Summit IIREIT

Summit Industrial Income REIT

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

SUMMIT INDUSTRIAL INCOME REIT
For the years ended December 31, 2017 and 2016

Table of contents

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, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in unitholders' equity and consolidated statements of 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 audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP

Chartered Professional Accountants
February 20, 2018
Halifax, Nova Scotia

SUMMIT INDUSTRIAL INCOME REIT

Consolidated Balance Sheets

As at December 31, 2017 and 2016

(In thousands of Canadian dollars)

	Note		**December 31, 2017**		December 31, 2016
Assets					
Non-current					
Investment properties	6	**$**	**966,566**	$	496,337
Loans receivable	8		**29,182**		-
			995,748		496,337
Current					
Accounts receivable	9		**1,948**		1,488
Prepaid expenses, deposits, and deferred financing costs	9		**4,687**		2,603
Cash			**856**		379
			7,491		4,470
Total assets		**$**	**1,003,239**	$	500,807
Liabilities					
Non-current					
Loans and borrowings	10	**$**	**357,895**	$	255,893
Security deposits			**4,041**		3,053
			361,936		258,946
Current					
Loans and borrowings	10		**157,123**		14,742
Trade and other accrued liabilities			**9,408**		5,069
Distributions payable	12		**2,885**		1,470
			169,416		21,281
Total liabilities			**531,352**		280,227
Unitholders' equity			**471,887**		220,580
Total liabilities and equity		**$**	**1,003,239**	$	500,807

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

Approved by the Board of Trustees on February 20, 2018.

"Lou Maroun"
Trustee

"Jim Tadeson"
Trustee

SUMMIT INDUSTRIAL INCOME REIT

Consolidated Statements of Income

For the years ended December 31, 2017 and 2016

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

	Note		2017		2016
Revenue from investment properties	15	$	**58,573**	$	44,950
Property operating expenses			**17,996**		14,697
Net rental income			**40,577**		30,253
Other income (loss)					
Finance income			**199**		19
Loss on sale of investment properties			**-**		(640)
			199		(621)
Other expenses					
General and administrative			**2,675**		1,871
Finance costs			**11,413**		8,943
			14,088		10,814
Income before fair value adjustments to investment properties			**26,688**		18,818
Fair value adjustments to investment properties	6		**36,212**		5,558
Net income		$	**62,900**	$	24,376
Net income per Unit					
Basic	12	$	**1.317**	$	0.758
Diluted	12	$	**1.317**	$	0.758

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

SUMMIT INDUSTRIAL INCOME REIT

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(In thousands of Canadian dollars)

	Note	2017	2016
Net income		**$ 62,900**	$ 24,376
Other comprehensive income (loss)			
Items that are / may be reclassified subsequently to net income:			
Net change in fair value of hedging derivative financial instrument		**(344)**	(1,941)
Net change in fair value of hedging derivative financial instrument reclassed to finance costs		**1,981**	1,586
Other comprehensive income (loss)	11	**1,637**	(355)
Comprehensive income		**$ 64,537**	$ 24,021

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, 2017 and 2016

(In thousands of Units and Canadian dollars)

	Units	Note	Unit equity	Surplus (deficit)	Accumulated other comprehensive income (loss)	Unitholders' equity
Beginning balance, January 1, 2016	28,908		$ 182,350	$ (4,490)	$ -	$ 177,860
Net income and comprehensive loss	-	11	-	24,376	(355)	24,021
Distributions	-	12	-	(16,346)	-	(16,346)
Units issued through DRIP	432	12	2,517	-	-	2,517
Issuance of Units, net of costs	5,650	12	32,528	-	-	32,528
Unitholders' equity, December 31, 2016	34,990		$ 217,395	$ 3,540	$ (355)	$ 220,580
Beginning balance, January 1, 2017	**34,990**		**$ 217,395**	**$ 3,540**	**$ (355)**	**$ 220,580**
Net income and other comprehensive income	-	11	**-**	**62,900**	**1,637**	**64,537**
Distributions	-	12	**-**	**(25,419)**	**-**	**(25,419)**
Units issued through DRIP	**532**	12	**3,502**	**-**	**-**	**3,502**
Issuance of Units, net of costs	**31,562**	12	**208,687**	**-**	**-**	**208,687**
Unitholders' equity, December 31, 2017	**67,084**		**$ 429,584**	**$ 41,021**	**$ 1,282**	**$ 471,887**

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, 2017 and 2016

(In thousands of Canadian dollars)

	Note	2017	2016
Operating activities			
Net income		**$ 62,900**	$ 24,376
Add (deduct):			
Finance costs		**11,413**	8,943
Loss on sale of investment properties		**-**	640
Straight-line rent adjustment		**(1,366)**	(1,109)
Fair value adjustments to investment properties		**(36,212)**	(5,558)
Change in non-cash working capital items		**3,169**	(3,109)
Interest and finance fees paid		**(11,643)**	(9,279)
		28,261	14,904
Financing activities			
Repayment of loans and borrowings	10	**(12,378)**	(8,894)
Increase in loans and borrowings	10	**145,611**	7,500
Distributions paid	12	**(20,502)**	(13,573)
Net proceeds from Units issued	12	**208,687**	32,528
		321,418	17,561
Investing activities			
Additions to investment properties	6	**(5,116)**	(2,229)
Acquisition of investment properties	6, 10	**(314,904)**	(29,949)
Loans receivable advanced	8	**(29,182)**	-
Increase in deposits on future acquisitions of investment properties		**-**	(250)
		(349,202)	(32,428)
Increase in cash		**477**	37
Cash, beginning of year		**379**	342
Cash, end of year		**$ 856**	$ 379

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 53 property locations in Ontario, 22 properties in Quebec, 8 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 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 20, 2018.

(b) Basis of measurement

The consolidated 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.

The consolidated 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 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, 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.

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

3. Significant accounting policies (continued)

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) Joint arrangements

Under IFRS 11 – *Joint Arrangements ("IFRS 11")*, 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, 2017 and 2016, the Trust had interests in joint arrangements that were classified as joint operations.

(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, supported 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 an 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

3. Significant accounting policies (continued)

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.

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) Property under development

The cost of property under development includes direct development expenditures, third party management fees, initial leasing fees, consulting and legal fees, property taxes, and borrowing costs directly attributable to properties under development. Borrowing costs associated with direct expenditures on properties under development are capitalized. The amount of capitalized borrowing costs is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The Trust considers practical completion to have occurred when the property is capable of operating in the manner intended by management.

Capitalization of costs to property under development continues until all the activities necessary to prepare the property for use as an investment property are complete.

(f) 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.

(g) Hedge accounting

Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if

3. Significant accounting policies (continued)

so, the nature of the item being hedged. The Trust has designated its interest rate swaps under certain term mortgages as cash flow hedges.

At the inception of the transaction, the Trust documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Trust also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in net income.

Amounts previously recognized in other comprehensive income (loss) and accumulated in unitholders' equity are reclassified to net income in the periods when the hedged item is recognized in net income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in unitholders' equity at that time are recognized when the forecast transaction is ultimately recognized in net income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in unitholders' equity is immediately transferred to net income.

(h) 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 SIFT trust's taxable income and the SIFT trust 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 trust 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 statements of income and comprehensive income in respect of the Trust, subsequent to the Trust meeting the REIT Conditions.

3. Significant accounting policies (continued)

(i) Revenue recognition

Revenue from investment properties
The Trust retains substantially all the risks and rewards of ownership of its investment properties and therefore accounts for all 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 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 accounts receivable. 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.

Finance income
Finance income is the interest earned on the amounts advanced under the Trust's mezzanine loans, and joint venture financing arrangements together with bank interest earned from deposits. Finance income is recognized in accordance with the terms set out in the financing arrangements using the effective interest method.

(j) 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 depends on their classification 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, loans receivable, trade and other accrued liabilities, security deposits, derivative assets and liabilities, loans and borrowings and distributions payable. The Trust has designated its financial instruments as follows:

Cash	Loans and receivable
Accounts receivable	Loans and receivable
Loans receivable	Loans and receivable
Trade and other accrued liabilities	Other financial liabilities
Security deposits	Other financial liabilities
Derivative assets and liabilities	Fair value through profit or loss
Loans and borrowings	Other financial liabilities
Distributions payable	Other financial liabilities

3. Significant accounting policies (continued)

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.

(k) 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.

(l) Net income per unit

Basic net income per unit is computed by dividing earnings by the weighted average number of units outstanding for the period. Diluted net income per unit is 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.

(m) Unit-based compensation plans

As described in Note 12, the Trust has adopted a Trustee Deferred Unit Plan (“the Plan”) which provides for the granting of Deferred Units for up to 100% of a Trustee’s fees in lieu of cash. The unit-based compensation is presented as a liability within trade and other accrued liabilities on the consolidated balance sheets and measured at fair value, and the associated compensation expense is recognized in general and administrative expense in the consolidated statements of income as the services are rendered. The liability is remeasured at fair value at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in general and administrative expense on the consolidated statements of income for the period.

4. Accounting policy changes

Adoption of new and revised standards:

The Trust has adopted the following revised standard in the current period:

IAS 7 *(amended) Statement of Cash Flows*

On January 29, 2016, the IASB finalized amendments to IAS 7 – Statement of Cash Flows to improve information provided to users of financial statements about an entity's financing activities. The amendments

4. Accounting policy changes (continued)

in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. These amendments were effective January 1, 2017. The adoption of these amendments did not have a significant impact on the Trust's consolidated financial statements.

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 characteristics 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. The application of IFRS 9 as at January 1, 2018 will result in the reclassification of the Trust's financial assets into the new categories specified under IFRS 9 based on the business model and contractual cash flow tests, as mentioned above; however, the Trust does not expect the adoption of IFRS 9 to result in a significant change in accounting for its financial assets with the exception of certain loans receivable still being assessed as they were just entered into at the end of the fiscal year. In addition, the application of the expected credit loss model, as discussed above, is not expected to have a material impact on the Trust's consolidated financial statements; however, the Trust will now look at forward looking information to determine expected credit losses. Finally, the Trust will adopt the hedge accounting requirements of IFRS 9 beginning January 1, 2018. The Trust's interest rate swaps continue to qualify for hedge accounting under IFRS 9 and as a result, the Trust does not expect adoption of IFRS 9 to have a significant impact on its consolidated financial statements with respect to its interest rate swaps.

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 objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the

4. Accounting policy changes (continued)

nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of the standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has an effective date for annual reporting periods beginning on or after January 1, 2018. The adoption of IFRS 15 is not expected to have a significant impact on the ongoing recognition of the Trust's revenues. However, additional disclosures relating to revenue will be required in the consolidated financial statements to comply with the disclosure requirements of IFRS 15.

c) 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. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Trust will not be early-adopting IFRS 16. The Trust is currently assessing the impact of IFRS 16 on its consolidated financial statements. However, based on its assessment of the standard to date, the Trust does not believe it will have a significant impact on its consolidated financial statements.

d) IAS 40 (amended) Investment Property

On December 8, 2016, the IASB finalized amendments to IAS 40 – *Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments are effective for periods beginning on or after January 1, 2018. The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Trust's 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.

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

(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 affect 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 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.

(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.

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

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, 2017 and December 31, 2016:

	2017	2016
(In $ thousands)	**Total**	Total
Balance, beginning of year	**$ 496,337**	$ 401,834
Additions:		
Acquisition of investment properties	**427,333**	80,955
Acquisition of development properties	**-**	3,954
Additions to investment properties	**6,684**	4,036
Fair value gains	**36,212**	5,558
Balance, end of year	**$ 966,566**	$ 496,337

6. Investment properties (continued)

Acquisitions of investment properties completed during the year ended December 31, 2017 are as follows:

(in $ thousands)

Property	Property type	Ownership interest	Date acquired	Cash and other[1]	Mortgage financing	Acquisition cost[2]
303-58th Avenue SE, Calgary, AB	Industrial	100%	14-Feb-17	$ 6,252	$ 11,406	$ 17,658
2335 Speers Road, Oakville, ON	Industrial	100%	27-Feb-17	11,294	18,000	29,294
2000 Kipling Avenue, Etobicoke, ON	Industrial	100%	22-Mar-17	7,048	9,772	16,820
13 Bethridge Road, Etobicoke, ON	Industrial	100%	22-Mar-17	3,021	4,188	7,209
1600 50th Avenue, Lachine, QC	Industrial	100%	31-Mar-17	3,955	7,014	10,969
4875 Fairway Street, Lachine, QC	Industrial	100%	31-Mar-17	2,070	3,776	5,846
4870 Robert-Boyd Street, Sherbrooke, QC	Industrial	100%	7-Apr-17	15,247	-	15,247
2616 Sheridan Garden Drive, Oakville, ON	Industrial	100%	14-Aug-17	5,964	10,000	15,964
5500 Trans-Canada Highway, Pointe Claire, QC	Industrial	100%	18-Aug-17	13,679	29,000	42,679
330 Humberline Drive, Etobicoke, ON	Industrial	100%	29-Sep-17	9,621	15,700	25,321
1800 Ironstone, Pickering, ON	Industrial	100%	15-Nov-17	14,749	-	14,749
4150 Chomedey Highway, Laval, QC	Industrial	50%	17-Nov-17	3,296	-	3,296
7910- 51st Street SE, Calgary, AB	Industrial	100%	8-Dec-17	2,212	3,900	6,112
201 Shearson Crescent, Cambridge, ON	Industrial	100%	8-Dec-17	931	1,544	2,475
400 Bingemans Centre, Kitchener, ON	Industrial	100%	8-Dec-17	5,244	8,775	14,019
6900 Tranmere Drive, Mississauga, ON	Industrial	100%	8-Dec-17	7,147	6,500	13,647
335 Carlingview Drive, Etobicoke, ON	Industrial	100%	19-Dec-17	7,635	-	7,635
345 Carlingview Drive, Etobicoke, ON	Industrial	100%	19-Dec-17	12,549	-	12,549
355 Carlingview Drive, Etobicoke, ON	Industrial	100%	19-Dec-17	14,764	-	14,764
1980 Matheson Blvd, Mississauga, ON	Industrial	100%	19-Dec-17	34,143	-	34,143
111 Corporate Drive, Burlington, ON	Industrial	100%	21-Dec-17	17,345	-	17,345
55 Carrier Drive, Etobicoke, ON	Industrial	100%	21-Dec-17	5,272	-	5,272
65 Carrier Drive, Etobicoke, ON	Industrial	100%	21-Dec-17	4,955	-	4,955
326 Humber College Blvd, Etobicoke, ON	Industrial	100%	21-Dec-17	3,878	-	3,878
1361 Huntingwood Drive, Scarborough, ON	Industrial	100%	21-Dec-17	9,653	-	9,653
20 Commander Blvd, Scarborough, ON	Industrial	100%	21-Dec-17	6,592	-	6,592
40 Commander Blvd, Scarborough, ON	Industrial	100%	21-Dec-17	4,744	-	4,744
10 Commander Blvd, Scarborough, ON	Industrial	100%	21-Dec-17	4,237	-	4,237
5499 Canotek Road, Ottawa, ON	Industrial	100%	21-Dec-17	5,227	-	5,227
22401 Chemin Dumberry, Vaudreuil-sur-le-lac, QC	Industrial	100%	21-Dec-17	13,341	-	13,341
80 Via Renzo Drive, Richmond Hill, ON	Data Centre	50%	22-Dec-17	16,694	24,999	41,693
Investment properties				$272,759	$154,574	$427,333

(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, 2017, the Trust acquired $427.3 million (2016 - $84.9 million) of investment properties including two jointly-owned properties as described under Note 7. The acquisitions were financed by new and assumed mortgages of $154.6 million (2016 - $52.5 million), net proceeds of $208.7 million (2016 - $32.5 million) raised from public offerings, $90.0 million from a

6. Investment properties (continued)

temporary bridge credit facility (Note 10) and the balance from the revolving operating facility. In addition, approximately $0.9 million in security deposits were assumed for the year ending December 31, 2017.

Approximately $959.7 million (2016 - $495.1 million) of investment properties are used for security under loans and borrowings (Note 10).

Additions to investment properties of $6.7 million (2016 - $4.0 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”. At December 31, 2017, the total straight-line rent receivable is $4.8 million (2016 - $3.5 million).

Approximately $251.7 million of the $539.2 million or 47% (excluding current year acquisitions) of the properties were appraised by third party valuation professionals in 2017 (2016 - $137.1 million or 25%). 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 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 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 year ended December 31, 2017 were $36.2 million (2016 - $5.6 million).

6. Investment properties (continued)

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

			2017			2016
(In $ thousands)	**Capitalization rate**	**Discount rate**	**Price per square foot**	Capitalization rate	Discount rate	Price per square foot
Weighted average	**5.95%**	**6.62%**	**$ 108.75**	6.38%	7.08%	$ 100.36

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 $74.7 million (2016 - $36.0 million) and a 0.50% decrease would increase fair value by $88.4 million (2016 – $42.1 million).

7. Joint arrangements

As indicated in Note 6, in November 2017, the Trust acquired a 50% interest in one light industrial property in Laval, Quebec, in partnership with Montreal's Groupe Montoni, aggregating 70,000 square feet of GLA. The acquisition cost was $3.3 million and was financed with proceeds from the revolving credit facility.

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 this arrangement meets the definition of a joint operation under IFRS 11 – Joint Arrangements and has accounted for its 50% interest in this property.

In December 2017, the Trust acquired a 50% interest in a state-of-the-art digital data centre by entering into a new partnership with Urbacon Montreal Limited Partnership ("Urbacon"). The property is a new, purpose built, data centre facility aggregating 118,000 square feet of GLA in Richmond Hill, Ontario. The acquisition cost was $41.7 million and was financed by the assumption of $25.0 million in construction debt maturing in August 2019 at a variable interest rate of lender's prime plus 1.75% with the balance from offering proceeds and the revolving credit facility.

Concurrent with the acquisition, the Trust entered into a unanimous shareholder agreement with Urbacon which, among other things, requires unanimous consent of the Trust and Urbacon 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.

8. Loans receivable

On acquisition of the Laval property (Note 6), the Trust provided a temporary short-term loan of $2.0 million to its partner which is to be repaid once long-term mortgage financing is obtained on the property.

Concurrent with the data centre facility acquisition in December, the Trust extended a $15.8 million mezzanine loan to Urbacon with the option to convert the loan 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.

8. Loans receivable (continued)

In addition, the Trust extended a three-year $14.3 million non-revolving working capital loan to Urbacon, of which $11.4 million is currently drawn, primarily to be invested to develop additional data centres in Richmond Hill and other key markets.

For the year ended December 31, 2017, interest income of $74,000 (2016 - $nil) on the loans receivable have been reported in finance income on the consolidated statements of income.

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

(In $ thousands)		**2017**		2016
Tenant receivables	**$**	**122**	$	393
Other receivables		**1,826**		1,095
	$	**1,948**	$	1,488
Prepaid expense and deposits	**$**	**4,391**	$	2,389
Deferred financing costs		**296**		214
	$	**4,687**	$	2,603

10. Loans and borrowings

(In $ thousands)		**2017**		2016
Term mortgages	**$**	**379,568**	$	233,545
Revolving and non-revolving operating facility and demand loans		**135,450**		37,090
Total		**515,018**		270,635
Less: Current loans and borrowings		**157,123**		14,742
Non-Current loans and borrowings	**$**	**357,895**	$	255,893

10. Loans and borrowings (continued)

(a) Term mortgages

The following table summarizes the financing activities for the year ended December 31, 2017:

(in thousands of Canadian dollars) **Property**	**Lender**	**Term**		**Amount**	**Effective Interest Rate**	**Completed**
New financing						
303 58th Avenue SE	RBC	5 years	$	11,406	2.97%	Feb-17
Lachine portfolio	RBC	5 years		10,790	2.82%	Mar-17
2335 Speers Road	RBC	5 years		18,000	2.70%	May-17
290 Frenette	BMO	5 years		3,550	2.90%	May-17
5500 Trans-Canada Highway	BMO	7 years		29,000	3.79%	Sep-17
2616 Sheridan Garden Drive	RBC	5 years		10,000	3.51%	Oct-17
330 Humberline Drive	RBC	5 years		15,700	3.52%	Oct-17
GPM Portfolio	RBC	5 years		20,719	3.41%	Dec-17
Bridge credit facility	BMO	1 year		90,000	3.40%	Dec-17
Total new financing			**$**	**209,165**	**3.35%**	
Assumed financing						
13 Bethridge/2000 Kipling portfolio	CMLS	5 years	$	13,956	3.51%	Mar-17
DC1 Data Centre	DUCA	2 years		24,999	4.95%	Dec-17
Total assumed financing			**$**	**38,955**	**4.43%**	
Total 2017 financings			**$**	**248,120**	**3.52%**	

On January 17, 2017, $1.4 million in variable rate mortgage debt maturing August 1, 2017, was paid utilizing funds from the revolving operating facility. In addition, in December 2017, the Trust extended the expiry of $4.7 million in mortgage debt from January 1, 2018 to April 1, 2018.

Total term mortgages bear interest at a weighted average effective interest rate of 3.50% (2016 - 3.43%) and a weighted average stated interest rate of 3.59% (2016 - 3.59%). 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 $1.8 million (2016 - $1.8 million) of unamortized mark-to-market premiums related to a mortgage assumed on acquisition, and $0.9 million (2016 - $1.1 million) of unamortized deferred financing charges.

10. Loans and borrowings (continued)

Principal repayment requirements for term mortgages are as follows:

(In $ thousands)	
2018	$ 63,707
2019	40,978
2020	51,400
2021	36,998
2022	89,878
Thereafter	95,699
Principal amount	378,660
Premium on debt	1,781
Deferred financing charges	(873)
Total term mortgages	$ 379,568

(b) Revolving operating facility

During the year, two properties with a lending value totalling approximately $18.0 million were added as security on the revolving operating facility. As at December 31, 2017, approximately $42.0 million (2016 - $34.3 million), of an available $57.4 million, was drawn from the revolving operating facility.

In December 2016, the revolving credit facility maturity date was extended to September 27, 2019. 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 $99.7 million (2016 - $63.1 million), and first general assignment of leases and insurance.

(c) Non-revolving bridge credit facility

On December 21, 2017, in conjunction with the properties acquired on December 19th and 21st described in Note 6, the Trust obtained a $90.0 million non-revolving bridge credit facility with a one-year maturity term. The 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.

This facility is secured by first charges over these specific investment properties, with a fair value of $144.3 million, and first general assignment of leases and insurance. As long-term mortgage financing is obtained for these properties, proceeds will be applied to this facility. As at December 31, 2017, the total drawn on this facility was $90.0 million.

11. Financial instruments

In September 2017, $29.0 million in mortgage financing was obtained on the Pointe Claire, QC, property acquired (Note 6) at a variable interest of monthly BA-CDOR plus 1.40% with a term to maturity of seven years which was effectively fixed at an interest rate of 3.79% by entering into a seven-year interest rate swap agreement at the same time. Settlement of both fixed and variable portions of the interest rate swaps occur at

11. Financial instruments (continued)

the same time monthly. The Trust has applied hedge accounting to this relationship in accordance with its accounting policy described in Note 3. The effectiveness of the hedging relationship is reviewed on a quarterly basis and the Trust has assessed these as effective in the hedge of its interest rate exposure.

At December 31, 2017, the aggregate fair value of the interest rate swaps amounted to a $1.3 million financial asset (2016 - $0.4 million financial liability).

12. 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, 2016	28,908	$	182,350
Issuance of Units on June 17, 2016	5,650		32,528
Units issued under the DRIP	432		2,517
Balance December 31, 2016	34,990	$	217,395

12. Unitholders' equity (continued)

(In thousands)	Number of Units		Carrying amount
Balance January 1, 2017	**34,990**	**$**	**217,395**
Issuance of Units on January 31, 2017	**7,423**		**43,864**
Issuance of Units on June 30, 2017	**9,764**		**65,924**
Issuance of Units on December 13, 2017	**14,375**		**98,899**
Units issued under the DRIP	**532**		**3,502**
Balance December 31, 2017	**67,084**	**$**	**429,584**

During the year ended December 31, 2017, the Trust completed three public offerings utilizing proceeds to fund the acquisitions noted in Note 6. On January 31, 2017, the Trust completed a public offering of 7,423,250 Units at a price of $6.20 per Unit for gross proceeds of $46.0 million. The offering incurred issue costs of $2.1 million for net proceeds of $43.9 million. On June 30, 2017, the Trust completed a public offering of 9,763,500 Units at a price of $7.07 per Unit for gross proceeds of $69.0 million. The offering incurred issue costs of $3.1 million for net proceeds of $65.9 million. On December 13, 2017, the Trust completed a public offering of 14,375,000 Units at a price of $7.20 per Unit for gross proceeds of $103.5 million. The offering incurred issue costs of $4.6 million for net proceeds of $98.9 million.

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, 2017, there were 532,124 Units (2016 – 432,126) issued under this plan for total proceeds of $3.5 million (2016 - $2.5 million), representing 14.6% (2016 – 15.6%) of the related distributions.

On October 2, 2017, the Trust reserved an additional 2,628,604 Units for future issuance under the Distribution Reinvestment Plan.

(c) Distributions

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

(In $ thousands, except per Unit amounts)		**2017**		2016
Paid in cash	**$**	**20,502**	$	13,573
Reinvested by Unitholders under the DRIP		**3,502**		2,517
$0.0420 per Unit payable at December 31 (paid January)		**(1,470)**		(1,214)
$0.0420 per Unit payable at December 31		**2,885**		1,470
Distributions recorded in equity	**$**	**25,419**	$	16,346

12. Unitholders' equity (continued)

(d) Per Unit amounts

The weighted average number of Units are as follows:

(In thousands of Units)	**2017**	2016
Issued Units, beginning of period	**34,990**	28,908
Issuance of Units January 31, 2017	**6,813**	-
Issuance of Units June 30, 2017	**4,949**	-
Issuance of Units December 13, 2017	**748**	-
Issuance of Units June 17, 2016	**-**	3,057
Issuance of Units under the DRIP	**267**	213
Total weighted average number of Units outstanding	**47,767**	32,178

As at December 31, 2017 and 2016, the Trust has no Units or instruments outstanding that would have a dilutive effect on net income per Unit.

(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.

12. Unitholders' equity (continued)

A summary of Deferred Units granted under the Plan as at December 31, 2017 is:

	Number of Units
Deferred Units granted for services rendered including match incentive	22,546
Deferred Units granted through distributions	664
Balance December 31, 2017	23,210

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 consolidated statements of income. The total fair value of Deferred Units granted and recognized as compensation expense within general and administrative expense for the year ended December 31, 2017 was $169,000 (2016 - $nil) and includes $8,000 in fair value adjustments, all of which is included in trade and other accrued liabilities at December 31, 2017.

13. 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, loans 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.

		2017		2016
(In $ thousands)	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets				
Cash	**$ 856**	**$ 856**	$ 379	$ 379
Accounts recievable	**1,948**	**1,948**	1,488	1,488
Loans receivable	**29,182**	**29,182**	-	-
Financial liabilities				
Loans and borrowings	**515,018**	**518,561**	270,635	267,990
Trade and other accrued liabilities	**9,408**	**9,408**	5,069	5,069
Security deposits	**4,041**	**4,041**	3,053	3,053
Distribution payable	**2,885**	**2,885**	1,470	1,470

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

13. Fair value of financial instruments (continued)

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.

14. 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 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; 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.

14. Related party transactions (continued)

Under the terms of the Management Agreement with Sigma, the Trust has incurred the following fees for the years ended December 31, 2017 and 2016:

(In $ thousands)	2017	2016
Acquisition fees (capitalized to investment properties)	**$ 4,271**	$ 813
Asset management fees	**1,540**	1,118
Incentive fee	**-**	-
Leasing fees (capitalized to investment properties)	**529**	210
Capital expenditures management fee (capitalized to investment properties)	**49**	39
Property management services	**1,569**	1,568
	$ 7,958	$ 3,748

Included in trade and other accrued liabilities at December 31, 2017 is an amount of $362,000 (December 31, 2016 - $165,000) due to Sigma. Also, during the year ended December 31, 2017, Sigma paid $35,000 to the Trust (December 31, 2016 - $34,000) for office space located at 294 Walker Drive, Brampton, Ontario, under a five-year lease commencing June 1, 2013.

(b) Trustee Fees

Trustee related fees of $284,000 (2016 - $192,000) are included in general and administrative expenses for the year ended December 31, 2017. The 2017 fees include the fair value of Deferred Units of $169,000 as described in Note 12.

15. Revenues from investment properties

Revenues from investment properties for the years ended December 31, 2017 and 2016 were $58.6 million and $45.0 million respectively. The Trust leases commercial properties under operating leases with lease terms of between one and ten years. As at December 31, 2017 the Trust is entitled to the following minimum future receipts under its non-cancellable tenant operating leases:

(In $ thousands)	Within 12 months	2 to 5 years	Beyond 5 years
Operating lease revenue	$ 57,852	$ 187,891	$ 166,349

16. 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, the non-revolving bridge credit facility and variable rate mortgages, which have a floating rate of interest. An

16. Risk management (continued)

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 net income per unit.

At December 31, 2017, the Trust has $160.5 million (2016 - $38.5 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, 2017 by approximately $1.6 million (2016 - $0.4 million). The Trust structures 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, 2017 and 2016 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 9 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, 2017 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 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 at maturity (Note 10) are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining or assuming 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.

The Trust mitigates its liquidity risk by staggering the maturities of its debt. Furthermore, 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.

17. Capital management

The capital structure of the Trust consists of the following:

(In $ thousands)	2017	2016
Loans and borrowings	**$ 515,018**	$ 270,635
Unitholders' equity	**471,887**	220,580
	$ 986,905	$ 491,215

The Trust's objective when managing its capital is to safeguard its 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, 2016. 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.

As at December 31, 2017, the Trust is in compliance with its financial covenants.

18. 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.

19. 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

19. Income tax (continued)

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 2017 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 these consolidated financial statements.

20. Subsequent events

Distributions

On January 15, 2018, a distribution in the amount of $0.043 per Unit for Unitholders of record January 31, 2018, was declared and was paid February 15, 2018. In addition, on February 15, 2018, a distribution in the amount of $0.043 per Unit for Unitholders of record on February 28, 2018, was declared and will be paid on March 15, 2018.