Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three month period ended March 31, 2023

(Unaudited)

Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

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

	Note	March 31, 2023	December 31, 2022
ASSETS			
Non-current assets			
Properties	4	$ 2,053,621	$ 2,087,432
Interest rate swaps	9	11,770	16,416
Joint venture investments	5	109,133	109,456
Other assets	6	1,036	1,189
		$ 2,175,560	**$ 2,214,493**
Current assets			
Other assets	6	3,493	5,175
Interest rate swaps	9	1,540	2,315
Prepaids		4,865	4,376
Accounts receivable	7	24,989	23,649
Cash		20,684	20,392
		$ 55,571	**$ 55,907**
Total assets		**$ 2,231,131**	**$ 2,270,400**
LIABILITIES			
Non-current liabilities			
Debt	8	$ 969,785	$ 1,039,621
Other liabilities		4,945	4,836
Exchangeable units of subsidiaries	10	9,180	10,082
Deferred income taxes	11	144,096	150,108
		$ 1,128,006	**$ 1,204,647**
Current liabilities			
Debt	8	164,776	91,866
Accounts payable and accrued liabilities	12	40,713	38,373
Distributions payable	17	4,394	4,412
		$ 209,883	**$ 134,651**
Total liabilities		**$ 1,337,889**	**$ 1,339,298**
EQUITY			
Unitholders' equity		$ 709,959	$ 740,510
Non-controlling interest	13	183,283	190,592
Total equity		**$ 893,242**	**$ 931,102**
Total liabilities and equity		**$ 2,231,131**	**$ 2,270,400**

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

Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME

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

	Note	Three months ended March 31, 2023		Three months ended March 31, 2022	
Rental revenue	14	$	50,789	$	38,966
Property operating expenses			(36,917)		(28,590)
General and administrative expenses	15		(3,847)		(3,613)
Interest and finance costs	16		(13,237)		(10,105)
Share of income in joint venture investments	5		1,459		11,324
Change in fair value of properties	4		(17,880)		36,356
Net (loss) income before income taxes and unit expense		**$**	**(19,633)**	**$**	**44,338**
Deferred income tax recovery (expense)	11		4,624		(13,768)
Current income tax expense	11		(724)		(212)
Unit income (expense)	10, 17		902		(2,933)
Net (loss) income		**$**	**(14,831)**	**$**	**27,425**
Net (loss) income attributable to					
Unitholders		$	(12,100)	$	27,109
Non-controlling interest	13		(2,731)		316

Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Three months ended March 31, 2023		Three months ended March 31, 2022	
Net (loss) income		$	(14,831)	$	27,425
Items to be subsequently reclassified to profit or loss					
(Loss) gain on cash flow hedges of interest rate risk, net of tax	9		(1,903)		8,121
Reclassification of cash flow hedges of interest rate risk to (loss) income	9		(2,130)		2,012
Other comprehensive (loss) income			(4,033)		10,133
Comprehensive (loss) income		**$**	**(18,864)**	**$**	**37,558**
Comprehensive (loss) income attributable to					
Unitholders		$	(15,137)	$	37,242
Non-controlling interest	13		(3,727)		316

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

Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

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

	Note	REIT units	Retained earnings	Accumulated other comprehensive income	Capital reserve	Non-controlling interest	Total
December 31, 2022		$ 596,701	$ 133,314	$ 11,919	$ (1,424)	$ 190,592	**$ 931,102**
Net loss and other comprehensive loss		—	(12,100)	(3,037)	—	(3,727)	**(18,864)**
Distributions	10, 13, 17	—	(13,022)	—	—	(3,582)	**(16,604)**
Repurchases, net of costs	10	(2,392)	—	—	—	—	**(2,392)**
March 31, 2023		**$ 594,309**	**$ 108,192**	**$ 8,882**	**$ (1,424)**	**$ 183,283**	**$ 893,242**

	Note	REIT units	Retained earnings	Accumulated other comprehensive loss	Capital reserve	Non-controlling interest	Total
December 31, 2021		$ 576,540	$ 57,137	$ (13,233)	$ (1,424)	$ 4,901	**$ 623,921**
Net income and other comprehensive income		—	27,109	10,133	—	316	**37,558**
Distributions	10, 13, 17	—	(12,706)	—	—	(230)	**(12,936)**
Issuances, net of costs	10	(374)	—	—	—	—	**(374)**
Exchanges	10	2,140	—	—	—	—	**2,140**
March 31, 2022		**$ 578,306**	**$ 71,540**	**$ (3,100)**	**$ (1,424)**	**$ 4,987**	**$ 650,309**

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

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

	Note	Three months ended March 31, 2023	2022
OPERATING ACTIVITIES			
Net (loss) income		$ (14,831)	$ 27,425
Items not affecting cash			
Straight-line rent	4	(118)	126
Change in fair value of properties	4	17,880	(36,356)
IFRIC 21 property tax adjustment	4	20,547	16,439
Deferred income tax expense	11	(4,624)	13,768
Unit (income) expense	17	(902)	2,933
Share of income in joint venture investments	5	(1,459)	(11,324)
Interest and finance costs	16	13,237	10,105
Cash interest paid, net		(12,637)	(9,715)
Changes in working capital items		2,086	6,870
		$ 19,179	**$ 20,271**
INVESTING ACTIVITIES			
Distributions from joint venture investments	5	1,782	1,223
Funds held in escrow	6	593	609
Capital expenditures	4	(1,082)	(1,625)
Leasing costs	4	(684)	(326)
Tenant improvements	4	(807)	(797)
Development and expansion capital	4	(1,925)	(1,994)
		$ (2,123)	**$ (2,910)**
FINANCING ACTIVITIES			
Revolver advances, net of financing costs	8, 23	34,571	15,139
Mortgage advances, net of financing costs	8, 23	55,071	—
Revolver, term loan and mortgage repayments	8, 23	(87,196)	(15,579)
Repurchases of REIT units, net	10	(2,392)	—
Equity offering proceeds, net	10	—	(374)
REIT unit distributions	17	(13,040)	(12,696)
Exchangeable units of subsidiaries distributions	17	(196)	(232)
Distributions to non-controlling interest	13	(3,582)	(230)
		$ (16,764)	**$ (13,972)**
Increase in cash		**292**	**3,389**
Cash, beginning of the period		**20,392**	**14,038**
Cash, end of the period		**$ 20,684**	**$ 17,427**

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

1. DESCRIPTION OF THE REIT AND OPERATIONS

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

The class U units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbols SGR.U and SGR.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 grocery-anchored real estate properties in the U.S.;

ii. enhance the value of the REIT's assets in order to maximize long-term unitholder value through active management; and

iii. expand the asset base of the REIT and increase the REIT's earnings on a per unit basis, including through accretive acquisitions.

2. BASIS OF PREPARATION

i. Statement of compliance

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

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on May 3, 2023.

iii. Basis of measurement

These consolidated financial statements have been prepared on a going concern basis and measured at historical cost except for properties and certain financial instruments, which are measured at fair value.

The application of the going concern basis of preparation assumes that the REIT will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The REIT expects to continue as a going concern for the foreseeable future.

iv. Functional and presentation currency

These consolidated financial statements are presented in U.S. dollars, which is the REIT's functional currency and the functional currency of all of its subsidiaries.

3. MATERIAL ACCOUNTING POLICY INFORMATION

A summary of material accounting policies is included in note 3 of the audited comparative consolidated financial statements of the REIT as at and for the year ended December 31, 2022. These consolidated financial statements follow the same accounting policies and methods of computation as used in the REIT's most recent annual consolidated financial statements.

These consolidated financial statements do not include all the information and disclosures required in the annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the REIT's audited comparative consolidated financial statements as at and for the year ended December 31, 2022.

i. Basis of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries in accordance with IFRS 10, *Consolidated Financial Statements*. Intercompany transactions and balances have been eliminated on consolidation.

A subsidiary is an entity over which the REIT has control. Control exists when the REIT has power over an investee, is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of a subsidiary are changed when necessary to align them with the policies applied by the REIT in these consolidated financial statements.

Changes in the REIT's ownership interests in subsidiaries that do not result in the REIT losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the REIT's interests and any non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the unitholders of the REIT. When the REIT loses control of a subsidiary, for example through sale or partial sale, a gain or loss is recognized and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

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

ii. Joint arrangements

A joint arrangement is a contractual arrangement in which the REIT has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the return of an arrangement. The REIT classifies joint arrangements as either joint operations or joint ventures.

A joint operation is a joint arrangement wherein the parties have rights to the assets and obligations for the liabilities. The REIT's interest in a joint operation is accounted for based on the REIT's interest in those assets, liabilities, revenues, and expenses.

A joint venture is a joint arrangement wherein the parties have rights to the net assets. The REIT's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the REIT's share of net assets of the joint venture since the acquisition date. The consolidated statement of income reflects the REIT's share of the results of operations of the joint venture. Any change in other comprehensive income ("OCI") of the joint venture is presented as part of the REIT's consolidated statement of comprehensive income.

4. PROPERTIES

On March 31, 2023, the REIT owned 117 properties, of which, 103 are in entities consolidated by the REIT. The remaining 14 properties are accounted as joint venture investments (note 5) and not included in the table below. The change in properties is as follows:

		Three months ended March 31,	
	Note	2023	2022
Beginning of the period		$ 2,087,432	$ 1,608,655
Capital expenditures		1,082	1,625
Leasing costs		684	326
Tenant improvements		807	797
Development and expansion capital		1,925	1,994
Straight-line rent		118	(126)
IFRIC 21 property tax adjustment		(20,547)	(16,439)
Change in fair value		(17,880)	36,356
End of the period		**$ 2,053,621**	**$ 1,633,188**

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

	March 31, 2023 [1]	December 31, 2022 [1]
Capitalization rate range	5.38% – 8.50%	5.43% – 8.50%
Weighted average capitalization rate	6.91%	6.80%
Impact on fair value due to a 25 basis point change in capitalization rates	$ 87,091	$ 89,924
Impact on fair value due to a $100,000 change in underlying annual stabilized income	$ 1,443	$ 1,470

[1] Includes the REIT's share of joint venture investments.

Under the fair value hierarchy, the fair value of the REIT's properties is determined primarily using the overall income capitalization method using level 3 inputs. The REIT uses the sales price when a firm contract for the sale of a property exists. The fair value of properties reflects the REIT's best estimates as at March 31, 2023.

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

5. JOINT VENTURE INVESTMENTS

The REIT accounts for its joint venture investments using the equity method. The table below summarizes the REIT's investment in joint ventures:

			March 31, 2023		December 31, 2022	
Portfolio	Anchors	State	Number of properties	Ownership interest	Number of properties	Ownership interest
Tom Thumb Portfolio	Tom Thumb, Walmart, and Raley's	Texas, Florida, and California	10	90% – 95%	10	90% – 95%
Other Grocery Portfolio	Stop & Shop, Price Chopper, Acme Markets, and Strack & Van Til	New York and Indiana	4	85%	4	85%
Other	Kroger	Michigan	1	50%	1	50%

The change in the REIT's joint venture investments are as follows:

				March 31, 2023	December 31, 2022
	Tom Thumb Portfolio	Other Grocery Portfolio	Other	Total	Total
Beginning of the period	$ 59,902	$ 46,146	$ 3,408	$ 109,456	$ 87,304
Distributions, net of contributions	(1,315)	(467)	—	(1,782)	(7,118)
Share of income in joint venture investments	337	1,056	66	1,459	29,270
End of the period	**$ 58,924**	**$ 46,735**	**$ 3,474**	**$ 109,133**	**$ 109,456**

The financial position of the REIT's joint venture investments are as follows:

				March 31, 2023	December 31, 2022
	Tom Thumb Portfolio	Other Grocery Portfolio	Other	Total	Total
Assets					
Property	$ 182,673	$ 154,353	$ 21,200	$ 358,226	$ 359,647
Other non-current assets	—	931	—	931	1,165
Current assets	6,846	4,663	1,499	13,008	11,208
Total assets	**$ 189,519**	**$ 159,947**	**$ 22,699**	**$ 372,165**	**$ 372,020**
Liabilities					
Debt	$ 123,524	$ 101,892	$ 14,824	$ 240,240	$ 240,923
Other non-current liabilities	7	607	32	646	639
Current liabilities	2,801	2,465	894	6,160	5,107
Total liabilities	**$ 126,332**	**$ 104,964**	**$ 15,750**	**$ 247,046**	**$ 246,669**
Net assets at 100%	**$ 63,187**	**$ 54,983**	**$ 6,949**	**$ 125,119**	**$ 123,351**
At the REIT's interest [1]	**$ 58,924**	**$ 46,735**	**$ 3,474**	**$ 109,133**	**$ 109,456**

[1] Excludes non-controlling interests of others.

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

	Tom Thumb Portfolio	Other Grocery Portfolio	Other	Three months ended March 31, 2023	2022
Rental revenue	$ 4,482	$ 4,643	$ 553	$ 9,678	$ 9,275
Property operating expenses	(3,234)	(4,011)	(572)	(7,817)	(7,677)
General and administrative expenses	(180)	(32)	(1)	(213)	(318)
Interest and finance costs	(1,034)	(1,031)	(127)	(2,192)	(1,658)
Change in fair value of financial instruments	—	(235)	—	(235)	986
Change in fair value of properties	308	1,909	280	2,497	12,351
Net income and comprehensive income at 100%	**$ 342**	**$ 1,243**	**$ 133**	**$ 1,718**	**$ 12,959**
At the REIT's interest [1]	**$ 337**	**$ 1,056**	**$ 66**	**$ 1,459**	**$ 11,324**

[1] Excludes the impact of non-controlling interests.

Disposition

On April 12, 2022, the REIT disposed of a non-core outparcel in the Tom Thumb Portfolio at Heritage Heights, in Grapevine, Texas, at a sale price of $0.9 million.

Debt refinancings

On October 1, 2022, the REIT made a drawdown totaling $0.9 million in relation to the Other Grocery Portfolio's existing mortgage bearing interest at 3.75% and matures on October 1, 2026.

On June 13, 2022, the REIT refinanced the mortgage loan in relation to the Other Grocery Portfolio for $46.5 million. The mortgage bears interest at 4.56% and matures on July 1, 2027.

Management fees

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

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

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

6. OTHER ASSETS

Other assets are comprised of the following:

	March 31, 2023	December 31, 2022
Current		
TIF notes receivable	$ 318	$ 396
Funds held in escrow [1]	2,420	3,013
Other [2]	755	1,766
	$ 3,493	**$ 5,175**
Non-current		
TIF notes receivable	$ 863	$ 1,015
Funds held in escrow	25	25
Other [2]	148	149
	$ 1,036	**$ 1,189**
Total	**$ 4,529**	**$ 6,364**

[1] Primarily includes funds held for property tax reserves.
[2] Other primarily includes deposits and transaction costs.

TIF notes receivable are issued by the City of St. Paul and by the City of Brainerd in Minnesota, related to the REIT's Phalen Retail Center 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.

7. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	March 31, 2023	December 31, 2022
Rent receivable	$ 11,368	$ 7,193
Allowance	(1,161)	(1,096)
Accrued recovery income	7,031	9,279
Other receivables	7,751	8,273
Total	**$ 24,989**	**$ 23,649**

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

The change in the allowance is as follows:

	Three months ended March 31,	
	2023	2022
Beginning of the period	$ (1,096)	$ (1,181)
Allowance	(263)	(184)
Bad debt write-off	61	58
Bad debt recovery	137	46
End of the period	**$ (1,161)**	**$ (1,261)**

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

The REIT measures the allowance at an amount equal to lifetime expected losses by taking into account past default experience and considering both current and potential bankruptcy, abandonment by tenants and certain tenant disputes.

The aging analysis of not credit-impaired rent receivable, net of allowance, is as follows:

	March 31, 2023	December 31, 2022
Current to 30 days	$ 5,851	$ 2,226
31 to 60 days	1,019	1,188
61 to 90 days	903	261
Greater than 90 days	2,434	2,422
Total	**$ 10,207**	**$ 6,097**

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

8. DEBT

Debt held by the REIT at March 31, 2023 is as follows:

	Maturity	Remaining extension options	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn [1]
Revolver [1 2]	March 21, 2024	Two six-month	S+170 bps [3 4]	N/A [5]	N/A [5]	$ 300,000	$ 156,175	$ 143,825
Term loan [1]	March 21, 2025	None	S+160 bps [3 4]	N/A [5]	N/A [5]	225,000	225,000	—
Term loan 3 [1]	July 15, 2027	None	S+160 bps [3 4]	N/A [5]	N/A [5]	275,000	275,000	—
Mortgage	December 6, 2024	None	4.03%	11	151,000	103,950	103,950	—
Mortgage	January 1, 2025	None	3.80%	3	90,900	39,819	39,819	—
Mortgage	July 1, 2025	None	4.14%	5	83,300	34,683	34,683	—
Mortgage	August 1, 2025	None	4.43%	1	13,222	7,700	7,700	—
Mortgage	March 18, 2030	None	3.48%	8	152,400	78,414	78,414	—
Mortgage	January 1, 2031	None	5.50%	1	23,700	5,768	5,768	—
Mortgage	May 1, 2031	None	3.75%	19	314,200	162,359	162,359	—
Mortgage	February 1, 2033	None	5.50%	5	100,900	56,000	56,000	—
Total						**$ 1,288,693**	**$ 1,144,868**	**$ 143,825**

Debt held by the REIT at December 31, 2022 is as follows:

	Maturity	Remaining extension options	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn [1]
Revolver [1 2]	March 21, 2024	Two six-month	S+195 bps [3 4]	N/A [5]	N/A [5]	$ 300,000	$ 123,604	$ 176,396
Term loan [1]	March 21, 2025	None	S+185 bps [3 4]	N/A [5]	N/A [5]	225,000	225,000	—
Term loan 2 [1]	February 9, 2023	None	S+185 bps [3 4]	N/A [5]	N/A [5]	83,000	83,000	—
Term loan 3 [1]	July 15, 2027	None	S+185 bps [3 4]	N/A [5]	N/A [5]	275,000	275,000	—
Mortgage	December 6, 2024	None	4.03%	11	152,111	103,950	103,950	—
Mortgage	January 1, 2025	None	3.80%	3	91,400	40,110	40,110	—
Mortgage	July 1, 2025	None	4.14%	5	83,800	35,188	35,188	—
Mortgage	August 1, 2025	None	4.43%	1	13,222	7,700	7,700	—
Mortgage	March 18, 2030	None	3.48%	8	157,900	78,848	78,848	—
Mortgage	January 1, 2031	None	5.50%	1	23,700	5,915	5,915	—
Mortgage	May 1, 2031	None	3.75%	19	318,300	163,179	163,179	—
Total						**$ 1,317,890**	**$ 1,141,494**	**$ 176,396**

[1] Debt available to be drawn is subject to certain covenants as provided in the REIT's lending agreements, including generally, a maximum of 65% consolidated total indebtedness to gross asset value (the "consolidated leverage ratio"). The calculation of the consolidated leverage ratio is provided in note 19. The revolver, term loan, term loan 2, and term loan 3 provide for different spreads over one-month secured overnight financing rate ("SOFR") depending on the consolidated leverage ratio.

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

[3] "S" means SOFR, and "bps" means basis points.

[4] The applicable spread for the revolver where the consolidated leverage ratio is; (i) less than or equal to 45% is 145 bps; (ii) greater than 45% but less than or equal to 50% is 155 bps; (iii) greater than 50% but less than or equal to 55% is 170 bps (iv) greater than 55% but less than or equal to 60% is 195 bps; and (iv) greater than 60% is 215 bps, and includes a 10 bps SOFR index adjustment. The applicable spread for the term loan, term loan 2 and term loan 3 where the consolidated leverage ratio is; (i) less than or equal to 45% is 135 bps; (ii) greater than 45% but less than or equal to 50% is 150 bps; (iii) greater than 50% but less than or equal to 55% is 160 bps (iv) greater than 55% but less than or equal to 60% is 185 bps; and (iv) greater than 60% is 205 bps, and includes a 10 bps SOFR index adjustment.

[5] Debt is secured by a general pledge of equity of certain subsidiaries of the REIT. Collectively, those subsidiaries hold an interest in 50 of the REIT's properties at March 31, 2023 (December 31, 2022 – 55 of the REIT's properties).

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

The carrying value of debt held by the REIT at March 31, 2023 is as follows:

	Effective rate [1]	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments and costs [2]	Carrying amount	Current	Non-current
Revolver	6.38%	$ 156,175	$ (1,829)	$ 1,366	$ 155,712	$ 155,712	$ —
Term loan	6.27%	225,000	(1,377)	813	224,436	—	224,436
Term loan 3	6.27%	275,000	(5,381)	628	270,247	—	270,247
Mortgage	4.03%	103,950	570	(271)	104,249	—	104,249
Mortgage	3.80%	39,819	(1,549)	1,251	39,521	1,194	38,327
Mortgage	4.14%	34,683	(1,079)	889	34,493	2,070	32,423
Mortgage	4.43%	7,700	78	(28)	7,750	—	7,750
Mortgage	3.48%	78,414	(1,562)	434	77,286	1,775	75,511
Mortgage	5.50%	5,768	127	(29)	5,866	606	5,260
Mortgage	3.75%	162,359	(3,133)	696	159,922	3,359	156,563
Mortgage	5.50%	56,000	(929)	8	55,079	60	55,019
Total		**$ 1,144,868**	**$ (16,064)**	**$ 5,757**	**$ 1,134,561**	**$ 164,776**	**$ 969,785**

The carrying value of debt held by the REIT at December 31, 2022 is as follows:

	Effective rate [1]	Principal	MTM adjustments and costs	Accumulated amortization of MTM adjustments and costs [2]	Carrying amount	Current	Non-current
Revolver	5.61%	$ 123,604	$ (1,829)	$ 1,252	$ 123,027	$ —	$ 123,027
Term loan	5.50%	225,000	(1,377)	745	224,368	—	224,368
Term loan 2	5.50%	83,000	(2,285)	2,236	82,951	82,951	—
Term loan 3	5.50%	275,000	(5,381)	360	269,979	—	269,979
Mortgage	4.03%	103,950	570	(227)	104,293	—	104,293
Mortgage	3.80%	40,110	(1,549)	1,215	39,776	1,183	38,593
Mortgage	4.14%	35,188	(1,079)	865	34,974	2,048	32,926
Mortgage	4.43%	7,700	78	(23)	7,755	—	7,755
Mortgage	3.48%	78,848	(1,562)	381	77,667	1,759	75,908
Mortgage	5.50%	5,915	127	(28)	6,014	597	5,417
Mortgage	3.75%	163,179	(3,133)	637	160,683	3,328	157,355
Total		**$ 1,141,494**	**$ (17,420)**	**$ 7,413**	**$ 1,131,487**	**$ 91,866**	**$ 1,039,621**

[1] The effective interest rate for the revolver, term loan, term loan 2 and term loan 3 includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. The revolver, term loan, term loan 2 and term loan 3 effective rates are based on the applicable one-month SOFR rate under borrowings as at March 31, 2023.
[2] Excludes the impact of any available extension options not yet exercised.

During the three month period ended March 31, 2023, the REIT made repayments, net of drawdowns totaling $2.4 million on the REIT's existing revolver and mortgages.

On February 1, 2023, the REIT entered into a $56.0 million mortgage with a 2033 maturity. The net proceeds from the mortgage were used to paydown the REIT's term loan 2.

On July 15, 2022, the REIT entered into a $275.0 million term loan, with a 5-year term bearing interest at 175 basis points over adjusted one-month SOFR, subject to certain covenants. The proceeds from the term loan were used to fund acquisitions during the third quarter of 2022 and reduce borrowings on the revolving credit facility.

On July 15, 2022, the REIT amended the interest rate benchmark from one-month LIBOR to one-month SOFR for its revolving credit facility, term loan and term loan 2 totaling $608.0 million.

9. INTEREST RATE SWAPS

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

The terms of the interest rate swaps are as follows:

					Total/ Weighted average
Pay-fixed rate	2.765%	2.822%	2.400%	2.650%	**2.675%**
Notional amount	$ 175,000	$ 175,000	$ 137,500	$ 137,500	**$ 625,000**
Receive-floating rate	One-month SOFR	One-month SOFR	One-month SOFR	One-month SOFR	
Maturity date	August 22, 2023	August 22, 2025	July 22, 2027 [1]	July 22, 2027	
Remaining term (years)	0.4	2.4	4.3	4.3	**2.7**

[1] The $137.5 million interest rate swap with a pay-fixed rate of 2.4% contains a one-time cancellation option by the REIT'S counterparty on July 24, 2025.

On August 4, 2022, the REIT amended the interest rate benchmark from one-month LIBOR to one-month SOFR for its existing interest rate swaps. There is no economic impact on the financial statements of the REIT as a result of the amendment.

On July 15, 2022, the REIT entered into two pay-fixed, receive-float interest swap contracts to hedge the cash flow risk associated with monthly SOFR based interest payments, totaling $275.0 million.

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

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2022		$ 18,731	$ (4,793)	$ 13,938
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(2,558)	655	(1,903)
Net payments received	16	(2,863)	733	(2,130)
Balance, March 31, 2023		**$ 13,310**	**$ (3,405)**	**$ 9,905**

	Note	Fair value of interest rate swaps	Deferred income recovery	Net impact after tax
Balance, December 31, 2021		$ (18,936)	$ 4,867	$ (14,069)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		10,929	(2,808)	8,121
Net payments made	16	2,708	(696)	2,012
Balance, March 31, 2022		**$ (5,299)**	**$ 1,363**	**$ (3,936)**

10. REIT UNITS AND EXCHANGEABLE UNITS OF SUBSIDIARIES

At March 31, 2023, the REIT has the following REIT units issued and outstanding, in thousands of units:

	Class A	Class I	Class U
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	147	18	59,962

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* ("IAS 32").

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. Subsidiary of the REIT, GAR B exchangeable units are accompanied by an equivalent number of special voting units.

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

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

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

Exchangeable units of subsidiaries

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

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

At the Market Program

On March 30, 2022, the REIT established an at the market equity program ("ATM program") that allows the REIT to issue, at its discretion, up to $150.0 million of class U units of the REIT to the public from time to time through an agent. Distributions pursuant to the ATM program will be made in accordance with the terms of an equity distribution agreement dated March 30, 2022 entered into among the REIT and the agent. The ATM program will be effective until April 28, 2024, unless terminated in accordance with the terms of the equity distribution agreement. For the three month period ended March 31, 2023, no units were issued under the ATM program (three month period ended March 31, 2022 – nil).

Normal course issuer bid

On February 1, 2023, the REIT established a normal course issuer bid ("NCIB") ending January 31, 2024. For the three month period ended March 31, 2023, 0.2 million class U units have been purchased and subsequently canceled under the NCIB for a total cost, including transaction costs, of $2.4 million, at a weighted average price of $9.80 (C$13.35) (three month period ended March 31, 2022 – nil).

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

	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
Class / type	U	A	I	LP1	LP2	GAR B	
Balance, December 31, 2022	60,205	147	18	28	747	132	61,277
Repurchased	(243)	—	—	—	—	—	(243)
Class U units equivalent, March 31, 2023	**59,962**	**147**	**18**	**28**	**747**	**132**	**61,034**

	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
Class / type	U	A	I	SG1	SG2	GAR B	
Balance, December 31, 2021	58,342	148	282	28	920	132	59,852
Exchanged	174	(1)	—	—	(173)	—	—
Class U units equivalent, March 31, 2022	**58,516**	**147**	**282**	**28**	**747**	**132**	**59,852**

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

	Three months ended March 31,	
	2023	2022
Beginning of the period	$ 10,082	$ 12,302
Exchanged	—	(2,140)
Change in fair value	(902)	2,243
End of the period	**$ 9,180**	**$ 12,405**

Deferred unit plans ("DUP")

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

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

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

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

	Three months ended March 31,	
	2023	2022
Beginning of the period	196	208
Reinvested distributions	3	3
Issued	7	7
End of the period	**206**	**218**
Fair value of units [1]	**$ 2,085**	**$ 2,980**

[1] At the respective period end date.

Weighted average class U units outstanding

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

	Three months ended March 31,	
	2023	2022
Class U units	60,188	59,161
Class A units	147	147
Class I units	18	282
Exchangeable units of subsidiaries	907	262
Deferred units	200	212
Total	**61,460**	**60,064**

Class U units outstanding

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

	March 31, 2023	December 31, 2022
Class U units	59,962	60,205
Class A units	147	147
Class I units	18	18
Exchangeable units of subsidiaries	907	907
Deferred units	206	196
Total	**61,240**	**61,473**

11. INCOME TAXES

The REIT qualifies as a mutual fund trust for Canadian income tax purposes. The REIT intends to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for Canadian income tax purposes. Accordingly, no provision for current income taxes payable is required, except for amounts incurred in Investment L.P. and Investment Inc and GAR (1B).

Investment L.P. and GAR B made an election to be classified as corporations for U.S. federal tax purposes. Investment L.P. and GAR B are subject to U.S. federal and state income taxation on their allocable shares in LP1, a subsidiary of the REIT, and any subsidiary limited partnership thereof.

Investment Inc. is a U.S. corporation formed in the state of Delaware. It is subject to federal and state income taxation on its allocable share in Slate Grocery Investment US L.P., a subsidiary of the REIT, and any subsidiaries 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 and corporations, on a net basis taking into account allowable deductions. Investment L.P. and GAR B are each subject to a combined federal and state income tax rate of 25.58% (December 31, 2022 – 25.58%). Investment Inc. is subject to a combined federal and state income tax rate of 25.12% (December 31, 2022 – 25.12%). To the extent U.S. taxes are paid by Investment L.P., GAR B and Investments Inc. such amounts will be creditable against an investor's Canadian federal income tax liability to the extent permitted by Canadian tax law.

Total taxes paid as of March 31, 2023 was $0.6 million (March 31, 2022 – $0.3 million). Branch profit tax is tax imposed on U.S. earned income that is repatriated to Canada.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	March 31, 2023	December 31, 2022
Accounts payable and accrued liabilities	$ 16,066	$ 16,315
Prepaid rent	8,342	6,438
Tenant improvements payable	5,900	5,844
Taxes payable	996	597
Other payables	9,409	9,179
Total	**$ 40,713**	**$ 38,373**

Included in accounts payable 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.

13. NON-CONTROLLING INTEREST

On July 15, 2022, the REIT established a partnership with the North America Essential Fund ("NA Essential Fund"), a vehicle with management services provided by the Manager. The NA Essential Fund has made an initial cash investment of $180 million indirectly into the REIT's assets through the purchase of a 18.37% partnership interest in two of the REIT's subsidiaries, Slate Grocery One L.P. ("LP1") and Slate Grocery Investment US LP ("SGIUSLP"). The non-controlling interest in SGIUSLP includes the proportionate interest in the Tops Portfolio.

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

The REIT measures non-controlling interests in its subsidiaries at cost. The net assets attributable to the non-controlling interest and the REIT are as follows:

	March 31, 2023	December 31, 2022
Assets		
Property	$ 2,052,812	$ 2,086,638
Other non-current assets	121,913	127,038
Current assets	51,309	50,909
Total assets	**$ 2,226,034**	**$ 2,264,585**
Liabilities		
Debt	$ 1,134,562	$ 1,131,486
Other non-current liabilities	20,660	29,161
Current liabilities	35,359	33,078
Total liabilities	**$ 1,190,581**	**$ 1,193,725**
Net assets	**$ 1,035,453**	**$ 1,070,860**
Net assets attributable to		
Unitholders of the REIT	$ 852,170	$ 880,268
Non-controlling interest	$ 183,283	$ 190,592

The income attributable to the non-controlling interest and the REIT is as follows:

	Three months ended March 31, 2023	2022
Rental revenue	$ 50,789	$ 5,143
Property operating expenses	(36,917)	(5,222)
General and administrative expenses	(3,148)	(88)
Interest and finance costs	(13,246)	(1,081)
Change in fair value of property	(17,880)	8,568
Share of income in joint venture investments	1,459	—
Current income tax expense	(149)	(17)
Deferred income tax expense	—	(4,145)
Net (loss) income	**$ (19,092)**	**$ 3,158**
Items to be subsequently reclassified to profit or loss		
Loss on cash flow hedges of interest rate risk, net of tax	(2,558)	—
Reclassification of cash flow hedges of interest rate risk to loss	(2,863)	—
Other comprehensive loss	(5,421)	—
Comprehensive (loss) income	**$ (24,513)**	**$ 3,158**
Comprehensive (loss) income attributable to		
Unitholders of the REIT	$ (20,786)	$ 2,842
Non-controlling interest	$ (3,727)	$ 316

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

14. REVENUE

Revenue is comprised of the following:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Rental revenue	$ 37,127	$ 29,436
Common area maintenance recoveries	4,935	2,939
Property tax and insurance recoveries	7,262	6,019
Percentage rent	440	255
Other revenue [1]	1,025	317
Total	**$ 50,789**	**$ 38,966**

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

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

The REIT's existing leases have a weighted average outstanding term of 4.5 years (December 31, 2022 – 4.5 years) certain of which include clauses to enable periodic increases in rental rates.

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

	March 31, 2023	December 31, 2022
In one year or less	$ 164,541	$ 163,454
In more than one year but not more than five years	414,366	409,959
In more than five years	133,588	167,781
Total [1]	**$ 712,495**	**$ 741,194**

[1] Includes the REIT's share of joint venture investments.

15. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

	Note	Three months ended March 31, 2023	Three months ended March 31, 2022
Asset management fees	21	$ 2,392	$ 1,912
Professional fees and other		1,042	1,274
Bad debt expense		179	194
Franchise and business taxes		234	233
Total		**$ 3,847**	**$ 3,613**

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

16. INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

		Three months ended March 31,	
	Note	2023	2022
Interest on debt and finance charges	8	$ 15,501	$ 7,007
Interest rate swaps, net of settlement	9	(2,863)	2,708
Interest income		(9)	(5)
Amortization of finance charges and MTM premium	8	630	417
Amortization of deferred gain on TIF notes		(22)	(22)
Total		**$ 13,237**	**$ 10,105**

17. UNIT (INCOME) EXPENSE

Unit (income) expense is comprised of the following:

		Three months ended March 31,	
	Note	2023	2022
Exchangeable units of subsidiaries distributions	10	$ 196	$ 221
Change in fair value of DUP		(196)	469
Change in fair value of exchangeable units of subsidiaries	10	(902)	2,243
Total		**$ (902)**	**$ 2,933**

Unit distributions

Pursuant to the Declaration of Trust, the income of the REIT is distributed on dates and in amounts as determined by the board of trustees.

The following table summarizes the REIT's distributions and reconciliation to distributions paid or settled:

		Three months ended March 31,	
	Note	2023	2022
Declared			
REIT unit distributions		$ 13,022	$ 12,706
Exchangeable units of subsidiaries distributions	10	196	221
		$ 13,218	**$ 12,927**
Add: Distributions payable, beginning of period		4,412	4,309
Less: Distributions payable, end of period		(4,394)	(4,309)
Distributions paid		**$ 13,236**	**$ 12,927**

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

18. FAIR VALUES

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 carrying amounts and fair value hierarchy of the REIT's financial instruments are as follows:

		Fair Value			
March 31, 2023	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash	$ 20,684	$ 20,684	$ —	$ —	$ 20,684
Accounts receivable	24,989	—	24,989	—	24,989
Interest rate swaps	13,310	—	13,310	—	13,310
TIF notes receivable	1,181	—	—	1,288	1,288
Financial assets within other assets [1]	2,445	2,445	—	—	2,445
Total financial assets	**$ 62,609**	**$ 23,129**	**$ 38,299**	**$ 1,288**	**$ 62,716**
Financial liabilities					
Accounts payable and accrued liabilities	$ 40,713	$ —	$ 40,713	$ —	$ 40,713
Distributions payable	4,394	—	4,394	—	4,394
Revolver	155,712	—	156,175	—	156,175
Term loan	224,436	—	225,000	—	225,000
Term loan 3	270,247	—	275,000	—	275,000
Mortgages	484,166	—	451,676	—	451,676
Financial liabilities within other liabilities [2]	4,945	4,945	—	—	4,945
Exchangeable units of subsidiaries	9,180	9,180	—	—	9,180
Total financial liabilities	**$ 1,193,793**	**$ 14,125**	**$ 1,152,958**	**$ —**	**$ 1,167,083**

[1] Relates to funds held in escrow included in other assets.
[2] Relates to rental security deposits included in other liabilities.

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

		Fair Value			
December 31, 2022	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash	$ 20,392	$ 20,392	$ —	$ —	$ 20,392
Accounts receivable	23,649	—	23,649	—	23,649
Interest rate swaps	18,731	—	18,731	—	18,731
TIF notes receivable	1,411	—	—	1,517	1,517
Financial assets within other assets [1]	3,038	3,038	—	—	3,038
Total financial assets	**$ 67,221**	**$ 23,430**	**$ 42,380**	**$ 1,517**	**$ 67,327**
Financial liabilities					
Accounts payable and accrued liabilities	$ 38,373	$ —	$ 38,373	$ —	$ 38,373
Distributions payable	4,412	—	4,412	—	4,412
Revolver	123,027	—	123,604	—	123,604
Term loan	224,368	—	225,000	—	225,000
Term loan 2	82,951	—	83,000	—	83,000
Term loan 3	269,979	—	275,000	—	275,000
Mortgages	431,162	—	399,337	—	399,337
Financial liabilities within other liabilities [2]	4,836	4,836	—	—	4,836
Exchangeable units of subsidiaries	10,082	10,082	—	—	10,082
Total financial liabilities	**$ 1,189,190**	**$ 14,918**	**$ 1,148,726**	**$ —**	**$ 1,163,644**

[1] Relates to funds held in escrow included in other assets.
[2] Relates to rental security deposits included in other liabilities.

19. 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:

	Note	March 31, 2023	December 31, 2022
Debt	8	$ 1,134,561	$ 1,131,487
Exchangeable units of subsidiaries	10	9,180	10,082
Equity		893,242	931,102
Total		**$ 2,036,983**	**$ 2,072,671**

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

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

	March 31, 2023	December 31, 2022
Gross book value	$ 2,231,131	$ 2,270,400
Debt	1,134,561	1,131,487
Leverage ratio	**50.9%**	**49.8%**

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

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

	Threshold	March 31, 2023	December 31, 2022
Maximum leverage ratio: consolidated total indebtedness shall not exceed 65% of gross asset value	< 65%	54.2%	54.2%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x [1]	> 1.50x	2.42x	2.34x

[1] Adjusted EBITDA is defined as earnings before interest, tax, depreciation, and amortization, as defined by the Second Amended and Restated Credit Agreement for the revolver and term loan, the Amended Credit Agreement for term loan 2 and the Credit Agreement for term loan 3.

20. 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, loan arrangements and TIF notes receivables. The risk is mitigated by carrying out appropriate credit checks and related due diligence on the significant tenants.

As of March 31, 2023, one individual tenant accounted for 6.5% (December 31, 2022 – 6.5%) 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 was required to liquidate a real property investment promptly, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

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

The REIT's contractual commitments as at March 31, 2023 are as follows:

	Total contractual cash flow	Remaining in 2023	2024-2025	2026-2027	Thereafter
Accounts payable and accrued liabilities	$ 40,713	$ 40,713	$ —	$ —	$ —
Revolver [1 2]	156,175	—	156,175	—	—
Revolver interest payable [1 2 3]	9,963	7,880	2,083	—	—
Term loan [1 2]	225,000	—	225,000	—	—
Term loan interest payable [1 2]	24,553	10,759	13,794	—	—
Term loan 3 [2 4]	275,000	—	—	275,000	—
Term loan 3 interest payable [2 4]	57,633	13,150	26,336	18,147	—
Mortgages	488,693	6,718	197,177	14,726	270,072
Mortgage interest payable	106,976	14,746	32,073	22,452	37,705
Exchangeable units of subsidiaries	9,180	—	—	—	9,180
Total	**$ 1,393,886**	**$ 93,966**	**$ 652,638**	**$ 330,325**	**$ 316,957**

[1] Revolver and term loan interest payable is calculated on its balance outstanding using an estimated "all in" interest rate of 6.45% and 6.35%, respectively, under the "Remaining in 2023" column. The revolver and term loan long-term average interest rates are based on the one-month SOFR forward curve plus the specified margin for the SOFR rate option under the term loan resulting in "all-in" interest rate of 5.83% and 5.03%, respectively. The total revolver and term loan interest payable is calculated until maturity of the initial term.
[2] Excludes the impact of the REIT's $625.0 million pay-fixed, receive-float interest rate swaps that hedge a portion of the cash flow risk associated with one-month SOFR based interest payments.
[3] Includes stand-by fee on the revolver to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.
[4] Term loan 3 interest payable is calculated on its balance outstanding at period end, using an estimated "all in" interest rate of 6.35% under the "Remaining in 2023" column. The long-term average interest rate is based on the one-month SOFR curve plus the specified margin for the SOFR rate option under the term loan 3 resulting in an anticipated "all-in" interest rate of 4.58%. The total term loan 3 interest payable is calculated until maturity.

The REIT maintains $8.0 million in cash to satisfy a mortgage covenant that is recorded in the cash balance on the statement of financial position.

iii. Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The REIT manages its financial instruments with the objective of mitigating any potential interest rate risks. For the revolver, term loan, and term loan 3, interest rate on the loans will vary depending on changes in base rate and/or SOFR rate. The REIT is subject to interest rate risks mainly from non-current debt that has variable interest rate. The REIT manages these cash flow interest rate risks using pay-fixed received-float interest rate swap contracts to swap the floating-rate payments on the credit facility for fixed rate payments.

Cash flow sensitivity analysis

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

	March 31, 2023	December 31, 2022
Variable-rate instruments		
Revolver	$ 156,175	$ 123,604
Term loan	225,000	225,000
Term loan 2	—	83,000
Term loan 3	275,000	275,000
Effect of interest rate swaps	(625,000)	(625,000)
Total effective variable-rate debt	**$ 31,175**	**$ 81,604**
Effective fixed rate debt as a total of all debt	**97.3%**	**92.9%**
Annual impact of a 25 bps change on interest rates	**$ 78**	**$ 204**

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

iv. Unit price risk

The REIT is exposed to unit price risk in net income as a result of its exchangeable units of subsidiaries. Exchangeable units of subsidiaries have been classified as liabilities and measured at fair value based on market trading prices. Exchangeable units of subsidiaries negatively impacts net income when the unit price rises and positively impacts net income when unit prices decline. An increase of $1.00 in the underlying price of exchangeable units of subsidiaries results in an increase to liabilities and a decrease in net income of $0.9 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 a certain amount of the REIT's expenses are denominated in Canadian dollars.

21. RELATED PARTIES

Pursuant to the terms of a management agreement as amended on October 1, 2021, 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 calculated as a percentage of gross book value ("GBV") of the REIT (the "rate"). A rate of 0.40% is applicable to a GBV of up to $2.0 billion and reduced based on certain GBV increases; and

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.

Related party transactions incurred and payable to the Manager for the three month period ended March 31, 2023 was $2.4 million. These transactions are in the normal course of operations and are in accordance with the management agreement and are measured at the exchange amount. The exchange amount is the consideration established under contract and as approved by the REIT's board of trustees. The Manager is a significant unitholder in the REIT, with an approximate 5.6% interest.

Trustee fees

The REIT's key personnel include trustees and officers of the REIT. For the three month period ended March 31, 2023, trustee fees amounted to $0.1 million (three month period ended March 31, 2022 – $0.2 million).

22. SEGMENTS

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

23. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities are as follows:

	Revolver [1]	Term Loan [1]	Term Loan 2 [1]	Term loan 3 [1]	Mortgages	Exchangeable units of subsidiaries	**Total**
Balance, December 31, 2022	$ 123,027	$ 224,368	$ 82,951	$ 269,979	$ 431,162	$ 10,082	
Cash flows							
Advances, net	34,571	—	—	—	55,071	—	**89,642**
Debt repayments	(2,000)	—	(83,000)	—	(2,196)	—	**(87,196)**
Non-cash changes							
Amortization of MTM adjustments and costs	114	68	49	268	129	—	**628**
Change in fair value	—	—	—	—	—	(902)	**(902)**
Balance, March 31, 2023	**$ 155,712**	**$ 224,436**	**$ —**	**$ 270,247**	**$ 484,166**	**$ 9,180**	

[1] Changes in financial instruments that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 9 for more detail.

24. SUBSEQUENT EVENTS

i. On April 6, 2023, in connection with the REIT's NCIB, the REIT entered into an automatic securities repurchase plan ("ASRP") with its designated broker in order to facilitate purchases of class U units. The ASRP allows for purchases by the REIT of class U units at points in time when the REIT would ordinarily not be permitted to make purchases due to regulatory restrictions or self-imposed blackout periods. The ASRP is expected to terminate on May 5, 2023. Subsequent to the quarter, the REIT repurchased a total of 0.2 million class U units of the REIT under the NCIB at an average share price of $9.74 (C$13.19) for a total cost of $1.8 million.

ii. On April 17, 2023, the REIT declared monthly distributions of $0.072 per class U unit. Holders of class A units, class I units and units of subsidiaries of the REIT were also entitled to receive an equivalent distribution.