Summit Industrial Income REIT

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2015 and 2014

SUMMIT INDUSTRIAL INCOME REIT
For the three and six month periods ended June 30, 2015 and 2014

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SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Balance Sheets

As at June 30, 2015 and December 31, 2014

(In thousands of Canadian dollars)

	Note		June 30, 2015		December 31, 2014
Assets					
Non-current					
Investment properties	4	**$**	**397,016**	$	335,842
Current					
Accounts receivable	6		**2,634**		2,479
Prepaid expenses, deposits, and deferred financing costs	6		**1,672**		3,325
Cash			**135**		-
			4,441		5,804
Total assets		**$**	**401,457**	$	341,646
Liabilities					
Non-current					
Loans and borrowings	7	**$**	**177,887**	$	148,324
Security deposits			**2,551**		1,770
			180,438		150,094
Current					
Loans and borrowings	7		**38,538**		40,353
Trade and other accrued liabilities			**5,558**		6,084
Distributions payable	8		**1,206**		983
			45,302		47,420
Total liabilities			**225,740**		197,514
Unitholders' equity			**175,717**		144,132
Total liabilities and equity		**$**	**401,457**	$	341,646

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

Approved by the Board of Trustees on August 11, 2015

"Lou Maroun"
Trustee

"Jim Tadeson"
Trustee

SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Statements of Income and Comprehensive Income

For the three and six month periods ended June 30, 2015 and 2014

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

	Note	Three month period ended June 30, 2015	Three month period ended June 30, 2014	Six month period ended June 30, 2015	Six month period ended June 30, 2014
Revenue from investment properties		$ 9,717	$ 7,153	$ 18,766	$ 14,221
Property operating expenses		3,042	2,017	5,792	3,717
Net rental income		6,675	5,136	12,974	10,504
Other income					
Other income		-	-	180	-
Finance income		2	2	6	3
Gain on sale of investment properties	5	1,973	-	1,973	-
		1,975	2	2,159	3
Other expenses					
General and administrative		811	1,170	1,289	1,596
Finance costs		2,088	1,846	4,013	3,709
		2,899	3,016	5,302	5,305
Income before fair value adjustments to investment properties		5,751	2,122	9,831	5,202
Fair value adjustments to investment properties	4	261	(75)	(181)	(41)
Net income and comprehensive income		$ 6,012	$ 2,047	$ 9,650	$ 5,161
Net income per Unit					
Basic	8	$ 0.210	$ 0.104	$ 0.339	$ 0.272
Diluted	8	$ 0.210	$ 0.104	$ 0.339	$ 0.272

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

SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

For the six month periods ended June 30, 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	-			-		5,161		5,161
Distributions	-	8		-		(4,720)		(4,720)
Units issued through DRIP	149	8		844		-		844
Issuance of Units, net of costs	4,968	8		27,427		-		27,427
Unitholders' equity, June 30, 2014	23,274		$	150,928	$	(7,920)	$	143,008
Beginning balance, January 1, 2015	**23,397**		**$**	**151,621**	**$**	**(7,489)**	**$**	**144,132**
Net income and comprehensive income	-			**-**		**9,650**		**9,650**
Distributions	-	8		**-**		**(7,672)**		**(7,672)**
Units issued through DRIP	**184**	8		**1,066**		**-**		**1,066**
Issuance of Units, net of costs	**5,130**	8		**28,541**		**-**		**28,541**
Unitholders' equity, June 30, 2015	**28,711**		**$**	**181,228**	**$**	**(5,511)**	**$**	**175,717**

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

SUMMIT INDUSTRIAL INCOME REIT

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the six month periods ended June 30, 2015 and 2014

(In thousands of Canadian dollars)

	Note	2015	2014
Operating activities			
Net income and comprehensive income		**$ 9,650**	$ 5,161
Add (deduct):			
Finance costs		**4,013**	3,709
(Gain) on sale of investment properties		**(1,973)**	-
Straight-line rent adjustment		**(490)**	(361)
Fair value adjustments to investment properties		**181**	41
Change in non-cash working capital items		**(2,385)**	88
Interest and finance fees paid		**(3,989)**	(3,943)
		5,007	4,695
Financing activities			
Repayment of loans and borrowings		**(12,043)**	(41,311)
Increase in loans and borrowings		**28,000**	12,200
Distributions paid	8	**(6,383)**	(3,640)
Net proceeds from Units issued	8	**28,541**	27,427
		38,115	(5,324)
Investing activities			
Additions to investment properties		**(1,699)**	(5,528)
Proceeds from sale of investment properties		**16,489**	25,294
Acquisition of investment properties		**(57,777)**	(18,960)
		(42,987)	806
Increase in cash		**135**	177
Cash, beginning of period		**-**	1,047
Cash, end of period		**$ 135**	$ 1,224

The accompanying notes are an integral part of these condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements prepared for the year ended December 31, 2014.

The Board of Trustees authorized the issue of these condensed consolidated interim financial statements on August 11, 2015.

(b) Basis of measurement

The condensed consolidated interim 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 condensed consolidated interim 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 applied are consistent with those of the annual financial statements prepared as at and for the year ended December 31, 2014 as described in Note 4 of those 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 all entities in which 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*, 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 June 30, 2015, the Trust had an interest in a joint arrangement that was classified as a joint operation.

4. Investment properties

The following table presents the changes in investment properties for the six months ended June 30, 2015 and the year ended 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	**81,884**	**-**	**81,884**	49,040	-	49,040
Additions to investment properties	**2,440**	**-**	**2,440**	4,166	85	4,251
Dispositions	**(22,969)**	**-**	**(22,969)**	(25,294)	(710)	(26,004)
Fair value (losses) gains	**(181)**	**-**	**(181)**	279	(125)	154
Balance, end of period	**$ 397,016**	**$ -**	**$ 397,016**	$ 335,842	$ -	$ 335,842

4. Investment properties (continued)

Acquisitions of income properties completed during the six month period ended June 30, 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	$ 1,637	$ 2,353	$ 3,990
185 Bellerose Blvd, Laval, QC	Industrial	50%	05-Feb-15	2,387	1,562	3,949
1970 John-Yule, Chambly, QC	Industrial	50%	05-Feb-15	1,750	1,067	2,817
3720 Ave des Grandes Tourelles, Broisbriand, QC	Industrial	50%	11-Feb-15	6,625	12,850	19,475
1177-1185 55e Ave., Dorval, QC	Industrial	50%	11-Feb-15	2,783	4,459	7,242
5757 Thimens Blvd., St. Laurent, QC	Industrial	50%	11-Feb-15	2,175	982	3,157
78 Walker Drive, Brampton, ON	Industrial	100%	23-Feb-15	4,761	6,626	11,387
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	1,619	2,259	3,878
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	6,377	8,866	15,243
				$34,595	$ 47,289	$ 81,884

(1) Cash and other includes cash, cash drawn from the bank credit facility, banker's acceptances loans, and assumption of security deposits.
(2) Acquisition costs includes acquisition-related expenses.

As indicated above, during the three month period ended June 30, 2015, the Trust acquired an investment property for $15.2 million. The acquisition was financed by an assumed mortgage of $8.9 million, and the balance from the revolving operating facility. In addition, $85,000 in security deposits were assumed on the acquisitions.

A total of $393.1 million of investment properties are used for security under loans and borrowings.

Additions to investment properties of $2.5 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 $1.8 million (December 31, 2014 - $1.4 million).

As indicated below in Note 5, during the three month period ended June 30, 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.

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

4. Investment properties (continued)

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 six months ended June, 2015 were $181,000 (2014 - loss of $41,000).

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	**10.00%**	**10.00%**	**$ 220.00**	10.00%	10.00%	$ 220.00
Minimum	**6.00%**	**6.50%**	**$ 50.00**	6.00%	6.50%	$ 50.00
Weighted average	**6.65%**	**7.42%**	**$ 97.95**	6.74%	7.40%	$ 98.12

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 $28.5 million and a 0.50% decrease would increase fair value by $33.2 million.

5. Co-owned property interests

On April 30, 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.

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.

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

(In $ thousands)		**June 30, 2015**		December 31, 2014
Tenant receivables	**$**	**336**	$	200
Other receivables (including funds in escrow)		**2,298**		2,279
	$	**2,634**	$	2,479
Prepaid expense and deposits	**$**	**1,557**	$	3,027
Deferred financing costs		**115**		298
	$	**1,672**	$	3,325

7. Loans and borrowings

(In $ thousands)		**June 30, 2015**		December 31, 2014
Term mortgages	**$**	**188,212**	$	151,865
Vendor take back mortgage payable		**-**		650
Variable rate debt		**28,213**		36,162
Total		**216,425**		188,677
Less: Current debt		**38,538**		40,353
Non-Current debt	**$**	**177,887**	$	148,324

As indicated under Note 4, during the three month period ended June 30, 2015, on the acquisition of the property located at 2333 North Sheridan Way, Mississauga, Ontario, $8.9 million in mortgage financing was assumed, at a stated interest rate of 3.72% and maturing in September 2019.

As well, during the three month period ended June 30, 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.

Total term mortgages bear interest at a weighted average effective interest rate of 3.52% (2014- 3.68%) and 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 $695,000 (2014 - $66,000) of unamortized mark-to-market premiums related to a mortgage assumed on acquisition, and $1.3 million (2014 - $1.2 million) of unamortized deferred financing charges.

Included in variable rate debt, as of June 30, 2015, is $27.2 million (2014 - $36.2 million) drawn on the revolving credit facility of a total available of $36.8 million.

7. Loans and borrowings (continued)

Principal repayment requirements for term mortgages are as follows:

(In $ thousands)	
2015 (remainder)	$ 2,787
2016	11,878
2017	8,237
2018	56,536
2019	12,124
2020	45,981
Thereafter	51,268
Principal amount	188,811
Premium on debt	695
Deferred financing charges	(1,294)
Total term mortgages	$ 188,212

8. 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.

8. Unitholders' equity (continued)

(b) Issued and outstanding

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

(In thousands)	Number of Units		Carrying amount
Balance January 1, 2014	18,157	$	122,657
Issuance of Units on June 5, 2014	4,968		27,427
Units issued under the DRIP	149		844
Balance June 30, 2014	23,274	$	150,928
Balance January 1, 2015	**23,397**	**$**	**151,621**
Issuance of Units on January 7, 2015	**5,130**		**28,541**
Units issued under the DRIP	**184**		**1,066**
Balance June 30, 2015	**28,711**	**$**	**181,228**

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 six months ended June 30, 2015, there were 184,581 (2014 - 149,263) Units issued under this plan for total proceeds of $1.1 million (2014 - $844,000), representing 14.3% (2014 - 18.8%) of the related distributions.

(c) Distributions

The Trust recorded the following activities relating to distributions during the six month periods ended June 30:

(In $ thousands, except per Unit amounts)		**2015**		2014
Paid in cash	**$**	**6,383**	$	3,640
Reinvested by Unitholders under the DRIP		**1,066**		844
$0.0408 per Unit payable at December 31 (paid January)		**(983)**		(741)
$0.0420 per Unit payable at June 30		**1,206**		977
Distributions recorded in equity	**$**	**7,672**	$	4,720

As noted, during three months ended June 30, 2015, 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

8. Unitholders' equity (continued)

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.

(d) Per Unit amounts

The weighted average number of Units for the three and six month periods ended June 30 are as follows:

(In thousands of Units)	**3 months 2015**	3 months 2014	**6 months 2015**	6 months 2014
Issued Units, beginning of period	**23,397**	18,157	**23,397**	18,157
Issuance of Units January 7, 2015	**5,130**	-	**4,960**	-
Issuance of Units June 5, 2014	**-**	1,420	**-**	714
Issuance of Units under the DRIP	**130**	121	**85**	83
Total weighted average number of Units outstanding	**28,657**	19,698	**28,442**	18,954

As at June 30, 2015 and 2014, the Trust has no Units or instruments outstanding that would have a dilutive effect on earnings per Unit.

9. Related party transactions

Management agreement

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 three and six month periods ended June 30:

(In $ thousands)	**3 months 2015**	3 months 2014	**6 months 2015**	6 months 2014
Acquisition fees (capitalized to investment properties)	**$ 145**	$ 182	**$ 790**	$ 182
Asset management fees	**244**	188	**475**	373
Incentive fee	**361**	727	**368**	759
Property management services	**350**	317	**694**	629
	$ 1,100	$ 1,414	**$ 2,327**	$ 1,943

Included in trade and other accrued liabilities at June 30, 2015 is an amount of $576,000 (2014 - $925,000) due to Sigma.

During the six month period ended June 30, 2015, Sigma paid $17,000 to the Trust (2014 - $16,000) for office space located at 294 Walker Drive, Brampton, Ontario, under a five year lease commencing June 1, 2013. 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

9. Related party transactions (continued)

satisfied. In March, 2015, Sigma contributed $123,000 toward leasing costs for space under vendor lease as requested by the Independent Trustees. As of June 30, 2015 19,000 square feet of the remaining vendor lease space had been leased commencing July 1, 2015. As, at June 30, 2015, $69,000 (2014 – nil) was paid to the Trust for the vendor lease space.

Trustee related fees of $98,000 (2014 - $88,000) are included in general and administrative expenses for the six month period ended June 30, 2015.

10. 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 qualified as a REIT for 2014 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.

11. Subsequent events

Distribution

On July 15, 2015, a distribution in the amount of $0.042 per Unit for Unitholders of record July 31, 2015, was declared and will be paid on August 14, 2015.