Condensed consolidated interim financial statements of

SLATE RETAIL REIT

For the three months ended March 31, 2017

Unaudited

Slate Retail REIT
Condensed consolidated interim financial statements

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SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(unaudited – in thousands of United States dollars, unless otherwise stated)

	Note	March 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash		**$ 12,168**	$ 13,431
Deposits on investment properties		**260**	350
Prepaids		**1,741**	1,931
Accounts receivable	*5*	**7,253**	6,877
Funds held in escrow	*8*	**11,118**	—
		32,540	22,589
Non-current assets			
Interest rate swap	*13*	**7,815**	7,033
Investment properties	*6, 7*	**1,104,463**	1,072,923
Other assets	*9*	**13,284**	12,061
		1,125,562	1,092,017
Total assets		**$ 1,158,102**	$ 1,114,606
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*10*	**$ 13,672**	$ 11,550
Distributions payable		**2,770**	2,393
Debt	*11*	**956**	1,419
		17,398	15,362
Non-current liabilities			
Debt	*11*	**596,831**	623,473
Other liabilities		**2,054**	2,001
Deferred income taxes	*17*	**86,117**	79,263
REIT units	*12*	**422,212**	369,277
Exchangeable units of subsidiaries	*12*	**27,290**	28,162
		1,134,504	1,102,176
Unitholders' equity		**6,200**	(2,932)
Total liabilities and unitholders' equity		**$ 1,158,102**	$ 1,114,606

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

SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS)
(unaudited – in thousands of United States dollars, unless otherwise stated)

		Three months ended March 31,	
	Note	**2017**	2016
Rental revenue	*22*	**$ 27,233**	$ 24,205
Property operating expenses		**(16,907)**	(15,425)
Other expenses	*14*	**(2,019)**	(2,440)
Interest expense and other financing costs, net	*15*	**(4,934)**	(4,379)
Transaction costs	*6, 16*	**(354)**	(140)
Change in fair value of investment properties	*7*	**14,638**	12,108
Net income before income taxes and unit expense		**17,657**	13,929
Deferred income tax expense	*17*	**(6,552)**	(5,068)
Unit expense	*18*	**(2,453)**	(9,621)
Net income (loss)		**$ 8,652**	$ (760)

SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited - in thousands of United States dollars, unless otherwise stated)

		Three months ended March 31,	
	Note	**2017**	2016
Net income (loss)		**$ 8,652**	$ (760)
Items to be reclassified subsequently to profit or loss:			
Gain on cash flow hedge of interest rate risk, net of tax	*13*	**337**	—
Reclassification of cash flow hedge of interest rate risk to income	*13*	**143**	—
Other comprehensive income		**480**	—
Comprehensive income (loss)		**$ 9,132**	$ (760)

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

SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY
(unaudited – in thousands of United States dollars, unless otherwise stated)

	Note		Retained (deficit) earnings		Accumulated other comprehensive income ("AOCI")		Capital reserve		Total
Balance, December 31, 2016		$	(5,850)	$	4,342	$	(1,424)	**$**	**(2,932)**
Net income and comprehensive income	*13*		8,652		480		—		**9,132**
Balance, March 31, 2017		**$**	**2,802**	**$**	**4,822**	**$**	**(1,424)**	**$**	**6,200**

	Note		Retained earnings (deficit)		AOCI		Capital reserve		Total
Balance, December 31, 2015		$	23,221	$	—	$	(1,424)	$	21,797
Net loss and comprehensive loss	*13*		(760)		—		—		(760)
Balance, March 31, 2016		$	22,461	$	—	$	(1,424)	$	21,037

SLATE RETAIL REIT
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(unaudited – in thousands of United States dollars, unless otherwise stated)

		Three months ended March 31,	
	Note	**2017**	2016
OPERATING ACTIVITIES			
Net income (loss)		**$ 8,652**	$ (760)
Items not affecting cash:			
Deferred income tax expense	*17*	**6,552**	5,068
Straight-line rent	*7*	**(401)**	(427)
Change in fair value of investment properties	*7*	**(14,638)**	(12,108)
IFRIC 21 property tax adjustment	*7*	**9,486**	8,724
Interest expense and other financing costs	*15*	**4,934**	4,379
Cash interest paid, net		**(4,912)**	(4,481)
Unit expense	*18*	**2,453**	9,621
Changes in non-cash working capital items		**1,602**	1,817
		13,728	11,833
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired	*6*	**(32,972)**	(21,192)
Disposition of investment properties	*6*	**11,250**	9,069
Funds held in escrow		**(11,072)**	(250)
Note issuance	*9, 23*	**(1,248)**	—
Capital	*7*	**(526)**	(1,666)
Leasing costs	*7*	**(101)**	(752)
Tenant improvements	*7*	**(244)**	(323)
Development and expansion capital	*7*	**(2,913)**	(327)
		(37,826)	(15,441)
FINANCING ACTIVITIES			
Revolver advances	*11*	**33,240**	15,237
Revolver and mortgage repayments	*11*	**(60,378)**	(3,889)
Issuance of REIT units, net of costs	*12*	**57,742**	(30)
Redemption of exchangeable units of subsidiaries	*12*	**(35)**	(52)
REIT units distributions, net of DRIP units issued	*12, 18*	**(7,226)**	(5,363)
Exchangeable units of subsidiaries distributions	*18*	**(508)**	(501)
		22,835	5,402
(Decrease) increase in cash		**$ (1,263)**	$ 1,794
Cash, beginning of the period		**13,431**	11,855
Cash, end of the period		**$ 12,168**	$ 13,649

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

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 in the United States of America (the "U.S.") with an emphasis on grocery-anchored retail properties. As of March 31, 2017, the REIT's properties (the "Properties") consisted of a portfolio of 71 grocery-anchored retail commercial properties located in the U.S.

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 United States 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 ("IASB").

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on May 3, 2017.

iii. Basis of measurement

These consolidated financial statements have been prepared on a going concern basis and measured at historical cost except for investment 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. New accounting policies

IAS 7, *Statement of Cash Flows* ("IAS 7")

The amendments to IAS 7 require disclosures that enable the evaluation of changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. The amendments applied prospectively for annual periods beginning on or after January 1, 2017.

The following are the primary disclosures required for changes in liabilities from financing activities: changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair values.

Supplemental cash flow information disclosures have been included in the REIT's consolidated financial statements. Refer to Note 25 "Supplemental cash flow information" for more detail.

4. Significant accounting policies

i. 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, 2016. 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. These consolidated financial statements do not include all the information and disclosures required in the annual financial statements prepared under 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, 2016.

ii. Future accounting policies

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

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. This new standard is effective for annual periods beginning on or after January 1, 2018. The REIT is assessing the impact of this new standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. The new standard includes a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The REIT is assessing the impact of this new standard on its consolidated financial statements.

IFRS 16, Leases ("IFRS 16")

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The new standard is effective for annual periods beginning on or after January 1, 2019. The REIT is assessing the impact of this new standard on its consolidated financial statements.

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

5. Accounts receivable

The accounts receivable balance is comprised of the following:

		March 31, 2017		December 31, 2016
Rent receivable	**$**	**3,546**	$	1,713
Allowance		**(221)**		(212)
Accrued recovery income		**3,249**		4,208
Other receivables		**679**		1,168
Total	**$**	**7,253**	$	6,877

Rent receivable consists of base rent and operating expense recoveries. 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.

The change in allowance for doubtful accounts is as follows:

	Three months ended March 31,			
		2017		2016
Beginning of the period	**$**	**(212)**	$	(206)
Allowance		**(102)**		(108)
Bad debt write-off		**62**		6
Bad debt recovery		**31**		56
End of the period	**$**	**(221)**	$	(252)

An allowance is provided when collection is no longer reasonably assured. This includes bankruptcy, abandonment by tenants and certain tenant disputes.

The aging analysis of rent receivable past due but not impaired, net of allowance for doubtful accounts, is as follows:

		March 31, 2017		December 31, 2016
Current to 30 days	**$**	**2,762**	$	770
31 to 60 days		**124**		102
61 to 90 days		**103**		85
Greater than 90 days		**336**		544
Total	**$**	**3,325**	$	1,501

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

6. Acquisitions and dispositions

Acquisitions

The REIT acquired two properties during the three month period ended March 31, 2017. The operational results of these properties have been included in these consolidated financial statements from their respective date of acquisition.

Property	Purchase date	Location		Purchase price
Norwin Town Square	January 11, 2017	North Huntingdon, Pennsylvania	$	18,925
11 Galleria	February 21, 2017	Greenville, North Carolina		13,650
Total			**$**	**32,575**

The net assets acquired in respect of the acquisitions identified above are as follows:

Purchase price	$	32,575
Transaction costs		878
Investment properties		33,453
Working capital items		(481)
Total	**$**	**32,972**

Consideration for the cost of the acquisitions of $33.0 million was funded by cash on hand and borrowings from the REIT's revolving credit facility (the "revolver"). The acquisitions have been determined to be asset acquisitions and accordingly, transaction costs have been recognized in the initial carrying amount of the property.

Dispositions

During the three month period ended March 31, 2017, the REIT disposed of an outparcel at North Branch Marketplace located in North Branch, Minnesota for $11.3 million. The sale was completed on March 1, 2017.

7. Investment properties

On March 31, 2017, the REIT owned 71 income-producing properties. The change in investment properties is as follows:

		Three months ended March 31,	
	Note	**2017**	2016
Beginning of the period		**$ 1,072,923**	$ 978,526
Acquisitions	*6*	**33,453**	21,270
Capital		**526**	752
Leasing costs		**101**	323
Tenant improvements		**244**	1,666
Development and expansion capital		**2,913**	327
Straight-line rent		**401**	427
Dispositions	*6*	**(11,250)**	(9,100)
IFRIC 21 property tax adjustment		**(9,486)**	(8,724)
Change in fair value		**14,638**	12,108
End of the period		**$ 1,104,463**	$ 997,575

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

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

		March 31, 2017		December 31, 2016
Capitalization rate range		**6.25% – 9.00%**		6.00% – 9.00%
Weighted average capitalization rate		**7.09%**		7.12%
Impact on fair value due to 25 basis point change in capitalization rates	**$**	**39,723**	$	38,463
Impact on fair value due to $100,000 change in underlying annual stabilized income	**$**	**1,410**	$	1,404

Under the fair value hierarchy, the fair value of the REIT's investment properties is determined using the overall income capitalization method using Level 3 inputs.

8. Funds held in escrow

Funds held in escrow include proceeds from dispositions allocated to future acquisitions in order to effect a deferral of any U.S. taxable capital gains and amounts segregated from general purpose funds under certain lending arrangements. Any capital gains deferred for U.S. tax purposes pursuant to a like-kind exchange under Internal Revenue Code Section 1031 are not deferred for Canadian taxation purposes in determining taxable income allocations for holders of REIT units.

9. Other assets

Other assets are comprised of the following:

	Note		**March 31, 2017**		December 31, 2016
Tax incremental financing notes receivable		**$**	**3,469**	$	3,606
Note receivable (1)	*23*		**8,898**		7,650
Funds held in escrow	*8*		**25**		71
Other (1)	*23*		**892**		734
Total		**$**	**13,284**	$	12,061

(1) Other includes interest accrued on a strategic acquisition loan arrangement, recorded as a note receivable, from the REIT to a U.S based entity in which Slate Asset Management L.P. has a significant interest. Refer to Note 23 "Related parties" for detail.

Tax incremental financing ("TIF") revenue notes 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.

10. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

		March 31, 2017		December 31, 2016
Trade payables and accrued liabilities	**$**	**9,045**	$	7,540
Prepaid rent		**3,136**		2,557
Tenant improvements payable		**176**		138
Other payables		**1,315**		1,315
Total	**$**	**13,672**	$	11,550

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.

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

11. Debt

Debt held by the REIT at March 31, 2017 is as follows:

	Maturity	Remaining extension options	Coupon [1]	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn [2]
Revolver [3]	Feb. 26, 2020	One 1-year	L+200 bps	N/A [4]	N/A [4]	$ 292,500	186,704	$ 105,796
Term loan [3]	Feb. 26, 2021	None	L+200 bps	N/A [4]	N/A [4]	292,500	292,500	—
Mortgage	Mar. 1, 2021	None	5.75%	1	26,624	11,447	11,447	—
Mortgage	Jan. 1, 2025	None	3.80%	3	84,678	50,000	50,000	—
Mortgage	Jun. 15, 2025	None	4.14%	6	101,419	57,682	57,682	—
TIF notes payable [5]	Feb. 28, 2019	None	L+350 bps	—	3,477	3,350	3,350	—
Total						**$ 707,479**	**$ 601,683**	**$ 105,796**

[1] "L" means London Interbank Offering Rate ("LIBOR") and "bps" means basis points.
[2] Debt available to be drawn is subject to certain covenants in addition to the debt to gross book value limit of 65% provided for by the REIT's Declaration of Trust.
[3] The revolver and term loan provide for different spreads over one-month U.S. LIBOR depending on the ratio of the Consolidated Total Indebtedness to Gross Asset Value, each as defined by the amended and restated credit agreement for the revolver and term loan. The calculation of Consolidated Total Indebtedness to Gross Asset Value is provided in Note 20 "Capital Management". The applicable spread where Consolidated Total Indebtedness to Gross Asset Value is; (i) less than or equal to 45% is 155 bps; (ii) greater than 45% but less than or equal to 55% is 175 bps; (iii) greater than 55% but less than or equal to 60% is 200 bps; and (iv) greater than 60% is 225 bps.
[4] The revolver and term loan are secured by a general pledge of equity of certain subsidiaries of the REIT.
[5] The TIF receivable is pledged as security for the TIF payable. Interest on the TIF notes payable is based on a three-month U.S. LIBOR. Interest rate for the three months ended March 31, 2017 is 4.50%.

The carrying value debt held by the REIT at March 31, 2017 is as follows:

	Effective rate [1]	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments and costs [2]	Carrying amount	Current	Non-current
Revolver	2.80%	$ 186,704	$ (1,634)	$ 468	$ 185,538	$ 187	$ 185,351
Term loan	2.79%	292,500	(3,623)	1,353	290,230	293	289,937
Mortgage	5.75%	11,447	2,003	(758)	12,692	13	12,679
Mortgage	3.80%	50,000	(989)	221	49,232	50	49,182
Mortgage	4.14%	57,682	(1,079)	209	56,812	58	56,754
TIF notes payable	4.35%	3,350	(163)	96	3,283	355	2,928
Total		**$ 601,683**	**$ (5,485)**	**$ 1,589**	**$ 597,787**	**$ 956**	**$ 596,831**

[1] The effective interest rate for revolver and term loan includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. Both the revolver and term loan effective rates are based on the applicable U.S. LIBOR rate under borrowings as at March 31, 2017.
[2] Excludes the impact of any available extension options not yet exercised.

12. REIT units and exchangeable units of subsidiaries

As at March 31, 2017, the REIT has the following REIT units issued and outstanding, represented in thousands of units:

	Class U	Class A	Class I
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	37,906	333	282

Each class of the REIT's units and 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, subject to the proportionate entitlement of the holders 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, based on their respective conversion ratios for class U units. 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.

The REIT made available a Distribution Reinvestment Plan ("DRIP") that allows holders of REIT units to elect to receive their distributions in the form of class U units. The REIT may issue up to 0.62 million class U units under the DRIP. The REIT may increase the number of class U units available to be issued under the DRIP at any time at its discretion subject to: (i) the approval of the Board of Trustees, (ii) the approval of any stock exchange upon which the REIT's units trade, and (iii) public disclosure of such an increase.

Exchangeable units of subsidiaries

Class B units of Slate Retail One L.P. and Slate Retail Two L.P. and exchangeable limited partnership units of GAR B (collectively, the "exchangeable units of subsidiaries"), all of which are subsidiaries of the REIT, are redeemable by the holder, for cash or class U units of the REIT at the option of the REIT. Distributions paid on exchangeable units of subsidiaries are recorded as unit expense in the period in which they become payable.

Equity offering

On January 20, 2017, the REIT completed a sale of 5.6 million class U units by way of a public offering of 5.2 million class U units and a private placement to Slate Asset Management L.P. (the "Manager") of 0.4 million class U units, at a price of $10.89 or C$14.35 per unit, for gross proceeds to the REIT of approximately $60.5 million or C$79.8 million. This total includes an over-allotment option that was fully exercised by the REIT's underwriters. The costs related to the offering totaled $2.5 million and are deducted against the cost of units issued. Funds were used to repay $58.1 million of the revolver.

Normal course issuer bid

The REIT has a normal course issuer bid (“NCIB”) which was most recently renewed on May 26, 2016. The NCIB will remain in effect until the earlier of May 25, 2017 or the date on which the REIT has purchased an aggregate of 2.9 million class U units, representing 10% of the REIT's public float of 28.7 million class U units at the time of entering the bid through the facilities of the TSX.

For the three month period ended March 31, 2017, no class U units have been purchased and subsequently canceled under the NCIB.

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

	REIT units			Exchangeable units of subsidiaries			
Class / type	**U**	**A**	**I**	**SR1 [1]**	**SR2 [1]**	**GAR B**	**Total class U units equivalent**
Balance, December 31, 2016	32,267	334	322	220	1,747	545	**35,456**
Issued under the DRIP	18	—	—	—	—	—	**18**
Issued under equity offering	5,560	—	—	—	—	—	**5,560**
Redeemed	—	—	—	—	(3)	—	**(3)**
Exchanges	61	(1)	(40)	—	(18)	—	**—**
Balance, March 31, 2017	37,906	333	282	220	1,726	545	**41,031**
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
Class U units equivalent	**37,906**	**337**	**298**	**220**	**1,726**	**545**	41,031

	REIT units			Exchangeable units of subsidiaries			
Class / Type	**U**	**A**	**I**	**SR1 (1)**	**SR2 (1)**	**GAR B**	**Total class U units equivalent**
Balance, December 31, 2015	28,511	390	358	220	1,779	547	**31,829**
Issued under the DRIP	34	—	—	—	—	—	**34**
Redeemed	—	—	—	—	(5)	—	**(5)**
Exchanges	48	(10)	(10)	—	(27)	—	**—**
Balance, March 31, 2016	28,593	380	348	220	1,747	547	**31,858**
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
Class U units equivalent	**28,593**	**384**	**367**	**220**	**1,747**	**547**	31,858

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

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

	REIT units	**Exchangeable units of subsidiaries**	**Total**
Balance, December 31, 2016	$ 369,277	$ 28,162	**$ 397,439**
Issued under the DRIP	197	—	**197**
Issued under equity offering	57,742	—	**57,742**
Redeemed	—	(35)	**(35)**
Exchanges	198	(198)	**—**
Change in fair value	(5,202)	(639)	**(5,841)**
Balance, March 31, 2017	**$ 422,212**	**$ 27,290**	**$ 449,502**

	REIT units	Exchangeable units of subsidiaries	Total
Balance, December 31, 2015	$ 305,926	$ 26,597	**$ 332,523**
Issued under the DRIP	340	—	**340**
Issuance of rights	1,104	—	**1,104**
Redeemed	—	(52)	**(52)**
Exchanges	295	(295)	**—**
Change in fair value	2,088	194	**2,282**
Balance, March 31, 2016	**$ 309,753**	**$ 26,444**	**$ 336,197**

For the three month period ended March 31, 2017, the REIT declared distributions of $7.8 million (March 31, 2016 – $5.7 million) on REIT units and $0.5 million (March 31, 2016 – $0.5 million) on exchangeable units of subsidiaries which were recorded as unit expense.

Deferred unit plan

Trustees of the REIT, who are not also members of management may elect to receive their compensation fees in the form of deferred units. The deferred unit plan ("DUP") reinvests the distributions accruing to the deferred units over the holding period. Deferred units vest on the grant date.

Officers of the REIT may elect to acquire deferred class U units, which represent a right to receive class U units, in lieu of equivalent amounts of asset management fees for management services rendered by the Manager.

Deferred units are measured at fair value on initial recognition as a liability. Accordingly, changes in fair value of deferred units are recorded as a unit expense, as a change in fair value of REIT units.

The change in deferred units during the three month period ended March 31, 2017 and 2016, in thousands of units, is as follows:

	Three months ended March 31,	
	2017	2016
Beginning of the period	**55**	23
Reinvested distributions	**1**	1
Issuances	**4**	3
End of the period	**60**	27
Fair value of units	**$ 658**	$ 284

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 March 31,	
	2017	2016
Weighted average class U units outstanding	**37,277**	29,134
Impact of class A	**336**	383
Impact of class I	**220**	367
Impact of exchangeable units of subsidiaries	**1,954**	1,967
Deferred units	**60**	21
Total	**39,847**	31,872

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

13. Interest rate swap

On November 2, 2016, the REIT entered into an interest rate swap to hedge the cash flow risk associated with monthly U.S. LIBOR-based interest payments on a portion amounts of the REIT's floating rate debt.

A reconciliation of the change in the fair value of the interest rate swap and related deferred tax impact during the period is as follows:

	Fair value of interest rate swap	Deferred income tax	Net impact
Beginning of the period	$ 7,033	$ (2,691)	$ 4,342
Gain on cash flow hedge of interest rate risk	548	(211)	337
Net payments made	234	(91)	143
End of the period	**$ 7,815**	**$ (2,993)**	**$ 4,822**

The interest rate swap terms are as follows:

Pay-fixed rate	1.104%
Notional amount	$ 300,000
Receive-floating	One-month U.S. LIBOR
Maturity date	February 26, 2021

14. Other expenses

Other expenses are comprised of the following:

		Three months ended March 31,	
	Note	**2017**	2016
Asset management	*23*	**$ 1,099**	$ 1,008
Professional fees and other		**615**	808
Franchise and business taxes		**305**	624
Total		**$ 2,019**	$ 2,440

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

15. Interest expense and other financing costs, net

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

		Three months ended March 31,	
	Note	**2017**	2016
Interest on debt and finance charges	*11*	**$ 4,678**	$ 4,481
Interest rate swap, net settlement	*13*	**234**	—
Interest income on investments		**(13)**	(13)
Interest income on notes receivable	*23*	**(158)**	(151)
Amortization of finance charges	*11*	**294**	361
Amortization of MTM premium	*11*	**(86)**	(286)
Interest income on TIF notes receivable		**(31)**	(57)
Interest expense on TIF notes payable		**38**	66
Amortization of deferred gain on TIF notes receivable		**(22)**	(22)
Total		**$ 4,934**	$ 4,379

16. Transaction costs

Transaction costs for the three month period ended March 31, 2017 was $0.4 million (three month period ended March 31, 2016 – $0.1 million). Transaction costs comprised of costs related to the disposition of investment properties.

17. 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. is subject to a combined federal and state income tax rate of 38.30% (December 31, 2016 – 38.28%). Current taxes in Investment L.P. have been reduced to nil. To the extent U.S. taxes are paid by Investment L.P. such amounts will be creditable against an investor's Canadian federal income tax liability to the extent permitted by Canadian tax law.

18. Unit expense

Unit expense is comprised of the following:

		Three months ended March 31,	
	Note	**2017**	2016
REIT units distributions	*12*	**$ 7,802**	$ 5,707
Exchangeable units of subsidiaries distributions	*12*	**506**	494
Change in fair value of rights		**—**	1,104
Change in fair value of REIT units	*12*	**(5,216)**	2,122
Change in fair value of exchangeable units of subsidiaries	*12*	**(639)**	194
Total		**$ 2,453**	$ 9,621

(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:

	March 31, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash	**$ 12,168**	**$ 12,168**	$ 13,431	$ 13,431
Deposits on investment properties	**260**	**260**	350	350
Accounts receivable	**7,253**	**7,253**	6,877	6,877
Interest rate swap	**7,815**	**7,815**	4,342	4,342
TIF notes receivable	**3,469**	**3,477**	3,606	3,611
Funds held in escrow	**11,143**	**11,143**	71	71
Notes receivable	**9,790**	**9,790**	8,384	8,384
Total financial assets	**$ 51,898**	**$ 51,906**	$ 37,061	$ 37,066
Financial liabilities				
Accounts payable and accrued liabilities	**$ 13,672**	**$ 13,672**	$ 11,550	$ 11,550
Distributions payable	**2,770**	**2,770**	2,393	2,393
Term loan	**290,230**	**292,500**	290,095	292,500
Revolver	**185,538**	**186,704**	210,237	211,455
Mortgages	**118,736**	**119,129**	121,110	121,456
TIF notes payable	**3,283**	**3,350**	3,450	3,525
Other liabilities	**2,054**	**2,054**	2,001	2,001
REIT units	**422,212**	**422,212**	369,277	369,277
Exchangeable units of subsidiaries	**27,290**	**27,290**	28,162	28,162
Total financial liabilities	**$ 1,065,785**	**$ 1,069,681**	$ 1,038,275	$ 1,042,319

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

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

March 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Fair value**
Financial assets				
Cash	$ 12,168	$ —	$ —	$ 12,168
Deposits on investment properties	260	—	—	260
Accounts receivable	—	7,253	—	7,253
Interest rate swap	—	7,815	—	7,815
TIF notes receivable	—	—	3,477	3,477
Funds held in escrow	11,143	—	—	11,143
Notes receivable	—	9,790	—	9,790
Total financial assets	**$ 23,571**	**$ 24,858**	**$ 3,477**	**$ 51,906**
Financial liabilities				
Accounts payable and accrued liabilities	$ —	$ 13,672	$ —	$ 13,672
Distributions payable	—	2,770	—	2,770
Term loan	—	292,500	—	292,500
Revolver	—	186,704	—	186,704
Mortgages	—	119,129	—	119,129
TIF notes payable	—	3,350	—	3,350
Other liabilities	2,054	—	—	2,054
REIT units	422,212	—	—	422,212
Exchangeable units of subsidiaries	27,290	—	—	27,290
Total financial liabilities	**$ 451,556**	**$ 618,125**	**$ —**	**$ 1,069,681**

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

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:

	March 31, 2017	December 31, 2016
Debt	$ 597,787	$ 624,892
REIT units	422,212	369,311
Exchangeable units of subsidiaries	27,290	28,162
Unitholders' equity	6,200	(2,932)
Total	$ 1,053,489	$ 1,019,433

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:

	March 31, 2017	December 31, 2016
Gross book value	$ 1,158,102	$ 1,114,606
Debt	597,787	624,892
Leverage ratio (1)	51.6%	56.1%

(1) The Declaration of Trust was amended on May 11, 2016 to change the gross book value threshold to 65% from 60%.

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 and term loan are subject to financial and other covenants. The following are the primary financial covenants, with all terms defined by the lending agreement:

	Threshold	March 31, 2017	December 31, 2016
Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value	< 65%	53.7%	61.8%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x (1)	> 1.50x	3.28x	3.16x

(1) Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, as defined by the Amended and Restated Credit Agreement.

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.

For the period ended March 31, 2017, one individual tenant accounted for 7.7% of the REIT's base rent.

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

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.

The REIT's contractual commitments are as follows as of March 31, 2017:

	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	$ 13,672	$ 13,672	$ —	$ —	$ —
Revolver [1]	186,704	—	186,704	—	—
Revolver interest payable [1]	20,799	6,224	14,575	—	—
Term loan [1]	292,500	—	—	292,500	—
Term loan interest payable [1]	45,404	9,750	23,948	11,706	—
Mortgages	119,129	1,537	4,839	15,088	97,665
Mortgage interest payable	34,494	4,918	9,564	8,562	11,450
Interest rate swap, net cash outflows	78	78	—	—	—
TIF notes payable	3,350	356	2,994	—	—
TIF notes interest payable	337	147	190	—	—
REIT units	422,212	400	400	400	421,012
Exchangeable units of subsidiaries	27,290	—	—	—	27,290
Total contractual commitments	**$ 1,165,969**	**$ 37,082**	**$ 243,214**	**$ 328,256**	**$ 557,417**

(1) Revolver and term loan interest payable is calculated on $186.7 million and $292.5 million (balance outstanding) using an estimated "all in" interest rate of 3.33% 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 revolver and term loan results in an anticipated increase to the "all-in" interest rate to 4.09%and 4.19% respectively. The total revolver and term loan interest payable is calculated until maturity of the initial term.

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 term loan and revolver, 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 a pay-fixed received-float interest rate swap contract to swap the floating-rate payments on the credit facility for fixed rate payments.

Assuming all fixed-rate debt remain outstanding, each 25-basis point change in interest rates would result in a $0.3 million change in annual interest expense.

(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:

		March 31, 2017		December 31, 2016
Variable-rate instruments				
Revolver	**$**	**186,704**	$	211,455
Term loan		**292,500**		292,500
TIF payable		**3,283**		3,450
Effect of interest rate swap		**(300,000)**		(300,000)
Total effective floating rate debt	**$**	**182,487**	$	207,405
Annual impact of a 25 bps change on interest rates	**$**	**456**	$	519

iv. Unit price risk

The REIT is exposed to unit price risk as a result of the issuance of REIT units and exchangeable units of subsidiaries. REIT units and exchangeable units of subsidiaries have been classified as liabilities and measured at fair value based on market trading prices. REIT units and exchangeable units of subsidiaries negatively impact net (loss) income when the unit price rises and positively impact net (loss) income when unit prices decline. An increase of $1.00 in the underlying price of REIT units results in an increase to liabilities and a decrease (increase) in net income (loss) of $32.9 million. An increase of $1.00 in the underlying price of exchangeable units of subsidiaries results in an increase to liabilities and a decrease (increase) in net income (loss) of $2.5 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 transactions related to payment of the REIT's expenses are denominated in Canadian dollars.

22. Leases

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 4.9 years (December 31, 2016 – 5.1 years) and may 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:

		March 31, 2017		December 31, 2016
In one year or less	**$**	**78,833**	$	77,142
In more than one year but not more than five years		**219,356**		212,658
In more than five years		**123,324**		129,117
Total	**$**	**421,513**	$	418,917

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

23. 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 $1.30, 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 measured at the exchange amount which is the consideration established and agreed to by the parties.

Fees to the Manager are as follows:

	Three months ended March 31,	
	2017	2016
Asset management	**$ 1,099**	$ 1,008
Acquisition	**250**	159
Total	**$ 1,349**	$ 1,167

Trustee fees

The REIT's key personnel includes trustees and officers of the REIT. For the three month period ended March 31, 2017, Trustee fees amounted to $0.1 million (March 31, 2016 – $0.1 million).

Strategic acquisition loan

On October 20, 2015, the REIT provided a loan secured by a property to a U.S. based entity in which the Manager has a significant interest as part of the REIT's strategic acquisition loan arrangement. The loan is in the amount of $7.7 million, bears interest at 8.0% and matures on October 19, 2020. On March 8, 2017, the REIT provided an additional $1.2 million under the loan arrangement.

Interest receivable on the loan was $0.2 million for the three month period ended March 31, 2017 (March 31, 2016 – $0.2 million). As part of the strategic acquisition loan arrangement the REIT has the ability, but not the obligation, to purchase the property upon conversion of the property to a grocery-anchored retail centre.

24. Segmented information

The REIT has only one business segment. The REIT owns and operates investment properties in the U.S. The REIT identifies each investment 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.

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

25. Supplemental cash flow information

Changes in liabilities arising from financing activities are as follows:

		Cash flows	Non-cash changes		
	December 31, 2016	**Financing activities**	**Fair value changes**	**Other**	**March 31, 2017**
Revolver	$ 210,237	$ (24,791)	$ —	$ 92	$ 185,538
Term loan	290,095	—	—	135	290,230
Mortgages	121,110	(2,347)	—	(27)	118,736
REIT units	369,277	57,742	(5,202)	395	422,212
Exchangeable units of subsidiaries	28,162	(35)	(639)	(198)	27,290
Total	**$ 1,018,881**	**$ 30,569**	**$ (5,841)**	**$ 397**	**$ 1,044,006**

26. Subsequent events

i. On April 17, 2017, the REIT declared monthly distributions of $0.0675 per class U unit. Holders of class A units, class I units and units of subsidiaries of the REIT were also entitled to receive a distribution at the respective conversion rate attributable to the units.

ii. On April 22, 2017, the REIT entered into a binding agreement to acquire Eustis Village, a grocery-anchored shopping centre in Orlando, Florida for a purchase price of $23.0 million. The property is anchored by Publix. The acquisition is expected to be completed in the second quarter of 2017 subject to customary closing conditions.