

Slate Grocery REIT
CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Slate Grocery REIT (the "REIT"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Basis for Opinion

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

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of Properties – refer to Notes 3 and 5 of the financial statements

Key Audit Matter Description

The REIT has elected the fair value model for all properties and, accordingly, measures all properties at fair value subsequent to initial recognition on the statement of financial position. The fair value of properties is determined primarily using the overall income capitalization method, which uses current leasing and market assumptions. The determination of the fair value of properties requires the use of assumptions such as future cash flows from assets, tenant profiles, future revenue streams and overall repair and condition of the property, capitalization rates and discount rates.

While there are several assumptions used to determine the fair value of properties, the assumption with the highest degree of subjectivity and impact on fair value are the capitalization rates. Auditing the capitalization rates required a high degree of auditor judgment as the estimations made by management contain significant measurement uncertainty. This resulted in an increased extent of audit effort, including the need to involve fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

With the assistance of fair value specialists, the audit procedures related to the capitalization rates, included, amongst others, evaluating their reasonableness by considering recent market transactions and industry surveys.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
February 23, 2021

Slate Grocery REIT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	Note	December 31, 2020	December 31, 2019
ASSETS			
Non-current assets			
Properties	4, 5	\$ 1,277,180	\$ 1,288,536
Equity investment	6	3,474	5,049
Interest rate swaps	7	—	1,761
Other assets	8	6,289	2,293
		\$ 1,286,943	\$ 1,297,639
Current assets			
Other assets	8	18,746	786
Prepays		2,675	2,518
Accounts receivable	9	12,828	11,725
Cash		2,362	2,412
		\$ 36,611	\$ 17,441
Total assets		\$ 1,323,554	\$ 1,315,080
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	10	\$ 721,260	\$ 708,940
Interest rate swaps	7	36,745	21,582
Other liabilities		2,721	2,780
Exchangeable units of subsidiaries	11	9,566	10,926
Deferred income taxes	12	69,607	62,259
		\$ 839,899	\$ 806,487
Current liabilities			
Debt	10	5,113	80,455
Interest rate swaps	7	264	—
Accounts payable and accrued liabilities	13	20,287	21,397
Distributions payable	18	3,487	3,029
Taxes payable	12	1,786	285
		\$ 30,937	\$ 105,166
Total liabilities		\$ 870,836	\$ 911,653
Unitholders' equity		\$ 452,718	\$ 403,427
Total liabilities and unitholders' equity		\$ 1,323,554	\$ 1,315,080

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

Slate Grocery REIT

CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Year ended December 31,	
		2020	2019
Rental revenue	14	\$ 126,130	\$ 141,315
Property operating expenses		(34,629)	(41,031)
General and administrative expenses	15	(10,511)	(10,717)
Interest and finance costs	16	(33,868)	(36,843)
Share of (loss) income in equity investment	6	(1,575)	151
Transaction costs	4, 17	(3,913)	(6,698)
Change in fair value of financial instruments	7	(457)	(4,374)
Change in fair value of properties	5	14,087	(1,446)
Net income before income taxes and unit income (expense)		\$ 55,264	\$ 40,357
Deferred income tax expense	12	(11,587)	(9,565)
Current income tax expense	12	(2,414)	—
Unit income (expense)	11, 18	342	(4,469)
Net income		\$ 41,605	\$ 26,323

Slate Grocery REIT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Year ended December 31,	
		2020	2019
Net income		\$ 41,605	\$ 26,323
Items to be subsequently reclassified to profit or loss:			
Loss on cash flow hedges of interest rate risk, net of tax	7	(19,719)	(12,157)
Reclassification of cash flow hedges of interest rate risk to income	7	7,227	(1,321)
Other comprehensive loss		(12,492)	(13,478)
Comprehensive income		\$ 29,113	\$ 12,845

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

Slate Grocery REIT

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

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

	Note	REIT units	Retained earnings	Accumulated other comprehensive loss ("AOCL")	Capital reserve	Total
December 31, 2019		\$ 407,551	\$ 8,700	\$ (11,400)	\$ (1,424)	\$ 403,427
Net income and comprehensive loss		—	41,605	(12,492)	—	29,113
Distributions	11, 18	—	(35,874)	—	—	(35,874)
Equity offering, net of issuance costs	11	56,052	—	—	—	56,052
December 31, 2020		\$ 463,603	\$ 14,431	\$ (23,892)	\$ (1,424)	\$ 452,718

	Note	REIT units	Retained earnings	AOCL	Capital reserve	Total
December 31, 2018		\$ 419,008	\$ 18,141	\$ 2,078	\$ (1,424)	\$ 437,803
Net income and comprehensive loss		—	26,323	(13,478)	—	12,845
Distributions	11, 18	—	(35,764)	—	—	(35,764)
Repurchases	11	(22,296)	—	—	—	(22,296)
Exchanges	11	10,839	—	—	—	10,839
December 31, 2019		\$ 407,551	\$ 8,700	\$ (11,400)	\$ (1,424)	\$ 403,427

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

Slate Grocery REIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Note	Year ended December 31,	
		2020	2019
OPERATING ACTIVITIES			
Net income		\$ 41,605	\$ 26,323
Items not affecting cash:			
Straight-line rent	5	(1,556)	(1,640)
Change in fair value of financial instruments	7	457	4,374
Change in fair value of properties	5	(14,087)	1,446
IFRIC 21 property tax adjustment	5	(802)	—
Deferred income tax expense	12	11,587	9,565
Unit (income) expense	18	(342)	4,469
Share of loss (income) in equity investment	6	1,575	(151)
Interest and finance costs	16	33,868	36,843
Cash interest paid, net		(32,137)	(35,376)
Changes in working capital items		(817)	(1,375)
		\$ 39,351	\$ 44,478
INVESTING ACTIVITIES			
Acquisitions	4	(90,994)	—
Dispositions	4	133,181	110,145
Contributions to equity investment	4, 6	—	(3,281)
Proceeds from equity investment	4	—	10,027
Funds held in escrow	8	(22,345)	(295)
Capital expenditures	5	(2,741)	(2,514)
Leasing costs	5	(1,341)	(1,562)
Tenant improvements	5	(3,409)	(5,290)
Development and expansion capital	5	(6,558)	(6,686)
		\$ 5,793	\$ 100,544
FINANCING ACTIVITIES			
Revolver advances, net	10, 24	299,717	81,516
Term loan finance costs	10, 24	(1,820)	—
Mortgage advances	10, 24	81,689	—
Revolver, term loan and mortgage repayments	10, 24	(444,484)	(165,381)
Equity offering, net of issuance costs	11	56,052	—
Repurchases of REIT units	11	—	(22,296)
REIT unit distributions	18	(35,416)	(35,910)
Exchangeable units of subsidiaries distributions	18	(932)	(1,649)
		\$ (45,194)	\$ (143,720)
(Decrease) increase in cash		(50)	1,302
Cash, beginning of the period		2,412	1,110
Cash, end of the period		\$ 2,362	\$ 2,412

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

Slate Grocery REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019
(in thousands of United States dollars, unless otherwise stated)

1. DESCRIPTION OF THE REIT AND OPERATIONS

On August 21, 2020, the REIT completed its previously announced name change to Slate Grocery REIT from Slate Retail REIT. Slate Grocery REIT (the "REIT") is an unincorporated, open-ended mutual fund trust under and governed by the laws of the Province of Ontario. The REIT focuses on acquiring, owning and leasing a portfolio of grocery-anchored real estate properties (the "properties") in the United States of America (the "U.S.").

The class U units of the REIT trade on the Toronto Stock Exchange ("TSX") under the symbols SGR.U and SGR.UN. The principal, registered, and head office of the REIT is 121 King Street West, Suite 200, Toronto, Ontario, M5H 3T9.

The objectives of the REIT are to:

- i. provide unitholders with stable cash distributions from a portfolio of grocery-anchored real estate properties in the U.S.;
- ii. enhance the value of the REIT's assets in order to maximize long-term unitholder value through active management; and
- iii. expand the asset base of the REIT and increase the REIT's earnings on a per unit basis, including through accretive acquisitions.

2. BASIS OF PREPARATION

i. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

ii. Approval of the consolidated financial statements

The consolidated financial statements were approved by the trustees of the REIT and authorized for issuance on February 23, 2021.

iii. Basis of measurement

These consolidated financial statements have been prepared on a going concern basis and measured at historical cost except for properties and certain financial instruments, which are measured at fair value.

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

iv. Functional and presentation currency

These consolidated financial statements are presented in U.S. dollars, which is the REIT's functional currency and the functional currency of all of its subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES

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

i. Basis of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries in accordance with IFRS 10, *Consolidated Financial Statements*. Intercompany transactions and balances have been eliminated on consolidation.

A subsidiary is an entity over which the REIT has control. Control exists when the REIT has power over an investee, is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of a subsidiary are changed when necessary to align them with the policies applied by the REIT in these consolidated financial statements.

ii. Properties

Properties include land and buildings held primarily to earn rental income, for capital appreciation or for both. The REIT accounts for the properties in accordance with IAS 40, *Investment Property* ("IAS 40"). For acquired properties that meet the definition of a business, the acquisition is accounted for as a business combination. Acquisitions of properties that do not meet the definition of a business are initially measured at cost including directly attributable transaction costs.

Subsequent to acquisition, properties are measured at fair value, which is determined based on available market evidence at the statement of financial position date including, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases less future cash outflows in respect of capital expenditures. Changes in fair value of properties are recognized in net income in the period in which they arise.

Slate Grocery REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019
(in thousands of United States dollars, unless otherwise stated)

The carrying value of properties includes the impact of straight-line rent receivable, tenant inducements, direct leasing costs and adjustments related to the impact of IFRIC 21, *Leases* ("IFRIC 21").

Direct leasing costs include leasing commissions, lease incentives, and legal fees directly attributable to negotiating and arranging a lease. Lease incentives that are spent on improvements are referred to as tenant improvements and are capitalized. All other lease incentives are referred to as tenant inducements. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of properties and are amortized on a straight-line basis over the term of a lease as a reduction of revenue.

When a property is disposed of, the gain or loss is determined as the difference between the sales price and the carrying amount of the property and is recognized in net income in the period of disposal as a change in the fair value of property. Sales costs are recorded as transaction costs on the consolidated statement of income.

iii. Business combinations

The REIT accounts for property acquisitions as a business combination if the particular assets and set of activities acquired can be operated and managed as a business in its current state. The REIT applies the acquisition method to account for business combinations. The consideration transferred for a business combination is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the REIT. The total consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

The REIT recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Any contingent consideration is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration is recognized as a liability in accordance with IFRS 9, *Financial Instruments* ("IFRS 9") primarily in net income or, in certain circumstances, as a change to other comprehensive income ("OCI"). Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the fair value of consideration transferred and the fair value of non-controlling interest over the identifiable net assets acquired. If the consideration is lower than the fair value of the net assets acquired, the difference is recognized in net income as a bargain purchase option.

iv. Funds held in escrow

Funds held in escrow represents restricted cash held in reserve for holdbacks for property taxes as required by mortgages and tenant leases.

v. Leases

Leases where the REIT, as the lessor, does not transfer substantially all the risks and rewards of ownership of its properties are classified as operating leases. Leases that transfer substantially all the risks and rewards of ownership of an asset are classified as finance leases. The REIT assesses the classification of leases at the inception date of the lease, being the date when the lease is signed. All of the REIT's leases are considered operating leases.

vi. Revenue recognition

Revenue from properties includes rents from tenants under lease agreements, percentage rents, property tax and operating cost recoveries and other incidental income. Lease components, including rents from tenants, percentage rents and property tax recoveries are accounted for pursuant to IFRS 16, *Leases* ("IFRS 16") and are therefore outside the scope of IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") while non-lease components which includes operating cost recoveries are within the scope of IFRS 15. The REIT recognizes lease income when the tenant has a right to use the leased asset. This occurs on the lease commencement date or, where the REIT is required to make additions to the property in the form of tenant improvements that enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. Straight-line rent receivables, which is included in the carrying amount of the property, is the difference between the cumulative lease income recorded and the contractual amounts due. Common area maintenance and other services are recognized in the period that services are performed and are chargeable to tenants.

vii. Expenses

Property operating expenses and general and administrative expenses are recognized in net income in the period in which they are incurred.

Slate Grocery REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019
(in thousands of United States dollars, unless otherwise stated)

viii. Property tax liability and expense

IFRIC 21 provides guidance on when to recognize a liability for levies that are accounted for in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and those where the timing and amount of the levy are certain. Levies are outflows from an entity imposed by a government in accordance with legislation. The REIT has assessed property taxes as being within the scope of IFRIC 21, given that property taxes are non-reciprocal charges imposed by a government, in accordance with legislation, and are based on the assessed value of property. IFRIC 21 confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. The REIT has determined that the liability to pay property taxes on its properties should be recognized at a point in time, being the start of the fiscal year. This resulted in the REIT recognizing the annual property tax liability and expense on its properties annually at January 1.

ix. Other comprehensive income

Comprehensive income consists of net income and OCI. OCI represents items of income and expenses (including reclassification adjustments) that are not recognized in profit or loss, including the effective portion of hedging instruments.

x. Income taxes

Subsidiaries of the REIT, Slate Grocery Investment L.P. ("Investment L.P.") and GAR (1B) Limited Partnership ("GAR B"), that hold the REIT's investments each made an election pursuant to the U.S. Internal Revenue Code, as amended, to be classified as corporations for U.S. federal income tax purposes. Consequently, Investment L.P. and GAR B are each considered a "foreign corporation" for U.S. federal income tax purposes. The REIT measures deferred tax liabilities of these subsidiaries by applying the appropriate tax rate to temporary differences between the carrying amounts of assets and liabilities and their respective tax basis. The appropriate tax rate is determined by reference to the rates that are expected to apply to the year and the jurisdiction in which the assets are expected to be realized or the liabilities settled. Deferred tax assets are recorded for all deductible temporary differences, carry forwards of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. For the determination of deferred tax assets and liabilities where the property is measured using the fair value model, the presumption is that the carrying amount of a property is recovered through sale, as opposed to presuming that the economic benefits of the property will be substantially consumed through use over time. The REIT qualifies as a "mutual fund trust" under the Income Tax Act (Canada) and plans to distribute or designate all taxable earnings to unitholders and, under current legislation, the obligation to pay tax rests with each unitholder. Accordingly, no current or deferred tax provision is recognized on the REIT's income at the REIT level in addition to deferred tax amounts recorded in respect of Investment L.P. and GAR B on consolidation.

xi. Slate Grocery exchangeable units and GAR B exchangeable units

Class B units of Slate Grocery Two L.P. and Slate Grocery One L.P. ("Slate Grocery exchangeable units"), which are each subsidiaries of the REIT, are redeemable by the unitholder, for cash or class U units of the REIT at the option of the REIT and therefore are classified as financial liabilities under IAS 32, *Financial Instruments: Presentation* ("IAS 32"). Exchangeable limited partnership units of GAR B ("GAR B exchangeable units") have also been issued from a subsidiary of the REIT and are redeemable for class U units at the option of the holder and therefore, are classified as financial liabilities under IAS 32.

Slate Grocery exchangeable units and GAR B exchangeable units (collectively, the "exchangeable units of subsidiaries") are designated as fair value through profit or loss ("FVTPL") under IFRS 9. Distributions paid on exchangeable units of subsidiaries are recorded as unit expense in the period in which they become payable.

xii. REIT units

The REIT has class A units, class I units and class U units issued and outstanding (collectively, the "REIT units"). As an open-ended investment trust, unitholders of each class of units of the REIT are able to require the REIT to redeem at any time or from time to time at the demand of the unitholder all or any part of the REIT units held by the unitholder in an amount equal to redemption price, as specified by the REIT's Declaration of Trust. This redemption is to be provided in cash, subject to certain limitations. If a redemption is not satisfied in cash, the redemption price is to be paid by notes of the REIT or property of the REIT.

Slate Grocery REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019

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

xiii. Financial instruments

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

	Classification
Financial assets	
Cash	Amortized cost
Accounts receivable	Amortized cost
Tax Incremental Financing ("TIF") notes receivable	Amortized cost
Financial assets within other assets ¹	Amortized cost
Financial liabilities	
Accounts payable and accrued liabilities	Amortized cost
Distributions payable	Amortized cost
Interest rate swaps ²	FVTPL
Revolver, term loans and mortgages	Amortized cost
Financial liabilities within other liabilities ³	Amortized cost
Exchangeable units of subsidiaries	FVTPL

¹ Relates to funds held in escrow included in other assets.

² Interest rate swaps are held in a hedge relationship, such that fair value movements are recognized in OCI as opposed to profit or loss.

³ Relates to rental security deposits included in other liabilities.

All financial assets and liabilities are measured at fair value on initial recognition. Transaction costs, other than those related to financial instruments classified as FVTPL, are capitalized to the carrying amount of the instrument. These costs include amortization of discounts or premiums on borrowings, fees and commissions paid to agents, brokers and advisers, transfer taxes, and duties that are incurred in connection with the arrangement of borrowings.

Exchangeable units of subsidiaries are classified as FVTPL and are measured at fair value with gains and losses recognized in net income as unit expense.

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

Fair value changes on derivatives that are designated and qualify for hedge accounting are recognized in OCI. Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognized in profit or loss.

The REIT derecognizes a financial asset or liability when its contractual rights or obligations expire, or it transfers its rights or obligations in a transaction in which substantially all the risks and rewards of ownership are transferred. Any rights and obligations created or retained by the REIT in a transfer are recognized as separate assets or liabilities.

Impairment of financial assets

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

The REIT recognizes lifetime ECL for trade receivables and 12-month ECL for TIF notes receivables and notes receivable. The amount of the expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. If the credit risk is determined to increase significantly over the period, then the REIT would recognize lifetime ECL for TIF notes receivables and notes receivable.

xiv. Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the REIT considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date, unless otherwise noted.

Slate Grocery REIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019
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Except as noted, the carrying value of the REIT's financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair value of financial liabilities measured at amortized cost but disclosed at fair value in note 19 are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Fair value measurements recognized in the statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted prices in active markets for identical assets or liabilities that the REIT can access at the measurement date.
- Level 2: Inputs other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs that are not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

Exchangeable units of subsidiaries are measured at fair value based on the market trading price of REIT units consistent with Level 1. All other fair value measurements for non-derivative financial instruments are measured using Level 2 or Level 3 inputs.

The fair values of derivative instruments are calculated using quoted rates. The fair value of interest rate swaps, which is a Level 2 input, are calculated as the present value of estimated future cash flows discounted at actively quoted interest rates and an applicable yield curve for the duration of the instruments.

xv. Derivative financial instruments and hedging activities

A derivative financial instrument is initially recognized at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The REIT uses certain financial instruments to hedge its exposure to certain market risks arising from operational, financial and investing activities. At the inception of the hedge transaction, the REIT documents the following:

- the type of hedge;
- the relationship between the hedging instrument and hedged item;
- hedge effectiveness; and
- the REIT's risk management objective and strategy for undertaking various hedge transactions.

The REIT documents and assesses hedge effectiveness on an ongoing basis, whether the hedging instrument is highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedge – interest rate swaps

The REIT has entered into pay-fixed, receive-float interest rate swap contracts that are a cash flow hedge for interest rate risk exposure on the REIT's floating rate debt. These contracts entitle the REIT to receive interest at floating rates on a notional principal amount and obliges the REIT to pay interest at a fixed rate on the same notional principal amount. This allows the REIT to raise borrowings at floating rates and swap them into fixed rates.

The interest rate swaps are designated as cash flow hedges in OCI. Accordingly, the changes in fair value of the swaps are recorded in the hedging reserve in OCI to the extent the hedges are highly effective in offsetting the hedged risk.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the REIT performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates. The REIT expects the interest rate swap contracts and their corresponding hedged items to operate on a one-to-one basis. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the REIT's own credit risk on the fair value of the interest rate swap contracts, which is not reflected in the fair value of the hedged item attributable to the change in interest rates.

xvi. Deferred unit incentive plan

The REIT has a deferred unit incentive plan ("DUP") whereby trustees of the REIT, who are not also members of management may elect to receive all or a portion of their Trustee fees in the form of deferred units that vest immediately upon grant. Officers of the REIT may elect to acquire deferred class U units, which represent a right to receive class U units, in lieu of equivalent amounts of asset management fees for management services rendered by Slate Asset Management (Canada) L.P. (the "Manager").

The deferred units are equivalent in value to REIT units and accumulate additional deferred units at the same rate that distributions are paid on REIT units in relation to the market value of REIT units, as defined by the DUP. Deferred units may be redeemed by a participant for a period of two years after the participant ceases to be a trustee or officer of the REIT in whole or in part for cash or REIT units. The value of deferred units when converted to cash will be equivalent to the market value of REIT units on the date of the redemption request. Deferred units have been

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classified as a liability recorded within the other liabilities account balance, and measured at fair value. Initial recognition of the deferred units is recorded as a general and administrative expense. Subsequent changes in the fair value of deferred units are recorded in net income as unit expense.

xvii. Finance costs

Finance costs comprise interest expense on borrowings, amortization or derecognition of mark-to-market adjustment on assumption of mortgages, amortization of transaction cost and accretion expense.

xviii. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions the REIT may undertake in the future, actual results may differ from these estimates.

Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements is discussed below:

- **Business combinations**

The REIT acquires real estate properties. At the time of acquisition, the REIT considers whether or not the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. Consideration is made to the extent to which significant processes are acquired and the extent of ancillary services provided by the property, e.g. maintenance, cleaning, security, bookkeeping, etc. The significance of any process is judged with reference to the guidance in IAS 40 regarding ancillary services.

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill is recognized.

- **Lease contracts**

The REIT has entered into property leases on its property portfolio. The REIT makes judgments in determining whether certain leases, in particular those leases with long contractual terms, are operating or finance leases.

- **Classification of REIT units and exchangeable units of subsidiaries**

In determining whether REIT units and exchangeable units of subsidiaries should be classified as liabilities or equity, management has assessed whether REIT units contain a contractual agreement to deliver cash or another financial asset to another entity, whether the units are puttable, and whether the criteria in IAS 32 that permit classification of a puttable instrument as equity have been satisfied.

Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Estimates that have the most significant impact on the consolidated financial statements include:

- **Valuation of properties**

On a quarterly basis, for properties that are not independently valued, the fair value of properties is determined by management using current leasing and market assumptions. For properties that are independently valued, management verifies inputs used to prepare the valuation report and holds discussions with the independent valuator.

The determination of the fair value of property requires the use of estimates such as future cash flows from assets, such as tenant profiles, future revenue streams and overall repair and condition of the property, capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisers, in their determination of the fair value of the properties:

- a. **Income approach**

This approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the overall income capitalization method and/or the discounted cash flow method, as described below:

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Overall income capitalization method: Year one income is stabilized and capitalized at a rate appropriate for each property. The most significant assumptions in determining fair values under the overall capitalization method include:

- i. Stabilized net operating income – based on the location, type and quality of the properties and supported by existing lease terms, or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.
- ii. Capitalization rate – based on location, size and quality of the properties and considering market data at the valuation date.

Discounted cash flow method: Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 net operating income.

For both methods, capitalization rates are the most significant assumption in determining fair value. The REIT uses leasing history, market reports, tenant profiles and available appraisals, among other things, in determining the most appropriate assumptions.

b. Direct comparison approach

This approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

The REIT determines the fair value of properties based upon either the overall income capitalization method or the discounted cash flow method, or in certain circumstances a combination of both methods. At December 31, 2020 and December 31, 2019, the fair value of the REIT's properties is determined primarily using the overall income capitalization method. The REIT uses the sales price when a firm contract for the sale of a property exists.

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

xix. Application of new and revised IFRSs

IFRS 3, Business Combinations ("IFRS 3")

The REIT has adopted the amendments to IFRS 3 on January 1, 2020. The amendments have narrowed and clarified the definition of a business. The objective of the amendment is to assist companies in determining whether an acquisition made is of a business or a group of assets. It also permits a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. These amendments have been applied to the REIT's acquisition transactions during the year. The adoption of the amended standard did not have an impact on the REIT's consolidated financial statements.

Application of Interest Rate Benchmark Reform

In September 2019, the IASB issued *Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") and IFRS 7 – Financial Instruments: Disclosures ("IFRS 7")*. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The REIT chose to early apply the amendments to IFRS 9 for the reporting period ended December 31, 2019, which were mandatory for annual reporting periods beginning on or after January 1, 2020. Adopting these amendments has allowed the REIT to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

xx. Future accounting policies

Application of Interest Rate Benchmark Reform

In August 2020, the IASB issued *IBOR Reform and the Effects on Financial Reporting – Phase II (amendments to IFRS 9, IFRS 7, IAS 39, IFRS 4 – Insurance Contracts ("IFRS 4") and IFRS 16)*. The objective of the second phase of the IASB's project was to assist entities in providing useful information about the effects of the transition to alternative benchmark rates and support preparers in applying the requirements of the IFRS Standards when changes are made to contractual cash flows or hedging relationships as a result of the transition to an alternative benchmark interest rate. The amendments affect the basis for determining the contractual cash flows as a result of benchmark interest rate reform, hedge accounting and disclosures. The amendments are effective for annual periods beginning on or after January 1, 2021 with early application permitted and include retrospective application with reinstatement of hedge relationships. The REIT is currently in the process of assessing the impact of adopting the amendments in Phase II on its consolidated financial statements.

Impact of COVID-19

The preparation of the REIT's consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions.

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The global outbreak of COVID-19 has resulted in emergency measures mandated by the World Health Organization, public health authorities and federal and state governments. A prolonged COVID-19 pandemic could have a material impact on the financial results and cash flows of the REIT, including tenants' ability to pay rent, occupancy, leasing demand, market rents, labor shortages and disruptions, all of which may impact the REIT's valuation of its properties or the ability of the REIT to meet its financial obligations.

The REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that are believed to be reasonable under the circumstances, based on information available as of December 31, 2020 that affect fair value of properties. Actual results could differ from those estimates under different assumptions.

4. ACQUISITIONS AND DISPOSITIONS

Acquisitions

The REIT acquired seven properties during the year ended December 31, 2020. The operational results of these properties have been included in these consolidated financial statements from the date of acquisition.

Property	Purchase date	Location	Purchase price
Alexander Pointe	May 29, 2020	Salisbury, North Carolina	\$ 8,060
Bermuda Crossroads	May 29, 2020	Chester, Virginia	18,607
Gainsborough Square	May 29, 2020	Chesapeake, Virginia	13,637
Harper Hills Commons	May 29, 2020	Winston-Salem, North Carolina	11,777
Indian Lakes Crossing	May 29, 2020	Virginia Beach, Virginia	7,606
Renaissance Square	May 29, 2020	Davidson, North Carolina	14,313
Stone House Square	May 29, 2020	Hagerstown, Maryland	16,100
Total			\$ 90,100

The net assets acquired for this acquisition are as follows:

Purchase price	\$ 90,100
Transaction costs	1,685
Properties	91,785
Working capital items	(791)
Total	\$ 90,994

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During the year ended December 31, 2019, the REIT acquired a 50% interest in Windmill Plaza, a joint-venture partnership with The Kroger Company. Refer to note 6 for further details.

Property	Purchase date	Location	Purchase price
Windmill Plaza	January 25, 2019	Sterling Heights, Michigan	\$ 7,299

The purchase price of the interest in Windmill Plaza was as follows:

Contribution of note receivable and accrued interest	\$ 11,644
Cash contributions	3,131
Proceeds from partner investment	(7,476)
Purchase price	\$ 7,299
Distribution of financing proceeds	(2,551)
Net cost of equity investment	\$ 4,748

Dispositions

The REIT disposed of eight properties and two property outparcels during the year ended December 31, 2020 as follows:

Property	Number of outparcels	Disposition date	Location	Sales price
Douglas Commons	N/A	January 17, 2020	Douglasville, Georgia	\$ 13,550
Meres Town Center	N/A	January 24, 2020	Tarpon Springs, Florida	6,990
Mitchellville Plaza	N/A	January 31, 2020	Mitchellville, Maryland	34,730
Armstrong Plaza	N/A	March 25, 2020	Wausau, Wisconsin	4,880
Waterbury Plaza	N/A	April 8, 2020	Waterbury, Connecticut	21,000
National Hills	N/A	April 13, 2020	Augusta, Georgia	26,000
Pinewood Plaza	N/A	August 12, 2020	Dayton, Ohio	6,100
Roxborough Marketplace	N/A	October 5, 2020	Littleton, Colorado	18,350
Robson Crossing	1	October 5, 2020	Atlanta, Georgia	600
Derry Meadows Shoppes	1	December 30, 2020	Derry, New Hampshire	1,435
Total				\$ 133,635
Sales price				\$ 133,635
Disposition costs				(3,713)
Working capital items				(454)
Total				\$ 129,468

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The REIT disposed of 10 properties and seven property outparcels during the year ended December 31, 2019 as follows:

Property	Number of outparcels	Disposition date	Location	Sales price
Eastpointe Shopping Center	1	January 11, 2019	Clarksburg, West Virginia	\$ 1,530
Locust Grove	1	January 22, 2019	Locust Grove, Georgia	1,725
Wellington Park	N/A	February 28, 2019	Cary, North Carolina	15,010
Wausau Pick 'n Save	N/A	March 6, 2019	Wausau, Wisconsin	9,900
Kennywood Shops	N/A	June 13, 2019	Pittsburgh, Pennsylvania	7,000
North Augusta Plaza	1	July 22, 2019	North Augusta, South Carolina	1,360
Wedgewood Commons	3	Various ¹	Stuart, Florida	8,590
Seminole Oaks	N/A	August 26, 2019	Seminole, Florida	11,700
County Line Plaza	N/A	August 27, 2019	Philadelphia, Pennsylvania	9,200
Derry Meadows Shoppes	1	September 9, 2019	Derry, New Hampshire	500
Springboro Plaza	N/A	September 13, 2019	Dayton, Ohio	7,200
Oakland Commons	N/A	September 16, 2019	Bloomington, Illinois	7,520
Buckeye Plaza	N/A	December 18, 2019	Cleveland, Ohio	4,500
North Pointe	N/A	December 19, 2019	Columbia, South Carolina	9,210
Merchants Square	N/A	December 20, 2019	Riverdale, Georgia	15,720
Total				\$ 110,665

¹ The REIT disposed of the three property outparcels on July 29, 2019, July 31, 2019 and August 6, 2019, for a total of \$8.6 million.

Sales price	\$ 110,665
Disposition costs	(6,698)
Working capital items	(520)
Total	\$ 103,447

5. PROPERTIES

On December 31, 2020, the REIT owned 75 properties. The change in properties is as follows:

	Note	Year ended December 31,	
		2020	2019
Beginning of the period		\$ 1,288,536	\$ 1,382,955
Acquisitions	4	91,785	—
Capital expenditures		2,741	2,514
Leasing costs		1,341	1,562
Tenant improvements		3,409	5,290
Development and expansion capital		6,558	6,686
Straight-line rent		1,556	1,640
Dispositions	4	(133,635)	(110,665)
IFRIC 21 property tax adjustment		802	—
Change in fair value		14,087	(1,446)
End of the period		\$ 1,277,180	\$ 1,288,536

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

	December 31, 2020	December 31, 2019
Capitalization rate range	6.00% – 9.50%	6.00% – 9.50%
Weighted average capitalization rate	7.34%	7.45%
Impact on fair value due to a 25 basis point change in capitalization rates	\$ 45,387	\$ 44,800
Impact on fair value due to a \$100,000 change in underlying annual stabilized income	\$ 1,362	\$ 1,341

Under the fair value hierarchy, the fair value of the REIT's properties is determined primarily using the overall income capitalization method using Level 3 inputs. The REIT uses the sales price when a firm contract for the sale of a property exists. The fair value of properties reflects the REIT's best estimates as at December 31, 2020. Depending on the duration and impacts of the COVID-19 pandemic, certain aspects of the REIT's operations could be affected, including rental and occupancy rates, demand for retail space, capitalization rates, and the resulting value of the REIT's properties. Based on the REIT's operations to date, property valuations have not been materially impacted by the COVID-19 pandemic. The REIT believes property valuations are appropriate as at December 31, 2020.

6. EQUITY INVESTMENT

The REIT accounts for its investment in Windmill Plaza, a grocery-anchored shopping centre located in Sterling Heights, Michigan, using the equity method. On January 25, 2019, the REIT acquired a 50% partnership interest in Windmill Plaza, in a joint-venture partnership with The Kroger Company for \$7.3 million, before transaction costs. Consideration for the partnership interest included settlement of the REIT's note receivable in the amount of \$9.4 million and interest receivable of \$2.2 million, net of assumed debt and cash on hand.

The change in the REIT's equity investment is as follows:

	Year ended December 31,	
	2020	2019
Beginning of the period	\$ 5,049	\$ —
Contribution of note receivable and accrued interest	—	11,644
Cash contributions	—	3,131
Distribution of financing proceeds	—	(2,551)
Proceeds from partner investment	—	(7,476)
Net cost of equity investment	\$ 5,049	\$ 4,748
Capital contributions	—	150
Share of (loss) income in equity investment	(1,575)	151
End of the period	\$ 3,474	\$ 5,049

The financial position of the REIT's equity investment is as follows:

	December 31, 2020	December 31, 2019
Assets		
Property	\$ 21,690	\$ 22,454
Current assets	1,181	1,296
	\$ 22,871	\$ 23,750
Liabilities		
Debt ¹	\$ 13,758	\$ 11,466
Other non-current liabilities	15	15
Current liabilities	2,150	2,171
	\$ 15,923	\$ 13,652
Net assets at 100%	\$ 6,948	\$ 10,098
At the REIT's 50% interest	\$ 3,474	\$ 5,049

¹Bears interest at a rate of 2.90% at December 31, 2020 and has a maturity date of January 28, 2022.

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The following is a summary of income of the REIT's equity investment:

	Year ended December 31,	
	2020	2019
Rental revenue	\$ 1,804	\$ 524
Property operating expenses	(418)	(274)
General and administrative expenses	(280)	30
Interest and finance costs	(608)	(454)
Change in fair value of property	(3,648)	476
Net (loss) income and comprehensive (loss) income at 100%	\$ (3,150)	\$ 302
At the REIT's 50% interest	\$ (1,575)	\$ 151

Management fees

Pursuant to the terms of the property management and leasing agreement and the development services agreement the REIT provides property, leasing and development management services for Windmill Plaza. In return for its services, the REIT receives the following fees:

- property management fees calculated based on gross income of each tenant;
- development fees for the management of the construction in adherence with the property's development plan; and
- leasing commissions for all executed leases.

Total management fees earned by the REIT under the agreement were \$0.2 million for the year ended December 31, 2020 (December 31, 2019 - \$0.3 million).

7. INTEREST RATE SWAPS

The REIT has entered into certain pay-fixed receive-float interest rate swap contracts to hedge the cash flow risk associated with monthly U.S. LIBOR based interest payments on the REIT's floating rate debt.

The terms of the interest rate swaps are as follows:

					Total/ Weighted average
Pay-fixed rate	1.104%	1.411%	2.884%	2.925%	2.205%
Notional amount	\$ 150,000	\$ 100,000	\$ 175,000	\$ 175,000	\$ 600,000
Receive-floating rate	One-month LIBOR	One-month LIBOR	One-month LIBOR	One-month LIBOR	
Maturity date	February 26, 2021	September 22, 2022	August 22, 2023	August 22, 2025	
Remaining term (years)	0.2	1.7	2.6	4.6	2.5

On February 4, 2020, the REIT terminated \$150.0 million of its \$300.0 million interest rate swap, with an effective date of November 22, 2016. The realized gain as a result of the termination was blended into the pay-fixed rate of the REIT's \$100.0 million interest rate swap, with a maturity date of September 22, 2022, which was reduced to 1.41% and resulted in an increase to the weighted average pay-fixed rate of the REIT's swap portfolio to 2.205%.

In conjunction with the REIT's \$169.0 million mortgage closed on January 14, 2021, the REIT terminated its \$150.0 million interest rate swap with a maturity date of February 26, 2021. This resulted in an increase to the weighted average pay-fixed rate of the REIT's swap portfolio to 2.573%.

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A reconciliation of the change in the fair value of the interest rate swaps and related deferred tax impact is as follows:

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2019		\$ (19,821)	\$ 5,193	\$ (14,628)
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(26,464)	6,745	(19,719)
Cumulative loss arising on cash flow hedges to profit or loss		(457)	118	(339)
Net payments made	16	9,733	(2,506)	7,227
Balance, December 31, 2020		\$ (37,009)	\$ 9,550	\$ (27,459)

	Note	Fair value of interest rate swaps	Deferred income tax	Net impact after tax
Balance, December 31, 2018		\$ 2,818	\$ (740)	\$ 2,078
Change in fair value of cash flow hedges of interest rate risk included in the carrying amount of the hedged item		(16,475)	4,318	(12,157)
Cumulative loss arising on cash flow hedges to profit or loss		(4,374)	1,146	(3,228)
Net payments received	16	(1,790)	469	(1,321)
Balance, December 31, 2019		\$ (19,821)	\$ 5,193	\$ (14,628)

A reconciliation of the interest rate swap asset and liability fair value positions is as follows:

	December 31, 2020	December 31, 2019
Fair value asset position included in the carrying amount of the hedged item	\$ —	\$ 1,761
Fair value liability position included in the carrying amount of the hedged item	(37,009)	(21,582)
Total	\$ (37,009)	\$ (19,821)

8. OTHER ASSETS

Other assets are comprised of the following:

	December 31, 2020	December 31, 2019
Current		
TIF notes receivable	\$ 396	\$ 372
Funds held in escrow ¹	17,980	140
Other ²	370	274
	\$ 18,746	\$ 786
Non-current		
TIF notes receivable	\$ 1,855	\$ 2,268
Funds held in escrow	4,434	25
	\$ 6,289	\$ 2,293
Total	\$ 25,035	\$ 3,079

¹Primarily composed of funds held in escrow related to property acquisitions.

²Other mainly includes deposits and transaction costs.

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

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9. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	December 31, 2020	December 31, 2019
Rent receivable	\$ 5,140	\$ 3,475
Allowance	(852)	(673)
Accrued recovery income	5,087	5,751
Other receivables	3,453	3,172
Total	\$ 12,828	\$ 11,725

Rent receivable consists of base rent and operating expense recoveries billed to tenants. As a result of the COVID-19 pandemic, the REIT has entered into short-term rent deferral programs with certain tenants of which \$0.3 million remains outstanding at December 31, 2020. Accrued recovery income represents amounts that have not been billed to the tenants and are generally billed and paid subsequent to the year in which they were incurred. Other receivables is primarily comprised of the gross amount of consideration for property taxes paid directly by tenants.

The change in the allowance is as follows:

	Year ended December 31,	
	2020	2019
Beginning of the period	\$ (673)	\$ (741)
Allowance	(1,797)	(707)
Bad debt write-off	973	327
Bad debt recovery	645	448
End of the period	\$ (852)	\$ (673)

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

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

	December 31, 2020	December 31, 2019
Current to 30 days	\$ 1,829	\$ 1,629
31 to 60 days	302	273
61 to 90 days	626	190
Greater than 90 days	1,531	710
Total	\$ 4,288	\$ 2,802

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10. DEBT

Debt held by the REIT at December 31, 2020 is as follows:

	Maturity	Remaining extension options	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn ¹
Revolver ¹²	March 21, 2024	Two six-month	L+205 bps ³⁴	N/A ⁵	N/A ⁵	\$ 300,000	\$ 85,851	\$ 214,149
Term loan ¹	March 21, 2025	None	L+195 bps ³⁴	N/A ⁵	N/A ⁵	225,000	225,000	—
Term loan 2 ¹	February 9, 2023	None	L+195 bps ³⁴	N/A ⁵	N/A ⁵	250,000	250,000	—
Mortgage	January 1, 2025	None	3.80 %	3	81,693	42,345	42,345	—
Mortgage	July 1, 2025	None	4.14 %	5	79,890	40,132	40,132	—
Mortgage	January 1, 2031	None	5.50 %	1	22,225	7,016	7,016	—
Mortgage	March 18, 2030	None	3.48 %	8	144,327	82,187	82,187	—
Total						\$ 946,680	\$ 732,531	\$ 214,149

Debt held by the REIT at December 31, 2019 is as follows:

	Maturity	Remaining extension options	Coupon	Properties provided as security	Fair value of security	Maximum available	Principal	Available to be drawn ¹
Revolver ¹²	February 26, 2020	One 1-year	L+200 bps ³⁶	N/A ⁷	N/A ⁷	\$ 362,500	\$ 76,899	\$ 285,601
Term loan ¹	February 26, 2021	None	L+200 bps ³⁶	N/A ⁷	N/A ⁷	362,500	362,500	—
Term loan 2 ¹	February 9, 2023	None	L+200 bps ³⁶	N/A ⁷	N/A ⁷	250,000	250,000	—
Mortgage	March 1, 2021	None	5.75 %	1	20,255	10,141	10,141	—
Mortgage	January 1, 2025	None	3.80 %	3	80,645	43,401	43,401	—
Mortgage	July 1, 2025	None	4.14 %	5	77,855	41,753	41,753	—
Mortgage	January 1, 2031	None	5.50 %	1	22,225	7,523	7,523	—
Total						\$ 1,077,818	\$ 792,217	\$ 285,601

¹ Debt available to be drawn is subject to certain covenants as provided in the REIT's lending agreements, including generally, a maximum of 65% Consolidated Total Indebtedness to Gross Asset Value (the "consolidated leverage ratio"). The calculation of the consolidated leverage ratio is provided in note 20. The revolver, term loan and term loan 2 provide for different spreads over one-month U.S. LIBOR depending on the consolidated leverage ratio.

² The revolver requires a stand-by fee to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.

³ "L" means LIBOR and "bps" means basis points.

⁴ The applicable spread for the revolver where the consolidated leverage ratio is: (i) less than or equal to 45% is 135 bps; (ii) greater than 45% but less than or equal to 50% is 145 bps; (iii) greater than 50% but less than or equal to 55% is 160 bps (iv) greater than 55% but less than or equal to 60% is 185 bps; and (v) greater than 60% is 205 bps. The applicable spread for the term loan and term loan 2 where the consolidated leverage ratio is: (i) less than or equal to 45% is 125 bps; (ii) greater than 45% but less than or equal to 50% is 140 bps; (iii) greater than 50% but less than or equal to 55% is 150 bps (iv) greater than 55% but less than or equal to 60% is 175 bps; and (v) greater than 60% is 195 bps.

⁵ The revolver, term loan and term loan 2 are secured by a general pledge of equity of certain subsidiaries of the REIT. Collectively, those subsidiaries hold an interest in 57 of the REIT's properties.

⁶ The applicable spread where Consolidated Total Indebtedness to Gross Asset Value is: (i) less than or equal to 45% is 115 bps; (ii) greater than 45% but less than or equal to 55% is 165 bps; (iii) greater than 55% but less than or equal to 60% is 200 bps; and (iv) greater than 60% is 225 bps.

⁷ The revolver, term loan and term loan 2 are secured by a general pledge of equity of certain subsidiaries of the REIT. Collectively, those subsidiaries hold an interest in 65 of the REIT's properties.

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The carrying value of debt held by the REIT at December 31, 2020 is as follows:

	Effective rate ¹	Principal	Mark-to-market ("MTM") adjustments and costs	Accumulated amortization of MTM adjustments and costs ²	Carrying amount	Current	Non-current
Revolver	2.50%	\$ 85,851	\$ (1,829)	\$ 359	\$ 84,381	\$ —	\$ 84,381
Term loan	2.45%	225,000	(1,377)	215	223,838	—	223,838
Term loan 2	2.44%	250,000	(2,283)	1,185	248,902	—	248,902
Mortgage	3.80%	42,345	(1,549)	860	41,656	1,096	40,560
Mortgage	4.14%	40,132	(1,079)	684	39,737	1,840	37,897
Mortgage	5.50%	7,016	127	(12)	7,131	536	6,595
Mortgage	3.48%	82,187	(1,561)	102	80,728	1,641	79,087
Total		\$ 732,531	\$ (9,551)	\$ 3,393	\$ 726,373	\$ 5,113	\$ 721,260

The carrying value of debt held by the REIT at December 31, 2019 is as follows:

	Effective rate ¹	Principal	MTM adjustments and costs	Accumulated amortization of MTM adjustments and costs ²	Carrying amount	Current	Non-current
Revolver	4.27%	\$ 76,899	\$ (2,186)	\$ 2,087	\$ 76,800	\$ 76,800	\$ —
Term loan	4.26%	362,500	(3,877)	3,153	361,776	—	361,776
Term loan 2	4.26%	250,000	(1,839)	711	248,872	—	248,872
Mortgage	5.75%	10,141	2,003	(1,633)	10,511	321	10,190
Mortgage	3.80%	43,401	(1,549)	680	42,532	1,056	41,476
Mortgage	4.14%	41,753	(1,079)	585	41,259	1,771	39,488
Mortgage	5.50%	7,523	127	(5)	7,645	507	7,138
Total		\$ 792,217	\$ (8,400)	\$ 5,578	\$ 789,395	\$ 80,455	\$ 708,940

¹ The effective interest rate for the revolver, term loan and term loan 2 includes the impact of unamortized financing costs not yet recorded in interest expense under the effective interest method. The revolver, term loan and term loan 2 effective rates are based on the applicable U.S. LIBOR rate under borrowings as at December 31, 2020.

² Excludes the impact of any available extension options not yet exercised.

During the period ended December 31, 2020, the REIT made principal repayments, net of drawdowns totaling \$64.9 million on the REIT's revolver and mortgages funded by cash received from the disposal of eight properties and two property outparcels and cash from operations.

On February 21, 2020, the REIT refinanced its existing revolving credit facility and term loan (the "credit facility") for four and five-year terms, respectively, for an aggregate of \$525.0 million. The REIT has also reduced pricing on its credit facility and \$250.0 million term loan. The revolver, term loan and term loan 2 bears interest at U.S. LIBOR plus an applicable margin.

On March 18, 2020, The REIT entered into an \$83.3 million 10-year mortgage loan, bearing interest of 3.48%. The loan is secured by a pool of eight properties and is non-recourse to the REIT. Proceeds from the loan were used to reduce borrowings on the REIT's revolver.

On March 20, 2020, the REIT extinguished a mortgage of \$10.1 million, bearing interest of 5.75% with borrowings from the REIT's revolver. The REIT recognized a \$0.3 million gain on the settlement of the mortgage's deferred financing costs and mark-to-market adjustment.

On January 14, 2021, the REIT closed a \$169.0 million 10 year mortgage, bearing interest of 3.75%. The net proceeds from the loan were used to reduce the REIT's nearest term debt maturity in 2023 to \$83.0 million, resulting in an increase of the REIT's debt portfolio to a weighted average term to maturity of 5.9 years.

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11. REIT UNITS AND EXCHANGEABLE UNITS OF SUBSIDIARIES

At December 31, 2020, the REIT has the following REIT units issued and outstanding, in thousands of units:

	Class A	Class I	Class U
Authorized for issue	Unlimited	Unlimited	Unlimited
Issued and outstanding	205	282	46,865

Each class of the exchangeable units issued by the REIT's subsidiaries are presented as financial liabilities in accordance with IAS 32.

Each REIT unit confers the right to one vote at any meetings of REIT unitholders. The REIT is also authorized to issue an unlimited number of special voting units. Special voting units are only issued in tandem with the issuance of securities redeemable for or exchangeable into REIT units. The special voting units do not have any economic entitlement in the REIT with respect to distributions but provide the holder with the same voting rights in the REIT as a holder of REIT units. The GAR B exchangeable units are accompanied by an equivalent number of special voting units.

Each REIT unit entitles the holder to the same rights and obligations as any other REIT unitholder and no REIT unitholder is entitled to any privilege, priority or preference in relation to any other holder of REIT units of class A units, class I units and class U units of the REIT to participate in distributions made by the REIT including distributions of net income, net realized capital gains or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. REIT units will be fully paid and non-assessable when issued and are transferable.

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

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

Exchangeable units of subsidiaries

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

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

Equity offering

On December 10, 2020, the REIT completed a public offering of 6.4 million class U units, at a price of \$9.17 or C\$11.80 per unit, for gross proceeds of approximately \$58.3 million or C\$75.1 million. The costs related to the offering totaled \$2.9 million and are deducted against the cost of units issued. Net proceeds, totaling \$55.4 million were used to repay the revolver.

Normal course issuer bid

The REIT has a normal course issuer bid ("NCIB") which was most recently renewed on May 26, 2020. The NCIB remains in effect until the earlier of May 25, 2021 or the date on which the REIT has purchased an aggregate of 3.7 million class U units, representing 10% of the REIT's public float of 36.7 million class U units at the time of entering the NCIB through the facilities of the TSX.

For the year ended December 31, 2020, no class U units have been purchased and subsequently canceled under the NCIB.

Substantial issuer bid

On January 16, 2019, the REIT commenced a substantial issuer bid (the "offer"), pursuant to which the REIT offered to purchase up to 4.2 million class U units at a purchase price of C\$12.54 (USD\$9.51). On February 20, 2019, the offer expired and the REIT had taken up and paid for 0.3 million class U units for an aggregate cost of \$3.2 million or C\$4.2 million, excluding fees and expenses related to the offer. The class U units purchased for cancellation under the offer represents 0.8% of the diluted class U units outstanding, immediately prior to the expiry of the offer.

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

Class / type	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
	U	A	I	SG1 ¹	SG2 ¹	GAR B	
Balance, December 31, 2019	40,463	247	282	28	920	132	42,072
Issued under equity offering	6,360	—	—	—	—	—	6,360
Exchanged	42	(42)	—	—	—	—	—
Class U units equivalent, December 31, 2020	46,865	205	282	28	920	132	48,432

Class / type	REIT units			Exchangeable units of subsidiaries			Total class U units equivalent
	U	A	I	SR1	SR2	GAR B	
Balance, December 31, 2018	41,524	292	282	220	1,603	388	44,309
Repurchased	(2,237)	—	—	—	—	—	(2,237)
Exchanged	1,176	(45)	—	(192)	(683)	(256)	—
Class U units equivalent, December 31, 2019	40,463	247	282	28	920	132	42,072

¹"SG1" and "SG2" means Slate Grocery One exchangeable units and Slate Grocery Two exchangeable units, respectively.

The change in the carrying amount of exchangeable units of subsidiaries is as follows:

	Year ended December 31,	
	2020	2019
Beginning of the period	\$ 10,926	\$ 19,045
Exchanged	—	(10,839)
Change in fair value	(1,360)	2,720
End of the period	\$ 9,566	\$ 10,926

Deferred unit plans

Trustees of the REIT who are not members of management may elect to receive all or a portion of their trustee fees in the form of deferred units that vest immediately upon grant.

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

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

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

	Year ended December 31,	
	2020	2019
Beginning of the period	135	115
Reinvested distributions	16	11
Issuances	33	22
Redemption	(19)	(13)
End of the period	165	135
Fair value of units¹	\$ 1,460	\$ 1,365

¹At the respective period end date.

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Weighted average class U units outstanding

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

	Year ended December 31,	
	2020	2019
Class U units	40,878	41,361
Class A units	213	256
Class I units	282	282
Exchangeable units of subsidiaries	1,080	1,880
Deferred units	142	127
Total	42,595	43,906

Class U units outstanding

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

	December 31, 2020	December 31, 2019
Class U units	46,865	40,463
Class A units	205	247
Class I units	282	282
Exchangeable units of subsidiaries	1,080	1,080
Deferred units	165	135
Total	48,597	42,207

12. INCOME TAXES

The REIT qualifies as a mutual fund trust for Canadian income tax purposes. The REIT intends to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for Canadian income tax purposes. Accordingly, no provision for current income taxes payable is required, except for amounts incurred in Investment L.P.

Investment L.P. and GAR B made an election to be classified as corporations for U.S. federal tax purposes. Investment L.P. and GAR B are subject to U.S. federal and state income taxation on their allocable shares in Slate Grocery One L.P., a subsidiary of the REIT, and any subsidiary limited partnership thereof.

The REIT is therefore subject to U.S. federal income taxation on its allocable share of rental income derived directly or indirectly through such subsidiary limited partnerships, on a net basis taking into account allowable deductions. Investment L.P. and GAR B are each subject to a combined federal and state income tax rate of 25.75% (December 31, 2019 – 26.20%). To the extent U.S. taxes are paid by Investment L.P. and GAR B such amounts will be creditable against an investor's Canadian federal income tax liability to the extent permitted by Canadian tax law.

Total branch profit taxes paid as of December 31, 2020 was nil (December 31, 2019 – \$1.0 million). Branch profit tax is tax imposed on U.S. earned income that is repatriated to Canada.

The loss carry-forwards and the tax effects of temporary differences that give rise to the recognition of deferred tax assets and liabilities is as follows:

	Year ended December 31,	
	2020	2019
Deferred tax assets		
Deferred financing costs	\$ 196	\$ 61
Financial instruments	8,738	4,489
Loss carry-forwards	11	5,035
	\$ 8,945	\$ 9,585
Deferred tax liabilities		
Properties	\$ 78,552	\$ 71,844
Deferred tax liabilities, net	\$ 69,607	\$ 62,259

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

	Year ended December 31,	
	2020	2019
Beginning of the period	\$ 62,259	\$ 57,481
Deferred tax recovery recorded in AOCI	(4,239)	(4,787)
Deferred tax expense	11,587	9,565
End of the period	\$ 69,607	\$ 62,259

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

	Year ended December 31,	
	2020	2019
Net income before income taxes and unit income (expense)	\$ 55,264	\$ 40,357
Expected income tax expense at Canadian statutory tax rates of 26.5%	\$ 14,645	\$ 10,695
Income not subject to tax	\$ (1,596)	\$ (2,067)
Branch profit tax	1,191	—
Net effect of change in tax rates and differentials	(171)	184
Other items	(68)	753
Current and deferred income tax expense	\$ 14,001	\$ 9,565

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	December 31, 2020	December 31, 2019
Accounts payable and accrued liabilities	\$ 13,742	\$ 11,366
Prepaid rent	2,478	5,126
Tenant improvements payable	318	103
Other payables	3,749	4,802
Total	\$ 20,287	\$ 21,397

Included in accounts payable and accrued liabilities are operating expenses, property taxes, and capital and leasing expenses. Other payables include trustee fees, accrued interest payable and other non-operating items.

14. REVENUE

Revenue is comprised of the following:

	Year ended December 31,	
	2020	2019
Rental revenue	\$ 94,600	\$ 104,887
Common area maintenance recoveries	10,331	12,446
Property tax and insurance recoveries	17,588	19,596
Percentage rent	441	511
Other revenue ¹	3,170	3,875
Total	\$ 126,130	\$ 141,315

¹ Other revenue includes straight-line rent, ground rent, termination fees, storage rent, and non-rental income.

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The REIT enters into long-term lease contracts with tenants for space in the REIT's properties. Leases generally provide for the tenant to pay base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating costs and property tax recoveries. Certain leases have limitations or escalation restrictions on the amount of recoveries or cost reimbursements, which the tenant is obligated to pay regardless of the actual costs incurred by the REIT to operate and maintain the properties.

The REIT's existing leases have a weighted average outstanding term of 5.3 years (December 31, 2019 – 5.0 years) certain of which include clauses to enable periodic upward revisions in rental rates.

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

	December 31, 2020	December 31, 2019
In one year or less	\$ 123,241	\$ 97,221
In more than one year but not more than five years	331,812	264,653
In more than five years	192,119	109,326
Total	\$ 647,172	\$ 471,200

15. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

	Note	Year ended December 31,	
		2020	2019
Asset management fees	22	\$ 5,169	\$ 5,516
Bad debt expense		1,868	883
Professional fees and other		3,089	3,138
Franchise and business taxes		385	1,180
Total		\$ 10,511	\$ 10,717

16. INTEREST AND FINANCE COSTS

Interest and finance costs are comprised of the following:

	Note	Year ended December 31,	
		2020	2019
Interest on debt and finance charges	10	\$ 22,134	\$ 37,190
Interest rate swaps, net settlement	7	9,733	(1,790)
Foreign exchange forward contract, net settlement		270	(24)
Interest income		(5)	(19)
Interest income on notes receivable		—	(51)
Amortization of finance charges	10	2,298	2,062
Amortization of MTM premium	10	(422)	(364)
Interest income on TIF notes receivable		(52)	(74)
Amortization of deferred gain on TIF notes		(88)	(87)
Total		\$ 33,868	\$ 36,843

17. TRANSACTION COSTS

Transaction costs for the year ended December 31, 2020 were \$3.9 million (year ended December 31, 2019 – \$6.7 million), and primarily relate to costs of the disposition of properties and property outparcels.

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18. UNIT (INCOME) EXPENSE

Unit (income) expense is comprised of the following:

	Note	Year ended December 31,	
		2020	2019
Exchangeable units of subsidiaries distributions	11	\$ 932	\$ 1,569
Change in fair value of DUP		86	180
Change in fair value of exchangeable units of subsidiaries	11	(1,360)	2,720
Total		\$ (342)	\$ 4,469

Unit 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.

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

	Note	Year ended December 31,	
		2020	2019
Declared			
REIT unit distributions		\$ 35,874	\$ 35,862
Exchangeable units of subsidiaries distributions	11	932	1,569
		\$ 36,806	\$ 37,431
Add: Distributions payable, beginning of period		3,029	3,157
Less: Distributions payable, end of period		(3,487)	(3,029)
Distributions paid		\$ 36,348	\$ 37,559

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19. FAIR VALUES

Except as noted, the carrying value of financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values in other financial liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The carrying amounts and fair values of the REIT's financial instruments are as follows:

	December 31, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	\$ 2,362	\$ 2,362	\$ 2,412	\$ 2,412
Accounts receivable	12,828	12,828	11,725	11,725
Interest rate swaps	—	—	1,761	1,761
TIF notes receivable	2,251	2,332	2,640	2,703
Financial assets within other assets ¹	22,414	22,414	165	165
Total financial assets	\$ 39,855	\$ 39,936	\$ 18,703	\$ 18,766
Financial liabilities				
Accounts payable and accrued liabilities	\$ 20,287	\$ 20,287	\$ 21,397	\$ 21,397
Distributions payable	3,487	3,487	3,029	3,029
Interest rate swaps	36,745	36,745	21,582	21,582
Revolver	84,381	85,851	76,800	76,899
Term loan	223,838	225,000	361,776	362,500
Term loan 2	248,902	250,000	248,872	250,000
Mortgages ²	169,252	170,863	101,947	103,414
Financial liabilities within other liabilities ³	2,721	2,721	2,780	2,780
Exchangeable units of subsidiaries	9,566	9,566	10,926	10,926
Total financial liabilities	\$ 799,179	\$ 804,520	\$ 849,109	\$ 852,527

¹Relates to funds held in escrow included in other assets.

²Amounts as at December 31, 2019 adjusted to exclude the REIT's share of debt related to its equity accounted property investment.

³Relates to rental security deposits included in other liabilities.

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

December 31, 2020	Level 1		Level 2		Level 3		Total
Financial assets							
Cash	\$	2,362	\$	—	\$	—	\$ 2,362
Accounts receivable		—		12,828		—	12,828
TIF notes receivable		—		—		2,332	2,332
Financial assets within other assets ¹		22,414		—		—	22,414
Total financial assets	\$	24,776	\$	12,828	\$	2,332	\$ 39,936
Financial liabilities							
Accounts payable and accrued liabilities	\$	—	\$	20,287	\$	—	\$ 20,287
Distributions payable		—		3,487		—	3,487
Interest rate swaps		—		36,745		—	36,745
Revolver		—		85,851		—	85,851
Term loan		—		225,000		—	225,000
Term loan 2		—		250,000		—	250,000
Mortgages		—		170,863		—	170,863
Financial liabilities within other liabilities ²		2,721		—		—	2,721
Exchangeable units of subsidiaries		9,566		—		—	9,566
Total financial liabilities	\$	12,287	\$	792,233	\$	—	\$ 804,520

December 31, 2019	Level 1		Level 2		Level 3		Total
Financial assets							
Cash	\$	2,412	\$	—	\$	—	\$ 2,412
Accounts receivable		—		11,725		—	11,725
Interest rate swaps		—		1,761		—	1,761
TIF notes receivable		—		—		2,703	2,703
Financial assets within other assets ¹		165		—		—	165
Total financial assets	\$	2,577	\$	13,486	\$	2,703	\$ 18,766
Financial liabilities							
Accounts payable and accrued liabilities	\$	—	\$	21,397	\$	—	\$ 21,397
Distributions payable		—		3,029		—	3,029
Interest rate swaps		—		21,582		—	21,582
Revolver		—		76,899		—	76,899
Term loan		—		362,500		—	362,500
Term loan 2		—		250,000		—	250,000
Mortgages ³		—		103,414		—	103,414
Financial liabilities within other liabilities ²		2,780		—		—	2,780
Exchangeable units of subsidiaries		10,926		—		—	10,926
Total financial liabilities	\$	13,706	\$	838,821	\$	—	\$ 852,527

¹ Relates to funds held in escrow included in other assets.

² Relates to rental security deposits included in other liabilities.

³ Amounts adjusted to exclude the REIT's share of debt related to its equity accounted property investment.

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20. CAPITAL MANAGEMENT

The REIT's capital management objectives are to:

- i. ensure compliance with the REIT's Declaration of Trust;
- ii. ensure compliance with restrictions in debt agreements; and
- iii. provide sufficient liquidity to operate the REIT's properties, fund obligations as they become due and build unitholder value.

Procedures to monitor compliance with the Declaration of Trust and debt agreements are performed as a part of the overall management of operations and periodically by review of the REIT's board of trustees and reporting to the REIT's lender. In order to maintain or adjust the capital structure, the REIT may issue trust units, debentures or mortgage debt, adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce or increase debt.

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

	December 31, 2020	December 31, 2019
Debt	\$ 726,373	\$ 789,395
Exchangeable units of subsidiaries	9,566	10,926
Unitholders' equity	452,718	403,427
Total	\$ 1,188,657	\$ 1,203,748

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

	December 31, 2020	December 31, 2019
Gross book value	\$ 1,323,554	\$ 1,315,080
Debt	726,373	789,395
Leverage ratio	54.9%	60.0%

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

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

	Threshold	December 31, 2020	December 31, 2019
Maximum leverage ratio: Consolidated Total Indebtedness shall not exceed 65% of Gross Asset Value	< 65%	57.5%	58.8%
Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x ¹	> 1.50x	2.15x	2.25x

¹ Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, as defined by the Amended and Restated Credit Agreement for the revolver and term loan, and the Credit Agreement for term loan 2.

21. RISK MANAGEMENT

The REIT's risk management policies are established to identify, analyze and manage the risks faced by the REIT and to implement appropriate procedures to monitor risks and adherence to established controls. Risk management policies and systems are reviewed periodically in response to the REIT's activities and to ensure applicability.

In the normal course of business, the main risks arising from the REIT's use of financial instruments include credit risk, liquidity risk and market risk. These risks, and the actions taken to manage them, include:

- i. Credit risk

Credit risk is the risk of financial loss to the REIT associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments and loan arrangements and TIF notes receivables. The risk is mitigated by carrying out appropriate credit checks and related due diligence on the significant tenants.

As of December 31, 2020, one individual tenant accounted for 8.5% (December 31, 2019 – 8.3%) of the REIT's base rent.

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ii. Liquidity risk

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they fall due. The REIT's approach to managing liquidity is to ensure sufficient financial resources are available to meet its liabilities as they become due. This includes monitoring of cash, current receivables, current payables, and non-current liabilities as they become current.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to the demand for and the perceived desirability of such investments. Such illiquidity can limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were required to liquidate a real property investment promptly, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

The REIT's contractual commitments as at December 31, 2020 are as follows:

	Total contractual cash flow	2021	2022-2023	2024-2025	Thereafter
Accounts payable and accrued liabilities	\$ 20,287	\$ 20,287	\$ —	\$ —	\$ —
Revolver ¹	85,851	—	—	85,851	—
Revolver interest payable ^{1,2}	7,898	2,400	4,921	577	—
Term loan ¹	225,000	—	—	225,000	—
Term loan interest payable ¹	20,975	4,664	9,639	6,672	—
Term loan 2 ³	250,000	—	250,000	—	—
Term loan 2 interest payable ³	11,004	5,182	5,822	—	—
Mortgages	171,680	5,113	10,857	78,308	77,402
Mortgage interest payable	39,143	6,424	12,213	9,490	11,016
Letters of credit	117	117	—	—	—
Interest rate swap, net of cash outflows	37,009	11,417	18,609	6,983	—
Exchangeable units of subsidiaries	9,566	—	—	—	9,566
Total	\$ 878,530	\$ 55,604	\$ 312,061	\$ 412,881	\$ 97,984

¹ Revolver and term loan interest payable is calculated on \$85.9 million and \$225.0 million (balance outstanding) using an estimated "all in" interest rate of 2.17% and 2.07% respectively under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR forward curve plus the specified margin for the LIBOR rate option under the term loan resulting in "all-in" interest rate of 2.25%. The total revolver and term loan interest payable is calculated until maturity of the initial term.

² Includes stand-by fee on the revolver to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.

³ Term loan 2 interest payable is calculated on \$250.0 million (balance outstanding) using an estimated "all in" interest rate of 2.07% under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR curve plus the specified margin for the LIBOR rate option under the term loan 2 and results in an anticipated increase to the "all-in" interest rate to 2.10%. The total term loan 2 interest payable is calculated until maturity.

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The REIT's contractual commitments as at December 31, 2019 are as follows:

	Total contractual cash flow	2020	2021-2022	2023-2024	Thereafter
Accounts payable and accrued liabilities	\$ 21,397	\$ 21,397	\$ —	\$ —	\$ —
Revolver ¹	76,899	76,899	—	—	—
Revolver interest payable ^{1,2}	554	554	—	—	—
Term loan ¹	362,500	—	362,500	—	—
Term loan interest payable ¹	15,010	13,039	1,971	—	—
Term loan 2 ³	250,000	—	—	250,000	—
Term loan 2 interest payable ³	27,520	8,992	17,539	989	—
Mortgages ⁴	102,817	3,655	16,926	7,735	74,501
Mortgage interest payable ⁴	19,322	4,299	7,150	6,379	1,494
Letters of credit	393	393	—	—	—
Interest rate swap, net of cash outflows	19,822	3,102	9,896	5,594	1,230
Exchangeable units of subsidiaries	10,926	—	—	—	10,926
Total	\$ 907,160	\$ 132,330	\$ 415,982	\$ 270,697	\$ 88,151

¹ Revolver and term loan interest payable is calculated on \$76.9 million and \$362.5 million (balance outstanding) using an estimated "all in" interest rate of 3.68% and 3.59% respectively under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR forward curve plus the specified margin for the LIBOR rate option under the term loan resulting in "all-in" interest rate of 3.48%. The total revolver and term loan interest payable is calculated until maturity of the initial term.

² Includes stand-by fee on the revolver to be paid in an amount equal to 0.25% of the unused portion of the revolver where the unused portion is greater than or equal to 50% of the maximum amount available and 0.15% of the unused portion of the revolver where the unused portion is less than 50% of the maximum amount available, calculated daily.

³ Term loan 2 interest payable is calculated on \$250.0 million (balance outstanding) using an estimated "all in" interest rate of 3.59% under the "less than one year" column. The long-term average interest rate is based on the 30-day LIBOR curve plus the specified margin for the LIBOR rate option under the term loan 2 and results in an anticipated increase to the "all-in" interest rate to 3.51%. The total term loan 2 interest payable is calculated until maturity.

⁴ Amounts adjusted to exclude the REIT's share of debt related to its equity accounted property investment.

iii. Interest rate risk

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

Assuming all fixed-rate debt remain outstanding, there is no impact to the annual interest expense.

Interest rate benchmark reform

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

In response to the announcements, the REIT is in the process of developing a transition program. The aim of the program is to understand where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to an alternative benchmark rate. For the REIT's floating rate debt, the REIT has started discussions with its lenders to amend U.S. LIBOR bank loans so that the reference benchmark interest rate will change to SOFR.

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

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Cash flow sensitivity analysis

The interest rate profile of variable rate interest bearing debt and associated interest rate sensitivity to changes in interest rates is as follows:

	December 31, 2020	December 31, 2019
Variable-rate instruments		
Revolver	\$ 85,851	\$ 76,899
Term loan	225,000	362,500
Term loan 2	250,000	250,000
Effect of interest rate swaps	(600,000)	(750,000)
Total effective floating rate debt	\$ (39,149)	\$ (60,601)
Effective fixed rate debt as a total of all debt	105.3%	107.6%
Annual impact of a 25 bps change on interest rates	\$ —	\$ —

iv. Unit price risk

The REIT is exposed to unit price risk in net income as a result of its exchangeable units of subsidiaries. Exchangeable units of subsidiaries have been classified as liabilities and measured at fair value based on market trading prices. Exchangeable units of subsidiaries negatively impact net income when the unit price rises and positively impact net income when unit prices decline. An increase of \$1.00 in the underlying price of exchangeable units of subsidiaries results in an increase to liabilities and a decrease in net income of \$1.1 million.

v. Currency risk

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

22. RELATED PARTIES

Pursuant to the terms of a management agreement dated April 15, 2014, the Manager provides all management services to the REIT. The Manager agreed to provide certain services in connection with the business of the REIT, including: the structuring of the REIT, liaising with legal and tax counsel; identifying properties for acquisition; maintaining ongoing relationships with the lenders in respect of the mortgage loans for the properties; conducting continuous analysis of market conditions; and advising with respect to the disposition of the properties. In return for its service, the Manager receives the following fees:

- i. an asset management fee equal to 0.4% of the total assets of the REIT;
- ii. an acquisition fee in an amount equal to 0.75% of the gross purchase price of each property (or interest in a property), including the price, due diligence costs, closing costs, legal fees, and additional capital costs for all properties indirectly acquired by the REIT; and
- iii. an annual incentive fee, calculated in arrears, in an aggregate amount equal to 15% of the REIT's funds from operation per class U unit as derived from the annual financial statements of the REIT in excess of \$1.34, subject to ordinary course adjustments for certain transactions affecting the class U units and increasing annually by 50% of the increase in the U.S. consumer price index.

These transactions are in the normal course of operations and are in accordance with the management agreement and are measured at the exchange amount. The exchange amount is the consideration established under contract and as approved by the REIT's Board of Trustees.

Fees to the Manager are as follows:

	Year ended December 31,	
	2020	2019
Asset management	\$ 5,169	\$ 5,516
Acquisition	685	—
Total	\$ 5,854	\$ 5,516

Trustee fees

The REIT's key personnel include trustees and officers of the REIT. For the year ended December 31, 2020 Trustee fees amounted to \$0.5 million (year ended December 31, 2019 – \$0.4 million).

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23. SEGMENTS

The REIT has only one business segment. The REIT owns and operates properties in the U.S. The REIT identifies each property as an individual segment and has aggregated them into a single segment based on similarity in the nature of the tenants and operational processes.

24. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities are as follows:

	Revolver ¹	Term Loan ¹	Term Loan 2	Mortgages	Exchangeable units of subsidiaries	Total
Balance, December 31, 2019	\$ 76,800	\$ 361,776	\$ 248,872	\$ 101,947	\$ 10,926	
Cash flows						
Advances, net	299,717	—	—	81,689	—	381,406
Finance costs	—	(1,377)	(443)	—	—	(1,820)
Debt repayments	(292,594)	(137,500)	—	(14,390)	—	(444,484)
Non-cash changes						
Amortization of MTM adjustments and costs	458	939	473	6	—	1,876
Change in fair value	—	—	—	—	(1,360)	(1,360)
Balance, December 31, 2020	\$ 84,381	\$ 223,838	\$ 248,902	\$ 169,252	\$ 9,566	

	Revolver ¹	Term Loan ¹	Term Loan 2	Mortgages	Exchangeable units of subsidiaries	Total
Balance, December 31, 2018	\$ 143,822	\$ 361,086	\$ 248,533	\$ 118,121	\$ 19,045	
Cash flows						
Advances, net	81,516	—	—	—	—	81,516
Debt repayments	(149,160)	—	—	(16,221)	—	(165,381)
Non-cash changes						
Amortization of MTM adjustments and costs	622	690	339	47	—	1,698
Exchanges	—	—	—	—	(10,839)	(10,839)
Change in fair value	—	—	—	—	2,720	2,720
Balance, December 31, 2019	\$ 76,800	\$ 361,776	\$ 248,872	\$ 101,947	\$ 10,926	

¹ Changes in financial instruments that hedge the REIT's liabilities arising from financing activities include the REIT's interest rate swaps. Refer to note 7 for more detail.

25. SUBSEQUENT EVENTS

The following events have occurred subsequent to December 31, 2020:

- On January 14, 2021, the REIT closed a \$169.0 million mortgage loan with a 2031 maturity. The net proceeds from the loan were used to reduce the REIT's nearest term debt maturity in 2023 to \$83.0 million, resulting in an increase of the REIT's debt portfolio to a weighted average term to maturity of 5.9 years. In conjunction with the mortgage loan transaction, the REIT terminated its \$150.0 million interest rate swap, with an effective date of November 22, 2016. This resulted in an increase to the weighted average pay-fixed rate of the REIT's swap portfolio to 2.573%.
- On January 14, 2021 and February 18, 2021, the REIT declared monthly distributions of \$0.072 per class U unit. Holders of class A units, class I units and units of subsidiaries of the REIT were also entitled to receive an equivalent distribution.
- On February 10, 2021, the REIT completed the acquisition of a portfolio of five grocery-anchored properties, located in the Southeastern United States for \$54.3 million.