

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2021
(unaudited)

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Table of Contents

Condensed consolidated interim statements of financial position	1
Condensed consolidated interim statements of income (loss)	2
Condensed consolidated interim statements of comprehensive income (loss)	2
Condensed consolidated interim statements of changes in equity	3
Condensed consolidated interim statements of cash flows	4
Notes to the condensed consolidated interim financial statements	5 - 27

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

(unaudited)

	Note	March 31, 2021	December 31, 2020
ASSETS			
Non-current assets			
Investment properties	5	\$ 1,595,777	\$ 1,593,945
Finance lease receivable	6	49,337	50,157
Other assets	7	8,805	6,048
Restricted cash		4,767	3,327
		\$ 1,658,686	\$ 1,653,477
Current assets			
Finance lease receivable	6	3,206	3,158
Other assets	7	3,399	5,923
Accounts receivable	8	6,206	8,129
Cash		2,758	8,520
		\$ 15,569	\$ 25,730
Total assets		\$ 1,674,255	\$ 1,679,207
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	9	\$ 801,836	\$ 803,449
Other liabilities	10	4,897	4,434
Derivatives	11	24,058	35,869
Deferred tax liability	25	250	—
Accounts payable and accrued liabilities	13	2,243	2,390
Class B LP units	12	23,201	21,880
		\$ 856,485	\$ 868,022
Current liabilities			
Debt	9	166,563	169,155
Other liabilities	10	1,399	1,683
Accounts payable and accrued liabilities	13	34,788	35,604
		\$ 202,750	\$ 206,442
Total liabilities		\$ 1,059,235	\$ 1,074,464
Unitholders' equity		\$ 615,020	\$ 604,743
Total liabilities and unitholders' equity		\$ 1,674,255	\$ 1,679,207

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

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS)

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended March 31,	
		2021	2020
Rental revenue	16	\$ 43,161	\$ 49,694
Property operating expenses		(31,005)	(34,815)
Finance income on finance lease receivable	6	834	879
Interest income		130	164
Interest and finance costs	17	(10,727)	(10,322)
General and administrative expenses	18	(2,041)	(1,984)
Change in fair value of financial instruments	19	11,614	(31,860)
Change in fair value of investment properties	5	9,027	2,929
Depreciation of hotel asset	5	(254)	(262)
Transaction costs	4	—	(419)
Deferred income tax (expense) recovery	25	(252)	96
Net income (loss) before Class B LP units		\$ 20,487	\$ (25,900)
Change in fair value of Class B LP units	12	(1,321)	11,522
Distributions to Class B LP unitholders	15	(528)	(528)
Net income (loss)		\$ 18,638	\$ (14,906)

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended March 31,	
		2021	2020
Net income (loss)		\$ 18,638	\$ (14,906)
Other comprehensive (loss) gain to be subsequently reclassified to profit or loss:			
Foreign currency translation (loss) gain		(1,512)	11,185
Fair value loss on net investment hedges	19	—	(6,396)
Total other comprehensive (loss) gain		(1,512)	4,789
Comprehensive income (loss)		\$ 17,126	\$ (10,117)

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

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

(unaudited)

	Note	Trust units	Retained earnings	Accumulated other comprehensive loss	Total equity
December 31, 2020		\$ 520,514	\$ 89,491	\$ (5,262)	\$ 604,743
Unit issuance costs	14	(79)	—	—	(79)
Distributions	15	—	(6,770)	—	(6,770)
Repurchase of units	14	—	—	—	—
Net and comprehensive income	14, 15	—	18,638	(1,512)	17,126
March 31, 2021		\$ 520,435	\$ 101,359	\$ (6,774)	\$ 615,020

	Note	Trust units	Retained earnings	Accumulated other comprehensive income	Total equity
December 31, 2019		\$ 520,890	\$ 102,930	\$ 3,485	\$ 627,305
Unit issuance costs	14	(18)	—	—	(18)
Distributions	15	—	(6,777)	—	(6,777)
Repurchase of units	14	(358)	—	—	(358)
Net and comprehensive loss	14, 15	—	(14,906)	4,789	(10,117)
March 31, 2020		\$ 520,514	\$ 81,247	\$ 8,274	\$ 610,035

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

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended March 31,	
		2021	2020
OPERATING ACTIVITIES			
Net income (loss)		\$ 18,638	\$ (14,906)
Items not affecting cash:			
Depreciation of hotel asset	5	254	262
Change in fair value of investment properties	5	(9,027)	(2,929)
IFRIC 21 property tax adjustment	5	7,319	7,169
Straight-line rent and other changes	5	1,870	947
Change in fair value of Class B LP units	12	1,321	(11,522)
Change in fair value of financial instruments	19	(11,614)	31,860
Deferred income tax expense (recovery)	25	252	(96)
Finance income on finance lease receivable	6	(834)	(879)
Finance interest payments received on finance lease receivable	6	834	879
Distributions declared to Class B LP unitholders	15	528	528
Distributions paid to Class B LP unitholders	15	(528)	(528)
Interest income		(130)	(164)
Interest received		130	164
Interest and finance costs	17	10,727	10,322
Interest paid		(9,989)	(9,710)
Changes in working capital items		(597)	(3,623)
		\$ 9,154	\$ 7,774
INVESTING ACTIVITIES			
Deposit on property		—	(2,013)
Dispositions	4	—	20,185
Capital expenditures	5	(4,592)	(5,652)
Leasing costs	5	(1,881)	(2,953)
Principal payments received on finance lease receivable	6	772	646
		\$ (5,701)	\$ 10,213
FINANCING ACTIVITIES			
Payment on settlement of net investment hedges	11	—	(6,396)
Unit issuance costs	14	(79)	(18)
Repurchase of units	14	—	(358)
Distributions on REIT units	15	(6,770)	(6,781)
Mortgage repayments	26	(2,625)	(2,822)
Financing costs on debt	26	(56)	(27)
Repayments on revolving and term facilities, net	26	321	(1,386)
		\$ (9,209)	\$ (17,788)
Foreign exchange (loss) gain on cash held in foreign currency		(6)	53
(Decrease) increase in cash		\$ (5,762)	\$ 252
Cash, beginning of period		8,520	6,117
Cash, end of period		\$ 2,758	\$ 6,369

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

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

1. DESCRIPTION OF THE REIT AND OPERATIONS

Slate Office REIT (the "REIT") is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated as of March 21, 2016, as amended on March 1, 2019, as it may be further amended, supplemented or amended and restated from time to time (the "Declaration of Trust"). At March 31, 2021, the REIT's portfolio consists of 34 commercial properties located in North America. The units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbol "SOT.UN".

The principal, registered and head office of the REIT is 121 King Street West, Suite 200, Toronto, ON, Canada, M5H 3T9.

2. BASIS OF PREPARATION

i. Statement of compliance

These condensed consolidated interim financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. 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 consolidated financial statements should be read in conjunction with the REIT's audited annual consolidated financial statements as at and for the year ended December 31, 2020.

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on May 12, 2021.

iii. Basis of measurement

These consolidated financial statements have been prepared on a going concern basis and measured at historical cost except for investment properties and certain financial instruments including derivatives and Class B LP units, 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 Canadian dollars, which is the REIT's functional currency and the functional currency of all of its subsidiaries, except for subsidiaries directly or indirectly holding property in the United States of America (the "U.S.") for which the functional currency is U.S. dollars.

3. SIGNIFICANT ACCOUNTING POLICIES

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

i. Significant accounting policies

These consolidated financial statements have been prepared using the same accounting policies and methods disclosed in the REIT's audited annual consolidated financial statements for the year ended December 31, 2020.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

4. DISPOSITIONS

During the three months ended March 31, 2021 the REIT did not make any investment property dispositions. During the three months ended March 31, 2020 the REIT made the following investment property disposition:

	4211 Yonge Street
Disposition date	January 22, 2020
Location	Toronto, ON
Number of investment properties	1
Interest disposed	75% ¹
Sale price	\$ 47,250
Capital adjustments	(456)
Working capital and other	(395)
Transaction costs	(419)
Debt assumed by purchaser	(25,795)
Net proceeds	\$ 20,185

¹The REIT owned a 75% interest in this property which was fully disposed of.

5. INVESTMENT PROPERTIES

The change in the carrying value of the REIT's investment properties is as follows:

	Note	Three months ended March 31,	
		2021	2020
Beginning of period		\$ 1,593,945	\$ 1,622,085
Capital expenditures		4,592	5,652
Leasing costs		1,881	2,953
Dispositions	4	—	(46,794)
Depreciation of hotel asset		(254)	(262)
Foreign exchange		(4,225)	30,191
Change in fair value		9,027	2,929
IFRIC 21 property tax adjustment		(7,319)	(7,169)
Straight-line rent and other changes		(1,870)	(947)
End of period		\$ 1,595,777	\$ 1,608,638

Investment properties at March 31, 2021 are comprised of the REIT's interests in 33 properties, which includes one mixed-use hotel and office asset, and excludes a data centre in Winnipeg, MB (the "Data Centre"), which is classified as a finance lease (note 6). The REIT owns an undivided interest in all investment properties with the exception of five office properties in the Greater Toronto Area in which the REIT owns a 75% interest.

The hotel portion of the REIT's mixed-use asset does not meet the definition of an investment property under IAS 40, *Investment Property*, and accordingly is measured at cost less depreciation and any accumulated impairment losses, with depreciation charged to income over the estimated useful life of the components of the hotel asset.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The REIT's properties are all classified as income producing at March 31, 2021 and December 31, 2020. The change in the carrying value of the REIT's development properties is as follows:

	Three months ended March 31,	
	2021	2020
Beginning of period ¹	\$ —	\$ 21,609
Capital expenditures	—	102
Direct leasing costs	—	257
Change in fair value	—	(1,503)
Straight-line rent and other changes	—	(1)
End of period	\$ —	\$ 20,464

¹The REIT's development property was transferred to income producing properties at December 31, 2020.

The REIT determines the fair value of investment properties based upon either the overall income capitalization rate method, discounted cash flow method, direct comparison approach or through a combination of these methods. All methods are generally accepted appraisal methodologies. The appropriate methodology is selected by management and by independent real estate valuation experts considering the nature of the property and availability of information. If an independent appraisal is not obtained for a property, management uses one or a combination of the overall income capitalization rate method and the discounted cash flow method. In certain circumstances the direct comparison approach is used by comparing properties to similar properties that have sold, but adjusting for differences in the nature and location of the properties. The direct comparison approach and overall income capitalization method were not utilized during the current fiscal period. Under the overall income capitalization rate method, fair values are calculated by applying a capitalization rate to future cash flows based on stabilized net operating income. Under the discounted cash flow method, fair values are primarily determined by discounting the future cash flows, generally over a term of 10 years, including a terminal value based on the application of a terminal capitalization rate to estimated year 11 net operating income. Future cash flows, capitalization rates, discount rates and terminal capitalization rates are the most significant assumptions in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other evidence including current market conditions, in determining the most appropriate assumptions.

The fair values of investment 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 investment properties taken in aggregate may differ from the fair value of investment properties measured individually in the REIT's consolidated statements of financial position. Under the fair value hierarchy, the fair value of the REIT's investment properties is determined using the methodology described above and using level 3 inputs.

The following table presents a summary of the discount and terminal capitalization rates for the fair value of the REIT's investment properties:

	March 31, 2021		December 31, 2020	
	Discount rate	Terminal capitalization rate	Discount rate	Terminal capitalization rate
Minimum	6.25%	6.00%	6.25%	6.00%
Maximum	8.75%	8.50%	8.75%	8.50%
Weighted average	7.26%	6.63%	7.26%	6.63%

At March 31, 2021, a 25 basis-point increase in discount, terminal capitalization and capitalization rates would decrease the estimated fair value of the REIT's investment properties by approximately \$65.1 million (December 31, 2020 – \$66.8 million). A 25 basis-point decrease in discount, terminal capitalization and capitalization rates would increase the estimated fair value of the REIT's investment properties by approximately \$72.9 million (December 31, 2020 – \$71.5 million).

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

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The following table summarizes the number of independent appraisals obtained and the aggregate fair value represented by such appraisals:

Quarter ended	Number of investment properties	Fair Value ¹
March 31, 2020	1	109,000
June 30, 2020	—	—
September 30, 2020	16	692,339
December 31, 2020	5	380,325
March 31, 2021	—	—
Total	22	\$ 1,181,664

¹Represents appraised value provided by respective independent real estate valuation experts.

6. FINANCE LEASE RECEIVABLE

The Data Centre owned by the REIT is fully leased. The tenant occupying the Data Centre has a lease with an initial term to maturity of 15 years, which commenced on 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 \$12.0 million. At its inception the lease met the requirements for classification as a finance lease as the minimum lease payments amounted to substantially all of the fair value of the leased asset and the tenant has the right to acquire the Data Centre for a price expected to be below the fair value of the property at maturity.

A reconciliation of the change in the finance lease receivable is as follows:

	Three months ended March 31, 2021	Year ended December 31, 2020
Beginning of period	\$ 53,315	\$ 56,145
Lease payments received	(1,606)	(6,282)
Finance income on finance lease receivable	834	3,452
End of period	\$ 52,543	\$ 53,315

The following is a summary of the undiscounted future minimum lease payments receivable and the imputed interest and principal portions thereof. The principal portion represents the amount recorded on the condensed consolidated statement of financial position at March 31, 2021:

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	\$ 6,420	\$ 3,214	\$ 3,206
Greater than one year but less than 5 years	25,957	10,627	15,330
Greater than 5 years	40,235	6,228	34,007
Total			\$ 52,543

The following is a summary of the undiscounted future minimum lease payments receivable and the imputed interest and principal portions thereof. The principal portion represents the amount recorded on the condensed consolidated statement of financial position at December 31, 2020:

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	\$ 6,420	\$ 3,262	\$ 3,158
Greater than one year but less than 5 years	25,872	10,865	15,007
Greater than 5 years	41,924	6,774	35,150
Total			\$ 53,315

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

7. OTHER ASSETS

Other assets are comprised of the following:

	March 31, 2021	December 31, 2020
Prepaid expenses	\$ 2,798	\$ 2,516
Vendor-take-back loan	2,700	2,700
Interest rate subsidy	323	431
Performance payment	5,423	5,378
Investment tax credit receivable	741	727
Utilities deposits	219	219
Total	\$ 12,204	\$ 11,971

Other assets have been classified between current and non-current as follows:

	March 31, 2021	December 31, 2020
Current	\$ 3,399	\$ 5,923
Non-current	8,805	6,048
Total	\$ 12,204	\$ 11,971

In connection with the disposition of certain investment properties, the REIT was provided a \$2.7 million vendor-take-back loan as partial consideration. The vendor-take-back loan bears interest at 8.0% annually, matures in September 2022 and is repayable by the borrower at any time.

As part of a prior acquisition, the REIT received an interest rate subsidy in the initial amount of \$2.4 million. This subsidy is to be held in escrow and released to the REIT over the term to maturity of the debt assumed on the acquisition in order to compensate the REIT for the assumption of an above market rate mortgage.

The REIT is entitled to a performance payment related to its disposition of a 25% interest in six GTA office properties. An additional amount is payable to the REIT based on the financial performance of the properties to a maximum amount of \$6.0 million. The amount is recorded in other assets on the consolidated statements of financial position at fair value through profit and loss ("FVTPL") at an amount equal to the present value of the future expected amount. The performance payment is valued using level 3 inputs that pertain to the expected cash flows from the underlying investment properties.

The REIT is eligible for a Manitoba data processing investment tax credit as a result of its development of the Data Centre. The REIT expects to receive the tax credit in installments through to 2029. Half of the tax credit is payable to the Data Centre tenant as the credits are received. The tax credit payable is included in other liabilities (see note 10).

8. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	March 31, 2021	December 31, 2020
Rent receivable	\$ 2,998	\$ 4,389
Accrued recovery income	811	521
Other amounts receivable	2,516	3,358
Allowance	(119)	(139)
Total	\$ 6,206	\$ 8,129

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Rent receivable consists of base rent and operating expense recoveries receivable from tenants. As a result of the COVID-19 pandemic, the REIT has entered into short-term rent deferral programs with certain tenants of which \$0.3 million remains outstanding at March 31, 2021.

Accrued recovery income represents amounts that have not been billed to tenants and are generally billed and paid in the period following the period to which they relate.

Included in other amounts receivable is \$0.2 million (December 31, 2020 – \$0.2 million) due from Slate (as defined in note 20) relating to a prior acquisition for future 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 change in allowance is as follows:

	Three months ended March 31, 2021	Year ended December 31, 2020
Beginning of period	\$ (139)	\$ (24)
Change in allowance	10	(265)
Bad debt write-off	10	150
End of period	\$ (119)	\$ (139)

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 rents receivable past due but not impaired, net of allowance is as follows:

	March 31, 2021	December 31, 2020
Current to 30 days	\$ 1,039	\$ 1,853
31 to 90 days	1,167	1,062
Greater than 90 days	673	1,335
Total	\$ 2,879	\$ 4,250

9. DEBT

Debt held by the REIT at March 31, 2021 is as follows:

	Maturity	Coupon ¹	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn ²
Mortgages ^{3 4 5}	Various	Various	17	\$ 1,003,585	\$ 616,947	\$ 616,947	—	\$ —
Revolving facilities ^{5 6 7}	Oct. 14, 2022	Various	16	588,265	375,372	328,580	900	45,892
Convertible debentures	Feb. 28, 2023	5.25%	—	—	28,750	28,750	—	—
Total			33	\$ 1,591,850	\$ 1,021,069	\$ 974,277	\$ 900	\$ 45,892

¹BA* means the one-month Bankers' Acceptances rate and "bps" means basis point or 1/100th of one percent.

²Debt is only available to be drawn subject to certain covenants and other requirements.

³The weighted average remaining term to maturity of mortgages is 3.0 years with maturities ranging from 0.4 to 9.5 years and the weighted average interest rate of mortgages is 3.22% with coupons ranging from 2.45% to 4.95%.

⁴Security includes the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's properties. The fair value of security includes the carrying value of the finance lease receivable.

⁵Certain amounts have been translated from U.S. to Canadian dollars using the prevailing exchange rate on March 31, 2021.

⁶Stand-by fees incurred on the unutilized portion of the revolving operating facility are 68.75 bps, charged and paid quarterly.

⁷Principal balance includes \$256.6 million and U.S. \$57.3 million of operating facilities. The remaining term to maturity of revolving facilities is 1.5 years and the weighted average interest rate is 3.10%.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The carrying value of debt held by the REIT at March 31, 2021 is as follows:

	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments, costs and other	Carrying amount	Current	Non-current
Mortgages	\$ 616,947	\$ (2,727)	\$ (7)	\$ 614,213	\$ 166,563	\$ 447,650
Revolving facilities	328,580	(3,245)	726	326,061	—	326,061
Convertible debentures ¹	28,750	(1,320)	695	28,125	—	28,125
	\$ 974,277	\$ (7,292)	\$ 1,414	\$ 968,399	\$ 166,563	\$ 801,836

¹Represents the debt component of the convertible debentures. The embedded derivative features, which are the holder conversion option and the issuer redemption option, originally recorded in the aggregate amount of \$0.2 million, are accounted for separately. These embedded derivative features are included within derivatives on the REIT's consolidated statements of financial position.

Future repayments of mortgages payable by year of maturity at March 31, 2021 are as follows:

	Weighted average interest rate of principal maturities ¹	Scheduled principal amortization	Principal maturities	Total repayments
Remainder 2021	2.77%	\$ 7,901	\$ 156,982	\$ 164,883
2022	2.66%	9,582	12,000	21,582
2023	3.89%	7,566	182,301	189,867
2024	—%	6,475	—	6,475
2025	2.97%	6,416	81,771	88,187
Thereafter	2.76%	15,217	130,736	145,953
	3.16%	\$ 53,157	\$ 563,790	\$ 616,947
Unamortized financing costs				(2,734)
				\$ 614,213

¹The weighted average interest rate of principal maturities is calculated using the rate in effect at March 31, 2021.

Future principal payments and maturities for all debt at March 31, 2021 are as follows:

Remainder of 2021	\$ 164,883
2022	350,162
2023	218,617
2024	6,475
2025	88,187
Thereafter	145,953
	\$ 974,277
Unamortized financing costs	(5,878)
	\$ 968,399

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

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Convertible Debentures

On January 26, 2018, the REIT issued \$28.8 million of 5.25% convertible unsecured subordinated debentures of the REIT.

The convertible debentures are convertible into freely tradeable units at the option of the holder at any time prior to the close of business on the earliest of: (i) the last business day before February 28, 2023; or (ii) if called for redemption, the business day immediately preceding the date specified by the REIT for redemption of the debentures, at a conversion price of \$10.53 per unit (the "Conversion Price"). Convertible debenture holders converting their debentures will, in addition to the applicable number of units to be received on conversion, receive accrued and unpaid interest, if any, for the period from the last interest payment date on their convertible debentures to and including the last record date set by the REIT occurring prior to the date of conversion for determining the unitholders entitled to receive a distribution on the Units.

The convertible debentures may not be redeemed by the REIT prior to February 28, 2021, and none of the convertible debentures have been redeemed as at March 31, 2021. On and from February 28, 2021, and prior to February 28, 2022, the convertible debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted-average trading price of the Units on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from February 28, 2022, and prior to February 28, 2023, the convertible debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice.

10. OTHER LIABILITIES

Other liabilities are comprised of the following:

	Note	March 31, 2021	December 31, 2020
Security deposits		\$ 4,932	\$ 4,872
Deferred units	14	993	881
Investment tax credit payable		371	364
Total		\$ 6,296	\$ 6,117

Other liabilities have been classified between current and non-current as follows:

	March 31, 2021	December 31, 2020
Current	\$ 1,399	\$ 1,683
Non-current	4,897	4,434
Total	\$ 6,296	\$ 6,117

The REIT is eligible to receive a Manitoba data processing investment tax credit in connection with the development of the Data Centre (see note 7). Half of the tax credit to be received is payable to the tenant of the Data Centre, the amount for which is recorded as an other liability. The credit is expected to be received through to 2029 and has been recorded in other liabilities at its discounted amount determined upon establishment of the liability.

11. DERIVATIVES

Derivatives include the REIT's interest rate protection instruments, including interest rate swaps and caps, and derivative features embedded in the REIT's convertible debentures, which include the convertible debenture holder conversion option and the REIT's redemption option.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Derivatives are comprised of the following:

	March 31, 2021	December 31, 2020
Fair value of conversion option on convertible debentures	\$ —	\$ (3)
Fair value of interest rate swaps	(24,058)	(35,866)
Derivatives, net	\$ (24,058)	\$ (35,869)

The following is a reconciliation of the change in the fair value of derivatives:

	Three months ended March 31,	
	2021	2020
Fair value, beginning of period	\$ (35,869)	\$ (6,373)
Fair value change of convertible debenture embedded derivatives	3	(49)
Fair value change of interest rate swaps	8,738	(32,359)
Net payments made on interest rate swaps	2,949	273
Foreign exchange gain (loss) on U.S. interest rate swap	121	(387)
Fair value change of hedges of net investment in foreign operations	—	(6,396)
Settlement of net investment foreign exchange hedges	—	6,396
Fair value, end of period	\$ (24,058)	\$ (38,895)

Interest rate protection instruments

The REIT enters into interest rate derivatives to reduce the impact of interest rate risk of certain debt with floating interest rates. The REIT currently has in place certain pay-fixed receive-float interest rate swaps. Swaps are derivative financial instruments that require a periodic exchange of payments with counter-parties without the exchange of the notional amount on which the payments are based. The recorded interest expense on the underlying mortgages payable reflects payments made and received under the interest rate swaps.

Interest rate derivatives are measured at fair value with fair values estimated as the present value of contractual cash flows based on forward curves and an applicable discount rate.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The following are the terms and fair values of the REIT's interest rate swaps:

Maturity date	Floating interest rate ¹	Fixed interest rate	Notional amount ²		Fair value	
			March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
June 10, 2021	1 month CDOR	1.87%	\$ 61,038	\$ 61,528	\$ (245)	\$ (455)
June 30, 2021	1 month BA	1.94%	35,000	35,000	(133)	(260)
April 12, 2023	1 month BA	1.90%	58,281	58,281	(1,484)	(1,794)
April 12, 2023	1 month CDOR	2.04%	77,015	77,708	(2,294)	(2,699)
April 12, 2023	1 month CDOR	2.04%	36,370	36,697	(1,084)	(1,275)
August 14, 2023	1 month BA	2.77%	18,135	18,249	(905)	(1,073)
February 1, 2024	1 month U.S. LIBOR	1.80%	62,810	63,625	(2,594)	(3,253)
March 22, 2024	1 month BA	1.90%	100,000	100,000	(3,026)	(4,148)
March 3, 2025	1 month BA	1.23%	62,500	62,500	(56)	(1,276)
September 10, 2025	1 month U.S. LIBOR	2.56%	126,970	128,618	(8,050)	(11,565)
October 30, 2026	1 month BA	2.30%	100,000	100,000	(4,187)	(8,068)
Total			\$ 738,119	\$ 742,206	\$ (24,058)	\$ (35,866)

¹"BA" means the one-month Bankers' Acceptances rate, "LIBOR" means the one month U.S. London Interbank Offering Rate, and "CDOR" means the Canadian Dollar Offered Rate.

²The notional amount of the U.S. dollar pay-fixed receive-float interest rate swaps, maturing September 10, 2025 and February 1, 2024, are U.S. \$101.1 million and U.S. \$50 million respectively.

Foreign exchange rate protection instruments

From time to time, the REIT may use forward foreign exchange contracts to hedge against fair value changes in the first U.S. \$75.0 million of net investment in its U.S. operations arising from fluctuations in the U.S. and Canadian dollar exchange rates. The hedge ratio is 1:1 for the first U.S. \$75.0 million contributed to the U.S. operations as the REIT enters into contracts to sell U.S. \$75.0 million and buy Canadian dollars. As the REIT's U.S. operations are reported in Canadian dollars and the assets are converted using the prevailing spot exchange rates on the last business day of each reporting period, any fluctuations in the Canadian dollar equivalent of the REIT's first U.S. \$75.0 million net investment in U.S. operations will be exactly offset by fair value changes in the hedging instrument. Sources of hedge ineffectiveness include instances where the net investments in U.S. operations is less than U.S. \$75.0 million and potential misalignment between the term of the hedging instrument and the holding term of the REIT's net investment in U.S. operations.

There are no outstanding contracts designated as an accounting hedge and recorded as a derivative at March 31, 2021, and the REIT has not entered into or settled any derivative or foreign exchange contract during the three months ended March 31, 2021.

12. CLASS B LP UNITS

Class B LP units are exchangeable at the option of the holder into trust units of the REIT on a one-for-one basis subject to normal anti-dilution adjustments and are entitled to distributions of cash, as applicable, equal to the cash distributions paid to holders of units by the REIT.

Each Class B LP unit is attached to a special voting unit of the REIT, providing Class B LP unitholders voting rights in the REIT. Special voting units have no economic entitlement in the REIT but entitle the holder to one vote per special voting unit at any meeting of the unitholders of the REIT. Special voting units are not transferable separately from the Class B LP units to which they are attached. Upon the exchange or surrender of a Class B LP units for units of the REIT, the special voting unit attached to a Class B LP unit will automatically be redeemed and cancelled.

The Class B LP units are remeasured based on the quoted closing price of REIT units into which they are exchangeable with changes in fair value recognized in net income.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The change in Class B LP units for the three months ended March 31, 2021 and 2020 is as follows:

	Three months ended March 31, 2021		Three months ended March 31, 2020	
	Units	Amount	Units	Amount
Balance, beginning of period	5,285,160	\$ 21,880	5,285,160	\$ 30,918
Fair value changes	—	1,321	—	(11,522)
Balance, end of period	5,285,160	\$ 23,201	5,285,160	\$ 19,396

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Note	March 31, 2021	December 31, 2020
Accounts payable and accrued liabilities		\$ 27,469	\$ 26,815
Distributions payable	15	2,432	2,432
Prepaid rent		4,130	5,463
Tenant improvements payable		3,000	3,284
Total		\$ 37,031	\$ 37,994

Accounts payable and accrued liabilities have been classified between current and non-current as follows:

	March 31, 2021	December 31, 2020
Current	\$ 34,788	\$ 35,604
Non-current	2,243	2,390
Total	\$ 37,031	\$ 37,994

14. UNITHOLDERS' EQUITY

The REIT is authorized to issue an unlimited number of trust units. Each trust unit represents a proportionate undivided beneficial interest and voting right in the REIT and entitles the holder to an equal participation in distributions of the REIT. The trust units are redeemable at the option of the holder at any time.

The REIT is also authorized to create and issue an unlimited number of preferred units, in one or more classes comprised of unlimited series, having terms and conditions as may be determined by the Board of Trustees from time to time. No preferred units have been issued.

The change in trust units during the three months ended March 31, 2021 and 2020 is as follows:

Note	Three months ended March 31, 2021		Three months ended March 31, 2020	
	Units	Amount	Units	Amount
Balance, beginning of period	67,765,409	\$ 520,514	67,878,409	\$ 520,890
Unit issuance costs	—	(79)	—	(18)
Repurchase of units	—	—	(113,000)	(358)
Balance, end of period	67,765,409	\$ 520,435	67,765,409	\$ 520,514

Trustee deferred unit plan

Trustees who are not employees of the REIT or the Manager, Slate Asset Management L.P., or any of their subsidiaries, are eligible to participate in the REIT's Trustee deferred unit plan ("the Trustee DUP"). Participants may elect to receive all or a portion of their annual retainer, meeting fees and additional compensation (including travel fees), in deferred 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.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

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 trust units on the date of the redemption request.

At March 31, 2021, the liability associated with the deferred units issued under the Trustee DUP was \$0.9 million (December 31, 2020 - \$0.8 million), and the number of outstanding deferred units was 214,632 (December 31, 2020 - 201,730 units).

Officer deferred unit plan

The Officer DUP provides officers of the REIT the opportunity to receive deferred units of the REIT through the Officer deferred unit plan ("the Officer DUP"). The maximum number of deferred units reserved for issuance under the Officer DUP is 1% of total units outstanding. One deferred unit, which vests immediately on the grant date, is equal to one trust unit. Any units issued under the Officer DUP result in an equal reduction in the asset management fee payable to Slate Management Corporation, based on the trading price of units on the day of issuance.

The deferred units may be redeemed by a participant after two years following the date the units were issued 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 trust units on the date of the redemption request. If a participant ceases to be an officer of the REIT, the deferred units must be redeemed no later than two years following that date.

At March 31, 2021, the liability associated with deferred units issued under the Officer DUP was \$50 thousand (December 31, 2020 - \$46 thousand), and the number of deferred units was 11,405 (December 31, 2020 - 11,145 units).

The change in DUP units during the three months ended March 31, 2021 and 2020 is as follows:

	Note	Three months ended March 31, 2021		Three months ended March 31, 2020	
		Units	Amount	Units	Amount
Beginning of period		212,875	\$ 881	127,007	\$ 742
Issued		8,192	37	20,854	72
Reinvested distributions		4,970	21	2,478	13
Fair value adjustment	19	—	54	—	(275)
End of period		226,037	\$ 993	150,339	\$ 552

Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the three months ended March 31, 2021 and 2020. The diluted weighted average trust units outstanding is determined as if all of the Class B LP units and deferred units have been converted to units of the REIT:

	Three months ended March 31,	
	2021	2020
Basic weighted average units outstanding	67,765,409	67,864,750
Class B LP units	5,285,160	5,285,160
Basic weighted average deferred units outstanding	215,350	128,116
Diluted weighted average units outstanding	73,265,919	73,278,026

Diluted units outstanding

The following is the diluted number of units outstanding as at March 31, 2021 and 2020. The diluted number of units outstanding is determined as if all of the Class B LP units and deferred units have been converted to units of the REIT:

	March 31, 2021	March 31, 2020
Trust units outstanding	67,765,409	67,765,409
Class B LP units	5,285,160	5,285,160
Deferred units	226,037	150,339
Diluted units outstanding	73,276,606	73,200,908

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Accumulated other comprehensive loss and income consists of the below:

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Foreign currency translation	Net investment hedges	Total	Foreign currency translation	Net investment hedges	Total
Beginning of period	\$ (442)	\$ (4,820)	\$ (5,262)	\$ 1,909	\$ 1,576	\$ 3,485
Currency translation	(1,512)	—	(1,512)	11,185	—	11,185
Settlement of investment hedges	—	—	—	—	(6,396)	(6,396)
End of period	\$ (1,954)	\$ (4,820)	\$ (6,774)	\$ 13,094	\$ (4,820)	\$ 8,274

15. DISTRIBUTIONS

Pursuant to the Declaration of Trust, the income of the REIT is distributed on dates and in amounts as determined by the Board of Trustees. Distributions to Class B LP unitholders are recorded in net income (loss). All distributions settled during the three months ended March 31, 2021 and 2020 have been paid in cash.

The following table presents the distributions during the three months ended March 31, 2021 and 2020:

	Three months ended March 31, 2021		Three months ended March 31, 2020	
	Trust units	Class B LP units	Trust units	Class B LP units
Distributions declared during the period	\$ 6,770	\$ 528	\$ 6,777	\$ 528
Add: Distributions payable, beginning of period	2,256	176	2,260	176
Less: Distributions payable, end of period	(2,256)	(176)	(2,256)	(176)
Distributions paid during the period	\$ 6,770	\$ 528	\$ 6,781	\$ 528

Distributions during the three months ended March 31, 2021 and 2020 were paid or settled as follows:

	Note	Three months ended March 31, 2021		Three months ended March 31, 2020	
		Trust units	Class B LP units	Trust units	Class B LP units
Paid in cash		\$ 6,770	\$ 528	\$ 6,781	\$ 528
Total		\$ 6,770	\$ 528	\$ 6,781	\$ 528

16. RENTAL REVENUE

Rental revenue is comprised of the following:

	Three months ended March 31,	
	2021	2020
Property base rent ¹	\$ 21,912	\$ 23,784
Operating cost recoveries	15,079	17,059
Tax recoveries	7,750	8,005
Hotel	290	1,793
Straight-line rent and other changes	(1,870)	(947)
Total	\$ 43,161	\$ 49,694

¹Includes parking revenue earned at properties.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The REIT has contracted to receive the following future minimum lease payments under non-cancellable operating leases:

	March 31, 2021	December 31, 2020
Not later than one year	\$ 110,482	\$ 115,563
Later than one year and not later than five years	344,791	364,022
Later than five years	218,882	233,694
Total	\$ 674,155	\$ 713,279

Future minimum lease payments for the Data Centre are excluded from the above as the lease is classified as a finance lease. Future minimum lease payments for the Data Centre are disclosed in note 6.

17. INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

	Three months ended March 31,	
	2021	2020
Mortgage interest	\$ 6,346	\$ 6,159
Interest on other debt	3,279	3,175
Amortization of financing costs	778	670
Amortization of debt mark-to-market adjustments	(40)	(58)
Interest on convertible debentures ¹	364	376
Total	\$ 10,727	\$ 10,322

¹The convertible debentures pay interest at 5.25%. Payments are made semi-annually on or about February 28th and August 30th. The amount above represents the interest accrued but not yet paid.

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

		Three months ended March 31,	
	Note	2021	2020
Asset management fees	20	\$ 1,264	\$ 1,290
Professional fees		372	358
Trustee fees		119	113
Bad debt expense, net		20	(9)
Other		266	232
Total		\$ 2,041	\$ 1,984

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

19. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Note	Three months ended March 31,	
		2021	2020
Interest rate swaps	11	\$ 8,738	\$ (32,359)
Net payments made on interest rate swaps	11	2,949	273
Convertible debenture embedded derivatives	11	3	(49)
Hedges of net investment in foreign operations	11	—	6,396
Deferred units	14	(54)	275
Performance payment		(22)	—
Total change in fair value of financial instruments		11,614	(25,464)
Less: Amounts recognized in other comprehensive income (loss)		—	(6,396)
Recognized in net income (loss)		\$ 11,614	\$ (31,860)

20. RELATED PARTY TRANSACTIONS

The REIT has a management agreement (the "Management Agreement") with Slate Management ULC ("SMULC"), a subsidiary of Slate Asset Management L.P. ("SLAM"), (collectively, "Slate"), whereby SMULC as the REIT's manager provides the REIT with the strategic, administrative, property management, leasing, acquisition, financing and construction management services necessary to manage the strategy and day-to-day operations of the REIT and its assets.

Slate held the following interests in the REIT:

	March 31, 2021	December 31, 2020
REIT units	1,687,251	1,687,251
Class B LP units	5,285,160	5,285,160
Total	6,972,411	6,972,411
Economic interest	9.5%	9.5%

The Management Agreement provides for the following fees:

Type	Basis
Property management	3% of gross revenue ¹
Asset management	0.3% of gross book value ²
Leasing	5% on new leases, 2% on renewals ³
Financing	0.25% of debt financed
Construction	5.0% of costs
Acquisition	Variable ⁴

¹Gross revenue is defined as all revenues received by and/or on behalf of the REIT from the leasing and/or licensing of the REIT's investment properties.

²Gross book value is defined as the book value of the REIT's assets as shown on the previous quarter's consolidated financial statements, less restricted cash.

³Leasing fees are charged to the REIT net of any third party brokerage fees paid to leasing agents retained by the REIT. No fee is charged to the REIT where such third party fees are equal to or greater than the lease fee payable to Slate.

⁴Acquisition fees are 1.0% on the first \$100.0 million of acquisitions; 0.75% on the next \$100.0 million of acquisitions and 0.50% for acquisitions in excess of \$200.0 million.

Property and asset management fees are recorded as property operating and general and administrative expenses, respectively, in the period incurred. Acquisition, construction and leasing fees are recorded as additions to investment properties when payable to SMULC. Financing fees are capitalized to debt placed at the time of closing and amortized to interest expense over the term to maturity of the related debt.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Fees payable during the period to SMULC and SLAM for services provided were as follows:

	Three months ended March 31,	
	2021	2020
Property management	\$ 1,393	\$ 1,449
Asset management	1,264	1,290
Leasing, financing and construction management	352	1,049
Total	\$ 3,009	\$ 3,788

Property administration fees are generally recoverable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the REIT's investment properties. Property administration fees were \$2.3 million for the three months ended March 31, 2021 (March 31, 2020 – \$2.5 million). Administrative fees are recovered from most tenants by the REIT in accordance with the terms of the leases, whereas property management fees payable by the REIT to the Manager are determined in accordance with the Management Agreement. The REIT entered into an agreement to lease approximately 6,000 square feet of office space to Slate at one of its properties at market rents which expires October 31, 2029. Total rent of \$79 thousand was received under this lease for the three months ended March 31, 2021 (March 31, 2020 - nil). There were no amounts receivable related to this lease at March 31, 2021 and December 31, 2020.

The following are the assets and liabilities included in the consolidated statements of financial position of the REIT related to SMULC and SLAM:

	March 31, 2021	December 31, 2020
Accounts receivable	\$ 262	\$ 383
Accounts payable and accrued liabilities	(314)	(308)
Class B LP units	(23,201)	(21,880)

21. FAIR VALUES

The REIT uses various methods in estimating the fair values of assets and liabilities recognized and measured at fair value in its consolidated financial statements. The REIT 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.

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 REIT's cash, restricted cash, accounts receivable, other assets and accounts payable and accrued liabilities and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of the REIT's revolving credit facility, revolving operating facility and term loan, 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.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

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

March 31, 2021	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets					
Investment properties	5	\$ 1,595,777	\$ —	\$ —	\$ 1,595,777
Cash		2,758	2,758	—	—
Restricted cash		4,767	4,767	—	—
Performance payment	7	5,423	—	—	5,423
Total assets		\$ 1,608,725	\$ 7,525	\$ —	\$ 1,601,200
Liabilities					
Derivatives, net	11	(24,058)	—	(24,058)	—
Class B LP units	12	(23,201)	(23,201)	—	—
Debt	9	(968,399)	—	(981,703)	—
Total liabilities		\$ (1,015,658)	\$ (23,201)	\$ (1,005,761)	\$ —

December 31, 2020	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets					
Investment properties	5	\$ 1,593,945	\$ —	\$ —	\$ 1,593,945
Cash		8,520	8,520	—	—
Restricted cash		3,327	3,327	—	—
Performance payment	7	5,378	—	—	5,378
Total assets		\$ 1,611,170	\$ 11,847	\$ —	\$ 1,599,323
Liabilities					
Derivatives, net	11	(35,869)	—	(35,869)	—
Class B LP units	12	(21,880)	(21,880)	—	—
Debt	9	(972,604)	—	(983,767)	—
Total liabilities		\$ (1,030,353)	\$ (21,880)	\$ (1,019,636)	\$ —

22. RISK MANAGEMENT

In the normal course of business, the REIT is exposed to financial risks that arise from its financial instruments. Other than the use of interest rate and foreign exchange derivatives related to its floating rate mortgages payable and net investment in foreign operations, the REIT does not use hedging transactions to manage risk. As a part of the overall operation of the REIT, management takes steps to avoid undue concentrations of risks. The following describes the types of risks that the REIT is exposed to and its objectives and policies for managing those risk exposures:

Liquidity risk

Liquidity risk is the risk that the REIT will encounter difficulty in meeting its debt and other financial obligations as they mature.

The principal liquidity needs of the REIT arise from working capital requirements; debt servicing and repayment obligations; distributions to unitholders; obligations to redeem outstanding puttable trust units at the option of the unitholders; planned funding of maintenance capital expenditures and leasing costs; and future investment property acquisition funding requirements.

The liquidity needs of the REIT are funded by cash flows from operating the REIT's investment property portfolio and available credit facilities, with the exception of debt repayment obligations, investment property acquisition funding requirements and obligations to redeem puttable trust units. These are funded by refinancing the REIT's maturing debt, financing unencumbered properties, or future issuances of REIT units and debentures. The particular features and quality of the underlying assets being financed and the debt market

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

parameters existing at the time will affect the success of this strategy. The REIT's liquidity is also impacted by certain covenants as described in note 23.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated by matching debt maturities on mortgages with lease renewals to optimize the value of the assets with the leverage to achieve the best value for pricing. In addition, the REIT staggers the maturity dates of the REIT's mortgage portfolio over a number of years.

The following table summarizes the estimated contractual maturities of the REIT's financial liabilities at March 31, 2021:

	Note	Total contractual cash flow	Remainder of 2021	2022-2023	2024-2025	Thereafter
Accounts payable and accrued liabilities	13	\$ 37,031	\$ 34,641	\$ 1,226	\$ 1,164	\$ —
Amortizing principal repayments on debt	9	53,157	7,901	17,148	12,891	15,217
Principal repayments on maturity of debt	9	921,120	156,982	551,631	81,771	130,736
Interest on debt ¹		74,852	22,110	34,215	13,257	5,270
Interest rate swaps ²		17,989	5,433	10,683	2,008	(135)
Other liabilities	10	6,296	1,405	979	891	3,021
Total		\$ 1,110,445	\$ 228,472	\$ 615,882	\$ 111,982	\$ 154,109

¹Interest amounts on floating rate debt have been determined using rates at March 31, 2021.

²Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the forward rates determined at March 31, 2021.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows or fair values of the REIT's financial instruments.

Interest rate cash flow risk is minimized by the REIT by having a portion of its mortgages on fixed term arrangements. In addition, the maturity dates of mortgages are staggered over a number of years to mitigate the exposure in any one year. The REIT also utilizes interest rate swaps to fix interest rates on a portion of its floating rate mortgages.

At March 31, 2021 and December 31, 2020 after the impact of interest rate swaps, all of the REIT's debt was fixed rate.

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

Upon the expected discontinuation of U.S. LIBOR, there is uncertainty in the determination of the applicable interest rate and payment amount. This will depend on the terms agreed to by the REIT and may require significant management time to transition to using the new benchmark rates and to implement necessary changes to the determination of the REIT's expected future cash flows. The calculation of interest rates under the replacement benchmarks may impact the REIT's interest and finance costs and overall financial condition or results of operations. Additionally, debt holders or governing bodies may decide to transition to a successor rate prior to the expected LIBOR phase-out date.

In response to the announcements and risks, the REIT is in the process of developing a transition program. The aim of the program is to understand where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to an alternative benchmark rate. For the REIT's floating rate debt, the REIT has started discussions with its lenders to amend U.S. LIBOR bank loans so that the reference benchmark interest rate will transition to SOFR. The REIT is adhering to International Swaps and Derivatives Association ("ISDA") fallback protocols and remains in communication with its lenders to stay apprised of new developments and transition plans.

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

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Credit risk

Credit risk is the risk that the REIT incurs a loss as a result of a counterparty not fulfilling its financial obligation. Credit risk is associated with the REIT's accounts receivable, finance lease receivable, and vendor take back loan. The REIT controls risks by avoiding undue concentration of assets in any geographic location, in any industry or with any specific tenants. This risk is further mitigated by signing long-term leases with tenants who have investment-grade credit ratings and investing cash and cash equivalents in large financial institutions with strong credit ratings. The REIT has credit policies to address credit risk, which are applied during lease negotiations and may include the analysis of the financial position of the debtor, and a review of credit limits, credit history and credit performance.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate due to changes in foreign exchange rates. The REIT is exposed to foreign currency risk as it relates to 20 South Clark and 120 South LaSalle, located in Chicago, IL, as well as monetary assets and liabilities denominated in U.S. currency. In order to mitigate a portion of this risk, the REIT has financed its U.S. operations with U.S. dollar denominated debt, acting as a natural hedge. Foreign currency forwards may be used from time-to-time to hedge the REIT's net investment in foreign operations. Refer to notes 11 and 19 for details of the REIT's forward currency transactions.

Impact of COVID-19

Since the onset of the COVID-19 pandemic, the REIT's business has been affected by government-imposed travel bans and lockdowns in its markets. This pandemic could have a material impact on the financial position, results and cash flows of the REIT, including tenants' ability to pay rent, occupancy, leasing demand, market rents, labor shortages and disruptions, and access to capital markets on acceptable terms or at all, of which the measurement is not determinable. The impact of this may include, but is not limited to, the valuation of its investment properties, the availability of financing and the ability of the REIT to meet financial obligations. Market volatility has resulted and may continue to result in a negative impact on the market price of the REIT's equity securities. Governments and central banks have intervened through monetary and new fiscal policies, however, the long term impact to capital markets or the financial stability of the REIT's tenants is unknown at this time. Since April 2020, the REIT's rent collections ranged from 96% to 98% in cash each month. Future economic uncertainty may persist and will be impacted by the length and severity of future waves of the pandemic which could further impact the financial performance of the REIT.

23. 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 investment 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 lenders. 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:

	March 31, 2021	December 31, 2020
Debt, net	\$ 968,399	\$ 972,604
Class B LP units	23,201	21,880
Equity	615,020	604,743
Total	\$ 1,606,620	\$ 1,599,227

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 calculated as follows:

	March 31, 2021	December 31, 2020
Total assets	\$ 1,674,255	\$ 1,679,207
Less: Restricted cash	(4,767)	(3,327)
Gross book value	1,669,488	1,675,880
Debt, net	\$ 968,399	\$ 972,604
Leverage ratio	58.0%	58.0%

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

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

The REIT's revolving credit facility, construction facility and some mortgages are subject to financial and other covenants, including customary maximum leverage ratios, interest service coverage ratios, minimum debt service coverage ratios, minimum unitholders' equity among others which may impact the available capacity based on the financial results of the REIT. The REIT is in compliance with these covenants.

24. SEGMENTED DISCLOSURES

The REIT operates in Canada and the United States. The following is a summary of investment properties by geographic location:

	March 31, 2021	December 31, 2020
Canada	\$ 1,269,949	\$ 1,264,670
United States	325,828	329,275
Total	\$ 1,595,777	\$ 1,593,945

The following is a summary of rental revenue and property operating expenses by geographic location during the three months ended March 31, 2021 and 2020:

	Three months ended March 31, 2021		
	Canada	United States	Total
Property revenue	\$ 34,193	\$ 10,838	\$ 45,031
Property operating expenses	(18,366)	(5,320)	(23,686)
Net operating income	\$ 15,827	\$ 5,518	\$ 21,345
Straight line rent and other changes			(1,870)
IFRIC 21 property tax adjustment			(7,319)
Finance income on finance lease receivable			834
Interest income			130
Interest and finance costs			(10,727)
General and administrative			(2,041)
Change in fair value of financial instruments			11,614
Change in fair value of investment properties			9,027
Depreciation of hotel asset			(254)
Deferred income tax recovery			(252)
Net income before Class B LP units		\$	20,487
Change in fair value of Class B LP units			(1,321)
Distributions to Class B LP unitholders			(528)
Net income		\$	18,638

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

	Three months ended March 31, 2020		
	Canada	United States	Total
Property revenue	\$ 40,030	\$ 10,585	\$ 50,615
Property operating expenses	(21,681)	(5,939)	(27,620)
Net operating income	\$ 18,349	\$ 4,646	\$ 22,995
Straight line rent and other changes			(947)
IFRIC 21 property tax adjustment			(7,169)
Finance income on finance lease receivable			879
Interest income			164
Interest and finance costs			(10,322)
General and administrative			(1,984)
Change in fair value of financial instruments			(31,860)
Change in fair value of investment properties			2,929
Depreciation of hotel asset			(262)
Transaction costs			(419)
Deferred income tax expense			96
Net loss before Class B LP units			\$ (25,900)
Change in fair value of Class B LP units			11,522
Distributions to Class B LP unitholders			(528)
Net loss			\$ (14,906)

25. INCOME TAXES

The Income Tax Act (Canada) contains legislation affecting the tax treatment of specified investment flow-through (“SIFT”) trusts which include publicly-listed income trusts (the “SIFT Rules”). Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT’s taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital are generally not subject to tax. The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”). Instead, a real estate investment trust that meets the REIT Conditions is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period.

The REIT has reviewed the SIFT Rules and has assessed their application to the REIT’s assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions for the three months ended March 31, 2021, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes payable is required, except for amounts incurred by the U.S. subsidiary.

The REIT’s U.S. subsidiary is subject to federal and state income tax on taxable income from U.S. operations. The REIT recognizes deferred tax assets and liabilities at prevailing tax rates when such differences are expected to settle, based on tax laws enacted at the reporting date. The U.S. subsidiary is subject to a combined federal and state rate of 28.51%.

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

	Three months ended March 31,	
	2021	2020
Beginning of the period	\$ —	\$ (92)
Deferred income tax (expense) recovery	(252)	96
Foreign exchange	2	(4)
End of the period	\$ (250)	\$ —

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

A reconciliation of the expected income taxes based upon the 2021 statutory rates and the income tax recovery recognized during the three months ended March 31, 2021 and 2020 are as follows:

	Three months ended March 31,	
	2021	2020
Net income (loss) before Class B LP units and taxes	\$ 20,739	\$ (25,996)
Canadian statutory tax rate	26.5%	26.5%
	\$ 5,496	\$ (6,889)
Amount not subject to tax	(4,100)	4,418
Valuation allowance	(1,249)	2,375
Tax rate differential	105	—
Deferred income tax expense (recovery)	\$ 252	\$ (96)

Deferred tax assets are recognized to the extent that realization of the related tax benefit through future taxable profits is probable. Management has determined that it is probable that not all the deferred tax assets will be realized through one or a combination of future reversals of temporary differences and taxable income. A valuation allowance had been recorded for the year ended December 31, 2020 to recognize only the portion of the deferred tax asset that was more likely than not to not be realized. The valuation allowance has been reversed in the the three months ended March 31, 2021.

For the three months ended March 31, 2021, management has determined that it is probable that the deferred tax assets will be recognized through one or a combination of future reversals of temporary differences and taxable income. The deferred tax assets are recognized in full for the three months ended March 31, 2021 to the extent of recognized deferred tax liabilities.

At March 31, 2021 and December 31, 2020, the REIT had tax losses carried forward available to reduce future years' taxable income, which expire as follows:

Year of expiry	March 31, 2021	December 31, 2020
2037	\$ 268	\$ 3,695
2038	2,751	2,751
Total non-capital losses	\$ 3,019	\$ 6,446
Total capital losses	—	—

At March 31, 2021, a subsidiary of the REIT had U.S. \$4.5 million of U.S. federal and state losses carried forward available to reduce future years' taxable income. These federal losses do not expire, but are limited to 80% of the subsidiary's taxable income in a given year. The recently passed "Cares Act" provides that the 80% limitation is suspended for tax years beginning before January 1, 2021. Therefore, the subsidiary can use its losses to reduce taxable income in tax year 2019 and 2020 without limitation.

26. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities for the three months ended March 31, 2021 are as follows:

	Cash flows				Non-cash changes				March 31, 2021
	December 31, 2020	Proceeds	Payments	Financing costs and other	Foreign exchange	Fair value changes	Amortization of MTM adjustments and costs		
Derivatives, net	\$ 35,869	\$ —	\$ (2,949)	\$ —	\$ (121)	\$ (8,741)	\$ —	\$ 24,058	
Facilities ²	326,336	8,000	(7,679)	(54)	(940)	—	398	326,061	
Mortgages ²	618,202	—	(2,625)	(2)	(1,643)	—	281	614,213	
Convertible debentures	28,066	—	—	—	—	—	59	28,125	
Class B LP units	21,880	—	—	—	—	1,321	—	23,201	
Total	\$ 1,030,353	\$ 8,000	\$ (13,253)	\$ (56)	\$ (2,704)	\$ (7,420)	\$ 738	\$ 1,015,658	

¹Changes in financial instruments that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 11 for more detail.

Slate Office REIT

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Changes in liabilities arising from financing activities for the three months ended March 31, 2020 are as follows:

	Cash flows				Non-cash changes				March 31, 2020
	December 31, 2019	Proceeds	Payments	Financing costs and other	Assumptions ¹	Foreign exchange	Fair value changes	Amortization of MTM adjustments and costs	
Derivatives, net	\$ 6,373	\$ (6,396)	\$ —	\$ —	\$ —	\$ —	\$ 38,918	\$ —	\$ 38,895
Facilities ²	281,378	18,814	(20,200)	(25)	—	6,425	—	153	286,545
Mortgages ²	587,145	—	(2,822)	—	(25,795)	12,310	—	109	570,947
Other debt	105,586	—	—	(2)	—	—	—	87	105,671
Convertible debentures	27,838	—	—	—	—	—	—	56	27,894
Class B LP units	30,918	—	—	—	—	—	(11,522)	—	19,396
Total	\$ 1,039,238	\$ 12,418	\$ (23,022)	\$ (27)	\$ (25,795)	\$ 18,735	\$ 27,396	\$ 405	\$ 1,049,348

¹Mortgage assumed by purchaser on disposition 4211 Yonge Street.

²Changes in financial instruments that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 11 for more detail.

27. SUBSEQUENT EVENTS

The following events occurred subsequent to March 31, 2021:

- i. On April 15, 2021, the REIT paid monthly distributions of \$0.0333 per trust unit. Holders of Class B LP units of the REIT were also paid a distribution of \$0.0333 per unit.
- ii. On April 20, 2021, the REIT declared a distribution of \$0.0333 per trust unit, payable on May 17, 2021 to unitholders of record as of the close of business on April 30, 2021. Holders of the Class B LP units of the REIT will also be paid a distribution of \$0.0333 per trust unit.
- iii. In May 2021, the REIT completed a 104,000 square foot lease renewal with a government tenant in New Brunswick for a term of 10 years.