



Retail  
REIT

Condensed consolidated interim financial statements of

**SLATE RETAIL REIT**

For the three and nine months ended September 30, 2016

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	September 30, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 16,070	\$ 11,855
Deposits on investment properties		1,250	—
Prepays		2,642	1,869
Accounts receivable	6	6,206	7,344
Funds held in escrow	7	13,677	—
		<b>39,845</b>	<b>21,068</b>
<b>Non-current assets</b>			
Investment properties	8, 9	1,022,445	978,526
Funds held in escrow		2,595	2,233
Other assets	10, 11	11,783	11,654
		<b>1,036,823</b>	<b>992,413</b>
<b>Total assets</b>		<b>\$ 1,076,668</b>	<b>\$ 1,013,481</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	12	\$ 12,552	\$ 9,299
Distributions payable		2,392	2,065
Debt	13	1,875	1,959
		<b>16,819</b>	<b>13,323</b>
<b>Non-current liabilities</b>			
Debt	13	583,898	575,321
TIF notes payable	11	3,440	3,743
Deferred income taxes	18	76,068	65,018
REIT units	14	361,772	305,926
Exchangeable units of subsidiaries	14	27,602	26,597
Other liabilities		1,946	1,756
		<b>1,054,726</b>	<b>978,361</b>
Unitholders' equity		5,123	21,797
<b>Total liabilities and unitholders' equity</b>		<b>\$ 1,076,668</b>	<b>\$ 1,013,481</b>

**SLATE RETAIL REIT**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	2016	2015	2016	2015
Rental revenue		\$ 23,699	\$ 22,416	\$ 71,992	\$ 56,676
Property operating expenses <sup>(1)</sup>		(3,221)	(2,953)	(21,804)	(15,616)
Other expenses	15	(1,722)	(1,983)	(5,800)	(4,681)
Change in fair value of investment properties <sup>(1)</sup>	9	(4,865)	(4,527)	3,981	13,918
Impairment of goodwill	5	—	—	—	(8,870)
Interest expense and other financing costs	16	(4,557)	(4,021)	(13,153)	(10,017)
Transaction costs	8, 17	(661)	(214)	(1,030)	(1,217)
<b>Net income before income taxes and unit expense</b>		<b>8,673</b>	<b>8,718</b>	<b>34,186</b>	<b>30,193</b>
Deferred income tax expense	18	(2,701)	(2,869)	(11,050)	(13,556)
Unit expense	19	(21,281)	(2,913)	(39,810)	(15,115)
<b>Net (loss) income and comprehensive (loss) income</b>		<b>\$ (15,309)</b>	<b>\$ 2,936</b>	<b>\$ (16,674)</b>	<b>\$ 1,522</b>

<sup>(1)</sup> 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<sup>st</sup>, 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)

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	<b>Retained earnings</b>	<b>Capital reserve</b>	<b>Total</b>
Balance, December 31, 2015	\$ 23,221	\$ (1,424)	\$ 21,797
Net loss and comprehensive loss	(16,674)	—	(16,674)
<b>Balance, September 30, 2016</b>	<b>\$ 6,547</b>	<b>\$ (1,424)</b>	<b>\$ 5,123</b>

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	<b>Retained earnings</b>	<b>Capital reserve</b>	<b>Total</b>
Balance, December 31, 2014	\$ 22,756	\$ (1,424)	\$ 21,332
Net income and comprehensive income	1,522	—	1,522
<b>Balance, September 30, 2015</b>	<b>\$ 24,278</b>	<b>\$ (1,424)</b>	<b>\$ 22,854</b>

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**SLATE RETAIL REIT**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

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

		Nine months ended September 30,	
	Note	2016	2015
<b>OPERATING ACTIVITIES</b>			
Net (loss) income		\$ (16,674)	\$ 1,522
Items not affecting cash			
Deferred income tax expense	18	11,050	13,556
Straight-line rent	9	(1,295)	(1,258)
Change in fair value of investment properties	9	(3,981)	(13,918)
Impairment of goodwill	5	—	8,870
IFRIC 21 property tax adjustment	9	2,641	462
Interest expense and other financing costs	16	13,153	10,017
Cash interest paid, net	16	(13,528)	(10,015)
Unit expense	19	39,810	15,115
Changes in non-cash working capital items		2,834	(445)
		<b>34,010</b>	<b>23,906</b>
<b>INVESTING ACTIVITIES</b>			
Acquisitions, net of cash acquired	8	(67,491)	(106,242)
Disposition of investment properties	8	37,520	3,825
Funds held in escrow		(14,039)	921
Tenant improvements and leasing commissions	9	(3,941)	(2,281)
Landlord work and maintenance capital	9	(1,801)	(444)
Development and expansion capital	9	(5,752)	—
		<b>(55,504)</b>	<b>(104,221)</b>
<b>FINANCING ACTIVITIES</b>			
Revolver advances	13	46,582	221,926
Mortgage advances	13	—	58,436
Debt repayments	13	(38,241)	(222,049)
Normal course issuer bid	14	—	(11,770)
Issuance of REIT units, net of costs	14	36,388	47,514
Redemption of exchangeable units of subsidiaries	14	(52)	(114)
REIT units distributions, net of DRIP units issued	14, 19	(17,495)	(12,549)
Exchangeable units of subsidiaries distributions	19	(1,473)	(1,412)
		<b>25,709</b>	<b>79,982</b>
<b>Increase (decrease) in cash</b>		<b>\$ 4,215</b>	<b>\$ (333)</b>
<b>Cash, beginning of the period</b>		<b>11,855</b>	<b>13,174</b>
<b>Cash, end of the period</b>		<b>\$ 16,070</b>	<b>\$ 12,841</b>

# SLATE RETAIL REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### 1. Description of the REIT and operations

Slate Retail REIT (the "REIT") is an unincorporated, open-ended 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 September 30, 2016, the REIT's properties (the "Properties") consisted of a portfolio of 64 grocery-anchored retail commercial properties located in the United States.

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 November 2, 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 amendments 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 specific disclosures required by International Financial Reporting Standards ("IFRS") 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.

# SLATE RETAIL REIT

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### 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, 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 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.

#### ii. 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. The extent of the impact of adoption of the standard has not yet been determined.

##### *Amendments to IAS 7, Statement of Cash Flows* ("IAS 7")

The IASB issued amendments to IAS 7 on January 29, 2016 with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the amendments to IAS 7 require disclosure of the following 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, changes in fair values and other changes. These amendments to IAS 7 are effective for annual periods beginning on or after January 1, 2017. The REIT is assessing the impact of these amendments on its consolidated financial statements.



**SLATE RETAIL REIT**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

**5. SUSO 3 transaction**

On June 1, 2015, the REIT completed a unitholder approved transaction to acquire the net assets of Slate U.S. Opportunity (No. 3) Realty Trust (“SUSO 3”) (the “SUSO 3 transaction”), including 127,100 class U units of the REIT owned by SUSO 3. Consideration provided by the REIT for the acquisition of the net assets of SUSO 3 included the issuance of (i) 7,760,798 class U units of the REIT to the SUSO 3 unitholders, and (ii) 225,251 Slate Retail exchangeable units to the holders of the general partner interests in SUSO 3. After cancellation of the 127,100 class U units of the REIT owned by SUSO 3 and assumed by the REIT on acquisition, the REIT issued an additional net new 7,633,698 class U units of the REIT related to the SUSO 3 transaction.

	<b>SUSO 3 transaction</b>
Working capital	\$ 1,622
Investment properties	195,977
127,100 REIT units	1,344
Goodwill	8,870
Debt	(114,498)
Deferred income taxes	(8,870)
<b>Net assets acquired</b>	<b>\$ 84,445</b>

The goodwill arose primarily from the difference between how deferred tax was calculated for accounting purposes and the value ascribed to it in negotiations. The former was based on the difference between the values of the assets and liabilities concerned for accounting purposes and those applying for taxation. The latter was based on tax payments likely to be made on the sale of the investment properties. In management’s opinion, the carrying amount of this goodwill could not be justified by reference to future cash flows and the ongoing business plan to operate and own the properties in the foreseeable future. As a result, it was determined that the goodwill was impaired and an impairment charge was recognized in the consolidated financial statements.

For more information, refer to the REIT’s annual audited consolidated financial statements for the year ended December 31, 2015.

**6. Accounts receivable**

The accounts receivable balance is comprised of the following:

	<b>September 30, 2016</b>	December 31, 2015
Rent receivable	\$ 2,437	\$ 2,529
Allowance	(272)	(206)
Accrued recovery income	3,503	4,249
Other receivables	538	772
<b>Accounts receivable</b>	<b>\$ 6,206</b>	<b>\$ 7,344</b>

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.

The change in allowance for doubtful accounts is as follows:

	Nine months ended September 30,	
	<b>2016</b>	2015
Beginning of the period	\$ 206	\$ 168
Allowance	371	79
Bad debt write-off	(207)	(3)
Bad debt recovery	(98)	(74)
<b>End of the period</b>	<b>\$ 272</b>	<b>\$ 170</b>

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

**SLATE RETAIL REIT**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

	September 30, 2016	December 31, 2015
Current to 30 days	\$ 1,099	\$ 1,198
31 to 60 days	195	209
61 to 90 days	118	209
Greater than 90 days	753	707
<b>Total</b>	<b>\$ 2,165</b>	<b>\$ 2,323</b>

**7. Funds held in escrow**

Funds held in escrow are certain proceeds from dispositions allocated to future acquisitions in order to effect a deferral of any U.S. taxable capital gains and 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.

**8. Acquisitions and dispositions**

*Acquisitions*

The REIT acquired five properties during the nine month period ended September 30, 2016. The operational results of these properties have been included in these consolidated financial statements from their respective dates of acquisition.

Property	Purchase date	Location	Purchase price
Charles Town Plaza	March 30, 2016	Charles Town, West Virginia	\$ 20,900
Abbott's Village	May 19, 2016	Alpharetta, Georgia	15,200
Flowers Plantation	June 3, 2016	Clayton, North Carolina	6,300
Sunset Plaza	June 29, 2016	Johnson City, Tennessee	9,000
Taylorsville Town Centre	August 8, 2016	Taylorsville, Utah	14,450
<b>Total</b>			<b>\$ 65,850</b>

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

Purchase price	\$ 65,850
Transaction costs	1,460
Investment properties	67,310
Working capital items	181
<b>Total</b>	<b>\$ 67,491</b>

Consideration for the acquisitions of \$67.5 million was funded by borrowings from the REIT's revolving credit facility (the "revolver") and proceeds from asset sales. The acquisitions have been determined to be asset acquisitions and accordingly, transaction costs have been recognized in the initial carrying amount of the property.

**SLATE RETAIL REIT**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

*Dispositions*

The REIT disposed of seven properties during the nine month period ended September 30, 2016 as follows:

	<b>Madison Centre</b>	<b>Ocean Plaza</b>	<b>Food Lion Portfolio <sup>(1)</sup></b>	<b>Total</b>
Disposition date	March 28, 2016	June 30, 2016	July 20, 2016	
Location	Madison, Alabama	North Myrtle Beach, South Carolina	Various	
Number of properties	1	1	5	
Sales price	\$ 9,100	\$ 6,500	\$ 21,920	\$ <b>37,520</b>
Working capital	(30)	(41)	(126)	<b>(197)</b>
Disposition costs	(140)	(224)	(666)	<b>(1,030)</b>
<b>Net proceeds</b>	<b>\$ 8,930</b>	<b>\$ 6,235</b>	<b>\$ 21,128</b>	<b>\$ 36,293</b>

<sup>(1)</sup> Food Lion anchored assets ("Food Lion Portfolio") disposed include Madison Plaza, Lovington Plaza and Bowling Green Plaza, each located in Virginia, Gaston Marketplace located in South Carolina and Triangle Food Lion located in North Carolina.

**9. Investment properties**

On September 30, 2016, the REIT owns 64 income-producing properties. The change in investment properties is as follows:

	<b>Note</b>	Three months ended September 30,		Nine months ended September 30,	
		<b>2016</b>	2015	<b>2016</b>	2015
Beginning of the period		\$ 1,027,143	\$ 887,108	\$ 978,526	\$ 622,295
Acquisitions	5, 8	14,723	58,959	67,310	306,539
Tenant improvements and leasing commissions		1,246	610	3,941	1,433
Capital costs funded by vendor		—	—	—	135
Landlord work and maintenance capital		380	968	1,801	1,157
Development and expansion capital		2,279	—	5,752	—
Straight-line rent		453	489	1,295	1,258
Dispositions	8	(21,920)	(3,825)	(37,520)	(3,825)
IFRIC 21 property tax adjustment		3,006	2,666	(2,641)	(462)
Change in fair value		(4,865)	(4,527)	3,981	13,918
<b>End of the period</b>		<b>\$ 1,022,445</b>	<b>\$ 942,448</b>	<b>\$ 1,022,445</b>	<b>\$ 942,448</b>

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

	<b>September 30, 2016</b>	December 31, 2015
Capitalization rate range	<b>6.00% – 9.00%</b>	6.00% – 9.00%
Weighted average capitalization rate	<b>7.09%</b>	7.12%
Impact on fair value due to 25 basis point change in capitalization rates	\$ <b>36,965</b>	\$ 34,440
Impact on fair value due to \$100,000 change in underlying annual stabilized income	\$ <b>1,411</b>	\$ 1,405

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.

**SLATE RETAIL REIT**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

**10. Other assets**

Other assets are comprised of the following:

	Note	September 30, 2016	December 31, 2015
Tax incremental financing receivable	11	\$ 3,553	\$ 3,882
Note receivable	24	7,650	7,650
Other <sup>(1)</sup>	24	580	122
<b>Total</b>		<b>\$ 11,783</b>	<b>\$ 11,654</b>

<sup>(1)</sup> Other includes interest accrued on a strategic acquisition loan arrangement from the REIT to a U.S based entity in which Slate Asset Management L.P. has a significant interest. Refer to Note 24 "Related parties".

**11. Tax incremental financing**

On March 6, 2014, the REIT acquired tax incremental financing ("TIF") 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 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.

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

TIF notes receivable	Maturity date	Interest rate	September 30, 2016	December 31, 2015
Phalen Retail Centre	February 1, 2029	6.0%	\$ 2,342	\$ 2,386
East Brainerd Mall	February 1, 2029	8.0%	1,211	1,496
<b>Total</b>			<b>\$ 3,553</b>	<b>\$ 3,882</b>

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

TIF notes payable	Maturity date	Interest rate <sup>(1)</sup>	September 30, 2016	December 31, 2015
Phalen Retail Centre	February 28, 2019	L+350 bps	\$ 2,082	\$ 2,274
East Brainerd Mall	February 28, 2019	L+350 bps	1,358	1,469
<b>Total</b>			<b>\$ 3,440</b>	<b>\$ 3,743</b>

<sup>(1)</sup> "L" means the three-month U.S. London Interbank Offering Rate ("LIBOR") and "bps" means basis points.

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

Effective July 1, 2016, the REIT renegotiated the TIF notes payable to lower the interest rate from 5.25% to a floating rate of 3.5% plus 3-month LIBOR, subject to a floor of 4.25%.

**12. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are comprised of the following:

	September 30, 2016	December 31, 2015
Trade payables and accrued liabilities	\$ 8,742	\$ 5,371
Prepaid rent	2,616	2,571
Tenant improvements payable	131	130
Other payables	1,063	1,227
<b>Total</b>	<b>\$ 12,552</b>	<b>\$ 9,299</b>

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

**SLATE RETAIL REIT**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

**13. Debt**

Debt held by the REIT at September 30, 2016 is as follows:

	<b>Maturity</b>	<b>Remaining extension options</b>	<b>Coupon <sup>(1)</sup></b>	<b>Properties provided as security</b>	<b>Fair value of security</b>	<b>Maximum available</b>	<b>Principal</b>	<b>Available to be drawn <sup>(2)</sup></b>
Revolver <sup>(3)</sup>	Feb. 26, 2020	One 1-year	L+200 bps	NA <sup>(4)</sup>	NA <sup>(4)</sup>	\$ 292,500	\$ 146,955	\$ 145,545
Term loan <sup>(3)</sup>	Feb. 26, 2021	None	L+200 bps	NA <sup>(4)</sup>	NA <sup>(4)</sup>	292,500	292,500	—
Mortgage	Mar. 1, 2021	None	5.75%	1	27,503	13,587	13,587	—
Mortgage	Apr. 30, 2021	None	5.80%	5	55,220	26,783	26,783	—
Mortgage	Jan. 1, 2025	None	3.80%	3	89,181	50,000	50,000	—
Mortgage	Jun. 15, 2025	None	4.14%	6	101,688	59,500	58,215	—
<b>Total</b>						<b>\$ 734,870</b>	<b>\$ 588,040</b>	<b>\$ 145,545</b>

<sup>(1)</sup> "L" means one-month US LIBOR.

<sup>(2)</sup> 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.

<sup>(3)</sup> The Revolver and Term Loan provide for different spreads over one-month US 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 21 "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.

<sup>(4)</sup> 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 September 30, 2016 is as follows:

	<b>Effective rate <sup>(1)</sup></b>	<b>Principal</b>	<b>Mark-to-market ("MTM") adjustments and costs</b>	<b>Accumulated amortization of MTM adjustments and costs <sup>(2)</sup></b>	<b>Carrying amount</b>	<b>Current</b>	<b>Non-current</b>
Revolver <sup>(3)</sup>	2.48%	\$ 146,955	\$ (1,501)	\$ 287	\$ 145,741	\$ —	\$ 145,741
Term loan <sup>(3)</sup>	2.50%	292,500	(3,623)	1,081	289,958	—	289,958
Mortgage	5.75%	13,587	2,014	(598)	15,003	330	14,673
Mortgage	5.80%	26,783	2,780	(983)	28,580	472	28,108
Mortgage	3.80%	50,000	(969)	172	49,203	—	49,203
Mortgage	4.14%	58,215	(1,079)	152	57,288	1,073	56,215
<b>Total</b>		<b>\$ 588,040</b>	<b>\$ (2,378)</b>	<b>\$ 111</b>	<b>\$ 585,773</b>	<b>\$ 1,875</b>	<b>\$ 583,898</b>

<sup>(1)</sup> 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 effective rates are based on the applicable LIBOR rate under borrowings as at September 30, 2016.

<sup>(2)</sup> Excludes the impact of any available extension options not yet exercised.

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

**14. 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 September 30, 2016, the REIT has the following units, represented in thousands of units:

	<b>Class U</b>	<b>Class A</b>	<b>Class I</b>
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	32,225	360	322

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*.

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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 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 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 entitled 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 issued a total of 31,853 rights. On April 19, 2016, 3,539 class U units were issued pursuant to the rights offering for gross proceeds of approximately \$36.6 million. Rights offering costs are deducted against the cost of units issued.

#### *Normal course issuer bid*

The REIT has renewed a normal course issuer bid ("NCIB") which commenced 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.

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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:

Class / type	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
	U	A	I	SR1 <sup>(1)</sup>	SR2 <sup>(1)</sup>	GAR B	
Balance, December 31, 2015	28,511	391	358	220	1,779	547	31,829
Issued under the DRIP	77	—	—	—	—	—	77
Issued under rights offering	3,539	—	—	—	—	—	3,539
Redeemed	—	—	—	—	(5)	—	(5)
Exchanges	98	(31)	(36)	—	(27)	(2)	—
Balance, September 30, 2016	32,225	360	322	220	1,747	545	35,440
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
<b>Class U units equivalent</b>	<b>32,225</b>	<b>363</b>	<b>340</b>	<b>220</b>	<b>1,747</b>	<b>545</b>	<b>35,440</b>

Class / type	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
	U	A	I	SR1 <sup>(1)</sup>	SR2 <sup>(1)</sup>	GAR B	
Balance, December 31, 2014	16,875	528	358	—	1,880	590	20,255
Issued for SUSO 3 transaction	7,761	—	—	220	6	—	7,987
Issued under the DRIP	73	—	—	—	—	—	73
Issued under equity offering	4,894	—	—	—	—	—	4,894
Redeemed	(127)	—	—	—	(11)	—	(138)
Repurchased under NCIB	(1,094)	—	—	—	—	—	(1,094)
Exchanges	271	(132)	—	—	(96)	(43)	—
Balance, September 30, 2015	28,653	396	358	220	1,779	547	31,977
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
<b>Class U units equivalent</b>	<b>28,653</b>	<b>400</b>	<b>378</b>	<b>220</b>	<b>1,779</b>	<b>547</b>	<b>31,977</b>

<sup>(1)</sup> "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	790	—	790
Issued under rights offering	36,388	—	36,388
Redeemed	—	(52)	(52)
Exchanges	313	(313)	—
Change in fair value	18,355	1,370	19,725
<b>Balance, September 30, 2016</b>	<b>\$ 361,772</b>	<b>\$ 27,602</b>	<b>\$ 389,374</b>

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	REIT units	Exchangeable units of subsidiaries	Total
Balance, December 31, 2014	\$ 185,499	\$ 25,764	\$ 211,263
Issued for SUSO 3 transaction	82,063	2,382	84,445
Issued under the DRIP	735	—	735
Issued under equity offering	47,514	—	47,514
Redeemed	(1,344)	(114)	(1,458)
Repurchased under NCIB	(11,770)	—	(11,770)
Exchanges	1,492	(1,492)	—
Change in fair value	(85)	(235)	(320)
<b>Balance, September 30, 2015</b>	<b>\$ 304,104</b>	<b>\$ 26,305</b>	<b>\$ 330,409</b>

For the nine month period ended September 30, 2016, the REIT declared distributions of \$18.6 million (September 30, 2015 – \$14.0 million) on REIT units and \$1.5 million (September 30, 2015 – \$1.4 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.

#### *Weighted average class U units outstanding*

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Weighted average class U units outstanding	32,830	29,366	31,256	24,140
Impact of class A	296	403	377	464
Impact of class I	340	378	352	378
Impact of exchangeable units of subsidiaries	1,967	2,087	1,977	2,017
DUP units	36	19	32	14
<b>Total</b>	<b>35,469</b>	<b>32,253</b>	<b>33,994</b>	<b>27,013</b>

## 15. Other expenses

Other expenses are comprised of the following:

	Note	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
Asset management and incentive fees	24	\$ 956	\$ 915	\$ 3,209	\$ 2,321
Professional fees and other		596	980	1,761	2,005
Franchise and business taxes		170	88	830	355
<b>Total</b>		<b>\$ 1,722</b>	<b>\$ 1,983</b>	<b>\$ 5,800</b>	<b>\$ 4,681</b>



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#### 16. Interest expense and other financing costs

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	2016	2015	2016	2015
Interest income on investments		\$ (14)	\$ (4)	\$ (42)	\$ (9)
Interest income on notes receivable	24	(154)	—	(458)	—
Interest on debt and finance charges	13	4,617	3,990	13,528	10,015
Amortization of finance charges	13	279	252	812	642
Amortization of mark-to-market premium	13	(188)	(189)	(660)	(568)
Interest income on TIF notes receivable		(21)	(59)	(148)	(176)
Interest expense on TIF notes payable		60	53	187	177
Deferred gain on TIF notes receivable		(22)	(22)	(66)	(66)
Change in fair value of interest rate caps		—	—	—	2
<b>Total</b>		<b>\$ 4,557</b>	<b>\$ 4,021</b>	<b>\$ 13,153</b>	<b>\$ 10,017</b>

#### 17. Transaction costs

Transaction costs are comprised of the following:

		Three months ended September 30,		Nine months ended September 30,	
	Note	2016	2015	2016	2015
Business combinations		\$ —	\$ 214	\$ —	\$ 1,217
Property dispositions	8	661	—	1,030	—
<b>Total</b>		<b>\$ 661</b>	<b>\$ 214</b>	<b>\$ 1,030</b>	<b>\$ 1,217</b>

#### 18. 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.

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**19. Unit expense**

Unit expense is comprised of the following:

	Note	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
REIT units distributions	14	\$ 6,495	\$ 5,585	\$ 18,607	\$ 14,018
Exchangeable units of subsidiaries distributions	14	495	485	1,478	1,417
Change in fair value of REIT units	14	13,278	(2,922)	18,355	(85)
Change in fair value of exchangeable units of subsidiaries	14	1,013	(235)	1,370	(235)
<b>Total</b>		<b>\$ 21,281</b>	<b>\$ 2,913</b>	<b>\$ 39,810</b>	<b>\$ 15,115</b>

**20. 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:

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash	\$ 16,070	\$ 16,070	\$ 11,855	\$ 11,855
Deposits on investment properties	1,250	1,250	—	—
Accounts receivable	6,206	6,206	7,344	7,344
TIF notes receivable	3,553	4,640	3,882	4,922
Funds held in escrow	16,272	16,272	2,233	2,233
Notes receivable	8,230	8,230	7,772	7,772
<b>Total financial assets</b>	<b>\$ 51,581</b>	<b>\$ 52,668</b>	<b>\$ 33,086</b>	<b>\$ 34,126</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 12,552	\$ 12,552	\$ 9,299	\$ 9,299
Distributions payable	2,392	2,392	2,065	2,065
Term loan	289,958	292,500	223,108	225,000
Revolver	145,741	146,955	198,820	199,102
Mortgages	150,074	151,916	155,352	157,370
TIF notes payable	3,440	3,525	3,743	3,840
Other liabilities	1,946	1,946	1,756	1,756
REIT units	361,772	361,772	305,926	305,926
Exchangeable units of subsidiaries	27,602	27,602	26,597	26,597
<b>Total financial liabilities</b>	<b>\$ 995,477</b>	<b>\$ 1,001,160</b>	<b>\$ 926,666</b>	<b>\$ 930,955</b>

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

<b>September 30, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value</b>
<b>Financial assets</b>				
Cash	\$ 16,070	\$ —	\$ —	\$ 16,070
Deposits on investment properties	1,250	—	—	1,250
Accounts receivable	—	6,206	—	6,206
TIF notes receivable	—	—	4,640	4,640
Funds held in escrow	16,272	—	—	16,272
Notes receivable	—	8,230	—	8,230
<b>Total financial assets</b>	<b>\$ 33,592</b>	<b>\$ 14,436</b>	<b>\$ 4,640</b>	<b>\$ 52,668</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ —	\$ 12,552	\$ —	\$ 12,552
Distributions payable	—	2,392	—	2,392
Term loan	—	292,500	—	292,500
Revolver	—	146,955	—	146,955
Mortgages	—	151,916	—	151,916
TIF notes payable	—	3,525	—	3,525
Other liabilities	1,946	—	—	1,946
REIT units	361,772	—	—	361,772
Exchangeable units of subsidiaries	27,602	—	—	27,602
<b>Total financial liabilities</b>	<b>\$ 391,320</b>	<b>\$ 609,840</b>	<b>\$ —</b>	<b>\$ 1,001,160</b>

**21. 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:

	<b>September 30, 2016</b>	December 31, 2015
Debt	\$ 585,773	\$ 577,280
REIT units	361,772	305,926
Exchangeable units of subsidiaries	27,602	26,597
Unitholders' equity	5,123	21,797
<b>Total</b>	<b>\$ 980,270</b>	<b>\$ 931,600</b>

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The Declaration of Trust provides that the REIT is not permitted to exceed financial leverage in excess of 65% (December 31, 2015 – 60%) of gross book value, as defined by the Declaration of Trust, and is calculated as follows:

	<b>September 30, 2016</b>	December 31, 2015
Gross book value	<b>\$ 1,076,668</b>	\$ 1,013,481
Debt	<b>585,773</b>	577,280
TIF payable	<b>3,440</b>	3,743
Leverage ratio <sup>(1)</sup>	<b>54.7%</b>	57.3%

<sup>(1)</sup> 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 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	<b>September 30, 2016</b>	December 31, 2015
Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value	< 65%	<b>57.7%</b>	59.8%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x <sup>(1)</sup>	> 1.50x	<b>3.19</b>	3.29x

<sup>(1)</sup> Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization.

**22. 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 period ended September 30, 2016, one individual tenant accounted for 8.3% of the REIT's base rent.

*ii. Liquidity risk*

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

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

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The REIT's contractual commitments are as follows as of September 30, 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	\$ 12,552	\$ 12,552	\$ —	\$ —	\$ —
Revolver <sup>(1)</sup>	146,955	—	—	146,955	—
Revolver interest payable <sup>(1)</sup>	12,644	3,963	4,614	4,067	—
Term loan <sup>(1)</sup>	292,500	—	—	292,500	—
Term loan interest payable <sup>(1)</sup>	40,647	7,888	18,369	14,390	—
Mortgages	148,585	1,875	5,574	42,278	98,858
Mortgage interest payable	45,066	6,631	12,932	11,441	14,062
TIF notes payable	3,525	398	1,021	2,100	6
TIF notes interest payable	623	162	213	248	—
REIT units	361,772	400	400	400	360,572
Exchangeable units of subsidiaries	27,602	—	—	—	27,602
<b>Total contractual commitments</b>	<b>\$ 1,092,471</b>	<b>\$ 33,869</b>	<b>\$ 43,123</b>	<b>\$ 514,379</b>	<b>\$ 501,100</b>

<sup>(1)</sup> Revolver and term loan interest payable is calculated on \$147.0 million and \$292.5 million (balance outstanding) using an estimated "all in" interest rate of 2.70% 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 3.19% and 3.28%, 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, 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 (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.

**23. 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.

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(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:

	September 30, 2016	December 31, 2015
Not later than one year	\$ 73,599	\$ 72,962
Later than one year but not later than five years	205,578	210,571
Later than five years	121,152	134,962
<b>Total</b>	<b>\$ 400,329</b>	<b>\$ 418,495</b>

**24. 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 to the Manager are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Asset management	\$ 1,079	\$ 915	\$ 3,115	\$ 2,321
Acquisition	110	443	504	834
Incentive	(123)	—	94	—
<b>Total</b>	<b>\$ 1,066</b>	<b>\$ 1,358</b>	<b>\$ 3,713</b>	<b>\$ 3,155</b>

*Trustee fees*

The REIT's key personnel includes Trustees and certain members of the executive team of the REIT. For the nine month period ended September 30, 2016, Trustee fees amounted to \$0.3 million (September 30, 2015 – \$0.2 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. Interest receivable on the loan was \$0.5 million for the nine month period ended September 30, 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 centre.

## SLATE RETAIL REIT

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 25. Subsequent events

- i. On October 13, 2016, the REIT completed the acquisition of Eastpointe Shopping Centre, a grocery-anchored shopping centre located in Morgantown, West Virginia. Eastpointe Shopping Centre was acquired for \$11.6 million and is anchored by Kroger.
- ii. On October 14, 2016, the REIT entered into a binding agreement to acquire Mooresville Town Square, a grocery-anchored shopping centre in Mooresville, North Carolina for a purchase price of \$16.7 million. The property is anchored by Lowes Foods. The acquisition is expected to be completed in the fourth quarter of 2016 subject to customary closing conditions.
- iii. On October 17, 2016 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.
- iv. On October 21, 2016, the REIT entered into a binding agreement to acquire Robson Crossing, a grocery-anchored shopping centre in Atlanta, Georgia for a purchase price of \$11.0 million. The property is anchored by Publix. The acquisition is expected to be completed in the fourth quarter of 2016 subject to customary closing conditions.
- v. On October 27, 2016, the REIT entered into a binding agreement to acquire North Hixson Marketplace, a grocery-anchored shopping centre in Hixson, Tennessee for a purchase price of \$5.3 million. The property is anchored by Food City. The acquisition is expected to be completed in the fourth quarter of 2016 subject to customary closing conditions.
- vi. On October 28, 2016, the REIT entered into a binding agreement to acquire Armstrong Plaza, a grocery-anchored shopping centre in Fountain Inn, South Carolina for a purchase price of \$5.3 million. The property is anchored by Bi-LO. The acquisition is expected to be completed in the fourth quarter of 2016 subject to customary closing conditions.
- vii. On November 2, 2016, the REIT entered into a \$300 million pay-fixed receive-float interest rate swap to hedge interest rate risk from floating rate debt. The interest rate swap has a fixed rate of 1.10% and a maturity of April 2021.