Summit Industrial Income REIT

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

SUMMIT INDUSTRIAL INCOME REIT
For the years ended December 31, 2015 and 2014

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Summit Industrial Income REIT:

We have audited the accompanying consolidated financial statements of Summit Industrial Income REIT, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Summit Industrial Income REIT as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
February 16, 2016
Halifax, Nova Scotia

SUMMIT INDUSTRIAL INCOME REIT

Consolidated Balance Sheets

As at December 31, 2015 and 2014

(In thousands of Canadian dollars)

	Note		**December 31, 2015**		December 31, 2014
Assets					
Non-current					
Investment properties	6	**$**	**401,834**	$	335,842
Current					
Accounts receivable	8		**2,140**		2,479
Prepaid expenses, deposits, and deferred financing costs	8		**2,095**		3,325
Cash			**342**		-
			4,577		5,804
Total assets		**$**	**406,411**	$	341,646
Liabilities					
Non-current					
Loans and borrowings	9	**$**	**205,664**	$	148,324
Security deposits			**2,499**		1,770
			208,163		150,094
Current					
Loans and borrowings	9		**12,705**		40,353
Trade and other accrued liabilities			**6,469**		6,084
Distributions payable	10		**1,214**		983
			20,388		47,420
Total liabilities			**228,551**		197,514
Unitholders' equity			**177,860**		144,132
Total liabilities and equity		**$**	**406,411**	$	341,646

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

Approved by the Board of Trustees on February 16, 2016.

"Lou Maroun"
Trustee

"Jim Tadeson"
Trustee

SUMMIT INDUSTRIAL INCOME REIT

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2015 and 2014

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

	Note		**2015**		2014
Revenue from investment properties	13	**$**	**38,377**	$	28,740
Property operating expenses			**11,865**		7,526
Net rental income			**26,512**		21,214
Other income					
Other income			**180**		-
Finance income			**19**		7
Gain (loss) on sale of investment properties			**1,444**		(400)
			1,643		(393)
Other expenses					
General and administrative			**2,093**		2,339
Finance costs			**8,100**		7,160
			10,193		9,499
Income before fair value adjustments to investment properties			**17,962**		11,322
Fair value adjustments to investment properties	6		**(27)**		154
Net income and comprehensive income		**$**	**17,935**	$	11,476
Net income per Unit					
Basic	10	**$**	**0.626**	$	0.542
Diluted	10	**$**	**0.626**	$	0.542

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

SUMMIT INDUSTRIAL INCOME REIT

Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31, 2015 and 2014

(In thousands of Units and Canadian dollars)

	Fund Units	Note	Unit equity	Deficit	Unitholders' equity
Beginning balance, January 1, 2014	18,157		$ 122,657	$ (8,361)	$ 114,296
Net income and comprehensive income	-		-	11,476	11,476
Distributions	-	10	-	(10,604)	(10,604)
Units issued through DRIP	272	10	1,556	-	1,556
Issuance of Units, net of costs	4,968	10	27,408	-	27,408
Unitholders' equity, December 31, 2014	23,397		$ 151,621	$ (7,489)	$ 144,132
Beginning balance, January 1, 2015	**23,397**		**$ 151,621**	**$ (7,489)**	**$ 144,132**
Net income and comprehensive income	-		-	**17,935**	**17,935**
Distributions	-	10	-	**(14,936)**	**(14,936)**
Units issued through DRIP	**381**	10	**2,188**	-	**2,188**
Issuance of Units, net of costs	**5,130**	10	**28,541**	-	**28,541**
Unitholders' equity, December 31, 2015	**28,908**		**$ 182,350**	**$ (4,490)**	**$ 177,860**

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

SUMMIT INDUSTRIAL INCOME REIT

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(In thousands of Canadian dollars)

	Note	2015	2014
Operating activities			
Net income and comprehensive income		**$ 17,935**	$ 11,476
Add (deduct):			
Finance costs		**8,100**	7,160
Loss (gain) on sale of investment properties		**(1,444)**	400
Straight-line rent adjustment		**(963)**	(755)
Fair value adjustments to investment properties		**27**	(154)
Change in non-cash working capital items		**(1,376)**	1,185
Interest and finance fees paid		**(8,180)**	(7,435)
		14,099	11,877
Financing activities			
Repayment of loans and borrowings		**(10,138)**	(30,467)
Increase in loans and borrowings		**28,000**	29,623
Distributions paid	10	**(12,517)**	(8,806)
Net proceeds from Units issued		**28,541**	27,408
		33,886	17,758
Investing activities			
Additions to investment properties		**(5,825)**	(6,770)
Proceeds from sale of investment properties		**16,489**	26,004
Acquisition of investment properties		**(57,707)**	(47,700)
Increase in deposits on future acquisitions of investment properties		**(600)**	(2,216)
		(47,643)	(30,682)
Increase in cash		**342**	(1,047)
Cash, beginning of period		**-**	1,047
Cash, end of period		**$ 342**	$ -

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

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 294 Walker Drive, Brampton, Ontario, L6T 4Z2. The Trust is primarily involved in the commercial leasing of real estate property with 29 property locations in Ontario, 4 properties across Western Canada, 11 properties in Montreal, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Board of Trustees authorized the issue of these consolidated financial statements on February 16, 2016.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for investment properties which are recorded at fair value in accordance with the Trust's accounting policies set forth in Note 3.

The consolidated financial statements are presented in thousands of Canadian dollars which is the functional currency of the Trust and its subsidiaries.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by all the Trusts' entities and to all periods presented in the consolidated financial statements.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries, Summit Industrial Income Holdings Limited Partnership and Summit Industrial Income Operating Limited Partnership and their respective general partners, Summit Industrial Income Holdings GP Ltd. and Summit Industrial Income Corp. 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.

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.

3. Significant accounting policies (continued)

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

(b) Joint arrangements

Under IFRS 11 – *Joint Arrangements*, a joint arrangement is an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control whereby decisions about relevant activities require unanimous consent of the parties sharing control.

A joint arrangement is classified as a joint operation when the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities related to the arrangement. A joint arrangement is classified as a joint venture when the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A party to a joint operation records its share of the assets, liabilities, revenue and expenses of the joint operation. As at December 31, 2015, the Trust had an interest in a joint arrangement that was classified as a joint operation.

(c) Cash

Cash includes balances held on deposit with banks.

(d) Investment properties

Investment properties are comprised of commercial real estate properties held to earn rental income or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. The fair value of investment properties is determined based on available market evidence. If market evidence is not available, the Trust utilizes alternative valuation methods, performed by either third-party appraisers who are members of the Appraisal Institute of Canada or by the Trust using similar assumptions and valuation principals as used by the external appraisers. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

The fair value of investment property reflects, among other things, rental income from current leases, and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected with respect to the property.

Subsequent expenditures are capitalized to the investment property's carrying value only when it is probable that future economic benefits associated with the expenditure will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Direct leasing costs incurred by the Trust in negotiating and arranging tenant leases are added to the carrying value of investment properties.

3. Significant accounting policies (continued)

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the investment property is derecognised.

(e) Assets held for sale

Non-current assets comprising assets and liabilities that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(f) Income tax

The Trust qualifies as a mutual fund trust under the Income Tax Act (Canada). The Trustees intend to distribute all taxable income directly earned by the Trust to unitholders and to deduct such distributions for income tax purposes.

The legislation relating to the federal income taxation of a specified investment flow-through (‘‘SIFT’’) trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFTS’s taxable income and the SIFT will be subject to tax on such distribution at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as return of capital should generally not be subject to tax.

Under the SIFT rules, the taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the ‘‘REIT Conditions’’). The Trust has reviewed the SIFT rules and has assessed their interpretation and application to the Trust’s assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, the Trust believes that it will meet the REIT Conditions and accordingly, no net current income tax expense or deferred income tax assets or liabilities have been recorded in the consolidated statement of income and comprehensive income in respect of the Trust, subsequent to the Trust meeting the REIT Conditions.

(g) Revenue recognition

The Trust retains substantially all the risks and rewards of ownership of its investment properties and therefore accounts for all of its leases with its tenants as operating leases. Rental revenue is recorded once the tenant has commenced its lease and has the right to the use of the investment property. Generally, this occurs on the later of the lease commencement date or when the Trust is required to make additions to the

3. Significant accounting policies (continued)

lease property in the form of tenant improvements, upon substantial completion of such improvements. Rental revenue, including any incentives that are offered or incurred by the Trust in arranging tenant leases, are recognized as revenue on a straight-line basis over the term of the lease. The difference between revenue recognized and the cash received is recognized in other receivables. Recoveries from tenants are recognized as revenue in the period in which the applicable costs are incurred and become recoverable under the terms of the lease from tenants.

(h) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet at the time the Trust becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. The subsequent measurement of financial instruments depend on their allocation into one of the following categories: fair value through profit or loss; held-to-maturity investments; available for sale; loans and receivables and other financial liabilities. The Trust's financial assets and liabilities consist primarily of cash, accounts receivable, trade and other accrued liabilities, security deposits, loans and borrowings and distributions payable. The Trust has designated its financial instruments as follows:

Cash	Loans and receivable
Accounts receivable	Loans and receivable
Trade and other accrued liabilities	Other financial liabilities
Security deposits	Other financial liabilities
Loans and borrowings	Other financial liabilities
Distributions payable	Other financial liabilities

Financial assets classified as loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method.

Other financial liabilities are initially recognized at fair value less any directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred on other liabilities with balances that frequently fluctuate or have not been drawn upon are deferred and amortized over the term of the borrowing.

(i) Provisions

Provisions are recognized when the Trust has a present obligation (legal or constructive) as a result of a past event, it is probable that the Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3. Significant accounting policies (continued)

(j) Earnings per unit

Basic earnings per unit are computed by dividing earnings by the weighted average number of units outstanding for the period. Diluted earnings per unit are calculated giving effect to the potential dilution that would occur if unit options or other dilutive instruments were exercised or converted to units. The dilutive impact is determined by assuming that any proceeds upon the exercise or conversion of dilutive instruments, for which market prices exceed exercise price, would be used to purchase units at the average market price of the units during the period.

4. Future Accounting Policy Changes

The IASB has issued the following new standards and amendments to existing standards that are expected to be relevant to the Trust in preparing its consolidated financial statements in future periods.

a) IFRS 9 - Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of the IFRS 9 – *Financial Instruments* ("IFRS 9"). Under IFRS 9, financial assets are classified and measured at either fair value or amortized cost based on the business model under which they are managed and the contractual cash flow characterises of the financial assets. Financial liabilities classified and measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized and presented in Other Comprehensive Income, unless this would create an accounting mismatch.

The measurement of impairment of financial assets is based on an expected credit loss model, and it is no longer necessary for a triggering event to have occurred before credit losses are recognized.

Lastly, the new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Trust is assessing the potential impact of this standard.

b) IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") to specify a five-step approach to how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18 – Revenues, IAS 11 – Construction Contracts, and other revenue related interpretations. The standard has an effective date for annual reporting periods beginning on or after January 1, 2018 and early adoption is permitted. The Trust is assessing the potential impact of this standard.

c) IAS 1 – Presentation of Financial Statements ("IAS 1")

In December 2014, the IASB issued Disclosure Initiative – Amendments to IAS 1 as part of the IASB's Disclosure Initiative. These amendments encourage entities to apply professional judgment regarding disclosures and presentation in their financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. The Trust is assessing the potential impact of this standard.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Trusts' accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the consolidated financial statements and related notes to the consolidated 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.

a) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that have been made in the process of applying the Trust's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Investment properties

The Trust applies judgement in determining whether an acquisition meets the definition of a business combination or, alternatively, an asset acquisition by considering the nature of the assets acquired and the processes applied to those assets, or if the integrated set of assets and activities is capable of being conducted and managed for the purpose of providing a return to investors or other owners. The determination of whether an acquisition meets the definition of a business results in measurement differences on initial recognition of the acquired net assets. If the acquisition is determined to be a business combination these differences include the nature of deferred tax assets and liabilities that may be recorded and the requirement to recognize goodwill or negative goodwill, as applicable, for differences between the consideration provided and the fair value of the net assets acquired. Additionally, transaction costs incurred to effect a business combination are required to be expensed where for an asset acquisition transaction costs would be capitalized to the initial carrying amount of the acquired asset. The Trust considers all the properties it has acquired to date to be asset acquisitions.

The Trust also applies judgement in determining whether subsequent expenditures are capitalized to the investment property's carrying amount based on whether it is probable that future economic benefits associated with the expenditure will flow to the Trust.

(ii) Leases

The Trust uses judgement in determining whether certain leases, in particular, those tenant leases with long contractual terms and where the lessee is the sole tenant, are operating or finance leases. The Trust has determined that all of its tenant leases are operating leases.

(iii) Lease incentives

The Trust evaluates whether tenant improvement allowances, whether provided in cash, or free-rent, are, in substance, lease incentives or capital expenditures of the Trust that enhance the value of the income producing property. This determination requires judgement and consideration of several factors, including whether the improvements enhance the value of the property, tenant discretion in use of the funds, uniqueness of the improvements and transfer of risks and rewards.

5. Critical accounting judgements and key sources of estimation uncertainty (continued)

(iv) Compliance with REIT legislation

In order to continue to be taxed as a mutual fund trust, the Trust needs to maintain its REIT status. During the prior years, the Trust undertook certain transactions to qualify as a REIT under the SIFT rules in the Canadian Income Tax Act. The Trust's current and continuing qualification as a REIT depends on its ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. The Trust applies judgment in determining whether it continues to qualify as a REIT under the SIFT rules.

b) Critical accounting estimates and assumptions

The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

(i) Fair value of investment properties

The fair value of investment properties is dependent upon available comparable transactions, future cash flows over the holding period and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flows involves assumptions of estimated occupancy, rental rates and residual value. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

The critical estimates and assumptions underlying the valuation of investment properties are set out in Note 6.

6. Investment properties

The following table presents the changes in investment properties as at December 31, 2015 and December 31, 2014:

			2015			2014
(In $ thousands)	**Investment properties**	**Investment property held for sale**	**Total**	Investment properties	Investment property held for sale	Total
Balance, beginning of period	**$ 335,842**	**$ -**	**$ 335,842**	$ 307,651	$ 750	$ 308,401
Additions:						
Acquisition of investment properties	**81,814**	**-**	**81,814**	49,040	-	49,040
Additions to investment properties	**7,165**	**-**	**7,165**	4,166	85	4,251
Dispositions	**(22,960)**	**-**	**(22,960)**	(25,294)	(710)	(26,004)
Fair value (losses) gains	**(27)**	**-**	**(27)**	279	(125)	154
Balance, end of period	**$ 401,834**	**$ -**	**$ 401,834**	$ 335,842	$ -	$ 335,842

6. Investment properties (continued)

Acquisitions of income properties completed during the year ended December 31, 2015 are as follows:

(in $ thousands)

Property	Property type	Ownership interest	Date acquired	Cash and other(1)	Mortgage financing	Acquisition cost(2)
5545 Ernest-Cormier, Laval, QC	Industrial	50%	05-Feb-15	$ 1,629	$ 2,353	$ 3,982
185 Bellerose Blvd, Laval, QC	Industrial	50%	05-Feb-15	2,378	1,562	3,940
1970 John-Yule, Chambly, QC	Industrial	50%	05-Feb-15	1,744	1,067	2,811
3720 Ave des Grandes Tourelles, Boisbriand, QC	Industrial	50%	11-Feb-15	6,585	12,850	19,435
1177-1185 55e Ave., Dorval, QC	Industrial	50%	11-Feb-15	2,768	4,459	7,227
5757 Thimens Blvd., St. Laurent, QC	Industrial	50%	11-Feb-15	2,168	982	3,150
78 Walker Drive, Brampton, ON	Industrial	100%	23-Feb-15	4,772	6,626	11,398
1600 Clark Boulevard, Brampton, ON	Industrial	100%	23-Feb-15	2,498	3,494	5,992
65 Riveria Drive, Markham, ON	Industrial	100%	23-Feb-15	1,620	2,259	3,879
5485 Tomken Road, Mississauga, ON	Industrial	100%	23-Feb-15	1,983	2,771	4,754
2333 North Sheridan Way, Mississauga, ON	Industrial	100%	11-Jun-15	6,380	8,866	15,246
				$34,525	$ 47,289	$81,814

(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 year ended December 31, 2015, the Trust acquired $81.8 million of investment properties. The acquisitions were financed by new and assumed mortgages of $47.3 million, net proceeds from the $28.5 million raised during the January public offering and the balance from the revolving operating facility. In addition, approximately $905,000 in security deposits were assumed for the year ending December 31, 2015.

Approximately $399.3 million of investment properties are used for security under loans and borrowings (Note 9).

Additions to investment properties of $7.2 million, 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 in accordance with IAS 17, “Leases” and Standing Interpretations Committee (“SIC”) 15, “Operating Leases - Incentives”. The total straight-line rent receivable is $2.1 million (December 31, 2014 - $1.4 million).

As indicated below in Note 7, in June 2015, the Trust sold a 75% interest in two properties. As well, excess land at 350 Hazelhurst Road, Mississauga, ON, associated with a $650,000 interest free, vendor take back mortgage was severed from the property. The purchase price for the excess lands was $650,000 and the proceeds were used to payout the vendor take back mortgage.

Approximately $100.8 million of the $401.8 million or 25% of the properties were appraised by third party valuation professional in 2015 (2014 - $121.4 million or 36%). The fair value of the remaining investment 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

6. Investment properties (continued)

by an external third party which over 3 years will represent 100% of the portfolio having been externally appraised.

The Trust values investment properties using Level 3 inputs. 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 is determined for each property based on available market information related to the sale of similar buildings within the same geographic locations. Fair value losses for the year ended December, 2015 were $27,000 (2014 gains of $154,000).

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

			2015			2014
(In $ thousands)	**Capitalization rate**	**Discount rate**	**Price per square foot**	Capitalization rate	Discount rate	Price per square foot
Maximum	**7.75%**	**8.25%**	**$ 220.00**	7.75%	8.50%	$ 220.00
Minimum	**6.00%**	**6.50%**	**$ 50.00**	6.00%	6.50%	$ 50.00
Weighted average	**6.63%**	**7.39%**	**$ 97.11**	6.70%	7.37%	$ 96.92

Fair values are most sensitive to change in capitalization rates. A 0.50% increase in the weighted average capitalization rate for income properties would decrease fair value by $29.1 million and a 0.50% decrease would increase fair value by $34.1 million.

7. Co-owned property interests

In February 2015, the Trust acquired a 50% interest in six light industrial properties in Montreal from Montreal’s Groupe Montoni (the “Vendor”), aggregating 326,409 square feet of GLA. The purchase price was $39.2 million and was satisfied by the assumption of approximately $970,000 in floating rate prime loans and $10.4 million in existing mortgages bearing an average remaining term of 9.6 years and an average interest rate of 3.49% with the balance satisfied from the proceeds from the January 7, 2015 offering.

7. Co-owned property interests (continued)

Concurrent with the acquisition, the Trust entered into a co-ownership agreement with the Vendor which, among other things, requires unanimous consent of the Trust and Vendor with respect to major decisions. The Trust has determined the arrangement meets the definition of a joint operation under IFRS 11 – Joint Arrangements, and has accounted for its 50% interest in these properties, in accordance with the policy described in Note 3.

In April 2015, the Trust sold a 75% interest in its properties at 200 Iber Road, Ottawa and 290 Frenette, Moncton for a sale price of $24.9 million and generating a gain on the sale of $2.0 million. As well, 75% of the mortgage, or $9.0 million, associated with the Moncton property was assumed. The proceeds of the sale were used to reduce the Trust's floating-rate revolving operating facility. The properties were sold to the same Canadian institution which the Trust has a co-ownership agreement in place from a similar transaction in May 2014. During the third quarter of 2015, a $540,000 loss on the sale of investment properties was recorded attributed to changes to return of escrow receivable assumptions associated with the May 2014, sale of interest in an Ottawa property.

The Trust has determined the arrangement continues to meet the definition of a joint operation under IFRS 11 – Joint Arrangements, and has accounted for its 25% interest in these properties, in accordance with the policy described in Note 3.

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

(In $ thousands)		2015		2014
Tenant receivables	**$**	**133**	$	200
Other receivables (including funds in escrow)		**2,007**		2,279
	$	**2,140**	$	2,479
Prepaid expense and deposits	**$**	**1,839**	$	3,027
Deferred financing costs		**256**		298
	$	**2,095**	$	3,325

9. Loans and borrowings

(In $ thousands)		2015		2014
Term mortgages	**$**	**185,342**	$	151,865
Vendor take back mortgage payable		**-**		650
Revolving operating facility		**33,027**		36,162
Total		**218,369**		188,677
Less: Current debt		**12,705**		40,353
Non-Current debt	**$**	**205,664**	$	148,324

9. Loans and borrowings (continued)

(a) Term mortgages

As indicated under Note 6, in conjunction with the Montreal property acquisitions in February 2015, the REIT assumed approximately $10.4 million in mortgage financing, at a stated interest rate of 3.49% and a term to maturity of 9.6 years. As well, new financing was obtained on 3720 Des Grandes Tourelles, Boisbriand, QC, with a 10 year mortgage for $12.9 million (Summit's 50% interest) at an interest rate of 3.25%.

New mortgage financing of $15.2 million bearing an average interest rate of 3.30% and a seven year term to maturity was obtained for the Ontario property acquisitions in February 2015. As well, $8.9 million in mortgage financing was assumed, at a stated interest rate of 3.72% and maturing in September 2019 on the acquisition of the property located at 2333 North Sheridan Way, Mississauga, Ontario.

Total term mortgages bear interest at a weighted average effective interest rate of 3.52% (2014 - 3.68%) and a weighted average stated interest rate of 3.65% (2014 - 3.73%). The term mortgages are secured by first registered mortgages over specific properties and first general assignments of leases, insurance and registered chattel mortgages.

Included in mortgages payable is $586,000 (2014 - $66,000) of unamortized mark-to-market premiums related to a mortgage assumed on acquisition, and $1.1 million (2014 - $1.2 million) of unamortized deferred financing charges.

Principal repayment requirements for term mortgages are as follows:

(In $ thousands)	
2016	$ 11,882
2017	8,242
2018	56,541
2019	11,989
2020	45,981
Thereafter	51,268
Principal amount	185,903
Premium on debt	586
Deferred financing charges	(1,147)
Total term mortgages	$ 185,342

(b) Vendor Take Back Mortgage

In April 2015, excess land at 350 Hazelhurst Road, Mississauga, ON, associated with the $650,000 interest free, vendor take back mortgage was severed from the property. The purchase price for the excess lands was $650,000 and the proceeds were used to payout the vendor take back mortgage.

9. Loans and borrowings (continued)

(c) Revolving operating facility

As at December 31, 2015, approximately $32.1 million (2014 - $36.2 million) was drawn from the revolving operating facility.

In September 2015, the revolving credit facility maturity date was extended to January 1, 2016 and on December 21, 2015, the revolving credit facility was amended and the maturity was extended to September 27, 2017. The amended 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 for amounts up to $44 million. Amounts drawn in excess of $44 million, to a maximum of $60 million, bear a variable interest rate based on bank prime plus 2.25% for prime rate loans or banker's acceptance rates plus 3.25% for banker's acceptances. The $16 million excess amount is to fund acquisitions and matures November 1, 2016.

The revolving operating facility is secured by first charges over specific investment properties, with a fair value of $168.6 million (2014 - $80.1 million), and first general assignment of leases and insurance and expires on September 27, 2017.

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.

(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, 2014	18,157	$ 122,657
Issuance of Units on June 5, 2014	4,968	27,408
Units issued under the DRIP	272	1,556
Balance December 31, 2014	23,397	$ 151,621

10. Unitholders' equity (continued)

(In thousands)	Number of Units		Carrying amount
Balance January 1, 2015	**23,397**	**$**	**151,621**
Issuance of Units on January 7, 2015	**5,130**		**28,541**
Units issued under the DRIP	**381**		**2,188**
Balance December 31, 2015	**28,908**	**$**	**182,350**

On January 7, 2015, the Trust completed a public offering of 5,130,000 Units at a price of $5.85 per Unit for gross proceeds of $30.0 million. The offering incurred issue costs of $1.5 million for net proceeds of $28.5 million. Offering proceeds were used to repay outstanding debt under the revolving credit facility and fund acquisitions as noted in Note 6.

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 year ended December 31, 2015, there were 381,224 Units issued under this plan for total proceeds of $2.2 million, representing 14.9% of the related distributions.

(c) Distributions

The Trust recorded the following activities relating to distributions during the year:

(In $ thousands, except per Unit amounts)		**2015**		2014
Paid in cash	**$**	**12,517**	$	8,806
Reinvested by Unitholders under the DRIP		**2,188**		1,556
$0.0420 per Unit payable at December 31 (paid January)		**(983)**		(741)
$0.0420 per Unit payable at December 31		**1,214**		983
Distributions recorded in equity	**$**	**14,936**	$	10,604

As indicated in Note 7, the Trust sold a 75% interest in two properties. As a result, a special distribution of $0.016 per Unit was declared and paid on June 15, 2015 to Unitholders of record May 31, 2015. The total amount of this special distribution was $459,000 or $392,000 net of DRIP participation. The capital required for this distribution came directly from the net proceeds on the sale of the properties.

The Board of Trustees has adopted a policy to pay a special distribution to Unitholders of up to 20% of any realized gain on the sale of a property.

10. Unitholders' equity (continued)

(d) Per Unit amounts

The weighted average number of Units are as follows:

(In thousands of Units)	**2015**	2014
Issued Units, beginning of period	**23,397**	18,157
Issuance of Units January 7, 2015	**5,046**	-
Issuance of Units June 5, 2014	**-**	2,858
Issuance of Units under the DRIP	**185**	149
Total weighted average number of Units outstanding	**28,628**	21,164

As at December 31, 2015 and 2014, the Trust has no Units or instruments outstanding that would have a dilutive effect on earnings per Unit.

11. Fair value of financial instruments

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction based on the current market for instruments with the same risks, principal and remaining maturity.

The carrying amounts of cash, accounts receivable, trade and other accrued liabilities, security deposits, and distribution payable, approximate their fair values. The fair value of loans and borrowings was estimated based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

		2015		2014
(In $ thousands)	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets				
Cash	**$ 342**	**$ 342**	$ -	$ -
Accounts recievable	**2,140**	**2,140**	2,479	2,479
Financial liabilities				
Loans and borrowings	**218,369**	**212,949**	188,677	186,498
Trade and other accrued liabilities	**6,469**	**6,469**	6,084	6,084
Security deposits	**2,499**	**2,499**	1,770	1,770
Distribution payable	**1,214**	**1,214**	983	983

11. Fair value of financial instruments (continued)

The Trust values instruments carried at fair value using quoted market prices, where available. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities. When quoted market prices are not available, the Trust maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The disclosed fair values have been determined using Level 2 inputs.

12. Related party transactions

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 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 (after the "consolidation") hurdle amount, such hurdle amount to be increased by 1.5% each year; 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, payable so long as the gross book value of the properties owned by Summit II does not exceed $1 billion; 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. Any such units issued will be issued at a price per unit equal to the greater of (a) 95% of the weighted average closing price of the units for the five previous days on the exchange on which the units are most actively traded during that period, and (b) such price stipulated by such stock exchange, to a maximum of the weighted closing price of the units for the five previous days on the exchange on which the units are most actively traded during that period.

12. Related party transactions (continued)

Under the terms of the management agreement with Sigma Asset Management Limited ("Sigma" or the "Manager), the Trust has incurred the following fees for the years ended December 31, 2015 and 2014:

(In $ thousands)	2015	2014
Acquisition fees (capitalized to investment properties)	**$ 790**	$ 475
Asset management fees	**974**	759
Incentive fee	**362**	753
Leasing fees (capitalized to investment properties)	**213**	172
Capital expenditures management fee (capitalized to investment properties)	**162**	142
Property management services	**1,406**	1,256
	$ 3,907	$ 3,557

Included in trade and other accrued liabilities at December 31, 2015 is an amount of $565,000 (December 31, 2014 - $1.4 million) due to Sigma. The incentive fee is due primarily to the sale of 75% interest in properties. The incentive fee is calculated annually and any amounts due are payable upon the completion of the annual audited financial statements.

Sigma contributed $159,000 year-to-date (2014 – nil) toward leasing costs for space under vendor lease as agreed upon with the Independent Trustees. As noted in the February 13, 2013 short form prospectus, Sigma agreed to backstop space under vendor lease from January 1, 2015 to December 31, 2016, or until the applicable vendor lease has been satisfied. During 2015, all vendor head lease space has been leased. As at, December 31, 2015, $74,000 (2014 – nil) was paid by the Manager to the Trust for the vendor lease space.

Also, during the year ended December 31, 2015, Sigma paid $34,000 to the Trust (December 31, 2014 - $33,000) for office space located at 294 Walker Drive, Brampton, Ontario, under a five year lease commencing June 1, 2013.

Trustee related fees of $202,000 (2014 - $185,000) are included in general and administrative expenses for the year ended December 31, 2015.

13. Revenues from investment properties

Revenues recognized from investment properties for the years ended December 31, 2015 and 2014 were $38.4 million and $28.7 million respectively. The Trust leases commercial properties under operating leases with lease terms of between one and ten years. As at December 31, 2015 the Trust is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

(In $ thousands)	Within 12 months	2 to 5 years	Beyond 5 years
Operating lease revenue	$ 24,816	$ 78,439	$ 57,300

14. Risk management

In the normal course of business, the Trust is exposed to a number of risks that can materially affect its operating performance.

(a) Interest rate risk

The Trust is exposed to interest rate risk when funds are drawn under the revolving operating facility and variable rate mortgages, which have a floating rate of interest. An increase in interest rates would increase the interest cost of the Trust's loans and have an adverse effect on the Trust's net income and comprehensive income and earnings per unit.

At December 31, 2015, the Trust has $33.0 million (2014 - $36.2 million) of variable rate loans and borrowings. A change of 100 basis points in interest rates would have increased or decreased net income and comprehensive income for the year ended December 31, 2015 by approximately $330,000 (2014 - $362,000). The Trust intends to structure its fixed rate financing so as to stagger the maturities of its mortgages, thereby minimizing exposure to future interest rate fluctuations.

(b) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Trust attempts to mitigate this risk by conducting credit assessments on new lessees, diversifying its tenant mix and by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 2015 and 2014 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants. Refer to Note 8 for details of accounts receivable.

(c) Liquidity risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the Trust to fund future growth, refinance debts as they mature or meet the Trust's payment obligations as they arise. Furthermore, liquidity risk also arises from the Trust not being able to obtain financing or refinancing on favourable terms.

For the year ended December 31, 2015 the Trust's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the Trust's revolving operating facility. Debt repayment obligations (Note 9) are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the Trust may use its revolving operating facility to fund the equity portion of property acquisitions.

The Trust's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing or cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

14. Risk management (continued)

The Trust intends to mitigate its liquidity risk by staggering the maturities of its debt. As well, the Trust's distributions are made at the discretion of the Trust's Trustees. Finally, the Trust does not enter into committed property acquisitions unless it has secured or is confident that it can secure the appropriate capital (debt and equity) to fund the particular acquisition.

15. Capital management

The capital structure of the Trust consists of the following:

(In $ thousands)	**2015**	2014
Loans and borrowings	**$ 218,369**	$ 188,677
Unitholders' equity	**177,860**	144,132
	$ 396,229	$ 332,809

The Trust's objective when managing its capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide adequate returns for unitholders and to ensure access to sufficient funds for acquisitions. The Trust manages its capital structure and makes adjustments to it in light of changes in economic conditions and the financial requirements of the underlying real estate assets. In order to maintain or adjust the capital structure, the Trust may issue units to facilitate acquisitions and/or retire financings or may adjust the amount of distributions paid to the unitholders.

The revolving operating facility agreement requires the Trust to maintain a debt to aggregate assets ratio no greater than 65%; debt service coverage ratio not less than 1.50 times and minimum adjusted unitholders' equity not less than (i) $130 million plus (ii) 75% of the net proceeds from each offering of equity interests subsequent to December 21, 2015. The debt to aggregate assets ratio is also limited to a maximum of 65% as per the Declaration of Trust.

Also, the Trust is required by certain of its mortgage lenders to maintain, on an annual basis, a cash flow coverage not less than 1.25 times for a fiscal year and debt service coverage ratio of 1.5 times.

These covenants are required to be calculated based on Canadian generally accepted accounting principles ("GAAP"), which is IFRS. As at December 31, 2015, the Trust is in compliance with its financial covenants.

16. Segmented information

The Trust owns investment properties located in Canada. In measuring performance, the Trust does not distinguish or group its operations on geographical or any other basis and accordingly, has a single reportable segment for disclosure purposes.

17. Income tax

The Trust is taxed as a mutual fund trust for Canadian income tax purposes. The Trust expects to distribute all of its taxable income to its Unitholders, which enables it to deduct such distributions for income tax purposes. As the income tax obligations relating to the distributions are those of the individual Unitholder, no provision for income taxes has been recorded.

The Canadian Income Tax Act contains rules (the "SIFT Rules") applicable to specified investment flow-through ("SIFT") trusts, which generally tax the SIFT trust on its income from business carried on in Canada and on income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Canadian Income Tax Act) and the distribution of such income to Unitholders is generally treated as dividends received from a taxable Canadian corporation. If the income is not distributed, the Trust will be taxed on its income. In general, distributions paid as returns of capital will not be subject to this tax.

Income taxes have not been recorded during the period. The SIFT Rules are not applicable to real estate investment trusts ("REITs") that meet certain specified criteria relating to the nature of its revenue and investments (the "REIT Exemption"). The Trust qualifies as a REIT for 2015 and expects to continue to distribute its taxable income and to qualify as a REIT for the foreseeable future. As such, deferred taxes have not been recorded in the consolidated financial statements.

18. Subsequent events

(a) Distribution

On January 15, 2016, a distribution in the amount of $0.042 per Unit for Unitholders of record January 31, 2015, was declared and was paid February 15, 2016. Also, on February 15, 2016, a distribution in the amount of $0.042 per Unit for Unitholders of record on February 29, 2015, was declared and will be paid on March 15, 2016.

(b) Acquisitions

On January 15, 2016 and February 2, 2016, acquired a 50% interest in two of the previously announced three properties in Montreal for a purchase price of $6.7 million and at a cap rate of 6.57%. The acquisition was financed by assuming mortgages of $4.2 million with an average remaining term to maturity of 7.8 years at an average interest rate of 3.58%.

On February 12, 2016, the REIT acquired a 50% interest in one property in Montreal for a purchase price of $3.6 million financed by a new mortgage of $1.8 million at an interest rate of prime plus 0.65% and utilizing proceeds of the revolving credit facility.

(c) Financing

On January 4, 2016, $4.9 million in mortgage debt matured and was paid utilizing funds from the revolving credit facility. The property was added as security on the line.

On February 16, 2016, $7.5 million in mortgage debt was secured on Summit's 25% interest in two properties at a rate of 2.78% and with a five year term to maturity. The proceeds will be applied to the REIT's revolving credit facility.