



Annual Report 2013

SUMMIT INDUSTRIAL INCOME REIT

Summit **II**REIT
Summit Industrial Income REIT



Summit Industrial Income Real Estate Investment Trust

is an unincorporated open-ended trust focused on growing and managing a portfolio of light industrial properties across Canada. Currently the REIT owns 30 properties well-located in five Canadian provinces aggregating approximately 3.3 million square feet of gross leaseable area. The REIT is managed by Sigma Asset Management Limited, composed of an experienced and proven team of real estate professionals responsible for a ten-year 20% compound annual return generated for investors with the former Summit REIT.



Operating Highlights

- > Acquired 22 properties for \$223.8 million to date at average cap rate of 6.87%
- > Attractive financing for acquisitions
- > Portfolio growth highly accretive to FFO & AFFO per unit
- > Trust Units moved to TSX effective Nov. 11, 2013
- > Management fully aligned with 12% principals' interest

2013 Financial Highlights

Year Ended December 31, (\$,000 except per Unit amounts)	2013	2012
Revenue	22,047	2,497
Portfolio Occupancy	98.9%	97.0%
Net Operating Income	16,492	1,980
FFO	9,744	906
FFO per Unit	\$ 0.596	\$ 0.395
AFFO	\$ 8,935	906
AFFO per Unit	\$ 0.546	\$ 0.395
AFFO Payout Ratio	74.7%	-

As at December 31,	2013	2012
Debt to Gross Book Value	60.9%	47.0%
Weighted Average Mortgage Interest Rate	3.68%	3.89%
Weighted Average Mortgage Term to Maturity	4.95 yrs	4.70 yrs
Weighted Average Lease Term to Maturity	6.0 yrs	6.4 yrs
Weighted Average Units Outstanding (basic)	16,356	2,294

2013 includes additional one-time, non-recurring general and administrative costs of \$197,000 or \$0.011 FFO per unit, in the fourth quarter relating to the REIT's move from the TSXV to the TSX on November 11, 2013.

James Tadeson

Lead Trustee & Chair of the Audit Committee

Kimberley G. Hill

Vice President, Asset Management

Paul Dykeman

Chief Executive Officer

Lou Maroun

Chairman & Trustee

Saul Shulman

Trustee & Chair of Governance Committee

Ross Drake

Chief Financial Officer

Larry Morassutti

Trustee & Member of Audit & Governance Committee

Jon Robbins

Vice President, Investments

Message to Unitholders

We are very pleased with our growth and progress through our first full year managing Summit II's assets and business. We significantly expanded, diversified and strengthened our property portfolio with very accretive acquisitions and related financings. We generated strong quarter-over-quarter growth through the year in all our performance benchmarks, and built a solid business and operating foundation with experience and depth. Looking ahead, we are confident we will build on this progress for the benefit of our Unitholders.

Strong Portfolio Growth

We significantly expanded and strengthened our property portfolio in 2013 with the acquisition of twenty-two properties well-located in Edmonton, Alberta, the Greater Toronto Area, the Greater Montreal Region and Moncton, New Brunswick, aggregating approximately 2.7 million square feet of gross leaseable area (GLA). The total purchase price of \$223.8 million was funded by cash raised in a successful offering of Trust Units completed on February 26, 2013 raising \$75.1 million in gross proceeds, new mortgage financings totaling \$104.0 million, and the assumption of existing mortgages of \$18.4 million. The average capitalization rate on the acquired properties was a very solid 6.87%.

With the completion of these acquisitions our total property portfolio grew to thirty properties at year end totaling approximately 3.3 million square feet of GLA. The properties have solid, credit-worthy tenants, and all are well-located in strong urban markets near major rail, highway and airport transportation links. Our portfolio is comprised



of state-of-the-art facilities with high ceiling height, ample loading docks, extensive parking capacity, and upgraded fire detection and security systems. Occupancies across the portfolio stood at a nearly full 98.9% at December 31, 2013 with a weighted average term to maturity for the total lease portfolio of 6.0 years.

Strong Performance

As a result of our considerable growth in 2013, and our strong operating performance, we generated stable and significant growth in quarter-over-quarter results through the year. Operating revenues rose consistently, finishing the year at \$22.0 million, up from \$2.5 million in 2012. With this growth, our net operating income increased to \$16.5 million, up from \$2.0 million in the prior year. Our Adjusted Funds from Operations (AFFO) rose to \$8.9 million or \$0.546 per Unit compared to \$0.9 million or \$0.395 per unit in 2012.

We were also pleased that our revenues, FFO and AFFO for the year exceeded the forecast we presented in the prospectus

issued with our February 2013 equity offering.

Most importantly, our payout ratios continued to strengthen through 2013 with our AFFO payout ratio standing at a very conservative 74.7% for the year. We began paying cash distributions at an annualized rate of approximately \$0.49 cents per Unit on March 15, 2013. Including the benefit of our Distribution Reinvestment Plan (DRIP), our effective AFFO payout ratio was 65% for the year.

Our balance sheet and liquidity position remained strong at year end with our leverage ratio a conservative 60.9%, an attractive weighted average effective interest rate on our mortgage portfolio of 3.68%, and a weighted average term to maturity of 5.0 years. Debt service and interest coverage ratios were also solid at 1.93 times and 2.74 times, respectively.

In August 2013 we increased our credit facility to \$68 million, of which \$62.8 million was drawn as of December 31, 2013. If we were



to increase our borrowing to the maximum 65% allowed under our Declaration of Trust, we had the capacity to purchase approximately \$37 million in new properties as at year end. It is our intention, however, to operate in the mid-50% leverage level over the long term.

Strong Leasing Activity

During the year we made significant progress in leasing the approximately 287,000 square feet of head lease space we acquired when we took over management of the REIT in September 2012. As of the year-end, long-term leases have been secured for 185,604 square feet of this space, and offers are under negotiation for another 77,243 square feet with tenants currently in month-to-month occupancy. We have already renewed 123,252 square feet, or 73.3% of the 168,255 square feet of space set to expire in 2014.

We were also pleased to have resolved a number of issues with one of our underperforming properties located at 501 Palladium Drive in Ottawa, Ontario. When we acquired this undervalued property, we were confident we could enhance the asset's value by finding new, credit-worthy and long-term tenants with improved lease covenants to replace a tenant who was only occupying the office portion of the building. Subsequent to the year-end we arranged leases for the majority of the space with two new tenants, including options for the remaining space. Importantly, we have negotiated a \$4.5 million

payment from the departing tenant to cover our costs related to temporary vacancies and re-leasing. This transaction is an excellent example of how our proven asset and property management programs are creating real value for our Unitholders.

Strong Sponsorship

Under the terms of our Management Agreement, Sigma Asset Management Limited (the Manager) can elect to take the fees payable to it in the form of Trust Units rather than in cash. The Manager used its acquisition fee proceeds to acquire Units from our February equity offering while certain members of the Manager also purchased Units. In addition, members of the Manager, Senior Executives and other insiders continued to acquire Units purchased on the Toronto Stock Exchange. As a result, at year-end the Manager owned a 6.3% interest in the REIT while certain senior executives of the Manager and other insiders own a 5.8% interest, for a total of 12.1%. The significant ownership of the Manager and employees strongly aligns our interests with all Unitholders, and ensures our efforts are entirely focused on creating value.

We were also very pleased to have our Trust Units graduate and begin trading on the Toronto Stock Exchange effective November 11, 2013. We believe this move will provide the REIT with increased access to a wider and deeper community of investors, and provide enhanced



Our portfolio is composed of state-of-the-art facilities with high ceiling height, ample loading docks, extensive parking capacity, and upgraded fire detection and security systems

trading liquidity for all our Unitholders. We are proud to now have three research analysts formally covering Summit II.

Strong Future

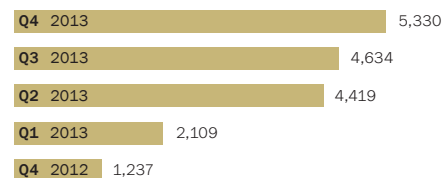
Looking ahead, we are confident we will build on this progress for the benefit of our Unitholders.

First, we will prudently acquire high quality light industrial properties in our targeted Canadian urban markets. We will purchase newer, well maintained properties that require little or no capital investment, and we will purchase properties at below replacement cost with rents below market where we can generate increased cash flows through our proven leasing programs. All property acquisitions will be accretive, and with current cap rates well in excess of today's low cost debt financing, we believe we will continue to lock in very accretive spreads on our purchases.

Our near-term geographic focus will be on building on our substantial portfolio in the Greater Toronto Area where we believe market fundamentals are ripe for creating value. Recent research indicated that Toronto is experiencing the lowest availability and vacancy rate in the country at 4.6% and 2.6%, respectively, with absorption outpacing new supply. With rising development charges, increased construction costs and land preservation initiatives, there are significant

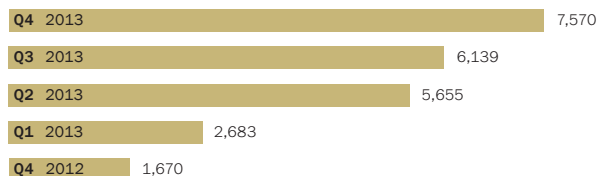
Net Operating Income (\$000)

OUR NET OPERATING INCOME
INCREASED TO \$16.5 MILLION, UP FROM
\$2.0 MILLION IN THE PRIOR YEAR



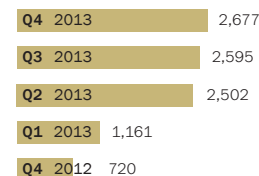
Revenue From Income Properties (\$000)

REVENUES FROM INCOME PROPERTIES ROSE CONSISTENTLY, FINISHING THE YEAR AT \$22.0 MILLION, UP FROM \$2.4 MILLION IN 2012



Adjusted Funds From Operations (\$000)

(AFFO) ROSE TO \$8.9 MILLION OR \$0.546 PER UNIT COMPARED TO \$0.9 MILLION OR \$0.395 PER UNIT IN 2012



constraints on future new supply. With these strong fundamentals, we believe there will be upward pressure on rental rates in the GTA industrial market, and we believe it is a perfect time for us to expand our presence in this strong and growing market.

We believe our cash flows will also grow organically as we capitalize on the continuing strong fundamentals in the light industrial sector. Light industrial properties have demonstrated significant strength and stability for decades, driven by such characteristics as low market rent volatility, reduced operating costs, and more generic-use space that is highly marketable. In addition, the scale and diversity of the tenant base occupying our properties is broad and generally tracks the overall economy, reducing risk and providing predictable and consistent cash flow. Finally, capital expenditure and maintenance requirements, as well as leasehold improvement and tenant inducement costs, are much lower than other types of real estate.

To capitalize on these strong fundamentals, we are building a market leading operating company for the REIT and implementing best-practice procedures such as standard leases with built-in rent escalations, and working with our tenants to ensure they have the best properties to suit their needs. With sound tenant covenants and minimal capital investment requirements, we believe our properties will deliver strong, sustainable and growing cash flows over the long term. In addition, as our portfolio grows, we expect to see significant economies of scale and operating synergies that will

reduce our overall operating costs, also benefiting future cash flows.

Finally, in our acquisition program we will prudently target underperforming light industrial assets that we believe can see improved performance with some development or re-development. To reduce unitholder risk, we will work with third-parties to perform these activities and will consider rolling the properties into the REIT once they are stabilized. At Summit, we have decades of experience developing light industrial properties, and we have an extensive network of local developers who can perform such work for us. These investments can generate higher returns for our Unitholders, but rest assured we will be very conservative and prudent in this element of our growth program.

In summary, 2013 was a very active and successful year for Summit II, but we are confident we have only begun to grow. With strong industry fundamentals, best-in-class services, and a proven management team with decades of experience in the industrial real estate sector, we are well-positioned to deliver increasing value to our Unitholders for years to come.

Lou Maroun
CHAIRMAN

Paul Dykeman
PRESIDENT & CEO



The properties have solid, credit-worthy tenants, and all are well-located in strong urban markets near major rail, highway and airport transportation links



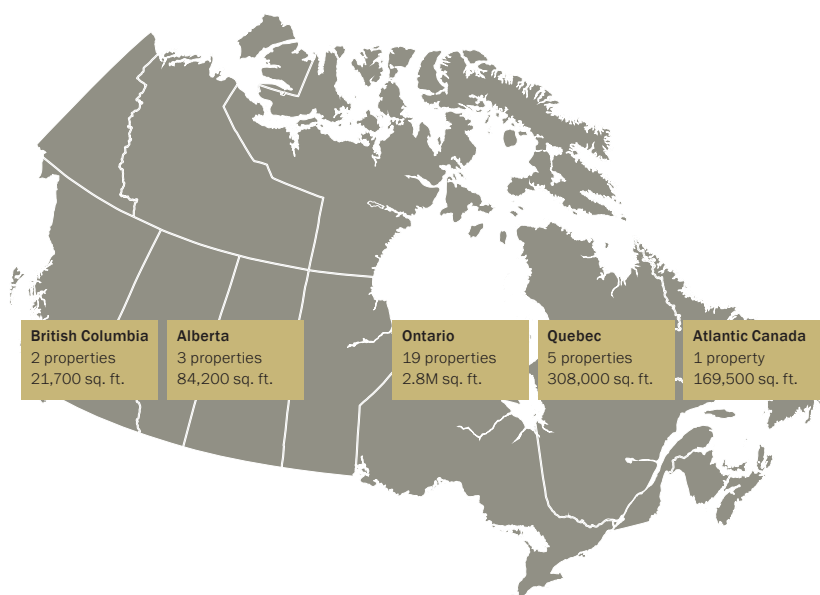
Summit II REIT At-A-Glance

Strong Industry Fundamentals: The Canadian light industrial real estate sector possesses strong fundamentals well-suited to generating stable, secure and growing cash flows:

- Low rent volatility
- Reduced operating costs
- Generic and highly marketable space
- Low capital, maintenance, leasehold improvement and tenant inducement costs

A Strong and Growing Portfolio

30 PROPERTIES
3.3 MILLION SQUARE FEET GLA



A Proven Three-Part Growth Strategy

1

ORGANIC GROWTH:

- Capitalize on strong industry fundamentals
- Industry-leading operating company
- Increasing occupancies and average rents
- Capture economies of scale as portfolio grows

2

EXTERNAL GROWTH:

- Acquire high quality light industrial properties
- Price below replacement cost
- Modern, well-maintained, single or multi-tenant
- Near term focus on strong and growing GTA region

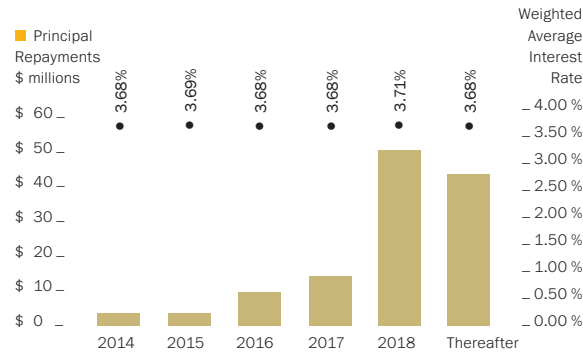
3

DEVELOPMENT PARTNERSHIPS:

- Establish partnerships with experienced property developers
- Acquire and re-develop underperforming properties
- Vend properties into REIT when stabilized
- Prudent investments

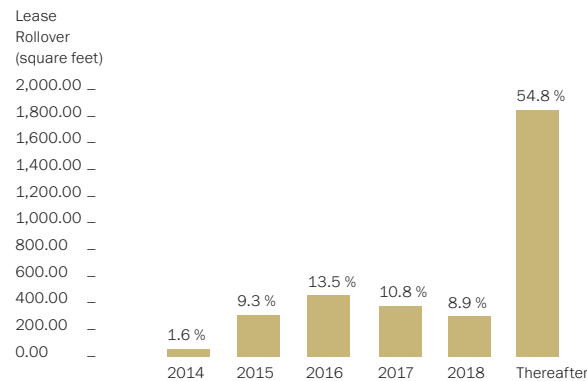
A Well Balanced Mortgage Portfolio

WE SIGNIFICANTLY EXPANDED AND STRENGTHENED OUR PROPERTY PORTFOLIO IN 2013 WITH THE ACQUISITION OF TWENTY-TWO WELL-LOCATED PROPERTIES













A Well Balanced Lease Portfolio

DURING THE YEAR WE MADE SIGNIFICANT PROGRESS IN LEASING THE APPROXIMATELY 287,000 SQUARE FEET OF HEAD LEASE SPACE WE ACQUIRED WHEN WE TOOK OVER MANAGEMENT OF THE REIT IN SEPTEMBER 2012








Top-Ten Tenants

TENANT	LOCATION	GLA	% OF TOTAL BASE RENT	
Van-Rob Inc.	Aurora ON	322,187	10.1%	
SMART Technologies*	Ottawa ON	193,711	7.3%	
McKesson Canada	Moncton NB	169,474	6.9%	
Canplas Industries	Barrie ON	216,460	5.5%	
Giant Tiger Stores	Brockville ON	68,093	4.9%	
Integrated Merchandising	Brampton ON	196,496	4.4%	
Converter Core	Brampton ON	163,200	4.3%	
Renin Corp	Brampton ON	148,832	4.2%	
Associated Brands	Etobicoke ON	142,386	3.6%	
Faurecia Emissions Control	Brampton ON	121,138	3.0%	
Total		1,741,977	54.3%	

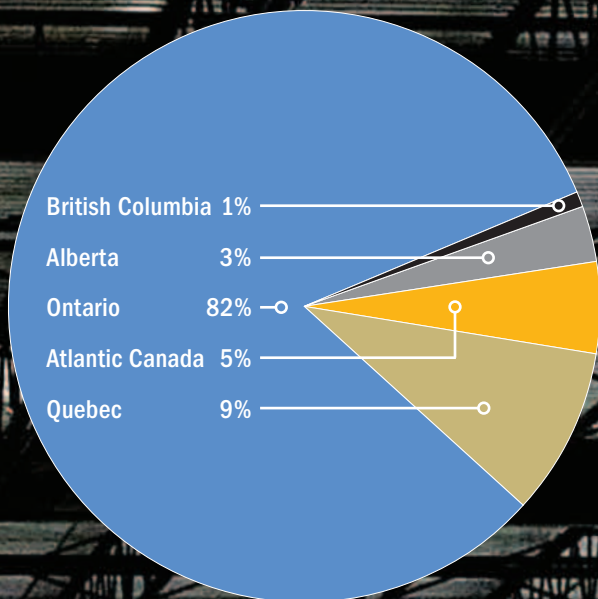
* Majority of GLA released to Mobilshred effective Jan 1, 2014 and Lockheed Martin effective Jan 1, 2015

Summit II REIT

Portfolio by Property

PROVINCE/ ADDRESS	CITY	YEAR BUILT/ RENOVATED	SINGLE VERSUS MULTI-TENANT	NUMBER OF TENANTS	GLA IN SQ. FEET	% OCCUPANCY
 BRITISH COLUMBIA (1%)						
6708, 87A Avenue	Fort Saint John	2006	Single	1	13,500	100.0%
2500 Cranbrook Street	Cranbrook	1970	Single	1	8,200	100.0%
 ALBERTA (3%)						
3703 98th Street	Edmonton	1978	Single	1	45,752	100.0%
5880 56th Ave	Edmonton	1997 / 2004	Single	1	30,411	100.0%
6882 & 6884, 52nd Avenue	Red Deer	1970	Single	1	8,000	100.0%
 ONTARIO (82%)						
501 Palladium Drive	Ottawa	2007	Multi	2	258,371	100.0%
134 Bethridge Road	Etobicoke	1965 / 2005	Single	1	142,386	100.0%
710 Neal Drive	Peterborough	1973 / Ongoing	Single	1	101,601	100.0%
200 Iber Road	Ottawa	2007	Multi	4	75,743	100.0%
240 Laurier Boulevard	Brockville	2005 / 2010	Single	1	68,093	100.0%
155-161 Orenda Road ⁽¹⁾	Brampton	1970 / 1996	Multi	3	319,077	100.0%
8705 Torbram Road ⁽¹⁾	Brampton	1980 / 2003	Multi	3	295,957	100.0%
6 Shaftsbury Lane	Brampton	1975	Single	1	125,871	100.0%
40 Summerlea Road	Brampton	1987	Single	1	121,138	100.0%
296-300 Walker Drive	Brampton	1976	Multi	2	102,972	100.0%
292-294 Walker Drive ⁽¹⁾	Brampton	1987	Multi	6	74,583	100.0%
165 Orenda Road	Brampton	2003	Single	1	57,055	100.0%
1075 Clark Boulevard	Brampton	1974	Single	1	35,842	100.0%
200 Vandorf Sideroad	Aurora	1985	Single	1	322,187	100.0%
125 Nashdene Road	Scarborough	1992	Multi	2	163,402	100.0%
40 Dynamic Drive	Scarborough	1988	Multi	3	86,681	75.3%
50 Dynamic Drive	Scarborough	1986	Single	1	45,003	100.0%
110 Walker Drive	Brampton	1981 / 1987	Single	1	148,832	100.0%
500 Veterans Drive	Barrie	2004	Single	1	216,460	100.0%
 ATLANTIC CANADA (5%)						
290 Frenette	Moncton, NB	2012	Single	1	169,474	100.0%
 QUÉBEC (9%)						
175 Bellerose Boulevard W	Laval	2007	Single	1	81,087	100.0%
2580 Dollard Avenue	Lasalle	1973	Multi	4	89,000	100.0%
2695 Dollard Avenue	Lasalle	1954 / 1980	Multi	1	62,279	75.5%
300 Labrosse Avenue	Pointe-Claire	1974	Single	1	55,333	100.0%
7290 Frederick-Banting Street	St. Laurent	2001	Single	1	20,859	100.0%
Total Portfolio				50	3,345,149	98.9%

(1) Expected occupancy over the course of the period with vendor leases in place.



Our near-term focus is to build on our substantial portfolio in the Greater Toronto Area where recent research indicated that it is experiencing the lowest availability and vacancy rate in the country at 4.6% and 2.6%, respectively

Proven, Experienced Management Team

Summit II's management team has the proven ability to build value for Unitholders over the long term. We have decades of industry experience, as well as relationships, to achieve our goals. We are also fully aligned with all REIT Unitholders through our substantial ownership interests. We continue to take the majority of our fees in units, or use these fees to purchase units in our equity offerings. We have also used our own funds to buy units in our offerings, as well as on the market. Currently, we have a significant ownership interest in the REIT and will continue to maintain and grow this interest going forward.



Paul Dykeman

CHIEF EXECUTIVE
OFFICER

*Sigma Asset
Management
Limited*

- 24 years experience in the commercial real estate industry
- Previously the CFO of Summit REIT, the largest industrial pure-play REIT in Canada, and the CEO of ING Real Estate Canada



Lou Maroun

CHAIRMAN
*Sigma Asset
Management
Limited*

- 32 years experience in the commercial real estate industry
- Previously the CEO of Summit REIT, the largest industrial pure-play REIT in Canada, and the Executive Chairman of ING Real Estate Canada



Ross Drake

CHIEF FINANCIAL
OFFICER

*Sigma Asset
Management
Limited*

- 22 years experience in the commercial real estate industry
- Previously the Senior Vice President of Research & Analysis at ING Real Estate Canada, and is a Chartered Accountant



Kimberley G. Hill

VICE PRESIDENT,
ASSET MANAGEMENT

*Sigma Asset
Management
Limited*

- 23 years experience in the commercial real estate industry
- Previously the Senior Vice President of Asset Management at ING Real Estate Canada



Jon Robbins

VICE PRESIDENT,
INVESTMENTS

*Sigma Asset
Management
Limited*

- 23 years experience in the commercial real estate industry
- Previously the Vice President of Investments at Summit REIT



With strong industry fundamentals, best-in-class properties, and a proven management team with decades of experience, we are well-positioned to deliver increasing Unitholder value

Summit Industrial Income REIT Unitholder Information

Corporate Address

294 Walker Drive, Unit 1
Brampton, Ontario L6T 4Z2

Stock Exchange Listing

Trust Units are traded on the Toronto
Stock Exchange under the symbol:
SMU.UN

Units Outstanding

Dec 31: 18,157,199

Cash Distribution Info

\$0.0408 per month;
declared in 2013
\$0.408 (10 months);
paid in 2013 \$0.3672
(December paid in January 2014)

Investor Relations Contact

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Halifax, Nova Scotia B3J 3N4

Auditor

Deloitte LLP

Legal Council

McCarthy Tétrault LLP

Transfer Agent

Computershare Trust Company
of Canada

Annual General Meeting

Wednesday May 7, 2014 at 10:00am
McCarthy Tétrault LLP
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Toronto, Ontario M5K 1E6

**Corporate Offices**

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