



Office
REIT

August 1, 2019

Slate Office REIT Reports Second Quarter 2019 Results

TORONTO, ON - Slate Office REIT (TSX: SOT.UN) (the "REIT") reported today financial results for the three months ended June 30, 2019. Senior management is hosting a conference call at 9:00 a.m. ET on Friday, August 2, 2019 to discuss the results and ongoing business initiatives of the REIT. The dial-in details can be found below.

"The REIT had continued solid operational results in the second quarter of 2019, highlighted by strong leasing and six consecutive quarters of positive same property NOI growth," said Scott Antoniak, Chief Executive Officer of Slate Office REIT. "The completion of the strategic joint venture arrangement with a global private equity partner in the second quarter resulted in a 19% IRR for our unitholders, validated a large part of our net asset value and provided liquidity to strengthen the REITs financial position going forward."

For the CEO's letter to unitholders for the quarter, please follow the link [here](#).

Second Quarter 2019 Highlights

- **Same property NOI:** The second quarter is the sixth consecutive quarter of same-property NOI growth for the REIT. Same property net operating income ("NOI") was \$22.5 million for the second quarter of 2019, an increase of \$0.4 million or 1.6% compared to the same period in 2018.
- **Continued strong leasing and positive leasing spreads:** The REIT completed a total of 149,226 square feet of leasing in the second quarter, comprised of 63,452 square feet of new lease deals and 85,774 square feet of renewals. This included the completion of a 50,000 square feet lease renewal with Extendicare at Gateway Centre for a 10 year term. Leasing spreads in the quarter were 23.0% above expiring or in-place building rents.
- **AFFO and AFFO pay-out ratio:** The AFFO pay-out ratio for the second quarter of 2019 was 60.4%. Adjusted funds from operations ("AFFO") was \$12.2 million or \$0.16 per unit for the three months ended June 30, 2019.
- **Core-FFO:** Core funds from operations ("Core-FFO") was \$13.7 million or \$0.19 per unit for the second quarter of 2019. As a result of refinancing activity related to the sale of a 25% interest in six properties in the Greater Toronto

Area, which resulted in reduced financing rates and increased proceeds, the REIT expensed \$0.7 million of deferred financing costs. Had these costs not been expensed, Core-FFO per unit would have been \$0.20.

- **Unit repurchases under Normal Course Issuer Bid (“NCIB”):** The REIT has now repurchased a total of 2,132,677 units for an aggregate cost of \$13.0 million in 2019. These repurchases have been immediately accretive to NAV.
- **Completion of Joint Venture Arrangement:** On April 12, 2019, the REIT completed its sale of a 25% interest in six office properties located in the Greater Toronto Area to an investment fund advised by Wafra Inc. ("Wafra"), a sophisticated global private equity and alternative asset investor. The sale price for the 25% interest was \$131.8 million, implying a 100% value of \$527.2 million or \$269 per square foot. This pricing represents a levered internal rate of return of 19% over the hold period for the buildings. On closing, the REIT repaid approximately \$70 million in debt, including the short-term bridge financing related to the acquisition of 120 South LaSalle. In conjunction with the sale, the REIT received incremental debt on five of the six properties, resulting in \$31.5 million of additional proceeds to the REIT at its share and extends the maturities by 1.5 years. This refinancing increased the amount of fixed rate debt by \$100.9 million. At quarter-end, 79% of the REIT's total debt was subject to fixed interest rates. The REIT's pro forma fixed rate debt is approximately 88.4% after giving affect to interest rate swaps executed subsequent to quarter-end.

Current Unit Price Continues to Represent a Compelling Investment Opportunity

The current price for the REIT's units continues to reflect a substantial discount to the REIT's IFRS net asset value per unit of \$8.53 at June 30, 2019. As previously communicated, management continues to believe that there is a substantive basis to support a net asset value of \$8.53 per unit, including:

- **Wafra's investment provides a market value for \$527.2 million of the REIT's assets:** The price received from a large sophisticated global investor for six properties in the Greater Toronto Area provides validation for the net asset value of 28% of the REIT's portfolio. Further, the REIT received appraisals for each property that were consistent with the REIT's transaction price.
- **Recent acquisitions in the United States:** The REIT's acquisition of its two U.S. assets in Chicago, Illinois each occurred in 2018, and accordingly, represent recent market trading prices. Management continues to observe multiple comparable sales in the Chicago market at pricing parameters in excess of the REIT's acquisition metrics.

The following is an illustration of the construction of the REIT's net asset value at June 30, 2019:

<i>(millions, except per unit amount)</i>		June 30, 2019
GTA Office Portfolio (75% ownership)	\$	387.1
Recent U.S. acquisitions		323.2
Other properties		994.6
Debt and working capital		(1,080.0)
Net asset value	\$	624.9
Net asset value per unit	\$	8.53

This gap between the prevailing trading price and net asset value has created a compelling investment opportunity to purchase units of the REIT. Specifically, the prevailing market price implies an 8.0% capitalization rate for the 'other properties' in the table above on next twelve months expected net operating income, which is inconsistent with current valuation metrics for comparable properties.

Summary of Q2 2019 Results

<i>(thousands of dollars, except per unit amounts)</i>		Three months ended June 30,	
	2019	2018	Change %
Rental revenue	\$ 54,452	\$ 52,056	4.6 %
Net operating income ("NOI")	26,384	25,212	4.6 %
Net income	9,514	23,592	(59.7)%
Same-property NOI	22,455	22,104	1.6 %
Weighted average diluted number of trust units (000s)	74,093	75,139	(1.4)%
Funds from operations ("FFO")	13,103	14,810	(11.5)%
FFO per unit	0.18	0.20	(10.0)%
FFO payout ratio	56.2%	95.1%	(38.9)%
Core FFO	13,719	15,389	(10.9)%
Core FFO per unit	0.19	0.20	(5.0)%
Core FFO payout ratio	53.7%	91.5%	(37.8)%
AFFO	12,193	12,836	(5.0)%
AFFO per unit	0.16	0.17	(5.9)%
AFFO payout ratio	60.4%	109.7%	(49.3)%

	June 30, 2019	December 31, 2018	Change %
Total assets	\$ 1,742,831	\$ 1,866,729	(6.6)%
Total debt	1,064,353	1,175,826	(9.5)%
Portfolio occupancy ⁽¹⁾	87.2%	87.6%	(0.4)%
Loan to value ratio	61.2%	63.1%	(1.9)%
Net debt to adjusted EBITDA leverage ⁽²⁾	10.0x	12.0x	(2.0)x
Interest coverage ratio ⁽²⁾	2.2x	2.2x	-

(1) Including redevelopment properties.

(2) EBITDA is calculated using trailing twelve month actuals, as calculated below.

CONFERENCE CALL AND PRESENTATION DETAILS

Senior management will host a live conference call at 9:00 a.m. ET on Friday, August 2, 2019 to discuss the results and ongoing business initiatives of the REIT.

The conference call can be accessed by dialing (647) 427-2311 or 1 (866) 521-4909. Additionally, the conference call will be available via simultaneous audio found at www.snwebcastcenter.com/webcast/slate/2019/0802. A replay will be accessible until August 15, 2019 via the REIT's website or by dialing (416) 621-4642 or 1 (800) 585-8367 (access code 6589744) approximately two hours after the live event.

ABOUT SLATE OFFICE REIT (TSX: SOT.UN)

Slate Office REIT is an open-ended real estate investment trust. The REIT's portfolio currently comprises 38 strategic and well-located real estate assets located primarily across Canada's major population centres including two downtown assets in Chicago, Illinois. The REIT is focused on maximizing value through internal organic rental and occupancy growth and strategic acquisitions. Visit slateofficereit.com to learn more.

ABOUT SLATE ASSET MANAGEMENT L.P.

Slate Asset Management L.P. is a leading real estate investment platform with over \$6.0 billion in assets under management. Slate is a value-oriented manager and a significant sponsor of all of its private and publicly-traded investment vehicles, which are tailored to the unique goals and objectives of its investors. The firm's careful and selective investment approach creates long-term value with an emphasis on capital preservation and outsized returns. Slate is supported by exceptional people, flexible capital and a proven ability to originate and execute on a wide range of compelling investment opportunities. Visit slateam.com to learn more.

SUPPLEMENTAL INFORMATION

All interested parties can access Slate Office REIT's Supplemental Information online at slateofficereit.com in the Investors section. These materials are also available on Sedar or upon request at ir@slateam.com or (416) 644-4264.

FORWARD LOOKING STATEMENTS

Certain statements herein may be forward-looking statements within the meaning of applicable securities laws. These statements reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of the REIT including expectations for the current financial year, and include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Statements that contain words such as "could", "should", "would", "anticipate", "expect", "believe", "plan", "intend", "will", "may", "might" and similar expressions or statements relating to matters that are not historical facts constitute forward-looking statements.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on the REIT's current estimates and assumptions, which are subject to significant risks and uncertainties. Forward-looking statements contained herein are made as the date hereof and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are contained herein except as expressly required by applicable securities laws.

NON-IFRS MEASURES

We disclose a number of financial measures in this news release that are not measures used under IFRS, including NOI, same-property NOI, FFO, FFO payout ratio, Core-FFO, Core-FFO payout ratio, AFFO, AFFO payout ratio, IFRS

net asset value, adjusted EBITDA, net debt to adjusted EBITDA and the interest coverage ratio, in addition to certain measures on a per unit basis.

- NOI is defined as rental revenue less operating property expenses, prior to straight-line rent and other changes. Same-property NOI includes those properties owned by the REIT for each of the current period and the relevant comparative period.
- FFO is defined as net income and comprehensive income adjusted for certain items including leasing costs amortized to revenue, change in fair value of properties, change in fair value of financial instruments, disposition costs, depreciation of hotel asset, change in fair value of Class B LP units, distributions to Class B LP unitholders and subscription receipts equivalent amount.
- Core-FFO is defined as FFO adjusted for the REIT's share of lease payments received for its Data Centre asset, which for IFRS purposes is accounted for as a finance lease and removes the impact of mortgage discharge fees (if any).
- AFFO is defined as FFO adjusted for certain items including guaranteed income supplements, amortization of deferred transaction costs, de-recognition and amortization of mark-to-market adjustments on mortgages refinanced or discharged, adjustments for interest rate subsidies received, recognition of the REIT's share of lease payments received for its Data Centre asset, which for IFRS purposes is accounted for as a finance lease, amortization of straight-line rent and normalized direct leasing and capital costs.
- FFO payout ratio, Core-FFO payout ratio and AFFO payout ratio are defined as distributions declared divided by FFO, Core-FFO and AFFO, respectively.
- FFO per unit, Core-FFO per unit and AFFO per unit are defined as FFO, Core-FFO and AFFO divided by the weighted average diluted number of units outstanding, respectively.
- IFRS net asset value is defined as the aggregate of the carrying value of the REIT's equity, Class B LP units and deferred units.
- Adjusted EBITDA is defined as earnings before interest, income taxes, depreciation, fair value gains (losses) from both financial instruments and investment properties, while also excluding non-recurring items such as transaction costs from dispositions, acquisitions or other events and adjusting income received from the Data Centre to cash received as opposed to finance income recorded for accounting purposes.
- Net debt to adjusted EBITDA is calculated by dividing the aggregate amount of debt outstanding, less cash on hand, by annualized adjusted EBITDA.
- Interest coverage ratio is defined as adjusted EBITDA divided by cash interest paid.

We utilize these measures for a variety of reasons, including measuring performance, managing the business, capital allocation and the assessment of risk. Descriptions of why these non-IFRS measures are useful to investors and how management uses each measure are included in Management's Discussion and Analysis, which readers should read when evaluating the measures included herein. We believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses

in a manner similar to management. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others.

FOR FURTHER INFORMATION

Investor Relations

Tel: +1 416 644 4264

Slate Office REIT

ir@slateam.com

Calculation and Reconciliation of Non-IFRS Measures

The tables below summarize a calculation of non-IFRS measures based on IFRS financial information.

The calculation of NOI is as follows:

		Three months ended June 30,	
		2019	2018
Revenue	\$	54,452	\$ 52,056
Property operating expenses		(26,468)	(26,377)
IFRIC 21 property tax adjustment ⁽¹⁾		(2,212)	(585)
Straight-line rents and other changes		612	118
Net operating income	\$	26,384	\$ 25,212

The reconciliation of net income to FFO, Core-FFO and AFFO is as follows:

		Three months ended June 30,	
<i>(thousands of dollars, except per unit amounts)</i>		2019	2018
Net income	\$	9,514	\$ 23,592
Add (deduct):			
Leasing costs amortized to revenue		1,331	930
Change in fair value of properties		(8,384)	(10,535)
IFRIC 21 property tax adjustment ⁽¹⁾		(2,212)	(585)
Change in fair value of financial instruments		5,799	(116)
Disposition costs		7,861	—
Depreciation of hotel asset		247	228
Deferred income tax expense (recovery)		(313)	305
Change in fair value of Class B LP units		(1,268)	—
Distributions to Class B unitholders		528	991
FFO ⁽¹⁾	\$	13,103	\$ 14,810
Finance income on finance lease receivable		(909)	(946)
Finance lease payments received		1,525	1,525
Core-FFO ⁽¹⁾	\$	13,719	\$ 15,389
Amortization of deferred transaction costs		1,648	515
Amortization of debt mark-to-market adjustments		(50)	(96)
Amortization of straight-line rent		(719)	(812)
Interest rate subsidy		108	108
Guaranteed income supplements		285	300
Normalized direct leasing and capital costs		(2,798)	(2,568)
AFFO ⁽¹⁾	\$	12,193	\$ 12,836
Weighted average number of diluted units outstanding (000s)		74,093	75,139
FFO per unit ⁽¹⁾	\$	0.18	\$ 0.20
Core-FFO per unit ⁽¹⁾		0.19	0.20
AFFO per unit ⁽¹⁾		0.16	0.17
FFO payout ratio ⁽¹⁾		56.2%	95.1%
Core-FFO payout ratio ⁽¹⁾		53.7%	91.5%
AFFO payout ratio ⁽¹⁾		60.4%	109.7%

(1) Refer to "Non-IFRS measures" section above.

The reconciliation of cash flow from operating activities to FFO, Core-FFO and AFFO is as follows:

		Three months ended June 30,	
		2019	2018
Cash flow from operating activities	\$	(5,881)	\$ 12,120
Add (deduct):			
Leasing costs amortized to revenue		1,331	930
Disposition costs		7,861	—
Subscription receipts equivalent amount ⁽¹⁾		—	—
Working capital items		11,474	1,306
Straight-line rent and other changes		(612)	(118)
Interest and other finance costs		(13,156)	(10,094)
Interest paid		11,558	9,675
Distributions paid to Class B unitholders		528	991
FFO	\$	13,103	\$ 14,810
Finance income on finance lease receivable		(909)	(946)
Finance lease payments received		1,525	1,525
Core-FFO	\$	13,719	\$ 15,389
Amortization of deferred transaction costs		1,648	515
Amortization of debt mark-to-market adjustments		(50)	(96)
Amortization of straight-line rent		(719)	(812)
Interest rate subsidy		108	108
Guaranteed income supplements		285	300
Normalized direct leasing and capital costs		(2,798)	(2,568)
AFFO	\$	12,193	\$ 12,836

(1) Refer to "Non-IFRS measures" section above.

The calculation of trailing twelve month adjusted EBITDA is as follows:

		Trailing twelve months ended	
		2019	June 30, 2018
Net income	\$	61,074	\$ 69,277
Straight line rent and other changes		277	(652)
Interest income		(444)	(124)
Interest and finance costs		52,053	33,238
Change in fair value of properties		(28,610)	(18,593)
IFRIC 21 property tax adjustment		4,885	—
Change in fair value of financial instruments		11,896	(6,386)
Distributions to Class B shareholders		3,347	3,964
Disposition costs		10,403	67
Depreciation of hotel asset		983	869
Change in fair value of Class B LP units		(9,249)	(2,008)
Deferred income tax recovery		(490)	(485)
Adjusted EBITDA	\$	106,125	\$ 79,167

(1) Refer to "Non-IFRS measures" section above.

The calculation of net debt is as follows:

		2019	June 30, 2018
Debt, non-current	\$	869,462	\$ 879,069
Debt, current		194,891	137,857
Debt	\$	1,064,353	\$ 1,016,926
Less: cash on hand		6,019	5,709
Net debt	\$	1,058,334	\$ 1,011,217

The calculation of net debt to adjusted EBITDA is as follows:

		Trailing twelve months ended 2019	June 30, 2018
Net debt	\$	1,058,334	\$ 1,011,217
Adjusted EBITDA ⁽²⁾		106,125	79,167
Net debt to Adjusted EBITDA ⁽¹⁾		10.0x	12.8x

(1) Refer to "Non-IFRS measures" section above.

(2) Adjusted EBITDA is based on actuals for the twelve months preceding the balance sheet date.

The interest coverage ratio is calculated as follows:

		Trailing twelve months ended 2019	June 30, 2018
Adjusted EBITDA	\$	106,125	\$ 79,167
Interest expense		48,212	31,344
Interest coverage ratio ⁽¹⁾		2.2x	2.5x

(1) Refer to "Non-IFRS measures" section above.

The following is the calculation of IFRS net asset value on a total and per unit basis at June 30, 2019 and December 31, 2018 to the REIT's consolidated financial statements:

		June 30, 2019	December 31, 2018
Equity	\$	594,118	\$ 611,447
Class B LP units		31,024	31,552
Deferred unit liability		761	636
Deferred tax asset	\$	(975)	\$ (757)
IFRS net asset value	\$	624,928	\$ 642,878
Diluted number of units outstanding ⁽¹⁾		73,293	75,300
IFRS net asset value per unit	\$	8.53	\$ 8.54

(1) Represents the fully diluted number of units outstanding and includes outstanding REIT units, DUP units and Class B LP units.