CORPORATE PARTICIPANTS

Madeline Sarracini
Investor Relations

Scott Antoniak
Chief Executive Officer

Robert Armstrong
Chief Financial Officer

Steve Hodgson
Chief Operating Officer

CONFERENCE CALL PARTICIPANTS

Brendon Abrams
Canaccord Genuity

Chris Couprie
CIBC World Markets

Lorne Kalmar
TD Securities

Himanshu Gupta
GMP Securities

Jenny Ma
BMO Capital Markets

Matt Kornack
National Bank Financial

Stephan Boire
Echelon Wealth Partners

PRESENTATION

Operator

Good morning. My name is Casey and I will be your conference operator today. At this time I would like to welcome everyone to the Slate Office REIT Fourth Quarter 2018 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, you may press the pound key. Thank you.

Madeline Sarracini with Investor Relations, you may begin your conference.

Madeline Sarracini, Investor Relations

Thank you, operator, and good morning, everyone. Welcome to the fourth quarter 2018 conference call for Slate Office REIT. I am joined this morning by Scott Antoniak, Chief Executive Officer; Robert Armstrong, Chief Financial Officer; and Steve Hodgson, Chief Operating Officer of Slate Office REIT.

Before getting started I'd like to remind participants that our discussion today may contain forward-looking statements and therefore ask you to familiarize yourself with the disclaimers regarding forward-looking statements as well as non-IFRS financial measures, both of which can be found in management's discussion and analysis.

You can visit Slate Office REIT's website to access all of the REIT's financial disclosures, including our Q4 2018 investor update, which is available now.

I will now hand over the call to Scott Antoniak.

Scott Antoniak, Chief Executive Officer

Thanks, Maddie. Good morning, everyone, and thank you for joining the call.

During the fourth quarter the REIT maintained positive momentum as the team demonstrated its ability to generate strong operating results that continue to build value for unitholders. We remain focused on our mission to provide meaningful total returns for unitholders and have positioned the REIT for continued value creation based on opportunities we see within our portfolio and the broader market today. I'd like to spend some time this morning to highlight a few announcements we made in our press release.

First, in early 2018 we announced our intention to pursue a strategic capital recycling program to strengthen our balance sheet and create liquidity for future investments that are accretive to net asset value. We were pleased to announce that we have entered into such an agreement with a fund managed by Wafra, a sophisticated global private equity and alternative asset investor, whereby they will acquire a 25% interest in a portfolio of six office assets in the Greater Toronto Area. The transaction values the six assets at $527 million and generates net proceeds of approximately $54 million, which will be used to reduce outstanding debt and improve the financial flexibility of the REIT. Furthermore, the transaction represents an internal rate of return of 19% for SOT unitholders. Importantly, this transaction provides validation for the net asset value of 28% of the REIT's portfolio.

If you include our recent US acquisitions, almost half of the REIT's assets have been marked to market over the past 12 months, providing significant confidence in our net asset value estimate. At the same time, the current trading price implies that the remainder of the portfolio is valued at an almost 8% capitalization rate, which we know is not reflective of current conditions in the real estate investment market, especially when considering the occupancy of these assets is in the mid-80%. Our estimate of value has the residual portfolio at a 6.6% capitalization rate, consistent with what we are seeing in the investment market. Management believes there is a significant discount between the REIT's current trading price and the IFRS net asset value, which management estimates to be $8.55. In our view, this value difference of almost $2 per unit represents a compelling investment opportunity. Accordingly, if the pricing disconnect persists, management will consider a buyback of units via the REIT's normal course issuer bid.

Second, the REIT's operating results continued to be strong. During the fourth quarter, the team completed over 158,000 square feet of leasing at an attractive spread of 11%. On a year-to-date basis for 2018 the team completed over one million square feet of leasing, equal to 14% of the total portfolio, increasing overall occupancy to 87.6% at year end. As a result of strong leasing, continued occupancy gains, and positive leasing spreads, the REIT achieved a 14.5% increase in same-property net operating income. We are pleased with the underlying operating fundamentals in our portfolio that will drive future value creation.

We are also taking advantage of a favourable debt financing environment to reduce risk and enhance the stability of future cash flows by converting more of our debt to longer-term fixed-rate financing. Concurrent with the closing of the Wafra transaction, the REIT is in the process of fixing approximately 90% of its debt. This compares to 51% as at year end December 2018. The fixed-rate financing will be accomplished through five loan extensions related to the Greater Toronto Area joint venture properties and long-term interest rate swaps. With approximately 90% of the REIT's borrowing being subject to fixed rates, we believe that there will be better stability in earnings going forward.

The actions we have outlined today improve the quality and diversification of our portfolio, strengthen our balance sheet, and validate both the net asset value of the REIT along with our ability to generate double-digit returns for unitholders. As we look forward and plan for the future, we have evaluated the asset allocation alternatives available to the REIT that will result in the best total return for unitholders. As a result, together with the Board, we believe it is now time to revise the REIT's annual distribution. The revision announced this morning to $0.40 annually will allow the REIT to retain incremental annual cash flow of $26 million. We intend to use this retained capital to reduce financial leverage in order to create capacity to invest in attractive new opportunities or reinvest in existing portfolio strategies that are accretive to net asset value. Simply, having incremental capital will allow management to provide unitholders with the kinds of returns that we have consistently shown, most recently with the Wafra joint venture.

We thank you for your continued support and I will now open the call to your questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. As a reminder, if you would like to ask a question at this time, please press star followed by the number one on your telephone keypad. Once again, that's star then one if you would like to ask a question. We'll pause for just a moment to compile the Q&A roster.

Your first question here comes from Brendon Abrams with Canaccord Genuity. Please go ahead, your line is open.

Brendon Abrams, Canaccord Genuity

Hi. Good morning, everyone.

Scott Antoniak, Chief Executive Officer

Good morning, Brendon.

Brendon Abrams, Canaccord Genuity

Focusing on the distribution cut announced this morning, just wondering if you could provide some colour in terms of how you came to decide on the new level of $0.40 annually. Like is it on a certain payout ratio? Like how did you come to that?

Scott Antoniak, Chief Executive Officer

We looked to peers both in the Canadian and US REIT markets and established a level of distribution going forward that we thought was appropriate within that band for Slate Office REIT and keeping in mind the capital investment opportunities available to us going forward and landed on $0.40 as being appropriate.

Brendon Abrams, Canaccord Genuity

Was more of, perhaps, what your trading yield would be relative to peers in the Canadian marketplace. Would that be fair to say?

Robert Armstrong, Chief Financial Officer

Yes, I think that was one consideration. The other consideration was where that would put us from a payout ratio, which we think will be, call it 60% to 70% going forward. But I think the primary view we had was that we wanted to be able to retain additional capital, because we still think there's great opportunity within our portfolio as well as within the investment market both in Canada and the US. So, we wanted to make sure that we kept some of that back because we're focused on total returns and we think we have a great ability to grow those returns within our portfolio as it stands today.

Brendon Abrams, Canaccord Genuity

Okay. And just in terms of capital allocation going forward, I think some comments in the opening remarks that if the valuation gap to NAV persists, you'll consider a buyback. I guess what does it mean in terms of, like at what level would the discount have to be for you to really move aggressively on buybacks in the future?

Robert Armstrong, Chief Financial Officer

We think where it's trading right now is substantially below where we think our NAV is. We think we have a conservative NAV of $8.55 and it's trading at, call it, $6.70 at the current point. We'd be happy to be buyers at this point. We've notionally, as a first step, allocated $15 million to $20 million and would be happy to reconsider that for the NCIB, but we'd have to see where we continue to trade.

Brendon Abrams, Canaccord Genuity

Okay. And then just last question for me, just in terms of the JV sale: one, why 25%? I guess is that just what the purchaser had wanted? Are there any fees that will be management fees in terms of going to the REIT? Are you still proactive on the disposition front or does this kind of conclude that process?

Scott Antoniak, Chief Executive Officer

The 25% was reflective of the all-in capital allocation that the investor had. We are very pleased with 25%. These were assets that we are happy to stay around in and having 75% of them is consistent with our strategy going forward. We like these assets. Although we've shown a 19% return to this point, we think there's still additional returns to be made in those assets, so we're happy to keep the 75% of that.

In terms of fees, the fees on the portfolio going forward are consistent with the fees that are paid by the REIT via their external management agreement.

And your third question was? Oh, additional. So, this is the bulk of the capital recycling plan. I think we first talked about this about a year ago right now in the first quarter of 2018.

We've done in excess of $235 million worth of gross proceeds and sales. There may be one or two more non-strategic assets that, as leasing and market conditions dictate, we would look to monetize in 2019, but that would be, from an all-in dollar basis, in the range of between $50 million and $80 million I would say. And then that would be the extent of the capital recycling plan that we outlined in 2018 and we're going to pivot at that point and look for growth opportunities.

The whole reason for the capital recycling plus the revision of the distribution is to generate capital so the REIT can continue to grow. We think 19% IRRs are pretty compelling for any unit holder and to the extent we have more capital available to go seek those opportunities, we think it puts everybody in the best possible position going forward.

Brendon Abrams, Canaccord Genuity

Okay. That's it for me. I'll turn it over. Thank you.

Operator

Your next question comes from Chris Couprie from CIBC. Please go ahead, your line is open.

Chris Couprie, CIBC World Markets

Good morning, guys.

Scott Antoniak, Chief Executive Officer

Hi, Chris.

Chris Couprie, CIBC World Markets

Hey. I just wanted to follow up on some of Brendon's line of questioning with respect to the assets that were put into the JV. Did they come to you? Did you find them? And how did you kind of land on which properties went into the JV?

Scott Antoniak, Chief Executive Officer

Slate has a longstanding relationship with the folks at Wafra and have had numerous conversations over the years about potential investment opportunities. Again, I just would point to the value, the strategic value in the Slate relationship here. We've been talking to Wafra for the better part of 10 years on different opportunities. And in terms of the specific assets, their primary interest was in the Greater Toronto Area. We looked to monetizing assets that were further along in terms of their stability and maturity where we could generate a return for unitholders and assets, again, that we would like to stay in over the longer term. So, as with most of these things, it was negotiated, but we're happy with the portfolio that we've joined up with them on.

Chris Couprie, CIBC World Markets

Were you talking to anyone else about potential JVs?

Scott Antoniak, Chief Executive Officer

Yes.

Robert Armstrong, Chief Financial Officer

The selection of a partner, and we were talking to a number of people, all of which would have been great. We liked Wafra just because of our longstanding relationship but the assets in particular they like we continue to like, but we also think it really reaffirms our viewpoint on valuation here to have a large global sophisticated investor come into these assets at a pretty compelling price where we've done okay on them with a 19% return so far, but we definitely didn't want to exit them and hold as other assets we would exit. But I think the longer-term hold that we can have together will be great.

Scott Antoniak, Chief Executive Officer

To follow on Bobby's point, I think having an investor like Wafra with roughly $25 billion of assets around the world, they've invested in real estate all over the world, have partners all over the world, and I think it's a pretty good testament to the team and to the assets that they've chosen to do a significant deal with us in the Greater Toronto Area. It should give both the analyst side and investors significant comfort in the net asset value that we have been preaching over the last little while when we have a sophisticated third-party global investor buying in at exactly those levels. So, we think that's a pretty good walk to the $8.55 of NAV.

Chris Couprie, CIBC World Markets

Okay, perfect. And then just kind of an administrative question: Has Duncan Mills closed?

Steve Hodgson, Chief Operating Officer

No. It's anticipated to close in the second quarter.

Chris Couprie, CIBC World Markets

And this Wafra one is to be sometime in the first quarter, is that right?

Robert Armstrong, Chief Financial Officer

Yes, we think right in the end of March is most likely.

Chris Couprie, CIBC World Markets

Okay, I'll turn it back. Thanks, guys.

Scott Antoniak, Chief Executive Officer

Thanks, Chris.

Operator

Your next question comes from Lorne Kalmar with TD Securities. Please go ahead, your line is open.

Lorne Kalmar, TD Securities

Hey, guys. Good morning.

Scott Antoniak, Chief Executive Officer

Good morning, Lorne.

Lorne Kalmar, TD Securities

Just back to the Wafra partial interest sale, what was the cap rate on the sale?

Robert Armstrong, Chief Financial Officer

It was 6.6.

Lorne Kalmar, TD Securities

6.6, okay.

Robert Armstrong, Chief Financial Officer

At $269 a square foot.

Steve Hodgson, Chief Operating Officer

Based on forward 12-month projections.

Lorne Kalmar, TD Securities

Okay, great. And then interest costs were up a little bit this quarter. Were there any one-time items in there?

Robert Armstrong, Chief Financial Officer

Yes, it was slightly higher because of some capital spend, but really it was primarily the increase in BAs in the fourth quarter. We got as high as, call it, 225 basis points. I think that's come down a little bit. But also, the bridge loan that we took out for the purchase of 120 LaSalle had a full quarter of interest in there, and that will be fully repaid upon closing of the sale to Wafra.

Lorne Kalmar, TD Securities

Okay, great. And then I guess with the capital recycling program reaching a conclusion, when would you guys look to get active on the acquisition front again?

Robert Armstrong, Chief Financial Officer

We'd like to get the capital recycling plan done. We're continuing to review opportunities in the market. The pricing we've seen is highly reflective of where we've got things marked at this point, but I think probably late 2019 would be when we'd feel comfortable getting back in after we fully execute on what we have to do so far.

Lorne Kalmar, TD Securities

And then just lastly, what leverage range would you guys be comfortable with? I think you said you're going to be at about 60%.

Robert Armstrong, Chief Financial Officer

Yes, at December 31st we were 63%. When we complete this and Duncan Mill, this being the sale to Wafra, we will go down to 60%, maybe just a little tad below that. The $26 million of additional capital we have from the revision of the distribution will continue to push LTBs lower but we'd like to get down initially to about 55%.

Lorne Kalmar, TD Securities

Okay, that's great. I'll turn it back. Thanks, guys.

Operator

Your next question comes from Himanshu Gupta with GMP Securities. Please go ahead, your line is open.

Himanshu Gupta, GMP Securities

Thank you and good morning, guys.

Scott Antoniak, Chief Executive Officer

Good morning.

Himanshu Gupta, GMP Securities

Just to follow up on the JV announcement, does the JV partner have any option to buy out the remaining ownership or increase ownership in the future?

Scott Antoniak, Chief Executive Officer

The entire agreement, Himanshu, is just subject to standard liquidity provisions in both directions. There's no option.

Himanshu Gupta, GMP Securities

Okay. In terms of the sale price around $270 per foot, what was the cost basis on these assets and do you think the full value has been realized on these assets? Was there any more opportunity to add value through lease-up?

Robert Armstrong, Chief Financial Officer

Yes, we definitely think there's value to be continued to be had at that pricing, which is why we're choosing to stick in. I think these assets would have been liquid at 100% sales but we continue to like this, we continue to like the, especially in the 427, the somewhat controlled block that we have.

Himanshu Gupta, GMP Securities

Right. Okay. And maybe just to confirm again, the sale price was consistent with the IFRS value, right?

Robert Armstrong, Chief Financial Officer

Q3 was the last time we had them marked and the sale price to Wafra is 4% above our past mark.

Himanshu Gupta, GMP Securities

4% above IFRS. Okay.

Robert Armstrong, Chief Financial Officer

Coming back to the same theme there is we continue to think that there's a significant discount to where we're trading versus NAV, and the fact that we're doing these dispositions at prices in excess of IFRS plus we've got a sophisticated investor providing an opinion of value and all of our US assets being purchased in the last year, that's why we continue to harp on the fact that we think NAV is just simply wrong from the market's view point. We think the $8.55 IFRS NAV we have is, even at that, conservative, and why we'd be buyers in the market today at these prices.

Himanshu Gupta, GMP Securities

Right. Absolutely. And then just to follow up on that 19% IRR, obviously looks very healthy. What was the source of that? Was it driven mostly by leasing or cap rate compression or I guess both?

Steve Hodgson, Chief Operating Officer

I would say it was a mix. I think the REIT bought these assets at good prices, so a lot of that was embedded upon purchase. Since then, particularly in the 427 where we haven't owned those assets as long, we've had quite a bit of leasing success in a short amount of time, which would help propel that IRR to the levels that we saw on exit.

Scott Antoniak, Chief Executive Officer

Himanshu, just to circle back to your first question, I think the original cost base of these as compared to the $269 exit price is about $230 for the collection of assets. Picking up on both Steve and Bobby's point, we are seeing material rental rate growth on the 427 Corridor, probably there more than anywhere else in the portfolio, which is why staying in for—19% is great but we think there's significant incremental returns to realize there. In excess of 15% probably on face rates in the 16 months we've been around those two complexes. So, with downtown as tight as it is and that looking to persist for a while, we think there's significant rental rate upside, which will translate into returns and makes us excited to still have 75% of these going forward.

Himanshu Gupta, GMP Securities

Got it. And maybe just switching gears on the leasing side, any update on 2599 Speakman Drive? And any other major leases coming up for renewal for 2019? I mean anything we should be watching out for?

Steve Hodgson, Chief Operating Officer

Sure. With 2599, Himanshu, nothing significant to update you on there yet relative to our last call. We anticipated doing some leasing in 2019 and we still do. The magnitude of that is to be determined as we have several interested parties that are different square footage requirements.

Shifting gears to the balance of the major expiries coming up in 2020, we did get unfortunate news in St. John's, Newfoundland with respect to ExxonMobil, who is electing to purchase a building in St. John's as opposed to lease and will be vacating Cabot Place at the end of March 2019. I think with Exxon investing into a building solidifies their long-term interest in that market and I think with the new discoveries that they and others are involved with, there'll be supplementary requirements for office space that will help us to backfill that Exxon vacancy.

Himanshu Gupta, GMP Securities

And can you remind me how much were they occupying right now, Exxon?

Steve Hodgson, Chief Operating Officer

It's 96,000.

Himanshu Gupta, GMP Securities

96,000. Okay. Thank you, guys. I'll turn it back.

Scott Antoniak, Chief Executive Officer

Thanks, Himanshu.

Operator

Your next question comes from Jenny Ma with BMO Capital Markets. Please go ahead, your line is open.

Jenny Ma, BMO Capital Markets

Thanks. Good morning. Going back to the Wafra transaction, most of my questions have been answered but I was wondering if you could, ah, I'm not sure if you can speak on their side, but the fund that this is going into, do you know if there is an end date to that fund? Like a limited period to it? Or if it's a perpetual fund?

Robert Armstrong, Chief Financial Officer

There's an end date of 2023 but the capital behind that money, we would classify it as perpetual.

Jenny Ma, BMO Capital Markets

Okay. And do you know if they have any other Canadian office holdings? And the related question would be, you know, when you sat down with them did you go through the entire portfolio and consider investment options and landed at the six that you ended up with or is there any possibility for future JVs within the portfolio?

Scott Antoniak, Chief Executive Officer

Yes, they have other Canadian office holdings, one in Oakville and one in Montreal, I believe. In terms of portfolio strategy, that's how it transpired. Their primary interest is in the GTA in terms of their Canadian investments, obviously Montreal as well, but the major markets, so GTA made sense for them. That's how we landed on the portfolio that we selected. And I can't speak for them in terms of the future. I think they're careful when they select their partners, whether on the capital or asset management side. We are now a partner of theirs or will be on closing of this, so the possibility exists in the future to add to the relationship with other assets, whether they're existing or new ones in the future to be determined. In the meantime, we're focused on getting this transaction closed. But I think we've established a relationship with a strategic capital partner going forward.

Jenny Ma, BMO Capital Markets

And you mentioned that there were standard liquidity provisions in the JV. So, if either party elects to sell, is there a predetermined value that you've set it at or how do you measure that option?

Scott Antoniak, Chief Executive Officer

No, it'll be market driven. There's not a predetermined value.

Jenny Ma, BMO Capital Markets

Okay. But there is a ROFO on either side to pick up the other side of the interest, correct?

Robert Armstrong, Chief Financial Officer

Yes, both for their benefit and our benefit.

Jenny Ma, BMO Capital Markets

Okay. So that's equal on both sides.

Robert Armstrong, Chief Financial Officer

Yeah, it's symmetrical.

Jenny Ma, BMO Capital Markets

Okay. And then you had mentioned, I hope I wrote this down correctly, you had allocated about $15 million to $20 million to the NCIB coming from the capital saved from the distribution cut?

Robert Armstrong, Chief Financial Officer

Yes, that's right, Jenny. I think, as we have talked about and have outlined in the press release, we think a sub-$7 valuation where it's been trading recently at, say, $6.70 or so, just doesn't make sense. If you take a below $7 NAV it's implying a 6.5 cap rate, which we just don't think there's empirical evidence for. Effectively, right now, with Wafra's investment and what we've purchased in the US, you have half of our portfolio in effect being mark to market. So, there's just really not market trades or empirical evidence to support a sub-$7 or 6.5 cap on the portfolio.

Jenny Ma, BMO Capital Markets

Do you think—I know you mentioned that late 2019 was sort of when you start to look at acquisitions again. Are you seeing anything now out in the market or I guess between now and the end of the year that would rival an investment opportunity versus your units? Or do you think the units right now is simply the best use of your excess capital?

Scott Antoniak, Chief Executive Officer

Well, it's a mix. Our intention has always been and continues to be to grow this vehicle. I think there is material value in scale, from unsecured debt and liquidity on the institutional side, so there are compelling reasons for that. I think it's more than just simplistic, like math, it makes more sense to do an NCIB or buy an asset. I think we look at that more holistically.

In terms of market opportunities, there are an abundant number of them. More in the US than Canada at the present time, but that may change over time. There are assets in markets that we like that we think would be worth pursuing and it'll just come down to a decision at the appropriate time as to what's the best direction to take this.

Jenny Ma, BMO Capital Markets

Okay, great. That's it for me. Thank you.

Operator

Your next question comes from Matt Kornack with National Bank Financial. Please go ahead, your line is open.

Matt Kornack, National Bank Financial

Hi, guys. With regards to CapEx, the trend has been positive from 2017 to 2018, but what are your expectations for 2019? I think some of the major projects have been done but I just would be interested in what piece that will be in terms of capital outflow.

I'm just looking at sort of the aggregate numbers here for CapEx and direct leasing costs. I think it went from $65 million in 2017 to about $40 million in 2018. I mean would you expect similar spending in 2019 or will that number continue to go down?

Steve Hodgson, Chief Operating Officer

I don't necessarily think of it as being a positive trend. We reinvest in our portfolio and that's part of the reason that we're driving the returns we are driving. I think you'll continue to see that in 2019.

We have a pretty significant project which we've announced at the Maritime Centre in Halifax, which is $20 million, part of which will be recoverable capital, part of which will be unrecoverable capital, but it's directed at driving the types of returns that we've demonstrated with the recent dispositions. There's also some leasing capital that we've earmarked for 120 South LaSalle. We bought both the buildings in the US at 84% occupied. They now have a committed occupancy of 87% and we're going to continue to reinvest in those buildings via leasing and amenitization, as we've talked about on prior calls. So that's driving, particularly given they're larger assets and it's in US dollars, that's driving, will be driving a significant portion of our capital investment next year, or the balance of this year rather.

Matt Kornack, National Bank Financial

And on those Chicago assets, what's the timing of the sort of accounting and actual cash recognition of that lease-up?

Steve Hodgson, Chief Operating Officer

I don't have the exact numbers but I would suggest that the recognition of that lease-up would be in the second half of this year.

Matt Kornack, National Bank Financial

Okay. And beyond those, you still have, I would think, a little bit more upside there. There was some commentary within your Letter to Unitholders that Chicago seems to be absorbing new supply pretty well and that, if anything, it's better than expectations, so where do you think you can bring those occupancy levels to on a stabilized basis?

Steve Hodgson, Chief Operating Officer

We're forecasting low 90s, 91%, 92%.

Matt Kornack, National Bank Financial

Okay. That's helpful. And then on the JV front, do you think, as you look to eventually expand the portfolio again, that you'd potentially bring in partners to buy assets if that makes it easier to scale the portfolio?

Robert Armstrong, Chief Financial Officer

Yes, I think that's definitely an option on the table. Bringing in Wafra and having this partner was probably the first step in that regard. It could be them, it could be others as well that we have talked to throughout this process, but it would be the opportunity to grow.

We are still absolutely growth focused, but allowing us to diversify, take down bigger assets, spread some of that risk around, bring some additional sophistication and expertise to the table we think is all around great things for the REIT.

Matt Kornack, National Bank Financial

Okay. And then the $50 million to $80 million of earmarked potential for other dispositions, is there a specific market or is it non-core assets and you've fully leased them up and they may be in different geographic regions but you see less upside? And would those be 100% sales?

Scott Antoniak, Chief Executive Officer

It would be the latter, Matt, and yes, they would be 100% sales.

Matt Kornack, National Bank Financial

Okay. On interest rates, you mentioned pushing out some of the debt maturity profile there, but I think given where BAs were that, I mean from an interest rate standpoint, are you actually getting savings on pushing out some of that financing or is it net neutral?

Robert Armstrong, Chief Financial Officer

For the six sale assets we've got commitments from a number of lenders to extend that financing an additional year and a half. I think the additional cost is about 13 basis points or so, so pretty minimal. We've been really happy with the terms.

And additionally, with that, all the financing we'll put in place is fixed and then further we're undertaking to put on about another $200 million, $250 million of interest rate swaps. So, going into Q2 we're expecting to have a balance sheet that has about 90% fixed-rate debt.

Matt Kornack, National Bank Financial

Okay. Good to know. Finally, your SNC exposure, I mean it's a pretty specific subset of the company. I think it was a recent acquisition and it functioned exclusive of the bidding and construction process. Is that a fair characterization of that business?

Scott Antoniak, Chief Executive Officer

It is, Matt, and specifically in Sheridan. I mean it wasn't that long ago, I think probably less than five years ago where it was actually Atomic Energy Canada, so our view of the specific nature of our SNC exposure is that whatever the name may be it continues to exist.

Matt Kornack, National Bank Financial

Right. Okay. Thanks, guys.

Operator

Your next question comes from Stephan Boire with Echelon Wealth. Please go ahead, your line is open.

Stephan Boire, Echelon Wealth Partners

Thank you. Good morning. Most of my questions have already been answered but I just wanted to clarify a few points. First, it was mentioned, I believe, that the long-term debt or leverage ratio would be around 55%. Is it something that's going to be by the end of the year or further out?

Robert Armstrong, Chief Financial Officer

I think I wouldn't even classify it as long term. I would say it was more medium-term target. We think with these sales plus what we have in the pipeline continuing for capital recycling in Q2 and potentially Q3, we would be down to roughly 57% - a rough guess for the end of the year.

Stephan Boire, Echelon Wealth Partners

For the end of the year 57%. Okay. Perfect. And from a modelling standpoint, it was already mentioned that interest expense was a bit higher this quarter and also you mentioned that after the sale to Wafra it would probably go down, but would it go down to more a run rate level or similar to Q3?

Robert Armstrong, Chief Financial Officer

They way I'd look at it is, all of the proceeds that we'll get in from the Wafra sale will go to repay debt, so we've got about $50 million of debt repayment happening. The additional $30 million of proceeds will effectively just add liquidity. But the way I'd look at it, Stephan, is if our average cost of debt is about 4.3% all-in, I think that's a decent way to apply that against our debt base.

Stephan Boire, Echelon Wealth Partners

Okay. And same question for G&A. Should we consider this quarter to be a good run rate?

Robert Armstrong, Chief Financial Officer

Yes, we're happy with this quarter.

Stephan Boire, Echelon Wealth Partners

Okay, that's good. That's it for me. Thank you.

Robert Armstrong, Chief Financial Officer

Thanks, Stephan.

Operator

And there are no further questions in the queue at this time. I will turn the call back over to Madeline Sarracini for any closing remarks.

Madeline Sarracini, Investor Relations

Thanks, everyone, for joining the fourth quarter 2018 conference call for Slate Office REIT. Have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.
