Office
REIT

SLATE

Condensed consolidated interim financial statements of

SLATE OFFICE REIT

For the three and six months ended June 30, 2019

(unaudited)

SLATE OFFICE REIT
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Table of contents

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

	Note		June 30, 2019		December 31, 2018
ASSETS					
Non-current assets					
Properties	*5*	**$**	**1,647,528**	$	1,780,413
Finance lease receivable	*6*		**54,821**		56,146
Other assets	*7*		**8,971**		4,639
Derivatives	*11*		**—**		218
Deferred tax asset	*25*		**975**		757
Restricted cash			**4,046**		3,648
			1,716,341		1,845,821
Current assets					
Finance lease receivable	*6*		**2,586**		2,484
Other assets	*7*		**7,797**		4,828
Accounts receivable	*8*		**10,088**		6,404
Cash			**6,019**		7,192
			26,490		20,908
Total assets		**$**	**1,742,831**	$	1,866,729
LIABILITIES AND EQUITY					
Non-current liabilities					
Debt	*9*	**$**	**869,462**	$	908,488
Other liabilities	*10*		**4,920**		5,270
Derivatives	*11*		**12,626**		4,280
Class B LP units	*12*		**31,024**		31,552
			918,032		949,590
Current liabilities					
Debt	*9*		**194,891**		267,338
Other liabilities	*10*		**1,695**		1,749
Accounts payable and accrued liabilities	*13*		**34,095**		36,605
			230,681		305,692
Total liabilities			**1,148,713**		1,255,282
Equity			**594,118**		611,447
Total liabilities and equity		**$**	**1,742,831**	$	1,866,729

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

SLATE OFFICE REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME

(in thousands of Canadian dollars)
(unaudited)

	Note	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Rental revenue	*16*	**$ 54,452**	$ 52,056	**$ 111,652**	$ 96,345
Property operating expenses		**(26,468)**	(26,377)	**(64,072)**	(49,910)
Finance income on finance lease receivable	*6*	**909**	946	**1,827**	1,901
Interest income		**145**	40	**257**	77
Interest and finance costs	*17*	**(13,156)**	(10,094)	**(26,610)**	(20,419)
General and administrative	*18*	**(1,898)**	(2,106)	**(3,836)**	(3,714)
Change in fair value of financial instruments	*19*	**(5,799)**	116	**(9,133)**	5,164
Change in fair value of properties	*5*	**8,384**	10,535	**14,627**	1,305
Depreciation of hotel asset	*5*	**(247)**	(228)	**(486)**	(450)
Disposition costs	*4*	**(7,861)**	—	**(8,210)**	(54)
Deferred income tax recovery (expense)	*25*	**313**	(305)	**254**	485
Net income before Class B LP units		**$ 8,774**	$ 24,583	**$ 16,270**	$ 30,730
Change in fair value of Class B LP units	*12*	**1,268**	—	**528**	2,748
Distributions to Class B LP unitholders	*15*	**(528)**	(991)	**(1,365)**	(1,982)
Net income		**$ 9,514**	$ 23,592	**$ 15,433**	$ 31,496

SLATE OFFICE REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)
(unaudited)

	Note	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Net income		**$ 9,514**	$ 23,592	**$ 15,433**	$ 31,496
Other comprehensive income to be subsequently reclassified to profit or loss:					
Foreign currency translation		**(2,541)**	854	**(5,042)**	2,588
Fair value gain on net investment hedges	*19*	**766**	—	**2,588**	—
Total other comprehensive income		**(1,775)**	854	**(2,454)**	2,588
Net income and comprehensive income		**$ 7,739**	$ 24,446	**$ 12,979**	$ 34,084

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

	Note	Trust units	Retained earnings	Accumulated other comprehensive income	Total equity
December 31, 2018		**$ 533,269**	**$ 71,937**	**$ 6,241**	**$ 611,447**
Issuances, net of costs	*14*	**(98)**	**—**	**—**	**(98)**
Distributions	*15*	**—**	**(17,886)**	**—**	**(17,886)**
Units issued pursuant to DRIP	*14*	**650**	**—**	**—**	**650**
Repurchase of units	*14*	**(12,974)**	**—**	**—**	**(12,974)**
Net income and comprehensive income		**—**	**15,433**	**(2,454)**	**12,979**
June 30, 2019		**$ 520,847**	**$ 69,484**	**$ 3,787**	**$ 594,118**

	Note	Trust units	Retained earnings	Accumulated other comprehensive income	Total equity
December 31, 2017		$ 438,975	$ 45,564	$ —	$ 484,539
Issuances, net of costs	*14*	93,046	—	—	93,046
Distributions	*15*	—	(24,564)	—	(24,564)
Units issued pursuant to DRIP	*14*	730	—	—	730
Repurchases of units	*14*	(1)	—	—	(1)
Net income and comprehensive income		—	31,496	2,588	34,084
June 30, 2018		$ 532,750	$ 52,496	$ 2,588	$ 587,834

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

	Note	Six months ended June 30, 2019	2018
Operating activities			
Net income		**$ 15,433**	$ 31,496
Items not affecting cash:			
Depreciation of hotel asset	*5*	**486**	450
Change in fair value of properties	*5*	**(14,627)**	(1,305)
IFRIC 21 property tax adjustment	*5*	**4,885**	(1,113)
Straight-line rent and other changes	*5*	**962**	2
Change in fair value of Class B LP units	*12*	**(528)**	(2,748)
Change in fair value of financial instruments	*19*	**9,133**	(5,164)
Deferred income tax recovery	*25*	**(254)**	(485)
Finance income on finance lease receivable	*6*	**(1,827)**	(1,901)
Finance interest payments received on finance lease receivable	*6*	**1,827**	1,901
Distributions to Class B LP unitholders	*15*	**1,365**	1,982
Distributions paid to Class B LP unitholders	*15*	**(1,519)**	(1,982)
Interest income		**(257)**	(77)
Interest received		**257**	77
Interest and finance costs	*17*	**26,610**	20,419
Interest paid		**(24,255)**	(17,758)
Subscription receipt equivalent amount paid	*17*	**—**	(1,597)
Working capital items		**(3,587)**	(2,580)
		14,104	19,617
Investing activities			
Acquisition of properties		**—**	(220,966)
Proceeds from disposition of property	*4*	**102,902**	971
Capital expenditures	*5*	**(9,507)**	(4,861)
Direct leasing costs	*5*	**(18,627)**	(10,311)
Principal payments received on finance lease receivable	*6*	**1,223**	1,149
		75,991	(234,018)
Financing activities			
Settlement of hedges of net investment in foreign operations	*11*	**2,318**	—
Proceeds from issuance of units	*14*	**—**	103,508
Unit issuance and listing costs	*14*	**(98)**	(4,712)
Repurchases of units	*14*	**(12,974)**	(1)
Distributions on REIT units	*15*	**(19,346)**	(23,030)
Debt financing advanced	*26*	**134,101**	68,321
Issuance of convertible debentures		**—**	28,750
Cost of issuance of convertible debentures		**—**	(1,320)
Debt principal payments	*26*	**(137,373)**	(7,244)
Transaction costs on debt	*26*	**(1,211)**	(1,847)
(Repayments) advances on revolving facilities, net	*26*	**(56,680)**	48,738
		(91,263)	211,163
Foreign exchange loss on cash held in foreign currency		**(5)**	(206)
Decrease in cash		**(1,173)**	(3,444)
Cash, beginning of period		**7,192**	9,153
Cash, end of period		**$ 6,019**	$ 5,709

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

1. Description of the REIT and operations

Slate Office REIT (the “REIT”) is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated as of March 21, 2016, as amended March 1, 2019, as it may be further amended, supplemented or amended and restated from time to time (the "Declaration of Trust"). At June 30, 2019, the REIT's portfolio consists of 39 commercial properties located in North America. The units of the REIT trade on the Toronto Stock Exchange (“TSX”) under the symbol “SOT.UN”.

The principal, registered and head office of the REIT is 121 King Street West, Suite 200, Toronto, ON, Canada, M5H 3T9.

2. Basis of presentation

i. Statement of compliance

These condensed consolidated interim financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. As a result, these consolidated financial statements should be read in conjunction with the REIT’s audited comparative consolidated financial statements at and for the year ended December 31, 2018.

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on August 1, 2019.

iii. Basis of measurement

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

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

iv. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the REIT’s functional currency and the functional currency of all of its subsidiaries, except for subsidiaries directly or indirectly holding property in the United States of America (the "U.S.") for which the functional currency is U.S. dollars.

3. Significant accounting policies

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

i. Significant accounting policies

These consolidated financial statements have been prepared using the same accounting policies and methods disclosed in the REIT's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of the new accounting policies disclosed below.

ii. Application of new and revised IFRSs

The REIT has adopted the following new accounting standard:

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 condensed consolidated interim financial statements.

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

4. Dispositions

	GTA Office Portfolio	895 & 1000 Waverley	Total
Disposition date	April 12, 2019	June 27, 2019	
Location	Greater Toronto Area, ON	Winnipeg, MB	
Number of properties	6	2	**8**
Interest disposed	25%	100%	
Sale price [1]	$ 131,793	$ 21,300	**$ 153,093**
Capital adjustments	3,503	(802)	**2,701**
Working capital and other	(869)	(12)	**(881)**
Disposition costs	(7,668)	(542)	**(8,210)**
Debt assumed by purchaser	(43,801)	$ —	**(43,801)**
Net proceeds	$ 82,958	$ 19,944	**$ 102,902**

(1) The REIT's sale of a 25% interest in six office properties located in the Greater Toronto Area (the "GTA Office Portfolio") for an aggregate sale price of $131.8 million, implies a 100% asset value of $527.2 million.

5. Properties

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

		Three months ended June 30,		Six months ended June 30,	
	Note	**2019**	2018	**2019**	2018
Balance, beginning of period		**$ 1,789,784**	$ 1,581,997	**$ 1,780,413**	$ 1,279,509
Acquisitions [1]		**—**	31	**—**	301,211
Capital expenditures		**5,726**	3,298	**9,507**	4,861
Direct leasing costs		**4,901**	5,990	**18,627**	10,311
Dispositions	*4*	**(155,794)**	—	**(155,794)**	(1,025)
Depreciation of hotel asset		**(247)**	(228)	**(486)**	(450)
Foreign exchange		**(6,826)**	2,362	**(13,519)**	7,619
Change in fair value		**8,384**	10,535	**14,627**	1,305
IFRIC 21 property tax adjustment		**2,212**	585	**(4,885)**	1,113
Straight-line rent and other changes		**(612)**	(118)	**(962)**	(2)
Balance, end of period		**$ 1,647,528**	$ 1,604,452	**$ 1,647,528**	$ 1,604,452

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

Properties at June 30, 2019 are comprised of the REIT's interests in 38 properties, which includes one mixed-use hotel and office asset. The REIT owns an undivided interest in all properties with the exception of six office properties in the Greater Toronto Area for which the REIT owns a 75% interest at June 30, 2019.

The hotel portion of the REIT's mixed-use asset does not meet the definition of an investment property under IAS 40, *Investment Property*, and accordingly is measured at cost less depreciation, with depreciation charged to income over the estimated useful life of the components of the hotel asset.

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

The REIT's properties are classified into income producing and development as follows:

		June 30, 2019		December 31, 2018
Income producing	$	**1,627,045**	$	1,760,148
Development		**20,483**		20,265
	$	**1,647,528**	$	1,780,413

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

		Six months ended June 30, 2019		Year ended December 31, 2018
Balance, beginning of period	$	**20,265**	$	31,542
Capital expenditures		**63**		1,297
Direct leasing costs		**155**		64
Change in fair value		**—**		4,684
Sale of properties		**—**		(17,327)
Straight-line rent and other changes		**—**		5
Balance, end of period	$	**20,483**	$	20,265

The REIT determines the fair value of properties based upon either the overall income capitalization rate method, discounted cash flow method, direct comparison approach or through a combination of these methods. All methods are generally accepted appraisal methodologies. The appropriate methodology is selected by management considering the nature of the property and availability of information. If a third party appraisal is not obtained for a property, management uses one or a combination of the overall income capitalization rate method and the discounted cash flow method. In certain circumstances the direct comparison approach is used by comparing properties to similar properties that have sold, but adjusting for differences in the nature and location of the properties. Under the overall income capitalization rate method, year one income is stabilized and capitalized at a rate appropriate for each property. Under the discounted cash flow method, fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income. Capitalization and discount rates are the most significant assumptions in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other evidence, in determining the most appropriate assumptions.

The fair values of properties are measured individually without consideration to their aggregate value on a portfolio basis. No consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT's properties taken in aggregate may differ from the fair value of properties measured individually in the REIT's consolidated statements of financial position. Under the fair value hierarchy, the fair value of the REIT's properties is determined using the methodology described above and using level 3 inputs.

The REIT has estimated the value of $1,594.0 million of its total property fair values 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 6.13% (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 valued using alternative valuation methodologies.

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

	June 30, 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	**7.31%**	**6.69%**	7.36%	6.71%

At June 30, 2019, a 25 basis-point increase in discount, terminal capitalization and stabilized capitalization rates would decrease the estimated fair value of the REIT's properties by approximately $68.5 million (December 31, 2018 – $75.7 million).

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

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

Quarter ended	Number of properties	Fair Value (1)
June 30, 2018	—	$ —
September 30, 2018	—	—
December 31, 2018	5	282,760
March 31, 2019	6	535,470
June 30, 2019	4	83,500

(1) Represents appraised value provided by independent third party appraisers.

6. Finance lease receivable

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

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

	Six months ended June 30, 2019	Year ended December 31, 2018
Balance, beginning of period	**$ 58,630**	$ 60,965
Lease payments received	**(3,050)**	(6,100)
Finance income on finance lease receivable	**1,827**	3,765
Balance, end of period	**$ 57,407**	$ 58,630

The following is a summary of the undiscounted future minimum lease payments receivable and the imputed interest and principal portions thereof. The principal portion represents the amount recorded on the consolidated statements of financial position at June 30, 2019:

	Future minimum lease payments	**Interest portion of minimum lease payments**	**Principal portion of minimum lease payments**
Less than one year	$ 6,122	$ 3,536	$ 2,586
Greater than one year but less than 5 years	25,680	12,197	13,483
Greater than 5 years	51,746	10,408	41,338
			$ 57,407

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

7. Other assets

Other assets are comprised of the following:

		June 30, 2019		December 31, 2018
Prepaid expenses	**$**	**6,008**	$	2,697
Performance payment		**4,813**		—
Vendor-take-back loan		**2,700**		2,700
Interest rate subsidy		**1,077**		1,292
Income supplement		**878**		1,445
Investment tax credit receivable		**864**		831
Utilities deposits		**428**		502
	$	**16,768**	$	9,467

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

		June 30, 2019		December 31, 2018
Current	**$**	**7,797**	$	4,828
Non-current		**8,971**		4,639
	$	**16,768**	$	9,467

As part of a prior acquisition, the REIT received an interest rate subsidy in the initial amount of $2.4 million. This subsidy is to be held in escrow and released to the REIT over the term to maturity of the debt assumed on the acquisition in order to compensate the REIT for the assumption of an above market rate mortgage.

The REIT is eligible for a Manitoba data processing investment tax credit as a result of its development of the Data Centre. The REIT expects to receive the tax credit in installments through to 2029. Half of the tax credit is payable to the Data Centre tenant as the credits are received. The tax credit payable is included in other liabilities (see note 10).

As part of a prior acquisition, 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, ending in the first quarter of 2020. The income supplement is recorded as an other asset on the consolidated statements of financial position at amortized cost.

In connection with the disposition of certain properties, the REIT was provided a $2.7 million vendor-take-back loan as partial consideration. The vendor-take-back loan bears interest at 8.0% annually, matures in August 2020 and is repayable by the borrower at any time.

The REIT is entitled to a performance payment related to its disposition of a 25% interest in six GTA office properties. An additional amount is payable to the REIT based on the financial performance of the properties to a maximum amount of $6.0 million. This amount is recorded in other assets on the consolidated statements of financial position at amortized cost at an amount equal to the present value of the future expected amount.

8. Accounts receivable

Accounts receivable is comprised of the following:

		June 30, 2019		December 31, 2018
Rent receivable	**$**	**3,731**	$	2,316
Accrued recovery income		**1,639**		1,927
Other amounts receivable		**4,750**		2,215
Allowance		**(32)**		(54)
	$	**10,088**	$	6,404

Rent receivable consists of base rent and operating expense recoveries receivable from tenants. Accrued recovery income represents amounts that have not been billed to tenants and are generally billed and paid in the period following the period to which they relate.

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

Included in other amounts receivable is $0.2 million (December 31, 2018 – $0.3 million) due from Slate (as defined in note 20) relating to a prior acquisition for future free rent adjustments, tenant inducements and leasing commissions. The receivable will be collected as the related items are paid or incurred in connection with the tenant lease agreements. The receivable is non-interest bearing and unsecured.

The change in allowance for doubtful accounts is as follows:

	Six months ended June 30, 2019	Year ended December 31, 2018
Balance, beginning of period	**$ (54)**	$ (171)
Change in allowance	**(22)**	(319)
Bad debt write-off	**25**	352
Bad debt recovery	**19**	84
Balance, end of period	**$ (32)**	$ (54)

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

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

	June 30, 2019	December 31, 2018
Current to 30 days	**$ 2,565**	$ 1,381
31 to 90 days	**878**	397
Greater than 90 days	**256**	484
	$ 3,699	$ 2,262

9. Debt

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

	Maturity	**Coupon** (1)	**Properties provided as security**	**Fair value of security**	**Maximum available**	**Principal**	**Letters of credit**	**Available to be drawn** (2)
Mortgages (3)(4)(5)	Various	Various	18	$ 1,003,081	$ 616,302	$ 616,302	$ —	$ —
Revolving facilities (5)(6)(7)	Various	Various	14	549,792	339,859	306,750	150	32,959
Term loan	Sep. 30, 2019	BA+213bps	5	147,666	117,938	117,938	—	—
Convertible debentures	Feb. 28, 2023	5.25%	—	—	28,750	28,750	—	—
			37	**$1,700,539**	**$1,102,849**	**$1,069,740**	**$ 150**	**$ 32,959**

(1) "BA" means the one-month Bankers' Acceptances rate and "bps" means basis point or 1/100th of one percent.
(2) Debt is only available to be drawn subject to certain covenants and other requirements.
(3) The weighted average remaining term to maturity of mortgages is 3.7 years with maturities ranging from 1.2 to 11.3 years and the weighted average interest rate of mortgages is 3.89% with coupons ranging from 2.65% to 7.75%.
(4) 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.
(5) Amounts have been translated from U.S. to Canadian dollars using the prevailing exchange rate on June 30, 2019.
(6) Stand-by fees incurred on the unutilized portion of the revolving operating facility and the revolving credit facility are each 0.40%, charged and paid quarterly.
(7) Principal balance includes $172.2 million and U.S. $53.5 million of operating facilities and a credit facility of $64.6 million. The weighted average remaining term to maturity of revolving facilities is 1.3 years with maturities ranging from 0.4 to 1.6 years and the weighted average interest rate of revolving facilities is 3.94% with coupons ranging from 3.80% to 4.40%.

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

The carrying value of debt held by the REIT at June 30, 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	$ 616,302	$ (4,000)	$ 577	$ 612,879	$ 12,502	$ 600,377
Revolving facilities	306,750	(2,074)	1,131	305,807	64,451	241,356
Term loan	117,938	—	—	117,938	117,938	—
Convertible debentures (1)	28,750	(1,320)	299	27,729	—	27,729
	$ 1,069,740	**$ (7,394)**	**$ 2,007**	**$ 1,064,353**	**$ 194,891**	**$ 869,462**

(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 aggregate 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.

Concurrent with the sale of the 25% interest in the six office properties, the REIT refinanced mortgages on five of the six properties, resulting in $31.5 million of additional proceeds to the REIT and extended the weighted average maturity by 1.5 years. These refinancings have increased the amount of fixed rate debt by $100.9 million and have a weighted average interest rate of 3.69%.

On April 12, 2019, the REIT repaid in full its short term bridge loan of $42.9 million, bearing interest at a rate of BA + 575 bps.

On June 28, 2019, the REIT disposed of two office properties located in Winnipeg, MB. The net proceeds were used to repay in full its remaining debt on those properties, plus debt on another property that was cross-collateralized. The total debt repaid was $10.6 million, bearing interest at a fixed rate of 4.36%.

Future repayments of mortgages payable by year of maturity at June 30, 2019 are as follows:

	Weighted average interest rate (1)	Scheduled principal amortization	Principal maturities	Total repayments
Remainder of 2019	4.08%	6,211	—	6,211
2020	4.13%	12,660	172,277	184,937
2021	4.06%	11,887	90,561	102,448
2022	7.25%	9,977	296	10,273
2023	3.67%	6,790	205,762	212,552
Thereafter	3.56%	26,347	73,534	99,881
	3.87%	**$ 73,872**	**$ 542,430**	**$ 616,302**
Unamortized debt financing costs				(3,423)
				$ 612,879

(1) The weighted average interest rate is calculated using the rate in effect at June 30, 2019.

Future principal payments and maturities, excluding amortization of mark-to-market adjustments and transaction costs on debt at June 30, 2019 are as follows:

Remainder of 2019	$ 188,749
2020	184,937
2021	344,598
2022	10,273
2023	241,302
Thereafter	99,881
	$ 1,069,740

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

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.

10. Other liabilities

Other liabilities are comprised of the following:

	Note		June 30, 2019	December 31, 2018
Security deposits		$	**5,422**	$ 5,967
Deferred units	*14*		**761**	636
Investment tax credit payable			**432**	416
		$	**6,615**	$ 7,019

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

		June 30, 2019	December 31, 2018
Current	$	**1,695**	$ 1,749
Non-current		**4,920**	5,270
	$	**6,615**	$ 7,019

The REIT is eligible to receive a Manitoba data processing investment tax credit in connection with the development of the Data Centre (see note 7). Half of the tax credit to be received is payable to the tenant of the Data Centre, the amount for which is recorded as an other liability. The credit is expected to be received through to 2029 and has been recorded in other liabilities at its discounted amount determined upon establishment of the liability.

11. Derivatives

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

Derivatives are comprised of the following:

		June 30, 2019	December 31, 2018
Fair value of conversion option on convertible debentures	$	**—**	$ (22)
Fair value of interest rate swaps		**(12,626)**	(3,770)
Fair value of foreign exchange hedge		**—**	(270)
Derivatives, net		**(12,626)**	(4,062)
Derivatives, fair value of asset		**—**	218
Derivatives, fair value of liability	$	**(12,626)**	$ (4,280)

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

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

	Six months ended June 30,	
	2019	2018
Fair value, beginning of period	**$ (4,062)**	$ (538)
Initial recognition of embedded derivatives on issuance of convertible debentures	**—**	(170)
Fair value change of convertible debenture embedded derivatives	**22**	48
Fair value change of interest rate swaps	**(8,936)**	(269)
Foreign exchange loss on U.S. interest rate swap	**80**	—
Fair value change of interest rate cap	**—**	(9)
Fair value change of hedges of net investment in foreign operations	**2,588**	—
Settlement of net investment foreign exchange hedges	**(2,318)**	—
Fair value, end of period	**$ (12,626)**	$ (938)

Interest rate protection instruments

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

The REIT currently has in place certain pay-fixed receive-float interest rate swaps. Swaps are derivative financial instruments that require a periodic exchange of payments with counter-parties without the exchange of the notional amount on which the payments are based. The recorded interest expense on the underlying mortgages payable reflects payments made and received under the interest rate swaps.

On March 22, 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.

On March 29, 2019 the REIT entered into a pay-fixed receive-float interest rate swap with a $58.3 million notional amount at the REIT's proportionate share, to fix the interest rate on one of the REIT's mortgages. The interest rate swap has a fixed rate of 1.90% and a start date of April 12, 2019, expiring April 12, 2023.

On April 11, 2019, the REIT amended a pay-fixed receive-float interest rate swap with a $26.2 million notional amount at the REIT's proportionate share. The interest rate swap is associate with a property mortgage and fixes the interest rate at 3.63%, expiring May 1, 2023.

On April 11, 2019, the REIT amended a pay-fixed receive-float interest rate swap with a $19.0 million notional amount at the REIT's proportionate share. The interest rate swap is associated with a property mortgage and fixes the interest rate at 4.37%, expiring August 14, 2023.

On April 17, 2019 the REIT entered into two pay-fixed receive-float interest rate swaps with notional amounts of $81.0 million and $38.3 million at the REIT's proportionate share, both associated with mortgages on two properties. The interest rate swaps each have a fixed rate of 2.04% and a start date of May 1, 2019, expiring April 12, 2023.

On April 24, 2019, the REIT entered into a $64.6 million notional amount pay-fixed receive-float interest rate swap to fix the interest rate on one of the REIT's mortgages. The interest rate swap has a fixed rate of 1.87% and a start date of May 1, 2019, expiring June 10, 2021.

On July 5, 2019, the REIT entered into a $35 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.94% and a start date of July 5, 2019, expiring June 30, 2021. On July 5, 2019, the REIT also entered into a U.S. $50 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.80% and a start date of July 15, 2019, expiring February 1, 2024. Together, these swaps would bring the REIT's fixed debt ratio to 88.4% had they been executed prior to June 30, 2019.

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.

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

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**	**June 30, 2019**	December 31, 2018	**June 30, 2019**	December 31, 2018
June 10, 2021	1 month CDOR	1.87%	**$ 64,468**	$ —	**$ (139)**	$ —
August 30, 2022	1 month U.S. LIBOR	2.81%	**132,277**	137,887	**(5,002)**	(1,940)
April 12, 2023	1 month BA	1.90%	**58,281**	—	**(305)**	—
April 12, 2023	1 month CDOR	2.04%	**80,654**	—	**(1,032)**	—
April 12, 2023	1 month CDOR	2.04%	**38,087**	—	**(487)**	—
May 1, 2023	1 month BA	3.63%	**26,129**	29,242	**(353)**	218
June 29, 2023	1 month BA	2.55%	**100,000**	100,000	**(3,400)**	(1,390)
August 14, 2023	1 month BA	4.37%	**18,907**	20,032	**(847)**	(658)
March 22, 2024	1 month BA	1.90%	**100,000**	—	**(1,061)**	—
			$ 618,803	$ 287,161	**$ (12,626)**	$ (3,770)

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

Foreign exchange rate protection instruments

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

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

- 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.
- On March 29, 2019 the REIT entered into a foreign exchange transaction to sell U.S. $75.0 million at an exchange rate of 1.3324 and purchase Canadian dollars. On June 11, 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 $0.5 million which was recorded in other comprehensive income.

There are no outstanding contracts designated as an accounting hedge and recorded as a derivative as at June 30, 2019.

12. Class B LP units

Class B LP units are exchangeable at the option of the holder into trust units of the REIT on a one-for-one basis subject to normal anti-dilution adjustments and are entitled to distributions of cash, as applicable, equal to the cash distributions paid to holders of units by the REIT.

Each Class B LP unit is attached to a special voting unit of the REIT, providing Class B LP unitholders voting rights in the REIT. Special voting units have no economic entitlement in the REIT but entitle the holder to one vote per special voting unit at any meeting of the unitholders of the REIT. Special voting units are not transferable separately from the Class B LP units to which they are attached. Upon the exchange or surrender of a Class B LP units for units of the REIT, the special voting unit attached to a Class B LP unit will automatically be redeemed and canceled.

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

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

The change in Class B LP units for the three months ended June 30, 2019 and 2018 is as follows:

	Three months ended June 30, 2019			Three months ended June 30, 2018		
	Units		**Amount**	Units		Amount
Balance, beginning of period	**5,285,160**	**$**	**32,292**	5,285,160	$	40,273
Fair value changes	**—**		**(1,268)**	—		—
Balance, end of period	**5,285,160**	**$**	**31,024**	5,285,160	$	40,273

The change in Class B LP units for the six months ended June 30, 2019 and 2018 is as follows:

	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Units		**Amount**	Units		Amount
Balance, beginning of period	**5,285,160**	**$**	**31,552**	5,285,160	$	43,021
Fair value changes	**—**		**(528)**	—		(2,748)
Balance, end of period	**5,285,160**	**$**	**31,024**	5,285,160	$	40,273

13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	Note		**June 30, 2019**		December 31, 2018
Trade payables and accrued liabilities		**$**	**27,148**	$	25,642
Distributions payable	*15*		**2,436**		4,700
Prepaid rent			**3,724**		4,920
Tenant improvements payable			**787**		1,343
		$	**34,095**	$	36,605

14. Unitholders' equity

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

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

The change in trust units during the three and six months ended June 30, 2019 as follows:

		Three months ended June 30, 2019			**Six months ended June 30, 2019**		
	Note	**Units**		**Amount**	**Units**		**Amount**
Balance, beginning of period		**69,342,474**	**$**	**529,747**	**69,908,485**	**$**	**533,269**
Issued pursuant to DRIP	*15*	**19,707**		**119**	**102,601**		**650**
Unit issuance and listing costs		**—**		**(17)**	**—**		**(98)**
Repurchase of units		**(1,483,772)**		**(9,002)**	**(2,132,677)**		**(12,974)**
Balance, end of period		**67,878,409**	**$**	**520,847**	**67,878,409**	**$**	**520,847**

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

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

		Three months ended June 30, 2018		Six months ended June 30, 2018	
	Note	Units	Amount	Units	Amount
Balance, beginning of period		69,748,029	$ 532,205	56,938,025	$ 438,975
Issued on public offering (1)		—	—	12,778,800	97,758
Issued pursuant to DRIP	*15*	63,569	484	94,773	730
Unit issuance costs		—	62	—	(4,712)
Repurchase of units		(100)	(1)	(100)	(1)
Balance, end of period		69,811,498	$ 532,750	69,811,498	$ 532,750

(1) Gross proceeds, net of fair value changes of $5.8 million for the six months ended June 30, 2018.

Repurchase of units

During the six months ended June 30, 2019, the REIT repurchased and cancelled 2,132,677 trust units at an aggregate purchase price of $13.0 million.

Trustee deferred unit plan

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 REIT's Trustee deferred unit plan ("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 June 30, 2019, the liability associated with the deferred units issued under the Trustee DUP was $0.7 million (June 30, 2018 - $0.5 million), and the number of outstanding deferred units was 119,836 (June 30, 2018 - 74,612 units).

Officer deferred unit plan

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

The deferred units may be redeemed by a participant after two years following the date the units were issued in whole or in part for cash or trust units. The value of the deferred units when converted to cash will be equivalent to the market value of trust units on the date of the redemption request. If a participant ceases to be an officer of the REIT, the deferred units must be redeemed no later than two years following that date.

At June 30, 2019, the liability associated with deferred units issued under the Officer DUP was $0.1 million (June 30, 2018 - $0.1 million), and the number of deferred units was 9,720 (June 30, 2018 - 8,880).

The change in DUP units during the three and six months ended June 30, 2019 is as follows:

		Three months ended June 30, 2019		**Six months ended June 30, 2019**	
	Note	**Units**	**Amount**	**Units**	**Amount**
Balance, beginning of period		**118,569**	**$ 725**	**106,440**	**$ 636**
Issued		**9,676**	**57**	**18,598**	**112**
Reinvested distributions		**1,311**	**8**	**4,518**	**28**
Fair value adjustment	*19*	**—**	**(29)**	**—**	**(15)**
Balance, end of period	*10*	**129,556**	**$ 761**	**129,556**	**$ 761**

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

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

	Three months ended June 30, 2018		Six months ended June 30, 2018	
	Units	Amount	Units	Amount
Balance, beginning of period	73,406	$ 559	60,300	$ 491
Issued	8,260	63	19,925	152
Reinvested distributions	1,826	14	3,267	25
Fair value adjustment	—	—	—	(32)
Balance, end of period	83,492	$ 636	83,492	$ 636

Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the three months ended June 30, 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 June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Basic weighted average units outstanding	**68,688,542**	69,779,128	**69,267,745**	63,754,849
Class B LP units	**5,285,160**	5,285,160	**5,285,160**	5,285,160
Basic weighted average deferred units outstanding	**119,447**	74,502	**113,769**	67,183
Diluted weighted average units outstanding	**74,093,149**	75,138,790	**74,666,674**	69,107,192

Diluted units outstanding

The following is the diluted number of units outstanding as at June 30, 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:

	June 30, 2019	June 30, 2018
Trust units outstanding	**67,878,409**	69,811,498
Class B LP units	**5,285,160**	5,285,160
Deferred units	**129,556**	83,492
Diluted units outstanding	**73,293,125**	75,180,150

15. Distributions

Pursuant to the Declaration of Trust, the income of the REIT is distributed on dates and in amounts as determined by the Board of Trustees.

The following table presents the distributions during the three and six months ended June 30, 2019:

	Three months ended June 30, 2019		**Six months ended June 30, 2019**	
	Trust units	**Class B LP units**	**Trust units**	**Class B LP units**
Distributions declared during the period	**$ 6,833**	**$ 528**	**$ 17,886**	**$ 1,365**
Add: Distributions payable, beginning of period	**2,309**	**176**	**4,370**	**330**
Less: Distributions payable, end of period	**(2,260)**	**(176)**	**(2,260)**	**(176)**
Distributions paid or settled during the period	**$ 6,882**	**$ 528**	**$ 19,996**	**$ 1,519**

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

Distributions during the three and six months ended June 30, 2019 were paid or settled as follows:

		Three months ended June 30, 2019		Six months ended June 30, 2019	
	Note	**Trust units**	**Class B LP units**	**Trust units**	**Class B LP units**
Paid in cash		**$ 6,763**	**$ 528**	**$ 19,346**	**$ 1,519**
Reinvested in units	*14*	**119**	**—**	**650**	**—**
		$ 6,882	**$ 528**	**$ 19,996**	**$ 1,519**

The following table presenst the distributions during the three and six months ended June 30, 2018:

	Three months ended June 30, 2018		Six months ended June 30, 2018	
	Trust units	Class B LP units	Trust units	Class B LP units
Distributions declared during the period	$ 13,086	$ 991	$ 24,564	$ 1,982
Add: Distributions payable, beginning of period	4,359	330	3,559	330
Less: Distributions payable, end of period	(4,363)	(330)	(4,363)	(330)
Distributions paid or settled during the period	$ 13,082	$ 991	$ 23,760	$ 1,982

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

		Three months ended June 30, 2018		Six months ended June 30, 2018	
	Note	Trust units	Class B LP units	Trust units	Class B LP units
Paid in cash		$ 12,598	$ 991	$ 23,030	$ 1,982
Reinvested in units	*14*	484	—	730	—
		$ 13,082	$ 991	$ 23,760	$ 1,982

The REIT has a distribution reinvestment program ("DRIP") where unitholders, including holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT. On May 3, 2019, the REIT, suspended its DRIP, commencing with the May distribution paid on June 17, 2019. During the six months ended June 30, 2019, the REIT declared distributions resulting in 102,601 units (June 30, 2018 - 63,569 units) issued under the DRIP.

16. Rental revenue

Rental revenue is comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Property base rent (1)	**$ 27,226**	$ 26,494	**$ 55,658**	$ 48,708
Operating cost recoveries	**17,069**	15,786	**35,358**	29,862
Tax recoveries	**8,049**	6,952	**16,774**	12,882
Hotel	**2,720**	2,942	**4,824**	4,895
Straight-line rent and other changes	**(612)**	(118)	**(962)**	(2)
	$ 54,452	$ 52,056	**$ 111,652**	$ 96,345

(1) Includes parking revenue earned at properties.

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

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

		June 30, 2019		December 31, 2018
Not later than one year	$	**115,143**	$	121,796
Later than one year and not later than five years		**367,511**		384,489
Later than five years		**267,765**		294,134
	$	**750,419**	$	800,419

Future minimum lease payments for the Data Centre are excluded from the above as the lease is classified as a finance lease. Future minimum lease payments for the Data Centre are disclosed in note 6.

17. Interest and finance costs

Interest and finance costs are comprised of the following:

		Three months ended June 30,				Six months ended June 30,		
		2019		2018		**2019**		2018
Mortgage interest	$	**7,329**	$	6,106	$	**14,937**	$	11,165
Interest on other debt		**3,853**		3,193		**8,570**		5,948
Amortization of deferred transaction costs		**1,648**		515		**2,502**		1,310
Amortization of debt mark-to-market adjustments		**(50)**		(96)		**(147)**		(246)
Subscription receipts equivalent amount		**—**		—		**—**		1,597
Interest on convertible debentures (1)		**376**		376		**748**		645
	$	**13,156**	$	10,094	$	**26,610**	$	20,419

(1) The convertible debentures pay interest at 5.25%, payments are made semi-annually beginning August 31, 2018. The amount above represents the interest accrued up to and including June 30, 2019.

18. General and administrative

General and administrative expenses are comprised of the following:

			Three months ended June 30,				Six months ended June 30,		
	Note		**2019**		2018		**2019**		2018
Asset management fees	*20*	$	**1,387**	$	1,244	$	**2,791**	$	2,268
Professional fees			**154**		434		**299**		515
Trustee fees			**100**		105		**225**		251
Bad debt expense, net			**7**		151		**12**		310
Other			**250**		172		**509**		370
		$	**1,898**	$	2,106	$	**3,836**	$	3,714

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

19. Change in fair value of financial instruments

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

		Three months ended June 30,		Six months ended June 30,	
	Note	**2019**	2018	**2019**	2018
Interest rate swaps	*11*	**$ (5,626)**	$ 165	**$ (8,936)**	$ (269)
Interest rate swap liability assumed by purchaser		**(234)**	—	**(234)**	—
Interest rate cap	*11*	**—**	(3)	**—**	(9)
Convertible debenture embedded derivatives	*11*	**32**	(46)	**22**	48
Hedges of net investment in foreign operations	*11*	**(766)**	—	**(2,588)**	—
Deferred units	*14*	**29**	—	**15**	32
Subscription receipts		**—**	—	**—**	5,751
Foreign exchange forwards (1)		**—**	—	**—**	(389)
Total change in fair value of financial instruments		**(6,565)**	116	**(11,721)**	5,164
Less: Amounts recognized in other comprehensive income		**766**	—	**2,588**	—
Recognized in net income		**$ (5,799)**	$ 116	**$ (9,133)**	$ 5,164

(1) During the six months ended June 30, 2018, the REIT entered into a forward foreign exchange contract for the purpose of hedging the purchase of 20 South Clark in Chicago, IL. This contract resulted in a loss of $0.4 million for the six months ended June 30, 2018.

20. Related party transactions

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

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

	June 30, 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	**9.5%**	9.3%

The Management Agreement provides for the following fees:

Type	**Basis**
Property management	3% of gross revenue (1)
Asset management	0.3% of gross book value (2)
Leasing	5% on new leases, 2% on renewals (3)
Financing	0.25% of debt financed
Construction	5.0% of costs
Acquisition	Variable (4)

(1) Gross revenue is defined as all revenues received by and/or on behalf of the REIT from the leasing and/or licensing of the the REIT's properties.
(2) Gross book value is defined as the book value of the REIT's assets as shown on the previous quarter's consolidated financial statements, less restricted cash.
(3) Leasing fees are charged to the REIT net of any third party brokerage fees paid to leasing agents retained by the REIT. No fee is charged to the REIT where such third party fees are equal to or greater than the lease fee payable to SLAM.
(4) Acquisition fees are 1.0% on the first $100 million of acquisitions; 0.75% on the next $100 million of acquisitions and 0.50% for acquisitions in excess of $200 million.

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Property management	**$ 1,561**	$ 1,519	**$ 3,214**	$ 2,701
Asset management	**1,387**	1,244	**2,791**	2,268
Leasing, financing and construction management	**898**	562	**2,304**	1,245
Acquisition	**—**	—	**—**	2,284
	$ 3,846	$ 3,325	**$ 8,309**	$ 8,498

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 $5.4 million for the six months ended June 30, 2019 (June 30, 2018 – $4.4 million). Administrative fees are recovered from most tenants by the REIT in accordance with the terms of the leases, whereas property management fees payable by the REIT to the Manager are determined in accordance with the Management Agreement.

As part of a prior acquisition of properties for which SLAM is the manager, 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, ending in the first quarter of 2020. The income supplement is recorded as an other asset on the consolidated statements of financial position at amortized cost. During the six months ended June 30, 2019, the REIT recorded $15.0 thousand as interest income in the consolidated statements of income.

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

	June 30, 2019	December 31, 2018
Income supplement receivable	**$ 878**	$ 1,445
Accounts receivable	**370**	533
Accounts payable and accrued liabilities	**(1,465)**	(765)
Class B LP units	**(31,024)**	(31,552)

21. Fair values

The REIT uses various methods in estimating the fair values of assets and liabilities recognized and measured at fair value in its consolidated financial statements. The REIT has a management team that has overall responsibility for overseeing all significant fair value measurements. Significant unobservable inputs and valuation adjustments are reviewed on a regular basis. In addition, when third party information is used to measure fair values, supporting evidence is obtained and reviewed to ensure compliance with the IFRS requirements.

The following categories in the fair value hierarchy reflect the significance of inputs used in determining fair values:

Level 1 - quoted prices in active markets;

Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and

Level 3 - valuation technique for which significant inputs are not based on observable market data.

The fair values of the REIT's cash, restricted cash, accounts receivable, other assets and accounts payable and accrued liabilities and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of the REIT's revolving credit facility, revolving operating facility and term loan, approximates their carrying value since the facilities bear interest at floating market interest rates. Mortgages are measured at amortized cost, and their fair values are based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

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

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

			Fair value		
June 30, 2019	**Note**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Recorded at fair value					
Properties	*5*	$ 1,647,528	$ —	$ —	$ 1,647,528
Derivatives, net	*11*	(12,626)	—	(12,626)	—
Class B LP units	*12*	(31,024)	(31,024)	—	—
Fair values disclosed					
Cash		$ 6,019	$ 6,019	$ —	$ —
Restricted cash		4,046	4,046	—	—
Debt	*9*	(1,064,353)	—	(1,081,498)	—

			Fair value		
December 31, 2018	**Note**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Recorded at fair value					
Properties	*5*	$ 1,780,413	$ —	$ —	$ 1,780,413
Derivatives, net	*11*	(4,062)	—	(4,062)	—
Class B LP units	*12*	(31,552)	(31,552)	—	—
Fair values disclosed					
Cash		$ 7,192	$ 7,192	$ —	$ —
Restricted cash		3,648	3,648	—	—
Debt		(1,175,826)	—	(1,183,018)	—

22. Risk management

In the normal course of business, the REIT is exposed to financial risks that arise from its financial instruments. Other than the use of interest rate and foreign exchange derivatives related to its floating rate mortgages payable, the REIT does not use hedging transactions to manage risk. As a part of the overall operation of the REIT, management takes steps to avoid undue concentrations of risks. The following describes the types of risks that the REIT is exposed to and its objectives and policies for managing those risk exposures:

Liquidity risk

Liquidity risk is the risk that the REIT will encounter difficulty in meeting its debt and other financial obligations as they mature.

The principal liquidity needs of the REIT arise from working capital requirements; debt servicing and repayment obligations; distributions to unitholders; obligations to redeem outstanding puttable trust units at the option of the unitholders; planned funding of maintenance capital expenditures and leasing costs; and future investment property acquisition funding requirements.

The liquidity needs of the REIT are funded by cash flows from operating the REIT's investment property portfolio and available credit facilities, with the exception of debt repayment obligations, investment property acquisition funding requirements and obligations to redeem puttable trust units. These are funded by refinancing the REIT's maturing debt, financing unencumbered properties, or future issuances of REIT units and debentures. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated by matching debt maturities with lease renewals to optimize the value of the assets with the leverage to achieve the best value for pricing. In addition, the REIT staggers the maturity dates of the REIT's mortgage portfolio over a number of years.

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

The following table summarizes the estimated contractual maturities of the REIT's financial liabilities at June 30, 2019:

	Total contractual cash flow	Remainder of 2019	2020-2021	2022-2023	Thereafter
Accounts payable and accrued liabilities	$ 34,095	$ 34,095	$ —	$ —	$ —
Amortizing principal repayments on debt	73,872	6,211	24,547	16,767	26,347
Principal repayments on maturity of debt	995,868	182,538	504,988	234,808	73,534
Interest on debt (1)	101,171	27,912	44,372	17,247	11,640
Interest rate swaps (2)	9,464	780	5,549	3,079	56
Other liabilities	6,615	1,695	899	1,075	2,946
	$ 1,221,085	**$ 253,231**	**$ 580,355**	**$ 272,976**	**$ 114,523**

(1) Interest amounts on floating rate debt have been determined using rates at June 30, 2019.
(2) Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the forward rates determined as at June 30, 2019.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows or fair values of the REIT's financial instruments.

Interest rate cash flow risk is minimized by the REIT by having a portion of its mortgages on fixed term arrangements. In addition, the maturity dates of mortgages are staggered over a number of years to mitigate the exposure in any one year. The REIT also utilizes interest rate swaps to fix interest rates on a portion of its floating rate mortgages.

At June 30, 2019, after the impact of interest rate swaps, the REIT had floating rate debt of $224.7 million (December 31, 2018 – $581.0 million). The following table presents the annualized impact of a change in floating interest rates of 25 bps on finance costs:

	June 30, 2019	December 31, 2018
Change of 25 bps	**$ 562**	$ 1,453

Subsequent to period end, the REIT entered into two additional pay-fixed receive-float interest rate swaps, with notional amounts of $35 million and U.S. $50 million, at interest rates of 1.94% and 1.80%, respectively. This reduces the floating rate debt to $124.3 million. A change in floating interest rates of 25 bps on $124.3 million of floating debt would cause a $0.3 million change in finance costs.

Credit risk

Credit risk is the risk that the REIT incurs a loss as a result of a counterparty not fulfilling its financial obligation. Credit risk is associated with the REIT's cash, restricted cash, accounts receivable and finance lease receivable. The REIT controls risks by avoiding undue concentration of assets in any geographic location, in any industry or with any specific tenants. This risk is further mitigated by signing long-term leases with tenants who have investment-grade credit ratings and investing cash and cash equivalents in large financial institutions with strong credit ratings. The REIT has credit policies to address credit risk, which are applied during lease negotiations and may include the analysis of the financial position of the debtor, and a review of credit limits, credit history and credit performance.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate due to changes in foreign exchange rates. The REIT is exposed to foreign currency risk as it relates to 20 South Clark and 120 South LaSalle, located in Chicago, IL, as well as monetary assets and liabilities denominated in U.S. currency. In order to mitigate a portion of this risk, the REIT has financed its U.S. operations with U.S. dollar denominated debt, acting as a natural hedge. Foreign currency forwards may be used from time-to-time to hedge the REIT's net investment in foreign operations. Refer to notes 11 and 19 for details of the REIT's forward currency transactions.

23. Capital management

The REIT's capital management objectives are to (i) ensure compliance with the REIT's Declaration of Trust (ii) ensure compliance with restrictions in debt agreements, and (iii) provide sufficient liquidity to operate the REIT's properties, fund obligations as they become due and build unitholder value. Procedures to monitor compliance with the Declaration of Trust and debt agreements are performed as a part of the overall management of operations and periodically by review of the REIT's board of trustees and reporting to the REIT's lenders. In order to maintain or adjust the capital structure, the REIT may issue trust units, debentures or mortgage debt, adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce or increase debt.

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

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

		June 30, 2019		December 31, 2018
Debt, net	**$**	**1,064,353**	$	1,175,826
Class B LP units		**31,024**		31,552
Equity		**594,118**		611,447
	$	**1,689,495**	$	1,818,825

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

		June 30, 2019		December 31, 2018
Total assets	**$**	**1,742,831**	$	1,866,729
Less: Restricted cash		**(4,046)**		(3,648)
Gross book value		**1,738,785**		1,863,081
Debt, net	**$**	**1,064,353**	$	1,175,826
Leverage ratio		**61.2%**		63.1%

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

The REIT's revolving operating facilities, revolving credit facility, term loan, construction facility, and some mortgages are subject to financial and other covenants, including customary maximum leverage ratios, interest service coverage ratios, minimum debt service coverage ratios, minimum unitholders' equity among others. The REIT is in compliance with these covenants.

24. Segmented disclosures

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

		June 30, 2019		December 31, 2018
Canada	**$**	**1,324,374**	$	1,451,748
United States		**323,154**		328,665
	$	**1,647,528**	$	1,780,413

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

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

			Six months ended June 30, 2019
	Canada	**United States**	**Total**
Property revenue	$ 91,629	$ 20,985	$ 112,614
Property operating expenses	(47,843)	(11,344)	(59,187)
Net operating income	**$ 43,786**	**$ 9,641**	**$ 53,427**
Straight line rent and other changes			(962)
IFRIC 21 property tax adjustment			(4,885)
Finance income on finance lease receivable			1,827
Interest income			257
Interest and finance costs			(26,610)
General and administrative			(3,836)
Change in fair value of financial instruments			(9,133)
Change in fair value of properties			14,627
Depreciation of hotel asset			(486)
Disposition costs			(8,210)
Deferred income tax recovery			254
Net income before Class B LP units			**$ 16,270**
Change in fair value of Class B LP units			528
Distributions to Class B LP unitholders			(1,365)
Net income			**$ 15,433**

			Six months ended June 30, 2018
	Canada	United States	Total
Property revenue	$ 90,614	$ 5,734	$ 96,348
Property operating expenses	(47,888)	(3,136)	(51,024)
Net operating income	$ 42,726	$ 2,598	$ 45,324
Straight line rent and other changes			(2)
IFRIC 21 property tax adjustment			1,113
Finance income on finance lease receivable			1,901
Interest income			77
Interest and finance costs			(20,419)
General and administrative			(3,714)
Change in fair value of financial instruments			5,164
Change in fair value of properties			1,305
Depreciation of hotel asset			(450)
Disposition costs			(54)
Deferred income tax recovery			485
Net income before Class B LP units			$ 30,730
Change in fair value of Class B LP units			2,748
Distributions to Class B LP unitholders			(1,982)
Net income			$ 31,496

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

25. Income taxes

The Income Tax Act (Canada) contains legislation affecting the tax treatment of specified investment flow-through ("SIFT") trusts which include publicly-listed income trusts (the "SIFT Rules"). Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital are generally not subject to tax. The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). Instead, a real estate investment trust that meets the REIT Conditions is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period.

The REIT has reviewed the SIFT Rules and has assessed their application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions for the periods ended June 30, 2019 and 2018, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes payable is required, except for amounts incurred by the U.S. subsidiary.

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

The tax effects of temporary differences related to the REIT's properties give rise to the recognition of a deferred tax asset in the amount of $1.0 million. The following is a reconciliation of the deferred tax asset during the period:

	June 30, 2019	June 30, 2018
Beginning of the period	**$ 757**	$ —
Deferred income tax recovery	**254**	485
Foreign exchange	**(36)**	11
End of the period	**$ 975**	$ 496

A reconciliation of the expected income taxes based upon the 2019 statutory rates and the income tax recovery recognized during the six months ended June 30, 2019 and 2018 are as follows:

	Six months ended June 30,	
	2019	2018
Net income before Class B LP units and taxes	**$ 16,016**	$ 30,245
Canadian statutory tax rate	**26.5%**	26.5%
	4,244	8,015
Income not subject to tax	**4,480**	8,466
Tax rate differential	**18**	34
Deferred income tax recovery	**$ 254**	$ 485

As at June 30, 2019 and December 31, 2018, the REIT had tax losses carried forward available to reduce future years' taxable income, which expire as follows:

Year of expiry	**June 30, 2019**	December 31, 2018
2037	**$ 4,549**	$ 4,549
2038	**964**	964
Total non-capital losses	**5,513**	5,513
Total capital losses	**—**	—

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

26. Supplemental cash flow information

Changes in liabilities arising from financing activities for the six months ended June 30, 2019 are as follows:

		Cash flows			Non-cash changes				
	December 31, 2018	Proceeds	Payments	Transaction costs and other	Assump-tions	Foreign exchange	Fair value changes	Amortization of MTM adjustments and costs	June 30, 2019
Derivatives, net	$ 4,062	$ (2,318)	$ —	$ —	$ —	$ —	$ 10,882	$ —	**$ 12,626**
Facilities	322,064	58,501	(72,300)	(10)	—	(2,853)	—	405	**305,807**
Mortgages	665,993	134,101	(137,373)	(1,201)	(43,801)	(5,579)	—	739	**612,879**
Other debt	160,146	—	(42,881)	—	—	—	—	673	**117,938**
Convertible debentures	27,623	—	—	—	—	—	—	106	**27,729**
Class B LP units	31,552	—	—	—	—	—	(528)	—	**31,024**
Total	**$ 1,211,440**	**$ 190,284**	**$ (252,554)**	**$ (1,211)**	**$ (43,801)**	**$ (8,432)**	**$ 10,354**	**$ 1,923**	**$ 1,108,003**

27. Subsequent events

The following events occurred subsequent to June 30, 2019:

i. On July 4, 2019, the REIT disposed 225 Duncan Mill Road in Toronto, ON for $27.3 million and repaid debt with net proceeds.

ii. On July 5, 2019, the REIT entered into a $35 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.94% and a start date of July 5, 2019, expiring June 30, 2021. On July 5, 2019, the REIT also entered into a U.S. $50 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.80% and a start date of July 15, 2019, expiring February 1, 2024. Together, these swaps would bring the REIT's fixed debt ratio to 88.4% had they been executed prior to June 30, 2019.

iii. On July 15, 2019, the REIT paid monthly distributions of $0.0333 per trust unit. Holders of Class B LP units of the REIT were also paid a distribution of $0.0333 per unit.

iv. On July 15, 2019, the REIT declared a distribution of $0.0333 per trust unit, payable on August 15, 2019 to unitholders of record as of the close of business on July 31, 2019. Holders of Class B LP units of the REIT will also be paid a distribution of $0.0333 per trust unit.

v. On August 1, 2019, the REIT renewed a $108.0 million term loan at a rate of BA plus 2.25% through to June 30, 2021.