Retail
REIT

SLATE

Consolidated financial statements of

SLATE RETAIL REIT

For the years ended December 31, 2017 and 2016

Slate Retail REIT
Consolidated financial statements

Table of contents

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Slate Retail REIT

We have audited the accompanying consolidated financial statements of Slate Retail REIT, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of income (loss), consolidated statements of comprehensive income (loss), consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Slate Retail REIT as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 16, 2018
Toronto, Ontario

SLATE RETAIL REIT
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of United States dollars, unless otherwise stated)

	Note	December 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	*4*	**$ 7,383**	$ 13,431
Deposits on properties		**—**	350
Prepaids		**2,919**	1,931
Accounts receivable	*5*	**9,876**	6,877
Other assets	*8*	**11,444**	577
		31,622	23,166
Non-current assets			
Interest rate swaps	*12*	**10,607**	7,033
Properties	*6, 7*	**1,454,463**	1,072,923
Other assets	*8*	**2,827**	11,484
		1,467,897	1,091,440
Total assets		**$ 1,499,519**	$ 1,114,606
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*9*	**$ 17,289**	$ 11,550
Distributions payable		**3,249**	2,393
Debt	*10*	**2,693**	1,771
		23,231	15,714
Non-current liabilities			
Debt	*10*	**880,353**	623,121
Other liabilities		**2,869**	2,001
Deferred income taxes	*16*	**63,537**	79,263
REIT units	*11*	**457,590**	369,277
Exchangeable units of subsidiaries	*11*	**24,075**	28,162
		1,428,424	1,101,824
Unitholders' equity		**47,864**	(2,932)
Total liabilities and unitholders' equity		**$ 1,499,519**	$ 1,114,606

SLATE RETAIL REIT
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in thousands of United States dollars, unless otherwise stated)

	Note		Year ended December 31, 2017		2016
Rental revenue	*21*	**$**	**118,736**	$	97,036
Property operating expenses			**(29,784)**		(25,575)
Other expenses	*13*		**(7,988)**		(7,524)
Interest expense and other financing costs, net	*14*		**(23,554)**		(18,127)
Debt defeasance loss	*10*		—		(2,832)
Transaction costs	*6, 15*		**(735)**		(1,030)
Change in fair value of properties	*7*		**(18,909)**		(4,295)
Net income before income taxes and unit expense			**37,766**		37,653
Deferred income tax recovery (expense)	*16*		**15,810**		(11,554)
Unit expense	*17*		**(6,270)**		(55,170)
Net income (loss)		**$**	**47,306**	$	(29,071)

SLATE RETAIL REIT
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands of United States dollars, unless otherwise stated)

	Note		Year ended December 31, 2017		2016
Net income (loss)		**$**	**47,306**	$	(29,071)
Items to be subsequently reclassified to profit or loss:					
Gain on cash flow hedges of interest rate risk, net of tax	*12*		**3,308**		4,241
Reclassification of cash flow hedges of interest rate risk to income	*12*		**182**		101
Other comprehensive income			**3,490**		4,342
Comprehensive income (loss)		**$**	**50,796**	$	(24,729)

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

SLATE RETAIL REIT
CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY
(in thousands of United States dollars, unless otherwise stated)

		Retained (deficit) earnings		Accumulated other comprehensive income ("AOCI")		Capital reserve		Total
Balance, December 31, 2016	$	(5,850)	$	4,342	$	(1,424)	**$**	**(2,932)**
Net income and comprehensive income		47,306		3,490		—		**50,796**
Balance, December 31, 2017	**$**	**41,456**	**$**	**7,832**	**$**	**(1,424)**	**$**	**47,864**

		Retained earnings (deficit)		AOCI		Capital reserve		Total
Balance, December 31, 2015	$	23,221	$	—	$	(1,424)	$	21,797
Net loss and comprehensive income		(29,071)		4,342		—		(24,729)
Balance, December 31, 2016	$	(5,850)	$	4,342	$	(1,424)	$	(2,932)

SLATE RETAIL REIT
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of United States dollars, unless otherwise stated)

	Note		Year ended December 31, 2017		2016
OPERATING ACTIVITIES					
Net income (loss)		**$**	**47,306**	$	(29,071)
Items not affecting cash:					
Deferred income tax (recovery) expense	*16*		**(15,810)**		11,554
Straight-line rent	*7*		**(1,930)**		(1,582)
Change in fair value of properties	*7*		**18,909**		4,295
IFRIC 21 property tax adjustment	*7*		**(1,956)**		(414)
Interest expense and other financing costs	*14*		**23,554**		18,127
Debt defeasance loss	*10*		**—**		2,832
Cash interest paid, net			**(23,089)**		(23,060)
Unit expense	*17*		**6,270**		55,170
Changes in non-cash working capital items			**(3,736)**		1,081
			49,518		38,932
INVESTING ACTIVITIES					
Acquisitions	*6*		**(390,755)**		(116,460)
Disposition of properties	*6*		**17,080**		37,323
Deposits on committed acquisitions			**—**		(350)
Funds held in escrow			**(47)**		2,162
Note advances	*8, 22*		**(1,748)**		—
Capital	*7*		**(4,382)**		(2,252)
Leasing costs	*7*		**(1,307)**		(1,200)
Tenant improvements	*7*		**(3,007)**		(3,581)
Development and expansion capital	*7*		**(7,186)**		(8,974)
			(391,352)		(93,332)
FINANCING ACTIVITIES					
Revolver advances	*10*		**328,823**		110,980
Term loan advances			**297,959**		—
Revolver, term loan and mortgage repayments	*10*		**(369,645)**		(65,370)
Issuance of REIT units, net of costs	*11*		**112,552**		36,388
Redemption of exchangeable units of subsidiaries	*11*		**(224)**		(52)
REIT units distributions, net of DRIP units issued	*11, 17*		**(31,666)**		(23,989)
Exchangeable units of subsidiaries distributions	*17*		**(2,013)**		(1,981)
			335,786		55,976
(Decrease) increase in cash and cash equivalents		**$**	**(6,048)**	$	1,576
Cash, beginning of the period			**13,431**		11,855
Cash and cash equivalents, end of the period		**$**	**7,383**	$	13,431

1. Description of the REIT and operations

Slate Retail 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 diversified revenue-producing commercial real estate properties (the "properties") in the United States of America (the "U.S.") with a focus on grocery-anchored retail properties.

The class U units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbols SRT.U and SRT.UN. The principal, registered, and head office of the REIT is 121 King Street West, Suite 200, Toronto, Ontario, M5H 3T9.

The objectives of the REIT are to:

i. provide unitholders with stable cash distributions from a portfolio of diversified revenue-producing commercial real estate properties in the U.S. with a focus on grocery-anchored retail properties;

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

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

2. Basis of preparation

i. Statement of compliance

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

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on February 16, 2018.

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

iv. Functional and presentation currency

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

3. Significant accounting policies

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

i. Basis of consolidation

The consolidated financial statements include the accounts of the REIT and 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.

ii. Properties

Properties include land and buildings held primarily to earn rental income, for capital appreciation or for both. The REIT accounts for the properties in accordance with IAS 40, *Investment Property* ("IAS 40"). For acquired properties that meet the definition of a business, the acquisition is accounted for as a business combination. Acquisitions of properties that do not meet the definition of a business are initially measured at cost including directly attributable transaction costs.

Subsequent to acquisition, properties are measured at fair value, which is determined based on available market evidence at the statement of financial position date including, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases less future cash outflows in respect of capital expenditures. Changes in fair value of properties are recognized in net income (loss) in the period in which they arise.

The carrying value of properties includes the impact of straight-line rent receivable, tenant inducements, direct leasing costs and adjustments related to the impact of IFRIC 21, *Levies* ("IFRIC 21") adjustments.

Direct leasing costs include leasing commissions, lease incentives, and legal fees directly attributable to negotiating and arranging a lease. Lease incentives that are spent on improvements are referred to as tenant improvements and are capitalized. All other lease incentives are referred to as tenant inducements. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of properties and are amortized on a straight-line basis over the term of a lease as a reduction of revenue.

When a property is disposed of, the gain or loss is determined as the difference between the sales price and the carrying amount of the property and is recognized in net income (loss) in the period of disposal as a change in the fair value of property. Sales costs are recorded as transaction costs on the statement of net income (loss).

iii. Business combinations

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

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

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

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

iv. Cash and cash equivalents

Cash comprises of cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

v. Funds held in escrow

Funds held in escrow represents restricted cash held in reserve for capital improvements and holdbacks as required by mortgages and tenant leases.

vi. Leases

Leases where the REIT, as the lessor, does not transfer substantially all the risks and rewards of ownership of its properties are classified as operating leases. Leases that transfer substantially all the risks and rewards of ownership of an asset are classified as finance leases. All of the REIT's leases are considered operating leases.

vii. Revenue recognition

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

viii. Expenses

Property operating expenses and other expenses are recognized in net income (loss) in the period in which they are incurred.

ix. Property tax liability and expense

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

x. Other comprehensive income

Comprehensive income (loss) consists of net income (loss) and OCI. OCI represents change in the REIT's equity during a period arising from transactions and other events with non-owner sources.

xi. Income taxes

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

xii. Slate Retail exchangeable units and GAR B exchangeable units

Class B units of Slate Retail Two L.P. and Slate Retail One L.P. ("Slate Retail exchangeable units"), which are each subsidiaries of the REIT, are redeemable by the unitholder, for cash or class U units of the REIT at the option of the REIT and therefore are classified as financial liabilities under IAS 32, *Financial Instruments: Presentation* ("IAS 32"). Exchangeable limited partnership units of GAR B ("GAR B exchangeable units") have also been issued from a subsidiary of the REIT and are redeemable for class U units at the option of the holder and therefore, are classified as financial liabilities under IAS 32.

Slate Retail exchangeable units and GAR B exchangeable units (collectively, the "exchangeable units of subsidiaries") are designated as fair value through profit and loss ("FVTPL") under IAS 39. Distributions paid on exchangeable units of subsidiaries are recorded as unit expense in the period in which they become payable.

xiii. REIT units

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

Financial instruments

Financial instruments are classified as one of: (i) held-to-maturity, (ii) loans and receivables, (iii) fair value through profit or loss ("FVTPL"), (iv) available-for-sale ("AFS"), or (v) other financial liabilities. The REIT has made the following classifications:

Financial instrument	Classification
Financial assets	
Cash and cash equivalents	Loans and receivables
Interest rate swaps	FVTPL [(1)]
Accounts receivable	Loans and receivables
TIF notes receivable	Loans and receivables
Financial assets within other assets	Loans and receivables
Notes receivable	Loans and receivables
Financial liabilities	
Accounts payable and accrued liabilities	Other financial liabilities
Distributions payable	Other financial liabilities
Revolver, term loans and mortgages	Other financial liabilities
TIF notes payable	Other financial liabilities
Financial liabilities within other liabilities	Other financial liabilities
REIT units	FVTPL
Exchangeable units of subsidiaries	FVTPL

[(1)] Interest rate swaps are held in a hedge relationship, such that fair value movements are recognized in OCI as opposed to profit or loss.

All financial assets and liabilities are measured at fair value on initial recognition. Transaction costs, other than those related to financial instruments classified as FVTPL, are capitalized to the carrying amount of the instrument. These costs include amortization of discounts or premiums on borrowings, fees and commissions paid to agents, brokers and advisers, transfer taxes, and duties that are incurred in connection with the arrangement of borrowings.

Subsequent to initial recognition, financial instruments classified as held-to-maturity, loans and receivables or other financial liabilities are measured at amortized cost, using the effective interest method. Financial instruments classified as FVTPL are measured at fair value with gains and losses recognized in net income (loss) as unit expense. AFS financial instruments are measured at fair value with unrealized gains and losses recognized in OCI. Fair value changes on derivatives that are designated and qualify for hedge accounted are recognized in OCI. Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognized in profit or loss.

The REIT derecognizes a financial asset or liability when its contractual rights or obligations expire, or it transfers its rights or obligations in a transaction in which substantially all the risks and rewards of ownership are transferred. Any rights and obligations created or retained by the REIT in a transfer are recognized as separate assets or liabilities.

xiv. Fair values

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

Except as noted, the carrying value of the REIT's financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values in other financial liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Fair value measurements recognized in the statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted prices in active markets for identical assets or liabilities that the REIT can access at the measurement date.
- Level 2: Inputs other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs that are not based on observable market data.

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

REIT units and exchangeable units of subsidiaries are measured at fair value based on the market trading price of REIT units consistent with Level 1. All other fair value measurements for non-derivative financial instruments are measured using Level 2 or Level 3 inputs.

The fair values of derivative instruments are calculated using quoted rates. The fair value of interest rate swaps, which is a Level 2 input, is calculated as the present value of estimated future cash flows discounted at actively quoted interest rates and an applicable yield curve for the duration of the instruments.

xv. Derivative financial instruments and hedging activities

A derivative financial instrument is initially recognized at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The REIT uses certain financial instruments to hedge its exposure to certain market risks arising from operational, financial and investing activities. At the inception of the hedge transaction, the REIT documents the following:

- the type of hedge;
- the relationship between the hedging instrument and hedged item;
- hedge effectiveness; and
- the REIT's risk management objective and strategy for undertaking various hedge transactions.

The REIT documents and assesses hedge effectiveness on an ongoing basis, whether the hedging instrument is highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedge – interest rate swap

The REIT has entered into pay-fixed, receive-float interest rate swap contacts that are a cash flow hedge for interest rate risk exposure on the REIT's floating rate debt. These contracts entitle the REIT to receive interest at floating rates on a notional principal amount and obliges the REIT to pay interest at a fixed rate on the same notional principal amount. This allows the REIT to raise borrowings at floating rates and swap them into fixed rates.

The interest rate swaps are designated as cash flow hedges in OCI. Accordingly, the changes in fair value of the swaps are recorded in the hedging reserve in OCI to the extent the hedges are highly effective in offsetting the hedged risk.

xvi. Deferred unit incentive plan

The REIT has a deferred unit incentive plan (“DUP”) whereby Trustees of the REIT, who are not also 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. Officers of the REIT may elect to acquire deferred class U units, which represent a right to receive class U units, in lieu of equivalent amounts of asset management fees for management services rendered by Slate Asset Management L.P. (the "Manager").

The deferred units are equivalent in value to REIT units and accumulate additional deferred units at the same rate that distributions are paid on REIT units in relation to the market value of REIT units, as defined by the DUP. Deferred units may be redeemed by a participant for a period of two years after the participant ceases to be a Trustee or Officer of the REIT in whole or in part for cash or REIT units. The value of deferred units when converted to cash will be equivalent to the market value of REIT units on the date of the redemption request. Deferred units have been classified as a liability recorded within the other liabilities account balance, and measured at fair value. Initial recognition of the deferred units is recorded as a general and administrative expense. Subsequent changes in the fair value of deferred units are recorded in net income (loss) as unit expense.

xvii. Finance costs

Finance costs comprise interest expense on borrowings, amortization or derecognition of mark-to-market adjustment on assumption of mortgages, amortization of transaction cost, accretion expense, and defeasance costs.

Transaction costs associated with financial liabilities measured at amortized cost, such as mortgages payable and the revolving credit facility are netted against the carrying amount of the related debt instrument and amortized using the effective interest method over the term of the related debt.

xviii. Use of estimates and judgments

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

A. Judgments

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

Business combinations

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

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

Lease contracts

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

Classification of REIT units and exchangeable units of subsidiaries

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

B. Estimates

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

Valuation of properties

On a quarterly basis, for properties that are not independently valued, the fair value of properties is determined by management using current leasing and market assumptions. For properties that are independently valued, management verifies inputs used to prepare the valuation report and holds discussions with the independent valuator.

The determination of the fair value of property requires the use of estimates such as future cash flows from assets, such as tenant profiles, future revenue streams and overall repair and condition of the property, capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

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

(a) Income approach

This approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the overall income capitalization method and/or the discounted cash flow analysis, as described below:

Overall income capitalization method: Year one income is stabilized and capitalized at a rate appropriate for each property. The most significant assumptions in determining fair values under the overall capitalization method include:

i. Stabilized net operating income – based on the location, type and quality of the properties and supported by existing lease terms, or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.

ii. Capitalization rate – based on location, size and quality of the properties and taking into account market data at the valuation date.

Discounted cash flow method: Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income.

For both methods, capitalization rates are the most significant assumption in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other things, in determining the most appropriate assumptions.

(b) Direct comparison approach

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

The REIT determines the fair value of properties based upon either the overall income capitalization rate method or the discounted cash flow method, or in certain circumstances a combination of both methods. At December 31, 2017 and December 31, 2016, all valuations were completed by management of the REIT using the overall income capitalization method.

The fair values of properties are measured individually without consideration to their aggregate value on a portfolio basis. No consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT's properties taken in aggregate may differ from the fair value of properties measured individually in the REIT's consolidated statements of financial position.

xix. New accounting policies

IAS 7, *Statement of Cash Flows* ("IAS 7")

The amendments to IAS 7 require disclosures that enable the evaluation of changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. The amendments have been applied prospectively for annual periods beginning on or after January 1, 2017.

The following are the primary disclosures required for changes in liabilities from financing activities: changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair values. IAS 7 also applies to changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Supplemental cash flow information disclosures have been included in the REIT's consolidated financial statements. Refer to Note 24 "Supplemental cash flow information" for more detail.

xx. Accounting pronouncements issued but not yet effective

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39 effective January 1, 2018. IFRS 9 provides new guidance on the classification and measurement, impairment and hedge accounting for financial instruments in addition to clarification for the treatment of modifications of financial liabilities that do not result in extinguishment. IFRS 9 is required to be adopted retrospectively with certain available transition provisions. The REIT is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. The REIT will adopt IFRS 9 for the annual period beginning January 1, 2018 and will apply the standard on a retrospective basis using the available transitional provisions.

Classification and measurement:

IFRS 9 requires a new approach for the classification and measurement of financial assets based on the REIT's business models for managing these financial assets and their contractual cash flow characteristics, this is summarized as follows:

i. Assets held for the purpose of collecting contractual cash flows that represent solely payments of principal and interest will be measured at amortized cost.

ii. Assets held within a business model where assets are both held for the purpose of collecting contractual cash flows or sold prior to maturity and the contractual cash flows represent solely payments of principal and interest will be measured at fair value through other comprehensive income ('FVTOCI").

iii. Assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest will be measured at fair value through profit or loss ("FVTPL").

The REIT has completed its review of the following financial instruments held and has performed cash flow and business model assessments on the REIT's financial assets and the impact includes; (i) the REIT's cash and cash equivalents, accounts receivable, TIF notes receivable, and financial assets within other assets currently measured at amortized cost will continue to be measured at amortized cost; and (ii) the REIT's interest rate swaps will continue to be measured at FVTPL.The REIT is in the process of evaluating the classification and measurement of its note receivable.

Impairment:

IFRS 9 introduces a new expected credit loss ("ECL") impairment model for all financial assets measured at amortized cost or debt instruments measured at FVTOCI. The new ECL model will result in an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

The ECL model is forward looking and requires the use of a reasonable and supportable forecast of future conditions in the determination of whether or not there has been a significant increase in credit risk since origination and measurement of the ECL. The REIT continues to refine certain aspects of the expected credit loss modeling process leading up to its March 31, 2018 first quarter reporting and the expected impact is (i) the REIT does not expect to record a material ECL allowance against TIF notes receivable, financial assets within other assets, and notes receivable as historical experience of loss on these balances is insignificant and based on the assessment of forward looking information, no significant increases in expected losses are expected. The REIT will continue to assess the valuation of these instruments; and (ii) the REIT does not expect to record a material ECL allowances against accounts receivable and has determined that its internal processes of evaluating each receivable on a specific basis for collectability using historical experience and adjusted for forward looking information, would appropriately allow the REIT to determine if there are significant increases in credit risk to then record a corresponding ECL allowance.

Hedge accounting:

IFRS 9 also introduces a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The REIT intends to adopt IFRS 9 hedge accounting in its financial statements for the annual period beginning on January 1, 2018 for new hedges entered into after this date.

Financial Liabilities:

Generally, IFRS 9 does not introduce changes to the classification of financial liabilities. The REIT will continue to measure its financial liabilities at amortized cost.

In regards to modifications of financial liabilities, IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in profit or loss at the date of modification. The REIT continues to refine its calculations of the required adjustments and expects that the REIT will recognize an increase in the amortized cost of its term loan resulting from the increase of term loan capacity during 2017.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 18, *Revenue,* and IAS 11, *Construction contracts,* and is effective January 1, 2018. The objective of IFRS 15 is to establish the principles that the REIT will apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The REIT has elected to apply the standard on a modified retrospective basis using certain practical expedients.

The REIT is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements.

The adoption of the new standard is not expected to have a material impact to the consolidated statements of income. The REIT's most material revenue stream is base rental revenue, which is outside the scope of IFRS 15. The recovery of costs related to the provision of services is considered within the scope of IFRS 15 and the REIT has concluded that the pattern of revenue recognition will remain unchanged. On the adoption of IFRS 15, the REIT will be required to disclose revenue recognized from contracts with customers separately from other sources of revenue, including those included within gross leases.

No impact on the consolidated statements of cash flow is expected from adoption.

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

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases*, and IFRIC 4, *Determining whether an arrangement contains a lease,* and is effective January 1, 2019. The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, Leases, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

The REIT has established an impact assessment and implementation team to evaluate the impacts of IFRS 16 on its consolidated financial statements. Currently, the REIT has completed the issue identification phase of the transition and has commenced its evaluation of the resulting impact on its consolidated financial statements, reporting system, internal controls and disclosures required by the standard.

4. Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments available on demand and is comprised of the following:

	December 31, 2017	December 31, 2016
Cash	**$ 5,380**	$ 13,431
Money market funds	**2,003**	—
Total	**$ 7,383**	$ 13,431

5. Accounts receivable

Accounts receivable is comprised of the following:

	December 31, 2017	December 31, 2016
Rent receivable	**$ 3,519**	$ 1,713
Allowance for doubtful accounts	**(322)**	(212)
Accrued recovery income	**5,148**	4,208
Other receivables	**1,531**	1,168
Total	**$ 9,876**	$ 6,877

Rent receivable consists of base rent and operating expense recoveries. Accrued recovery income represents amounts that have not been billed to the tenants and are generally billed and paid subsequent to the year in which they were incurred.

The change in allowance for doubtful accounts is as follows:

	Year ended December 31,	
	2017	2016
Beginning of the period	**$ (212)**	$ (206)
Allowance for doubtful accounts	**(572)**	(484)
Bad debt write-off	**224**	305
Bad debt recovery	**238**	173
End of the period	**$ (322)**	$ (212)

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

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

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

	December 31, 2017		December 31, 2016	
Current to 30 days	**$**	**2,404**	$	770
31 to 60 days		**223**		102
61 to 90 days		**65**		85
Greater than 90 days		**504**		544
Total	**$**	**3,196**	$	1,501

6. Acquisitions and dispositions

Acquisitions

The REIT acquired 17 properties and 1 property outparcel that is adjacent to an existing property during the year ended December 31, 2017. The operational results of these properties have been included in these consolidated financial statements from their respective date of acquisition.

Property	**Purchase date**	**Location**	**Purchase price** [1]	
Norwin Town Square	January 11, 2017	North Huntingdon, Pennsylvania	$	18,925
11 Galleria	February 21, 2017	Greenville, North Carolina		13,650
Eustis Village	May 19, 2017	Eustis, Florida		23,000
Mooresville Consumer Square	June 27, 2017	Mooresville, North Carolina		48,230
Wedgewood Commons	July 13, 2017	Stuart, Florida		23,182
Bellview Plaza	July 13, 2017	Pensacola, Florida		11,555
Cordova Commons	July 13, 2017	Pensacola, Florida		35,200
Shops at Cedar Point	July 13, 2017	Allentown, Pennsylvania		19,117
Northland Centre	July 13, 2017	State College, Pennsylvania		15,857
Battleground Village	July 19, 2017	Greensboro, North Carolina		14,394
Mapleridge Centre	August 8, 2017	Maplewood, Minnesota		13,400
Duluth Station	August 31, 2017	Duluth, Georgia		9,750
Summit Ridge outparcel	September 8, 2017	Mt Pleasant, Pennsylvania		290
North Lake Commons	September 25, 2017	Lake Zurich, Illinois		15,610
West Valley Marketplace	September 27, 2017	Allentown, Pennsylvania		34,500
Dorman Centre	September 29, 2017	Spartanburg, South Carolina		46,000
Good Homes Plaza	October 20, 2017	Ocoee, Florida		23,800
National Hills	November 13, 2017	Augusta, Georgia		24,650
Total			**$**	**391,110**

(1) The purchase price is net of adjustments related to purchase price credits.

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

Purchase price	$	391,110
Transaction costs		6,681
Properties		397,791
Working capital items		(6,686)
Total	**$**	**391,105**

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

During the year ended December 31, 2016, the REIT acquired the following 10 properties:

Property	Purchase date	Location		Purchase price
Charles Town Plaza	March 30, 2016	Charles Town, West Virginia	$	20,900
Abbott's Village	May 19, 2016	Alpharetta, Georgia		15,200
Flowers Plantation	June 3, 2016	Clayton, North Carolina		6,300
Sunset Plaza	June 29, 2016	Johnson City, Tennessee		9,000
Taylorsville Town Centre	August 8, 2016	Taylorsville, Utah		14,450
Eastpointe Shopping Centre	October 13, 2016	Clarksburg, West Virginia		11,600
Mooresville Town Square	November 14, 2016	Mooresville, North Carolina		16,700
Robson Crossing	November 21, 2016	Flowery Branch, Georgia		11,000
Armstrong Plaza	November 30, 2016	Fountain Inn, South Carolina		5,250
North Hixson Marketplace	December 14, 2016	Hixson, Tennessee		5,250
Total			**$**	**115,650**

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

Purchase price	$	115,650
Transaction costs		2,559
Properties		118,209
Working capital items		(1,749)
Total	**$**	**116,460**

Consideration for the acquisitions of $391.1 million (December 31, 2016 – $116.5 million) was funded by cash, the application of existing deposits and borrowings from the REIT's revolving credit facility (the "revolver") and proceeds from asset sales. The acquisitions have been determined to be asset acquisitions and accordingly, transaction costs have been recognized in the initial carrying amount of the property.

Dispositions

The REIT disposed of five property outparcels during the year ended December 31, 2017 as follows:

		Outparcel at North Branch Marketplace		Outparcel at 11 Galleria		Outparcels at Uptown Station		Total
Disposition date		March 1, 2017		June 6, 2017		August 30, 2017 October 26, 2017		
Number of outparcels		1		1		3		**5**
Location		North Branch, Minnesota		Greenville, North Carolina		Fort Walton Beach, Florida		
Sales price	$	11,250	$	1,485	$	4,375	**$**	**17,110**
Working capital		—		(5)		(25)		**(30)**
Disposition costs		(354)		(84)		(297)		**(735)**
Net proceeds	**$**	**10,896**	**$**	**1,396**	**$**	**4,053**	**$**	**16,345**

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

The REIT disposed of seven properties during the year ended December 31, 2016 as follows:

	Madison Centre	Ocean Plaza	Food Lion Portfolio [1]	Total
Disposition date	March 28, 2016	June 30, 2016	July 20, 2016	
Location	Madison, Alabama	North Myrtle Beach, South Carolina	Various	
Number of properties	1	1	5	**7**
Sale price	$ 9,100	$ 6,500	$ 21,920	**$ 37,520**
Working capital	(30)	(41)	(126)	**(197)**
Disposition costs	(140)	(224)	(666)	**(1,030)**
Net proceeds	**$ 8,930**	**$ 6,235**	**$ 21,128**	**$ 36,293**

[1] Food Lion anchored assets disposed of include Madison Plaza, Lovingston Plaza and Bowling Green Plaza, each located in Virginia, Gaston Marketplace located in South Carolina and Triangle Food Lion located in North Carolina.

7. Properties

On December 31, 2017, the REIT owned 86 income-producing properties. The change in properties is as follows:

	Note	Year ended December 31, **2017**	2016
Beginning of the period		**$ 1,072,923**	$ 978,526
Acquisitions	*6*	**397,791**	118,209
Capital		**4,382**	2,252
Leasing costs		**1,307**	1,200
Tenant improvements		**3,007**	3,581
Development and expansion capital		**7,186**	8,974
Straight-line rent		**1,930**	1,582
Dispositions	*6*	**(17,110)**	(37,520)
IFRIC 21 property tax adjustment		**1,956**	414
Change in fair value		**(18,909)**	(4,295)
End of the period		**$ 1,454,463**	$ 1,072,923

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

	December 31, 2017	December 31, 2016
Capitalization rate range	**6.25% – 9.50%**	6.00% – 9.00%
Weighted average capitalization rate	**7.25**	7.12%
Impact on fair value due to 25 basis point change in capitalization rates	**$ 51,730**	$ 38,463
Impact on fair value due to $100,000 change in underlying annual stabilized income	**$ 1,380**	$ 1,404

Under the fair value hierarchy, the fair value of the REIT's properties is determined using the overall income capitalization method using Level 3 inputs.

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

8. Other assets

Other assets are comprised of the following:

	Note	December 31, 2017	December 31, 2016
Current			
Tax incremental financing notes receivable		$ 510	$ 506
Note receivable [(1) (2)]	22	9,398	—
Funds held in escrow		93	71
Other [(1)]	22	1,443	—
		11,444	577
Non-current			
Tax incremental financing notes receivable		2,802	3,100
Note receivable [(1)]	22	—	7,650
Funds held in escrow		25	—
Other [(1)]	22	—	734
		2,827	11,484
Total		$ 14,271	$ 12,061

(1) Other includes interest accrued on a strategic acquisition loan arrangement, recorded as a note receivable, from the REIT to a U.S based entity in which Slate Asset Management L.P. has a significant interest. Refer to Note 22 "Related parties" for detail.
(2) The note receivable was classified as current as at December 31, 2017 as the REIT expects it will be realized within the next twelve months.

Tax incremental financing ("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.

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	December 31, 2017	December 31, 2016
Trade payables and accrued liabilities	$ 10,609	$ 7,540
Prepaid rent	3,665	2,557
Tenant improvements payable	387	138
Other payables	2,628	1,315
Total	$ 17,289	$ 11,550

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

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

10. Debt

Debt held by the REIT at December 31, 2017 is as follows:

	Maturity	Remaining extension options	Coupon (1)	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn (2)
Revolver (2) (3)	Feb. 26, 2020	One 1-year	L+200 bps (2)	N/A (4)	N/A (4)	$ 362,500	$ 160,314	$ 202,186
Term loan (2)	Feb. 26, 2021	None	L+200 bps (2)	N/A (4)	N/A (4)	362,500	362,500	—
Term loan 2 (2)	Feb. 9, 2023	None	L+200 bps (2)	N/A (4)	N/A (4)	250,000	250,000	—
Mortgage	Mar. 1, 2021	None	5.75%	1	26,610	11,232	11,232	—
Mortgage	Jan. 1, 2025	None	3.80%	3	79,710	45,315	45,315	—
Mortgage	Jun. 15, 2025	None	4.14%	6	97,445	56,862	56,862	—
TIF notes payable (5)	Feb. 28, 2019	None	L+350 bps	—	3,336	3,173	3,173	—
Total						**$1,091,582**	**$ 889,396**	**$ 202,186**

Debt held by the REIT at December 31, 2016 is as follows:

	Maturity	Remaining extension options	Coupon (1)	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn (2)
Revolver (2) (3)	Feb. 26, 2020	One 1-year	L+200 bps (2)	N/A (4)	N/A (4)	$ 292,500	$ 211,455	$ 81,045
Term loan (2)	Feb. 26, 2021	None	L+200 bps (2)	N/A (4)	N/A (4)	292,500	292,500	—
Mortgage	Mar. 1, 2021	None	5.75%	1	27,503	13,506	13,506	—
Mortgage	Jan. 1, 2025	None	3.80%	3	89,181	50,000	50,000	—
Mortgage	Jun. 15, 2025	None	4.14%	6	101,688	57,950	57,950	—
TIF notes payable (5)	Feb. 28, 2019	None	L+350 bps	—	3,611	3,525	3,525	—
Total						**$ 709,981**	**$ 628,936**	**$ 81,045**

(1) "L" means London Interbank Offering Rate ("LIBOR") and "bps" means basis points.
(2) 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 calculation of Consolidated Total Indebtedness to Gross Asset Value is provided in Note 19 "Capital Management". The revolver, term loan and term loan 2 provide for different spreads over one-month U.S. LIBOR depending on the ratio of Consolidated Total Indebtedness to Gross Asset Value. The applicable spread where Consolidated Total Indebtedness to Gross Asset Value is; (i) less than or equal to 45% is 155 bps; (ii) greater than 45% but less than or equal to 55% is 175 bps; (iii) greater than 55% but less than or equal to 60% is 200 bps; and (iv) greater than 60% is 225 bps.
(3) 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.
(4) 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 76 of the REIT's properties as of December 31, 2017 (59 of the REIT's properties as of December 31, 2016).
(5) The TIF notes receivable are pledged as security for the TIF notes payable. Interest on the TIF notes payable is equal to a three-month U.S. LIBOR, plus 350 bps. The interest rate for the three months ended December 31, 2017 was 4.84% (December 31, 2016- 4.35%).

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

The carrying value of debt held by the REIT at December 31, 2017 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	2.96%	$ 160,314	$ (2,186)	$ 863	$ 158,991	$ —	$ 158,991
Term loan	2.97%	362,500	(4,008)	1,821	360,313	—	360,313
Term loan 2	3.31%	250,000	(1,832)	46	248,214	—	248,214
Mortgage	5.75%	11,232	2,003	(991)	12,244	301	11,943
Mortgage	3.80%	45,315	(1,549)	308	44,074	898	43,176
Mortgage	4.14%	56,862	(1,079)	295	56,078	1,134	54,944
TIF notes payable	4.70%	3,173	(163)	122	3,132	360	2,772
Total		**$ 889,396**	**$ (8,814)**	**$ 2,464**	**$ 883,046**	**$ 2,693**	**$ 880,353**

The carrying value of debt held by the REIT at December 31, 2016 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	2.51%	$ 211,455	$ (1,594)	$ 376	$ 210,237	$ —	$ 210,237
Term loan	2.52%	292,500	(3,623)	1,218	290,095	—	290,095
Mortgage	5.75%	13,506	2,003	(679)	14,830	335	14,495
Mortgage	3.80%	50,000	(969)	197	49,228	—	49,228
Mortgage	4.14%	57,950	(1,079)	181	57,052	1,084	55,968
TIF notes payable	4.77%	3,525	(163)	88	3,450	352	3,098
Total		**$ 628,936**	**$ (5,425)**	**$ 1,381**	**$ 624,892**	**$ 1,771**	**$ 623,121**

(1) The effective interest rate for 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 December 31, 2017 and December 31, 2016.
(2) Excludes the impact of any available extension options not yet exercised.

On June 9, 2017, the REIT increased the revolver and term loan capacity each to $362.5 million or in aggregate by an additional $140.0 million. Proceeds from the increase in the term loan were used to reduce the outstanding amount on the revolver.

On September 29, 2017, the REIT entered into a $50.0 million term loan ("term loan 3") at LIBOR plus 200 bps that matured on March 29, 2018. Proceeds from the term loan were used to fund property acquisitions. This term loan was repaid on November 9, 2017 upon the REIT entering into a new $250.0 million term loan ("term loan 2"). This loan bears interest at LIBOR plus 200 bps and matures on February 9, 2023. The term loan is secured by a general pledge of equity of certain subsidiaries of the REIT, which collectively hold an interest in 76 of the REIT's properties. Proceeds from the term loan were also used to reduce the outstanding amount on the revolver.

During the year ended December 31, 2017, the REIT made principal repayments totaling $4.7 million on its mortgage maturing January 1, 2025, funded by cash received from the disposal of three property outparcels at Uptown Station in the year.

Defeasance of mortgage

On December 15, 2016, the REIT entered into an agreement (the "defeasance agreement") providing for the defeasance of $26.7 million of mortgage debt due April 30, 2021 with an annual interest rate of 5.8% (the "defeasance"). At the inception of such debt, the REIT had pledged to the lender five of its properties as security.

The cash outlay required for the defeasance in the amount of $31.2 million was required to purchase U.S. Treasury securities, the maturities of which satisfy the remaining interest and principal repayments of the debt from the effective date of the defeasance through to the repayment of the mortgage debt maturity date. In consideration for delivering the U.S. Treasury securities to the servicer, the five properties were released as collateral for the debt.

Under the terms of the defeasance agreement, a third party assumed the REIT's obligation under the mortgage debt, as well as the ownership interest in the related securities. As a result, the REIT recognized a loss on the defeasance of a mortgage of $2.8 million, which includes the difference between the purchase price of the U.S. Treasury securities and principal balance of the mortgage of $4.5 million, offset by $1.7 million of unamortized mark-to-market premiums. Funds in the amount of $2.7 million previously held in escrow under the borrowing agreement were released to the REIT.

11. REIT units and exchangeable units of subsidiaries

As at December 31, 2017, the REIT has the following REIT units issued and outstanding, represented in thousands of units:

	Class U	Class A	Class I
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	43,482	309	282

Each class of the REIT's units and each class of the exchangeable units issued by the REIT's subsidiaries are presented as financial liabilities in accordance with IAS 32.

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, subject to the proportionate entitlement of the holders of class A units, class I units and class U units of the REIT to participate in distributions made by the REIT including distributions of net income (loss), net realized capital gains or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities, based on their respective conversion ratios for class U units. REIT units will be fully paid and non-assessable when issued and are transferable.

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

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

The REIT made available a Distribution Reinvestment Plan ("DRIP") that allows holders of REIT units to elect to receive their distributions in the form of class U units. The REIT may issue up to 0.62 million class U units under the DRIP. The REIT may increase the number of class U units available to be issued under the DRIP at any time at its discretion subject to: (i) the approval of the Board of Trustees, (ii) the approval of any stock exchange upon which the REIT's units trade, and (iii) public disclosure of such an increase.

Exchangeable units of subsidiaries

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

Equity offering

On January 20, 2017, the REIT completed a sale of 5.6 million class U units by way of a public offering of 5.2 million class U units and a private placement to the Manager of 0.4 million class U units, at a price of $10.89 or C$14.35 per unit, for gross proceeds to the REIT of approximately $60.5 million or C$79.8 million. This total includes an over-allotment option that was fully exercised by the REIT's underwriters. The costs related to the offering totaled $2.7 million and are deducted against the cost of units issued. $57.8 million of the net proceeds were used to repay the revolver.

On May 31, 2017, the REIT completed a sale of 5.2 million class U units by way of a public offering of 5.0 million class U units and a private placement to the Manager of 0.2 million class U units, at a price of $11.00 or C$14.75 per unit, for gross proceeds to the REIT of approximately $57.7 million or C$77.3 million. This total includes an over-allotment option that was fully exercised by the REIT's underwriters. The costs related to the offering totaled $2.7 million and are deducted against the cost of units issued. $55.0 million of the net proceeds were used to repay the revolver.

Normal course issuer bid

The REIT has a normal course issuer bid ("NCIB") which was most recently renewed on May 26, 2017. The NCIB will remain in effect until the earlier of May 25, 2018 or the date on which the REIT has purchased an aggregate of 3.4 million class U units, representing 10% of the REIT's public float of 34.4 million class U units at the time of entering the bid through the facilities of the TSX.

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

	REIT units			Exchangeable units of subsidiaries			
Class / type	**U**	**A**	**I**	**SR1 (1)**	**SR2 (1)**	**GAR B**	**Total class U units equivalent**
Balance, December 31, 2016	32,267	334	322	220	1,747	545	**35,456**
Issued under the DUP	6	—	—	—	—	—	**6**
Issued under the DRIP	170	—	—	—	—	—	**170**
Issued under equity offerings	10,801	—	—	—	—	—	**10,801**
Redeemed	—	—	—	—	(22)	—	**(22)**
Exchanges	238	(25)	(40)	—	(122)	(49)	**—**
Balance, December 31, 2017	43,482	309	282	220	1,603	496	**46,411**
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
Class U units equivalent	**43,482**	**311**	**299**	**220**	**1,603**	**496**	46,411

	REIT units			Exchangeable units of subsidiaries			
Class / type	**U**	**A**	**I**	**SR1 (1)**	**SR2 (1)**	**GAR B**	**Total class U units equivalent**
Balance, December 31, 2015	28,511	391	358	220	1,779	547	**31,829**
Issued under the DRIP	93	—	—	—	—	—	**93**
Issued under rights offering	3,539	—	—	—	—	—	**3,539**
Redeemed	—	—	—	—	(5)	—	**(5)**
Exchanges	124	(57)	(36)	—	(27)	(2)	**—**
Balance, December 31, 2016	32,267	334	322	220	1,747	545	**35,456**
Conversion ratio to class U units	1.0000	1.0078	1.0554	1.0000	1.0000	1.0000	
Class U units equivalent	**32,267**	**337**	**340**	**220**	**1,747**	**545**	35,456

(1) "SR1" and "SR2" mean Slate Retail One exchangeable units and Slate Retail Two exchangeable units respectively.

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

	REIT units	Exchangeable units of subsidiaries	Total
Balance, December 31, 2016	$ 369,277	$ 28,162	**$ 397,439**
Issued under the DUP	66	—	**66**
Issued under the DRIP	1,797	—	**1,797**
Issued under equity offerings	112,595	—	**112,595**
Redeemed	—	(224)	**(224)**
Exchanges	1,784	(1,784)	**—**
Change in fair value	(27,929)	(2,079)	**(30,008)**
Balance, December 31, 2017	**$ 457,590**	**$ 24,075**	**$ 481,665**

	REIT units	Exchangeable units of subsidiaries	Total
Balance, December 31, 2015	$ 305,926	$ 26,597	**$ 332,523**
Issued under the DRIP	965	—	**965**
Issued under rights offering	36,388	—	**36,388**
Redeemed	—	(52)	**(52)**
Exchanges	313	(313)	**—**
Change in fair value	25,685	1,930	**27,615**
Balance, December 31, 2016	**$ 369,277**	**$ 28,162**	**$ 397,439**

For the year ended December 31, 2017, the REIT declared distributions of $34.3 million (December 31, 2016 – $25.3 million) on REIT units and $2.0 million (December 31, 2016 – $2.0 million) on exchangeable units of subsidiaries which were recorded as unit expense.

Deferred unit plans

Effective August 13, 2014, the REIT adopted a deferred unit incentive plan ("DUP") whereby Trustees of the REIT, who are not also 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.

On March 23, 2016, the REIT adopted 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 during the year ended December 31, 2017 and 2016, respectively, in thousands of units, is as follows:

	Year ended December 31,	
	2017	2016
Beginning of the period	**55**	23
Reinvested distributions	**4**	3
Issuances	**22**	29
Redemption of units	**(10)**	—
End of the period	**71**	55
Fair value of units	**$ 737**	$ 613

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:

	Year ended December 31, 2017	2016
Weighted average class U units outstanding	**40,731**	31,642
Class A units	**329**	371
Class I units	**303**	349
Exchangeable units of subsidiaries	**2,473**	1,974
Deferred units	**63**	35
Total	**43,899**	34,371

Class U units outstanding

The following is the total number of class U units outstanding, if all class U equivalent amounts are converted, in thousands of units:

	Year ended December 31, 2017	2016
Class U units outstanding	**43,482**	32,267
Class A units	**311**	337
Class I units	**299**	340
Exchangeable units of subsidiaries	**2,319**	2,512
Deferred units	**71**	55
Total	**46,482**	35,511

12. Interest rate swaps

The REIT has entered into two pay-fixed receive-float interest rate swap contracts to hedge the cash flow risk associated with monthly U.S. LIBOR based interest payments on a portion of the REIT's floating rate debt.

The terms of the interest rate swaps are as follows:

Effective date	November 2, 2016	September 1, 2017
Pay-fixed rate	1.104%	1.715%
Notional amount	$ 300,000	$ 100,000
Receive-floating rate	One-month U.S. LIBOR	One-month U.S. LIBOR
Maturity date	February 26, 2021	September 22, 2022

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the year ended December 31, 2017 and 2016 is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2016		$ 7,033	$ (2,691)	$ 4,342
Change in fair value of cash flow hedge of interest rate risk		3,388	(80)	3,308
Net payments made	*14*	186	(4)	182
Balance, December 31, 2017		**$ 10,607**	**$ (2,775)**	**$ 7,832**

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

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2015		$ —	$ —	$ —
Change in fair value of cash flow hedge of interest rate risk		6,869	(2,628)	4,241
Net payments made	*14*	164	(63)	101
Balance, December 31, 2016		**$ 7,033**	**$ (2,691)**	**$ 4,342**

13. Other expenses

Other expenses are comprised of the following:

	Note	Year ended December 31, 2017	2016
Asset management fees	*22*	**$ 4,978**	$ 4,211
Bad debt expense		**459**	616
Professional fees and other		**2,290**	1,792
Franchise and business taxes		**261**	905
Total		**$ 7,988**	$ 7,524

14. Interest expense and other financing costs, net

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

	Note	Year ended December 31, 2017	2016
Interest on debt and finance charges	*10*	**$ 22,903**	$ 18,368
Interest rate swaps, net settlement	*12*	**186**	164
Interest income		**(69)**	(58)
Interest income on notes receivable	*22*	**(708)**	(612)
Amortization of finance charges	*10*	**1,639**	1,143
Amortization of MTM premium	*10*	**(347)**	(848)
Interest income on TIF notes receivable		**(117)**	(101)
Interest expense on TIF notes payable		**154**	149
Amortization of deferred gain on TIF notes receivable		**(87)**	(78)
Total		**$ 23,554**	$ 18,127

15. Transaction costs

Transaction costs for the year ended December 31, 2017 were $0.7 million (year ended December 31, 2016 – $1.0 million). Transaction costs were comprised of costs related to the disposition of properties and outparcels at certain properties.

16. 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 Retail 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. is subject to a combined federal and state income tax rate of 26.15% (December 31, 2016 – 38.26%). Current taxes in Investment L.P. have been reduced to nil.

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

To the extent U.S. taxes are paid by Investment L.P. such amounts will be creditable against an investor's Canadian federal income tax liability to the extent permitted by Canadian tax law.

The loss carry-forwards and the tax effects of temporary differences that give rise to the recognition of deferred tax assets and liabilities is as follows:

		Year ended December 31, 2017		2016
Deferred tax assets				
Deferred financing costs	**$**	**12**	$	289
Loss carry-forwards		**4,731**		7,841
		4,743		8,130
Deferred tax liabilities				
Financial instruments		**3,279**		3,033
Properties		**65,001**		84,360
		68,280		87,393
Deferred tax liabilities, net	**$**	**63,537**	$	79,263

The following is a reconciliation of deferred tax liabilities during the period:

		Year ended December 31, 2017		2016
Beginning of the period	**$**	**79,263**	$	65,018
Deferred tax recorded in AOCI		**84**		2,691
Deferred tax (recovery) expense		**(15,810)**		11,554
End of the period	**$**	**63,537**	$	79,263

A reconciliation between the expected income taxes based upon the 2017 statutory rates and the income tax expense recognized during the period is as follows:

		Year ended December 31, 2017		2016
Net income before income taxes and unit expense	**$**	**37,766**	$	37,653
Expected income taxes at Canadian statutory tax rates of 26.5%	**$**	**10,008**	$	9,978
Net foreign income and rate differential	**$**	**(427)**	$	2,143
Permanent differences		**6**		152
Impact of tax rate reduction		**(25,074)**		—
Other items		**(323)**		(719)
Deferred income tax (recovery) expense	**$**	**(15,810)**	$	11,554

U.S. tax reform legislation

On December 22, 2017, the U.S. tax legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. Recognition of the tax effects of the Act is required in the interim and annual periods that include December 22, 2017. Key impacts of the Act that affect the REIT's December 31, 2017 year end include (i) a change in the federal corporate tax rate to 21% compared to a maximum of 35%; (ii) modifications to the availability of net operating loss carryforwards; and (iii) the repeal of the corporate alternative minimum tax.

As a result of the reduction in the federal corporate tax rate to 21% under the Tax Act, the REIT's deferred tax liability reduced by $25.1 million for the December 31, 2017 year end.

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

17. Unit expense

Unit expense is comprised of the following:

		Year ended December 31,	
	Note	**2017**	2016
REIT units distributions	*11*	**$ 34,326**	$ 25,277
Exchangeable units of subsidiaries distributions	*11*	**2,006**	1,987
Change in fair value of rights	*11*	**—**	257
Change in fair value of REIT units	*11*	**(27,983)**	25,719
Change in fair value of exchangeable units of subsidiaries	*11*	**(2,079)**	1,930
Total		**$ 6,270**	$ 55,170

18. Financial instruments

Except as noted, the carrying value of financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values in other financial liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

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

	December 31, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**$ 7,383**	**$ 7,383**	$ 13,431	$ 13,431
Accounts receivable	**9,876**	**9,876**	6,877	6,877
Interest rate swaps	**10,607**	**10,607**	7,033	7,033
TIF notes receivable	**3,312**	**3,336**	3,606	3,611
Other assets [(1)]	**118**	**118**	71	71
Notes receivable	**10,841**	**10,841**	8,384	8,384
Total financial assets	**$ 42,137**	**$ 42,161**	$ 39,402	$ 39,407
Financial liabilities				
Accounts payable and accrued liabilities	**17,289**	**17,289**	11,550	11,550
Distributions payable	**3,249**	**3,249**	2,393	2,393
Revolver	**158,991**	**160,314**	210,237	211,455
Term loan	**360,313**	**362,500**	290,095	292,500
Term loan 2	**248,214**	**250,000**	—	—
Mortgages	**112,396**	**113,409**	121,110	121,456
TIF notes payable	**3,132**	**3,173**	3,450	3,525
Other liabilities [(2)]	**2,869**	**2,869**	2,001	2,001
REIT units	**457,590**	**457,590**	369,277	369,277
Exchangeable units of subsidiaries	**24,075**	**24,075**	28,162	28,162
Total financial liabilities	**$ 1,388,118**	**$ 1,394,468**	$ 1,038,275	$ 1,042,319

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

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

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

December 31, 2017	Level 1	Level 2	Level 3	Fair value
Cash and cash equivalents	$ 7,383	$ —	$ —	$ 7,383
Accounts receivable	—	9,876	—	9,876
Interest rate swaps	—	10,607	—	10,607
TIF notes receivable	—	—	3,336	3,336
Other assets [1]	118	—	—	118
Notes receivable	—	10,841	—	10,841
Total financial assets	**$ 7,501**	**$ 31,324**	**$ 3,336**	**$ 42,161**
Accounts payable and accrued liabilities	—	17,289	—	17,289
Distributions payable	—	3,249	—	3,249
Revolver	—	160,314	—	160,314
Term loan	—	362,500	—	362,500
Term loan 2	—	250,000	—	250,000
Mortgages	—	113,409	—	113,409
TIF notes payable	—	3,173	—	3,173
Other liabilities [2]	2,869	—	—	2,869
REIT units	457,590	—	—	457,590
Exchangeable units of subsidiaries	24,075	—	—	24,075
Total financial liabilities	**$ 484,534**	**$ 909,934**	**$ —**	**$ 1,394,468**

December 31, 2016	Level 1	Level 2	Level 3	Fair value
Cash and cash equivalents	$ 13,431	$ —	$ —	$ 13,431
Accounts receivable	—	6,877	—	6,877
Interest rate swaps	—	7,033	—	7,033
TIF notes receivable	—	—	3,611	3,611
Other assets [1]	71	—	—	71
Notes receivable	—	8,384	—	8,384
Total financial assets	**$ 13,502**	**$ 22,294**	**$ 3,611**	**$ 39,407**
Accounts payable and accrued liabilities	—	11,550	—	11,550
Distributions payable	—	2,393	—	2,393
Revolver	—	211,455	—	211,455
Term loan	—	292,500	—	292,500
Mortgages	—	121,456	—	121,456
TIF notes payable	—	3,525	—	3,525
Other liabilities [2]	2,001	—	—	2,001
REIT units	369,277	—	—	369,277
Exchangeable units of subsidiaries	28,162	—	—	28,162
Total financial liabilities	**$ 399,440**	**$ 642,879**	**$ —**	**$ 1,042,319**

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

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

19. Capital management

The REIT's capital management objectives are to:

i. ensure compliance with the REIT's Declaration of Trust;

ii. ensure compliance with restrictions in debt agreements; and

iii. provide sufficient liquidity to operate the REIT's properties, fund obligations as they become due and build unitholder value.

Procedures to monitor compliance with the Declaration of Trust and debt agreements are performed as a part of the overall management of operations and periodically by review of the REIT's board of trustees and reporting to the REIT's lender. In order to maintain or adjust the capital structure, the REIT may issue trust units, debentures or mortgage debt, adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce or increase debt.

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

	December 31, 2017	December 31, 2016
Debt	**$ 883,046**	$ 624,892
REIT units	**457,590**	369,277
Exchangeable units of subsidiaries	**24,075**	28,162
Unitholders' equity	**47,864**	(2,932)
Total	**$ 1,412,575**	$ 1,019,399

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:

	December 31, 2017	December 31, 2016
Gross book value	**$ 1,499,519**	$ 1,114,606
Debt	**$ 883,046**	$ 624,892
Leverage ratio [1]	**58.9%**	56.1%

[1] The Declaration of Trust was amended on May 11, 2016 to change the gross book value threshold to 65% from 60%.

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

The REIT's 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	**December 31, 2017**	December 31, 2016
Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value	< 65%	**60.5%**	61.8%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x [1]	> 1.50x	**2.74x**	3.16x

[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.

20. Risk management

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

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

i. Credit risk

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

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

For the period ended December 31, 2017, one individual tenant accounted for 7.7% 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.

The REIT's contractual commitments are as follows as of December 31, 2017:

	Total contractual cash flow	In one year or less	In more than one year but not more than three years	In more than three years but not more than five years	In more than five years
Accounts payable and accrued liabilities	$ 17,289	$ 17,289	$ —	$ —	$ —
Revolver [(1)]	160,314	—	160,314	—	—
Revolver interest payable [(1) (2)]	14,368	6,224	8,144	—	—
Term loan [(1)]	362,500	—	—	362,500	—
Term loan interest payable [(1)]	44,839	12,932	29,593	2,314	—
Term loan 2 [(3)]	250,000	—	—	—	250,000
Term loan 2 interest payable [(3)]	54,162	9,544	21,660	21,738	1,220
Mortgages	113,410	2,333	5,142	15,130	90,805
Mortgage interest payable	29,470	4,679	9,043	7,597	8,151
Interest rate swaps, net cash outflows	52	52	—	—	—
TIF notes payable	3,173	360	2,813	—	—
TIF notes interest payable	281	149	132	—	—
REIT units	457,590	400	800	800	455,590
Exchangeable units of subsidiaries	24,075	—	—	—	24,075
Total contractual commitments	**$ 1,531,523**	**$ 53,962**	**$ 237,641**	**$ 410,079**	**$ 829,841**

[(1)] Revolver and term loan interest payable is calculated on $160.3 million and $362.5 million (balance outstanding) using an estimated "all in" interest rate of 3.57% under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR forward curve plus the specified margin for the LIBOR rate option under the revolver and term loan resulting in an anticipated increase to the "all-in" interest rate to 4.08%. 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 $250.0 million (balance outstanding) using an estimated "all in" Interest rate of 3.82% under the "less than one year" 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 and results in an anticipated increase to the "all-in" interest rate to 4.34%. 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, term loan 2 and TIF notes payable, 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, each 25-basis point change in interest rates would result in a $0.9 million change in annual interest expense.

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

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:

	December 31, 2017	December 31, 2016
Variable-rate instruments		
Revolver	**$ 160,314**	$ 211,455
Term loan	**362,500**	292,500
Term loan 2	**250,000**	—
TIF notes payable	**3,173**	3,525
Effect of interest rate swaps	**(400,000)**	(300,000)
Total effective floating rate debt	**$ 375,987**	$ 207,480
Annual impact of a 25 bps change on interest rates	**$ 940**	$ 519

iv. Unit price risk

The REIT is exposed to unit price risk as a result of the issuance of REIT units and exchangeable units of subsidiaries. REIT units and exchangeable units of subsidiaries have been classified as liabilities and measured at fair value based on market trading prices. REIT units and exchangeable units of subsidiaries negatively impact net income (loss) when the unit price rises and positively impact net income (loss) when unit prices decline. An increase of $1.00 in the underlying price of REIT units results in an increase to liabilities and a decrease (increase) in net income (loss) of $44.1 million. An increase of $1.00 in the underlying price of exchangeable units of subsidiaries results in an increase to liabilities and a decrease (increase) in net income (loss) of $2.3 million.

v. Currency risk

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

21. Leases

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

The REIT's existing leases have a weighted average outstanding term of 5.1 years (December 31, 2016 – 5.1 years) and may include clauses to enable periodic upward revisions in rental rates.

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

	December 31, 2017	December 31, 2016
In one year or less	**$ 108,328**	$ 77,142
In more than one year but not more than five years	**311,767**	212,658
In more than five years	**163,104**	129,117
Total	**$ 583,199**	$ 418,917

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

22. 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 $1.30, 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 measured at the exchange amount which is the consideration established and agreed to by the parties.

Fees to the Manager are as follows:

	Year ended December 31,	
	2017	2016
Asset management	**$ 4,978**	$ 4,211
Acquisition	**2,988**	885
Total	**$ 7,966**	$ 5,096

No incentive fees were incurred for the year-ended December 31, 2017 (December 31, 2016 – $nil).

Trustee fees

The REIT's key personnel include trustees and officers of the REIT. For the year ended December 31, 2017, Trustee fees amounted to $0.4 million (December 31, 2016 – $0.5 million).

Strategic acquisition loan

On October 20, 2015, the REIT provided a loan secured by a property to a U.S. based entity in which the Manager has a significant interest as part of the REIT's strategic acquisition loan arrangement. The loan is in the amount of $7.7 million, bears interest at 8.0% and matures on October 19, 2020. On March 6, 2017 and August 24, 2017, the REIT advanced an additional $1.2 million and $0.5 million under the loan arrangement, respectively.

Interest receivable on the loan was $1.4 million as at December 31, 2017 (December 31, 2016 – $0.7 million). As part of the strategic acquisition loan arrangement the REIT has the ability, but not the obligation, to purchase the property upon conversion of the property to a grocery-anchored retail centre.

23. Segmented information

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.

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

24. Supplemental cash flow information

Changes in liabilities arising from financing activities are as follows:

		Cash flows	Non-cash changes			
	December 31, 2016	Financing activities (1)	Fair value changes	Offsets (2) and amortization of MTM adjustments and costs	Issuances of DRIP and DUP, redemptions and exchanges of units (3)	December 31, 2017
Revolver (1)	$ 210,237	$ 17,882	$ —	$ (69,128)	$ —	$ 158,991
Term loan (1)	290,095	—	—	70,218	—	360,313
Term loan 2	—	248,167	—	47	—	248,214
Term loan 3	—	(208)	—	208	—	—
Mortgages	121,110	(8,628)	—	(86)	—	112,396
TIF notes payable	3,450	(352)	—	34	—	3,132
REIT units	369,277	112,552	(27,929)	—	3,690	457,590
Exchangeable units of subsidiaries	28,162	(224)	(2,079)	—	(1,784)	24,075
Total	**$ 1,022,331**	**$ 369,189**	**$ (30,008)**	**$ 1,293**	**$ 1,906**	**$ 1,364,711**

(1) Changes in financial assets that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 12 "Interest rate swaps" for more detail.
(2) Non-cash changes for the revolver and term loan relate to the amortization of financing costs and a reduction in the outstanding amount on the revolver as a result of the increase in loan capacity for the revolver and term loan each to $362.5 million or in aggregate by an additional $140.0 million. Proceeds from the increase in the term loan were used to reduce the outstanding amount on the revolver.
(3) Includes the redemption and exchanges of exchangeable units of subsidiaries into class U units.

25. Subsequent events

i. On January 9, 2018, the REIT disposed of an office outparcel at Westhaven located in Franklin, Tennessee. The outparcel was sold for $9.1 million.

ii. On January 15, 2018 and February 15, 2018, the REIT declared monthly distributions of $0.07 per class U unit. Holders of class A units, class I units and units of subsidiaries of the REIT were also entitled to receive a distribution at the respective conversion rate attributable to the units.

iii. On February 15, 2018, the REIT disposed of an outparcel at Mooresville Consumer Square located in Mooresville, North Carolina. The outparcel was sold for $6.5 million.