Retail REIT

SLATE

Consolidated financial statements of

# SLATE RETAIL REIT

For the years ended December 31, 2018 and 2017

# Slate Retail REIT
# Consolidated financial statements

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# INDEPENDENT AUDITOR'S REPORT

To the Unitholders and the Board of Trustees of Slate Retail REIT

**Opinion**

We have audited the consolidated financial statements of Slate Retail REIT (the "REIT"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, comprehensive (loss) income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 REIT's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Francesco (Frank) Quatrale.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
February 26, 2019

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Properties | *4, 5* | **$ 1,382,955** | $ 1,454,463 |
| Interest rate swaps | *6* | **2,818** | 10,607 |
| Other assets | *7* | **2,511** | 2,827 |
| | | **1,388,284** | 1,467,897 |
| **Current assets** | | | |
| Other assets | *7* | **12,222** | 11,444 |
| Prepaids | | **2,733** | 2,919 |
| Accounts receivable | *8* | **11,985** | 9,876 |
| Cash and cash equivalents | *9* | **1,110** | 7,383 |
| | | **28,050** | 31,622 |
| **Total assets** | | **$ 1,416,334** | $ 1,499,519 |
| | | | |
| **LIABILITIES AND UNITHOLDERS' EQUITY** | | | |
| **Non-current liabilities** | | | |
| Debt | *10* | **$ 868,517** | $ 880,353 |
| Other liabilities | | **2,945** | 2,869 |
| REIT units [(1)] | *11* | **—** | 457,590 |
| Exchangeable units of subsidiaries | *11* | **19,045** | 24,075 |
| Deferred income taxes | *12* | **57,481** | 63,537 |
| | | **947,988** | 1,428,424 |
| **Current liabilities** | | | |
| Debt | *10* | **3,045** | 2,693 |
| Accounts payable and accrued liabilities | *13* | **22,948** | 17,289 |
| Distributions payable | *18* | **3,157** | 3,249 |
| Taxes payable | | **1,393** | — |
| | | **30,543** | 23,231 |
| Unitholders' equity | | **437,803** | 47,864 |
| **Total liabilities and unitholders' equity** | | **$ 1,416,334** | $ 1,499,519 |

[(1)] Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

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

| | Note | | Year ended December 31, 2018 | | 2017 |
|---|---|---|---|---|---|
| Rental revenue | *14* | **$** | **144,213** | $ | 118,736 |
| Property operating expenses | | | **(40,509)** | | (29,784) |
| Other expenses | *15* | | **(10,306)** | | (7,988) |
| Interest expense and other financing costs, net | *16* | | **(35,424)** | | (23,554) |
| Disposition costs | *4, 17* | | **(2,201)** | | (735) |
| Change in fair value of properties | *5* | | **(66,686)** | | (18,909) |
| **Net (loss) income before income taxes and unit income (expense)** | | | **(10,913)** | | 37,766 |
| Deferred income tax recovery | *12* | | **4,021** | | 15,810 |
| Unit income (expense) | *11,18* | | **9,353** | | (6,270) |
| **Net income** | | **$** | **2,461** | $ | 47,306 |

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

| | Note | | Year ended December 31, 2018 | | 2017 |
|---|---|---|---|---|---|
| **Net income** | | **$** | **2,461** | $ | 47,306 |
| Items to be subsequently reclassified to profit or loss: | | | | | |
| (Loss) gain on cash flow hedges of interest rate risk, net of tax | *6* | | **(4,227)** | | 3,308 |
| Reclassification of cash flow hedges of interest rate risk to income | *6* | | **(1,527)** | | 182 |
| Other comprehensive (loss) income | | | **(5,754)** | | 3,490 |
| **Comprehensive (loss) income** | | **$** | **(3,293)** | $ | 50,796 |

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

| | Note | REIT units | Retained earnings | Accumulated other comprehensive income ("AOCI") | Capital reserve | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2017 (1) | | $ — | $ 41,337 | $ 7,832 | $ (1,424) | $ **47,745** |
| Net income and comprehensive loss | | — | 2,461 | (5,754) | — | **(3,293)** |
| REIT units (2) | *11* | 435,285 | — | — | — | **435,285** |
| Distributions | *11,18* | — | (25,657) | — | — | **(25,657)** |
| Repurchases | *11* | (16,487) | — | — | — | **(16,487)** |
| Exchanges | *11* | 210 | — | — | — | **210** |
| **Balance, December 31, 2018** | | **$ 419,008** | **$ 18,141** | **$ 2,078** | **$ (1,424)** | **$ 437,803** |

(1) Restated for the adoption of IFRS 9, Financial Instruments. Refer to Note 3(xx).
(2) Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

| | REIT units | Retained earnings | 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 |

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

| | Note | Year ended December 31, 2018 | 2017 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | | **$ 2,461** | $ 47,306 |
| Items not affecting cash: | | | |
| Deferred income tax recovery | *12* | **(4,021)** | (15,810) |
| Straight-line rent | *5* | **(2,572)** | (1,930) |
| Change in fair value of properties | *5* | **66,686** | 18,909 |
| IFRIC 21 property tax adjustment | *5* | **(200)** | (1,956) |
| Unit (income) expense | *18* | **(9,353)** | 6,270 |
| Interest expense and other financing costs | *16* | **35,424** | 23,554 |
| Cash interest paid, net | | **(34,738)** | (23,089) |
| Changes in non-cash working capital items | | **4,136** | (3,736) |
| | | **57,823** | 49,518 |
| **INVESTING ACTIVITIES** | | | |
| Acquisitions | *4* | **(12,594)** | (390,755) |
| Dispositions | *4* | **54,814** | 17,080 |
| Funds held in escrow | | **(26)** | (47) |
| Note advances | *7, 22* | **—** | (1,748) |
| Capital | *5* | **(5,555)** | (4,382) |
| Leasing costs | *5* | **(2,871)** | (1,307) |
| Tenant improvements | *5* | **(8,125)** | (3,007) |
| Development and expansion capital | *5* | **(9,864)** | (7,186) |
| | | **15,779** | (391,352) |
| **FINANCING ACTIVITIES** | | | |
| Revolver advances | *10, 24* | **38,100** | 328,823 |
| Term loan advances | *10, 24* | **—** | 297,959 |
| Revolver and mortgage repayments | *10, 24* | **(59,319)** | (369,645) |
| Issuance of REIT units, net of costs | *11* | **—** | 112,552 |
| Repurchases of REIT units | *11* | **(21,234)** | — |
| Redemption of exchangeable units of subsidiaries | *11* | **—** | (224) |
| REIT units distributions, net of DRIP units issued | *18* | **(35,547)** | (31,666) |
| Exchangeable units of subsidiaries distributions | *18* | **(1,875)** | (2,013) |
| | | **(79,875)** | 335,786 |
| **Decrease in cash and cash equivalents** | | **$ (6,273)** | $ (6,048) |
| **Cash and cash equivalents, beginning of the period** | | **7,383** | 13,431 |
| **Cash and cash equivalents, end of the period** | | **$ 1,110** | $ 7,383 |



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

### 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") as issued by the International Accounting Standards Board.

*ii. Approval of the consolidated financial statements*

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on February 26, 2019.

*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 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").

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 in the period of disposal as a change in the fair value of property. Sales costs are recorded as disposition costs on the consolidated statement of net income.

*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 IFRS 9, *Financial Instruments* ("IFRS 9") primarily in net income 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.

*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 holdbacks for property taxes 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. Lease components, including rents from tenants, percentage rents and property tax recoveries are accounted for pursuant to IAS 17, *Leases* ("IAS 17") and are therefore outside the scope of IFRS 15, while non-lease components which includes operating cost recoveries are within the scope of IFRS 15. 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. Operating cost recoveries are recognized in the period that services are performed and are chargeable to tenants.

*viii. Expenses*

Property operating expenses and other expenses are recognized in net income 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 (loss) income consists of net income 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 or loss ("FVTPL") under IFRS 9. 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.

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

Effective May 11, 2018, the REIT units have been classified as equity, as each unit class has identical features, and measured at cost and distributions to unitholders are recorded as equity and recognized when declared by the Board of Trustees. REIT units are presented as a separate component in the Consolidated Statements of Changes in Unitholder's Equity. Equity offering costs are deducted against the cost of units issued. Prior to May 11, 2018, units of the REIT were presented as a liability in its consolidated financial statements.

*xiv. Financial instruments*

Financial instruments are classified as amortized cost, fair value through profit or loss, or fair value through OCI. The REIT has made the following classifications:

| Financial instrument | Classification |
|---|---|
| **Financial assets** | |
| Cash | Amortized cost |
| Cash equivalents | FVTPL |
| Interest rate swaps (1) | FVTPL |
| Accounts receivable | Amortized cost |
| TIF notes receivable | Amortized cost |
| Financial assets within other assets | Amortized cost |
| Notes receivable | Amortized cost |
| **Financial liabilities** | |
| Accounts payable and accrued liabilities | Amortized cost |
| Distributions payable | Amortized cost |
| Revolver, term loans and mortgages | Amortized cost |
| TIF notes payable | Amortized cost |
| Financial liabilities within other liabilities | Amortized cost |
| REIT units (2) | FVTPL |
| Exchangeable units of subsidiaries | FVTPL |

(1) Interest rate swaps are held in a hedge relationship, such that fair value movements are recognized in other comprehensive income as opposed to profit or loss.
(2) Effective May 11, 2018, the class A, class I, and class U units of the REIT have been classified as equity instruments and accordingly been presented within unitholders' equity. Prior to May 11, 2018 refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

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.

Exchangeable units of subsidiaries are classified as FVTPL and are measured at fair value with gains and losses recognized in net income as unit expense. Prior to May 11, 2018, REIT units were classified as FVTPL and were measured at fair value with gains and losses recognized in net income as unit expense. Effective May 11, 2018, REIT units have been classified as equity instruments and accordingly been presented within unitholders' equity.

Subsequent to initial recognition, debt instruments or other financial liabilities are measured at amortized cost, using the effective interest method or at FVTPL. All recognized financial assets are measured subsequently in their entirety at either amortized cost or FVTPL, depending on the classification of the financial assets.

Fair value changes on derivatives that are designated and qualify for hedge accounting 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.

*Impairment of financial assets*

The REIT uses an expected credit loss ("ECL") impairment model for financial assets measured at amortized cost or debt instruments measured at FVTOCI. The ECL model uses an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The REIT recognizes lifetime ECL for trade receivables and 12-month ECL for TIF notes receivables and notes receivable. The amount of the expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

*xv. 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 considers 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 value of financial liabilities measured at amortized cost but disclosed at fair value in Note 19 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.

Exchangeable units of subsidiaries are measured at fair value based on the market trading price of REIT units consistent with Level 1. Effective May 11, 2018, REIT units have been classified as equity instruments and accordingly been presented within unitholders' equity. Prior to May 11, 2018, REIT units were 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, are 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.

*xvi. 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.

*xvii. 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 as unit expense.

*xviii. 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 and accretion expense.

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.

*xix. 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 and exchangeable units of subsidiaries 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 method, 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 considering 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, 2018 and December 31, 2017, 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.

*xx. Application of new and revised IFRSs*

The REIT has adopted the following new accounting standards:

*IFRS 9, Financial Instruments*

The REIT has applied IFRS 9 effective January 1, 2018. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and 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 transitional provisions.

Details of these new requirements as well as their impact on the REIT's consolidated financial statements are described below. The REIT has applied the standard on a retrospective basis using the available transitional provision to not restate comparatives. Accordingly, an adjustment has been made to retained earnings at January 1, 2018 as described below.

*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 approach is summarized as follows:

- Assets held for the purpose of collecting contractual cash flows that represent solely payments of principal and interest are measured at amortized cost.
- 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 are measured at fair value through other comprehensive income ("FVTOCI").
- Assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest are measured at FVTPL.

The REIT has completed a review of its financial instruments held including performing a cash flow and business model assessment. As a result, the REIT determined that cash and cash equivalents, accounts receivable, tax incremental financing ("TIF") notes receivable, financial assets within other assets, and notes receivable currently measured at amortized cost will continue to be measured at amortized cost, and that the REIT's interest rate swaps will continue to be measured at FVTPL.

*Impairment*

IFRS 9 requires the use of an expected credit loss ("ECL") impairment model for financial assets measured at amortized cost or debt instruments measured at FVTOCI. The ECL model uses an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

The REIT measures the loss allowance at an amount equal to lifetime ECL for trade receivables. The loss allowance for the TIF receivable and notes receivable is measured at an amount equal to 12 month ECL The REIT evaluates each receivable on a specific basis for collectability in addition to the ECL model in general. The REIT's measurement of financial assets primarily related to accounts receivables resulted in a reduction of retained earnings at January 1, 2018 in the amount of $6 thousand.

*Hedge accounting*

IFRS 9 expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. This new standard did not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it allows 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.

In accordance with IFRS 9's transition provisions for hedge accounting, the REIT has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on July 30, 2018. The REIT's qualifying hedging relationships in place as at July 30, 2018 also qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on July 30, 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The REIT has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

*Financial liabilities*

Generally, IFRS 9 did not introduce changes to the classification of financial liabilities. The REIT will continue to measure its exchangeable units of subsidiaries at FVTPL and all other financial liabilities at amortized cost. Effective May 11, 2018, REIT units have been classified as equity instruments and accordingly been presented within unitholders' equity. Prior to May 11, 2018, REIT units were measured at FVTPL.

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. This did not have a material impact on the REIT's measurement of its financial liabilities. The REIT's measurement of financial liabilities resulted in a reduction to retained earnings at January 1, 2018 in the amount of $113 thousand.

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

**Disclosures in relation to the initial application of IFRS 9**

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, January 1, 2018.

| Financial instrument | IAS 39 measurement category | IFRS 9 measurement category | Carrying amount under IAS 39 | Carrying amount under IFRS 9 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | Loans and receivables | Amortized cost | $ 5,380 | $ 5,380 |
| Cash equivalents | FVTPL | FVTPL | 2,003 | 2,003 |
| Interest rate swaps (1) | FVTPL | FVTPL | 10,607 | 10,607 |
| Accounts receivable | Loans and receivables | Amortized cost | 9,876 | 9,870 |
| TIF notes receivable | Loans and receivables | Amortized cost | 3,312 | 3,312 |
| Financial assets within other assets | Loans and receivables | Amortized cost | 118 | 118 |
| Notes receivable | Loans and receivables | Amortized cost | 10,841 | 10,841 |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost | 17,289 | 17,289 |
| Distributions payable | Amortized cost | Amortized cost | 3,249 | 3,249 |
| Revolver, term loans and mortgages | Amortized cost | Amortized cost | 879,914 | 880,027 |
| TIF notes payable | Amortized cost | Amortized cost | 3,132 | 3,132 |
| Financial liabilities within other liabilities | Amortized cost | Amortized cost | 2,869 | 2,869 |
| REIT units (2) | FVTPL | FVTPL | 457,590 | 457,590 |
| Exchangeable units of subsidiaries | FVTPL | FVTPL | 24,075 | 24,075 |

(1) Interest rate swaps are held in a hedge relationship, such that fair value movements are recognized in other comprehensive income as opposed to profit or loss.
(2) Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

*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 REIT has elected to apply the standard on a modified retrospective basis.

The adoption of the new standard did not have a material impact to the REIT's consolidated statements of income. The recovery of costs related to common area maintenance services is considered within the scope of IFRS 15 and the REIT has concluded that the pattern of revenue recognition remains unchanged. As a result of the adoption of IFRS 15, the REIT discloses revenue recognized from contracts with customers related to common area maintenance recoveries separately from other sources of revenue, including those included within gross leases. Refer to Note 14 for the incremental disclosures required by IFRS 15.

In addition, the REIT assessed that it is a principal in relation to property taxes that are paid directly by the tenants to the relevant taxing authority as the REIT is primarily responsible for fulfilling the promise to satisfy its property tax obligations. As a result, the REIT recognizes the gross amount of consideration for property taxes paid directly by tenants. There was no adjustment to opening retained earnings on the date of adoption of this standard.

There was no impact on the consolidated statements of cash flow as a result of the adoption of IFRS 15.

*xxi. Future accounting policies*

*IFRS 16, Leases* ("IFRS 16")

IFRS 16 replaces IAS 17 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.

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

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 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 is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. As a result of the adoption of IFRS 16, the REIT will separately disclose variable lease payments not connected to an index or rate including property tax recoveries and percentage rents. The adoption of the new standard is not expected to have a material impact to the consolidated statements of income. As a landlord, all of the REIT's leases are considered operating leases under IFRS 16.

## 4. Acquisitions and dispositions

*Acquisitions*

The REIT acquired one property during the year ended December 31, 2018. The operational results of this property have been included in these consolidated financial statements from the date of acquisition.

| **Property** | **Purchase date** | **Location** | | **Purchase price** |
|---|---|---|---|---|
| Plymouth Station | August 31, 2018 | Plymouth, Minnesota | $ | 20,465 |

The net assets acquired for this acquisition are as follows:

| | | |
|---|---|---|
| Purchase price | $ | 20,465 |
| Transaction costs | | 622 |
| Properties | | 21,087 |
| Working capital items | | (299) |
| Assumed debt | | (8,194) |
| **Total** | **$** | **12,594** |

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

During the year ended December 31, 2017, the REIT acquired the following 17 properties and one property outparcel that is adjacent to an existing property:

| 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 Center | July 13, 2017 | State College, Pennsylvania | | 15,857 |
| Battleground Village | July 19, 2017 | Greensboro, North Carolina | | 14,394 |
| Mapleridge Center | 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** |

Consideration for the acquisition of $12.6 million (December 31, 2017 – $391.1 million) was funded by cash on hand, the application of existing deposits and borrowings from the REIT's revolving credit facility (the "revolver"). The acquisitions have been determined to be asset acquisitions and accordingly, transaction costs have been recognized in the initial carrying amount of the properties.

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

*Dispositions*

The REIT disposed of two properties and 13 property outparcels during the year ended December 31, 2018 as follows:

| Property | Number of outparcels | Disposition date | Location | | Sales price |
|---|---|---|---|---|---|
| Westhaven Town Center Outparcel | 1 | January 9, 2018 | Franklin, Tennessee | $ | 9,100 |
| Mooresville Consumer Square Outparcel | 1 | February 15, 2018 | Mooresville, North Carolina | | 6,450 |
| Norwin Town Square Outparcel | 1 | March 16, 2018 | North Huntingdon, Pennsylvania | | 1,360 |
| Waterbury Plaza Outparcel | 1 | April 17, 2018 | Waterbury, Connecticut | | 3,300 |
| Mooresville Consumer Square Outparcels | 2 | August 22, 2018 | Mooresville, North Carolina | | 12,730 |
| Field Club Commons | N/A | September 26, 2018 | New Castle, Pennsylvania | | 9,800 |
| Roxborough Marketplace Outparcel | 1 | October 11, 2018 | Littleton, Colorado | | 1,550 |
| Roxborough Marketplace Outparcel | 1 | November 5, 2018 | Littleton, Colorado | | 710 |
| North Branch Marketplace Outparcel | 1 | November 19, 2018 | North Branch, Minnesota | | 1,760 |
| North Lake Commons Outparcel | 1 | December 4, 2018 | Lake Zurich, Illinois | | 1,252 |
| Cudahy Center | N/A | December 4, 2018 | Cudahy, Wisconsin | | 2,075 |
| Battleground Village Outparcel | 1 | December 13, 2018 | Greensboro, North Carolina | | 1,818 |
| Mooresville Consumer Square Outparcel | 1 | December 18, 2018 | Mooresville, North Carolina | | 1,491 |
| Stonefield Square Outparcel | 1 | December 24, 2018 | Louisville, Kentucky | | 1,700 |
| **Total** | | | | **$** | **55,096** |

| | | |
|---|---|---|
| Sales price | $ | 55,096 |
| Disposition costs | | (2,201) |
| Working capital items | | (282) |
| **Total** | **$** | **52,613** |

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

| Property | Number of outparcels | Disposition date | Location | | Sales price |
|---|---|---|---|---|---|
| North Branch Marketplace Outparcel | 1 | March 1, 2017 | North Branch, Minnesota | $ | 11,250 |
| 11 Galleria Outparcel | 1 | June 6, 2017 | Greenville, North Carolina | | 1,485 |
| Uptown Station Outparcels | 3 | August 30, 2017 | Fort Walton Beach, Florida | | 4,375 |
| **Total** | | | | **$** | **17,110** |

| | | |
|---|---|---|
| Sales price | $ | 17,110 |
| Disposition costs | | (735) |
| Working capital items | | (30) |
| **Total** | **$** | **16,345** |

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

## 5. Properties

On December 31, 2018, the REIT owned 85 properties. The change in properties is as follows:

| | Note | Year ended December 31, 2018 | 2017 |
|---|---|---|---|
| Beginning of the period | | **$ 1,454,463** | $ 1,072,923 |
| Acquisitions | *4* | **21,087** | 397,791 |
| Capital | | **5,555** | 4,382 |
| Leasing costs | | **2,871** | 1,307 |
| Tenant improvements | | **8,125** | 3,007 |
| Development and expansion capital | | **9,864** | 7,186 |
| Straight-line rent | | **2,572** | 1,930 |
| Dispositions | *4* | **(55,096)** | (17,110) |
| IFRIC 21 property tax adjustment | | **200** | 1,956 |
| Change in fair value | | **(66,686)** | (18,909) |
| **End of the period** | | **$ 1,382,955** | $ 1,454,463 |

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

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Capitalization rate range | **6.25% – 11.40%** | 6.25% – 9.50% |
| Weighted average capitalization rate | **7.50%** | 7.25% |
| Impact on fair value due to 25 basis point change in capitalization rates | **$ 46,916** | $ 51,730 |
| Impact on fair value due to $100,000 change in underlying annual stabilized income | **$ 1,332** | $ 1,380 |

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.

## 6. Interest rate swaps

The REIT has entered into certain pay-fixed receive-float interest rate swap contracts to hedge the cash flow risk associated with monthly U.S. London Interbank Offering Rate ("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 | August 22, 2018 | August 22, 2018 | **Total/ Weighted average** |
|---|---|---|---|---|---|
| Pay-fixed rate | 1.1040% | 1.7150% | 2.8840% | 2.9250% | **2.0257%** |
| Notional amount | $ 300,000 | $ 100,000 | $ 175,000 | $ 175,000 | **$ 750,000** |
| Receive-floating rate | One-month LIBOR | One-month LIBOR | One-month LIBOR | One-month LIBOR | |
| Maturity date | February 26, 2021 | September 22, 2022 | August 22, 2023 | August 22, 2025 | |
| Remaining term (years) | 2.2 | 3.1 | 4.6 | 6.6 | **3.9** |

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

A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact during the year ended December 31, 2018 and 2017 is as follows:

| | Note | Fair value of interest rate swaps | Deferred income tax | Net impact after tax |
|---|---|---|---|---|
| Balance, December 31, 2017 | | $ 10,607 | $ (2,775) | $ 7,832 |
| Change in fair value of cash flow hedges of interest rate risk | | (5,722) | 1,495 | (4,227) |
| Net payments received | *16* | (2,067) | 540 | (1,527) |
| **Balance, December 31, 2018** | | **$ 2,818** | **$ (740)** | **$ 2,078** |

| | 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 hedges of interest rate risk | | 3,388 | (80) | 3,308 |
| Net payments made | *16* | 186 | (4) | 182 |
| **Balance, December 31, 2017** | | **$ 10,607** | **$ (2,775)** | **$ 7,832** |

## 7. Other assets

Other assets are comprised of the following:

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **Current** | | | |
| TIF notes receivable | | **$ 510** | $ 510 |
| Note receivable | *22* | **9,398** | 9,398 |
| Funds held in escrow | | **119** | 93 |
| Other [(1)] | *22* | **2,195** | 1,443 |
| | | **12,222** | 11,444 |
| **Non-current** | | | |
| TIF notes receivable | | **2,486** | 2,802 |
| Funds held in escrow | | **25** | 25 |
| | | **2,511** | 2,827 |
| **Total** | | **$ 14,733** | $ 14,271 |

[(1)] Other includes interest accrued on a loan arrangement, recorded as a note receivable, from the REIT to a U.S. based entity in which the Manager has a significant interest. Refer to Note 22 "Related parties" for detail.

TIF notes receivable are issued by the City of St. Paul and by the City of Brainerd in Minnesota, related to the REIT's Phalen Retail Centre and East Brainerd Mall properties, respectively. The TIF notes obligate each municipality to pay certain tax increments resulting from increases, if any, from a reference amount in the taxable valuation of the respective property to the REIT.

## 8. Accounts receivable

Accounts receivable is comprised of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Rent receivable | **$ 3,748** | $ 3,519 |
| Allowance for doubtful accounts | **(741)** | (322) |
| Accrued recovery income | **6,101** | 5,148 |
| Other receivables | **2,877** | 1,531 |
| **Total** | **$ 11,985** | $ 9,876 |

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

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

The change in allowance for doubtful accounts is as follows:

| | Year ended December 31, 2018 | 2017 |
|---|---|---|
| Beginning of the period [(1)] | **$ (328)** | $ (212) |
| Allowance for doubtful accounts | **(717)** | (572) |
| Bad debt write-off | **107** | 224 |
| Bad debt recovery | **197** | 238 |
| **End of the period** | **$ (741)** | $ (322) |

[(1)] Restated the January 1, 2018 opening balance for the adoption of IFRS 9, Financial Instruments. Refer to Note 3(xx).

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

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

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Current to 30 days | **$ 2,128** | $ 2,405 |
| 31 to 60 days | **492** | 223 |
| 61 to 90 days | **125** | 65 |
| Greater than 90 days | **262** | 504 |
| **Total** | **$ 3,007** | $ 3,197 |

### 9. 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, 2018** | December 31, 2017 |
|---|---|---|
| Cash | **$ 1,110** | $ 5,380 |
| Money market funds | **—** | 2,003 |
| **Total** | **$ 1,110** | $ 7,383 |

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

### 10. Debt

Debt held by the REIT at December 31, 2018 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) | February 26, 2020 | One 1-year | L+200 bps (2) | N/A (4) | N/A (4) | $ 362,500 | $ 144,543 | $ 217,957 |
| Term loan (2) | February 26, 2021 | None | L+200 bps (2) | N/A (4) | N/A (4) | 362,500 | 362,500 | — |
| Term loan 2 (2) | February 9, 2023 | None | L+200 bps (2) | N/A (4) | N/A (4) | 250,000 | 250,000 | — |
| Mortgage | March 1, 2021 | None | 5.75% | 1 | 22,084 | 10,931 | 10,931 | — |
| Mortgage | January 1, 2025 | None | 3.80% | 3 | 78,055 | 44,417 | 44,417 | — |
| Mortgage | June 15, 2025 | None | 4.14% | 6 | 93,077 | 55,728 | 55,728 | — |
| Mortgage | January 1, 2031 | None | 5.50% | 1 | 22,596 | 7,964 | 7,964 | — |
| **Total** | | | | | | **$ 1,094,040** | **$ 876,083** | **$ 217,957** |

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) | February 26, 2020 | One 1-year | L+200 bps (2) | N/A (4) | N/A (4) | $ 362,500 | $ 160,314 | $ 202,186 |
| Term loan (2) | February 26, 2021 | None | L+200 bps (2) | N/A (4) | N/A (4) | 362,500 | 362,500 | — |
| Term loan 2 (2) | February 9, 2023 | None | L+200 bps (2) | N/A (4) | N/A (4) | 250,000 | 250,000 | — |
| Mortgage | March 1, 2021 | None | 5.75% | 1 | 26,610 | 11,232 | 11,232 | — |
| Mortgage | January 1, 2025 | None | 3.80% | 3 | 79,710 | 45,315 | 45,315 | — |
| Mortgage | June 15, 2025 | None | 4.14% | 6 | 97,445 | 56,862 | 56,862 | — |
| TIF notes payable | February 28, 2019 | None | L+350 bps | — | 3,336 | 3,173 | 3,173 | — |
| **Total** | | | | | | **$ 1,091,582** | **$ 889,396** | **$ 202,186** |

(1) "L" means 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 20 "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 74 of the REIT's properties.

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

The carrying value of debt held by the REIT at December 31, 2018 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 | 4.01% | $ 144,543 | $ (2,186) | $ 1,465 | $ 143,822 | $ — | $ 143,822 |
| Term loan | 4.14% | 362,500 | (3,877) | 2,463 | 361,086 | — | 361,086 |
| Term loan 2 | 4.00% | 250,000 | (1,839) | 372 | 248,533 | — | 248,533 |
| Mortgage | 5.75% | 10,931 | 2,003 | (1,310) | 11,624 | 319 | 11,305 |
| Mortgage | 3.80% | 44,417 | (1,549) | 495 | 43,363 | 1,103 | 42,260 |
| Mortgage | 4.14% | 55,728 | (1,079) | 396 | 55,045 | 1,182 | 53,863 |
| Mortgage | 5.50% | 7,964 | 127 | (2) | 8,089 | 441 | 7,648 |
| **Total** | | **$ 876,083** | **$ (8,400)** | **$ 3,879** | **$ 871,562** | **$ 3,045** | **$ 868,517** |

The carrying value of debt held by the REIT at December 31, 2017 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 | 2.96% | $ 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** |

(1) The effective interest rate for the revolver, term loan and term loan 2 includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. The revolver, term loan and term loan 2 effective rates are based on the applicable U.S. LIBOR rate under borrowings as at December 31, 2018.
(2) Excludes the impact of any available extension options not yet exercised.

On August 16, 2018, the REIT extinguished the TIF notes payable in the amount of $2.8 million, bearing interest of 5.19%, with borrowings from the REIT's revolver.

On August 31, 2018, in connection with the acquisition of Plymouth Station at Plymouth, Minnesota, the REIT assumed a mortgage of $8.0 million, bearing interest of 5.50%.

During the year ended December 31, 2018, the REIT made principal repayments totaling $56.5 million on the REIT's revolver and mortgages funded by cash received from the disposal of 13 property outparcels and two properties, as well as cash on hand.

### 11. REIT units and exchangeable units of subsidiaries

At December 31, 2018, the REIT has the following REIT units issued and outstanding, in thousands of units:

| | Class A | Class I | Class U |
|---|---|---|---|
| Authorized for issue | Unlimited | Unlimited | Unlimited |
| Issued and outstanding | 292 | 282 | 41,524 |

At December 31, 2018 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 of class A units, class I units and class U units of the REIT to participate in distributions made by the REIT including distributions of net income, net realized capital gains or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. REIT units will be fully paid and non-assessable when issued and are transferable.

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

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

Effective March 15, 2018 the REIT elected to suspend its distribution reinvestment plan ("DRIP"), which allowed holders of REIT units to elect to receive their distributions in the form of class U units.

*Exchangeable units of subsidiaries*

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

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

*Subdivision*

The REIT completed various steps to have its units presented as equity in its consolidated financial statements. The changes included the approval of a special resolution of an amendment to and restatement of the Declaration of Trust of the REIT (the “Third A&R DOT”) making the features of the class A units, class I units and class U units identical among all three classes, among other things. Also on May 1, 2018, the board of trustees of the REIT approved the subdivision of each of the: (i) class A units issued and outstanding on May 3, 2018 (the “record date”) on the basis of a subdivision ratio of one pre-subdivision class A unit for 1.0078 post-subdivision class A units; and (ii) class I units issued and outstanding on the record date on the basis of a subdivision ratio of one pre-subdivision class I unit for 1.0554 class I units (the "Subdivision"). The Third A&R DOT and the Subdivision were undertaken contemporaneously and the impact of such actions did not change the relative economics of the different classes of units of the REIT.

The Subdivision was completed on May 11, 2018. As a consequence of the Subdivision, the proportionate entitlement of the class A units and class I units with respect to distributions from the REIT has been adjusted to 1.0 and all class A units, class I units and class U units have equal rights with respect to distributions from the REIT, redemptions of units and on the termination of the REIT. Each class A unit and each class I unit have remained convertible into a class U unit but the conversation ratio is on a one-for-one-basis. The REIT issued an additional 3 thousand class A units and 15 thousand class I units as a result of the Subdivision. The fair value of the REIT units of $435.3 million at May 11, 2018 were classified as equity. Prior to May 11, 2018, units of the REIT were presented as a liability in its consolidated financial statements.

*Normal course issuer bid*

The REIT has a normal course issuer bid ("NCIB") which was most recently renewed on May 26, 2018. The NCIB remains in effect until the earlier of May 25, 2019 or the date on which the REIT has purchased an aggregate of 3.9 million class U units, representing 10% of the REIT's public float of 38.7 million class U units at the time of entering the NCIB through the facilities of the TSX.

For the year ended December 31, 2018, 2.2 million class U units have been purchased and subsequently canceled under the NCIB for a total cost, including transaction costs, of $21.2 million at an average price of $9.57.

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

| | REIT units | | | Exchangeable units of subsidiaries | | | Total class U units equivalent |
|---|---|---|---|---|---|---|---|
| **Class / type** | **U** | **A** | **I** | **SR1 [1]** | **SR2 [1]** | **GAR B** | |
| Balance, December 31, 2017 | 43,482 | 309 | 282 | 220 | 1,603 | 496 | **46,410** |
| Issued under the DRIP | 117 | — | — | — | — | — | **117** |
| Repurchases | (2,218) | — | — | — | — | — | **(2,218)** |
| Issued under the subdivision | — | 3 | 15 | — | — | — | **—** |
| Exchanges | 143 | (20) | (15) | — | — | (108) | **—** |
| **Class U units equivalent, December 31, 2018** | **41,524** | **292** | **282** | **220** | **1,603** | **388** | **44,309** |

| | REIT units | | | Exchangeable units of subsidiaries | | | Total class U units equivalent |
|---|---|---|---|---|---|---|---|
| **Class / type** | **U** | **A** | **I** | **SR1 [1]** | **SR2 [1]** | **GAR B** | |
| Balance, December 31, 2016 | 32,267 | 334 | 322 | 220 | 1,747 | 545 | **35,455** |
| 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 | **46,410** |
| Conversion ratio to class U units | 1.0000 | 1.0078 | 1.0554 | 1.0000 | 1.0000 | 1.0000 | |
| **Class U units equivalent, December 31, 2017** | **43,482** | **311** | **298** | **220** | **1,603** | **496** | **46,410** |

[1] "SR1" and "SR2" mean Slate Retail One exchangeable units and Slate Retail Two exchangeable units, respectively.

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

The change in the carrying amount of REIT units during the year ended December 31, 2018 as follows:

| | | REIT units |
|---|---|---|
| Balance, December 31, 2017 | $ | 457,590 |
| Issued under the DRIP | | 1,147 |
| Repurchases | | (4,747) |
| Exchanges | | 862 |
| Change in fair value | | (19,567) |
| **Balance, May 11, 2018 [(1)]** | **$** | **435,285** |
| Repurchases | | (16,487) |
| Exchanges | | 210 |
| **Balance, December 31, 2018** | **$** | **419,008** |

[(1)] Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity.

The change in the carrying amount of exchangeable units of subsidiaries during the year ended December 31, 2018 is as follows:

| | | Exchangeable units of subsidiaries |
|---|---|---|
| Balance, December 31, 2017 | $ | 24,075 |
| Exchanges | | (1,072) |
| Change in fair value | | (3,958) |
| **Balance, December 31, 2018** | **$** | **19,045** |

The change in the carrying amount of REIT units and exchangeable units of subsidiaries during the year ended December 31, 2017 is as follows:

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

*Deferred unit plans*

The REIT has a DUP for 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.

The REIT also has a DUP for officers of the REIT whereby officers may elect to receive deferred class U units, which represent a right to receive class U units, in lieu of an equivalent amount of asset management fees for management services rendered by the Manager.

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

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

| | Year ended December 31, 2018 | 2017 |
|---|---|---|
| Beginning of the period | **71** | 55 |
| Reinvested distributions | **7** | 4 |
| Issuances | **37** | 22 |
| Redemption of units | **—** | (10) |
| **End of the period** | **115** | 71 |
| **Fair value of units** [1] | **$ 993** | $ 737 |

[1] At the respective period end date.

*Weighted average class U units outstanding*

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

| | Year ended December 31, 2018 | 2017 |
|---|---|---|
| Class U units | **42,739** | 40,731 |
| Class A units | **295** | 329 |
| Class I units | **286** | 303 |
| Exchangeable units of subsidiaries | **2,229** | 2,473 |
| Deferred units | **90** | 63 |
| **Total** | **45,639** | 43,899 |

*Class U units outstanding*

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

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Class U units | **41,524** | 43,482 |
| Class A units | **292** | 311 |
| Class I units | **282** | 299 |
| Exchangeable units of subsidiaries | **2,211** | 2,319 |
| Deferred units | **115** | 71 |
| **Total** | **44,424** | 46,482 |

## 12. 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 26.22% (December 31, 2017 – 26.15%). 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.

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

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, 2018 | 2017 |
|---|---|---|
| **Deferred tax assets** | | |
| Deferred financing costs | $ **29** | $ 12 |
| Loss carry-forwards | **11,555** | 4,731 |
| | **11,584** | 4,743 |
| **Deferred tax liabilities** | | |
| Financial instruments | **1,326** | 3,279 |
| Properties | **67,739** | 65,001 |
| | **69,065** | 68,280 |
| **Deferred tax liabilities, net** | $ **57,481** | $ 63,537 |

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

| | Year ended December 31, 2018 | 2017 |
|---|---|---|
| Beginning of the period | $ **63,537** | $ 79,263 |
| Deferred tax recovery recorded in AOCI | **(2,035)** | 84 |
| Deferred tax recovery | **(4,021)** | (15,810) |
| **End of the period** | $ **57,481** | $ 63,537 |

A reconciliation between the expected income taxes based upon the 2018 statutory rates and the income tax expense recognized during the period is as follows:

| | Year ended December 31, 2018 | 2017 |
|---|---|---|
| Net (loss) income before income taxes and unit income (expense) | $ **(10,913)** | $ 37,766 |
| Expected income tax (recovery) expense at Canadian statutory tax rates of 26.5% | $ **(2,892)** | $ 10,008 |
| | | |
| Net foreign income and rate differential | $ **(1,902)** | $ (427) |
| Permanent differences | **1** | 6 |
| Impact of tax rate reduction | **—** | (25,074) |
| Other items | **772** | (323) |
| Deferred income tax recovery | $ **(4,021)** | $ (15,810) |

### 13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Trade payables and accrued liabilities | $ **14,500** | $ 10,609 |
| Prepaid rent | **3,656** | 3,665 |
| Tenant improvements payable | **186** | 387 |
| Other payables | **4,606** | 2,628 |
| **Total** | $ **22,948** | $ 17,289 |

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)

## 14. Revenue

Revenue is comprised of the following:

| | Year ended December 31, 2018 | 2017 |
|---|---|---|
| Rental revenue | $ **107,144** | $ 91,006 |
| Common area maintenance recoveries | **12,852** | 10,181 |
| Property tax and insurance recoveries | **19,691** | 13,831 |
| Other revenue [(1)] | **4,526** | 3,718 |
| **Total** | $ **144,213** | $ 118,736 |

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

The REIT enters into long-term lease contracts with tenants for space in the REIT's properties. Leases generally provide for the tenant to pay base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating costs and 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 4.8 years (December 31, 2017 – 5.1 years) certain of which include clauses to enable periodic upward revisions in rental rates.

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

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| In one year or less | $ **105,796** | $ 108,328 |
| In more than one year but not more than five years | **287,676** | 311,767 |
| In more than five years | **130,339** | 163,104 |
| **Total** | $ **523,811** | $ 583,199 |

## 15. Other expenses

Other expenses are comprised of the following:

| | **Note** | Year ended December 31, 2018 | 2017 |
|---|---|---|---|
| Asset management fees | *22* | $ **5,925** | $ 4,978 |
| Bad debt expense | | **1,105** | 459 |
| Professional fees and other | | **2,773** | 2,290 |
| Franchise and business taxes | | **503** | 261 |
| **Total** | | $ **10,306** | $ 7,988 |

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

### 16. Interest expense and other financing costs, net

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

| | Note | | Year ended December 31, 2018 | | 2017 |
|---|---|---|---|---|---|
| Interest on debt and finance charges | *10* | **$** | **36,805** | $ | 22,903 |
| Interest rate swaps, net settlement | *6* | | **(2,067)** | | 186 |
| Interest income | | | **(95)** | | (69) |
| Interest income on notes receivable | *22* | | **(752)** | | (708) |
| Amortization of finance charges | *10* | | **1,950** | | 1,639 |
| Amortization of MTM premium | *10* | | **(353)** | | (347) |
| Interest income on TIF notes receivable | | | **(99)** | | (117) |
| Interest expense on TIF notes payable | | | **122** | | 154 |
| Amortization of deferred gain on TIF notes | | | **(87)** | | (87) |
| **Total** | | **$** | **35,424** | $ | 23,554 |

### 17. Disposition costs

Disposition costs for the year ended December 31, 2018 were $2.2 million (year ended December 31, 2017 – $0.7 million), and relate to costs for the disposition of properties and property outparcels.

### 18. Unit (income) expense

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

On October 30, 2018, the REIT approved the increase of its monthly distribution by 1.8% to U.S.$0.07125 per unit, or U.S.$0.855 annually from U.S.$0.07 per unit or U.S.$0.81 annually, beginning with its December 2018 distribution.

Unit (income) expense is comprised of the following:

| | Note | | Year ended December 31, 2018 | | 2017 |
|---|---|---|---|---|---|
| REIT units distributions | *11* | **$** | **12,342** | $ | 34,326 |
| Exchangeable units of subsidiaries distributions | *11* | | **1,871** | | 2,006 |
| Change in fair value of DUP | | | **(156)** | | (53) |
| Change in fair value of REIT units (1) | *11* | | **(19,452)** | | (27,930) |
| Change in fair value of exchangeable units of subsidiaries | *11* | | **(3,958)** | | (2,079) |
| **Total** | | **$** | **(9,353)** | $ | 6,270 |

(1) Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

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

**Unit distributions**

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

| | | Year ended December 31, | |
|---|---|---|---|
| | **Note** | **2018** | 2017 |
| **Declared** | | | |
| REIT units distributions [1] | *11* | **$ 36,606** | $ 34,326 |
| Exchangeable units of subsidiaries distributions | *11* | **1,871** | 2,006 |
| | | **38,477** | 36,332 |
| Add: Distributions payable, beginning of period | | **3,249** | 2,393 |
| Less: Distributions payable, end of period | | **(3,157)** | (3,249) |
| **Distributions paid or settled [1]** | | **$ 38,569** | $ 35,476 |
| Paid in cash | | **$ 37,422** | $ 33,679 |
| Reinvested in units | *11* | **$ 1,147** | $ 1,797 |

[1] Excludes amounts payable to taxation authorities for branch profit taxes in the amount of $1.4 million.

Effective May 11, 2018, REIT units have been presented within unitholder's equity. For the year ended December 31, 2018, $24.3 million of distributions was recorded as equity (December 31, 2017 – nil). Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

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

## 19. 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, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial assets** | | | | |
| Cash and cash equivalents | **$ 1,110** | **$ 1,110** | $ 7,383 | $ 7,383 |
| Accounts receivable | **11,985** | **11,985** | 9,876 | 9,876 |
| Interest rate swaps | **2,818** | **2,818** | 10,607 | 10,607 |
| TIF notes receivable | **2,996** | **3,038** | 3,312 | 3,336 |
| Financial assets within other assets (1) | **144** | **144** | 118 | 118 |
| Notes and other receivable | **11,593** | **11,593** | 10,841 | 10,841 |
| **Total financial assets** | **$ 30,646** | **$ 30,688** | $ 42,137 | $ 42,161 |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | **22,948** | **22,948** | 17,289 | 17,289 |
| Distributions payable | **3,157** | **3,157** | 3,249 | 3,249 |
| Revolver | **143,822** | **144,543** | 158,991 | 160,314 |
| Term loan | **361,086** | **362,500** | 360,313 | 362,500 |
| Term loan 2 | **248,533** | **250,000** | 248,214 | 250,000 |
| Mortgages | **118,121** | **119,040** | 112,396 | 113,409 |
| TIF notes payable | **—** | **—** | 3,132 | 3,173 |
| Financial liabilities within other liabilities (2) | **2,945** | **2,945** | 2,869 | 2,869 |
| REIT units (3) | **—** | **—** | 457,590 | 457,590 |
| Exchangeable units of subsidiaries | **19,045** | **19,045** | 24,075 | 24,075 |
| **Total financial liabilities** | **$ 919,657** | **$ 924,178** | $ 1,388,118 | $ 1,394,468 |

(1) Relates to funds held in escrow included in other assets.
(2) Relates to rental security deposits included in other liabilities.
(3) Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

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

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

| December 31, 2018 | | Level 1 | | Level 2 | | Level 3 | | Fair value |
|---|---|---|---|---|---|---|---|---|
| Cash | $ | 1,110 | $ | — | $ | — | $ | 1,110 |
| Accounts receivable | | — | | 11,985 | | — | | 11,985 |
| Interest rate swaps | | — | | 2,818 | | — | | 2,818 |
| TIF notes receivable | | — | | — | | 3,038 | | 3,038 |
| Other assets (1) | | 144 | | — | | — | | 144 |
| Notes and other receivable | | — | | 11,593 | | — | | 11,593 |
| **Total financial assets** | **$** | **1,254** | **$** | **26,396** | **$** | **3,038** | **$** | **30,688** |
| Accounts payable and accrued liabilities | | — | | 22,948 | | — | | 22,948 |
| Distributions payable | | — | | 3,157 | | — | | 3,157 |
| Revolver | | — | | 144,543 | | — | | 144,543 |
| Term loan | | — | | 362,500 | | — | | 362,500 |
| Term loan 2 | | — | | 250,000 | | — | | 250,000 |
| Mortgages | | — | | 119,040 | | — | | 119,040 |
| Other liabilities (2) | | 2,945 | | — | | — | | 2,945 |
| Exchangeable units of subsidiaries | | 19,045 | | — | | — | | 19,045 |
| **Total financial liabilities** | **$** | **21,990** | **$** | **902,188** | **$** | **—** | **$** | **924,178** |

| 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 and other 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** |

(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 following table is a reconciliation of level 3 fair value measurements of the REIT's TIF receivable:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| Balance, beginning of the period | **3,312** | 3,606 |
| Repayment of TIF receivable | **(298)** | (275) |
| Amortization of premium | **(105)** | (106) |
| Amortization of deferred gain | **87** | 87 |
| Balance, end of the period | **2,996** | 3,312 |

## 20. 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, 2018** | December 31, 2017 |
|---|---|---|
| Debt | **$ 871,562** | $ 883,046 |
| REIT units [(1)] | **—** | 457,590 |
| Exchangeable units of subsidiaries | **19,045** | 24,075 |
| Unitholders' equity [(1)] | **437,803** | 47,864 |
| **Total** | **$ 1,328,410** | $ 1,412,575 |

[(1)] Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

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, 2018** | December 31, 2017 |
|---|---|---|
| Gross book value | **$ 1,416,334** | $ 1,499,519 |
| Debt | **871,562** | 883,046 |
| Leverage ratio | **61.5%** | 58.9% |

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

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

| | Threshold | **December 31, 2018** | December 31, 2017 |
|---|---|---|---|
| Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value | < 65% | **59.6%** | 60.5% |
| Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x [(1)] | > 1.50x | **2.40x** | 2.74x |

[(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.

## 21. 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.

For the years ended December 31, 2018, one individual tenant accounted for 7.7% (December 31, 2017 – 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.

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

The REIT's contractual commitments are as follows as at December 31, 2018:

| | 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 | $ 22,948 | $ 22,948 | $ — | $ — | $ — |
| Revolver (1) | 144,543 | — | 144,543 | — | — |
| Revolver interest payable (1) (2) | 8,349 | 7,251 | 1,098 | — | — |
| Term loan (1) | 362,500 | — | 362,500 | — | — |
| Term loan interest payable (1) | 35,674 | 16,817 | 18,857 | — | — |
| Term loan 2 (3) | 250,000 | — | — | 250,000 | — |
| Term loan 2 interest payable (3) | 46,681 | 11,598 | 22,475 | 12,608 | — |
| Mortgages | 119,040 | 3,045 | 16,328 | 6,224 | 93,443 |
| Mortgage interest payable | 27,742 | 4,968 | 9,308 | 7,898 | 5,568 |
| Letters of credit | 393 | — | 393 | — | — |
| Interest rate swap, net of cash outflows | 3,152 | — | — | 2,354 | 798 |
| Exchangeable units of subsidiaries | 19,045 | — | — | — | 19,045 |
| Committed property acquisitions | 7,299 | 7,299 | — | — | — |
| **Total contractual commitments** | **$ 1,047,366** | **$ 73,926** | **$ 575,502** | **$ 279,084** | **$ 118,854** |

(1) Revolver and term loan interest payable is calculated on $144.5 million and $362.5 million (balance outstanding) using an estimated "all in" interest rate of 4.64% 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 4.49%. 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 4.64% 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 2 and results in an anticipated increase to the "all-in" interest rate to 4.51%. The total term loan 2 interest payable is calculated until maturity.

*iii. Interest rate risk*

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The REIT manages its financial instruments with the objective of mitigating any potential interest rate risks. For the revolver, term loan and term loan 2 interest rate on the loans will vary depending on changes in base rate and/or U.S. LIBOR rate. The REIT is subject to interest rate risks mainly from non-current debt that has variable interest rate. The REIT manages these cash flow interest rate risks using pay-fixed received-float interest rate swap contracts to swap the floating-rate payments on the credit facility for fixed rate payments.

Assuming all fixed-rate debt remain outstanding, each 25-basis point change in interest rates would result in a $18 thousand 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, 2018** | | December 31, 2017 |
|---|---|---|---|---|
| **Variable-rate instruments** | | | | |
| Revolver | **$** | **144,543** | $ | 160,314 |
| Term loan | | **362,500** | | 362,500 |
| Term loan 2 | | **250,000** | | 250,000 |
| TIF notes payable | | **—** | | 3,173 |
| Effect of interest rate swaps | | **(750,000)** | | (400,000) |
| **Total effective floating rate debt** | **$** | **7,043** | $ | 375,987 |
| **Effective fixed rate debt as a total of all debt** | | **99.2%** | | 57.7% |
| **Annual impact of a 25 bps change on interest rates** | **$** | **18** | $ | 940 |

*iv. Unit price risk*

The REIT is exposed to unit price risk in net income as a result of its exchangeable units of subsidiaries. Exchangeable units of subsidiaries have been classified as liabilities and measured at fair value based on market trading prices. Exchangeable units of subsidiaries negatively impact net income when the unit price rises and positively impact net income when unit prices decline. An increase of $1.00 in the underlying price of exchangeable units of subsidiaries results in an increase to liabilities and a decrease (increase) in net income of $2.2 million.

*v. Currency risk*

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

## 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 $1.31, 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.

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

Fees to the Manager are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| Asset management | **$ 5,925** | $ 4,978 |
| Acquisition | **158** | 2,988 |
| **Total** | **$ 6,083** | $ 7,966 |

*Trustee fees*

The REIT's key personnel include trustees and officers of the REIT. For the year ended December 31, 2018, Trustee fees amounted to $0.3 million (December 31, 2017 – $0.4 million).

*Strategic acquisition loan*

On October 20, 2015, the REIT provided an initial advance of 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 currently in the amount of $9.4 million, bears interest at 8.0% and matures on October 19, 2020.

Interest receivable on the loan as at December 31, 2018 was $2.2 million (December 31, 2017 – $1.4 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 center.

Subsequent to the year end, the loan was settled as part of consideration for the acquisition of Windmill Plaza, a grocery-anchored shopping center located in Sterling Heights, Michigan. Windmill Plaza was acquired on January 25, 2019 in a 50% joint-venture partnership with The Kroger Company for $7.3 million, before transaction costs. In addition to the settlement of the loan, consideration for the property included cash consideration and an assumed loan.

## 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.

## 24. Supplemental cash flow information

Changes in liabilities arising from financing activities are as follows:

| | Revolver [(1)] | Term Loan [(1)] | Term Loan 2 | Mortgages | TIF notes payable | REIT units | Exchangeable units of subsidiaries | **Total** |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | $ 158,991 | $ 360,313 | $ 248,214 | $ 112,396 | $ 3,132 | $ 457,590 | $ 24,075 | |
| **Cash flows** | | | | | | | | |
| Advances | 38,100 | — | — | — | — | — | — | **38,100** |
| Debt repayments | (53,879) | — | — | (2,565) | (2,875) | — | — | **(59,319)** |
| Repurchases | — | — | — | — | — | (4,764) | — | **(4,764)** |
| **Non-cash changes** | | | | | | | | |
| Assumption | — | — | — | 8,194 | — | — | — | **8,194** |
| Amortization of MTM adjustments and costs | 610 | 773 | 319 | 8,290 | 41 | — | — | **10,033** |
| Issuances | — | — | — | — | — | 1,147 | — | **1,147** |
| Exchanges of units [(2)] | — | — | — | — | — | 862 | (1,072) | **(210)** |
| Fair value changes | — | — | — | — | — | (19,567) | (3,958) | **(23,525)** |
| Other [(3)] | — | — | — | — | (298) | (435,268) | — | **(435,566)** |
| **Balance, December 31, 2018** | **$ 143,822** | **$ 361,086** | **$ 248,533** | **$ 118,121** | **$ —** | **$ —** | **$ 19,045** | |

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

| | Revolver (1) | Term Loan (1) | Term Loan 2 | Mortgages | TIF notes payable | REIT units | Exchangeable units of subsidiaries | **Total** |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | $ 210,237 | $ 290,095 | $ — | $ 121,110 | $ 3,450 | $ 369,277 | $ 28,162 | |
| **Cash flows** | | | | | | | | |
| Advances | — | 69,615 | 248,167 | (580) | — | — | — | **317,202** |
| Debt repayments | (51,733) | — | — | (8,047) | (352) | — | — | **(60,132)** |
| Issuances | — | — | — | — | — | 112,595 | — | **112,595** |
| Redeemed | — | — | — | — | — | — | (224) | **(224)** |
| **Non-cash changes** | | | | | | | | |
| Amortization of MTM adjustments and costs | 487 | 603 | 47 | (87) | 34 | — | — | **1,084** |
| Issuances | — | — | — | — | — | 1,863 | — | **1,863** |
| Exchanges of units (2) | — | — | — | — | — | 1,784 | (1,784) | **—** |
| Fair value changes | — | — | — | — | — | (27,929) | (2,079) | **(30,008)** |
| **Balance, December 31, 2017** | **$ 158,991** | **$ 360,313** | **$ 248,214** | **$ 112,396** | **$ 3,132** | **$ 457,590** | **$ 24,075** | |

(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 6 "Interest rate swaps" for more detail.
(2) Represents exchanges of exchangeable units of subsidiaries into class U units.
(3) Effective May 11, 2018, the class A, class I and class U units of the REIT have been presented within unitholders' equity. Refer to note 11 "REIT units and exchangeable units of subsidiaries" for further detail.

## 25. Subsequent events

i. On January 15, 2019, the REIT declared monthly distributions of $0.07125 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.

ii. On January 11, 2019, the REIT completed the disposition of an outparcel at Eastpointe Shopping Center, located in Clarksburg, West Virginia. The outparcel was sold for $1.5 million.

iii. On January 16, 2019, the REIT commenced a substantial issuer bid (the "offer"), pursuant to which the REIT offered to purchase up to 4.2 million class U units at a purchase price of C$12.54 (USD$9.51). On February 20, 2019, the offer announced on January 9, 2019 expired and the REIT has taken up and paid for 0.3 million class U units for an aggregate cost of $3.2 million or C$4.2 million, excluding fees and expenses related to the offer. The class U units purchased for cancellation under the offer approximate 0.8% of the REIT's class U units outstanding at December 31, 2018 and 0.8% of class U units outstanding at February 20, 2019, immediately prior to the expiry of the offer. Upon completion of the offer, 44.1 million class U units remain outstanding.

iv. On January 22, 2019, the REIT completed the disposition of an outparcel at Locus Grove, located in Locust Grove, Georgia. The outparcel was sold for $1.7 million.

v. On January 25, 2019, the REIT completed the acquisition of Windmill Plaza, a grocery-anchored shopping center located in Sterling Heights, Michigan. Windmill Plaza was acquired in a 50% joint-venture partnership with The Kroger Company for $7.3 million, before transaction costs and net of the REIT's note receivable settled in the amount of $9.4 million and interest receivable of $2.2 million. The property will be anchored by Kroger. Consideration for the property includes cash consideration and an assumed loan.