# Slate Grocery REIT

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021

(Unaudited)

## Slate Grocery REIT

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

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

| | Note | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Properties | 4, 5, 6 | $ | 1,608,040 | $ | 1,277,180 |
| Joint venture investments | 7 | | 69,220 | | 3,474 |
| Other assets | 8 | | 2,498 | | 6,289 |
| | | **$** | **1,679,758** | **$** | **1,286,943** |
| Current assets | | | | | |
| Other assets | 8 | | 2,826 | | 18,746 |
| Prepaids | | | 5,251 | | 2,675 |
| Accounts receivable | 9 | | 14,913 | | 12,828 |
| Cash | | | 12,723 | | 2,362 |
| | | **$** | **35,713** | **$** | **36,611** |
| **Total assets** | | **$** | **1,715,471** | **$** | **1,323,554** |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Debt | 11 | $ | 919,679 | $ | 721,260 |
| Derivatives | 12 | | 25,035 | | 36,745 |
| Other liabilities | | | 2,917 | | 2,721 |
| Exchangeable units of subsidiaries | 13 | | 11,028 | | 9,566 |
| Deferred income taxes | 14 | | 94,838 | | 69,607 |
| | | **$** | **1,053,497** | **$** | **839,899** |
| Current liabilities | | | | | |
| Debt | 11 | | 8,443 | | 5,113 |
| Derivatives | 12 | | — | | 264 |
| Accounts payable and accrued liabilities | 15 | | 37,266 | | 20,287 |
| Distributions payable | 22 | | 4,309 | | 3,487 |
| Taxes payable | 14 | | — | | 1,786 |
| | | **$** | **50,018** | **$** | **30,937** |
| **Total liabilities** | | **$** | **1,103,515** | **$** | **870,836** |
| UNITHOLDERS' EQUITY | | | | | |
| Unitholders' equity | | $ | 607,058 | $ | 452,718 |
| Non-controlling interest | 16 | | 4,898 | | — |
| **Total equity** | | **$** | **611,956** | **$** | **452,718** |
| **Total liabilities and unitholders' equity** | | **$** | **1,715,471** | **$** | **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 INCOME

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

| | Note | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|---|
| Rental revenue | 17 | $ 34,079 | $ 31,961 | $ 99,927 | $ 94,258 |
| Property operating expenses | | (4,809) | (4,649) | (31,289) | (31,117) |
| General and administrative expenses | 18 | (2,549) | (3,293) | (7,371) | (8,797) |
| Interest and finance costs | 19 | (13,842) | (8,349) | (31,499) | (24,995) |
| Share of loss in joint venture investments | 7 | (3,318) | (724) | (3,306) | (1,446) |
| Change in fair value of financial instruments | 20 | 2,102 | — | (9,185) | (20) |
| Transaction costs | 5, 21 | — | (16) | (176) | (3,110) |
| Change in fair value of properties | 6 | 6 | (2,829) | 77,316 | 572 |
| **Net income before income taxes and unit (expense) income** | | **$ 11,669** | **$ 12,101** | **$ 94,417** | **$ 25,345** |
| Deferred income tax expense | 14 | (1,782) | (2,077) | (23,096) | (2,857) |
| Current income tax expense | 14 | (251) | (1,179) | (1,868) | (4,032) |
| Unit (expense) income | 13, 22 | (33) | (1,215) | (2,216) | 1,881 |
| **Net income** | | **$ 9,603** | **$ 7,630** | **$ 67,237** | **$ 20,337** |
| **Net income attributable to** | | | | | |
| Unitholders | | $ 9,124 | $ 7,630 | $ 66,758 | $ 20,337 |
| Non-controlling interest | 16 | 479 | — | 479 | — |
| **Net income** | | **$ 9,603** | **$ 7,630** | **$ 67,237** | **$ 20,337** |

## Slate Grocery REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

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

| | Note | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|---|
| Net income | | $ 9,603 | $ 7,630 | $ 67,237 | $ 20,337 |
| Items to be subsequently reclassified to profit or loss: | | | | | |
| Loss on cash flow hedges of interest rate risk, net of tax | 12 | (6) | (20) | (117) | (20,311) |
| Reclassification of cash flow hedges of interest rate risk to income | 12 | 2,120 | 2,243 | 6,229 | 4,831 |
| Other comprehensive income (loss) | | 2,114 | 2,223 | 6,112 | (15,480) |
| **Comprehensive income** | | **$ 11,717** | **$ 9,853** | **$ 73,349** | **$ 4,857** |
| **Comprehensive income attributable to** | | | | | |
| Unitholders | | $ 11,238 | $ 9,853 | $ 72,870 | $ 4,857 |
| Non-controlling interest | 16 | 479 | — | 479 | — |
| **Comprehensive income** | | **$ 11,717** | **$ 9,853** | **$ 73,349** | **$ 4,857** |

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 | Non-controlling interest | **Total** |
|---|---|---|---|---|---|---|---|
| December 31, 2020 | | $ 463,603 | $ 14,431 | $ (23,892) | $ (1,424) | $ — | **$ 452,718** |
| Net income and other comprehensive income | | — | 66,758 | 6,112 | — | 479 | **73,349** |
| Distributions | 13, 22 | | (31,507) | — | — | — | **(31,507)** |
| Equity offering proceeds, net of costs | 13 | 112,977 | — | — | — | — | **112,977** |
| Non-controlling interest on acquisition | 16 | — | — | — | — | 4,549 | **4,549** |
| Distributions to non-controlling interest | 16 | — | — | — | — | (130) | **(130)** |
| **September 30, 2021** | | **$ 576,580** | **$ 49,682** | **$ (17,780)** | **$ (1,424)** | **$ 4,898** | **$ 611,956** |

| | Note | REIT units | Retained earnings | AOCL | Capital reserve | Non-controlling interest | **Total** |
|---|---|---|---|---|---|---|---|
| December 31, 2019 | | $ 407,551 | $ 8,700 | $ (11,400) | $ (1,424) | $ — | **$ 403,427** |
| Net income and other comprehensive loss | | — | 20,337 | (15,480) | — | — | **4,857** |
| Distributions | 13, 22 | — | (26,562) | — | — | — | **(26,562)** |
| **September 30, 2020** | | **$ 407,551** | **$ 2,475** | **$ (26,880)** | **$ (1,424)** | **$ —** | **$ 381,722** |

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 | Nine months ended September 30, 2021 | 2020 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income | | $ 67,237 | $ 20,337 |
| Items not affecting cash | | | |
| Straight-line rent | 6 | (449) | (1,181) |
| Change in fair value of financial instruments | 20 | 9,185 | 20 |
| Change in fair value of properties | 6 | (77,316) | (572) |
| IFRIC 21 property tax adjustment | 6 | 3,892 | 4,766 |
| Deferred income tax expense | 14 | 23,096 | 2,857 |
| Unit expense (income) | 22 | 2,216 | (1,881) |
| Share of loss in joint venture investments | 7 | 3,306 | 1,446 |
| Interest and finance costs | 19 | 31,499 | 24,995 |
| Cash interest paid, net | | (25,155) | (23,629) |
| Subscription receipts equivalent amount paid | 10, 19 | (4,933) | — |
| Changes in working capital items | | 10,962 | 4,144 |
| | | **$ 43,540** | **$ 31,302** |
| INVESTING ACTIVITIES | | | |
| Acquisitions | 5 | (116,525) | (90,994) |
| Dispositions | 5 | 4,059 | 112,768 |
| Investment in joint ventures | 7 | (70,400) | — |
| Distributions from joint venture investments | 7 | 1,348 | — |
| Funds held in escrow | 8 | 19,123 | (187) |
| Capital expenditures | 6 | (3,450) | (1,902) |
| Leasing costs | 6 | (1,069) | (1,048) |
| Tenant improvements | 6 | (1,475) | (2,883) |
| Development and expansion capital | 6 | (21,005) | (4,284) |
| | | **$ (189,394)** | **$ 11,470** |
| FINANCING ACTIVITIES | | | |
| Revolver advances, net | 11, 28 | 129,494 | 290,366 |
| Term loan finance costs | 11, 28 | (2) | (1,814) |
| Mortgage advances, net | 11, 28 | 166,423 | 81,689 |
| Revolver, term loan and mortgage repayments | 11, 28 | (207,321) | (383,588) |
| Equity offering proceeds | 13 | 99,138 | — |
| REIT unit distributions | 22 | (30,688) | (26,562) |
| Exchangeable units of subsidiaries distributions | 22 | (699) | (699) |
| Distributions to non-controlling interest | 16 | (130) | — |
| | | **$ 156,215** | **$ (40,608)** |
| **Increase in cash** | | **10,361** | **2,164** |
| **Cash, beginning of the period** | | **2,362** | **2,412** |
| **Cash, end of the period** | | **$ 12,723** | **$ 4,576** |

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 November 2, 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. 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.

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.

iii. 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 25 for further details.

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 September 30, 2021 that affect fair value of properties. Actual results could differ from those estimates under different assumptions.

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

## 4. PORTFOLIO ACQUISITION

On September 22, 2021, the REIT acquired an interest in three grocery-anchored portfolios comprising an aggregate of 25 properties and 3.1 million square feet in major metro markets across the United States (the "Acquisition"). The Acquisition was acquired for $390 million less the assumption of debt and subject to other adjustments. The operational results of these properties have been included in these consolidated financial statements from the date of acquisition.

| | | | | September 30, 2021 | |
|---|---|---|---|---|---|
| Portfolio | State | Note | Presentation | Number of properties | Ownership interest |
| Tops Portfolio [1] | New York, Ohio and Georgia | 5 | Consolidation | 11 | 90% |
| Tom Thumb Portfolio | Texas, Florida and California | 7 | Joint venture investments | 10 | 90% – 95% |
| Other Grocery Portfolio | New York and Indiana | 7 | Joint venture investments | 4 | 85% |

The following summarizes the net cash paid and working capital assumed, for the Acquisition:

| | Tops Portfolio | Tom Thumb Portfolio | Other Grocery Portfolio | Total |
|---|---|---|---|---|
| Properties | $ 136,100 | $ 137,620 | $ 116,280 | $ 390,000 |
| Assumed debt | (100,485) | (112,044) | (85,083) | (297,612) |
| **Cash consideration paid** | **$ 35,615** | **$ 25,576** | **$ 31,197** | **$ 92,388** |
| Working capital items [1] | 5,324 | 5,832 | 3,741 | 14,897 |
| **Total** | **$ 40,939** | **$ 31,408** | **$ 34,938** | **$ 107,285** |

[1] Includes cash, funds held in reserve, and other working capital assumed on acquisition.

### Performance fee

As a part of the Acquisition, the REIT is entitled to a performance fee, via a profit participation program ("performance fee") in an indirectly owned property of the Other Grocery Portfolio. The performance fee allows the REIT to earn 15% of the available cash flow in excess of a 9.5% return, to a maximum of $1.0 million.

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

## 5. PROPERTY ACQUISITIONS AND DISPOSITION

### Acquisitions

The REIT acquired 18 properties and one outparcel that is adjacent to an existing property during the nine month period ended September 30, 2021. These 18 properties and one outparcel include 11 properties purchased as a part of the Acquisition (note 4). The interests in 14 other properties purchased as a part of the Acquisition are not held in entities consolidated by the REIT. These 14 properties are recorded as Joint Venture Investments (note 7).

The operational results of these properties have been included in these consolidated financial statements from the date of acquisition.

| Property | Note | Purchase date | Purchase interest | Location | | Purchase price |
|---|---|---|---|---|---|---|
| Bells Fork Square | | February 10, 2021 | 100 % | Greenville, North Carolina | $ | 9,250 |
| Parkway Station | | February 10, 2021 | 100 % | Warner Robins, Georgia | | 7,892 |
| Westin Centre | | February 10, 2021 | 100 % | Fayetteville, North Carolina | | 8,091 |
| Tanglewood Commons | | February 10, 2021 | 100 % | Clemmons, North Carolina | | 15,089 |
| Mission Hills Shopping Center | | February 10, 2021 | 100 % | Naples, Florida | | 13,863 |
| Glenlake Plaza | | July 15, 2021 | 100 % | Indianapolis, Indiana | | 8,500 |
| Bloomingdale Plaza Outparcel | | July 29, 2021 | 100 % | Brandon, Florida | | 582 |
| Prairie Point | | September 9, 2021 | 100 % | Aurora, Illinois | | 15,250 |
| Tops Portfolio [1 2] | 4 | September 22, 2021 | 90 % | New York, Ohio and Georgia | | 151,902 |
| **Total** | | | | | **$** | **230,419** |

[1] Included in the acquisition balance is $15.8 million related to the non-controlling interest of the property.
[2] The REIT's policy is first to recognize each of the identifiable financial assets and liabilities at fair value upon initial recognition as required by IFRS 9, Financial Instruments, and then to allocate the remaining of the transaction price to the property which is initially measured at cost.

The net properties acquired for these acquisitions are as follows:

| | | |
|---|---|---|
| Purchase price | $ | 230,419 |
| Transaction costs | | 3,669 |
| Properties | | 234,088 |
| Working capital items | | (1,364) |
| Non-controlling interest | | (4,549) |
| **Total** | **$** | **228,175** |

### Disposition

The REIT disposed of one property outparcel during the nine month period ended September 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)

## 6. PROPERTIES

On September 30, 2021, the REIT owned 107 properties, of which, 93 are in entities consolidated by the REIT. The remaining 14 properties are accounted as joint venture investments and not included in the table below (note 7). The change in properties is as follows:

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | Note | 2021 | 2020 | 2021 | 2020 |
| Beginning of the period | | $ 1,418,968 | $ 1,274,347 | $ 1,277,180 | $ 1,288,536 |
| Acquisitions | 5 | 178,979 | 27 | 234,088 | 91,785 |
| Capital expenditures | | 1,653 | 852 | 3,450 | 1,902 |
| Leasing costs | | 492 | 412 | 1,069 | 1,048 |
| Tenant improvements | | 64 | 739 | 1,475 | 2,883 |
| Development and expansion capital | | 3,643 | 2,082 | 21,005 | 4,284 |
| Straight-line rent | | 8 | 530 | 449 | 1,181 |
| Dispositions | 5 | — | (6,100) | (4,100) | (113,250) |
| IFRIC 21 property tax adjustment | | 4,227 | 4,115 | (3,892) | (4,766) |
| Change in fair value | | 6 | (2,829) | 77,316 | 572 |
| **End of the period** | | **$ 1,608,040** | **$ 1,274,175** | **$ 1,608,040** | **$ 1,274,175** |

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

| | September 30, 2021 [1] | December 31, 2020 |
|---|---|---|
| Capitalization rate range | 5.75% – 13.00% | 6.00% – 9.50% |
| Weighted average capitalization rate | 7.09% | 7.34% |
| Impact on fair value due to a 25 basis point change in capitalization rates | $ 58,024 | $ 45,387 |
| Impact on fair value due to a $100,000 change in underlying annual stabilized income | $ 1,407 | $ 1,362 |

[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 September 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 September 30, 2021.

## 7. JOINT VENTURE INVESTMENTS

On September 22, 2021, the REIT acquired interest in two joint ventures as a part of the Acquisition as follows (note 4):

| Portfolio | REIT's interest | Location | Purchase price |
|---|---|---|---|
| Tom Thumb Portfolio | 90% – 95% | Texas, Florida and California | $ 25,577 |
| Other Grocery Portfolio | 85% | New York and Indiana | 31,196 |
| **Total** | | | **$ 56,773** |

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

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

| | | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|---|
| Anchors | State | Number of properties | Ownership interest | Number of properties | Ownership interest |
| Tom Thumb, Walmart and Raley's | Texas, Florida and California | 10 | 90% – 95% | N/A | N/A |
| Stop & Shop, Price Chopper, Acme Markets, and Strack & Van Til | New York and Indiana | 4 | 85% | N/A | N/A |
| Kroger | Michigan | 1 | 50% | 1 | 50% |

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

| | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|
| Beginning of the period | $ 3,474 | $ 5,049 |
| Initial investment | 56,773 | — |
| Working capital contributions | 13,627 | — |
| **Net cost of equity investment** | **$ 73,874** | **$ 5,049** |
| Distributions | (1,348) | — |
| Share of loss in joint venture investments | (3,306) | (1,446) |
| **End of the period** | **$ 69,220** | **$ 3,603** |

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

| | Tom Thumb Portfolio | Other Grocery Portfolio | Other | September 30, 2021 Total | December 31, 2020 Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Property | $ 154,958 | $ 139,102 | $ 21,795 | $ 315,855 | $ 21,690 |
| Current assets | 5,523 | 5,008 | 2,466 | 12,997 | 1,181 |
| | **$ 160,481** | **$ 144,110** | **$ 24,261** | **$ 328,852** | **$ 22,871** |
| Liabilities | | | | | |
| Debt | $ 124,925 | $ 103,913 | $ 15,234 | $ 244,072 | $ 13,758 |
| Other non-current liabilities | — | 1,104 | 22 | 1,126 | 15 |
| Current liabilities | 512 | 1,176 | 1,191 | 2,879 | 2,150 |
| | **$ 125,437** | **$ 106,193** | **$ 16,447** | **$ 248,077** | **$ 15,923** |
| **Net assets at 100%** | **$ 35,044** | **$ 37,917** | **$ 7,814** | **$ 80,775** | **$ 6,948** |
| **At the REIT's interest** | **$ 32,678** | **$ 32,635** | **$ 3,907** | **$ 69,220** | **$ 3,474** |

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

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

| | Tom Thumb Portfolio | Other Grocery Portfolio | Other | Three months ended September 30, 2021 | 2020 |
|---|---|---|---|---|---|
| Rental revenue | $ 431 | $ 393 | $ 425 | $ 1,249 | $ 906 |
| Property operating expenses | (117) | (63) | (245) | (425) | (44) |
| General and administrative expenses | (24) | (31) | 3 | (52) | — |
| Interest and finance costs | (113) | (53) | (209) | (375) | (134) |
| Change in fair value of financial instruments | — | 63 | — | 63 | — |
| Change in fair value of property [1] | (806) | (3,401) | 119 | (4,088) | (2,176) |
| **Net (loss) income and comprehensive (loss) income at 100%** | **$ (629)** | **$ (3,092)** | **$ 93** | **$ (3,628)** | **$ (1,448)** |
| **At the REIT's interest** | **$ (578)** | **$ (2,783)** | **$ 43** | **$ (3,318)** | **$ (724)** |

[1] Included in the balance of change in fair value of property is the $1.49 million difference related to the fair value of net assets at acquisition and the implied purchase price.

| | Tom Thumb Portfolio | Other Grocery Portfolio | Other | Nine months ended September 30, 2021 | 2020 |
|---|---|---|---|---|---|
| Rental revenue | $ 431 | $ 393 | $ 1,495 | $ 2,319 | $ 1,380 |
| Property operating expenses | (117) | (63) | (549) | (729) | (326) |
| General and administrative expenses | (24) | (31) | (5) | (60) | (280) |
| Interest and finance costs | (113) | (53) | (431) | (597) | (452) |
| Change in fair value of financial instruments | — | 63 | — | 63 | — |
| Change in fair value of property [1] | (806) | (3,401) | (393) | (4,600) | (3,214) |
| **Net (loss) income and comprehensive (loss) income at 100%** | **$ (629)** | **$ (3,092)** | **$ 117** | **$ (3,604)** | **$ (2,892)** |
| **At the REIT's interest** | **$ (578)** | **$ (2,783)** | **$ 55** | **$ (3,306)** | **$ (1,446)** |

[1] Included in the balance of change in fair value of property is the $1.49 million difference related to the fair value of net assets at acquisition and the implied purchase price.

### Debt refinancing

On July 2, 2021, the REIT refinanced the first mortgage loan in relation to the Kroger Portfolio or $15.5 million (2020 – $13.4 million). The mortgage bears interest at 3.05% and matures on August 1, 2026.

On September 30, 2021, the REIT refinanced the mortgage loan in relation to the Other Grocery Portfolio for $19.2 million (2020 – nil). The mortgage bears interest at 3.75% and matures on October 1, 2026.

### 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 Kroger joint venture investment located in Michigan. 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 nine month periods ended September 30, 2021 were nil and $18 thousand, respectively (three month period ended September 30, 2020 – nil, nine month period ended September 30, 2020 – $0.2 million).

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

## 8. OTHER ASSETS

Other assets are comprised of the following:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| **Current** | | |
| TIF notes receivable | $ 427 | $ 396 |
| Funds held in escrow [1] | 1,870 | 17,980 |
| Other [2] | 529 | 370 |
| | **$ 2,826** | **$ 18,746** |
| **Non-current** | | |
| TIF notes receivable | $ 1,424 | $ 1,855 |
| Funds held in escrow | 1,074 | 4,434 |
| | **$ 2,498** | **$ 6,289** |
| **Total** | **$ 5,324** | **$ 25,035** |

[1] Primarily composed of 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.

## 9. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Rent receivable | $ 4,407 | $ 5,140 |
| Allowance | (1,030) | (852) |
| Accrued recovery income | 7,016 | 5,087 |
| Other receivables | 4,520 | 3,453 |
| **Total** | **$ 14,913** | **$ 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:

| | Nine months ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| Beginning of the period | $ (852) | $ (673) |
| Allowance | (751) | (1,413) |
| Bad debt write-off | 202 | 574 |
| Bad debt recovery | 371 | 332 |
| **End of the period** | **$ (1,030)** | **$ (1,180)** |

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:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Current to 30 days | $ 826 | $ 1,829 |
| 31 to 60 days | 331 | 302 |
| 61 to 90 days | 5 | 626 |
| Greater than 90 days | 2,215 | 1,531 |
| **Total** | **$ 3,377** | **$ 4,288** |

## 10. SUBSCRIPTION RECEIPTS

On March 31, 2021, the REIT issued 11,420,000 subscription receipts at a price of C$11.65 per subscription receipt, for gross proceeds of C$133.0 million in connection with the Acquisition. Concurrently with the Acquisition on September 22, 2021, the subscription receipts were automatically exchanged for one class U unit of the REIT and a cash distribution equivalent payment of $0.43 being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between March 31, 2021 and September 22, 2021. The cash distribution equivalent payment of $4.93 million has been recorded in interest and finance costs (note 19).

Prior to conversion, the difference between the C$11.65 (USD$9.26) offered price per unit and the closing price of C$13.41 (USD$10.48) per unit on the day of conversion of the subscription receipts, was recorded to net income and comprehensive income as a $1.24 million and $13.84 million fair value change of financial instruments for three and nine month periods ended September 30, 2021, respectively.

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

## 11. DEBT

Debt held by the REIT at September 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 | $ 180,633 | $ 119,367 |
| 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 | December 6, 2024 | None | 4.03% | 11 | 132,004 | 103,950 | 103,950 | — |
| Mortgage | January 1, 2025 | None | 3.80% | 3 | 85,219 | 41,527 | 41,527 | — |
| Mortgage | July 1, 2025 | None | 4.14% | 5 | 81,820 | 38,760 | 38,760 | — |
| Mortgage | August 1, 2025 | None | 4.43% | 1 | 10,698 | 7,700 | 7,700 | — |
| Mortgage | March 18, 2030 | None | 3.48% | 8 | 156,067 | 80,962 | 80,962 | — |
| Mortgage | January 1, 2031 | None | 5.50% | 1 | 23,097 | 6,617 | 6,617 | — |
| Mortgage | May 1, 2031 | None | 3.75% | 19 | 286,064 | 167,167 | 167,167 | — |
| **Total** | | | | | | **$ 1,054,683** | **$ 935,316** | **$ 119,367** |

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 [5] | N/A [5] | $ 300,000 | $ 85,851 | $ 214,149 |
| Term loan [1] | March 21, 2025 | None | L+195 bps [3 4] | N/A [5] | N/A [5] | 225,000 | 225,000 | — |
| Term loan 2 [1] | February 9, 2023 | None | L+195 bps [3 4] | N/A [5] | N/A [5] | 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 24. 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 45 (December 31, 2020 - 58) of the REIT's properties at September 30, 2021.

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

The carrying value of debt held by the REIT at September 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 | 2.00% | $ 180,633 | $ (1,829) | $ 687 | $ 179,491 | $ — | $ 179,491 |
| Term loan | 1.90% | 225,000 | (1,377) | 409 | 224,032 | — | 224,032 |
| Term loan 2 | 1.90% | 83,000 | (2,285) | 1,679 | 82,394 | — | 82,394 |
| Mortgage | 4.03% | 103,950 | 570 | (4) | 104,516 | — | 104,516 |
| Mortgage | 3.80% | 41,527 | (1,549) | 993 | 40,971 | 1,128 | 39,843 |
| Mortgage | 4.14% | 38,760 | (1,079) | 755 | 38,436 | 1,898 | 36,538 |
| Mortgage | 4.43% | 7,700 | 22 | (1) | 7,721 | — | 7,721 |
| Mortgage | 3.48% | 80,962 | (1,562) | 200 | 79,600 | 1,683 | 77,917 |
| Mortgage | 5.50% | 6,617 | 127 | (17) | 6,727 | 558 | 6,169 |
| Mortgage | 3.75% | 167,167 | (3,133) | 200 | 164,234 | 3,176 | 161,058 |
| **Total** | | **$ 935,316** | **$ (12,095)** | **$ 4,901** | **$ 928,122** | **$ 8,443** | **$ 919,679** |

The carrying value of debt held by the REIT at December 31, 2020 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 | 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 September 30, 2021.
[2] Excludes the impact of any available extension options not yet exercised.

During the nine months ended September 30, 2021, the REIT made principal drawdowns, net of repayments totaling $88.6 million on the REIT's revolver and mortgages to fund the Acquisition as well as the purchase of two properties and one property outparcel to an existing property.

On September 22, 2021, as a part of the Acquisition of the Tops Portfolio, the REIT assumed a $104.5 million five-year mortgage, bearing interest at 4.03%, as well as a $7.7 million six-year mortgage, bearing interest at 4.43%.

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)

## 12. DERIVATIVES

Derivatives are comprised of the following:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Interest rate swaps | $ 25,035 | $ 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) | 1.0 | 1.9 | 3.9 | **2.5** |

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.

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

| | Note | Fair value of interest rate swaps | Deferred income tax | Net impact after tax |
|---|---|---|---|---|
| Balance, June 30, 2021 | | $ (27,870) | $ 7,179 | $ (20,691) |
| Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item | | (21) | 15 | (6) |
| Net payments made | 19 | 2,856 | (737) | 2,119 |
| **Balance, September 30, 2021** | | **$ (25,035)** | **$ 6,457** | **$ (18,578)** |

| | 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 | | (137) | 20 | (117) |
| Cumulative gain arising on cash flow hedges to profit or loss | | 3,727 | (958) | 2,769 |
| Net payments made | 19 | 8,384 | (2,155) | 6,229 |
| **Balance, September 30, 2021** | | **$ (25,035)** | **$ 6,457** | **$ (18,578)** |

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

| | Note | Fair value of interest rate swaps | Deferred income tax | Net impact after tax |
|---|---|---|---|---|
| Balance, June 30, 2020 | | $ (43,820) | $ 11,474 | $ (32,346) |
| Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item | | (28) | 8 | (20) |
| Net payments made | 19 | 3,039 | (796) | 2,243 |
| **Balance, September 30, 2020** | | **$ (40,809)** | **$ 10,686** | **$ (30,123)** |

| | 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 | | (27,512) | 7,201 | (20,311) |
| Cumulative loss arising on cash flow hedges to profit or loss | | (20) | 5 | (15) |
| Net payments made | 19 | 6,544 | (1,713) | 4,831 |
| **Balance, September 30, 2020** | | **$ (40,809)** | **$ 10,686** | **$ (30,123)** |

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. On September 21, 2021, the REIT settled the forward for a net gain of $927 thousand which is recorded in the statement of net income.

## 13. REIT UNITS AND EXCHANGEABLE UNITS OF SUBSIDIARIES

At September 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 | 58,337 |

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 (1B) ("GAR B")'s, 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. On September 22, 2021, one class U unit of the REIT was issued in exchange for each Subscription Receipt, without payment of additional consideration. The unit holders of the Subscription Receipts, on the date upon which the Subscription Receipts were exchanged for units of the REIT, received 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 (note 10).

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 $5.4 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 |
| Issued | 11,420 | — | — | — | — | — | 11,420 |
| Exchanged | 52 | (52) | — | — | — | — | — |
| **Class U units equivalent, September 30, 2021** | **58,337** | **153** | **282** | **28** | **920** | **132** | **59,852** |

| | 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 | 39 | (39) | — | — | — | — | — |
| **Class U units equivalent, September 30, 2020** | **40,502** | **208** | **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:

| | Nine months ended September 30, 2021 | 2020 |
|---|---|---|
| Beginning of the period | $ 9,566 | $ 10,926 |
| Change in fair value | 1,462 | (2,419) |
| **End of the period** | **$ 11,028** | **$ 8,507** |

**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 deferred unit incentive plan ("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. ("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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Beginning of the period | 188 | 145 | 165 | 135 |
| Reinvested distributions | 4 | 3 | 10 | 10 |
| Issuances | 6 | 6 | 23 | 28 |
| Redemption | — | — | — | (19) |
| **End of the period** | **198** | **154** | **198** | **154** |
| **Fair value of units** [1] | **$ 2,031** | **$ 1,212** | **$ 2,031** | **$ 1,212** |

[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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Class U units | 48,034 | 40,503 | 47,290 | 40,494 |
| Class A units | 153 | 208 | 157 | 216 |
| Class I units | 282 | 282 | 282 | 282 |
| Exchangeable units of subsidiaries | 1,080 | 1,080 | 1,080 | 1,080 |
| Deferred units | 193 | 149 | 182 | 136 |
| **Total** | **49,742** | **42,222** | **48,991** | **42,208** |

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:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Class U units | 58,337 | 46,865 |
| Class A units | 153 | 205 |
| Class I units | 282 | 282 |
| Exchangeable units of subsidiaries | 1,080 | 1,080 |
| Deferred units | 198 | 165 |
| **Total** | **60,050** | **48,597** |

## 14. INCOME TAXES

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

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.

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.

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

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 corporate, 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 25.70% (December 31, 2020 – 26.17%). 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.

Investment Inc. is subject to a combined federal and state income tax rate of 25.11% (December 31, 2020 – N/A). To the extent U.S. taxes are paid by Investment Inc., it will be deductible against the Foreign Accrual Property Income recognized by the REIT to the extent permitted by Canadian tax law.

Total taxes paid as of September 30, 2021 was $2.7 million (September 30, 2020 – $1.3 million).

## 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 21,896 | $ 13,742 |
| Prepaid rent | 4,628 | 2,478 |
| Tenant improvements payable | 5,428 | 318 |
| Other payables | 5,314 | 3,749 |
| **Total** | **$ 37,266** | **$ 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.

## 16. NON-CONTROLLING INTEREST

On September 22, 2021, the REIT acquired all of the rights and obligations relating to the management of a grocery anchored portfolio comprising 11 properties and 1.3 million square feet in major metro markets in New York, Ohio and Georgia. As a result of the acquisition of the management rights and other factors it was determined that the REIT obtained control with respect to its 90.0% investment in Tops Portfolio (note 4).

Tops is valued at $151.9 million, less the assumption of debt and subject to other adjustments. The operational results of these properties have been included in these consolidated financial statements from the date of acquisition.

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

| | September 30, 2021 |
|---|---|
| Assets | |
| Property | $ 156,274 |
| Other non-current assets | 1,881 |
| Current assets | 3,147 |
| | **$ 161,302** |
| Liabilities | |
| Debt | $ 112,325 |
| **Net Assets** | **$ 48,977** |
| Attributable to | |
| Unitholders of the REIT | **$ 44,079** |
| Non-controlling interest | **$ 4,898** |

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

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

| | Three months ended September 30, 2021 | Nine months ended September 30, 2021 |
|---|---|---|
| Rental revenue | $ 789 | $ 789 |
| Property operating expenses | (70) | (70) |
| General and administrative expenses | (22) | (22) |
| Interest and finance costs | (108) | (108) |
| Change in fair value of property | 4,199 | 4,199 |
| **Net income** | **$ 4,788** | **$ 4,788** |
| Attributable to | | |
| Unitholders of the REIT | $ 4,309 | $ 4,309 |
| Non-controlling interest | $ 479 | $ 479 |

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

| | Nine months ended September 30, 2021 |
|---|---|
| **Cash flows from** | |
| Operating | $ 931 |
| Investing | — |
| Financing | (1,300) |
| **Decrease in cash** | **$ (369)** |
| **Cash, as of acquisition date** | **2,466** |
| **Cash, end of period** | **$ 2,097** |

## 17. REVENUE

Revenue is comprised of the following:

| | Three months ended September 30, 2021 | Three months ended September 30, 2020 | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|---|---|
| Rental revenue | $ 25,431 | $ 24,228 | $ 74,338 | $ 70,972 |
| Common area maintenance recoveries | 3,193 | 2,640 | 9,402 | 7,736 |
| Property tax and insurance recoveries | 4,755 | 4,424 | 13,832 | 13,255 |
| Percentage rent | 63 | 18 | 384 | 321 |
| Other revenue [1] | 637 | 651 | 1,971 | 1,974 |
| **Total** | **$ 34,079** | **$ 31,961** | **$ 99,927** | **$ 94,258** |

[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 4.7 years (December 31, 2020 – 5.3 years) certain of which include clauses to enable periodic upward revisions in rental rates.

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

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

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| In one year or less | $ | 132,304 | $ | 123,241 |
| In more than one year but not more than five years | | 341,344 | | 331,812 |
| In more than five years | | 166,590 | | 192,119 |
| **Total** | **$** | **640,238** | **$** | **647,172** |

## 18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

| | | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | | 2021 | | 2020 | | 2021 | | 2020 |
| Asset management fees | 26 | $ | 1,574 | $ | 1,308 | $ | 4,424 | $ | 3,859 |
| Bad debt expense | | | 150 | | 933 | | 489 | | 1,628 |
| Professional fees and other | | | 735 | | 570 | | 2,145 | | 2,282 |
| Franchise and business taxes | | | 90 | | 482 | | 313 | | 1,028 |
| **Total** | | **$** | **2,549** | **$** | **3,293** | **$** | **7,371** | **$** | **8,797** |

## 19. INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

| | | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | | 2021 | | 2020 | | 2021 | | 2020 |
| Interest on debt and finance charges | 11 | $ | 5,619 | $ | 4,949 | $ | 16,503 | $ | 17,085 |
| Interest rate swaps, net settlement | 12 | | 2,856 | | 3,039 | | 8,650 | | 6,544 |
| Interest income | | | (9) | | (12) | | (26) | | (46) |
| Amortization of finance charges | 11 | | 474 | | 399 | | 1,523 | | 1,896 |
| Amortization of MTM premium | 11 | | (9) | | (4) | | (18) | | (418) |
| Amortization of deferred gain on TIF notes | | | (22) | | (22) | | (66) | | (66) |
| Subscription receipts equivalent amount | 10 | | 4,933 | | — | | 4,933 | | — |
| **Total** | | **$** | **13,842** | **$** | **8,349** | **$** | **31,499** | **$** | **24,995** |

## 20. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

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

| | | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | | 2021 | | 2020 | | 2021 | | 2020 |
| Interest rate swaps | 12 | $ | — | $ | — | $ | 3,727 | $ | (20) |
| Subscription receipts | 10 | | (1,239) | | — | | (13,839) | | — |
| Foreign exchange forward contract | 12 | | 3,341 | | — | | 927 | | — |
| **Total** | | **$** | **2,102** | **$** | **—** | **$** | **(9,185)** | **$** | **(20)** |

The subscription receipts issued by the REIT are settled by delivering a fixed number of the REIT's units for a fixed amount of cash. The REIT's trust units are puttable instruments and therefore the subscription receipts meet the definition of a liability under IAS 32, *Investment in joint ventures*. The subscription receipts are designated as fair value through profit or loss. The fair value of the subscription receipts are remeasured at the end of each reporting period with changes in fair value recorded in net income and comprehensive income. The difference between the

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C$11.65 (USD$9.26) offered price per unit and the closing price of C$13.41 (USD$10.48) per unit on the day of conversion of the subscription receipts was recorded to net income and comprehensive income as a $1.2 million and $13.8 million fair value change of financial instruments for the three and nine month periods ended September 30, 2021, respectively.

## 21. TRANSACTION COSTS

Transaction costs for the three and nine month periods ended September 30, 2021 were nil and $0.2 million, respectively (three month period ended September 30, 2020 – $16 thousand, nine month period ended September 30, 2020 – $3.1 million), and primarily relate to costs of the disposition of properties and property outparcels.

## 22. UNIT EXPENSE (INCOME)

Unit expense (income) is comprised of the following:

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | Note | 2021 | 2020 | 2021 | 2020 |
| Exchangeable units of subsidiaries distributions | 13 | $ 233 | $ 233 | $ 699 | $ 699 |
| Change in fair value of DUP | | (24) | 175 | 55 | (161) |
| Change in fair value of exchangeable units of subsidiaries | 13 | (176) | 807 | 1,462 | (2,419) |
| **Total** | | **$ 33** | **$ 1,215** | **$ 2,216** | **$ (1,881)** |

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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | Note | 2021 | 2020 | 2021 | 2020 |
| **Declared** | | | | | |
| REIT unit distributions | | $ 11,050 | $ 8,854 | $ 31,507 | $ 26,562 |
| Exchangeable units of subsidiaries distributions | 13 | 233 | 233 | 699 | 699 |
| | | **$ 11,283** | **$ 9,087** | **$ 32,206** | **$ 27,261** |
| Add: Distributions payable, beginning of period | | 3,487 | 3,029 | 3,487 | 3,029 |
| Less: Distributions payable, end of period | | (4,309) | (3,029) | (4,309) | (3,029) |
| **Distributions paid** | | **$ 10,461** | **$ 9,087** | **$ 31,384** | **$ 27,261** |

## 23. 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.

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

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

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Cash | $ 12,723 | $ 12,723 | $ 2,362 | $ 2,362 |
| Accounts receivable | 14,913 | 14,913 | 12,828 | 12,828 |
| TIF notes receivable | 1,851 | 1,943 | 2,251 | 2,332 |
| Financial assets within other assets [1] | 2,944 | 2,944 | 22,414 | 22,414 |
| **Total financial assets** | **$ 32,431** | **$ 32,523** | **$ 39,855** | **$ 39,936** |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 37,266 | $ 37,266 | $ 20,287 | $ 20,287 |
| Distributions payable | 4,309 | 4,309 | 3,487 | 3,487 |
| Interest rate swaps | 25,035 | 25,035 | 36,745 | 36,745 |
| Revolver | 179,491 | 180,633 | 84,381 | 85,851 |
| Term loan | 224,032 | 225,000 | 223,838 | 225,000 |
| Term loan 2 | 82,394 | 83,000 | 248,902 | 250,000 |
| Mortgages | 442,205 | 437,854 | 169,252 | 170,863 |
| Financial liabilities within other liabilities [2] | 2,917 | 2,917 | 2,721 | 2,721 |
| Exchangeable units of subsidiaries | 11,028 | 11,028 | 9,566 | 9,566 |
| **Total financial liabilities** | **$ 1,008,677** | **$ 1,007,042** | **$ 799,179** | **$ 804,520** |

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

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

| September 30, 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | $ 12,723 | $ — | $ — | $ 12,723 |
| Accounts receivable | — | 14,913 | — | 14,913 |
| TIF notes receivable | — | — | 1,943 | 1,943 |
| Financial assets within other assets [1] | 2,944 | — | — | 2,944 |
| **Total financial assets** | **$ 15,667** | **$ 14,913** | **$ 1,943** | **$ 32,523** |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | $ — | $ 37,266 | $ — | $ 37,266 |
| Distributions payable | — | 4,309 | — | 4,309 |
| Interest rate swaps | — | 25,035 | — | 25,035 |
| Revolver | — | 180,633 | — | 180,633 |
| Term loan | — | 225,000 | — | 225,000 |
| Term loan 2 | — | 83,000 | — | 83,000 |
| Mortgages | — | 437,854 | — | 437,854 |
| Financial liabilities within other liabilities [2] | 2,917 | — | — | 2,917 |
| Exchangeable units of subsidiaries | 11,028 | — | — | 11,028 |
| **Total financial liabilities** | **$ 13,945** | **$ 993,097** | **$ —** | **$ 1,007,042** |

[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)

## 24. 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 | September 30, 2021 | December 31, 2020 |
|---|---|---|---|
| Debt | 10 | $ 928,122 | $ 726,373 |
| Exchangeable units of subsidiaries | 13 | 11,028 | 9,566 |
| Unitholders' equity | | 611,956 | 452,718 |
| **Total** | | **$ 1,551,106** | **$ 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:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Gross book value | $ 1,715,471 | $ 1,323,554 |
| Debt | 928,122 | 726,373 |
| **Leverage ratio** | **54.1%** | **54.9%** |

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 | September 30, 2021 | December 31, 2020 |
|---|---|---|---|
| Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value | < 65% | 61.5% | 57.5% |
| Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x [1] | > 1.50x | 2.13x | 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.

## 25. 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 September 30, 2021, one individual tenant accounted for 8.1% (December 31, 2020 – 8.5%) of the REIT's base rent.

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

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.

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

| | Total contractual cash flow | Remainder of 2021 | 2022-2023 | 2024-2025 | Thereafter |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 37,266 | $ 37,266 | $ — | $ — | $ — |
| Revolver [1] | 180,633 | — | — | 180,633 | — |
| Revolver interest payable [1 2] | 10,943 | 933 | 8,764 | 1,246 | — |
| Term loan [1] | 225,000 | — | — | 225,000 | — |
| Term loan interest payable [1] | 19,491 | 1,050 | 10,021 | 8,420 | — |
| Term loan 2 [3] | 83,000 | — | 83,000 | — | — |
| Term loan 2 interest payable [3] | 2,226 | 387 | 1,839 | — | — |
| Mortgages | 446,683 | 2,081 | 17,390 | 197,000 | 230,212 |
| Mortgage interest payable | 103,945 | 4,296 | 33,646 | 26,063 | 39,940 |
| Letters of credit | 117 | 117 | — | — | — |
| Interest rate swap, net of cash outflows | 25,035 | 2,823 | 17,446 | 4,766 | — |
| Exchangeable units of subsidiaries | 11,028 | — | — | — | 11,028 |
| **Total** | **$ 1,145,367** | **$ 48,953** | **$ 172,106** | **$ 643,128** | **$ 281,180** |

[1] Revolver and term loan interest payable is calculated on $180.6 million and $225.0 million (balance outstanding) using an estimated "all in" interest rate of 1.95% and 1.85% 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 2.54%. 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 1.85% 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 2.00%. The total term loan 2 interest payable is calculated until maturity.

As a result of the Acquisition, the REIT maintains $8.0 million in cash to satisfy a mortgage covenant. As at September 30, 2021, these balances are 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 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").

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.

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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.

**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:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| **Variable-rate instruments** | | |
| Revolver | $ 180,633 | $ 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** | **$ 38,633** | **$ (39,149)** |
| **Effective fixed rate debt as a total of all debt** | **95.9%** | **105.3%** |
| **Annual impact of a 25 bps change on interest rates** | **$ 97** | **$ —** |

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.

## 26. 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 5.6% interest.

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

Fees to the Manager are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Asset management | $ 1,557 | $ 1,308 | $ 4,407 | $ 3,859 |
| Acquisition | 3,173 | — | 3,583 | 685 |
| **Total** | **$ 4,730** | **$ 1,308** | **$ 7,990** | **$ 4,544** |

On September 22, 2021, the independent trustees of the REIT approved the following amendments to the REIT's management agreement with the Manager, effective October 1, 2021 (the "amended management agreement"):

i. a new five-year term to October 1, 2026, with five-year renewal terms thereafter;

ii. reduction in asset management fees as the REIT grows from 0.40% of gross book value to 0.35%; and

iii. the Manager maintaining, at a minimum, its existing ownership of class U units throughout the term of amended management agreement

Trustee fees

The REIT's key personnel include trustees and officers of the REIT. For the three and nine month periods ended September 30, 2021, trustee fees amounted to $0.1 million and $0.4 million, respectively (three month period ended September 30, 2020 – $0.1 million, nine month period ended September 30, 2020 – $0.4 million).

## 27. 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.

## 28. 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 | 129,494 | — | (2) | 166,423 | — | **295,915** |
| Assumption of debt | — | — | — | 111,650 | — | **111,650** |
| Debt repayments | (34,710) | — | (167,000) | (5,611) | — | **(207,321)** |
| **Non-cash changes** | | | | | | |
| Amortization of MTM adjustments and costs | 326 | 194 | 494 | 491 | — | **1,505** |
| Change in fair value | — | — | — | — | 1,462 | **1,462** |
| **Balance, September 30, 2021** | **$ 179,491** | **$ 224,032** | **$ 82,394** | **$ 442,205** | **$ 11,028** | |

[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 12 for more detail.

## 29. SUBSEQUENT EVENT

On October 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.