

Condensed Consolidated Interim Financial Statements of

**SLATE OFFICE REIT**

*(formerly "FAM Real Estate Investment Trust")*

Three months and nine months ended September 30, 2015  
(Unaudited)

## SLATE OFFICE REIT

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(unaudited)

	Note	As at September 30, 2015	As at December 31, 2014
<b>Assets</b>			
Non-current assets:			
Investment properties	4, 5	\$ 728,053	\$ 448,012
Finance lease receivable	7	63,683	—
Equity accounted investment	6	—	11,105
Restricted cash		1,527	1,596
Total non-current assets		793,263	460,713
Current assets:			
Finance lease receivable	7	2,026	—
Note receivable	8	—	6,559
Prepaid expenses and other assets		4,108	754
Accounts receivable	9	8,229	5,577
Cash		5,945	3,067
Total current assets		20,308	15,957
Total assets		\$ 813,571	\$ 476,670
<b>Liabilities and Equity</b>			
Non-current liabilities:			
Debt	10	\$ 473,470	\$ 251,853
Security deposits and provisions	11	4,448	3,082
Interest rate swap liabilities	12	3,817	2,239
Class B LP units	13	36,481	38,460
Warrants	14	—	8
Total non-current liabilities		518,216	295,642
Current liabilities:			
Debt	10	25,103	19,453
Vendor take-back loan	10	—	9,180
Warrants	14	8	—
Accounts payable and other liabilities	15, 21	17,910	12,301
Total current liabilities		43,021	40,934
Total liabilities		561,237	336,576
Equity			
Unitholders' equity		247,024	140,094
Non-controlling interest		5,310	—
Total equity		252,334	140,094
Total liabilities and equity		\$ 813,571	\$ 476,670

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Approved by the Board of Trustees

"Pam Spackman" Trustee

"Al Mawani" Trustee

**SLATE OFFICE REIT**

Condensed Consolidated Interim Statements of Income and Comprehensive Income

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2015	2014	2015	2014
Revenue from investment properties		\$ 29,133	\$ 7,991	\$ 57,604	\$ 24,170
Property operating expenses	21	(14,808)	(3,148)	(27,649)	(9,635)
Property operating income		14,325	4,843	29,955	14,535
General and administration	18, 21	(1,217)	(487)	(2,608)	(1,539)
Special Committee related expenses		—	(184)	—	(522)
Finance costs, net	19	(6,127)	(2,180)	(8,986)	(8,421)
Finance income on finance lease receivable	7	691	—	691	—
Share of net income from equity accounted investment	6	106	1,033	2,547	924
Fair value adjustments to financial instruments	20	(1,218)	2,509	1,979	2,219
Fair value adjustments to investment properties	4	(332)	(882)	(7,871)	(4,770)
Mark to market and other adjustments on acquisition of Data Centre	6	(547)	—	(547)	—
Property disposition costs	5	(851)	—	(1,080)	—
Net income and comprehensive income		\$ 4,830	\$ 4,652	\$ 14,080	\$ 2,426
Total income for the period attributable to:					
Unitholders of the Trust		\$ 4,750	\$ 4,652	\$ 14,000	\$ 2,426
Non-controlling interest		80	—	80	—
Net income and comprehensive income		\$ 4,830	\$ 4,652	\$ 14,080	\$ 2,426

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**SLATE OFFICE REIT**

Condensed Consolidated Interim Statements of Changes in Equity

(in thousands of Canadian dollars)

(unaudited)

September 30, 2015	Note	Trust units	Retained earnings	Total Unitholders Equity	Non-controlling interest	Total Equity
Equity, beginning of period		\$ 124,532	\$ 15,562	\$ 140,094	\$ —	\$ 140,094
Issued on public offering	5, 16	75,199	—	75,199	—	75,199
Issued on private placement	5, 16	35,000	—	35,000	—	35,000
Issue costs	16	(4,255)	—	(4,255)	—	(4,255)
Distributions declared	17	—	(12,292)	(12,292)	—	(12,292)
Units issued pursuant to Distribution Reinvestment Plan ("DRIP")	16	489	—	489	—	489
Normal course issuer bid	16	(1,291)	80	(1,211)	—	(1,211)
Business combination	6	—	—	—	5,230	5,230
Net income and comprehensive income		—	14,000	14,000	80	14,080
<b>Equity, end of period</b>		<b>\$ 229,674</b>	<b>\$ 17,350</b>	<b>\$ 247,024</b>	<b>\$ 5,310</b>	<b>\$ 252,334</b>

September 30, 2014	Note	Trust units	Retained earnings	Total Unitholders Equity	Non-controlling interest	Total Equity
Equity, beginning of period		\$ 77,993	\$ 21,153	\$ 99,146	\$ —	\$ 99,146
Issued on public offering	16	17,302	—	17,302	—	17,302
Issued on private placement	16	7,360	—	7,360	—	7,360
Issue costs	16	(1,250)	—	(1,250)	—	(1,250)
Distributions declared	17	—	(6,003)	(6,003)	—	(6,003)
Units issued pursuant to DRIP	16	2,469	—	2,469	—	2,469
Net income and comprehensive income		—	2,426	2,426	—	2,426
<b>Equity, end of period</b>		<b>\$ 103,874</b>	<b>\$ 17,576</b>	<b>\$ 121,450</b>	<b>\$ —</b>	<b>\$ 121,450</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**SLATE OFFICE REIT**

## Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2015	2014	2015	2014
Operating activities:					
Net income		\$ 4,830	\$ 4,652	\$ 14,080	\$ 2,426
Items not affecting cash	25	7,679	(1,085)	11,798	8,126
Change in non-cash working capital		(790)	395	7,260	2,267
Interest paid on mortgages payable	19	(2,387)	(1,506)	(7,626)	(4,526)
Interest paid on vendor take-back loan	19	(47)	(70)	(185)	(208)
Interest paid on other debt	19	(1,965)	(21)	(2,157)	(142)
Finance lease income received	7	(691)	—	(691)	—
Distributions on Class B LP units	19	(951)	—	(2,854)	—
Cash flows from operating activities		5,678	2,365	19,625	7,943
Investing activities:					
Acquisition of investment properties	5	—	—	(313,477)	—
Capital expenditures, net of building improvement payable	4	(729)	(318)	(1,146)	(731)
Direct leasing expenses, net of tenant improvement payable	4	(2,560)	(196)	(6,154)	(739)
Proceeds from disposition of investment property, net	5	28,294	—	28,142	—
Issuance of note receivable		—	—	—	(6,500)
Investment in equity-accounted investee		—	—	—	(9,596)
Cash flows from (used in) investing activities		25,005	(514)	(292,635)	(17,566)
Financing activities:					
Proceeds from public offering	16	—	—	80,068	17,302
Proceeds from private placement	16	—	—	35,000	7,360
Transaction costs on equity offering	16	(220)	—	(4,255)	(1,250)
Normal course issuer bid share repurchase	16	(1,211)	—	(1,211)	—
Mortgage principal payments		(12,698)	(1,002)	(14,771)	(2,977)
Repayment of vendor take back loan		(9,180)	—	(9,180)	—
Transaction costs on mortgages and revolving credit facilities		(15)	(5)	(1,871)	(123)
Drawdown (repayment) of revolving credit facilities, net		(11,123)	—	202,946	(1,750)
Distributions paid on trust units		(5,484)	(1,869)	(10,838)	(5,017)
Cash flows from (used in) financing activities		(39,931)	(2,876)	275,888	13,545
Increase (decrease) in cash		(9,248)	(1,025)	2,878	3,922
Cash, beginning of period		15,193	6,732	3,067	1,785
Cash, end of period		\$ 5,945	\$ 5,707	\$ 5,945	\$ 5,707

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

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## 1. Organization

Slate Office REIT (the “Trust” or the “REIT”), formerly known as FAM Real Estate Investment Trust, is an unincorporated, open-ended real estate investment trust constituted in accordance with the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated as of December 17, 2014, as amended on March 16, 2015 and May 25, 2015. The REIT’s trust units and trust unit purchase warrants are listed on the Toronto Stock Exchange (“TSX”) and traded under the symbols “SOT.UN” and “SOT.WT”, respectively. The registered office of the Trust is located at 121 King Street West, Toronto, ON, Canada M5H 3T9.

## 2. Basis of preparation

### (a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34, Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. As a result, these condensed consolidated interim financial statements should be read in conjunction with the Trust’s audited consolidated financial statements for the year ended December 31, 2014 (“Annual Financial Statements”).

These financial statements were approved by the Board of Trustees and authorized for issue on November 5, 2015.

### (b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on a going concern basis and historical cost basis except for the following material items:

- Investment properties are measured at fair value;
- Financial instruments classified as fair value through profit or loss are measured at fair value.

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Trust’s functional currency.

### (c) Use of estimates and judgments:

The preparation of these condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results could differ from the estimated amounts.

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

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### 2. Basis of preparation (continued)

#### (c) Use of estimates and judgments (continued):

The critical judgments made by management in the process of applying the Trust's accounting policies, apart from those involving estimations, that have the most significant effect on the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the period are as follows:

#### (i) Business combinations:

The Trust makes certain judgments based on relevant facts and circumstances to determine whether a set of assets acquired and liabilities assumed constitute a business accounted for as a business combination. The Trust has determined that its acquisition of an additional 30% investment in Data Centre on July 31, 2015 resulted in an acquisition of control and constituted a business combination (note 6). The Trusts acquisitions of the investment properties on June 30, 2015 and December 17, 2014 constituted asset acquisitions (note 5).

#### (ii) Leases:

The Trust makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the Trust is the lessee, are operating or finance leases. Assets under leases that transfer to the tenant substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Assets classified as operating leases are not recognized in the statement of financial position. The Trust has determined that its lease for the Data Center qualified as a finance lease as at September 30, 2015 (note 7).

#### (iii) Lease incentives:

Lease incentives such as rent-free periods and lessee or lessor owned improvements may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties and are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease. This assessment requires the consideration of several factors, including whether the incentives enhance the value of the property, uniqueness of the improvements, and tenant discretion in use of funds.

#### (iv) Income taxes:

The Trust has determined that it is not subject to income taxes as it intends to continue to meet prescribed conditions under the Income Tax Act (Canada) and make distributions not less than

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

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### 2. Basis of preparation (continued)

the amount necessary to ensure that it is not liable to pay income taxes under current tax legislation.

(c) *Use of estimates and judgments (continued):*

(v) Assets and liabilities held for sale:

The Trust makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale. As at September 30, 2015, the Trust has determined that there were no assets or group of assets and liabilities that met the specified criteria.

The key estimates and assumptions made by management about the future and other major sources of estimation uncertainty at the date of the condensed consolidated interim financial statements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial year are as follows:

(i) Valuation of investment properties:

The fair values of investment properties, including the investment property under development held by the equity-accounted investee, are determined by management using recognized valuation techniques with a portion of fair values supported by externally qualified third party appraisers. The critical estimates and assumptions underlying the valuation of investment properties include, among other things, rental revenue from current leases, rental revenue from future leases in light of current conditions, future cash outflows in respect of leasing costs, capital expenditures, property operations, and capitalization and discount rates based on market data within the applicable market segment and geographical location. In addition, critical estimates for the investment property under development also include the exercise of the purchase option by the tenant and the stage of completion. Valuations are most sensitive to changes in discount rates and capitalization rates. Changes to the estimates and assumptions used by management or to local and general economic conditions can result in a significant change to the valuation of investment properties, which will be recognized as fair value adjustments during the periods the changes occur.

### 3. Significant accounting policies

*New standards applicable in future periods*

IFRS 9, *Financial Instruments* ("IFRS 9"), replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and liabilities.



## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

### 3. Significant accounting policies (continued)

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. The Trust is currently evaluating the impact of IFRS 9 on its condensed consolidated interim financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The new standard is effective for annual periods beginning on or after January 1, 2018. The Trust does not expect the standard to have a material impact on its condensed consolidated interim financial statements.

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. The extent of the impact of adoption has not yet been determined.

### 4. Investment properties

	Note	September 30, 2015	December 31, 2014
Balance, beginning of period		\$ 448,012	\$ 265,367
Acquisition of investment properties	5(a)	308,579	183,529
Additions:			
Capital expenditures		1,146	1,470
Direct leasing expenses		6,126	1,861
Disposition of investment property	5(b)	(29,250)	—
Provisions		14	94
Fair value adjustments		(7,871)	(4,620)
Amortization of leasing expenses and straight-line rents included in revenue, net		1,297	311
Balance, end of period		\$ 728,053	\$ 448,012

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

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### 4. Investment properties (continued)

#### *Fair value of investment properties:*

Investment properties are measured at fair value at each reporting date. Each of the Trust's investment properties are subject to an external appraisal on a rotating schedule such that each property will be appraised at least once over a two-year period. There were two investment properties externally appraised as at September 30, 2015, and five investment properties externally appraised as at December 31, 2014.

The valuation process for externally and internally appraised investment properties utilizes the direct capitalization, discounted cash flow, and direct comparison approaches. Under the direct capitalization approach, fair values are determined by capitalizing the stabilized net operating income at the market capitalization rates. Under the discounted cash flow approach, fair values are determined by discounting the expected future cash flows, generally over a term of 10 years, using an appropriate discount rate and including a terminal value based on the application of a terminal capitalization rate.

Fair value adjustments to investment properties include capitalized transaction costs on the acquisition of the Portfolio Properties and Co-owned Properties (note 5).

At September 30, 2015, all valuations, other than those that were externally appraised during the period, were completed by management of the Trust using the overall direct capitalization method. The market capitalization rates at September 30, 2015 ranged from 5.5% to 10.0% for assets that were deemed stabilized.

As at September 30, 2015, investment properties with an aggregate fair value of \$726.4 million (December 31, 2014 - \$448.4 million) were pledged as security for outstanding mortgages and the revolving credit facilities.

### 5. Acquisitions and dispositions of investment properties

#### *(a) Asset acquisitions:*

##### *(i) Fortis Properties*

On June 30, 2015, the Trust completed the acquisition of a 100% undivided interest in eleven commercial properties (the "Portfolio Properties") and a 10% undivided interest in three commercial properties (the "Co-Owned Properties") from Fortis Properties Corporation ("Fortis"), for cash consideration of \$304 million. A Canadian institutional real estate fund (the "Co-Owner"), acquired the remaining 90% undivided interest in the Co-Owned Properties. Concurrently with the closing of the acquisition, the Trust entered into a co-ownership agreement (the "Co-Ownership Agreement") with the Co-Owner in connection with the Co-owned Properties.

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

### 5. Acquisitions and dispositions of investment properties (continued)

The Co-Ownership Agreement includes put/call rights pursuant to which the Co-owner can put to the Trust (i) an additional 39% interest in the Co-Owned Properties on June 1, 2016, and (ii) the remaining interest in the Co-Owned Properties on December 1, 2016. Also on June 1, 2016 and December 1, 2016, the Trust will have the right to acquire from the Co-Owner up to an additional 39% in the Co-Owned Properties. The Co-Ownership Agreement specifies the price at which the respective interests in the Co-Owned Properties may be purchased/sold. The put/call rights expire on December 15, 2016.

The purchase of the Portfolio Properties was financed through a combination of (i) a \$230 million revolving operating facility of which \$190 million was drawn (note 10), (ii) the issuance of 10,820,000 trust units at a price of \$7.40 per trust unit by way of public offering, and (iii) the issuance of 4,729,729 trust units by way of private placement to Fortis Inc., the parent company of Fortis, at a price of \$7.40 per unit. In addition, the Co-owner and the Trust entered into a \$105 million term loan facility of which the Trust's 10% share is \$10.5 million (note 10).

The transaction was accounted for as an asset acquisition with the purchase price allocated as follows:

	Co-owned Properties	Portfolio Properties	Total
Net assets acquired:			
Purchase price	\$ 14,000	\$ 290,000	\$ 304,000
Transaction costs	180	5,318	5,498
Other	(13)	(906)	(919)
Investment properties	14,167	294,412	308,579
Working capital items, net	395	4,503	4,898
	\$ 14,562	\$ 298,915	\$ 313,477
Total consideration:			
Cash paid		\$	313,477

#### (ii) Suburban Office

On December 17, 2014, the Trust completed the acquisition of seven office properties (the "Acquisition Properties") from Slate GTA Suburban Office Inc. ("Suburban Office"), for consideration of \$190.0 million, before transaction costs of \$3.2 million and net closing adjustments of \$5.6 million. The purchase of the Acquisition Properties was financed through a combination of (i) \$144.0 million in cash, (ii) the issuance of 2,794,363 trust units at a price of \$9.00 per unit, and (iii) the issuance of 2,096,686 Class B LP units at a price of \$9.00 per unit of FAM II LP, along with 2,096,686 special voting units that provide the same voting rights as the trust units of the REIT to the Manager (note 21), and (iv) the REIT's existing liquidity.

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

### 5. Acquisitions and dispositions of investment properties (continued)

The transaction was accounted for as an asset acquisition with the final purchase price allocated as follows:

Net assets acquired:		
Purchase price	\$	190,000
Transaction costs		3,246
Unit price premium		(8,950)
Other adjustments, net		(767)
Investment properties		183,529
Working capital items, net		(4,841)
	\$	178,688
Total consideration:		
Cash paid	\$	147,246
2,794,363 Trust units <sup>1</sup>		25,149
2,096,686 Class B LP units <sup>1</sup>		18,870
Receivable from vendor		(3,627)
Unit price premium		(8,950)
	\$	178,688

1 - Expressed at \$9.00 per unit price, includes unit price premium.

The issuance of the Class B LP units and the trust units at a price of \$9.00 per unit represents an estimated \$1.83 premium per unit over the fair value of the trust units of \$7.17 per unit as at December 17, 2014, resulting in a total premium of \$9.0 million.

#### (b) Asset dispositions:

On June 18, 2015, the Trust completed the sale of an industrial property located in Winnipeg, Manitoba for \$6.7 million. The Trust incurred \$0.2 million in property disposition costs. On July 13, 2015, \$4.2 million of the net proceeds was received by the Trust and the balance of \$2.3 million was utilized to discharge the related mortgage.

On September 2, 2015, the Trust completed the sale of an industrial property located in Milton, Ontario for \$22.5 million. The Trust incurred \$0.9 million in property disposition and defeasance costs. On September 2, 2015, \$12.2 million of the net proceeds was received by the Trust and the balance of \$9.4 million was utilized to discharge the related mortgage.

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Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

### 6. Business combination

On April 22, 2014, the Trust entered into an agreement to invest in a fully pre-leased 64,000 square ft data centre development in Winnipeg, Manitoba (the "Data Centre development" or the "Data Center"). The Trust acquired a 50% equity ownership interest in a limited partnership and its general partner (the "Partnership") that owns the Data Centre development through a \$9.5 million investment paid in cash. The Trust initially accounted for its 50% investment in the Data Center using the equity method.

In connection with the investment in the Partnership, the Trust also issued a \$6.6 million mezzanine loan (the "Mezzanine Loan") to the other limited partner, an arm's length company to fund a portion of its \$9.5 million capital contribution in the Partnership in fiscal 2014 (note 8).

	September 30, 2015	December 31, 2014
Balance, beginning of period	\$ 11,105	\$ —
Initial investment	—	9,501
Acquisition fees	91	103
Share of net income	2,547	1,501
Acquisition of control	(13,743)	—
Balance, end of period	\$ —	\$ 11,105

On July 31, 2015, the Trust converted the Mezzanine Loan plus accrued interest into an additional 30% equity ownership interest in the the Data Center. Acquisition costs of \$0.1 million were expensed for the period ended September 30, 2015 (September 30, 2014 - \$0.1 million).

An acquisition of control occurred on July 31, 2015 and the transaction was treated as a business combination. The following are the recognized amounts of identifiable assets acquired and liabilities assumed, measured at their respective fair values on the date of acquisition:

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(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

### 6. Business combination (continued)

Cash	\$	308
Restricted cash		1,576
Finance lease receivable		66,034
Accounts receivable		1,043
Prepaid expenses		32
Total assets acquired		68,993
Less:		
Accounts payable and other liabilities		(969)
Security deposits		(1,050)
Term facility		(37,611)
Manitoba retail sales tax facility ("MRST facility")		(2,414)
Short term facility ("ST facility")		(800)
Net assets		26,149
Ownership interest acquired		80%
Net assets acquired	\$	20,919
Total consideration		
50% equity investment in Data Center		13,743
Conversion of note receivable into equity interest (including accrued interest)		7,723
Mark to market and other adjustments on acquisition of control		(547)
Total consideration		20,919

The remaining 20% equity ownership interest held by the other limited partner is subject to a put-call option, where the Trust has the option to purchase the other limited partner's remaining equity interest in the Partnership at fair market value. The Trust acquired the remaining 20% interest on October 27, 2015 for consideration of \$5.2 million (note 26).

### 7. Finance lease receivable

The Trust's lease with the Data Centre (note 6) has an initial term of 15 years commencing June 5, 2015, with the option to extend for three additional five year terms. The tenant has a one time option to acquire the property after the initial term of the lease for \$12 million. The terms of the lease meet the requirements for classification of the lease as a finance lease at September 30, 2015, because the minimum lease payments will amount to at least substantially all of the fair value of the leased asset. The amortized carrying amount of the finance lease receivable at September 30, 2015 is \$65.7 million. The current portion of the finance lease is \$2.0 million as at September 30, 2015. Interest

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

### 7. Finance lease receivable (continued)

income of \$0.7 million was recognized during the period ended September 30, 2015 in respect to the lease.

The following is a reconciliation of the undiscounted future minimum lease payments receivable to the present value of the minimum lease payments receivable recorded on the consolidated statements of position.

	As at September 30, 2015		
	Future minimum lease payments	Interest portion	Present value of minimum lease payments
Less than one year	\$ 6,099	\$ 4,073	\$ 2,026
Greater than one year less than 5 years	24,500	14,893	9,607
Greater than 5 years	75,821	21,745	54,076

### 8. Note receivable

In 2014, in relation to the Data Center development, the Mezzanine Loan of \$6.6 million was provided to the other limited partner to fund their share of the Data Centre development. The Mezzanine Loan accrued interest at a rate of 13.3% per annum and was repayable on July 30, 2015. The principal and accrued interests were not repaid on the due date, and pursuant to the loan agreement, it was converted into an additional 30% equity ownership interest in the Partnership (note 6).

### 9. Accounts receivable

	Note	September 30, 2015	December 31, 2014
Rents receivable		\$ 4,987	\$ 301
Accrued recovery income		817	128
Interest receivable on Mezzanine Loan	8	—	601
Other amounts receivable		2,536	4,677
Allowance for doubtful accounts		(111)	(130)
		\$ 8,229	\$ 5,577

Rents receivables consist of base rent and operating expense recoveries. Accrued recovery income represents amounts that have not been billed to tenants and are generally billed and paid in the following year to which they relate.

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

### 9. Accounts receivable (continued)

Included in other amounts receivable is \$1.3 million (December 31, 2014 - \$3.8 million) due from the Manager (note 21) relating to the Suburban Office transaction (note 5) for free rent adjustments, tenant inducements and leasing commissions. The receivable will be collected as the related items are paid or incurred in connection with the tenant lease agreements. The receivable is non-interest bearing and unsecured. The balance in other receivables relates to specific tenant receivable.

### 10. Debt

Debt held by the Trust at September 30, 2015 is as follows:

		Weighted Average Term to Maturity (years)	Range of Term to Maturity (years)	Weighted Average Interest Rate (%)	Range of Interest Rate (%)	Maximum available	Principal	Available to be drawn <sup>(1)</sup>
Mortgages payable	(a)	3.5	0.09 - 15.0	3.82%	3.15%-6.15 %	\$ 305,486	\$ 292,788	\$ 12,698
Revolving operating facility	(b)	3.00	3.00	2.90%	BA plus 2.00%	230,000	190,600	39,400
Revolving credit facility	(c)	0.42	0.42	4.10%	Prime plus 1.25%	15,800	3,569	12,231
Term loan facility	(d)	2.00	2.00	2.91%	BA plus 2.13%	10,500	10,500	—
ST facility	(e)	0.25	0.25	4.27%	Prime plus 0.50%	2,000	709	1,291
MRST facility	(e)	10	10	4.27%	Fixed	2,900	2,414	486
						\$ 566,686	\$ 500,580	\$ 66,106

1- Debt available to be drawn is subject to certain covenants in addition to the debt to gross book value limit of 65% as per the Declaration of Trust.

Debt held by the Trust at December 31, 2014 is as follows:

		Weighted Average Term to Maturity (years)	Range of Term to Maturity (years)	Weighted Average Interest Rate (%)	Range of Interest Rate (%)	Maximum available	Principal	Available to be drawn <sup>(1)</sup>
Mortgages payable	(a)	3.47	0.25-10.10	4.07%	3.51%-6.15%	\$ 270,559	\$ 270,559	\$ —
Revolving credit facility	(c)	0.92	0.92	Prime plus 1.25%	Prime plus 1.25%	17,000	1,500	15,500
						\$ 287,559	\$ 272,059	\$ 15,500

1- Debt available to be drawn is subject to certain covenants in addition to the debt to gross book value limit of 65% as per the Declaration of Trust.



## SLATE OFFICE REIT

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For the three months and nine months ended September 30, 2015

### 10. Debt (continued)

The carrying value of debt held by the Trust at September 30, 2015 is as follows

		Principal	Mark-to-market ("MTM") adjustments	Unamortized transaction costs	Carrying amount	Current	Non- current
Mortgages payable	(a)	\$ 292,788	\$ 635	\$ (840)	\$ 292,583	\$ 20,719	\$ 271,864
Revolving operating facility	(b)	190,600	—	(1,755)	188,845	—	188,845
Revolving credit facility	(c)	3,569	—	(21)	3,548	3,548	—
Term loan facility	(d)	10,500	—	(26)	10,474	—	10,474
ST facility	(e)	709	—	—	709	709	—
MRST facility	(e)	2,414	—	—	2,414	127	2,287
		\$ 500,580	\$ 635	\$ (2,642)	\$ 498,573	\$ 25,103	\$ 473,470

The carrying value of debt held by the Trust at December 31, 2014 is as follows:

		Principal	Mark-to-market ("MTM") adjustments and costs	Unamortized transaction costs	Carrying amount	Current	Non- current
Mortgages payable	(a)	\$ 270,559	\$ 331	\$ (982)	\$ 269,908	\$ 18,055	\$ 251,853
Revolving credit facility	(c)	1,500	—	(102)	1,398	1,398	—
		\$ 272,059	\$ 331	\$ (1,084)	\$ 271,306	\$ 19,453	\$ 251,853

Future principal payments, excluding amortization of mark-to-market adjustments and transaction costs, on debt as at September 30, 2015 are as follows:

2015 (remaining three months)	\$	17,105
2016		6,465
2017		166,315
2018		213,621
2019		22,916
Thereafter		74,158

## SLATE OFFICE REIT

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(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

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For the three months and nine months ended September 30, 2015

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### 10. Debt (continued)

#### (a) *Mortgages payable:*

The mortgages payable are secured by mortgage charges registered against the title of specific investment properties, assignment of book debts, assignment of rents and repayment guarantees. The Manager has provided a two guarantees on mortgages with principal balances of \$38.8 million at September 30, 2015 (December 31, 2014- \$1.8 million). One guarantee on a mortgage with a principal balance of \$37.0 million ensures prompt payment to the lender of \$18.5 million up to the Completion Date (as defined in the loan agreement) of the development project. After the Completion Date, the guarantee will be limited to the amount due on the 15th anniversary of the mortgage, which is expected to be \$5.9 million.

As at September 30, 2015 and December 31, 2014, the Trust was compliant with all financial covenants.

#### (b) *Revolving operating facility:*

On June 30, 2015, in connection with the acquisition of the Portfolio Properties (note 5(a)), the Trust entered into a revolving operating facility maturing on June 30, 2018, which is secured by each of the Portfolio Properties.

#### (c) *Revolving credit facility:*

At September 30, 2015, the Trust had \$1.2 million of outstanding letters of credit (December 31, 2014 - nil) on the revolving credit facility. The letters of credit reduce the maximum available under the facility from \$17.0 million to \$15.8 million. The revolving credit facility expires on November 30, 2015 and is secured by four investment properties.

#### (d) *Term loan facility:*

In connection with the acquisition of the Co-Owned Properties (note 5(a)), the Trust and the Co-Owner entered into a \$105.0 million term loan facility of which the Trust's 10% share is \$10.5 million. The loan facility has a maturity date of June 30, 2017, is secured by the Co-Owned Properties, and includes a limited recourse guarantee by the Trust of 10% of the outstanding amount of the term loan facility.

The Trust is required under all three facility agreements to maintain certain financial ratios at the end of each reporting period and a minimum unitholders' equity balance at all times. As at September 30, 2015 and December 31, 2014, the Trust was compliant with all financial covenants.

#### (e) *ST and MRST Facility:*

The interest rate on the MRST facility was calculated as prime plus 1.00%. On October 1, 2015, the interest rate on the MRST facility was fixed at 4.27%. The loan is amortized over 15 years and is

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Notes to Condensed Consolidated Interim Financial Statements

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For the three months and nine months ended September 30, 2015

### 10. Debt (continued)

due on October 1, 2025. The ST facility bears interest at prime plus 0.5% and is due on the Completion Date, as defined in the facility agreement.

### 11. Security deposits and provisions

	September 30, 2015	December 31, 2014
Security deposits	\$ 3,815	\$ 2,459
Provisions	633	623
	\$ 4,448	\$ 3,082

### 12. Interest rate swaps

As at September 30, 2015, the Trust has interest rate swaps that entitle the Trust to receive interest at floating rates and pay interest at a fixed rate.

The interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. The following tables summarize the interest rate swap agreements outstanding as at September 30, 2015 and December 31, 2014:

Notional amount at September 30, 2015	Effective interest rate	Maturity date	Unrealized loss for the nine months ended September 30, 2015	Cumulative unrealized loss at September 30, 2015
\$ 3,700	5.89%	1-Feb-25	\$ 37	\$ 671
22,060	4.60%	14-Aug-23	701	2,183
23,679	3.68%	1-May-23	840	963
			\$ 1,578	\$ 3,817

Notional amount at December 31, 2014	Effective interest rate	Maturity date	Unrealized loss for the year ended December 31, 2014	Cumulative unrealized loss at December 31, 2014
\$ 3,840	5.89%	1-Feb-25	\$ 76	\$ 634
22,325	4.60%	14-Aug-23	1,471	1,482
24,005	3.68%	1-May-23	1,628	123
			\$ 3,175	\$ 2,239

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For the three months and nine months ended September 30, 2015

### 13. Class B LP units

The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis subject to anti-dilution adjustments. As at September 30, 2015, the Class B LP units were re-measured based on the quoted closing price of the trust units into which they are exchangeable.

The change in Class B LP units during the nine months ended September 30, 2015 and the year ended December 31, 2014 are as follows:

	Note	September 30, 2015		December 31, 2014	
		Units	Amount	Units	Amount
Balance, beginning of period		5,073,818	\$ 38,460	2,977,132	\$ 25,871
Issued in connection with the acquisition of investment properties	5	—	—	2,096,686	15,033
Fair value adjustment		—	(1,979)	—	(2,444)
Balance, end of period		5,073,818	\$ 36,481	5,073,818	\$ 38,460

During the three months and nine months ended September 30, 2015, the Trust declared distributions of \$0.9 million and \$1.9 million (three months and six months ended September 30, 2014 - \$0.5 million and \$1.0 million) on the Class B LP units, which were recorded as finance costs (note 19).

During the year ended December 31, 2014, FAM II LP issued 2,096,686 Class B LP units to Suburban Office in connection with the purchase of the Acquisition Properties (note 5(a)(ii)).

### 14. Warrants

Each warrant entitles the holder to acquire one trust unit of the REIT at an exercise price of \$10.50 per trust unit at any time until December 28, 2015. As at September 30, 2015, the warrants were re-measured based on the quoted closing price of the warrants. The change in warrants during the nine months ended September 30, 2015 and the year ended December 31, 2014 are as follows:

	September 30, 2015		December 31, 2014	
	Warrants	Amount	Warrants	Amount
Balance, beginning of period	1,598,550	\$ 8	1,598,550	\$ 64
Fair value adjustment	—	—	—	(56)
Balance, end of period	1,598,550	\$ 8	1,598,550	\$ 8

## SLATE OFFICE REIT

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(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

### 15. Accounts payable and other liabilities

	September 30, 2015		December 31, 2014	
Trade payables and accrued liabilities	\$	14,493	\$	8,089
Prepaid rent		2,141		912
Tenant improvement payable		1,276		3,300
	\$	17,910	\$	12,301

Included in trade payables and accrued liabilities are operating expenses, capital and leasing expenses and distributions.

### 16. Unitholders' equity

#### (a) Trust units:

The change in trust units during the nine months ended September 30, 2015 and the year ended December 31, 2014 are as follows:

	Note	September 30, 2015		December 31, 2014	
		Units	Amount	Units	Amount
Balance, beginning of period		14,935,795	\$ 124,532	8,974,482	\$ 77,993
Units issued on public offering	16(c,e)	10,820,000	75,199	1,955,000	17,302
Units issued on private placement	16(c,e)	4,729,729	35,000	831,639	7,360
Units issued in connection with the acquisition of investment properties	16(d)	—	—	2,794,363	20,036
Issue costs		—	(4,255)	—	(1,292)
Units issued pursuant to DRIP		67,727	489	380,311	3,133
Units repurchased under NCIB	16(b)	(170,596)	(1,291)	—	—
Balance, end of period		30,382,655	\$ 229,674	14,935,795	\$ 124,532

#### (b) Normal course issuer bid

The Trust has registered a normal course issuer bid ("NCIB"). NCIB commenced on August 17, 2015 and will remain in effect until the earlier of January 12, 2016 or the date on which the Trust has purchased an aggregate of 850,154 trust units (representing 10% of the Trust's issued and outstanding trust units at the time of entering the NCIB through the facilities of the Toronto Stock Exchange).

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

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For the three months and nine months ended September 30, 2015

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### 16. Unitholders' equity (continued)

For the period ended September 30, 2015, 170,596 trust units have been purchased and subsequently canceled under the NCIB for a total cost, including transaction costs, of \$1.2 million at an average price of \$7.10.

#### (c) Issuance of June 2015 trust units:

On June 10, 2015, the Trust completed a public offering of 10,820,820 subscription receipts at \$7.40 per subscription receipt, for gross proceeds of \$80.1 million. Each subscription receipt, entitled the holder to the right to receive one trust unit upon completion of the acquisition of the Fortis Properties. On June 30, 2015, upon completion of the acquisition of the Fortis Properties, the Trust issued trust units to the holders. The issuance of the subscription receipts at \$7.40 per unit represents an estimated \$0.45 price premium over the fair value of the trust units on June 30, 2015 of \$6.95 per trust unit, resulting in a total premium of \$4.9 million which has been recorded as finance costs, net (note 19), which results in the trust units issued at \$75.2 million. In addition, the Trust completed a \$35 million private placement of units of the Trust to Fortis Inc., an affiliate of Fortis.

#### (d) Issuance of December 2014 trust units:

On December 17, 2014, as partial consideration for the purchase of the Acquisition Properties (note 5(a)), the Trust issued 2,794,363 trust units at fair value of \$7.17 per trust unit for gross proceeds of \$20.0 million.

#### (e) Issuance of May 2014 trust units:

On May 13, 2014, in connection with the investment in the Partnership (note 5), the Trust completed a public offering of 1,955,000 trust units, inclusive of 255,000 trust units issued pursuant to the full exercise of the over-allotment option at a price of \$8.85 per trust unit, for gross proceeds of approximately \$17.3 million (the "May 2014 Offering").

Concurrent with the closing of the May 2014 Offering, the Trust issued 831,639 trust units on a private placement basis to the Manager (note 21), at a purchase price of \$8.85 per trust unit for gross proceeds of \$7.4 million.

After deducting issuance costs of \$1.3 million, net proceeds of \$23.4 million from the May 2014 Offering and the private placement were used to (i) fund the investment in the Partnership including the Mezzanine Loan (note 6 and 8) and any additional amounts payable for closing costs, (ii) repay amounts drawn on the Trust's revolving credit facility, and (iii) for general corporate purposes.

#### (f) Deferred unit plan:

Effective May 26, 2015, the REIT adopted a Deferred Unit Plan ("DUP"). Trustees of the REIT who are neither full nor part-time employees of the REIT, Slate Asset Management, or any of their subsidiaries, are eligible to participate in the DUP. Participants may elect to receive all or a portion of their annual retainer, meeting fees and additional compensation (including travel fees), in deferred

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### 16. Unitholders' equity (continued)

units. One deferred unit, which vests immediately on the grant date, is equivalent to one trust unit. Additional deferred units accumulate at the same rate that distributions are paid on the trust units.

The deferred units may be redeemed by a participant for a period of two years after the participant ceases to be a Trustee of the REIT in whole or in part for cash or trust units. The value of the deferred units when converted to cash will be equivalent to the market value of REIT units on the date of the redemption request.

As at September 30, 2015, the liability associated with the deferred units was \$0.1 million, and the outstanding deferred units was 9,510.

### 17. Distributions

Pursuant to the Declaration of Trust, the income of the Trust is distributed on dates and in amounts as determined by the Trustees. During the three months and nine months ended September 30, 2015, the

Trust declared monthly distributions of \$0.0625 per unit. The distributions were paid on or about the 15<sup>th</sup> day of the month following declaration. The Trust has a DRIP where unitholders, including holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT and will also receive a "bonus distribution" of units equal in value to 3% of each distribution.

The following table summarizes the distributions declared for the three months and nine months ended September 30, 2015:

	Three months ended September 30, 2015		Nine months ended September 30, 2015	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 5,376	\$ 951	\$ 11,677	\$ 2,854
DRIP distributions	337	—	615	—
Distributions declared	5,713	951	12,292	2,854
Less: distributions payable, end of period	(1,899)	(317)	(1,899)	(317)
Plus: distributions payable, beginning of period	934	317	934	317
Distributions paid or settled	\$ 4,748	\$ 951	\$ 11,327	\$ 2,854

The following table summarizes the distributions declared for the three months and nine months ended September 30, 2014:

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For the three months and nine months ended September 30, 2015

### 17. Distributions (continued)

	Three months ended September 30		Nine months ended September 30	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 1,869	\$ —	\$ 5,135	\$ —
Distributions reinvested in trust units	383	559	868	1,675
Distributions declared	2,252	559	6,003	1,675
Less: distributions payable, end of period	(753)	(186)	(753)	(186)
Plus: distributions payable, beginning of period	746	186	561	186
Distributions paid or settled	\$ 2,245	\$ 559	\$ 5,811	\$ 1,675

The distributions declared during the nine months ended September 30, 2015 resulted in 85,983 trust units issued or issuable under the DRIP.

### 18. General and administration

General and administration expenses for the three months and nine months ended September 30, 2015 and 2014 are comprised of the following:

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Professional fees	\$ 206	\$ 149	\$ 543	\$ 468
Data Centre acquisition costs	96	—	96	—
Asset management fees	603	212	1,315	618
Trustee fees	68	66	201	214
Other	244	60	453	239
	\$ 1,217	\$ 487	\$ 2,608	\$ 1,539



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For the three months and nine months ended September 30, 2015

### 19. Finance costs, net

Net finance costs for the three months and nine months ended September 30, 2015 and 2014 are comprised of the following:

	Note	Three months ended		Nine months ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Mortgage interest	10	\$ 2,657	\$ 1,506	\$ 7,896	\$ 4,526
Interest on other debt	10	1,695	21	1,887	142
Distributions on Class B LP units	17	951	559	2,854	1,675
Accretion on vendor take-back loan		—	73	—	217
Interest on vendor take-back loan		47	70	185	208
Amortization of deferred transaction costs	10	253	63	399	189
Amortization of mark-to-market adjustment on mortgages	10	(142)	(55)	(262)	(166)
Fair value loss on interest rate swaps	12	779	169	1,578	2,096
Interest income	8	(113)	(226)	(682)	(466)
Gain on extinguishment of subscription receipts	16	—	—	(4,869)	—
		\$ 6,127	\$ 2,180	\$ 8,986	\$ 8,421

### 20. Fair value adjustments to financial instruments

During the three months and nine months ended September 30, 2015 and 2014, the Trust recognized the following fair value adjustments to financial instruments:

	Note	Three months ended		Nine months ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Class B LP units	13	\$ (1,218)	\$ 2,501	\$ 1,979	\$ 2,203
Warrants	14	—	8	—	16
		\$ (1,218)	\$ 2,509	\$ 1,979	\$ 2,219

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For the three months and nine months ended September 30, 2015

### 21. Related party transactions

The Trust has a management agreement (the "Management Agreement") with Slate Management Corporation, formerly Huntingdon Capital Corp. ("Slate Management" or the "Manager"), whereby Slate Management as the Trust's manager, will provide the Trust with strategic and administrative, property management, leasing, acquisition and disposition, financing and construction management services necessary to manage the day-to-day operations of the Trust and its assets.

In connection with the acquisition of the Portfolio Properties, the Co-Owner and the Trust entered into a management agreement with Slate Asset Management LP ("SLAM") to act as the manager of the Co-Owned Properties ("Co-Owner Management Agreement"). SLAM is the owner of Slate Management.

As at September 30, 2015, the Manager held an approximate 19% interest in the Trust through the ownership of 5,073,818 Class B LP units (note 13) and 1,687,251 trust units.

During the three months and nine months ended September 30, 2015 and 2014, the Trust incurred the following costs in connection with the Management Agreement:

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Property management fees	\$ 857	\$ 232	\$ 1,628	\$ 686
Asset management fees	603	212	1,315	618
Leasing, financing, and construction management fees	172	143	1,651	314
Acquisition fees	96	—	2,456	95
	<u>\$ 1,728</u>	<u>\$ 587</u>	<u>\$ 7,050</u>	<u>\$ 1,713</u>

Property administration fees are allowable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the Trust's properties. Property administration fees were \$1.6 million and \$3.2 million for the three months and nine months ended September 30, 2015 (three months and nine months ended September 30, 2014 - \$0.3 million and \$0.8 million, respectively). These fees are recovered from tenants by the Trust and payable by the Trust to the Manager under the terms of the Management Agreement. As at September 30, 2015, included in accounts payable and other liabilities is an amount owing to the Manager of \$0.3 million (December 31, 2014 - \$1.0 million).

On December 17, 2014, the Trust completed the acquisition of the Acquisition Properties, with the approval of the unitholders of the Trust, from Suburban Office, an affiliate of the Manager (note 5(a)(ii)).

The Trust previously had a vendor take-back loan agreement with the Manager. The unsecured loan had a face value of \$9.2 million bearing interest at 3.0% per annum. The vendor take-back loan was repaid in full in the third quarter of 2015.

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Notes to Condensed Consolidated Interim Financial Statements

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For the three months and nine months ended September 30, 2015

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### 22. Fair values

The Trust uses various methods in estimating the fair values of assets and liabilities recognized and measured at fair value in its condensed consolidated interim financial statements. The Trust has a management team that has overall responsibility for overseeing all significant fair value measurements. Significant unobservable inputs and valuation adjustments are reviewed on a regular basis. In addition, when third party information is used to measure fair values, supporting evidence is obtained and reviewed to ensure compliance with the IFRS requirements. Significant valuation issues are reported to the Audit Committee. The following categories in the fair value hierarchy reflect the significance of inputs used in determining fair values:

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The fair values of the Trust's cash, restricted cash, accounts receivable and accounts payable and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of the Trust's revolving credit facility, operating facility, term loan facility, MRST facility and ST facility approximates their carrying value since the facilities bear interest at floating market interest rates. Mortgages are measured at amortized cost, and their fair values are based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The note receivable and the vendor take-back loan were measured at amortized cost, for which fair values approximated face value due to the relatively short period to maturity.

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### 22. Fair values (continued)

The following tables summarize the fair value measurements recognized on the condensed consolidated interim statement of financial position or disclosed in the Trust's condensed consolidated interim financial statements, categorized by fair value hierarchy:

September 30, 2015	Note	Carrying amount	Level 1	Fair Value Level 2	Level 3
<i>Recorded at fair value:</i>					
Investment properties	4	\$ 728,053	\$ —	\$ —	728,053
Interest rate swap liabilities	12	(3,817)	—	(3,817)	—
Class B LP units	13	(36,481)	—	(36,481)	—
Warrants	14	(8)	(8)	—	—
<i>Fair values disclosed:</i>					
Mortgages	10	(292,583)	—	—	(294,796)

December 31, 2014	Note	Carrying amount	Level 1	Fair Value Level 2	Level 3
<i>Recorded at fair value:</i>					
Investment properties	4	\$ 448,012	\$ —	\$ —	448,012
Interest rate swap liabilities	12	(2,239)	—	(2,239)	—
Class B LP units	13	(38,460)	—	(38,460)	—
Warrants	14	(8)	(8)	—	—
<i>Fair values disclosed:</i>					
Note receivable	8	6,559	—	—	6,559
Mortgages	10	(269,908)	—	—	(273,696)
Vendor take-back loan	21	(9,180)	—	—	(9,180)

Transfers between the levels of the fair value hierarchy are deemed to have occurred as of the date of the event or change in circumstances that caused the transfer. During the nine months ended September 30, 2015 and year ended December 31, 2014, there were no transfers between the levels of the fair value hierarchy.

### 23. Risk management

Refer to the Trust's Annual Financial Statements for a description of the Trust's risk and an explanation of the Trust's risk management policy.

## SLATE OFFICE REIT

Notes to Condensed Consolidated Interim Financial Statements

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### 24. Capital management

Refer to the Trust's Annual Financial Statements for a description of the Trust's capital management policy.

### 25. Supplemental cash flow information

The following table summarizes the items not affecting cash in the condensed consolidated interim statements of cash flows:

	Note	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Amortization of leasing and straight-line rent, net	4	\$ (426)	\$ (46)	\$ (1,297)	\$ (247)
Finance costs, net	19	6,126	2,180	8,986	8,421
Share of net income from equity accounted investment	7	(107)	(1,033)	(2,547)	(924)
Fair value adjustments to financial instruments	20	1,218	(2,509)	(1,979)	(2,219)
Fair value adjustments to investment properties	4	332	882	7,871	4,770
Distributions on Class B LP units reinvested in trust units	17	—	(559)	—	(1,675)
Property disposition costs	5	852	—	1,080	—
Mark to market and other adjustments on acquisition of Data Centre	6	(316)	—	(316)	—
		\$ 7,679	\$ (1,085)	\$ 11,798	\$ 8,126

### 26. Subsequent events

On October 1, 2015, the Trust completed the acquisition an office property from Slate Management, for consideration of \$9.2 million, before transaction costs of \$0.2 million. The purchase of the property was financed through a combination of \$7.8 million in cash borrowed from the revolving operating facility and the issuance of 211,342 Class B LP units at a price of \$7.06 per unit.

On October 27, 2015, the Trust acquired the remaining 20% interest in the Data Centre for total consideration of \$5.2 million. The Trust now owns 100% of this investment (note 6).

The Trust has agreed with its lender to extend the maturity of the Revolving Credit Facility (note 10) to November 30, 2017 and increase the availability of the facility to a maximum \$35 million, subject

## **SLATE OFFICE REIT**

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and nine months ended September 30, 2015

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### **26. Subsequent events (continued)**

to providing additional information which the Trust expects to complete by November 30, 2015. The availability is subject to certain borrowing base tests of the secured properties. Interest rates decreased by 0.25% to 0.50% depending on the type of borrowing.