Office REIT

SLATE

Q4 2018
TSX: SOT.UN

DEAR FELLOW UNITHOLDERS

It has now been four years since our team took over management of Slate Office REIT. Throughout that time, management has always focused on our mission to "own and operate a quality portfolio of office assets that provides a meaningful total return to unitholders through net asset value growth and an attractive yield."

The mission doesn't change, but the ways in which we fulfill that mission can and do as we adapt to shifting market conditions. One of the attributes that sets Slate apart and gives us a competitive advantage is our ability to think creatively and to move quickly in periods when we see opportunities to create value.

We are in the midst of one of those periods, and so we continue to take actions to position the REIT to seize the opportunities before us.

U.S. Expansion

In February of 2018, the REIT completed its first acquisition outside of Canada, a high-quality building in Chicago. While we continued to be active in domestic markets, it was our view that Slate Office REIT unitholders would benefit from exploring acquisition opportunities in the U.S. We were seeing firsthand that there were assets available in U.S. target markets that were an exact fit for our investment thesis of buying well located, quality assets below replacement cost with upside though increased occupancy, rental rates and focused management.

In August of 2018, we completed our second Chicago acquisition. The REIT now owns one million square feet of office space in the Central Loop of downtown Chicago. We have seen positive results in our first year of ownership, increasing revenue and generating a 233 basis point increase in committed occupancy.

Our timing was good. In their third quarter office insight report, Jones Lang LaSalle said: "The Chicago downtown office market has once again experienced growth recording its eleven quarters of market-wide rent increases paired with unprecedented leasing volumes, the notion that Chicago may experience a surplus in office supply has not only gone uncorroborated but refuted with exponential demand."

Management's ability to see this opportunity, and more importantly to execute on it quickly, is an example of using our competitive advantage to generate meaningful returns for our unitholders.

Capital Recycling

Also in early 2018, management announced that we would pursue a strategic capital recycling program to improve our balance sheet and to create liquidity for future investments.

Today, I am pleased to report that we have entered into an agreement with Wafra, a sophisticated global private equity and alternative asset investor, whereby they will acquire a 25% interest in a $527.2 million Greater Toronto Area portfolio from the REIT. The purchase price represents a 19% levered internal rate of return to the REIT, establishes a relationship with a global real estate investor and generates $84 million of proceeds to the REIT for its capital recycling initiatives.

This follows on a series of other transactions over the past twelve months as part of our successful capital recycling program. In total, the REIT has now generated $237.2 million of gross sale proceeds, improving the balance sheet and creating liquidity for future opportunities.

Furthermore, having a third party such as Wafra affirm pricing on a significant portion of the REITs portfolio supports our estimate of net asset value and highlights the ongoing disconnect with the current trading price. We continue to believe that at current trading levels, the REIT's units represent a compelling investment opportunity.

Management is also taking advantage of a favorable debt financing environment to reduce risk and enhance the stability of future cash flows by converting more of our debt to longer-term, fixed rate financing. Concurrent with the closing of the Wafra transaction the REIT's proportion of fixed rate financing will increase to 66% from 51% and the weighted average term to maturity increases by 0.4 years to 3.0 years.

We believe this will further increase the attractiveness of the REIT as an investment, and put us in an even stronger position to grow accretively.

Looking Ahead

The work we have undertaken over the past twelve months and, indeed, the past four years, has put Slate Office REIT in position of strength as we seek to provide our unitholders with meaningful total returns.

The actions we are taking improve the quality and diversification of our portfolio, reduce risk on the balance sheet and prove both net asset value and management's ability to generate returns. These measures reflect our commitment to our mission and our ability to execute on behalf of our unitholders.

Against this backdrop, and as we plan for the future of Slate Office REIT, we believe that now is the time to revise the REIT's monthly distribution. The fact is, given the opportunities we see, we believe the best way to create value is by keeping more cash that we can put to work on behalf of unitholders. By reducing our distribution to $0.40 annually, we will retain incremental annual cash flow of $26 million.

Management expects to use this retained capital to invest in assets that generate unitholder returns consistent with those we have shown during our capital recycling program to date. This is in keeping with our focus on total returns, and we believe it is the best way for us to continue our efforts to close the gap between net asset value and the REIT's current trading price.

As always, we thank you for your continued support.

Sincerely,

Scott Antoniak
Chief Executive Officer
March 1, 2019

SLATE Office REIT

Management's Discussion and Analysis

TSX: SOT.UN

December 31, 2018

CONTENTS

FORWARD LOOKING STATEMENTS

Certain information in this Management's Discussion and Analysis ("MD&A") constitutes "forward-looking statements" within the meaning of applicable securities legislation. These statements reflect Management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of Slate Office REIT (TSX: SOT.UN) (the "REIT") including expectations for the current financial year, and include, but are not limited to, statements with respect to Management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Statements that contain words such as "could", "should", "would", "can", "anticipate", "expect", "does not expect", "believe", "plan", budget", "schedule", "estimate", "intend", "project", "will", "may", "might", "continue" and similar expressions or statements relating to matters that are not historical facts constitute forward-looking statements.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on the REIT's current estimates and assumptions, which are subject to significant risks and uncertainties. The REIT believes that these statements are made based on reasonable assumptions; however, there is no assurance that the events or circumstances reflected in these forward-looking statements will occur or be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to the risks that are more fully discussed under the "*Risk Factors*" section of the annual information form of the REIT for the Year ended December 31, 2018 ("Annual Information Form"). Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: risks incidental to ownership and operation of real estate properties including local real estate conditions; financial risks related to obtaining available equity and debt financing at reasonable costs and interest rate fluctuations; operational risks including timely leasing of vacant space and re-leasing of occupied space on expiration of current leases on terms at current or anticipated rental rates; tenant defaults and bankruptcies; uncertainties of acquisition activities including availability of suitable property acquisitions and integration of acquisitions; competition including development of properties in close proximity to the REIT's properties; loss of key management and employees; potential environmental liabilities; catastrophic events, such as earthquakes and hurricanes; governmental, taxation and other regulatory risks and litigation risks.

Forward-looking statements included in this MD&A are made as of March 1, 2019 and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are included in this MD&A, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities laws. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Investors are cautioned against placing undue reliance on forward-looking statements.

FINANCIAL AND INFORMATIONAL HIGHLIGHTS
(in thousands of dollars except per unit amounts)

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Summary of Portfolio Information					
Number of properties	**41**	43	45	45	38
Gross leasable area ("GLA")	**7,582,201**	7,871,383	7,463,073	7,462,679	6,116,085
Total assets	**$ 1,866,729**	$ 1,874,600	$ 1,689,148	$ 1,660,947	$ 1,364,854
Total debt	**$ 1,175,826**	$ 1,194,428	$ 1,016,926	$ 1,003,951	$ 795,591
Occupancy	**87.6%**	87.1%	86.8%	85.9%	85.8%

					Three months ended
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Summary of Financial Information					
Revenue	**$ 59,055**	$ 54,499	$ 52,056	$ 44,289	$ 42,380
Net operating income ("NOI") (1)	**$ 27,358**	$ 25,999	$ 25,212	$ 20,112	$ 18,489
Same-property NOI change (2)	**14.5%**	13.0%	11.7%	5.2%	(2.5)%
Net income	**$ 27,944**	$ 17,697	$ 23,592	$ 7,904	$ 14,174
Funds from operations ("FFO") (1)	**$ 13,758**	$ 15,071	$ 14,810	$ 11,292	$ 11,221
Core-FFO (1)	**$ 14,356**	$ 15,659	$ 15,389	$ 11,862	$ 11,782
Adjusted FFO ("AFFO") (1)	**$ 11,101**	$ 12,755	$ 12,836	$ 10,108	$ 9,528
Per Unit Financial Information					
Weighted average diluted number of trust units (000s)	**75,261**	75,203	75,139	62,874	62,266
FFO per unit (1)	**$ 0.18**	$ 0.20	$ 0.20	$ 0.18	$ 0.18
Core-FFO per unit (1)	**$ 0.19**	$ 0.21	$ 0.20	$ 0.19	$ 0.19
AFFO per unit (1)	**$ 0.15**	$ 0.17	$ 0.17	$ 0.16	$ 0.15
Distributions per unit (1)	**$ 0.1875**	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875
FFO pay-out ratio (1)	**102.5%**	93.5%	95.1%	110.4%	103.9 %
Core-FFO payout ratio (1)	**98.2%**	90.0%	91.5%	105.1%	99.0 %
AFFO pay-out ratio (1)	**127.0%**	110.4%	109.7%	123.4%	122.4 %

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Financial Data					
Loan-to-value ("LTV") ratio	**63.1%**	63.8%	60.2%	60.5%	58.3%
Weighted average debt interest rate	**4.3%**	4.0%	3.8%	3.7%	3.6%
Interest coverage ratio (times) (1)	**2.3x**	2.4x	2.5x	2.6x	2.7x
Net debt to adjusted EBITDA ratio (times) (1)	**12.0x**	13.6x	12.8x	14.2x	11.9x

(1) The calculation of these non-IFRS financial measures and a reconciliation to relevant IFRS measures are included in Part III and IV.
(2) The change in same-property NOI is compared to the same-property portfolio for the comparative quarter in the prior year.

PART I - OVERVIEW

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of the REIT is intended to provide readers with an assessment of performance and summarize the financial position and results of operations of the REIT for the year ended December 31, 2018. The presentation of the REIT's financial results, including the related comparative information, contained in this MD&A are based on the REIT's consolidated financial statements (the "consolidated financial statements") as at December 31, 2018 and for the years ended December 31, 2018 and 2017. This MD&A should be read in conjunction with those consolidated financial statements. All dollar amounts are in thousands of Canadian dollars, unless otherwise noted.

The information contained in this MD&A is based on information available to the REIT and is dated as of March 1, 2019, which is also the date the Board of Trustees, upon the recommendation of its Audit Committee, approved the contents of this MD&A.

SLATE OFFICE REIT PROFILE

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"). On December 31, 2018, the REIT owned interests in 41 properties comprised of 38 office properties and 3 non-office properties totaling 7.5 million and 0.1 million square feet, respectively, of GLA. The properties are located in geographically diversified markets in Canada and the United States of America (the "U.S.").

The REIT is externally managed and operated by Slate Management Corporation ("SMC"), a subsidiary of Slate Asset Management L.P., (collectively, "Slate" or the "Manager"). Slate has an experienced and dedicated team of real estate professionals with a proven track record of success in real estate investment and management. Management's interests are aligned with the unitholders of the REIT through its sponsorship and as a significant unitholder of the REIT. Slate is the largest unitholder in the REIT, with a 9.3% interest at December 31, 2018, and accordingly, is highly motivated to increase the value of the REIT on a per unit basis and provide reliable returns to the REIT's unitholders. Slate assumed management responsibilities for the REIT in November 2014 with the vision of creating a pure-play office REIT focused on "non-core" real estate assets. This vision was premised on the belief that the office market was changing and a pure-play office REIT would provide a vehicle to capitalize on future opportunities.

Additional information on the REIT, including its Annual Information Form, is available on SEDAR at www.sedar.com and on the REIT's website at www.slateofficereit.com.

NON-IFRS MEASURES

We disclose a number of financial measures in this MD&A that are not measures used under International Financial Reporting Standards ("IFRS"), including net operating income, same property net operating income, funds from operations, core funds from operations, adjusted funds from operations, adjusted funds from operations pay-out ratio, IFRS net asset value, adjusted EBITDA, net debt to adjusted EBITDA ratio, interest coverage ratio and debt service coverage ratio, in addition to certain of these measures on a per unit basis. We utilize these measures for a variety of reasons, including measuring performance, managing the business, capital allocation and the assessment of risk. Descriptions of why these non-IFRS measures are useful to investors and how Management uses each measure are included in this MD&A. We believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our business in a manner similar to Management. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS measures to the most directly comparable financial measures calculated and presented in accordance with IFRS are included within this MD&A.

STRATEGY

Our strategy is to own an institutional quality portfolio of assets in major office markets, where millions of people come to work every day. We believe that in seeking out assets that can be purchased at a significant discount to peak and replacement value while retaining stable operating fundamentals allow the potential for superior risk-adjusted returns. We believe that approximately two-thirds of office inventory is often overlooked by large institutional investors for various reasons. The REIT's portfolio of office properties provides diversification, an ability to generate cash flow to provide distributions to unitholders, while also providing the opportunity to grow net asset value on a per unit basis.

Recently we have taken note that similar characteristics exist in numerous markets throughout the U.S. and have developed a robust pipeline of assets that meet our investment criteria. Management believes the REIT's strategy is applicable in the U.S. and will continue to look to expand into scalable markets while maintaining an active pipeline in Canada.

While our primary goals are to grow net asset value on a per unit basis and provide distributions to unitholders, we are focused on the following areas to achieve the REIT's objectives through 2019:

- Proactive property and asset management that results in NOI growth while minimizing property and portfolio vacancy exposure;
- Prudent and disciplined management of capital outlays that will maintain and increase the attractiveness of the REIT's portfolio and achieve increased rents;
- Continue to increase the REIT's financial strength and flexibility through robust balance sheet management;

- Maintain a conservative AFFO pay-out ratio taking into account the REIT's other available opportunities and capital allocation requirements; and

- Continue to selectively dispose of non-strategic assets and recycle capital to appropriately manage leverage and acquire office properties on an opportunistic basis.

Overall, we believe that the REIT has positioned its portfolio and capital structure to grow in the current economic environment and capitalize on opportunities in the future.

TOTAL RETURN TO UNITHOLDERS

As described above, our strategy is to grow net asset value on a per unit basis and provide distributions to unitholders. The REIT believes this strategy aligns to the perspective of the REIT's unitholders, as the combination of (i) the change in net asset value on a per unit basis and (ii) distributions received, represent the value provided to them by the REIT.

Over the past number of years, the REIT has consistently provided a meaningful total return to unitholders. In the 2017 year, the REIT created $0.81 of value per unit. Of this $0.81 a total of $0.75 was returned to unitholders in the form of a distribution and $0.06 was retained in the REIT, which served to increase IFRS net asset value. Importantly, this $0.81 of value creation per unit is equivalent to a 9.6% total return on a per unit basis. Similarly, in 2016 the REIT created $0.97 of value per unit, of which $0.22 was retained in the REIT, and in aggregate is equivalent to a total return of 11.9%. It is the objective of Management to continue to provide strong total returns to unitholders of the REIT through growing the value of the REIT's portfolio and finding new opportunities for value creation.

Throughout 2018, we continued to return capital via distributions at an annual yield, when compared to IFRS net asset value, of 8.8%. In 2018 total returns were negatively impacted by transaction costs related to the equity and convertible debenture issuances in January 2018 and $498.5 million of acquisitions. Management believes that these initiatives will over time deliver positive per unit net asset value growth. Importantly, in 2018 the REIT has delivered $0.82 per unit of value to unitholders on a net basis, primarily received by unitholders through distributions. This value represents a 9.6% annualized total return to unitholders as portfolio value growth has outpaced the costs of acquisitions and capital issuances.

A large portion of this total return to unitholders is provided by way of distributions. For 2018 and 2017, 100.0% of the distributions received by unitholders were treated as a return of capital for taxation purposes compared to 90.2% in 2016, resulting in a meaningful deferral of the taxation of returns being provided. We do not expect the taxation deferral to continue to be as meaningful in 2019 due to the impact of capital gains and depreciation recapture on asset sales and modification of the REIT's distribution to $0.40 annually. Subsequent to December 31, 2018 the REIT announced that as part of its ongoing capital recycling program, the REIT reached an agreement to sell a 25% interest in six office properties in the Greater Toronto Area (the “GTA JV Portfolio”) to an investment fund advised by Wafra Inc. ("Wafra"), a sophisticated global private equity and alternative asset investor, at a valuation of $527.2 million for a 100% interest in the assets. Concurrent with the partial disposition and to further strengthen the REIT’s ability to take advantage of future investment opportunities, the REIT is modifying its annual distribution to $0.40 per unit from $0.75 per unit, enabling the REIT to retain $26 million of additional capital annually while providing an annual yield of 6% based on the most recent price of the REIT units. See "Significant Highlights" for further details.

The following reconciliation shows the change in IFRS net asset value of the REIT on a total and per unit basis for the year ended December 31, 2018 and the years ended December 31, 2017 and 2016:

	Year ended December 31, 2018		Year ended December 31, 2017		Year ended December 31, 2016	
	IFRS Net Asset Value (1)	**Per Unit**	IFRS Net Asset Value (1)	Per Unit	IFRS Net Asset Value (1)	Per Unit
Beginning of period	**$ 528,051**	**$ 8.48**	$ 387,862	$ 8.42	$ 289,540	$ 8.19
Core-FFO	**57,266**	**0.79**	46,684	0.81	39,948	1.01
Property fair value changes	**19,659**	**0.27**	15,126	0.26	7,933	0.20
Other fair value changes	**(3,350)**	**(0.05)**	1,930	0.03	602	0.02
Depreciation on hotel	**(947)**	**(0.01)**	(799)	(0.01)	(590)	(0.01)
Foreign exchange	**6,241**	**0.09**	—	—	—	—
Unit issuances	**98,586**	**(0.14)**	127,760	(0.12)	82,689	(0.10)
Distributions	**(54,728)**	**(0.75)**	(43,607)	(0.75)	(30,026)	(0.75)
DRIP units	**1,459**	**(0.02)**	1,014	(0.01)	866	(0.01)
Unit repurchases	**(1)**	**—**	—	—	(384)	0.01
Other	**(8,601)**	**(0.11)**	(7,919)	(0.15)	(2,716)	(0.14)
End of period	**$ 643,635**	**$ 8.55**	$ 528,051	$ 8.48	$ 387,862	$ 8.42

(1) Refer to the IFRS Net Asset Value section of this MD&A for the calculation of IFRS net asset value on a total and per unit basis to the REIT's consolidated financial statements.

The following table shows the per unit value created or provided to unitholders in addition to the related total return for the year:

	Year ended December 31, 2018		Year ended December 31, 2017		Year ended December 31, 2016	
	Percentage Return	**Per Unit**	Percentage Return	Per Unit	Percentage Return	Per Unit
IFRS net asset value change	**0.8% $**	**0.07**	0.7% $	0.06	2.7% $	0.22
Distributions	**8.8%**	**0.75**	8.9%	0.75	9.2%	0.75
Total	**9.6% $**	**0.82**	9.6% $	0.81	11.9% $	0.97

Net asset value has been determined using the REIT's consolidated financial statements prepared in accordance with IFRS. It is important to note that the consolidated financial statements of the REIT may not be fully representative of the net asset value of the REIT. Specifically, the fair value 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.

RISKS AND UNCERTAINTIES

The REIT's business is subject to a number of risks and uncertainties which are described in its most recently filed Annual Information Form for the year ended December 31, 2018, available on SEDAR at www.sedar.com. Additional risks and uncertainties not presently known to the REIT or that the REIT currently considers immaterial also may impair its business and operations and cause the price of the REIT's units to decline in value. If any of the noted risks actually occur, the REIT's business may be harmed and the financial condition and results of operations may suffer significantly. In that event, the trading price of the units could decline, and unitholders may lose all or part of their investment.

SIGNIFICANT HIGHLIGHTS

The following are the significant highlights for the year ended December 31, 2018:

Recycling capital

Dispositions

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 to an investment fund advised by Wafra Inc. ("Wafra"), a sophisticated global private equity and alternative asset investor. The sale price for the 25% interest is $131.8 million, implying a 100% value of $527.2 million or $269 per square foot. This pricing represents a levered internal rate of return of 19% over the hold period for the buildings, which ranges from 2 to 6 years.

The REIT expects to receive net proceeds of approximately $53.9 million, which will be used to reduce outstanding debt and create liquidity for future investments. The transaction remains subject to customary closing and financing conditions and is expected to be completed in the first quarter of 2019.

In conjunction with the sale of the 25% interest, the REIT has commitments to receive incremental debt on five of the six properties, which is expected to result in $30.4 million of additional proceeds to the REIT at its share and extends those maturities by 1.5 years. This refinancing will increase the amount of fixed rate debt by $100.9 million. On a pro forma basis, after adjusting for the impact of the sale and the related up financing and the sale of Duncan Mill, the REIT's loan-to-value ratio is expected to be 60.0% and the REIT is expected to have over $70 million of available liquidity. Additionally, the REIT is undertaking to enter into long-term pay-fixed receive-float interest rate swaps that, together with the fixed rate refinancing, will result in approximately 90% of the REIT's borrowing being subject to fixed rates.

Management, in consultation with the Board of Trustees, continually evaluates the relative attractiveness of the asset allocation alternatives available to the REIT, with a focus on our mission of achieving the best returns for unitholders on a total return basis. The REIT believes that significant investment opportunities exist to continue to grow unitholder value in both the Canadian and U.S. markets and including within its own portfolio. In consideration of the REIT's current equity cost of capital and the attractiveness of the current investment market, the REIT is modifying its annual distribution to $0.40 per unit from $0.75 per unit beginning with the REIT's March 2019 distribution to be paid in April 2019. The new distribution rate will result in the REIT retaining $26 million of additional capital annually. The REIT intends to initially use this retained capital to repay debt and reduce leverage in order to create capacity for deployment into attractive new opportunities or reinvestment in the existing portfolio that are accretive to net asset value per unit.

Dispositions throughout 2018 are as follows:

- In the fourth quarter of 2018, the REIT continued its capital recycling plan, disposing of two assets. On December 10, 2018, the REIT disposed of Centennial Centre and Meadowpine Centre in the Greater Toronto Area, ON for aggregate gross proceeds of $44.1 million, representing a 6% premium to their aggregate IFRS value at June 30, 2018. The REIT used the proceeds to reduce outstanding debt.
- On September 28, 2018 the REIT disposed of 139 Water Street and the Water Street properties in St. John's, NL for gross proceeds of $17.3 million which was approximately 40% in excess of the REIT's IFRS fair value for this property at December 31, 2017. As part of this transaction,

the REIT issued a $2.7 million vendor-take-back note for a term of 24 months bearing interest at 8.0%. The REIT used the proceeds to reduce outstanding debt.

- On July 12, 2018, the REIT disposed of one office property located at 135 Queens Plate Drive in Etobicoke, ON for $16.7 million. This sale represents a levered IRR of 19.7% and was approximately 10% in excess of the REIT's IFRS fair value for this property at December 31, 2017. The REIT used the proceeds to reduce outstanding debt.
- In the first quarter of 2018, the REIT disposed of a vacant industrial building located at 35 Martin Way in Brooks, AB ("Brooks" or "35 Martin Way"), for gross proceeds of $1.0 million. As Brooks was vacant, its sale had a positive contribution to NOI, due to the required holding costs of ownership.

Acquisitions

- On August 30, 2018, the REIT purchased a 656,080 square foot office building which includes 21,633 square feet of retail space and an adjacent parking structure located at 120 South LaSalle Street ("120 South LaSalle") in downtown Chicago, IL for U.S.$155.5 million. 120 South LaSalle is located in close proximity to the REIT's existing 20 South Clark office building which creates marketing and leasing synergies for the REIT. This building is the U.S. head office for the Canadian Imperial Bank of Commerce and was 84.3% occupied at acquisition which provides the REIT with an upside leasing opportunity. The REIT financed the acquisition with existing liquidity and new debt financing. This acquisition increased the REIT's debt, relative to its gross book value, however, the REIT expects to reduce debt in the short-term through the sale of fully valued and non-strategic assets.
- 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 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.

Leasing

- In the fourth quarter of 2018, the REIT completed a total of 158,339 square feet of leasing, comprised of 70,844 square feet of renewals and 87,495 square feet of new lease deals, increasing occupancy to 87.6% at December 31, 2018 from 87.1% at September 30, 2018.
- Throughout 2018, the REIT completed a total of 1,083,042 square feet of leasing, comprised of 704,937 square feet renewals and 378,105 square feet of new leases, or equal to 14.3% of the total portfolio.
- The overall rental rate spread on leasing in the fourth quarter of 2018 was 11.1%. Renewals were 13.3% above expiring rents while new deals were 9.0% above in-place building rent. The weighted average lease term was 5.8 years at December 31, 2018 compared to 5.7 years at September 30, 2018.
- The REIT's U.S. properties, 20 South Clark and 120 South LaSalle, in Chicago IL, continue to see strong tenant demand with 36,961 square feet of leasing completed in the fourth quarter of 2018.

Financial

- Net income was $27.9 million for the fourth quarter of 2018, an increase from $14.2 million for the fourth quarter of 2017. This increase is primarily related to positive property net operating income and fair value adjustments on the REIT's greater Toronto area assets, offset by increased interest costs in the fourth quarter of 2018 compared to the same period in the prior year.
- Same property NOI was up 14.5% for the fourth quarter of 2018 compared to the same period in the prior year. This increase is a continuation of strong same-property NOI growth experienced in the third quarter of 2018 from leasing completed by the REIT in 2017 and 2018 which increased occupancy as well as moving existing rents toward market rents.
- FFO and Core-FFO in the fourth quarter of 2018 have increased from the fourth quarter of 2017 by $2.5 million and $2.6 million, respectively, as a result of positive property NOI in addition to portfolio acquisitions in the first and third quarter of 2018. The increase in FFO and Core-FFO from property NOI growth and acquisitions is partially offset by the disposition of five properties throughout 2018. AFFO increased by $1.6 million in the fourth quarter of 2018 compared to the same period in the prior year, for the same reasons mentioned for FFO and Core-FFO, offset by increased normalized and direct leasing costs.
- FFO and Core-FFO per unit in the fourth quarter of 2018 is consistent with the same period in 2017 at $0.18 and $0.19, respectively and AFFO per unit was $0.15 in the fourth quarter of 2018 compared to $0.15 for the same period in the prior year.
- The REIT is undertaking to enter into long-term pay-fixed receive-float interest rate swaps that, together with the fixed rate refinancing on the disposition of the 25% interest in the six Greater Toronto Area office assets, will result in approximately 90% of the REIT’s borrowing being subject to fixed rates.

PART II - LEASING AND PROPERTY PORTFOLIO

LEASING

The REIT continues to renew and extend leases to drive occupancy and value. In aggregate, 158,339 square feet of leasing was completed, comprised of 70,844 square feet of lease renewals and 87,495 square feet of new lease deals in the fourth quarter of 2018. Leasing spreads in the quarter were 11.1% overall with lease renewals at 13.3% above expiring rents and new deals at 9.0% above building in place rent. Occupancy at December 31, 2018 increased 52 basis points to 87.6% compared to 87.1% at September 30, 2018, while the weighted average lease term increased to 5.8 years from 5.7 years. Additionally, the REIT has completed new lease deals that are not reflected in the current in place occupancy as the leases commence subsequent to December 31, 2018.

OCCUPANCY

The following is a continuity of the change in the in place occupancy of the REIT's properties:

	Three months ended December 31, 2018			Three months ended September 30, 2018		
	GLA	**Occupancy (square feet)**	**Occupancy (%)**	GLA	Occupancy (square feet)	Occupancy (%)
Occupancy, beginning of period	**7,871,383**	**6,854,388**	**87.1%**	7,463,073	6,480,311	86.8%
Acquisitions	**—**	**—**	**—**	656,080	552,973	84.3%
Dispositions	**(294,394)**	**(241,249)**	**81.9%**	(247,770)	(146,790)	59.2%
Remeasurement	**5,212**	**—**	**—**	—	—	—
Change in same property occupancy	**—**	**27,827**	**—**	—	(32,106)	—
Occupancy, end of period	**7,582,201**	**6,640,966**	**87.6%**	7,871,383	6,854,388	87.1%
Redevelopment properties	**111,461**	**—**	**—**	111,461	—	—
Occupancy, excluding redevelopments	**7,470,740**	**6,640,966**	**88.9%**	7,759,922	6,854,388	88.3%

The REIT's objective is to maintain high levels of occupancy throughout the portfolio. At December 31, 2018, the REIT's occupancy, including redevelopment office properties, was 87.6%, an increase of 52 basis points from the prior quarter. The REIT has also completed new lease deals that will commence subsequent to December 31, 2018 and are expected to increase occupancy through the remainder of the year.

LEASE MATURITIES

The REIT generally enters into leases with an initial term to maturity between 2 and 10 years. The weighted average remaining term to maturity at December 31, 2018 was 5.8 years, not including tenants on month-to-month leases. Management considers the current average duration of rents to be indicative of the stability of the portfolio's cash flow generation abilities and diversified maturity risk.

The following table summarizes the composition of the remaining term to maturity of the REIT's leases by region:

	December 31, 2018			**September 30, 2018**		
	Weighted average years to maturity (1)	**GLA**	**% of GLA**	Weighted average years to maturity (1)	GLA	% of GLA
Atlantic	**5.4**	**2,307,875**	**30.4%**	5.5	2,279,929	29.0%
Ontario	**5.3**	**2,892,687**	**38.3%**	5.0	3,133,033	39.7%
Western	**8.1**	**557,201**	**7.3%**	8.1	562,971	7.2%
USA	**7.0**	**883,203**	**11.6%**	7.1	878,454	11.2%
	5.8	**6,640,966**	**87.6%**	5.7	6,854,387	87.1%
Vacant (2)		**941,235**	**12.4%**		1,016,996	12.9%
Total		**7,582,201**	**100.0%**		7,871,383	100.0%

(1) The calculation of weighted average term to maturity does not include month-to-month tenants.
(2) Does not include committed leases commencing after December 31, 2018.

The following is a profile of the maturities of the REIT's leases excluding the impact of tenant extension options at December 31, 2018:

	GLA	% of portfolio	Weighted average in place rent (per square foot) (1)
Month-to-month	77,355	1.0% $	13.37
2019	527,016	7.0%	15.05
2020	821,573	10.8%	14.75
2021	491,869	6.5%	16.78
2022	931,275	12.3%	15.89
2023	515,529	6.8%	15.34
2024 and later	3,276,349	43.2%	18.54
Vacant	941,235	12.4%	
Total/weighted average	**7,582,201**	**100.0% $**	**16.99**

(1) The weighted average in place occupancy is based on in place rents for active expiries.

In 2019, 7.0% of the portfolio GLA is maturing and the REIT is focused on these expiries as well as a number of significant proposals in the markets in which we operate. In total, the REIT is aware of tenants representing approximately 270,000 square feet vacating in 2019. A significant number of 2019 total expiring leases have already been renegotiated, reducing the extent of maturities in 2019. Overall, Management expects to continue a trend of positive rental spreads, increased occupancy, improved tenant quality and longer weighted-average lease term. The goal is to continue to drive organic growth in the portfolio and focus on creating meaningful per unit net asset value accretion.

IN PLACE AND MARKET RENTS

During the three months ended December 31, 2018, the REIT completed 158,339 square feet of leasing comprised of both new deals and renewals.

The following table summarizes the REIT's leasing activity during the three months ended December 31, 2018:

	GLA	Number of leases	Weighted average expiring rent (per square foot)	Weighted average new rent (per square foot)	Increase (decrease) in rent
Renewed leases	70,844	16	$ 17.43	$ 19.75	13.3%
New leases	87,495	25	15.01	16.36	9.0%
Total / weighted average	158,339	41	$ 16.09	$ 17.88	11.1%
Less: leases not renewed / vacated	(83,883)	(19)			
Net total	74,456	22			

During the quarter, on a weighted average basis, renewed and new leases were completed at a 13.3% and 9.0% increase to expiring rents or building in place rents, respectively.

The weighted-average in-place rent of the REIT's office portfolio at December 31, 2018 is $16.99 per square foot. Management estimates the current weighted average market rate to be $18.66 per square foot for the markets in which the REIT's office properties are located, or $1.67 per square foot higher than the REIT's current in place rental rates. This estimate of current market rent is based on Management's estimates, third party valuations and leasing data obtained from actual new and renewed leasing activity. While there are no assurances that maturing leases will be renewed at rates in excess of current in place rents, or at all, Management compares in place to market rents to determine the future revenue capacity of the REIT's current portfolio and roll-over revenue risk.

The following is a summary of the REIT's new and renewal leasing activity for the past five quarters:

	Renewals		New leases		Total	
Quarter	**GLA**	**Number of leases**	**GLA**	**Number of leases**	**GLA**	**Number of leases**
Q4 2017	288,765	29	68,898	17	357,663	46
Q1 2018	170,903	23	54,330	19	225,233	42
Q2 2018	345,055	29	96,167	13	441,222	42
Q3 2018	118,135	17	140,113	26	258,248	43
Q4 2018	70,844	16	87,495	25	158,339	41

TENANT PROFILE

Management's strategy includes ensuring that the REIT's tenants are diversified and of high credit quality. A higher quality tenant base increases the stability of the REIT's income through economic cycles, which directly relates to their continued ability to meet their lease obligations to the REIT and continue to retain their workforce, which directly impacts their need for office space.

The following are the REIT's top 10 largest tenants at December 31, 2018, which together represent 39.0% of base rental receipts:

Tenant	Credit rating (1)	GLA	Number of properties	% of base rental receipts	Weighted average lease term (years)
SNC-Lavalin Inc. (2)	BBB	448,897	3	6.6%	5.7
Government of Canada	AAA	345,712	7	4.6%	4.1
Canadian Imperial Bank of Commerce	AA	339,679	4	6.6%	9.8
Province of New Brunswick	A+	313,588	5	3.2%	3.4
Thales Rail Signalling Solutions Inc.	A2	248,262	1	3.2%	6.0
Medavie Blue Cross	Unrated	195,238	4	2.8%	9.2
Bell Canada Enterprises	BBB	167,418	4	6.5%	8.1
Kraft Canada Inc.	BBB-	156,426	1	2.0%	7.4
Johnson Insurance (3)	A	154,018	1	2.0%	10.0
Province of Nova Scotia	AA-	129,759	1	1.5%	6.9
Total		**2,498,997**		**39.0%**	**6.6**

(1) Source: DBRS, Moody's and S&P.
(2) Includes 338,983 square feet of SNC-Lavalin Nuclear Inc.
(3) Johnson Insurance, part of RSA Canada, is a sub-tenant of Bell Canada and will take occupancy in the Johnson building on December 1, 2020.

PROPERTY PROFILE

The REIT's property portfolio at December 31, 2018, comprises wholly-owned interests in 41 properties, comprised of 38 office properties and 3 non-office properties. The portfolio comprises 7.6 million square feet of GLA. Of the REIT's property portfolio, one of its office properties is currently classified as redevelopment. For a listing of all of the REIT's properties see PART VI of this MD&A.

Acquisitions

During the year ended December 31, 2018, the REIT acquired nine office properties for a total of $498.5 million.

On February 1, 2018 the REIT acquired a wholly-owned interest in a 380,297 square foot, 31-storey office building located at 20 South Clark Street, in downtown Chicago, IL, for a purchase price of U.S. $85.6 million ("20 South Clark"). The building is located in Chicago's downtown 'Central Loop' submarket, surrounded by the city's legal, government and financial centres. This building was 84.2% occupied on acquisition and now has a committed occupancy of 86.4%.

On March 27, 2018 the REIT acquired seven office properties located in the Greater Toronto Area and Atlantic Canada, for an aggregate purchase price of $191.4 million. These seven assets were 93% occupied with a weighted average lease term of 4.9 years at acquisition and increased the REIT's GLA by approximately 1.0 million square feet compared to December 31, 2017.

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. This building was 84.3% occupied on acquisition and now has a committed occupancy of 86.7%. This is the REIT's second acquisition in the U.S. and the REIT will continue to assess its pipeline of assets in the U.S. that meet its investment criteria.

A summary of these acquisitions are as follows:

	20 South Clark (1)	7 Asset Portfolio	120 South LaSalle (1)	Total
REIT's interest	100%	100%	100%	
Location	Chicago, IL	Various (2)	Chicago, IL	
Number of properties	1	7	1	**9**
Acquisition date	February 1, 2018	March 27, 2018	August 30, 2018	
Purchase price	$ 105,247	$ 191,400	$ 201,839	**$ 498,486**
Transaction costs	2,981	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 converted to Canadian dollars using the prevailing exchange rate on the date of acquisition.
(2) Four assets are located in the Greater Toronto Area and three assets are located in Atlantic Canada.

The net investment in acquisitions has 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 prevailing 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."). The income supplement is recorded as an other asset and initially measured at its present value.
(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.

Acquisition pipeline

The REIT currently has a significant pipeline of active opportunities in the cities in which we operate and in markets that are new to the REIT. While the number of opportunities is high, we will continue to be disciplined in our underwriting and pricing. We will not sacrifice long-term value creation for short-term income and accordingly have not pursued acquisitions that do not meet appropriate return expectations.

In pursuing acquisition properties, we have a bias towards opportunities with the following two characteristics:

- *Meaningful discount to replacement cost*: A property purchased well below replacement cost provides opportunity for investment in leasing or asset repositioning, with favourable economic returns to the REIT in excess of new build. We also believe that price per square foot, if at a meaningful discount to replacement cost, provides prudent downside protection while retaining significant opportunity to attract tenants on a competitive basis, especially when competing against new builds.
- *Opportunity for value creation*: We are focused on opportunities that will create value for unitholders. We are less focused on immediate accretion (i.e. the next quarter) and more focused on finding acquisitions that allow for significant equity creation over the medium term. Properties are attractive to us if they are located in a stable market, in good physical condition and have opportunities to drive value by moving existing rents to market rates and/or increase occupancy through focused leasing or repositioning.

Non-core office properties will often satisfy these two characteristics. In contrast to core assets, which often trade in excess of replacement cost with optimized tenanting, we believe that the risk-return profile of non-core assets remains attractive, and we will continue to seek the best opportunities.

Dispositions

During the first quarter of 2018, the REIT disposed of a vacant industrial building located at 35 Martin Way in Brooks, AB ("Brooks" or "35 Martin Way"), for gross proceeds of $1.0 million. As Brooks was vacant, its sale had a positive contribution to NOI, due to the required holding costs of ownership.

On July 13, 2018, the REIT disposed of 135 Queen's Plate Drive in Etobicoke, ON ("135 Queen's Plate") for $16.7 million, which was approximately 10% higher than the REIT's IFRS book value at December 31, 2017. The REIT used the net proceeds to repay debt.

On September 28, 2018, the REIT disposed of 139 Water Street and the Water Street properties in St. John's, NL (collectively, the "Water Street Properties") for $17.3 million, which was approximately 40% higher than the REIT's IFRS book value at March 31, 2018. The REIT used the net proceeds to repay debt which was drawn previously for acquisitions.

On December 10, 2018, the REIT disposed of Centennial Centre in Toronto, ON ("Centennial") for $35.0 million and Meadowpine Corporate Centre in Toronto, ON ("Meadowpine") for $9.1 million. The sale of these two assets occurred at a 6% premium to their aggregate IFRS value at June 30, 2018. The REIT used the net proceeds to repay debt which was drawn previously for acquisitions.

The sale of these properties is a continuation of our strategy to dispose of non-strategic assets and recycle capital appropriately to manage leverage.

	35 Martin Way	135 Queen's Plate	Water Street Properties	Centennial	Meadowpine	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 for $2.7 million bearing interest at 8% for a term of 24 months.

Subsequent dispositions

On January 23, 2019 the REIT entered into an agreement to dispose of 225 Duncan Mill Road, in Toronto, ON for $27.3 million. This represents a 19.5% or $4.5 million premium to the REIT's purchase price in March 2018 and represents a levered internal rate of return of approximately 50%. This transaction is expected to close in the second quarter of 2019. This is a continuation of the REIT's capital recycling program and the REIT intends to use net proceeds to repay debt.

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 to Wafra. The sale price for the 25% interest is $131.8 million, implying a 100% value of $527.2 million or $269 per square foot. This pricing represents a levered internal rate of return of 19% over the hold period for the buildings, which ranges from 2 to 6 years.

Redevelopment properties

Although not classified as a redevelopment property, the REIT has committed to a $10 million redevelopment of Maritime Centre in downtown Halifax, Nova Scotia (www.maritimecentre.ca). This property is currently 81.3% occupied and this project is expected to provide higher rent on new and renewed leases and will provide increased parking which is in high demand in Halifax. Maritime Centre has large efficient floor plates of 25,000 square feet split into two wings, north of 15,000 square feet and south of 10,000 square feet, with abundant exposure to natural light. The redevelopment will include the addition of a new glass façade that will see the lobby brought down to the Barrington Street level which will host a 6,000 square foot restaurant on Barrington Street. The redevelopment also includes the conversion of the existing food court level to parking, adding more than 100 parking spaces.

The REIT has classified the following property as redevelopment at December 31, 2018:

Property Address	City, Province	Year Built / Renovated / Expanded	Ownership Interest	Square feet of GLA	Occupancy
2599 Speakman Drive	Mississauga, ON	1971 / 2011	100%	111,461	—%

2599 Speakman Drive is one of five properties owned by the REIT in Sheridan Business Park, located in Mississauga, ON. The REIT entered into a 10-year lease with SNC-Lavalin Nuclear whereby the REIT constructed a campus style office complex comprised of 2285 and 2251 Speakman Drive, which includes highly functional, contemporary facilities with modern amenities. Sheridan Business Park offers excellent accessibility to major arterial roadways including Erin Mills Parkway, Winston Churchill Boulevard, and highways including the Queen Elizabeth Way, 401, 403 and 407 ETR. In addition, being on the Mississauga-Oakville border means Sheridan Business Park is serviced at various locations by the routes of two transit commissions with connections to GO Transit and the TTC subway.

At the time the REIT entered into the lease with SNC-Lavalin Nuclear in September 2015, SNC-Lavalin Nuclear occupied 2285 and 2599 Speakman Drive. In July 2016, the REIT completed its redevelopment of 2251 Speakman Drive and delivered the space to SNC-Lavalin Nuclear, and accordingly reclassified 2251 Speakman Drive from redevelopment to income producing property. The next phase of the redevelopment required the REIT to complete a modernization of 2285 Speakman Drive which was reclassified to redevelopment property in the third quarter of 2016. Construction commenced on 2285 Speakman Drive in the first quarter of 2017 and was completed in the third quarter of 2017 and the space was delivered to SNC Lavalin Nuclear for fixturing. During the third quarter of 2017, the REIT reclassified 2599 Speakman Drive to redevelopment and 2285 Speakman Drive to income producing property. Rent commenced at 2285 Speakman in January 2018 and SNC-Lavalin continued to pay rent at 2599 Speakman until February 2018. The REIT is continuing to engage in discussions with prospective tenants regarding the redevelopment and leasing of 2599 Speakman Drive.

IFRS fair value

The REIT's property portfolio at December 31, 2018 had an estimated IFRS fair value of $1.8 billion, with a weighted average going-in capitalization rate of 6.18%. It is important to highlight that this capitalization rate reflects the current economics of the REIT's properties, including its 87.6% in place occupancy which includes its redevelopment assets and current weighted average in place rents of $16.99 per square foot, which Management estimates to be on average $1.67 per square foot below estimated market rents. Overall, the average estimated IFRS fair value per square foot of the REIT's portfolio is $235 with an average cost to the REIT of $215.4 per square foot. Management believes that this average value per square foot is significantly lower than replacement cost, which Management estimates to be on average between $250.0 and $350.0 per square foot. In certain markets, such as St. John's, NL, the cost to construct is significantly higher. Furthermore, the difference between the IFRS fair value per square foot of $235 compared to an average cost to the REIT of $215 per square foot represents approximately $147 million of value creation from ownership, based on the REIT's current portfolio.

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. Various properties within the REIT's portfolio are either vacant, or significantly below normalized occupancy, and certain of which are expected to be so for all or a portion of the next twelve-month period.

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%

The fair value 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. For the three months and year ended December 31, 2018 the REIT recognized a gain on fair value of investment property of $9.9 million and $15.3 million, respectively. This gain is net of acquisition transaction costs of $12.1 million capitalized to properties. Without transaction costs the value creation to real estate would have been $27.4 million for year ended December 31, 2018. The change in fair value of investment properties for three months ended December 31, 2018 is the result of certain asset revaluations, particularly on properties under contract for sale. The fair value of the REIT's remaining investment properties are consistent with September 30, 2018.

Property continuity

A continuity of the REIT's property interests is summarized below:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Balance, beginning of period	**$ 1,783,261**	$ 1,253,939	**$ 1,279,509**	$ 946,939
Acquisitions [(1)]	**63**	—	**499,035**	256,857
Capital expenditures	**5,141**	5,845	**17,550**	24,396
Direct leasing costs	**6,887**	14,607	**21,680**	40,020
Dispositions	**(43,628)**	—	**(78,722)**	(4,400)
Depreciation of hotel asset	**(268)**	(215)	**(947)**	(799)
Foreign exchange	**16,764**	—	**21,966**	—
Change in fair value	**9,925**	5,218	**15,288**	15,126
IFRIC 21 property tax adjustment [(2)]	**2,107**	—	**4,371**	—
Straight-line rent and other changes	**161**	115	**683**	1,370
Balance, end of period	**$ 1,780,413**	$ 1,279,509	**$ 1,780,413**	$ 1,279,509

(1) Acquisitions represents the total purchase price and costs of acquisition.

(2) In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO, Core-FFO or AFFO.

Capital expenditures are incurred by the REIT for maintaining or improving its properties. Certain leases provide the ability to recover all or a portion of these costs from tenants over time. Direct leasing costs generally include tenant improvement construction costs related to new and renewal leasing.

The change in carrying value of the REIT's properties during the three months ended December 31, 2018 is a result of the acquisition of 120 South LaSalle in Chicago, IL in August 2018 and certain asset upward revaluations, particularly on properties in the process of sale. The REIT acquired 20 South Clark in Chicago, IL in February 2018, the 7 Asset Portfolio in the Greater Toronto Area and Atlantic Canada in March 2018 and 120 South LaSalle in August 2018 for combined acquisition cost of $499.0 million contributing to the change in carrying value for the year ended December 31, 2018. Additional modifications to cash flows, discount and capitalization rates were made at certain other properties in determining the REIT's estimate of IFRS fair value.

PART III - RESULTS OF OPERATIONS

SUMMARY OF RESULTS OF OPERATIONS

The following is a summary of the results of operations:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Rental revenue	**$ 59,055**	$ 42,380	**$ 209,899**	$ 152,136
Property operating expenses	**(29,429)**	(23,776)	**(106,164)**	(81,931)
Finance income on finance lease receivable	**927**	964	**3,765**	3,908
Interest income	**124**	32	**264**	88
Interest and finance costs	**(13,951)**	(7,374)	**(45,862)**	(26,509)
General and administrative	**(1,982)**	(1,789)	**(7,486)**	(5,754)
Change in fair value of properties	**9,925**	5,218	**15,288**	15,126
Change in fair value of financial instruments	**(4,547)**	253	**2,401**	(1,182)
Disposition costs	**(921)**	—	**(2,247)**	(146)
Depreciation of hotel asset	**(268)**	(215)	**(947)**	(799)
Deferred income tax recovery	**(199)**	—	**721**	—
Net income before Class B LP units	**$ 18,734**	$ 15,693	**$ 69,632**	$ 54,937
Change in fair value of Class B LP units	**10,201**	(528)	**11,469**	(1,268)
Distributions to Class B LP unitholders	**(991)**	(991)	**(3,964)**	(3,964)
Net income	**$ 27,944**	$ 14,174	**$ 77,137**	$ 49,705
Other comprehensive income to be subsequently reclassified to profit or loss:				
Foreign currency translation	**6,336**	—	**7,929**	—
Fair value loss on net investment hedges	**(3,721)**	—	**(1,688)**	—
Total other comprehensive income	**2,615**	—	**6,241**	—
Comprehensive income	**$ 30,559**	$ 14,174	**$ 83,378**	$ 49,705

NET INCOME BEFORE CLASS B LP UNITS

Net income before Class B LP units is an additional IFRS measure that represents the change in net income, before the impact of fair value adjustments to Class B LP units and distributions to Class B LP unitholders recorded in net income. Management uses and believes that this metric is valuable to users to evaluate net income prior to all residual equity holders, as the Class B LP units are exchangeable into REIT units and are in all material respects economically equivalent to REIT units.

Net income before Class B LP units for the three months ended December 31, 2018 when compared to the same period in 2017 increased by $3.0 million primarily due to an increase in fair value of investment property of $4.7 million year-over-year as a result of increased property valuations in 2018 on the REIT's greater Toronto area assets. Further, property NOI increased $11.0 million year-over-year from the acquisition of 120 South LaSalle in Chicago, IL in the third quarter of 2018 and 20 South Clark in Chicago, IL and the 7 Asset Portfolio in the Greater Toronto Area and Atlantic Canada in the first quarter of 2018. These increases in net income are offset by a decrease in fair value of financial instruments of $4.8 million when compared to 2017 and higher interest expense of $6.6 million. The increase in interest expense is from additional borrowings to finance acquisitions and increased interest rates on floating rate debt.

Net income before Class B LP units for the year ended December 31, 2018 was $69.6 million, an increase from $54.9 million for the same period in 2017. This increase is a result of property operating income of $33.5 million due to portfolio acquisitions throughout 2018 and positive leasing throughout 2017 and 2018 which has increased occupancy from 85.8% at December 31, 2017 to 87.6% at December 31, 2018. The increase in property operating income is offset by higher interest and finance costs of $19.4 million from increased debt used to finance acquisitions and increased interest rates on debt to 4.3% at December 31, 2018 from 3.6% at December 31, 2017.

NET INCOME AND COMPREHENSIVE INCOME

For the three months ended December 31, 2018, net income was $27.9 million compared to $14.2 million for the same period in 2017. This increase is due to higher net income before Class B LP units and a gain on the fair value of Class B LP units of $10.2 million for the three months ended December 31, 2018. As a result of the REIT's acquisition of 20 South Clark and 120 South LaSalle in Chicago, IL the REIT recognized net other comprehensive income of $2.6 million related to a gain on the foreign exchange impact from the REIT's exposure to U.S. cashflows in the properties and a $3.7 million loss on hedges of net investments in foreign operations settled in the fourth quarter of 2018. Distributions to Class B LP unitholder have remained consistent across both comparable periods.

Net income and comprehensive income increased $33.7 million to $83.4 million for the year ended December 31, 2018 compared to the same period in the prior year. This increase is due to higher net income before Class B LP units and a gain on Class B LP units of $12.7 million compared to 2017 and other comprehensive income of $6.2 million from foreign currency translations on U.S. cashflows and a $1.7 million loss on foreign exchange rate hedges.

NET OPERATING INCOME

Net operating income is a non-IFRS measure and is defined by the REIT as rental revenue, excluding non-cash straight-line rent and leasing costs amortized to revenue, less property operating costs prior to IFRIC 21, *Levies* ("IFRIC 21") adjustments. Rental revenue for purposes of measuring NOI excludes revenue recorded as a result of determining rent on a straight-line basis and the amortization of leasing costs in revenue for IFRS, which Management believes better reflects the cash generation activity of the REIT's properties. NOI is an important measure of the income generated from the REIT's properties and is used by the REIT in evaluating the performance of its properties.

The following is a calculation of NOI for the three months and years ended December 31, 2018 and 2017:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Revenue	**$ 59,055**	$ 42,380	**$ 209,899**	$ 152,136
Property operating expenses	**(29,429)**	(23,776)	**(106,164)**	(81,931)
IFRIC 21 property tax adjustment [(1)]	**(2,107)**	—	**(4,371)**	—
Straight-line rents and other changes	**(161)**	(115)	**(683)**	(1,370)
Net operating income	**$ 27,358**	$ 18,489	**$ 98,681**	$ 68,835

(1) In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

The increase in NOI of $8.9 million for the three months ended December 31, 2018 and $29.8 million for the year ended December 31, 2018 compared to the same periods in 2017 resulted from positive property performance and acquisitions occurring in the first and third quarters of 2018. The REIT completed the acquisition of 120 South LaSalle in August 2018, 20 South Clark, in Chicago, IL, in February 2018 and the acquisition of the 7 Asset Portfolio in the Greater Toronto Area and Atlantic Canada at the end of March 2018 which contributed positively to current period earnings. Throughout the portfolio, the REIT benefited from the impact of higher rental rates on renewals and increased occupancy. This is offset by the disposition of six properties throughout 2018.

SAME-PROPERTY NOI

Same-property NOI is a non-IFRS measure and is defined by the REIT as rental revenue, excluding non-cash straight-line rent, less property operating costs for those properties owned by the REIT for all of the current period and the relevant comparative period. Other than on a year-over-year basis, same property NOI excludes the earnings attributable to the REIT's hotel asset due to the seasonality of that asset. Same-property NOI is an important measure of the income generated from the REIT's properties period-over-period, but without consideration of acquisition and disposition activity, and is used by the REIT in evaluating the performance of its properties. The REIT seeks to increase or maintain same-property NOI through high-occupancy, increasing rents on renewal to market rents and by signing leases with embedded rent increases throughout the term of the lease.

Management compares same-property NOI for the current quarter to the immediately preceding quarter and to the same quarter in the preceding year.

Same-property NOI: comparison of the current quarter to the same quarter in the prior year

The same-property NOI comparison for the three months ended December 31, 2017 excludes 20 South Clark Street in Chicago, IL and the 7 Asset Portfolio in the Greater Toronto Area and Atlantic Canada, which were acquired in the first quarter of 2018 and 120 South LaSalle in Chicago, IL which was acquired in the third quarter of 2018. 35 Martin Way in Brooks, AB, 135 Queen's Plate in Etobicoke, ON, the Water Street properties in St. John's, NL, Centennial and Meadowpine in Toronto, ON, are also excluded due to their disposition in 2018. However, the operations of the REIT's hotel asset are included when comparing to the prior year as the seasonal variations are consistent.

		Three months ended	
		December 31, 2018	December 31, 2017
Number of properties		**32**	32
GLA		**5,545,479**	5,545,479
Revenue	**$**	**41,299**	$ 40,399
Operating expenses		**(21,527)**	(22,409)
Straight-line rents and other changes		**519**	(270)
Same-property NOI (including hotel asset)		**20,291**	17,720
Period-over-period change - $	**$**	**2,571**	
Period-over-period change - %		**14.5%**	

Same-property NOI for the three months ended December 31, 2018 compared to the same period in 2017 increased by $2.6 million or 14.5%. The increase in same-property NOI is attributable to positive leasing and rental growth across the portfolio, including contractual rent increases and lease commencements throughout 2018, primarily in Atlantic Canada with numerous lease commencements in the former Bell Aliant space at Maritime Centre in Halifax, NS. Additionally leasing completed at West Metro and Commerce West in the Greater Toronto Area, ON of approximately 162,000 square feet also added positively to NOI. The REIT also completed the redevelopment of 2285 Speakman Drive, in Mississauga, ON, which is now fully occupied, contributing positively to NOI. The REIT's hotel asset had increased contribution from improved occupancy and rates after its completed redevelopment and timing of expenses year-over-year. Overall, the REIT's hotel contributed $0.2 million to the year-over-year increase in NOI.

Same-property NOI: comparison of the current quarter to the preceding quarter

The same-property NOI comparison to the three months ended September 30, 2018 excludes the impact of properties acquired or disposed of in either of the third or fourth quarters of 2018. This includes 120 South LaSalle in Chicago, IL acquired in the third quarter of 2018, 135 Queen's Plate in Etobicoke, ON, and the Water Street Properties, in St. John's, NL, which were disposed of in the third quarter of 2018 and Centennial and Meadowpine, in Toronto, ON, which were disposed of in the fourth quarter of 2018. The comparison also excludes the impact of the REIT's hotel asset due to the seasonality of its earnings and contribution to NOI.

		Three months ended	
		December 31, 2018	September 30, 2018
Number of properties		**40**	40
GLA		**6,924,887**	6,924,887
Revenue	**$**	**51,477**	$ 50,480
Property operating expenses		**(27,348)**	(25,650)
Straight-line rents and other changes		**220**	(324)
Same-property NOI (including hotel asset)		**24,349**	24,506
NOI attributable to hotel asset		**(430)**	(893)
Same-property NOI (excluding hotel asset)		**23,919**	23,613
Quarter-over-quarter change - $	**$**	**306**	
Quarter-over-quarter change - %		**1.3%**	

Same-property NOI, excluding the REIT's hotel asset, for the three months ended December 31, 2018 compared to the most recently completed quarter, increased by $0.3 million. The revenue and expenses of the REIT increased marginally quarter-over-quarter with increases in revenue due to rent steps and recovery of operating expenses, offset by increased property operating expenses quarter-over-quarter due to seasonality.

Looking forward, renewal spreads are expected to be strong as the current in place rent is an estimated 8.9% below market. The REIT's portfolio had large transitional vacancies in 2017 at properties that were acquired knowing the tenants would be departing and accounted for in our acquisition prices. In 2018, there are fewer known vacancies and the REIT has completed lease deals to reduce the existing vacancy and expects to see growth in occupancy throughout the next year.

FUNDS FROM OPERATIONS

Funds from operations

Funds from operations ("FFO") is a non-IFRS measure for evaluating real estate operating performance. The REIT calculates FFO in accordance with the definition provided by the Real Property Association of Canada ("RealPAC") in its White Paper on Funds From Operations, as revised in February 2019.

Core-FFO

Core-FFO is a non-IFRS measure which makes certain adjustments to the REIT's calculation of FFO to recognize the REIT's share of lease payments received for its Data Centre asset, which for IFRS purposes is accounted for as a finance lease.

Reconciliation of FFO and Core-FFO

Management believes that FFO and Core-FFO are important measures of the operating performance and are used by the REIT in evaluating the combined performance of its operations including the impact of its capital structure and are useful for investors to evaluate the performance of the REIT.

The following is a reconciliation of FFO and Core-FFO for the three months and years ended December 31, 2018 and 2017 from cash flow from operating activities:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Cash flow from operating activities	**$ 14,410**	$ 19,642	**$ 49,387**	$ 41,572
Add (deduct):				
Leasing costs amortized to revenue	**1,121**	784	**3,289**	1,629
Disposition costs	**921**	—	**2,247**	146
Subscription receipts equivalent amount (1)	**—**	—	**1,597**	926
Working capital items	**(3,054)**	(9,954)	**(3,686)**	(3,831)
Straight-line rent and other changes	**161**	115	**683**	1,370
Interest and other finance costs	**(13,951)**	(7,374)	**(44,265)**	(25,583)
Interest paid	**13,159**	7,017	**41,715**	24,300
Distributions paid to Class B unitholders	**991**	991	**3,964**	3,964
FFO	**$ 13,758**	$ 11,221	**$ 54,931**	$ 44,493
Finance income on finance lease receivable	**(927)**	(964)	**(3,765)**	(3,908)
Finance lease payments received	**1,525**	1,525	**6,100**	6,099
Core-FFO	**$ 14,356**	$ 11,782	**$ 57,266**	$ 46,684

(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). The cash distribution equivalent payment of $1.6 million has been recorded in interest and finance costs for the year ended December 31, 2018. On April 25, 2017 each subscription receipt issued by the REIT on March 15, 2017 was exchanged for one unit and a cash distribution equivalent payment of $0.0625. The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs for the year ended December 31, 2017.

The following is a reconciliation of FFO and Core-FFO for the three months and years ended December 31, 2018 and 2017 from net income:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Net income	**$ 27,944**	$ 14,174	**$ 77,137**	$ 49,705
Add (deduct):				
Leasing costs amortized to revenue	**1,121**	784	**3,289**	1,629
Change in fair value of properties	**(9,925)**	(5,218)	**(15,288)**	(15,126)
IFRIC 21 property tax adjustment (1)	**(2,107)**	—	**(4,371)**	—
Change in fair value of financial instruments	**4,547**	(253)	**(2,401)**	1,182
Disposition costs	**921**	—	**2,247**	146
Depreciation of hotel asset	**268**	215	**947**	799
Deferred income tax recovery	**199**	—	**(721)**	—
Change in fair value of Class B LP units	**(10,201)**	528	**(11,469)**	1,268
Distributions to Class B unitholders	**991**	991	**3,964**	3,964
Subscription receipts equivalent amount (2)	**—**	—	**1,597**	926
FFO	**$ 13,758**	$ 11,221	**$ 54,931**	$ 44,493
Finance income on finance lease receivable	**(927)**	(964)	**(3,765)**	(3,908)
Finance lease payments received	**1,525**	1,525	**6,100**	6,099
Core-FFO	**$ 14,356**	$ 11,782	**$ 57,266**	$ 46,684
Weighted average number of units outstanding (3)	**75,261**	62,266	**72,192**	57,153
FFO per unit (diluted)	**$ 0.18**	$ 0.18	**$ 0.76**	$ 0.78
Core-FFO per unit (diluted)	**$ 0.19**	$ 0.19	**$ 0.79**	$ 0.82

(1) In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

(2) 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). The cash distribution equivalent payment of $1.6 million has been recorded in interest and finance costs for the year ended December 31, 2018. On April 25, 2017 each subscription receipt issued by the REIT on March 15, 2017 was exchanged for one unit and a cash distribution equivalent payment of $0.0625. The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs for the year ended December 31, 2018.

(3) Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

The following is a calculation of FFO and Core-FFO from the REIT's consolidated financial statements:

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Rental revenue	**$ 59,055**	$ 42,380	**$ 209,899**	$ 152,136
Property operating expenses	**(29,429)**	(23,776)	**(106,164)**	(81,931)
Finance income on finance lease receivable	**927**	964	**3,765**	3,908
Interest income	**124**	32	**264**	88
Interest and finance costs	**(13,951)**	(7,374)	**(45,862)**	(26,509)
General and administrative	**(1,982)**	(1,789)	**(7,486)**	(5,754)
IFRIC 21 property tax adjustment (1)	**(2,107)**	—	**(4,371)**	—
Leasing costs amortized to revenue	**1,121**	784	**3,289**	1,629
Subscription receipts equivalent amount (2)	**—**	—	**1,597**	926
FFO	**$ 13,758**	$ 11,221	**$ 54,931**	$ 44,493
Finance income on finance lease receivable	**(927)**	(964)	**(3,765)**	(3,908)
Finance lease payments received	**1,525**	1,525	**6,100**	6,099
Core-FFO	**$ 14,356**	$ 11,782	**$ 57,266**	$ 46,684
Weighted average number of units outstanding (3)	**75,261**	62,266	**72,192**	57,153
FFO per unit (diluted)	**$ 0.18**	$ 0.18	**$ 0.76**	$ 0.78
Core-FFO per unit (diluted)	**$ 0.19**	$ 0.19	**$ 0.79**	$ 0.82

(1) In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.
(2) 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). The cash distribution equivalent payment of $1.6 million has been recorded in interest and finance costs for the year ended December 31, 2018. On April 25, 2017 each subscription receipt issued by the REIT on March 15, 2017 was exchanged for one unit and a cash distribution equivalent payment of $0.0625. The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs for the year ended December 31, 2017.
(3) Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

For the three months ended December 31, 2018, FFO was $13.8 million or $0.18 per unit compared to FFO for the three months ended December 31, 2017, which was $11.2 million or $0.18 per unit, representing an increase of approximately $2.5 million, with no change on a per unit basis. For the year ended December 31, 2018, FFO increased $10.4 million from the same period in the prior year. The increase in FFO is a result of increased NOI from acquisitions, primarily as a result of the acquisition of 120 South LaSalle in Chicago, IL in August 2018, 20 South Clark Street in Chicago, IL, in February 2018 and the 7 Asset portfolio in Ontario and Atlantic Canada in March 2018. FFO for the year ended December 31, 2018 benefited from a full year of NOI contribution from West Metro Corporate Centre and Commerce West in Etobicoke, ON and 250 King Street and 460 Two Nations Crossing in Fredericton, NB which were acquired in the second quarter of 2017. FFO per unit has decreased $0.02 for the year ended December 31, 2018 resulting from the equity offering in March 2018 which increased the weighted average number of units outstanding when compared to the same period in 2017.

Core-FFO for the three months ended December 31, 2018 was $14.4 million compared to $11.8 million for the same period in 2017 and $57.3 million for the year ended December 31, 2018 compared to $46.7 million for the year ended December 31, 2017. Core-FFO per unit has remained consistent at $0.19 for three months ended December 31, 2018 and decreased $0.03 for year ended December 31, 2018 compared to the same periods in the prior year. The decrease in Core-FFO per unit and increase in Core-FFO on a dollar basis for the year ended December 31, 2018 are a result of the changes described for FFO.

ADJUSTED FUNDS FROM OPERATIONS

Adjusted FFO ("AFFO") is a non-IFRS measure that is used by Management of the REIT, certain of the real estate industry and investors to measure the cash flows generated from operations including certain capital costs, leasing costs, tenant improvements and the impact of non-cash revenue. It is a meaningful measure used to evaluate the extent of cash available for distribution to unitholders. The REIT's use and calculation of AFFO may be different than the use or as disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others.

In calculating AFFO, the REIT makes adjustments to FFO for certain items including: guaranteed income supplements; amortization of deferred transaction costs; de-recognition and amortization of mark-to-market adjustments on mortgages refinanced or discharged; adjustments for interest rate subsidies received; recognition of the REIT's share of lease payments received for its Data Centre asset, which for IFRS purposes is accounted for as a finance lease; amortization of straight-line rent; and normalized direct leasing and capital costs.

Guaranteed income supplements are cash amounts received from vendors or properties acquired by the REIT that are not recognized in income. Such amounts were negotiated between the REIT and certain vendors to compensate the REIT for lost income related to free rent periods and/or vacancies. Amounts related to vacancies expired in mid-2017 while the free rent supplements continue through to 2020 at approximately $160 thousand annually. Additionally, 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 in the Greater Toronto Area and Atlantic Canada from Slate Canadian Real Estate Opportunity Fund I L.P. ("SCREO I L.P."). The income supplement from SCREO I L.P. is recorded as an other asset on the consolidated statement of financial position and initially measured at its present value. The REIT recognizes interest income related to the difference between the present value on acquisition and the $2.4 million principal amount of which $0.9 million has been received through to December 31, 2018. Accordingly, the REIT recognizes in AFFO the cash portion received in excess of any amount already included in net income. Also in conjunction with the 7 Asset Portfolio, the REIT entered into a one-year head lease with Cominar REIT whereby Cominar REIT will provide payments to the REIT to compensate it for the existing vacancy to the extent the REIT does not otherwise re-lease the vacant space at 225 Duncan Mill in Toronto, ON. The maximum receivable from Cominar REIT is approximately $3.2 million. Amounts received under the head lease arrangement are not recognized in AFFO for the three months and year ended December 31, 2018.

Amortization of deferred transaction costs are costs incurred to obtain debt financing that are recorded in net income, generally, on a systematic basis over the life of the debt to which they relate. The REIT deducts these amounts in determining AFFO as they represent non-cash charges to net income in the current period. Amortization of mark-to-market adjustments are differences between debt assumed in conjunction with a property acquisition and the fair value of the debt on assumption that are recorded in net income, generally, on a systematic basis over the life of the debt to which they relate. The REIT deducts or adds, as applicable, these amounts in determining AFFO as they represent non-cash charges to net income.

The interest rate subsidy is an amount received monthly by the REIT from a vendor of a property acquired by the REIT, to the extent not otherwise recognized in net income. Such amount was negotiated between the REIT and a vendor to compensate the REIT, in part, for assuming debt in conjunction with a property acquisition that was unfavorable to debt that could otherwise have been obtained by the REIT had the vendor made the property available to be purchased on a 'free-and-clear' basis. The REIT adds this amount in determining AFFO as it represents cash received by the REIT not otherwise recognized in net income.

Normalized direct leasing and capital costs are determined as 10% of the net of rental revenue less property operating expenses and represents the normalized on-going costs required to maintain existing space of a stabilized property. Actual amounts will vary from period to period depending on various factors, including but not limited to, the timing of expenditures made and contractual lease obligations.

The method applied by the REIT to calculate AFFO may differ from methods applied by other issuers in the real estate industry and differs from the definition of AFFO as defined by RealPAC in its White Paper, as issued in February 2019.

The following table reconciles AFFO from cash flow from operating activities:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Cash flow from operating activities	**$ 14,410**	$ 19,642	**$ 49,387**	$ 41,572
Add (deduct):				
Working capital items	**(3,054)**	(9,954)	**(3,686)**	(3,831)
Principal repayments on finance lease receivable	**598**	561	**2,335**	2,191
Distributions paid to Class B LP unitholders	**991**	991	**3,964**	3,964
Subscription receipts equivalent amount (1)	**—**	—	**1,597**	926
Disposition costs	**921**	—	**2,247**	146
Interest rate subsidy	**108**	108	**432**	432
Guaranteed income supplements	**300**	40	**940**	1,348
Normalized direct leasing and capital costs	**(3,173)**	(1,860)	**(10,416)**	(7,021)
AFFO	**$ 11,101**	$ 9,528	**$ 46,800**	$ 39,727

(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). The cash distribution equivalent payment of $1.6 million has been recorded in interest and finance costs for the year ended December 31, 2018. On April 25, 2017 each subscription receipt issued by the REIT on March 15, 2017 was exchanged for one unit and a cash distribution equivalent payment of $0.0625. The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs for the year ended December 31, 2017.

The following table reconciles AFFO from NOI:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Net operating income	**$ 27,358**	$ 18,489	**$ 98,681**	$ 68,835
Add (deduct):				
General and administrative	**(1,982)**	(1,789)	**(7,486)**	(5,754)
Finance lease payments received	**1,525**	1,525	**6,100**	6,099
Cash interest	**(13,035)**	(6,985)	**(41,451)**	(24,212)
Interest rate subsidy	**108**	108	**432**	432
Guaranteed income supplements	**300**	40	**940**	1,348
Normalized direct leasing and capital costs	**(3,173)**	(1,860)	**(10,416)**	(7,021)
AFFO	**$ 11,101**	$ 9,528	**$ 46,800**	$ 39,727

A reconciliation of Core-FFO to AFFO is as follows:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Core-FFO	**$ 14,356**	$ 11,782	**$ 57,266**	$ 46,684
Add (deduct):				
Amortization of deferred transaction costs	**889**	508	**2,992**	1,845
Amortization of debt mark-to-market adjustments	**(97)**	(151)	**(443)**	(562)
Amortization of straight-line rent	**(1,282)**	(899)	**(3,971)**	(2,999)
Interest rate subsidy	**108**	108	**432**	432
Guaranteed income supplements	**300**	40	**940**	1,348
Normalized direct leasing and capital costs	**(3,173)**	(1,860)	**(10,416)**	(7,021)
AFFO	**$ 11,101**	$ 9,528	**$ 46,800**	$ 39,727
Weighted average number of units outstanding (1)	**75,261**	62,266	**72,192**	57,153
AFFO per unit (diluted)	**$ 0.15**	$ 0.15	**$ 0.65**	$ 0.70

(1) Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

For the three months ended December 31, 2018, AFFO was $11.1 million or $0.15 per unit, whereas AFFO for the three months ended December 31, 2017 was $9.5 million or $0.15 per unit, representing an increase of $1.6 million and consistent on a per unit basis. For the year ended December 31, 2018, AFFO was $46.8 million, an increase of $7.1 million and a decrease of $0.05 per unit from the same period in the prior year. AFFO has increased from the additional contribution to NOI from the acquisition of 120 South LaSalle in Chicago, IL in August 2018, 20 South Clark in Chicago, IL in February 2018, the 7 Asset Portfolio in the Greater Toronto Area and Atlantic Canada in March 2018, West Metro Corporate Centre and Commerce West, in Etobicoke, ON and 250 King Street and 460 Two Nations Crossing in Fredericton, NB in the second quarter of 2017. These contributions are offset by higher interest costs in 2018. On a per unit basis, AFFO has declined as a result of the issuance of additional units in March 2018.

Reconciliation of FFO, Core-FFO and AFFO

A reconciliation of net income to FFO, Core-FFO and AFFO is as follows:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Net income	**$ 27,944**	$ 14,174	**$ 77,137**	$ 49,705
Add (deduct):				
Leasing costs amortized to revenue	**1,121**	784	**3,289**	1,629
Change in fair value of properties	**(9,925)**	(5,218)	**(15,288)**	(15,126)
IFRIC 21 property tax adjustment (1)	**(2,107)**	—	**(4,371)**	—
Change in fair value of financial instruments	**4,547**	(253)	**(2,401)**	1,182
Disposition costs	**921**	—	**2,247**	146
Depreciation of hotel asset	**268**	215	**947**	799
Deferred income tax recovery	**199**	—	**(721)**	—
Change in fair value of Class B LP units	**(10,201)**	528	**(11,469)**	1,268
Distributions to Class B unitholders	**991**	991	**3,964**	3,964
Subscription receipts equivalent amount (2)	**—**	—	**1,597**	926
FFO	**13,758**	11,221	**54,931**	44,493
Finance income on finance lease receivable	**(927)**	(964)	**(3,765)**	(3,908)
Finance lease payments received	**1,525**	1,525	**6,100**	6,099
Core-FFO	**14,356**	11,782	**57,266**	46,684
Amortization of deferred transaction costs	**889**	508	**2,992**	1,845
Amortization of debt mark-to-market adjustments	**(97)**	(151)	**(443)**	(562)
Amortization of straight-line rent	**(1,282)**	(899)	**(3,971)**	(2,999)
Interest rate subsidy	**108**	108	**432**	432
Guaranteed income supplements	**300**	40	**940**	1,348
Normalized direct leasing and capital costs	**(3,173)**	(1,860)	**(10,416)**	(7,021)
AFFO	**$ 11,101**	$ 9,528	**$ 46,800**	$ 39,727

(1) In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.
(2) 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). The cash distribution equivalent payment of $1.6 million has been recorded in interest and finance costs for the year ended December 31, 2018. On April 25, 2017 each subscription receipt issued by the REIT on March 15, 2017 was exchanged for one unit and a cash distribution equivalent payment of $0.0625. The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs for the year ended December 31, 2017.

The following is FFO, Core-FFO and AFFO expressed on a per unit basis:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
FFO per unit (diluted)	**$ 0.18**	$ 0.18	**$ 0.76**	$ 0.78
Core FFO per unit (diluted)	**0.19**	0.19	**0.79**	0.82
AFFO per unit (diluted)	**$ 0.15**	$ 0.15	**$ 0.65**	$ 0.70

DISTRIBUTIONS

The REIT pays monthly distributions to unitholders which are also paid at the same rate to holders of the REIT's Class B LP units. Distributions are paid on or about the 15th day of the month following declaration.

The Board of Trustees continually evaluates the distribution policy of the REIT in consideration of various factors. These factors generally include the REIT's available liquidity to fund distributions, the asset allocation alternatives available to the REIT including acquisitions and their impact, the interest rate environment, the REIT's cost of capital and the expected future cash flows to be generated by the REIT in consideration of the REIT's future cash flow needs, which include funding value add redevelopment opportunities, leasing costs and other capital. Based on these factors the Board of Trustees of the REIT may determine a modification of the REIT's distribution to be beneficial to the REIT.

The REIT has a distribution reinvestment plan ("DRIP"), where eligible unitholders, which include 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. The distributions declared during the three months and years ended December 31, 2018 resulted in 51,103 and 191,760 trust units issued under the DRIP, respectively. For the December 31, 2018 distribution, approximately 2.6% of the trust units outstanding subscribed to the REIT's DRIP. To the extent unitholders participate in the DRIP additional cash will be retained by the REIT.

In consideration of the REIT's current equity cost of capital and the attractiveness of the current investment market, the REIT is modifying its annual distribution to $0.40 per unit from $0.75 per unit beginning with the REIT's March 2019 distribution to be paid in April 2019. The new distribution rate will result in the REIT retaining $26 million of additional capital annually. The REIT intends to initially use this retained capital to repay debt and reduce leverage in order to create capacity for deployment into attractive new opportunities or reinvestment in the existing portfolio that are accretive to net asset value per unit.

The following table summarizes distributions made during the three month period ended December 31, 2018 and 2017 to unitholders of the REIT and Class B LP unitholders:

	Three months ended December 31, 2018			Three months ended December 31, 2017		
	Trust units	**Class B LP units**	**Total**	Trust units	Class B LP units	Total
Distributions declared	**$ 13,105**	**$ 991**	**$ 14,096**	$ 10,672	$ 991	$ 11,663
Distributions reinvested in trust units	**367**	**—**	**367**	239	—	239
Distributions, net of DRIP	**$ 12,738**	**$ 991**	**$ 13,729**	$ 10,433	$ 991	$ 11,424

The following table summarizes distributions made during the year ended December 31, 2018 and 2017 to unitholders of the REIT and Class B LP unitholders:

	Year ended December 31, 2018			Year ended December 31, 2017		
	Trust units	**Class B LP units**	**Total**	Trust units	Class B LP units	Total
Distributions declared	**$ 50,764**	**$ 3,964**	**$ 54,728**	$ 39,643	$ 3,964	$ 43,607
Distributions reinvested in trust units	**1,494**	**—**	**1,494**	933	—	933
Distributions, net of DRIP	**$ 49,270**	**$ 3,964**	**$ 53,234**	$ 38,710	$ 3,964	$ 42,674

Distributions declared to unitholders of the REIT of $50.8 million in 2018 were more than cash flow from operating activities of $49.4 million. When distributions are more than cash flow from operating activities the REIT finances such amounts from cash on hand and/or borrowings and represent a return of capital.

Taxation of distributions

The REIT qualifies as a "mutual fund trust" under the Income Tax Act (Canada) (the "Tax Act"). For taxable Canadian resident REIT unitholders, the REIT's distributions are treated as follows for tax purposes over the three most recent years:

Taxation year	**Return of capital**	**Capital gains**	**Other income**
2018 per $ of distribution	100.0%	—	—
2017 per $ of distribution	100.0%	—	—
2016 per $ of distribution	90.2%	3.8%	6.0%
2015 per $ of distribution	1.8%	79.8%	18.4%

For 2018 and 2017, 100.0% of the distributions received by unitholders were treated as a return of capital for taxation purposes compared to 90.2% in 2016, resulting in a meaningful deferral of the taxation of returns being provided. We do not expect the taxation deferral to continue to be as meaningful in 2019 due to the impact of capital gains and depreciation recapture on asset sales and modification of the REIT's distribution to $0.40 annually.

The rate of capital gains in 2015 are a result of the disposition strategy the REIT executed to dispose of non-office properties in order to reposition the REIT as a pure play office REIT.

FFO, CORE-FFO AND AFFO PAYOUT RATIOS

FFO, Core-FFO and AFFO payout ratios (the "payout ratios") are non-IFRS measures that provide a comparison of the distributions made by the REIT to unitholders compared to FFO, Core-FFO and AFFO generated by the REIT. Management uses these measures to evaluate the REIT's ability to sustain its distributions. The payout ratios are calculated by dividing aggregate distributions made in respect of units of the REIT and Class B LP units by FFO, Core-FFO and AFFO during the period of measurement.

One of the REIT's objectives is to provide a distribution over time that is appropriate in consideration of the REIT's available liquidity to fund distributions, the asset allocation alternatives available to the REIT, the estimated impact on the trading price of the REIT's trust units and the expected future cash flows to be generated by the REIT in consideration of the REIT's future cash flow needs. To the extent these factors change, the Board of Trustees of the REIT will consider adjustments to its distribution policy.

The table below illustrates the REIT's cash flow capacity, based on FFO, in comparison to its cash distributions:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
FFO	**$ 13,758**	$ 11,221	**$ 54,931**	$ 44,493
REIT unit and Class B LP distributions declared	**14,096**	11,663	**54,728**	43,607
Excess of FFO over distributions declared	**(338)**	(442)	**203**	886
Cash retained from DRIP	**367**	239	**1,494**	933
Excess of FFO over cash distributions	**$ 29**	$ (203)	**$ 1,697**	$ 1,819
FFO payout ratio	**102.5%**	103.9%	**99.6%**	98.0%
FFO payout ratio after DRIP (1)	**99.8%**	101.8%	**96.9%**	95.9%

(1) Impact after DRIP represents actual DRIP levels during the period.

The table below illustrates the REIT's cash flow capacity, based on Core-FFO, in comparison to its cash distributions:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Core-FFO	**$ 14,356**	$ 11,782	**$ 57,266**	$ 46,684
REIT unit and Class B LP distributions declared	**14,096**	11,663	**54,728**	43,607
Excess of Core-FFO over distributions declared	**260**	119	**2,538**	3,077
Cash retained from DRIP	**367**	239	**1,494**	933
Excess of Core-FFO over cash distributions	**$ 627**	$ 358	**$ 4,032**	$ 4,010
Core-FFO payout ratio	**98.2%**	99.0%	**95.6%**	93.4%
Core-FFO payout ratio after DRIP (1)	**95.6%**	97.0%	**93.0%**	91.4%

(1) Impact after DRIP represents actual DRIP levels during the period.

The table below illustrates the REIT's cash flow capacity, based on AFFO, in comparison to its cash distributions:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
AFFO	**$ 11,101**	$ 9,528	**$ 46,800**	$ 39,727
REIT unit and Class B LP distributions declared	**14,096**	11,663	**54,728**	43,607
Excess/ (shortfall) of AFFO over distributions declared	**(2,995)**	(2,135)	**(7,928)**	(3,880)
Cash retained from DRIP	**367**	239	**1,494**	933
Excess/ (shortfall) of AFFO over cash distributions	**$ (2,628)**	$ (1,896)	**$ (6,434)**	$ (2,947)
AFFO payout ratio	**127.0%**	122.4%	**116.9%**	109.8%
AFFO payout ratio after DRIP (1)	**123.7%**	119.9%	**113.7%**	107.4%

(1) Impact after DRIP represents actual DRIP levels during the period.

The FFO and Core-FFO pay-out ratios have increased for the three months ended December 31, 2018 compared to the same period in 2017 resulting from increased distribution as a result of the equity offering in the first quarter of 2018, offset by increased property NOI from acquisitions in 2018 and positive leasing throughout the portfolio. The AFFO payout ratio has increased from the comparative period as a result of increased interest costs on debt used to finance 2018 acquisitions and is expected to decline in future periods.

The REIT's distributions declared were in excess of AFFO by $3.0 million and $7.9 million for the three months and year ended December 31, 2018, respectively. The REIT has maintained a consistent distribution rate despite period over period variances in cash from operating activities.

As described in the significant highlights, the REIT has revised its distribution to $0.40 per unit annually. Based on the revised distribution level, the REIT's pro forma annual FFO, Core-FFO and AFFO payout ratio would have been 54.8%, 52.6% and 64.4%, respectively, using diluted units outstanding at December 31, 2018.

SEGMENTED INFORMATION

The REIT has NOI from four geographic locations. The following is the REIT's NOI by geographic region for the three months ended December 31 2018 and 2017:

	Three months ended December 31,			
	2018		2017	
	NOI	**Percentage (%)**	NOI	Percentage (%)
Atlantic	**$ 9,745**	**35.6%**	$ 8,050	43.6%
Ontario	**12,243**	**44.8%**	8,804	47.6%
Western	**1,369**	**5.0%**	1,635	8.8%
USA	**4,001**	**14.6%**	—	—%
	$ 27,358	**100.0%**	$ 18,489	100.0%

The following is the REIT's NOI by geographic region for the year ended December 31, 2018 and 2017:

	Year ended December 31,			
	2018		2017	
	NOI	**Percentage (%)**	NOI	Percentage (%)
Atlantic	**$ 37,245**	**37.7%**	$ 31,552	45.8%
Ontario	**45,972**	**46.6%**	30,898	44.9%
Western	**7,060**	**7.2%**	6,385	9.3%
USA	**8,404**	**8.5%**	—	—%
	$ 98,681	**100.0%**	$ 68,835	100.0%

Atlantic

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
# of properties	**14**	13	**14**	13
Owned GLA (000s of square feet)	**2,643**	2,583	**2,643**	2,583
Occupancy rate (%) (period-end)	**87.3%**	82.7%	**87.3%**	82.7%
Revenue	**$ 20,955**	$ 19,981	**$ 82,315**	$ 75,876
Property operating expenses	**(11,501)**	(11,921)	**(45,906)**	(43,885)
Straight-line rent and other changes	**291**	(10)	**836**	(439)
NOI	**$ 9,745**	$ 8,050	**$ 37,245**	$ 31,552

NOI for the Atlantic properties has increased by $1.7 million and $5.7 million for the three months and years ended December 31, 2018, respectively compared to the same periods in 2017. The increase in NOI over prior year is a result of positive leasing, particularly pertaining to Bell Aliant's lease maturity at Maritime Centre in Halifax, NS which occupied 193,861 square feet. To date 172,674 square feet of vacated space has been re-leased at 58% premium to previously in place rents. This is compounded by the REIT's acquisition of three office buildings in Atlantic Canada as part of the 7 Asset Portfolio. These acquisitions have contributed positively to NOI and are primarily occupied by government tenants. The REIT also disposed of the Water Street Properties, in St. John's, NL on September 28, 2018 which reduced NOI for the year ended December 31, 2018 due to the sale being at the end of the third quarter of 2018.

Ontario

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
# of properties	**15**	14	**15**	14
Owned GLA (000s of square feet)	**3,294**	2,890	**3,294**	2,890
Occupancy rate (%) (period-end)	**87.8%**	88.1%	**87.8%**	88.1%
Revenue	**$ 24,983**	$ 19,326	**$ 92,767**	$ 63,867
Property operating expenses	**(12,890)**	(10,469)	**(46,810)**	(32,307)
Straight-line rent and other changes	**150**	(53)	**15**	(662)
NOI	**$ 12,243**	$ 8,804	**$ 45,972**	$ 30,898

NOI for the three months ended December 31, 2018 was $12.2 million compared to NOI of $8.8 million for the three months ended December 31, 2017, representing an increase of $3.4 million year-over-year. For the year ended December 31, 2018 NOI was $46.0 million compared to $30.9 million for the same period in the prior year. The increase in NOI is from the acquisitions of West Metro Centre and Commerce West in Etobicoke, ON in the second quarter of 2017 and the 7 Asset Portfolio in March 2018 of which 4 properties are located in the Greater Toronto Area of Ontario. These acquisitions have positively contributed to NOI compared to the respective periods in the prior year and are offset by the disposition of 135 Queen's Plate in Etobicoke, ON in July 2018 and Centennial and Meadowpine in Toronto, ON in December 2018. The increase in NOI is furthered by the completed redevelopment of 2285 Speakman Drive in Mississauga, ON which is now occupied at favourable rental rates.

Western

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
# of properties	**10**	11	**10**	11
Owned GLA (000s of square feet)	**608**	643	**608**	643
Occupancy rate (%) (period-end)	**91.7%**	87.6%	**91.7%**	87.6%
Revenue	**$ 3,048**	$ 3,073	**$ 13,172**	$ 12,393
Property operating expenses	**(1,613)**	(1,386)	**(5,838)**	(5,739)
Straight-line rent and other changes	**(66)**	(52)	**(274)**	(269)
NOI	**$ 1,369**	$ 1,635	**$ 7,060**	$ 6,385
NOI from Data Centre	**1,525**	1,525	**6,100**	6,100
NOI including Data Centre	**$ 2,894**	$ 3,160	**$ 13,160**	$ 12,485

NOI for the three months ended December 31, 2018 was $2.9 million including the income from the Data Centre, a decrease of $0.3 million over the comparable period in the prior year due to the timing of expenses. For the year ended December 31, 2018 NOI increased to $13.2 million from $12.5 million in the comparable period. Changes to NOI are attributable to same property leasing activity as well as the disposition of 35 Martin Way, in Brooks, Alberta, which was a vacant building contributing negatively to NOI. The Data Centre is accounted for as a finance lease and corresponding interest income is recorded below NOI and principal repayments reduce the balance of the lease receivable.

United States

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
# of properties	**2**	—	**2**	—
Owned GLA (000s of square feet)	**1,038**	—	**1,038**	—
Occupancy rate (%) (period-end)	**85.1%**	—%	**85.1%**	—%
Revenue	**$ 10,069**	$ —	**$ 21,645**	$ —
Property operating expenses	**(3,425)**	—	**(7,610)**	—
IFRIC 21 property tax adjustment (1)	**(2,107)**	—	**(4,371)**	—
Straight-line rent and other changes	**(536)**	—	**(1,260)**	—
NOI	**$ 4,001**	$ —	**$ 8,404**	$ —

(1) In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

NOI for the three months ended December 31, 2018 was $4.0 million and $8.4 million for the year ended December 31, 2018 which represents eleven months of operating activity for 20 South Clark and four months of operating activity for 120 South LaSalle, both in Chicago, IL.

REVENUE

Revenue from properties includes rent from tenants under lease agreements, straight-line rental income, percentage rents, property taxes and operating cost recoveries, parking revenue and other incidental income. The following is a summary of the components of revenue:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Property base rent (1)	**$ 29,263**	$ 20,287	**$ 105,894**	$ 75,458
Operating cost recoveries	**18,843**	14,388	**65,314**	46,880
Tax recoveries	**7,028**	5,296	**27,173**	19,412
Hotel	**2,712**	2,294	**10,835**	9,016
Straight-line adjustments and other	**1,209**	115	**683**	1,370
	$ 59,055	$ 42,380	**$ 209,899**	$ 152,136

(1) Includes parking revenue earned at properties.

For the three months ended December 31, 2018, revenue from properties was $59.1 million, higher than $42.4 million for the same period in 2017. Revenue from properties was $209.9 million for the year ended December 31, 2018 compared to $152.1 million for the comparative period in 2017. The increase over prior periods is a result of portfolio growth from positive leasing and acquisition activity. In the third quarter of 2018, the REIT acquired 120 South LaSalle in Chicago, IL in addition to 20 South Clark in Chicago, IL and the 7 Asset Portfolio in Ontario and Atlantic Canada in the first quarter of 2018, which have contributed to revenue during their period of ownership. The REIT also acquired West Metro Corporate Centre and Commerce West in Etobicoke, ON and 250 King Street, 460 Two Nations Crossing in Fredericton, NB in the second quarter of 2017, contributing to increased revenue for the year ended December 31, 2018 when compared to 2017.

PROPERTY OPERATING RECOVERIES AND EXPENSES

Property operating expenses consist of property taxes, property management fees and other expenses such as common area costs, utilities, and insurance. The majority of the REIT's property operating expenses are recoverable from tenants in accordance with the terms of the tenants' lease agreements. Operating cost recoveries are included in revenue from properties and amounted to $18.8 million for the three months ended December 31, 2018 compared to $14.4 million for the same period in 2017 and $65.3 million and $46.9 million for the year ended December 31, 2018 and 2017, respectively. Property tax recoveries increased to $7.0 million for the three months ended December 31, 2018 compared to $5.3 million for the same period in 2017. For the year ended December 31, 2018, property tax recoveries were $27.2 million and $19.4 million in the comparative period. Property operating recoveries and expenses have increased in-line with the increase in property base rent, mainly attributable to acquisition activity.

GENERAL AND ADMINISTRATIVE

General and administrative expenses are primarily comprised of asset management fees, professional fees, trustee fees, and other amounts. For the three months ended December 31, 2018, general and administrative expenses have increased by $0.2 million when compared to the same period in 2017. The increase in expenses is a result of higher asset management fees of $0.4 million due to portfolio growth, and marginally higher listing and regulatory fees in comparison to the prior year due to the REIT's increased market capitalization. For the year ended December 31, 2018, general and administrative expenses were $7.5 million, an increase of $1.7 million from the comparative period for the reasons mentioned above.

INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Mortgage interest	**$ 7,867**	$ 4,416	**$ 25,461**	$ 14,205
Interest on other debt	**4,912**	2,601	**14,850**	10,095
Amortization of deferred transaction costs	**889**	508	**2,992**	1,845
Amortization of debt mark-to-market adjustments	**(97)**	(151)	**(443)**	(562)
Subscription receipts equivalent amount (1)	**—**	—	**1,597**	926
Interest on convertible debentures	**380**	—	**1,405**	—
	$ 13,951	$ 7,374	**$ 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). The cash distribution equivalent payment of $1.6 million has been recorded in interest and finance costs for the year ended December 31, 2018. On April 25, 2017 each subscription receipt issued by the REIT on March 15, 2017 was exchanged for one unit and a cash distribution equivalent payment of $0.0625. The cash distribution equivalent payment of $0.9 million has been recorded in interest and finance costs for the year ended December 31, 2017.

For the three months ended December 31, 2018, interest and finance costs were $14.0 million, which has increased by $6.6 million when compared to the same period in 2017. Interest and finance costs for the year ended December 31, 2018 increased to $45.9 million from $26.5 million in the prior period. Increased interest costs are primarily related to acquisitions, which have in part been financed by debt, the issuance of the REIT's convertible debentures, and the subscription receipts equivalent amount of $1.6 million for the year ended December 31, 2018. Also impacting interest costs were higher relative floating interest rates.

FINANCE INCOME ON FINANCE LEASE RECEIVABLE

The REIT has a 15 year lease with Manitoba Telecom Services Inc. for the Data Centre. The terms of the lease at inception met the requirements for classification as a finance lease because the minimum lease payments amounted to at least substantially all of the fair value of the leased asset. As a result of this classification, a portion of the lease payments earned on the property is recorded as interest income on finance lease. Interest income recognized on the finance lease for the three months ended December 31, 2018 was $0.9 million and $3.8 million for the year ended December 31, 2018, which is comparable to interest income recognized for the same periods in 2017.

The REIT makes an adjustment to recognize the contribution made by the Data Centre to its Core-FFO and AFFO to account for the difference between accounting under IFRS and the lease contributions a cash basis. On a cash basis the Data Centre currently contributes approximately $6.1 million annually from lease payments.

CHANGE IN FAIR VALUE OF PROPERTIES

The change in fair value of properties increased $4.7 million for the three months ended December 31, 2018 compared to the comparative period in 2017. The large portion of the change in fair value of properties relates to the revaluation of the REIT's Greater Toronto Area properties when compared to the three months ended December 31, 2017. The REIT received third party appraisals on 10 of the REIT's properties for the year ended December 31, 2018. The change in the fair value of properties decreased $0.2 million for the year ended December 31, 2018 compared to the prior period as a result of transactions costs capitalized in the first quarter and third quarter of 2018 which are not additive to the REIT's fair value, offset by the positive fair value changes for the three months ended December 31, 2018.

CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

The change in fair value of financial instruments represents the change in the fair value of the REIT's interest rate swaps, subscription receipts and deferred unit liabilities on deferred units issued to Trustees and Officers of the REIT. The change for the three months ended December 31, 2018 was a decrease of $4.8 million, compared to the same periods in 2017. For the year ended December 31, 2018, the change in fair value of financial instruments was $2.4 million, an increase of $3.6 million from the same period in the prior year.

INCOME TAXES

The REIT is a mutual fund trust and real estate investment trust pursuant to the Tax Act. Under the Tax Act, so long as the REIT meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”), the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. Management intends to operate the REIT in a manner that enables the REIT to continue to meet the REIT Conditions and to distribute all of its taxable income to unitholders. 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 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.

SELECTED ANNUAL INFORMATION

The following table provides selected financial information for the past three years:

					Year ended December 31,
		2018		2017	2016
Rental revenue	**$**	**209,899**	$	152,136 $	122,190
Net income and comprehensive income		**83,378**		49,705	36,420
Total assets		**1,866,729**		1,364,845	1,025,522
Non-current debt		**908,488**		612,738	462,644
Total debt		**1,175,826**		795,591	604,953
Annual distribution rate, per unit		**0.75**		0.75	0.75

QUARTERLY INFORMATION

The following is a summary of financial and operational information for the REIT for the eight most recently completed quarters:

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue	**$ 59,055**	$ 54,499	$ 52,056	$ 44,289	$ 42,380	$ 41,208	$ 36,230	$ 32,318
Operating costs	**(29,429)**	(26,825)	(26,377)	(23,533)	(23,776)	(21,629)	(18,833)	(17,693)
IFRIC 21 property tax adjustment	**(2,107)**	(1,151)	(585)	(528)	—	—	—	—
Straight-line rent and other	**(161)**	(524)	118	(116)	(115)	(539)	(266)	(450)
Net operating income	**$ 27,358**	$ 25,999	$ 25,212	$ 20,112	$ 18,489	$ 19,040	$ 17,131	$ 14,175
Net income	**$ 27,944**	$ 17,697	$ 23,592	$ 7,904	$ 14,174	$ 23,607	$ 3,482	$ 8,442
Weighted average diluted units (1)	**75,261**	75,203	75,139	62,874	62,266	62,231	57,781	46,101
Net income and comprehensive income per unit	**$ 0.37**	$ 0.24	$ 0.31	$ 0.13	$ 0.23	$ 0.38	$ 0.06	$ 0.18
Distributions (2)	**$ 14,096**	$ 14,086	$ 14,077	$ 12,469	$ 11,663	$ 11,657	$ 11,651	$ 8,636
Distributions per unit	**$ 0.1875**	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875
FFO (3)	**$ 13,758**	$ 15,071	$ 14,810	$ 11,292	$ 11,221	$ 12,372	$ 11,405	$ 9,495
FFO per unit - diluted (3)	**$ 0.18**	$ 0.20	$ 0.20	$ 0.18	$ 0.18	$ 0.20	$ 0.20	$ 0.21
FFO payout ratio (3)	**102.5%**	93.5%	95.1%	110.4%	103.9%	94.2%	102.2%	91.0%
Core-FFO (3)	**$ 14,356**	$ 15,659	$ 15,389	$ 11,862	$ 11,782	$ 12,923	$ 11,949	$ 10,030
Core-FFO per unit - diluted (3)	**$ 0.19**	$ 0.21	$ 0.20	$ 0.19	$ 0.19	$ 0.21	$ 0.21	$ 0.22
Core-FFO payout ratio (3)	**98.2%**	90.0%	91.5%	105.1%	99.0%	90.2%	97.5%	86.1%
AFFO (3)	**$ 11,101**	$ 12,755	$ 12,836	$ 10,108	$ 9,528	$ 10,663	$ 10,694	$ 8,842
AFFO per unit - diluted (3)	**$ 0.15**	$ 0.17	$ 0.17	$ 0.16	$ 0.15	$ 0.17	$ 0.19	$ 0.19
AFFO payout ratio (3)	**127.0%**	110.4%	109.7%	123.4%	122.4%	109.3%	108.9%	97.7%
Properties	**$1,780,413**	$1,783,261	$1,604,452	$1,581,997	$1,279,509	$1,253,939	$1,223,073	$ 959,249
Total assets	**$1,866,729**	$1,874,600	$1,689,148	$1,660,947	$1,364,845	$1,353,127	$1,302,622	$1,164,104
Debt	**$1,175,826**	$1,194,428	$1,016,926	$1,003,951	$ 795,591	$ 793,765	$ 752,312	$ 621,896
IFRS net asset value ("NAV")	**$ 643,635**	$ 636,295	$ 628,743	$ 616,761	$ 528,051	$ 523,823	$ 510,399	$ 389,761
Diluted units outstanding (1)	**75,300**	75,236	75,180	75,107	62,283	62,256	62,215	46,101
IFRS NAV per unit	**$ 8.55**	$ 8.46	$ 8.36	$ 8.21	$ 8.48	$ 8.41	$ 8.20	$ 8.45
LTV ratio	**63.1%**	63.8%	60.2%	60.5%	58.3%	58.7%	57.8%	59.5%
Net debt to adjusted EBITDA	**12.0x**	13.6x	12.8x	14.2x	11.9x	12.2x	12.7x	11.0x
Interest coverage ratio (3)	**2.3x**	2.4x	2.5x	2.6x	2.7x	2.8x	2.9x	3.0x
Debt service coverage ratio (3)	**1.8x**	1.9x	1.9x	2.0x	2.1x	2.2x	2.3x	2.4x
Leasing activity (square feet)	**158,339**	258,248	441,222	225,233	357,663	243,852	145,957	238,650
Leasing activity as a % of portfolio	**2.1%**	3.3%	5.9%	3.0%	5.8%	4.0%	2.4%	4.8%
Weighted average lease term (years)	**5.8**	5.7	5.5	5.6	5.8	5.9	5.7	5.7
Number of properties	**41**	43	45	45	38	38	38	35
Office GLA	**7,467,367**	7,756,469	7,348,159	7,347,765	5,972,771	5,972,771	5,972,771	4,813,458
Total GLA	**7,582,201**	7,871,383	7,463,073	7,462,679	6,116,085	6,116,085	6,116,085	4,990,052
Occupancy - excluding redevelopment	**88.9%**	88.3%	89.1%	88.2%	86.9%	87.0%	87.4%	87.7%
Occupancy	**87.6%**	87.1%	86.8%	85.9%	85.8%	85.9%	84.4%	84.0%

(1) Includes REIT units, the conversion of the Class B LP units and deferred units and is shown in thousands at the end of the respective periods. Weighted average diluted units is the weighted average number of diluted units outstanding during the respective quarter and diluted units outstanding is the diluted units outstanding at the end of the quarter.

(2) Includes distributions made to both unitholders of the REIT and Class B LP unitholders.

(3) The calculation of these non-IFRS financial measures and a reconciliation to relevant IFRS measures are included in Part III and IV.

PART IV - FINANCIAL CONDITION

IFRS NET ASSET VALUE

IFRS net asset value is a non-IFRS measure and is defined by the REIT as the aggregate of the carrying value of the REIT's equity, Class B LP units and deferred units. Management believes that this measure reflects the residual value of the REIT to equity holders and is used by Management on both an aggregate and per unit basis to evaluate the net asset value attributable to unitholders and changes thereon based on the execution of the REIT's strategy.

The following is the calculation of IFRS net asset value on a total and per unit basis at December 31, 2018 and December 31, 2017 to the REIT's consolidated financial statements:

		December 31, 2018		December 31, 2017
Equity	**$**	**611,447**	$	484,539
Class B LP units		**31,552**		43,021
Deferred unit liability		**636**		491
IFRS net asset value	**$**	**643,635**	$	528,051
Diluted number of units outstanding (1)		**75,300**		62,283
IFRS net asset value per unit	**$**	**8.55**	$	8.48

(1) Represents the fully diluted number of units outstanding and includes outstanding REIT units, DUP units and Class B LP units.

The current price for the REIT's units reflects a substantial discount to the REIT's IFRS net asset value per unit of $8.55 at December 31, 2018. Management believes that there is a substantive basis to support a net asset value of $8.55 per unit, including:

- Wafra's investment provides a market value on $527.2 million of the REIT's assets: The price received from a large sophisticated global investor for six properties in the GTA provides validation for the net asset value of 28% of the REIT's portfolio. Further, the REIT received appraisals for each property that were consistent with the REIT's transaction price.
- Recent acquisition in the United States: The REIT's acquisition of its two U.S. assets in Chicago, Illinois each occurred recently in 2018, and accordingly, represent recent market trading prices. Management continues to observe multiple comparable sales in the Chicago market at pricing parameters in excess of the REIT's acquisition metrics.

The following is an illustration of the construction of the REIT's net asset value:

(millions, except per unit amount)		**December 31, 2018**
GTA JV Portfolio	**$**	**527.2**
Recent U.S. acquisitions		**328.7**
Other properties (1)		**983.2**
Debt and working capital		**(1,195.5)**
Net asset value	**$**	**643.6**
Net asset value per unit	**$**	**8.55**

(1) Valuation is equal to a 6.6% capitalization rate on next twelve months expected net operating income. Properties have an in-place occupancy of 87.1%.

This gap between the prevailing trading price and net asset value has created a compelling investment opportunity to purchase units of the REIT. Specifically, the prevailing market price implies a 7.8% capitalization rate on next twelve months expected net operating income and in-place occupancy of 87.1%, which is significantly inconsistent with current valuation metrics for similar properties.

A reconciliation of the change in IFRS net asset value is included in the Total Return section of this MD&A.

LIQUIDITY AND CAPITAL RESOURCES

The REIT endeavors to maintain appropriate levels of financial liquidity to meet its business objectives and commitments. Primarily, the REIT utilizes revolving credit facilities to provide this financial liquidity in addition to cash on hand. The revolving credit facilities can be drawn or repaid on short notice, which reduces the need to hold cash and deposits, while also minimizing borrowing rates.

The principal liquidity needs of the REIT arise from working capital requirements, distributions to unitholders, planned funding of maintenance capital expenditures, leasing costs and future property acquisitions. Cash flows from operating the REIT's property portfolio, available funding under the REIT's credit facilities and cash on hand represent the primary sources of liquidity. Cash flows from operations are dependent upon rental occupancy levels, rental rates, the collection of rents, recoveries of operating costs and the level of operating costs.

The REIT's available liquidity is as follows:

		December 31, 2018		December 31, 2017
Cash	**$**	**7,192**	$	9,153
Undrawn revolving facilities		**21,872**		52,803
Liquidity	**$**	**29,064**	$	61,956

DEBT STRATEGY

The REIT’s obligations with respect to debt repayments and funding requirements for future investment property acquisitions will be primarily funded from cash retained after distributions, refinancing the REIT’s maturing debt, financing unencumbered properties or future issuances of trust units.

The REIT’s overall borrowing objective is to obtain secured financing, with terms to maturity that are appropriate having regard to the lease maturity profiles of the underlying properties and which allows the REIT to achieve and maintain staggered debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period. The REIT also endeavors to have an appropriate amount of fixed rate debt and to extend loan terms when borrowing conditions are favourable, which is actively monitored by Management. In this respect, during the first quarter of 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% and commenced June 29, 2018 with a five year term.

With the acquisition of 120 South LaSalle in Chicago, IL, the REIT obtained floating rate mortgage financing in the amount of U.S.$101.1 million for a term of 3 years. Concurrent with mortgage funding, the REIT entered into a pay-fixed-receive-float interest rate swap with a notional amount of U.S.$101.1 million for a term of three years, fixing the REIT's exposure to changes in U.S. interest rates on this mortgage.

Including these swaps, the REIT's fixed rate debt has increased to 50.8% (33.1% - December 31, 2017).

The REIT has multiple sources of financing from its various credit facilities which have borrowing capacity available and provide shorter term flexibility to support the REIT's multiple growth-oriented initiatives. Further, in instances where Management believes that there are meaningful value creation opportunities, the REIT will generally seek to utilize short-term floating rate financing, to allow for maximum debt proceeds when subsequently utilizing term or mortgage debt upon full execution of Management's asset strategy. Additionally, where Management has identified properties for potential sale, the REIT will seek to utilize short-term floating rate financing to prevent value erosion on sale from requiring a purchaser to assume potentially above market low leverage debt. While the REIT's credit facilities represent one element of our funding strategy, this will be coupled with the REIT's access to financing alternatives from multiple financial institutions at competitive rates, which the REIT has consistently done. In addition, the REIT's development pipeline and associated construction activities are funded by dedicated construction facilities provided by various banking syndicates at attractive rates for appropriate terms commensurate with each respective project.

On February 1, 2018, the REIT renewed its revolving operating facility extending the maturity to February 1, 2021. The available amount of the amended revolving operating facility was increased to $172.0 million and U.S.$56.0 million. In conjunction with the acquisition of 20 South Clark, the REIT was advanced U.S. $55.6 million of the U.S. dollar facility to facilitate the purchase of 20 South Clark in Chicago, IL. The renewal and up-size of this facility provides the REIT access to U.S. debt capital, which provides a natural hedge against foreign exchange volatility for U.S. based investments.

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.

Maturity profile

As described above, the REIT has addressed all existing 2018 debt maturities, with future 2018 repayments of debt limited to scheduled principal repayments. The REIT expects to be able to continue to refinance debt on acceptable terms. The following is a summary of future principal repayments and maturities as at December 31, 2018:

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

Debt profile

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.

INDEBTEDNESS RATIO

The indebtedness ratio is a non-IFRS measure calculated by the REIT. In accordance with the REIT's Declaration of Trust, the REIT's indebtedness may not exceed 65% of gross book value, which is defined by the Declaration of Trust as total assets less restricted cash. The REIT's indebtedness ratio at December 31, 2018 was 63.1% which is higher by 479 basis points compared to December 31, 2017. Although the REIT's gross book value has increased at December 31, 2018 due to the acquisition of properties in 2018, debt has also increased as a result of these acquisitions. Additional financing was obtained for purposes of the acquisitions, as well as the assumption of $82.1 million of mortgages related to the Cominar properties. Subject to market conditions and the growth of the REIT, Management's medium term target is to maintain total indebtedness at approximately 55%. The success of this strategy is dependent upon debt market parameters existing at the time of borrowing, as well as the particular features and quality of the underlying assets being financed. Management believes that this objective will require at least two years to achieve. If this strategy is unsuccessful, debt principal repayments may need to be funded by operating cash flows, additional draws under the REIT's revolving credit and operating facilities, financing of unencumbered income-producing properties or by issuances of equity or debt securities.

The acquisition of 120 South LaSalle in Chicago, IL increased the REIT's leverage ratio; however, the REIT expects to reduce debt in the short-term through the sale of fully valued and non-strategic assets. The REIT disposed of the Water Street Properties in St. John's, NL, Centennial and Meadowpine in Toronto, ON, since acquiring 120 South LaSalle which provided aggregate gross proceeds of $61.4 million. The REIT used the net sale proceeds to reduce outstanding debt.

The REIT's indebtedness level is 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	**$ 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.

The REIT received bridge financing related to its acquisition of 120 South LaSalle in Chicago, IL, the outstanding balance of which was $42.9 million at December 31, 2018. The REIT intends to dispose of certain properties to repay the bridge loan. On a pro-forma basis, after adjusting for sales to repay the bridge loan the leverage ratio would be 61.8%.

ADJUSTED EBITDA

Adjusted EBITDA is a non-IFRS measure and is used by the REIT to monitor the REIT's ability to satisfy and service its debt as well as monitor requirements imposed by the REIT's lenders. Specifically, adjusted EBITDA is used to monitor the REIT's leverage ratio, interest coverage ratio and debt service ratio, which the REIT uses to measure its debt profile and assess its ability to satisfy its obligations, including servicing its debt. Management views adjusted EBITDA as a proxy for operating cash flow prior to interest costs. Adjusted EBITDA represents earnings before interest, income taxes, depreciation, fair value gains (losses) from both financial instruments and investment properties, while also excluding non-recurring items such as transaction costs from dispositions, acquisitions or other events.

The following is a reconciliation from net income to adjusted EBITDA:

	Twelve months ended December 31,	
	2018	2017
Net income	**$ 77,137**	$ 49,705
Straight line rent and other changes	**(683)**	(1,370)
Interest income	**(264)**	(88)
Interest and finance costs	**44,265**	25,583
Change in fair value of properties	**(15,288)**	(15,126)
Change in fair value of financial instruments	**(2,401)**	1,182
Distributions to Class B shareholders	**3,964**	3,964
Disposition costs	**2,247**	146
Depreciation of hotel asset	**947**	799
Change in fair value of Class B LP units	**(11,469)**	1,268
Deferred income tax recovery	**(721)**	—
Adjusted EBITDA	**$ 97,734**	$ 66,063

The following is a calculation of adjusted EBITDA:

	Twelve months ended December 31,	
	2018	2017
Rental revenue	**$ 209,899**	$ 152,136
Property operating expenses	**(106,164)**	(81,931)
Finance income on finance lease receivable	**3,765**	3,908
Straight line rent and other changes	**(683)**	(1,370)
Subscription receipt equivalent amount paid	**(1,597)**	(926)
General and administrative	**(7,486)**	(5,754)
Adjusted EBITDA	**$ 97,734**	$ 66,063

INTEREST COVERAGE

In addition to the REIT's level of indebtedness calculated in accordance with the REIT's Declaration of Trust, Management also monitors certain financial measures, which include the (i) net debt to adjusted EBITDA leverage ratio, (ii) interest coverage ratio, and (iii) the debt service coverage ratio. All of these measures are non-IFRS measures.

Net debt to adjusted EBITDA leverage ratio

The net debt to adjusted EBITDA ratio is used to calculate the financial leverage of the REIT, specifically, its ability to meet financial obligations and to provide a measure of its balance sheet strength. The REIT calculates debt to adjusted EBITDA by dividing the aggregate amount of debt outstanding, less cash on hand, by the trailing twelve month adjusted EBITDA. The net debt to adjusted EBITDA leverage ratio also indicates the number of years required for the REIT's unleveraged operating earnings (i.e. before depreciation, amortization, transaction costs, gains or losses, fair value adjustments, and taxes) to cover or repay all outstanding debts. The net debt to adjusted EBITDA ratio also takes into consideration the cash on hand to decrease debt.

The following is a calculation of net debt to adjusted EBITDA for the trailing twelve months ended:

	December 31, 2018	December 31, 2017
Debt	**$ 1,175,826**	$ 795,591
Less: Cash on hand	**7,192**	9,153
Net debt	**1,168,634**	786,438
Adjusted EBITDA (1)	**97,734**	66,063
Net debt to Adjusted EBITDA (times)	**12.0x**	11.9x

(1) Adjusted EBITDA is based on actuals for the twelve months preceding the balance sheet date.

Interest coverage ratio

The interest coverage ratio is useful in determining the REIT's ability to service the interest requirements of its outstanding debt. The interest coverage ratio is calculated by dividing adjusted EBITDA by the REIT's interest obligations for the period. Management utilizes this ratio to measure and limit leverage.

The following is a calculation of interest coverage ratio:

	Twelve months ended December 31,	
	2018	2017
Adjusted EBITDA	**$ 97,734**	$ 66,063
Interest expense	**41,715**	24,300
Interest coverage ratio (times)	**2.3x**	2.7x

Debt service coverage ratio

The debt service coverage ratio is determined as adjusted EBITDA divided by the debt service requirements for the period, whereby the debt service requirements reflects amortizing principal repayments and interest expensed during the period. Payments related to defeasance, prepayment penalties, or payments upon discharge of a mortgage are excluded from the calculation. The debt service coverage ratio is a useful measure and is used by the REIT's Management to monitor the REIT's ability to meet annual interest and principal payments.

The following is a calculation of debt service coverage ratio:

		Twelve months ended December 31,		
		2018		2017
Adjusted EBITDA	**$**	**97,734**	$	66,063
Interest expense		**41,715**		24,300
Principal repayments		**12,805**		7,213
Debt service requirements	**$**	**54,520**	$	31,513
Debt service coverage ratio		**1.8x**		2.1x

DEBT REPAYMENT SCHEDULE

The following table outlines the REIT's annual principal payments and maturity schedule, together with the weighted average annual interest rates at December 31, 2018:

		Annual Principal Payments		Principal Repayments on Maturity		Total	Percentage (%)	Weighted Average Contractual Interest Rate on Maturing Debt (%)
2019	$	15,616	$	252,394	$	268,010	22.7%	4.8%
2020		15,381		238,915		254,296	21.5%	3.9%
2021		11,279		464,530		475,809	40.3%	4.3%
2022		7,617		296		7,913	0.7%	7.3%
2023		6,011		70,052		76,063	6.4%	4.0%
Thereafter		26,347		73,534		99,881	8.5%	3.6%
Weighted average interest rate								**4.3%**

The REIT has managed indebtedness to ensure the REIT is not exposed to liquidity risk due to concentration of debt maturities. As part of this strategy, the REIT is proactive in negotiating renewals for near term debt maturities. On February 1, 2018, the REIT renewed its revolving operating facility expiring June 30, 2018. As part of this renewal, the facility was extended to $172.0 million, expiring February 1, 2021 on comparable terms. This renewal addressed the remaining debt maturities for the 2018 year. 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 basis points on finance costs:

		December 31, 2018		December 31, 2017
Change of 25 bps	**$**	**1,453**	$	1,333

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following is a summary of the REIT's contractual obligations over the next five years 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
Total	**$**	**1,341,645**	**$**	**351,118**	**$**	**780,105**	**$**	**95,906**	**$**	**114,516**

(1) Interest amounts on floating debt have been determined using floating 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 floating rate.

DERIVATIVES

Interest rate derivatives

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

The REIT currently has in place certain pay-fixed and receive-float interest rate swaps and an interest rate cap. The swaps are derivative financial instruments that require a periodic exchange of payments with counter-parties without the exchange of the notional amount on which the payments are based. The recorded interest expense on the underlying mortgages payable reflects payments made and received under the interest rate swaps. These swaps are not designated as hedging instruments that qualify for hedge accounting under IFRS.

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.

During the first quarter of 2018, the REIT entered into a pay-fixed and receive-float interest rate swap for a notional amount of $100.0 million which started on June 29, 2018 with a maturity of June 29, 2023. In the third quarter of 2018, the REIT entered into a pay-fixed and receive-float interest rate swap for a notional amount of U.S.$101.1 million on August 30, 2018 with a maturity of August 30, 2021. These derivatives increased the REIT's fixed debt ratio by 17.7% to 50.8% at December 31, 2018 from 33.1% at December 31, 2017. The REIT expects to continue to monitor the interest rate environment and will seek to obtain long term fixed rate financing when advantageous rates exist or where economical, enter into derivative instruments to synthetically fix interest rates.

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

			Notional amount		Fair value	
Maturity date	**Floating interest rate** (1)	**Fixed interest rate**	**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.

Foreign exchange derivative

The REIT intends to manage its U.S. dollar exposure from its net investment in U.S. operations through foreign exchange swaps. From time to time, the REIT may enter into foreign exchange derivatives to sell U.S. dollars and buy Canadian dollars on a forward basis to mitigate the REIT's exposure to value changes in the Canadian dollar equivalent value of the REIT's equity in its U.S. properties resulting from U.S.-Canadian exchange rates.

The REIT has executed the following hedges in 2018:

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.

FINANCIAL CONDITION

The REIT's primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of the REIT's obligations through current cash and cash equivalents, cash flows from operations, the REIT's revolving credit facility, and refinancing of mortgages and equity.

The following table provides an overview of the REIT's cash flows from operating, financing and investing activities:

	Year ended December 31,	
	2018	2017
Net change in cash related to:		
Operating	**$ 49,387**	$ 41,572
Investing	**(384,185)**	(162,531)
Financing	**332,465**	125,860
Foreign exchange gain on cash held in foreign currencies	**372**	—
Decrease in cash	**$ (1,961)**	$ 4,901

The change in cash for the year ended December 31, 2018 and 2017 was the result of the following factors:

- Operating – cash flows for the year ended December 31, 2018 increased by $7.8 million when compared to the same period in 2017. NOI has increased period over period from contributions from acquisition activity offset by higher interest and finance costs incurred to partially finance the acquisitions.
- Investing – cash outflows for the year ended December 31, 2018 were $384.2 million compared to cash outflows of $162.5 million in the same period in 2017. The cash outflows in the current period were increased due to acquisitions, partially offset by dispositions in the third quarter of 2018 with a net cash outflow of $420.4 million.
- Financing – cash flows for the year ended December 31, 2018 primarily relate to proceeds from the equity and convertible debenture offering completed during the first quarter of 2018 and debt obtained to finance the acquisition of 120 South LaSalle. The offering was completed to finance a portion of the REIT's acquisition activity.

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's trust units are traded on the TSX and had a closing price of $5.97 on December 31, 2018.

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. There have been no preferred units created or issued.

On January 26, 2018 the REIT issued 12,778,800 subscription receipts of the REIT (the "Subscription Receipts") at a price of $8.10 per Subscription Receipt for gross proceeds of $103.5 million. The proceeds of the Subscription Receipts were used, in part, to finance the REIT's acquisitions in the first quarter of 2018. Concurrently with the acquisition of the 7 Asset Portfolio in the Greater Toronto Area of Ontario and Atlantic Canada 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 for the year ended December 31, 2018.

As at December 31, 2018, the total number of trust units outstanding was 69,908,485. As at March 1, 2019, the total number of trust units outstanding was 69,972,382.

Normal course issuer bid

On May 15, 2018, the REIT renewed its normal course issuer bid ("NCIB"), whereby the REIT may purchase up to 6,785,339 trust units, subject to certain restrictions. The renewed NCIB expires on the earlier of May 14, 2019 and the repurchase of the maximum number of trust units.

Potential trust units

	December 31, 2018	December 31, 2017
Class B LP units	**5,285,160**	5,285,160
Deferred units	**106,440**	60,300
	5,391,600	5,345,460

The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis, subject to anti-dilution adjustments. Each Class B LP unit is accompanied by one special voting unit of the REIT providing the same voting rights in the REIT as the trust units of the REIT and is entitled to distributions of cash equal to the cash distributions paid to holders of trust units by the REIT. The Class B LP units are recognized in the REIT's consolidated financial statements as financial liabilities measured at fair value through profit and loss. Upon exchange into trust units of the REIT, the carrying amount of the liability representing the fair value of the Class B LP units on exchange date will be reclassified to unitholders' equity. During the year ended December 31, 2018, there were no Class B LP units exchanged for the REIT's trust units.

DEFERRED UNIT PLAN

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 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).

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 will result in an equal reduction and offsetting in the asset management fee payable to SMC, 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.

As 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).

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
Deferred units	**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

RELATED PARTY TRANSACTIONS

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

Slate directly and indirectly 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%

Since becoming the manager of the REIT in late 2014, Slate has been the largest unitholder in the REIT. Accordingly, Slate is highly motivated to continue to grow the operations and financial position of the REIT on an accretive basis.

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 SMC.
(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.

The REIT incurred the following fees under the Management Agreement:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Property management	**$ 1,589**	$ 985	**$ 5,885**	$ 4,199
Asset management	**1,447**	1,013	**5,012**	3,629
Leasing, financing, and construction management	**462**	1,096	**2,612**	5,014
Acquisition	**11**	—	**3,302**	2,050
	$ 3,509	$ 3,094	**$ 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 $2.5 million and $10.0 million for the three months and year ended December 31, 2018 (December 31, 2017 – $1.8 million and $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 in the Greater Toronto Area and Atlantic Canada on March 27, 2018, 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 managed by Slate. The income supplement is recorded as an other asset on the consolidated statement 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 statement of income.

The following are the assets and liabilities included in the consolidated statement of financial position of the REIT related to SMC, Slate 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)

PART V - ACCOUNTING AND CONTROL

CRITICAL ACCOUNTING ESTIMATES

The REIT has identified the estimate of the fair value of its properties as a critical accounting estimate due to the significance of the estimate to the REIT's financial position and impact of changes on fair value to net income. Estimating the fair value of real property is characterized by uncertainty, both in terms of differences between different methods of valuation but also in the selection of assumptions to reflect the property being valued, certain of which are subjective. There is no assurance that Management's, or a third-party's, estimate of fair value would be realized on sale due to the specific and unique aspects of real property, including their location, liquidity, tenants and the local demand and supply of competing properties for tenants.

The REIT determines the fair value of properties based upon either the overall income capitalization rate method or the discounted cash flow method, direct comparison approach or through a combination of methods. All methods are generally accepted appraisal methodologies. 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, location and other relevant considerations of the properties. The valuation methodology used, or combination of methodologies used, is based on the applicability and reliability of the relative approaches in the context of the subject property.

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.

The following is a summary of the methodologies undertaken by Management to estimate the fair value of the REIT's properties:

Overall income capitalization approach

The overall income capitalization approach evaluates a property's potential to generate cash flows and converts those cash flows into a present value. Generally, the REIT estimates a stabilized NOI and applies a capitalization rate to that income to estimate fair value. Stabilized NOI 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' NOI 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

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 NOI. 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 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.

A summary of the significant assumptions used in the REIT's estimate of fair value as at December 31, 2018 is included on page 11 of this MD&A. Changes in these assumptions would have a significant impact on the REIT's estimate of fair value, which can be impacted by changes in demand for properties similar to those owned by the REIT, expectations of market rents, the covenant quality of tenants and the general economic environment. Further, these changes can occur at different times and magnitudes for each of the REIT's Western, Ontario and Atlantic regions based on the investment environments in each of their respective markets.

NEW ACCOUNTING POLICIES

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

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

The amendments to IFRS 9 were adopted retrospectively for periods beginning on January 1, 2018 by the REIT. The adoption of the amendments was not material to the consolidated financial statements.

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. There was no adjustment to opening retained earnings on the adoption of this standard.

Supplementary accounting policy disclosure

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

Taxation

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

Foreign exchange

The REIT accounts for its investment in its U.S. wholly owned subsidiaries as U.S. dollar functional currency foreign operations. Assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates in effect at the consolidated statements of financial position dates and revenue and expenses are translated at the average exchange rates for the reporting periods. The foreign currency translation adjustment is recorded as a separate component of accumulated other comprehensive income (loss) until there is a reduction in the REIT's net investment in the foreign operations. The accumulated unrealized gains or losses arising from the translation of these obligations are recorded as a foreign currency translation adjustment in accumulated other comprehensive income (loss). Assets and liabilities denominated in a currency other than the functional currency are translated into the functional currency at the exchange rates in effect at the consolidated statements of financial position dates and revenue and expenses are translated at the average exchange rate in effect during the period in which the transaction occurred, 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.

Levies

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

Convertible debentures

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

FUTURE ACCOUNTING POLICIES

The IASB has issued the following new standards that will be relevant to the REIT in preparing its consolidated financial statements in future periods:

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

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.

INCOME TAXES AND THE REIT EXCEPTION

The REIT’s currently qualifies as a "mutual fund trust" as defined in the Tax Act. In accordance with the REIT's Declaration of Trust, distributions to Unitholders are declared at the discretion of the trustees. The REIT endeavours to distribute to Unitholders, in cash or trust units, in each taxation year its taxable income to such an extent that the REIT will not be liable to income tax under Part I of the Tax Act.

The Tax Act imposes a special taxation regime (the "SIFT Rules") applicable to certain publicly traded income trusts (each a "SIFT"). A SIFT includes a trust resident in Canada with publicly traded units that holds one or more "non-portfolio properties". "Non-portfolio properties" include certain investments in real properties situated in Canada and certain investments in corporations and trusts residents in Canada and in partnerships with specified connections in Canada. Under SIFT Rules, a SIFT is subject to tax in respect of certain distributions that are attributable to the SIFT's "non-portfolio earnings" (as defined in the Tax Act; generally, income (other than certain dividends) from, or capital gains realized on, "non-portfolio properties", which does not include certain investments in non-Canadian entities), at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. The SIFT Rules are not applicable to a SIFT that meets certain specified criteria relating to the nature of its revenues and investments in order to qualify as a real estate investment trust for purposes of the Tax Act (the "REIT Exception"). The REIT qualifies for the REIT Exception as of December 31, 2018.

The REIT's U.S. subsidiary is subject to federal and state income tax on taxable income from the operations of 20 South Clark and 120 South LaSalle. The REIT recognizes deferred tax assets on unused tax losses and deductible temporary tax differences. The REIT recognizes deferred tax liabilities on deferred tax assets and liabilities are measured at prevailing tax rates when such differences are expected to settle, based on tax laws enacted at the reporting date.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT’s Management, under the supervision of its Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), is responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal controls over financial reporting (“ICFR”), as such terms are defined in National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings (“NI 52-109”).

DC&P are those controls and other procedures that are designed to provide reasonable assurance that all material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are those controls and other procedures that are designed to ensure that material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the REIT’s Management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS for the year ended December 31, 2018.

As at December 31, 2018 the REIT’s CEO and CFO, along with the assistance of others, have designed disclosure controls and procedures to provide reasonable assurance that information required to be disclosed in the various reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In the design of its internal controls the REIT uses the 2013 framework published by the Committee of Sponsoring Organizations of the Treadway Commission. No changes were made in the REIT's design of ICFR during the 2018 year, that have materially affected, or are reasonably likely to materially affect, the REIT’s ICFR.

In designing such controls, it should be recognized that due to inherent limitations, any controls or control systems, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected or prevented. These inherent limitations include, without limitation, (i) the possibility that Management’s assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

The REIT’s CEO and CFO have evaluated, or caused the evaluation of, under their supervision, the effectiveness of the REIT's DC&P and its ICFR as at December 31, 2018, and have concluded that such DC&P and ICFR were operating effectively.

Additionally, controls may be circumvented by unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART VI - PROPERTY TABLE

Details of the REIT's property portfolio at December 31, 2018 is set out in the table below:

Property Address	Property Name	City	Year Built / Renovated / Expanded	Square feet of GLA	Occupancy
United States Office					
20 South Clark	20 South Clark	Chicago, IL	1970 / 2005	380,459	86.1%
120 South LaSalle	120 South LaSalle	Chicago, IL	1929 / 1998	657,394	84.5%
United States Office				1,037.853	
Greater Toronto Area Office					
5500 North Service Road		Burlington, ON	2001	224,591	73.1%
7030, 7050, 7100 Woodbine Avenue & 55, 85 Idema Road	Woodbine & Steeles Corporate Centre	Markham, ON	1984 / 2011	359,541	87.0%
3000 - 3100 Steeles Avenue East	Gateway Centre	Markham, ON	1982 / 1987	237,958	96.3%
2655 - 2695 North Sheridan Way	The Sheridan Exchange	Mississauga, ON	1987 / 1989	159,610	76.8%
2285 Speakman Drive		Mississauga, ON	1981	127,419	100.0%
2599 Speakman Drive (3)		Mississauga, ON	1971 / 2011	111,461	0.0%
2251 Speakman Drive		Mississauga, ON	1965 / 2016	115,580	100.0%
1189 Colonel Sam Drive		Oshawa, ON	2001	103,179	100.0%
4211 Yonge Street		Toronto, ON	1982	169,929	97.1%
1 Eva Road		Toronto, ON	1978 / 2011	92,189	71.4%
185 - 195 The West Mall	West Metro Corporate Centre	Toronto, ON	1986 / 2006	618,467	93.4%
401 - 405 The West Mall	Commerce West	Toronto, ON	1982 / 2009	412,363	86.2%
225 Duncan Mill		Toronto, ON	1978	156,623	94.7%
105 Moatfield Drive		Toronto, ON	1982	248,981	100.0%
95 Moatfield Drive		Toronto, ON	1982	156,426	100.0%
Greater Toronto Area Office				3,294,317	87.8%
Atlantic Office					
440 King Street	Kings Place	Fredericton, NB	1974 / 2001	294,838	91.6%
250 King Street		Fredericton, NB	2000	80,164	100.0%
460 Two Nations Crossing		Fredericton, NB	2008	50,229	100.0%
570 Queen Street		Fredericton, NB	1989	69,708	91.3%
644 Main Street	Blue Cross Centre	Moncton, NB	1988 / 2006	321,104	97.0%
81 Albert Street		Moncton, NB	2002	64,954	100.0%
39 King Street (2)	Brunswick Square	Saint John, NB	1976	507,018	76.5%
4 Herald Avenue	Fortis Tower	Corner Brook, NL	2014	68,279	88.3%
100 New Gower Street	Cabot Place	St. John's, NL	1987	136,167	100.0%
10 Factory Lane	The Johnson Building	St. John's, NL	1980	188,170	100.0%
5 Springdale Street	Fortis Place	St. John's, NL	2014	142,973	79.1%
140 Water Street	TD Place	St. John's, NL	1980 / 2013	102,980	76.9%
1505 Barrington Street	Maritime Centre	Halifax, NS	1977 / 1985	538,279	81.3%
84 - 86 Chain Lake Drive		Halifax, NS	2008 / 2011	77,666	83.6%
Atlantic Office				2,642,529	87.3%
Western Office					
280 Broadway Avenue (1)		Winnipeg, MB	1957	105,341	86.2%
114 Garry Street		Winnipeg, MB	1950 / 1995	74,248	100.0%
895 Waverley Street		Winnipeg, MB	1991	34,364	100.0%
1000 Waverley Street		Winnipeg, MB	1966 / 1998	58,468	91.3%
1450 Waverley Street		Winnipeg, MB	2015	64,000	100.0%
365 Hargrave Street		Winnipeg, MB	Various	71,472	90.1%
1870 Albert Street	Saskatchewan Place	Regina, SK	1985	84,775	72.2%
Western Office				492,668	89.8%
Office				**7,467,367**	**87.4%**

Property Address	Property Name	City	Year Built / Renovated / Expanded	Square feet of GLA	Occupancy
Non-office					
5404 36th Street SE	Doka Building	Calgary, AB	1980	36,000	100.0%
200 Manitoba 10	Walmart Flin Flon	Flin Flon, MB	2002	63,439	100.0%
307 - 311 Airport Road	Airport Road Shopping Centre	Yellowknife, NWT	2001 / 2003	15,395	100.0%
Non-office				114,834	100.0%
Total Portfolio				**7,582,201**	**87.6%**
Excluding Office Redevelopment				**7,355,906**	**88.9%**

1. Includes a seven-storey office building at 280 Broadway Avenue, a three-storey multi-family residential building located at 70 Smith Street and two parking lots located at 286 Broadway Avenue and 68 Smith Street; excludes occupancy from residential tenants at 70 Smith Street.
2. Includes Delta Brunswick Hotel.
3. Property under redevelopment.

CORPORATE INFORMATION

Slate Office REIT is an unincorporated, open-ended investment trust fund under and governed by the laws of the Province of Ontario. The REIT focuses on acquiring, owning and leasing a portfolio of diversified revenue-producing commercial real estate office properties in North America.

Head office

Slate Office REIT
121 King Street West, Suite 200
Toronto, ON M5H 3T9
Tel: +1 416 644 4264
Fax: +1 416 947 9366
E-mail: info@slateam.com

Independent auditors

KPMG LLP
Chartered Professional Accountants
Toronto, Canada

Toronto Stock Exchange listings

SOT.UN: trust units
SOT.DB: 5.25% convertible unsecured subordinated debentures

Registrar and transfer agent

TSX Trust Company
200 University Avenue, Suite 300
Toronto, Ontario
Tel: +1 416 361 0930
Fax: +1 416 361 0470

The REIT's website **www.slateofficereit.com** provides additional information regarding the REIT's portfolio, investment strategy, management and corporate governance. Additionally, the Investor section includes news, presentations, events, regulatory filings and trading information.

Trustees

(1) Compensation, Governance and Nomination Committee
(2) Audit Committee
(3) Investment Committee