461	2,255
Exchangeable units of subsidiaries	10,528	—	—	—	10,528
Total contractual commitments	**$ 936,883**	**$ 147,266**	**$ 421,490**	**$ 273,584**	**$ 90,543**

(1) Revolver and term loan interest payable is calculated on $85.2 million and $362.5 million (balance outstanding) using an estimated "all in" interest rate of 3.61% under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR forward curve plus the specified margin for the LIBOR rate option under the revolver and term loan resulting in an anticipated increase to the "all-in" interest rate to 3.36%. The total revolver and term loan interest payable is calculated until maturity of the initial term.
(2) Includes stand-by fee on the revolver to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.
(3) Term loan 2 interest payable is calculated on $250.0 million (balance outstanding) using an estimated "all in" Interest rate of 3.61% under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR curve plus the specified margin for the LIBOR rate option under the term loan 2 and results in an anticipated increase to the "all-in" interest rate to 3.36%. The total term loan 2 interest payable is calculated until maturity.
(4) Includes the REIT's share of its equity investment.

iii. Interest rate risk

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

Assuming all fixed-rate debt remain outstanding, there is no impact to the annual interest expense.

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

Cash flow sensitivity analysis

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

	September 30, 2019	December 31, 2018
Variable-rate instruments		
Revolver	**$ 85,199**	$ 144,543
Term loan	**362,500**	362,500
Term loan 2	**250,000**	250,000
Effect of interest rate swaps	**(750,000)**	(750,000)
Total effective floating rate debt	**$ (52,301)**	$ 7,043
Effective fixed rate debt as a total of all debt	**106.5%**	99.2%
Annual impact of a 25 bps change on interest rates	**$ —**	$ 18

iv. Unit price risk

The REIT is exposed to unit price risk in net income as a result of its exchangeable units of subsidiaries. Exchangeable units of subsidiaries have been classified as liabilities and measured at fair value based on market trading prices. Exchangeable units of subsidiaries negatively impact net income when the unit price rises and positively impact net income when unit prices decline. An increase of $1.00 in the underlying price of exchangeable units of subsidiaries results in an increase to liabilities and a decrease in net income of $1.1 million.

v. Currency risk

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

22. Related parties

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

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

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

iii an annual incentive fee, calculated in arrears, in an aggregate amount equal to 15% of the REIT's funds from operation per class U unit as derived from the annual financial statements of the REIT in excess of $1.32, subject to ordinary course adjustments for certain transactions affecting the class U units and increasing annually by 50% of the increase in the U.S. consumer price index.

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

Fees to the Manager are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Asset management	**$ 1,387**	$ 1,487	**$ 4,169**	$ 4,440
Acquisition	**—**	158	**—**	158
Total	**$ 1,387**	$ 1,645	**$ 4,169**	$ 4,598

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

Trustee fees

The REIT's key personnel include trustees and officers of the REIT. For the three and nine month periods ended September 30, 2019 Trustee fees amounted to $0.1 million and $0.2 million, respectively (three month period ended September 30, 2018 – $0.1 million, nine month period ended September 30, 2018 – $0.2 million).

23. Segments

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

24. Supplemental cash flow information

Changes in liabilities arising from financing activities for the nine month period ended September 30, 2019 are as follows:

	Revolver [1]	Term Loan [1]	Term Loan 2	Mortgages	Exchangeable units of subsidiaries	**Total**
Balance, December 31, 2018	$ 143,822	$ 361,086	$ 248,533	$ 118,120	$ 19,045	
Cash flows						
Advances	32,616	—	—	—	—	**32,616**
Debt repayments	(91,960)	—	—	(15,358)	—	**(107,318)**
Non-cash changes						
Amortization of MTM adjustments and costs	463	514	250	61	—	**1,288**
Exchanges	—	—	—	—	(10,839)	**(10,839)**
Change in fair value	—	—	—	—	2,322	**2,322**
Balance, September 30, 2019	**$ 84,941**	**$ 361,600**	**$ 248,783**	**$ 102,823**	**$ 10,528**	

[1] Changes in financial instruments that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 7 *Interest rate swaps* for more detail.

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

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

	Revolver [1]	Term Loan [1]	Term Loan 2	Mortgages	TIF notes payable	REIT units	Exchangeable units of subsidiaries	**Total**
Balance, December 31, 2017	$ 158,991	$ 360,313	$ 248,214	$ 112,396	$ 3,132	$ 457,590	$ 24,075	
Cash flows								
Advances	21,400	—	—	—	—	—	—	**21,400**
Debt repayments	(33,790)	—	—	(1,880)	(3,173)	—	—	**(38,843)**
Repurchases	—	—	—	—	—	(4,764)	—	**(4,764)**
Debt assumed on acquisition of property	—	—	—	8,322	—	—	—	**8,322**
Non-cash changes								
Amortization of MTM adjustments and costs	449	602	235	(25)	41	—	—	**1,302**
Issuances	—	—	—	—	—	1,147	—	**1,147**
Exchanges of units [2]	—	—	—	—	—	862	(1,072)	**(210)**
Fair value changes	—	—	—	—	—	(19,567)	(1,258)	**(20,825)**
Other [3]	—	—	—	—	—	(435,268)	—	**(435,268)**
Balance, September 30, 2018	**$ 147,050**	**$ 360,915**	**$ 248,449**	**$ 118,813**	**$ —**	**$ —**	**$ 21,745**	

[1] Changes in financial assets that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to Note 6 "Interest rate swaps" for more detail.
[2] Represents exchanges of exchangeable units of subsidiaries into class U units.
[3] Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

25. Subsequent event

i. On October 15, 2019, the REIT declared monthly distributions of $0.07125 per class U unit. Holders of class A units, class I units and units of subsidiaries of the REIT were also entitled to receive an equivalent distribution.

ii. On October 29, 2019, the REIT approved the increase of its monthly distribution by 1.1% to U.S.$0.072 per unit or U.S.$0.864 annually, beginning with its December 2019 distribution. This increase is the sixth consecutive annual distribution increase since the REIT listed its Class U units on the Toronto Stock Exchange in 2014.