Consolidated financial statements of

Slate Retail REIT

For the years ended December 31, 2014 and 2013

Slate Retail REIT
Consolidated Financial Statements
December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of
Slate Retail REIT

We have audited the accompanying consolidated financial statements of Slate Retail REIT, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Slate Retail REIT as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 19, 2015

SLATE RETAIL REIT
Consolidated statements of financial position
Expressed in thousands of United States dollars

	Note	**December 31, 2014**	**December 31, 2013** (1)
ASSETS			
Current assets			
Cash		**$13,174**	$10,962
Deposits on investment properties		**500**	540
Prepaids		**2,065**	695
Accounts receivable	*9*	**4,539**	1,230
		20,278	13,427
Non-current assets			
Investment properties	*10*	**622,295**	177,050
Interest rate caps		**2**	81
TIF notes receivable	*14*	**4,078**	—
Funds held in escrow		**1,513**	—
		627,888	177,131
Total assets		**$648,166**	$190,558
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**$5,337**	$1,771
Distributions payable		**1,276**	1,480
Current portion of debt	*13*	**1,074**	—
		7,687	3,251
Non-current liabilities			
Debt	*13*	**364,464**	104,526
TIF notes payable	*14*	**4,022**	—
Other non-current liabilities		**1,179**	437
Deferred income taxes	*15*	**38,219**	5,757
REIT units	*12*	**185,499**	75,944
Exchangeable units of subsidiaries	*12*	**25,764**	—
		619,147	186,664
Unitholders' equity		**$21,332**	$643
Total liabilities and unitholders' equity		**$648,166**	$190,558

(1) Comparative amounts relate solely to Slate U.S. Opportunity (No. 2) Realty Trust. See note 5.

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

SLATE RETAIL REIT
Consolidated statements of comprehensive income
Expressed in thousands of United States dollars

	Note	Year ended December 31, 2014 [1]	2013 [2] [3]
Net property income			
Rental revenue		**$41,443**	$12,569
Property operating expenses		**(9,715)**	(2,952)
Net property income		**31,728**	9,617
Other income (expenses)			
General and administrative	*7*	**(5,435)**	(1,924)
Interest and other financing	*11*	**(4,931)**	(12,441)
Property acquisition costs		**(3,027)**	(1,954)
Fair value change of investment properties	*10*	**39,682**	13,487
Impairment of goodwill	*6*	**(14,987)**	—
Net income before taxes		**$43,030**	$6,785
Income taxes			
Current		**—**	—
Deferred	*15*	**(17,475)**	(6,142)
Net income and comprehensive income		**$25,555**	$643

Allocated to:		
Non-controlling interest	**$2,799**	$643
Unitholders	**22,756**	—
	$25,555	$643

[1] The year ended December 31, 2014 relate to the full period of earnings of Slate U.S. Opportunity (No. 2) Realty Trust and includes the acquisition of Slate U.S. Opportunity (No. 1) Realty Trust and the U.S. Grocery Anchored Retail portfolio on April 15, 2014. See note 5.
[2] Comparative amounts relate solely to Slate U.S. Opportunity (No.2) Realty Trust.
[3] The REIT has retrospectively applied IFRIC 21, *Levies*. See note 3(xi).

SLATE RETAIL REIT

Consolidated statements of changes in unitholders' equity

Expressed in thousands of United States dollars

	Note	Non-controlling interest	Capital reserve	Unitholders' equity	Total
Balance, December 31, 2013		$643	$—	$—	$643
Net income and comprehensive income		2,799	—	22,756	25,555
Exchange of general partnership interest	*12*	(3,442)	(1,424)	—	(4,866)
Balance, December 31, 2014		$—	($1,424)	$22,756	$21,332

	Non-controlling interest	Capital reserve	Unitholders' equity	Total
Balance, December 31, 2012	$—	$—	$—	$—
Net income and comprehensive income	643	—	—	643
Balance, December 31, 2013 (1)	$643	$—	$—	$643

(1) Comparative amounts relate solely to SUSO 2.

Expressed in thousands of United States dollars

	Note	Year ended December 31, 2014	2013 [1]
Cash provided by (used in)			
OPERATING ACTIVITIES			
Net income and comprehensive income		**$25,555**	$643
Deferred income tax expense	*15*	**17,475**	6,142
Straight-line rent	*10*	**(705)**	(358)
Interest and other financing charges		**4,931**	12,494
Cash interest paid		**(7,789)**	(1,647)
Change in fair value of investment properties	*10*	**(39,682)**	(13,487)
Impairment of goodwill	*6*	**14,987**	—
IFRIC 21 adjustment		**(2,376)**	(1,108)
Changes in non-cash working capital items	*21*	**(2,587)**	40
		9,809	2,719
INVESTING ACTIVITIES			
Acquisitions (net of cash acquired)	*6*	**(158,154)**	(132,567)
Change in funds held in escrow		**(841)**	—
Premium paid on interest rate cap		**—**	(366)
Deposits on investment properties		**40**	(540)
Capital costs	*10*	**(1,306)**	(615)
Leasing costs	*10*	**(382)**	(565)
		(160,643)	(134,653)
FINANCING ACTIVITIES			
Term loan facility advances	*13*	**147,349**	104,191
Debt (including transaction costs)		**315,467**	—
Repayment of debt		**(342,812)**	—
Mortgage repayments		**(399)**	—
Redemption of REIT units		**(332)**	—
REIT unit distributions (net of DRIP units issued)	*11*	**(8,004)**	(1,290)
Exchangeable units distribution	*11*	**(1,154)**	—
Issuance of REIT Units		**42,931**	(6)
		153,046	102,895
Increase (decrease) in cash		**2,212**	(29,039)
Cash, beginning of year		**10,962**	40,001
Cash, end of year		**$13,174**	$10,962

[1] Comparative amounts relate solely to SUSO 2.

1. Description of the REIT and operations

Slate Retail REIT (the "REIT") (formerly known as, Slate U.S. Opportunity (No. 1) Realty Trust ("SUSO 1")) 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 December 31, 2014, the properties of the REIT (the "Properties") consisted of a portfolio of 41 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/SRT.UN. The principal, registered and head office of the REIT is 200 Front Street West, Suite 2400, Toronto, ON, M5V 3K2.

The objectives of the REIT are to: (i) provide Unitholders of the REIT (collectively, "REIT Unitholders" and individually a "REIT Unitholder") with stable cash distributions from a portfolio of diversified revenue-producing commercial real estate properties in the United States with a focus on anchored retail properties; (ii) enhance the value of the REIT's assets and maximize long-term REIT 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 accretive acquisitions.

2. Basis of preparation

i. Statement of compliance

These consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS").

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issue on March 19, 2015.

iii. Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis 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, accordingly, these consolidated financial statements have been prepared on a going concern basis.

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. Significant accounting policies

The consolidated financial statements have been prepared in accordance with the significant accounting policies described below.

i. Basis of consolidation

The consolidated financial statements include the accounts of the REIT and the other entities that the REIT controls in accordance with IFRS 10, *Consolidated Financial Statements.* Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee. All intercompany transactions and balances have been eliminated on consolidation.

ii. Investment properties

The REIT accounts for its investment properties in accordance with IAS 40, *Investment Property* ("IAS 40"). For acquired investment properties that meet the definition of a business, the acquisition is accounted for as a business combination. Acquisitions of investment properties that do not meet the definition of a business are initially measured at cost including directly attributable expenses. Subsequent to acquisition, investment properties are carried at fair value, which is determined based on available market evidence at the statement of financial position date including, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases less future cash outflows in respect of capital expenditures. Gains and losses arising from changes in fair value are recognized in net income in the period of change.

The carrying value of investment properties includes the impact of straight-line rental revenue, tenant inducements and deferred leasing costs since these amounts are incorporated in the determination of the fair value of income-producing properties.

When an investment property is disposed of, the gain or loss is determined as the difference between the net disposal proceeds and the carrying amount of the property and is recognized in net income in the period of disposal.

iii. Business combinations

The REIT accounts for investment property acquisitions as a business combination if the particular assets and set of activities acquired can be operated and managed as a business in its current state. The REIT applies the acquisition method to account for business combinations. The consideration transferred for a business combination is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the REIT. The total consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The REIT recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

Any contingent consideration is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration is recognized as a liability in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") primarily in net income or, in certain circumstances, as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the identifiable net assets acquired. If the consideration is lower than the fair value of the net assets acquired, the difference is recognized in net income.

iv. Revenue recognition

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the REIT is required to make additions to the property in the form of tenant improvements that enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received.

v. Expenses

Property expenses and general and administrative expenses are recognized in income in the period in which they are incurred.

vi. Other comprehensive income

Comprehensive income consists of net income and other comprehensive income ("OCI"). OCI represents changes in an enterprise's equity during a period arising from transactions and other events with non-owner sources.

vii. Income taxes

Subsidiaries of the REIT, Slate Retail Investment L.P. ("Investment LP") and GAR (1B) Limited Partnership ("GAR B"), that hold the REIT's investments each made an election pursuant to the United States Internal Revenue Code of 1986, as amended, to be classified as corporations for U.S. federal income tax purposes. Consequently, Investment LP and GAR B are each considered a "foreign corporation" for U.S. federal income tax purposes. The REIT measures deferred tax liabilities of these subsidiaries, by applying the appropriate tax rate to temporary differences between the carrying amounts of assets and liabilities, and their respective tax basis. The appropriate tax rate is determined by reference to the rates that are expected to apply to the year and the jurisdiction in which the assets are expected to be realized or the liabilities settled. Deferred tax assets are recorded for all deductible temporary differences, carry forwards of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. For the determination of deferred tax assets and liabilities where investment property is measured using the fair value model, the presumption is that the carrying amount of an investment property is recovered through sale, as opposed to presuming that the economic benefits of the investment property will be substantially consumed through use over time. The REIT qualifies as a "mutual fund trust" under the Income Tax Act (Canada) and plans to distribute or designate all taxable earnings to Unitholders and, under current legislation, the obligation to pay tax rests with each Unitholder. Accordingly, no current or deferred tax provision is recognized on the REIT's income at the REIT level in addition to deferred tax amounts recorded in respect of Investment LP and GAR B on consolidation.

viii. Slate Retail Exchangeable Units and GAR B Exchangeable Units

The Slate Retail Exchangeable Units (as defined in Note 4) have been issued from a subsidiary of the REIT and are redeemable for cash or Class U Units (as defined in Note 4) of the REIT at the option of the REIT and therefore are classified as financial liabilities under IAS 32 *Financial Instruments: Presentation ("*IAS 32*")*. The GAR B Exchangeable Units (as defined in Note 4) have also been issued from a subsidiary of the REIT and are redeemable for Class U Units at the option of the holder and therefore, are classified as financial liabilities under IAS 32.

The Slate Retail Exchangeable Units and the GAR B Exchangeable Units are designated as FVTPL (as defined below) financial liabilities and are measured at fair value at each reporting period with any changes in fair value recognized in net and comprehensive income. The distributions paid on the Slate Retail Exchangeable Units and the GAR B Exchangeable Units are recorded in interest expense and other financing charges in net and comprehensive income in the period in which they become payable.

ix. REIT Units

The REIT has class A units, class I units and class U units issued and outstanding (collectively, the "REIT Units"). As an open-ended investment trust, Unitholders of each class of units of the REIT are able to require the REIT to redeem at any time or from time to time at the demand of the Unitholder all or any part of the REIT Units held by the Unitholder in an amount equal to redemption price, as specified by the REIT's Declaration of Trust. This redemption is to be provided in cash, subject to certain limitations. If a redemption is not satisfied in cash, the redemption price is to be paid by notes of the REIT or property of the REIT. Accordingly, as (i) the units of the REIT contain a contractual agreement to deliver cash or another financial liability to the Unitholders of the REIT and (ii) each class of units do not have identical features, the REIT Units have been classified as a liability and measured at fair value and distributions to Unitholders are presented as finance expenses and recognized when declared by the Board of Trustees. Units are presented as a separate component in the statement of financial position. Offering costs are expensed as incurred in the consolidated statements of comprehensive income.

x. Financial instruments

Financial instruments are classified as one of the following: (i) held-to-maturity, (ii) loans and receivables, (iii) fair value through profit or loss ("FVTPL"), (iv) available-for-sale, or (v) other financial liabilities. Financial assets and liabilities classified as FVTPL are measured at fair value with gains and losses recognized in the consolidated statements of comprehensive income. Financial instruments classified as held-to-maturity, loans and receivables or other financial liabilities are measured at amortized cost, using the effective interest method. Available-for-sale financial instruments are measured at fair value and any unrealized gains and losses will be recognized in other comprehensive income.

The REIT has made the following classifications:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
TIF notes receivable	Loans and receivables
Funds held is escrow	Loans and receivables
Interest rate caps	FVTPL
Exchangeable units of subsidiaries	FVTPL
REIT units	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities
Distributions payable	Other financial liabilities
TIF notes payable	Other financial liabilities
Debt	Other financial liabilities

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs include interest, amortization of discounts or premiums relating to borrowings, fees and commissions paid to agents, brokers and advisers and transfer taxes and duties that are incurred in connection with the arrangement of borrowings.

xi. *Fair Values*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the REIT takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such basis, unless otherwise noted.

Except as noted, the carrying value of the REIT 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. Fair value measurements recognized in the balance sheet accounts are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

Level 1: Quoted prices in active markets for identical assets or liabilities that the REIT can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 which are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

xii. *Deferred unit incentive plan*

The REIT has a deferred unit incentive plan (the “Deferred Unit Plan”) whereby Trustees of the REIT may elect to receive all or a portion of their Trustee fees in the form of deferred units (“Deferred Units”) that vest immediately upon grant. The Deferred Units are equivalent in value to REIT Units and accumulate additional Deferred Units at the same rate that distributions are paid on REIT Units in relation to the Market Value (as defined by the Deferred Unit Plan) of REIT Units. Deferred Units may be redeemed by a participant for a period of two years after the participant ceases to be a Trustee of the REIT in whole or in part for cash or REIT Units. The value of the Deferred Units when converted to cash will be equivalent to the Market Value of REIT Units on the date of the redemption request. The REIT measures Deferred Units as a liability at their fair value which is equivalent to the fair value of REIT Units. Changes in the measurement of Deferred Units is recorded as a gain or loss and recorded in other comprehensive income.

xiii. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions the REIT may undertake in the future, actual results may differ from these estimates.

(i) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements is discussed below:

Business combinations

The REIT acquires individual real estate properties. At the time of acquisition, the REIT considers whether or not the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g. maintenance, cleaning, security, bookkeeping, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill is recognized.

Lease contracts

The REIT has entered into property leases on its investment property portfolio. The REIT makes judgments in determining whether certain leases, in particular those leases with long contractual terms, are operating or finance leases.

Classification of Trust Units and REIT Units

The REIT has Trust Units and REIT Units. In determining whether these should be classified as liabilities or equity, management has assessed whether the Trust Units and REIT Units contain a contractual agreement to deliver cash or another financial asset to another entity, whether the units are puttable, and whether the criteria in IAS 32 Financial Instruments: Presentation which permit classification of a puttable instrument as equity have been satisfied.

(ii) Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Estimates that have the most significant impact on the consolidated financial statements are the following:

Valuation of investment properties

The fair value of investment properties is determined by management, and from time to time in conjunction with independent real estate valuation experts using recognized valuation techniques. The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisers, in their determination of the fair value of the investment properties:

The Income Approach: This approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

The Direct Comparison Approach: This approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

xiv. New and future accounting policies

In these consolidated financial statements the REIT has applied the accounting interpretation described below:

IFRIC 21, *Levies*

The REIT has retrospectively adopted IFRIC 21, *Levies* ("IFRIC 21"), in its consolidated financial statements for the period beginning January 1, 2013. The interpretation provides guidance on when to recognize a liability for levies that are accounted for in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and those where the timing and amount of the levy are certain. Levies are outflows from an entity imposed by a government in accordance with legislation. The REIT has assessed property taxes as being within the scope of IFRIC 21, given that property taxes are non-reciprocal charges imposed by a government, in accordance with legislation, and are based on property value. IFRIC 21 confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. The REIT has determined that the liability to pay property taxes on its properties should be recognized at a point in time, being the start of the fiscal year. This resulted in the REIT recognizing the full property tax liability and expense on its properties as at January 1, 2014 with a retrospective adjustment to January 1, 2013.

The retrospective application of IFRIC 21 resulted in the REIT recording a decrease in operating expenses of $1,108 for the year ended December 31, 2013, and an increase of $1,108 to fair value of investment properties for the year ended December 31, 2013.

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*

In October 2010, the IASB issued 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. This new standard is effective for the REIT's annual consolidated financial statements commencing 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*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). The new standard 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. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, 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.

4. Combination Transaction

On April 15, 2014, the REIT completed the unitholder approved combination transaction (the "Combination Transaction"). Pursuant to the Combination Transaction (i) the REIT acquired all of the assets of Slate U.S. Opportunity (No. 2) Realty Trust ("SUSO 2") in consideration for Class U units of the REIT ("Class U units"), (ii) the REIT effectively acquired, directly and indirectly, all of the assets of U.S. Grocery Anchored Retail (1A), (1B) and (1C) Limited Partnerships ("GAR") in consideration for Class U units of the REIT or securities that are economically equivalent to Class U units of the REIT (subject to certain adjustments) and redeemable for cash or Class U units of the REIT and (iii) the Class U units of the REIT were listed listed on the Toronto Stock Exchange on April 22, 2014 (TSX:SRT.U / SRT.UN).

The following steps occurred in connection with the implementation of the Combination Transaction:

- The SUSO 1 Declaration of Trust was amended to, among other things, change the name of SUSO 1 to Slate Retail REIT and to grant holders of SUSO 1 class A units and SUSO 1 class I units the right to convert all or any portion of their SUSO 1 class A units and SUSO 1 class I units (the "Conversion Rights") into SUSO 1 class U units which were listed on the TSX (the "Class U Units").
- The SUSO 2 Declaration of Trust was amended to, among other things, add a right for SUSO 2 to redeem the SUSO 2 Units by delivering Class U Units to SUSO 2 Unitholders.

- SUSO 1 acquired all of the assets of SUSO 2 in consideration for Class U Units. SUSO 2 redeemed all SUSO 2 Units (except for any units acquired by SUSO 1) by delivering Class U Units to SUSO 2 Unitholders.
- In consideration for their units in GAR, the limited partners of GAR A and GAR C received, at their election, either Class U Units or units of Slate Retail Two L.P. ("Slate Retail"), a subsidiary of the REIT. Approximately, 21.0% of GAR A and GAR C units were provided as consideration by the limited partners of GAR A and GAR C for Class U Units. To satisfy U.S. withholding taxes payable in respect of those GAR A limited partners electing to receive Class U Units as consideration for their units in GAR A, approximately 25 Class U Units were redeemed for cash.
- In consideration for their units in GAR, the limited partners of GAR B received, at their election either Class U Units or exchangeable limited partnership units of GAR B ("GAR B Exchangeable Units"). Each GAR B Exchangeable Unit is redeemable for one Class U Unit. Limited partners of GAR B were also issued one Special Voting Unit for each GAR B Exchangeable Unit held. Approximately 27.4% of the GAR B limited partnership units were provided as consideration by the limited partners of GAR B for Class U Units and accordingly, the REIT holds an interest in GAR B equal to the interest of the GAR B limited partnership units provided as consideration by the limited partners of GAR B for Class U Units. GAR B is accounted for as a consolidated subsidiary by the REIT.
- The indirect holders of the general partner interests of SUSO 1, SUSO 2 and GAR transferred their interests to Slate Retail, a subsidiary of the REIT, in consideration for Class B units of Slate Retail ("Slate Retail Exchangeable Units"), which are redeemable for cash or Class U Units, determined by the REIT. Collectively, the indirect holders of the general partner interests of SUSO 1, SUSO 2 and GAR, received 952 Slate Retail Exchangeable Units.
- SUSO 1, SUSO 2 and GAR have effected a reorganization to rationalize the resulting structure.
- The REIT and Slate Asset Management L.P. entered into an amended and restated management agreement.

SUSO 2 and GAR Unitholders received the following consideration:

- Each SUSO 2 class A unit was redeemed for 0.9812 Class U Units;
- Each SUSO 2 class F unit was redeemed for 1.0123 Class U Units;
- Each SUSO 2 class I unit was redeemed for 1.0335 Class U Units;
- Each SUSO 2 class U unit was redeemed for 0.9793 Class U Units.
- Holders of GAR A or GAR C units received, at their election, either Class U Units or Slate Retail Exchangeable Units. Approximately, 21.0% of GAR A and GAR C units were provided as consideration by the limited partners of GAR A and GAR C for Class U Units; and
- Holders of GAR B units received, at their election, either Class U Units or GAR B Exchangeable Units. Holders of GAR B Exchangeable Units were also issued one Special Voting Unit for each GAR B Exchangeable Unit held. Approximately, 27.4% of GAR B units were provided as consideration by the limited partners of GAR B for Class U Units.
- In aggregate, SUSO 2 Unitholders, as a group, received 7,200 Class U Units.

Unitholders of GAR, as a group, received 445 Class U Units (subsequent to the redemption described above related to U.S. withholding taxes), 590 GAR B Exchangeable Units and 928 Slate Retail Exchangeable Units, which on an exchanged basis are equivalent to 1,963 Class U Units.

5. Presentation of Consolidated Financial Statements as a result of the Combination Transaction

The Combination Transaction has been accounted for as a business combination in accordance with the REIT's policy as described in Note 3(iii). SUSO 2 has been identified as the acquirer for accounting purposes as the Unitholders of SUSO 2 collectively hold a controlling interest in the REIT immediately following the completion of the Combination Transaction.

Accordingly, these consolidated financial statements have been issued under the name of the REIT, the legal acquirer, but reflect a continuation of the business of the accounting acquirer, SUSO 2. As a result, the notes and comparative periods in these consolidated financial statements reflect SUSO 2, with the exception that the presentation of REIT capital has been adjusted retroactively to that of SUSO 1, the legal acquirer.

Expressed in thousands of United States dollars

6. Acquisitions

On April 15, 2014, the closing date of the Combination Transaction, the REIT acquired control of the combined net assets of SUSO 1 and GAR ("Initial Properties").

The identifiable net assets acquired are as follows:

	Combination Transaction
Cash	$6,423
Prepaids	702
Accounts receivables	3,195
Investment properties	219,928
Goodwill	14,987
Funds held in escrow	672
Interest rate caps	2
Accounts payable and accrued liabilities	(5,060)
Tenant deposits	(391)
Assumed debt, including mark-to market adjustment	(121,836)
Deferred income taxes	(14,987)
Net assets acquired	$103,635

The purchase price was satisfied as follows:

	Combination Transaction
Cash	$—
REIT Units	78,044
Slate Retail Exchangeable Units	18,315
GAR B Exchangeable Units	7,276
	$103,635

As identified above, the REIT acquired 100% of the combined net assets of SUSO 1 and GAR. Under IFRS, the allocation of the fair value of consideration exchanged to the net assets acquired gave rise to goodwill of $14,987. The goodwill arises primarily from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in negotiations. The former is based on the difference between the values of the assets and liabilities concerned for accounting purposes and those applying for taxation. The latter is 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 cannot be justified by reference to future cash flows and the ongoing business plan to operate and own the Initial Properties in the foreseeable future. As a result, it has been determined that the goodwill has been impaired and a impairment charge has been recognized in the consolidated financial statements.

Expressed in thousands of United States dollars

The REIT acquired 13 additional investment properties in 2014:

	Purchase Date	Location	Purchase Price
Oak Hill Village	January 7, 2014	Jacksonville, FL	$6,850
North Summit Square	July 24, 2014	Winston-Salem, NC	15,800
East Little Creek	August 25, 2014	Norfolk, VA	9,850
Waterbury Plaza	August 28, 2014	Waterbury, CT	27,150
Wellington Park	September 10, 2014	Cary, NC	15,470
Seminole Oaks	October 10, 2014	Seminole, FL	11,350
Smithfield Shopping Plaza	October 21, 2014	Smithfield, VA	12,319
Forest Plaza	October 23, 2014	Fond du Lac, WI	16,850
Stonefield Square	October 29, 2014	Louisville,, KY	12,462
Oakland Commons	November 5, 2014	Bloomington, IL	8,192
Westminster Plaza	November 14, 2014	Westminster, CO	12,670
Derry Meadows	November 20, 2014	Derry, NH	26,588
Stadium Center	December 4, 2014	Port Huron, MI	5,315
			$180,866

In respect of the acquisitions, the following are the net assets acquired:

Investment properties	$180,866
Accounts receivables	754
Prepaids	591
Accounts payable	(1,023)
Tenant deposits	(297)
Debt	(16,314)
Total cost of acquisitions	$164,577

The cost of the acquisitions was satisfied through $164,577 of cash, which was funded with $15,213 cash on hand and $149,364 of borrowings from the REIT's term loan and revolver.

7. General and administrative

		Year ended December 31,	
	Note	**2014**	2013 (1)
Asset management and service fees	*8*	**$1,660**	$1,082
REIT start up costs		**1,665**	—
Professional fees		**1,941**	842
Other administrative costs		**169**	—
General and administrative expense		**$5,435**	$1,924

(1) Comparative amounts relate solely to SUSO 2.

8. Related parties

Pursuant to the terms of a management agreement dated April 15, 2014 (the “Management Agreement”), Slate Asset Management L.P., a Toronto-based real estate asset management company, (the “Manager”) provides all management services to the REIT. As such, the Manager meets the definition of “key management personnel” as defined in IAS 24, *Related Party Disclosures*. As described in Note 20, the Manager is paid a monthly asset management fee for its services, and is also paid an acquisition fee for properties purchased. Asset management and acquisition fees incurred and payable to the Manager are included in asset management and service fees and acquisition fees, respectively on the consolidated statement of comprehensive income.

Expressed in thousands of United States dollars

Fees paid to the Manager are comprised of the following:

	Year ended December 31,	
	2014	2013(1)
Asset management	**$1,570**	$721
Acquisition fees	**1,381**	1,033
	$2,951	$1,754

(1) Comparative amounts relate solely to SUSO 2.

The fees paid to the Manager during the year ended December 31, 2014 includes the legacy SUSO 2 asset management and service fees and acquisitions fees earned from January 1, 2014 to April 15, 2014. Subsequent to the Combination Transaction, the asset management fee is calculated as described in Note 20. 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.

The REIT's key personnel are comprised of the Trustees and certain members of the executive team of the REIT. From the completion of the Combination Transaction on April 15, 2014, Trustee fees amount to $220.

9. Accounts receivable

The accounts receivable balance is comprised of the following:

	December 31, 2014	December 31, 2013 (1)
Rent receivable	$891	$271
Allowance for doubtful accounts	(168)	(16)
Accrued recovery income	3,317	975
Other receivables	499	—
Accounts receivable	$4,539	$1,230

(1) Comparative amounts relate solely to SUSO 2.

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 in the following year to which they relate.

The following is a reconciliation of the change in allowance for doubtful accounts for the year ended December 31, 2014 and year ended December 31, 2013:

	December 31, 2014	December 31, 2013 (1)
Balance at beginning of the year	$16	$—
Provision for allowance	224	16
Bad debt write-offs	(72)	—
Allowance for doubtful accounts	$168	$16

(1) Comparative amounts relate solely to SUSO 2.

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

Expressed in thousands of United States dollars

The following is an aging analysis of rents receivable past due, net of allowance for doubtful accounts:

	December 31, 2014	December 31, 2013 (1)
Current to 30 days	$409	$211
31 to 60 days	77	29
Greater than 60 days	237	15
	$723	$255

(1) Comparative amounts relate solely to SUSO 2.

10. Investment properties

Investment properties are comprised of income-producing properties.

As at December 31, 2014, the REIT has wholly-owned interests in 41 income-producing properties for which the results of operations of these properties have been included in these consolidated financial statements from the respective dates of acquisition.

The REIT determines the fair value of investment properties based upon either the overall income capitalization rate method or the discounted cash flow method, or in certain circumstances a combination of both methods. Both methods are generally accepted appraisal methodologies. Under the overall income capitalization method, year one income is stabilized and capitalized at a rate appropriate for each investment property. Capitalization rates and estimates of stabilized income are the most significant assumptions in determining fair values under the overall capitalization method. Under the discounted cash flow method, fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other things, in determining the most appropriate assumptions. As at December 31, 2014, all valuations were completed by management of the REIT using the overall income capitalization method.

The market capitalization rates at December 31, 2014 ranged from 6.50% to 8.38%. The estimated fair market value of the REIT's investment properties implies a weighted average capitalization rate of 7.20%. Under the fair value hierarchy, the fair value of the REIT’s investment properties is determined using the methodology described above and using level 3 inputs. The fair value of investment property would change by approximately $21.8 million for a 25 basis point change in capitalization rates, and by approximately $12.4 million for a $0.1 million change in underlying annual net operating income. Generally, an increase in net positive cash flows will result in an increase in the fair value of investment properties and an increase in capitalization rates will result in a decrease in fair value of investment properties.

Under IFRS, the fair values of investment properties are measured individually without consideration to their aggregate value on a portfolio basis. Accordingly, under IFRS, no consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT’s investment properties taken as a whole may differ from that appearing on the REIT’s consolidated statements of financial position.

The change in investment properties for the year is as follows:

December 31, 2012, balance	$28,350
Acquisitions	132,567
Capital costs	615
Leasing costs	565
Straight-line rent receivable	358
Property tax adjustment under IFRIC 21	1,108
Change in fair value	13,487
December 31, 2013, balance	$177,050

Expressed in thousands of United States dollars

December 31, 2013, balance	$177,050
Acquisitions	400,794
Capital costs	1,306
Leasing costs	382
Straight-line rent receivable	705
Property tax adjustment under IFRIC 21	2,376
Change in fair value	39,682
December 30, 2014, balance	$622,295

As discussed in Note 5, the December 31, 2013 balance represents the historical balances solely of SUSO 2. Acquisitions subsequent to December 31, 2013, represent the acquisition of investment properties of SUSO 1 and GAR, the acquisition of Oak Hill Village by SUSO 2, an acquisition completed prior to the Combination Transaction, as well as the acquisitions completed by the REIT during the year.

11. Interest expense and other financing

Interest expense and other financing is comprised of:

		Year ended December 31,	
	Note	**2014**	2013 (1)
Interest on short-term investments		**$9**	$53
Interest on term loan	*13*	**(7,789)**	(1,983)
Amortization of loan costs	*13*	**(3,577)**	—
Amortization of mark to market premium	*13*	**320**	—
Interest on TIF notes receivable	*15*	**213**	—
Interest on TIF notes payable	*15*	**(211)**	—
Deferred gain on TIF notes receivable	*15*	**73**	—
Exchangeable Units of subsidiaries distributions	*12*	**(1,275)**	—
REIT unit distributions	*12*	**(7,883)**	(2,770)
Fair value change of interest rate caps		**(84)**	(285)
Equity offering costs		**(2,499)**	(6)
Change in measurement of REIT Units	*12*	**13,079**	(7,450)
Change in measurement of exchangeable units of subsidiaries	*12*	**4,693**	—
Total		**($4,931)**	($12,441)

(1) Comparative amounts relate solely to SUSO 2.

12. REIT Units and exchangeable units of subsidiaries

As at December 31, 2014 the REIT has the following units:

	Class U	Class A	Class I
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	16,875	528	358

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.

Expressed in thousands of United States dollars

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 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.

On October 14, 2014, the REIT completed a public offering of 4,260 Class U Units at a price of C$11.75 per Unit (U.S.$10.72 per Unit) for gross proceeds to the REIT of approximately C$50 million (or U.S.$45 million). The costs related to the offering totalled $2,497 and were expensed as incurred. The REIT Units are designated as a financial instrument measured at FVTPL. As such, transaction costs are expensed rather than charged directly to equity.

The REIT made available a Distribution Reinvestment Plan ("DRIP") that allows class A, class I and class U unitholders to elect to have their cash distributions used to purchase Class U Units and will receive a bonus distribution of units in value equal to 3% of each distribution. The REIT may initially issue up to 620 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 is 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.

The following is a summary of REIT Units and Exchangeable Units of subsidiaries outstanding during the year and their Class U equivalent amounts if converted basis:

	Units of REIT			Exchangeable units of subsidiaries		Total (Class U equivalent)
Class / Type	U	A	I	SR (1)	GAR B	
Balance, December 31, 2013	1,298	3,702	703	—	—	5,771
Issued for Combination Transaction	7,759	—	—	1,880	590	10,229
Issuance of units under the DRIP	20	—	—	—	—	20
Units issued	4,260	—	—	—	—	4,260
Units redeemed	(25)	—	—	—	—	(25)
Exchanges	3,563	(3,174)	(345)	—	—	—
Balance, December 31, 2014	16,875	528	358	1,880	590	20,255
Conversion ratio to Class U Units	1.0000	1.0078	1.0554	1.0000	1.0000	—
Class U Units equivalent	16,875	532	378	1,880	590	20,255

(1) "SR" means Slate Retail Exchangeable Units

If all of the exchangeable units of subsidiaries, class A units of the REIT and class I units of the REIT were redeemed or exchanged for Class U Units, as applicable, there would be in aggregate approximately 20,255 Class U Units outstanding.

Expressed in thousands of United States dollars

The following table shows the change in the carrying amount of exchangeable units of subsidiaries and REIT Units during the year:

	Exchangeable units of subsidiaries	REIT Units	Total
Balance, December 31, 2013	$—	$75,944	$75,944
Issued for Combination Transaction	30,457	78,044	108,501
Issuance of units under the DRIP	—	204	204
Units issued	—	44,718	44,718
Units redeemed	—	(332)	(332)
Change in fair value	(4,693)	(13,079)	(17,772)
Balance, December 31, 2014	$25,764	$185,499	$211,263

The REIT Units and the Exchangeable Units are designated as financial liabilities measured at FVTPL and re-measured at the end of each reporting year by reference to the closing market price of the Class U Units into which they are exchangeable.

For the year ended December 31, 2014, the REIT declared distributions of $7,883 on the REIT Units and $1,275 on the Exchangeable Units which were recorded as other financing charges.

As part of the Combination Transaction, the owner of the general partner interest in a subsidiary of SUSO 2, exchanged its interest in the general partner of the subsidiary of SUSO 2 for 395 Slate Retail Exchangeable Units. The fair value of the Slate Retail Exchangeable Units provided was $4,866. As this transaction represents a transaction between owners, the difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration provided has been attributed to the unitholders of the REIT and recorded in unitholders' equity as a capital reserve.

Trustees of the REIT, who are not members of management may elect to receive their compensation fees in the form of Deferred Units. The Deferred Unit Plan reinvests the distributions accruing to the Deferred Units over the holding period. Deferred Units vest on grant.

13. Debt

On December 18, 2014, the REIT completed two financing arrangements. The first arrangement is a $50 million, 10-year fixed rate mortgage at 3.80%, secured by three of the REIT's existing properties (the "Mortgage"). The second arrangement is a $450 million corporate credit facility comprised of a term loan (the "Term loan") and a revolving credit facility (the "Revolver"), each for $225 million. The Term loan and Revolver were used to retire and replace approximately $240 million of debt drawn on various existing debt drawn on various corporate credit facilities.

The corporate credit facilities replaced by these new financings were (i) a $110 million facility held at December 31, 2013, (ii) an $87 million facility assumed as part of the Combination Transaction from SUSO 1, (iii) a $45 million senior secured term facility, and (iv) a $30 million secured revolving facility. Each of the replaced facilities bore interest at LIBOR plus 300 basis points. As a result of the extinguishment of these facilities the REIT recognized $2,833 in interest and expense and other financing costs, which represented the difference between the carrying amount of the facilities extinguished and the repayment of their outstanding principal amounts. This difference was primarily attributable to unamortized finance costs.

Expressed in thousands of United States dollars

The following is a summary of the debt held by the REIT as at December 31, 2014:

	Maturity	Remaining extension options	Coupon [(1)]	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn
Term loan	Dec. 19, 2018	One 1-year	L+225 bps	N/A	N/A	$225,000	$225,000	$—
Revolver	Dec. 19, 2017	Two 1-year	L+225 bps	N/A	N/A	225,000	44,005	180,995
Mortgage	Jan. 1, 2025	None	3.80%	3	85,137	50,000	50,000	—
GAR mortgage	Apr. 30, 2021	None	5.80%	5	56,764	27,545	27,545	—
Cudahy Centre first mortgage	Apr. 1, 2031	None	5.25%	1	7,870	3,587	3,587	—
Cudahy Centre second mortgage	May. 1, 2016	None	6.00%	1	7,870	200	200	—
Derry Meadows mortgage	Mar. 1, 2021	None	5.75%	1	24,400	14,120	14,120	—
						$545,452	$364,457	$180,995

(1) "L" means the one-month U.S. London Interbank Offering Rate ("LIBOR") and "bps" means basis points.

The following is a summary of the debt held by the REIT as at December 31, 2013[(1)]:

	Maturity	Remaining extension options	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn
Credit facility 2	Apr. 2, 2017	One 1-year	L +300bps	N/A	N/A	$110,000	$106,730	$3,270

(1) Comparative amounts relate solely to SUSO 2.

The following is a summary of the carrying value of the debt held by the REIT as at December 31, 2014:

	Effective rate [(1)]	Principal	Mark-to-market ("MTM") adjustments and costs	Amortization of MTM adjustments and costs [(2)]	Carrying amount	Current	Non-current
Term loan	2.66%	$225,000	($2,554)	$24	$222,470	$—	$222,470
Revolver	2.66%	44,005	—	—	44,005	—	44,005
Mortgage	3.80%	50,000	(984)	4	49,020	—	49,020
GAR mortgage	5.80%	27,545	2,781	(282)	30,044	425	29,619
Cudahy Centre first mortgage	5.25%	3,587	101	(4)	3,684	142	3,542
Cudahy Centre second mortgage	6.00%	200	15	(6)	209	209	—
Derry Meadows mortgage	5.75%	14,120	2,014	(28)	16,106	298	15,808
		$364,457	$1,373	($292)	$365,538	$1,074	$364,464

(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 of the Term loan and Revolver have used 1-month LIBOR of 0.25.
(2) Does not reflect the impact of any available extension options not yet exercised.

The following is a summary of the carrying value of the debt held by the REIT as at December 31, 2013[(1)]:

	Effective rate [(2)]	Principal	Financing Costs	Amortization of costs	Carrying amount	Current	Non-current
Credit facility 2	L+265 bps	$106,730	($2,539)	$335	$104,526	$—	$104,526

(1) Comparative amounts relate solely to SUSO 2.
(2) The effective interest rate Credit facility 2 includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. Credit facility 2 used 1-month LIBOR of 0.19.

14. Tax increment financing

On March 6, 2014, the REIT acquired tax incremental revenue notes issued by the City of St. Paul (the "Phalen City Note") and by the City of Brainerd (the "Brainerd City Notes", and collectively the "TIF notes receivable") in Minnesota, related to the REIT's Phalen and Brainerd properties, respectively. The Phalen City Note and Brainerd City Note 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. The Phalen City Note had an original principal amount of $3,100 and had a current outstanding balance of $3,028 at the time of purchase. The Brainerd City Note had an original principal amount of $2,400 and had a current outstanding balance of $2,288 consisting of $1,290 in principal and $998 in interest at the time of purchase. The outstanding principal of the Brainerd City Note bear interest payable on February 1 and August 1 at a rate of 8% per annum. The outstanding principal of the Phalen City Note bear interest payable on March 1 and September 1 at a rate of 6% per annum. The Brainerd City Note and Phalen City Note receivable matures on February 1, 2029. The effective interest rate of the TIF notes receivable are 2.731% and 3.304%, respectively.

Also, on March 6, 2014, the REIT entered into two separate tax increment financing agreements with a third party (the "TIF notes payable") whereby the REIT borrowed in aggregate $4,297. As at December 31, 2014, the outstanding principal balance is $4,151. The TIF notes payable mature on February 28, 2019 and bears interest at a fixed rate equal to 5.25%. The TIF notes payable require annual blended interest and principal payments of $411. All proceeds from the TIF notes receivable are required to be applied against interest and then the principal of the TIF notes payable.

Transaction costs related to the TIF notes payable in the amount of $155 are amortized over the term to initial maturity based on the effective interest rate method. Included in interest on the TIF notes on the consolidated statement of comprehensive income is amortization of transaction costs of $26.

The REIT acquired the TIF notes receivable for $4,175. However, on acquisition, the REIT estimated the fair value of the TIF notes receivable to be $5,488. Accordingly, the REIT adjusted the measurement amount of the TIF notes receivable to defer the difference between the fair value at acquisition and transaction price of $1,313. The REIT recognizes the difference in income on a straight-line basis over the term of the maturity of the TIF notes receivable.

15. Income taxes

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

Investment LP and GAR B made an election to be classified as a corporation for U.S. federal tax purposes. Investment LP is 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 Slate Retail and GAR US Portfolio LP, as the case may be, 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 38.45%. 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.

A deferred income tax asset or liability arises from temporary differences between the tax and accounting basis of assets and liabilities in Investment LP. At December 31, 2014, the REIT had deferred tax liability of $38,219 primarily related to the increased fair value of the investment properties located in the United States.

16. Capital management

The primary objectives of the REIT's capital management activities is to facilitate the investment in a diversified portfolio of well-located, quality income-producing properties with positive cash flows and to provide quarterly distributions to its unitholders. The REIT is restricted in its use of capital to making investments in real property in the United States. The REIT manages its capital structure and makes adjustments to it, in light of changes to prevailing economic conditions, its results of operations, financing and investing activities. The REIT intends to continue to make distributions if results of operations and cash flows permit in the future.

Expressed in thousands of United States dollars

17. Financial Instruments

The carrying amounts and fair values of the REIT's financial instruments as at December 31, 2014 and December 31, 2013 are presented in the table below:

	December 31, 2014		December 31, 2013 (1)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	$13,174	$13,174	$10,962	$10,962
Accounts receivable	4,539	4,539	1,230	1,230
TIF notes receivable	4,078	5,346	—	—
Funds held in escrow	1,513	1,513	—	—
Financial liabilities				
Accounts payable and accrued liabilities	$5,337	$5,337	$1,771	$1,771
Distributions payable	1,276	1,276	1,480	1,480
Other non-current liabilities	1,179	1,179	437	437
Credit facility 2	—	—	104,526	106,730
Term loan	222,470	225,000	—	—
Revolver	44,005	44,005	—	—
Mortgage	49,020	50,000	—	—
GAR mortgage	30,044	30,044	—	—
Cudahy Centre first mortgage	3,684	3,684	—	—
Cudahy Centre second mortgage	209	209	—	—
Derry Meadows mortgage	16,106	16,106	—	—
REIT units	185,499	185,499	75,944	75,944
Exchangeable units of subsidiaries	25,764	25,764	—	—
TIF notes payable	4,022	4,151	—	—

(1) Comparative amounts relate solely to SUSO 2.

The REIT Unit and Exchangeable Units are fair valued based on the market trading price of REIT Units consistent with Level 1. The interest rate cap is valued using an interest rate swap valuation methodology and inputs consistent with Level 2. All other fair value measurements for non-derivative financial instruments are measured using Level 3 inputs. The fair values of derivative instruments are calculated using quoted rates. When such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments.

Expressed in thousands of United States dollars

The following table presents the fair value hierarchy of financial assets and financial liabilities as at December 31, 2014:

	Level 1	Level 2	Level 3	Fair value
Financial assets				
Cash	$13,174	$—	$—	$13,174
Accounts receivable	—	4,539	—	4,539
TIF notes receivable	—	—	5,346	5,346
Funds held in escrow	1,513	—	—	1,513
Total financial assets	$14,687	$4,539	$5,346	$24,572
Financial liabilities				
Accounts payable and accrued liabilities	$—	$5,337	$—	$5,337
Distributions payable	—	1,276	—	1,276
Term loan	—	225,000	—	225,000
Revolver	—	44,005	—	44,005
Mortgage	—	50,000	—	50,000
GAR mortgage	—	30,044	—	30,044
Cudahy Centre first mortgage	—	3,684	—	3,684
Cudahy Centre second mortgage	—	209	—	209
Derry Meadows mortgage	—	16,106	—	16,106
REIT units	185,499	—	—	185,499
Exchangeable units of subsidiaries	25,764	—	—	25,764
TIF notes payable	—	4,151	—	4,151
Total financial liabilities	$211,263	$379,812	$—	$591,075

During the year the REIT Units were transferred from Level 3 to Level 1 of the fair value hierarchy because of their listing on the TSX and the establishment of an active market for the REIT Units.

18. 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 December 31, 2014, one individual tenant by location accounted for 3.77% of the REIT's rental revenue.

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 that it will have sufficient financial resources available to meet its liabilities as they become due. This includes monitoring of cash, current receivables and payables and non-current liabilities as they become current.

Expressed in thousands of United States dollars

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 may tend to 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, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

The REIT has the following contractual commitments:

	Total contractual cash flow	Less than one year	1-6 years
Accounts payable and accrued liabilities	$5,337	$5,337	$—
Term loan (1)	225,000	—	225,000
Revolver (1)	44,005	—	44,005
Mortgage	50,000	—	50,000
GAR mortgage	27,545	425	27,120
Cudahy Centre first mortgage	3,587	142	3,445
Cudahy Centre second mortgage	200	200	—
Derry Meadows mortgage	14,120	298	13,822
Term loan interest payable (1)	32,789	5,622	27,167
Revolver interest payable (1)	4,291	1,100	3,191
Mortgage interest payable	34,323	4,342	29,981
TIF note payable	4,001	193	3,808
TIF note interest payable	931	218	713
REIT units	185,499	400	185,099
Exchangeable units of subsidiaries	25,764	400	25,364
Total contractual commitments	$657,392	$18,677	$638,715

(1) Term loan and Revolver interest payable is calculated on $225,000 and $44,005 (balance outstanding) using an estimated "all in" interest rate of 2.50% under the "within 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 4.07%. 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 Facility, 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.

iv. Unit price risk

The REIT is exposed to Unit price risk as a result of the issuance of the REIT Units and Exchangeable Units. As described in Note 3, the REIT Units and Exchangeable Units have been classified as liabilities and measured at fair value based on market trading prices. The REIT Units and Exchangeable units negatively impact net income when the Unit price rises and positively impact net income when Unit prices decline. An increase of $1.00 in the underlying price of REIT Units would result in an increase to liabilities and decrease in net income of $17,785. An increase of $1.00 in the underlying price of Exchangeable Units would result in an increase to liabilities and a decrease in net income of $2,470.

v. Currency risk

Currency risk is the risk associated with a fluctuation in the value of the U.S. dollar relative to other foreign currencies. The REIT is exposed to currency risk as certain transactions related to payment of the REIT's expenses are denominated in Canadian dollars.

19. 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 cost and realty tax recoveries. Certain leases have limitations or escalation restrictions on the amount of recoveries or cost reimbursements which they are obligated to pay regardless of the actual costs incurred by the REIT to operate and maintain the properties.

Expressed in thousands of United States dollars

The REIT's existing leases have a weighted average outstanding term of 5.4 years and may include clauses to enable periodic upward revisions in rental rates. The future minimum lease payments from the REIT's non-cancellable operating leases as a lessor are as follows:

	December 31, 2014	December 31, 2013 (1)
Not later than one year	$45,548	$14,392
Later than one year but not later than five years	129,924	43,872
Later than five years	66,498	29,476
	$241,970	$87,740

(1) Comparative amounts relate solely to SUSO 2.

20. Acquisition fee and asset management fee

Pursuant to the terms of the Management Agreement, the Manager agreed to provide certain services in connection with the business of the REIT, including: the structuring of the initial public offering, the REIT, the Investment LP and the Holding LP; 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 the Holding LP with respect to the disposition of the Properties. In return for its service, the Manager receives the following fees:

(a) 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;

(b) An asset management fee equal to 0.4% of the Gross Book Value of the REIT (payable on a quarterly basis);

(c) 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 U.S. $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.

Prior to entering into the Management Agreement on April 15, 2014 the REIT was subject to an agreement with the Manager that required an acquisition fee, on terms similar to as described above, and an asset management fee and service fee equal to 1.0% and 0.5%, respectively, of the gross subscription proceeds from the initial public offering of SUSO 2.

21. Supplemental cash flow information

The net change in non-cash operating assets and liabilities consists of the following:

	December 31, 2014	December 31, 2013 (1)
Prepaids	**($77)**	($485)
Accounts receivable	**640**	(1,148)
Accounts payable and accrued liabilities	**(3,204)**	1,383
Other non-current liabilities	**54**	290
	($2,587)	$40

(1) Comparative amounts relate solely to SUSO 2.

22. Subsequent events

i. On January 12, 2015, the REIT completed the acquisition of Glidden Crossing, a grocery-anchored shopping centre located in DeKalb, Illinois ("IL"). Glidden Crossing was acquired for $16.6 million and is anchored by a Schnucks supermarket.

ii. On January 22, 2015, the REIT completed the acquisition of Ocean Plaza, a grocery-anchored shopping centre located in Myrtle Beach, South Carolina ("SC"). Ocean Plaza was acquired for $5.5 million and is anchored by Kroger.

iii. On January 12, 2015, the Cudahy Centre second mortgage of $200 was repaid.

iv. On February 23, 2014, the REIT entered into a binding agreement to acquire Roxborough Marketplace, a grocery-anchored shopping centre in Littleton, Colorado ("CO") for a purchase price of $15.62 million. The property is anchored by Safeway Inc. The acquisition is expected to be completed in the first quarter 2015 subject to customary closing conditions.

v. On February 25, 2015, the REIT announced it has entered into an agreement to sell to a syndicate of underwriters (the "Underwriters"), on a bought deal basis, 3,850,000 Class U Units at a price of C$13.00 per Unit (U.S.$10.47 per Unit) for gross proceeds to the REIT of approximately C$50 million. The REIT has also granted the Underwriters an overallotment option to purchase up to an additional 385,000 Class U Units on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of the offering. Concurrently, the REIT entered into an agreement to sell to certain investors 769,230 Class U Units at a price of C$13.00 per Unit for gross proceeds of C$10 million (the "Private Placement"). The Manager of the REIT, will subscribe for C$5 million of the Private Placement representing 10% of the aggregate gross proceeds of the public offering and Private Placement.

vi. On February 25, 2015, the REIT entered into an agreement to acquire the assets of Slate U.S. Opportunity (No. 3) Realty Trust ("SUSO 3"). The REIT will issue Units at a price of C$13.00 per Unit (U.S.$10.47 per Unit) to unitholders of SUSO 3 as consideration for the acquisition. The acquisition is subject to the completion of due diligence by each of SUSO 3 and the REIT, including receipt by the REIT of a formal valuation in respect of SUSO 3, approval of the unitholders of each of the REIT and SUSO 3, approval of the Toronto Stock Exchange, and other customary closing conditions. Subject to satisfaction of the conditions to closing, it is anticipated that the transaction will be completed in the second quarter of 2015.

vii. On March 9, 2015, the REIT entered into a binding agreement to acquire City Centre Plaza, a grocery-anchored shopping centre in Westland, Michigan ("MI") for a purchase price of $12.45 million. The property is anchored by Kroger. The acquisition is expected to be completed in the second quarter of 2015 subject to customary closing conditions.

viii. On each day of January 15, 2015, February 17, 2015 and March 17, 2015, the REIT declared monthly distributions of $0.063 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.