

City Office REIT, Inc.  
Form 10-Q  
May 23, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2014**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file no: 001-36409**

**CITY OFFICE REIT, INC.**

**Maryland**

**98-1141883**

**(State or other jurisdiction of incorporation)**

**(IRS Employer Identification No.)**

**1075 West Georgia Street**

**Suite 2600**

**Vancouver, BC**

**V6E 3C9**

**(Address of principal executive offices) (Zip Code)**

**Registrant's telephone number, including area code: (604) 806-3366**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at May 21, 2014 was 6,582,150.

**Table of Contents**

**CITY OFFICE REIT, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTER ENDED MARCH 31, 2014**

**Table of Contents**

|   | <b>Page</b> |
|---|-------------|
| Part I. <u>Financial Information</u>  | 3           |
| Item 1. <u>Financial Statements (Unaudited)</u>   | 3           |
| <i>City Office REIT, Inc.</i>   | 3           |
| <u>Condensed Balance Sheet as of March 31, 2014 and December 31, 2013</u>                                 | 3           |
| <u>Notes to Condensed Balance Sheet</u>   | 4           |
| <i>City Office REIT, Inc. Predecessor</i>   | 6           |
| <u>Combined Balance Sheets as of March 31, 2014 and December 31, 2013</u>                                 | 6           |
| <u>Combined Statements of Operations for the Three Months Ended March 31, 2014 and 2013</u>               | 7           |
| <u>Combined Statements of Changes in Equity for the Three Months Ended March 31, 2014 and 2013</u>        | 8           |
| <u>Combined Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013</u>               | 9           |
| <u>Notes to Combined Financial Statements</u>   | 10          |
| Item 1A. <u>Pro Forma Consolidated Financial Statements (Unaudited)</u>                                   | 17          |
| <i>City Office REIT, Inc.</i>   | 21          |
| <u>Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2014</u>                                | 21          |
| <u>Unaudited Pro Forma Consolidated Statement of Operations for the Three Months Ended March 31, 2014</u> | 22          |
| <u>Notes and Management's Assumptions to Unaudited Pro Forma Consolidated Financial Statements</u>        | 23          |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>      | 27          |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                 | 35          |
| Item 4. <u>Controls and Procedures</u>  | 36          |
| PART II. <u>Other Information</u>   | 37          |
| Item 1. <u>Legal Proceedings</u>  | 37          |
| Item 1A. <u>Risk Factors</u>  | 37          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                | 37          |
| Item 3. <u>Defaults Upon Senior Securities</u>  | 37          |
| Item 4. <u>Mine Safety Disclosures</u>  | 38          |

|         |                          |    |
|---------|--------------------------|----|
| Item 5. | <u>Other Information</u> | 38 |
| Item 6. | <u>Exhibits</u>          | 38 |

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****City Office REIT, Inc.****Condensed Balance Sheets**

|  | <b>March 31,<br/>2014<br/>(Unaudited)</b> | <b>December 31,<br/>2013</b> |
|--|---|------------------------------|
| <b>Assets</b>  |   |                              |
| Cash and cash equivalent   | \$ 1,000                                  | \$ 1,000                     |
| <b>Total assets</b>  | <b>\$ 1,000</b>                           | <b>\$ 1,000</b>              |
| <b>Stockholders Equity</b>   |   |                              |
| Common stock, \$0.01 par value, 100,000 shares authorized, 1,000 shares issued and outstanding | \$ 10                                     | \$ 10                        |
| Additional paid in capital   | 990                                       | 990                          |
| <b>Total stockholders equity</b>   | <b>\$ 1,000</b>                           | <b>\$ 1,000</b>              |

*See accompanying notes to condensed balance sheet.*

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**Table of Contents**

**CITY OFFICE REIT, Inc.**

**Notes to Condensed Balance Sheet**

**(Unaudited)**

***1. Organization***

City Office REIT, Inc. (the Company) was organized in the state of Maryland on November 26, 2013. On April 21, 2014, the Company completed its initial public offering (IPO) of shares of the Company's common stock. The Company contributed the net proceeds of the IPO to City Office REIT Operating Partnership, L.P., a Maryland limited partnership (the Operating Partnership), in exchange for common units in our Operating Partnership. Both the Company and the Operating Partnership commenced operations upon completion of the IPO and certain related formation transactions (the Formation Transactions).

The Company's interest in the Operating Partnership entitles the Company to share in distributions from, and allocations of profits and losses of, the Operating Partnership in proportion to the Company's percentage ownership of common units. As the sole general partner of the Operating Partnership, the Company has the exclusive power under the partnership agreement to manage and conduct the Operating Partnership's business, subject to limited approval and voting rights of the limited partners.

The Company intends to elect to be taxed and to operate in a manner that will allow it to qualify as a real estate investment trust (REIT) commencing with its taxable year ending December 31, 2014. Subject to qualification as a REIT, the Company will be permitted to deduct distributions paid to its stockholders, eliminating the U.S. federal taxation of income represented by such distributions at the Company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates.

Pursuant to the Jumpstart Our Business Startups Act (the JOBS Act), the Company qualifies as an emerging growth company (EGC). An EGC may choose to take advantage of the extended private company transition period provided for complying with new or revised accounting standards that may be issued by the Financial Accounting Standards Board (FASB) or the Securities and Exchange Commission (the SEC). The Company has elected to opt out of such extended transition period. This election is irrevocable.

***2. Initial Public Offering and Formation Transactions***

The Company's operations will be carried on primarily through the Operating Partnership and wholly owned subsidiaries of the Operating Partnership. Both the Company and the Operating Partnership commenced operations upon completion of the IPO and Formation Transactions.

On April 21, 2014, we closed the IPO, pursuant to which we sold 5,800,000 shares of our common stock to the public at a public offering price of \$12.50 per share. We raised \$72.5 million in gross proceeds, resulting in net proceeds to us of approximately \$62.7 million after deducting approximately \$5.1 million in underwriting discounts and approximately \$4.7 million in other expenses relating to the IPO. On May 9, 2014, the underwriters of the IPO exercised their overallotment option to purchase an additional 782,150 shares of our common stock at the IPO price of \$12.50 a share resulting in additional gross proceeds to us of approximately \$9.8 million resulting in net proceeds to us of \$9.1 million after deducting approximately \$0.7 million in underwriting discounts. The Company's common

stock began trading on the New York Stock Exchange under the symbol CIO on April 15, 2014.

The Company contributed the net proceeds of the IPO to the Operating Partnership in exchange for common units in the Operating Partnership. The Operating Partnership utilized a portion of the net proceeds of the IPO to pay fees in connection with the assumption of the indebtedness, pay expenses incurred in connection with the IPO and Formation Transactions and repay loans that were made to several of the contributing entities by certain investors in such entities. The remaining funds are expected to be used for general working capital purposes and to fund potential future acquisitions.

Pursuant to the Formation Transactions and exercise of the underwriters' overallotment option, the Operating Partnership acquired a 100% interest in each of the Washington Group Plaza, Cherry Creek and Corporate Parkway properties and an approximate 76% economic interest in the AmberGlen property, 90% interest in the Central Fairwinds property and 95% interest in the City Center property. These initial property interests were contributed in exchange for 3,251,903 common units, 1,610,765 common stock and \$28.5 million of cash.

## **Table of Contents**

In connection with the IPO and Formation Transactions, the Company, through its Operating Partnership, extinguished the loan on the Central Fairwinds property and completed a refinancing of three properties (Cherry Creek, City Center and Corporate Parkway) with a new \$95 million non-recourse mortgage loan and proceeds from the IPO. The loan bears a fixed interest rate of 4.34% and matures on May 6, 2021.

The accompanying balance sheet of the Company does not reflect the IPO or the Formation Transactions completed on April 21, 2014.

### ***3. Summary of Significant Accounting Policies***

#### ***Basis of Presentation***

The unaudited balance sheet has been prepared by management in accordance with United States generally accepted accounting principles. In the opinion of management, this unaudited balance sheet reflects all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's financial position for the interim period presented. The Company did not have any operations from the date of formation to March 31, 2014.

#### ***Offering Costs***

Costs related to the IPO and Formation Transactions paid by the Company's predecessor were reimbursed from the proceeds of the IPO.

### ***4. Subsequent Events***

As discussed in Note 2, the Company completed the IPO and Formation Transactions on April 21, 2014 and repaid approximately \$101.0 million of outstanding indebtedness on four properties upon closing.

On April 21, 2014, the Company, through its Operating Partnership, entered into a new \$11.0 million senior secured revolving credit facility which remains undrawn. The revolving credit facility bears an interest rate of LIBOR plus 2.75%.

On April 29, 2014, the Company, through its Operating Partnership, completed a \$25.4 million refinancing of the AmberGlen property. The loan bears an interest rate of 4.38% and matures on May 1, 2019.

On May 21, 2014, the Company, through its Operating Partnership agreed to acquire a property in Denver, Colorado for \$25.1 million.



**Table of Contents**

**City Office REIT, Inc. Predecessor**  
**Condensed Combined Balance Sheets**

|   | <b>March 31,<br/>2014<br/>(Unaudited)</b> | <b>December 31,<br/>2013</b> |
|---|---|------------------------------|
| <b>Assets</b>   |   |                              |
| Real estate properties, cost                              |   |                              |
| Land  | \$ 55,909,525                             | \$ 30,164,513                |
| Building and improvement                                  | 78,819,693                                | 62,908,338                   |
| Tenant improvement  | 19,144,019                                | 14,590,971                   |
| Furniture, fixtures and equipment                         | 198,114                                   | 198,114                      |
|   | 154,071,351                               | 107,861,936                  |
| Accumulated depreciation                                  | (9,266,078)                               | (7,735,450)                  |
|   | 144,805,273                               | 100,126,486                  |
| Investments in unconsolidated entity                      |   | 4,337,899                    |
| Cash and cash equivalents                                 | 6,528,607                                 | 7,127,764                    |
| Restricted cash   | 8,465,389                                 | 7,368,124                    |
| Rents receivable, net                                     | 5,526,962                                 | 4,680,284                    |
| Deferred financing costs, net of accumulated amortization | 4,019,764                                 | 1,167,666                    |
| Deferred leasing costs, net of accumulated amortization   | 2,246,430                                 | 2,302,841                    |
| Acquired lease intangibles assets, net                    | 24,105,435                                | 13,751,563                   |
| Prepaid expenses and other assets                         | 646,913                                   | 296,572                      |
| Deferred offering costs                                   | 3,395,712                                 | 1,830,950                    |
| <b>Total Assets</b>                                       | <b>\$ 199,740,485</b>                     | <b>\$ 142,990,149</b>        |
| <b>Liabilities and Equity</b>                             |   |                              |
| <b>Liabilities:</b>                                       |   |                              |
| Mortgage loans payable                                    | \$ 159,388,640                            | \$ 109,916,430               |
| Accounts payable and accrued liabilities                  | 5,557,301                                 | 2,347,999                    |
| Deferred rent   | 910,833                                   | 1,488,618                    |
| Tenant rent deposits                                      | 1,483,427                                 | 1,361,641                    |
| Acquired lease intangibles liability, net                 | 393,389                                   | 167,346                      |
| <b>Total Liabilities</b>                                  | <b>167,733,590</b>                        | <b>115,282,034</b>           |
| <b>Commitments and Contingencies (Note 9)</b>             |   |                              |
| <b>Equity:</b>  |   |                              |
| Owners equity   | 31,066,081                                | 26,624,375                   |
| Noncontrolling interests                                  | 940,814                                   | 1,083,740                    |

|                                     |                       |                       |
|-------------------------------------|-----------------------|-----------------------|
| <b>Total Equity</b>                 | <b>32,006,895</b>     | <b>27,708,115</b>     |
| <b>Total Liabilities and Equity</b> | <b>\$ 199,740,485</b> | <b>\$ 142,990,149</b> |

*See accompanying notes to the condensed combined financial statements.*

Table of Contents

**City Office REIT, Inc. Predecessor**  
**Condensed Combined Statements of Operations**  
**(Unaudited)**

|  | <b>Three Months Ended<br/>March 31,</b> |                    |
|--|---|--------------------|
|  | <b>2014</b>                             | <b>2013</b>        |
| <b>Revenues:</b>   |   |                    |
| Rental income  | \$ 7,236,758                            | \$ 2,896,233       |
| Expense reimbursement                                    | 450,043                                 | 288,236            |
| Other  | 295,660                                 | 199,793            |
| <b>Total Revenues</b>                                    | <b>7,982,461</b>                        | <b>3,384,262</b>   |
| <b>Operating Expenses:</b>                               |   |                    |
| Property operating expenses                              | 2,304,462                               | 952,835            |
| Insurance  | 152,858                                 | 111,117            |
| Property taxes   | 461,104                                 | 306,385            |
| Property acquisition costs                               | 806,344                                 |                    |
| Property management fees                                 | 207,617                                 | 122,219            |
| Depreciation and amortization                            | 3,159,977                               | 1,123,980          |
| <b>Total Operating Expenses</b>                          | <b>7,092,362</b>                        | <b>2,616,536</b>   |
| Operating income   | 890,099                                 | 767,726            |
| Interest expense, net                                    | 3,161,414                               | 943,773            |
|  | (2,271,315)                             | (176,047)          |
| Gain on equity investment                                | 4,474,644                               |                    |
| Equity in income of unconsolidated entity                |   | 99,337             |
| <b>Net Income/(Loss)</b>                                 | <b>2,203,329</b>                        | <b>(76,710)</b>    |
| <b>Net Loss Attributable to Noncontrolling Interests</b> | <b>9,926</b>                            | <b>13,719</b>      |
| <b>Net Income/(Loss) Attributable to Predecessor</b>     | <b>\$ 2,213,255</b>                     | <b>\$ (62,991)</b> |

*See accompanying notes to the condensed combined financial statements.*

Table of Contents

## City Office REIT, Inc. Predecessor

## Condensed Combined Statements of Changes in Equity

|   | Owners               | Noncontrolling<br>Interests | Total                |
|---|----------------------|-----------------------------|----------------------|
| <b>Balance January 1, 2013</b>            | <b>\$ 6,149,404</b>  | <b>\$ (139,542)</b>         | <b>\$ 6,009,862</b>  |
| Contributions                             | 26,107,313           | 1,365,000                   | 27,472,313           |
| Distributions                             | (1,499,417)          | (97,350)                    | (1,596,767)          |
| Net loss                                  | (4,132,925)          | (44,368)                    | (4,177,293)          |
| <b>Balance December 31, 2013</b>          | <b>26,624,375</b>    | <b>1,083,740</b>            | <b>27,708,115</b>    |
| Contributions                             | 3,575,451            | 20,000                      | 3,595,451            |
| Distributions                             | (1,347,000)          | (153,000)                   | (1,500,000)          |
| Net income                                | 2,213,255            | (9,926)                     | 2,203,329            |
| <b>Balance March 31, 2014 (Unaudited)</b> | <b>\$ 31,066,081</b> | <b>\$ 940,814</b>           | <b>\$ 32,006,895</b> |

*See accompanying notes to the condensed combined financial statements.*

**Table of Contents****City Office REIT, Inc. Predecessor****Condensed Combined Statements of Cash Flows****(Unaudited)**

|  | <b>Three months ended<br/>March 31,</b> |                    |
|--|---|--------------------|
|  | <b>2014</b>                             | <b>2013</b>        |
| <b>Cash Flows from Operating Activities:</b>   |   |                    |
| Net income (loss)  | \$ 2,203,329                            | \$ (76,710)        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |   |                    |
| Depreciation and amortization  | 3,159,977                               | 1,123,980          |
| Amortization of deferred financing costs   | 992,167                                 | 118,985            |
| Amortization of above/below market leases  | 123,824                                 | 97,242             |
| Gain on equity investment  | (4,474,644)                             |                    |
| Increase in straight-line rent   | (709,074)                               | (482,785)          |
| Equity in income of unconsolidated entity  |   | (99,337)           |
| Changes in non-cash working capital:   |   |                    |
| Restricted cash  | (1,097,265)                             | (1,066,163)        |
| Rents receivable, net  | (52,927)                                | (91,210)           |
| Prepaid expenses and other assets  | (350,341)                               | 219,535            |
| Accounts payable and accrued liabilities   | 1,751,192                               | 221,637            |
| Deferred rent  | (577,785)                               | 180,431            |
| Tenant rent deposits   | 121,786                                 | 2,289              |
| <b>Net Cash Provided By Operating Activities</b>   | <b>1,090,239</b>                        | <b>147,894</b>     |
| <b>Cash Flows to Investing Activities:</b>   |   |                    |
| Additions to real estate properties  | (320,264)                               | (1,150,308)        |
| Acquisition of real estate, net of cash assumed  | (12,020,893)                            |                    |
| Deferred leasing cost  | (64,927)                                | (64,208)           |
| <b>Net Cash Used In Investing Activities</b>   | <b>(12,406,084)</b>                     | <b>(1,214,516)</b> |
| <b>Cash Flows from Financing Activities:</b>   |   |                    |
| Debt issuance cost   | (3,844,265)                             |                    |
| Proceeds from mortgage loans payable   | 50,000,000                              | 830,541            |
| Repayment of mortgage loans payable  | (36,527,790)                            |                    |
| Owners contributions   | 2,568,743                               |                    |
| Contributions from noncontrolling interests  | 20,000                                  |                    |
| Owners distributions   | (1,347,000)                             |                    |
| Distributions to holders of noncontrolling interests in combined subsidiaries            | (153,000)                               |                    |
| <b>Net Cash Provided By Financing Activities</b>   | <b>10,716,688</b>                       | <b>830,541</b>     |

|   |                     |                     |
|---|---------------------|---------------------|
| <b>Net Decrease in Cash and Cash Equivalents</b>          | (599,157)           | (236,081)           |
| <b>Cash and Cash Equivalents, Beginning of Period</b>     | 7,127,764           | 3,106,616           |
| <b>Cash and Cash Equivalents, End of Period</b>           | <b>\$ 6,528,607</b> | <b>\$ 2,870,535</b> |
| <b>Supplemental Disclosures of Cash Flow Information:</b> |                     |                     |
| Cash paid for interest                                    | \$ 1,957,245        | \$ 1,026,019        |

*See accompanying notes to the combined financial statements.*

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**Table of Contents**

**City Office REIT, Inc. Predecessor**

**Notes to Condensed Combined Financial Statements**

**(Unaudited)**

**1. Organization and Description of Business**

City Office REIT, Inc. Predecessor (the **Predecessor**) represents the combination of the six properties outlined below (the **Properties**). The Predecessor does not represent a legal entity. The Predecessor and its related assets and liabilities are under common control and were contributed to a newly formed entity, City Office REIT Operating Partnership, L.P., (the **Operating Partnership**) in connection with the initial public offering (the **IPO**) of City Office REIT, Inc. (the **Company**) on April 21, 2014.

As at March 31, 2014, the Properties include:

**City Center:** The Predecessor holds a 90% interest in a property in St. Petersburg, Florida, acquired in December 2010.

**Central Fairwinds:** The Predecessor holds a 90% interest in a property in Orlando, Florida, acquired in May 2012.

**AmberGlen:** The Predecessor holds an 85% interest in a Limited Partnership that owns a property in Portland, Oregon, acquired in December 2009.

**Washington Group Plaza:** The Predecessor holds an 89.9% interest in a property in downtown Boise, Idaho, acquired in June 2013.

**Corporate Parkway:** The Predecessor holds a 100% interest in a property in Allentown, Pennsylvania, acquired in May 2013.

**Cherry Creek:** The Predecessor holds a 100% interest in a property in Denver, Colorado. The Predecessor originally acquired a 42.3% interest in July 2011 and acquired the remaining 57.7% interest in January 2014.

The Company is a Maryland corporation formed on November 26, 2013. The Company is the sole general partner of the Operating Partnership and conducted no operations prior to the IPO.

**Initial Public Offering and Formation Transactions**

The Company's operations will be carried on primarily through the Operating Partnership and wholly owned subsidiaries of the Operating Partnership. Both the Company and the Operating Partnership commenced operations upon completion of the IPO and certain related formation transactions (the **Formation Transactions**).

On April 21, 2014, we closed the IPO, pursuant to which we sold 5,800,000 shares of our common stock to the public at a public offering price of \$12.50 per share. We raised \$72.5 million in gross proceeds, resulting in net proceeds to us of approximately \$62.7 million after deducting approximately \$5.1 million in underwriting discounts and approximately \$4.7 million in other expenses relating to the IPO. On May 9, 2014, the underwriters of the IPO exercised their overallotment option to purchase an additional 782,150 shares of our common stock at the IPO price of \$12.50 a share resulting in additional gross proceeds to us of approximately \$9.8 million resulting in net proceeds to

us of \$9.1 million after deducting approximately \$0.7 million in underwriting discounts. The Company's common stock began trading on the New York Stock Exchange under the symbol "CIO" on April 15, 2014.

The Company contributed the net proceeds of the IPO to the Operating Partnership in exchange for common units in the Operating Partnership. The Operating Partnership utilized a portion of the net proceeds of the IPO to pay fees in connection with the assumption of the indebtedness, pay expenses incurred in connection with the IPO and Formation Transactions and repay loans that were made to several of the contributing entities by certain investors in such entities. The remaining funds are expected to be used for general working capital purposes and to fund potential future acquisitions.

Pursuant to the Formation Transactions and exercise of the underwriters' overallotment option, the Operating Partnership acquired a 100% interest in each of the Washington Group Plaza, Cherry Creek and Corporate Parkway properties and acquired an approximate 76% economic interest in the AmberGlen property, 90% interest in the Central Fairwinds property and 95% interest in the City Center property. These initial property interests were contributed in exchange for 3,251,903 common units, 1,610,765 common stock and \$28.5 million of cash.



## **Table of Contents**

In connection with the IPO and Formation Transactions, the Company, through its Operating Partnership, extinguished the loan on the Central Fairwinds property and completed a refinancing of three properties (Cherry Creek, City Center and Corporate Parkway) with a new \$95 million non-recourse mortgage loan and proceeds from the IPO. The loan bears a fixed interest rate of 4.34% and matures on May 6, 2021.

The Company intends to elect to be taxed and to operate in a manner that will allow it to qualify as a real estate investment trust ( REIT ) commencing with its taxable year ending December 31, 2014.

The accompanying condensed combined financial statements of the Predecessor do not reflect the IPO or the Formation Transactions completed on April 21, 2014.

## **2. Summary of Significant Accounting Policies**

### ***Basis of Preparation and Summary of Significant Accounting Policies***

The Predecessor represents a combination of certain entities holding interests in real estate that are commonly controlled. Due to their common control, the financial statements of the separate entities which own the properties are presented on a combined basis. The accompanying condensed combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ). All significant intercompany balances and transactions have been eliminated in combination.

The accompanying condensed combined financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

The information furnished in the accompanying condensed combined financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned condensed combined financial statements for the interim periods. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. These interim financial statements should be read in conjunction with, and follow the same policies and procedures as outlined in the audited combined financial statements for the year ended December 31, 2013, included in the Company s final prospectus dated April 14, 2014.

### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the combined financial statements and the reported amounts of revenues and expenses during the period. Such estimates are based on management s best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from management s estimates.

## **3. Real Estate Investments**

### **Acquisitions**

During the three months ended March 31, 2014, the Predecessor acquired the following property:

| <b>Property</b> | <b>Date<br/>Acquired</b> | <b>Percentage<br/>Owned</b> |
|-----------------|--------------------------|-----------------------------|
| Cherry Creek    | January 2014             | 100%                        |

The above acquisition has been accounted for as a business combination.

On January 2, 2014, the Predecessor acquired the remaining 57.7% interest it did not already own in ROC-SCCP Cherry Creek I, LP ( Cherry Creek ) for approximately \$12.0 million. The acquisition was financed through a new \$50 million mortgage loan, the proceeds of which were used to repay \$36 million of existing debt of Cherry Creek, fund the payment of \$12.0 million to the seller, pay \$1.2 million of deferred financing costs and \$0.8 million in transactions costs.

**Table of Contents**

The following table summarizes the Company's preliminary allocation of the purchase price of assets acquired and liabilities assumed during the three months ended March 31, 2014:

|  | <b>Cherry<br/>Creek</b> |
|--|-------------------------|
| Land   | \$ 25,745,012           |
| Building and improvements                                  | 15,771,277              |
| Tenant Improvements  | 4,372,849               |
| Acquired intangible assets                                 | 12,009,085              |
| Accounts payable and accrued liabilities                   | (815,378)               |
| Lease intangible liability                                 | (249,409)               |
| <b>Fair value of assets and liabilities at acquisition</b> | <b>\$ 56,833,436</b>    |

The Predecessor recognized expenses relating to acquisition of \$806,344 for the three months ended March 31, 2014. A gain of \$4.5 million was recognized from the fair value adjustment associated with the Company's original ownership due to a change in control, calculated as follows:

|   |                     |
|---|---------------------|
| Fair value of assets and liabilities acquired | \$ 56,833,436       |
| Less existing mortgage in Cherry Creek        | (36,000,000)        |
|   | 20,833,436          |
| Less cash paid to seller                      | (12,020,893)        |
| Fair value of 42.3% equity interest           | 8,812,543           |
| Carrying value of investment in Cherry Creek  | (4,337,899)         |
| <b>Gain on existing 42.3% equity interest</b> | <b>\$ 4,474,644</b> |

The operating results of the acquired property since the date of acquisition have been included in the Predecessor's combined financial statements. The following table represents the results of the property's operations since the date of acquisition on a stand-alone basis.

|   | <b>Three months ended<br/>March 31, 2014</b> |
|---|--|
| Operating revenues                        | \$ 1,577,564                                 |
| Operating expenses                        | (2,032,013)                                  |
| Interest                                  | (1,503,821)                                  |
| Net loss before gain on equity investment | \$ (1,958,270)                               |

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The following table presents Cherry Creek's revenues and income from continuing operations on a pro forma basis as if the Predecessor had completed the acquisition of the property as of January 1, 2013:

|   | <b>Three months ended<br/>March 31, 2013</b> |
|---|--|
| Total revenues as reported by the Predecessor         | \$ 3,384,262                                 |
| Plus: Cherry Creek                                    | 1,641,129                                    |
| <b>Proforma total revenues</b>                        | <b>\$ 5,025,391</b>                          |
| Total operating income as reported by the Predecessor | \$ 767,132                                   |
| Property acquisition costs                            | (806,344)                                    |
| Plus: Cherry Creek                                    | 494,582                                      |
| <b>Proforma operating income</b>                      | <b>\$ 455,370</b>                            |

**Table of Contents****4. Lease Intangibles**

Lease intangibles and the value of assumed lease obligations as of March 31, 2014 and December 31, 2013 were comprised as follows:

|                          | <b>Above Market</b> | <b>In Place</b> | <b>Leasing</b>     |               | <b>Below Market</b> | <b>Below Market</b> |              |
|--------------------------|---------------------|-----------------|--------------------|---------------|---------------------|---------------------|--------------|
| <b>March 31, 2014</b>    | <b>Leases</b>       | <b>Leases</b>   | <b>Commissions</b> | <b>Total</b>  | <b>Leases</b>       | <b>Ground Lease</b> | <b>Total</b> |
| Cost                     | \$ 3,043,031        | \$ 21,525,808   | \$ 10,792,982      | \$ 35,361,821 | \$ (418,313)        | \$ (138,218)        | \$ (556,531) |
| Accumulated amortization | (1,453,516)         | (7,594,758)     | (2,208,112)        | (11,256,386)  | 145,930             | 17,212              | 163,142      |
|                          | \$ 1,589,515        | \$ 13,931,050   | \$ 8,584,870       | \$ 24,105,435 | \$ (272,383)        | \$ (121,006)        | \$ (393,389) |
| <b>December 31, 2013</b> | <b>Leases</b>       | <b>Leases</b>   | <b>Commissions</b> | <b>Total</b>  | <b>Leases</b>       | <b>Ground Lease</b> | <b>Total</b> |
| Cost                     | \$ 3,043,030        | \$ 14,885,115   | \$ 5,447,198       | \$ 23,375,343 | \$ (168,904)        | \$ (138,218)        | \$ (307,122) |
| Accumulated Amortization | (1,306,326)         | (6,536,311)     | (1,781,143)        | (9,623,780)   | 123,567             | 16,209              | 139,776      |
|                          | \$ 1,736,704        | \$ 8,348,804    | \$ 3,666,055       | \$ 13,751,563 | \$ (45,337)         | \$ (122,009)        | \$ (167,346) |

The Company has adjusted acquired lease intangibles and accounts payable and accrued liabilities as of December 31, 2013 in the amount of \$649,192 to conform with the current period presentation as of March 31, 2014. There was no impact to net income resulting from this adjustment.

The estimated aggregate amortization expense for lease intangibles for the five succeeding years and in the aggregate are as follows:

|            |               |
|------------|---------------|
| 2014       | \$ 4,263,386  |
| 2015       | 5,582,229     |
| 2016       | 4,795,397     |
| 2017       | 2,345,332     |
| 2018       | 1,615,205     |
| Thereafter | 5,110,497     |
|            | \$ 23,712,046 |

**5. Mortgage Loans Payable**

The following table summarizes the Predecessor's secured indebtedness as of March 31, 2014 and December 31, 2013:

| <b>Property</b>                       | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>Interest<br/>Rate as of<br/>March 31, 2013</b> | <b>Maturity</b>           |
|---------------------------------------|---------------------------|------------------------------|---|---------------------------|
| City Center <sup>(1)</sup>            | \$ 22,471,320             | \$ 22,333,938                | 6.00% <sup>(2)</sup>                              | June 2014 <sup>(3)</sup>  |
| Central Fairwinds <sup>(4)</sup>      | 10,000,000                | 10,000,000                   | 6.25%   | October 2015              |
| Cherry Creek <sup>(5)</sup>           | 49,819,016                |                              | 5.00%   | January 2016              |
| Corporate Parkway <sup>(4)</sup>      | 18,808,333                | 19,133,333                   | 7.25%   | April 2016 <sup>(6)</sup> |
| AmberGlen                             | 23,500,000                | 23,500,000                   | 6.25%   | July 2017 <sup>(7)</sup>  |
| Washington Group Plaza <sup>(5)</sup> | 34,789,971                | 34,949,159                   | 3.85%   | July 2018                 |
| <b>Total</b>                          | <b>\$ 159,388,640</b>     | <b>\$ 109,916,430</b>        |   |                           |

All interest rates are fixed interest rates with the exception of City Center as explained in footnote (2) below.

- (1) Interest payable monthly plus monthly principal payment of \$20,000.
- (2) Interest rate is equal to a floating rate per annum equal to LIBOR plus 4%, but in no event shall the interest rate be lower than 6%.
- (3) In November 2013, the Predecessor exercised its option to extend the maturity date of the loan for a six month period. The Predecessor has one and a half year of additional extension option.
- (4) Interest only payable monthly, principal due on maturity.
- (5) Interest payable monthly plus principal based on 360 months of amortization.
- (6) With extension option of three consecutive terms of one year.
- (7) The Predecessor has the option to extend the debt to July 2022.

**Table of Contents**

The scheduled principal repayments of mortgage payable as of March 31, 2014 are as follows:

|            |                |
|------------|----------------|
| 2014       | \$ 24,741,702  |
| 2015       | 13,024,555     |
| 2016       | 65,127,567     |
| 2017       | 24,205,054     |
| 2018       | 32,289,762     |
| Thereafter |                |
|            | \$ 159,388,640 |

**6. Fair Value of Financial Instruments**

Fair Value measurements are based on assumptions that market participants would use in pricing an asset or a liability. The hierarchy for inputs used in measuring fair value is as follows:

Level 1 Inputs quoted prices in active markets for identical assets or liabilities

Level 2 Inputs observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 Inputs unobservable inputs

Financial assets whose fair values are measured on a recurring basis consist only of an interest rate swap. The fair value of the interest rate swap is calculated based on Level 2 inputs.

As of March 31, 2014, the Predecessor had not designated its interest rate swap as a hedge. This derivative was not speculative and was used to manage the Predecessor's exposure to interest rate movements and other identified risks, but the Predecessor elected not to designate these instruments in hedging relationships based on the provisions in ASC 815-10. The changes in fair value of derivatives not designated in hedging relationships have been recognized in earnings. Summarized below is the interest rate derivative that was not designated as a cash flow hedge and the fair value of all derivative assets and liabilities as of March 31, 2014 and December 31, 2013:

| Property    | Type of Instrument | Notional amount | Maturity date | Effective rate | Fair Value as of |                   |
|-------------|--------------------|-----------------|---------------|----------------|------------------|-------------------|
|             |                    |                 |               |                | March 31, 2014   | December 31, 2013 |
| City Center | Interest Rate Swap | \$ 15,000,000   | June 2014     | 6.0%           | \$               | \$                |

With the exception of fixed rate mortgage loans payable, the carrying amounts of the Predecessor's financial instruments approximate their fair value. The Predecessor determines the fair value of its fixed rate mortgage loan payable based on a discounted cash flow analysis using a discount rate that approximates the current borrowing rates for instruments of similar maturities. Based on this, the Predecessor has determined that the fair value of these instruments was \$138,850,000 and \$88,500,000 as of March 31, 2014 and December 31, 2013, respectively. Although the Predecessor has determined that the majority of the inputs used to value its fixed rate debt fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its fixed rate debt utilize Level 3 inputs, such as estimates of current credit spreads. Accordingly, mortgage loans payable have been classified as Level 3 fair value

measurements.

## **7. Related Party Transactions**

### ***Property Management Fees***

Five of the properties (City Center, Central Fairwinds, AmberGlen, Washington Group Plaza and Cherry Creek) engaged related parties to perform asset and property management services for a fee ranging from 1.75% to 3.5% of gross revenue.

In addition to the base property management fee of 1.75% of gross revenue or \$10,000 per month paid to a related party for the property management of Washington Group Plaza, the property manager is also entitled to an additional incentive commission equal to the lesser of (a) 15% of net operating income in excess of \$5 million in 2013, \$5.45 million in 2014 and \$5.6 million in 2015; or (b) 1% of all monthly gross revenue. The asset and management agreement has an initial term of three years and will automatically renew for successive two year periods. This agreement can be terminated by the Company or the property manager upon thirty days prior written notice to the other party.



**Table of Contents**

The costs of these services, aggregating \$207,617 and \$122,219 for the three months ended March 31, 2014 and 2013, respectively, were recorded as property management fees on the accompanying combined statements of operations.

***Deferred Offering and Financing Costs***

Deferred offering and financing costs directly associated with the IPO and Formation Transactions of \$1,564,762 and \$2,100,000, respectively, were recorded for the three months ended March 31, 2014. The Predecessor has recorded \$1,006,708 as an owners' contribution by an entity under common control and \$2,658,054 as an accrued liability during the period.

**8. Future Minimum Rent Schedule**

Future minimum lease payments to be received as of March 31, 2014 under noncancellable operating leases for the next five years and thereafter are as follows:

|            |                |
|------------|----------------|
| 2014       | \$ 21,261,225  |
| 2015       | 28,703,827     |
| 2016       | 21,985,373     |
| 2017       | 14,565,259     |
| 2018       | 11,342,441     |
| Thereafter | 56,477,035     |
|            | \$ 154,335,160 |

The above minimum lease payments to be received do not include reimbursements from tenants for certain operating expenses and real estate taxes and do not include early termination payments provided for in certain leases.

Two state government tenants currently have the exercisable right to terminate its lease if the state does not appropriate rent in its annual budgets. The Predecessor has determined that the occurrence of the government tenant not appropriating the rent in its annual budget is a remote contingency and accordingly recognizes lease revenue on a straight-line basis over the respective lease term. These tenants represent approximately 51.5% of our total future minimum lease payments as of March 31, 2014.

**9. Commitments and Contingencies*****Property Management Fees***

Washington Group Plaza engaged a related party to perform asset and management services for base and incentive fees as discussed in Note 7.

Fees under this agreement were \$79,106 for the three months ended March 31, 2014 and are recorded as management fees on the accompanying condensed combined statements of operations.

***Other***

The Predecessor is obligated under certain tenant leases to fund tenant improvements and the expansion of the underlying leased properties.

Under various federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for the cost of removal or remediation of certain hazardous or toxic substances disposed, stored, generated, released, manufactured or discharged from, on, at, under, or in a property. As such, the Predecessor may be potentially liable for costs associated with any potential environmental remediation at any of its formerly or currently owned properties.

The Predecessor believes that it is in compliance in all material respects with all federal, state and local ordinances and regulations regarding hazardous or toxic substances. Management is not aware of any environmental liability that it believes would have a material adverse impact on the Predecessor's financial position or results of operations. Management is unaware of any instances in which the Predecessor would incur significant environmental costs if any or all properties were sold, disposed of or abandoned. However, there can be no assurance that any such non-compliance, liability, claim or expenditure will not arise in the future.

**Table of Contents**

The Predecessor is involved from time to time in lawsuits and other disputes which arise in the ordinary course of business. As of March 31, 2014 management believes that these matters will not have a material adverse effect, individually or in the aggregate, on the Predecessor's financial position or results of operations.

**10. Subsequent Events**

As discussed in Note 1, the Company completed the IPO and Formation Transactions on April 21, 2014 and repaid approximately \$101.0 million of outstanding indebtedness on four properties upon closing.

On April 21, 2014, the Company, through its Operating Partnership, entered into a new \$11.0 million senior secured revolving credit facility which remains undrawn. The revolving credit facility bears an interest rate of LIBOR plus 2.75%.

On April 29, 2014, the Company, through its Operating Partnership, completed a \$25.4 million refinancing of the AmberGlen property. The loan bears an interest rate of 4.38% and matures on May 1, 2019.

On May 21, 2014, the Company, through its Operating Partnership agreed to acquire a property in Denver, Colorado for \$25.1 million.

**Table of Contents**

**CITY OFFICE REIT, INC.**

**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

The unaudited pro forma consolidated financial statements of City Office REIT, Inc. (together with its combined entities, City Office, the Company, we, our or us ) as of and for the period ended March 31, 2014 reflect the historical results of City Office REIT Predecessor (the Predecessor ) adjusted to give effect to the transactions outlined below are presented as if the initial public offering had occurred on March 31, 2014 for the purposes of the unaudited pro forma consolidated balance sheet and on January 1, 2014 for the purposes of the unaudited pro forma consolidated statement of operations.

The offering of 6,582,150 shares of our common stock, \$0.01 par value per share (the Offering ), 5,800,000 shares of which was completed on April 21, 2014 and 782,150 shares of which was completed on May 9, 2014 pursuant to the exercising of the underwriters over-allotment option;

certain related formation transactions (the Formation Transactions );

the use of proceeds from the Offering;

incurrence of a new \$95 million non-recourse mortgage loan secured by the Cherry Creek, City Center and Corporate Parkway properties (the New Mortgage Loan );

incurrence of a new \$25.4 million non-recourse mortgage loan secured by the AmberGlen property (the Additional Loan );

the acquisition of certain noncontrolling interests;

the incremental general and administrative expenses to be incurred to operate as a public company;

the annual base management fee in accordance with the advisory agreement; and

the redemption of certain common stock and common units in accordance with the terms of the contribution agreement related to the exercising of the underwriters over-allotment option.

City Office is engaged in the business of developing, owning and managing high-quality office buildings in the United States. The Predecessor was not a legal entity, but rather a combination of entities under common control.

Concurrently with the Offering, we completed the Formation Transactions, pursuant to which we acquired, through a series of contribution transactions, ownership interests in the entities that own interests in our initial properties as

further detailed below.

As a result of the Formation Transactions, we own interests in our initial properties as summarized in the table below.

| <b>Property</b>        | <b>Interest to<br/>be Acquired<br/>by Our<br/>Operating<br/>Partnership</b> | <b>Debt Secured By Property</b>                     |
|------------------------|---|---|
| Washington Group Plaza | 100.0%  | Existing \$34.8 million mortgage loan               |
| Cherry Creek           | 100.0   | New Mortgage Loan                                   |
| AmberGlen              | 76.0  | New Mortgage Loan                                   |
| City Center            | 95.0  | New Mortgage Loan                                   |
| Corporate Parkway      | 100.0   | New Mortgage Loan                                   |
| Central Fairwinds      | 90.0  | New \$11.0 million senior revolving credit facility |

**Table of Contents**

The parties retaining the noncontrolling interests in the AmberGlen, Central Fairwinds and City Center properties at the conclusion of the Formation Transactions did not receive any common units and common stock. The value of the consideration paid to each of the entities in the Second City Group in the Formation Transactions was determined according to the terms of the respective contribution agreements. Set forth in greater detail below is the consideration that the entities that controlled our Predecessor received in connection with the Formation Transactions:

Second City received \$7,705,050 in cash in accordance with the terms of its contribution agreement. Second City used these funds and \$51,153 of its own cash to acquire various noncontrolling interests and eliminate economic incentives in the initial properties as follows: \$4,362,870 for the City Center property, \$445,000 for the Central Fairwinds property, \$250,000 for the Corporate Parkway property, and \$2,698,333 for the Washington Group Plaza property.

Second City GP received 4,616 common units of our operating partnership, with an aggregate value of approximately \$57,700 and \$8,888 in cash in accordance with the terms of its contribution agreement and the exercising of the underwriters' over-allotment option.

Gibralt and GCC Amberglen received an aggregate of 107,031 common units of our operating partnership, with an aggregate value of approximately \$1,337,888 and approximately \$11,881,075, respectively, in cash in accordance with the terms of its contribution agreement and the exercising of the underwriters' over-allotment option. Of the total, Gibralt received 107 common units and GCC Amberglen received the balance.

CIO OP received 3,000,256 common units in our operating partnership with an aggregate value of approximately \$37,503,200, which represents 25.4% of the total number of shares of our common stock outstanding on a fully diluted basis upon completion of the Offering and \$5,776,350 in cash, in accordance with the terms of its contribution agreement and the exercising of the underwriters' over-allotment option.

CIO REIT received 1,610,765 shares of our common stock with an aggregate value of approximately \$20,134,563 and \$3,101,188 in cash in accordance with the terms of its contribution agreement and the exercising of the underwriters' over-allotment option.

Daniel Rapaport ( Rapaport ) received 140,000 common units of our operating partnership, with an aggregate value of approximately \$1,750,000, in accordance with the terms of his contribution agreement with us and our operating partnership.

For each of our initial properties, the table below shows the equity interests that we and our operating partnership will acquire and dispose of in connection with the Formation Transactions.

| <b>Property</b> | <b>Equity Interest Acquired by the Company/Operating</b> | <b>Economic Interest Disposed by Second City Group</b> | <b>Economic Participation Interests Eliminated by Property Ownership</b> |
|-----------------|--|--|--|
|-----------------|--|--|--|

|                          | <b>Partnership</b>  |   | <b>Entity</b>   |
|--------------------------|---|---|---|
| AmberGlen <sup>(1)</sup> | 0.001% from Gibralt US, Inc.  | GCC Amberglenn Investments LP disposed 9% of its economic interest to a | All minority interests owners economic participation incentives |
|                          | 88.58% from GCC Amberglennnoncontrolling third party Investments LP |   |   |
| Central Fairwinds        | 3.81% from Rapaport   |   |   |
|                          | 31.44% from CIO REIT Stock Limited Partnership                      | N/A   | All minority interests owners economic participation incentives |
|                          | 58.56% from CIO OP Limited Partnership                              |   |   |
| Cherry Creek             | 0.001% from Second City Capital Partners II, Limited Partnership    |   |   |
|                          | 34.93% from CIO REIT Stock Limited Partnership                      | N/A   | N/A   |
|                          | 65.07% from CIO OP Limited Partnership                              |   |   |
|                          | 0.001% from Second City Capital Partners II, General Partnership    |   |   |

**Table of Contents**

| <b>Property</b>        | <b>Equity Interest Acquired<br/>by the<br/>Company/Operating<br/>Partnership</b> | <b>Economic Interest<br/>Disposed<br/>by Second City Group</b> | <b>Economic Participation<br/>Interests Eliminated by<br/>Property Ownership<br/>Entity</b> |
|------------------------|--|--|---|
| City Center            | 31.44% from CIO REIT<br>Stock Limited Partnership                                | N/A  | All minority interests<br>owners economic<br>participation incentives                       |
|                        | 58.56% from CIO OP<br>Limited Partnership  |  |   |
|                        | 5.00% from Second City<br>Capital Partners II, Limited<br>Partnership            |  |   |
| Corporate Parkway      | 0.001% from Second<br>City Capital Partners II,<br>General Partnership           |  |   |
|                        | 34.93% from CIO REIT<br>Stock Limited Partnership                                | N/A  | All minority interests<br>owners economic<br>participation incentives                       |
|                        | 65.07% from CIO OP<br>Limited Partnership  |  |   |
|                        | 0.001% from Second<br>City Capital Partners II,<br>General Partnership           |  |   |
| Washington Group Plaza | 31.40% from CIO REIT<br>Stock Limited Partnership                                | N/A  | N/A   |
|                        | 58.49% from CIO OP<br>Limited Partnership  |  |   |



10.11% from Second  
City Capital Partners II,  
Limited Partnership after  
being acquired from  
minority interest holder

0.001% from Second  
City Capital Partners II,  
General Partnership

- (1) In connection with the Formation Transactions, our operating partnership acquired a 88.58% limited partnership interest from GCC Amberglen, a 3.81% limited partnership interest from Rapaport and a 0.001% limited partnership interest from Gibralt in the AmberGlen property. GCC Amberglen transferred a 9% economic participation interest in the AmberGlen property to a noncontrolling interest owner of the AmberGlen property (who previously had a majority position in a prior 15% economic participation interest in the AmberGlen property) to eliminate any additional incremental economic participation rights held by the noncontrolling interest owner. After giving effect to these transactions, our operating partnership owns a 92.39% limited partnership interest, which equals a 76% economic interest, in the property.

**Table of Contents**

On April 21, 2014, we closed the IPO, pursuant to which we sold 5,800,000 shares of our common stock to the public at a public offering price of \$12.50 per share. We raised \$72.5 million in gross proceeds, resulting in net proceeds to us of approximately \$62.7 million after deducting approximately \$5.1 million in underwriting discounts and approximately \$4.7 million in other expenses relating to the IPO. On May 9, 2014, the underwriters of the IPO exercised their over-allotment option to purchase an additional 782,150 shares of our common stock at the IPO price of \$12.50 a share resulting in additional gross proceeds to us of approximately \$9.8 million resulting in net proceeds to us of \$9.1 million after deducting approximately \$0.7 million in underwriting discounts. The net proceeds from the Offering were contributed to our Operating Partnership in exchange for 6,582,150 common units.

You should read the information below along with all other financial information and analysis presented in this Quarterly Report on Form 10-Q, including the sections captioned Management's Discussion and Analysis of Financial Condition and Results of Operations and the Predecessor combined financial statements and related notes included elsewhere in this document and included in the Company's final prospectus dated April 14, 2014. The unaudited pro forma consolidated financial statements are not necessarily indicative of the actual financial position of City Office as of March 31, 2014 or the actual results of operations for the three month period ended March 31, 2014, nor are they indicative of the results of operations for future periods. The unaudited pro forma adjustments and eliminations are based on available information and upon assumptions management believes are reasonable.

Table of Contents

## City Office REIT, Inc.

## Pro Forma Consolidated Balance Sheet

As of March 31, 2014

(Unaudited)

| Predecessor<br>(A)    | Central<br>Fairwinds<br>Earn Out<br>(B) | Distribution<br>of Excess<br>Working<br>Capital<br>(C) | Pro Forma<br>Before<br>Offering | Net<br>Proceeds<br>from<br>Offering<br>(D) | Use of Proceeds  |                            |   | Other P<br>Forma<br>Adjustm |
|-----------------------|---|--|---------------------------------|--|--|----------------------------|---|-----------------------------|
|                       |   |  |                                 |  | Acquisition<br>of<br>Noncontrolling<br>Interest<br>(E) | Debt<br>Transaction<br>(F) | Distribution<br>to<br>Predecessor<br>Members<br>(G) |                             |
| \$ 144,805,273        | \$                                      | \$   | \$ 144,805,273                  | \$   | \$   | \$                         | \$  | \$                          |
| 6,528,607             |   | 1,172,722  | 7,702,329                       | 71,804,215                                 | (9,431,203)  | (6,587,984)                | (23,300,690)  |                             |
| 8,465,389             |   | (3,496,699)  | 4,968,690                       |  |  |                            |   |                             |
| 5,526,962             |   |  | 5,526,962                       |  |  |                            |   |                             |
| 4,019,764             |   |  | 4,019,764                       |  |  | (1,646,503)                |   |                             |
| 2,246,430             |   |  | 2,246,430                       |  |  |                            |   |                             |
| 24,105,435            |   |  | 24,105,435                      |  |  |                            |   |                             |
| 646,913               |   |  | 646,913                         |  |  |                            |   |                             |
| 3,395,712             |   |  | 3,395,712                       | (3,395,712)                                |  |                            |   |                             |
| <b>\$ 199,740,485</b> | <b>\$</b>                               | <b>\$ (2,323,977)</b>                                  | <b>\$ 197,417,508</b>           | <b>\$ 68,408,503</b>                       | <b>\$ (9,431,203)</b>                                  | <b>\$ (8,234,487)</b>      | <b>\$ (23,300,690)</b>                              | <b>\$</b>                   |
| \$ 159,388,640        | \$                                      | \$   | 159,388,640                     | \$   | \$   | \$ (4,198,669)             | \$  | \$                          |

|                    |                  |                    |                    |
|--------------------|------------------|--------------------|--------------------|
| 5,557,301          |                  | 5,557,301          |                    |
| 910,833            |                  | 910,833            |                    |
| 1,483,427          |                  | 1,483,427          |                    |
| 393,389            |                  | 393,389            |                    |
|                    | 6,000,000        | 6,000,000          |                    |
| <b>167,733,590</b> | <b>6,000,000</b> | <b>173,733,590</b> | <b>(4,198,669)</b> |

|                       |                    |                       |                       |                      |                       |                       |                        |                 |
|-----------------------|--------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|------------------------|-----------------|
|                       |                    |                       | 1,000                 | 71,804,215           |                       |                       | (10,029,116)           | (1,695,)        |
|                       |                    |                       | <b>1,000</b>          | <b>71,804,215</b>    |                       |                       | <b>(10,029,116)</b>    | <b>(1,695,)</b> |
| 31,066,081            | (6,000,000)        | (1,826,173)           | 23,239,908            | (3,395,712)          | (7,871,855)           | (3,820,727)           | (16,003,803)           | 7,852,          |
|                       |                    |                       |                       |                      |                       |                       | 2,732,229              | (6,156,         |
| 940,814               |                    | (497,804)             | 443,010               |                      | (1,559,348)           | (215,091)             |                        |                 |
| <b>32,006,895</b>     | <b>(6,000,000)</b> | <b>(2,323,977)</b>    | <b>23,683,918</b>     | <b>68,408,503</b>    | <b>(9,431,203)</b>    | <b>(4,035,818)</b>    | <b>(23,300,690)</b>    |                 |
| <b>\$ 199,740,485</b> | <b>\$</b>          | <b>\$ (2,323,977)</b> | <b>\$ 197,417,508</b> | <b>\$ 68,408,503</b> | <b>\$ (9,431,203)</b> | <b>\$ (8,234,487)</b> | <b>\$ (23,300,690)</b> | <b>\$</b>       |

**Table of Contents****City Office REIT, Inc.****Pro Forma Consolidated Statement of Operations****For the three months ended March 31, 2014 (Unaudited)**

|   | City<br>Office<br>REIT, Inc. | Predecessor<br>(AA) | Acquisition<br>of Non-<br>controlling<br>Interest<br>(BB) | Other<br>Pro<br>Forma<br>Adjustments | Pro<br>Forma |
|---|------------------------------|---------------------|---|--------------------------------------|--------------|
| <b>Revenue:</b>   |                              |                     |   |                                      |              |
| Rental income   | \$                           | \$ 7,236,758        | \$  | \$                                   | 7,236,758    |
| Expense reimbursement   |                              | 450,043             |   |                                      | 450,043      |
| Other   |                              | 295,660             |   |                                      | 295,660      |
| <b>Total Revenues</b>   |                              | 7,982,461           |   |                                      | 7,982,461    |
| <b>Operating Expenses:</b>  |                              |                     |   |                                      |              |
| Property operating expenses   |                              | 2,304,462           |   |                                      | 2,304,462    |
| Insurance   |                              | 152,858             |   |                                      | 152,858      |
| Property taxes  |                              | 461,104             |   |                                      | 461,104      |
| Property acquisition costs  |                              | 806,344             |   | (806,344)(CC)                        |              |
| Base management fee   |                              |                     |   | 205,073 (DD)                         | 205,073      |
| General and administrative  |                              |                     |   | 369,250 (EE)                         | 369,250      |
| Property management fees  |                              | 207,617             |   |                                      | 207,617      |
| Stock based compensation  |                              |                     |   | 366,950 (FF)                         | 366,950      |
| Depreciation and amortization   |                              | 3,159,977           |   |                                      | 3,159,977    |
| <b>Total Operating Expenses</b>   |                              | 7,092,362           |   | 134,929                              | 7,227,291    |
| Operating Income  |                              | 890,099             |   | (134,929)                            | 755,170      |
| Gain on equity investment   |                              | (4,474,644)         |   | 4,474,644 (CC)                       |              |
| Interest expense, net   |                              | 3,161,414           |   | (1,321,409)(GG)                      | 1,840,005    |
| Equity in income of<br>unconsolidated entity                                      |                              |                     |   |                                      |              |
| <b>Net (Loss) / Income</b>  |                              | 2,203,329           |   | (3,288,164)                          | (1,084,835)  |
| Net Loss / (Income) Attributable<br>to Noncontrolling Interests in<br>properties  |                              | 9,926               | (13,592)  | 102,869                              | 99,203       |
|   |                              | 2,213,255           | (13,592)  | (3,185,295)                          | (985,632)    |
| Net Income Attributable to<br>Noncontrolling interest in<br>operating partnership |                              |                     |   | 280,055 (HH)                         | 280,055      |

|  |    |              |             |                |              |
|--|----|--------------|-------------|----------------|--------------|
| Net (Loss) / Income Attributable to City Office REIT, Inc. | \$ | \$ 2,213,255 | \$ (13,592) | \$ (2,905,240) | \$ (705,577) |
|--|----|--------------|-------------|----------------|--------------|

|  |  |  |  |  |           |
|--|--|--|--|--|-----------|
| Pro forma weighted average common shares outstanding - basic and diluted |  |  |  |  | 8,545,187 |
|--|--|--|--|--|-----------|

|                                |  |  |  |  |           |
|--------------------------------|--|--|--|--|-----------|
| Pro forma basic loss per share |  |  |  |  | (\$ 0.08) |
|--------------------------------|--|--|--|--|-----------|

|  |  |  |  |  |                |
|--|--|--|--|--|----------------|
| Pro forma weighted average number of common units held by Noncontrolling interest in operating partnership outstanding |  |  |  |  | 3,251,903 (II) |
|--|--|--|--|--|----------------|

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**Table of Contents**

**City Office REIT, Inc.**

**Notes and Management's Assumptions to Unaudited Pro Forma Consolidated Financial Statements**

**1. Adjustments to the Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2014**

(A) Reflects the historical combined balance sheet of the Predecessor as of March 31, 2014. City Office REIT, Inc. and the Predecessor are under common control. Accordingly, pursuant to the planned formation transactions, the Predecessor's assets and liabilities will be recorded at their historical cost basis.

(B) In connection with the contribution of their interests in Central Fairwinds to City Office REIT Operating Partnership L.P. (the Operating Partnership), Second City received common units of the Operating Partnership and additional consideration (Earn-Out) in connection with the lease up of certain vacant space. The Earn-Out was determined to be a liability under ASC 480 (Distinguishing Liabilities From Equity) that should be reported at fair value and marked to market each reporting period until settled. The estimated fair value of the Earn-out is \$6,000,000. As this is a common control transaction and the Earn-Out is part of the consideration transferred, the excess of the consideration over the historical cost of the assets and liabilities transferred by the contributors is considered a deemed dividend to the contributors at the contribution date. The change in fair value of the Earn-Out in subsequent periods will be recorded in earnings.

(C) Reflects the distribution of the Predecessor's excess working capital.

(D) Reflects proceeds from the offering of 5,800,000 shares of our common stock at a public offering price of \$12.50 per share. We raised \$72.5 million in gross proceeds, resulting in net proceeds to us of approximately \$62.7 million after deducting approximately \$5.1 million in underwriting discounts and approximately \$4.7 million in other expenses relating to the IPO. On May 9, 2014, the underwriters of the IPO exercised their overallotment option to purchase an additional 782,150 shares of our common stock at the IPO price of \$12.50 a share resulting in additional gross proceeds to us of approximately \$9.8 million resulting in net proceeds to us of \$9.1 million after deducting approximately \$0.7 million in underwriting discounts.

(E) Reflects payments made by the Second City Group to fund the acquisition of noncontrolling interests and the elimination of certain noncontrolling interests' economic participation interest as follows:

Acquisition of 10.1% minority interest at Washington Group Plaza;

Elimination of noncontrolling interests' economic participation interest at Central Fairwinds Corporate Parkway and AmberGlen; and

Acquisition of 5% minority interest and the elimination of minority interests' economic participation at City Center.

The elimination of the economic partner incentive also includes a transfer of an additional 9% interest in AmberGlen to the noncontrolling interest. The acquisition and disposals of these noncontrolling interests will be recorded as equity transactions in accordance with FASB ASC 810-10 Consolidation. The economic participation incentives represent arrangement to share profits in a manner other than in proportion to the ownership rights between the

Predecessor and the noncontrolling interest holder.

|  | <b>City<br/>Center</b> | <b>Central<br/>Fairwinds</b> | <b>AmberGlen</b>    | <b>Corporate<br/>Parkway</b> | <b>Washington<br/>Group Plaza</b> | <b>Total</b>        |
|--|------------------------|------------------------------|---------------------|------------------------------|-----------------------------------|---------------------|
| <b>Amounts paid</b>  |                        |                              |                     |                              |                                   |                     |
| To acquire noncontrolling<br>interest and economic<br>participation incentive <sup>1</sup> | \$ 4,362,870           | \$                           | \$                  | \$                           | \$ 2,698,333                      | \$ 7,061,203        |
| To eliminate economic<br>participation incentives  |                        | 445,000                      | 1,675,000           | 250,000                      |                                   | 2,370,000           |
| <b>Total Cash Paid</b>   | <b>\$ 4,362,870</b>    | <b>\$ 445,000</b>            | <b>\$ 1,675,000</b> | <b>\$ 250,000</b>            | <b>\$ 2,698,333</b>               | <b>\$ 9,431,203</b> |



**Table of Contents**

(1) The amount paid was negotiated on a combined basis and accordingly cannot be allocated between the noncontrolling interest and the elimination of the economic participation incentives.

|   | City<br>Center        | Central<br>Fairwinds | AmberGlen          | Corporate<br>Parkway | Washington<br>Group<br>Plaza | Total                 |
|---|-----------------------|----------------------|--------------------|----------------------|------------------------------|-----------------------|
| Impact on Equity                          |                       |                      |                    |                      |                              |                       |
| Stockholder's Equity                      | \$                    | \$                   | \$                 | \$                   | \$                           | \$                    |
| Predecessor Equity Increase<br>(Decrease) | (4,339,605)           | (445,000)            | (1,269,773)        | (250,000)            | (1,567,477)                  | (7,871,855)           |
| Noncontrolling interest in<br>Properties  | (23,265)              |                      | (405,227)          |                      | (1,130,856)                  | (1,559,348)           |
| <b>Total Impact on Equity</b>             | <b>\$ (4,362,870)</b> | <b>\$ (445,000)</b>  | <b>(1,675,000)</b> | <b>\$ (250,000)</b>  | <b>\$ (2,698,333)</b>        | <b>\$ (9,431,203)</b> |

The following table represents the changes in the net property ownership expected to occur as a result of the acquisition:

| Property               | Net<br>interest<br>pre-acquisition | Net<br>interest<br>post-acquisition |
|------------------------|------------------------------------|-------------------------------------|
| Washington Group Plaza | 89.9%                              | 100.0%                              |
| AmberGlen              | 85.0                               | 76.0                                |
| CityCenter             | 90.0                               | 95.0                                |

(F) The change in debt, deferred financing costs, and cash as a result of the debt transactions are summarized below:

|  |  |               |
|--|--|---------------|
| New Mortgage Financing                                   | Midland National Life Insurance Company <sup>(1)</sup>                             | \$ 95,000,000 |
| New Mortgage Financing                                   | American General Life Insurance and American Home Assurance Company <sup>(2)</sup> | 25,400,000    |
| Repayment of Mortgage Loan of Predecessor <sup>(3)</sup> |  | (124,598,669) |
| Net Change in Debt                                       |  | (4,198,669)   |
| New Deferred Financing Costs                             |  | (2,061,651)   |
| Debt Prepayment Costs <sup>(4)</sup>                     |  | (327,664)     |
| Net Proceeds Used in Debt Refinancing                    |  | 6,587,984     |
| New Deferred Financing Costs                             |  | 2,061,651     |
| Write-off of Unamortized Financing Costs                 |  | (3,708,154)   |

Net Change in Deferred Financing Costs \$ (1,646,503)

- (1) *Reflects the \$95 million proceeds from the issuance of mortgage loan to be guaranteed by the Company as to certain non-recourse covenants and secured by a mortgage on the fee simple interest in the Cherry Creek, City Center and Corporate Parkway properties.*
- (2) *Reflects the \$25.4 million proceeds from the issuance of mortgage loan to be guaranteed by the Company as to certain non-recourse covenants and secured by a mortgage on the fee simple interest in the AmerGlen property.*
- (3) *Reflects the repayment of mortgage loan secured by City Center, Central Fairwinds, Corporate Parkway and Cherry Creek as of March 31, 2014.*
- (4) *Reflects the estimated costs to prepay the mortgage loan secured by City Center, Corporate Parkway, Central Fairwinds and Cherry Creek properties.*
- (G) *Distributions of \$10 million as consideration paid to Gibralt US, Inc. and GCC AmberGlen Investment LP in connection with their contribution of their interest in the operating partnership and approximately \$2.0 million for Canadian offering costs and \$2.2 million for certain other transaction costs incurred by our Predecessor, which will be reimbursed by us and the distribution of \$9.1 million of consideration to CIO REIT, CIO OP and Second City to redeem certain common units and common stock in conjunction with the exercising of the underwriters over-allotment option as detailed in the contribution agreement.*

**Table of Contents**

(H) Includes the following: (1) The adjustment to paid in capital to reflect the issuance of common stock by City Office to CIO REIT in exchange for its interest in the Predecessor. In accordance with ASC 810 this transaction will result in a \$4.1 million adjustment to reflect the change in noncontrolling ownership. (2) The reclassification of Predecessor equity to noncontrolling interests in operating partnership.

**2. Adjustments to the Unaudited Pro Forma Consolidated Statements of Operations for the three month period ended March 31, 2014**

(AA) Reflects the historical combined statements of operations of the Predecessor for the three month ended March 31, 2014.

(BB) Reflects the decrease of noncontrolling interest in Washington Group Plaza and City Center of 10.1% and 5.0%, respectively, the 9% increase in noncontrolling interest in AmberGlen, and the elimination of noncontrolling interests economic participation incentive of certain properties by the Second City Group prior to the offering.

|   | <b>Three Months Ended March 31, 2014</b> |                  |            |              |
|---|--|------------------|------------|--------------|
|   | <b>City Center</b>                       | <b>AmberGlen</b> | <b>WGP</b> | <b>Total</b> |
| <b>Net Income Attributable to Noncontrolling Interest</b> | 5,797                                    | 23,842           | (16,047)   | 13,592       |
| <b>Net Income Attributable to City Office REIT</b>        | (5,797)                                  | (23,842)         | 16,047     | (13,592)     |

(CC) Property acquisition costs and gain on equity investment are excluded due to the non-recurring nature of these amounts.

(DD) City Office will pay the advisor an advisory fee in accordance with the advisory agreement. The advisory fee is a base management fee, calculated and payable in cash in arrears on a monthly basis, equal to 1/12 of the sum of (I) 0.5% multiplied by the value (at the initial public offering price) of common units and common stock that the Second City Group will receive in connection with the offering in exchange for their contributed properties and (II) 1% multiplied by the sum of (i) the net proceeds of the offering less the write off of financing costs and distributions to Predecessor members for certain transaction costs plus (ii) the difference, if any, between (A) City Office's stockholders' equity and noncontrolling interest in the Operating Partnership as of the calculation date plus accumulated depreciation as of the calculation date less the accumulated depreciation as of the date immediately following completion of this offering and (B) City Office's stockholders' equity and noncontrolling interest in the Operating Partnership immediately following completion of this offering:

*1/12 the sum of (0.5% x the Second City Group's common units and common stock x initial public offering price) +*

*(1% x ((net proceeds of the Offering - write off of financing costs - distributions to Predecessor members for certain transaction costs) + (stockholders' equity and noncontrolling interest in the operating partnership at the end of the applicable month + accumulated depreciation at the end of the applicable month - accumulated depreciation as of the date immediately following completion of the Offering - stockholders' equity and noncontrolling interest in the Operating Partnership the completion of the Offering)))*

Following completion of the offering, payment of the full amount of the advisory fee will be subject to a quarterly Core FFO test. If our quarterly Core FFO per share, as defined in our advisory agreement, for a full calendar quarter is not greater than 1.5% (6% annualized) of the public offering price of our common stock in the Offering, up to 50%, of

that quarter's advisory fee in the amount of the shortfall of our quarterly Core FFO per share times the Fully Diluted Share Count will be deferred until such time as our quarterly Core FFO per share exceeds the 1.5% threshold, at which time all deferred amounts will be paid. The Core FFO test shall apply to each full calendar quarter following completion of the Offering and shall terminate upon the earlier of (i) the second anniversary of the completion of the Offering or (ii) our Core FFO, as defined in our advisory agreement, having equaled or exceeded 1.5% for a full calendar quarter. In the event that the quarterly Core FFO threshold is not met during the two year period following completion of the Offering, none of the deferred advisory fee will be paid. We initially expect to make cash distributions between approximately 100% and 105% of our Core FFO.

(EE) Reflects the estimated costs to operate the entity as a public company comprised of insurance, directors, public reporting and other miscellaneous costs.

(FF) Reflects a pro rata portion of the expense of stock based compensation to be granted to the Advisor as part of the formation transactions for the periods presented. The expense will be amortized over the vesting period.

**Table of Contents**

(GG) Reflects the reduction of interest expense from the anticipated repayment of mortgage debt upon consummation of the Offering. Additionally, reflects the increase in interest expense for the periods presented on the \$95 million and \$25.4 million mortgage loans to be guaranteed by the Operating Partnership as to certain non-recourse covenants and secured by a mortgage on the fee simple interest in the Cherry Creek Corporate Campus, City Center and Corporate Parkway properties and the AmberGlen properties. A secured revolving credit facility of \$11 million is expected to be obtained following the formation. No interest expense is reflected from this loan in the pro forma as there is no anticipated draw-down under this agreement. Pro forma also reflects the amortization of the associated financing costs on the mortgage loans and the secured revolving credit facility for the periods presented.

The following table details the pro forma interest expense:

|   | <b>Pro Forma<br/>Interest Expense</b> |
|---|---------------------------------------|
| Interest expense and deferred financing for New Mortgage Loan at 4.34%              | \$ 1,156,505                          |
| Interest expense and deferred financing for New Mortgage Loan at AmberGlen at 4.38% | 339,755                               |
| Interest expense on Mortgage secured by the Washington Group Plaza Loan at 3.85%    | 343,745                               |
| Net interest expense  | \$ 1,840,005                          |

In connection with the prepayment of the mortgage loan secured by Cherry Creek Corporate Campus, City Center, Corporate Parkway, and Central Fairwinds, \$2.0 million of deferred financing costs were written-off. Additionally, prepayment costs of approximately \$0.3 million were also incurred.

(II) Reflects noncontrolling interests in the loss of the operating partnership assuming that the noncontrolling interest represents 32.8% of the economic interest of the Operating Partnership.

(JJ) The common units are exchangeable for common shares on a one for one basis. The income allocable to such common units is allocated on the same basis as the common shares and reflected as noncontrolling interests in the Pro Forma Statement of Operations. As such, the assumed conversion of these units is not expected to have any net impact on the determination of diluted earnings per share. The total number of common shares that would exist on the exercise of this exchangeable feature would be as follows:

|  |                   |
|--|-------------------|
| Number of common shares issued in the Offering             | 8,192,915         |
| Number of common units issued in the Formation Transaction | 3,251,903         |
| Sub-total, before restricted stock grants                  | 11,444,818        |
| Restricted Stock under the Equity Incentive Plan           | 352,272           |
| <b>Total</b>   | <b>11,797,090</b> |



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**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis is based on, and should be read in conjunction with, the selected financial data, the audited combined financial statements and the related notes thereto of the City Office Predecessor for the periods ended March 31, 2014 and March 31, 2013.

References to we, our, us, and the Company refer to City Office REIT, Inc. a Maryland corporation, together with its consolidated subsidiaries, including City Office REIT Operating Partnership L.P., a Maryland limited partnership, of which we are the sole general partner and which we refer to in this Quarterly Report on Form 10-Q as our Operating Partnership. References to the City Office Predecessor are to the real estate activity and holdings of the entities that own the historical interests in the AmberGlen, Central Fairwinds, City Center, Cherry Creek, Corporate Parkway and Washington Group Plaza properties.

**Cautionary Statement Regarding Forward-Looking Statements**

This quarterly report on Form 10-Q, including Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition, contains both historical and forward-looking statements. All statements, other than statements of historical fact are, or may be deemed to be, forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward looking statements are not based on historical facts, but rather reflect our current expectations and projections about our future results, performance, prospects and opportunities. We have tried to identify these forward looking statements by using words including anticipate, believe, expect, intend, may, might, plan, estimate, project, should, will, result and similar terms and phrases. These forward looking statements are subject to a number of known and unknown risks, uncertainties and other factors that are difficult to predict and which could cause our actual future results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. These risks, uncertainties and other factors include, among others: changes in the real estate industry and in performance of the financial markets; competition in the leasing market; the demand for and market acceptance of our properties for rental purposes; the amount and growth of our expenses; tenant financial difficulties and general economic conditions, including interest rates, as well as economic conditions in our geographic markets; defaults or non-renewal of leases; risks associated with joint venture partners; the risks associated with the ownership and development of real property, including risks related to natural disasters; risks associated with property acquisitions, the failure to acquire or sell properties as and when anticipated; the outcome of claims and litigation involving or affecting the Company; the ability to satisfy conditions necessary to close pending transactions; our failure to maintain our status as real estate investment trust, or REIT; and other factors described in our news releases and filings with the Securities and Exchange Commission (the SEC), including but not limited to our reports on Form 8-K. The forward looking statements included in this report are made only as of the date of this report, and except as otherwise required by federal securities law, we do not have any obligation to publicly update or revise any forward looking statements to reflect subsequent events or circumstances.

**Overview**

*Company*

The Company was organized in the state of Maryland on November 26, 2013. On April 21, 2014, the Company completed its initial public offering (IPO) of shares of the Company's common stock. The Company contributed the net proceeds of the IPO to our Operating Partnership in exchange for common units in the Operating Partnership. Both the Company and the Operating Partnership commenced operations upon completion of the IPO and certain related formation transactions (the Formation Transactions).

The Company's interest in the Operating Partnership entitles the Company to share in distributions from, and allocations of profits and losses of, the Operating Partnership in proportion to the Company's percentage ownership of common units. As the sole general partner of the Operating Partnership, the Company has the exclusive power under the partnership agreement to manage and conduct the Operating Partnership's business, subject to limited approval and voting rights of the limited partners.

On April 21, 2014, we closed the IPO, pursuant to which we sold 5,800,000 shares of our common stock to the public at a public offering price of \$12.50 per share. We raised \$72.5 million in gross proceeds, resulting in net proceeds to us of approximately \$62.7 million after deducting approximately \$5.1 million in underwriting discounts and approximately \$4.7 million in other expenses relating to the IPO. On May 9, 2014, the underwriters of the IPO exercised their overallotment option to purchase an additional 782,150 shares of our common stock at the IPO price of \$12.50 a share resulting in additional gross proceeds to us of approximately \$9.8 million resulting in net proceeds to us of \$9.1 million after deducting approximately \$0.7 million in underwriting discounts. The Company's common stock began trading on the New York Stock Exchange under the symbol CIO on April 15, 2014.



## **Table of Contents**

Pursuant to the Formation Transactions and exercise of the underwriters' overallotment option, the Operating Partnership acquired 100% interest in each of the Washington Group Plaza, Cherry Creek and Corporate Parkway properties and acquired an approximate 76% interest in the AmberGlen property, 90% interest in the Central Fairwinds property and 95% interest in the City Center property. These initial property interests were contributed in exchange for 3,251,903 common units, 1,610,765 common stock and \$28.5 million of cash.

The interim financial statements of the Company do not reflect the IPO or the Formation Transactions completed on April 21, 2014.

The Company intends to elect to be taxed and to operate in a manner that will allow it to qualify as a real estate investment trust ( REIT ) commencing with its taxable year ending December 31, 2014. Subject to qualification as a REIT, the Company will be permitted to deduct distributions paid to its stockholders, eliminating the U.S. federal taxation of income represented by such distributions at the Company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates.

Pursuant to the Jumpstart Our Business Startups Act (the JOBS Act ), the Company qualifies as an emerging growth company ( EGC ). An EGC may choose to take advantage of the extended private company transition period provided for complying with new or revised accounting standards that may be issued by the Financial Accounting Standards Board ( FASB ) or the SEC. The Company has elected to opt out of such extended transition period. This election is irrevocable.

### *Indebtedness*

In connection with the IPO and Formation Transactions, the Company, through its Operating Partnership, extinguished the loan on the Central Fairwinds property and completed a refinancing of three properties (Cherry Creek, City Center and Corporate Parkway) with a new \$95 million non-recourse mortgage loan and proceeds from the IPO. On April 29, 2014, the Company, through its Operating Partnership, completed a \$25.4 million refinancing of the AmberGlen property. Following the formation transactions, the Washington Group Plaza property remained subject to the existing Mortgage Loan. In addition, on April 21, 2014, the Company, through its Operating Partnership entered into a new \$11.0 million senior secured revolving credit facility which remains undrawn.

For additional information regarding the New Mortgage Loan, the AmberGlen Mortgage Loan, the Washington Mortgage Loan and the Revolving Credit Facility, please refer to Liquidity and Capital Resources below.

### *Revenue Base*

Upon completion of the IPO and Formation Transactions, we own six office complexes comprised of 16 office buildings with a total of approximately 1.85 million square feet of net rentable area. As of March 31, 2014, our initial properties were approximately 90% leased (or 92% after giving effect to committed leases, the terms of which have not yet commenced).

*Office Leases.* Historically, most leases for our initial properties were on a full-service gross or net lease basis, and we expect to continue to use such leases in the future. A full-service gross lease generally has a base year expense stop whereby we pay a stated amount of expenses as part of the rent payment while future increases (above the base year stop) in property operating expenses are billed to the tenant based on such tenant's proportionate square footage in the property. The property operating expenses are reflected in operating expenses, but only the increased property

operating expenses above the base year stop recovered from tenants are reflected as tenant recoveries in the statements of income. In a net lease, the tenant is typically responsible for all property taxes and operating expenses. As such, the base rent payment does not include any operating expenses but rather all such expenses are billed to or paid by the tenant. The full amount of the expenses for this lease type is reflected in operating expenses, and the reimbursement is reflected in tenant recoveries. The tenant in the Corporate Parkway property has a net lease. We are also a lessor for a fee simple ground lease at the AmberGlen property. All of our remaining leases are full-service gross leases.

*Interest Rate Contracts.* As of March 31, 2014, the City Office Predecessor had an interest rate cap at the City Center property with a notional value of \$15 million, maturing in June 2014 with an effective fixed interest rate of 6%. This interest rate cap was canceled upon the closing of the IPO. The interest rate cap had no value as of March 31, 2014.

## **Table of Contents**

### **Factors That May Influence Our Operating Results and Financial Condition**

#### *Business and Strategy*

We will focus on acquiring office properties in our target markets that exhibit favorable economic growth trends, growing populations with above average employment growth forecasts, a large number of government offices, large international, national and regional employers across diversified industries, low-cost centers for business operations, proximity to large universities and increasing office occupancy rates. We expect to use our Advisor's market specific knowledge as well as the expertise of local real estate operators and our investment partners to identify acquisition opportunities that we believe will offer cash flow stability and long-term value appreciation. Our target markets are attractive, among other reasons, because we believe that ownership is often concentrated among local real estate operators that typically do not benefit from the same access to capital as public REITs and there is a relatively low level of participation of large institutional investors, which can result in attractive pricing levels and risk-adjusted returns.

#### *Rental Revenue and Tenant Recoveries*

The amount of net rental revenue generated by our initial properties will depend principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space that becomes available from lease terminations. As of March 31, 2014, the percent leased for our initial properties was approximately 90% (or 92% when giving effect to committed leases, the terms of which have not yet commenced). The amount of rental revenue generated also will depend on our ability to maintain or increase rental rates at our initial properties. We believe that the average rental rates for our initial properties generally are in-line with the current average quoted market rates. Negative trends in one or more of these factors could adversely affect our rental revenue in future periods. Future economic downturns or regional downturns affecting our markets or submarkets or downturns in our tenants' industries that impair our ability to renew or re-let space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties. In addition, growth in rental revenue will also partially depend on our ability to acquire additional properties that meet our investment criteria.

#### *Operating Expenses*

Our operating expenses generally consist of utilities, property and ad valorem taxes, insurance and site maintenance costs. Increases in these expenses over tenants' base years are generally passed onto tenants in our full-service gross leased properties and are generally paid in full by tenants in our net leased properties. As a public company, we estimate that our annual general and administrative expenses will increase due to increased legal, insurance, accounting and other expenses related to corporate governance, SEC reporting and other compliance matters, compared to the period prior to the IPO. In addition, we expect that our initial properties may be reassessed for local real estate tax purposes after the consummation of the Formation Transactions.

#### *Conditions in Our Markets*

Positive or negative changes in economic or other conditions in the markets we operate in, including state budgetary shortfalls, employment rates, natural hazards and other factors, may impact our overall performance.

#### *Summary of Significant Accounting Policies*

The interim financial statements follow the same policies and procedures as outlined in the audited combined financial statements for the year ended December 31, 2013, included in the Company's final prospectus dated April 14, 2014.

***Comparison of Period Ended March 31, 2014 to Period Ended March 31, 2013***

*Revenue*

*Total Revenue.* Revenue includes net rental income, including parking, signage and other income, as well as the recovery of operating costs and property taxes from tenants. Total revenues increased \$4.6 million, or 136%, to \$8.0 million for the three month period ended March 31, 2014 compared to \$3.4 million in the corresponding period in 2013. Revenue increased by \$0.8 million from the acquisition of the Corporate Parkway property in May 2013 and \$2.1 million from the acquisition of the Washington Group Plaza property in June 2013. The remaining increase of \$1.7 million increase is a result of the consolidation of the Cherry Creek property. In January 2014, we acquired the remaining 57.7% of the property we did not already own to bring our ownership to 100% whereas previously the property was accounted for using the equity method. AmberGlen, City Center and Central Fairwinds revenues were unchanged in comparison to the prior year.

## **Table of Contents**

*Rental Income.* Rental income includes net rental income, income from the City Office Predecessor's ground lease and lease termination income. Total rental income increased \$4.3 million, or 150%, to \$7.2 million for the three month period ended March 31, 2014 compared to \$2.9 million for the three month period ended March 31, 2013. The increase in rental income was primarily due to the acquisitions described above. The acquisition of the Corporate Parkway, Washington Group Plaza and Cherry Creek properties contributed an additional \$0.8 million, \$2.0 million and \$1.5 million in additional rental income, respectively.

*Expense Reimbursement.* Total expense reimbursement increased \$0.2 million, or 56%, to \$0.5 million for the three month period ended March 31, 2014 compared to \$0.3 million for the same period in 2013, primarily due to the acquisition of the Washington Group Plaza and Cherry Creek properties described above. The Corporate Parkway property, which was acquired in May 2013, is a net lease and does not have any expense reimbursements.

*Other.* Other revenue includes parking, signage and other miscellaneous income. Total other revenues increased \$0.1 million, or 48%, to \$0.3 million for the three month period ended March 31, 2014 compared to \$0.2 million for the three month period ended March 31, 2013, primarily due to increased parking income at City Center. The Corporate Parkway property, which was acquired in May 2013, is a net lease and does not have any other income and minimal other income was generated by Washington Group Plaza and Cherry Creek.

### *Operating Expenses*

*Total Operating Expenses.* Total operating expenses consist of property operating expenses, as well as insurance, property taxes, property acquisition costs, management fees and depreciation and amortization. Total operating expenses increased by \$4.5 million, or 171%, to \$7.1 million for the three month period ended March 31, 2014, from \$2.6 million for the same period in 2013, primarily due to the acquisitions described above. Total operating expenses increased by \$1.9 million and \$2.0 million, respectively, from the acquisition of the Washington Group Plaza property in June 2013 and the consolidation of the Cherry Creek property beginning January 2014. The Corporate Parkway property, which was acquired in May 2013, is a net lease and does not have any significant operating expenses, with the exception of \$0.6 million in depreciation and amortization. AmberGlen, City Center and Central Fairwinds operating expenses were unchanged in comparison to the prior year.

*Property Operating Expenses.* Property operating expenses are comprised mainly of building common area and maintenance expenses, as well as certain expenses that are not recoverable from tenants, the majority of which are related to costs necessary to maintain the appearance and marketability of vacant space. In the normal course of business, property expenses fluctuate and are impacted by various factors including, but not limited to, occupancy levels, weather, utility costs, repairs, maintenance and re-leasing costs. Property operating expenses increased \$1.3 million, or 142%, to \$2.3 million for the three month period ended March 31, 2014 compared to \$1.0 million for the same period in 2013. The increase in property operating expenses was primarily due to the acquisitions described above. The acquisition of the Washington Group Plaza and Cherry Creek properties contributed an additional \$0.8 million, and \$0.5 million in additional property operating expenses, respectively.

*Insurance.* Insurance costs increased \$0.1 million, or 38%, to \$0.2 million for the three month period ended March 31, 2014 compared to \$0.1 million for the three month period ended March 31, 2013 primarily due to the acquisition of the Washington Group Plaza, Corporate Parkway properties and the consolidation of the Cherry Creek property.

*Property Taxes.* Property taxes increased \$0.2 million, or 50%, to \$0.5 million for the three month period ended March 31, 2014 compared to \$0.3 million for the three month period ended March 31, 2013, primarily due to the addition of the Washington Group Plaza and Cherry Creek properties.

*Property Management Fees.* Property management fees increased \$0.1 million, or 70%, to \$0.2 million for the three month period ended March 31, 2014 compared to \$0.1 million for the three month period ended March 31, 2013, primarily due to the addition of the Washington Group Plaza and Cherry Creek properties.

*Depreciation and Amortization.* Depreciation and amortization increased \$2.1 million, or 181%, to \$3.2 million for the three month period ended March 31, 2014 compared to \$1.1 million for the same period in 2013, primarily due to the addition of the Corporate Parkway, Washington Group Plaza and Cherry Creek properties.

## **Table of Contents**

### *Other Expense (Income)*

*Interest Expense, Net.* Interest expense increased \$2.2 million, or 235%, to \$3.1 million for the three month period ended March 31, 2014, compared to \$0.9 million for the corresponding period in 2013. Interest expense increased \$0.4 million, \$0.3 million and \$1.5 million respectively due to interest expense on the Corporate Parkway, Washington Group Plaza and Cherry Creek property debt.

*Gain on Equity Investment.* Gain on equity investment is related to the purchase in January 2014 of the remaining 57.7% of Cherry Creek property that we did not already own. As a result of this transaction, a gain of \$4.5 million was recorded.

*Equity in Income of Unconsolidated Entity.* Equity in income of unconsolidated entity is related to the Cherry Creek property in which the City Office Predecessor owned 42.3% as of December 31, 2013. In January 2014, we acquired the remaining 57.7% of the property we did not already own to bring our ownership to 100% and thus began consolidating the property results.

## **Liquidity and Capital Resources**

### *Analysis of Liquidity and Capital Resources*

The City Office Predecessor had approximately \$6.5 million of cash and cash equivalents as of March 31, 2014. In addition, on April 21, 2014, the Company, through its Operating Partnership, entered into a new \$11.0 million secured revolving credit facility. We intend to use the revolving credit facility, among other things, to finance the acquisition of other properties, to provide funds for tenant improvements and capital expenditures and to provide for working capital and other corporate purposes.

Our short-term liquidity requirements primarily consist of operating expenses and other expenditures associated with our properties, distributions to our limited partners and distributions to our stockholders required to qualify for REIT status, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash, the proceeds from this offering and borrowings under our secured revolving credit facility.

Our long-term liquidity needs consist primarily of funds necessary for the repayment of debt at maturity, property acquisitions and non-recurring capital improvements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property acquisitions and non-recurring capital improvements using our secured revolving credit facility pending permanent financing.

We believe we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity securities. However, we cannot assure you that this is or will continue to be the case. Our ability to incur additional debt is dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets is dependent on a number of factors as well, including general market conditions for REITs and market perceptions about our Company.

### *Consolidated Indebtedness as of March 31, 2014*

As of March 31, 2014, the City Office Predecessor had approximately \$159.4 million of outstanding consolidated indebtedness, of which approximately \$22.5 million, or 14%, is variable rate debt, subject to an interest rate swap option on the LIBOR portion of the interest rate for a notional amount of \$15 million to a fixed rate of 6%, expiring in June 2014.



**Table of Contents**

The following table sets forth information as of March 31, 2014 with respect to the City Office Predecessor's outstanding indebtedness.

| <b>Property</b>                       | <b>March 31,<br/>2014</b> | <b>Interest<br/>Rate as of<br/>March 31, 2013</b> | <b>Maturity</b>           |
|---------------------------------------|---------------------------|---|---------------------------|
| City Center <sup>(1)</sup>            | \$ 22,471,320             | 6.00% <sup>(2)</sup>                              | June 2014 <sup>(3)</sup>  |
| Central Fairwinds <sup>(4)</sup>      | 10,000,000                | 6.25%   | October 2015              |
| Cherry Creek <sup>(5)</sup>           | 49,819,016                | 5.00%   | January 2016              |
| Corporate Parkway <sup>(6)</sup>      | 18,808,333                | 7.25%   | April 2016 <sup>(6)</sup> |
| AmberGlen                             | 23,500,000                | 6.25%   | July 2017 <sup>(7)</sup>  |
| Washington Group Plaza <sup>(8)</sup> | 34,789,971                | 3.85%   | July 2018                 |
| <b>Total</b>                          | <b>\$ 159,388,640</b>     |   |                           |

- (1) The City Center property is subject to senior mortgage debt in a principal amount of \$22.5 million. The loan may be voluntarily prepaid without penalty in full or in part with the payment of an exit fee of \$291,313.
- (2) Based on annualized 30 day LIBOR of 2.00% + 4%.
- (3) In November 2013, the City Office Predecessor exercised its option to extend the maturity date of the loan for a six month period to June 2014. The City Office Predecessor has an option to extend the maturity date of the loan an additional one and a half years to December 2015.
- (4) The Central Fairwinds property is subject to senior mortgage debt in a principal amount of \$10.0 million. The loan may be voluntarily prepaid without penalty in full or in part after the second anniversary of the loan advance date of May 9, 2012.
- (5) The Cherry Creek property is subject to a mortgage loan with fixed monthly interest rate of 5.00% and a 360 month principal amortization period.
- (6) The Corporate Parkway property is subject to senior mortgage debt in a principal amount of \$20.0 million. The loan may be voluntarily prepaid in full or in part subject to certain conditions. If the prepayments are made during fixed interest period, a payment equal to the interest that would have been earned by the lender related to the prepayment amount is required plus actual expenses incurred by the lender.
- (7) The AmberGlen property is subject to the AmberGlen Mortgage Loan, which may be voluntarily prepaid without penalty in full after December 12, 2013 with the payment of an exit fee equal to 1% of the outstanding loan amount.
- (8) The Washington Group Plaza property is subject to the Washington Mortgage Loan.
- Consolidated Indebtedness to be Outstanding After the IPO

| <b>Debt</b>                              | <b>Pro Forma Amount<br/>Outstanding</b> | <b>Interest Rate</b>        | <b>Maturity Date</b> |
|--|---|-----------------------------|----------------------|
| New Mortgage Loan <sup>(1)</sup>         | \$ 95,000,000                           | 4.34%                       | February 2021        |
| Washington Mortgage Loan <sup>(2)</sup>  | 34,789,971                              | 3.85%                       | July 2018            |
| Revolving Credit Facility <sup>(3)</sup> |   | LIBOR +2.75% <sup>(4)</sup> | February 2016        |
| AmberGlen Mortgage Loan <sup>(5)</sup>   | 25,400,000                              | 6.25%                       | May 2019             |

|              |                       |
|--------------|-----------------------|
| <b>Total</b> | <b>\$ 155,189,971</b> |
|--------------|-----------------------|

- (1) *Upon closing of the IPO, we entered into the New Mortgage Loan.*
- (2) *Following the Formation Transactions, the Washington Group Plaza property remained subject to the Washington Mortgage Loan.*
- (3) *Following the Formation Transactions, we entered into the Revolving Credit Facility, which has an accordion feature that will permit us to borrow up to \$150 million, subject to additional collateral availability and lender approval.*
- (4) *As of March 31, 2014, the 3 Month LIBOR rate was 0.23%.*
- (5) *Following the Formation Transactions, we entered into a new mortgage loan in relation to the AmberGlen property.*

**Table of Contents****Contractual Obligations and Other Long-Term Liabilities**

The following table provides information with respect to the City Office Predecessor's commitments as of March 31, 2014, including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extension options.

| Contractual Obligation                              | Total                 | Payments Due by Period |                      |                      | More than<br>5 years |
|---|-----------------------|------------------------|----------------------|----------------------|----------------------|
|   |                       | 2014                   | 2015-2016            | 2017-2018            |                      |
| Principal payments on mortgage loans <sup>(1)</sup> | \$ 159,388,640        | \$ 24,741,702          | \$ 78,152,122        | \$ 56,494,816        | \$                   |
| Interest payments <sup>(2)</sup>                    | 21,595,134            | 7,593,518              | 10,981,920           | 3,019,696            |                      |
| Tenant-related commitments                          | 5,072,930             | 4,072,930              |                      |                      | 1,000,000            |
| <b>Total</b>  | <b>\$ 186,056,704</b> | <b>\$ 36,408,150</b>   | <b>\$ 89,134,042</b> | <b>\$ 59,514,512</b> | <b>\$ 1,000,000</b>  |

(1) City Center debt is based on 30 day LIBOR plus 4%. Interest payment is estimated based on debt outstanding at the beginning of the period multiplied by the effective interest rate as of December 31, 2013 of 6.00%.

(2) On January 2, 2014, the City Office Predecessor entered into a \$50 million loan to finance the acquisition of its interest in the Cherry Creek property. This loan was repaid with a portion of the New Mortgage Loan.

The following table provides information with respect to the City Office Predecessor's commitments as of March 31, 2014 on a pro forma basis, after giving effect to the Formation Transactions and application of the net proceeds from the IPO including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extension options.

| Contractual Obligation                    | Total                 | Pro Forma Payments Due by Period |                      |                      | More than<br>5 years  |
|---|-----------------------|----------------------------------|----------------------|----------------------|-----------------------|
|   |                       | 2014                             | 2015-2016            | 2017-2018            |                       |
| Principal payments on mortgage loans      | \$ 155,189,971        | \$ 357,548                       | \$ 2,500,350         | \$ 37,633,609        | \$ 114,698,464        |
| Interest payments <sup>(1)</sup>          | 39,567,009            | 5,053,912                        | 13,353,505           | 12,336,050           | 8,823,542             |
| Operating leases                          |                       |                                  |                      |                      |                       |
| Tenant-related commitments <sup>(2)</sup> | 5,072,930             | 4,072,930                        |                      |                      | 1,000,000             |
| Ground Leases                             |                       |                                  |                      |                      |                       |
| <b>Total</b>                              | <b>\$ 199,829,910</b> | <b>\$ 9,484,390</b>              | <b>\$ 15,853,855</b> | <b>\$ 49,969,659</b> | <b>\$ 124,522,006</b> |

(1) On January 2, 2014, the City Office Predecessor entered into a \$50 million loan to finance the acquisition of its interest in the Cherry Creek property. This loan was repaid with a portion of the New Mortgage Loan as part of the Formation Transactions.

- (2) *Tenant related commitments related to the State of Colorado lease totaling approximately \$1.9 million will be prefunded by the Second City Group upon closing of the IPO to the extent the amounts have not already been incurred.*

## **Table of Contents**

### **Cash Flows**

#### ***Comparison of Period Ended March 31, 2014 to Period Ended March 31, 2013***

Cash and cash equivalents were \$6.5 million and \$2.9 million as of March 31, 2014 and March 31, 2013, respectively.

*Cash flow from operating activities.* Net cash provided by operating activities increased by \$0.9 million to \$1.1 million for the period ended March 31, 2014 compared to \$0.2 million for the same period in 2013. The increase was primarily due to an increase of \$0.8 million in deferred financing costs and \$1.5 million in accounts payable and accrued liabilities, offset by a decrease of \$0.6 million in prepaid expenses and \$0.8 million in deferred rent.

*Cash flow to investing activities.* Net cash used in investing activities increased by \$11.2 million to \$12.4 million for the period ended March 31, 2014 compared to \$1.2 million for the same period in 2013. The net cash used in investing activities in 2014 was used to acquire the remaining 57.7% ownership in the Cherry Creek property, complete tenant improvements and associated costs and acquire equipment and enhance capital assets.

*Cash flow from financing activities.* Net cash provided by financing activities increased by \$9.9 million to \$10.7 million for the period ended March 31, 2014 compared to \$0.8 million for the period ended March 31, 2013. Cash flow from financing activities is primarily derived from re-financing and mortgage proceeds on new financing offset by mortgage payments. The increase was primarily due to the new mortgage and equity financing associated with the Cherry Creek property acquisitions in 2014 and scheduled mortgage payments during the year ended March 31 2014.

### **Off-Balance Sheet Arrangements**

As of March 31, 2014, the City Office Predecessor did not have any off-balance sheet arrangements.

### **Inflation**

Substantially all of our office leases provide for separate real estate tax and operating expense escalations. In addition, most of the leases provide for fixed rent increases. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We have used, and will use, derivative financial instruments to manage or hedge interest rate risks related to borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based upon their credit rating and other factors. We have entered, and we will only enter into, contracts with major financial institutions based on their credit rating and other factors.

As of March 31, 2014, the City Office Predecessor had an interest rate swap that was not designated as a hedge. These derivatives were not speculative and were used to manage the Company's exposure to interest rate movements and other identified risks, but we have elected not to designate these instruments in hedging relationships based on the provisions in ASC 815-10. These amounts were extinguished upon the IPO closing and Formation Transactions. The changes in fair value of derivatives not designated in hedging relationships have been recognized in earnings. No assurance can be given that any future hedging activities by us will have the desired beneficial effect on our results of operations or financial condition.

The variable rate component of our consolidated indebtedness is LIBOR-based. Assuming no increase in the amount of our variable rate debt as of March 31, 2014, if LIBOR were to increase by 100 basis points, the increase in interest expense on our variable rate debt would increase by approximately \$224,000 annually, and if LIBOR were to decrease by 100 basis points, interest expense on our variable rate debt would decrease by approximately \$224,000 annually. The variable rate mortgage loan in relation to the City Center property was extinguished upon the IPO closing and Formation Transactions.

Interest risk amounts are our management's estimates based on the City Office Predecessors' capital structure and were determined by considering the effect of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment nor the change to the capital structure as a result of the IPO and Formation Transactions. We may take actions to further mitigate our exposure to changes in interest rates. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in the City Office Predecessor's financial structure.

**Table of Contents**

**Item 4. Controls and Procedures**

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, (the Exchange Act )) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the rules and regulations of the SEC and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of March 31, 2014, the end of the period covered by the report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded, as of March 31, 2014, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (i) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We and our subsidiaries are, from time to time, parties to litigation arising from the ordinary course of their business. Our management does not believe that any such litigation will materially affect our financial position or operations.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in the section entitled "Risk Factors" of our final prospectus dated April 14, 2014.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On April 21, 2014, in connection with the Formation Transactions, we issued to certain prior investors in our properties an aggregate of 5,590,069 common units of limited partnership interest in our Operating Partnership ( "OP Units" ) with an aggregate value of approximately \$69.9 million based on the IPO price. The issuance of such units was effected in reliance upon exemptions from registration provided by Section 4(2) of the Securities Act and Regulation D of the Securities Act. Pursuant to the partnership agreement of our Operating Partnership, limited partners of our Operating Partnership will have the right, commencing one year from the date of issuance of such units, to require our Operating Partnership to redeem part or all of their OP Units for cash equal to the then-current market value of an equal number of our common shares, or, at our election, for common shares on a one-for-one basis, subject to certain adjustments and the restrictions on ownership and transfer of our shares set forth in our charter.

On April 21, 2014, we closed the IPO, pursuant to which we sold 5,800,000 shares of our common stock to the public at a public offering price of \$12.50 per share. We raised \$72.5 million in gross proceeds, resulting in net proceeds to us of approximately \$62.7 million after deducting approximately \$5.1 million in underwriting discounts and approximately \$4.7 million in other expenses relating to the IPO. On May 9, 2014, the underwriters of the IPO exercised their overallotment option to purchase an additional 782,150 shares of our common stock at the IPO price of \$12.50 a share resulting in additional gross proceeds to us of approximately \$9.8 million resulting in net proceeds to us of \$9.1 million after deducting approximately \$0.7 million in underwriting discounts.

All of the 6,582,150 shares of our common stock were sold pursuant to our registration statement on Form S-11, as amended (File No. 333-193219), that was declared effective by the SEC on April 14, 2014. Janney Montgomery Scott LLC, Wunderlich Securities, Inc. and Oppenheimer & Co. Inc. served as joint book-running managers for the offering and as representatives of the underwriters.

We contributed the net proceeds of the IPO to our Operating Partnership in exchange for OP Units, and our Operating Partnership used the net proceeds received from us as described below:

approximately \$19.4 million to acquire interests in our initial properties, including the payment of transaction expenses in connection with the contribution of our initial properties in the formation transactions;

approximately \$6.5 million to repay portions of certain mortgage loans;



approximately \$36.1 million for general working capital purposes, including payment of expenses associated with our Formation Transactions, future acquisitions and creating reserves for capital expenditures, tenant improvements and leasing commissions.

We used all of the additional net proceeds from the exercise of the overallotment option to redeem a portion of the common stock and OP Units issued to certain Second City entities in the Formation Transactions at the IPO price.

There has been no material change in our planned use of proceeds from our IPO as described in the final prospectus filed with the SEC pursuant to Rule 424(b).

**Item 3. Defaults Upon Senior Securities**

None.

**Table of Contents****Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 3.1                   | Articles of Amendment and Restatement of the Registrant  |
| 3.2                   | Amended and Restated Bylaws of the Registrant  |
| 10.1                  | Amended and Restated Agreement of Limited Partnership of City Office REIT Operating Partnership, L.P.  |
| 10.2                  | Advisory Agreement by and among City Office Real Estate Management Inc., City Office REIT Operating Partnership, L.P. and City Office REIT, Inc.   |
| 10.3                  | Administration Agreement by and between City Office Real Estate Management Inc. and Second City Capital II Corp.   |
| 10.4                  | Contribution Agreement by and among City Office REIT Operating Partnership, L.P., Gibralt US, Inc., GCC Amberglen Investments Limited Partnership and Daniel Rapaport  |
| 10.5                  | Contribution Agreement by and among City Office REIT Operating Partnership, L.P., City Office REIT, Inc., CIO OP Limited Partnership, CIO REIT Stock Limited Partnership, Second City Capital Partners II, Limited Partnership and Second City General Partner II, Limited Partnership |
| 10.6                  | Registration Rights Agreement by and among City Office REIT, Inc., CIO OP Limited Partnership, CIO REIT Stock Limited Partnership, GCC Amberglen Investments Limited Partnership, Gibralt US, Inc. and Daniel Rapaport   |
| 10.7                  | Equity Incentive Plan  |
| 10.8                  | Tax Protection Agreement by and among City Office REIT, Inc., City Office REIT Operating Partnership, L.P., Gibralt US, Inc., GCC Amberglen Investments Limited Partnership and Daniel Rapaport  |
| 10.9                  | Tax Protection Agreement by and among City Office REIT, Inc., City Office REIT Operating Partnership, L.P., CIO OP Limited Partnership and Second City General Partner II, Limited Partnership   |
| 10.10                 | Excepted Holder Agreement by and between City Office REIT, Inc. and CIO OP Limited Partnership   |
| 10.11                 | Excepted Holder Agreement by and between City Office REIT, Inc. and CIO REIT Stock Limited Partnership   |
| 31.1                  | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of  |

2002

- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following financial information from City Office REIT, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Balance Sheet and Notes to Condensed Balance Sheet of City Office REIT, Inc., (ii) Combined Balance Sheets, Combined Statements of Operations, Combined Statements of Changes in Equity, Combined Statements of Cash Flows and Notes to Consolidated Financial Statements of City Office REIT, Inc. Predecessor and (iii) Pro Forma Consolidated Balance Sheet, Pro Forma Consolidated Statement of Operations and Notes and Management's Assumptions to Pro Forma Consolidated Financial Statements of City Office REIT, Inc.\*

\* Users of this interactive data file are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CITY OFFICE REIT, INC.**

Date: May 23, 2014

By:

/s/ James Farrar  
James Farrar

*Chief Executive Officer*

Date: May 23, 2014

By:

/s/ Anthony Maretic  
Anthony Maretic

*Chief Financial Officer*