Office
REIT
SLATE

Q1 2019
TSX: SOT.UN

DEAR FELLOW UNITHOLDERS

It has been a very busy start to 2019 for Slate Office REIT as we have completed a number of the positive initiatives that have increased and reinforced the net asset value of the company. I would like to take this opportunity to describe the current company.

At the end of the first quarter of 2019, Slate Office REIT comprised over 7.5 million square feet of well located, high quality assets in target markets across North America. Approximately 53% of the REITs assets are located in Toronto and Chicago, the 3rd and 4th largest cities in North America. The Atlantic Canada assets comprise a further 35% of the REITs asset base and include best in market properties in key urban centres throughout the region. With respect to the tenant base, over 61% of the REITs income is generated by government and investment grade tenants. We believe that we have assembled a portfolio of stable, performing assets with room to further enhance value through increased occupancy and rental rate growth. The first quarter 2019 IFRS valuation of approximately $1.8 billion implies a net asset value per unit of $8.49 and a price per square foot of $236, which is a significant discount to an estimated replacement cost of $388 per square foot. These are attractive metrics and they are not reflected in the current trading price.

On April 12th, we completed the previously announced sale of a 25% interest in a portfolio of Greater Toronto Area assets to an investment fund managed by Wafra Inc. ("Wafra"), a global private equity and alternative asset investor. This was a marquee transaction for the REIT on many levels. First, it establishes a joint venture relationship with a sophisticated global real estate investor with the potential for future growth. Second, it provides the REIT with enhanced liquidity to fund future investment opportunities. Last, and most importantly, it provides third party validation for the market value of approximately 28% of the REITs assets. Overall, the transaction is a testament to the REITs assets and to the management team's ability to deliver returns to our unitholders and our partners.

In addition to the completion of the Wafra transaction, there are a number of highlights with respect to the REITs operating results in the first quarter of 2019 that are worth reviewing:

- Same property NOI increased 4.9% over the same period in 2018. This is the fifth consecutive quarter of positive same property NOI growth with an averaged 9.9% per quarter
- Completed 254,409 square feet of leasing at an average increase in rent of 18.5%. 157,788 square feet of renewals at a 10.4% rental rate increase and a further 96,621 square feet of new leasing at a 27.0% increase in rent
- Completed 44,837 square feet of leasing in downtown Chicago where tenant demand for 20 South Clark and 120 South LaSalle remains strong
- Overall portfolio occupancy was up slightly to 87.7% and 89.0% when excluding redevelopment properties
- FFO, Core-FFO and AFFO per unit remain stable at $0.18, $0.19 and $0.16, respectively per unit compared to the fourth quarter of 2018
- Repurchased 648,905 units via normal course issuer bid with a total value of approximately $4.0 million

We are extremely pleased with our portfolio of assets. We believe in our ability to create value through prudent acquisitions and select dispositions. Our proactive management is evidenced by our leasing track record and same property NOI growth.

At the present time, the REIT's units trade at a significant discount to net asset value. The REIT's net asset value has recently been supported by actual property market transactions which makes the current 30-40% market price discount compelling. At the present time, buying back units of the REIT is effectively investing in a portfolio of assets that we understand and like - at a 30% discount to NAV. This is an excellent trade. Cash proceeds from recent transactions allow us to do so. We will continue to do this until other capital allocation options create better returns.

We thank our unitholders for their continued support.

Sincerely,

Scott Antoniak
Chief Executive Officer
May 3, 2019

Management's Discussion and Analysis

TSX: SOT.UN

March 31, 2019

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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 May 3, 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)

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Summary of Portfolio Information					
Number of properties	**41**	41	43	45	45
Gross leasable area ("GLA")	**7,582,482**	7,582,201	7,871,383	7,463,073	7,462,679
Total assets	**$ 1,875,906**	$ 1,866,729	$ 1,874,600	$ 1,689,148	$ 1,660,947
Total debt	**$ 1,181,621**	$ 1,175,826	$ 1,194,428	$ 1,016,926	$ 1,003,951
Occupancy	**87.7%**	87.6%	87.1%	86.8%	85.9%

					Three months ended
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Summary of Financial Information					
Revenue	**$ 57,200**	$ 59,055	$ 54,499	$ 52,056	$ 44,289
Net operating income ("NOI") (1)	**$ 27,043**	$ 27,358	$ 25,999	$ 25,212	$ 20,112
Same-property NOI change (2)	**4.9%**	14.5%	13.0%	11.7%	5.2%
Net income	**$ 5,919**	$ 27,944	$ 17,697	$ 23,592	$ 7,904
Funds from operations ("FFO") (1)	**$ 13,543**	$ 13,758	$ 15,071	$ 14,810	$ 11,292
Core-FFO (1)	**$ 14,150**	$ 14,356	$ 15,659	$ 15,389	$ 11,862
Adjusted FFO ("AFFO") (1)	**$ 11,766**	$ 11,101	$ 12,755	$ 12,836	$ 10,108
IFRS net asset value ("NAV")	**$ 634,447**	$ 642,878	$ 635,375	$ 628,247	$ 615,963
Per Unit Financial Information					
Weighted average diluted number of trust units (000s)	**75,247**	75,261	75,203	75,139	62,874
Diluted units outstanding (000s)	**74,746**	75,300	75,236	75,180	75,107
IFRS NAV per unit	**$ 8.49**	$ 8.54	$ 8.45	$ 8.36	$ 8.20
FFO per unit (1)	**$ 0.18**	$ 0.18	$ 0.20	$ 0.20	$ 0.18
Core-FFO per unit (1)	**$ 0.19**	$ 0.19	$ 0.21	$ 0.20	$ 0.19
AFFO per unit (1)	**$ 0.16**	$ 0.15	$ 0.17	$ 0.17	$ 0.16
Distributions per unit (1)	**$ 0.1583**	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875
FFO pay-out ratio (1)	**87.8%**	102.5%	93.5%	95.1%	110.4%
Core-FFO payout ratio (1)	**84.0%**	98.2%	90.0%	91.5%	105.1%
AFFO pay-out ratio (1)	**101.1%**	127.0%	110.4%	109.7%	123.4%

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Financial Data					
Loan-to-value ("LTV") ratio	**63.1%**	63.1%	63.8%	60.2%	60.5%
Weighted average debt interest rate	**4.1%**	4.3%	4.0%	3.8%	3.7%
Interest coverage ratio (times) (1)	**2.3x**	2.3x	2.4x	2.5x	2.6x
Net debt to adjusted EBITDA ratio (times) (1)	**11.2x**	12.0x	13.6x	12.8x	14.2x

(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 three months ended March 31, 2019. The presentation of the REIT's financial results, including the related comparative information, contained in this MD&A are based on the REIT's condensed consolidated interim financial statements (the "consolidated financial statements") as at March 31, 2019 and for the three months ended March 31, 2019 and 2018. 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 May 3, 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 March 31, 2019, 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 March 31, 2019, 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 2017 and 2018, the REIT created $0.81 and $0.82 of value per unit, respectively. Of this a total of $0.75 was returned to unitholders in the form of a distribution and $0.07 (2018) and $0.06 (2017) was retained in the REIT, which served to increase IFRS net asset value. Importantly, this value creation in each of 2017 and 2018 is equivalent to a 9.6% total return on a per unit basis. 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.

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. On April 12, 2019 as part of its ongoing capital recycling program, the REIT disposed of 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. This sale validates a significant portion of our NAV through a third party price. To further strengthen the REIT’s ability to take advantage of future investment opportunities, the REIT modified its annual distribution to $0.40 per unit from $0.75 per unit commencing with the March 2019 distribution paid in April 2019. This enables the REIT to retain $26 million of additional capital annually while providing an annual yield of 6.5% based on the March 31, 2019 closing 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 three months ended March 31, 2019 and the years ended December 31, 2018 and 2017:

	Three months ended March 31, 2019		Year ended December 31, 2018		Year ended December 31, 2017	
	IFRS Net Asset Value (1)	**Per Unit**	IFRS Net Asset Value (1)	Per Unit	IFRS Net Asset Value (1)	Per Unit
Beginning of period	**$ 642,878**	**$ 8.54**	$ 528,051	$ 8.48	$ 387,862	$ 8.42
Core-FFO	**14,150**	**0.19**	57,266	0.79	46,684	0.81
Property fair value changes(2)	**(854)**	**(0.01)**	19,659	0.27	15,126	0.26
Other fair value changes	**(3,334)**	**(0.04)**	(3,350)	(0.05)	1,930	0.03
Depreciation on hotel	**(239)**	**—**	(947)	(0.01)	(799)	(0.01)
Foreign exchange	**(679)**	**(0.01)**	6,241	0.09	—	—
Unit issuances	**—**	**—**	98,586	(0.14)	127,760	(0.12)
Distributions	**(11,890)**	**(0.16)**	(54,728)	(0.75)	(43,607)	(0.75)
DRIP units	**531**	**(0.01)**	1,459	(0.02)	1,014	(0.01)
Unit repurchases	**(3,972)**	**0.02**	(1)	—	—	—
Other	**(2,144)**	**(0.04)**	(9,358)	(0.12)	(7,919)	(0.15)
End of period	**$ 634,447**	**$ 8.49**	$ 642,878	$ 8.54	$ 528,051	$ 8.48

(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.
(2) Includes the impact of IFRIC 21 property tax adjustment of $7.1 million for the three months ended March 31, 2019.

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

	Three months ended March 31, 2019		Year ended December 31, 2018		Year ended December 31, 2017	
	Percentage Return	**Per Unit**	Percentage Return	Per Unit	Percentage Return	Per Unit
IFRS net asset value change	**(0.7)% $**	**(0.06)**	0.8% $	0.07	0.7% $	0.06
Distributions	**7.5 %**	**0.16**	8.8%	0.75	8.9%	0.75
Total	**6.8 % $**	**0.10**	9.6% $	0.82	9.6% $	0.81

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.

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 March 31, 2019 and December 31, 2018 to the REIT's consolidated financial statements:

		March 31, 2019		December 31, 2018
Equity	**$**	**602,112**	$	611,447
Class B LP units		**32,292**		31,552
Deferred unit liability		**725**		636
Deferred tax asset		**(682)**		(757)
IFRS net asset value	**$**	**634,447**	$	643,635
Diluted number of units outstanding (1)		**74,746**		75,300
IFRS net asset value per unit	**$**	**8.49**	$	8.55

(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 $8.49 at March 31, 2019. Management believes that there is a substantive basis to support a net asset value of $8.49 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)		**March 31, 2019**
GTA JV Portfolio	**$**	**527.2**
Recent U.S. acquisitions		**328.7**
Other properties (1)		**992.0**
Debt and working capital		**(1,213.5)**
Net asset value	**$**	**634.4**
Net asset value per unit	**$**	**8.49**

(1) Valuation is equal to a 6.4% 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 at May 3, 2019 implies a 7.2% capitalization rate on next twelve months expected net operating income and in-place occupancy of 87.7%, 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.

Continued Unit Repurchases

As a result of the gap between the prevailing trading price and net asset value, management is committed to repurchase up to 10% of the REIT's units outstanding through its NCIB. This will reduce the number of outstanding REIT units, which is accretive to net asset value and per unit metrics for unitholders. Management is extremely pleased with the REIT's portfolio of assets and operating results to date. As such, management believes that the repurchase of units affirms the attractiveness of the portfolio and is the most prudent use of capital at the present time.

Suspension of Distribution Reinvestment Plan

Consistent with the plan to continue unit repurchases, the REIT's Board of Trustees have elected to suspend the REIT's distribution reinvestment plan ("DRIP") until further notice. Commencing with the May distribution to be paid on June 17, 2019, unitholders who elected to participate in the DRIP will receive the declared cash distributions on the distribution payment date. The suspension of the DRIP is intended to preserve value and eliminate dilution for the REIT's unitholders.

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 three months ended March 31, 2019:

Allocating capital

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. On April 12, 2019, the REIT completed this transaction and repaid approximately $70 million in debt, including the short-term bridge financing related to the acquisition of 120 South LaSalle.

In conjunction with the sale of the 25% interest, the REIT received incremental debt on five of the six properties, which resulted in $31.5 million of additional proceeds to the REIT at its share and extended those maturities by 1.5 years. This refinancing increased the amount of fixed rate debt by $100.9 million.

Normal course issuer bid ("NCIB")

During the three months ended March 31, 2019 the REIT repurchased 648,905 units under its NCIB for an aggregate cost of $4.0 million. The REIT repurchased 303,697 additional units after March 31, 2019 for an aggregate cost of $1.8 million. The REIT believes the current trading price to be a compelling investment opportunity and has suspended its DRIP on May 3, 2019 pursuant to approval from its Board of Trustees.

As a result of the gap between the prevailing trading price and net asset value, management is committed to repurchase up to 10% of the REIT's units outstanding through its NCIB. This will reduce the number of outstanding REIT units, which is accretive to net asset value and per unit metrics for unitholders. Management is extremely pleased with the REIT's portfolio of assets and operating results to date. As such, management believes that the repurchase of units affirms the attractiveness of the portfolio and is the most prudent use of capital at the present time.

Suspension of distribution reinvestment plan

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Leasing

- In the first quarter of 2019, the REIT completed a total of 254,409 square feet of leasing, comprised of 157,788 square feet of renewals and 96,621 square feet of new lease deals, increasing occupancy to 87.7% at March 31, 2019 from 87.6% at December 31, 2018.
- The overall rental rate spread on leasing in the first quarter of 2019 was 18.5%. Renewals were 10.4% above expiring rents while new deals were 27.0% above in-place building rent. The weighted average lease term was 5.6 years at March 31, 2019 compared to 5.8 years at December 31, 2018.

- The REIT's U.S. properties, 20 South Clark and 120 South LaSalle, in Chicago IL, continue to see strong tenant demand with 44,837 square feet of leasing completed in the first quarter of 2019.

Financial

- Net income was $5.9 million for the first quarter of 2019, a decrease from $7.9 million compared to the same period in the prior year. This decrease is primarily related to positive property net operating income and a fair value loss from transaction costs on the REIT's acquisitions in the first quarter of 2018 which are not additive to value, offset by increased interest costs in 2019 compared to the prior year from increased borrowings and a loss on fair value of financial instruments and Class B LP units during the first quarter of 2019.
- Same property NOI was up 4.9% for the first quarter of 2019 compared to the same period in the prior year. This increase is a continuation of strong same-property NOI growth experienced in the third and fourth quarters of 2018 from leasing completed by the REIT in 2017 and 2018 which increased occupancy as well as moving existing rents toward market rents. This quarter is the fifth consecutive quarter of same-property NOI growth for the REIT.
- FFO and Core-FFO in the first quarter of 2019 have each increased from the first quarter of 2018 by $2.3 million 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 $1.7 million in the first quarter of 2019 compared to the same period in the prior year, for the same reasons mentioned for FFO and Core-FFO.
- FFO, Core-FFO, and AFFO per unit in the first quarter of 2019 is consistent with the same period in 2018 at $0.18, $0.19, and $0.16 respectively.
- On April 24, 2019 the REIT entered into a pay-fixed receive-float interest rate swap pertaining to one of its floating rate loans, commencing May 1, 2019. The swap is for a notional amount of $64.6 million at an all in rate of 4.14% and expires on June 1, 2021.
- After closing the disposition of the 25% interest in these six properties, 78.4% of the REIT's total debt was subject to fixed interest rates on a pro forma basis. The REIT is undertaking to enter into a long-term pay-fixed receive-float interest rate swap 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 on a pro forma basis.
- 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 modified 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.

PART II - LEASING AND PROPERTY PORTFOLIO

LEASING

The REIT continues to renew and extend leases to drive occupancy and value. In aggregate, 254,409 square feet of leasing was completed, comprised of 157,788 square feet of lease renewals and 96,621 square feet of new lease deals in the first quarter of 2019. Leasing spreads in the quarter were 18.5% overall with lease renewals at 10.4% above expiring rents and new deals at 27.0% above building in place rent. Occupancy at March 31, 2019 increased 11 basis points to 87.7% compared to 87.6% at December 31, 2018, while the weighted average lease term decreased to 5.6 years from 5.8 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 March 31, 2019.

OCCUPANCY

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

	Three months ended March 31, 2019			Three months ended December 31, 2018		
	GLA	**Occupancy (square feet)**	**Occupancy (%)**	GLA	Occupancy (square feet)	Occupancy (%)
Occupancy, beginning of period	**7,582,201**	**6,640,966**	**87.6%**	7,871,383	6,854,388	87.1%
Acquisitions	**—**	**—**	**—**	—	—	—
Dispositions	**—**	**—**	**—**	(294,394)	(241,249)	81.9%
Remeasurement	**281**	**—**	**—**	5,212	—	—
Change in same property occupancy	**—**	**8,475**	**—**	—	27,827	—
Occupancy, end of period	**7,582,482**	**6,649,441**	**87.7%**	7,582,201	6,640,966	87.6%
Redevelopment properties	**111,461**	**—**	**—**	111,461	—	—
Occupancy, excluding redevelopments	**7,471,021**	**6,649,441**	**89.0%**	7,470,740	6,640,966	88.9%

The REIT's objective is to maintain high levels of occupancy throughout the portfolio. At March 31, 2019, the REIT's occupancy, including redevelopment office properties, was 87.7%, an increase of 11 basis points from the prior quarter. The REIT has also completed new lease deals that will commence subsequent to March 31, 2019 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 March 31, 2019 was 5.6 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:

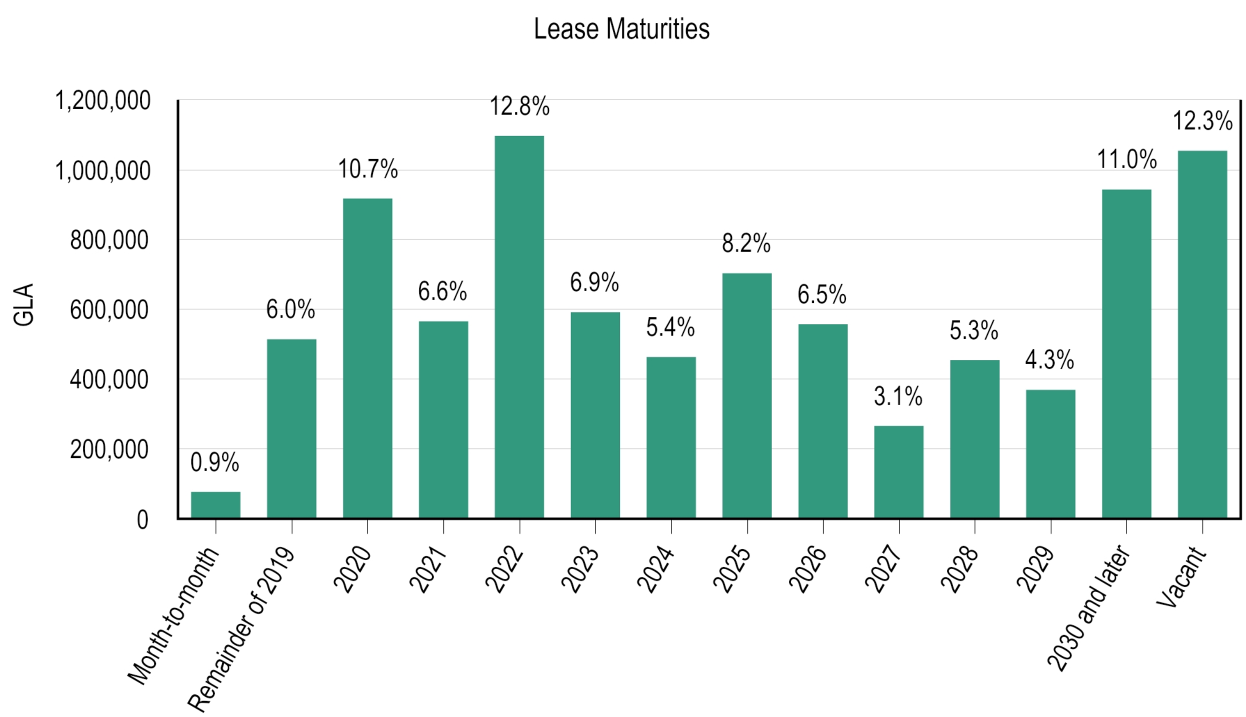
	March 31, 2019			December 31, 2018		
	Weighted average years to maturity (1)	**GLA**	**% of GLA**	Weighted average years to maturity (1)	GLA	% of GLA
Atlantic	**5.2**	**2,304,900**	**30.4%**	5.4	2,307,875	30.4%
Ontario	**5.0**	**2,898,304**	**38.3%**	5.3	2,892,687	38.3%
Western	**7.8**	**555,653**	**7.3%**	8.1	557,201	7.3%
USA	**7.0**	**890,584**	**11.7%**	7.0	883,203	11.6%
	5.6	**6,649,441**	**87.7%**	5.8	6,640,966	87.6%
Vacant (2)		**933,041**	**12.3%**		941,235	12.4%
Total		**7,582,482**	**100.0%**		7,582,201	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 March 31, 2019.

The following is a profile of the maturities of the REIT's leases excluding the impact of tenant extension options at March 31, 2019:

	GLA	% of portfolio	Weighted average in place rent (per square foot) (1)
Month-to-month	66,978	0.9%	$ 11.84
Remainder of 2019	454,819	6.0%	15.58
2020	812,669	10.7%	14.62
2021	502,033	6.6%	16.49
2022	970,080	12.8%	15.32
2023	523,888	6.9%	16.01
2024	411,665	5.4%	19.95
2025	625,307	8.2%	16.10
2026	491,935	6.5%	16.63
2027	237,782	3.1%	14.10
2028	400,784	5.3%	16.92
2029	322,969	4.3%	14.78
2030 and later	828,532	11.0%	21.81
Vacant	933,041	12.3%	
Total/weighted average	**7,582,482**	**100.0%**	**$ 16.65**

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



For the remainder of 2019, 6.0% 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 285,000 square feet vacating in the remainder of 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 March 31, 2019, the REIT completed 254,409 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 March 31, 2019:

	GLA	Number of leases	Weighted average expiring rent (per square foot)	Weighted average new rent (per square foot)	Increase in rent
Renewed leases	157,788	27	$ 10.86	$ 11.99	10.4%
New leases	96,621	19	16.77	21.29	27.0%
Total / weighted average	254,409	46	$ 13.10	$ 15.52	18.5%
Less: leases not renewed / vacated	(65,966)	(21)			
Net total	188,443	25			

During the quarter, on a weighted average basis, renewed and new leases were completed at a 10.4% and 27.0% increase to expiring rents or building in place rents, respectively.

The weighted-average in-place rent of the REIT's office portfolio at March 31, 2019 is $16.65 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 $2.01 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
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
Q1 2019	157,788	27	96,621	19	254,409	46

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 March 31, 2019, which together represent 38.3% 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-	433,800	3	6.5%	5.6
Government of Canada	AAA	345,712	7	4.7%	3.9
Canadian Imperial Bank of Commerce	AA	339,679	4	5.5%	9.5
Province of New Brunswick	A+	313,586	5	3.3%	3.1
Thales Rail Signalling Solutions Inc.	A2	248,262	1	3.2%	5.7
Medavie Blue Cross	Unrated	195,238	4	2.9%	9.0
Bell Canada Enterprises	BBB	167,418	4	6.7%	7.8
Kraft Canada Inc.	BBB-	156,426	1	2.0%	7.2
Johnson Insurance (3)	A	154,018	1	2.0%	10.0
Province of Nova Scotia	AA-	129,759	1	1.5%	6.6
Total		**2,483,898**		**38.3%**	**6.4**

(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 March 31, 2019, 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.

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

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. This transaction closed on April 12, 2019.

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 80.2% 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 2599 Speakman Drive as a redevelopment property as at March 31, 2019. 2599 Speakman Drive is one of five properties located in the Sheridan Business Park in Mississauga, ON in which the REIT has a 100% interest. The GLA of 2599 Speakman Drive is 111,461 square feet. 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 March 31, 2019 had an estimated IFRS fair value of $1.8 billion, with a weighted average going-in capitalization rate of 6.27%. It is important to highlight that this capitalization rate reflects the current economics of the REIT's properties, including its 87.7% in place occupancy which includes its redevelopment assets and current weighted average in place rents of $16.65 per square foot, which Management estimates to be on average $2.01 per square foot below estimated market rents. The REIT has estimated the value of $1,741.9 million of its property using a direct capitalization or discounted cash flow methodology including those where third party appraisals have been obtained. The weighted average capitalization rate for these properties is 6.27% (December 31, 2018 - 6.18%). The capitalization rate on the REIT's properties is based on management's estimate of twelve-month forward net operating income or in certain cases stabilized net operating income. The remaining properties of the REIT are values using contracted sale prices.

Overall, the average estimated IFRS fair value per square foot of the REIT's portfolio excluding the Data Centre and Delta Brunswick Hotel is $236 with an average cost to the REIT of $227 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 $300 and $400 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 $236 compared to an average cost to the REIT of $227 per square foot represents approximately $65 million of value creation from ownership, based on the REIT's current portfolio.

The weighted average capitalization rate for the fair value of the REIT's properties is 6.27% (December 31, 2018 - 6.18%). The capitalization rate on the REIT's properties is based on management's estimate of twelve-month forward net operating income or in certain cases stabilized 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:

	March 31, 2019		December 31, 2018	
	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%	9.00%
Weighted average	**7.34%**	**6.71%**	7.36%	6.71%

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 ended March 31, 2019 the REIT recognized a gain on fair value of investment property of $6.2 million. The majority of this gain is a result of IFRIC 21 property tax adjustments of $7.1 million. The fair value of the REIT's investment properties are consistent with December 31, 2018 with increases to property values resulting from capital expenditures during the three months ended March 31, 2019.

Property continuity

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

	Three months ended March 31,	
	2019	2018
Balance, beginning of period	**$ 1,780,413**	$ 1,279,509
Acquisitions [(1)]	**—**	301,180
Capital expenditures	**3,781**	1,563
Direct leasing costs	**13,726**	4,321
Dispositions	**—**	(1,025)
Depreciation of hotel asset	**(239)**	(222)
Foreign exchange	**(6,693)**	5,257
Change in fair value	**6,243**	(9,230)
IFRIC 21 property tax adjustment [(2)]	**(7,097)**	528
Straight-line rent and other changes	**(350)**	116
Balance, end of period	**$ 1,789,784**	$ 1,581,997

(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 March 31, 2019 is primarily a result of capital and leasing expenditures.

PART III - RESULTS OF OPERATIONS

SUMMARY OF RESULTS OF OPERATIONS

The following is a summary of the results of operations:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Rental revenue	**$ 57,200**	$ 44,289
Property operating expenses	**(37,604)**	(23,533)
Finance income on finance lease receivable	**918**	955
Interest income	**112**	37
Interest and finance costs	**(13,454)**	(10,325)
General and administrative	**(1,938)**	(1,608)
Change in fair value of properties	**6,243**	(9,230)
Change in fair value of financial instruments	**(3,334)**	5,048
Disposition costs	**(349)**	(54)
Depreciation of hotel asset	**(239)**	(222)
Deferred income tax (expense) recovery	**(59)**	790
Net income before Class B LP units	**$ 7,496**	$ 6,147
Change in fair value of Class B LP units	**(740)**	2,748
Distributions to Class B LP unitholders	**(837)**	(991)
Net income	**$ 5,919**	$ 7,904
Other comprehensive income to be subsequently reclassified to profit or loss:		
Foreign currency translation	**(2,501)**	1,734
Fair value loss on net investment hedges	**1,822**	—
Total other comprehensive income	**(679)**	1,734
Comprehensive income	**$ 5,240**	$ 9,638

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 March 31, 2019 when compared to the same period in 2018 increased by $1.3 million primarily due to an increase in fair value of investment property of $15.5 million year-over-year as a result of IFRIC 21 property tax adjustments and transaction costs on acquisitions completed in the first quarter of 2018 which were not additive to value. Further, property NOI increased $5.9 million year-over-year after adjusting for the impact of IFRIC 21. This increase is primarily 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 $8.4 million when compared to 2018 and higher interest expense of $3.1 million. The increase in interest expense is from additional borrowings to finance acquisitions.

NET INCOME AND COMPREHENSIVE INCOME

For the three months ended March 31, 2019, net income was $5.9 million compared to $7.9 million for the same period in 2018. This decrease is due to higher net income before Class B LP units and a loss on the fair value of Class B LP units of $0.7 million for the three months ended March 31, 2019. 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 loss of $0.7 million related to a loss of $2.5 million on the foreign exchange impact from the REIT's exposure to U.S. cashflows in the properties and a $1.8 million gain on hedges of net investments in foreign operations settled in the first quarter of 2018. Distributions to Class B LP unitholder have decreased for the three months ended March 31, 2019 as a result of the REIT's revised distribution rate to $0.40 per unit annually commencing in March 2019 on distributions to be paid in April 2019.

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 ended March 31, 2019 and 2018:

	Three months ended March 31,	
	2019	2018
Revenue	**$ 57,200**	$ 44,289
Property operating expenses	**(37,604)**	(23,533)
IFRIC 21 property tax adjustment (1)	**7,097**	(528)
Straight-line rents and other changes	**350**	(116)
Net operating income	**$ 27,043**	$ 20,112

(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 $6.9 million for the three months ended March 31, 2019 compared to the same period in 2018 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 a 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.

The following is a reconciliation of the change in NOI for the three months ended March 31, 2019 compared to the same period in the prior year:

Net operating income, Q1 2018	**$**	**20,112**
Change in same-property NOI		899
Contribution from acquired properties		6,444
Impact of foreign exchange rates		235
Reduced contribution from sold properties		(650)
Net operating income, Q1 2019	**$**	**27,040**
Year-over-year change - $	$	6,928
Year-over-year change - %		34.4%

The following is a reconciliation of the change in NOI for the three months ended March 31, 2019 compared to the immediately preceding quarter:

Net operating income, Q4 2018	**$**	**27,358**
Change in same-property NOI		305
Impact of foreign exchange rates		33
Change in hotel contribution (1)		(259)
Reduced contribution from sold properties		(397)
Net operating income, Q1 2019	**$**	**27,040**
Quarter-over-quarter change - $	$	(318)
Quarter-over-quarter change - %		(1.2)%

(1) Contribution from the REIT's hotel is not included in same property changes when compared to the preceding quarter due to the seasonality of its contribution to NOI.

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 March 31, 2018 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 December 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
		March 31, 2019		March 31, 2018
Number of properties		**32**		32
GLA		**5,545,552**		5,545,552
Revenue	**$**	**40,177**	$	39,218
Operating expenses		**(28,624)**		(20,237)
IFRIC 21 property tax adjustment		**7,097**		(528)
Straight-line rents and other changes		**649**		(53)
Same-property NOI (including hotel asset)		**19,299**		18,400
Period-over-period change - $	**$**	**899**		
Period-over-period change - %		**4.9%**		

Same-property NOI for the three months ended March 31, 2019 compared to the same period in 2018 increased by $0.9 million or 4.9%. 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, particularly at the Maritime Centre in Atlantic Canada which had numerous lease commencements in the former Bell Aliant space. Additionally leasing completed at West Metro and Commerce West in the Greater Toronto Area, ON contributed positively to NOI. This is offset by decreased NOI at 2599 Speakman Drive which was occupied for one month in the first quarter of 2018 but is now vacant. The REIT's hotel asset had increased contribution from improved occupancy and rates after its completed redevelopment. Overall, the REIT's hotel contributed $0.1 million to the year-over-year increase in NOI.

The REIT has had five consecutive quarters of same-property NOI growth. The following is a history of the REIT's year-over-year same-property NOI changes since the beginning of 2018:

										Three month ended
		March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018
Number of properties		**32**		32		34		33		33
GLA		**5,545,552**		5,545,479		5,839,915		4,928,372		4,928,372
Same-property NOI change - $	**$**	**899**	$	2,571	$	2,418	$	1,729	$	743
Same-property NOI change - %		**4.9%**		14.5%		13.0%		11.7%		5.2%

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

The same-property NOI comparison to the three months ended December 31, 2018 excludes the impact of properties disposed of in the fourth quarter of 2018. This includes 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
		March 31, 2019	December 31, 2018
Number of properties		**41**	41
GLA		**7,582,482**	7,582,482
Revenue	**$**	**57,186**	$ 57,950
Property operating expenses		**(37,596)**	(32,893)
IFRIC 21 property tax adjustment		**7,097**	2,107
Straight-line rents and other changes		**350**	(206)
Same-property NOI (including hotel asset)		**27,037**	26,958
NOI attributable to hotel asset		**(171)**	(430)
Same-property NOI (excluding hotel asset)		**26,866**	26,528
Quarter-over-quarter change - $	**$**	**338**	
Quarter-over-quarter change - %		**1.3%**	

Same-property NOI, excluding the REIT's hotel asset, for the three months ended March 31, 2019 compared to the most recently completed quarter, increased by $0.3 million. The revenue and expenses of the REIT decreased marginally quarter-over-quarter, primarily from the REIT's hotel due to seasonal fluctuations.

Looking forward, renewal spreads are expected to be strong as the current in place rent is an estimated 10.8% below market. The REIT's portfolio has vacancies throughout 2019 of 6.0% of it's portfolio GLA which the REIT is actively managing to execute new or renewed leases.

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 ended March 31, 2019 and 2018 from cash flow from operating activities:

	Three months ended March 31,	
	2019	2018
Cash flow from operating activities	**$ 19,985**	$ 7,497
Add (deduct):		
Leasing costs amortized to revenue	**1,212**	408
Disposition costs	**349**	54
Subscription receipts equivalent amount (1)	**—**	1,597
Working capital items	**(7,887)**	1,274
Straight-line rent and other changes	**(350)**	116
Interest and other finance costs	**(13,454)**	(8,728)
Interest paid	**12,697**	8,083
Distributions paid to Class B unitholders	**991**	991
FFO	**$ 13,543**	$ 11,292
Finance income on finance lease receivable	**(918)**	(955)
Finance lease payments received	**1,525**	1,525
Core-FFO	**$ 14,150**	$ 11,862

(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 $1,597,000 was recorded in interest and finance costs for the three months ended March 31, 2018.

The following is a reconciliation of FFO and Core-FFO for the three months ended March 31, 2019 and 2018 from net income:

	Three months ended March 31,	
	2019	2018
Net income	**$ 5,919**	$ 7,904
Add (deduct):		
Leasing costs amortized to revenue	**1,212**	408
Change in fair value of properties	**(6,243)**	9,230
IFRIC 21 property tax adjustment (1)	**7,097**	(528)
Change in fair value of financial instruments	**3,334**	(5,048)
Disposition costs	**349**	54
Depreciation of hotel asset	**239**	222
Deferred income tax expense / (recovery)	**59**	(790)
Change in fair value of Class B LP units	**740**	(2,748)
Distributions to Class B unitholders	**837**	991
Subscription receipts equivalent amount (2)	**—**	1,597
FFO	**$ 13,543**	$ 11,292
Finance income on finance lease receivable	**(918)**	(955)
Finance lease payments received	**1,525**	1,525
Core-FFO	**$ 14,150**	$ 11,862
Weighted average number of units outstanding (3)	**75,247**	62,874
FFO per unit (diluted)	**$ 0.18**	$ 0.18
Core-FFO per unit (diluted)	**$ 0.19**	$ 0.19

(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 $1,597,000 was recorded in interest and finance costs for the three months ended March 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 March 31, 2019		2018
Rental revenue	**$**	**57,200**	$	44,289
Property operating expenses		**(37,604)**		(23,533)
Finance income on finance lease receivable		**918**		955
Interest income		**112**		37
Interest and finance costs		**(13,454)**		(10,325)
General and administrative		**(1,938)**		(1,608)
IFRIC 21 property tax adjustment (1)		**7,097**		(528)
Leasing costs amortized to revenue		**1,212**		408
Subscription receipts equivalent amount (2)		**—**		1,597
FFO	**$**	**13,543**	$	11,292
Finance income on finance lease receivable		**(918)**		(955)
Finance lease payments received		**1,525**		1,525
Core-FFO	**$**	**14,150**	$	11,862
Weighted average number of units outstanding (3)		**75,247**		62,874
FFO per unit (diluted)	**$**	**0.18**	$	0.18
Core-FFO per unit (diluted)	**$**	**0.19**	$	0.19

(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 $1,597,000 was recorded in interest and finance costs for the three months ended March 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.

For the three months ended March 31, 2019, FFO was $13.5 million or $0.18 per unit compared to FFO for the three months ended March 31, 2018, which was $11.3 million or $0.18 per unit, representing an increase of approximately $2.3 million, with no change on a per unit basis. The increase in FFO is a result of increased NOI from acquisitions, including 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. The increase in NOI is partially offset by increase interest and finance costs from debt used to finance acquisitions in 2018.

Core-FFO for the three months ended March 31, 2019 was $14.2 million compared to $11.9 million for the same period in 2018. Core-FFO per unit has remained consistent at $0.19 for three months ended March 31, 2019. The increase in Core-FFO is 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 a 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 $1.2 million has been received through to March 31, 2019. 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 ended March 31, 2019.

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 March 31,	
	2019	2018
Cash flow from operating activities	**$ 19,985**	$ 7,497
Add (deduct):		
Working capital items	**(7,887)**	1,274
Principal repayments on finance lease receivable	**607**	570
Distributions paid to Class B LP unitholders	**991**	991
Subscription receipts equivalent amount (1)	**—**	1,597
Disposition costs	**349**	54
Interest rate subsidy	**108**	108
Guaranteed income supplements	**282**	40
Normalized direct leasing and capital costs	**(2,669)**	(2,023)
AFFO	**$ 11,766**	$ 10,108

(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 $1,597,000 was recorded in interest and finance costs for the three months ended March 31, 2018.

The following table reconciles AFFO from NOI:

	Three months ended March 31,	
	2019	2018
Net operating income	**$ 27,043**	$ 20,112
Add (deduct):		
General and administrative	**(1,938)**	(1,608)
Finance lease payments received	**1,525**	1,525
Cash interest	**(12,585)**	(8,046)
Interest rate subsidy	**108**	108
Guaranteed income supplements	**282**	40
Normalized direct leasing and capital costs	**(2,669)**	(2,023)
AFFO	**$ 11,766**	$ 10,108

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

	Three months ended March 31,	
	2019	2018
Core-FFO	**$ 14,150**	$ 11,862
Add (deduct):		
Amortization of deferred transaction costs	**854**	795
Amortization of debt mark-to-market adjustments	**(97)**	(150)
Amortization of straight-line rent	**(862)**	(524)
Interest rate subsidy	**108**	108
Guaranteed income supplements	**282**	40
Normalized direct leasing and capital costs	**(2,669)**	(2,023)
AFFO	**$ 11,766**	$ 10,108
Weighted average number of units outstanding (1)	**75,247**	62,874
AFFO per unit (diluted)	**$ 0.16**	$ 0.16

(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 March 31, 2019, AFFO was $11.8 million or $0.16 per unit, whereas AFFO for the three months ended March 31, 2018 was $10.1 million or $0.16 per unit, representing an increase of $1.7 million and consistent on a per unit basis. 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 and the 7 asset portfolio in the Greater Toronto Area and Atlantic Canada in March 2018. These contributions are offset by higher interest costs in 2019 compared to the same period in the prior year which is a result of increased borrowings to partially finance acquisitions.

Reconciliation of FFO, Core-FFO and AFFO

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

	Three months ended March 31, 2019	2018
Net income	**$ 5,919**	$ 7,904
Add (deduct):		
Leasing costs amortized to revenue	**1,212**	408
Change in fair value of properties	**(6,243)**	9,230
IFRIC 21 property tax adjustment (1)	**7,097**	(528)
Change in fair value of financial instruments	**3,334**	(5,048)
Disposition costs	**349**	54
Depreciation of hotel asset	**239**	222
Deferred income tax recovery	**59**	(790)
Change in fair value of Class B LP units	**740**	(2,748)
Distributions to Class B unitholders	**837**	991
Subscription receipts equivalent amount (2)	**—**	1,597
FFO	**13,543**	11,292
Finance income on finance lease receivable	**(918)**	(955)
Finance lease payments received	**1,525**	1,525
Core-FFO	**14,150**	11,862
Amortization of deferred transaction costs	**854**	795
Amortization of debt mark-to-market adjustments	**(97)**	(150)
Amortization of straight-line rent	**(862)**	(524)
Interest rate subsidy	**108**	108
Guaranteed income supplements	**282**	40
Normalized direct leasing and capital costs	**(2,669)**	(2,023)
AFFO	**$ 11,766**	$ 10,108

(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 $1,597,000 was recorded in interest and finance costs for the three months ended March 31, 2018.

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

	Three months ended March 31, 2019	2018
FFO per unit (diluted)	**$ 0.18**	$ 0.18
Core FFO per unit (diluted)	**0.19**	0.19
AFFO per unit (diluted)	**$ 0.16**	$ 0.16

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 ended March 31, 2019 resulted in 82,894 trust units issued under the DRIP. For the March 31, 2019 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. On May 3, 2019 the REIT's Board of Trustees approved the suspension of the REIT's DRIP commencing with the May 2019 distribution to be paid in June 2019. Management of the REIT believes this is a prudent capital allocation strategy that will further its efforts to acquire units of the REIT under its NCIB.

In consideration of the REIT’s current equity cost of capital and the attractiveness of the current investment market, the REIT modified its annual distribution to $0.40 per unit from $0.75 per unit beginning with the REIT’s March 2019 distribution paid in April 2019. The new distribution rate will result in the REIT retaining $26 million of additional capital annually. The REIT intends to 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 March 31, 2019 and 2018 to unitholders of the REIT and Class B LP unitholders:

	Three months ended March 31, 2019			Three months ended March 31, 2018		
	Trust units	**Class B LP units**	**Total**	Trust units	Class B LP units	Total
Distributions declared	**$ 11,053**	**$ 837**	**$ 11,890**	$ 11,478	$ 991	$ 12,469
Distributions reinvested in trust units	**476**	**—**	**476**	271	—	271
Distributions, net of DRIP	**$ 10,577**	**$ 837**	**$ 11,414**	$ 11,207	$ 991	$ 12,198

Distributions declared to unitholders of the REIT of $11.1 million for the three months ended March 31, 2019 were lower than cash flow from operating activities of $20.0 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 four 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 March 31, 2019	2018
FFO	**$ 13,543**	$ 11,292
REIT unit and Class B LP distributions declared	**11,890**	12,469
Excess of FFO over distributions declared	**1,653**	(1,177)
Cash retained from DRIP	**476**	271
Excess of FFO over cash distributions	**$ 2,129**	$ (906)
FFO payout ratio	**87.8%**	110.4%
FFO payout ratio after DRIP (1)	**84.3%**	108.0%

(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 March 31, 2019	2018
Core-FFO	**$ 14,150**	$ 11,862
REIT unit and Class B LP distributions declared	**11,890**	12,469
Excess of Core-FFO over distributions declared	**2,260**	(607)
Cash retained from DRIP	**476**	271
Excess of Core-FFO over cash distributions	**$ 2,736**	$ (336)
Core-FFO payout ratio	**84.0%**	105.1%
Core-FFO payout ratio after DRIP (1)	**80.7%**	102.8%

(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 March 31, 2019	2018
AFFO	**$ 11,766**	$ 10,108
REIT unit and Class B LP distributions declared	**11,890**	12,469
Excess/ (shortfall) of AFFO over distributions declared	**(124)**	(2,361)
Cash retained from DRIP	**476**	271
Excess/ (shortfall) of AFFO over cash distributions	**$ 352**	$ (2,090)
AFFO payout ratio	**101.1%**	123.4%
AFFO payout ratio after DRIP (1)	**97.0%**	120.7%

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

The FFO, Core-FFO and AFFO pay-out ratios have decreased for the three months ended March 31, 2019 compared to the same period in 2018 resulting from higher net operating income and the revision of the REIT's distribution to $0.40 annually from $0.75 beginning with the REIT's March 2019 distribution. Based on the revised distribution level, the REIT's pro forma annual FFO, Core-FFO and AFFO payout ratio would have been 55.6%, 53.2% and 64.0%, respectively, using diluted units outstanding at March 31, 2019.

The table below illustrates the REIT's pro forma payout ratio for the three months ended March 31, 2019 assuming distributions were paid at the revised distribution rate of $0.40 per unit annually:

	FFO	Core-FFO	AFFO
Three months ended March 31, 2019	$ 13,543	$ 14,150	$ 11,766
Quarterly distributions at $0.40 per unit	$ 7,525	$ 7,525	$ 7,525
Pro forma payout ratio	**55.6%**	**53.2%**	**64.0%**

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 March 31 2019 and 2018:

		Three months ended March 31,		
		2019		2018
	NOI	**Percentage (%)**	NOI	Percentage (%)
Atlantic	**$ 9,043**	**33.4%**	$ 7,632	38.0%
Ontario	**11,532**	**42.6%**	9,801	48.7%
Western	**1,637**	**6.1%**	1,789	8.9%
USA	**4,831**	**17.9%**	890	4.4%
	$ 27,043	**100.0%**	$ 20,112	100.0%

Atlantic

	Three months ended March 31,	
	2019	2018
# of properties	**14**	16
Owned GLA (000s of square feet)	**2,643**	2,795
Occupancy rate (%) (period-end)	**87.2%**	82.9%
Revenue	**$ 20,466**	$ 18,954
Property operating expenses	**(11,748)**	(11,374)
Straight-line rent and other changes	**325**	52
NOI	**$ 9,043**	$ 7,632

NOI for the Atlantic properties increased by $1.4 million for the three months ended March 31, 2019 compared to the same period in 2018. 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 in March 2018 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 three months ended March 31, 2019.

Ontario

	Three months ended March 31,	
	2019	2018
# of properties	**15**	18
Owned GLA (000s of square feet)	**3,294**	3,673
Occupancy rate (%) (period-end)	**88.0%**	87.6%
Revenue	**$ 23,007**	$ 19,718
Property operating expenses	**(11,618)**	(9,883)
Straight-line rent and other changes	**143**	(34)
NOI	**$ 11,532**	$ 9,801

NOI for the three months ended March 31, 2019 was $11.5 million compared to NOI of $9.8 million for the three months ended March 31, 2018, representing an increase of $1.7 million year-over-year. The increase in NOI is from the acquisition of 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.

Western

		Three months ended March 31,		
		2019		2018
# of properties		**10**		10
Owned GLA (000s of square feet)		**608**		615
Occupancy rate (%) (period-end)		**91.5%**		91.6%
Revenue	**$**	**3,172**	$	3,265
Property operating expenses		**(1,552)**		(1,398)
Straight-line rent and other changes		**17**		(78)
NOI	**$**	**1,637**	$	1,789
NOI from Data Centre		**1,525**		1,525
NOI including Data Centre	**$**	**3,162**	$	3,314

NOI for the three months ended March 31, 2019 was $3.2 million including the income from the Data Centre, a decrease of $0.2 million over the comparable period in the prior year due to the timing of expenses. 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 March 31,		
		2019		2018
# of properties		**2**		1
Owned GLA (000s of square feet)		**1,038**		380
Occupancy rate (%) (period-end)		**85.8%**		83.6%
Revenue	**$**	**10,555**	$	2,352
Property operating expenses		**(12,686)**		(877)
IFRIC 21 property tax adjustment (1)		**7,097**		(528)
Straight-line rent and other changes		**(135)**		(57)
NOI	**$**	**4,831**	$	890

(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 March 31, 2019 was $4.8 million which represents a full quarter of operating activity for both of the REIT's U.S. properties compared to two months of operating activity in the prior year for 20 South Clark, contributing NOI of $0.9 million.

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 March 31,		
		2019		2018
Property base rent (1)	**$**	**28,432**	$	22,214
Operating cost recoveries		**18,289**		14,076
Tax recoveries		**8,725**		5,930
Hotel		**2,104**		1,953
Straight-line adjustments and other		**(350)**		116
	$	**57,200**	$	44,289

(1) Includes parking revenue earned at properties.

For the three months ended March 31, 2019, revenue from properties was $57.2 million, higher than $44.3 million for the same period in 2018. The increase over prior period 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 in February 2018 and the 7 Asset Portfolio in Ontario and Atlantic Canada in March 2018, which have contributed to revenue during their period of ownership. This revenue contribution is offset by the disposition of six of the REIT's properties throughout 2018 which no longer contribute to revenue in 2019.

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 $18.3 million for the three months ended March 31, 2019 compared to $14.1 million for the same period in 2018. Property tax recoveries increased to $8.7 million for the three months ended March 31, 2019 compared to $5.9 million for the same period in 2018. 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 March 31, 2019, general and administrative expenses have increased by $0.3 million when compared to the same period in 2018. The increase in expenses is a result of higher asset management fees of $0.4 million due to portfolio growth, and reduced credit losses for the three months ended March 31, 2019.

INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

	Three months ended March 31,	
	2019	2018
Mortgage interest	**$ 7,608**	$ 5,059
Interest on other debt	**4,717**	2,755
Amortization of deferred transaction costs	**854**	795
Amortization of debt mark-to-market adjustments	**(97)**	(150)
Subscription receipts equivalent amount	**—**	1,597
Interest on convertible debentures	**372**	269
	$ 13,454	$ 10,325

(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 $1,597,000 was recorded in interest and finance costs for the three months ended March 31, 2018.

For the three months ended March 31, 2019, interest and finance costs were $13.5 million, which has increased by $3.1 million when compared to the same period in 2018. Increased interest costs are primarily related to acquisitions, which have in part been financed by debt.

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 March 31, 2019 was $0.9 million, which is comparable to interest income recognized for the same period in 2018.

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 $15.5 million for the three months ended March 31, 2019 compared to the comparative period in 2018. The large portion of the change in fair value of properties relates to acquisition costs incurred during the three months ended March 31, 2018 which are not additive to property value, and the impact of IFRIC 21 property tax adjustment of $7.1 million for the three months ended March 31, 2019. The REIT did not obtain any property appraisals for the three months ended March 31, 2019.

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 March 31, 2019 was a decrease of $8.4 million, compared to the same periods in 2018.

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 three months ended March 31, 2019 and 2018, 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 $0.7 million.

QUARTERLY INFORMATION

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

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Revenue	**$ 57,200**	$ 59,055	$ 54,499	$ 52,056	$ 44,289	$ 42,380	$ 41,208	$ 36,230
Operating costs	**(37,604)**	(29,429)	(26,825)	(26,377)	(23,533)	(23,776)	(21,629)	(18,833)
IFRIC 21 property tax adjustment	**7,097**	(2,107)	(1,151)	(585)	(528)	—	—	—
Straight-line rent and other	**350**	(161)	(524)	118	(116)	(115)	(539)	(266)
Net operating income	**$ 27,043**	$ 27,358	$ 25,999	$ 25,212	$ 20,112	$ 18,489	$ 19,040	$ 17,131
Net income	**$ 5,919**	$ 27,944	$ 17,697	$ 23,592	$ 7,904	$ 14,174	$ 23,607	$ 3,482
Weighted average diluted units (1)	**75,247**	75,261	75,203	75,139	62,874	62,266	62,231	57,781
Net income and comprehensive income per unit	**$ 0.08**	$ 0.37	$ 0.24	$ 0.31	$ 0.13	$ 0.23	$ 0.38	$ 0.06
Distributions (2)	**$ 11,890**	$ 14,096	$ 14,086	$ 14,077	$ 12,469	$ 11,663	$ 11,657	$ 11,651
Distributions per unit	**$ 0.1583**	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875	$ 0.1875
FFO (3)	**$ 13,543**	$ 13,758	$ 15,071	$ 14,810	$ 11,292	$ 11,221	$ 12,372	$ 11,405
FFO per unit - diluted (3)	**$ 0.18**	$ 0.18	$ 0.20	$ 0.20	$ 0.18	$ 0.18	$ 0.20	$ 0.20
FFO payout ratio (3)	**87.8%**	102.5%	93.5%	95.1%	110.4%	103.9%	94.2%	102.2%
Core-FFO (3)	**$ 14,150**	$ 14,356	$ 15,659	$ 15,389	$ 11,862	$ 11,782	$ 12,923	$ 11,949
Core-FFO per unit - diluted (3)	**$ 0.19**	$ 0.19	$ 0.21	$ 0.20	$ 0.19	$ 0.19	$ 0.21	$ 0.21
Core-FFO payout ratio (3)	**84.0%**	98.2%	90.0%	91.5%	105.1%	99.0%	90.2%	97.5%
AFFO (3)	**$ 11,766**	$ 11,101	$ 12,755	$ 12,836	$ 10,108	$ 9,528	$ 10,663	$ 10,694
AFFO per unit - diluted (3)	**$ 0.16**	$ 0.15	$ 0.17	$ 0.17	$ 0.16	$ 0.15	$ 0.17	$ 0.19
AFFO payout ratio (3)	**101.1%**	127.0%	110.4%	109.7%	123.4%	122.4%	109.3%	108.9%
Properties	**$1,789,784**	$1,780,413	$1,783,261	$1,604,452	$1,581,997	$1,279,509	$1,253,939	$1,223,073
Total assets	**$1,875,906**	$1,866,729	$1,874,600	$1,689,148	$1,660,947	$1,364,845	$1,353,127	$1,302,622
Debt	**$1,181,621**	$1,175,826	$1,194,428	$1,016,926	$1,003,951	$ 795,591	$ 793,765	$ 752,312
IFRS net asset value ("NAV")	**$ 634,447**	$ 642,878	$ 635,375	$ 628,247	$ 615,963	$ 528,061	$ 523,823	$ 510,399
Diluted units outstanding (1)	**74,746**	75,300	75,236	75,180	75,107	62,283	62,256	62,215
IFRS NAV per unit	**$ 8.49**	$ 8.54	$ 8.45	$ 8.36	$ 8.20	$ 8.48	$ 8.41	$ 8.20
LTV ratio	**63.1%**	63.1%	63.8%	60.2%	60.5%	58.3%	58.7%	57.8%
Net debt to adjusted EBITDA	**11.2x**	12.0x	13.6x	12.8x	14.2x	11.9x	12.2x	12.7x
Interest coverage ratio (3)	**2.3x**	2.3x	2.4x	2.5x	2.6x	2.7x	2.8x	2.9x
Debt service coverage ratio (3)	**1.7x**	1.8x	1.9x	1.9x	2.0x	2.1x	2.2x	2.3x
Leasing activity (square feet)	**254,409**	158,339	258,248	441,222	225,233	357,663	243,852	145,957
Leasing activity as a % of portfolio	**3.4%**	2.1%	3.3%	5.9%	3.0%	5.8%	4.0%	2.4%
Weighted average lease term (years)	**5.6**	5.8	5.7	5.5	5.6	5.8	5.9	5.7
Number of properties	**41**	41	43	45	45	38	38	38
Office GLA	**7,467,648**	7,467,367	7,756,469	7,348,159	7,347,765	5,972,771	5,972,771	5,972,771
Total GLA	**7,582,482**	7,582,201	7,871,383	7,463,073	7,462,679	6,116,085	6,116,085	6,116,085
Occupancy - excluding redevelopment	**89.0%**	88.9%	88.3%	89.1%	88.2%	86.9%	87.0%	87.4%
Occupancy	**87.7%**	87.6%	87.1%	86.8%	85.9%	85.8%	85.9%	84.4%

(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

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:

		March 31, 2019		December 31, 2018
Cash	**$**	**4,678**	$	7,192
Undrawn revolving facilities		**23,085**		21,872
Liquidity	**$**	**27,763**	$	29,064

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. During the first quarter of 2019, the REIT entered into a $100.0 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.90% and commenced March 22, 2019 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 58.6% (50.8% - December 31, 2018).

In conjunction with the sale of the 25% interest, the REIT received incremental debt on five of the six properties, which resulted in $31.5 million of additional proceeds to the REIT at its share and extended those maturities by 1.5 years. This refinancing increased the amount of fixed rate debt by $100.9 million. On April 24, 2019 the REIT entered into a pay-fixed receive-float interest rate swap pertaining to one of its floating rate loans, commencing May 1, 2019. The swap is for a notional amount of $64.6 million at an all in rate of 4.14% and expires on June 1, 2021. Further, the REIT is undertaking to enter into a pay-fixed receive-float interest rate swap that together with the fixed rate refinancing, will result in approximately 90% of the REIT's borrowing being subject to fixed rates on a pro forma basis.

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.

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

The REIT has three facilities maturing throughout the remainder of 2019, totaling $255.8 million. Of this, the REIT has repaid one facility totaling $42.9 million on April 12, 2019 and is working with existing lenders to renew the two remaining facilities where similar terms are expected upon renewal. The following is a summary of future principal repayments and maturities as at March 31, 2019:

Remainder of 2019	$ 255,777
2020	251,554
2021	495,805
2022	7,913
2023	76,063
Thereafter	99,881
	$ 1,186,993

Debt profile

Debt held by the REIT at March 31, 2019 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	21	$ 940,680	$ 679,264	$ 679,264	$ —	$ —
Revolving facilities (2)(3)(6)	Various	Various	14	545,150	341,395	318,160	150	23,085
Term loan	June 30, 2019	BA+213bps	5	150,638	117,938	117,938	—	—
Bridge loan	Aug. 30, 2019	BA+575bps	1	210,741	42,881	42,881	—	—
Convertible debentures	Feb. 28, 2023	5.25%	—	—	28,750	28,750	—	—
			41	**$ 1,847,209**	**$ 1,210,228**	**$ 1,186,993**	**$ 150**	**$ 23,085**

(1) The weighted average remaining term to maturity of mortgages is 3.3 years with maturities ranging from 0.7 to 11.6 years and the weighted average interest rate of mortgages is 3.97% with coupons ranging from 2.65% to 7.75%.
(2) Stand-by fees incurred on the unutilized portion of on the revolving operating facility and the revolving credit facility are each 0.40%, charged and paid quarterly.
(3) Principal balance includes $172.6 million and U.S. $54.5 million of operating facilities and a credit facility of $72.8 million. The weighted average remaining term to maturity of revolving facilities is 1.6 years with maturities ranging from 0.7 to 1.8 years and the weighted average interest rate of revolving facilities is 3.98% with coupons ranging from 3.82% to 4.49%.
(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 March 31, 2019.
(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 March 31, 2019 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	$ 679,264	$ (3,827)	$ 1,078	$ 676,515	$ 26,075	$ 650,440
Revolving facilities	318,160	(2,087)	935	317,008	72,575	244,433
Term loan	117,938	(666)	582	117,854	117,854	—
Bridge loan	42,881	(768)	455	42,568	42,568	—
Convertible debentures (1)	28,750	(1,320)	246	27,676	—	27,676
	$ 1,186,993	**$ (8,668)**	**$ 3,296**	**$ 1,181,621**	**$ 259,072**	**$ 922,549**

(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 March 31, 2019 was 63.1% which is lower by 5 basis points compared to December 31, 2018. 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 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 March 31, 2019. On April 12, 2019, the REIT completed the disposition of a 25% interest in six properties in the Greater Toronto Area. The net proceeds were used to fully repay the bridge loan and reduce other outstanding debt.

The REIT's indebtedness level is calculated as follows:

	March 31, 2019	December 31, 2018
Total assets	**$ 1,875,906**	$ 1,866,729
Less: restricted cash	**2,046**	3,648
Gross book value	**1,873,860**	1,863,081
Debt	**$ 1,181,621**	$ 1,175,826
Leverage ratio	**63.1%**	63.1%

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

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 March 31, 2019	2018
Net income	**$ 75,152**	$ 49,167
Straight line rent and other changes	**(217)**	(1,036)
Interest income	**(339)**	(108)
Interest and finance costs	**48,991**	29,101
Change in fair value of properties	**(30,761)**	(5,669)
IFRIC 21 property tax adjustment	**7,097**	—
Change in fair value of financial instruments	**5,981**	(3,004)
Distributions to Class B shareholders	**3,810**	3,964
Disposition costs	**2,542**	200
Depreciation of hotel asset	**964**	832
Change in fair value of Class B LP units	**(7,981)**	(2,220)
Deferred income tax recovery	**128**	(790)
Adjusted EBITDA	**$ 105,367**	$ 70,437

The following is a calculation of adjusted EBITDA:

	Twelve months ended March 31, 2019	2018
Rental revenue	**$ 222,810**	$ 164,107
Property operating expenses	**(120,235)**	(87,771)
IFRIC 21 property tax adjustment	**7,097**	—
Finance income on finance lease receivable	**3,728**	3,873
Straight line rent and other changes	**(217)**	(1,036)
Subscription receipt equivalent amount paid	**—**	(2,523)
General and administrative	**(7,816)**	(6,213)
Adjusted EBITDA	**$ 105,367**	$ 70,437

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:

		March 31, 2019		December 31, 2018
Debt	**$**	**1,181,621**	$	1,175,826
Less: Cash on hand		**4,678**		7,192
Net debt		**1,176,943**		1,168,634
Adjusted EBITDA (1)		**105,367**		97,734
Net debt to Adjusted EBITDA (times)		**11.2x**		12.0x

(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 March 31,		
		2019		2018
Adjusted EBITDA	**$**	**105,367**	$	70,437
Interest expense		**46,329**		27,378
Interest coverage ratio (times)		**2.3x**		2.6x

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 March 31,		
		2019		2018
Adjusted EBITDA	**$**	**105,367**	$	70,437
Interest expense		**46,329**		27,378
Principal repayments		**14,438**		8,301
Debt service requirements	**$**	**60,767**	$	35,678
Debt service coverage ratio		**1.7x**		2.0x

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 March 31, 2019:

		Annual Principal Payments		**Principal Repayments on Maturity**		**Total**	**Percentage (%)**	**Weighted Average Contractual Interest Rate on Maturing Debt (%)**
Remainder of 2019	$	11,783	$	243,994	$	255,777	21.6%	4.6%
2020		15,459		236,095		251,554	21.2%	3.9%
2021		11,542		484,263		495,805	41.8%	4.1%
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	8.4%	3.6%
Weighted average interest rate								**4.1%**

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. The REIT has three facilities maturing throughout the remainder of 2019, totaling $255.8 million. Of this, the REIT has repaid one facility totaling $42.9 million on April 12, 2019 and is working with existing lenders to renew the two remaining facilities where similar terms are expected upon renewal. At March 31, 2019, after the impact of interest rate swaps, the REIT had a floating rate mortgage and debt of $491.5 million (December 31, 2018 – $581.0 million).

The following table presents the annualized impact of a change in floating interest rates of 25 basis points on finance costs:

	March 31, 2019	December 31, 2018
Change of 25 bps	**$ 1,229**	$ 1,453

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following is a summary of the REIT's contractual obligations over the next five years at March 31, 2019:

	Total contractual cash flow	**Remainder of 2019**	**2020-2021**	**2022-2023**	**Thereafter**
Accounts payable and accrued liabilities	$ 45,246	$ 45,246	$ —	$ —	$ —
Amortizing principal repayments on debt	78,759	11,783	27,001	13,628	26,347
Principal repayments on maturity of debt	1,108,234	243,994	720,358	70,348	73,534
Interest on debt (1)	98,397	30,920	45,421	10,416	11,640
Interest rate swaps (2)	7,107	941	3,969	2,197	—
Other liabilities	7,271	1,651	1,101	1,188	3,331
Total	**$ 1,345,014**	**$ 334,535**	**$ 797,850**	**$ 97,777**	**$ 114,852**

(1) Interest amounts on floating debt have been determined using floating rates at March 31, 2019.
(2) Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the March 31, 2019 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 2019, the REIT entered into a $100.0 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.90%, a start date of March 22, 2019 and a five year term. This derivative increased the REIT's fixed debt ratio by 7.7% to 58.6% at March 31, 2019 from 50.8% at December 31, 2018. 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.

On April 24, 2019, the REIT entered into a $64.6 million notional amount pay-fixed receive-float interest rate swap on one of its floating rate loans, securing financing on this debt at an all in rate of 4.14% starting May 1, 2019, expiring June 1, 2021.

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

			Notional amount (2)		Fair value	
Maturity date	**Floating interest rate (1)**	**Fixed interest rate**	**March 31, 2019**	December 31, 2018	**March 31, 2019**	December 31, 2018
August 30, 2022	1 month LIBOR	2.81%	**$ 135,067**	$ 137,887	**$ (2,961)**	$ (1,940)
May 1, 2023	1 month BA	3.64%	**28,983**	29,242	**(167)**	218
June 29, 2023	1 month BA	2.55%	**100,000**	100,000	**(2,849)**	(1,390)
August 14, 2023	1 month BA	4.6%	**19,874**	20,032	**(906)**	(658)
March 22, 2024	1 month BA	1.90%	**100,000**	—	**(156)**	—
			$ 383,924	$ 287,161	**$ (7,039)**	$ (3,770)

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

Foreign exchange 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 2019:

On December 28, 2018 the REIT entered into a foreign exchange transaction to sell U.S.$75.0 million at an exchange rate of 1.3606 and purchase Canadian dollars. On March 29, 2019 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 $1.8 million which was recorded in other comprehensive income.

The REIT entered into a foreign exchange transaction on March 29, 2019 to sell U.S. $75.0 million at an exchange rate of 1.3324 and purchase Canadian dollars. The transaction is expected to settle on June 28, 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:

	Three months ended March 31,	
	2019	2018
Net change in cash related to:		
Operating	**$ 19,985**	$ 7,497
Investing	**(16,900)**	(225,279)
Financing	**(5,585)**	212,675
Foreign exchange loss on cash held in foreign currency	**(14)**	(200)
Decrease in cash	**$ (2,514)**	$ (5,307)

The change in cash for the three months ended March 31, 2019 and 2018 was the result of the following factors:

- Operating – cash flows for the three months ended March 31, 2019 increased by $12.5 million when compared to the same period in 2018. 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 three months ended March 31, 2019 were $16.9 million compared to cash outflows of $225.3 million in the same period in 2018. The cash outflows in the current period were from capital and leasing costs incurred across the portfolio, compared to the acquisition of 20 South Clark in Chicago, IL and the 7 asset portfolio in the Greater Toronto Area and Atlantic Canada during the three months ended March 31, 2018.
- Financing – cash expenditure for the three months ended March 31, 2019 primarily relates to the repurchase of units under the REIT's NCIB, compared to proceeds on debt obtained to finance the acquisition of 20 South Clark and the 7 asset portfolio for the three months ended March 31, 2018.

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 March 31, 2019, the liability associated with the Trustee DUP was $0.6 million (March 31, 2018 - $0.5 million), and the number of outstanding deferred units was 108,955 (March 31, 2018 - 64,742 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 March 31, 2019, the liability associated with deferred units issued under the Officer DUP was $0.1 million (March 31, 2018 - $0.1 million) and the number of deferred units was 9,614 (March 31, 2018 - 8,664).

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 $6.11 on March 31, 2019.

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.

As at March 31, 2019, the total number of trust units outstanding was 69,342,474. As at May 3, 2019, the total number of trust units outstanding was 69,048,593.

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.

During the three months ended March 31, 2019, the REIT repurchased and cancelled 648,905 trust units at an aggregate purchase price of $4.0 million. The REIT has continued to repurchase units under it's NCIB subsequent to March 31, 2019, repurchasing and canceling 303,697 trust units at an aggregate purchase price of $1.8 million. The REIT regularly assesses its capital allocation strategy, seeking the greatest return for unitholders.

In addition to the revision of the REIT's distribution and the suspension of DRIP, the REIT has allocated up to $35 million to repurchase and cancel units under its NCIB. The REIT's units had a closing price of $6.11 on March 31, 2019 which implies a 28% discount to its NAV of $8.49 at March 31, 2019. In light of the discount between trading price and NAV the REIT believes that it is a prudent allocation of capital to repurchase and cancel its units under the NCIB.

Potential trust units

	March 31, 2019	December 31, 2018
Class B LP units	**5,285,160**	5,285,160
Deferred units	**118,569**	106,440
	5,403,729	5,391,600

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 three months ended March 31, 2019, there were no Class B LP units exchanged for the REIT's trust units.

Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the three months ended March 31, 2019 and 2018. The diluted weighted average trust units outstanding is determined as if all of the Class B LP units and deferred units have been converted to units of the REIT:

	Three months ended March 31,	
	2019	2018
Basic weighted average units outstanding	**69,853,383**	57,527,504
Class B LP units	**5,285,160**	5,285,160
Deferred units	**108,029**	61,016
Diluted weighted average units outstanding	**75,246,572**	62,873,680

Diluted units outstanding

The following is the diluted number of units outstanding as at March 31, 2019 and 2018. 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:

	March 31, 2019	March 31, 2018
Trust units outstanding	**69,342,474**	69,748,029
Class B LP units	**5,285,160**	5,285,160
Deferred units	**118,569**	73,406
Diluted units outstanding	**74,746,203**	75,106,595

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:

	March 31, 2019	December 31, 2018
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%**	9.3%

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 March 31,	
	2019	2018
Property management	**$ 1,653**	$ 1,182
Asset management	**1,404**	1,024
Leasing, financing, and construction management	**1,406**	683
Acquisition	**—**	2,284
	$ 4,463	$ 5,173

Property administration fees are generally recoverable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the REIT's properties. Property administration fees were $2.7 million for the three months ended March 31, 2019 (March 31, 2018 – $2.0 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 three months ended March 31, 2019, the REIT recorded $18.0 thousand 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.:

	March 31, 2019	December 31, 2018
Income supplement receivable	**$ 1,163**	$ 1,445
Accounts receivable	**533**	533
Accounts payable and accrued liabilities	**(2,662)**	(765)
Class B LP units	**(32,292)**	(31,552)

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 March 31, 2019 is included on page 10 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 16, *Leases* ("IFRS 16")

The REIT has applied IFRS 16 effective January 1, 2019. IFRS 16 replaces IAS 17, *Leases* ("IAS 17"), and IFRIC 4, *Determining whether an arrangement contains a lease.* IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The adoption of IFRS 16 did not have a material impact to the REIT's 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 March 31, 2019.

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 three months ended March 31, 2019.

As at March 31, 2019 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 for the three months ended March 31, 2019, 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.

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 March 31, 2019 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	84.6%
120 South LaSalle	120 South LaSalle	Chicago, IL	1929 / 1998	657,527	86.5%
United States Office				1,037,986	85.8%
Greater Toronto Area Office					
5500 North Service Road		Burlington, ON	2001	224,586	74.4%
7030, 7050, 7100 Woodbine Avenue & 55, 85 Idema Road	Woodbine & Steeles Corporate Centre	Markham, ON	1984 / 2011	359,541	87.4%
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	86.6%
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	98.2%
1 Eva Road		Toronto, ON	1978 / 2011	92,189	73.1%
185 - 195 The West Mall	West Metro Corporate Centre	Toronto, ON	1986 / 2006	618,467	90.3%
401 - 405 The West Mall	Commerce West	Toronto, ON	1982 / 2009	412,033	86.6%
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				3,293,982	88.0%
Atlantic Office					
440 King Street	Kings Place	Fredericton, NB	1974 / 2001	294,932	92.5%
250 King Street		Fredericton, NB	2000	80,162	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	321,677	96.6%
81 Albert Street		Moncton, NB	2002	64,954	100.0%
39 King Street (2)	Brunswick Square	Saint John, NB	1976	506,988	76.9%
4 Herald Avenue	Fortis Tower	Corner Brook, NL	2014	67,995	88.6%
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	103,112	74.5%
1505 Barrington Street	Maritime Centre	Halifax, NS	1977 / 1985	538,279	80.2%
84 - 86 Chain Lake Drive		Halifax, NS	2008 / 2011	77,666	85.6%
Atlantic Office				2,643,012	87.2%
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	70.4%
Western Office				492,668	89.5%
Office				**7,467,648**	**87.5%**

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				**7,582,482**	**87.7%**
Excluding Office Redevelopment				**7,356,187**	**89.0%**

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

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

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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.

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