Office
REIT

SLATE

Consolidated financial statements of

SLATE OFFICE REIT

For the years ended December 31, 2018 and 2017

SLATE OFFICE REIT
CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Slate Office REIT

Opinion

We have audited the consolidated financial statements of Slate Office REIT (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other Information comprises:

- The information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Larry Toste.

Toronto, Canada

March 1, 2019

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

	Note	December 31, 2018	December 31, 2017
ASSETS			
Non-current assets			
Properties	*6*	**$ 1,780,413**	$ 1,279,509
Finance lease receivable	*7*	**56,146**	58,632
Other assets	*8*	**4,639**	2,234
Derivatives	*9*	**218**	273
Deferred tax asset	*26*	**757**	—
Restricted cash		**3,648**	594
		1,845,821	1,341,242
Current assets			
Finance lease receivable	*7*	**2,484**	2,333
Other assets	*8*	**4,828**	3,018
Deposit on property		**—**	2,509
Accounts receivable	*10*	**6,404**	6,590
Cash		**7,192**	9,153
		20,908	23,603
Total assets		**$ 1,866,729**	$ 1,364,845
LIABILITIES AND EQUITY			
Non-current liabilities			
Debt	*11*	**$ 908,488**	$ 612,738
Other liabilities	*12*	**5,270**	4,573
Derivatives	*9*	**4,280**	811
Class B LP units	*13*	**31,552**	43,021
		949,590	661,143
Current liabilities			
Debt	*11*	**267,338**	182,853
Other liabilities	*12*	**1,749**	2,548
Accounts payable and accrued liabilities	*14*	**36,605**	33,762
		305,692	219,163
Total liabilities		**1,255,282**	880,306
Equity		**611,447**	484,539
Total liabilities and equity		**$ 1,866,729**	$ 1,364,845

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

		Year ended December 31,	
	Note	**2018**	2017
Rental revenue	*17*	**$ 209,899**	$ 152,136
Property operating expenses		**(106,164)**	(81,931)
Finance income on finance lease receivable	*7*	**3,765**	3,908
Interest income		**264**	88
Interest and finance costs	*18*	**(45,862)**	(26,509)
General and administrative	*19*	**(7,486)**	(5,754)
Change in fair value of financial instruments	*20*	**2,401**	(1,182)
Change in fair value of properties	*6*	**15,288**	15,126
Depreciation of hotel asset	*6*	**(947)**	(799)
Disposition costs	*5*	**(2,247)**	(146)
Deferred income tax recovery	*26*	**721**	—
Net income before Class B LP units		**$ 69,632**	$ 54,937
Change in fair value of Class B LP units	*13*	**11,469**	(1,268)
Distributions to Class B LP unitholders	*16*	**(3,964)**	(3,964)
Net income		**$ 77,137**	$ 49,705

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

		Year ended December 31,	
	Note	**2018**	2017
Net income		**$ 77,137**	$ 49,705
Other comprehensive income to be subsequently reclassified to profit or loss:			
Foreign currency translation		**7,929**	—
Fair value loss on net investment hedges	*20*	**(1,688)**	—
Total other comprehensive income		**6,241**	—
Net income and comprehensive income		**$ 83,378**	$ 49,705

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

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

	Note		Trust units		Retained earnings		Accumulated other comprehensive income		Total equity
December 31, 2017 [1]		**$**	**438,975**	**$**	**45,564**	**$**	**—**	**$**	**484,539**
Issuances, net of costs	*15*		**92,836**		**—**		**—**		**92,836**
Distributions	*16*		**—**		**(50,764)**		**—**		**(50,764)**
Units issued pursuant to DRIP	*15*		**1,459**		**—**		**—**		**1,459**
Repurchase of units	*15*		**(1)**		**—**		**—**		**(1)**
Net income and comprehensive income			**—**		**77,137**		**6,241**		**83,378**
December 31, 2018		**$**	**533,269**	**$**	**71,937**	**$**	**6,241**	**$**	**611,447**

	Note		Trust units		Retained earnings		Accumulated other comprehensive income		Total equity
December 31, 2016		$	310,201	$	35,502	$	—	$	345,703
Issuances, net of costs	*15*		127,760		—		—		127,760
Distributions	*16*		—		(39,643)		—		(39,643)
Units issued pursuant to DRIP	*15*		1,014		—		—		1,014
Net income and comprehensive income			—		49,705		—		49,705
December 31, 2017		$	438,975	$	45,564	$	—	$	484,539

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

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

	Note	Year ended December 31, 2018	2017
Operating activities			
Net income		**$ 77,137**	$ 49,705
Items not affecting cash:			
Depreciation of hotel asset	*6*	**947**	799
Change in fair value of properties	*6*	**(15,288)**	(15,126)
IFRIC 21 property tax adjustment	*6*	**(4,371)**	—
Straight-line rent and other changes	*6*	**(683)**	(1,370)
Change in fair value of Class B LP units	*13*	**(11,469)**	1,268
Change in fair value of financial instruments	*20*	**(2,401)**	1,182
Deferred income tax recovery	*26*	**(721)**	—
Finance income on finance lease receivable	*7*	**(3,765)**	(3,908)
Finance interest payments received on finance lease receivable	*7*	**3,765**	3,908
Distributions to Class B LP unitholders	*16*	**3,964**	3,964
Distributions paid to Class B LP unitholders	*16*	**(3,964)**	(3,964)
Interest income		**(264)**	(88)
Interest received		**264**	88
Interest and finance costs	*18*	**45,862**	26,509
Interest paid		**(41,715)**	(24,300)
Subscription receipt equivalent amount paid	*18*	**(1,597)**	(926)
Working capital items		**3,686**	3,831
		49,387	41,572
Investing activities			
Acquisition of properties	*4*	**(420,422)**	(102,010)
Proceeds from disposition of property	*5*	**73,132**	4,213
Deposits on properties		**—**	(2,509)
Capital expenditures	*6*	**(17,550)**	(24,396)
Direct leasing costs	*6*	**(21,680)**	(40,020)
Principal payments received on finance lease receivable	*7*	**2,335**	2,191
		(384,185)	(162,531)
Financing activities			
Settlement of foreign exchange hedges	*9*	**(1,418)**	—
Proceeds from issuance of units	*15*	**103,509**	123,259
Unit issuance costs	*15*	**(4,922)**	(5,499)
Repurchases of units	*15*	**(1)**	—
Distributions on REIT units	*16*	**(48,494)**	(37,615)
Debt financing advanced	*27*	**257,147**	96,369
Issuance of convertible debentures	*27*	**28,750**	—
Cost of issuance of convertible debentures	*27*	**(1,320)**	—
Debt principal payments	*27*	**(53,303)**	(7,213)
Transaction costs on debt	*27*	**(3,627)**	(2,141)
Advances on revolving facilities, net	*27*	**56,144**	(41,300)
		332,465	125,860
Foreign exchange gain on cash held in foreign currencies		**372**	—
(Decrease) increase in cash		**(1,961)**	4,901
Cash, beginning of period		**9,153**	4,252
Cash, end of period		**$ 7,192**	$ 9,153

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

1. Description of the REIT and operations

Slate Office REIT (the "REIT") is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated as of March 21, 2016, as amended March 1, 2019, as it may be further amended, supplemented or amended and restated from time to time (the "Declaration of Trust"). At December 31, 2018, the REIT's portfolio consists of 41 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

ii. Approval of the consolidated financial statements

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

The consolidated financial statements have been prepared in accordance with the significant accounting policies described below.

i. Basis of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries in accordance with IFRS 10, *Consolidated Financial Statements*. Intercompany transactions and balances have been eliminated on consolidation.

A subsidiary is an entity over which the REIT has control. Control exists when the REIT has power over an investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of a subsidiary are changed when necessary to align them with the policies applied by the REIT in these consolidated financial statements.

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

ii. Joint arrangements

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

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

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

iii. Investment properties

Investment properties include land and buildings held primarily to earn rental income, for capital appreciation or for both. The REIT accounts for its investment properties in accordance with IAS 40, *Investment Property* ("IAS 40"). For acquired investment properties that meet the definition of a business, the acquisition is accounted for as a business combination. Acquisitions of investment properties that do not meet the definition of a business are initially measured at cost including directly attributable transaction costs.

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

The carrying value of investment properties includes the impact of straight-line rent receivable, tenant inducements, direct leasing costs and adjustments related to the impact of IFRIC 21, *Levies* ("IFRIC 21") adjustments.

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

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

When an investment property is disposed of, the gain or loss is determined as the difference between the sales price and the carrying amount of the property and is recognized in net income in the period of disposal as a change in the fair value of investment property. Sales costs are recorded as disposition costs on the consolidated statement of net income.

iv. Business combinations

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

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

Any contingent consideration is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration is recognized as a liability in accordance with IFRS 9, *Financial Instruments* ("IFRS 9") primarily in net income or, in certain circumstances, as a change to other comprehensive income ("OCI"). Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

v. Restricted cash

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

vi. Provisions

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

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

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

vii. Leases

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

viii. Revenue recognition

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

ix. Expenses

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

x. Other comprehensive income

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

xi. Income taxes

The REIT is a mutual fund trust and real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust that meets prescribed conditions is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes in Canada provided its taxable income is fully distributed to unitholders. The REIT intends to distribute all of its taxable income to unitholders. The REIT is liable to pay income taxes in foreign countries on earnings from properties it owns in those locations.

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 forwards of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. For the determination of deferred tax assets and liabilities where the property is 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 an investment property will be substantially consumed through use over time. Current and deferred income taxes are recognized in correlation to the underlying transaction in net income.

xii. Trust units

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

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

xiii. Class B LP units

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

xiv. Financial instruments

Financial instruments are classified as follows: (i) amortized cost, (ii) fair value through profit and loss ("FVTPL"), (iii) fair value through other comprehensive income ("FVTOCI"). The REIT's has made the following classifications:

Financial instrument	Classification
Cash	Amortized cost
Restricted cash	Amortized cost
Accounts receivable	Amortized cost
Other assets	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Debt	Amortized cost
Derivatives	FVTPL
Derivatives designated as hedges	FVTOCI
Class B LP units	FVTPL

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

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

Subsequent to initial recognition, financial instruments are measured at amortized cost, using the effective interest method. Financial instruments classified as FVTPL are measured at fair value with gains and losses recognized in net income and comprehensive income. Derivatives designated as hedges are measured at fair value with unrealized gains and losses recognized in OCI.

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

xv. Compound financial instruments

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

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

xvi. 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.

xvii. Fair values

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

Except as noted, the carrying value of the REIT's financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values of other financial liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Fair value measurements recognized in the statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

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

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

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

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

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

xviii. Deferred unit incentive plan

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

The REIT also has a deferred unit plan for officers of the REIT ("Officer DUP"). The Officer DUP provides officers of the REIT the opportunity to receive deferred units of the REIT. The maximum number of deferred units reserved for issuance under the Officer DUP is 1% of total units outstanding. One deferred unit, which vests immediately on the grant date, is equal to one REIT unit. Any units issued under the Officer DUP will result in an equal reduction and offsetting in the asset management fee payable to SMC (defined in note 21), based on the trading price of units on the day of issuance. The deferred units may be redeemed by a participant after two years following the date the units were issued in whole or in part for cash or REIT units. The value of the deferred units when converted to cash will be equivalent to the market value of REIT units on the date of the redemption request. Deferred units have been classified as a liability and measured at fair value. Changes in the fair value of deferred units is recorded as a gain or loss in net income in the period of the change.

xix. Interest and finance costs

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

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

xx. 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. 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.

xxi. Levies

Under IFRS Interpretations Committee Interpretation 21, *Levies* (“IFRIC 21”) realty taxes payable by the REIT are considered levies. IFRIC 21 provides guidance on when to recognize a liability for levies that are accounted for in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and those where the timing and amount of the levy are certain. Levies are outflows from an entity imposed by a government in accordance with legislation. The REIT has assessed property taxes as being within the scope of IFRIC 21, given that property taxes are non-reciprocal charges imposed by a government, in accordance with legislation, and are based on the assessed value of property. IFRIC 21 confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. The REIT has determined that the liability to pay property taxes on its properties should be recognized at a point in time, being the start of the fiscal year. This resulted in the REIT recognizing the annual property tax liability and expense on its investment properties.

xxii. Use of estimates and judgments

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

a. Judgments

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

Business combinations

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

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

Leases

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

Lease incentives

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

Income taxes

The REIT has determined that it is not subject to Canadian income taxes as it intends to continue to meet prescribed conditions under the Income Tax Act (Canada) and make distributions not less than the amount necessary to ensure that it is not liable to pay income taxes under current Canadian tax legislation. The REIT is subject to foreign taxes in respect of its earnings from properties held in jurisdictions outside of Canada.

Assets and liabilities held for sale

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

b. Estimates

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

Valuation of investment properties

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

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

Income approach

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

Overall income capitalization method: Year one income is stabilized and capitalized at a rate appropriate for each investment property. Capitalization rates and estimates of stabilized income are the most significant assumptions in determining fair values under the overall capitalization method. Stabilized net operating income is determined as the property's potential gross income that could be generated at full capacity, less a vacancy and collection allowance. The capitalization rate used is derived from analysis of comparable sales data and the relative relationship of other properties' net operating incomes over their sale price. In many cases, industry surveys are available that provide indicative ranges of capitalization rates for recently sold properties or views on value, however, certain adjustments are required to adjust for the specific nature, location and quality of properties.

Discounted cash flow method: Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income.

For both methods, capitalization and discount rates are the most significant assumption in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other things, in determining the most appropriate assumptions.

Direct comparison approach

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

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

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

xxiii. Application of new and revised IFRSs

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

IFRS 9, *Financial Instruments*

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 transitional provisions.

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

Classification and measurement

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

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

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

Impairment

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

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

Hedge accounting

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

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

Financial liabilities

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

IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in profit or loss at the date of modification. 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.

Disclosures in relation to the initial application of IFRS 9

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

Financial instrument	IAS 39 measurement category	IFRS 9 measurement category	Carrying amount under IAS 39	Carrying amount under IFRS 9
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
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.

xxiv. Future accounting policies

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

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

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The 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 does not expect a material impact of this new standard on its consolidated financial statements.

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

4. Acquisitions

2018 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 wholly-owned interests in 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 the 2018 acquisitions is 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	2,981	7,811	1,355	**12,147**
Adjustments	(404)	(1,243)	(3,896)	**(5,543)**
Debt principal amount assumed	—	(82,159)	—	**(82,159)**
Net investment	$ 107,824	$ 115,809	$ 199,298	**$ 422,931**

(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 investments in the above acquisitions have been allocated as follows:

	20 South Clark (1)	7 Asset Portfolio	120 South LaSalle (1)	Total
Properties	$ 107,205	$ 194,164	$ 197,666	**$ 499,035**
Working capital	619	(614)	1,632	**1,637**
Income supplement (2)	—	2,270	—	**2,270**
Debt (3)	—	(80,011)	—	**(80,011)**
Net assets acquired	$ 107,824	$ 115,809	$ 199,298	**$ 422,931**

(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 statements of financial position and was initially measured at the present value of expected future cash flows.
(3) Includes the impact of mark-to-market adjustments.

Consideration for each acquisition during the year ended December 31, 2018 was comprised of cash and the assumption of debt.

2017 Acquisitions

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

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

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

A summary of the 2017 acquisitions is as follows:

	West Metro Centre	250 King Street	460 Two Nations Crossing	Commerce West	Total
REIT's interest	100%	100%	100%	100%	
Location	Etobicoke, ON	Fredericton, NB	Fredericton, NB	Etobicoke, ON	
Number of properties	1	1	1	1	**4**
Acquisition date	April 25, 2017	April 25, 2017	April 25, 2017	May 25, 2017	
Purchase price	$ 145,000	$ 10,000	$ 10,000	$ 95,000	**$ 260,000**
Transaction costs	7,451	210	202	4,506	**12,369**
Adjustments	(10,116)	(404)	(550)	(5,649)	**(16,719)**
Debt principal amount assumed	(75,256)	—	—	(68,384)	**(143,640)**
Net investment	$ 67,079	$ 9,806	$ 9,652	$ 25,473	**$ 112,010**

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

	West Metro Centre	250 King Street	460 Two Nations Crossing	Commerce West	Total
Properties	$ 143,064	$ 9,960	$ 9,667	$ 94,166	**$ 256,857**
Working capital	(729)	(154)	(15)	(309)	**(1,207)**
Debt	(75,256)	—	—	(68,384)	**(143,640)**
Net assets acquired	$ 67,079	$ 9,806	$ 9,652	$ 25,473	**$ 112,010**

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

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

5. Dispositions

2018 Dispositions

During the year ended December 31, 2018, the REIT made the following property dispositions:

	35 Martin Way	135 Queen's Plate	Water Street Properties	Centennial Centre	Meadowpine Centre	Total
Disposition date	January 15, 2018	July 13, 2018	September 28, 2018	December 10, 2018	December 10, 2018	
Location	Brooks, AB	Toronto, ON	St. John's, NL	Toronto, ON	Toronto, ON	
Number of properties	1	1	2	1	1	**6**
Sale price	$ 1,025	$ 16,740	$ 17,290	$ 35,025	$ 9,050	**$ 79,130**
Capital adjustments	—	2	37	(422)	(25)	**(408)**
Working Capital	—	(136)	(21)	(421)	(65)	**(643)**
Disposition costs	(54)	(409)	(930)	(509)	(345)	**(2,247)**
Vendor-take-back loan (1)	—	—	(2,700)	—	—	**(2,700)**
Net proceeds	$ 971	$ 16,197	$ 13,676	$ 33,673	$ 8,615	**$ 73,132**

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

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

2017 Dispositions

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

	7001-96th Street
Disposition date	May 12, 2017
Location	Grand Prairie, AB
Number of properties	**1**
Sale price	**$ 4,400**
Working capital	**(41)**
Disposition costs	**(146)**
Net proceeds	**$ 4,213**

6. Properties

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

		Year ended December 31,	
	Note	**2018**	2017
Balance, beginning of period		**$ 1,279,509**	$ 946,939
Acquisitions [1]	*4*	**499,035**	256,857
Capital expenditures		**17,550**	24,396
Direct leasing costs		**21,680**	40,020
Dispositions	*5*	**(78,722)**	(4,400)
Depreciation of hotel asset		**(947)**	(799)
Foreign exchange		**21,966**	—
Change in fair value		**15,288**	15,126
IFRIC 21 property tax adjustment		**4,371**	—
Straight-line rent and other changes		**683**	1,370
Balance, end of period		**$ 1,780,413**	$ 1,279,509

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

Properties at December 31, 2018 are comprised of the REIT's interests in 41 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 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:

	December 31, 2018	December 31, 2017
Income producing	**$ 1,760,148**	$ 1,247,967
Development	**20,265**	31,542
	$ 1,780,413	$ 1,279,509

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

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

	Note		Year ended December 31, 2018		2017
Balance, beginning of period		**$**	**31,542**	$	39,596
Capital expenditures			**1,297**		9,331
Direct leasing costs			**64**		6,570
Change in fair value			**4,684**		(828)
Sale of properties	*5*		**(17,327)**		—
Straight-line rent and other changes			**5**		707
Transfer to income producing properties			**—**		(43,302)
Transfer from income producing properties			**—**		19,468
Balance, end of period		**$**	**20,265**	$	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 weighted average stabilized capitalization rate for the fair value of the REIT's properties is 6.18% (December 31, 2017 - 6.24%). The stabilized capitalization rate on the REIT's properties is based on management's estimate of twelve-month forward net operating income.

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

	December 31, 2018		December 31, 2017	
	Discount rate	**Terminal capitalization rate**	Discount rate	Terminal capitalization rate
Minimum	**6.25%**	**6.25%**	6.25%	6.25%
Maximum	**11.00%**	**9.00%**	11.00%	10.00%
Weighted average	**7.36%**	**6.71%**	7.30%	6.83%

At December 31, 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 $75.7 million (December 31, 2017 – $51.3 million).

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

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

	Number of properties	**Fair Value**
December 31, 2017	5	$ 58,700
March 31, 2018	5	195,700
June 30, 2018	—	—
September 30, 2018	—	—
December 31, 2018	5	282,760

7. Finance lease receivable

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

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

	Year ended December 31,	
	2018	2017
Balance, beginning of period	**$ 60,965**	$ 63,156
Lease payments received	**(6,100)**	(6,099)
Finance income on finance lease receivable	**3,765**	3,908
Balance, end of period	**$ 58,630**	$ 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 December 31, 2018:

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	$ 6,099	$ 3,615	$ 2,484
Greater than one year but less than 5 years	25,542	12,611	12,931
Greater than 5 years	54,956	11,741	43,215
			$ 58,630

8. Other assets

Other assets are comprised of the following:

	December 31, 2018	December 31, 2017
Prepaid expenses	**$ 2,697**	$ 2,492
Interest rate subsidy	**1,292**	1,723
Investment tax credit receivable	**831**	877
Income supplement	**1,445**	—
Vendor-take-back loan	**2,700**	—
Other	**502**	160
	$ 9,467	$ 5,252

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

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

		December 31, 2018		December 31, 2017
Current	**$**	**4,828**	$	3,018
Non-current		**4,639**		2,234
	$	**9,467**	$	5,252

In connection with the acquisition of a suburban office complex in Markham, ON ("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 12).

As part of the REIT's acquisition of the 7 Asset Portfolio on March 27, 2018 (see note 4), 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 in St. John's, NL on September 28, 2018 (see note 5), 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. 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.

Derivatives are comprised of the following:

		Year ended December 31,		
		2018		2017
Fair value of conversion option on convertible debentures	**$**	**(22)**	$	—
Fair value of interest rate swaps		**(3,770)**		(547)
Fair value of interest rate cap		**—**		9
Fair value of foreign exchange hedge		**(270)**		—
		(4,062)		(538)
Derivatives, fair value of asset		**218**		273
Derivatives, fair value of liability	**$**	**(4,280)**	$	(811)

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

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

	Year ended December 31, 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	**148**	—
Fair value change of interest rate swaps	**(3,223)**	1,948
Fair value change of interest rate cap	**(9)**	(4)
Hedges of net investment in foreign operations	**(1,688)**	—
Settlement of net investment foreign exchange hedges	**1,418**	—
Fair value, end of period	**$ (4,062)**	$ (538)

Interest rate protection instruments

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

The REIT currently has in place certain pay-fixed receive-float interest rate swaps. 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.

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 U.S.$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.

The REIT had one interest rate cap with a $125.0 million notional amount and a strike price of 1.90% based on one month bankers acceptances that matured in July 2018.

Interest rate derivatives are measured at fair value with fair values estimated as the present value of contractual cash flows based on forward curves and an applicable discount rate. These swaps are not designated as hedging instruments that qualify for hedge accounting under IFRS.

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

			Notional amount (2)		Fair value	
Maturity date	**Floating interest rate (1)**	**Fixed interest rate**	**December 31, 2018**	December 31, 2017	**December 31, 2018**	December 31, 2017
August 14, 2023	1 month BA	4.60%	**$ 20,032**	$ 20,645	**$ (658)**	$ (811)
May 1, 2023	1 month BA	3.64%	**29,242**	30,254	**218**	264
June 29, 2023	1 month BA	2.55%	**100,000**	—	**(1,390)**	—
August 30, 2022	1 month U.S. LIBOR	2.81%	**137,887**	—	**(1,940)**	$ —
			$ 287,161	$ 50,899	**$ (3,770)**	$ (547)

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

Foreign exchange rate protection instruments

The REIT uses forward foreign exchange contracts to hedge against fair value changes in the first U.S. $75.0 million of net investment in its U.S. operations arising from fluctuations in the U.S. and Canadian exchange rates. The hedge ratio is 1:1 for the first U.S. $75.0 million contributed to the foreign operations as the REIT enters into contracts to sell U.S. $75.0 million and buy Canadian dollars. As the REIT's U.S. operations are reported in Canadian dollars and the assets are converted using the prevailing spot exchange rates on the last business day of each reporting period, any fluctuations in the Canadian dollar equivalent of the REIT's first U.S. $75.0 million net investment in U.S. operations will be exactly offset by fair value changes in the hedging instrument. Sources of hedge ineffectiveness include instances where the net investments in U.S. operations is less than U.S. $75.0 million and potential misalignment between the term of the hedging instrument and the holding term of the REIT's net investment in U.S. operations.

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

The following transactions were designated as hedging items and qualify for hedge accounting.

- The REIT entered into a foreign exchange transaction on September 6, 2018 to sell U.S.$75.0 million and purchase Canadian dollars. On September 28, 2018 the REIT entered into an offsetting trade to purchase U.S.$75.0 million and settled on a net basis with the original transaction for a gain of $2.1 million which was recorded in other comprehensive income.
- On November 9, 2018 the REIT entered into a foreign exchange transaction to sell U.S.$75.0 million and purchase Canadian dollars. On December 28, 2018 the REIT entered into an offsetting trade to purchase U.S.$75.0 million and settled on a net basis with the original transaction for a loss of $3.5 million which was recorded in other comprehensive income.
- The REIT entered into a foreign exchange transaction on December 28, 2018 to sell U.S.$75.0 million at an exchange rate of 1.3606 and purchase Canadian dollars. The transaction is expected to settle on March 31, 2019.

The following is the outstanding contract designated as an accounting hedge and recorded as a derivative:

	Forward rate		**Nominal amount (1)**		**Carrying amount**
Foreign exchange forward contract	1.3606	U.S. $	75,000	$	(270)

(1) Canadian dollar equivalent of $102.3 million converted at the December 31, 2018 exchange rate of 1.3642.

10. Accounts receivable

Accounts receivable is comprised of the following:

		December 31, 2018		December 31, 2017
Rent receivable	**$**	**2,316**	$	3,405
Accrued recovery income		**1,927**		482
Other amounts receivable		**2,215**		2,874
Allowance		**(54)**		(171)
	$	**6,404**	$	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.

The change in allowance for doubtful accounts is as follows:

		Year ended December 31,		
		2018		2017
Balance, beginning of period	**$**	**(171)**	$	(97)
Change in allowance		**(319)**		(203)
Bad debt write-off		**352**		94
Bad debt recovery		**84**		35
Balance, end of period	**$**	**(54)**	$	(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.

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

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

	December 31, 2018	December 31, 2017
Current to 30 days	**$ 1,381**	$ 2,070
31 to 90 days	**397**	480
Greater than 90 days	**484**	684
	$ 2,262	$ 3,234

11. Debt

Debt held by the REIT at December 31, 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	20	$ 895,992	$ 668,984	$ 668,984	$ —	$ —
Revolving facilities (2)(3)(6)	Various	Various	15	578,627	345,441	323,419	150	21,872
Term loan	June 30, 2019	BA+213bps	5	153,537	117,938	117,938	—	—
Bridge loan	Aug. 30, 2019	BA+425bps	1	210,288	42,881	42,881	—	—
Convertible debentures	Feb. 28, 2023	5.25%	—	—	28,750	28,750	—	—
			41	**$1,838,444**	**$1,203,994**	**$1,181,972**	**$ 150**	**$ 21,872**

(1) The weighted average remaining term to maturity of mortgages is 3.6 years with maturities ranging from 0.9 to 11.8 years and the weighted average interest rate of mortgages is 4.06% 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 $173.6 million and U.S. $50.3 million of operating facilities and a credit facility of $81.2 million. The weighted average remaining term to maturity of revolving facilities is 1.8 years with maturities ranging from 0.9 to 2.1 years and the weighted average interest rate of revolving facilities is 4.30% with coupons ranging from 4.25% to 4.50%.
(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 December 31, 2018.
(7) "BA" means the one-month Bankers' Acceptances rate and "bps" means basis point or 1/100th of one percent.

The carrying value of debt held by the REIT at December 31, 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	$ 668,984	$ (3,846)	$ 855	$ 665,993	$ 25,992	$ 640,001
Revolving facilities	323,419	(2,091)	736	322,064	81,200	240,864
Term loan	117,938	(666)	499	117,771	117,771	—
Bridge loan	42,881	(768)	262	42,375	42,375	—
Convertible debentures (1)	28,750	(1,320)	193	27,623	—	27,623
	$ 1,181,972	**$ (8,691)**	**$ 2,545**	**$ 1,175,826**	**$ 267,338**	**$ 908,488**

(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.

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

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 is provided as security to both the senior debt and the bridge loan.

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

	Maturity	Coupon (4)	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn (5)
Mortgages (1)(2)(6)	Various	Various	21	$ 806,982	$ 502,242	$ 502,242	$ —	$ —
Revolving facilities (3)	Various	Various	12	368,951	227,900	174,900	197	52,803
Term loan	Jun. 30, 2019	BA+213 bps	5	162,854	120,000	120,000	—	—
			38	**$1,338,787**	**$ 850,142**	**$ 797,142**	**$ 197**	**$ 52,803**

(1) At December 31, 2017, the weighted average remaining term to maturity of mortgages is 4.3 years with maturities ranging from 0.2 to 12.8 years.
(2) At December 31, 2017, the weighted average interest rate of mortgages is 3.63% with coupons ranging from 2.65% to 4.95%.
(3) Stand-by fees incurred on the unutilized amounts on the revolving operating facility and the revolving credit facility is 0.40%, charged and paid quarterly.
(4) "BA" means the one-month Bankers' Acceptances rate and "bps" means basis point or 1/100th of one percent.
(5) Debt is only available to be drawn subject to certain covenants and other requirements.
(6) 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.

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

	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments and costs	Carrying amount	Current	Non-current
Mortgages	$ 502,242	$ (728)	$ 262	$ 501,776	$ 11,320	$ 490,456
Revolving facilities	174,900	(2,229)	1,645	174,316	171,533	2,783
Term loan	120,000	(665)	164	119,499	—	119,499
	$ 797,142	**$ (3,622)**	**$ 2,071**	**$ 795,591**	**$ 182,853**	**$ 612,738**

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

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

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

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

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

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

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

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

Future repayments of mortgages payable by year of maturity at December 31, 2018 are as follows:

	Weighted average interest rate (1)	Scheduled principal amortization	Principal maturities	Total repayments
2019	4.36%	15,616	10,376	25,992
2020	3.91%	15,381	238,915	254,296
2021	4.35%	11,279	222,310	233,589
2022	7.25%	7,617	296	7,913
2023	4.03%	6,011	41,302	47,313
Thereafter	3.56%	26,347	73,534	99,881
	4.06%	**$ 82,251**	**$ 586,733**	**$ 668,984**
Unamortized debt financing costs				(2,991)
				$ 665,993

(1) The weighted average interest rate is calculated using the rate in effect at December 31, 2018 and does not include the impact of interest rate swaps.

Future principal payments and maturities, excluding amortization of mark-to-market adjustments and transaction costs on debt at December 31, 2018 are as follows:

2019	$ 268,010
2020	254,296
2021	475,809
2022	7,913
2023	76,063
Thereafter	99,881
	$ 1,181,972

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.

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

12. Other liabilities

Other liabilities are comprised of the following:

	Note	December 31, 2018	December 31, 2017
Security deposits		**$ 5,967**	$ 5,326
Provisions		**—**	865
Deferred units	*15*	**636**	491
Investment tax credit payable		**416**	439
		$ 7,019	$ 7,121

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

	December 31, 2018	December 31, 2017
Current	**$ 1,749**	$ 2,548
Non-current	**5,270**	4,573
	$ 7,019	$ 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.

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 remeasured based on the quoted closing price of REIT units into which they are exchangeable with changes in fair value recognized in net income.

The change in Class B LP units for the years ended December 31, 2018 and 2017 is as follows:

	2018		2017	
	Units	**Amount**	Units	Amount
Balance, beginning of period	**5,285,160**	**$ 43,021**	5,285,160	$ 41,753
Fair value changes	**—**	**(11,469)**	—	1,268
Balance, end of period	**5,285,160**	**$ 31,552**	5,285,160	$ 43,021

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	Note	December 31, 2018	December 31, 2017
Trade payables and accrued liabilities		**$ 25,642**	$ 16,184
Distributions payable	*16*	**4,700**	3,889
Prepaid rent		**4,920**	3,817
Tenant improvements payable		**1,343**	9,872
		$ 36,605	$ 33,762

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

15. Unitholders' equity

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

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

The change in trust units during the years ended December 31, 2018 and 2017 is as follows:

		2018		2017	
	Note	**Units**	**Amount**	Units	Amount
Balance, beginning of period		**56,938,025**	**$ 438,975**	40,743,637	$ 310,201
Issued on public offering (1)		**12,778,800**	**97,758**	14,820,000	123,154
Issued on private placement		**—**	**—**	1,234,568	10,000
Issued pursuant to DRIP	*16*	**191,760**	**1,459**	126,028	1,014
Issued pursuant to DUP		**—**	**—**	13,792	105
Unit issuance costs		**—**	**(4,922)**	—	(5,499)
Repurchase of units		**(100)**	**(1)**	—	—
Balance, end of period		**69,908,485**	**$ 533,269**	56,938,025	$ 438,975

(1) Gross proceeds, net of fair value changes of $5.8 million (December 31, 2017 – $3.1 million).

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 18). 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 as a $5.8 million fair value change of financial instruments for the year ended December 31, 2018 (see note 20).

On March 15, 2017, the REIT issued 14,820,000 subscription receipts at a price of $8.10 per subscription receipt, for gross proceeds of $120.0 million in connection with the acquisition of West Metro Centre, 250 King and 460 Two Nations. Concurrent with the acquisition of those properties on April 25, 2017, these subscription receipts were automatically exchanged for one unit and a cash distribution equivalent payment of $0.0625 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between March 15, 2017 and April 25, 2017). The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs (note 18). The difference between the $8.10 offered price per unit and the closing price of $8.31 per unit on the day of conversion of the subscription receipts to units was recorded in net income as a $3.1 million fair value change of financial instruments for the year ended December 31, 2017 (note 20). The REIT also completed a private placement for 1,234,568 units at an issuance price of $8.10 for gross proceeds of $10.0 million when this acquisition closed on April 25, 2017 (note 4).

Trustee deferred unit plan

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

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

At December 31, 2018, the liability associated with the deferred units issued under the Trustee DUP was $0.6 million (December 31, 2017 - $0.4 million), and the number of outstanding deferred units was 97,108 (December 31, 2017 - 51,837 units).

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

Officer deferred unit plan

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

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

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

At December 31, 2018, the liability associated with deferred units issued under the Officer DUP was $0.1 million (December 31, 2017 - $0.1 million), and the number of deferred units was 9,332 (December 31, 2017 - 8,462).

The change in DUP units during the years ended December 31, 2018 and 2017 is as follows:

		2018		2017	
	Note	**Units**	**Amount**	Units	Amount
Balance, beginning of period		**60,300**	**$ 491**	49,859	$ 395
Issued		**38,424**	**279**	28,488	229
Reinvested distributions		**7,716**	**59**	5,765	46
Redemption of units		**—**	**—**	(23,812)	(193)
Fair value adjustment	*20*	**—**	**(193)**	—	14
Balance, end of period	*12*	**106,440**	**$ 636**	60,300	$ 491

Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the years ended December 31, 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:

	Year ended December 31,	
	2018	2017
Basic weighted average units outstanding	**66,831,271**	51,806,754
Class B LP units	**5,285,160**	5,285,160
Basic weighted average deferred units outstanding	**75,231**	61,364
Diluted weighted average units outstanding	**72,191,662**	57,153,278

Diluted units outstanding

The following is the diluted number of units outstanding as at December 31, 2018 and 2017. The diluted number of units outstanding is determined as if all of the Class B LP units and deferred units have been converted to units of the REIT:

	2018	2017
Trust units outstanding	**69,908,485**	56,938,025
Class B LP units	**5,285,160**	5,285,160
Deferred units	**106,440**	60,300
Diluted units outstanding	**75,300,085**	62,283,485

16. Distributions

Pursuant to the Declaration of Trust, the income of the REIT is distributed on dates and in amounts as determined by the Board of Trustees. During the year ended December 31, 2018, the REIT declared distributions each month of $0.0625 per unit.

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

The following table summarizes the distributions during the years ended December 31, 2018 and 2017:

	2018		2017	
	Trust units	**Class B LP units**	Trust units	Class B LP units
Distributions declared during the period	**$ 50,764**	**$ 3,964**	$ 39,643	$ 3,964
Add: Distributions payable, beginning of period	**3,559**	**330**	2,545	330
Less: Distributions payable, end of period	**(4,370)**	**(330)**	(3,559)	(330)
Distributions paid or settled during the period	**$ 49,953**	**$ 3,964**	$ 38,629	$ 3,964

Distributions during the years ended December 31, 2018 and 2017 were paid or settled as follows:

	2018		2017	
	Trust units	**Class B LP units**	Trust units	Class B LP units
Paid in cash	**$ 48,494**	**$ 3,964**	$ 37,615	$ 3,964
Reinvested in units	**1,459**	**—**	1,014	—
	$ 49,953	**$ 3,964**	$ 38,629	$ 3,964

The REIT has a distribution reinvestment program ("DRIP") where unitholders, including holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT. During the year ended December 31, 2018, the REIT declared distributions resulting in 191,760 units (December 31, 2017 - 126,028 units) issued/issuable under the DRIP.

17. Rental revenue

Rental revenue is comprised of the following:

	Year ended December 31,	
	2018	2017
Property base rent (1)	**$ 105,894**	$ 75,458
Operating cost recoveries	**65,314**	46,880
Tax recoveries	**27,173**	19,412
Hotel	**10,835**	9,016
Straight-line rent and other changes	**683**	1,370
	$ 209,899	$ 152,136

(1) Includes parking revenue earned at properties.

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

	2018	2017
Not later than one year	**$ 121,796**	$ 79,761
Later than one year and not later than five years	**384,489**	243,153
Later than five years	**294,134**	180,741
	$ 800,419	$ 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.

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

18. Interest and finance costs

Interest and finance costs are comprised of the following:

		Year ended December 31,	
		2018	2017
Mortgage interest	**$**	**25,461**	$ 14,205
Interest on other debt		**14,850**	10,095
Amortization of deferred transaction costs		**2,992**	1,845
Amortization of debt mark-to-market adjustments		**(443)**	(562)
Subscription receipts equivalent amount (1)		**1,597**	926
Interest on convertible debentures (2)		**1,405**	—
	$	**45,862**	$ 26,509

(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 December 31, 2018.

19. General and administrative

General and administrative expenses are comprised of the following:

			Year ended December 31,	
	Note		**2018**	2017
Asset management fees	*21*	**$**	**5,012**	$ 3,629
Professional fees			**707**	497
Trustee fees			**470**	434
Bad debt expense, net			**368**	203
Other			**929**	991
		$	**7,486**	$ 5,754

20. Change in fair value of financial instruments

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

			Year ended December 31,	
	Note		**2018**	2017
Interest rate swaps	*9*	**$**	**(3,223)**	$ 1,948
Interest rate cap	*9*		**(9)**	(4)
Convertible debenture embedded derivatives	*9*		**148**	—
Settlement of loss on foreign exchange hedges	*9*		**1,418**	—
Hedges of net investment in foreign operations	*9*		**(270)**	—
Deferred units	*15*		**193**	(14)
Subscription receipts	*15*		**5,751**	(3,112)
Foreign exchange forwards (1)			**(459)**	—
Total change in fair value of financial instruments			**4,089**	(1,182)
Less: Amounts recognized in other comprehensive income			**(1,688)**	—
Recognized in net income		**$**	**2,401**	$ (1,182)

(1) During the year ended December 31, 2018, the REIT entered into two forward foreign exchange contracts for the purposes of hedging against the purchase of 20 South Clark and 120 South LaSalle in Chicago, IL. These contracts resulted in a loss of $0.5 million for the year ended December 31, 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. 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 year ended December 31, 2018 (December 31, 2017 – $3.1 million).

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

21. Related party transactions

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

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

	December 31, 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.

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

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

	Year ended December 31,	
	2018	2017
Property management	**$ 5,885**	$ 4,199
Asset management	**5,012**	3,629
Leasing, financing and construction management	**2,612**	5,014
Acquisition	**3,302**	2,050
	$ 16,811	$ 14,892

Property administration fees are generally recoverable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the REIT's properties. Property administration fees were $10.0 million for the year ended December 31, 2018 (December 31, 2017 – $7.4 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 4), 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 year ended December 31, 2018, the REIT recorded $0.1 million as interest income in the consolidated statements of income.

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

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.:

	December 31, 2018	December 31, 2017
Income supplement receivable	**$ 1,445**	$ —
Accounts receivable	**533**	461
Accounts payable and accrued liabilities	**(765)**	(1,028)
Class B LP units	**(31,552)**	(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.

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		
December 31, 2018	**Note**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Recorded at fair value					
Properties	*6*	$ 1,780,413	$ —	$ —	$ 1,780,413
Derivatives, net	*9*	(4,062)	—	(4,062)	—
Class B LP units	*13*	(31,552)	(31,552)	—	—
Fair values disclosed					
Cash		$ 7,192	$ 7,192	$ —	$ —
Restricted cash		3,648	3,648	—	—
Debt	*11*	(1,175,826)	—	(1,183,018)	—

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

				Fair value		
December 31, 2017	**Note**		**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Recorded at fair value						
Properties	*6*	$	1,279,509	$ —	$ —	$ 1,279,509
Derivatives, net	*9*		(538)	—	(538)	—
Class B LP units	*13*		(43,021)	(43,021)	—	—
Fair values disclosed						
Cash		$	9,153	$ 9,153	$ —	$ —
Restricted cash			594	594	—	—
Debt	*11*		(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.

The following table summarizes the estimated contractual maturities of the REIT's financial liabilities at December 31, 2018:

		Total contractual cash flow	**2019**	**2020-2021**	**2022-2023**	**Thereafter**
Accounts payable and accrued liabilities	$	36,605	$ 36,605	$ —	$ —	$ —
Amortizing principal repayments on debt		82,251	15,616	26,660	13,628	26,347
Principal repayments on maturity of debt		1,099,721	252,394	703,445	70,348	73,534
Interest on debt (1)		112,006	43,957	45,993	10,416	11,640
Interest rate swaps (2)		4,043	796	2,932	315	—
Other liabilities		7,019	1,750	1,075	1,199	2,995
	$	**1,341,645**	**$ 351,118**	**$ 780,105**	**$ 95,906**	**$ 114,516**

(1) Interest amounts on floating rate debt have been determined using rates at December 31, 2018.
(2) Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the December 31, 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.

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

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 December 31, 2018, after the impact of interest rate swaps, the REIT had a floating rate mortgage and debt of $581.0 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:

	December 31, 2018	December 31, 2017
Change of 25 bps	$ 1,453	$ 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 and 120 South LaSalle, located in Chicago, IL, as well as monetary assets and liabilities denominated in U.S. 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.

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

	December 31, 2018	December 31, 2017
Debt, net	$ 1,175,826	$ 795,591
Class B LP units	31,552	43,021
Equity	611,447	484,539
	$ 1,818,825	$ 1,323,151

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

	December 31, 2018	December 31, 2017
Total assets	$ 1,866,729	$ 1,364,845
Less: Restricted cash	(3,648)	(594)
Gross book value	1,863,081	1,364,251
Debt, net	$ 1,175,826	$ 795,591
Leverage ratio	63.1%	58.3%

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

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

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. Segmented disclosures

The REIT operates in Canada and the United States. The following is a summary of investment property by geographic location:

	December 31, 2018	December 31, 2017
Canada	**$ 1,451,748**	$ 1,279,509
United States	**328,665**	—
	$ 1,780,413	$ 1,279,509

The following is a summary of rental revenue and property operating expenses by geographic location:

			Year ended December 31, 2018
	Canada	**United States**	**Total**
Property revenue	$ 188,831	$ 20,385	$ 209,216
Property operating expenses	(98,554)	(11,981)	(110,535)
Net operating income	**$ 90,277**	**$ 8,404**	**$ 98,681**
Straight line rent and other changes			683
IFRIC 21 property tax adjustment			4,371
Finance income on finance lease receivable			3,765
Interest income			264
Interest and finance costs			(45,862)
General and administrative			(7,486)
Change in fair value of financial instruments			2,401
Change in fair value of properties			15,288
Depreciation of hotel asset			(947)
Disposition costs			(2,247)
Deferred income tax recovery			721
Net income before Class B LP units			**$ 69,632**
Change in fair value of Class B LP units			11,469
Distributions to Class B LP unitholders			(3,964)
Net income			**$ 77,137**

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

						Year ended December 31, 2017
		Canada		United States		Total
Property revenue	$	150,766	$	—	$	150,766
Property operating expenses		(81,931)		—		(81,931)
Net operating income	$	68,835	$	—	$	68,835
Straight line rent and other changes						1,370
Finance income on finance lease receivable						3,908
Interest income						88
Interest and finance costs						(26,509)
General and administrative						(5,754)
Change in fair value of financial instruments						(1,182)
Change in fair value of properties						15,126
Depreciation of hotel asset						(799)
Disposition costs						(146)
Net income before Class B LP units					$	54,937
Change in fair value of Class B LP units						(1,268)
Distributions to Class B LP unitholders						(3,964)
Net income					$	49,705

26. 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 December 31, 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 $0.8 million. The following is a reconciliation of the deferred tax asset during the period:

		December 31, 2018		December 31, 2017
Beginning of the period	**$**	**—**	$	—
Deferred income tax recovery		**721**		—
Foreign exchange		**36**		—
End of the period	**$**	**757**	$	—

(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 years ended December 31, 2018 and 2017 are as follows:

	Year ended December 31, 2018	2017
Net income before Class B LP units and taxes	**$ 68,911**	$ 54,937
Canadian statutory tax rate	**26.5%**	26.5%
	18,261	14,558
Income not subject to tax	**18,932**	14,558
Tax rate differential	**50**	—
Deferred income tax recovery	**$ 721**	$ —

As at December 31, 2018 and 2017, the REIT had tax losses carried forward available to reduce future years' taxable income, which expire as follows:

Year of expiry	**2018**	2017
2037	**$ 4,549**	$ 4,549
2038	**964**	**—**
Total non-capital losses	**5,513**	4,549
Total capital losses	**—**	1,675

27. Supplemental cash flow information

Changes in liabilities arising from financing activities for the year ended December 31, 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	December 31, 2018
Derivatives, net	$ 538	$ 2,033	$ (3,451)	$ 170	$ —	$ —	$ 4,772	$ —	**$ 4,062**
Facilities	174,316	184,021	(42,744)	(1,834)	—	7,221	—	1,084	**322,064**
Mortgages	501,776	131,195	(53,303)	(1,025)	80,011	6,663	—	676	**665,993**
Other debt	119,499	57,631	(16,812)	(768)	—	—	—	596	**160,146**
Convertible debentures	—	28,750	—	(1,320)	—	—	—	193	**27,623**
Class B LP units	43,021	—	—	—	—	—	(11,469)	—	**31,552**
Total	**$ 839,150**	**$ 403,630**	**$ (116,310)**	**$ (4,777)**	**$ 80,011**	**$ 13,884**	**$ (6,697)**	**$ 2,549**	**$ 1,211,440**

Changes in liabilities arising from financing activities for the year ended December 31, 2017 are as follows:

		Cash flows			Non-cash changes				
	December 31, 2016	Proceeds	Payments	Transaction costs and other	Assump-tions	Foreign Exchange	Fair value changes	Amortization of MTM adjustments and costs	December 31, 2017
Derivatives, net	$ 2,482	$ —	$ —	$ —	$ —	$ —	$ (1,944)	$ —	**$ 538**
Facilities	214,993	59,000	(100,300)	(267)	—	—	—	890	**174,316**
Mortgages	284,980	81,369	(7,213)	(1,201)	143,640	—	—	201	**501,776**
Other debt	104,980	15,000	—	(673)	—	—	—	192	**119,499**
Class B LP units	41,753	—	—	—	—	—	1,268	—	**43,021**
Total	**$ 649,188**	**$ 155,369**	**$ (107,513)**	**$ (2,141)**	**$ 143,640**	**$ —**	**$ (676)**	**$ 1,283**	**$ 839,150**

28. Subsequent events

The following events occurred subsequent to December 31, 2018:

i. On each of January and February 15, 2019, the REIT paid monthly distributions of $0.0625 per trust unit. Holders of Class B LP units of the REIT were also paid a distribution of $0.0625 per unit.

ii. On January 23, 2019, the REIT entered into an agreement to dispose of 225 Duncan Mill Road in Toronto, ON for a sale price of $27.3 million. The REIT expects this transaction to close in the second quarter of 2019.

iii. On February 15, 2019, the REIT declared a distribution of $0.0625 per trust unit, payable on March 15, 2019 to unitholders of record as of the close of business on February 28, 2019. Holders of Class B LP units of the REIT will also be paid a distribution of $0.0625 per trust unit.

iv. On March 1, 2019, the REIT entered into an agreement to sell a 25% interest in six office properties located in the Greater Toronto Area for a sale price of $131.8 million, implying a total asset value of $527.2 million. The transaction remains subject to customary closing and financing conditions and is expected to be completed in the first quarter of 2019.

v. On March 1, 2019, the REIT modified its annual distribution policy to $0.40 per unit from $0.75 per unit, beginning with the REIT's March 2019 distribution to be paid in April 2019.