

Slate Retail REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020

(Unaudited)

Slate Retail REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited - in thousands of United States dollars, unless otherwise stated)

	Note	June 30, 2020	December 31, 2019
ASSETS			
Non-current assets			
Properties	4, 5	\$ 1,274,347	\$ 1,288,536
Equity investment	6	4,327	5,049
Interest rate swaps	7	—	1,761
Other assets	8	2,088	2,293
		\$ 1,280,762	\$ 1,297,639
Current assets			
Other assets	8	620	786
Prepays		1,165	2,518
Accounts receivable	9	12,936	11,725
Cash		5,383	2,412
		\$ 20,104	\$ 17,441
Total assets		\$ 1,300,866	\$ 1,315,080
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	10	\$ 775,990	\$ 708,940
Interest rate swaps	7	43,820	21,582
Other liabilities		2,872	2,780
Exchangeable units of subsidiaries	11	7,700	10,926
Deferred income taxes	12	56,766	62,259
		\$ 887,148	\$ 806,487
Current liabilities			
Debt	10	5,012	80,455
Accounts payable and accrued liabilities	13	21,816	21,397
Distributions payable	18	3,029	3,029
Taxes payable	12	3,138	285
		\$ 32,995	\$ 105,166
Unitholders' equity		\$ 380,723	\$ 403,427
Total liabilities and unitholders' equity		\$ 1,300,866	\$ 1,315,080

Slate Retail REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME

(unaudited - in thousands of United States dollars, unless otherwise stated)

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Rental revenue	14	\$ 30,255	\$ 36,016	\$ 62,297	\$ 72,432
Property operating expenses		(3,972)	(5,323)	(26,468)	(30,715)
Other expenses	15	(2,919)	(2,899)	(5,504)	(5,531)
Interest expense and other financing costs, net	16	(7,989)	(9,296)	(16,646)	(18,598)
Share of loss in equity investment	6	(554)	(127)	(722)	(92)
Disposition costs	4, 17	(972)	(852)	(3,094)	(2,944)
Change in fair value of financial instruments	7	—	(987)	(20)	(987)
Change in fair value of properties	5	(809)	(7,521)	3,401	980
Net income before income taxes and unit (expense) income		\$ 13,040	\$ 9,011	\$ 13,244	\$ 14,545
Deferred income tax expense	12	(312)	(2,694)	(780)	(3,541)
Current income tax expense	12	(2,853)	(73)	(2,853)	(73)
Unit (expense) income	11, 18	(2,987)	(310)	3,096	(3,396)
Net income		\$ 6,888	\$ 5,934	\$ 12,707	\$ 7,535

Slate Retail REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited - in thousands of United States dollars, unless otherwise stated)

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Net income		\$ 6,888	\$ 5,934	\$ 12,707	\$ 7,535
Items to be subsequently reclassified to profit or loss:					
Loss on cash flow hedges of interest rate risk, net of tax	7	(2,674)	(8,899)	(20,291)	(14,154)
Reclassification of cash flow hedges of interest rate risk to income	7	1,898	(591)	2,588	(1,242)
Other comprehensive loss		(776)	(9,490)	(17,703)	(15,396)
Comprehensive income (loss)		\$ 6,112	\$ (3,556)	\$ (4,996)	\$ (7,861)

Slate Retail REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(in thousands of United States dollars, unless otherwise stated)

	Note	REIT units	Retained earnings	Accumulated other comprehensive loss ("AOCL")	Capital reserve	Total
Balance, December 31, 2019		\$ 407,551	\$ 8,700	\$ (11,400)	\$ (1,424)	\$ 403,427
Net income and comprehensive loss		—	12,707	(17,703)	—	(4,996)
Distributions	11, 18	—	(17,708)	—	—	(17,708)
Balance, June 30, 2020		\$ 407,551	\$ 3,699	\$ (29,103)	\$ (1,424)	\$ 380,723

	Note	REIT units	Retained earnings	AOCL	Capital reserve	Total
Balance, December 31, 2018		\$ 419,008	\$ 18,141	\$ 2,078	\$ (1,424)	\$ 437,803
Net income and comprehensive loss		—	7,535	(15,396)	—	(7,861)
Distributions	11, 18	—	(17,779)	—	—	(17,779)
Repurchases	11	(3,471)	—	—	—	(3,471)
Balance, June 30, 2019		\$ 415,537	\$ 7,897	\$ (13,318)	\$ (1,424)	\$ 408,692

Slate Retail REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited - in thousands of United States dollars, unless otherwise stated)

	Note	Six months ended June 30,	
		2020	2019
Operating Activities			
Net income		\$ 12,707	\$ 7,535
Items not affecting cash:			
Straight-line rent	5	(651)	(1,199)
Change in fair value of financial instruments	7	20	987
Change in fair value of properties	5	(3,401)	(980)
IFRIC 21 property tax adjustment	5	8,881	9,609
Deferred income tax expense	12	780	3,541
Unit (income) expense	18	(3,096)	3,396
Share of loss in equity investment	6	722	92
Interest expense and other financing costs	16	16,646	18,598
Cash interest paid, net		(15,641)	(17,859)
Changes in working capital items		3,678	1,805
		\$ 20,645	\$ 25,525
Investing Activities			
Acquisitions	4	(90,967)	—
Dispositions	4	106,796	35,144
Contributions to equity investment	4, 6	—	(3,281)
Proceeds from equity investment	4	—	10,027
Funds held in escrow		179	(11)
Capital	5	(1,050)	(1,669)
Leasing costs	5	(636)	(716)
Tenant improvements	5	(2,144)	(3,594)
Development and expansion capital	5	(2,202)	(4,325)
		\$ 9,976	\$ 31,575
Financing Activities			
Revolver advances, net	10, 24	273,827	24,116
Term loan financing costs	10, 24	(1,790)	—
Mortgage advances	10, 24	81,648	—
Revolver, term loan and mortgage repayments	10, 24	(363,161)	(58,434)
Repurchases of REIT units	11	—	(3,471)
REIT units distributions, net of DRIP units issued	18	(17,708)	(17,900)
Exchangeable units of subsidiaries distributions	18	(466)	(946)
		\$ (27,650)	\$ (56,635)
Increase in cash		2,971	465
Cash, beginning of the period		2,412	1,110
Cash, end of the period		\$ 5,383	\$ 1,575

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

1. DESCRIPTION OF THE REIT AND OPERATIONS

Slate Retail REIT (the "REIT") is an unincorporated, open-ended mutual fund trust under and governed by the laws of the Province of Ontario. The REIT focuses on acquiring, owning and leasing a portfolio of diversified revenue-producing commercial real estate properties (the "properties") in the United States of America (the "U.S.") with a focus on grocery-anchored retail properties.

The class U units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbols SRT.U and SRT.UN. The principal, registered, and head office of the REIT is 121 King Street West, Suite 200, Toronto, Ontario, M5H 3T9.

The objectives of the REIT are to:

- i. provide unitholders with stable cash distributions from a portfolio of diversified revenue-producing commercial real estate properties in the U.S. with a focus on grocery-anchored retail properties;
- ii. enhance the value of the REIT's assets in order to maximize long-term unitholder value through active management; and
- iii. expand the asset base of the REIT and increase the REIT's earnings on a per unit basis, including through accretive acquisitions.

2. BASIS OF PREPARATION

i. Statement of compliance

These condensed consolidated interim financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board.

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on July 28, 2020.

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 U.S. dollars, which is the REIT's functional currency and the functional currency of all of its subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is included in note 3 *Significant accounting policies* of the audited comparative consolidated financial statements of the REIT as at and for the year ended December 31, 2019. These consolidated financial statements follow the same accounting policies and methods of computation as used in the REIT's most recent annual consolidated financial statements, except for the adoption of the new accounting policy disclosed below.

These consolidated financial statements do not include all the information and disclosures required in the annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the REIT's audited comparative consolidated financial statements as at and for the year ended December 31, 2019.

i. Application of IFRS 3, Business Combinations ("IFRS 3")

The REIT has adopted the amendments to IFRS 3 on January 1, 2020. The amendments have narrowed and clarified the definition of a business. The objective of the amendment is to assist companies in determining whether an acquisition made is of a business or a group of assets. It also permits a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. These amendments have been applied to the REIT's acquisition transactions during the year. The adoption of the amended standard did not have an impact on the REIT's consolidated financial statements.

Impact of COVID-19

The preparation of the REIT's consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates and assumptions.

The global outbreak of COVID-19 has resulted in emergency measures mandated by the World Health Organization, public health authorities and federal and state governments. A prolonged COVID-19 pandemic could have a material impact on the financial results and cash flows of the REIT,

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

including tenants' ability to pay rent, occupancy, leasing demand, market rents, labor shortages and disruptions, all of which may impact the REIT's valuation of its properties or the ability of the REIT to meet its financial obligations.

The REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that are believed to be reasonable under the circumstances, based on information available as of June 30, 2020 that affect fair value of properties. Actual results could differ from those estimates under different assumptions.

4. ACQUISITIONS AND DISPOSITIONS

Acquisitions

The REIT acquired seven properties during the six month period ended June 30, 2020. The operational results of these properties have been included in these consolidated financial statements from the date of acquisition.

Property	Purchase date	Location	Purchase price
Alexander Pointe	May 29, 2020	Salisbury, North Carolina	\$ 8,060
Bermuda Crossroads	May 29, 2020	Chester, Virginia	18,607
Gainsborough Square	May 29, 2020	Chesapeake, Virginia	13,637
Harper Hills Commons	May 29, 2020	Winston-Salem, North Carolina	11,777
Indian Lakes Crossing	May 29, 2020	Virginia Beach, Virginia	7,606
Renaissance Square	May 29, 2020	Davidson, North Carolina	14,313
Stone House Square	May 29, 2020	Hagerstown, Maryland	16,100
Total			\$ 90,100

The net assets acquired for this acquisition are as follows:

Purchase price	\$ 90,100
Transaction costs	1,658
Properties	91,758
Working capital items	(791)
Total	\$ 90,967

Dispositions

The REIT disposed of six properties during the six month period ended June 30, 2020 as follows:

Property	Disposition date	Location	Sales price
Douglas Commons	January 17, 2020	Douglasville, Georgia	\$ 13,550
Meres Town Center	January 24, 2020	Tarpon Springs, Florida	6,990
Mitchellville Plaza	January 31, 2020	Mitchellville, Maryland	34,730
Armstrong Plaza	March 25, 2020	Wausau, Wisconsin	4,880
Waterbury Plaza	April 8, 2020	Waterbury, Connecticut	21,000
National Hills	April 13, 2020	Augusta, Georgia	26,000
Total			\$ 107,150
Sales price	\$ 107,150		
Disposition costs			(3,094)
Working capital items			(354)
Total			\$ 103,702

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - in thousands of United States dollars, unless otherwise stated)

5. PROPERTIES

On June 30, 2020, the REIT owned 77 properties. The change in properties is as follows:

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Beginning of the period		\$ 1,223,712	\$ 1,355,326	\$ 1,288,536	\$ 1,382,955
Acquisitions	4	91,758	—	91,758	—
Capital		488	485	1,050	1,669
Leasing costs		304	437	636	716
Tenant improvements		1,040	1,591	2,144	3,594
Development and expansion capital		623	2,168	2,202	4,325
Straight-line rent		237	415	651	1,199
Dispositions	4	(47,000)	(7,000)	(107,150)	(35,165)
IFRIC 21 property tax adjustment		3,994	4,763	(8,881)	(9,609)
Change in fair value		(809)	(7,521)	3,401	980
End of the period		\$ 1,274,347	\$ 1,350,664	\$ 1,274,347	\$ 1,350,664

Valuation assumptions used to estimate the fair value of the REIT's properties are as follows:

	June 30, 2020	December 31, 2019
Capitalization rate range	6.00% – 9.50%	6.00% – 9.50%
Weighted average capitalization rate	7.41%	7.45%
Impact on fair value due to a 25 basis point change in capitalization rates	\$ 44,999	\$ 44,800
Impact on fair value due to a \$100,000 change in underlying annual stabilized income	\$ 1,347	\$ 1,341

Under the fair value hierarchy, the fair value of the REIT's properties is determined primarily using the overall income capitalization method using Level 3 inputs. The REIT uses the sales price when a firm contract for the sale of a property exists.

6. EQUITY INVESTMENT

The REIT accounts for its investment in Windmill Plaza, a grocery-anchored shopping centre located in Sterling Heights, Michigan, using the equity method. On January 25, 2019, the REIT acquired a 50% partnership interest in Windmill Plaza, in a joint-venture partnership with The Kroger Company for \$7.3 million, before transaction costs. Consideration for the partnership interest included settlement of the REIT's note receivable in the amount of \$9.4 million and interest receivable of \$2.2 million, net of assumed debt and cash on hand.

The change in the REIT's equity investment is as follows:

	Six months ended June 30,	
	2020	2019
Beginning of the period	\$ 5,049	\$ —
Contribution of note receivable and accrued interest	—	11,644
Cash contributions	—	3,131
Distribution of financing proceeds	—	(2,551)
Proceeds from partner investment	—	(7,476)
Net cost of equity investment	\$ 5,049	\$ 4,748
Capital contributions	—	150
Share of loss in equity investment	(722)	(92)
End of the period	\$ 4,327	\$ 4,806

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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The financial position of the REIT's equity investment is as follows:

	June 30, 2020	December 31, 2019
Assets		
Property	\$ 23,982	\$ 22,454
Current assets	751	1,296
	\$ 24,733	\$ 23,750
Liabilities		
Debt ¹	\$ 13,182	\$ 11,466
Other non-current liabilities	12	15
Current liabilities	2,885	2,171
	\$ 16,079	\$ 13,652
Net assets at 100%	\$ 8,654	\$ 10,098
At the REIT's 50% interest	\$ 4,327	\$ 5,049

¹Bears interest at a rate of 2.92% at June 30, 2020 and has a maturity date of January 28, 2022.

The following is a summary of income of the REIT's equity investment:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Rental revenue	\$ 230	\$ 70	\$ 474	\$ 86
Property operating expenses	(32)	(88)	(282)	(172)
Other expenses	(280)	42	(280)	32
Interest expense and other financing costs, net	(152)	(108)	(318)	(160)
Change in fair value of property	(874)	(174)	(1,038)	30
Net loss and comprehensive loss at 100%	\$ (1,108)	\$ (258)	\$ (1,444)	\$ (184)
At the REIT's 50% interest	\$ (554)	\$ (129)	\$ (722)	\$ (92)

Management fees

Pursuant to the terms of the property management and leasing agreement and the development services agreement the REIT provides property, leasing and development management services for Windmill Plaza. In return for its services, the REIT receives the following fees:

- property management fees calculated based on gross income of each tenant;
- development fees for the management of the construction in adherence with the property's development plan; and
- leasing commissions for all executed leases.

Total management fees earned by the REIT under the agreement for the three and six month periods ended June 30, 2020 were \$0.3 million and \$0.5 million, respectively (three month period ended June 30, 2019 – \$0.2 million, six month period ended June 30, 2019 – \$0.2 million).

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

7. INTEREST RATE SWAPS

The REIT has entered into certain pay-fixed receive-float interest rate swap contracts to hedge the cash flow risk associated with monthly U.S. LIBOR based interest payments on the REIT's floating rate debt.

The terms of the interest rate swaps are as follows:

					Total/ Weighted average
Pay-fixed rate	1.104%	1.411%	2.884%	2.925%	2.205%
Notional amount	\$ 150,000	\$ 100,000	\$ 175,000	\$ 175,000	\$ 600,000
Receive-floating rate	One-month LIBOR	One-month LIBOR	One-month LIBOR	One-month LIBOR	
Maturity date	February 26, 2021	September 22, 2022	August 22, 2023	August 22, 2025	
Remaining term (years)	0.7	2.2	3.1	5.1	3.0

On February 4, 2020, the REIT terminated \$150.0 million of its \$300.0 million interest rate swap, with an effective date of November 2, 2016. The realized gain as a result of the termination was blended into the pay-fixed rate of the REIT's \$100.0 million interest rate swap, with a maturity date of September 22, 2022, which was reduced to 1.41% and resulted in an increase to the weighted average pay-fixed rate of the REIT's swap portfolio to 2.205%.

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the three and six month periods ended June 30, 2020 is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, March 31, 2020		\$ (42,767)	\$ 11,197	\$ (31,570)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(3,623)	949	(2,674)
Net payments made	16	2,570	(672)	1,898
Balance, June 30, 2020		\$ (43,820)	\$ 11,474	\$ (32,346)

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2019		\$ (19,821)	\$ 5,193	\$ (14,628)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(27,484)	7,193	(20,291)
Cumulative loss arising on cash flow hedges to profit or loss		(20)	5	(15)
Net payments made	16	3,505	(917)	2,588
Balance, June 30, 2020		\$ (43,820)	\$ 11,474	\$ (32,346)

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the three and six month periods ended June 30, 2019 is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, March 31, 2019		\$ (5,186)	\$ 1,358	\$ (3,828)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(12,380)	3,481	(8,899)
Cumulative loss arising on cash flow hedges to profit or loss		(987)	—	(987)
Net payments received	16	(829)	238	(591)
Balance, June 30, 2019		\$ (19,382)	\$ 5,077	\$ (14,305)

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2018		\$ 2,818	\$ (740)	\$ 2,078
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(19,502)	5,348	(14,154)
Cumulative loss arising on cash flow hedges to profit or loss		(987)	—	(987)
Net payments received	16	(1,711)	469	(1,242)
Balance, June 30, 2019		\$ (19,382)	\$ 5,077	\$ (14,305)

A reconciliation of the interest rate swap asset and liability fair value positions is as follows:

	June 30, 2020	December 31, 2019
Fair value asset position included in the carrying amount of the hedged item	\$ —	\$ 1,761
Fair value liability position included in the carrying amount of the hedged item	(43,820)	(21,582)
Total	\$ (43,820)	\$ (19,821)

8. OTHER ASSETS

Other assets are comprised of the following:

	June 30, 2020	December 31, 2019
Current		
TIF notes receivable	\$ 385	\$ 372
Funds held in escrow	—	140
Other ¹	235	274
	\$ 620	\$ 786
Non-current		
TIF notes receivable	\$ 2,063	\$ 2,268
Funds held in escrow	25	25
	\$ 2,088	\$ 2,293
Total	\$ 2,708	\$ 3,079

¹Other mainly includes deposits and transaction costs.

TIF notes receivable are issued by the City of St. Paul and by the City of Brainerd in Minnesota, related to the REIT's Phalen Retail Centre and East Brainerd Mall properties, respectively. The TIF notes obligate each municipality to pay certain tax increments resulting from increases, if any, from a reference amount in the taxable valuation of the respective property to the REIT.

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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9. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	June 30, 2020	December 31, 2019
Rent receivable	\$ 8,140	\$ 3,475
Allowance for doubtful accounts	(945)	(673)
Accrued recovery income	2,973	5,751
Other receivables	2,768	3,172
Total	\$ 12,936	\$ 11,725

Rent receivable consists of base rent and operating expense recoveries billed to tenants. Accrued recovery income represents amounts that have not been billed to the tenants and are generally billed and paid subsequent to the year in which they were incurred. Other receivables is primarily comprised of the gross amount of consideration for property taxes paid directly by tenants.

The change in allowance for doubtful accounts is as follows:

	Six months ended June 30,	
	2020	2019
Beginning of the period	\$ (673)	\$ (741)
Allowance for doubtful accounts	(748)	(320)
Bad debt write-off	292	182
Bad debt recovery	184	125
End of the period	\$ (945)	\$ (754)

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 not credit-impaired rent receivable, net of allowance for doubtful accounts, is as follows:

	June 30, 2020	December 31, 2019
Current to 30 days	\$ 3,619	\$ 1,629
31 to 60 days	734	273
61 to 90 days	1,137	190
Greater than 90 days	1,705	710
Total	\$ 7,195	\$ 2,802

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - in thousands of United States dollars, unless otherwise stated)

10. DEBT

Debt held by the REIT at June 30, 2020 is as follows:

	Maturity	Remaining extension options	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn ¹
Revolver ¹²	March 21, 2024	Two six-month	L+185 bps ³⁴	N/A ⁵	N/A ⁵	\$ 300,000	\$ 138,776	\$ 161,224
Term loan ¹	March 21, 2025	None	L+175 bps ³⁴	N/A ⁵	N/A ⁵	225,000	225,000	—
Term loan 2 ¹	February 9, 2023	None	L+175 bps ³⁴	N/A ⁵	N/A ⁵	250,000	250,000	—
Mortgage	January 1, 2025	None	3.80 %	3	80,645	42,878	42,878	—
Mortgage	July 1, 2025	None	4.14 %	5	78,860	41,024	41,024	—
Mortgage	January 1, 2031	None	5.50 %	1	22,225	7,273	7,273	—
Mortgage	March 18, 2031	None	3.48 %	8	142,145	82,987	82,987	—
Total						\$ 949,162	\$ 787,938	\$ 161,224

¹ Debt available to be drawn is subject to certain covenants as provided in the REIT's lending agreements, including generally, a maximum of 65% Consolidated Total Indebtedness to Gross Asset Value. The calculation of Consolidated Total Indebtedness to Gross Asset Value is provided in note 20 *Capital Management*. The revolver, term loan and term loan 2 provide for different spreads over one-month U.S. LIBOR depending on the ratio of Consolidated Total Indebtedness to Gross Asset Value.

² The revolver requires a stand-by fee to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.

³ "L" means LIBOR and "bps" means basis points.

⁴ The applicable spread for the revolver where Consolidated Total Indebtedness to Gross Asset Value is: (i) less than or equal to 45% is 135 bps; (ii) greater than 45% but less than or equal to 50% is 145 bps; (iii) greater than 50% but less than or equal to 55% is 160 bps (iv) greater than 55% but less than or equal to 60% is 185 bps; and (v) greater than 60% is 205 bps. The applicable spread for the term loan and term loan 2 where Consolidated Total Indebtedness to Gross Asset Value is: (i) less than or equal to 45% is 125 bps; (ii) greater than 45% but less than or equal to 50% is 140 bps; (iii) greater than 50% but less than or equal to 55% is 150 bps (iv) greater than 55% but less than or equal to 60% is 175 bps; and (v) greater than 60% is 195 bps.

⁵ The revolver, term loan and term loan 2 are secured by a general pledge of equity of certain subsidiaries of the REIT. Collectively, those subsidiaries hold an interest in 59 of the REIT's properties.

The carrying value of debt held by the REIT at June 30, 2020 is as follows:

	Effective rate ¹	Principal	Mark-to-market adjustments and costs	Accumulated amortization of MTM adjustments and costs ²	Carrying amount	Current	Non-current
Revolver	3.40%	\$ 138,776	\$ (1,804)	\$ 145	\$ 137,117	\$ —	\$ 137,117
Term loan	3.49%	225,000	(1,360)	88	223,728	—	223,728
Term loan 2	3.49%	250,000	(2,270)	934	248,664	—	248,664
Mortgage	3.80%	42,878	(1,549)	771	42,100	1,076	41,024
Mortgage	4.14%	41,024	(1,079)	635	40,580	1,802	38,778
Mortgage	5.50%	7,273	127	(9)	7,391	521	6,870
Mortgage	3.48%	82,987	(1,602)	37	81,422	1,613	79,809
Total		\$ 787,938	\$ (9,537)	\$ 2,601	\$ 781,002	\$ 5,012	\$ 775,990

¹ The effective interest rate for the revolver, term loan and term loan 2 includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. The revolver, term loan and term loan 2 effective rates are based on the applicable U.S. LIBOR rate under borrowings as at June 30, 2020.

² Excludes the impact of any available extension options not yet exercised.

During the period ended June 30, 2020, the REIT made principal repayments, net of drawdowns totaling \$9.48 million on the REIT's revolver and mortgages funded by cash received from the disposal of six properties and cash from operations.

On February 21, 2020, the REIT refinanced its existing revolving credit facility and term loan (the "credit facility") for four and five-year terms, respectively, for an aggregate of \$525.0 million. The REIT has also reduced pricing on its credit facility and \$250.0 million term loan. The revolver, term loan and term loan 2 bears interest at U.S. LIBOR plus an applicable margin.

On March 18, 2020, The REIT entered into an \$83.3 million 10-year mortgage loan, bearing interest of 3.48%. The loan is secured by a pool of eight properties and is non-recourse to the REIT. Proceeds from the loan were used to reduce borrowings on the REIT's revolver.

On March 20, 2020, the REIT extinguished a mortgage of \$10.1 million, bearing interest of 5.75% with borrowings from the REIT's revolver. The REIT recognized a \$0.3 million gain on the settlement of the mortgage's deferred financing costs and mark-to-market adjustment.

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

11. REIT UNITS AND EXCHANGEABLE UNITS OF SUBSIDIARIES

At June 30, 2020, the REIT has the following REIT units issued and outstanding, in thousands of units:

	Class A	Class I	Class U
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	209	282	40,501

Each class of the exchangeable units issued by the REIT's subsidiaries are presented as financial liabilities in accordance with IAS 32, *Financial Instruments: Presentation*.

Each REIT unit confers the right to one vote at any meetings of REIT unitholders. The REIT is also authorized to issue an unlimited number of special voting units. Special voting units are only issued in tandem with the issuance of securities redeemable for or exchangeable into REIT units. The special voting units do not have any economic entitlement in the REIT with respect to distributions but provide the holder with the same voting rights in the REIT as a holder of REIT units. The GAR B exchangeable units are accompanied by an equivalent number of special voting units.

Each REIT unit entitles the holder to the same rights and obligations as any other REIT unitholder and no REIT unitholder is entitled to any privilege, priority or preference in relation to any other holder of REIT units of class A units, class I units and class U units of the REIT to participate in distributions made by the REIT including distributions of net income, net realized capital gains or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. REIT units will be fully paid and non-assessable when issued and are transferable.

The REIT's Declaration of Trust grants holders of class A units and class I units of the REIT the right to convert all or any portion of their class A units and class I units of the REIT, at any time (the "conversion date"), into class U units by giving written notice to the REIT. On the applicable conversion date, the REIT will deliver to the class A unitholder or class I unitholder the applicable number of class U units for each class A unit or class I unit converted by such unitholder.

With certain restrictions, the unitholders have the right to require the REIT to redeem their units on demand. Upon receipt of the redemption notice by the REIT, all rights to and under the units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit as determined by a market formula and shall be paid in accordance with the conditions provided for in the Declaration of Trust.

Exchangeable units of subsidiaries

Exchangeable units of subsidiaries are redeemable at the option of the holder, for cash or class U units of the REIT as determined by the REIT. Distributions paid on exchangeable units of subsidiaries are recorded as unit expense in the period in which they become payable.

Exchangeable units of subsidiaries are re-measured based on the quoted closing price of REIT units into which they are exchangeable with changes in fair value recognized in net income as unit expense.

Normal course issuer bid

The REIT has a normal course issuer bid ("NCIB") which was most recently renewed on May 26, 2020. The NCIB remains in effect until the earlier of May 25, 2021 or the date on which the REIT has purchased an aggregate of 3.7 million class U units, representing 10% of the REIT's public float of 36.7 million class U units at the time of entering the NCIB through the facilities of the TSX.

For the six month period ended June 30, 2020, no class U units have been purchased and subsequently canceled under the NCIB.

Substantial issuer bid

On January 16, 2019, the REIT commenced a substantial issuer bid (the "offer"), pursuant to which the REIT offered to purchase up to 4.2 million class U units at a purchase price of C\$12.54 (USD\$9.51). On February 20, 2019, the offer expired and the REIT had taken up and paid for 0.3 million class U units for an aggregate cost of \$3.2 million or C\$4.2 million, excluding fees and expenses related to the offer. The class U units purchased for cancellation under the offer represents 0.8% of the diluted class U units outstanding, immediately prior to the expiry of the offer.

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

REIT units and exchangeable units of subsidiaries outstanding during the period and their respective class U equivalent amounts if converted is as follows, in thousands of units:

Class / type	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
	U	A	I	SR1 ¹	SR2 ¹	GAR B	
Balance, December 31, 2019	40,463	247	282	28	920	132	42,072
Exchanged	38	(38)	—	—	—	—	—
Class U units equivalent, June 30, 2020	40,501	209	282	28	920	132	42,072

Class / type	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
	U	A	I	SR1 ¹	SR2 ¹	GAR B	
Balance, December 31, 2018	41,524	292	282	220	1,603	388	44,309
Repurchased	(337)	—	—	—	—	—	(337)
Exchanged	40	(40)	—	—	—	—	—
Class U units equivalent, June 30, 2019	41,227	252	282	220	1,603	388	43,972

¹ "SR1" and "SR2" mean Slate Retail One exchangeable units and Slate Retail Two exchangeable units, respectively.

The change in the carrying amount of exchangeable units of subsidiaries is as follows:

	Six months ended June 30,	
	2020	2019
Beginning of the period	\$ 10,926	\$ 19,045
Change in fair value	(3,226)	2,328
End of the period	\$ 7,700	\$ 21,373

Deferred unit plans

Trustees of the REIT who are not members of management may elect to receive all or a portion of their trustee fees in the form of deferred units that vest immediately upon grant.

The REIT also has a DUP for officers of the REIT whereby officers may elect to receive deferred class U units, which represent a right to receive class U units, in lieu of an equivalent amount of asset management fees for management services rendered by Slate Asset Management L.P. (the "Manager").

The deferred units are equivalent in value to REIT units and accumulate additional deferred units at the same rate that distributions are paid on REIT units in relation to the market value of REIT units.

The change in deferred units is as follows, in thousands of units:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Beginning of the period	131	124	135	115
Reinvested distributions	4	2	7	6
Issuances	10	4	22	9
Redemption	—	—	(19)	—
End of the period	145	130	145	130
Fair value of units¹	\$ 1,034	\$ 1,259	\$ 1,034	\$ 1,259

¹ At the respective period end date.

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

Weighted average class U units outstanding

The following is the weighted average number of class U units outstanding on a fully diluted basis, in thousands of units:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Class U units	40,501	41,226	40,490	41,311
Class A units	209	256	220	264
Class I units	282	282	282	282
Exchangeable units of subsidiaries	1,080	2,211	1,080	2,211
Deferred units	136	126	130	123
Total	42,208	44,101	42,202	44,191

Class U units outstanding

The following is the total number of class U units outstanding, if all other units of the REIT, its subsidiaries and its DUP, were converted or exchanged, as applicable, for class U units of the REIT, in thousands of units:

	June 30, 2020	December 31, 2019
Class U units	40,501	40,463
Class A units	209	247
Class I units	282	282
Exchangeable units of subsidiaries	1,080	1,080
Deferred units	145	135
Total	42,217	42,207

12. INCOME TAXES

The REIT qualifies as a mutual fund trust for Canadian income tax purposes. The REIT intends to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for Canadian income tax purposes. Accordingly, no provision for current income taxes payable is required, except for amounts incurred in Investment L.P.

Investment L.P. and GAR B made an election to be classified as corporations for U.S. federal tax purposes. Investment L.P. and GAR B are subject to U.S. federal and state income taxation on their allocable shares in Slate Retail One L.P., a subsidiary of the REIT, and any subsidiary limited partnership thereof.

The REIT is therefore subject to U.S. federal income taxation on its allocable share of rental income derived directly or indirectly through such subsidiary limited partnerships, on a net basis taking into account allowable deductions. Investment L.P. and GAR B are each subject to a combined federal and state income tax rate of 26.17% (December 31, 2019 – 26.20%). To the extent U.S. taxes are paid by Investment L.P. and GAR B such amounts will be creditable against an investor's Canadian federal income tax liability to the extent permitted by Canadian tax law.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	June 30, 2020	December 31, 2019
Trade payables and accrued liabilities	\$ 14,565	\$ 11,366
Prepaid rent	3,582	5,126
Tenant improvements payable	425	103
Other payables	3,244	4,802
Total	\$ 21,816	\$ 21,397

Included in trade payables and accrued liabilities are operating expenses, property taxes, and capital and leasing expenses. Other payables include trustee fees, accrued interest payable and other non-operating items.

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - in thousands of United States dollars, unless otherwise stated)

14. REVENUE

Revenue is comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Rental revenue	\$ 23,108	\$ 26,462	\$ 46,744	\$ 53,208
Common area maintenance recoveries	2,035	2,921	5,096	6,565
Property tax and insurance recoveries	4,288	5,098	8,831	10,179
Percentage rent	31	133	303	368
Other revenue ¹	793	1,402	1,323	2,112
Total	\$ 30,255	\$ 36,016	\$ 62,297	\$ 72,432

¹ Other revenue includes straight-line rent, ground rent, termination fees, storage rent, and non-rental income.

The REIT enters into long-term lease contracts with tenants for space in the REIT's properties. Leases generally provide for the tenant to pay base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating costs and realty tax recoveries. Certain leases have limitations or escalation restrictions on the amount of recoveries or cost reimbursements, which the tenant is obligated to pay regardless of the actual costs incurred by the REIT to operate and maintain the properties.

The REIT's existing leases have a weighted average outstanding term of 5.2 years (December 31, 2019 – 5.0 years) certain of which include clauses to enable periodic upward revisions in rental rates.

The future minimum lease payments from the REIT's non-cancellable operating leases as a lessor are as follows:

	June 30, 2020	December 31, 2019
In one year or less	\$ 97,014	\$ 97,221
In more than one year but not more than five years	259,368	264,653
In more than five years	120,071	109,326
Total	\$ 476,453	\$ 471,200

15. OTHER EXPENSES

Other expenses are comprised of the following:

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Asset management fees	22	\$ 1,243	\$ 1,385	\$ 2,551	\$ 2,782
Bad debt expense		530	264	695	279
Professional fees and other		816	810	1,713	1,510
Franchise and business taxes		330	440	545	960
Total		\$ 2,919	\$ 2,899	\$ 5,504	\$ 5,531

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - in thousands of United States dollars, unless otherwise stated)

16. INTEREST EXPENSE AND OTHER FINANCING COSTS, NET

Interest expense and other financing costs, net are comprised of the following:

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Interest on debt and finance charges	10	\$ 5,071	\$ 9,771	\$ 12,136	\$ 19,594
Interest rate swaps, net settlement	7	2,570	(829)	3,505	(1,711)
Foreign exchange forward contract, net settlement		—	—	—	(24)
Interest income		(2)	(6)	(5)	(10)
Interest income on notes receivable		—	—	—	(51)
Amortization of finance charges	10	391	493	1,497	1,064
Amortization of MTM premium	10	(5)	(92)	(414)	(181)
Interest income on TIF notes receivable		(14)	(19)	(29)	(39)
Amortization of deferred gain on TIF notes		(22)	(22)	(44)	(44)
Total		\$ 7,989	\$ 9,296	\$ 16,646	\$ 18,598

17. DISPOSITION COSTS

Disposition costs for the three and six month periods ended June 30, 2020 were \$1.0 million and \$3.1 million, respectively (three month period ended June 30, 2019 – \$0.9 million, six month period ended June 30, 2019 – \$2.9 million), and relate to costs of the disposition of properties.

18. UNIT EXPENSE (INCOME)

Unit expense (income) is comprised of the following:

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Exchangeable units of subsidiaries distributions	11	\$ 233	\$ 472	\$ 466	\$ 945
Change in fair value of DUP		242	(8)	(336)	123
Change in fair value of exchangeable units of subsidiaries	11	2,512	(154)	(3,226)	2,328
Total		\$ 2,987	\$ 310	\$ (3,096)	\$ 3,396

Unit 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 summarizes the REIT's distributions and reconciliation to distributions paid or settled:

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Declared					
REIT units distributions		\$ 8,854	\$ 8,927	\$ 17,708	\$ 17,877
Exchangeable units of subsidiaries distributions	11	233	472	466	945
		\$ 9,087	\$ 9,399	\$ 18,174	\$ 18,822
Add: Distributions payable, beginning of period		3,029	3,133	3,029	3,157
Less: Distributions payable, end of period		(3,029)	(3,133)	(3,029)	(3,133)
Distributions paid		\$ 9,087	\$ 9,399	\$ 18,174	\$ 18,846

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

19. FINANCIAL INSTRUMENTS

Except as noted, the carrying value of financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values in other financial liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The carrying amounts and fair values of the REIT's financial instruments are as follows:

	June 30, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	\$ 5,383	\$ 5,383	\$ 2,412	\$ 2,412
Accounts receivable	12,936	12,936	11,725	11,725
Interest rate swaps	—	—	1,761	1,761
TIF notes receivable	2,448	2,520	2,640	2,703
Financial assets within other assets ¹	25	25	165	165
Total financial assets	\$ 20,792	\$ 20,864	\$ 18,703	\$ 18,766
Financial liabilities				
Accounts payable and accrued liabilities	\$ 21,816	\$ 21,816	\$ 21,397	\$ 21,397
Distributions payable	3,029	3,029	3,029	3,029
Interest rate swaps	43,820	43,820	21,582	21,582
Revolver	137,117	138,776	76,800	76,899
Term loan	223,728	225,000	361,776	362,500
Term loan 2	248,664	250,000	248,872	250,000
Mortgages	171,493	174,162	101,947	103,414
Financial liabilities within other liabilities ²	2,872	2,872	2,780	2,780
Exchangeable units of subsidiaries	7,700	7,700	10,926	10,926
Total financial liabilities	\$ 860,239	\$ 867,175	\$ 849,109	\$ 852,527

¹Relates to funds held in escrow included in other assets.

²Relates to rental security deposits included in other liabilities.

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

The fair value hierarchy of financial assets and financial liabilities is as follows:

June 30, 2020	Level 1		Level 2		Level 3		Total
Financial assets							
Cash	\$	5,383	\$	—	\$	—	\$ 5,383
Accounts receivable		—		12,936		—	12,936
TIF notes receivable		—		—		2,520	2,520
Financial assets within other assets ¹		25		—		—	25
Total financial assets	\$	5,408	\$	12,936	\$	2,520	\$ 20,864
Financial liabilities							
Accounts payable and accrued liabilities	\$	—	\$	21,816	\$	—	\$ 21,816
Distributions payable		—		3,029		—	3,029
Interest rate swaps		—		43,820		—	43,820
Revolver		—		138,776		—	138,776
Term loan		—		225,000		—	225,000
Term loan 2		—		250,000		—	250,000
Mortgages		—		174,162		—	174,162
Financial liabilities within other liabilities ²		2,872		—		—	2,872
Exchangeable units of subsidiaries		7,700		—		—	7,700
Total financial liabilities	\$	10,572	\$	856,603	\$	—	\$ 867,175

¹Relates to funds held in escrow included in other assets.

²Relates to rental security deposits included in other liabilities.

20. 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 lender. In order to maintain or adjust the capital structure, the REIT may issue trust units, debentures or mortgage debt, adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce or increase debt.

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

	June 30, 2020	December 31, 2019
Debt	\$ 781,002	\$ 789,395
Exchangeable units of subsidiaries	7,700	10,926
Unitholders' equity	380,723	403,427
Total	\$ 1,169,425	\$ 1,203,748

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 is calculated as follows:

	June 30, 2020	December 31, 2019
Gross book value	1,300,866	\$ 1,315,080
Debt	781,002	789,395
Leverage ratio	60.0%	60.0%

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - in thousands of United States dollars, unless otherwise stated)

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

The REIT's revolver, term loan and term loan 2 are subject to financial and other covenants. The following are the primary financial covenants, with all terms defined by the respective lending agreement:

	Threshold	June 30, 2020	December 31, 2019
Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value	< 65%	60.7%	58.8%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x¹	> 1.50x	2.20x	2.25x

¹ Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, as defined by the Amended and Restated Credit Agreement for the revolver and term loan, and the Credit Agreement for term loan 2.

21. RISK MANAGEMENT

The REIT's risk management policies are established to identify, analyze and manage the risks faced by the REIT and to implement appropriate procedures to monitor risks and adherence to established controls. Risk management policies and systems are reviewed periodically in response to the REIT's activities and to ensure applicability.

In the normal course of business, the main risks arising from the REIT's use of financial instruments include credit risk, liquidity risk and market risk. These risks, and the actions taken to manage them, include:

i. Credit Risk

Credit risk is the risk of financial loss to the REIT associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments and loan arrangements and TIF receivables. The risk is mitigated by carrying out appropriate credit checks and related due diligence on the significant tenants.

As of June 30, 2020, one individual tenant accounted for 8.4% (December 31, 2019 – 8.3%) of the REIT's base rent.

ii. Liquidity risk

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they fall due. The REIT's approach to managing liquidity is to ensure sufficient financial resources are available to meet its liabilities as they become due. This includes monitoring of cash, current receivables, current payables, and non-current liabilities as they become current.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to the demand for and the perceived desirability of such investments. Such illiquidity can limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were required to liquidate a real property investment promptly, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited - in thousands of United States dollars, unless otherwise stated)

The REIT's contractual commitments as at June 30, 2020 are as follows:

	Total contractual cash flow	In one year or less	In more than one year but not more than three years	In more than three years but not more than five years	In more than five years
Accounts payable and accrued liabilities	\$ 21,816	\$ 21,816	\$ —	\$ —	\$ —
Revolver ¹	138,776	—	138,776	—	—
Revolver interest payable ^{1,2}	9,456	3,178	6,278	—	—
Term loan ¹	225,000	—	—	225,000	—
Term loan interest payable ¹	20,823	4,275	8,423	8,125	—
Term loan 2 ³	250,000	—	250,000	—	—
Term loan 2 interest payable ³	12,289	4,749	7,540	—	—
Mortgages ⁴	174,162	5,012	10,644	48,595	109,911
Mortgage interest payable ⁴	25,427	2,863	5,552	5,308	11,704
Letters of credit	393	393	—	—	—
Interest rate swap, net of cash outflows	43,820	11,977	21,327	9,822	694
Exchangeable units of subsidiaries	7,700	—	—	—	7,700
Total	\$ 929,662	\$ 54,263	\$ 448,540	\$ 296,850	\$ 130,009

¹ Revolver and term loan interest payable is calculated on \$138.8 million and \$225.0 million (balance outstanding) using an estimated "all in" interest rate of 2.00% and 1.90% respectively under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR forward curve plus the specified margin for the LIBOR rate option under the term loan resulting in an anticipated increase to the "all-in" interest rate to 1.97%. The total revolver and term loan interest payable is calculated until maturity of the initial term.

² Includes stand-by fee on the revolver to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.

³ Term loan 2 interest payable is calculated on \$250.0 million (balance outstanding) using an estimated "all in" interest rate of 1.90% under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR curve plus the specified margin for the LIBOR rate option under the term loan 2 and results in an anticipated decrease to the "all-in" interest rate to 1.87%. The total term loan 2 interest payable is calculated until maturity.

⁴ Includes the REIT's share of its equity investment.

iii. Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The REIT manages its financial instruments with the objective of mitigating any potential interest rate risks. For the revolver, term loan and term loan 2 interest rate on the loans will vary depending on changes in base rate and/or U.S. LIBOR rate. The REIT is subject to interest rate risks mainly from non-current debt that has variable interest rate. The REIT manages these cash flow interest rate risks using pay-fixed received-float interest rate swap contracts to swap the floating-rate payments on the credit facility for fixed rate payments.

Assuming all fixed-rate debt remain outstanding, there is no impact to the annual interest expense.

Interest rate benchmark reform

The REIT is exposed to U.S. LIBOR interest rate, which is subject to the interest rate benchmark reform. The REIT has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority ("FCA") and the US Commodity Futures Trading Commission) regarding the transition away from U.S. LIBOR to the Secured Overnight Financing Rate ("SOFR"). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the REIT is in the process of developing a transition program. The aim of the program is to understand where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to an alternative benchmark rate. The REIT aims to have its transition and fall back plans in place by the middle of 2020. For the REIT's floating rate debt, the REIT has started discussions with its lenders to amend U.S. LIBOR bank loans so that the reference benchmark interest rate will change to SOFR. The REIT aims to finalize this amendment in the second half of 2020.

The REIT will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the REIT is exposed ends. The REIT has assumed that this uncertainty will not end until the REIT's contracts that reference U.S. LIBOR are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will in part, be dependent on the introduction of fall back clauses which have yet to be added to the REIT's contracts and the negotiation with lenders.

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

Cash flow sensitivity analysis

The interest rate profile of variable rate interest bearing debt and associated interest rate sensitivity to changes in interest rates is as follows:

	June 30, 2020	December 31, 2019
Variable-rate instruments		
Revolver	\$ 138,776	\$ 76,899
Term loan	225,000	362,500
Term loan 2	250,000	250,000
Effect of interest rate swaps	(600,000)	(750,000)
Total effective floating rate debt	\$ 13,776	\$ (60,601)
Effective fixed rate debt as a total of all debt	98.3%	107.6%
Annual impact of a 25 bps change on interest rates	\$ 34	\$ —

iv. Unit price risk

The REIT is exposed to unit price risk in net income as a result of its exchangeable units of subsidiaries. Exchangeable units of subsidiaries have been classified as liabilities and measured at fair value based on market trading prices. Exchangeable units of subsidiaries negatively impact net income when the unit price rises and positively impact net income when unit prices decline. An increase of \$1.00 in the underlying price of exchangeable units of subsidiaries results in an increase to liabilities and a decrease in net income of \$1.1 million.

v. Currency risk

Currency risk is associated with a fluctuation in the value of the U.S. dollar relative to other foreign currencies. Although not material, the REIT is exposed to currency risk as certain of the REIT's expenses are denominated in Canadian dollars.

22. RELATED PARTIES

Pursuant to the terms of a management agreement dated April 15, 2014, the Manager provides all management services to the REIT. The Manager agreed to provide certain services in connection with the business of the REIT, including: the structuring of the REIT, liaising with legal and tax counsel; identifying properties for acquisition; maintaining ongoing relationships with the lenders in respect of the mortgage loans for the properties; conducting continuous analysis of market conditions; and advising with respect to the disposition of the properties. In return for its service, the Manager receives the following fees:

- i an asset management fee equal to 0.4% of the total assets of the REIT;
- ii an acquisition fee in an amount equal to 0.75% of the gross purchase price of each property (or interest in a property), including the price, due diligence costs, closing costs, legal fees, and additional capital costs for all properties indirectly acquired by the REIT; and
- iii an annual incentive fee, calculated in arrears, in an aggregate amount equal to 15% of the REIT's funds from operation per class U unit as derived from the annual financial statements of the REIT in excess of \$1.34, subject to ordinary course adjustments for certain transactions affecting the class U units and increasing annually by 50% of the increase in the U.S. consumer price index.

These transactions are in the normal course of operations and are in accordance with the management agreement and are measured at the exchange amount. The exchange amount is the consideration established under contract and as approved by the REIT's Board of Trustees.

Fees to the Manager are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Asset management	\$ 1,243	\$ 1,385	\$ 2,551	\$ 2,782
Acquisition	685	—	685	—
Total	\$ 1,928	\$ 1,385	\$ 3,236	\$ 2,782

Trustee fees

The REIT's key personnel include trustees and officers of the REIT. For the three and six month periods ended June 30, 2020 Trustee fees amounted to \$0.2 million and \$0.3 million, respectively (three month period ended June 30, 2019 – \$0.1 million, six month period ended June 30, 2019 – \$0.2 million).

Slate Retail REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited - in thousands of United States dollars, unless otherwise stated)

23. SEGMENTS

The REIT has only one business segment. The REIT owns and operates properties in the U.S. The REIT identifies each property as an individual segment and has aggregated them into a single segment based on similarity in the nature of the tenants and operational processes.

24. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities are as follows:

	Revolver ¹	Term Loan ¹	Term Loan 2	Mortgages	Exchangeable units of subsidiaries	Total
Balance, December 31, 2019	\$ 76,800	\$ 361,776	\$ 248,872	\$ 101,947	\$ 10,926	
Cash flows						
Advances, net	273,827	—	—	81,648	—	355,475
Financing costs	—	(1,360)	(430)	—	—	(1,790)
Debt repayments	(213,754)	(137,500)	—	(11,907)	—	(363,161)
Non-cash changes						
Amortization of MTM adjustments and costs	244	812	222	(195)	—	1,083
Change in fair value	—	—	—	—	(3,226)	(3,226)
Balance, June 30, 2020	\$ 137,117	\$ 223,728	\$ 248,664	\$ 171,493	\$ 7,700	

¹ Changes in financial instruments that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 7 *Interest rate swaps* for more detail.

25. SUBSEQUENT EVENT

On July 15, 2020, the REIT declared monthly distributions of \$0.072 per class U unit. Holders of class A units, class I units and units of subsidiaries of the REIT were also entitled to receive an equivalent distribution.