*SUMMIT INDUSTRIAL INCOME REIT*

*(FORMERLY PROVENTURE INCOME FUND)*

# Management's Discussion & Analysis

*For the period ended September 30, 2012*

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## FORWARD-LOOKING INFORMATION ADVISORY

Certain statements in this MD&A are “forward-looking statements” within the meaning of applicable securities laws. These statements reflect management’s expectations regarding Summit II’s future growth, results of operations, performance and business prospects and opportunities including expectations for the current financial year, and include, but are not limited to, statements with respect to management’s beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Statements that contain the words such as “could”, “should”, “would”, “can”, “anticipate”, “expect”, “does not expect”, “believe”, “plan”, budget”, “schedule”, “estimate”, “intend”, “project”, “will”, “may”, “might”, “continue” and similar expressions or statements relating to matters that are not historical factors constitute forward-looking statements. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management.

These statements are not guarantees of future events or performance and, by their nature, are based on Summit II’s current estimates and assumptions, which are subject to significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with real property ownership, debt financing, interest and financing, capital requirements, credit risk, general uninsured losses, developments, future property acquisitions, competition for real property investments, environmental matters, land leases, potential conflicts of interest, governmental regulations, the relative illiquidity of real property, taxation and reliance on key personnel. These risks, and others, are more fully discussed under the “Risk Factors” section of this MD&A. Material factors and assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: relatively low and stable interest costs; access to equity and debt capital markets to fund, at acceptable costs, the future growth of Summit II and to enable it to refinance debts as they mature; Summit II’s ability to maintain occupancy and to lease or re-lease space at current or anticipated rents; and the availability of purchase opportunities for growth in Canada. Summit II has attempted to identify important factors that could cause actual results, performance or achievements to be other than as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. These factors are not intended to represent a complete list of the factors that could affect Summit II. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, Summit II cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement and readers should not place undue reliance on such forward-looking statements. In addition, certain statements included in this MD&A may be considered “financial outlook” for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than in this MD&A. These forward-looking statements are made as at the date of this MD&A and Summit II assumes no obligation to update or revise them to reflect new events or circumstances unless otherwise required to do so by applicable securities legislation.

## SECTION 1 – OVERVIEW VISION AND STRATEGY

### OVERVIEW

Summit Industrial Income REIT ("Summit II", the "Trust" or the "REIT") formerly known as Proventure Income Fund ("Proventure"), is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to the terms of its amended and restated Declaration of Trust dated November 9, 2012 (the "Declaration of Trust"). Summit II's units are publicly traded on the TSX Venture Exchange under the symbol SMU.UN.

Summit II is focused primarily on the light industrial segment of the Canadian real estate industry. As at September 30, 2012, Summit II's property portfolio totalled approximately 507,997 square feet of gross leasable area ("GLA") with a net book value of approximately $58 million.

The information in this MD&A is based on information available to Summit as of November 15, 2012.

### NON-IFRS FINANCIAL MEASURES

Readers are cautioned that certain terms used in this MD&A such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AAFO"), Net Operating Income ("NOI") and any related per unit amounts used by management to measure, compare and explain the operating results and financial performance of the Trust do not have any standardized meaning prescribed under IFRS and, therefore, should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities.

### SIGNIFICANT ACCOUNTING POLICIES

Summit II's MD&A is based on its consolidated financial statements which have been prepared in accordance with IFRS. Summit II's significant accounting policies are described in Note 2 to its Consolidated Financial Statements for the year ended December 31, 2011 and 2012 and in Note 4 to its Unaudited Condensed Consolidated Financial Statements for the nine month periods ended September 30, 2012 and 2011.

The preparation of financial statements requires Summit II to make estimates and judgments that affect the reported results. For a detailed discussion of the critical estimates refer to Note 2 to its Consolidated Financial Statements for the year ended December 31, 2011 and 2012 and to Note 2 to its Unaudited Condensed Consolidated Financial Statements for the nine month periods ended September 30, 2012 and 2011.

## SUMMIT II'S BUSINESS, VISION AND STRATEGY

### *SUMMIT'S II BUSINESS*

**Primary Investment**

Light Industrial Segment

Summit II is focused on the light industrial sector of the Canadian real estate industry. Light industrial properties are generally one-story properties located in or near major cities. The properties house such activities as warehousing and storage, light assembly and shipping, call centers and technical support, professional services and a number of other similar uses. There are no significant heavy industrial activities conducted in the properties owned by Summit II.

Summit II has selected this focus due to the long-term strength and stability of light industrial real estate. Since 1995, light industrial properties have generated, on average, higher income returns than any other segment within the Canadian real estate industry[1]. These solid returns are attributable to a number of characteristics of light industrial real estate including lower market rent volatility, lower operating costs and more generic-use space that is highly marketable. In addition, the scale and diversity of the tenant base occupying light industrial properties is broad and generally tracks the overall economy, reducing risk and providing predictable and consistent cash flow. Finally, capital expenditure and maintenance requirements, leasehold improvement and tenant inducement costs are lower with light industrial properties compared to other types of real estate.

[1] Russell Canada and ICREIM/IPD Canada

### *SUMMIT II'S VISION AND STRATEGY*

Summit II's mission is to provide "best-in-class" services to its tenants while delivering solid, stable, and secure returns to its unitholders. Over the long term, Summit II is dedicated to maximizing FFO through effective property management, realizing on efficiencies and synergies from critical mass, accretive acquisitions, innovative financings and selective development opportunities.

To achieve these goals, Summit II has developed the following key objectives:

1. *To produce superior, dependable returns over the long term for its unitholders.*

   To meet this objective Summit II plans to ensure that it generates accretive growth while purchasing properties at values that are at or below replacement cost. Summit II also intends to maximize, over time, available development and expansion opportunities on its existing properties and, through a mortgage-backed mezzanine financing program and undertake development projects through third parties. In the pursuit of generating increasing FFO, Summit II plans to maximize operating synergies and to increase economies of scale. Summit II's goal is to achieve growth in FFO over the long term.

2. *To be the leading industrial landlord in its chosen markets.*

   By building critical mass in its chosen market, Summit II plans increasingly to capture economies of scale and operating synergies to grow its FFO. Further, Summit II will continue to create diversity in its tenant base and industrial inventory to accommodate changing tenant needs. In addition, Summit II is consistently presented with acquisition opportunities by sellers of industrial real estate.

   To meet its growth objective, Summit II will continue to acquire light industrial properties, to expand GLA in its owned properties based on tenant demand and to grow through direct and third party development projects. Management anticipates that through its strong relationships with its lenders and the ability it has demonstrated to be able to access the capital markets, that it will generate sufficient capital to meet its growth targets over the long term.

3. *To be the top manager of real estate in Canada.*

   Summit II plans to accomplish its vision to be a "best-in-class" service provider to tenants through innovative programs that focus on tenant retention, real estate leasing broker loyalty, standardization of operations, operating efficiency, and proactive employee management.

   By strengthening its reputation as a leading service provider and continuing to meet the needs of its tenants, Summit II will enhance portfolio occupancy and tenant retention over the long term. Retaining a tenant is much more efficient and much less expensive than attracting a new tenant to a vacant space. High occupancies and strong tenant retention ratios assist in maximizing cash flow from Summit II's income properties.

## FINANCIAL HIGHLIGHTS

The following is a summary of key financial information for the periods indicated (see SECTION 2 – KEY PERFORMANCE INDICATORS for a description of the key terms): *

| (in Thousands of Canadian dollars) | As at and for the three months ended | | As at and for the nine months ended | |
|---|---|---|---|---|
| | **September 30, 2012** | September 30, 2011 | **September 30, 2012** | September 30, 2011 |
| Revenue from income properties | **306** | 856 | **827** | 2,530 |
| Net income and comprehensive income | **768** | 11 | **863** | 1,550 |
| Net income and comprehensive income per unit - Basic | **$ 0.068** | $ 0.001 | **$ 0.096** | $ 0.200 |
| Net income and comprehensive income per unit - Diluted | **$ 0.068** | $ 0.001 | **$ 0.096** | $ 0.157 |
| FFO | **198** | 11 | **311** | 1,550 |
| FFO per unit - Basic | **$ 0.018** | $ 0.001 | **$ 0.035** | $ 0.200 |
| AFFO | **198** | 11 | **311** | 1,550 |
| AFFO per unit | **$ 0.018** | $ 0.001 | **$ 0.035** | $ 0.200 |
| Distributions | **-** | - | **13,346** | 383 |
| Distributions per unit | **-** | - | **$ 1.70** | $ 0.05 |

| As at | **September 30, 2012** | DECEMBER 31, 2011 | September 30, 2011 |
|---|---|---|---|
| Total assets | **61,949** | 38,477 | 56,026 |
| Total debt | **25,217** | 19,937 | 25,460 |
| Total equity | **33,191** | 14,921 | 26,324 |
| Weighted average units outstanding | **9,004** | 7,769 | 7,761 |
| Debt to fair value including preferred units payable | **40.7%** | 51.8% | 45.4% |
| Interest coverage ratio | **3.37 *** | 1.80 | 2.78 |
| Debt service coverage ratio | **2.64 *** | 1.35 | 1.49 |
| Weighted average interest rate | **4.0%** | 5.2% | 5.2% |
| Portfolio occupancy | **95%** | 100% | 100% |

* The interest and debt service coverage ratios at September 30, 2012 are a forward looking calculation

For a reconciliation for non-IFRS measures, see SECTION 2 - KEY PERFORMANCE INDICATORS.

Revenue from income producing properties is down in comparison to the same period in the prior year due to the fact that Summit II sold 14 properties with GLA of 314,727 square feet on January 5, 2012 (the "Dispositions"). Three new light industrial properties, which were acquired on September 27, 2012 (the "Acquisitions") had minimal impact on the results for the period covered by this MD&A.

The net income for the Trust for the nine-month period ended September 30, 2012 is $0.863 million compared to $1.55 million for the same period in the prior year. The lower net income is due to the Dispositions and the fact that the Acquisitions had minimal impact on the results for the period covered by this MD&A.

The reduction in the FFO per unit for the nine-month period ended September 30, 2012 is due to the reduction in the size of the portfolio during the period as 14 properties with a total GLA of 314,727 were sold at the start of the first quarter.

The cash distributions during the nine-month period were $13.346 million compared to $383,000 in the prior year. On January 23, 2012 the Trust paid a special distribution to its unitholders. The special distribution was paid for from the proceeds of the Dispositions. The Trust did not pay any further distributions during the nine-month period ended September 30, 2012. Currently management's view is that the Trust intends to start distributions when the Trust has reached a minimum of $200 million in income producing properties or no later than 2013.

Summit II's total assets increased from $38.5 million to $61.9 million during the nine month period ended September 30, 2012. The sale price of the Dispositions was $26.3 million. The Acquisitions totaled 402,207 square feet of GLA at a weighted average cap rate of 7.9%.

The equity in the Trust increased from $14.9 million to $33.19 million as a result of two private offerings completed in September. On September 25, 2012 Summit II completed a private offering of 8,200,000 units at a price of $0.32 per unit for proceeds of $2.624 million. On September 27, 2012 Summit II completed a second private offering of 66,666,667 units at a price of $0.45 per unit for gross proceeds of $30 million. The two offerings raised a total $32.624 million and incurred issue costs of $1.87 million for net proceeds of $30.75 million.

On September 27, 2012 the Trust closed a debt financing of $28.8 million. The debt financing is secured by three properties and an assignment of Summit II's leases and rents. Subsequent to September 30, 2012 a fourth property was added to the facility, which increased the credit limit to $32 million. As of September 30, 2012 $17 million was drawn on the loan.

## SECTION 2 - KEY PERFORMANCE INDICATORS

Summit II measures the long-term success of its strategies through a number of key financial and operating performance indicators as described below:

### FINANCIAL INDICATORS

### FUNDS FROM OPERATIONS

Management has determined that FFO is a useful measure of operating performance as it focuses on cash flow from operating activities. FFO is net income (computed in accordance with IFRS), extraordinary items, amortization expense, future income taxes and after adjustments for equity-accounted for entities and non-controlling interests. Management will strive to increase FFO over the long term (see SECTION 1 – OVERVIEW VISION AND STRATEGY for a discussion of how management plans to increase FFO over the long term).

The Trust's FFO and FFO per unit are calculated as follows:

| (in Thousands of Canadian dollars) | As at and for the three months ended | | As at and for the nine months ended | |
|---|---|---|---|---|
| | **September 30, 2012** | September 30, 2011 | **September 30, 2012** | September 30, 2011 |
| Net Income | $ 768 | $ 11 | $ 863 | $ 1,550 |
| *adjustments* | | | | |
| Fair value adjustment to investment properties | (735) | - | (735) | - |
| Gain on sale of properties realized | 165 | - | 183 | - |
| **FFO** | **$ 198** | **$ 11** | **$ 311** | **$ 1,550** |
| FFO Per unit | $ 0.018 | $ 0.001 | $ 0.035 | $ 0.200 |
| Weighted average number of units outstanding | 11,284 | 7,829 | 9,004 | 7,761 |

### ADJUSTED FUNDS FROM OPERATIONS

AFFO is defined as funds from operations net of actual leasing commissions, tenant improvements, capital expenditures that maintain the current rental operations, and straight-line rent. Management considers leasing activities and capital expenditures to be fundamental to the operating activities of the REIT in order to maintain the current level of rental operations, and is not a discretionary investment. Management has excluded from the calculation of AFFO those capital expenditures and leasing costs that relate to the generation of a new rental stream. Management also considers AFFO to be an effective measure of the cash generated from operations and is a measure of the REIT's ability to pay distributions.

### NET OPERATING INCOME

NOI is a generally accepted proxy for operating cash flow and represents earnings before interest expense, income tax expense, amortization expense, plus losses / less any gains on disposition of property, and excluding non-recurring items, such as asset impairment or unrealized gains / losses that may occur under IFRS.

**CASH DISTRIBUTIONS PER UNIT**

Summit II is focused on increasing distributions to its unitholders over the long term. Management intends to accomplish this goal by increasing the net cash flow generated from its real estate assets over the long term.

**ADJUSTED FUNDS FROM OPERATIONS PAYOUT RATIO**

To ensure it retains sufficient cash to meet its capital improvement and leasing objectives, Summit II will strive to maintain its AFFO payout ratio (cash distributions per unit divided by FFO per unit) in the range of between 90% and 95%.

**DEBT LEVERAGE RATIO**

A conservative leverage ratio mitigates unitholders risk. Summit II measures its debt leverage ratio in accordance with its Declaration of Trust. Leverage is calculated as the sum of mortgages payable, convertible debentures, preferred units payable, unsecured debentures and bank loans payable divided by the book value of total assets. The maximum permitted debt leverage ratio under the Declaration of Trust is 65%. While expanding its portfolio, Summit II intends to maintain its leverage ratio in the mid-50% range over the long term.

**OPERATING INDICATORS**

**TENANT RETENTION**

Summit II places a very high value on tenant retention, as the cost to retain a tenant is typically lower than the cost to attract a new one. When a tenant is retained, lost rent due to unoccupied space is eliminated and leasing commissions and tenant inducements are typically lower than the cost of putting new tenants in place. Over the long term, Summit II will continue to aim at a target of 75% tenant retention level.

**OCCUPANCY**

Consistently high occupancies also generate greater cash flow over the long term. Through its proactive property management and leasing activities, management anticipates maintaining occupancy at levels higher than the average occupancy in each of the markets in which it operates. Economic "full occupancy" in a portfolio is realistically at a level less than 100%.

**AVERAGE RENTS**

Increasing average cash rents contributes to higher FFO. Annual contractual increases in rent are beneficial to tenants in managing their costs, as significant rental increases at maturity are avoided and replaced with a predictable expenditure pattern. Summit II plans to negotiate annual increases in rent in the majority of new lease transactions and renewals. The collection of rents is enhanced by Summit II's preauthorized payment program, which provides administrative efficiencies to both Summit II and its tenants, as well as providing more consistent cash flow and reducing exposure to delinquent accounts.

## LEASE PORTFOLIO MANAGEMENT

As noted above, a high tenant retention ratio is strongly valued at Summit II. A properly balanced lease maturity schedule facilitates maintaining higher occupancies and spreads leasing costs more predictably over future years. Summit II will endeavor to have no more than 15% of its leases maturing in any one year.

## CAPITAL EXPENDITURES

Through its focused capital expenditure program, Summit II anticipates maintaining its properties so they remain functional and competitive within their respective geographic markets. Based on its current capital program, Summit II plans to spend $0.15 to $0.20 per square foot per annum on non-recoverable capital expenditures.

## CAPABILITY TO DELIVER RESULTS

Summit II is confident that it has the management team, asset base, access to investment opportunities and access to capital to enable it to achieve its objectives. The achievement of Summit II's objectives is partially dependent on successful mitigation of business risks. Summit II believes it has identified and mitigated such risks to the extent practical and is committed to identifying and implementing the actions required for achieving its strategy.

Management's capabilities and the business risks that must be managed are discussed in Summit II's Annual Information Form dated November 15, 2012.

Certain statements above may be forward-looking and readers are cautioned that such statements are subject to certain risks and uncertainties that could cause actual results, performance or achievements of Summit II, or industry results, expressed or implied by such forward-looking statements to differ materially from those contained in such forward-looking statements (see FORWARD-LOOKING INFORMATION ADVISORY).

## SECTION 3 - FINANCIAL RESULTS

| (in Thousands of Canadian dollars)<br>For the nine months ended September 30 | | **2012** | | 2011 | % Change |
|---|---|---|---|---|---|
| Revenue from income properties | | **827** | | 2,530 | -67.3% |
| Property operating expenses | | **284** | | 525 | -45.9% |
| Net Operating income | | **543** | | 2,005 | -72.9% |
| Interest expense | | **346** | | 873 | -60.4% |
| Realized Gain on real estate transactions | | **183** | | - | |
| Fair value adjustment to investment properties | | **735** | | - | |
| Net income | | **863** | | 1,550 | -44.3% |
| Basic net income per unit | **$** | **0.096** | $ | 0.200 | -51.9% |
| Fully diluted Basic net income per unit | **$** | **0.096** | $ | 0.157 | -38.9% |
| Funds from operation per unit | **$** | **0.035** | $ | 0.200 | -82.7% |
| Leverage | | **40.7%** | | 51.8% | -21.4% |

Revenue from income producing properties, property operating expenses and NOI for the nine-month period ended September 30, 2012 are down in comparison to the same period in the prior year due to the Dispositions and the fact that the Acquisitions had minimal impact on the results for the period covered by this MD&A.

Interest expense for the nine-month period ended September 30, 2012 decreased to $346 from $873 over the same period last year. The proceeds from the sale of the properties in January were partially used to repay approximately $13 million of borrowings from Farm Credit Canada.

The net income for the Trust for the nine-month period ended September 30, 2012 is $0.863 million compared to $1.55 million for the same period in the prior year. The change in net income is due to the change in the size of the portfolio mentioned above.

### FUNDS FROM OPERATIONS, ADJUSTED FUNDS FROM OPERATIONS AND CASH DISTRIBUTIONS

The reduction in FFO per unit for the nine-month period ended September 30, 2012 is due to the Dispositions which occured at the start of the first quarter. The Trust did not have any leasing costs or capital expenditures for the nine-month period ended September 30, 2012 and as a result the AFFO per unit is the same as the FFO per unit.

The cash distributions during the nine-month period were $13.346 million compared to $383,000 in the prior year. On January 23, 2012 the Trust paid a special distribution to its unitholders. The special distribution was paid from the proceeds of the Dispositions. The Trust did not pay any further distributions during the nine-month period ended September 30, 2012. Currently management's view is that the Trust intends to start distributions when the Trust has reached a minimum of $200 million in income producing properties or no later than in 2013.

## Summary of Quarterly Results

The summary of quarterly results for the past eight quarters is as follows:

| (in thousands except per unit amounts) | September 30, 2012 | June 30, 2012* | March 30, 2012* | December 31, 2011* |
|---|---|---|---|---|
| Revenue from income properties | $ 306 | $ 263 | $ 258 | $ 858 |
| Net income and comprehensive income | $ 768 | $ 50 | $ 1,187 | $ (156) |
| Earnings (loss) per unit - Basic | $ 0.068 | $ 0.006 | $ 0.151 | $ (0.020) |
| Weighted average units outstanding | | | | |
| Basic | 11,284 | 7,851 | 7,851 | 7,829 |
| Diluted | 11,284 | 7,851 | 7,851 | 7,929 |

| (in thousands except per unit amounts) | September 30, 2011* | June 30, 2011* | March 30, 2011* | December 31, 2010* |
|---|---|---|---|---|
| Revenue from income properties | $ 856 | $ 837 | $ 837 | $ 839 |
| Net income | $ 11 | $ 911 | $ 627 | $ (1,326) |
| Other comprehensive income | $ - | $ - | $ - | $ (945) |
| Comprehensive income | $ 11 | $ 911 | $ 627 | $ (2,271) |
| Earnings (loss) per unit - Basic | $ 0.001 | $ 0.117 | $ 0.082 | $ (0.174) |
| Weighted average units outstanding | | | | |
| Basic | 7,817 | 7,780 | 7,647 | 7,638 |
| Diluted | 9,918 | 9,881 | 9,750 | 9,743 |

*Restated for change in accounting policy. Refer to Note 2 to the Unaudited Condensed Consolidated Financial Statements for the nine month periods ended September 30, 2012 and 2011.

Revenues from income producing properties remained consistent over the quarters prior to the Dispositions.

## Liquidity

| (in thousands of Canadian dollars) | Total | Less than 1 year | 2-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Loans and borrowings | 25,608 | 1,654 | 17,726 | 760 | 5,468 |
| Trade and accrued liabilities | 1,651 | 1,651 | - | - | - |
| Preferred units payable | 1,125 | 1,125 | - | - | - |
| Total | 28,384 | 4,430 | 17,726 | 760 | 5,468 |

## TAXATION

### Taxation of Summit II

Summit II is generally subject to tax in Canada under the Income Tax Act (The "Tax Act") in respect to its taxable income each year, except to the extent such taxable income is paid or deemed to be payable to unitholders and deducted by Summit II for tax purposes.

Pursuant to Summit II's Declaration of Trust, the Trustees intend to distribute or designate all taxable income directly earned by Summit II to unitholders of the Trust such that Summit II will not be subject to income tax under Part I of the Tax Act.

## OCCUPANCY

Summit II works diligently to maximize occupancy throughout its portfolio in accordance with local market conditions. The following chart illustrates the occupancy rates of Summit II's properties:

| | **September 30, 2012** | |
|---|---|---|
| | **GLA** | **Occupancy %** |
| Investment properties | | |
| Ontario | 402,207 | 100% |
| Saskatchewan | 30,000 | 100% |
| British Columbia | 21,500 | 100% |
| | **453,707** | **100%** |
| Investment properties held for sale | | |
| Alberta | 8,000 | 100% |
| Saskatchewan | 24,290 | 0% |
| Manitoba | 22,000 | 100% |
| | 54,290 | 55% |
| Total | **507,997** | **95%** |

## LEASE ROLLOVER

The following table represents the expected lease rollover for the next five years for the properties identified as investment properties above:

| | GLA | Percentage |
|---|---|---|
| 2012 | - | 0.0% |
| 2013 | 23,831 | 5.3% |
| 2014 | - | 0.0% |
| 2015 | 8,856 | 2.0% |
| 2016 | 13,500 | 3.0% |
| 2017 | 258,371 | 56.9% |

The lease rollover profile will continue to change and normalize as the portfolio properties owned by Summit II expands.

## TRANSACTIONS

## ACQUISITIONS

For the nine months ended September 30, 2012, Summit II purchased three light industrial properties totalling 402,207 square feet of GLA at a weighted average cap rate of 7.9%. Details of these acquisitions are shown in the following table:

| **ACQUISITIONS** | | | | | | |
|---|---|---|---|---|---|---|
| **Property** | **City** | **Province** | **Closing date** | **GLA** | | **Sale Price** |
| 200 Iber Road | Ottawa | Ontario | September 27, 2012 | 75,743 | $ | 7,267,983 |
| 240 Laurier Blvd. | Brockville | Ontario | September 27, 2012 | 68,093 | $ | 14,034,726 |
| 501 Paladium Drive | Ottawa | Ontario | September 27, 2012 | 258,371 | $ | 23,558,291 |
| | | | | 402,207 | $ | 44,861,000 |
| **Acquisition after September 30** | | | | | | |
| 710 Neal Drive | Peterborough | Ontario | October 5, 2012 | 101,601 | $ | 5,250,000 |

| **DISPOSITIONS** | | | | | | |
|---|---|---|---|---|---|---|
| **Property** | **City** | **Province** | **Closing date** | **GLA** | | **Sale Price** |
| 14 dealerships sold (1) | Various | Alberta/Sask | January 5, 2012 | 314,727 | $ | 25,900,000 |
| | | | | 314,727 | $ | 25,900,000 |

(1) 11 Alberta locations and 3 locations in Saskatchewan sold to Cervus Equipment Corp.

## DEBT LEVERAGE RATIO

The maximum debt leverage permitted by Summit II's Declaration of Trust is 65%. However, it is Summit II's goal to operate in the mid-50% range over the long term. At September 30, 2012, Summit II's debt leverage ratio was down from December 31, 2011 due to the fact that the Trust issued units and raised a total of $30.8 million. The twelve-month forward looking debt service coverage ratio for the Trust is 2.64x. If Summit II were to increase its borrowing to the 65% maximum allowed under its Declaration of Trust in pursuit of a strategic opportunity, it would have the capacity to purchase approximately $43 million in new properties as at September 30, 2012.

| | | **As at September 30, 2012** | **As at December 31, 2011** |
|---|---|---|---|
| *(In thousands of Canadian dollars)* | | | |
| Total Assets | | 61,949 | 38,293 |
| Debt | | | |
| | Mortgages payable | 7,013 | 18,812 |
| | Preferred shares | 1,125 | 1,125 |
| | Bank loans | 17,079 | - |
| Total debt | | 25,217 | 19,937 |
| Leverage ratio | | **40.7%** | **52.1%** |

## CONTRACTUAL OBLIGATIONS

Summit II's most significant contractual obligations relate to long-term debt including mortgages payable and bank loans as described below.

## LONG TERM DEBT

The following table presents the future principal repayments and maturities on long-term debt and respective weighted average interest rates:

*(In thousands of Canadian dollars)*

| **Year** | **Principal Repayment** | **% of Total** | **Weighted Average Interest Rate** |
|---|---|---|---|
| 2012 | 84 | 1.2% | 4% |
| 2013 | 345 | 4.9% | 4% |
| 2014 | 356 | 5.1% | 4% |
| 2015 | 372 | 5.3% | 4% |
| 2016 | 388 | 5.5% | 4% |
| Thereafter | 5,468 | 78.0% | 4% |

## CASH FLOW

The following table represents the changes in cash flow for the three months ended September 30, 2012 compared to September 30, 2011.

| | 2012 | 2011 |
|---|---|---|
| Cash flow from operating activities | $ 485 | $ 1,813 |
| Cash flow from (to) financing activities | $ 34,452 | $ (802) |
| Cash flow (to) investing activities | $ (32,578) | $ (1,481) |

The cash flow from operating activities for the nine-month period ended September 30, 2012 is $485,000 compared to $1.8 million for the same period in the prior year. The reduction in cash flow from operations in comparison to the prior year is due to the fact that there was a smaller portfolio in 2012 compared to 2011.

The cash flow from financing activities was $34.45 million for the nine month period ended September 30, 2012 as a result of repayment of long term debt, equity raising activity, special distributions to unitholders, financing arranged for acquisitions, and equity raised from the two private offerings described in this MD&A.

On September 25, 2012 the Trust issued 8,200,000 trust units at a price of $0.32 per unit for proceeds of $2.624 million to individuals that are members of senior management of Founders Asset Management Corp. ("Founders") and their family members. On September 27, 2012 the Trust completed a second private placement of 66,666,667 units at a price of $0.45 per unit for gross proceeds of $30.1 million.

On September 27, 2012 the Trust closed a debt financing of $28.8 million (the "Debt Financing"). The Debt Financing is secured by three properties and an assignment of Summit II's leases and rents. Subsequent to September 30, 2012 a fourth property was added to the facility, which increased the credit limit to $32 million. As of September 30, 2012 $17 million was drawn on the loan. The proceeds from the equity raised and the funds from the credit facility were utilized to pay for the Acquisitions.

The cash distributions during the nine-month period were $13.346 million compared to $383,000 in the prior year. On January 23, 2012 the Trust paid a special distribution to its unitholders. The special distribution was paid for from the proceeds of the Dispositions.

For the nine-month period ended September 30, 2012 the Trust had proceeds from the sale of investments of $26.7 million which after repayment of long term debt produced net proceeds of $13.766 million. As mentioned above, on September 27, 2012 the Trust acquired three properties in Ontario for a gross purchase price of $46.3 million, and after September 30, 2012 Summit II acquired an additional property on Ontario for $5.25 million.

## RELATED PARTY TRANSACTIONS

Until September 25, 2012 the CEO of the Trust was Peter Lacey, who was the Executive Chairman of the Board of Directors of Cervus Equipment Corporation ("Cervus"). Peter Lacey was also the single largest equity holder of the Trust and Cervus. Until September 25, 2012 the Trust and Cervus shared a common board of directors / trustees, as applicable. Effective September 25, 2012, and in connection with the units issued on that date, the Chairman of Cervus is no longer the CEO of the Trust, he is no longer the controlling unitholder of the Trust, and the Trust and Cervus no longer share a common board of directors / trustees. In addition to transactions discussed elsewhere in these financial statements, the Trust had the following transactions with Cervus while they were still a related party which were recorded at fair exchange amount, which is the amount agreed to between the two parties:

| (In $ thousands) | Three month periods ended September 30 2012 | 2011 | Nine month periods ended September 30 2012 | 2011 |
|---|---|---|---|---|
| Income | | | | |
| Rental income | **$ 89** | $ 777 | **$ 267** | $ 2,302 |
| Guarantee fees | **–** | 21 | **14** | 62 |
| Expenses | | | | |
| Management fees for administration | **8** | 8 | **23** | 23 |
| Interest on advances | **12** | 22 | **35** | 66 |

As described in Note 6, the Trust sold land and buildings to Cervus and Cervus assumed certain mortgage liabilities related to those assets. The sales price was at fair value and aggregated $26.6 million, of which $11.5 million was an assumption of mortgage debt and the balance of $14.8 million, was in the form of cash in the amount of $13.3 million and $1.5 million was applied as a reduction in the loan between the Trust and Cervus. As at September 30, 2012, the balance of the loan between the Trust and Cervus is $1.5 million.

The Trust paid $2,500 per month to Cervus to carry out all administrative and management tasks related to the Trust's operations until September 25, 2012.

The Trust received a guarantee fee from Cervus equal to 3% per annum for the guaranteed amounts that the Trust has provided to John Deere. This guarantee is a result of guarantees provided to John Deere prior to the establishment of the Trust and for which John Deere released the Trust from the contractual obligation in February 2012.

### Management Agreement

Pursuant to the terms of the Management Agreement entered into with Founders on September 25, 2012, Founders (the "Manager") provides Summit II with the services necessary to manage its day-to-day operations. The Management Agreement has an initial term of ten years, subject to earlier termination in certain circumstances, and will be automatically renewed for successive five-year terms.

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 equal to 15% of Summit II's AFFO per unit, in excess of a $0.04 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; 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.

Under the terms of the Management Agreement, the Trust has incurred the following fees as of September 30, 2012:

| | **Three Months ended September 30** | | **Nine Months ended September 30** | |
|---|---|---|---|---|
| (in thousands of Canadian dollars) | **2012** | 2011 | **2012** | 2011 |
| Acquisition fees | **449** | - | **449** | - |
| Asset management fees | **-** | - | **-** | - |
| property management and leasing fees | **-** | - | **-** | - |
| | **449** | - | **449** | - |

## SECTION 4 - OUTLOOK

Certain statements below may be forward-looking and readers are cautioned that such statements are subject to certain risks and uncertainties that could cause actual results, performance or achievements of Summit II, or industry results, expressed or implied by such forward-looking statements to differ materially from those contained in such forward-looking statements.

### INVESTMENT MANAGEMENT

Management believes that values in the Canadian light industrial sector, which have risen over the last few quarters, will experience further modest increases in 2013. Light industrial real estate, particularly when packaged in large portfolios, continues to be in very high demand and attracts premium valuations. Institutional, public and private investors, recognizing good value in this sector in relation to global markets and alternative investments, were particularly active buyers in 2012. Their low cost of capital, coupled with an increasingly competitive investment climate, will continue to influence valuations for the remainder of 2012 and into 2013. Interest rates, which are expected to remain stable at historically low levels, will contribute to modest upward pressure on valuations in light of the very strong demand for this asset class.

Within the context of this highly competitive investment climate, Summit II will continue to expand its presence in the highly stable light industrial sector of the Canadian real estate industry on a selective basis to achieve its goal of becoming the leading industrial landlord in the markets in which it chooses to operate. To enhance the size and quality of its portfolio, Summit II will continue to seek out and evaluate acquisition opportunities in the light industrial sector which meet its strict criteria, with a particular focus on purchasing individual assets or small portfolios that complement Summit II's existing portfolio and which provide value enhancement opportunities. Summit II will carefully evaluate acquisition opportunities, and management remains confident it will be able to continue to expand the size of its portfolio through a program of selective and accretive acquisitions over the long term.

Summit II's goal in 2013 is to invest approximately $300 million in further expanding its portfolio through acquisitions and expansions. Furthermore, Summit II expects to expand direct access to potential acquisitions through mezzanine financing agreements with third-party developers, providing Summit II with rights to acquire these development projects upon completion, and by broadening its ties to the external development community.

Summit II's disposition efforts will continue in 2013, and will remain focused on its three remaining non-core assets. Summit II intends to use proceeds from dispositions to reduce debt and to reinvest accretively in further acquisitions of Canadian light industrial properties.

### OPERATING PERFORMANCE

Management believes the light industrial market will remain stable in 2013. Management expects national market occupancy and rental rates to be steady for the year as North American economies enter a period of modest but steady growth. Activities such as warehousing and storage, light assembly and shipping, professional services and a number of other similar uses carried out in Summit II's properties tend to grow in tandem with the broader economy. As a consequence, a period of stable growth in the broader economy points to stability in the industrial sector.

Summit II is also directing its focus on enhancing the cash flow and returns from its existing property portfolio. Summit II will strive to maintain its current high occupancy levels. Pivotal to Summit II's strategy is to provide tenants with "best-in-class" services to ensure their needs are met and to build Summit II's reputation as the leading service provider in the Canadian real estate industry.

**MANAGING DEBT**

The market consensus is that interest rates will remain stable or experience only very modest increases in 2013. Over the long term, Summit II expects to maintain its leverage in the mid-50% range. Conservative debt service coverage ratios are expected to be maintained during the year. Where appropriate, Summit II plans to utilize hedging instruments to reduce exposure to floating rate debt, and will refinance shorter term debt over the course of the year.

## SECTION 5 – RISKS AND UNCERTAINTIES

Income producing properties are inherently subject to certain risks and uncertainties due to their relative illiquidity and long term nature of the investment. Summit II's financial results are therefore, dependent on the performance of its properties and by various external factors that impact the real estate industry and geographic markets in which the REIT operates. Some of the external factors that the REIT is exposed to include fluctuations in interest and inflation rates; access to debt; fulfilling legal and regulatory requirements; and expansion or contraction in the economy as a whole.

Summit II's current business strategy is to focus on acquiring and managing a portfolio of light industrial commercial properties, in both primary and secondary markets throughout Canada, and that generate stable cash flows over the long term. Management believes that the quality of the REIT's current portfolio provides the leverage the REIT needs to expand the business in new markets and acquire high performing properties. Management believes this strategy will enable the REIT's operations to achieve highly sustainable cash flows.

The following is an examination of the key factors that influence Summit II's operations. A more detailed description of our risk factors is contained in the REIT's Annual Information Form dated November 15, 2012.

### Interest Rate Risk

The REIT is exposed to interest rate risk when funds are drawn under the revolving credit facility and variable rate mortgages, which have a floating rate of interest. An increase in interest rates would increase the interest cost of the REIT's loans and have an adverse effect on the REIT's comprehensive income and earnings per unit. Based on the outstanding balance of the REIT's credit facility and variable rate mortgages at September 30, 2012, a 1% increase or decrease in the Bank's prime rate would have an impact of $240,000 on the REIT's annual interest expense (December 31, 2011 - $188,000) for the period then ended. The REIT intends to structure its fixed rate financing so as to stagger the maturities of its mortgages, thereby minimizing exposure to future interest rate fluctuations.

### Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at September 30, 2012, and December 31, 2011 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 tenants. Refer to Note 7 for details of accounts receivable.

### Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the REIT to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favourable terms. During the nine months ended September 30, 2012 the REIT's main liquidity requirements arose from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the REIT's revolving credit Facility. Debt repayment obligations (Note 8) are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its revolving credit facility to fund the equity portion of property acquisitions.

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