



Summit **II** REIT

Summit Industrial Income REIT

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three month periods ended March 31, 2019 and 2018

SUMMIT INDUSTRIAL INCOME REIT

For the three month periods ended March 31, 2019 and 2018

Table of contents

Unaudited Condensed Consolidated Interim Balance Sheets.....	1
Unaudited Condensed Consolidated Interim Statements of Income	2
Unaudited Condensed Consolidated Interim Statements of Comprehensive Income	3
Unaudited Condensed Consolidated Interim Statements of Changes in Unitholders' Equity.....	4
Unaudited Condensed Consolidated Interim Statements of Cash Flows	5
Notes to the Unaudited Condensed Consolidated Interim Financial Statements	6-22

SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Balance Sheets

As at March 31, 2019 and December 31, 2018

(In thousands of Canadian dollars)

	Note	March 31, 2019	December 31, 2018
Assets			
Non-current			
Investment properties	5,4	\$ 1,744,812	\$ 1,700,078
Loans receivable	6	66,021	59,197
		1,810,833	1,759,275
Current			
Accounts receivable	7	1,784	3,301
Prepaid expenses, deposits, and deferred financing costs	7	4,949	7,703
Cash		4,514	4,325
		11,247	15,329
Total assets		\$ 1,822,080	\$ 1,774,604
Liabilities			
Current			
Loans and borrowings	8	\$ 114,477	\$ 265,808
Trade and other accrued liabilities		31,573	28,723
Distributions payable	10	4,149	4,142
		150,199	298,673
Non-current			
Loans and borrowings	8	747,334	568,368
Lease liability	4,14	10,493	-
Security deposits		6,604	6,734
		764,431	575,102
Class B exchangeable units	9	51,703	41,088
Total liabilities		966,333	914,863
Unitholders' equity		855,747	859,741
Total liabilities and equity		\$ 1,822,080	\$ 1,774,604

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

Approved by the Board of Trustees on May 7, 2019.

“Lou Maroun”
Trustee

“Jim Tadeson”
Trustee

SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Statements of Income

For the three month periods ended March 31, 2019 and 2018

(In thousands of Canadian dollars, except per Unit amounts)

	Note	2019	2018
Revenue from investment properties		\$ 33,779	\$ 21,408
Property operating expenses		9,451	6,633
Net rental income		24,328	14,775
Other income			
Finance income		1,356	622
		1,356	622
Other expenses			
General and administrative		1,765	1,066
Finance costs	12	9,101	4,703
		10,866	5,769
Income before fair value adjustments			
Fair value adjustments to Class B exchangeable units	9	(10,615)	-
Fair value adjustments to investment properties	5	6,658	16,928
Net income		\$ 10,861	\$ 26,556
Net income per Unit			
Basic	10	\$ 0.108	\$ 0.395
Diluted	10	\$ 0.108	\$ 0.395

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

SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income

For the three month periods ended March 31, 2019 and 2018

(In thousands of Canadian dollars)

	2019	2018
Net income	\$ 10,861	\$ 26,556
Other comprehensive (loss) income		
<i>Items that may be reclassified subsequently to net income:</i>		
Net change in fair value of hedging derivative financial instruments	(6,397)	(595)
Net change in fair value of hedging derivative financial instruments reclassified to finance costs	2,381	759
Other comprehensive (loss) income	(4,016)	164
Comprehensive income	\$ 6,845	\$ 26,720

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

SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

For the three month periods ended March 31, 2019 and 2018

(In thousands of Units and Canadian dollars)

	Fund Units	Note	Unit equity	Surplus	Accumulated other comprehensive income (loss)	Unitholders' equity
Beginning balance, January 1, 2018	67,084		\$ 429,584	\$ 41,021	\$ 1,282	\$ 471,887
Net income and comprehensive income	-	8	-	26,556	164	26,720
Distributions	-	10	-	(8,666)	-	(8,666)
Units issued through DRIP	144	10	1,088	-	-	1,088
Unitholders' equity, March 31, 2018	67,228		\$ 430,672	\$ 58,911	\$ 1,446	\$ 491,029
Beginning balance, January 1, 2019	96,324		\$ 681,045	\$ 180,743	\$ (2,047)	\$ 859,741
Net income and other comprehensive loss	-	8	-	10,861	(4,016)	6,845
Distributions	-	10	-	(12,439)	-	(12,439)
Units issued through DRIP	137	10	1,390	-	-	1,390
Management compensation units	19	10,11	210	-	-	210
Unitholders' equity, March 31, 2019	96,480		\$ 682,645	\$ 179,165	\$ (6,063)	\$ 855,747

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

SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the three month periods ended March 31, 2019 and 2018

(In thousands of Canadian dollars)

	Note	2019	2018
Operating activities			
Net income		\$ 10,861	\$ 26,556
Add (deduct):			
Finance costs	12	9,101	4,703
Straight-line rent adjustment		(667)	(484)
Fair value adjustments to Class B exchangeable Units	9	10,615	-
Fair value adjustments to investment properties	5	(6,658)	(16,928)
Change in non-cash working capital items		1,435	3,015
Interest and finance fees paid		(8,824)	(4,786)
Cash inflows from operating activities		15,863	12,076
Financing activities			
Repayment of loans and borrowings		(158,329)	(93,008)
Repayment of lease liabilities		(12)	-
Increase in loans and borrowings		186,000	93,800
Distributions paid (includes Class B exchangeable Units)	9,10	(11,596)	(7,572)
Cash inflows (outflows) from financing activities		16,063	(6,780)
Investing activities			
Additions to investment properties		(3,027)	(574)
Acquisition of investment properties		(23,173)	-
Loans receivable advanced		(5,537)	(1,569)
Increase in deposits on future acquisitions of investment properties		-	(1,280)
Cash outflows from investing activities		(31,737)	(3,423)
Increase in cash		189	1,873
Cash, beginning of period		4,325	856
Cash, end of period		\$ 4,514	\$ 2,729

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

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three month periods ended March 31, 2019 and 2018

1. Reporting entity

Summit Industrial Income REIT (“Summit II” or the “Trust”) is a mutual fund trust established under the laws of the Province of Ontario and is domiciled in Canada. The registered office of the Trust is 75 Summerlea Road, Brampton, Ontario, L6T 4V2. The Trust is primarily involved in the commercial leasing of real estate property with 66 property locations in Ontario, 28 properties in Quebec, 14 properties across Western Canada, and 1 property in Atlantic Canada. The Trust’s Units are listed on the TSX and trade under the symbol “SMU.UN”.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting”. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements prepared for the year ended December 31, 2018.

The Board of Trustees authorized the issue of these condensed consolidated interim financial statements on May 7, 2019.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties and certain financial instruments which are recorded at fair value in accordance with the Trust’s accounting policies set forth in Note 3 and the adoption of the new accounting standard described in Note 4.

The condensed consolidated interim financial statements are presented in thousands of Canadian dollars, unless otherwise noted, which is the functional currency of the Trust and its subsidiaries.

3. Significant accounting policies

The accounting policies set out below are consistent with those of the annual consolidated financial statements prepared as at and for the year ended December 31, 2018, as described in Note 3 of those consolidated financial statements except for the adoption of the new accounting standard described in Note 4 below.

(a) Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Trust and its wholly-owned subsidiaries, Summit Industrial Income Holdings Limited Partnership, Summit Industrial Income Operating Limited Partnership and Summit II Data Centres Limited Partnership and their respective general partners, Summit Industrial Income Holdings GP Ltd., Summit Industrial Income Corp. and Summit II Data Centres GP Inc. Subsidiaries are entities that the Trust controls. Control is achieved when the Trust has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Trust reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

3. Significant accounting policies (continued)

Consolidation of a subsidiary begins when the Trust obtains control over the subsidiary and ceases when the Trust loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and comprehensive income from the date the Trust gains control until the date when the Trust ceases to control the subsidiary.

All intercompany transactions, balances, income and expenses are eliminated in full upon consolidation.

(b) Judgements and estimates

In the application of the Trust's accounting policies, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in these condensed consolidated interim financial statements and related notes to the condensed consolidated interim financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are accounted for prospectively.

Judgments are made in the selection and assessment of the Trust's accounting policies. Estimates are used mainly in determining the measurement of recognized transactions and balances. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Judgment and estimates are often interrelated. Judgments and estimates are continually re-evaluated to ensure they remain appropriate. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Details of the accounting policies subject to judgments and estimates the Trust believes could have the most significant impact on the amounts recognized in these condensed consolidated interim financial statements are described in Note 5 to the annual consolidated financial statements prepared as at and for the year ended December 31, 2018.

4. Accounting policy changes

Adoption of new and revised standards:

IFRS 16 – Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16 – Leases (“IFRS 16”) which replaces IAS 17, "Leases" and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice.

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

4. Accounting policy changes (continued)

The Trust adopted IFRS 16 in its unaudited condensed consolidated financial statements for the annual period beginning January 1, 2019, on a modified retrospective basis using the available transitional provisions. As a landlord, lessor accounting is substantially unchanged between IAS 17 and IFRS 16 and therefore, leases with users are to be accounted for as operating leases in a consistent manner with the current accounting treatment. The Trust has identified one land lease contract in which it is a lessee; no other significant leases were identified.

The following practical expedients were used when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied IFRS 16 only to contracts that were previously identified as leases;
- Excluded initial direct costs from measuring right-of-use assets; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As at January 1, 2019, on adoption of IFRS 16, Summit recognized a lease liability for the ground lease assumed in July 2018 which had been previously classified as an “operating lease” under the principles of IAS 17. The liability is measured at the present value of the remaining lease payments, discounted using Summit’s incremental borrowing rate as of January 1, 2019 on the ground lease with a remaining lease term of 54 years for a value of \$10,504.

The Trust has classified the right-of-use-asset in respect of this land lease as investment property at fair value. Lease related expense previously recorded in property expenses will now be recorded as fair value adjustments on investment properties and net interest and other financing charges as a finance cost on the condensed consolidated interim statements of income.

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

5. Investment properties

The following table presents the changes in investment properties as at March 31, 2019 and December 31, 2018:

(In \$ thousands)	Note	March 31, 2019 Total	December 31, 2018 Total
Balance, beginning of period		\$1,700,078	\$ 966,566
Transition adjustment (IFRS 16)	4	10,504	-
Additions:			
Acquisition of investment properties		23,673	595,506
Additions to investment properties		3,899	15,662
Additions to properties under development		-	24,409
Dispositions		-	(45,874)
Fair value gains		6,658	143,809
Balance, end of period		\$1,744,812	\$ 1,700,078

There was one investment property acquisition completed during the three-month period ended March 31, 2019 as follows:

(in \$ thousands)						
Property	Property type	Ownership interest	Date acquired	Cash and other ⁽¹⁾	Mortgage financing	Acquisition cost ⁽²⁾
2751 Trans-Canada Highway, Montreal, QC	Industrial	100%	07-Mar-19	\$ 23,673	\$ -	\$ 23,673
Investment properties				\$ 23,673	\$ -	\$ 23,673

(1) Cash and other includes cash, cash drawn from the bank credit facility and assumption of security deposits.

(2) Acquisition costs includes acquisition-related expenses.

As indicated above, during the three-month period ended March 31, 2019, the Trust acquired an investment property for \$23.7 million (March 31, 2018 - none). The acquisition was financed by utilizing proceeds from the revolving operating facility.

Approximately \$1.7 billion (December 31, 2018 - \$1.7 billion) of investment properties are used for security under loans and borrowings (Note 8).

Additions to investment properties for the three months ended March 31, 2019 and 2018 were \$3.9 million and \$1.1 million respectively (December 31, 2018 - \$15.7 million), and relate to capital outlays, tenant leasing costs, capitalization of free rent receivable and net straight-line rent receivables arising from the recognition of rental revenues on a straight-line basis over the lease term. At March 31, 2019 and 2018, the straight-line rent receivable balances were \$7.4 million and \$5.3 million respectively (December 31, 2018 - \$6.7 million).

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

5. Investment properties (continued)

There were no properties appraised by third party valuation professionals during the first quarter of 2019 (year ended December 31, 2018 - \$395.2 million or 36%). The fair value of the properties was determined internally by the Trust using similar assumptions and valuation principals as used by the external appraisers. On an annual basis, approximately 33% of the portfolio is expected to be appraised by an external third party, which over 3 years will represent 100% of the portfolio having been externally appraised.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets. Level 2 inputs are inputs other than quoted prices that are observable for the asset either directly or indirectly. Valuations that require the significant use of unobservable inputs are considered Level 3. There have been no transfers during the period between levels.

Investment properties were valued using a combination of the discounted cash flow method, the direct capitalization method, and the direct comparison method. In applying the discounted cash flow method, the expected future cash flows are discounted, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to the estimated year 11 net operating income. In applying the direct capitalization method, the stabilized net operating income is capitalized at the requisite overall capitalization rate. In applying the direct comparison method (price per square foot), the properties are compared to recent transactions considered to be similar in terms of location, condition, size, and tenancy.

These methods require certain key assumptions, including rental income, market rents, operating expenses, vacancies, inflation rates, discount rates, and capitalization rates to be made. The discount rate and capitalization rate are determined for each property based on available market information related to the sale of similar buildings within the same geographic locations. Based on a blend of the valuation methods, the fair value gains for the three months ended March 31, 2019 and 2018 were \$6.7 million and \$16.9 million respectively (year ended December 31, 2018 - \$143.8 million).

Significant assumptions made to determine the fair value of the industrial investment properties are set out as follows:

	March 31, 2019			December 31, 2018		
	Capitalization rate	Discount rate	Price per square foot	Capitalization rate	Discount rate	Price per square foot
Weighted average	5.43%	6.20%	\$ 126.92	5.46%	6.20%	\$ 126.41

Excluded from the above table is the fair value assumption for the data centre property as the price per square foot would not be a significant assumption for this type of investment property. At March 31, 2019, the data centre investment property was valued at a capitalization rate of 6.75%.

Fair values are most sensitive to change in capitalization rates. A 0.50% increase in the weighted average capitalization rate for investment properties would decrease fair value by \$149.1 million (December 31, 2018 - \$144.2 million) and a 0.50% decrease would increase fair value by \$180.0 million (December 31, 2018 - \$173.7 million).

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

6. Loans receivable

In September 2018, the Trust extended a mezzanine loan to its partner Urbacon to develop a new planned 95,000 square foot data centre property (“DC2”) on land owned by Urbacon directly adjacent to the existing data centre property (“DC1”) property. The Trust’s mezzanine loan can be converted into a 50% ownership interest in DC2 once the property is leased and stabilized. DC2 will be a 10 megawatt (“MW”) powered shell. Urbacon has already commenced construction on the site. During the three months ended March 31, 2019, the Trust advanced \$1.8 million toward the loan bringing the total loan receivable balance, including accrued interest, to \$19.4 million at March 31, 2019 (year ended December 31, 2018 - \$17.2 million).

During the three months ended March 31, 2019, the Trust advanced \$0.9 million, (year ended December 31, 2018 - \$11.5 million) under the non-revolving working capital loan to Urbacon. Including accrued interest, the total loan receivable balance is \$23.9 million at March 31, 2019 (year ended December 31, 2018 - \$22.5 million). This loan is to be primarily invested to develop additional data centres in Richmond Hill and other key markets.

During the three months ended March 31, 2019, the Trust advanced \$2.8 million, (year ended December 31, 2018 - \$2.1 million) under the mezzanine loan to Urbacon. This loan holds the option to convert into a 50% ownership interest in a recently completed state-of-the-art data centre located in downtown Montreal, Quebec. The loan matures December 22, 2021 and includes two one-year extension options. Including accrued interest, the total loan receivable balance is \$22.7 million at March 31, 2019 (year ended December 31, 2018 - \$19.5 million).

For the three months ended March 31, 2019, interest income of \$1.3 million (March 31, 2018 - \$0.6 million) on the loans receivable have been reported in finance income on the condensed consolidated interim statements of income.

7. Accounts receivable, prepaid expenses, deposits and deferred financing costs

(In \$ thousands)	March 31, 2019	December 31, 2018
Tenant receivables	\$ 682	\$ 589
Other receivables	1,102	2,712
Total accounts receivable	\$ 1,784	\$ 3,301
Prepaid expense and deposits	\$ 4,448	\$ 7,442
Deferred financing costs	501	261
Total prepaid expenses, deposits and deferred financing costs	\$ 4,949	\$ 7,703

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

8. Loans and borrowings

(In \$ thousands)	March 31, 2019	December 31, 2018
Term mortgages	\$ 759,731	\$ 612,096
Revolving and non-revolving operating facility and demand loans	102,080	222,080
Total	861,811	834,176
Less: Current loans and borrowings	114,477	265,808
Non-current loans and borrowings	\$ 747,334	\$ 568,368

(a) Term mortgages

The following table summarizes the financing activities for the three months ended March 31, 2019:

Property	Lender	Term	Amount	Interest Rate	Completed
New financing					
Portfolio of five Quebec properties	BMO	10 years	\$ 91,000	3.93%	Mar-19
Portfolio of four Alberta properties	CIBC	10 years	62,000	3.86%	Mar-19
			\$ 153,000	3.90%	

In March 2019, the Trust extended \$6.2 million in mortgage debt expiring March 1, 2019 to June 1, 2019. Additionally, in March 2019, \$91.0 million in mortgage financing was obtained at a variable interest rate of monthly BA-CDOR plus 1.35% with a term to maturity of ten years, which was effectively fixed at an interest rate of 3.93% by entering into a ten-year interest rate swap agreement at the same time. As well, \$62.0 million in mortgage financing was obtained in March 2019, at a variable interest rate of monthly BA-CDOR plus 1.30% with a term to maturity of ten years, which was effectively fixed at an interest rate of 3.86% by entering into a ten-year interest rate swap agreement at the same time. Proceeds of the \$91.0 million and \$62.0 million in mortgage financing were used to repay the temporary non-revolving credit facilities put in place to acquire properties in December 2018.

The Trust has applied hedge accounting to these transactions. Settlement of both fixed and variable portions of the interest rate swaps occurs at the same time monthly and the Trust has assessed these as effective in the hedge of its interest rate exposure.

At March 31, 2019, the aggregate fair value of the interest rate swaps amounted to a \$6.1 million financial liability (December 31, 2018 - \$2.0 million).

At March 31, 2019, total term mortgages bear interest at a weighted average effective interest rate of 3.75% (December 31, 2018 - 3.72%) and a weighted average stated interest rate of 3.79% (December 31, 2018 - 3.77%). The term mortgages are secured by first registered mortgages over specific properties and first general assignments of leases, insurance and registered chattel mortgages.

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

8. Loans and borrowings (continued)

Included in mortgages payable is \$1.3 million (December 31, 2018 - \$1.3 million) of unamortized mark-to-market premiums related to mortgages assumed on acquisition, and \$0.9 million (December 31, 2018 - \$0.9 million) of unamortized deferred financing charges.

Principal repayment requirements for term mortgages are as follows:

(In \$ thousands)

2019 (remainder)	\$ 104,443
2020	61,173
2021	50,288
2022	116,710
2023	95,844
2024	34,438
Thereafter	296,473
Principal amount	759,369
Premium on debt	1,258
Deferred financing charges	(896)
Total term mortgages	\$ 759,731

(b) Revolving operating facility

During the first quarter of 2019, the revolving operating facility was increased to \$115.0 million, subject to requisite borrowing base security. As at March 31, 2019, approximately \$96.6 million (December 31, 2018 - \$63.6 million), of an available \$102.3 million (December 31, 2018 - \$71.5 million), was drawn from the revolving operating facility.

The revolving credit facility matures September 25, 2020. The operating facility is interest bearing at a variable interest rate based on bank prime plus 1% for prime rate loans or banker's acceptance rates plus 2% for banker's acceptances.

The revolving operating facility is secured by first charges over specific investment properties, with a fair value of \$278.9 million (December 31, 2018 - \$146.0 million), and first general assignment of leases and insurance.

9. Class B exchangeable units

As partial consideration for asset acquisitions during 2018, and as indicated in the below table, 3,292,091 and 1,005,780 Class B exchangeable units were issued with a fair value of \$27.9 million and \$8.7 million, respectively.

The Class B exchangeable units will be exchangeable into Units of the Trust on a one-for-one basis at the option of the holder. The special voting units have the same voting rights as the Trust's units and will entitle the holder of the exchangeable units to such number of votes at meetings of the Trust's unitholders as is equal to the number of trust units of the Trust such exchangeable units are exchangeable for. These Class B

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

9. Class B exchangeable units (continued)

exchangeable units are entitled to distributions per unit in an amount equal to the distributions per unit declared in respect of the Trust Units.

Class B exchangeable units are valued at the Trust Units' closing price per the TSX as at March 31, 2019, which was \$12.03. The following table shows the change in carrying value and number of Class B exchangeable units outstanding for the periods presented:

(In thousands)	Units	Value
Class B exchangeable units issued June 18, 2018	3,292	\$ 27,851
Class B exchangeable units issued August 15, 2018	1,006	8,700
Fair value adjustments 2018	-	4,537
Fair value adjustments 2019	-	10,615
<u>Balance March 31, 2019</u>	<u>4,298</u>	<u>\$ 51,703</u>

Included in finance costs for the three-month periods ended March 31, 2019 is \$0.6 million of distributions declared on Class B exchangeable units (\$0.0430 per Class B exchangeable unit). Total distributions payable on Class B exchangeable units as at March 31, 2019 were \$0.2 million. There were no Class B exchangeable units during the same period in 2018. As indicated under subsequent events Note 15, 3,292,091 Class B exchangeable units were exchanged, at the option of the holder, into Units of the Trust on a one-for-one basis.

10. Unitholders' equity

(a) Authorized

The Trust is authorized to issue an unlimited number of Units. Each Unit, which has no par value, represents a single vote at any meeting of Unitholders and entitles the Unitholder to receive a pro rata share of all distributions. Each Unitholder shall be entitled to require the Trust to redeem at any time from time to time at the demand of the Unitholder all or any part of the Units registered in the name of the Unitholder at the prices determined and payable in accordance with the conditions hereinafter provided.

A maximum amount of \$25,000 may be redeemed in cash in any one month unless otherwise waived by the Board of Trustees. Any redemption in excess of \$25,000 will be settled by way of the issuance by the Trust a promissory note in a principal amount equal to the redemption price determined in accordance with the Declaration of Trust.

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

10. Unitholders' equity (continued)

(b) Issued and outstanding

The following is a continuity of the Trust's issued and outstanding Units:

(In thousands)	Number of Units	Carrying amount
Balance January 1, 2018	67,084	\$ 429,584
Units issued under the DRIP	144	1,088
Balance March 31, 2018	67,228	\$ 430,672

(In thousands)	Number of Units	Carrying amount
Balance January 1, 2019	96,324	\$ 681,045
Issuance of manager compensation Units (Note 11)	19	210
Units issued under the DRIP	137	1,390
Balance March 31, 2019	96,480	\$ 682,645

The Trust has a Distribution Reinvestment Plan ("DRIP") whereby registered or beneficial holders of the Trust's Units who are residents in Canada can acquire additional Trust Units by reinvesting all or a portion of their monthly cash distributions without paying brokerage commissions. In addition, Unitholders who elect to participate in the DRIP receive a further distribution of Trust Units equal to 5% of each distribution that was reinvested by them. During the three-month period ended March 31, 2019, there were 137,243 Units (2018 – 144,241) issued under this plan for total proceeds of \$1.4 million (2018 - \$1.1 million), representing 11.2% (2018 – 12.6%) of the related distributions.

(c) Distributions

The Trust recorded the following activities relating to distributions during the three-month periods ended March 31:

(In \$ thousands, except per Unit amounts)	2019	2018
Paid in cash	\$ 11,042	\$ 7,572
Reinvested by Unitholders under the DRIP	1,390	1,088
\$0.0430 per Unit payable at December 31 (paid January)	(4,142)	(2,885)
\$0.0430 per Unit payable at March 31	4,149	2,891
Distributions recorded in equity	\$ 12,439	\$ 8,666

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

10. Unitholders' equity (continued)

(d) Per Unit amounts

The weighted average number of Units for the three-month periods ended March 31 are as follows:

(In thousands of Units)	2019	2018
Issued Units, January 1	96,324	67,084
Issuance of management compensation Units	8	-
Issuance of Units under the DRIP	72	74
Total weighted average number of Trust Units outstanding	96,404	67,158
Impact of Class B exchangeable Units, January 1	4,298	-
Weighted average number of Units outstanding (basic)	100,702	67,158
Granted Units, January 1	53	23
Impact of Trustee deferred Units	8	5
Weighted average number of Units outstanding (diluted)	100,763	67,186

(e) Trustee Deferred Unit Plan

Effective May 10, 2017, the Trust's Board of Trustees authorized a Deferred Unit Plan (the "Plan") that provides for the granting of Deferred Units to Trustees in lieu of cash for up to 100% of their Trustee Fees (the "Elected Amount"). Under the Plan, the Trust will match the Elected Amount of each participant by issuing additional Deferred Units up to a maximum value of \$10,000 (the "Match Incentive"). The maximum value of the aggregate number of Units that may be subject to grants of Deferred Units to any one Trustee during any financial year of the REIT will be no greater than \$150,000.

Deferred Units granted under the Elected Amount will vest on the day that is 12 months following the date of the grant. Additional Deferred Units issued pursuant to the Match Incentive will vest in accordance with the following schedule: a) 50% on the third anniversary of the grant; b) 25% on the fourth anniversary of the grant; and c) 25% on the fifth anniversary of the grant. Vested Deferred Units may be redeemed in whole or in part for Units issued from treasury or cash as elected by the participant.

The maximum number of Units reserved for issuance is 425,420. One Deferred Unit is economically equivalent to one Unit and fractional Deferred Units are permitted. A summary of Deferred Units granted under the Plan as at March 31, 2019 is:

Number of Units	2019	2018
Balance January 1	53,146	23,210
Deferred Units granted for services rendered including match incentive	10,562	10,631
Deferred Units granted through distributions	768	521
Balance March 31	64,476	34,362

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

10. Unitholders' equity (continued)

The fair value of a Unit, for the purpose of the Deferred Unit Plan, is calculated as the volume weighted average price of all Units traded on the TSX for the five trading days immediately preceding the grant date. The liability related to the Plan is measured at fair value and is remeasured to fair value at each reporting date and at the date of settlement. The fair value changes are recorded within general and administrative expense in the condensed consolidated interim statements of income. The total fair value of Deferred Units granted and recognized as compensation expense within general and administrative expense for the three-month period ended March 31, 2019 was \$216,000 (2018 - \$79,000) and includes \$122,000 (2018 - \$20,000) in fair value adjustments. In total, for the three-month period ended March 31, 2019, \$773,000 (2018 - \$279,000) is included in trade and other accrued liabilities relating to the Deferred Unit Plan. Approximately 89% of Trustee compensation is taken in the form of Deferred Units.

11. Related party transactions

(a) Management agreement

Pursuant to the terms of the Management Agreement with Sigma Asset Management Limited ("Sigma" or the "Manager"), Sigma provides Summit II with the services necessary to manage its day-to-day operations. The Management Agreement, dated September 25, 2012, has an initial term of ten years, subject to earlier termination in certain circumstances, and will be automatically renewed for successive five-year terms. Sigma is related to Summit II by virtue of having some officers and Trustees in common.

The Management Agreement was amended March 29, 2018, in order to reflect certain structural changes to the fees payable to the Manager in certain contexts. The 2018 amendments were made in response to the prior requirement, which provided that the acquisition fee be re-evaluated within 60 days of the gross book value of the properties owned by Summit II exceeding \$1 billion. The 2018 amendments require that the Manager take 25% of the acquisition fee in Units (in lieu of taking that 25% in cash as the Manager had done prior to these 2018 amendments), to be issued at 100% of the average market price. The average market price is defined as the volume weighted average of the closing price ("VWAP") for a board lot (100 Trust Units) of Units quoted in Canadian dollars on the exchange on which the Units trade for the five trading days immediately preceding the payment date. The Units issued to the Manager in satisfaction of 25% of the acquisition fee, will be issued to the Manager from the Manager Compensation Units previously authorized (maximum Units 1,824,159). In May 2018, the Manager provided notice under the Management Agreement to elect to increase the Unit percentage of the acquisition fee from 25% to 35% and in June 2018, the Manager elected to increase the Unit percentage of the acquisition fee to 50%. As well, the Manager has elected to take 10% of the asset management fee in Units.

The Management Agreement sets out the fees payable to the Manager for the services provided, such fees being: A base annual management fee equal to 0.25% of the gross value of Summit II's assets; an incentive fee for the fiscal year ending December 31, 2014 and onward, equal to 15% of Summit II's adjusted funds from operations ("AFFO") per unit, as defined by the Management Agreement, in excess of a \$0.48 hurdle amount, such hurdle amount to be increased by 1.5% each year (\$0.5249 effective January 1, 2019); an acquisition fee for the purchase price paid by Summit II on the acquisition of a property equal to 1% of the first \$50 million of the purchase price, 0.75% of the next \$50 million of the purchase price, and 0.50% of any portion of the purchase price in excess of \$100 million, to be satisfied 75% in cash, and 25% in Trust Units, with such Trust Units to be issued by Summit II from treasury at a

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

11. Related party transactions (continued)

price per Trust Unit equal to 100% of the average market price; a development fee in an amount to be negotiated between Summit II and the Manager, not to exceed the fair market value for comparable services; a property management fee equal to 3.5% of the gross rental income from each multi-tenant property, and 2.5% of the gross rental income from each single-tenant property, and other property management costs recoverable under tenant operating leases; a leasing fee equal to \$1.00 per rentable square foot only for those properties where the Manager provides leasing services; and a capital expenditures fee equal to 5% of all hard construction costs incurred on any capital project of Summit II, where the Manager is the project manager for the project and the hard construction costs of the project are in excess of \$200,000.

The Manager can elect to take all (or any percentage of all) fees payable to it under the Management Agreement (and any property management agreement) in the form of units, rather than in cash. The exception being the acquisition fee where a minimum of 25% of the fee must be taken in the form of units.

Under the terms of the Management Agreement with Sigma, the Trust has incurred the following fees for the three-month periods ended March 31, 2019 and 2018:

(In \$ thousands)	2019	2018
Acquisition fees (capitalized to investment properties)	\$ 294	\$ 16
Asset management fees	994	597
Incentive fee (payable upon approval of year end financial statements)	176	80
Leasing fees (capitalized to investment properties)	58	29
Capital expenditures management fee (capitalized to investment properties)	28	-
Property management services	1,025	521
	\$ 2,575	\$ 1,243

The following Management Compensation Units were issued in consideration of certain above noted fees.

(In thousands)	Elected % of fee	Units	VWAP	Amount
Acquisition fees (capitalized to investment properties)	50%	10	\$ 11.27	\$ 115
Asset management fees	10%	9	10.22	95
		19	\$ 11.05	\$ 210

Included in trade and other accrued liabilities at March 31, 2019 is an amount of \$0.9 million (2018 - \$0.5 million) due to Sigma.

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

11. Related party transactions (continued)

(b) Trustee Fees

Trustee related fees of \$216,000 (2018 - \$79,000) are included in general and administrative expenses for the three-month period ended March 31, 2019. The 2019 fees include the fair value adjustments of Deferred Units of \$122,000 (2018 - \$20,000) as described in Note 10.

12. Finance costs

Finance costs incurred and charged to the condensed consolidated interim statements of income for the three-month periods ended March 31 are recorded as follows:

(In \$ thousands)	2019	2018
Interest on mortgages and bank indebtedness	\$ 8,324	\$ 4,667
Interest on lease liabilities	92	-
Amortization of financing costs	202	134
Amortization of premium on debt	(71)	(98)
Distributions on Class B exchangeable Units (Note 9)	554	-
	9,101	4,703

13. Segmented information

In determining the Trust's segment structure, the Company considered the basis on which management, including the Chief Executive Officer (chief operating decision maker), reviews the financial and operational performance of the Trust, and whether any of the Trust's income-producing properties share similar economic or operational characteristics.

The Trust has determined that it has two reportable segments: Industrial and Data Centres. Performance is measured and evaluated based on net rental income, which is presented by reportable segment in the table below.

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

13. Segmented information (continued)

Three months ended March 31, 2019

(In \$ thousands)	Industrial	Data Centres	Corporate	Total
Revenue from investment properties	\$ 31,072	\$ 2,707	\$ -	\$ 33,779
Property operating expenses	(8,680)	(771)	-	(9,451)
Net rental income	\$ 22,392	\$ 1,936	\$ -	\$ 24,328
Finance income	-	-	1,356	1,356
General and administrative	-	-	(1,765)	(1,765)
Finance costs	-	-	(9,101)	(9,101)
Fair value adjustments to Class B exchangeable Units	-	-	(10,615)	(10,615)
Fair value adjustments to investment properties	6,658	-	-	6,658
Net income	\$ 29,050	\$ 1,936	\$ (20,125)	\$ 10,861

Three months ended March 31, 2018

(In \$ thousands)	Industrial	Data Centres	Corporate	Total
Revenue from investment properties	\$ 20,071	\$ 1,337	\$ -	\$ 21,408
Property operating expenses	(6,208)	(425)	-	(6,633)
Net rental income	\$ 13,863	\$ 912	\$ -	\$ 14,775
Finance income	-	-	622	622
General and administrative	-	-	(1,066)	(1,066)
Finance costs	-	-	(4,703)	(4,703)
Fair value adjustments to investment properties	11,923	5,005	-	16,928
Net income	\$ 25,786	\$ 5,917	\$ (5,147)	\$ 26,556

As at March 31, 2019

(In \$ thousands)	Industrial	Data Centres	Total
Investment properties	\$ 1,636,979	\$ 107,833	\$ 1,744,812

As at December 31, 2018

(In \$ thousands)	Industrial	Data Centres	Total
Investment properties	\$ 1,592,491	\$ 107,587	\$ 1,700,078

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

14. Lease liability

On acquisition of two properties in Calgary, Alberta, in July 2018, the Trust assumed a ground lease with a remaining term of 54 years for which a lease liability has been recorded in accordance with IFRS 16, *Leases* (Note 4). The future minimum undiscounted ground lease payments are as follows:

(In \$ thousands)

Less than one year	314
Between one and five years	1,715
More than five years	27,623
Total	\$ 29,652

15. Subsequent events

(a) Distributions

On April 15, 2019, a distribution in the amount of \$0.043 per Unit for Unitholders of record on April 30, 2019, was declared and will be paid on May 15, 2019. Holders of units of a subsidiary of the Trust that are exchangeable into Trust Units will receive a distribution equal to \$0.043 per Unit as well.

On May 7, 2019, the Board of Trustees approved a cash distribution increase to \$0.045 per unit per month or \$0.54 per unit on an annualized basis which represents a 4.7% annualized increase over the current distribution. This increase will apply to unitholders of record on May 31, 2019.

(b) Class B exchangeable units

On April 12, 2019, 3,292,091 Class B exchangeable units were exchanged, at the option of the holder, into Units of the Trust on a one-for-one basis. The liability in an amount equal to the fair value of units at the time of exchange will be transferred to unit value in equity.

(c) Financing

In April 2019, the Trust obtained a new five -year mortgage, for \$13.5 million at an interest rate of 3.68%. The proceeds were used to repay \$9.7 million in expiring debt on this property.

In May 2019, the Trust added additional security to the revolving operating facility increasing the amount available to be drawn to \$115.0 million.

(d) Internalization of management

In April 2019, the Trust announced it has entered into an agreement to internalize the asset and property management functions which will eliminate the annual asset management fee, property management fee, acquisition fee, incentive fee, and other fees payable to its external manager, Sigma Asset Management Limited. The Internalization is expected to close on or about May 17, 2019, subject to unitholder approval and other customary conditions set forth in the Agreement.

SUMMIT INDUSTRIAL INCOME REIT

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the three month periods ended March 31, 2019 and 2018

15. Subsequent events (continued)

Upon closing of the Internalization, the REIT will acquire all of the issued and outstanding shares of the manager for total consideration of \$95.0 million. \$20.0 million of the consideration will be satisfied with cash, expected to be funded from the REIT's revolving operating facility, and \$75.0 million of the consideration will be satisfied with 6,666,666 units of the REIT, based on the 30-day volume weighted average trading price of the REIT's units on all exchanges on which there was trading, up to and including March 20, 2019 of \$11.25 per unit. The terms of the Internalization were negotiated and unanimously recommended for approval by a committee composed of all of the independent trustees of the Trust.