Retail REIT

SLATE

Condensed consolidated interim financial statements of

SLATE RETAIL REIT

For the three months ended March 31, 2016

Unaudited

Slate Retail REIT
Condensed consolidated interim financial statements

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

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

	Note	March 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		**$ 13,649**	$ 11,855
Prepaids		**1,512**	1,869
Accounts receivable	*6*	**7,052**	7,344
		22,213	21,068
Non-current assets			
Investment properties	*7, 8*	**997,575**	978,526
Funds held in escrow		**2,483**	2,233
Other assets	*9, 10*	**11,714**	11,654
		1,011,772	992,413
Total assets		**$ 1,033,985**	$ 1,013,481
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*11*	**$ 10,505**	$ 9,299
Distributions payable		**2,062**	2,065
Debt	*12*	**1,828**	1,959
		14,395	13,323
Non-current liabilities			
Debt	*12*	**586,874**	575,321
TIF notes payable	*10*	**3,595**	3,743
Deferred income taxes	*17*	**70,086**	65,018
REIT units	*13*	**309,757**	305,926
Exchangeable units of subsidiaries	*13*	**26,444**	26,597
Other liabilities		**1,797**	1,756
		998,553	978,361
Unitholders' equity		**21,037**	21,797
Total liabilities and unitholders' equity		**$ 1,033,985**	$ 1,013,481

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

	Note	Three months ended March 31, 2016	2015
Rental revenue		**$ 24,205**	$ 16,347
Property operating expenses [(1)]		**(15,425)**	(10,284)
Other expenses	*14*	**(2,440)**	(1,025)
Change in fair value of investment properties [(1)]	*8*	**12,108**	21,289
Interest expense and other financing costs	*15*	**(4,379)**	(2,920)
Transaction costs	*7, 16*	**(140)**	(554)
Net income before income taxes and unit (expense) income		**13,929**	22,853
Deferred income tax expense	*17*	**(5,068)**	(9,240)
Unit (expense) income	*18*	**(9,621)**	1,929
Net (loss) income and comprehensive (loss) income		**$ (760)**	$ 15,542

[(1)] In accordance with IFRIC 21, *Levies* ("IFRIC 21"), the REIT recognizes the annual property tax liability and expense on its existing properties on January 1, rather than progressively, i.e. ratably, throughout the year. Refer to the REIT's annual audited consolidated financial statements for the year ended December 31, 2015 for more information.

SLATE RETAIL REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

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

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

	Retained earnings	Capital reserve	Total
Balance, December 31, 2014	$ 22,756	$ (1,424)	$ 21,332
Net income and comprehensive income	15,542	—	15,542
Balance, March 31, 2015	$ 38,298	$ (1,424)	$ 36,874

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

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

	Note	Three months ended March 31, 2016	2015
OPERATING ACTIVITIES			
Net (loss) income		**$ (760)**	$ 15,542
Items not affecting cash			
Deferred income tax expense	*17*	**5,068**	9,240
Straight-line rent	*8*	**(427)**	(406)
Change in fair value of investment properties	*8*	**(12,108)**	(21,289)
IFRIC 21 property tax adjustment	*8*	**8,724**	5,397
Interest expense and other financing costs	*15*	**4,379**	2,920
Cash interest paid, net		**(4,468)**	(2,949)
Unit expense (income)	*18*	**9,621**	(1,929)
Changes in non-cash working capital items		**1,804**	337
		11,833	6,863
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired	*7*	**(21,192)**	(23,837)
Disposition of investment property	*7*	**9,069**	—
Funds held in escrow		**(250)**	(234)
Tenant improvements and leasing commissions	*8*	**(1,988)**	(646)
Landlord work / maintenance capital	*8*	**(753)**	(18)
Development / expansion capital	*8*	**(327)**	—
		(15,441)	(24,735)
FINANCING ACTIVITIES			
Revolver advances	*12*	**15,237**	22,466
Debt repayments	*12*	**(3,889)**	(48,418)
Issuance of REIT units, net of costs	*13*	**(30)**	48,063
Redemption of REIT units	*13*	**(52)**	(45)
REIT units distributions, net of DRIP units issued	*13, 18*	**(5,363)**	(3,149)
Exchangeable units of subsidiaries distributions	*18*	**(501)**	(463)
		5,402	18,454
Increase in cash		**$ 1,794**	$ 582
Cash, beginning of the period		**11,855**	13,174
Cash, end of the period		**$ 13,649**	$ 13,756

1. Description of the REIT and operations

Slate Retail REIT (the "REIT") is an unincorporated, open-ended investment 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 with an emphasis on grocery anchored retail properties. As of March 31, 2016, the REIT's properties (the "Properties") consisted of a portfolio of 66 grocery anchored retail commercial properties located in the United States.

The 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* ("IAS 34") 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 11, 2016.

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

3. New accounting policies

IAS 1*, Presentation of Financial Statements* ("IAS 1")

IAS 1 was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment to IAS 1 are effective for annual periods beginning on or after January 1, 2016.

The amendments include the following guidance:

i. the entity shall not aggregate or disaggregate information applicable to each of the primary financial statements, the notes and each specific disclosures required by IFRSs in a manner that obscures useful information;

ii. specific line items in the primary financial statements can be disaggregated;

iii. the entity has flexibility in the order of the notes to the financial statements; and

iv. an entity's share of other comprehensive income from equity accounted associates and joint ventures will be presented in aggregate, classified between amounts that will and will not be reclassified to profit and loss.

These amendments did not have a material impact on the REIT's consolidated financial statements.

4. 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, 2015. 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 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, 2015.

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

5. Future accounting policies

The IASB has issued the following new standards that will 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 currently assessing the impact of the 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, which is when the REIT intends to adopt IFRS 16 in its financial statements. The extent of the impact of adoption of the standard has not yet been determined.

6. Accounts receivable

The accounts receivable balance is comprised of the following:

	March 31, 2016	December 31, 2015
Rent receivable	**$ 4,411**	$ 2,529
Allowance	**(252)**	(206)
Accrued recovery income	**1,417**	4,249
Other receivables	**1,476**	772
Accounts receivable	**$ 7,052**	$ 7,344

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. Other receivables represent non-operating amounts.

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

The change in allowance for doubtful accounts is as follows:

	Three months ended March 31, **2016**	2015
Beginning of the period	**$ 206**	$ 168
Allowance	**108**	50
Bad debt write-off	**—**	(3)
Bad debt recovery	**(62)**	(74)
End of the period	**$ 252**	$ 141

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 rents receivable past due but not impaired, net of allowance for doubtful accounts, is as follows:

	March 31, 2016	December 31, 2015
Current to 30 days	**$ 3,532**	$ 1,198
31 to 60 days	**206**	209
Greater than 60 days	**421**	916
Total	**$ 4,159**	$ 2,323

7. Acquisitions and dispositions

Acquisitions

The REIT acquired one property during the three month period ended March 31, 2016. The operational results of this property have been included in these consolidated financial statements from its respective date of acquisition.

Property	**Purchase date**	**Location**	**Purchase price**
Charles Town Plaza	March 30, 2016	Charles Town, West Virginia	$ 20,900

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

Purchase price	$ 20,900
Transaction costs	370
Investment properties	21,270
Working capital items	(78)
Total	**$ 21,192**

Consideration for the acquisition of $21.2 million was funded by borrowings from the REIT's revolving credit facility (the "revolver") and proceeds from the disposition of the Madison Centre discussed below. Property acquisition costs for the three month period ended March 31, 2016 were $0.4 million. The acquisition has been determined to be an asset acquisition and accordingly, transaction costs have been capitalized to the property.

Dispositions

The REIT disposed of Madison Centre located in Madison, Alabama, during the three month period ended March 31, 2016 as follows:

Net sale price	$ 9,100
Working capital	(31)
Disposition costs	(140)
Net proceeds	**$ 8,929**

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

8. Investment properties

As at March 31, 2016, the REIT owns 66 income-producing properties.

The change in investment properties is as follows:

	Note	Three months ended March 31, 2016	2015
Beginning of the period		**$ 978,526**	$ 622,295
Acquisitions	*7*	**21,270**	22,065
Tenant improvements and leasing commissions		**1,988**	511
Capital costs funded by vendor		**—**	135
Landlord work and maintenance capital		**753**	18
Development and expansion capital		**327**	—
Straight-line rent		**427**	406
Dispositions	*7*	**(9,100)**	—
IFRIC 21 property tax adjustment		**(8,724)**	(5,397)
Change in fair value		**12,108**	21,289
End of the period		**$ 997,575**	$ 661,322

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

	Three months ended March 31, 2016	Year ended December 31, 2015
Capitalization rate range	**6.00% – 9.00%**	6.00% – 9.00%
Weighted average capitalization rate	**7.10%**	7.12%
Impact on fair value due to 25 basis point change in capitalization rates	**$ 35,868**	$ 34,440
Impact on fair value due to $100,000 change in underlying annual stabilized income	**$ 1,408**	$ 1,405

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

9. Other assets

Other assets are comprised of the following:

	Note	March 31, 2016	December 31, 2015
Tax incremental financing receivable	*10*	**$ 3,791**	$ 3,882
Notes receivable	*23*	**7,650**	7,650
Other	*23*	**273**	122
Total		**$ 11,714**	$ 11,654

10. Tax incremental financing

On March 6, 2014, the REIT acquired tax financing ("TIF") incremental revenue notes issued by the City of St. Paul and by the City of Brainerd (the "TIF notes receivable") in Minnesota, related to the REIT's Phalen Retail Centre and East Brainerd Mall properties, respectively. The TIF notes obligates 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.

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

The TIF notes receivable held by the REIT are as follows:

TIF notes receivable	Maturity date	Interest rate		**March 31, 2016**		December 31, 2015
Phalen Retail Center	February 1, 2029	6.0%	**$**	**2,317**	$	2,386
East Brainerd Mall	February 1, 2029	8.0%		**1,474**		1,496
			$	**3,791**	$	3,882

The TIF notes payable held by the REIT are as follows:

TIF notes payable	Maturity date	Interest rate		**March 31, 2016**		December 31, 2015
Phalen Retail Center	February 28, 2019	5.25%	**$**	**2,179**	$	2,274
East Brainerd Mall	February 28, 2019	5.25%		**1,416**		1,469
			$	**3,595**	$	3,743

Transaction costs related to the TIF notes payable are amortized over the term to initial maturity based on the effective interest rate method.

11. Accounts payable and accrued liabilities

The accounts payable and accrued liabilities balance are comprised of the following:

		March 31, 2016		December 31, 2015
Trade payables and accrued liabilities	**$**	**6,900**	$	5,371
Prepaid rent		**2,175**		2,571
Tenant improvement payable		**128**		130
Other payables		**1,302**		1,227
Total	**$**	**10,505**	$	9,299

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

12. Debt

Debt held by the REIT at March 31, 2016 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	Feb. 26, 2020	Two 1-year	L+225 bps	NA (3)	NA (3)	$ 292,500	$ 149,002	$ 143,498
Term loan	Feb. 26, 2021	One 1-year	L+225 bps	NA (3)	NA (3)	292,500	292,500	$ —
Mortgage	Mar. 1, 2021	None	5.75%	1	28,290	13,744	13,744	—
Mortgage	Apr. 30, 2021	None	5.80%	5	54,912	27,007	27,007	—
Mortgage	Jan. 1, 2025	None	3.80%	3	90,367	50,000	50,000	—
Mortgage	Jun. 15, 2025	None	4.14%	6	100,264	59,500	58,737	—
Total						**$ 735,251**	**$ 590,990**	**$ 143,498**

(1) "L" means the one-month U.S. 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 60% provided for by the REIT's Declaration of Trust.
(3) The term loan and revolver are secured by a general pledge of equity of certain subsidiaries of the REIT.

The carrying value of debt held by the REIT at March 31, 2016 is as follows:

	Effective rate [(1)]	Principal	Mark-to-market ("MTM") adjustments and costs	Amortization of MTM adjustments and costs [(2)]	Carrying amount	Current	Non-current
Revolver	2.53%	$ 149,002	$ (2,515)	$ 214	$ 146,701	$ —	$ 146,701
Term loan	2.58%	292,500	(2,554)	821	290,767	—	290,767
Mortgage	5.75%	13,744	2,014	(435)	15,323	320	15,003
Mortgage	5.80%	27,007	2,780	(783)	29,004	457	28,547
Mortgage	3.80%	50,000	(969)	124	49,155	—	49,155
Mortgage	4.14%	58,737	(1,079)	94	57,752	1,051	56,701
Total		**$ 590,990**	**$ (2,323)**	**$ 35**	**$ 588,702**	**$ 1,828**	**$ 586,874**

(1) The effective interest rate for term loan and revolver includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. Both the term loan and revolver have used 1-month LIBOR of 45 bps.
(2) Excludes the impact of any available extension options not yet exercised.

On February 26, 2016, the REIT amended and increased its term loan and revolver available amount to an aggregate of $585.0 million. The term to maturity for the term loan and revolver were extended from December 19, 2018 and 2017 to February 26, 2021 and 2020, respectively.

On March 18, 2016, the REIT extinguished a mortgage of $3.4 million, bearing interest of 5.25%, with borrowings from the REIT's revolver.

13. REIT units and exchangeable units of subsidiaries

The REIT has class A units, class I units and class U units issued and outstanding (collectively, the "REIT units"). As at March 31, 2016 the REIT has the following units, represented in thousands of units:

	Class U	Class A	Class I
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	28,593	380	348

Each class of the REIT's units and each class of the exchangeable units issued by the REITs 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. Special voting units may only be issued in connection with or in relation to redeemable or exchangeable securities for the purpose of providing voting rights with respect to the REIT to the holders of such securities. 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 a 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 class A units, class I units and class U 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 trust units trade, and (iii) public disclosure of such an increase.

Exchangeable units of subsidiaries

Class B units of Slate Retail Two L.P. and Slate Retail One 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 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) income in the period in which they become payable.

Rights offering

On March 2, 2016 the REIT distributed rights to subscribe for class U units to eligible holders of REIT units and exchangeable units of subsidiaries. Every nine rights held entitle an eligible holder of rights to subscribe for one class U unit at a subscription price of $10.21 or C$13.71. The REIT has issued a total of 31,853 rights. As at March 31, 2016, the fair value of the outstanding rights of $1.1 million is included in REIT units.

On April 19, 2016, 3,539 class U units were issued for gross proceeds of approximately $36.6 million.

Normal course issuer bid

The REIT has certified a normal course issuer bid (“NCIB”) which commenced on May 26, 2015. The NCIB will remain in effect until the earlier of May 26, 2016 or the date on which the REIT has purchased an aggregate 2.6 million class U units (amended on September 30, 2015 from the previous maximum number of 1.1 million class U units permitted under the NCIB), representing 10% of the REIT's public float of 25.9 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, 2016, no class U units have been purchased 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, 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**

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

	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, 2014	16,875	528	358	—	1,880	590	**20,255**
Issued under the DRIP	22	—	—	—	—	—	**22**
Issued under equity offering	4,894	—	—	—	—	—	**4,894**
Redeemed	—	—	—	—	(4)	—	**(4)**
Exchanges	62	(23)	—	—	(39)	—	**—**
Balance, March 31, 2015	21,853	505	358	—	1,837	590	**25,167**
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
Class U units equivalent	**21,853**	**509**	**378**	**—**	**1,837**	**590**	**25,167**

(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, 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	2,092	194	**2,286**
Balance, March 31, 2016	**$ 309,757**	**$ 26,444**	**$ 336,201**

	REIT units	**Exchangeable units of subsidiaries**	**Total**
Balance, December 31, 2014	$ 185,499	$ 25,764	**$ 211,263**
Issued under the DRIP	217	—	**217**
Issued under equity offering	48,062	—	**48,062**
Redeemed	—	(45)	**(45)**
Exchanges	408	(408)	**—**
Change in fair value	(5,200)	(867)	**(6,067)**
Balance, March 31, 2015	**$ 228,986**	**$ 24,444**	**$ 253,430**

For the three month period ended March 31, 2016, the REIT declared distributions of $5.7 million (March 31, 2015 – $3.7 million) on REIT units and $0.5 million (March 31, 2015 – $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 grant date.

(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 during the three month period ended March 31, 2016, on a diluted basis:

	March 31, 2016	March 31, 2015
Weighted average class U units outstanding	**29,127**	18,195
Impact of class A	**383**	509
Impact of class I	**367**	378
Impact of exchangeable units of subsidiaries	**1,967**	1,837
DUP units	**21**	8
	31,865	20,927

14. Other expenses

Other expenses are comprised of:

		Three months ended March 31,	
	Note	**2016**	2015
Asset management	*23*	**$ 1,008**	$ 648
Professional fees and other		**878**	341
Franchise and business taxes		**554**	36
Total		**$ 2,440**	$ 1,025

15. Interest expense and other financing costs

Interest expense and other financing costs are comprised of:

		Three months ended March 31,	
	Note	**2016**	2015
Interest income on investments		**$ (13)**	$ (3)
Interest income on notes receivable	*23*	**(151)**	—
Interest on debt and finance charges	*12*	**4,481**	2,952
Amortization of finance charges	*12*	**361**	189
Amortization of mark-to-market premium	*12*	**(286)**	(195)
Interest income on TIF notes receivable		**(57)**	(58)
Interest expense on TIF notes payable		**66**	57
Deferred gain on TIF notes receivable		**(22)**	(22)
Total		**$ 4,379**	$ 2,920

16. Transaction costs

Transaction costs are comprised of:

	Three months ended March 31,	
	2016	2015
Property acquisitions	**$ —**	$ 424
Property dispositions	**140**	—
SUSO 3 transaction	**—**	130
Total	**$ 140**	$ 554

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

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 Slate Retail Investment L.P. ("Investment LP")

Investment LP and GAR B made an election to be classified as a corporation for U.S. federal tax purposes. Investment LP and GAR B are subject to U.S. federal and state income taxation on its allocable shares in Slate Retail One Limited Partnership, 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 LP is subject to a combined federal and state income tax rate of 38.28% (December 31, 2015 – 38.28%). Current taxes in Investment LP have been reduced to nil. To the extent U.S. taxes are paid by Investment LP 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 (income)

Unit expense (income) is comprised of the following:

		Three months ended March 31,	
	Note	**2016**	2015
REIT units distributions	*13*	**$ 5,707**	$ 3,677
Exchangeable units of subsidiaries distributions	*13*	**494**	461
Rights offering costs		**30**	—
Change in fair value of rights		**1,104**	—
Change in fair value of REIT units	*13*	**2,092**	(5,200)
Change in fair value of exchangeable units of subsidiaries	*13*	**194**	(867)
Total		**$ 9,621**	$ (1,929)

(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, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash	**$ 13,649**	**$ 13,649**	$ 11,855	$ 11,855
Accounts receivable	**7,052**	**7,052**	7,344	7,344
TIF notes receivable	**3,791**	**3,909**	3,882	4,922
Funds held in escrow	**2,483**	**2,483**	2,233	2,233
Notes receivable	**7,923**	**7,923**	7,772	$ 7,772
Total financial assets	**$ 34,898**	**$ 35,016**	$ 33,086	$ 34,126
Financial liabilities				
Accounts payable and accrued liabilities	**$ 10,505**	**$ 10,505**	$ 9,299	$ 9,299
Distributions payable	**2,062**	**2,062**	2,065	2,065
Term loan	**290,767**	**292,500**	223,108	225,000
Revolver	**146,701**	**149,002**	198,820	199,102
Mortgages	**151,234**	**153,192**	155,352	157,370
TIF notes payable	**3,595**	**3,685**	3,743	3,840
Other liabilities	**1,797**	**1,797**	1,756	1,756
REIT units	**309,757**	**309,757**	305,926	305,926
Exchangeable units of subsidiaries	**26,444**	**26,444**	26,597	26,597
Total financial liabilities	**$ 942,862**	**$ 948,944**	$ 926,666	$ 930,955

(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, 2016	**Level 1**	**Level 2**	**Level 3**	**Fair value**
Financial assets				
Cash	$ 13,649	$ —	$ —	$ 13,649
Accounts receivable	—	7,052	—	7,052
TIF notes receivable	—	—	3,909	3,909
Funds held in escrow	2,483	—	—	2,483
Notes receivable	—	7,923	—	7,923
Total financial assets	**$ 16,132**	**$ 14,975**	**$ 3,909**	**$ 35,016**
Financial liabilities				
Accounts payable and accrued liabilities	$ —	$ 10,505	$ —	$ 10,505
Distributions payable	—	2,062	—	2,062
Term loan	—	292,500	—	292,500
Revolver	—	149,002	—	149,002
Mortgages	—	153,192	—	153,192
TIF notes payable	—	3,685	—	3,685
Other liabilities	1,797	—	—	1,797
REIT units	309,757	—	—	309,757
Exchangeable units of subsidiaries	26,444	—	—	26,444
Total financial liabilities	**$ 337,998**	**$ 610,946**	**$ —**	**$ 948,944**

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, 2016	December 31, 2015
Debt	**$ 588,702**	$ 577,280
REIT units	**309,757**	305,926
Exchangeable units of subsidiaries	**26,444**	26,597
Unitholders' equity	**21,037**	21,797
	$ 945,940	$ 931,600

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

The Declaration of Trust provides that the REIT is not permitted to exceed financial leverage in excess of 60% of gross book value, as defined by the Declaration of Trust, and is calculated as follows:

	March 31, 2016	December 31, 2015
Total assets	**$ 1,033,985**	$ 1,013,481
Less: restricted cash	**(2,483)**	(2,233)
Gross book value	**$ 1,031,502**	$ 1,011,248
Debt	**588,702**	577,280
TIF payable	**3,595**	3,743
Leverage ratio	**57.4%**	57.5%

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

The REIT's term loan and revolver 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, 2016**	December 31, 2015
Maximum leverage ratio: consolidated total indebtedness shall not exceed 65% of gross asset value	< 65%	**57.2%**	59.8%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x (1)	> 1.50x	**3.16x**	3.29x

(1) EBITDA is defined as earnings before interest, tax, depreciation and amortization.

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. The risk is mitigated by carrying out appropriate credit checks and related due diligence on the significant tenants.

For the year ended March 31, 2016, one individual tenant accounted for 9.2% 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.

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

The REIT's contractual commitments are as follows as of March 31, 2016:

	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	$ 10,505	$ 10,505	$ —	$ —	$ —
Revolver (1)	149,002	—	—	149,002	—
Revolver interest payable (1)	14,979	4,356	5,019	5,604	—
Term loan (1)	292,500	—	—	292,500	—
Term loan interest payable (1)	59,149	8,550	29,558	21,041	—
Mortgages	149,488	1,828	5,000	18,214	124,446
Mortgage interest payable	47,947	6,676	13,053	12,526	15,692
TIF notes payable	3,685	128	378	3,179	—
TIF notes interest payable	517	125	310	82	—
REIT units	309,757	400	—	—	309,357
Exchangeable units of subsidiaries	26,444	—	—	—	26,444
Total contractual commitments	**$ 1,063,973**	**$ 32,568**	**$ 53,318**	**$ 502,148**	**$ 475,939**

(1) Term loan and revolver interest payable is calculated on $292.5 million and $149.0 million (balance outstanding) using an estimated "all in" interest rate of 2.92% 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 and revolver results in an anticipated increase to the "all-in" interest rate to 3.34% and 3.20%, respectively. The total term loan and revolver 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, interest rate on the loans will vary depending on changes in base rate and/or LIBOR rate. The REIT is subject to interest rate risks for debt that has variable interest rates.

Assuming all loans under the REIT's credit facilities remain outstanding, each 25 basis point change in interest rates would result in a $1.1 million change in annual interest expense.

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 in net loss of $29.3 million. 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 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 5.1 years (December 31, 2015 – 5.2 years) and may include clauses to enable periodic upward revisions in rental rates.

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

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

	March 31, 2016	December 31, 2015
Not later than one year	**$ 72,812**	$ 72,962
Later than one year but not later than five years	**205,435**	210,571
Later than five years	**134,030**	134,962
Total	**$ 412,277**	$ 418,495

23. Related parties

Pursuant to the terms of a management agreement dated April 15, 2014 (the "management agreement"), Slate Asset Management L.P., a real estate asset management company (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 $1.28, subject to ordinary course adjustments for certain transactions affecting the class U units and increasing annually by 50% of the increase in the United States 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 paid to the Manager are as follows:

	Three months ended March 31,	
	2016	2015
Asset management	**$ 1,008**	$ 648
Acquisition	**159**	169
Total	**$ 1,167**	$ 817

Trustee fees

The REIT's key personnel includes Trustees and certain members of the executive team of the REIT. For the three month period ended March 31, 2016, Trustee fees amount to $0.1 million (March 31, 2015 – $0.1 million).

Strategic acquisition loan

On October 20, 2015, the REIT provided a loan secured by a property to a U.S. based subsidiary of the Manager as part of the REIT's strategic acquisition loan arrangement. The loan is in the amount of $7.7 million and bears interest at 8.0% and matures on October 19, 2020. Interest receivable on the loan was $0.2 million for the three month period ended March 31, 2016. 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 mall.

24. Subsequent events

i. On April 15, 2016 the REIT declared monthly distributions of $0.06489 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 March 2, 2016, the REIT announced it has filed a rights offering notice and circular in respect of a rights offering to eligible unitholders of REIT units and exchangeable units of the REIT to subscribe for class U units. On April 19, 2016, 3,539 class U units were issued for gross proceeds of approximately $36.6 million. Funds received from the rights offering were used to pay down a portion of the revolver by $33.4 million.