Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021

(Unaudited)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

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

	Note	June 30, 2021	December 31, 2020
ASSETS			
Non-current assets			
Properties	4, 5	$ 1,418,968	$ 1,277,180
Joint venture investment	6	3,861	3,474
Other assets	7	2,020	6,289
		$ 1,424,849	**$ 1,286,943**
Current assets			
Other assets	7	2,648	18,746
Prepaids		1,027	2,675
Accounts receivable	8	13,413	12,828
Subscription receipt funds in escrow	9	105,858	—
Cash		4,716	2,362
		$ 127,662	**$ 36,611**
Total assets		**$ 1,552,511**	**$ 1,323,554**
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	10	$ 758,636	$ 721,260
Derivatives	11	27,870	36,745
Other liabilities		2,911	2,721
Exchangeable units of subsidiaries	12	11,204	9,566
Deferred income taxes	13	92,335	69,607
		$ 892,956	**$ 839,899**
Current liabilities			
Debt	10	8,361	5,113
Subscription receipts	9	118,458	—
Derivatives	11	2,414	264
Accounts payable and accrued liabilities	14	33,028	20,287
Distributions payable	20	3,487	3,487
Taxes payable	13	—	1,786
		$ 165,748	**$ 30,937**
Total liabilities		**$ 1,058,704**	**$ 870,836**
Unitholders' equity		**$ 493,807**	**$ 452,718**
Total liabilities and unitholders' equity		**$ 1,552,511**	**$ 1,323,554**

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

Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF (LOSS) INCOME

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

	Note	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Rental revenue	15	$ 33,377	$ 30,255	$ 65,848	$ 62,297
Property operating expenses		(4,920)	(3,972)	(26,480)	(26,468)
General and administrative expenses	16	(2,607)	(2,919)	(4,822)	(5,504)
Interest and finance costs	17	(8,701)	(7,989)	(17,657)	(16,646)
Share of income (loss) in joint venture investment	6	42	(554)	12	(722)
Change in fair value of financial instruments	18	(14,305)	—	(11,287)	(20)
Transaction costs	4, 19	(176)	(972)	(176)	(3,094)
Change in fair value of properties	5	(1,439)	(809)	77,310	3,401
Net income before income taxes and unit (expense) income		**$ 1,271**	**$ 13,040**	**$ 82,748**	**$ 13,244**
Deferred income tax expense	13	(1,866)	(312)	(21,314)	(780)
Current income tax expense	13	(932)	(2,853)	(1,617)	(2,853)
Unit (expense) income	12, 20	(1,614)	(2,987)	(2,183)	3,096
Net (loss) income		**$ (3,141)**	**$ 6,888**	**$ 57,634**	**$ 12,707**

Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

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

	Note	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Net (loss) income		$ (3,141)	$ 6,888	$ 57,634	$ 12,707
Items to be subsequently reclassified to profit or loss:					
Loss on cash flow hedges of interest rate risk, net of tax	11	(912)	(2,674)	(111)	(20,291)
Reclassification of cash flow hedges of interest rate risk to income	11	2,089	1,898	4,109	2,588
Other comprehensive income (loss)		1,177	(776)	3,998	(17,703)
Comprehensive (loss) income		**$ (1,964)**	**$ 6,112**	**$ 61,632**	**$ (4,996)**

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

Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

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

	Note	REIT units	Retained earnings	Accumulated other comprehensive loss ("AOCL")	Capital reserve	**Total**
December 31, 2020		$ 463,603	$ 14,431	$ (23,892)	$ (1,424)	**$ 452,718**
Net income and comprehensive income		—	57,634	3,998	—	**61,632**
Distributions	12, 20	—	(20,454)	—	—	**(20,454)**
Equity offering issuance costs	12	(89)	—	—	—	**(89)**
June 30, 2021		**$ 463,514**	**$ 51,611**	**$ (19,894)**	**$ (1,424)**	**$ 493,807**

	Note	REIT units	Retained earnings	AOCL	Capital reserve	**Total**
December 31, 2019		$ 407,551	$ 8,700	$ (11,400)	$ (1,424)	**$ 403,427**
Net income and comprehensive loss		—	12,707	(17,703)	—	**(4,996)**
Distributions	12, 20	—	(17,708)	—	—	**(17,708)**
June 30, 2020		**$ 407,551**	**$ 3,699**	**$ (29,103)**	**$ (1,424)**	**$ 380,723**

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

Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

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

	Note	Six months ended June 30, 2021	2020
OPERATING ACTIVITIES			
Net income		$ 57,634	$ 12,707
Items not affecting cash:			
Straight-line rent	5	(441)	(651)
Change in fair value of financial instruments	18	11,287	20
Change in fair value of properties	5	(77,310)	(3,401)
IFRIC 21 property tax adjustment	5	8,119	8,881
Deferred income tax expense	13	21,314	780
Unit expense (income)	20	2,183	(3,096)
Share of (income) loss in joint venture investment	6	(12)	722
Interest and finance costs	17	17,657	16,646
Cash interest paid, net		(16,678)	(15,641)
Changes in working capital items		11,756	3,678
		$ 35,509	**$ 20,645**
INVESTING ACTIVITIES			
Acquisitions	4	(54,441)	(90,967)
Dispositions	4	4,059	106,796
Contributions to joint venture investment	6	(375)	—
Subscription receipt funds in escrow	9	(105,858)	—
Funds held in escrow	7	20,174	179
Capital expenditures	5	(1,797)	(1,050)
Leasing costs	5	(577)	(636)
Tenant improvements	5	(1,411)	(2,144)
Development and expansion capital	5	(17,362)	(2,202)
		$ (157,588)	**$ 9,976**
FINANCING ACTIVITIES			
Revolver advances, net	10, 26	71,395	273,827
Term loan finance costs	10, 26	—	(1,790)
Mortgage advances, net	10, 26	165,831	81,648
Revolver, term loan and mortgage repayments	10, 26	(197,642)	(363,161)
Subscription receipts	9	105,858	—
Equity offering issuance costs	12	(89)	—
REIT unit distributions	20	(20,454)	(17,708)
Exchangeable units of subsidiaries distributions	20	(466)	(466)
		$ 124,433	**$ (27,650)**
Increase in cash		**2,354**	**2,971**
Cash, beginning of the period		**2,362**	**2,412**
Cash, end of the period		**$ 4,716**	**$ 5,383**

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

1. DESCRIPTION OF THE REIT AND OPERATIONS

On August 21, 2020, the REIT completed its previously announced name change to Slate Grocery REIT from Slate Retail REIT. 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 July 27, 2021.

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. SIGNIFICANT ACCOUNTING POLICIES

A summary of significant 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, 2020. 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, except for the adoption of the new accounting policy disclosed below.

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, 2020.

i. Application of Interest Rate Benchmark Reform

In August 2020, the IASB issued *IBOR Reform and the Effects on Financial Reporting – Phase II (amendments to IFRS 9 – Financial Instruments ("IFRS 9"), IFRS 7 – Financial Instruments: Disclosures ("IFRS 7"), IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), IFRS 4 – Insurance Contracts ("IFRS 4") and IFRS 16 – Leases ("IFRS 16"))*. The objective of the second phase of the IASB's project was to assist entities in providing useful information about the effects of the transition to alternative benchmark rates and support preparers in applying the requirements of the IFRS Standards when changes are made to contractual cash flows or hedging relationships as a result of the transition to an alternative benchmark interest rate. The amendments affect the basis for determining the contractual cash flows as a result of benchmark interest rate reform, hedge accounting and disclosures. The REIT has adopted the amendments on January 1, 2021. Adopting these amendments has allowed the REIT to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms. Refer to note 23 for further details.

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

Impact of COVID-19

The preparation of the REIT's consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions.

The global outbreak of COVID-19 has resulted in emergency measures mandated by the World Health Organization, public health authorities and federal and state governments. A prolonged COVID-19 pandemic could have a material impact on the financial results and cash flows of the REIT, including tenants' ability to pay rent, occupancy, leasing demand, market rents, labor shortages and disruptions, all of which may impact the REIT's valuation of its properties or the ability of the REIT to meet its financial obligations.

The REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that are believed to be reasonable under the circumstances, based on information available as of June 30, 2021 that affect fair value of properties. Actual results could differ from those estimates under different assumptions.

4. ACQUISITIONS AND DISPOSITION

Acquisitions

The REIT acquired five properties during the six month period ended June 30, 2021. The operational results of these properties have been included in these consolidated financial statements from the date of acquisition.

Property	Purchase date	Location	Purchase price
Bells Fork Square	February 10, 2021	Greenville, North Carolina	$ 9,250
Parkway Station	February 10, 2021	Warner Robins, Georgia	7,892
Westin Center	February 10, 2021	Fayetteville, North Carolina	8,091
Tanglewood Commons	February 10, 2021	Clemmons, North Carolina	15,089
Mission Hills Shopping Center	February 10, 2021	Naples, Florida	13,863
Total			**$ 54,185**

The net assets acquired for this acquisition are as follows:

Purchase price	$ 54,185
Transaction costs	924
Properties	55,109
Working capital items	(668)
Total	**$ 54,441**

Disposition

The REIT disposed of one property outparcel during the six month period ended June 30, 2021 as follows:

Property	Number of outparcels	Disposition date	Location	Sales price
11 Galleria	1	April 1, 2021	Greenville, North Carolina	$ 4,100

Sales price	$ 4,100
Transaction costs	(176)
Working capital items	(41)
Total	**$ 3,883**

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

5. PROPERTIES

On June 30, 2021, the REIT owned 80 properties. The change in properties is as follows:

		Three months ended June 30,		Six months ended June 30,	
	Note	2021	2020	2021	2020
Beginning of the period		$ 1,406,089	$ 1,223,712	$ 1,277,180	$ 1,288,536
Acquisitions	4	68	91,758	55,109	91,758
Capital expenditures		1,009	488	1,797	1,050
Leasing costs		212	304	577	636
Tenant improvements		650	1,040	1,411	2,144
Development and expansion capital		11,925	623	17,362	2,202
Straight-line rent		276	237	441	651
Dispositions		(4,100)	(47,000)	(4,100)	(107,150)
IFRIC 21 property tax adjustment		4,278	3,994	(8,119)	(8,881)
Change in fair value		(1,439)	(809)	77,310	3,401
End of the period		**$ 1,418,968**	**$ 1,274,347**	**$ 1,418,968**	**$ 1,274,347**

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

	June 30, 2021	December 31, 2020
Capitalization rate range	5.75% – 8.75%	6.00% – 9.50%
Weighted average capitalization rate	7.00%	7.34%
Impact on fair value due to a 25 basis point change in capitalization rates	$ 52,180	$ 45,387
Impact on fair value due to a $100,000 change in underlying annual stabilized income	$ 1,428	$ 1,362

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 June 30, 2021. Depending on the duration and impacts of the COVID-19 pandemic, certain aspects of the REIT's operations could be affected, including rental and occupancy rates, demand for retail space, capitalization rates, and the resulting value of the REIT's properties. Based on the REIT's operations to date, property valuations have not been materially impacted by the COVID-19 pandemic. The REIT believes property valuations are appropriate as at June 30, 2021.

6. JOINT VENTURE INVESTMENT

The REIT accounts for its investment in Windmill Plaza, a grocery-anchored shopping centre located in Sterling Heights, Michigan, using the equity method.

The change in the REIT's joint venture investment is as follows:

	Six months ended June 30,	
	2021	2020
Beginning of the period	$ 3,474	$ 5,049
Capital contributions	375	—
Share of income (loss) in joint venture investment	12	(722)
End of the period	**$ 3,861**	**$ 4,327**

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

The financial position of the REIT's joint venture investment is as follows:

	June 30, 2021	December 31, 2020
Assets		
Property	$ 21,785	$ 21,690
Current assets	1,075	1,181
	$ 22,860	**$ 22,871**
Liabilities		
Debt [1]	$ 13,329	$ 13,758
Other non-current liabilities	23	15
Current liabilities	1,786	2,150
	$ 15,138	**$ 15,923**
Net assets at 100%	**$ 7,722**	**$ 6,948**
At the REIT's 50% interest	**$ 3,861**	**$ 3,474**

[1] Bears interest at a rate of 2.84% at June 30, 2021 and has a maturity date of January 28, 2022.

The following is a summary of income of the REIT's joint venture investment:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Rental revenue	$ 572	$ 230	$ 1,070	$ 474
Property operating expenses	40	(32)	(304)	(282)
General and administrative expenses	—	(280)	(8)	(280)
Interest and finance costs	(94)	(152)	(222)	(318)
Change in fair value of property	(434)	(874)	(512)	(1,038)
Net income (loss) and comprehensive income (loss) at 100%	**$ 84**	**$ (1,108)**	**$ 24**	**$ (1,444)**
At the REIT's 50% interest	**$ 42**	**$ (554)**	**$ 12**	**$ (722)**

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 Windmill Plaza. 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.

Total management fees earned by the REIT under the agreement for the three and six month periods ended June 30, 2021 were $2 thousand and $18 thousand, respectively (three month period ended June 30, 2020 – $0.3 million, six month period ended June 30, 2020 – $0.5 million).

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

7. OTHER ASSETS

Other assets are comprised of the following:

		June 30, 2021		December 31, 2020
Current				
TIF notes receivable	$	384	$	396
Funds held in escrow [1]		—		17,980
Other [2]		2,264		370
	$	**2,648**	**$**	**18,746**
Non-current				
TIF notes receivable	$	1,674	$	1,855
Funds held in escrow		346		4,434
	$	**2,020**	**$**	**6,289**
Total	**$**	**4,668**	**$**	**25,035**

[1] Primarily composed of funds held in escrow related to property acquisitions.
[2] Other mainly 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 Centre and East Brainerd Mall properties, respectively. The TIF notes obligate each municipality to pay certain tax increments resulting from increases, if any, from a reference amount in the taxable valuation of the respective property to the REIT.

8. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

		June 30, 2021		December 31, 2020
Rent receivable	$	6,903	$	5,140
Allowance		(883)		(852)
Accrued recovery income		5,128		5,087
Other receivables		2,265		3,453
Total	**$**	**13,413**	**$**	**12,828**

Rent receivable consists of base rent and operating expense recoveries billed to tenants. As a result of the COVID-19 pandemic, the REIT has entered into short-term rent deferral programs, totaling $1.2 million, that have been collected in full as of June 30, 2021. 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.

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

The change in the allowance is as follows:

	Six months ended June 30, 2021	Six months ended June 30, 2020
Beginning of the period	$ (852)	$ (673)
Allowance	(560)	(748)
Bad debt write-off	202	292
Bad debt recovery	327	184
End of the period	**$ (883)**	**$ (945)**

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:

	June 30, 2021	December 31, 2020
Current to 30 days	$ 838	$ 1,829
31 to 60 days	330	302
61 to 90 days	1,139	626
Greater than 90 days	3,713	1,531
Total	**$ 6,020**	**$ 4,288**

9. SUBSCRIPTION RECEIPTS

On March 31, 2021, the REIT completed a bought deal public offering of 11,420,000 subscription receipts of the REIT (“Subscription Receipts”) at a price of C$11.65 per Subscription Receipt, for gross proceeds of C$133.0 million (the "Offering"). Funds received from the Offering are held in escrow and are recognized gross of certain fees. The REIT intends to use the net proceeds from the sale of the subscription receipts to finance the acquisition of a high quality, grocery-anchored portfolio comprising 25 properties and 3.1 million square feet in major metro markets across the United States (the "Acquisition") and related expenses.

On closing of the Acquisition, one class U unit of the REIT will be issued in exchange for each Subscription Receipt, without payment of additional consideration. The holders of the Subscription Receipts, on the date upon which the Subscription Receipts are exchanged for units of the REIT, are entitled to receive cash distributions equal to the amount per REIT unit of any cash distributions made by the REIT for which record dates have occurred during the period from and including March 31, 2021 to the date of the exchange.

The fair value of the Subscription Receipts is determined using quoted prices of the REIT's Class U Units in an active market under the assumption that the transaction is expected to close in the third quarter of 2021. The Subscription Receipts, which are classified as a financial liability were measured at fair value on initial recognition. Subsequent to initial recognition, the Subscription Receipts have been designated as fair value through profit or loss. For the three and six month periods ended June 30, 2021, the REIT recognized an unrealized fair value loss of $12.7 million and $12.6 million, respectively.

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

10. DEBT

Debt held by the REIT at June 30, 2021 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	L+185 bps [3 4]	N/A [5]	N/A [5]	$ 300,000	$ 130,154	$ 169,846
Term loan [1]	March 21, 2025	None	L+175 bps [3 4]	N/A [5]	N/A [5]	225,000	225,000	—
Term loan 2 [1]	February 9, 2023	None	L+175 bps [3 4]	N/A [5]	N/A [5]	83,000	83,000	—
Mortgage	January 1, 2025	None	3.80 %	3	85,182	41,802	41,802	—
Mortgage	July 1, 2025	None	4.14 %	5	82,920	39,222	39,222	—
Mortgage	March 18, 2030	None	3.48 %	8	157,295	81,374	81,374	—
Mortgage	January 1, 2031	None	5.50 %	1	23,050	6,752	6,752	—
Mortgage	May 1, 2031	None	3.75 %	19	280,704	167,943	167,943	—
Total						**$ 945,093**	**$ 775,247**	**$ 169,846**

Debt held by the REIT at December 31, 2020 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	L+205 bps [3 4]	N/A [6]	N/A [6]	$ 300,000	$ 85,851	$ 214,149
Term loan [1]	March 21, 2025	None	L+195 bps [3 4]	N/A [6]	N/A [6]	225,000	225,000	—
Term loan 2 [1]	February 9, 2023	None	L+195 bps [3 4]	N/A [6]	N/A [6]	250,000	250,000	—
Mortgage	January 1, 2025	None	3.80 %	3	81,693	42,345	42,345	—
Mortgage	July 1, 2025	None	4.14 %	5	79,890	40,132	40,132	—
Mortgage	March 18, 2030	None	3.48 %	8	144,327	82,187	82,187	—
Mortgage	January 1, 2031	None	5.50 %	1	22,225	7,016	7,016	—
Total						**$ 946,680**	**$ 732,531**	**$ 214,149**

[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 22. The revolver, term loan and term loan 2 provide for different spreads over one-month U.S. LIBOR 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] "L" means LIBOR 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 135 bps; (ii) greater than 45% but less than or equal to 50% is 145 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. The applicable spread for the term loan and term loan 2 where the consolidated leverage ratio is; (i) less than or equal to 45% is 125 bps; (ii) greater than 45% but less than or equal to 50% is 140 bps; (iii) greater than 50% but less than or equal to 55% is 150 bps (iv) greater than 55% but less than or equal to 60% is 175 bps; and (iv) greater than 60% is 195 bps.

[5] The revolver, term loan and term loan 2 are secured by a general pledge of equity of certain subsidiaries of the REIT. Collectively, those subsidiaries hold an interest in 43 of the REIT's properties at June 30, 2021.

[6] The revolver, term loan and term loan 2 are secured by a general pledge of equity of certain subsidiaries of the REIT. Collectively, those subsidiaries hold an interest in 57 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 June 30, 2021 is as follows:

	Effective rate [1]		Principal		Mark-to-market ("MTM") adjustments and costs		Accumulated amortization of MTM adjustments and costs [2]		Carrying amount		Current		Non-current
Revolver	2.03%	$	130,154	$	(1,829)	$	576	$	128,901	$	—	$	128,901
Term loan	1.93%		225,000		(1,377)		343		223,966		—		223,966
Term loan 2	1.93%		83,000		(2,283)		1,570		82,287		—		82,287
Mortgage	3.80%		41,802		(1,549)		949		41,202		1,117		40,085
Mortgage	4.14%		39,222		(1,079)		732		38,875		1,878		36,997
Mortgage	3.48%		81,374		(1,563)		166		79,977		1,670		78,307
Mortgage	5.50%		6,752		127		(15)		6,864		550		6,314
Mortgage	3.75%		167,943		(3,133)		115		164,925		3,146		161,779
Total		**$**	**775,247**	**$**	**(12,686)**	**$**	**4,436**	**$**	**766,997**	**$**	**8,361**	**$**	**758,636**

The carrying value of debt held by the REIT at December 31, 2020 is as follows:

	Effective rate [1]		Principal		Mark-to-market ("MTM") adjustments and costs		Accumulated amortization of MTM adjustments and costs [2]		Carrying amount		Current		Non-current
Revolver	2.50%	$	85,851	$	(1,829)	$	359	$	84,381	$	—	$	84,381
Term loan	2.45%		225,000		(1,377)		215		223,838		—		223,838
Term loan 2	2.44%		250,000		(2,283)		1,185		248,902		—		248,902
Mortgage	3.80%		42,345		(1,549)		860		41,656		1,096		40,560
Mortgage	4.14%		40,132		(1,079)		684		39,737		1,840		37,897
Mortgage	5.50%		7,016		127		(12)		7,131		536		6,595
Mortgage	3.48%		82,187		(1,561)		102		80,728		1,641		79,087
Total		**$**	**732,531**	**$**	**(9,551)**	**$**	**3,393**	**$**	**726,373**	**$**	**5,113**	**$**	**721,260**

[1] The effective interest rate for the revolver, term loan and term loan 2 includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. The revolver, term loan and term loan 2 effective rates are based on the applicable U.S. LIBOR rate under borrowings as at June 30, 2021.
[2] Excludes the impact of any available extension options not yet exercised.

During the period ended June 30, 2021, the REIT made principal repayments, net of drawdowns totaling $39.6 million on the REIT's revolver and mortgages funded by cash received from the disposal of one property outparcel and cash from operations.

On January 14, 2021, the REIT entered into a $169.0 million 10-year mortgage, bearing interest of 3.75%. The net proceeds from the loan were used to reduce the REIT's term loan to $83.0 million, resulting in an increase of the REIT's debt portfolio to a weighted average term to maturity of 5.5 years.

On February 21, 2020, the REIT refinanced its existing revolving credit facility and term loan (the “credit facility”) for four and five-year terms, respectively, for an aggregate of $525.0 million. The REIT has also reduced pricing on its credit facility and $250.0 million term loan. The revolver, term loan and term loan 2 bears interest at U.S. LIBOR plus an applicable margin.

On March 18, 2020, The REIT entered into an $83.3 million 10-year mortgage loan, bearing interest of 3.48%. The loan is secured by a pool of eight properties and is non-recourse to the REIT. Proceeds from the loan were used to reduce borrowings on the REIT's revolver.

On March 20, 2020, the REIT extinguished a mortgage of $10.1 million, bearing interest of 5.75% with borrowings from the REIT's revolver. The REIT recognized a $0.3 million gain on the settlement of the mortgage's deferred financing costs and mark-to-market adjustment.

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

11. DERIVATIVES

Derivatives are comprised of the following:

	June 30, 2021	December 31, 2020
Interest rate swaps	$ 27,870	$ 37,009
Foreign exchange forward	2,414	—
Total	**$ 30,284**	**$ 37,009**

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 U.S. LIBOR 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	1.411%	2.884%	2.925%	**2.573 %**
Notional amount	$ 100,000	$ 175,000	$ 175,000	**$ 450,000**
Receive-floating rate	One-month LIBOR	One-month LIBOR	One-month LIBOR	
Maturity date	September 22, 2022	August 22, 2023	August 22, 2025	
Remaining term (years)	1.2	2.1	4.1	**2.7**

In conjunction with the REIT's $169.0 million mortgage closed on January 14, 2021, the REIT terminated its $150.0 million interest rate swap with a maturity date of February 26, 2021. This resulted in an increase to the weighted average pay-fixed rate of the REIT's swap portfolio to 2.573%.

On February 4, 2020, the REIT terminated $150.0 million of its $300.0 million interest rate swap, with an effective date of November 22, 2016. The realized gain as a result of the termination was blended into the pay-fixed rate of the REIT's $100.0 million interest rate swap, with a maturity date of September 22, 2022.

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

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the three and six month periods ended June 30, 2021 is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, March 31, 2021		$ (29,768)	$ 7,736	$ (22,032)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(1,127)	215	(912)
Cumulative gain arising on cash flow hedges to profit or loss		214	(50)	164
Net payments made	17	2,811	(722)	2,089
Balance, June 30, 2021		**$ (27,870)**	**$ 7,179**	**$ (20,691)**

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2020		$ (37,009)	$ 9,550	$ (27,459)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(116)	5	(111)
Cumulative gain arising on cash flow hedges to profit or loss		3,727	(957)	2,770
Net payments made	17	5,528	(1,419)	4,109
Balance, June 30, 2021		**$ (27,870)**	**$ 7,179**	**$ (20,691)**

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the three and six month periods ended June 30, 2020 is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, March 31, 2020		$ (42,767)	$ 11,197	$ (31,570)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(3,623)	949	(2,674)
Net payments made	16	2,570	(672)	1,898
Balance, June 30, 2020		**$ (43,820)**	**$ 11,474**	**$ (32,346)**

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2019		$ (19,821)	$ 5,193	$ (14,628)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(27,484)	7,193	(20,291)
Cumulative loss arising on cash flow hedges to profit or loss		(20)	5	(15)
Net payments made	17	3,505	(917)	2,588
Balance, June 30, 2020		**$ (43,820)**	**$ 11,474**	**$ (32,346)**

Foreign exchange forward

The REIT entered into a foreign exchange transaction on March 25, 2021 to sell C$127.6 million at an exchange rate of 1.2633 and purchase U.S. dollars, the transaction is expected to settle in August 2021. The terms of the foreign exchange forward is as follows:

	Forward rate	Nominal amount	Fair value
Foreign exchange forward	1.2633	C$127,593	$ (2,414)

12. REIT UNITS AND EXCHANGEABLE UNITS OF SUBSIDIARIES

At June 30, 2021, 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	153	282	46,917

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. The GAR B exchangeable units are accompanied by an equivalent number of special voting units.

Each REIT unit entitles the holder to the same rights and obligations as any other REIT unitholder and no REIT unitholder is entitled to any privilege, priority or preference in relation to any other holder of REIT units 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.

Public offerings

On March 31, 2021, the REIT completed a bought deal public offering of 11,420,000 Subscription Receipts of the REIT at a price of C$11.65 per Subscription Receipt, for gross proceeds of C$133.0 million. Refer to note 9 for further details.

On December 10, 2020, the REIT completed a public offering of 6,360,000 class U units, at a price of C$11.80 per unit, for gross proceeds of approximately C$75.1 million. The costs related to the offering totaled $2.4 million and are deducted against the cost of units issued. Net proceeds, totaling $55.4 million were used to repay the revolver.

Normal course issuer bid

The REIT had a normal course issuer bid ("NCIB") in place between May 26, 2020 to May 26, 2021. No class U units were purchased and subsequently canceled under the NCIB.

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

	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
Class / type	U	A	I	SG1 [1]	SG2 [1]	GAR B	
Balance, December 31, 2020	46,865	205	282	28	920	132	48,432
Exchanged	52	(52)	—	—	—	—	—
Class U units equivalent, June 30, 2021	**46,917**	**153**	**282**	**28**	**920**	**132**	**48,432**

	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
Class / type	U	A	I	SG1 [1]	SG2 [1]	GAR B	
Balance, December 31, 2019	40,463	247	282	28	920	132	42,072
Exchanged	38	(38)	—	—	—	—	—
Class U units equivalent, June 30, 2020	**40,501**	**209**	**282**	**28**	**920**	**132**	**42,072**

[1] "SG1" and "SG2" means Slate Grocery One exchangeable units and Slate Grocery Two exchangeable units, respectively.

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

	Six months ended June 30,	
	2021	2020
Beginning of the period	$ 9,566	$ 10,926
Change in fair value	1,638	(3,226)
End of the period	**$ 11,204**	**$ 7,700**

Deferred unit plans

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 has a 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 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 June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Beginning of the period	179	131	165	135
Reinvested distributions	3	4	6	7
Issuances	6	10	17	22
Redemption	—	—	—	(19)
End of the period	**188**	**145**	**188**	**145**
Fair value of units [1]	**$ 1,949**	**$ 1,034**	**$ 1,949**	**$ 1,034**

[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 June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Class U units	46,917	40,501	46,909	40,490
Class A units	153	209	160	220
Class I units	282	282	282	282
Exchangeable units of subsidiaries	1,080	1,080	1,080	1,080
Deferred units	183	136	176	130
Total [1]	**48,615**	**42,208**	**48,607**	**42,202**

[1] Subscription Receipts issued on March 31, 2021 have not been included in the calculation of diluted weighted average units outstanding as they do not meet the criteria for inclusion as at June 30, 2021.

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:

	June 30, 2021	December 31, 2020
Class U units	46,917	46,865
Class A units	153	205
Class I units	282	282
Exchangeable units of subsidiaries	1,080	1,080
Deferred units	188	165
Total [1]	**48,620**	**48,597**

[1] Subscription Receipts issued on March 31, 2021 have not been included in the calculation of Class U units outstanding as they do not meet the criteria for inclusion as at June 30, 2021.

13. INCOME TAXES

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

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

The REIT is therefore subject to U.S. federal income taxation on its allocable share of rental income derived directly or indirectly through such subsidiary limited partnerships, on a net basis taking into account allowable deductions. Investment L.P. and GAR B are each subject to a combined federal and state income tax rate of 25.67% (December 31, 2020 – 25.75%). To the extent U.S. taxes are paid by Investment L.P. and GAR B such amounts will be creditable against an investor's Canadian federal income tax liability to the extent permitted by Canadian tax law.

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

Total taxes paid as of June 30, 2021 was $3.5 million (June 30, 2020 – $0.6 million). Branch profit tax is tax imposed on U.S. earned income that is repatriated to Canada.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	June 30, 2021	December 31, 2020
Accounts payable and accrued liabilities	$ 14,942	$ 13,742
Prepaid rent	3,964	2,478
Tenant improvements payable	10,648	318
Other payables	3,474	3,749
Total	**$ 33,028**	**$ 20,287**

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.

15. REVENUE

Revenue is comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Rental revenue	$ 24,766	$ 23,108	$ 48,907	$ 46,744
Common area maintenance recoveries	3,189	2,035	6,209	5,096
Property tax and insurance recoveries	4,758	4,288	9,077	8,831
Percentage rent	37	31	321	303
Other revenue [1]	627	793	1,334	1,323
Total	**$ 33,377**	**$ 30,255**	**$ 65,848**	**$ 62,297**

[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 4.9 years (December 31, 2020 – 5.3 years) certain of which 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:

	June 30, 2021	December 31, 2020
In one year or less	$ 97,444	$ 123,241
In more than one year but not more than five years	249,185	331,812
In more than five years	123,192	192,119
Total	**$ 469,821**	**$ 647,172**

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

16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

		Three months ended June 30,		Six months ended June 30,	
	Note	2021	2020	2021	2020
Asset management fees	24	$ 1,536	$ 1,243	$ 2,850	$ 2,551
Bad debt expense		170	530	340	695
Professional fees and other		743	816	1,409	1,713
Franchise and business taxes		158	330	223	545
Total		**$ 2,607**	**$ 2,919**	**$ 4,822**	**$ 5,504**

17. INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

		Three months ended June 30,		Six months ended June 30,	
	Note	2021	2020	2021	2020
Interest on debt and finance charges	10	$ 5,452	$ 5,071	$ 10,884	$ 12,136
Interest rate swaps, net settlement	11	2,811	2,570	5,794	3,505
Interest income		(4)	(16)	(17)	(34)
Amortization of finance charges	10	469	391	1,049	1,497
Amortization of MTM premium	10	(5)	(5)	(9)	(414)
Amortization of deferred gain on TIF notes		(22)	(22)	(44)	(44)
Total		**$ 8,701**	**$ 7,989**	**$ 17,657**	**$ 16,646**

18. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

The change in fair value of financial instruments is comprised of the following:

		Three months ended June 30,		Six months ended June 30,	
	Note	2021	2020	2021	2020
Interest rate swaps	11	$ 214	$ —	$ 3,727	$ (20)
Subscription receipts	9	(12,691)	—	(12,600)	—
Foreign exchange forward contract	11	(1,828)	—	(2,414)	—
Total		**$ (14,305)**	**$ —**	**$ (11,287)**	**$ (20)**

19. TRANSACTION COSTS

Transaction costs for the three and six month periods ended June 30, 2021 were $0.2 million and $0.2 million, respectively (three month period ended June 30, 2020 – $1.0 million, six month period ended June 30, 2020 – $3.1 million), and primarily relate to costs of the disposition of properties and property outparcels.

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

20. UNIT EXPENSE (INCOME)

Unit expense (income) is comprised of the following:

		Three months ended June 30,		Six months ended June 30,	
	Note	2021	2020	2021	2020
Exchangeable units of subsidiaries distributions	12	$ 233	$ 233	$ 466	$ 466
Change in fair value of DUP		180	242	79	(336)
Change in fair value of exchangeable units of subsidiaries	12	1,201	2,512	1,638	(3,226)
Total		**$ 1,614**	**$ 2,987**	**$ 2,183**	**$ (3,096)**

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 June 30,		Six months ended June 30,	
	Note	2021	2020	2021	2020
Declared					
REIT unit distributions		$ 10,227	$ 8,854	$ 20,454	$ 17,708
Exchangeable units of subsidiaries distributions	12	233	233	466	466
		$ 10,460	**$ 9,087**	**$ 20,920**	**$ 18,174**
Add: Distributions payable, beginning of period		3,487	3,029	3,487	3,029
Less: Distributions payable, end of period		(3,487)	(3,029)	(3,487)	(3,029)
Distributions paid		**$ 10,460**	**$ 9,087**	**$ 20,920**	**$ 18,174**

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

21. 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 fair values in other financial liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The carrying amounts and fair values of the REIT's financial instruments are as follows:

	June 30, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	$ 4,716	$ 4,716	$ 2,362	$ 2,362
Subscription receipt funds in escrow	105,858	105,858	—	—
Accounts receivable	13,413	13,413	12,828	12,828
TIF notes receivable	2,058	2,146	2,251	2,332
Financial assets within other assets [1]	346	346	22,414	22,414
Total financial assets	**$ 126,391**	**$ 126,479**	**$ 39,855**	**$ 39,936**
Financial liabilities				
Accounts payable and accrued liabilities	$ 33,028	$ 33,028	$ 20,287	$ 20,287
Distributions payable	3,487	3,487	3,487	3,487
Interest rate swaps	27,870	27,870	36,745	36,745
Foreign exchange forward	2,414	2,414	—	—
Subscription receipts	118,458	118,458	—	—
Revolver	128,901	130,154	84,381	85,851
Term loan	223,966	225,000	223,838	225,000
Term loan 2	82,287	83,000	248,902	250,000
Mortgages [2]	331,843	328,609	169,252	170,863
Financial liabilities within other liabilities [3]	2,911	2,911	2,721	2,721
Exchangeable units of subsidiaries	11,204	11,204	9,566	9,566
Total financial liabilities	**$ 966,369**	**$ 966,135**	**$ 799,179**	**$ 804,520**

[1] Relates to funds held in escrow included in other assets.
[2] Amounts as at June 30, 2021 adjusted to exclude the REIT's share of debt related to its joint venture investment.
[3] Relates to rental security deposits included in other liabilities.

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

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

June 30, 2021		Level 1		Level 2		Level 3		Total
Financial assets								
Cash	$	4,716	$	—	$	—	$	4,716
Subscription receipt funds in escrow		—		105,858		—		105,858
Accounts receivable		—		13,413		—		13,413
TIF notes receivable		—		—		2,146		2,146
Financial assets within other assets [1]		346		—		—		346
Total financial assets	**$**	**5,062**	**$**	**119,271**	**$**	**2,146**	**$**	**126,479**
Financial liabilities								
Accounts payable and accrued liabilities	$	—	$	33,028	$	—	$	33,028
Distributions payable		—		3,487		—		3,487
Interest rate swaps		—		27,870		—		27,870
Foreign exchange forwards		—		2,414		—		2,414
Subscription receipts		—		118,458		—		118,458
Revolver		—		130,154		—		130,154
Term loan		—		225,000		—		225,000
Term loan 2		—		83,000		—		83,000
Mortgages [2]		—		328,609		—		328,609
Financial liabilities within other liabilities [3]		2,911		—		—		2,911
Exchangeable units of subsidiaries		11,204		—		—		11,204
Total financial liabilities	**$**	**14,115**	**$**	**952,020**	**$**	**—**	**$**	**966,135**

[1] Relates to funds held in escrow included in other assets.
[2] Amounts as at June 30, 2021 adjusted to exclude the REIT's share of debt related to its joint venture investment.
[3] Relates to rental security deposits included in other liabilities.

22. 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.

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

The REIT considers its debt and equity instruments to be its capital as follows:

	June 30, 2021	December 31, 2020
Debt	$ 766,997	$ 726,373
Exchangeable units of subsidiaries	11,204	9,566
Unitholders' equity	493,807	452,718
Total	**$ 1,272,008**	**$ 1,188,657**

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:

	June 30, 2021	December 31, 2020
Gross book value [1]	$ 1,446,653	$ 1,323,554
Debt	766,997	726,373
Leverage ratio	**53.0%**	**54.9%**

[1] Subscription receipt funds in escrow have been removed from total assets for purposes of calculating the leverage ratio at June 30, 2021. The REIT's leverage ratio including subscription receipt funds in escrow would be 49.4%.

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, term loan and term loan 2 are subject to financial and other covenants. The following are the primary financial covenants, with all terms defined by the respective lending agreement:

	Threshold	June 30, 2021	December 31, 2020
Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value	< 65%	57.2%	57.5%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x [1]	> 1.50x	2.08x	2.15x

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

23. RISK MANAGEMENT

The REIT's risk management policies are established to identify, analyze and manage the risks faced by the REIT and to implement appropriate procedures to monitor risks and adherence to established controls. Risk management policies and systems are reviewed periodically in response to the REIT's activities and to ensure applicability.

In the normal course of business, the main risks arising from the REIT's use of financial instruments include credit risk, liquidity risk and market risk. These risks, and the actions taken to manage them, include:

i. Credit risk

Credit risk is the risk of financial loss to the REIT associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments and loan arrangements and TIF notes receivables. The risk is mitigated by carrying out appropriate credit checks and related due diligence on the significant tenants.

As of June 30, 2021, one individual tenant accounted for 8.9% (December 31, 2020 – 8.5%) 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 were required to liquidate a real property investment promptly, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

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

The REIT's contractual commitments as at June 30, 2021 are as follows:

	Total contractual cash flow	Remainder of 2021	2022-2023	2024-2025	Thereafter
Accounts payable and accrued liabilities	$ 33,028	$ 33,028	$ —	$ —	$ —
Revolver [1]	130,154	—	—	130,154	—
Revolver interest payable [1 2]	9,319	1,506	6,896	917	—
Term loan [1]	225,000	—	—	225,000	—
Term loan interest payable [1]	20,253	2,120	10,007	8,126	—
Term loan 2 [3]	83,000	—	83,000	—	—
Term loan 2 interest payable [3]	2,649	782	1,867	—	—
Mortgages	337,093	4,139	17,390	85,350	230,214
Mortgage interest payable	91,949	6,324	24,460	21,229	39,936
Letters of credit	117	117	—	—	—
Interest rate swap, net of cash outflows	27,870	5,644	17,241	4,985	—
Exchangeable units of subsidiaries	11,204	—	—	—	11,204
Subscription receipts	118,458	118,458	—	—	—
Foreign exchange forwards	2,414	2,414	—	—	—
Total	**$ 1,092,508**	**$ 174,532**	**$ 160,861**	**$ 475,761**	**$ 281,354**

[1] Revolver and term loan interest payable is calculated on $130.2 million and $225.0 million (balance outstanding) using an estimated "all in" interest rate of 1.97% and 1.87% respectively under the "Remainder of 2021" 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 resulting in "all-in" interest rate of 2.51%. The total revolver and term loan interest payable is calculated until maturity of the initial term.
[2] 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.
[3] Term loan 2 interest payable is calculated on $83.0 million (balance outstanding) using an estimated "all in" interest rate of 1.87% under the "Remainder of 2021" column. The long-term average interest rate is based on the 30-day LIBOR curve plus the specified margin for the LIBOR rate option under the term loan 2 and results in an anticipated increase to the "all-in" interest rate to 2.03%. The total term loan 2 interest payable is calculated until maturity.

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 2 interest rate on the loans will vary depending on changes in base rate and/or U.S. LIBOR rate. The REIT is subject to interest rate risks mainly from non-current debt that has variable interest rate. The REIT manages these cash flow interest rate risks using pay-fixed received-float interest rate swap contracts to swap the floating-rate payments on the credit facility for fixed rate payments.

Assuming all fixed-rate debt remain outstanding, there is no impact to the annual interest expense.

Interest rate benchmark reform

The REIT is exposed to U.S. LIBOR interest rate, which is subject to the interest rate benchmark reform. The REIT has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority ("FCA") and the US Commodity Futures Trading Commission) regarding the transition away from U.S. LIBOR to the Secured Overnight Financing Rate ("SOFR"). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the REIT is in the process of developing a transition program. The aim of the program is to understand where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to an alternative benchmark rate. For the REIT's floating rate debt, the REIT has started discussions with its lenders to amend U.S. LIBOR bank loans so that the reference benchmark interest rate will change to SOFR.

The REIT will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the REIT is exposed ends. The REIT has assumed that this uncertainty will not end until the REIT's contracts that reference U.S. LIBOR are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will in part, be dependent on the introduction of fall back clauses which have yet to be added to the REIT's contracts and the negotiation with lenders.

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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:

	June 30, 2021	December 31, 2020
Variable-rate instruments		
Revolver	$ 130,154	$ 85,851
Term loan	225,000	225,000
Term loan 2	83,000	250,000
Effect of interest rate swaps	(450,000)	(600,000)
Total effective floating rate debt	**$ (11,846)**	**$ (39,149)**
Effective fixed rate debt as a total of all debt	**101.5%**	**105.3%**
Annual impact of a 25 bps change on interest rates	**$ —**	**$ —**

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 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 exchangeable units of subsidiaries results in an increase to liabilities and a decrease in net income of $1.1 million.

v. Currency risk

Currency risk is associated with a fluctuation in the value of the U.S. dollar relative to other foreign currencies. Although not material, the REIT is exposed to currency risk as certain of the REIT’s expenses are denominated in Canadian dollars.

24. RELATED PARTIES

Pursuant to the terms of a management agreement dated April 15, 2014, the Manager provides all management services to the REIT. The Manager agreed to provide certain services in connection with the business of the REIT, including: the structuring of the REIT, liaising with legal and tax counsel; identifying properties for acquisition; maintaining ongoing relationships with the lenders in respect of the mortgage loans for the properties; conducting continuous analysis of market conditions; and advising with respect to the disposition of the properties. In return for its service, the Manager receives the following fees:

i. an asset management fee equal to 0.4% of the total assets of the REIT;

ii. an acquisition fee in an amount equal to 0.75% of the gross purchase price of each property (or interest in a property), including the price, due diligence costs, closing costs, legal fees, and additional capital costs for all properties indirectly acquired by the REIT; and

iii. an annual incentive fee, calculated in arrears, in an aggregate amount equal to 15% of the REIT's funds from operation per class U unit as derived from the annual financial statements of the REIT in excess of $1.35, subject to ordinary course adjustments for certain transactions affecting the class U units and increasing annually by 50% of the increase in the U.S. consumer price index.

These transactions are in the normal course of operations and are 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 6.9% interest.

Fees to the Manager are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Asset management	$ 1,528	$ 1,243	$ 2,842	$ 2,551
Acquisition	—	685	410	685
Total	**$ 1,528**	**$ 1,928**	**$ 3,252**	**$ 3,236**

Trustee fees

The REIT's key personnel include trustees and officers of the REIT. For the three and six month periods ended June 30, 2021 Trustee fees amounted to $0.1 million and $0.2 million, respectively (three month period ended June 30, 2020 - $0.2 million, six month period ended June 30, 2020 – $0.3 million).

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

25. SEGMENTS

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

26. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities are as follows:

	Revolver [1]	Term Loan [1]	Term Loan 2	Mortgages	Exchangeable units of subsidiaries	**Total**
Balance, December 31, 2020	$ 84,381	$ 223,838	$ 248,902	$ 169,252	$ 9,566	
Cash flows						
Advances, net	71,395	—	—	165,831	—	**237,226**
Debt repayments	(27,092)	—	(167,000)	(3,550)	—	**(197,642)**
Non-cash changes						
Amortization of MTM adjustments and costs	217	128	385	310	—	**1,040**
Change in fair value	—	—	—	—	1,638	**1,638**
Balance, June 30, 2021	**$ 128,901**	**$ 223,966**	**$ 82,287**	**$ 331,843**	**$ 11,204**	

[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 11 for more detail.

27. SUBSEQUENT EVENTS

The following events have occurred subsequent to June 30, 2021:

i. On July 2, 2021, the REIT's joint venture investment refinanced a construction loan for a $15.5 million five-year term mortgage, bearing a fixed interest rate of 3.05%.

ii. On July 15, 2021, the REIT completed the acquisition of Glenlake Plaza, a grocery-anchored shopping center located in Indianapolis, Indiana for $8.5 million.

iii. On July 15, 2021, 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.