

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2022

(unaudited)

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Table of Contents

Condensed consolidated interim statements of financial position	3
Condensed consolidated interim statements of income	4
Condensed consolidated interim statements of comprehensive income	4
Condensed consolidated interim statements of changes in equity	5
Condensed consolidated interim statements of cash flows	6
Notes to the condensed consolidated interim financial statements	7 - 36

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

(unaudited)

	Note	September 30, 2022	December 31, 2021
ASSETS			
Non-current assets			
Investment properties	6	\$ 1,807,677	\$ 1,591,958
Finance lease receivable	7	44,130	46,793
Other assets	8	528	1,748
Derivatives	12	32,304	—
Restricted cash		6,699	2,623
		\$ 1,891,338	\$ 1,643,122
Current assets			
Finance lease receivable	7	3,524	3,363
Other assets	8	8,061	7,750
Accounts receivable	9	15,499	9,808
Subscription receipt funds in escrow	15	—	53,912
Convertible debentures funds in escrow	10	—	81,043
Cash		37,103	9,909
		\$ 64,187	\$ 165,785
Total assets		\$ 1,955,525	\$ 1,808,907
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	10	\$ 768,311	\$ 883,333
Other liabilities	11	5,759	5,055
Derivatives	12	—	11,118
Deferred taxes	27	7,743	2,750
Accounts payable and accrued liabilities	14	—	1,791
Class B LP units	13	22,991	26,426
		\$ 804,804	\$ 930,473
Current liabilities			
Debt	10	369,603	162,209
Subscription receipts	15	—	56,125
Other liabilities	11	1,047	1,453
Accounts payable and accrued liabilities	14	44,232	36,680
Taxes payable	27	936	—
		\$ 415,818	\$ 256,467
Total liabilities		\$ 1,220,622	\$ 1,186,940
Unitholders' equity		\$ 734,903	\$ 621,967
Total liabilities and unitholders' equity		\$ 1,955,525	\$ 1,808,907

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

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Rental revenue	18	\$ 50,959	\$ 43,636	\$ 147,882	\$ 128,356
Property operating expenses		(23,749)	(20,771)	(80,851)	(70,604)
Finance income on finance lease receivable	7	758	809	2,313	2,465
Interest income		111	113	330	374
Interest and finance costs	19	(14,078)	(10,585)	(39,504)	(32,126)
General and administrative expenses	20	(2,846)	(1,847)	(7,428)	(5,959)
Change in fair value of financial instruments	21	11,407	(1,817)	43,844	11,651
Change in fair value of investment properties	6	(3,164)	41	9,210	8,604
Depreciation of hotel asset	6	(243)	(257)	(724)	(765)
Transaction costs	5	(1,218)	—	(1,218)	—
Deferred income tax expense	27	(320)	(823)	(4,461)	(1,777)
Current income tax expense	27	(317)	(54)	(1,009)	(54)
Net income before Class B LP units		\$ 17,300	\$ 8,445	\$ 68,384	\$ 40,165
Change in fair value of Class B LP units	13	1,585	740	3,435	(5,602)
Distributions to Class B LP unitholders	17	(528)	(528)	(1,584)	(1,584)
Net income		\$ 18,357	\$ 8,657	\$ 70,235	\$ 32,979

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

(unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Net income		\$ 18,357	\$ 8,657	\$ 70,235	\$ 32,979
Other comprehensive loss to be subsequently reclassified to profit or loss:					
Foreign currency translation gain (loss)		10,955	2,733	5,846	(259)
Total other comprehensive gain (loss)		10,955	2,733	5,846	(259)
Comprehensive income		\$ 29,312	\$ 11,390	\$ 76,081	\$ 32,720

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

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

(unaudited)

	Note	Trust units	Retained earnings	Accumulated other comprehensive loss	Total equity
December 31, 2021		\$ 518,888	\$ 109,051	\$ (5,972)	\$ 621,967
Equity offering, net of issuance costs	16	60,471	—	—	60,471
Distributions	17	—	(23,616)	—	(23,616)
Net and comprehensive income		—	70,235	5,846	76,081
September 30, 2022		\$ 579,359	\$ 155,670	\$ (126)	\$ 734,903

	Note	Trust units	Retained earnings	Accumulated other comprehensive loss	Total equity
December 31, 2020		\$ 520,514	\$ 89,491	\$ (5,262)	\$ 604,743
Equity issuance costs	16	(191)	—	—	(191)
Distributions	17	—	(20,310)	—	(20,310)
Net and comprehensive income		—	32,979	(259)	32,720
September 30, 2021		\$ 520,323	\$ 102,160	\$ (5,521)	\$ 616,962

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

Slate Office REIT

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

(unaudited)

		Nine months ended September 30,	
	Note	2022	2021
OPERATING ACTIVITIES			
Net income		\$ 70,235	\$ 32,979
Items not affecting cash:			
Depreciation of hotel asset	6	724	765
Change in fair value of investment properties	6	(9,210)	(8,604)
IFRIC 21 property tax adjustment	6	2,995	2,384
Straight-line rent and other changes	6	6,883	6,599
Change in fair value of Class B LP units	13	(3,435)	5,602
Change in fair value of financial instruments	21	(43,844)	(11,651)
Deferred income tax expense	27	4,461	1,777
Finance income on finance lease receivable	7	(2,313)	(2,465)
Finance interest payments received on finance lease receivable	7	2,313	2,465
Distributions declared to Class B LP unitholders	17	1,584	1,584
Distributions paid to Class B LP unitholders	17	(1,584)	(1,584)
Interest income		(330)	(374)
Interest received		330	374
Interest and finance costs	19	39,504	32,126
Interest paid		(33,487)	(29,901)
Subscription receipt equivalent amount paid	19	(1,121)	—
Changes in working capital items		3,303	(2,981)
		\$ 37,008	\$ 29,095
INVESTING ACTIVITIES			
Acquisition of properties	4	(195,612)	—
Deposit on property	8	(968)	—
Dispositions	5	85,515	—
Capital expenditures	6	(19,041)	(17,937)
Leasing costs	6	(10,574)	(8,184)
Proceeds from vendor-take-back loan	8	500	—
Principal payments received on finance lease receivable	7	2,502	2,351
		\$ (137,678)	\$ (23,770)
FINANCING ACTIVITIES			
Settlement of Euro forward contract	12	(156)	—
Proceeds from issuance of units	16	62,600	—
Equity issuance costs	16	(2,129)	(191)
Distributions on REIT units	17	(23,202)	(20,310)
Mortgage advances	28	2,402	5,527
Issuance of convertible debentures, net	10	81,043	—
Mortgage repayments	28	(57,708)	(7,900)
Financing costs on debt	28	(4,640)	(390)
Draws on revolving and term facilities, net	28	58,848	14,724
		\$ 117,058	\$ (8,540)
Foreign exchange gain on cash held in foreign currency		10,806	18
Increase (decrease) in cash		\$ 27,194	\$ (3,197)
Cash, beginning of period		9,909	8,520
Cash, end of period		\$ 37,103	\$ 5,323

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

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

1. DESCRIPTION OF THE REIT AND OPERATIONS

Slate Office REIT (the "REIT") is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated as of March 21, 2016, as amended on March 1, 2019 and as further amended on May 13, 2021, as it may be further amended, supplemented or amended and restated from time to time (the "Declaration of Trust"). At September 30, 2022, the REIT's portfolio consists of 53 commercial properties located in North America and Europe. The units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbol "SOT.UN".

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

2. BASIS OF PREPARATION

i. Statement of compliance

These condensed consolidated interim financial statements (the "consolidated financial statements") have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. As a result, these consolidated financial statements should be read in conjunction with the REIT's audited annual consolidated financial statements as at and for the year ended December 31, 2021.

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on November 1, 2022.

iii. Basis of measurement

These consolidated financial statements have been prepared on a going concern basis and measured at historical cost except for investment properties, subscription receipts, performance payments and certain financial instruments including derivatives and Class B LP units, which are measured at fair value.

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

iv. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the REIT's functional currency and the functional currency of all of its subsidiaries, except for subsidiaries directly or indirectly holding property in the United States of America (the "U.S.") for which the functional currency is U.S. dollars and the Republic of Ireland ("Ireland") for which the functional currency is Euros.

3. SIGNIFICANT ACCOUNTING POLICIES

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

i. Significant accounting policies

These consolidated financial statements have been prepared using the same accounting policies and methods disclosed in the REIT's audited annual consolidated financial statements for the year ended December 31, 2021.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

4. ACQUISITIONS

In the nine months ended September 30, 2022, the REIT completed the following acquisition:

- On February 7, 2022, the REIT acquired a portfolio of 23 office, life sciences and lite-industrial properties located in Ireland ("Yew Grove"). The total asset value of the portfolio at the time of acquisition was approximately \$264.4 million. The acquisition was partially funded by cash on hand and by:
 - The proceeds of the sale of 11,225,000 subscription receipts ("Subscription Receipts"), which closed on November 19, 2021, at a price of \$4.90 per Subscription Receipts for gross proceeds of approximately \$55.0 million (the "Offering"), and the proceeds of the sale of \$75.0 million aggregate principal amount of 5.50% extendible unsecured subordinated convertible debentures of the REIT (note 10), which closed on November 19, 2021, as well as the sale of an additional \$9.2 million aggregate principal amount of convertible debentures pursuant to the partial exercise of the convertible debenture over-allotment option granted by the REIT to the syndicate of underwriters in connection with the Offering, which closed on December 17, 2021. The subscription receipts became units of the REIT on February 7, 2022;
 - The private placement of 1,183,800 units of the REIT to Slate Asset Management L.P. ("SLAM") at a price of \$4.90 per unit for gross proceeds of approximately \$5.8 million (notes 16 and 22).

A summary of the Yew Grove acquisition is as follows:

		Yew Grove
Acquisition date		February 7, 2022
Location		Ireland
Number of properties		23
REIT's interest		100 %
Purchase price	\$	257,822
Transaction costs		10,030
Debt principal amount assumed		(72,240)
Investment	\$	195,612

The investment in the above acquisition has been allocated as follows:

		Yew Grove
Investment properties	\$	265,597
Working capital		2,255
Debt		(72,240)
Net assets acquired	\$	195,612

In the nine months ended September 30, 2021, the REIT did not acquire any investment properties.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

5. DISPOSITIONS

During the nine months ended September 30, 2022, the REIT made the following investment property dispositions:

	95 Moatfield Drive	105 Moatfield Drive	Total
Disposition date	September 23, 2022	September 23, 2022	
Location	Toronto, ON	Toronto, ON	
Number of properties	1	1	2
Interest disposed	100 %	100 %	
Sale price	\$ 37,837	\$ 59,183	\$ 97,020
Capital adjustments	(1,680)	(2,628)	(4,308)
Working capital	(3,886)	(2,093)	(5,979)
Transaction costs	(475)	(743)	(1,218)
Discharge of mortgage	(19,636)	(30,712)	(50,348)
Net proceeds	\$ 12,160	\$ 23,007	\$ 35,167

During the nine months ended September 30, 2021, the REIT did not make any investment property dispositions.

6. INVESTMENT PROPERTIES

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

Note	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Beginning of period	\$ 1,870,287	\$ 1,601,135	\$ 1,591,958	\$ 1,593,945
Acquisitions ¹	4	—	265,597	—
Capital expenditures	3,878	6,736	19,041	17,937
Leasing costs	2,764	2,921	10,574	8,184
Dispositions	5	(92,712)	(92,712)	—
Depreciation of hotel asset	(243)	(257)	(724)	(765)
Foreign exchange	26,517	7,415	14,611	(1,078)
Change in fair value	(3,164)	41	9,210	8,604
IFRIC 21 property tax adjustment	2,943	2,368	(2,995)	(2,384)
Straight-line rent and other changes	(2,593)	(2,515)	(6,883)	(6,599)
End of period	\$ 1,807,677	\$ 1,617,844	\$ 1,807,677	\$ 1,617,844

¹Represents the purchase price and transaction costs.

Investment properties at September 30, 2022 are comprised of the REIT's interests in 52 properties, which includes one mixed-use hotel and office asset, and excludes a data centre in Winnipeg, Manitoba (the "Data Centre"), which is classified as a finance lease (note 7). The REIT owns an undivided interest in all investment properties with the exception of five office properties in the Greater Toronto Area in which the REIT owns a 75% interest.

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

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The development property was completed and occupied in the nine months ended September 30, 2022 and was transferred to income producing properties. The change in carrying value of the REIT's development property is as follows:

	Nine months ended September 30,	
	2022	2021
Acquisition of IDA Athlone Block C - Extension	\$ 12,542	\$ —
Capital expenditures	5,527	—
Direct leasing costs	234	—
Foreign exchange	(1,016)	—
Change in fair value	1,877	—
Transfer of IDA Athlone Block C - Extension to income producing properties	(19,164)	—
End of period	\$ —	\$ —

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

The fair values of investment properties are measured individually without consideration to their aggregate value on a portfolio basis. No consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT's investment properties taken in aggregate may differ from the fair value of investment properties measured individually in the REIT's consolidated statements of financial position. Under the fair value hierarchy, the fair value of the REIT's investment properties is determined using the methodology described above and using level 3 inputs.

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

	September 30, 2022		December 31, 2021	
	Discount rate	Terminal capitalization rate	Discount rate	Terminal capitalization rate
Minimum	6.25%	5.75%	6.25%	6.00%
Maximum	10.75%	10.25%	8.75%	8.50%
Weighted average	7.39%	6.79%	7.23%	6.60%

At September 30, 2022, a 25 basis-point increase in discount, terminal capitalization and discount rates would decrease the estimated fair value of the REIT's investment properties by approximately \$(73.1) million (December 31, 2021 – \$62.0 million). A 25 basis-point decrease in discount, terminal capitalization and discount rates would increase the estimated fair value of the REIT's investment properties by approximately \$77.0 million (December 31, 2021 – \$67.3 million).

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

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

Period ended	Number of investment properties	Fair Value
December 31, 2021	5 \$	382,174
March 31, 2022	— \$	—
June 30, 2022	— \$	—
September 30, 2022	11 \$	609,390
Total	16 \$	991,564

7. FINANCE LEASE RECEIVABLE

The Data Centre owned by the REIT is fully leased. The tenant occupying the Data Centre has a lease with an initial term to maturity of 15 years, which commenced on June 5, 2015, with the option to extend for three additional five year terms. The tenant has a one-time option to acquire the property after the initial term of the lease for \$12.0 million. At its inception the lease met the requirements for classification as a finance lease, as the minimum lease payments amounted to substantially all of the fair value of the leased asset and the tenant has the right to acquire the Data Centre for a price expected to be below the fair value of the property at maturity.

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

	Nine months ended September 30, 2022	Year ended December 31, 2021
Beginning of period	\$ 50,156	\$ 53,315
Lease payments received	(4,815)	(6,421)
Finance income on finance lease receivable	2,313	3,262
End of period	\$ 47,654	\$ 50,156

The following is a summary of the undiscounted future minimum lease payments receivable and the imputed interest and principal portions thereof. The principal portion represents the amount recorded on the condensed consolidated interim statement of financial position at September 30, 2022:

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	\$ 6,420	\$ 2,896	\$ 3,524
Greater than one year but less than 5 years	26,462	9,092	17,370
Greater than 5 years	30,099	3,339	26,760
Total			\$ 47,654

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

	Future minimum lease payments	Interest portion of minimum lease payments	Principal portion of minimum lease payments
Less than one year	\$ 6,420	\$ 3,057	\$ 3,363
Greater than one year but less than 5 years	26,209	9,883	16,326
Greater than 5 years	35,167	4,700	30,467
Total			\$ 50,156

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

8. OTHER ASSETS

Other assets are comprised of the following:

	September 30, 2022	December 31, 2021
Prepaid expenses	\$ 4,489	\$ 4,270
Deposit on property	968	—
Vendor-take-back loan	2,450	3,200
Performance payment	—	1,141
Investment tax credit receivable	595	669
Utilities deposits	87	218
Total	\$ 8,589	\$ 9,498

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

	September 30, 2022	December 31, 2021
Current	\$ 8,061	\$ 7,750
Non-current	528	1,748
Total	\$ 8,589	\$ 9,498

The REIT entered into a contract on July 28, 2022 to purchase an investment property for \$27.3 million and has paid a deposit of \$1.0 million in respect of the acquisition (see note 29).

In connection with the disposition of a property, the REIT was provided a \$500 thousand vendor-take-back loan as partial consideration. The vendor-take-back loan bearing interest at 10.0% annually, was repaid in full by the borrower on July 4, 2022.

The REIT was also provided a \$2.7 million vendor-take-back loan as partial consideration in connection with the disposition of certain investment properties. The vendor-take-back loan bears interest at 8.0% annually and was due to be repaid in September 2022. Repayment was not received, the REIT is working with the borrower on repayment of the loan and provided a \$250 thousand allowance as an expected credit loss, which has been recorded in general and administrative expenses.

The REIT is entitled to a performance payment related to its disposition of a 25% interest in six GTA office properties. An additional amount is payable to the REIT based on the financial performance of the properties to a maximum amount of \$6.0 million. The amount is recorded in other assets on the consolidated statements of financial position at fair value through profit and loss ("FVTPL") at an amount equal to the present value of the future expected amount. No amounts have, or are expected to be settled in cash until the purchaser has exited its investment in these six properties. The performance payment is valued using level 3 inputs that pertain to the expected cash flows from the underlying investment properties.

The REIT is eligible for a Manitoba data processing investment tax credit as a result of its development of the Data Centre. The REIT expects to receive the tax credit in installments through to 2029. Half of the tax credit is payable to the Data Centre tenant as the credits are received. The tax credit payable is included in other liabilities (see note 11).

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

9. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	September 30, 2022	December 31, 2021
Rent receivable	\$ 5,368	\$ 3,621
Accrued recovery income	818	559
Other amounts receivable	9,710	5,812
Allowance	(397)	(184)
Total	\$ 15,499	\$ 9,808

Rent receivable consists of base rent and operating expense recoveries receivable from tenants.

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

Included in other amounts receivable is \$0.2 million (December 31, 2021 – \$0.2 million) due from Slate Management ULC ("SMULC"), a subsidiary of SLAM, (collectively, "Slate") relating to a prior acquisition for future free rent adjustments, tenant inducements and leasing commissions. The receivable will be collected as the related items are paid or incurred in connection with the tenant lease agreements. The receivable is non-interest bearing and unsecured.

The change in allowance is as follows:

	Nine months ended September 30, 2022	Year ended December 31, 2021
Beginning of period	\$ (184)	\$ (139)
Change in allowance	(250)	(286)
Bad debt write-off	37	241
End of period	\$ (397)	\$ (184)

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

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

	September 30, 2022	December 31, 2021
Current to 30 days	\$ 3,474	\$ 1,735
31 to 90 days	786	576
Greater than 90 days	711	1,126
Total	\$ 4,971	\$ 3,437

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

10. DEBT

Debt held by the REIT at September 30, 2022 is as follows:

	Maturity	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn ¹
Mortgages ^{2 3 4}	Various	Various	15	\$ 965,464	\$ 599,645	\$ 599,645	\$ —	\$ —
Revolving facilities ^{4 5 6}	Oct. 14, 2023	Various	15	583,662	325,998	310,486	900	14,612
Term loan ^{4 7}	Apr. 5, 2027	Euribor+265 bps	23	257,951	126,853	126,853	—	—
Convertible debentures ⁸	Various	Various	—	—	112,950	112,950	—	—
Total			53	\$ 1,807,077	\$ 1,165,446	\$ 1,149,934	\$ 900	\$ 14,612

¹Debt is only available to be drawn subject to certain covenants and other requirements.

²The weighted average remaining term to maturity of mortgages is 1.6 years with maturities ranging from 1.0 month to 8.0 years and the weighted average interest rate of mortgages is 4.09% with coupons ranging from 2.53% to 6.29%.

³Security includes the Data Centre, which is accounted for as a finance lease receivable and not included in the REIT's investment properties. The fair value of security includes the carrying value of the finance lease receivable.

⁴Certain amounts have been translated from U.S. dollars and Euros to Canadian dollars using the prevailing exchange rates on September 30, 2022.

⁵Stand-by fees incurred on the unused portion of the revolving operating facility are 50.63 bps, charged and paid quarterly.

⁶Principal balance includes \$243,000 and U.S. \$48,800 of revolving facilities. The remaining term to maturity of revolving facilities is 1.0 year and the weighted average interest rate is 5.75%.

⁷The term loan facility is secured by 23 properties in Ireland.

⁸Principal balance includes \$28,750 and \$84,200 of convertible unsecured subordinated debentures of the REIT. The maturity date of the convertible debentures is February 28, 2023 and December 31, 2026, respectively with coupons ranging from 5.25% to 5.50%.

The carrying value of debt held by the REIT at September 30, 2022 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	\$ 599,645	\$ (2,455)	\$ 1,462	\$ 598,652	\$ 340,853	\$ 257,799
Revolving facilities	310,486	(4,923)	4,097	309,660	—	309,660
Term loan	126,853	(4,469)	410	122,794	—	122,794
Convertible debentures ¹	112,950	(7,771)	1,629	106,808	28,750	78,058
Total	\$ 1,149,934	\$ (19,618)	\$ 7,598	\$ 1,137,914	\$ 369,603	\$ 768,311

¹Represents the debt component of the convertible debentures. The embedded derivative features, which are the holder conversion option and the issuer redemption option, originally recorded in the aggregate amount of \$2.9 million, are accounted for separately. These embedded derivative features are included within derivatives on the REIT's consolidated statements of financial position.

In February 2022, in connection with the Yew Grove acquisition, the REIT assumed debt of \$72.2 million with an Irish lender (note 4). This debt was repaid on the day of acquisition with part of the funds received from the completion of a bridge term loan facility in the aggregate of \$135.7 million with the same lender, maturing in November 2022. In April 2022, the bridge term loan facility was converted into a term loan facility in the aggregate of \$126.9 million with the lender, maturing in April 2027. In April 2022, the REIT also entered into a revolving credit facility with the lender, in which \$3.4 million will be available to be drawn subject to certain covenants and other requirements.

In September 2022, the REIT extended U.S. \$101.1 million of its financing to October 2022, and amended the interest rate benchmark from U.S. LIBOR to SOFR. Subsequent to September 30, 2022, the REIT extended the maturity to April 2023 and repaid U.S. \$20.0 million (note 29). The REIT also extended debt of U.S. \$10.0 million to November 2023.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

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

	Maturity	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Letters of credit	Available to be drawn ¹
Mortgages ^{2 3 4}	Various	Various	17	\$ 1,021,411	\$ 641,712	\$ 641,712	\$ —	\$ —
Revolving facilities ^{4 5 6}	Oct. 14, 2023	Various	15	569,947	359,095	300,316	900	57,879
Convertible debentures ⁷	Various	Various	—	—	112,950	112,950	—	—
Total			32	\$ 1,591,358	\$ 1,113,757	\$ 1,054,978	\$ 900	\$ 57,879

¹Debt is only available to be drawn subject to certain covenants and other requirements.

²The weighted average remaining term to maturity of mortgages was 2.5 years with maturities ranging from 0.8 to 8.8 years and the weighted average interest rate of mortgages was 3.31% with coupons ranging from 2.45% to 4.38%.

³Security 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.

⁴Amounts have been translated from U.S. to Canadian dollars using the prevailing exchange rate on December 31, 2021.

⁵Stand-by fees incurred on the unused portion of the revolving operating facility are 50.63 bps, charged and paid quarterly.

⁶Principal balance includes \$238,900 and U.S. \$48,600 of operating facilities. The remaining term to maturity of revolving facilities was 1.8 years and the weighted average interest rate was 2.63%.

⁷Principal balance includes \$28,750 and \$84,200 of convertible unsecured subordinated debentures of the REIT. The maturity date of the convertible debentures is February 28, 2023 and December 31, 2026, respectively with coupons ranging from 5.25% to 5.50%.

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

	Principal	MTM adjustments and costs	Accumulated amortization of MTM adjustments, costs and other	Carrying amount	Current	Non-current
Mortgages	\$ 641,712	\$ (2,857)	\$ 63	\$ 638,918	\$ 162,209	\$ 476,709
Revolving facilities	300,316	(4,819)	2,136	297,633	—	297,633
Convertible debentures ¹	112,950	(4,903)	944	108,991	—	108,991
	\$ 1,054,978	\$ (12,579)	\$ 3,143	\$ 1,045,542	\$ 162,209	\$ 883,333

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

Future repayments of mortgages payable by year of maturity at September 30, 2022 are as follows:

	Weighted average interest rate of principal maturities ¹	Amortizing Principal Payments	Principal maturities	Total repayments
Remainder of 2022	2.99%	\$ 2,017	\$ 151,777	\$ 153,794
2023	4.22%	5,856	230,176	236,032
2024	—%	4,777	—	4,777
2025	3.07%	4,633	165,572	170,205
2026	—%	3,037	—	3,037
Thereafter	4.38%	10,598	21,202	31,800
	3.56%	\$ 30,918	\$ 568,727	\$ 599,645
Unamortized financing costs				(993)
Total			\$	\$ 598,652

¹The weighted average interest rate of principal maturities is calculated using the rates in effect at September 30, 2022.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Future principal payments and maturities for all debt at September 30, 2022 are as follows:

Remainder of 2022	\$	153,794
2023		642,927
2024		4,777
2025		170,205
2026		87,237
Thereafter		90,994
	\$	1,149,934
Unamortized financing costs		(12,020)
Total	\$	1,137,914

Convertible Debentures

On November 19, 2021, the REIT issued \$84.2 million of 5.50% extendible convertible unsecured subordinated debentures of the REIT (the "2021 Convertible Debentures"). The proceeds from the issuance of the 2021 convertible debentures were received on February 7, 2022 and were used to partially fund the acquisition of Yew Grove.

The 2021 Convertible Debentures are convertible into freely tradable 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 the Final Maturity Date; 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 \$6.50 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 (or the date of the Offering closing if no interest has yet been paid on the 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 2021 Convertible Debentures may not be redeemed by the REIT prior to December 31, 2024. On and from December 31, 2024, and prior to December 31, 2025, 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 December 31, 2025, and prior to December 31, 2026, 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.

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

The 2018 Convertible Debentures are convertible into freely tradable 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. 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 2018 Convertible Debentures may not be redeemed by the REIT prior to February 28, 2021, and none of the convertible debentures have been redeemed as at September 30, 2022. 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.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

11. OTHER LIABILITIES

Other liabilities are comprised of the following:

	Note	September 30, 2022	December 31, 2021
Security deposits		\$ 5,573	\$ 5,358
Deferred units	16	936	815
Investment tax credit payable		297	335
Total		\$ 6,806	\$ 6,508

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

	September 30, 2022	December 31, 2021
Current	\$ 1,047	\$ 1,453
Non-current	5,759	5,055
Total	\$ 6,806	\$ 6,508

The REIT is eligible to receive a Manitoba data processing investment tax credit in connection with the development of the Data Centre (see note 8). Half of the tax credit to be received is payable to the tenant of the Data Centre, the amount for which is recorded as an other liability. The credit is expected to be received through to 2029 and has been recorded in other liabilities at its discounted amount determined upon establishment of the liability.

12. DERIVATIVES

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

Derivatives are comprised of the following:

	September 30, 2022	December 31, 2021
Fair value of conversion option on convertible debentures	\$ (800)	\$ —
Fair value of interest rate swaps	25,911	(10,792)
Fair value of cross currency swaps	7,193	(717)
Fair value of foreign exchange forward contract	—	391
Derivatives, net	\$ 32,304	\$ (11,118)

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

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

	Nine months ended September 30,	
	2022	2021
Fair value, beginning of period	\$ (11,118)	\$ (35,869)
Initial recognition of embedded derivatives on issuance of convertible debentures	(2,804)	—
Fair value change of convertible debenture embedded derivatives	2,004	3
Fair value change of interest rate swaps	33,049	8,343
Net payments made on interest rate swaps	3,192	8,596
Foreign exchange gain on cross currency swap	7,910	97
Foreign exchange gain on U.S. interest rate swap	462	—
Foreign exchange loss on Euro forward contract	(547)	—
Settlement of Euro forward contract	156	—
Fair value, end of period	\$ 32,304	\$ (18,830)

Interest rate protection instruments

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

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

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

Maturity date	Floating interest rate ¹	Fixed interest rate	Notional amount ²		Fair value	
			September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
April 12, 2023	1 month BA	1.90%	\$ 58,281	\$ 58,281	\$ 790	\$ (488)
April 12, 2023	1 month CDOR	2.04%	73,897	75,629	914	(881)
April 12, 2023	1 month CDOR	2.04%	34,898	35,716	432	(416)
August 14, 2023	1 month BA	2.77%	17,426	17,786	150	(441)
February 1, 2024	1 month U.S. LIBOR	1.80%	69,145	63,185	2,320	(1,311)
March 22, 2024	1 month BA	1.90%	100,000	100,000	3,352	(797)
March 3, 2025	1 month BA	1.23%	62,500	62,500	4,244	1,234
March 3, 2025	1 month BA	1.23%	10,000	10,000	679	—
September 10, 2025	1 month U.S. LIBOR	2.18%	139,777	127,728	7,482	(5,201)
October 30, 2026	1 month BA	2.30%	100,000	100,000	5,548	(2,491)
Total			\$ 665,924	\$ 650,825	\$ 25,911	\$ (10,792)

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

²The notional amount of the U.S. dollar pay-fixed receive-float interest rate swaps, maturing September 10, 2025 and February 1, 2024, are U.S. \$101.1 million and U.S. \$50.0 million respectively.

In connection with the Yew Grove acquisition, the REIT entered into a cross currency interest rate swap transaction on November 16, 2021 to pay a fixed rate of 3.72% and receive a fixed rate of 5.50%, effective on January 31, 2022 and maturing on December 31, 2026. Interest payments are payable semi-annually on or around June 30 and December 30, commencing June 30, 2022. As at September 30, 2022, the REIT recorded a fair value gain of \$7.9 million which is recorded in the condensed consolidated interim statement of income.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The following are the terms and fair values of the REIT's cross currency interest rate swap:

Maturity date	Pay Euro interest rate	Receive \$ interest rate	Notional amount ¹		Fair value	
			September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
December 31, 2026	3.72%	5.50%	\$ 75,000	\$ 75,000	\$ 7,193	\$ (717)
Total			\$ 75,000	\$ 75,000	\$ 7,193	\$ (717)

¹The notional amount of the pay Euro interest rate of 3.72% is €52.5 million and the notional amount of the receive Canadian dollar interest rate of 5.50% is \$75.0 million.

Foreign exchange rate protection instruments

In connection with the Yew Grove acquisition, the REIT entered into a foreign exchange transaction on November 16, 2021 to sell \$45.7 million at an exchange rate of 1.4284 and purchase Euro on January 31, 2022. This transaction was settled on January 31, 2022.

The following are the terms and fair values of the REIT's foreign exchange transaction:

Maturity date	Book foreign exchange rate	Sell amount		Foreign exchange gain	
		September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
January 31, 2022	1.426	\$ —	\$ 45,700	\$ —	\$ 391
Total		\$ —	\$ 45,700	\$ —	\$ 391

From time to time, the REIT may use forward foreign exchange contracts to hedge against fair value changes in the REIT's U.S. dollar net investment in its U.S. operations arising from fluctuations in the U.S. and Canadian dollar exchange rates, and its Euro net investment in its Irish operations arising from fluctuations in the Euro and Canadian dollar exchange rates. Sources of hedge ineffectiveness include instances where the net investments in U.S. and Irish operations is less or greater than outstanding hedge instruments and potential misalignment between the term of the hedging instrument and the holding term of the REIT's net investment in U.S. and Irish operations.

The REIT settled one foreign exchange transaction as above, it did not settle any other derivative or foreign exchange contracts during the nine months ended September 30, 2022 and did not enter into any derivative or foreign exchange contract during the nine months ended September 30, 2021.

13. CLASS B LP UNITS

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

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

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

The change in Class B LP units for the three months ended September 30, 2022 and 2021 is as follows:

	Three months ended September 30, 2022		Three months ended September 30, 2021	
	Units	Amount	Units	Amount
Beginning of period	5,285,160	\$ 24,576	5,285,160	\$ 28,222
Fair value changes	—	(1,585)	—	(740)
End of period	5,285,160	\$ 22,991	5,285,160	\$ 27,482

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The change in Class B LP units for the nine months ended September 30, 2022 and 2021 is as follows:

	Nine months ended September 30, 2022		Nine months ended September 30, 2021	
	Units	Amount	Units	Amount
Beginning of period	5,285,160	\$ 26,426	5,285,160	\$ 21,880
Fair value changes	—	(3,435)	—	5,602
End of period	5,285,160	\$ 22,991	5,285,160	\$ 27,482

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	Note	September 30, 2022	December 31, 2021
Accounts payable and accrued liabilities		\$ 31,329	\$ 25,897
Distributions payable	17	2,846	2,432
Prepaid rent		8,965	7,391
Tenant improvements payable		1,092	2,751
Total		\$ 44,232	\$ 38,471

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

	September 30, 2022	December 31, 2021
Current	\$ 44,232	\$ 36,680
Non-current	—	1,791
Total	\$ 44,232	\$ 38,471

In June 2020, the REIT received \$3.3 million as a post-closing adjustment from the vendor of 95-105 Moatfield Drive in order to satisfy a tenant improvement obligation. This obligation was recorded under tenant improvements payable and was payable to the tenant over a five year period. In connection with the disposition in September 2022, the remaining payable balance was transferred to the buyer.

15. SUBSCRIPTION RECEIPTS

On November 19, 2021, the REIT completed a bought deal public offering of 11,225,000 subscription receipts of the REIT at a price of \$4.90 per Subscription Receipt, for gross proceeds of \$55.0 million. Concurrently with the Yew Grove acquisition on February 7, 2022, each subscription receipt was automatically exchanged for one unit of the REIT and a cash distribution equivalent payment of \$0.10 being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between November 19, 2021 and February 7, 2022. The cash distribution equivalent payment of \$0.4 million (note 19) for the nine months ended September 30, 2022 and \$0.7 million for the year ended December 31, 2021 has been recorded in interest and finance costs. The proceeds of the sale of the 11,225,000 subscription receipts were received on February 7, 2022 and used to partially fund the acquisition of Yew Grove.

Prior to conversion, the difference between the \$4.90 offered price per unit and the closing price of \$5.06 per unit on the day of conversion of the subscription receipts, was recorded to net income and comprehensive income as a \$0.7 million fair value change of financial instruments for the nine months ended September 30, 2022 and \$1.1 million for the year ended December 31, 2021.

16. UNITHOLDERS' EQUITY

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

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

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The change in trust units during the three and nine months ended September 30, 2022 is as follows:

	Note	Three months ended September 30, 2022		Nine months ended September 30, 2022	
		Units	Amount	Units	Amount
Beginning of period		80,174,209	\$ 579,554	67,765,409	\$ 518,888
Issued on public offering	4	—	—	11,225,000	56,799
Issued on private placement	4, 22	—	—	1,183,800	5,801
Equity issuance costs		—	(195)	—	(2,129)
End of period		80,174,209	\$ 579,359	80,174,209	\$ 579,359

The change in trust units during the three and nine months ended September 30, 2021 is as follows:

	Three months ended September 30, 2021		Nine months ended September 30, 2021	
	Units	Amount	Units	Amount
Beginning of period	67,765,409	\$ 520,323	67,765,409	\$ 520,514
Equity issuance costs	—	—	—	(191)
End of period	67,765,409	\$ 520,323	67,765,409	\$ 520,323

Repurchase of units

On June 22, 2022 the REIT renewed its normal course issuer bid ("NCIB"), whereby the REIT may purchase up to 6,252,619 trust units, subject to certain restrictions. The renewed NCIB expires on the earlier of June 21, 2023 and the repurchase of the maximum number of trust units. During the nine months ended September 30, 2022 and 2021, the REIT has not repurchased units under its NCIB.

At The Market Program

On June 17, 2022 the REIT established an at the market equity program ("ATM program") that allows the REIT to issue, at its discretion, up to \$40.0 million of trust units to the public from time to time through its agents. Distributions pursuant to the ATM program will be made in accordance with the terms of an equity distribution agreement dated June 17, 2022 entered into among the REIT and its agents. The ATM program will be effective until May 29, 2023, unless terminated in accordance with the terms of the equity distribution agreement. During the nine months ended September 30, 2022 and 2021, the REIT did not issue units under its ATM program.

Trustee deferred unit plan

Trustees who are not employees of the REIT or the Manager, Slate Asset Management L.P., or any of their subsidiaries, are eligible to participate in the REIT's Trustee deferred unit plan ("the Trustee DUP"). Participants may elect to receive all or a portion of their annual retainer, meeting fees and additional compensation (including travel fees), in deferred units. One deferred unit, which vests immediately on the grant date, is equivalent to one trust unit. Additional deferred units accumulate at the same rate that distributions are paid on the trust units.

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, 2022, the liability associated with the deferred units issued under the Trustee DUP was \$0.9 million (December 31, 2021 - \$0.8 million), and the number of outstanding deferred units was 202,138 (December 31, 2021 - 151,733 units).

Officer deferred unit plan

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

The deferred units may be redeemed by a participant after two years following the date the units were issued in whole or in part for cash or trust units. The value of the deferred units when converted to cash will be equivalent to the market value of trust units on the date of

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

the redemption request. If a participant ceases to be an officer of the REIT, the deferred units must be redeemed no later than two years following that date.

At September 30, 2022, the liability associated with deferred units issued under the Officer DUP was \$56 thousand (December 31, 2021 - \$60 thousand), and the number of deferred units was 12,878 units (December 31, 2021 - 12,103 units).

The change in DUP units during the three and nine months ended September 30, 2022 is as follows:

	Note	Three months ended September 30, 2022		Nine months ended September 30, 2022	
		Units	Amount	Units	Amount
Beginning of period		196,216	\$ 912	163,836	\$ 815
Issued		14,411	62	39,879	187
Reinvested distributions		4,389	20	11,301	55
Fair value adjustment	21	—	(58)	—	(121)
End of period		215,016	\$ 936	215,016	\$ 936

The change in DUP units during the three and nine months ended September 30, 2021 is as follows:

	Note	Three months ended September 30, 2021		Nine months ended September 30, 2021	
		Units	Amount	Units	Amount
Beginning of period		240,526	\$ 1,285	212,875	\$ 881
Issued		8,712	46	26,573	135
Reinvested distributions		4,522	24	14,312	68
Redemption of units		(104,797)	(563)	(104,797)	(563)
Fair value adjustment	21	—	(17)	—	254
End of period		148,963	\$ 775	148,963	\$ 775

Weighted average diluted units outstanding

The following is the weighted average diluted number of units outstanding during the three and nine months ended September 30, 2022 and 2021. 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,	
	2022	2021	2022	2021
Basic weighted average units outstanding	80,174,209	67,765,409	78,446,976	67,765,409
Class B LP units	5,285,160	5,285,160	5,285,160	5,285,160
Basic weighted average deferred units outstanding	198,397	232,510	181,493	225,519
Diluted weighted average units outstanding	85,657,766	73,283,079	83,913,629	73,276,088

Diluted units outstanding

The following is the diluted number of units outstanding as at September 30, 2022 and 2021. 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, 2022	September 30, 2021
Trust units outstanding	80,174,209	67,765,409
Class B LP units	5,285,160	5,285,160
Deferred units	215,016	148,963
Diluted units outstanding	85,674,385	73,199,532

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Accumulated other comprehensive loss consists of the below:

	Nine months ended September 30, 2022			Nine months ended September 30, 2021		
	Foreign currency translation	Net investment hedges	Total	Foreign currency translation	Net investment hedges	Total
Beginning of period	\$ (1,152)	\$ (4,820)	\$ (5,972)	\$ (442)	\$ (4,820)	\$ (5,262)
Currency translation	5,846	—	5,846	(259)	—	(259)
End of period	\$ 4,694	\$ (4,820)	\$ (126)	\$ (701)	\$ (4,820)	\$ (5,521)

17. DISTRIBUTIONS

Pursuant to the Declaration of Trust, the income of the REIT is distributed on dates and in amounts as determined by the Board of Trustees. Distributions to Class B LP unitholders are recorded in net income. All distributions settled during the nine months ended September 30, 2022 and 2021 have been paid in cash.

The following table presents the distributions during the three and nine months ended September 30, 2022:

	Three months ended September 30, 2022		Nine months ended September 30, 2022	
	Trust units	Class B LP units	Trust units	Class B LP units
Distributions declared during the period	\$ 8,010	\$ 528	\$ 23,616	\$ 1,584
Add: Distributions payable, beginning of period	2,670	176	2,256	176
Less: Distributions payable, end of period	(2,670)	(176)	(2,670)	(176)
Distributions paid during the period	\$ 8,010	\$ 528	\$ 23,202	\$ 1,584

Distributions during the three and nine months ended September 30, 2022 were paid and settled as follows:

	Three months ended September 30, 2022		Nine months ended September 30, 2022	
	Trust units	Class B LP units	Trust units	Class B LP units
Paid in cash	\$ 8,010	\$ 528	\$ 23,202	\$ 1,584

The following table presents the distributions during the three and nine months ended September 30, 2021:

	Three months ended September 30, 2021		Nine months ended September 30, 2021	
	Trust units	Class B LP units	Trust units	Class B LP units
Distributions declared during the period	\$ 6,770	\$ 528	\$ 20,310	\$ 1,584
Add: Distributions payable, beginning of period	2,256	176	2,256	176
Less: Distributions payable, end of period	(2,256)	(176)	(2,256)	(176)
Distributions paid during the period	\$ 6,770	\$ 528	\$ 20,310	\$ 1,584

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

18. RENTAL REVENUE

Rental revenue is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Property base rent ¹	\$ 27,151	\$ 22,226	\$ 78,454	\$ 66,525
Operating cost recoveries	14,831	14,553	44,588	42,760
Tax recoveries	8,080	7,594	24,453	23,062
Hotel	3,490	1,778	7,270	2,608
Straight-line rent and other changes	(2,593)	(2,515)	(6,883)	(6,599)
Total	\$ 50,959	\$ 43,636	\$ 147,882	\$ 128,356

¹Includes parking revenue earned at properties.

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

	September 30, 2022	December 31, 2021
Not later than one year	\$ 87,248	\$ 109,736
Later than one year and not later than five years	360,670	339,393
Later than five years	232,201	208,316
Total	\$ 680,119	\$ 657,445

Future minimum lease payments for the Data Centre are excluded from the above as the lease is classified as a finance lease. Future minimum lease payments for the Data Centre are disclosed in note 7.

19. INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Mortgage interest	\$ 6,579	\$ 6,623	\$ 19,619	\$ 19,343
Interest on other debt	3,606	2,843	10,095	9,429
Amortization of financing costs	1,374	778	3,844	2,343
Amortization of debt mark-to-market adjustments	971	(39)	1,052	(118)
Subscription receipts equivalent amount ¹	—	—	373	—
Interest on convertible debentures ^{2,3}	1,548	380	4,521	1,129
Total	\$ 14,078	\$ 10,585	\$ 39,504	\$ 32,126

¹On February 7, 2022, each subscription receipt issued by the REIT on November 19, 2021 was exchanged for one unit and a cash distribution equivalent payment of \$0.0666 (being equal to the aggregate amount of distributions paid by the REIT per unit for which record dates occurred between December 15, 2021 and January 17, 2022). The cash distribution equivalent payment of \$0.4 million for the nine months ended September 30, 2022 has been recorded in interest and finance costs (September 30, 2021 - \$Nil).

²The convertible debentures issued on January 26, 2018 pay interest at 5.25%. Payments are made semi-annually on or about February 28th and August 30th. The amount above represents the interest both accrued and paid.

³The convertible debentures issued on November 19, 2021 pay interest at 5.50%. Payments are made semi-annually on or about June 30th and December 31st. The amount above represents the interest accrued but not yet paid.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Asset management fees	22	\$ 1,517	\$ 1,269	\$ 4,365	\$ 3,794
Professional fees		334	74	1,015	762
Trustee fees		110	108	349	347
Bad debt expense (recovery), net		577	154	559	296
Other		308	242	1,140	760
Total		\$ 2,846	\$ 1,847	\$ 7,428	\$ 5,959

21. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Interest rate swaps	12	\$ 9,039	\$ 444	\$ 33,049	\$ 8,343
Net payments made on interest rate swaps	12	(1,063)	2,643	3,192	8,596
Convertible debenture embedded derivatives	12	649	—	2,004	3
Deferred units	16	58	17	121	(254)
Performance payment		(616)	(4,921)	(1,210)	(5,037)
Subscription receipts		—	—	(674)	—
Foreign exchange forwards		—	—	(547)	—
Cross currency swap		3,340	—	7,909	—
Total change in fair value of financial instruments recognized in net income		\$ 11,407	\$ (1,817)	\$ 43,844	\$ 11,651

22. RELATED PARTY TRANSACTIONS

The REIT has a management agreement (the "Management Agreement") with Slate (as defined in note 9), whereby SMULC as the REIT's manager provides the REIT with the strategic, administrative, property management, leasing, acquisition, financing and construction management services necessary to manage the strategy and day-to-day operations of the REIT and its assets.

Slate held the following interests in the REIT:

	September 30, 2022	December 31, 2021
REIT units	2,871,051	1,687,251
Class B LP units	5,285,160	5,285,160
Total	8,156,211	6,972,411
Economic interest	9.5%	9.5%

On November 16, 2021, SLAM agreed to purchase 1,183,800 REIT units via a private placement on the completion of the Irish Acquisition. The Acquisition completed in February 2022 (note 4), following which SLAM's economic interest stayed at 9.5%.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The Management Agreement provides for the following fees:

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

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

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

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Property management	\$ 1,499	\$ 1,279	\$ 4,287	\$ 4,057
Asset management	1,517	1,269	4,365	3,794
Leasing, financing and construction management	549	493	2,491	1,537
Acquisition	—	—	1,993	—
Transaction fee ¹	—	—	2,899	—
Total	\$ 3,565	\$ 3,041	\$ 16,035	\$ 9,388

¹Fees charged for acquiring Yew Grove's processes and platform.

Property administration fees are generally recoverable under the tenants' leases relating to assets or resources of the Manager that are directly attributable to the management of the REIT's investment properties. Property administration fees were \$6.8 million for the nine months ended September 30, 2022 (September 30, 2021 – \$6.4 million). Administrative fees are recovered from most tenants by the REIT in accordance with the terms of the leases, whereas property management fees payable by the REIT to the Manager are determined in accordance with the Management Agreement. The REIT entered into an agreement to lease approximately 6,000 square feet of office space to Slate at one of its properties at market rents which expires October 31, 2029. Total rent of \$0.2 million was received under this lease for the nine months ended September 30, 2022 (September 30, 2021 - \$0.2 million). There were no amounts receivable related to this lease at September 30, 2022 and December 31, 2021.

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

	September 30, 2022	December 31, 2021
Accounts receivable	\$ 368	\$ 376
Accounts payable and accrued liabilities	(875)	(304)
Class B LP units	(22,991)	(26,426)

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

23. FAIR VALUES

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

The following categories in the fair value hierarchy reflect the significance of inputs used in determining fair values:

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

The fair values of the REIT's cash, restricted cash, accounts receivable, subscription receipts, other assets and accounts payable and accrued liabilities and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of the REIT's revolving credit facility, revolving operating facility and term loan approximates their carrying value since the facilities bear interest at floating market interest rates. Mortgages are measured at amortized cost, and their fair values are based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

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

September 30, 2022	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets					
Investment properties	6	\$ 1,807,677	\$ —	\$ —	\$ 1,807,677
Derivatives, net	12	32,304	—	32,304	—
Restricted cash		6,699	6,699	—	—
Performance payment	8	—	—	—	—
Total assets		\$ 1,846,680	\$ 6,699	\$ 32,304	\$ 1,807,677
Liabilities					
Class B LP units	13	(22,991)	(22,991)	—	—
Debt	10	(1,137,914)	—	(1,132,389)	—
Total liabilities		\$ (1,160,905)	\$ (22,991)	\$ (1,132,389)	\$ —

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

December 31, 2021	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets					
Investment properties	6	\$ 1,591,958	\$ —	\$ —	1,591,958
Cash		9,909	9,909	—	—
Restricted cash		2,623	2,623	—	—
Performance payment	8	1,141	—	—	1,141
Total assets		\$ 1,605,631	\$ 12,532	\$ —	1,593,099
Liabilities					
Derivatives, net	12	(11,118)	—	(11,118)	—
Class B LP units	13	(26,426)	(26,426)	—	—
Debt	10	(1,045,542)	—	(1,057,741)	—
Total liabilities		\$ (1,083,086)	\$ (26,426)	\$ (1,068,859)	—

24. RISK MANAGEMENT

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

Liquidity risk

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

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

The liquidity needs of the REIT are funded by cash flows from operating the REIT's investment property portfolio and available credit facilities, with the exception of debt repayment obligations, investment property acquisition funding requirements and obligations to redeem puttable trust units. These are funded by refinancing the REIT's maturing debt, financing unencumbered properties, or future issuances of REIT units and debentures. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. The REIT's liquidity is also impacted by certain covenants as described in note 25.

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

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The following table summarizes the estimated future contractual maturities of the REIT's financial liabilities at September 30, 2022:

	Note	Total contractual cash flow	Remainder of 2022	2023-2024	2025-2026	Thereafter
Accounts payable and accrued liabilities	14	\$ 44,232	\$ 44,232	\$ —	\$ —	\$ —
Amortizing principal repayments on debt	10	30,918	2,017	10,633	7,670	10,598
Principal repayments on maturity of debt	10	1,119,016	151,777	637,071	249,772	80,396
Interest on debt ¹		91,817	24,776	47,378	16,978	2,685
Interest rate swaps ²		8,843	1,501	6,303	1,039	—
Other liabilities	11	6,806	1,047	1,479	941	3,339
Total		\$ 1,301,632	\$ 225,350	\$ 702,864	\$ 276,400	\$ 97,018

¹Interest amounts on floating rate debt have been determined using rates at September 30, 2022.

²Interest rate swap obligations have been calculated as the difference between the pay-fixed rate and receive-float rate based on the forward rates determined at September 30, 2022.

Interest rate risk

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

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

At September 30, 2022, after the impact of interest rate swaps, the REIT had floating rate debt of \$240.6 million (December 31, 2021 – \$105.9 million). The following table presents the annualized impact of a change in floating interest rates of 25 bps on finance costs:

	September 30, 2022	December 31, 2021
Change of 25 bps	\$ 601	\$ 265

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

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

The REIT will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the REIT is exposed ends. The REIT has assumed that this uncertainty will not end until the REIT's contracts that reference U.S. LIBOR are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. The REIT has amended its debt agreements to introduce applicable fall back clauses for the transition of its benchmark rates from U.S. LIBOR.

In September 2022, the REIT refinanced debt of U.S. \$101.1 million, for which the interest rate benchmark was amended from U.S. LIBOR to SOFR.

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Credit risk

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

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate due to changes in foreign exchange rates. Foreign currency forwards may be used from time-to-time to hedge the REIT's net investment in foreign operations. Refer to notes 12 and 21 for details of the REIT's forward currency transactions. The REIT is exposed to foreign currency risk on its foreign exchange forward transaction and its cross currency swap which were set to mitigate the foreign exchange risk of Yew Grove, to 20 South Clark and 120 South LaSalle, located in Chicago, IL, as well as monetary assets and liabilities denominated in U.S. and Irish currency. In order to mitigate a portion of this risk, the REIT has financed its U.S. operations with U.S. dollar denominated debt and its Irish operations with Euro denominated debt, acting as a natural hedge.

Impact of COVID-19

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

25. CAPITAL MANAGEMENT

The REIT's capital management objectives are to (i) ensure compliance with the REIT's Declaration of Trust (ii) ensure compliance with restrictions in debt agreements, and (iii) provide sufficient liquidity to operate the REIT's investment properties, fund obligations as they become due and build unitholder value. Procedures to monitor compliance with the Declaration of Trust and debt agreements are performed as a part of the overall management of operations and periodically by review of the REIT's board of trustees and reporting to the REIT's lenders. In order to maintain or adjust the capital structure, the REIT may issue trust units, debentures or mortgage debt, adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce or increase debt.

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

	September 30, 2022	December 31, 2021
Debt	\$ 1,137,914	\$ 1,045,542
Class B LP units	22,991	26,426
Equity	734,903	621,967
Total	\$ 1,895,808	\$ 1,693,935

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The Declaration of Trust provides that the REIT is not permitted to exceed financial leverage in excess of 65% of gross book value, as defined by the Declaration of Trust, and calculated as follows:

	September 30, 2022	December 31, 2021
Total assets	\$ 1,955,525	\$ 1,808,907
Less: Subscription receipt funds in escrow	—	(53,912)
Less: Restricted cash	(6,699)	(2,623)
Gross book value	1,948,826	1,752,372
Debt	1,137,914	1,045,542
Leverage ratio	58.4%	59.7%

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

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

26. SEGMENTED DISCLOSURES

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

	September 30, 2022	December 31, 2021
Canada	\$ 1,184,594	\$ 1,256,756
United States	365,132	335,202
Ireland	257,951	—
Total	\$ 1,807,677	\$ 1,591,958

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

The following is a summary of rental revenue and property operating expenses by geographic location:

	Nine months ended September 30, 2022			
	Canada	United States	Ireland	Total
Property revenue	\$ 107,081	\$ 34,168	\$ 13,516	\$ 154,765
Property operating expenses	(55,760)	(18,573)	(3,523)	(77,856)
Net operating income	\$ 51,321	\$ 15,595	\$ 9,993	\$ 76,909
Straight-line rent and other changes				(6,883)
IFRIC 21 property tax adjustment				(2,995)
Finance income on finance lease receivable				2,313
Interest income				330
Interest and finance costs				(39,504)
General and administrative				(7,428)
Change in fair value of financial instruments				43,844
Change in fair value of investment properties				9,210
Depreciation of hotel asset				(724)
Transaction costs				(1,218)
Deferred and current income tax expense				(5,470)
Net income before Class B LP units			\$	68,384
Change in fair value of Class B LP units				3,435
Distributions to Class B LP unitholders				(1,584)
Net income			\$	70,235

	Nine months ended September 30, 2021			
	Canada	United States		Total
Property revenue	\$ 102,602	\$ 32,353	\$	\$ 134,955
Property operating expenses	(52,401)	(15,819)		(68,220)
Net operating income	\$ 50,201	\$ 16,534	\$	66,735
Straight-line rent and other changes				(6,599)
IFRIC 21 property tax adjustment				(2,384)
Finance income on finance lease receivable				2,465
Interest income				374
Interest and finance costs				(32,126)
General and administrative				(5,959)
Change in fair value of financial instruments				11,651
Change in fair value of investment properties				8,604
Depreciation of hotel asset				(765)
Deferred income tax expense				(1,831)
Net income before Class B LP units			\$	40,165
Change in fair value of Class B LP units				(5,602)
Distributions to Class B LP unitholders				(1,584)
Net income			\$	32,979

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

Three months ended September 30, 2022

	Canada	United States	Ireland	Total
Property revenue	\$ 37,058	\$ 11,570	\$ 4,924	\$ 53,552
Property operating expenses	(19,016)	(6,439)	(1,237)	(26,692)
Net operating income	\$ 18,042	\$ 5,131	\$ 3,687	\$ 26,860
Straight-line rent and other changes				(2,593)
IFRIC 21 property tax adjustment				2,943
Finance income on finance lease receivable				758
Interest income				111
Interest and finance costs				(14,078)
General and administrative				(2,846)
Change in fair value of financial instruments				11,407
Change in fair value of investment properties				(3,164)
Depreciation of hotel asset				(243)
Transaction costs				(1,218)
Deferred and current income tax expense				(637)
Net income before Class B LP units			\$	17,300
Change in fair value of Class B LP units				1,585
Distributions to Class B LP unitholders				(528)
Net income			\$	18,357

Three months ended September 30, 2021

	Canada	United States	Total
Property revenue	\$ 34,907	\$ 11,244	\$ 46,151
Property operating expenses	(17,700)	(5,439)	(23,139)
Net operating income	\$ 17,207	\$ 5,805	\$ 23,012
Straight-line rent and other changes			(2,515)
IFRIC 21 property tax adjustment			2,368
Finance income on finance lease receivable			809
Interest income			113
Interest and finance costs			(10,585)
General and administrative			(1,847)
Change in fair value of financial instruments			(1,817)
Change in fair value of investment properties			41
Depreciation of hotel asset			(257)
Deferred income tax expense			(877)
Net income before Class B LP units			\$ 8,445
Change in fair value of Class B LP units			740
Distributions to Class B LP unitholders			(528)
Net income			\$ 8,657

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

27. INCOME TAXES

The REIT has reviewed the specified investment flow-through (“SIFT”) trusts which include publicly-listed income trusts (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, 2022 and 2021, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes payable is required, except for amounts incurred by the U.S. and Irish subsidiaries.

As at September 30, 2022 and 2021, there are no taxes payable for the Canadian entity.

The REIT’s U.S. and Irish subsidiaries are subject to income tax on taxable income from U.S. and Irish operations respectively. 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%, and the Irish subsidiaries are subject to a tax rate of 25% on rental income, and 33% on capital gain.

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

	Nine months ended September 30,	
	2022	2021
Beginning of period	\$ (2,750)	\$ —
Current and deferred income tax expense	(5,470)	(1,831)
Current income taxes paid	74	—
Foreign exchange	(533)	(25)
End of period	\$ (8,679)	\$ (1,856)

A reconciliation of the expected income taxes based upon the 2022 statutory rates and the income tax recovery recognized during the nine months ended September 30, 2022 and 2021 are as follows:

	Nine months ended September 30,	
	2022	2021
Net income before Class B LP units and taxes	\$ 73,854	\$ 41,996
Canadian statutory tax rate	26.5%	26.5%
	\$ 19,571	\$ 11,129
Income not subject to tax	(14,414)	(8,263)
Valuation allowance	26	(1,250)
Tax rate differential	287	215
Current and deferred income tax expense	\$ 5,470	\$ 1,831

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

28. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities for the nine months ended September 30, 2022 are as follows:

	Cash flows				Non-cash changes				September 30, 2022
	December 31, 2021	Proceeds	Payments	Financing costs and other	Assumptions	Foreign exchange	Fair value changes	Amortization of MTM adjustments and costs	
Derivatives, net	\$ 11,118	\$ —	\$ (3,192)	\$ —	\$ —	\$ —	\$ (40,230)	\$ —	\$ (32,304)
Facilities ¹	297,633	13,757	(9,400)	(26)	—	5,792	—	1,904	309,660
Mortgages ¹	638,918	2,402	(57,708)	(85)	—	13,227	—	1,898	598,652
Term loan	—	126,731	(72,240)	(4,466)	72,240	119	—	410	122,794
Convertible debentures	108,991	—	—	(63)	—	—	(2,804)	684	106,808
Class B LP units	26,426	—	—	—	—	—	(3,435)	—	22,991
Total	\$ 1,083,086	\$ 142,890	\$ (142,540)	\$ (4,640)	\$ 72,240	\$ 19,138	\$ (46,469)	\$ 4,896	\$ 1,128,601

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

Changes in liabilities arising from financing activities for the nine months ended September 30, 2021 are as follows:

	Cash flows				Non-cash changes				September 30, 2021
	December 31, 2020	Proceeds	Payments	Financing costs and other	Foreign exchange	Fair value changes	Amortization of MTM adjustments and costs		
Derivatives, net	\$ 35,869	\$ —	\$ (8,596)	\$ —	\$ (97)	\$ (8,346)	\$ —	\$ 18,830	
Facilities ¹	326,336	27,327	(12,603)	(122)	(282)	—	1,218	341,874	
Mortgages ¹	618,202	5,527	(7,900)	(268)	(449)	—	828	615,940	
Convertible debentures	28,066	—	—	—	—	—	179	28,245	
Class B LP units	21,880	—	—	—	—	5,602	—	27,482	
Total	\$ 1,030,353	\$ 32,854	\$ (29,099)	\$ (390)	\$ (828)	\$ (2,744)	\$ 2,225	\$ 1,032,371	

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

Slate Office REIT

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands of Canadian dollars)

(unaudited)

29. SUBSEQUENT EVENTS

The following events occurred subsequent to September 30, 2022:

- i. On October 17, 2022 the REIT announced its agreement to acquire a newly retrofitted Class A office property in Chicago, Illinois (the "Chicago Acquisition") for \$27.3 million. The purchase was completed on November 1, 2022.
- ii. On October 17, 2022, the REIT paid a monthly distribution of \$0.0333 per trust unit. Holders of Class B LP units of the REIT were also paid a distribution of \$0.0333 per unit.
- iii. On October 17, 2022, the REIT declared a distribution of \$0.0333 per trust unit, payable on November 15, 2022 to unitholders of record as of the close of business on October 31, 2022. Holders of the Class B LP units of the REIT will also be paid a distribution of \$0.0333 per trust unit.
- iv. The REIT refinanced its revolving credit facility on October 19, 2022, extending the maturity date to October 2024. The Canadian revolving credit commitment was reduced from \$285.0 million to \$260.0 million and the US\$ revolving credit commitment was reduced from \$82.3 million to \$76.9 million, the drawn amount was unaffected. The interest rate benchmark on the US\$ revolver was amended from U.S. LIBOR to SOFR.
- v. On October 19, 2022, the REIT extended the maturity of a facility at 120 South LaSalle from October 2022 to April 2023 and repaid \$27.4 million.
- vi. On October 24, 2022, the REIT issued \$45.0 million of 7.50% convertible unsecured subordinated debentures of the REIT. The proceeds from the issuance of the convertible debentures are expected to partially fund the Chicago Acquisition and reduce the REIT's secured indebtedness, including the repayment of \$27.4 million on a facility at 120 South LaSalle.
- vii. On October 26, 2022 the REIT increased the financing of one of its Atlantic properties by \$8.0 million, the proceeds from which will be used for general corporate purposes.
- viii. As at October 31, 2022, the REIT had repurchased and cancelled 150,800 trust units under the REIT's NCIB program at an aggregate purchase price of \$0.7 million.