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# Slate Office REIT

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Q3 2020 Quarterly Report

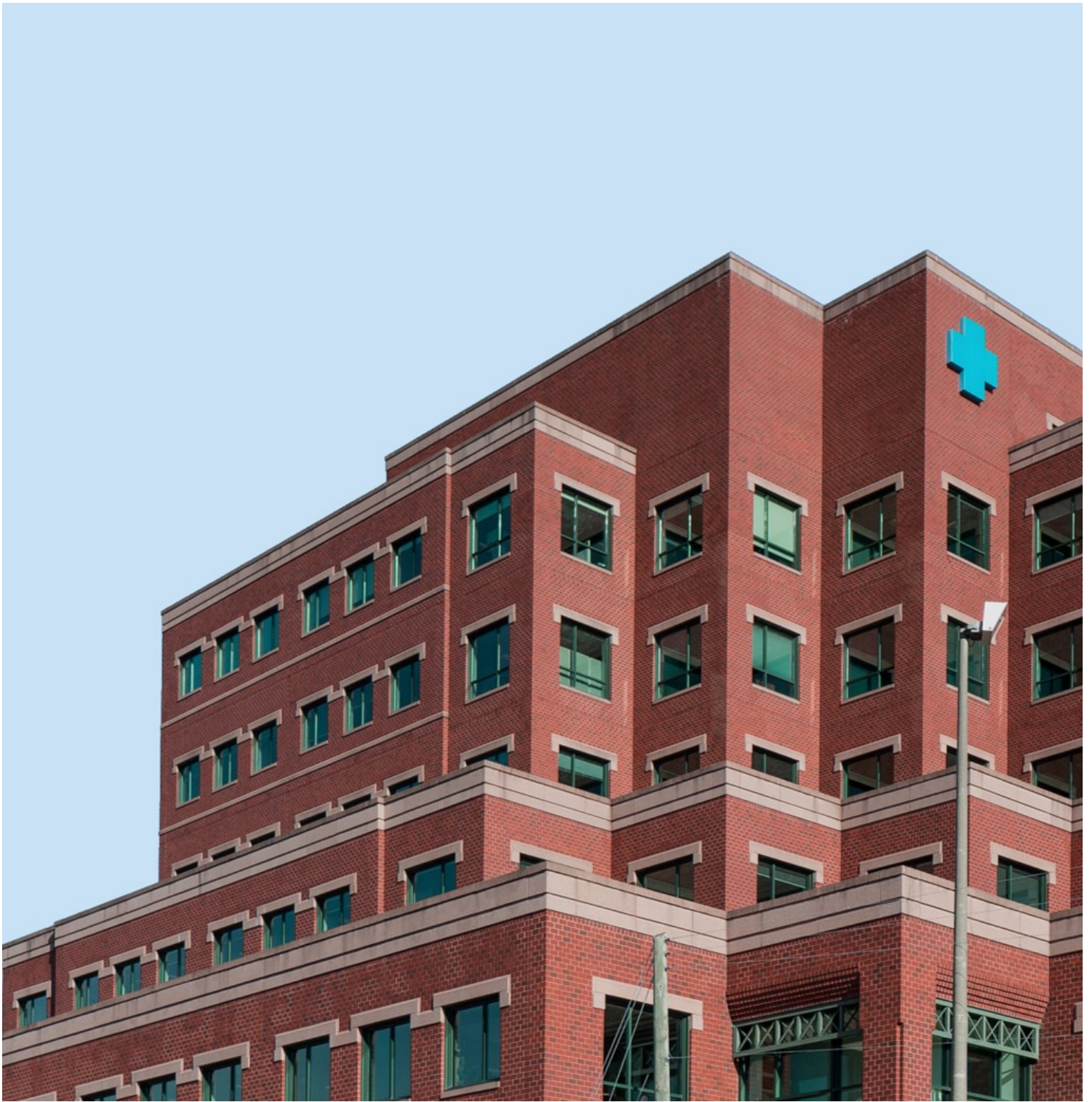


**SLATE**

Experience  
gives us the  
knowledge to  
execute quickly.







Blue Cross Centre, Moncton, NB



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# About Slate Office REIT

(TSX: SOT.UN)

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Slate Office REIT is an owner and operator of North American office real estate. The REIT owns interests in and operates a portfolio of 36 strategic and well-located real estate assets across Canada's major population centres and includes two assets in downtown Chicago, Illinois. 60% of the REIT's portfolio is comprised of government or credit rated tenants. The REIT acquires quality assets at a discount to replacement cost and creates value for unitholders by applying hands-on asset management strategies to grow rental revenue, extend lease term and increase occupancy. Visit [slateofficereit.com](http://slateofficereit.com) to learn more.

Slate Asset Management is a leading real estate focused alternative investment platform with approximately \$6.5 billion in assets under management. Slate is a value-oriented manager and a significant sponsor of all of its private and publicly traded investment vehicles, which are tailored to the unique goals and objectives of its investors. The firm's careful and selective investment approach creates long-term value with an emphasis on capital preservation and outsized returns. Slate is supported by exceptional people, flexible capital and a demonstrated ability to originate and execute on a wide range of compelling investment opportunities. Visit [slateam.com](http://slateam.com) to learn more.

#### Forward-looking Statements

Forward-looking Statements Certain information in this management's discussion and analysis ("MD&A") constitutes "forward-looking statements" within the meaning of applicable securities legislation. These statements reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of Slate Office REIT (the "REIT") including expectations for the current financial year, and include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Statements that contain words such as "could", "should", "would", "can", "anticipate", "expect", "does not expect", "believe", "plan",

"budget", "schedule", "estimate", "intend", "project", "will", "may", "might", "continue" and similar expressions or statements relating to matters that are not historical facts constitute forward-looking statements. Some of the specific forward-looking statements contained herein include, but are not limited to, statements relating to the impact of the COVID-19 pandemic. These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on the REIT's current estimates and assumptions, which are subject to significant risks and uncertainties. The REIT believes that these statements are made based on reasonable assumptions; however, there is no assurance that the events or circumstances reflected in these forward-looking statements will occur or be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to the risks that are more fully discussed under the "Risk Factors" section of the annual information form of the REIT for

the year ended December 31, 2019 ("Annual Information Form"). Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: risks incidental to ownership and operation of real estate properties including local real estate conditions; financial risks related to obtaining available equity and debt financing at reasonable costs and interest rate fluctuations; operational risks including timely leasing of vacant space and re-leasing of occupied space on expiration of current leases on terms at current or anticipated rental rates; tenant defaults and bankruptcies; uncertainties of acquisition activities including availability of suitable property acquisitions and integration of acquisitions; competition including development of properties in close proximity to the REIT's properties; loss of key management and

employees; potential environmental liabilities; catastrophic events, such as earthquakes and hurricanes; governmental, taxation and other regulatory risks and litigation risks. Forward-looking statements included in this MD&A are made as of September 30, 2020, and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are included in this MD&A, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities laws. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Investors are cautioned against placing undue reliance on forward-looking statements.

# Highlights

36

Investment properties

7.0M

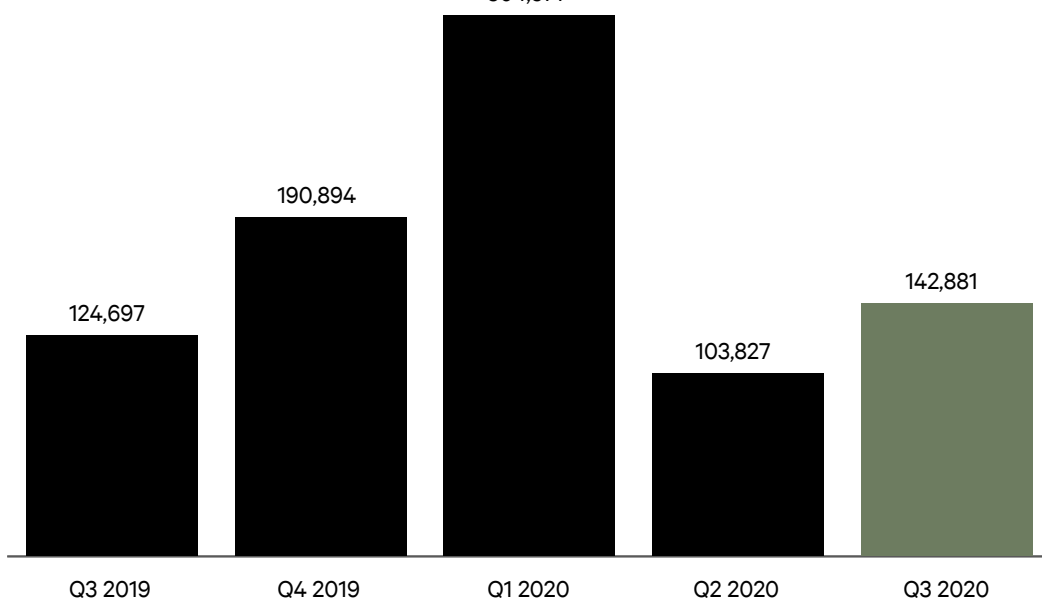
Square feet

\$1.7B

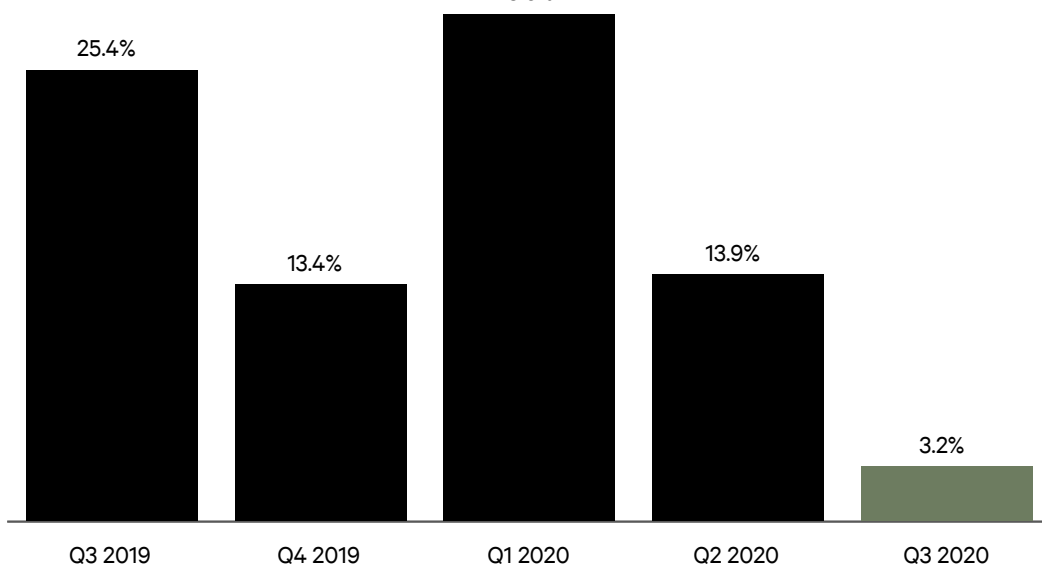
Total asset value

## Strong Leasing and Positive Leasing Spread

Total Leasing Activity (New and Renewal) 304,571




Total Leasing Spreads (New & Renewal) 28.6%



# Top 5 Tenants

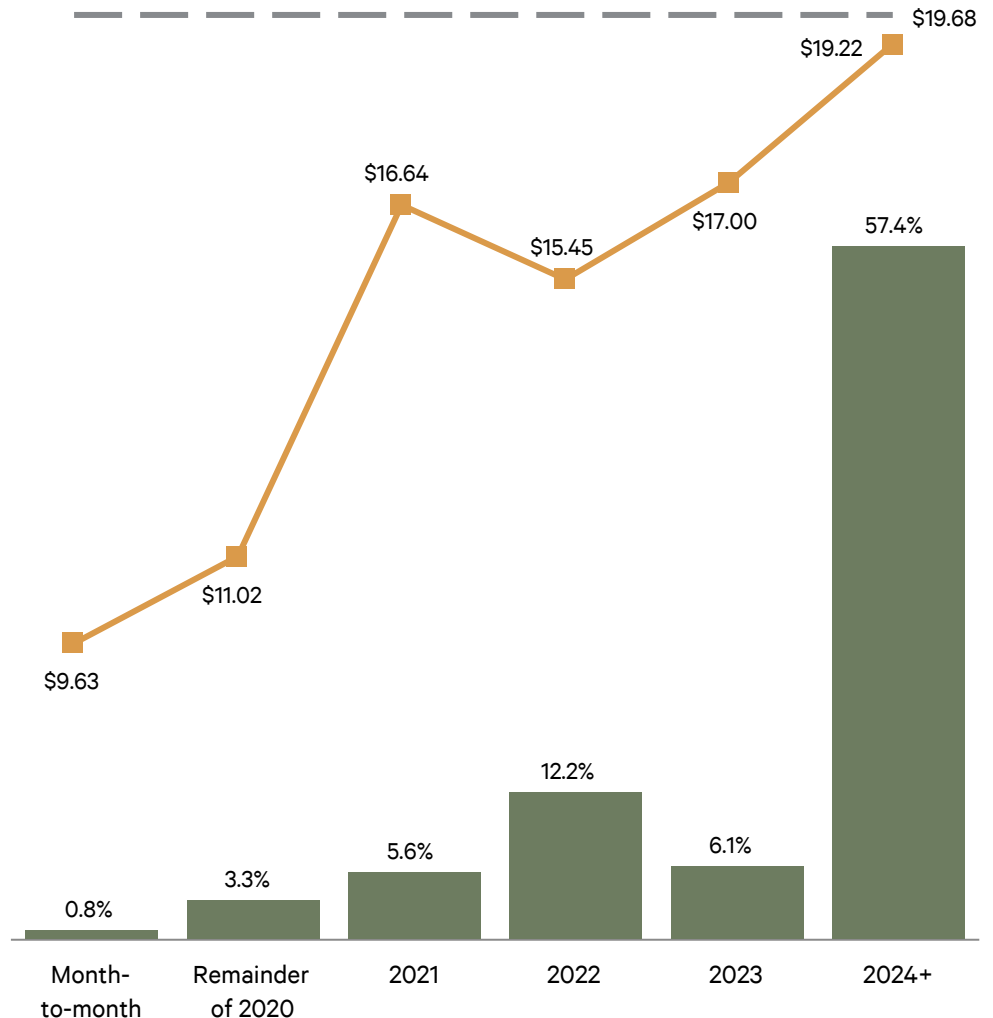
Ranked by Annual Base Rent\*

1	7.4%	
2	7.2%	
3	6.8%	
4	5.5%	
5	3.8%	




60% of base rent is derived from government or credit rated tenants

\* As at September 30, 2020

# In-Place vs. Market Rents



## Legend

-  Current Market Rent
-  Average Expiring Rent
-  Percentage of Portfolio Expiring



Slate.  
Where value  
investing meets  
investors with  
values.









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# Letter to Unitholders

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Dear Fellow Unitholders,

We believe that Slate Office REIT is a compelling investment opportunity. The company is trading at an approximately 59% discount to net asset value and pays a distribution of over 10%<sup>1</sup> that is well-covered with an Adjusted Funds from Operations payout ratio of 62%. Cash rent collections during the pandemic continue to be market leading at 96% to 98% and the REIT's liquidity position is strong, as evidenced by our recently completed re-financings.

We believe the public markets are mispricing the office sector by taking an adverse view on the impact of the current work from home experiment on long-term office space demand. There will be some short-term disruption to the sector, but our view, which is shared by many in the research analyst community, is that the potential impacts are being overstated and investors in Slate Office REIT will be rewarded for making a long-term investment at a significant discount to value while collecting an attractive yield.

We have strong conviction in both our strategy and in the viability and resiliency of our real estate holdings. The steady performance of our existing assets, coupled with the strength of our balance sheet, provides a unique opportunity to further enhance our business and create unitholder value.

I would like to highlight some key points from our third quarter 2020 results as well as offer my view on the outlook for office space demand and the continued success of the REIT.

## Financial

The financial performance of the REIT continued to improve this quarter, highlighted by a well-covered payout ratio of 62%. From a balance sheet perspective, we completed both the refinancing of our credit facility and new term loans, de-risking our near-term debt maturity profile and highlighting our lenders' conviction in our assets and platform. Our loan to value continues to decline and the REIT has ample liquidity to fund its ongoing operations, especially considering our strong rent collections. In the immediate term, we believe the most prudent capital allocation strategy is to preserve cash until there is more certainty and clarity on the overall economic recovery.

<sup>1</sup>Calculated based on the closing price of the REIT's units at September 30, 2020.



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“ The REIT’s rent collections during the pandemic have been industry leading, ranging from 96% to 98% in cash each month ”

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## Operations

The REIT’s rent collections during the pandemic have been industry leading, ranging from 96% to 98% in cash each month since April 2020. The remainder of the rent will be substantially collected through short-term deferral agreements. The credit quality of our tenants has always been fundamental to our investment strategy and the durability of our cash flow during the pandemic has not been surprising to us. Approximately 60% of the REIT’s income is generated from government and credit rated tenancies and the portfolio has a weighted average remaining lease term of 5.5 years.

On the leasing side, overall transaction activity remains tempered as tenants grapple with uncertainty in the economy and are reluctant to make long-term real estate commitments at the current time. With that said, 85% of the REIT’s assets are located in suburban locations in major markets or urban locations in secondary markets where we have found activity to be stronger than what our peers are experiencing in major downtown cores. The REIT’s asset management team completed 142,881 square feet of leasing in the third quarter at an average increase of rent of 3.2%. Of this, over 50,000 square feet was new leasing, which is an increase over prior quarters. For the balance of the year, we expect renewal activity to be strong and new leasing to be constrained by an undertone of uncertainty and the logistics of touring potential new office space during a pandemic. We view this as a short-term disruption and expect occupancy to grow from current levels in 2021.

## Outlook

In my second quarter letter to unitholders letter, I shared my views relating to the challenges associated with working from home, including but not limited to the lack of interaction with colleagues in both business and social settings, impromptu face-to-face interaction and an overall absent sense of community and workplace culture. For many of our tenants, culture is a key competitive advantage and we continue to believe that businesses will not risk that competitive edge and their ability to attract and retain the best people, just to save money on office space. JLL Strategic Consulting Group recently surveyed Fortune 500 office users and concluded that the return to the office will be gradual, and by the end of 2021 only 20% of employees will be working remotely as compared to 8% prior to the pandemic. Many believe the net impact of these competing trends will be relatively neutral to office demand.

“Pre-COVID”, which is sadly such a common phrase now, the trend was for tenants to move employees into high density workspaces in either downtown core locations or transit oriented, high-quality suburban buildings. We believe employees are now looking for increased personal space and an assigned workstation but will thrive with human interaction and collaborative corporate cultures. This trend will lead to higher square foot requirements per employee than recent norms, which were often at or approaching statutory limits. We also believe high-quality and well-located suburban office will fare well as companies look to diversify their workplace offerings.

We are feeling very positive about the future of our company. We have proven the resiliency of our portfolio during a difficult time and are well positioned for both internal and external growth.

Thank you for your continued support.



Sincerely,  
Steve Hodgson  
Chief Executive Officer  
October 29, 2020

# Management's Discussion and Analysis

SLATE OFFICE REIT

TSX: SOT.UN

For the three and nine months ended September 30, 2020

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## FINANCIAL AND INFORMATIONAL HIGHLIGHTS

(in thousands, except per unit amounts and as otherwise stated)

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
<b>Summary of Portfolio Information</b>					
Number of properties	36	36	36	37	38
Gross leasable area ("GLA") <sup>1</sup>	6,951,427	6,940,503	6,936,049	7,113,814	7,336,092
Total assets	\$ 1,694,187	\$ 1,695,859	\$ 1,700,643	\$ 1,709,964	\$ 1,751,013
Total debt	\$ 979,004	\$ 987,461	\$ 991,057	\$ 1,001,947	\$ 1,044,297
Occupancy <sup>2</sup>	85.4%	86.8%	86.5%	87.1%	86.3%

	Three months ended				
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
<b>Summary of Financial Information</b>					
Revenue	\$ 45,852	\$ 44,604	\$ 49,694	\$ 51,329	\$ 52,539
Net operating income ("NOI") <sup>3</sup>	\$ 24,040	\$ 23,411	\$ 22,995	\$ 24,174	\$ 25,435
Net income (loss)	\$ 16,221	\$ 5,689	\$ (14,906)	\$ 19,813	\$ 27,195
Funds from operations ("FFO") <sup>3</sup>	\$ 13,066	\$ 12,735	\$ 12,408	\$ 12,600	\$ 14,280
Core-FFO <sup>3</sup>	\$ 13,813	\$ 13,413	\$ 13,054	\$ 13,236	\$ 14,906
Adjusted FFO ("AFFO") <sup>3</sup>	\$ 11,777	\$ 11,787	\$ 11,189	\$ 11,498	\$ 12,420
IFRS net asset value ("NAV") <sup>3</sup>	\$ 629,904	\$ 623,277	\$ 629,983	\$ 659,057	\$ 649,423
<b>Per Unit Financial Information</b>					
Weighted average diluted number of trust units (000s)	73,227	73,203	73,278	73,278	73,283
Diluted units outstanding (000s)	73,244	73,225	73,201	73,291	73,277
IFRS NAV per unit <sup>3</sup>	\$ 8.60	\$ 8.51	\$ 8.61	\$ 8.99	\$ 8.86
FFO per unit <sup>3</sup>	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.19
Core-FFO per unit <sup>3</sup>	\$ 0.19	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.20
AFFO per unit <sup>3</sup>	\$ 0.16	\$ 0.16	\$ 0.15	\$ 0.16	\$ 0.17
Distributions per unit <sup>3</sup>	\$ 0.1000	\$ 0.1000	\$ 0.1000	\$ 0.1000	\$ 0.1000
FFO payout ratio <sup>3</sup>	55.9%	57.3%	58.9%	58.0%	51.2%
Core-FFO payout ratio <sup>3</sup>	52.8%	54.4%	56.0%	55.2%	49.0%
AFFO payout ratio <sup>3</sup>	62.0%	61.9%	65.3%	63.6%	58.8%

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
<b>Financial Data</b>					
Loan-to-value ("LTV") ratio <sup>3</sup>	57.8%	58.3%	58.3%	58.7%	59.7%
Weighted average debt interest rate	3.9%	3.9%	3.9%	3.9%	3.9%
Interest coverage ratio (times) <sup>3</sup>	2.3x	2.3x	2.2x	2.2x	2.1x
Net debt to adjusted EBITDA ratio (times) <sup>3</sup>	10.8x	10.6x	10.4x	10.1x	10.2x

<sup>1</sup>Gross leasable area is presented at 100% of the building's GLA, without taking ownership percentage into consideration.

<sup>2</sup>Occupancy is presented at 100% of the building's GLA, without taking ownership percentage into consideration.

<sup>3</sup>The calculation of these non-IFRS financial measures and a reconciliation to relevant IFRS measures are included in Part III and IV.

## PART I - OVERVIEW

### INTRODUCTION

This MD&A of the financial position and results of operations of the REIT is intended to provide readers with an assessment of performance and summarize the financial position and results of operations of the REIT for the three and nine months ended September 30, 2020. The presentation of the REIT's financial results, including the related comparative information, contained in this MD&A are based on the REIT's unaudited condensed consolidated interim financial statements as at and for the nine months ended September 30, 2020 and 2019 (the "consolidated financial statements"). This MD&A should be read in conjunction with those consolidated financial statements. All dollar amounts are in thousands of Canadian dollars, unless otherwise noted.

The information contained in this MD&A is based on information available to the REIT and is dated as of October 29, 2020, which is also the date the Board of Trustees, upon the recommendation of its Audit Committee, approved the contents of this MD&A.

### SLATE OFFICE REIT PROFILE

The REIT owns interests in and operates 36 properties comprised of 33 office properties and 3 non-office properties totaling 6.84 million and 0.11 million square feet, respectively, of GLA as of September 30, 2020. The properties are located in geographically diversified markets in Canada and the United States of America (the "U.S."). 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 March 1, 2019, as it may be further amended, supplemented or amended and restated from time to time (the "Declaration of Trust").

The REIT is externally managed and operated by Slate Management ULC ("SMULC"), an indirect subsidiary of Slate Asset Management (Canada) L.P., (collectively, "Slate" or the "Manager"). Slate has an experienced and dedicated team of real estate professionals with a proven track record of success in real estate investment and management. Management's interests are aligned with the unitholders of the REIT through its sponsorship and as a significant unitholder of the REIT. Slate is the largest unitholder in the REIT, with a 9.5% interest at September 30, 2020 and accordingly, is highly motivated to increase the value of the REIT on a per unit basis and provide reliable returns to the REIT's unitholders. Slate assumed management responsibilities for the REIT in November 2014 with the vision of creating a pure-play office REIT focused on real estate assets with strong fundamentals. This vision was premised on the belief that the office market was changing and a pure-play office REIT would provide a vehicle to capitalize on future opportunities.

Additional information on the REIT, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the REIT's website at [www.slateofficereit.com](http://www.slateofficereit.com).

### NON-IFRS MEASURES

We disclose a number of financial measures in this MD&A that are not measures used under International Financial Reporting Standards ("IFRS"), including net operating income, same property net operating income, funds from operations, core funds from operations, adjusted funds from operations, adjusted funds from operations payout ratio, IFRS net asset value, adjusted EBITDA, net debt to adjusted EBITDA ratio, interest coverage ratio, debt service coverage ratio and loan-to-value ratio, in addition to certain of these measures on a fully-diluted per unit basis. We utilize these measures for a variety of reasons, including measuring performance, managing the business, capital allocation and the assessment of risk. Descriptions of why these non-IFRS measures are useful to investors and how management uses each measure are included in this MD&A. We believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our business in a manner similar to management. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS measures to the most directly comparable financial measures calculated and presented in accordance with IFRS are included within Part III and IV of this MD&A.

### RISKS AND UNCERTAINTIES

The REIT's business is subject to a number of risks and uncertainties which are described in its most recently filed Annual Information Form for the year ended December 31, 2019, available on SEDAR at [www.sedar.com](http://www.sedar.com). Incremental to these risks and uncertainties, an outbreak of the novel coronavirus referred to as "COVID-19" was declared a pandemic by the World Health Organization on March 11, 2020. Since this time, the global economy has slowed, with significant forced closures of non-essential businesses and services. The duration of the COVID-19 pandemic and the impact on the REIT's operations is uncertain but may impact the ability of certain of the REIT's tenants to meet rent obligations or continue operations.

#### COVID-19

Slate, as manager of the REIT, has a robust COVID-19 response plan in-place with employee and tenant safety a top priority. This plan is intended to monitor and mitigate the business and health risks posed to the REIT and its stakeholders. The REIT is taking operational planning and cost-controlling measure to manage exposure to COVID-19. No assurance can be made that the plan will mitigate the adverse impacts of COVID-19. The COVID-19 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, certain of which may impact the REIT, including but not limited to, the valuation of its properties and

the ability of the REIT to meet financial obligations, the measurement of which is not currently determinable. 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, it is unknown at this time how these interventions will impact capital markets or the financial stability of the REIT's tenants.

Additional risks and uncertainties not presently known to the REIT or that the REIT currently considers immaterial also may impair its business and operations and cause the price of the REIT's units to decline in value. If any of the noted risks actually occur, the REIT's business may be harmed and the financial condition and results of operations may suffer significantly. In that event, the trading price of the units could decline and unitholders may lose all or part of their investment.

## STRATEGY

Our strategy is to own an institutional quality portfolio of assets in stable and growing office markets. We believe that seeking out assets that can be purchased at a significant discount to peak and replacement value while retaining stable operating fundamentals allows the potential for superior risk-adjusted returns. Approximately two-thirds of office inventory is often overlooked by large institutional investors for various reasons. The REIT's portfolio of office properties provides diversification, an ability to generate cash flow to provide distributions to unitholders, while also providing the opportunity to grow net asset value on a per unit basis. We have taken note that these characteristics exist in numerous markets throughout Canada and the U.S. and have developed a robust pipeline of assets that meet our investment criteria.

While our primary goals are to grow net asset value on a per unit basis and provide distributions to unitholders, we are focused on the following areas to achieve the REIT's objectives:

- A focus on our cost basis, which means buying quality assets at a discount to replacement costs. We have a bias towards assets with strong credit tenants and where rents are below market so we can realize organic growth;
- Prudent and proactive capital and asset management to reposition properties, grow rental revenue, extend lease term and increase occupancy to create value while minimizing property and portfolio vacancy exposure;
- Prudent and disciplined management of capital outlays that will maintain and increase the attractiveness of the REIT's portfolio and achieve increased rents;
- Continue to increase the REIT's financial strength and flexibility through robust balance sheet management;
- Maintain a conservative AFFO payout ratio taking into account the REIT's other available opportunities and capital allocation requirements; and
- Continue to selectively recycle equity through refinancing or disposing of stabilized assets and redeploying proceeds to new investment opportunities.

Overall, we believe that the REIT is positioned for long term growth with a portfolio of high credit-quality tenants and a conservative AFFO pay-out ratio.

## TOTAL RETURN TO UNITHOLDERS

As described above, our strategy is to grow net asset value on a per unit basis and provide distributions to unitholders. The REIT believes this strategy aligns to the perspective of the REIT's unitholders, as the combination of (i) the change in net asset value on a per unit basis and (ii) distributions received, represent the value provided to them by the REIT. Over the past number of years, the REIT has consistently provided a meaningful total return to unitholders as outlined below.



The following reconciliation shows the change in IFRS net asset value of the REIT on a total and per unit basis for the nine months ended September 30, 2020, and the years ended December 31, 2019 and 2018:

	Nine months ended September 30, 2020		Year ended December 31, 2019		Year ended December 31, 2018	
	IFRS Net Asset Value <sup>1</sup>	Per Unit	IFRS Net Asset Value <sup>1</sup>	Per Unit	IFRS Net Asset Value <sup>1</sup>	Per Unit
Beginning of period	\$ 659,057	\$ 8.99	\$ 642,878	\$ 8.54	\$ 528,051	\$ 8.48
Core-FFO	40,280	0.55	56,011	0.76	57,266	0.79
Property fair value changes <sup>2</sup>	(534)	(0.01)	32,738	0.44	19,659	0.27
Other fair value changes	(33,581)	(0.46)	(2,710)	(0.04)	(3,350)	(0.05)
Depreciation on hotel	(788)	(0.01)	(1,000)	(0.01)	(947)	(0.01)
Foreign exchange	(3,215)	(0.05)	(2,756)	(0.05)	6,241	0.09
Unit issuances	—	—	—	—	98,586	(0.14)
Distributions	(21,905)	(0.30)	(36,133)	(0.46)	(54,728)	(0.75)
DRIP units	—	—	650	(0.01)	1,459	(0.02)
Unit repurchases	(358)	0.01	(12,974)	0.08	(1)	—
Transaction costs	(1,577)	(0.02)	(12,142)	(0.16)	(2,247)	(0.03)
Other	(7,475)	(0.10)	(5,505)	(0.10)	(7,111)	(0.09)
<b>End of period</b>	<b>\$ 629,904</b>	<b>\$ 8.60</b>	<b>\$ 659,057</b>	<b>\$ 8.99</b>	<b>\$ 642,878</b>	<b>\$ 8.54</b>

<sup>1</sup>Refer to the IFRS Net Asset Value section of this MD&A for the calculation of IFRS net asset value on a total and per unit basis to the REIT's consolidated financial statements.

<sup>2</sup>Includes the impact of IFRIC 21 property tax adjustment.

Net asset value has been determined using the REIT's consolidated financial statements prepared in accordance with IFRS. It is important to note that the consolidated financial statements of the REIT may not be fully representative of the net asset value of the REIT. Specifically, the fair value of properties are measured individually without consideration to their aggregate value on a portfolio basis. No consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT's properties taken in aggregate may differ from the fair value of properties measured individually in the REIT's consolidated statements of financial position.

The REIT's IFRS net asset value has decreased from December 31, 2019. Core-FFO contributed \$40.3 million to net asset value and the foreign exchange gain from U.S. dollar appreciation at September 30, 2020 compared to December 31, 2019 contributed \$3.2 million, offset by a loss of \$6.4 million on the REIT's net investment hedge. The decrease in net asset value is furthered by a \$33.6 million non-cash loss on the fair value of the REIT's pay-fixed interest rate swaps.

The following table shows the per unit value created or provided to unitholders in addition to the related total annual return for the following periods:

	Nine months ended September 30, 2020		Year ended December 31, 2019		Year ended December 31, 2018	
	Percentage Return <sup>1</sup>	Per Unit	Percentage Return	Per Unit	Percentage Return	Per Unit
IFRS net asset value change	(5.7%)	\$ (0.39)	5.3%	\$ 0.45	0.8%	\$ 0.07
Distributions	4.4%	0.30	5.4%	0.46	8.8%	0.75
<b>Total</b>	<b>(1.3)%</b>	<b>\$ (0.09)</b>	<b>10.7%</b>	<b>\$ 0.91</b>	<b>9.6%</b>	<b>\$ 0.82</b>

<sup>1</sup>Represents the annualized return for the nine months ended September 30, 2020.

To date in 2020, the REIT has provided \$0.30 per unit in cash distributions to unitholders. It is important to note that this represents an annual yield of 11.2% based on the closing price of the REIT's units at September 30, 2020 and an annual return of 4.4% based on the REIT's IFRS NAV at December 31, 2019. IFRS NAV decreased \$0.39 per unit driven by non-cash losses from IFRIC 21 property tax adjustments and a decrease in value from pay-fixed interest rate swaps. In 2019 and 2018, the REIT created \$0.91 and \$0.82 of value per unit, respectively. Of this a total of \$0.46 (2019) and \$0.75 (2018) was returned to unitholders in the form of a distribution and \$0.45 (2019) and \$0.07 (2018) was retained in the REIT, which served to increase IFRS net asset value. Importantly, this value creation in 2019 and 2018 is equivalent to a 10.7% and a 9.6% total return on a per unit basis, respectively.

A large portion of this total return to unitholders is provided by way of distributions. In 2019, 77.0% of the distributions received by unitholders were treated as a return of capital and 23.0% were treated as capital gains due to the impact of capital gains and depreciation recapture on asset sales and modification of the REIT's distribution to \$0.40 annually. For 2018 and 2017, 100.0% of the distributions received by

unitholders were treated as a return of capital for taxation purposes compared to 90.2% in 2016, resulting in a meaningful deferral of the taxation of returns being provided.

## IFRS NET ASSET VALUE

IFRS net asset value is a non-IFRS measure and is defined by the REIT as the aggregate of the carrying value of the REIT's equity, Class B LP units and deferred units. Management believes that this measure reflects the residual value of the REIT to equity holders and is used by management on both an aggregate and per unit basis to evaluate the net asset value attributable to unitholders and changes thereon based on the execution of the REIT's strategy.

The following is the calculation of IFRS net asset value on a total and per unit basis at September 30, 2020 and December 31, 2019 to the REIT's consolidated financial statements:

	September 30, 2020	December 31, 2019
Equity	\$ 610,401	\$ 627,305
Class B LP units	18,815	30,918
Deferred unit liability	688	742
Deferred tax liability (asset)	—	92
<b>IFRS net asset value</b>	<b>\$ 629,904</b>	<b>\$ 659,057</b>
Diluted number of units outstanding <sup>1</sup>	73,244	73,291
<b>IFRS net asset value per unit</b>	<b>\$ 8.60</b>	<b>\$ 8.99</b>

<sup>1</sup>Represents the fully diluted number of units outstanding and includes outstanding REIT units, DUP units and Class B LP units.

The current price for the REIT's units reflects a substantial discount to the REIT's IFRS net asset value per unit of \$8.60 at September 30, 2020. Management believes that there is a substantive basis to support a net asset value of \$8.60 per unit as the REIT has obtained third party appraisals for 17 of its assets throughout 2020 which had a combined appraisal value of \$801.3 million, representing 49.8% of the REIT's property fair value at September 30, 2020. Importantly, 11 of these appraisals were in respect of properties in Atlantic Canada, validating a significant component of the REIT's assets in this region. The following is an illustration of the REIT's valuation used to determine IFRS net asset value at September 30, 2020:

<i>(thousands, except per unit amount)</i>	September 30, 2020
Property fair value, excluding vacant and redevelopment properties	1,586,018
Property fair value of vacant and redevelopment properties	23,224
Data centre	54,074
Working capital	(54,408)
Debt	(979,004)
<b>IFRS net asset value</b>	<b>\$ 629,904</b>
Diluted number of units outstanding	73,244
<b>IFRS net asset value per unit</b>	<b>\$ 8.60</b>

## Unit Repurchases

During the nine months ended September 30, 2020, the REIT repurchased 113,000 units at a total cost of \$0.4 million through its normal course issuer bid ("NCIB"). Given the uncertain economic environment resulting from COVID-19 the REIT believes that cash preservation is the most prudent strategy in the short term. Management will continue to evaluate its allocation of capital with the intention of maximizing unitholder return.

## SIGNIFICANT HIGHLIGHTS

The following are the significant highlights for the three months ended September 30, 2020:

### COVID-19

- From the onset of COVID-19 through to September 2020, the REIT collected 96% to 98% of rent in cash each month. The residual rent is expected to be collected through short-term rent deferral programs.
- The quality of the tenants located throughout the REIT's portfolio has resulted in strong collections and limited rent deferrals compared to most of its peers. The portfolio is comprised of 60% government or credit rated tenants and less than 2% non-essential retail locations.

- On April 16, 2020, the Government of Canada announced the Canada Emergency Commercial Rent Assistance (CECRA) program which was introduced to assist small businesses in meeting rent obligations through forgivable loans and rent forgiveness by commercial landlords. This program was available to tenants from April through September and the REIT has applied for CECRA assistance for each month where tenants were eligible. In total the REIT abated \$0.3 million in rent under the CECRA program between April and September 2020. The Canada Emergency Rent Subsidy (CERS) program was announced by the Government of Canada on October 9, 2020. The CERS program replaces the CECRA program and will be beneficial to tenants of the REIT requiring financial support beyond the end of September.

#### Leasing

- The REIT completed a total of 142,881 square feet of leasing, comprised of 92,757 square feet of renewals and 50,124 square feet of new lease deals.
- The overall rental rate spread on leasing was 3.2% in the quarter. Renewals were in line with expiring rents while new deals were 10.7% above in-place building rent.
- Notable leasing in Q3 2020 includes a new lease deal with a law firm for approximately 25,800 square feet and an approximately 65,000 square foot renewal of a major Canadian bank, both transactions at West Metro Corporate Centre in Toronto. The REIT also completed a 5,100 square foot new deal at Brunswick Square in Saint John.

#### Recent Transactions

- Subsequent to quarter end, the REIT executed its strategy to consolidate its existing credit facilities into a \$300 million and U.S. \$60 million revolving credit facility which expires September 30, 2022 with a 1 year extension option. This facility replaces the REIT's two revolving credit facilities, term loan and one mortgage. This transaction enhances the REIT's liquidity while maintaining current leverage and addresses the majority of the REIT's near-term maturities. The REIT now has approximately 16% of total debt maturing prior to the end of 2021.
- Concurrent with the new revolving credit facility, the REIT obtained mortgages for three of its Atlantic Canada assets that were previously secured on a term loan expiring June 2021. Combined proceeds were \$55.7 million at a weighted average interest rate of 2.57% and a weighted average term to maturity of 5.25 years.
- The REIT extended the mortgage on 120 South LaSalle in Chicago, IL on terms consistent with in-place debt for a period of 1 year as the REIT has committed leasing which will commence during this time.
- On September 30, 2020, the REIT refinanced the Johnson Building on a mortgage of similar terms which expires in January 2025.
- After renewing both tenants on long-term leases the REIT disposed of 307-311 Old Airport Road in Yellowknife, NT, a non-strategic retail asset for \$6.2 million which is above the REIT's June 30, 2020 IFRS fair value.

#### Financial

- The REIT's LTV has improved to 57.8% at September 30, 2020 from 58.7% at December 31, 2019.
- Net income was \$16.2 million for the third quarter of 2020.
- FFO and Core-FFO per unit in the third quarter of 2020 were \$0.18 and \$0.19, respectively.
- FFO and Core-FFO in the third quarter of 2020 were \$13.1 million and \$13.8 million, respectively.
- AFFO in the third quarter of 2020 was \$11.8 million or \$0.16 per unit.
- AFFO payout ratio for the third quarter of 2020 was 62.0%.

## PART II - LEASING AND PROPERTY PORTFOLIO

### LEASING

The REIT continues to renew and extend leases to drive occupancy and value. In aggregate, 142,881 square feet of leasing was completed in the third quarter of 2020, comprised of 92,757 square feet of lease renewals and 50,124 square feet of new lease deals. Leasing spreads in the quarter were 3.2% overall with lease renewals in line with expiring rents and new deals at 10.7% above building in-place rents. Occupancy at September 30, 2020 decreased 137 basis points to 85.4% compared to 86.8% at June 30, 2020 while the weighted average lease term increased to 5.5 years. The decrease in occupancy is from two major tenants vacating the REIT's portfolio in St. John's, NFLD. This decline in occupancy was expected and the tenants decisions to vacate predated the COVID-19 pandemic. The REIT was able to secure new leases to partially offset the impact of those known vacancies and is confident in its strategy to increase occupancy.

### OCCUPANCY

The following is a continuity of the change in the in-place occupancy of the REIT's properties:

	Three months ended September 30, 2020			Three months ended June 30, 2020		
	GLA	Occupancy (square feet)	Occupancy (%)	GLA	Occupancy (square feet)	Occupancy (%)
Occupancy, beginning of period	6,940,503	6,022,085	86.8%	6,936,049	5,999,521	86.5%
Dispositions	—	—	—%	—	—	—%
Remeasurements	10,924	—	—%	4,454	—	—%
Change in same property occupancy	—	(87,896)	—%	—	22,564	—%
<b>Occupancy, end of period</b>	<b>6,951,427</b>	<b>5,934,189</b>	<b>85.4%</b>	<b>6,940,503</b>	<b>6,022,085</b>	<b>86.8%</b>
Redevelopment properties	127,782	66,780	52.3%	119,145	17,997	15.1%
<b>Occupancy, excluding redevelopments</b>	<b>6,823,645</b>	<b>5,867,409</b>	<b>86.0%</b>	<b>6,821,358</b>	<b>6,004,088</b>	<b>88.0%</b>

The REIT's objective is to maintain a high level of occupancy throughout the portfolio. At September 30, 2020 the REIT's occupancy including redevelopment office properties was 85.4%, a decrease of 137 basis points from June 30, 2020 due to 87,896 square feet of net vacancies.

### LEASE MATURITIES

The REIT generally enters into leases with an initial term to maturity between 2 and 10 years. The weighted average remaining term to maturity at September 30, 2020 was 5.5 years, not including tenants on month-to-month leases. Management considers the current average term of leases to be indicative of the stability of the portfolio's cash flow generation abilities and diversified maturity risk.

The following table summarizes the composition of the remaining term to maturity of the REIT's leases by region:

	September 30, 2020			June 30, 2020		
	Weighted average years to maturity <sup>1</sup>	GLA	% of GLA	Weighted average years to maturity <sup>1</sup>	GLA	% of GLA
Atlantic	5.2	2,035,497	29.3%	5.1	2,160,667	31.1%
Ontario	4.9	2,496,875	35.9%	4.8	2,455,170	35.4%
Western	7.3	476,368	6.9%	7.5	476,368	6.9%
U.S.	6.6	925,449	13.3%	6.8	929,880	13.4%
	5.5	5,934,189	85.4%	5.4	6,022,085	86.8%
Vacant		1,017,238	14.6%		918,418	13.2%
<b>Total</b>		<b>6,951,427</b>	<b>100.0%</b>		<b>6,940,503</b>	<b>100.0%</b>

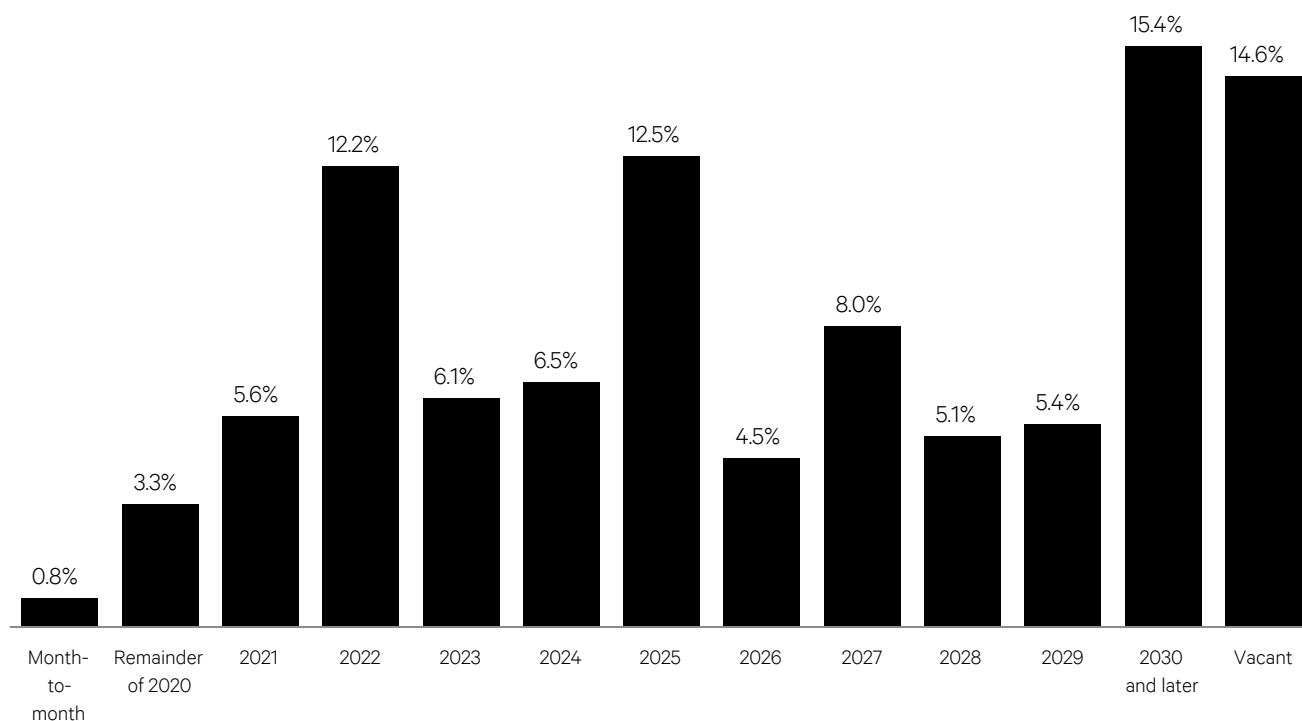
<sup>1</sup>The calculation of weighted average term to maturity does not include month-to-month tenants.

The following is a profile of the maturities of the REIT's leases excluding the impact of tenant extension options at September 30, 2020:

	GLA	% of portfolio	Weighted average in-place rent (per square foot) <sup>1</sup>
Month-to-month	58,775	0.8%	\$ 9.63
Remainder of 2020	231,209	3.3%	11.02
2021	388,296	5.6%	16.64
2022	847,242	12.2%	15.45
2023	421,114	6.1%	17.00
2024	449,046	6.5%	21.36
2025	868,889	12.5%	16.38
2026	313,627	4.5%	16.30
2027	557,296	8.0%	17.69
2028	354,302	5.1%	17.34
2029	372,285	5.4%	16.49
2030 and later	1,072,108	15.4%	23.83
Vacant	1,017,238	14.6%	
<b>Total / weighted average</b>	<b>6,951,427</b>	<b>100.0%</b>	<b>\$ 17.94</b>

<sup>1</sup>The weighted average in-place occupancy is based on in-place rents for active expiries.

#### Lease Maturities



3.3% of the portfolio GLA is maturing throughout the remainder of 2020. This is largely the result of one expiry for a major tenant which the REIT expects to renew on a long term lease. Securing renewals for these expiries and entering into leasing proposals with new tenants is a critical focus for the REIT in the markets in which it operates. The in-place rent of the 2020 maturities is approximately 35% below market rent, providing significant upside opportunity for the REIT upon renewing and re-leasing this space. The REIT has completed approximately 14,100 square feet of new deals which commence occupancy in the remainder of 2020.



Overall, management expects to continue a trend of positive rental spreads, increased occupancy, improved tenant quality and longer weighted-average lease term. The goal is to continue to drive organic growth in the portfolio and focus on creating meaningful per unit net asset value accretion.

## IN-PLACE AND MARKET RENTS

During the three months ended September 30, 2020 the REIT completed 142,881 square feet of leasing comprised of both new deals and renewals.

The following table summarizes the REIT's leasing activity during the three months ended September 30, 2020:

	GLA	Number of leases	Weighted average expiring rent (per square foot)	Weighted average new rent (per square foot)	Increase in rent
Renewed leases	92,757	13	\$ 19.22	\$ 19.21	— %
New leases	50,124	8	15.01	16.62	10.7 %
Total / weighted average	142,881	21	\$ 17.74	\$ 18.30	3.2 %
Less: leases not renewed / vacated	(182,185)	(19)			
<b>Net total</b>	<b>(39,304)</b>	<b>2</b>			

During the quarter, on a weighted average basis, rates for renewed leases were flat compared to expiring rents while new leases were completed at a 10.7% increase to building in-place rents.

The weighted-average in-place rent of the REIT's office portfolio at September 30, 2020 is \$17.94 per square foot. Management estimates the current weighted average market rate to be \$19.68 per square foot for the markets in which the REIT's office properties are located, 9.7% or \$1.74 per square foot higher than the REIT's current in-place rental rates. This estimate of current market rent is based on management's estimates, third party valuations and leasing data obtained from actual new and renewed leasing activity. While there are no assurances that maturing leases will be renewed at rates in excess of current in-place rents, or at all, management compares in-place to market rents to determine the future revenue capacity of the REIT's current portfolio and roll-over revenue risk.

The following is a summary of the REIT's new and renewal leasing activity for the past five quarters:

Quarter	Renewals			New leases			Total	
	GLA	Number of leases	Rental spread	GLA	Number of leases	Rental spread	GLA	Number of leases
Q3 2019	72,127	21	18.6%	52,570	15	36.2%	<b>124,697</b>	<b>36</b>
Q4 2019	149,482	18	16.3%	41,412	9	5.9%	<b>190,894</b>	<b>27</b>
Q1 2020	195,908	20	33.4%	108,663	11	21.5%	<b>304,571</b>	<b>31</b>
Q2 2020	90,214	13	14.7%	13,613	4	8.6%	<b>103,827</b>	<b>17</b>
Q3 2020	92,757	13	—%	50,124	8	10.7%	<b>142,881</b>	<b>21</b>
<b>Total</b>	<b>600,488</b>	<b>85</b>	<b>19.4%</b>	<b>266,382</b>	<b>47</b>	<b>19.3%</b>	<b>866,870</b>	<b>132</b>

## TENANT PROFILE

Management's strategy includes ensuring that the REIT's tenants are diversified and of high credit quality. A higher quality tenant base increases the stability of the REIT's income through economic cycles, which directly relates to their continued ability to meet their lease obligations to the REIT and continue to retain their workforce, which directly impacts their need for office space. The REIT has experienced the benefit of this high quality tenant base through the collection of rents from April to September during the COVID-19 shut-downs in markets across the REIT's portfolio.

The following are the REIT's top 10 largest tenants by GLA at September 30, 2020, which together represent 43.6% of base rental receipts:

Tenant	Credit rating <sup>1</sup>	GLA	Number of properties	% of base rental receipts	Weighted average lease term (years)
SNC-Lavalin Inc. <sup>2</sup>	BBB (low)	433,800	3	6.8%	4.3
Government of Canada	AAA	395,367	9	5.5%	4.9
CIBC	AA	346,346	4	7.4%	8.1
Province of New Brunswick	A+	314,435	5	3.4%	2.9
Thales Rail Signalling Solutions Inc.	A2	248,262	1	3.8%	4.4
Medavie Blue Cross	Unrated	199,358	3	3.1%	7.7
Bell Canada Enterprises	BBB+	167,418	4	7.2%	6.3
Kraft Canada Inc.	BB+	156,426	1	2.3%	5.7
Johnson Insurance <sup>3</sup>	A	154,018	1	2.1%	10.2
Province of Nova Scotia	AA-	145,034	1	1.9%	6.7
<b>Total</b>		<b>2,560,464</b>		<b>43.6%</b>	<b>5.7</b>

<sup>1</sup> Source: DBRS, Moody's and S&P as at September 30, 2020.

<sup>2</sup> Includes 338,983 square feet of SNC-Lavalin Nuclear Inc.

<sup>3</sup> Johnson Insurance, part of RSA Canada, is a sub-tenant of Bell Canada and will take occupancy in the Johnson building on December 1, 2020.

The REIT's total exposure to the Government of Canada and provinces is approximately 1,040,000 square feet or 14.4% of base rent at share with a weighted average lease term of 5.5 years.

## PROPERTY PROFILE

The REIT's property portfolio at September 30, 2020, comprises interests in 36 properties, comprised of 33 office properties and 3 non-office properties. The portfolio comprises 7.0 million square feet of GLA. Of the REIT's property portfolio, one of its office properties is currently classified as redevelopment. For a listing of all of the REIT's properties see PART VI of this MD&A.

### Acquisition pipeline

The REIT continues to evaluate potential new opportunities in the cities in which we operate and in markets that are new to the REIT. While the number of opportunities is high, we continue to be disciplined in our underwriting and pricing. We will not sacrifice long-term value creation for short-term income and accordingly do not pursue acquisitions that do not meet appropriate return expectations.

In pursuing acquisition properties, we have a bias towards opportunities with the following two characteristics:

- *Meaningful discount to replacement cost:* A property purchased well below replacement cost provides opportunity for investment in leasing or asset repositioning, with favourable economic returns to the REIT in excess of new build. We also believe that price per square foot, if at a meaningful discount to replacement cost, provides prudent downside protection while retaining significant opportunity to attract tenants on a competitive basis, especially when competing against new builds.
- *Opportunity for value creation:* We are focused on opportunities that will create value for unitholders. We are less focused on immediate accretion (i.e. the next quarter) and more focused on finding acquisitions that allow for significant equity creation over the medium term. Properties are attractive to us if they are located in a stable market, in good physical condition and have opportunities to drive value by moving existing rents to market rates and/or increase occupancy through focused leasing or repositioning.

Non-core office properties will often satisfy these two characteristics. In contrast to core assets, which often trade in excess of replacement cost with optimized tenancing, we believe that the risk-return profile of non-core assets remains attractive, and we will continue to seek the best opportunities.

### Redevelopment properties

#### Maritime Centre

Although not classified as a redevelopment property, the REIT has budgeted approximately \$17.2 million of return generating capital to significantly enhance Maritime Centre in downtown Halifax, Nova Scotia ([www.maritimecentre.ca](http://www.maritimecentre.ca)) which is expected to drive occupancy, rental rates and create a meaningful total return. The project converts the food court level to parking which is in high demand in downtown Halifax. This conversion will add more than 100 parking stalls to Maritime Centre. A new glass facade at the Barrington Street level will host a 6,000 square foot restaurant and a new lobby. Costs incurred are approximately \$10.1 million and the balance is expected to be incurred throughout 2020 and 2021. Approximately \$6.1 million of project costs can be amortized and recovered through the tenant leases while the balance is non-recoverable capital aimed at driving incremental returns. The redevelopment has enabled the REIT to drive rent growth by 28% and improve occupancy by 24% since acquisition. The expected return from this redevelopment is compelling and is a great example of the REIT re-deploying capital into its existing assets to drive out-sized returns.

## 2599 Speakman Drive

The REIT has classified 2599 Speakman Drive as a redevelopment property at September 30, 2020. 2599 Speakman Drive is one of five properties located in the Sheridan Business Park in Mississauga, ON in which the REIT owns a 100% interest. The GLA of 2599 Speakman Drive is 127,782 square feet. In the second quarter of 2019, the REIT entered into a lease agreement for 18,000 square feet at this property commencing in the fourth quarter of 2019 for a term of 5 years. In the first quarter of 2020 the REIT entered into a lease agreement for 40,100 square feet at this property with a government tenant for a term of 10 years. During the second quarter of 2020 the government tenant agreed to expand its premises by another approximately 7,100 square feet. The REIT is continuing to engage in discussions with prospective tenants to lease the remainder of 2599 Speakman Drive.

### IFRS fair value

The REIT's property portfolio at September 30, 2020 had an estimated IFRS fair value of \$1.6 billion, with a weighted average capitalization rate of 5.96%, excluding parking lots and redevelopment properties. It is important to highlight that this capitalization rate reflects the current economics of the REIT's properties, including its 85.4% in-place occupancy which includes its redevelopment assets and current weighted average in-place rents of \$17.94 per square foot, which management estimates to be on average \$1.74 per square foot below estimated market rents. The capitalization rate on the REIT's properties is based on management's estimate of twelve-month forward net operating income or in certain cases stabilized net operating income. Various properties within the REIT's portfolio are either vacant, or significantly below normalized occupancy, and certain of which are expected to be so for all or a portion of the next twelve-month period.

Overall, the average estimated IFRS fair value per square foot of the REIT's portfolio excluding the Data Centre and Delta Brunswick Hotel is \$247 with an average cost to the REIT of \$235 per square foot. Management believes that this average value per square foot is significantly lower than replacement cost, which management estimates to be on average between \$300 and \$400 per square foot. In certain markets, such as St. John's, NL, the cost to construct is significantly higher. Furthermore, the difference between the IFRS fair value per square foot of \$247 compared to an average cost to the REIT of \$235 per square foot represents approximately \$79 million of value creation from ownership, based on the REIT's current portfolio.

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

	September 30, 2020		December 31, 2019	
	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%	8.25%
Weighted average	7.26%	6.63%	7.27%	6.69%

The fair value of properties are measured individually without consideration to their aggregate value on a portfolio basis. No consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT's properties taken in aggregate may differ from the fair value of properties measured individually in the REIT's consolidated statements of financial position. The maximum discount rate in the REIT's portfolio was 8.75% at September 30, 2020, consistent with December 31, 2019.

## Property continuity

A continuity of the REIT's property interests is summarized below:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Balance, beginning of period	\$ 1,602,165	\$ 1,647,528	\$ 1,622,085	\$ 1,780,413
Acquisitions <sup>1</sup>	—	—	—	—
Capital expenditures	6,397	8,155	17,290	17,662
Direct leasing costs	6,066	4,940	13,925	23,567
Dispositions	—	(26,650)	(46,794)	(182,444)
Depreciation of hotel asset	(264)	(253)	(788)	(739)
Foreign exchange	(6,571)	3,875	8,211	(9,644)
Change in fair value	653	18,579	1,805	33,206
IFRIC 21 property tax adjustment <sup>2</sup>	2,254	2,330	(2,339)	(2,555)
Straight-line rent and other changes	(1,458)	(378)	(4,153)	(1,340)
<b>Balance, end of period</b>	<b>\$ 1,609,242</b>	<b>\$ 1,658,126</b>	<b>\$ 1,609,242</b>	<b>\$ 1,658,126</b>

<sup>1</sup>Acquisitions represents the total purchase price and costs of acquisition.

<sup>2</sup>In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO, Core-FFO or AFFO.

Capital expenditures are incurred by the REIT for maintaining or improving its properties. Certain leases provide the ability to recover all or a portion of these costs from tenants over time. Direct leasing costs generally include tenant improvement construction costs related to new and renewal leasing.

For the three months ended September 30, 2020 the REIT's investment property value decrease compared to the same period in the prior year, primarily as a result of the disposition of 4211 Yonge Street in January 2020 and 5500 North Service Road in Burlington, ON in November 2019 and a decrease in foreign exchange rate on the U.S. dollars compared to Canadian dollars which results in a decrease of \$6.6 million for the three months ended September 30, 2020 compared to an increase of \$3.9 million for the same period in the prior year.

The decrease in cumulative value of the REIT's properties during the nine months ended September 30, 2020 compared to the same period in the prior year is primarily from the disposition of 4211 Yonge Street in January 2020 and 5500 North Service Road in Burlington, ON in November 2019, offset by leasing and capital expenditures and a gain on fair value of investment property of \$1.8 million. This is a result of third party appraisals, capital expenditures and leases completed at certain of the REIT's properties during the nine months ended September 30, 2020 and is offset by revised timing of speculative leasing due to COVID-19. The change in the U.S. to Canadian dollar exchange rate at September 30, 2020 compared to December 31, 2019 increased the REIT's U.S. property value by \$8.2 million for the nine months ended September 30, 2020.

## PART III - RESULTS OF OPERATIONS

### SUMMARY OF RESULTS OF OPERATIONS

The following is a summary of the results of operations:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Rental revenue	\$ 45,852	\$ 52,539	\$ 140,150	\$ 164,191
Property operating expenses	(21,016)	(25,152)	(76,196)	(89,224)
Finance income on finance lease receivable	858	899	2,606	2,726
Interest income	130	150	424	407
Interest and finance costs	(10,388)	(11,261)	(30,671)	(37,871)
General and administrative	(1,941)	(1,931)	(5,783)	(5,767)
Change in fair value of properties	653	18,579	1,805	33,206
Change in fair value of financial instruments	2,349	(77)	(33,581)	(9,210)
Transaction costs	(12)	(3,116)	(1,577)	(11,326)
Depreciation of hotel asset	(264)	(253)	(788)	(739)
Deferred income tax (expense) recovery	—	(223)	96	31
<b>Net income (loss) before Class B LP units</b>	<b>\$ 16,221</b>	<b>\$ 30,154</b>	<b>\$ (3,515)</b>	<b>\$ 46,424</b>
Change in fair value of Class B LP units	528	(2,431)	12,103	(1,903)
Distributions to Class B LP unitholders	(528)	(528)	(1,584)	(1,893)
<b>Net income</b>	<b>\$ 16,221</b>	<b>\$ 27,195</b>	<b>\$ 7,004</b>	<b>\$ 42,628</b>
Other comprehensive (loss) income to be subsequently reclassified to profit or loss:				
Foreign currency translation (loss) gain	(2,346)	1,441	3,181	(3,601)
Fair value (loss) gain on net investment hedges	—	—	(6,396)	2,588
Total other comprehensive (loss) gain	(2,346)	1,441	(3,215)	(1,013)
<b>Comprehensive income</b>	<b>\$ 13,875</b>	<b>\$ 28,636</b>	<b>\$ 3,789</b>	<b>\$ 41,615</b>

### NET INCOME (LOSS) BEFORE CLASS B LP UNITS

Net income (loss) before Class B LP units is an additional IFRS measure that represents the change in net income (loss), before the impact of fair value adjustments to Class B LP units and distributions to Class B LP unitholders recorded in net income (loss). Management uses and believes that this metric is valuable to users to evaluate net income (loss) prior to all residual equity holders, as the Class B LP units are exchangeable into REIT units and are in all material respects economically equivalent to REIT units.

Net income before Class B LP units for the three months ended September 30, 2020 when compared to the same period in 2019 decreased by \$13.9 million due to lower property NOI from asset dispositions and a lower gain on the fair value of investment properties compared to the same period in 2019 as the REIT recognized fair value gains as a result of agreed upon sale prices in 2019. This was offset by lower interest in finance costs from debt repayment. The REIT also incurred \$3.1 million in transaction costs in 2019 related to asset dispositions.

Net loss before Class B LP units for the nine months ended September 30, 2020 was \$3.5 million compared to net income before Class B LP units of \$46.4 million for the same period in 2019. The decrease is primarily due a decrease in the fair value of financial instruments which includes interest rate hedges for the nine months ended September 30, 2020 and lower property NOI from asset dispositions throughout 2019 and in January 2020. In addition, the gain on fair value of investment properties is lower by \$31.4 million compared to the same period in 2019 as the REIT has revised the timing of its speculative leasing which decreased value in 2020, offset by U.S. dollar appreciation compared to the Canadian dollar at September 30, 2020 which increased the IFRS fair value of the REIT's U.S. assets. The REIT also incurred \$1.6 million of transaction costs on the sale of 4211 Yonge Street in Toronto, ON in January 2020 and transaction costs related to the acquisition of Cypress Financial Centre which did not close compared to transaction costs of \$11.3 million for the nine months ended September 30, 2019 related to asset dispositions. Interest expense decreased compared to the same period in 2019 from the repayment of debt on asset dispositions throughout 2019 and in January 2020.

## NET INCOME AND COMPREHENSIVE INCOME

For the three months ended September 30, 2020 net income was \$16.2 million compared to \$27.2 million for the same period in the prior year. The decrease is a result of net income before Class B LP Units of \$16.2 million for the three months ended September 30, 2020, offset by a gain on the fair value of Class B LP units of \$0.5 million for the three months ended September 30, 2020 compared to a loss of \$2.4 million in the same period in the prior year. The REIT recognized net other comprehensive loss of \$2.3 million related to a loss on the foreign exchange impact from the REIT's net investment in U.S. assets related to 20 South Clark and 120 South LaSalle in Chicago, IL.

For the nine months ended September 30, 2020 net income was \$7.0 million compared to \$42.6 million for the same period in the prior year. The decrease is due to a net loss before Class B LP Units of \$3.5 million for the nine months ended September 30, 2020, offset by a gain on the fair value of Class B LP units of \$12.1 million for the nine months ended September 30, 2020 compared to net income before Class B LP units of \$46.4 million and a gain of \$1.9 million in the same period in the prior year. The REIT recognized net other comprehensive loss of \$3.2 million related to a loss on the hedge of the REIT's net investment in U.S. operations at 20 South Clark and 120 South LaSalle in Chicago, IL offset by a gain on the foreign exchange impact from the REIT's exposure to U.S. cashflows in the properties.

## NET OPERATING INCOME

Net operating income is a non-IFRS measure and is defined by the REIT as rental revenue, excluding non-cash straight-line rent and leasing costs amortized to revenue, less property operating costs prior to IFRIC 21, *Levies* ("IFRIC 21") adjustments. Rental revenue for purposes of measuring NOI excludes revenue recorded as a result of determining rent on a straight-line basis and the amortization of leasing costs in revenue for IFRS, which management believes better reflects the cash generation activity of the REIT's properties. NOI is an important measure of the income generated from the REIT's properties and is used by the REIT in evaluating the performance of its properties.

The following is a calculation of NOI for the three and nine months ended September 30, 2020 and 2019:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 45,852	\$ 52,539	\$ 140,150	\$ 164,191
Property operating expenses	(21,016)	(25,152)	(76,196)	(89,224)
IFRIC 21 property tax adjustment <sup>1</sup>	(2,254)	(2,330)	2,339	2,555
Straight-line rents and other changes	1,458	378	4,153	1,340
<b>Net operating income</b>	<b>\$ 24,040</b>	<b>\$ 25,435</b>	<b>\$ 70,446</b>	<b>\$ 78,862</b>

<sup>1</sup>In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

For the three months ended September 30, 2020, NOI decreased to \$24.0 million from \$25.4 million for the same period in the prior year. For the nine months ended September 30, 2020, NOI decreased to \$70.4 million from \$78.9 million for the same period in the prior year. The decrease is primarily a result of the disposition of 225 Duncan Mill Road in Toronto, ON in July 2019, 5500 North Service Road in Burlington, ON in November 2019 and 4211 Yonge Street in January 2020. In addition, the REIT had tenants comprising approximately 120,000 square feet which vacated two of the REIT's assets as of the third quarter of 2020 which reduced NOI approximately \$0.3 million quarter-over-quarter, net of termination income at those properties.

The following is a reconciliation of the change in NOI for the three months ended September 30, 2020 compared to the same period in the prior year:

<b>Net operating income, Q3 2019</b>	<b>\$</b>	<b>25,435</b>
Change in same-property NOI		(258)
Impact of foreign exchange rates		133
Reduced contribution from sold properties		(1,270)
<b>Net operating income, Q3 2020</b>	<b>\$</b>	<b>24,040</b>
<b>Year-over-year change - \$</b>	<b>\$</b>	<b>(1,395)</b>
<b>Year-over-year change - %</b>		<b>(5.5)%</b>



The following is a reconciliation of the change in NOI for the three months ended September 30, 2020 compared to the immediately preceding quarter:

<b>Net operating income, Q2 2020</b>	<b>\$</b>	<b>23,411</b>
Change in same-property NOI		126
Impact of foreign exchange rates		36
Change in hotel contribution <sup>1</sup>		569
Reduced contribution from sold properties		(102)
<b>Net operating income, Q3 2020</b>	<b>\$</b>	<b>24,040</b>
<b>Quarter-over-quarter change - \$</b>	<b>\$</b>	<b>629</b>
<b>Quarter-over-quarter change - %</b>		<b>2.7%</b>

<sup>1</sup>Contribution from the REIT's hotel is not included in same property changes when compared to the preceding quarter due to the seasonality of its contribution to NOI.

The REIT's same-property NOI increased \$0.1 million from the previous quarter and the REIT's hotel asset contributed an incremental \$0.6 million as a result of increased occupancy subsequent to COVID-19 related closures. Adjustments on properties previously disposed of decreased NOI by \$0.1 million.

### SAME-PROPERTY NOI

Same-property NOI is a non-IFRS measure and is defined by the REIT as rental revenue, excluding non-cash straight-line rent, less property operating costs for those properties owned by the REIT for all of the current period and the relevant comparative period, reported at the REIT's proportionate ownership. Other than on a year-over-year basis, same property NOI excludes the earnings attributable to the REIT's hotel asset due to the seasonality of that asset. Same-property NOI is an important measure of the income generated from the REIT's properties period-over-period, but without consideration of acquisition and disposition activity, and is used by the REIT in evaluating the performance of its properties. The REIT seeks to increase or maintain same-property NOI through high-occupancy, increasing rents on renewal to market rents and by signing leases with embedded rent increases throughout the term of the lease.

Management compares same-property NOI for the current quarter to the immediately preceding quarter and to the same quarter in the preceding year.

*Same-property NOI: comparison of the current quarter to the same quarter in the prior year*

The same-property NOI comparison for the three months ended September 30, 2020 excludes assets disposed of prior to September 30, 2020. Where the REIT owns a partial interest in a property, NOI is included at the REIT's proportionate ownership for the current and comparative period based on its ownership at the current quarter end. The operations of the REIT's hotel asset are included when comparing to the prior year as the seasonal variations are consistent.

	Three months ended	
	September 30, 2020	September 30, 2019
Number of properties	36	36
GLA <sup>1</sup>	6,951,427	6,940,503
Revenue	\$ 46,004	\$ 50,298
Operating expenses	(21,122)	(24,084)
IFRIC 21 property tax adjustment	(2,254)	(2,330)
Straight-line rents and other changes	1,460	329
<b>Same-property NOI (including hotel asset)</b>	<b>\$ 24,088</b>	<b>\$ 24,213</b>
<b>Period-over-period change - \$</b>	<b>\$ (125)</b>	
<b>Period-over-period change - %</b>	<b>(0.5%)</b>	

<sup>1</sup>Gross leasable area is presented at 100% of the building's GLA, without taking ownership percentage into consideration.

Same-property NOI for the three months ended September 30, 2020 compared to the same period in 2019 decreased by \$0.1 million or 0.5%. The decrease is the result of a decrease of \$0.7 million at the REIT's hotel asset year-over-year primarily from COVID-19 related closures, offset by \$1.3 million of termination income received in the third quarter of 2020 and growth in rents due to rental spreads on new and renewed leasing and rent steps throughout the REIT's portfolio. Removing the impact of the REIT's hotel asset and lease termination income received, the REIT's same-property NOI decreased by \$0.7 million.

### Same-property NOI: comparison of the current quarter to the preceding quarter

The same-property NOI comparison to the three months ended June 30, 2020 excludes the impact of properties disposed of prior to September 30, 2020. This includes 4211 Yonge Street in Toronto, ON and a 25% interest in six assets in Toronto, ON partially disposed of in April 2019 which have been included at 75% of property NOI in each comparative period where wholly-owned for all or a portion of the relevant period. The comparison also excludes the impact of the REIT's hotel asset due to the seasonality of its earnings and contribution to NOI.

	Three months ended	
	September 30, 2020	June 30, 2020
Number of properties	36	36
GLA <sup>1</sup>	6,951,427	6,940,503
Revenue	\$ 46,004	\$ 44,479
Property operating expenses	(21,122)	(20,294)
IFRIC 21 property tax adjustment	(2,254)	(2,576)
Straight-line rents and other changes	1,460	1,748
Same-property NOI (including hotel asset)	24,088	23,357
NOI attributable to hotel asset	(194)	375
<b>Same-property NOI (excluding hotel asset)</b>	<b>\$ 23,894</b>	<b>\$ 23,732</b>
<b>Quarter-over-quarter change - \$</b>	<b>\$ 162</b>	
<b>Quarter-over-quarter change - %</b>	<b>0.7%</b>	

<sup>1</sup>Gross leasable area is presented at 100% of the building's GLA, without taking ownership percentage into consideration.

Same-property NOI, excluding the REIT's hotel asset, for the three months ended September 30, 2020 compared to the most recently completed quarter, increased by \$0.2 million. The increase is the result of rent steps across the REIT's portfolio which contributed \$0.1 million in NOI and termination income at two of the REIT's Greater Toronto Area assets of \$0.4 million, offset by approximately 119,000 square feet of know vacancies at two of the REIT's assets during the three months ended September 30, 2020 which decreased the REIT's NOI \$0.3 million quarter-over-quarter, net of termination income at those properties.

Looking forward, renewal spreads are expected to be strong as the current in-place rent is an estimated 8.8% below market. The REIT's portfolio has vacancies throughout the remainder of 2020 of 3.3% of its portfolio GLA with expiring rents estimated to be 35% below market rents. The REIT is actively managing to execute new or renewed leases and is in renewal discussions with most major tenants with upcoming expiries. The REIT has completed approximately 14,100 square feet of new deals which commence occupancy in the remainder of 2020.

## FUNDS FROM OPERATIONS

### Funds from operations

Funds from operations ("FFO") is a non-IFRS measure for evaluating real estate operating performance. The REIT calculates FFO in accordance with the definition provided by the Real Property Association of Canada ("RealPAC") in its White Paper on Funds From Operations, as revised in February 2019.

### Core-FFO

Core-FFO is a non-IFRS measure which makes certain adjustments to the REIT's calculation of FFO to recognize the REIT's share of lease payments received for its Data Centre asset, which for IFRS purposes is accounted for as a finance lease.

### Reconciliation of FFO and Core-FFO

Management believes that FFO and Core-FFO are important measures of the operating performance and are used by the REIT in evaluating the combined performance of its operations including the impact of its capital structure and are useful for investors to evaluate the performance of the REIT.

The following is a reconciliation of FFO and Core-FFO from cash flow from operating activities:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Cash flow from operating activities</b>	<b>\$ 17,354</b>	<b>\$ 19,592</b>	<b>\$ 36,922</b>	<b>\$ 33,696</b>
Add (deduct):				
Leasing costs amortized to revenue	1,825	1,366	5,340	3,909
Transaction costs	12	3,116	1,577	11,326
Working capital items	(4,714)	(9,333)	(1,392)	(5,746)
Straight-line rent and other changes	(1,458)	(378)	(4,153)	(1,340)
Interest and other finance costs	(10,388)	(11,261)	(30,671)	(37,871)
Interest paid	9,907	10,650	29,002	34,905
Distributions paid to Class B unitholders	528	528	1,584	2,047
<b>FFO</b>	<b>\$ 13,066</b>	<b>\$ 14,280</b>	<b>\$ 38,209</b>	<b>\$ 40,926</b>
Finance income on finance lease receivable	(858)	(899)	(2,606)	(2,726)
Finance lease payments received	1,605	1,525	4,677	4,575
<b>Core-FFO</b>	<b>\$ 13,813</b>	<b>\$ 14,906</b>	<b>\$ 40,280</b>	<b>\$ 42,775</b>

The following is a reconciliation of FFO and Core-FFO from net income:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Net income</b>	<b>\$ 16,221</b>	<b>\$ 27,195</b>	<b>\$ 7,004</b>	<b>\$ 42,628</b>
Add (deduct):				
Leasing costs amortized to revenue	1,825	1,366	5,340	3,909
Change in fair value of properties	(653)	(18,579)	(1,805)	(33,206)
IFRIC 21 property tax adjustment <sup>1</sup>	(2,254)	(2,330)	2,339	2,555
Change in fair value of financial instruments	(2,349)	77	33,581	9,210
Transaction costs	12	3,116	1,577	11,326
Depreciation of hotel asset	264	253	788	739
Deferred income tax (recovery) expense	—	223	(96)	(31)
Change in fair value of Class B LP units	(528)	2,431	(12,103)	1,903
Distributions to Class B unitholders	528	528	1,584	1,893
<b>FFO</b>	<b>\$ 13,066</b>	<b>\$ 14,280</b>	<b>\$ 38,209</b>	<b>\$ 40,926</b>
Finance income on finance lease receivable	(858)	(899)	(2,606)	(2,726)
Finance lease payments received	1,605	1,525	4,677	4,575
<b>Core-FFO</b>	<b>\$ 13,813</b>	<b>\$ 14,906</b>	<b>\$ 40,280</b>	<b>\$ 42,775</b>
Weighted average number of units outstanding <sup>2</sup>	73,227	73,283	73,236	74,200
<b>FFO per unit (diluted)</b>	<b>\$ 0.18</b>	<b>\$ 0.19</b>	<b>\$ 0.52</b>	<b>\$ 0.55</b>
<b>Core-FFO per unit (diluted)</b>	<b>\$ 0.19</b>	<b>\$ 0.20</b>	<b>\$ 0.55</b>	<b>\$ 0.58</b>

<sup>1</sup>In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

<sup>2</sup>Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

The following is a calculation of FFO and Core-FFO from the REIT's consolidated financial statements:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Rental revenue	\$ 45,852	\$ 52,539	\$ 140,150	\$ 164,191
Property operating expenses	(21,016)	(25,152)	(76,196)	(89,224)
Finance income on finance lease receivable	858	899	2,606	2,726
Interest income	130	150	424	407
Interest and finance costs	(10,388)	(11,261)	(30,671)	(37,871)
General and administrative	(1,941)	(1,931)	(5,783)	(5,767)
IFRIC 21 property tax adjustment <sup>1</sup>	(2,254)	(2,330)	2,339	2,555
Leasing costs amortized to revenue	1,825	1,366	5,340	3,909
<b>FFO</b>	<b>\$ 13,066</b>	<b>\$ 14,280</b>	<b>\$ 38,209</b>	<b>\$ 40,926</b>
Finance income on finance lease receivable	(858)	(899)	(2,606)	(2,726)
Finance lease payments received	1,605	1,525	4,677	4,575
<b>Core-FFO</b>	<b>\$ 13,813</b>	<b>\$ 14,906</b>	<b>\$ 40,280</b>	<b>\$ 42,775</b>
Weighted average number of units outstanding <sup>2</sup>	73,227	73,283	73,236	74,200
FFO per unit (diluted)	\$ 0.18	\$ 0.19	\$ 0.52	\$ 0.55
Core-FFO per unit (diluted)	\$ 0.19	\$ 0.20	\$ 0.55	\$ 0.58

<sup>1</sup>In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

<sup>2</sup>Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

FFO for the three months ended September 30, 2020 was \$13.1 million and \$14.3 million for the same period in 2019. For the nine months ended September 30, 2020 was \$38.2 million and \$40.9 million for the nine months ended September 30, 2019. The decreases year-over-year are a result of the disposition of 4211 Yonge Street in Toronto, ON in January 2020, 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan Mill Road in Toronto, ON in July 2019, 895 and 1000 Waverley in Winnipeg, MB in June 2019 and a 25% interest in six office assets in the Greater Toronto Area in April 2019. The decrease in NOI is offset by lower interest costs on debt repayment from disposition proceeds. On a per unit basis, FFO decreased \$0.01 for the three months ended September 30, 2020 and decreased \$0.03 for the nine months ended September 30, 2020 compared to the same periods in the prior year.

Core-FFO decreased to \$13.8 million or \$0.19 per unit for the three months ended September 30, 2020 from \$14.9 million or \$0.20 per unit for the same period in 2019. Core-FFO was \$40.3 million or \$0.55 per unit for the nine months ended September 30, 2020 compared to \$42.8 million or \$0.58 per unit for the same period in the prior year. The changes are a result of the changes as described for FFO.

## ADJUSTED FUNDS FROM OPERATIONS

Adjusted FFO ("AFFO") is a non-IFRS measure that is used by management of the REIT, certain of the real estate industry and investors to measure the cash flows generated from operations including certain capital costs, leasing costs, tenant improvements and the impact of non-cash revenue. It is a meaningful measure used to evaluate the extent of cash available for distribution to unitholders. The REIT's use and calculation of AFFO may be different than the use or as disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others.

In calculating AFFO, the REIT makes adjustments to FFO for certain items including: guaranteed income supplements; amortization of deferred transaction costs; de-recognition and amortization of mark-to-market adjustments on mortgages refinanced or discharged; adjustments for interest rate subsidies received; recognition of the REIT's share of lease payments received for its Data Centre asset, which for IFRS purposes is accounted for as a finance lease; amortization of straight-line rent; and normalized direct leasing and capital costs.

Guaranteed income supplements are cash amounts received from vendors or properties acquired by the REIT that are not recognized in income. Such amounts were negotiated between the REIT and certain vendors to compensate the REIT for lost income related to free rent periods and/or vacancies. The REIT was provided an income supplement in the aggregate amount of \$2.4 million to be received in equal quarterly installments in each of the eight calendar quarters following the acquisition of a seven asset portfolio in the Greater Toronto Area and Atlantic Canada from Slate Canadian Real Estate Opportunity Fund I L.P. ("SCREO I L.P."). The REIT recognizes interest income related to the difference between the present value on acquisition and the \$2.4 million principal amount. Accordingly, the REIT recognizes in AFFO the cash portion received in excess of any amount already included in net income. The last payment under this income supplement was received in the first quarter of 2020. Also in conjunction with the seven asset portfolio, the REIT entered into a one-year head lease with Cominar REIT whereby Cominar REIT provided payments to the REIT to compensate it for the existing vacancy to the extent the REIT did not otherwise re-lease the vacant space at 225 Duncan Mill Road in Toronto, ON which was disposed of in July 2019. The maximum receivable from Cominar REIT was approximately \$3.2 million. Amounts received under the head lease arrangement are not recognized in AFFO.

Amortization of deferred transaction costs are costs incurred to obtain debt financing that are recorded in net income, generally, on a systematic basis over the life of the debt to which they relate. The REIT deducts these amounts in determining AFFO as they represent non-cash charges to net income in the current period. Amortization of mark-to-market adjustments are differences between debt assumed in conjunction with a property acquisition and the fair value of the debt on assumption that are recorded in net income, generally, on a systematic basis over the life of the debt to which they relate. The REIT deducts or adds, as applicable, these amounts in determining AFFO as they represent non-cash charges to net income.

The interest rate subsidy is an amount received monthly by the REIT from a vendor of a property acquired by the REIT, to the extent not otherwise recognized in net income. Such amount was negotiated between the REIT and a vendor to compensate the REIT, in part, for assuming debt in conjunction with a property acquisition that was unfavorable to debt that could otherwise have been obtained by the REIT had the vendor made the property available to be purchased on a 'free-and-clear' basis. The REIT adds this amount in determining AFFO as it represents cash received by the REIT not otherwise recognized in net income.

Normalized direct leasing and capital costs are determined as 10% of the net of rental revenue less property operating expenses and represents the normalized on-going costs required to maintain existing space of a stabilized property. Actual amounts will vary from period to period depending on various factors, including but not limited to, the timing of expenditures made and contractual lease obligations.

The method applied by the REIT to calculate AFFO may differ from methods applied by other issuers in the real estate industry and differs from the definition of AFFO as defined by RealPAC in its White Paper, as issued in February 2019.

The following table reconciles AFFO from cash flow from operating activities:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Cash flow from operating activities</b>	<b>\$ 17,354</b>	<b>\$ 19,592</b>	<b>\$ 36,922</b>	<b>\$ 33,696</b>
Add (deduct):				
Working capital items	(4,714)	(9,333)	(1,392)	(5,746)
Principal repayments on finance lease receivable	747	626	2,071	1,849
Distributions paid to Class B LP unitholders	528	528	1,584	2,047
Transaction costs	12	3,116	1,577	11,326
Interest rate subsidy	108	108	324	324
Guaranteed income supplements	—	289	296	856
Normalized direct leasing and capital costs	(2,258)	(2,506)	(6,629)	(7,973)
<b>AFFO</b>	<b>\$ 11,777</b>	<b>\$ 12,420</b>	<b>\$ 34,753</b>	<b>\$ 36,379</b>

The following table reconciles AFFO from NOI:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Net operating income</b>	<b>\$ 24,040</b>	<b>\$ 25,435</b>	<b>\$ 70,446</b>	<b>\$ 78,862</b>
Add (deduct):				
General and administrative	(1,941)	(1,931)	(5,783)	(5,767)
Finance lease payments received	1,605	1,525	4,677	4,575
Cash interest	(9,777)	(10,500)	(28,578)	(34,498)
Interest rate subsidy	108	108	324	324
Guaranteed income supplements	—	289	296	856
Normalized direct leasing and capital costs	(2,258)	(2,506)	(6,629)	(7,973)
<b>AFFO</b>	<b>\$ 11,777</b>	<b>\$ 12,420</b>	<b>\$ 34,753</b>	<b>\$ 36,379</b>

A reconciliation of Core-FFO to AFFO is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Core-FFO</b>	<b>\$ 13,813</b>	<b>\$ 14,906</b>	<b>\$ 40,280</b>	<b>\$ 42,775</b>
Add (deduct):				
Amortization of deferred transaction costs	695	671	1,999	3,173
Amortization of debt mark-to-market adjustments	(214)	(60)	(330)	(207)
Amortization of straight-line rent	(367)	(988)	(1,187)	(2,569)
Interest rate subsidy	108	108	324	324
Guaranteed income supplements	—	289	296	856
Normalized direct leasing and capital costs	(2,258)	(2,506)	(6,629)	(7,973)
<b>AFFO</b>	<b>\$ 11,777</b>	<b>\$ 12,420</b>	<b>\$ 34,753</b>	<b>\$ 36,379</b>
Weighted average number of units outstanding <sup>1</sup>	73,227	73,283	73,236	74,200
<b>AFFO per unit (diluted)</b>	<b>\$ 0.16</b>	<b>\$ 0.17</b>	<b>\$ 0.47</b>	<b>\$ 0.49</b>

<sup>1</sup>Represents the diluted weighted average number of units outstanding and includes the weighted average outstanding of all REIT units, DUP units and Class B LP units.

For the three months ended September 30, 2020, AFFO was \$11.8 million or \$0.16 per unit, whereas AFFO for the same period in 2019 was \$12.4 million or \$0.17 per unit, representing a decrease of \$0.6 million and \$0.01 on a per unit basis. For the nine months ended September 30, 2020 AFFO was \$34.8 million or \$0.47 per unit, a decrease of \$1.6 million or \$0.02 per unit compared to the same period in the prior year. The decrease is due to the expiry of the guaranteed income supplement in the first quarter of 2020 and a decrease in NOI and cash interest from debt repayment on various asset dispositions including 4211 Yonge Street in Toronto, ON in January 2020 and 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan Mill Road in Toronto, ON in July 2019, 895 and 1000 Waverley in Winnipeg, MB in June 2019 and the 25% interest in six office assets in the Greater Toronto Area in April 2019.



## Reconciliation of FFO, Core-FFO and AFFO

A reconciliation of net (loss) income to FFO, Core-FFO and AFFO is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Net income</b>	<b>\$ 16,221</b>	<b>\$ 27,195</b>	<b>\$ 7,004</b>	<b>\$ 42,628</b>
Add (deduct):				
Leasing costs amortized to revenue	1,825	1,366	5,340	3,909
Change in fair value of properties	(653)	(18,579)	(1,805)	(33,206)
IFRIC 21 property tax adjustment <sup>1</sup>	(2,254)	(2,330)	2,339	2,555
Change in fair value of financial instruments	(2,349)	77	33,581	9,210
Transaction costs	12	3,116	1,577	11,326
Depreciation of hotel asset	264	253	788	739
Deferred income tax (recovery) expense	—	223	(96)	(31)
Change in fair value of Class B LP units	(528)	2,431	(12,103)	1,903
Distributions to Class B unitholders	528	528	1,584	1,893
<b>FFO</b>	<b>13,066</b>	<b>14,280</b>	<b>38,209</b>	<b>40,926</b>
Finance income on finance lease receivable	(858)	(899)	(2,606)	(2,726)
Finance lease payments received	1,605	1,525	4,677	4,575
<b>Core-FFO</b>	<b>13,813</b>	<b>14,906</b>	<b>40,280</b>	<b>42,775</b>
Amortization of deferred transaction costs	695	671	1,999	3,173
Amortization of debt mark-to-market adjustments	(214)	(60)	(330)	(207)
Amortization of straight-line rent	(367)	(988)	(1,187)	(2,569)
Interest rate subsidy	108	108	324	324
Guaranteed income supplements	—	289	296	856
Normalized direct leasing and capital costs	(2,258)	(2,506)	(6,629)	(7,973)
<b>AFFO</b>	<b>\$ 11,777</b>	<b>\$ 12,420</b>	<b>\$ 34,753</b>	<b>\$ 36,379</b>

<sup>1</sup>In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

The following is FFO, Core-FFO and AFFO expressed on a per unit basis:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
FFO per unit (diluted)	\$ 0.18	\$ 0.19	\$ 0.52	\$ 0.55
Core FFO per unit (diluted)	0.19	0.20	0.55	0.58
AFFO per unit (diluted)	\$ 0.16	\$ 0.17	\$ 0.47	\$ 0.49

## DISTRIBUTIONS

The REIT pays monthly distributions to unitholders which are also paid at the same rate to holders of the REIT's Class B LP units. Distributions are paid on or about the 15<sup>th</sup> day of the month following declaration.

The Board of Trustees continually evaluates the distribution policy of the REIT in consideration of various factors. These factors generally include the REIT's available liquidity to fund distributions, the asset allocation alternatives available to the REIT including acquisitions and their impact, the interest rate environment, the REIT's cost of capital and the expected future cash flows to be generated by the REIT in consideration of the REIT's future cash flow needs, which include funding value add redevelopment opportunities, leasing costs and other capital. Based on these factors the Board of Trustees of the REIT may determine a modification of the REIT's distribution to be beneficial to the REIT.

The REIT has a distribution reinvestment plan ("DRIP"), where eligible unitholders, which include 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. The distributions declared during the nine months ended September 30, 2019 resulted in 102,601 trust units issued under the DRIP. On May 3, 2019 the REIT's Board of Trustees approved the suspension of the REIT's DRIP commencing with the May 2019 distribution to be paid in June 2019. Management of the REIT believes this is a prudent capital allocation strategy that will retain value for unitholders.

The following table summarizes distributions made during the three months ended September 30, 2020 and 2019 to unitholders of the REIT and Class B LP unitholders:

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	Trust units	Class B LP units	Total	Trust units	Class B LP units	Total
Distributions declared	\$ 6,770	\$ 528	\$ 7,298	\$ 6,781	\$ 528	\$ 7,309
Distributions reinvested in trust units	—	—	—	—	—	—
<b>Distributions, net of DRIP</b>	<b>\$ 6,770</b>	<b>\$ 528</b>	<b>\$ 7,298</b>	<b>\$ 6,781</b>	<b>\$ 528</b>	<b>\$ 7,309</b>

The following table summarizes distributions made during the nine months ended September 30, 2020 and 2019 to unitholders of the REIT and Class B LP unitholders:

	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Trust units	Class B LP units	Total	Trust units	Class B LP units	Total
Distributions declared	\$ 20,317	\$ 1,584	\$ 21,901	\$ 24,667	\$ 1,893	\$ 26,560
Distributions reinvested in trust units	—	—	—	536	—	536
<b>Distributions, net of DRIP</b>	<b>\$ 20,317</b>	<b>\$ 1,584</b>	<b>\$ 21,901</b>	<b>\$ 24,131</b>	<b>\$ 1,893</b>	<b>\$ 26,024</b>

Cash flow from operating activities for the nine months ended September 30, 2020 was \$36.9 million which is higher than distributions declared to unitholders of the REIT of \$20.3 million. When distributions are more than cash flow from operating activities the REIT finances such amounts from cash on hand and/or borrowings and represent a return of capital.

#### Taxation of distributions

The REIT qualifies as a "mutual fund trust" under the Income Tax Act (Canada) (the "Tax Act"). For taxable Canadian resident REIT unitholders, the REIT's distributions are treated as follows for tax purposes over the four most recent years:

Taxation year	Return of capital	Capital gains	Other income
2019 per \$ of distribution	77.0%	23.0%	—
2018 per \$ of distribution	100.0%	—	—
2017 per \$ of distribution	100.0%	—	—
2016 per \$ of distribution	90.2%	3.8%	6.0%

Of the distributions received by unitholders in 2019, 23.0% were treated as capital gains and 77.0% were treated as return of capital due to the impact of capital gains and depreciation recapture on asset sales and modification of the REIT's distribution to \$0.40 annually. For 2018 and 2017, 100.0% of the distributions received by unitholders were treated as a return of capital for taxation purposes compared to 90.2% in 2016, resulting in a meaningful deferral of the taxation of returns being provided.

#### FFO, CORE-FFO AND AFFO PAYOUT RATIOS

FFO, Core-FFO and AFFO payout ratios (the "payout ratios") are non-IFRS measures that provide a comparison of the distributions made by the REIT to unitholders compared to FFO, Core-FFO and AFFO generated by the REIT. Management uses these measures to evaluate the REIT's ability to sustain its distributions. The payout ratios are calculated by dividing aggregate distributions made in respect of units of the REIT and Class B LP units by FFO, Core-FFO and AFFO during the period of measurement.

One of the REIT's objectives is to provide a distribution over time that is appropriate in consideration of the REIT's available liquidity to fund distributions, the asset allocation alternatives available to the REIT, the estimated impact on the trading price of the REIT's trust units and the expected future cash flows to be generated by the REIT in consideration of the REIT's future cash flow needs. To the extent these factors change, the Board of Trustees of the REIT will consider adjustments to its distribution policy.

The REIT's AFFO payout ratio for the three months ended September 30, 2020 was 62.0% which the REIT believes to be sustainable and looks to maintain current distribution rates to provide consistent returns to unitholders while providing sufficient cashflow for the REIT to reinvest in the growth of its portfolio.

The table below illustrates the REIT's cash flow capacity, based on FFO, in comparison to its cash distributions:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
FFO	\$ 13,066	\$ 14,280	\$ 38,209	\$ 40,926
REIT unit and Class B LP distributions declared	7,298	7,309	21,901	26,560
Excess of FFO over distributions declared	5,768	6,971	16,308	14,366
Cash retained from DRIP	—	—	—	536
Excess of FFO over cash distributions	\$ 5,768	\$ 6,971	\$ 16,308	\$ 14,902
<b>FFO payout ratio</b>	<b>55.9%</b>	<b>51.2%</b>	<b>57.3%</b>	<b>64.9%</b>
<b>FFO payout ratio after DRIP<sup>1</sup></b>	<b>55.9%</b>	<b>51.2%</b>	<b>57.3%</b>	<b>63.6%</b>

<sup>1</sup>Impact after DRIP represents actual DRIP levels during the period.

The table below illustrates the REIT's cash flow capacity, based on Core-FFO, in comparison to its cash distributions:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Core-FFO	\$ 13,813	\$ 14,906	\$ 40,280	\$ 42,775
REIT unit and Class B LP distributions declared	7,298	7,309	21,901	26,560
Excess of Core-FFO over distributions declared	6,515	7,597	18,379	16,215
Cash retained from DRIP	—	—	—	536
Excess of Core-FFO over cash distributions	\$ 6,515	\$ 7,597	\$ 18,379	\$ 16,751
<b>Core-FFO payout ratio</b>	<b>52.8%</b>	<b>49.0%</b>	<b>54.4%</b>	<b>62.1%</b>
<b>Core-FFO payout ratio after DRIP<sup>1</sup></b>	<b>52.8%</b>	<b>49.0%</b>	<b>54.4%</b>	<b>60.8%</b>

<sup>1</sup>Impact after DRIP represents actual DRIP levels during the period.

The table below illustrates the REIT's cash flow capacity, based on AFFO, in comparison to its cash distributions:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
AFFO	\$ 11,777	\$ 12,420	\$ 34,753	\$ 36,379
REIT unit and Class B LP distributions declared	7,298	7,309	21,901	26,560
Excess of AFFO over distributions declared	4,479	5,111	12,852	9,819
Cash retained from DRIP	—	—	—	536
Excess of AFFO over cash distributions	\$ 4,479	\$ 5,111	\$ 12,852	\$ 10,355
<b>AFFO payout ratio</b>	<b>62.0%</b>	<b>58.8%</b>	<b>63.0%</b>	<b>73.0%</b>
<b>AFFO payout ratio after DRIP<sup>1</sup></b>	<b>62.0%</b>	<b>58.8%</b>	<b>63.0%</b>	<b>71.5%</b>

<sup>1</sup>Impact after DRIP represents actual DRIP levels during the period.

The FFO, Core-FFO and AFFO payout ratios have improved for the nine months ended September 30, 2020 compared to the same period in 2019 resulting from the revision of the REIT's distribution to \$0.40 annually from \$0.75 beginning with the REIT's March 2019 distribution.

## SEGMENTED INFORMATION

The REIT has NOI from four geographic locations. The following is the REIT's NOI by geographic region:

	Three months ended September 30,			
	2020		2019	
	NOI	Percentage (%)	NOI	Percentage (%)
Atlantic	\$ 8,454	35.2%	\$ 9,133	35.9%
Ontario	8,762	36.4%	10,195	40.1%
Western	1,493	6.2%	1,518	6.0%
U.S.	5,331	22.2%	4,589	18.0%
<b>Total</b>	<b>\$ 24,040</b>	<b>100.0%</b>	<b>\$ 25,435</b>	<b>100.0%</b>

Atlantic	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
# of properties	14	14	14	14
Owned GLA (000s of square feet)	2,639	2,639	2,639	2,639
Occupancy rate (%) (period-end)	77.1%	84.6%	77.1%	84.6%
Revenue	\$ 16,349	\$ 20,075	\$ 51,437	\$ 60,805
Property operating expenses	(8,768)	(11,372)	(29,104)	(34,472)
Straight-line rent and other changes	873	430	2,378	1,188
<b>NOI</b>	<b>\$ 8,454</b>	<b>\$ 9,133</b>	<b>\$ 24,711</b>	<b>\$ 27,521</b>

NOI for the Atlantic properties decreased by \$0.7 million for the three months ended September 30, 2020 compared to the same period in 2019. The decrease is a result of certain known tenant vacancies for the third quarter of 2020 comprising approximately 119,000 square feet which decreased NOI by \$0.3 million, net of termination income. Further to this, the REIT's hotel contributed \$0.7 million less NOI compared to the same period in the prior year. NOI for the Atlantic properties decreased by \$2.8 million for the nine months ended September 30, 2020 compared to the same period in 2019. The decrease is primarily a result of lower NOI contribution from the REIT's hotel which has decreased \$1.7 million compared to the same period in the prior year.

Ontario	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
# of properties	12	14	12	14
Owned GLA (000s of square feet)	2,760	3,146	2,760	3,146
Occupancy rate (%) (period-end)	90.5%	87.2%	90.5%	87.2%
Revenue	\$ 16,353	\$ 19,146	\$ 48,655	\$ 62,497
Property operating expenses	(7,983)	(9,299)	(23,927)	(31,005)
Straight-line rent and other changes	392	348	1,432	758
<b>NOI</b>	<b>\$ 8,762</b>	<b>\$ 10,195</b>	<b>\$ 26,160</b>	<b>\$ 32,250</b>

NOI for the three months ended September 30, 2020 was \$8.8 million compared to NOI of \$10.2 million for the three months ended September 30, 2019, representing a decrease of \$1.4 million year-over-year. NOI for the nine months ended September 30, 2020 was \$26.2 million compared to NOI of \$32.3 million for the nine months ended September 30, 2019, representing a decrease of \$6.1 million year-over-year. The decrease in NOI is a result of the disposition of 4211 Yonge Street in Toronto, ON in January 2020, 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan Mill Road in Toronto, ON in July 2019 and a 25% interest in six office assets in the Greater Toronto Area on April 12, 2019.

Western	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
# of properties	8	8	8	8
Owned GLA (000s of square feet)	513	514	513	514
Occupancy rate (%) (period-end)	92.9%	91.1%	92.9%	91.1%
Revenue	\$ 2,687	\$ 2,705	\$ 8,104	\$ 9,048
Property operating expenses	(1,216)	(1,180)	(3,946)	(4,217)
Straight-line rent and other changes	22	(7)	63	30
NOI	\$ 1,493	\$ 1,518	\$ 4,221	\$ 4,861
NOI from Data Centre	1,605	1,525	4,677	4,575
<b>NOI including Data Centre</b>	<b>\$ 3,098</b>	<b>\$ 3,043</b>	<b>\$ 8,898</b>	<b>\$ 9,436</b>

NOI for the three months ended September 30, 2020 was \$3.1 million including the income from the Data Centre, an increase of \$0.1 million over the comparable period. NOI for the nine months ended September 30, 2020 decreased \$0.5 million to \$8.9 million. The decrease is a result of the disposition of 895 and 1000 Waverley in Winnipeg, MB in June 2019. The Data Centre is accounted for as a finance lease and corresponding interest income is recorded below NOI and principal repayments reduce the balance of the lease receivable.

United States	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
# of properties	2	2	2	2
Owned GLA (000s of square feet)	1,040	1,038	1,040	1,038
Occupancy rate (%) (period-end)	89.0%	85.9%	89.0%	85.9%
Revenue	\$ 10,463	\$ 10,613	\$ 31,954	\$ 31,841
Property operating expenses	(3,049)	(3,301)	(19,219)	(19,530)
IFRIC 21 property tax adjustment <sup>1</sup>	(2,254)	(2,330)	2,339	2,555
Straight-line rent and other changes	171	(393)	280	(636)
<b>NOI</b>	<b>\$ 5,331</b>	<b>\$ 4,589</b>	<b>\$ 15,354</b>	<b>\$ 14,230</b>

<sup>1</sup>In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

NOI for the three months ended September 30, 2020 was \$5.3 million which is an increase of \$0.7 million compared to the same period in 2019. For the nine months ended September 30, 2020, NOI was \$15.4 million which is an increase of \$1.1 million compared to the same period in 2019. The increase is a result of higher average U.S. exchange rates in 2020 compared to the same periods in the prior year and increased average occupancy compared to the same periods in 2019.

## REVENUE

Revenue from properties includes rent from tenants under lease agreements, straight-line rental income, percentage rents, property taxes and operating cost recoveries, parking revenue and other incidental income. The following is a summary of the components of revenue:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Property base rent <sup>1</sup>	\$ 23,451	\$ 23,888	\$ 70,219	\$ 79,546
Operating cost recoveries	15,006	17,359	46,809	52,717
Tax recoveries	8,013	8,382	24,567	25,156
Hotel	840	3,288	2,708	8,112
Straight-line adjustments and other	(1,458)	(378)	(4,153)	(1,340)
	<b>\$ 45,852</b>	<b>\$ 52,539</b>	<b>\$ 140,150</b>	<b>\$ 164,191</b>

<sup>1</sup>Includes parking revenue earned at properties.

For the three months ended September 30, 2020, revenue from properties was \$45.9 million, lower than \$52.5 million for the same period in 2019. For the nine months ended September 30, 2020, revenue from properties was \$140.2 million, lower than \$164.2 million for the same period in 2019. The decrease from prior period is a result of the disposition of 4211 Yonge Street in Toronto, ON in January 2020, 5500 North Service Road in Burlington, ON in November 2019, 225 Duncan Mill Road in Toronto, ON in July 2019, 895 and 1000 Waverley in June 2019 and a 25% interest in six office assets in the Greater Toronto Area in April 2019.

## PROPERTY OPERATING RECOVERIES AND EXPENSES

Property operating expenses consist of property taxes, property management fees and other expenses such as common area costs, utilities, and insurance. The majority of the REIT's property operating expenses are recoverable from tenants in accordance with the terms of the tenants' lease agreements. Operating cost recoveries are included in revenue from properties and amounted to \$15.0 million for the three months ended September 30, 2020 compared to \$17.4 million for the same period in 2019. Property tax recoveries were \$8.0 million for the three months ended September 30, 2020 which is consistent with the same period in 2019.

For the nine months ended September 30, 2020, operating cost recoveries amounted to \$46.8 million compared to \$52.7 million for the same period in 2019. Property tax recoveries decreased to \$24.6 million for the nine months ended September 30, 2020 from \$25.2 million for the same period in 2019.

## GENERAL AND ADMINISTRATIVE

General and administrative expenses are primarily comprised of asset management fees, professional fees, trustee fees, and other amounts. For the three and nine months ended September 30, 2020, general and administrative expenses are consistent when compared to the same period in 2019.

## INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Mortgage interest	\$ 6,729	\$ 6,555	\$ 19,424	\$ 21,492
Interest on other debt	2,794	3,715	8,442	12,285
Amortization of deferred transaction costs	695	671	1,999	3,173
Amortization of debt mark-to-market adjustments	(214)	(60)	(330)	(207)
Interest on convertible debentures	384	380	1,136	1,128
	<b>\$ 10,388</b>	<b>\$ 11,261</b>	<b>\$ 30,671</b>	<b>\$ 37,871</b>

For the three months ended September 30, 2020, interest and finance costs were \$10.4 million, which has decreased by \$0.9 million when compared to the same period in 2019 primarily from debt repayment. Amortization of deferred transaction costs also decreased due to asset refinancing that took place in April 2019. These changes resulted in a decrease in interest and finance costs from \$37.9 million nine months ended September 30, 2019 to \$30.7 million for the nine months ended September 30, 2020.

## FINANCE INCOME ON FINANCE LEASE RECEIVABLE

The REIT has a 15 year lease with Manitoba Telecom Services Inc. for the Data Centre. The terms of the lease at inception met the requirements for classification as a finance lease because the minimum lease payments amounted to at least substantially all of the fair value of the leased asset. As a result of this classification, a portion of the lease payments earned on the property is recorded as interest income on finance lease. Interest income recognized on the finance lease for the three and nine months ended September 30, 2020 were \$0.9 million and \$2.6 million, respectively, which is comparable to interest income recognized for the same periods in 2019.

The REIT makes an adjustment to recognize the contribution made by the Data Centre to its Core-FFO and AFFO to account for the difference between accounting under IFRS and the lease contributions on a cash basis. On a cash basis the Data Centre currently contributes approximately \$6.4 million annually from lease payments.

## CHANGE IN FAIR VALUE OF PROPERTIES

The change in fair value of properties decreased \$17.9 million for the three months ended September 30, 2020 compared to the comparative period in 2019. For the nine months ended September 30, 2020 the change in fair value of properties decreased \$31.4 million compared to the same period in the prior year. A large portion of the change in fair value of properties relates to revised timing of speculative leasing across the REIT's portfolio due to COVID-19 for the nine months ended September 30, 2020 compared to a gain for the same period in the prior year based on agreed upon sale prices. The REIT also obtained property appraisals for 17 of its assets with a value of \$801.3 million during the nine months ended September 30, 2020.

## CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

The change in fair value of financial instruments represents the change in the fair value of the REIT's interest rate swaps, subscription receipts and deferred unit liabilities on deferred units issued to Trustees and Officers of the REIT. For the three and nine months ended September 30, 2020, the fair value of financial instruments increased \$2.4 million for the three months ended September 30, 2020 compared to the same period in the prior year and decreased \$24.4 million for the nine months ended September 30, 2020, compared to the same periods in 2019 due to lower prevailing interest rates which impacts the REIT's pay-fixed receive-float interest rate swaps.

## INCOME TAXES

The REIT is a mutual fund trust and real estate investment trust pursuant to the Tax Act. Under the Tax Act, so long as the REIT meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"), the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. Management intends to operate the REIT in a manner that enables the REIT to continue to meet the REIT Conditions and to distribute all of its taxable income to unitholders. 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 nine months ended September 30, 2020 and 2019, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes 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%.

## QUARTERLY INFORMATION

The following is a summary of financial and operational information for the REIT for the eight most recently completed quarters:

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Revenue	\$ 45,852	\$ 44,604	\$ 49,694	\$ 51,329	\$ 52,539	\$ 54,452	\$ 57,200	\$ 59,055
Operating costs	(21,016)	(20,365)	(34,815)	(25,599)	(25,152)	(26,468)	(37,604)	(29,429)
IFRIC 21 property tax adjustment	(2,254)	(2,576)	7,169	(2,555)	(2,330)	(2,212)	7,097	(2,107)
Straight-line rent and other	1,458	1,748	947	999	378	612	350	(161)
Net operating income	\$ 24,040	\$ 23,411	\$ 22,995	\$ 24,174	\$ 25,435	\$ 26,384	\$ 27,043	\$ 27,358
Net income (loss)	\$ 16,221	\$ 5,689	\$ (14,906)	\$ 19,813	\$ 27,195	\$ 9,514	\$ 5,919	\$ 27,944
Weighted average diluted units <sup>1</sup>	73,227	73,203	73,278	73,278	73,283	74,093	75,247	75,261
Net income (loss) and comprehensive income (loss) per unit	\$ 0.22	\$ 0.08	\$ (0.20)	\$ 0.27	\$ 0.37	\$ 0.13	\$ 0.08	\$ 0.37
Distributions <sup>2</sup>	\$ 7,298	\$ 7,298	\$ 7,305	\$ 7,309	\$ 7,309	\$ 7,361	\$ 11,890	\$ 14,096
Distributions per unit	\$ 0.1000	\$ 0.1000	\$ 0.1000	\$ 0.1000	\$ 0.1000	\$ 0.1000	\$ 0.1583	\$ 0.1875
FFO <sup>3</sup>	\$ 13,066	\$ 12,735	\$ 12,408	\$ 12,600	\$ 14,280	\$ 13,103	\$ 13,543	\$ 13,758
FFO per unit - diluted <sup>3</sup>	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.19	\$ 0.18	\$ 0.18	\$ 0.18
FFO payout ratio <sup>3</sup>	55.9%	57.3%	58.9%	58.0%	51.2%	56.2%	87.8%	102.5%
Core-FFO <sup>3</sup>	\$ 13,813	\$ 13,413	\$ 13,054	\$ 13,236	\$ 14,906	\$ 13,719	\$ 14,150	\$ 14,356
Core-FFO per unit - diluted <sup>3</sup>	\$ 0.19	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.19
Core-FFO payout ratio <sup>3</sup>	52.8%	54.4%	56.0%	55.2%	49.0%	53.7%	84.0%	98.2%
AFFO <sup>3</sup>	\$ 11,777	\$ 11,787	\$ 11,189	\$ 11,498	\$ 12,420	\$ 12,193	\$ 11,766	\$ 11,101
AFFO per unit - diluted <sup>3</sup>	\$ 0.16	\$ 0.16	\$ 0.15	\$ 0.16	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.15
AFFO payout ratio <sup>3</sup>	62.0%	61.9%	65.3%	63.6%	58.8%	60.4%	101.1%	127.0%
Properties	\$1,609,242	\$1,602,165	\$1,608,638	\$1,622,085	\$1,658,126	\$1,655,665	\$1,789,784	\$1,780,413
Total assets	\$1,694,187	\$1,695,859	\$1,700,643	\$1,709,964	\$1,751,013	\$1,742,831	\$1,875,906	\$1,866,729
Debt	\$ 979,004	\$ 987,461	\$ 991,057	\$1,001,947	\$1,044,297	\$1,064,353	\$ 1,181,621	\$1,175,826
IFRS net asset value ("NAV")	\$ 629,904	\$ 623,277	\$ 629,983	\$ 659,057	\$ 649,423	\$ 624,928	\$ 634,447	\$ 642,878
Diluted units outstanding <sup>1</sup>	73,244	73,225	73,201	73,291	73,277	73,293	74,746	75,300
IFRS NAV per unit	\$ 8.60	\$ 8.51	\$ 8.61	\$ 8.99	\$ 8.86	\$ 8.53	\$ 8.49	\$ 8.54
LTV ratio	57.8%	58.3%	58.3%	58.7%	59.7%	61.2%	63.1%	63.1%
Net debt to adjusted EBITDA	10.8x	10.6x	10.4x	10.2x	10.2x	10.0x	11.6x	12.5x
Interest coverage ratio <sup>3</sup>	2.3x	2.3x	2.2x	2.2x	2.1x	2.2x	2.0x	2.2x
Debt service coverage ratio <sup>3</sup>	1.8x	1.8x	1.7x	1.7x	1.6x	1.6x	1.7x	1.8x
Leasing activity (square feet)	142,881	103,827	304,571	190,894	124,697	149,226	254,409	158,339
Leasing activity as a % of portfolio	2.1%	1.5%	4.4%	2.7%	1.7%	2.0%	3.4%	2.1%
Weighted average lease term (years)	5.5	5.4	5.5	5.6	5.6	5.5	5.6	5.8
Number of properties	36	36	36	37	38	39	41	41
Office GLA	6,836,593	6,825,669	6,821,215	6,998,980	7,221,258	7,377,177	7,467,648	7,467,367
Total GLA	6,951,427	6,940,503	6,936,049	7,113,814	7,336,092	7,492,011	7,582,482	7,582,201
Occupancy - excluding redevelopment	86.0%	88.0%	87.7%	88.3%	87.5%	88.6%	89.0%	88.9%
Occupancy	85.4%	86.8%	86.5%	87.1%	86.3%	87.2%	87.7%	87.6%

<sup>1</sup>Includes REIT units, the conversion of the Class B LP units and deferred units and is shown in thousands at the end of the respective periods. Weighted average diluted units is the weighted average number of diluted units outstanding during the respective quarter and diluted units outstanding is the diluted units outstanding at the end of the quarter.

<sup>2</sup>Includes distributions made to both unitholders of the REIT and Class B LP unitholders.

<sup>3</sup>The calculation of these non-IFRS financial measures and a reconciliation to relevant IFRS measures are included in Part III and IV.



## PART IV - FINANCIAL CONDITION

### LIQUIDITY AND CAPITAL RESOURCES

The REIT endeavors to maintain appropriate levels of financial liquidity to meet its business objectives and commitments. Primarily, the REIT utilizes revolving credit facilities to provide this financial liquidity in addition to cash on hand. The revolving credit facilities can be drawn or repaid on short notice, which reduces the need to hold cash and deposits, while also minimizing borrowing rates.

The principal liquidity needs of the REIT arise from working capital requirements, distributions to unitholders, planned funding of maintenance capital expenditures, leasing costs and future property acquisitions. Cash flows from operating the REIT's property portfolio, available funding under the REIT's credit facilities and cash on hand represent the primary sources of liquidity. Cash flows from operations are dependent upon rental occupancy levels, rental rates, the collection of rents, recoveries of operating costs and the level of operating costs.

The REIT's available liquidity is as follows:

	September 30, 2020	December 31, 2019
Cash	\$ 5,290	\$ 6,117
Undrawn revolving facilities	30,813	31,121
<b>Liquidity</b>	<b>\$ 36,103</b>	<b>\$ 37,238</b>

### DEBT STRATEGY

The REIT's obligations with respect to debt repayments and funding requirements for future investment property acquisitions will be primarily funded from cash retained after distributions, refinancing the REIT's maturing debt, financing unencumbered properties or future issuances of trust units.

The REIT's overall borrowing objective is to obtain secured financing, with terms to maturity that are appropriate having regard to the lease maturity profiles of the underlying properties and which allows the REIT to achieve and maintain staggered debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period. The REIT also endeavors to have an appropriate amount of fixed rate debt and to extend loan terms when borrowing conditions are favourable, which is actively monitored by management.

The following are the REIT's interest rate hedges at September 30, 2020:

Maturity date	Floating interest rate <sup>1</sup>	Fixed interest rate	Notional amount <sup>2</sup>		Fair value	
			September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
June 10, 2021	1 month CDOR	1.87%	\$ 62,018	\$ 63,488	\$ (660)	\$ 93
June 30, 2021	1 month BA	1.94%	35,000	35,000	(384)	15
April 12, 2023	1 month BA	1.90%	58,281	58,281	(1,930)	294
April 12, 2023	1 month CDOR	2.04%	78,055	79,614	(2,943)	(125)
April 12, 2023	1 month CDOR	2.04%	36,860	37,596	(1,390)	(59)
May 1, 2023	1 month BA	1.98%	—	25,802	—	(69)
August 14, 2023	1 month BA	2.77%	18,362	18,692	(1,161)	(546)
February 1, 2024	1 month U.S. LIBOR	1.80%	66,595	64,940	(3,743)	(650)
March 22, 2024	1 month BA	1.90%	100,000	100,000	(4,444)	439
March 3, 2025	1 month BA	1.23%	62,500	—	(1,422)	—
September 10, 2025	1 month U.S. LIBOR	2.56%	134,622	131,276	(13,254)	(4,205)
October 30, 2026	1 month BA	2.30%	100,000	100,000	(8,875)	(1,560)
			<b>\$ 752,293</b>	<b>\$ 714,689</b>	<b>\$ (40,206)</b>	<b>\$ (6,373)</b>

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

<sup>2</sup>The notional amount of the U.S. dollar pay-fixed receive-float interest rate swap, maturing August 30, 2022 and February 1, 2024, are U.S. \$101.1 million and U.S. \$50 million respectively.

Including these swaps, the REIT's fixed rate debt was 96.6% at September 30, 2020 (December 31, 2019 - 91.2%).

The REIT has multiple sources of financing from its various credit facilities which have borrowing capacity available and provide shorter term flexibility to support the REIT's multiple growth-oriented initiatives. Further, in instances where management believes that there are meaningful value creation opportunities, the REIT will generally seek to utilize short-term floating rate financing, to allow for maximum debt proceeds when subsequently utilizing term or mortgage debt upon full execution of management's asset strategy. Additionally, where

management has identified properties for potential sale, the REIT will seek to utilize short-term floating rate financing to prevent value erosion on sale from requiring a purchaser to assume potentially above market low leverage debt. While the REIT's credit facilities represent one element of our funding strategy, this will be coupled with the REIT's access to financing alternatives from multiple financial institutions at competitive rates, which the REIT has consistently done. In addition, the REIT's development pipeline and associated construction activities are funded by dedicated construction facilities provided by various banking syndicates at attractive rates for appropriate terms commensurate with each respective project.

#### *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. 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.

#### *Maturity profile*

The REIT has no facilities maturing for the remainder of 2020. The majority of the REIT's 2021 maturities have been refinanced subsequent to quarter end as indicated in the significant highlights section of this MD&A. The following is a summary of future principal repayments and maturities at September 30, 2020:

Remainder of 2020	\$ 2,694
2021	565,680
2022	7,923
2023	216,916
2024	4,730
Thereafter	185,297
	<b>\$ 983,240</b>

#### *Debt profile*

On September 10, 2020, the REIT extended the mortgage on 120 South LaSalle in Chicago, IL on terms consistent with in-place debt for a period of 1 year with the intention of re-assessing financing options in 2021.

On September 30, 2020, the REIT refinanced the Johnson Building on a mortgage of similar terms which expires in January 2025.

Subsequent to September 30, 2020, the REIT completed the below refinancings:

- On October 14, 2020, the REIT secured a new revolving credit facility that replaces its two existing revolving credit facilities, term loan and one mortgage. The new revolving credit facility of \$300 million and US\$60 million expires September 30, 2022 with a 1 year extension option.
- On October 14, 2020, the REIT obtained mortgage proceeds for three of its Atlantic Canada assets that were previously secured on a term loan expiring June 2021. Combined proceeds were \$55.7 million at a weighted average interest rate of 2.57% and a weighted average term to maturity of 5.25 years.

After the completion of these refinancings the REIT has approximately 16% of its total debt maturing prior to the end of 2021.

Debt held by the REIT at September 30, 2020 is as follows:

	Maturity	Coupon <sup>1</sup>	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn <sup>2</sup>
Mortgages <sup>3 4 5</sup>	Various	Various	16	\$ 1,082,537	\$ 623,879	\$ 623,879	\$ —	\$ —
Revolving facilities <sup>5 6 7</sup>	Various	Various	13	416,418	256,649	224,936	900	30,813
Term loan	Jun. 30, 2021	BA+213bps	6	153,431	105,675	105,675	—	—
Convertible debentures	Feb. 28, 2023	5.25%	—	—	28,750	28,750	—	—
			<b>35</b>	<b>\$1,652,386</b>	<b>\$1,014,953</b>	<b>\$ 983,240</b>	<b>\$ 900</b>	<b>\$ 30,813</b>

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

<sup>2</sup>Debt is only available to be drawn subject to certain covenants and other requirements.

<sup>3</sup>The weighted average remaining term to maturity of mortgages is 3.4 years with maturities ranging from 0.6 to 10 years and the weighted average interest rate of mortgages is 3.38% with coupons ranging from 2.45% to 4.95%.

<sup>4</sup>Security 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.

<sup>5</sup>Amounts have been translated from U.S. to Canadian dollars using the prevailing exchange rate on September 30, 2020.

<sup>6</sup>Stand-by fees incurred on the unutilized portion of on the revolving operating facility and the revolving credit facility are each 0.40%, charged and paid quarterly.

<sup>7</sup>Principal balance includes \$117.8 million and U.S. \$56.0 million of operating facilities and a credit facility of \$32.6 million. The weighted average remaining term to maturity of revolving facilities is 0.3 years and the weighted average interest rate of revolving facilities is 2.21%.

The carrying value of debt held by the REIT at September 30, 2020 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	\$ 623,879	\$ (3,561)	\$ 597	\$ 620,915	\$ 205,535	\$ 415,380
Revolving facilities	224,936	(2,252)	2,035	224,719	224,719	—
Term loan	105,675	(751)	438	105,362	105,362	—
Convertible debentures <sup>1</sup>	28,750	(1,320)	578	28,008	—	28,008
	<b>\$ 983,240</b>	<b>\$ (7,884)</b>	<b>\$ 3,648</b>	<b>\$ 979,004</b>	<b>\$ 535,616</b>	<b>\$ 443,388</b>

<sup>1</sup>Represents 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 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.

## INDEBTEDNESS RATIO

The indebtedness ratio is a non-IFRS measure calculated by the REIT. In accordance with the REIT's Declaration of Trust, the REIT's indebtedness may not exceed 65% of gross book value, which is defined by the Declaration of Trust as total assets less restricted cash. The REIT's indebtedness ratio at September 30, 2020 was 57.8% which is lower by 89 basis points compared to December 31, 2019. Subject to market conditions and the growth of the REIT, management's medium term target is to maintain total indebtedness at approximately 55%. The success of this strategy is dependent upon debt market parameters existing at the time of borrowing, as well as the particular features and quality of the underlying assets being financed. If this strategy is unsuccessful, debt principal repayments may need to be funded by operating cash flows, additional draws under the REIT's revolving credit and operating facilities, financing of unencumbered income-producing properties or by issuances of equity or debt securities.

The REIT's indebtedness level is calculated as follows:

	September 30, 2020	December 31, 2019
Total assets	\$ 1,694,187	\$ 1,709,964
Less: restricted cash	(1,780)	(4,253)
Gross book value	1,692,407	1,705,711
Debt	\$ 979,004	\$ 1,001,947
<b>Leverage ratio</b>	<b>57.8 %</b>	<b>58.7 %</b>

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

## ADJUSTED EBITDA

Adjusted EBITDA is a non-IFRS measure and is used by the REIT to monitor the REIT's ability to satisfy and service its debt as well as monitor requirements imposed by the REIT's lenders. Specifically, adjusted EBITDA is used to monitor the REIT's leverage ratio, interest coverage ratio and debt service ratio, which the REIT uses to measure its debt profile and assess its ability to satisfy its obligations, including servicing its debt. Management views adjusted EBITDA as a proxy for operating cash flow prior to interest costs. Adjusted EBITDA represents earnings before interest, income taxes, depreciation, fair value gains (losses) from both financial instruments and investment properties, while also excluding non-recurring items such as transaction costs from dispositions, acquisitions or other events.

The following is a reconciliation from net income to adjusted EBITDA:

	Twelve months ended September 30,	
	2020	2019
Net income	\$ 26,817	\$ 70,572
Straight line rent and other changes	5,152	1,179
Interest income	(573)	(531)
Interest and finance costs	41,788	51,822
Change in fair value of properties	(1,337)	(43,131)
IFRIC 21 property tax adjustment <sup>1</sup>	(216)	448
Change in fair value of financial instruments	27,081	13,757
Distributions to Class B shareholders	2,112	2,884
Transaction costs	2,393	12,247
Depreciation of hotel asset	1,049	1,007
Change in fair value of Class B LP units	(14,640)	(8,298)
Deferred income tax recovery	765	168
<b>Adjusted EBITDA</b>	<b>\$ 90,391</b>	<b>\$ 102,124</b>

The following is a calculation of adjusted EBITDA:

	Twelve months ended September 30,	
	2020	2019
Rental revenue	\$ 191,479	\$ 223,246
Property operating expenses	(101,795)	(118,653)
IFRIC 21 property tax adjustment <sup>1</sup>	(216)	448
Finance income on finance lease receivable	3,495	3,653
Straight line rent and other changes	5,152	1,179
General and administrative	(7,724)	(7,749)
<b>Adjusted EBITDA</b>	<b>\$ 90,391</b>	<b>\$ 102,124</b>

<sup>1</sup>In accordance with IFRIC 21, the REIT recognizes property tax liability and expense on its existing U.S. properties as at January 1 of each year, rather than progressively, i.e. ratably throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

## INTEREST COVERAGE

In addition to the REIT's level of indebtedness calculated in accordance with the REIT's Declaration of Trust, management also monitors certain financial measures, which include the (i) net debt to adjusted EBITDA leverage ratio, (ii) interest coverage ratio, and (iii) the debt service coverage ratio. All of these measures are non-IFRS measures.

### Net debt to adjusted EBITDA leverage ratio

The net debt to adjusted EBITDA ratio is used to calculate the financial leverage of the REIT, specifically, its ability to meet financial obligations and to provide a measure of its balance sheet strength. The REIT calculates debt to adjusted EBITDA by dividing the aggregate amount of debt outstanding, less cash on hand, by the trailing twelve month adjusted EBITDA. The net debt to adjusted EBITDA leverage ratio also indicates the number of years required for the REIT's unleveraged operating earnings (i.e. before depreciation, amortization, transaction costs, gains or losses, fair value adjustments, and taxes) to cover or repay all outstanding debts. The net debt to adjusted EBITDA ratio also takes into consideration the cash on hand to decrease debt.

The following is a calculation of net debt to adjusted EBITDA for the trailing twelve months ended:

	September 30, 2020	December 31, 2019
Debt	\$ 979,004	\$ 1,001,947
Less: Cash on hand	5,290	6,117
Net debt	973,714	995,830
Adjusted EBITDA <sup>1</sup>	\$ 90,391	\$ 98,943
<b>Net debt to Adjusted EBITDA (times)</b>	<b>10.8x</b>	<b>10.1x</b>

<sup>1</sup>Adjusted EBITDA is based on actuals for the twelve months preceding the balance sheet date.

#### Interest coverage ratio

The interest coverage ratio is useful in determining the REIT's ability to service the interest requirements of its outstanding debt. The interest coverage ratio is calculated by dividing adjusted EBITDA by the REIT's interest obligations for the period. Management utilizes this ratio to measure and limit leverage.

The following is a calculation of interest coverage ratio:

	Twelve months ended September 30,	
	2020	2019
Adjusted EBITDA	\$ 90,391	\$ 102,124
Interest expense	\$ 39,497	\$ 48,064
<b>Interest coverage ratio (times)</b>	<b>2.3x</b>	<b>2.1x</b>

#### Debt service coverage ratio

The debt service coverage ratio is determined as adjusted EBITDA divided by the debt service requirements for the period, whereby the debt service requirements reflects amortizing principal repayments and interest expensed during the period. Payments related to defeasance, prepayment penalties, or payments upon discharge of a mortgage are excluded from the calculation. The debt service coverage ratio is a useful measure and is used by the REIT's management to monitor the REIT's ability to meet annual interest and principal payments.

The following is a calculation of debt service coverage ratio:

	Twelve months ended September 30,	
	2020	2019
Adjusted EBITDA	\$ 90,391	\$ 102,124
Interest expense	39,497	48,064
Principal repayments	11,469	14,239
Debt service requirements	\$ 50,966	\$ 62,303
<b>Debt service coverage ratio</b>	<b>1.8x</b>	<b>1.6x</b>

#### DEBT REPAYMENT SCHEDULE

The following table outlines the REIT's annual principal payments and maturity schedule, together with the weighted average annual interest rates at September 30, 2020:

	Annual Principal Payments	Principal Repayments on Maturity	Total	Percentage (%)	Weighted Average Contractual Interest Rate on Maturing Debt (%)
Remainder of 2020	\$ 2,694	\$ —	\$ 2,694	0.3%	—%
2021	9,726	555,954	565,680	57.5%	3.1%
2022	7,923	—	7,923	0.8%	0.0%
2023	5,865	211,051	216,916	22.1%	3.9%
2024	4,730	—	4,730	0.5%	—%
Thereafter	\$ 19,628	\$ 165,669	\$ 185,297	18.7%	3.2%
<b>Weighted average interest rate</b>					<b>3.4%</b>



The REIT has managed indebtedness to ensure the REIT is not exposed to liquidity risk due to concentration of debt maturities. As part of this strategy, the REIT is proactive in negotiating renewals for near term debt maturities. The REIT has no further debt maturing throughout 2020 and subsequent to quarter end the REIT completed the refinancing of the majority of its 2021 debt maturities with approximately 16% of debt now maturing by the end of 2021. At September 30, 2020, after the impact of interest rate swaps, the REIT had floating rate mortgage and debt of \$33.7 million (December 31, 2019 – \$88.2 million).

The following table presents the annualized impact of a change in floating interest rates of 25 basis points on finance costs:

	September 30, 2020	December 31, 2019
<b>Change of 25 bps</b>	<b>\$ 84</b>	<b>\$ 221</b>

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following is a summary of the REIT's contractual obligations over the next five years at September 30, 2020:

	Total contractual cash flow	Remainder of 2020	2021-2022	2023-2024	Thereafter
Accounts payable and accrued liabilities	\$ 39,878	\$ 36,913	\$ 1,174	\$ 1,281	\$ 510
Amortizing principal repayments on debt	50,566	2,694	17,649	10,595	19,628
Principal repayments on maturity of debt	932,674	—	555,954	211,051	165,669
Interest on debt <sup>1</sup>	66,551	7,502	35,956	15,250	7,843
Interest rate swaps <sup>2</sup>	30,702	2,149	14,355	10,599	3,599
Other liabilities	5,880	1,214	1,100	833	2,733
<b>Total</b>	<b>\$ 1,126,251</b>	<b>\$ 50,472</b>	<b>\$ 626,188</b>	<b>\$ 249,609</b>	<b>\$ 199,982</b>

<sup>1</sup>Interest amounts on floating debt have been determined using floating rates at September 30, 2020.

<sup>2</sup>Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the September 30, 2020 floating rate.

## DERIVATIVES

### Interest rate derivatives

The REIT has entered 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 and receive-float interest rate swaps. The 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. These swaps are not designated as hedging instruments that qualify for hedge accounting under IFRS. 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.

On April 3, 2020 the REIT entered into a \$62.5 million notional amount pay-fixed receive-float interest rate swap. The interest rate swap has a fixed rate of 1.23%, and a start date of April 3, 2020, expiring March 3, 2025.

The following are the terms and fair values of the REIT's interest rate swaps which bring the REIT's fixed debt ratio to 96.6% at September 30, 2020:

Maturity date	Floating interest rate <sup>1</sup>	Fixed interest rate	Notional amount <sup>2</sup>		Fair value	
			September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
June 10, 2021	1 month CDOR	1.87%	\$ 62,018	\$ 63,488	\$ (660)	\$ 93
June 30, 2021	1 month BA	1.94%	35,000	35,000	(384)	15
April 12, 2023	1 month BA	1.90%	58,281	58,281	(1,930)	294
April 12, 2023	1 month CDOR	2.04%	78,055	79,614	(2,943)	(125)
April 12, 2023	1 month CDOR	2.04%	36,860	37,596	(1,390)	(59)
May 1, 2023	1 month BA	1.98%	—	25,802	—	(69)
August 14, 2023	1 month BA	2.77%	18,362	18,692	(1,161)	(546)
February 1, 2024	1 month U.S. LIBOR	1.80%	66,595	64,940	(3,743)	(650)
March 22, 2024	1 month BA	1.90%	100,000	100,000	(4,444)	439
March 3, 2025	1 month BA	1.23%	62,500	—	(1,422)	—
September 10, 2025	1 month U.S. LIBOR	2.56%	134,622	131,276	(13,254)	(4,205)
October 30, 2026	1 month BA	2.30%	100,000	100,000	(8,875)	(1,560)
<b>Total</b>			<b>\$ 752,293</b>	<b>\$ 714,689</b>	<b>\$ (40,206)</b>	<b>\$ (6,373)</b>

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

<sup>2</sup>The notional amount of the U.S. dollar pay-fixed receive-float interest rate swap, maturing August 30, 2022, is U.S. \$101.1 million.

#### Foreign exchange derivative

The REIT intends to manage its U.S. dollar exposure from its net investment in U.S. operations through foreign exchange swaps. From time to time, the REIT may enter into foreign exchange derivatives to sell U.S. dollars and buy Canadian dollars on a forward basis to mitigate the REIT's exposure to value changes in the Canadian dollar equivalent value of the REIT's equity in its U.S. properties resulting from U.S.-Canadian exchange rates.

On February 6, 2020 the REIT entered into a foreign exchange transaction to sell U.S. \$50.0 million at an exchange rate of 1.3295 and purchase Canadian dollars. On March 6 2020, the REIT entered into a foreign exchange transaction to sell U.S. \$25.0 million at an exchange rate of 1.3422 and purchase Canadian dollars. On March 31, 2020 the REIT entered into an offsetting trade to purchase U.S. \$75.0 million and settled on a net basis with the original transaction for \$6.3 million which was recorded in other comprehensive income.

#### FINANCIAL CONDITION

The REIT's primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of the REIT's obligations through current cash and cash equivalents, cash flows from operations, the REIT's revolving credit facility, and refinancing of mortgages and equity.

The following table provides an overview of the REIT's cash flows from operating, financing and investing activities:

	Nine months ended September 30,	
	2020	2019
<b>Net change in cash related to:</b>		
Operating	\$ 36,922	\$ 33,696
Investing	(6,831)	86,999
Financing	(30,969)	(121,758)
Foreign exchange gain (loss) on cash held in foreign currency	51	(11)
<b>Decrease in cash</b>	<b>\$ (827)</b>	<b>\$ (1,074)</b>

The change in cash for the nine months ended September 30, 2020 and 2019 was the result of the following factors:

- Operating – cash flows for the nine months ended September 30, 2020 increased by \$3.2 million when compared to the same period in 2019. The increase is the result of the timing of operating expenses due to COVID related closures during the nine months ended September 30, 2020.
- Investing – cash outflows for the nine months ended September 30, 2020 were \$6.8 million compared to cash inflows of \$87.0 million in the same period in 2019. The cash outflows in the current period were from capital expenditures throughout the REIT's portfolio, mainly focused on the Maritime Centre redevelopment and a parking garage renovation in the Greater Toronto Area, offset by the disposition of

4211 Yonge Street in Toronto, ON during the nine months ended September 30, 2020. For the nine months ended September 30, 2019 the REIT had cash inflows of \$87.0 million from the disposition of partial and full interest in certain of the REIT's assets, offset by capital and leasing expenditures.

- Financing – cash expenditure for the nine months ended September 30, 2020 primarily relates to the repayment of debt from proceeds on 4211 Yonge Street in Toronto, ON in January 2020 and the settlement of net investment hedges. For the nine months ended September 30, 2019, the REIT repaid debt on asset dispositions resulting in total cash outflow of \$121.8 million.

## DEFERRED UNIT PLAN

### Trustee deferred unit plan

Effective May 26, 2015, the REIT adopted a deferred unit plan for Trustees of the REIT (the "Trustee DUP"). Trustees who are not employees of the REIT or the Manager, Slate Asset Management (Canada) L.P., or any of their subsidiaries, are eligible to participate in 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.

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 September 30, 2020, the liability associated with the Trustee DUP was \$0.6 million (December 31, 2019 - \$0.7 million), and the number of outstanding deferred units was 182,325 (December 31, 2019 - 116,902 units).

### Officer deferred unit plan

On March 21, 2016, the REIT adopted a deferred unit plan for officers of the REIT (the "Officer DUP"). The Officer DUP provides officers of the REIT the opportunity to receive deferred units of the REIT. 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 will result in an equal reduction and offsetting in the asset management fee payable to SMULC, 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.

As at September 30, 2020, the liability associated with deferred units issued under the Officer DUP was \$39 thousand (December 31, 2019 - \$0.1 million) and the number of deferred units was 10,866 (December 31, 2019 - 10,106).

## 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's trust units are traded on the TSX and had a closing price of \$3.56 on September 30, 2020.

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. There have been no preferred units created or issued.

As at September 30, 2020, the total number of trust units outstanding was 67,765,409. As at October 29, 2020, the total number of trust units outstanding was 67,765,409.

### Normal course issuer bid

On May 15, 2019, the REIT renewed its normal course issuer bid ("NCIB"), whereby the REIT may purchase up to 6,785,339 trust units, subject to certain restrictions. The renewed NCIB expires on the earlier of May 14, 2020 and the repurchase of the maximum number of trust units. During the nine months ended September 30, 2020 the REIT repurchased and cancelled 113,000 units for an aggregate cost of \$0.4 million. This reduced the number of outstanding REIT units, which is accretive to net asset value and per unit metrics for unitholders. As the impact of COVID-19 develops, the REIT has prioritized cash preservation over continuing to repurchase units under its NCIB until there is further clarity on the ultimate impact to the REIT and its tenants.

Potential trust units

	September 30, 2020	December 31, 2019
Class B LP units	5,285,160	5,285,160
Deferred units	193,190	127,007
	<b>5,478,350</b>	<b>5,412,167</b>

The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis, subject to anti-dilution adjustments. Each Class B LP unit is accompanied by one special voting unit of the REIT providing the same voting rights in the REIT as the trust units of the REIT and is entitled to distributions of cash equal to the cash distributions paid to holders of trust units by the REIT. The Class B LP units are recognized in the REIT's consolidated financial statements as financial liabilities measured at fair value through profit and loss. Upon exchange into trust units of the REIT, the carrying amount of the liability representing the fair value of the Class B LP units on exchange date will be reclassified to unitholders' equity. During the nine months ended September 30, 2020, there were no Class B LP units exchanged for the REIT's trust units.

Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the nine months ended September 30, 2020 and 2019. 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Basic weighted average units outstanding	67,765,409	67,878,409	67,798,402	68,799,544
Class B LP units	5,285,160	5,285,160	5,285,160	5,285,160
Deferred units	176,613	119,259	152,457	115,619
<b>Diluted weighted average units outstanding</b>	<b>73,227,182</b>	<b>73,282,828</b>	<b>73,236,019</b>	<b>74,200,323</b>

Diluted units outstanding

The following is the diluted number of units outstanding at September 30, 2020 and 2019. 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:

	September 30, 2020	September 30, 2019
Trust units outstanding	67,765,409	67,878,409
Class B LP units	5,285,160	5,285,160
Deferred units	193,190	113,403
<b>Diluted units outstanding</b>	<b>73,243,759</b>	<b>73,276,972</b>

RELATED PARTY TRANSACTIONS

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

Slate directly and indirectly held the following interests in the REIT:

	September 30, 2020	December 31, 2019
REIT units	1,687,251	1,687,251
Class B LP units	5,285,160	5,285,160
<b>Total</b>	<b>6,972,411</b>	<b>6,972,411</b>
<b>Economic interest</b>	<b>9.5%</b>	<b>9.5%</b>

Since becoming the manager of the REIT in late 2014, Slate has been the largest unitholder in the REIT. Accordingly, Slate is highly motivated to continue to grow the operations and financial position of the REIT on an accretive basis.

The Management Agreement provides for the following fees:

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

<sup>1</sup>Gross 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 properties.

<sup>2</sup>Gross 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.

<sup>3</sup>Leasing 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 SMULC.

<sup>4</sup>Acquisition fees are 1.0% on the first \$100 million of acquisitions; 0.75% on the next \$100 million of acquisitions and 0.50% for acquisitions in excess of \$200 million.

The REIT incurred the following fees under the Management Agreement:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Property management	\$ 1,366	\$ 1,541	\$ 4,156	\$ 4,755
Asset management	1,280	1,321	3,855	4,112
Leasing, financing, and construction management	1,018	919	2,620	3,223
	<b>\$ 3,664</b>	<b>\$ 3,781</b>	<b>\$ 10,631</b>	<b>\$ 12,090</b>

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 properties. Property administration fees were \$6.8 million for the nine months ended September 30, 2020 (September 30, 2019 – \$7.9 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 for a term of 10 years at market rents, commencing November 1, 2019. For the nine months ended September 30, 2020, the REIT received \$0.1 million in rent payment in respect of this lease.

As part of the REIT's acquisition of a seven asset portfolio in the Greater Toronto Area and Atlantic Canada on March 27, 2018, the REIT was provided an income supplement in the aggregate amount of \$2.4 million to be received in equal quarterly installments in each of the eight calendar quarters following the acquisition of the seven asset portfolio from SCREO I L.P., an entity managed by Slate. During the nine months ended September 30, 2020, the REIT recorded \$4 thousand as interest income in the consolidated statement of income. The final payment in respect of this income supplement was received in the first quarter of 2020.

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

	September 30, 2020	December 31, 2019
Income supplement receivable	\$ —	\$ 296
Accounts receivable	240	545
Accounts payable and accrued liabilities	(1,060)	(843)
Class B LP units	(18,815)	(30,918)



## PART V - ACCOUNTING AND CONTROL

### CRITICAL ACCOUNTING ESTIMATES

The REIT has identified the estimate of the fair value of its properties as a critical accounting estimate due to the significance of the estimate to the REIT's financial position and impact of changes on fair value to net income. Estimating the fair value of real property is characterized by uncertainty, both in terms of differences between different methods of valuation but also in the selection of assumptions to reflect the property being valued, certain of which are subjective. There is no assurance that management's, or a third-party's, estimate of fair value would be realized on sale due to the specific and unique aspects of real property, including their location, liquidity, tenants and the local demand and supply of competing properties for tenants.

The REIT determines the fair value of properties based upon either the overall income capitalization rate method or the discounted cash flow method, direct comparison approach or through a combination of methods. All methods are generally accepted appraisal methodologies. If a third party 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, location and other relevant considerations of the properties. The valuation methodology used, or combination of methodologies used, is based on the applicability and reliability of the relative approaches in the context of the subject property.

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

The following is a summary of the methodologies undertaken by management to estimate the fair value of the REIT's properties:

#### *Overall income capitalization approach*

The overall income capitalization approach evaluates a property's potential to generate cash flows and converts those cash flows into a present value. Generally, the REIT estimates a stabilized NOI and applies a capitalization rate to that income to estimate fair value. Stabilized NOI is determined as the property's potential gross income that could be generated at full capacity, less a vacancy and collection allowance. The capitalization rate used is derived from analysis of comparable sales data and the relative relationship of other properties' NOI over their sale price. In many cases, industry surveys are available that provide indicative ranges of capitalization rates for recently sold properties or views on value, however, certain adjustments are required to adjust for the specific nature, location and quality of properties.

#### *Discounted cash flow method*

Under the discounted cash flow method, fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 NOI. Capitalization and discount rates are the most significant assumptions in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other things, in determining the most appropriate assumptions.

#### *Direct comparison approach*

This approach involves comparing properties similar to the property for which fair value is being estimated and making adjustments to reconcile differences in size, location, nature and the quality of the property.

A summary of the significant assumptions used in the REIT's estimate of fair value as at September 30, 2020 is included in this MD&A. Changes in these assumptions would have a significant impact on the REIT's estimate of fair value, which can be impacted by changes in demand for properties similar to those owned by the REIT, expectations of market rents, the covenant quality of tenants and the general economic environment. Further, these changes can occur at different times and magnitudes for each of the REIT's regions based on the investment environments in each of their respective markets.

## INCOME TAXES AND THE REIT EXCEPTION

The REIT currently qualifies as a "mutual fund trust" as defined in the Tax Act. In accordance with the REIT's Declaration of Trust, distributions to Unitholders are declared at the discretion of the trustees. The REIT endeavours to distribute to Unitholders, in cash or trust units, in each taxation year its taxable income to such an extent that the REIT will not be liable to income tax under Part I of the Tax Act.

The Tax Act imposes a special taxation regime (the "SIFT Rules") applicable to certain publicly traded income trusts (each a "SIFT"). A SIFT includes a trust resident in Canada with publicly traded units that holds one or more "non-portfolio properties". "Non-portfolio properties" include certain investments in real properties situated in Canada and certain investments in corporations and trust residents in Canada and in partnerships with specified connections in Canada. Under SIFT Rules, a SIFT is subject to tax in respect of certain distributions that are attributable to the SIFT's "non-portfolio earnings" (as defined in the Tax Act; generally, income (other than certain dividends) from, or capital gains realized on, "non-portfolio properties", which does not include certain investments in non-Canadian entities), at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. The SIFT Rules are not applicable to a SIFT that meets certain specified criteria relating to the nature of its revenues and investments in order to qualify as a real estate investment trust for purposes of the Tax Act (the "REIT Exception"). The REIT believes that it qualifies for the REIT Exception as of September 30, 2020.

The REIT's U.S. subsidiary is subject to federal and state income tax on taxable income from the operations of 20 South Clark and 120 South LaSalle. The REIT recognizes deferred tax assets on unused tax losses and deductible temporary tax differences. The REIT recognizes deferred tax liabilities on deferred tax assets and liabilities are measured at prevailing tax rates when such differences are expected to settle, based on tax laws enacted at the reporting date. The REIT assesses each reporting period whether it can recognize the deferred tax asset of its U.S. subsidiary's net deferred tax asset of U.S. \$1.2 million.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as such terms are defined in National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109").

DC&P are those controls and other procedures that are designed to provide reasonable assurance that all material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are those controls and other procedures that are designed to ensure that material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the REIT's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS for the nine months ended September 30, 2020.

As at September 30, 2020 the REIT's CEO and CFO, along with the assistance of others, have designed disclosure controls and procedures to provide reasonable assurance that information required to be disclosed in the various reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported accurately and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In the design of its internal controls the REIT uses the 2013 framework published by the Committee of Sponsoring Organizations of the Treadway Commission. No changes were made in the REIT's design of ICFR for the nine months ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

In designing such controls, it should be recognized that due to inherent limitations, any controls or control systems, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected or prevented. These inherent limitations include, without limitation, (i) the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## PART VI - PROPERTY TABLE

Details of the REIT's property portfolio at September 30, 2020 is set out in the table below:

Asset Class	Property Address	Property Name	City	Year Built / Renovated / Expanded	Interest	Square feet of GLA	Occupancy
<b>United States Office</b>							
	20 South Clark Street		Chicago, IL	1970 / 2005	100%	383,444	86.6%
	120 South LaSalle Street		Chicago, IL	1929 / 1998	100%	656,614	90.4%
<b>Total United States Office</b>						<b>1,040,058</b>	<b>89.0%</b>
<b>Greater Toronto Area Office</b>							
	7030, 7050, 7100 Woodbine Avenue & 55, 85 Idema Road	Woodbine & Steeles Corporate Centre	Markham, ON	1984 / 2011	75%	359,541	83.6%
	3000 - 3100 Steeles Avenue East	Gateway Centre	Markham, ON	1982 / 1987	75%	239,624	90.3%
	2655 - 2695 North Sheridan Way	The Sheridan Exchange	Mississauga, ON	1987 / 1989	75%	158,322	85.0%
	2285 Speakman Drive		Mississauga, ON	1981 / 2016	100%	127,419	100.0%
	2599 Speakman Drive <sup>1</sup>		Mississauga, ON	1971 / 2011	100%	127,782	52.3%
	2251 Speakman Drive		Mississauga, ON	1965 / 2016	100%	115,580	100.0%
	1189 Colonel Sam Drive		Oshawa, ON	2001	100%	103,179	100.0%
	1 Eva Road		Toronto, ON	1978 / 2011	100%	91,963	81.1%
	185 - 195 The West Mall	West Metro Corporate Centre	Toronto, ON	1986 / 2006	75%	618,338	93.5%
	401 - 405 The West Mall	Commerce West	Toronto, ON	1982 / 2009	75%	412,558	90.6%
	105 Moatfield Drive		Toronto, ON	1982	100%	248,981	100.0%
	95 Moatfield Drive		Toronto, ON	1982	100%	156,426	100.0%
<b>Total Greater Toronto Area Office</b>						<b>2,759,713</b>	<b>90.5%</b>
<b>Atlantic Office</b>							
	440 King Street	Kings Place	Fredericton, NB	1974 / 2001	100%	296,314	90.4%
	250 King Street		Fredericton, NB	2000	100%	80,162	100.0%
	460 Two Nations Crossing		Fredericton, NB	2008	100%	50,229	100.0%
	570 Queen Street		Fredericton, NB	1989	100%	69,137	81.7%
	644 Main Street	Blue Cross Centre	Moncton, NB	1988 / 2006	100%	320,154	99.3%
	81 Albert Street		Moncton, NB	2002	100%	64,954	100.0%
	39 King Street <sup>2</sup>	Brunswick Square	Saint John, NB	1976	100%	508,118	63.5%
	4 Herald Avenue		Corner Brook, NL	1968 / 1978	100%	73,393	27.5%
	100 New Gower Street	Cabot Place	St. John's, NL	1987	100%	136,167	28.5%
	10 Factory Lane	The Johnson Building	St. John's, NL	1980	100%	188,170	100.0%
	5 Springdale Street	Fortis Place	St. John's, NL	2014	100%	142,973	78.2%
	140 Water Street	TD Place	St. John's, NL	1980 / 2013	100%	102,747	48.5%
	1505 Barrington Street	Maritime Centre	Halifax, NS	1977 / 1985	100%	528,087	81.9%
	84 - 86 Chain Lake Drive		Halifax, NS	2008 / 2011	100%	77,979	43.5%
<b>Total Atlantic Office</b>						<b>2,638,584</b>	<b>77.1%</b>
<b>Western Office</b>							
	280 Broadway Avenue <sup>3</sup>		Winnipeg, MB	1957	100%	105,341	86.2%
	114 Garry Street		Winnipeg, MB	1950 / 1995	100%	74,246	100.0%
	1450 Waverley Street	Bell MTS Data Centre	Winnipeg, MB	2015	100%	64,000	100.0%
	365 Hargrave Street		Winnipeg, MB	Various	100%	70,719	100.0%
	1870 Albert Street	Saskatchewan Place	Regina, SK	1985	100%	83,932	73.6%
<b>Total Western Office</b>						<b>398,238</b>	<b>90.8%</b>
<b>Office</b>						<b>6,836,593</b>	<b>85.1%</b>

<sup>1</sup>Property under redevelopment.

<sup>2</sup>GLA and occupancy stats do not include the Delta Brunswick Hotel.

<sup>3</sup>Includes a seven-storey office building at 280 Broadway Avenue, a three-storey multi-family residential building located at 70 Smith Street and two parking lots located at 286 Broadway Avenue and 68 Smith Street; excludes occupancy from residential tenants at 70 Smith Street.

Asset Class	Property Address	Property Name	City	Year Built / Renovated / Expanded	Interest	Square feet of GLA	Occupancy
<b>Non-office</b>							
	5404 36th Street SE	Doka Building	Calgary, AB	1980	100%	36,000	100.0%
	200 Manitoba 10	Walmart Flin Flon	Flin Flon, MB	2002	100%	63,439	100.0%
	307 - 311 Old Airport Road	Airport Road Shopping Centre	Yellowknife, NWT	1984 / 1993	100%	15,395	100.0%
<b>Non-office</b>						<b>114,834</b>	<b>100.0%</b>
<b>Total Portfolio</b>						<b>6,951,427</b>	<b>85.4%</b>
<b>Redevelopment</b>							
	2599 Speakman Drive		Mississauga, ON	1971 / 2011	100%	127,782	52.3%
<b>Total Portfolio Excluding Office Redevelopment</b>						<b>6,823,645</b>	<b>86.0%</b>

# Corporate Information

Slate Office REIT is an unincorporated, open-ended investment trust fund under and governed by the laws of the Province of Ontario. The REIT focuses on acquiring, owning and leasing a portfolio of diversified revenue-producing commercial real estate office properties in North America.

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## Trustees

John O'Bryan, Chair<sup>3</sup>  
Corporate Director

Monty Baker<sup>12</sup>  
Corporate Director

Nora Duke<sup>23</sup>  
Executive Vice-President, Sustainability and Chief  
Human Resources Officer, Fortis Inc.

Meredith Michetti<sup>1</sup>  
Corporate Director

Thomas Farley<sup>123</sup>  
Corporate Director

Blair Welch<sup>3</sup>  
Partner and Co-founder,  
Slate Asset Management

Brady Welch  
Partner and Co-founder,  
Slate Asset Management

<sup>1</sup> Compensation, Governance and Nomination Committee

<sup>2</sup> Audit Committee

<sup>3</sup> Investment Committee

## Head Office

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## Independent Auditors

KPMG LLP  
Chartered Professional Accountants  
Toronto, Canada

## Toronto Stock Exchange Listings

SOT.UN: trust units  
SOT.DB: 5.25% convertible unsecured subordinated debentures

## Registrar and Transfer Agent

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The REIT's website [www.slateofficereit.com](http://www.slateofficereit.com) provides additional information regarding the REIT's portfolio, investment strategy, management and corporate governance. Additionally, the Investor section includes news, presentations, events, regulatory filings and stock information.



