Management's discussion and analysis

(All dollar amounts in our tables are presented in thousands of Canadian dollars, except rental rates, unit and per unit amounts)

SECTION I — OVERVIEW AND FINANCIAL HIGHLIGHTS

- Solid results in line with expectations
- Active acquisition pipeline with first acquisition scheduled to close by the end of February 2012
- Expansion of European management platform with two highly experienced European real estate professionals joining the team
- Improvements in occupancy to 87.8% from 87.7% in Q3 and from 87.2% at the time of the Trust's initial public offering ("IPO") in August 2011

	For the three months ended December 31, 2011	Financial forecast for the three months ended December 31, 2011	For the period from August 3, 2011 to December 31, 2011	Financial forecast (pro-rated)(1)
Operations				
Occupancy rate (period-end)	88%	—	—	—
In-place rent per square foot	$ 7.13	—	—	—
Operating results				
Investment properties revenue	$ 31,726	$ 35,482	$ 54,274	$ 57,882
Net rental income	20,969	20,729	34,500	33,676
Funds from operations ("FFO")(2)	10,600	11,374	18,100	18,282
Adjusted funds from operations ("AFFO")(3)	10,240	10,694	16,965	17,160
Distributions				
Declared distributions and interest on Exchangeable Notes	$ 10,391	$ 9,400	$ 17,082	$ 15,568
Distributions paid and payable in cash (including Exchangeable Notes)	10,195	9,400	16,802	15,568
Financing				
Coupon interest rate (period-end)			4.36%	4.45%
Interest coverage ratio			2.67 times	2.39 times
Per unit amounts(4)				
Basic:				
FFO(2)	0.20	0.24	0.35	0.38
AFFO(3)	0.20	0.22	0.33	0.36
Distribution rate	0.20	0.20	0.33	0.33
Basic (excluding impact of over-allotment):				
FFO	0.23	0.24	0.39	0.38
AFFO	0.22	0.22	0.36	0.36

FFO and AFFO are key measures of performance used by real estate operating companies; however, they are not defined under IFRS, do not have standard meanings and may not be comparable with other industries or income trusts.

(1) Financial forecast — Refers to the financial forecast for the six-month period ending December 31, 2011 included in our prospectus dated July 21, 2011; pro-rated to reflect our ownership commencing August 3, 2011.

(2) FFO — The reconciliation of FFO to net income can be found on page 24.

(3) AFFO — The reconciliation of AFFO to FFO and net income can be found on page 24.

(4) A description of the determination of basic and diluted amounts per unit can be found on page 24.

BASIS OF PRESENTATION

Our discussion and analysis of the financial position and results of operations of Dundee International Real Estate Investment Trust ("Dundee International REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements of Dundee International REIT for the period ended December 31, 2011.

The Trust's basis of financial reporting is International Financial Reporting Standards ("IFRS").

This management's discussion and analysis has been dated as at January 31, 2012, except where otherwise noted. For simplicity, throughout this discussion, we may make reference to the following:

- "Debentures", meaning the 5.5% convertible unsecured subordinated debentures of the Trust due July 31, 2018;
- "Exchangeable Notes", meaning the Exchangeable Notes, Series A and the Exchangeable Notes, Series B issued by a subsidiary of Dundee International REIT;
- "GLA", meaning gross leasable area; and
- "Units", meaning the units of the Trust.

Certain information has been obtained from Jones Lang LaSalle, Office Market Overview Q4 2011, a publication prepared by a commercial firm that provides information relating to the German real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Dundee International REIT's control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, global and local economic, business and government conditions; the financial condition of tenants; concentration of our tenants; our ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space and the timing of lease terminations; our ability to source and complete accretive acquisitions; changes in tax laws or the application thereof; and interest and currency rate fluctuations.

Although the forward-looking statements contained in this management's discussion and analysis are based upon what we believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in close proximity to the Trust's properties; timely leasing of vacant space and re-leasing of occupied space upon expiration; dependence on tenants' financial condition; the uncertainties of acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; that the Trust is exempt from the specified investment flow-through trust ("SIFT") rules under the *Income Tax Act* (Canada); and other risks and factors described from time to time in the documents filed by the Trust with the securities regulators.

All forward-looking information is as of January 31, 2012, except where otherwise noted. Except as required by securities law in connection with our financial forecast included in our prospectus dated July 21, 2011, Dundee International REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators. These filings are also available on our website at www.dundeeinternational.com.

BACKGROUND

Dundee International REIT is an unincorporated, open-ended real estate investment trust that was formed to provide investors with the opportunity to invest in real estate exclusively outside of Canada. Dundee International REIT was founded by Dundee Realty Corporation ("DRC"), which is our asset manager. Our Units are listed on the Toronto Stock Exchange under the trading symbol DI.UN.

On August 3, 2011, Dundee International REIT completed an IPO of Units and Debentures for aggregate gross proceeds of $410 million. Concurrently with the IPO, Dundee Corporation and Dundee Realty Corporation purchased Units at an aggregate price of $120 million. These proceeds (net of issue costs and working capital requirements), together with approximately €58.6 million ($80 million) of proceeds from the sale of Exchangeable Notes and €328.5 million ($448 million) in term debt financing, were used to fund the amount payable of $1,007 million for a portfolio of real estate assets located in Germany.

At December 31, 2011, our portfolio consisted of 292 office, mixed use and industrial properties comprising approximately 12.3 million square feet of GLA located in Germany.

We will be exempt from the SIFT rules, taking into account all proposed amendments to such rules, as long as we comply at all times with our investment guidelines which, among other things, only permit us to invest in properties or assets located outside of Canada. We do not rely on the REIT exception under the *Income Tax Act* (Canada) in order to be exempt from the SIFT rules. As a result, we are not subject to the same restrictions on our activities as those that apply to Canadian real estate investment trusts that do rely on the REIT exception. This gives us flexibility in terms of the nature and scope of our investments and other activities. Because we do not own taxable Canadian property (as defined in the *Income Tax Act* (Canada)), we are not subject to restrictions on our ownership by non-Canadian investors.

OUR OBJECTIVES

We are committed to:

- managing our investments to provide stable, sustainable and growing cash flows through investments in commercial real estate located outside of Canada;
- building a diversified, growth-oriented portfolio of commercial properties based on an initial portfolio in Germany;
- capitalizing on internal growth and seeking accretive acquisition opportunities in our target markets;
- growing the value of our assets and maximizing the long-term value of our Units through the active and efficient management of our assets; and
- providing predictable and growing cash distributions per Unit, on a tax-efficient basis.

OUR STRATEGY

Our core strategy is to invest in income-producing properties outside of Canada that provide stable, sustainable and growing cash flows. Our methodology to execute our strategy and to meet our objectives includes:

Optimizing the performance, value and long-term cash flow of our properties

We manage our properties to optimize their performance, value and long-term cash flow. We seek to do this by achieving high occupancy and rental rates. Together with our management team in Canada, we also have an established management team in Germany and Luxembourg, bringing a history with our properties, continuity with our major tenant and relationships with other market participants. Leasing, capital expenditure and construction initiatives are internally managed by us, while an affiliate of our major tenant continues to provide property management services for our properties and is responsible for all day-to-day operations, including the general maintenance, rent collection and administration of operating expenses and tenant leases.

Diversifying our portfolio to mitigate risk

We seek to diversify our portfolio to increase value on a per unit basis, further improve the sustainability of our distributions and strengthen our tenant profile. We anticipate that our profile in Europe, our relationships, our management team in Germany and Luxembourg, and the expertise of our board members and senior management team will provide us with opportunities to take advantage of real estate transactions available in Germany and other European countries.

Investing in stable income-producing properties outside of Canada

When considering acquisition opportunities, we look for properties with quality tenancies and strong occupancy, and assess how acquisition opportunities complement our properties and have the potential to create additional value. We pursue acquisition opportunities independently as well as by partnering with existing local operators and by growing with Canadian groups as they expand their reach outside of Canada. In considering future acquisitions, we intend to focus on countries with a stable business and operating environment, a liquid market for real estate investments, a legal framework that provides adequate rights and protections for owners of property, and a manageable foreign investment regime. We will consider investment opportunities in income-producing properties that are accretive, provide stable, sustainable and growing cash flows and enable us to realize synergies with our portfolio of properties. The execution of this strategy will be consistently reviewed and will also include engaging in dispositions of properties and optimizing our capital structure.

Maintaining and strengthening a conservative financial profile

We operate our investments in a disciplined manner, with a focus on financial analysis and balance sheet management to ensure that we maintain a prudent capital structure and conservative financial profile. We intend to generate stable cash flows sufficient to fund our distributions while maintaining a conservative debt ratio. Our preference will be to ultimately stagger our debt maturities to mitigate our interest rate risk and limit refinancing exposure in any particular period. We have also implemented a foreign exchange hedging strategy to provide greater certainty regarding the payment of distributions to unitholders and interest to debentureholders.

OUR ASSETS

Our assets consist of a portfolio of 292 office, mixed use and industrial properties, with a small residential component, comprising approximately 12.3 million square feet of GLA located in Germany. Our properties are strategically located in major city and town centres, often on a central square in close proximity to the main train station and/or bus station. The locations typically provide excellent visibility, access to a major street and proximity to a transportation hub and city centre pedestrian/shopping areas.

Throughout this document, we make reference to the following three asset categories:

Office

This category includes regional administration headquarters. The properties contain national and regional administration offices and are generally located just outside major city centres and typically have the highest rental rates of the three asset categories.

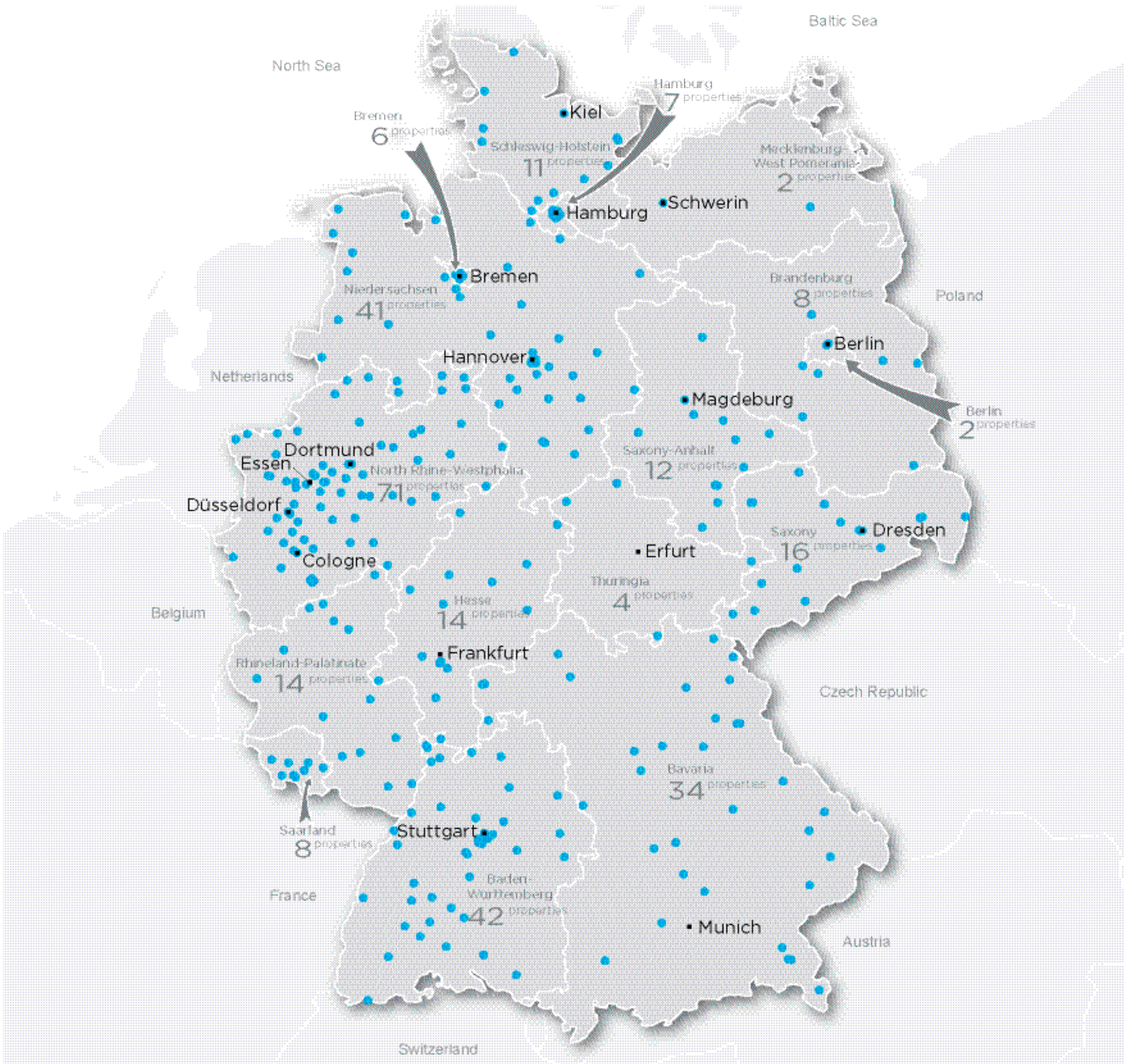
Mixed use

This category includes mixed use retail, banking and distribution properties that contain mail and distribution centres and administration offices. The properties are generally strategically located near central train stations, main retail areas and are easily accessible by public transport.

Industrial

This category includes regional logistics headquarters. The properties in this category are typically used as strategic logistics facilities that are critical elements of Deutsche Post's distribution network. The properties are mostly located near major cities and have access to significant infrastructure, including railways and highways.

The map below shows the locations of our assets in Germany.



Our properties are located throughout Germany with a heavy concentration in the Western German states of North Rhine-Westphalia, Baden-Württemberg, Niedersachsen, Bavaria and Hesse. Approximately 60% of our overall GLA is located in these five states.

The table below highlights the geographic diversification of our properties as of December 31, 2011.

States	Total GLA (sq. ft.)	Total GLA (%)	Weighted average occupancy (%)
Baden-Württemberg	1,623,262	13	92
Bavaria	1,461,345	12	87
Berlin	53,767	1	91
Brandenburg	141,370	1	88
Bremen	320,886	3	83
Hamburg	485,757	4	90
Hesse	1,041,500	8	90
Mecklenburg-West Pomerania	101,023	1	87
Niedersachsen	1,590,769	13	80
North Rhine-Westphalia	2,760,689	22	92
Rhineland-Palatinate	501,281	4	86
Saarland	482,671	4	91
Saxony	643,850	5	78
Saxony-Anhalt	449,226	4	85
Schleswig-Holstein	536,904	4	96
Thuringia	127,267	1	70
Total	12,321,567	100	88

A comprehensive list of all properties can be found in the Appendix starting on page 66 of this report.

TENANTS

Deutsche Post

Our properties were formerly owned by Deutsche Post. Deutsche Post contributes at least 90% of the gross rental income ("GRI") in 172 of our properties and between 50% and 90% of the GRI in 105 of our properties, leaving only 15 properties where less than 50% of the GRI is contributed by Deutsche Post.

Deutsche Post is an integral part of the German economy and continues to be an important part of day-to-day life in Germany. Deutsche Post is Europe's largest postal company and the only provider of universal postal services in Germany. Through its acquisition of DHL in 2002, Deutsche Post has become a global logistics market leader. It employs approximately 470,000 people in more than 200 countries and territories. As the only provider of universal postal services in Germany, Deutsche Post must provide certain minimum levels of service to German residents. On a daily basis, it serves two to three million customers through its retail outlets and delivers 66 million letters and 2.6 million parcels within Germany via mail and parcel sorting facilities. Its infrastructure network in Germany includes 82 mail centres, 33 parcel centres and 20,000 retail outlets and points of sale.

As a result of the high barriers to entry, Deutsche Post holds an approximate 87% market share of the €6.0 billion domestic mail communication market in Germany, in addition to holding an approximate 39% market share of the €6.8 billion domestic parcel market. Deutsche Post's position in the parcel market provides an opportunity for growth as businesses and consumer activities in on-line commerce continue to expand, thereby increasing non-letter mail volumes.

Deutsche Postbank

Pursuant to a private agreement between Deutsche Post and Deutsche Postbank ("Postbank"), 202 of our properties feature branches of Postbank, allowing for the delivery of integrated financial and postal services. The properties featuring Postbank branches are typically located at ground level with a view to attracting a high volume of retail and business customers seeking financial or postal services. These locations may include retail space (where consumer staples are offered for sale), a banking or investment advisory area, mailboxes for rent, an automated postal/banking services station or traditional banking teller service. Many Postbank branches in our properties have recently undergone refurbishment and now feature contemporary designs, expanded retail sections, enhanced lighting and automated postal and financial services centres. The delivery of banking and postal services are integrated such that customers can purchase consumer staples, send or receive mail or parcels and attend to their financial services needs, including by making deposits, loans, transfers, investments and purchasing insurance.

Postbank is a public company controlled by Deutsche Bank and is integral to their retail banking business. Postbank offers retail financial services in their branches within Deutsche Post's network, which generates increased traffic through the postal services offered in those branches. There are 4,500 branches of Deutsche Post in which selected Postbank financial services are available. Postbank offers comprehensive financial services as well as postal services in its own 1,100 branches.

With 14 million active domestic customers and over 20,000 employees, Postbank is one of Germany's major financial services providers. Postbank's focus is on its retail business with private customers. Postbank has the densest branch network of any bank in Germany, which makes it conveniently accessible and attractive to its retail banking customer base.

Deutsche Telekom

After Deutsche Post, Deutsche Telekom is the second-largest tenant in our properties. Deutsche Telekom occupies approximately 1.4% of the GLA of our properties and currently generates approximately 2.5% of the portfolio's overall GRI. The occupied space is mainly used for server and cable rooms, forming an integral part of Deutsche Telekom's infrastructure.

Deutsche Telekom is one of the world's leading telecommunications and information technology service companies. In 2010, Deutsche Telekom Group generated revenue of approximately €62 billion, and had approximately 247,000 employees in total as of December 31, 2010.

MARKET OVERVIEW — GERMANY

German economy

The German economy has long been a driver as well as a beneficiary of a globalized economy. Germany has established itself as a vital location for production sites and is a country with a favourable business environment. Similar to Canada, Germany is a country with a history of political, legal and financial stability and provides an attractive climate for long-term investment.

Recent developments

Overall, the German economy was remarkably strong in 2011 despite the ongoing uncertainty in Europe. Germany's GDP growth of 3%[(1)], which marked the second straight year of annual growth at or above 3%, was the highest GDP increase in 2011 of all G7 countries. While domestic demand was the main driver of growth, the country's export strength also helped to escape the worst effects of Europe's ongoing debt crisis. In addition, Germany's labour market continued to show resilience with an unemployment rate of 6.8%[(2)] in December 2011. Economic activity in Germany is expected to remain stable.

(1) Statistisches Bundesamt Deutschland ("Destatis").

(2) Deutsche Bundesbank.

Economic impact on the German real estate sector

The commercial real estate market in Germany performed well in 2011 with prime rents increasing in five of the seven German key markets. In addition, at €23 billion, the transaction volume was approximately 22% higher than in 2010. There is little evidence that the European debt crisis and concerns about a global economic slowdown negatively impacted the office sector in 2011. Demand for space continued to be strong and vacancies in the office markets declined in five of the seven key markets.

OUTLOOK

Since our IPO in August 2011, we have developed valuable relationships with lenders, vendors and brokers in Europe and continue to see opportunities for growth despite the ongoing challenging environment. We believe the economic climate has slowed leasing volumes in our portfolio. In addition, completing transactions in this environment requires more time.

With respect to the Trust's capital structure, we continue to focus on strengthening relationships with lenders and intend to enter into long-term loans at fixed rates when borrowing conditions are favourable. We are currently in discussions with several lenders in Germany to refinance a significant portion of our term loan credit facility for terms ranging from three to five years. And while access to debt financing is currently challenging in Germany, interest rates remain at historically low levels and approximately 75 to 100 bps lower than when we completed our IPO.

We recently entered into an agreement to acquire a 211,000 square foot office building in the city of Hannover, Germany. The acquisition is scheduled to close by the end of February 2012 at a capitalization rate accretive to the overall AFFO of the Trust. In addition, we are actively pursuing acquisition opportunities in Germany. Overall, the acquisition pipeline remains very active.

We are an active asset manager and continuously review our existing portfolio for opportunities to sell or reposition assets where we can add the most value or redeploy proceeds more accretively. In addition, we are proactively working with our largest tenant, Deutsche Post, not only to lease back space in the 17 properties previously terminated by Deutsche Post, but also to anticipate and accommodate their future space requirements.

In order to set the stage for growth, two senior real estate professionals in Germany have joined our team to focus on asset management and acquisitions. With their extensive relationships and on-the-ground experience in European commercial real estate, operations, asset and property management, and acquisitions, these two executives will be instrumental in optimizing the portfolio, pursuing our growth strategy and further enhancing our European management platform.

SECTION II — EXECUTING THE STRATEGY

OUR OPERATIONS

The following key performance indicators related to our operations influence the cash generated from operating activities.

Performance indicators	December 31, 2011
Occupancy rate(1)	88%
In-place rental rates	$ 7.13
Tenant maturity profile — average term to maturity(2)	5.9 years

(1) Includes in-place occupancy at December 31, 2011.

(2) Includes termination notice received in June 2011 in respect of 17 properties.

Occupancy

The overall weighted average occupancy rate across our portfolio remained stable at 87.8% at December 31, 2011, compared to 87.7% at the end of the third quarter, and increased from the weighted average occupancy rate of 87.2% at the time of our initial investment. Overall occupied space remained unchanged at 10.8 million square feet compared with the end of the third quarter and increased slightly from 10.7 million square feet at the time of our initial investment out of a total GLA of 12.3 million square feet.

Vacancy schedule

The tables below highlight our leasing activity. During the fourth quarter, we reduced our overall vacancy by 16,072 square feet to 1,519,971 square feet as at December 31, 2011. During the quarter, approximately 25,941 square feet expired or were terminated, offset by 17,292 square feet of new leases and 3,258 square feet of renewals. For the period from August 3 to December 31, 2011, approximately 77,768 square feet expired or were terminated, offset by 98,271 square feet of new leases and 40,876 square feet of renewals. Of the vacant space at the end of the year, approximately 19,484 square feet were committed for future leases, leaving approximately 1,500,487 square feet available for lease.

	For the three months ended December 31, 2011			
(in square feet)	Office	Mixed use	Industrial	Total
Vacant space — October 1, 2011	141,124	1,099,358	295,561	1,536,043
Vacancy committed for future leases	—	(15,276)	(4,423)	(19,699)
Available for lease	141,124	1,084,082	291,138	1,516,344
Remeasurements	—	(1,764)	—	(1,764)
Expiries	—	7,407	2,997	10,404
Early terminations and bankruptcies	—	15,537	—	15,537
New leases	(2,148)	(11,141)	(4,003)	(17,292)
Renewals	—	(2,289)	(969)	(3,258)
Vacant space — December 31, 2011	138,976	1,091,832	289,163	1,519,972
Vacancy committed for future leases	—	(17,380)	(2,104)	(19,484)
Available for lease — December 31, 2011	**138,976**	**1,074,452**	**287,059**	**1,500,487**

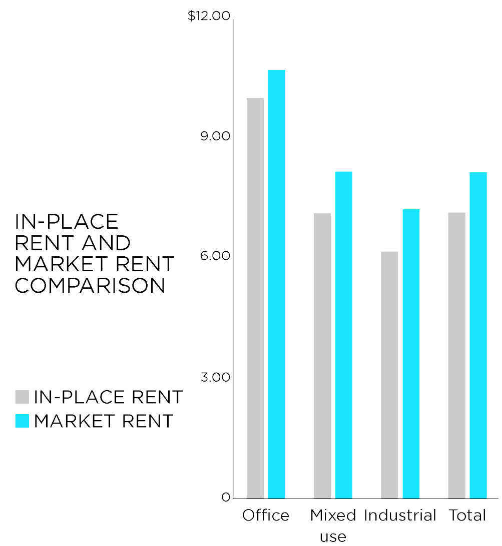
	For the period August 3, 2011 to December 31, 2011			
	Office	Mixed use	Industrial	Total
Vacant space — August 3, 2011	141,380	1,141,229	297,548	1,580,157
Remeasurements	—	528	665	1,193
Expiries	—	44,720	12,449	57,169
Early termination and bankruptcies	—	19,211	1,388	20,599
New leases	(2,404)	(83,401)	(12,466)	(98,271)
Renewals	—	(30,455)	(10,421)	(40,876)
Vacant space — December 31, 2011	138,976	1,091,832	289,163	1,519,971
Vacancy committed for future leases	—	(17,380)	(2,104)	(19,484)
Available for leases — December 31, 2011	**138,976**	**1,074,452**	**287,059**	**1,500,487**

In-place rental rates

The following table and chart provide a comparison between in-place rents and market rents in our portfolio. Market rents are management's estimates of rental rates that could be achieved for space in our properties. In-place rents in each of our segments are below market rents, allowing for rental uplifts as space gets renewed or re-leased. Current market rents are approximately 14% above in-place rents.

Since the Trust's IPO, renewals have been completed at approximately 8.5% above expiring rents. On a euro basis, both in-place rents and market rents are consistent with the rents at acquisition. The impact of the depreciation of the euro is mitigated by our active hedging program.

IN-PLACE RENT AND MARKET RENT COMPARISON



	December 31, 2011							
	In-place rent				Market rent			
Office	€	7.56	$	9.98	€	8.08	$	10.66
Mixed use		5.38		7.10		6.14		8.10
Industrial		4.67		6.16		5.45		7.19
Overall	**€**	**5.40**	**$**	**7.13**	**€**	**6.15**	**$**	**8.11**

Leasing and tenant profile

At December 31, 2011, the weighted average remaining term of all leases was approximately 5.9 years, which factors in the termination of 17 leases in June 2012 by Deutsche Post pursuant to its termination rights. As there is a rent guarantee in place for these leases until June 2014, these leases are reflected as June 2014 expiries in the schedule below.

	December 31, 2011
	Average remaining lease term (years)
Office	5.07
Mixed use	5.83
Industrial	6.27
Overall	**5.86**

Lease rollover profile

The following table outlines our lease maturity profile by asset type as at December 31, 2011. In 2012, 178,130 square feet of our leases expire, accounting for approximately 1.4% of the overall space.

(in square feet)	Current vacancy	Month-to-month	2012	2013	2014	2015	2016 to 2026	Total
Office	138,976	44,436	26,123	10,225	181,251	17,009	472,802	890,822
Mixed use	1,074,452	321,586	146,435	89,128	954,909	92,127	6,508,276	9,186,913
Industrial	287,059	73,081	5,572	12,578	23,221	42,967	1,799,354	2,243,832
Total	1,500,487	439,103	178,130	111,931	1,159,381	152,103	8,780,432	12,321,567

Deutsche Post leases

The leases with Deutsche Post, which generally expire on June 30, 2018 (many of which provide Deutsche Post with an option to extend the term until June 30, 2023), comprise approximately 75% of the GLA and account for more than 85% of the portfolio's GRI.

Termination rights and rent guarantee

In general, the Deutsche Post leases have a fixed term of ten years, expiring on June 30, 2018. 129 of the leases entitle Deutsche Post to terminate space in June 2012, 2014 and 2016, subject to certain limitations and requirements, including that Deutsche Post provide 12 months' prior written notice to us. On June 30, 2011, Deutsche Post gave notice to terminate 17 leases with respect to the 2012 termination rights, comprising approximately 13% of the GRI and a GLA of approximately 1.1 million square feet, and waived its second termination right in respect of 21 leases (effective June 30, 2014). We are currently in discussions with Deutsche Post and Postbank regarding leasing back up to 20% of the GLA of the properties in respect of which Deutsche Post has exercised its termination right for an average lease term of approximately 3.5 years. However, Deutsche Post is a sophisticated, flexible organization and there can be no assurance that these discussions will result in a definitive agreement or, if they do, what the terms (including the amount of GLA and term) of any such leasing arrangements will be. Based on our discussions to date with Deutsche Post and Postbank, of the 17 terminated properties, we understand that Postbank wishes to remain in 12 of the 15 properties that feature Postbank branches and Deutsche Post wishes to lease space in nine of the 17 properties, six of which feature Postbank branches. To the extent that Deutsche Post does not exercise all of its early termination rights with respect to any particular effective termination date, the unused portion may be carried forward. This means that Deutsche Post has the right to terminate up to 91 leases in 2014 and up to 112 leases in 2016, subject to certain limitations.

In light of the 2012 terminations, the vendor of the properties had agreed to pay us an amount equal to the lost gross rent resulting from all 2012 terminations for the period commencing on July 1, 2012, to and including June 30, 2014, provided that the amount payable by the vendor would be reduced: (i) in the event of a sale of a terminated property, by the amount which would otherwise have been payable by the vendor in respect of such property, and (ii) in respect of a new lease in a terminated property, by the amount of rental income achievable from such new lease. We recently renegotiated this arrangement with the vendor such that the vendor of the properties has agreed to pay us the full amount of €17,329,135 plus all interest accrued thereon, regardless of whether we sell, or re-lease space in, any terminated properties. This amount has been set aside by the vendor in a bank account out of which we will be paid on a monthly basis (or otherwise as we request), starting from July 1, 2012 (or such earlier date as we may determine), the net rent plus prepayments of operating costs which would otherwise have been payable under the Deutsche Post leases in respect of all 2012 terminations. For a more detailed description of the Deutsche Post leases and termination rights, please refer to our prospectus dated July 21, 2011, which is available on SEDAR at www.sedar.com.

OUR RESOURCES AND FINANCIAL CONDITION

Investment properties

The fair value of our investment property portfolio at December 31, 2011, was $941.4 million, representing an average Cap Rate of 8.5% for the portfolio. We acquired our properties on August 3, 2011 for $997.8 million, representing a Cap Rate of approximately 8.2%. Since acquisition, our properties decreased in value by $56.4 million, of which $33.7 million is attributable to the weakening of the euro against the Canadian dollar and $23.1 million is mostly attributable to an increase in Cap Rates and the impact of an increase in German real estate transaction taxes.

Fair values were determined using the direct capitalization method. The direct capitalization method applies a capitalization rate to stabilized NOI and incorporates allowances for vacancy and management fees. The resulting capitalized value was further adjusted for extraordinary costs to stabilize income and non-recoverable capital expenditures, where applicable.

Building improvements

Building improvements represent investments made in our rental properties to ensure our buildings are operating at an optimal level.

Initial direct leasing costs and lease incentives

Initial direct leasing costs include leasing fees and related costs, and broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include costs incurred to make leasehold improvements to tenant spaces and cash allowances. Initial direct leasing costs and lease incentives are dependent on asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. Short-term leases generally have lower costs than long-term leases.

For the period from August 3, 2011 to December 31, 2011, we leased or renewed approximately 139,147 square feet of space for which we incurred $1.2 million of leasing costs.

Commitments and contingencies

We are contingently liable with respect to litigation and claims that may arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on our consolidated financial statements.

Dundee International REIT's future minimum commitments under operating and finance leases, including equity accounted investments, are as follows:

	December 31, 2011
	Operating lease payments
Less than 1 year	$ 365
1–5 years	1,458
Longer than 5 years	365
Total	$ 2,188

During the period the Trust paid $0.2 million in minimum lease payments, which have been included in comprehensive income for the period.

On March 17, 2011, the previous owner of the portfolio entered into agreements with Imtech Contracting GmbH ("Imtech") under which Imtech provides the entire energy requirements (cooling, air, light and electricity) for the properties, unless there are existing obligations. As part of the contract, Imtech leases the central heating room and the energy supply facilities at the properties, and may lease the roof area on selected buildings for installation of solar panels. The term of the contract, which commenced on July 1, 2011, is 15.5 years. Imtech has guaranteed savings in heating costs of 5% of the actual 2008 base costs within three years.

In addition, the previous owner had entered into two energy supply agreements with GDF SUEZ Energie Deutschland AG and Watt Deutschland GmbH to purchase all the electricity requirements of the properties, each of which has a term expiring on December 31, 2012.

OUR CAPITAL

Liquidity and capital resources

Dundee International REIT's primary sources of capital are cash generated from operating activities, credit facilities, and equity and debt issues. Our primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt interest payments, and property acquisitions. We expect to meet all of our ongoing obligations through current cash and cash equivalents, cash flows from operations, debt refinancings and, as growth requires and when appropriate, new equity or debt issues.

We currently have $87.9 million of cash available. After reserving for current payables and operating requirements, approximately $71.6 million is available for acquisitions. Our debt-to-book value is 56%, which is well within our target range.

Financing activities

On August 3, 2011, we completed an IPO of 27 million Units and $140 million principal amount of Debentures for aggregate gross proceeds of $410 million. Concurrent with the offering, Dundee Corporation and DRC purchased 12 million Units at an aggregate price of $120 million. These proceeds (net of issue costs and working capital requirements), together with $80 million (€58.6 million) of proceeds from the sale of Exchangeable Notes and additional debt financing, were used to fund the purchase price for a portfolio of real estate assets located in Germany. On August 29, 2011, pursuant to the over-allotment option provided to the underwriters in connection with the offering, we issued an additional 4.05 million Units and $21 million principal amount of Debentures for aggregate gross proceeds of $61 million.

Concurrent with the closing of the IPO, we obtained a term loan credit facility (the "Facility") from a syndicate of German and French banks for gross proceeds of $448.4 million (€328.5 million) for a term of five years. We entered into arrangements with an arm's length counterparty in order to hedge a substantial portion of the Facility by entering into an interest rate swap. Pursuant to these arrangements, we exchanged 80% of our variable rate interest obligations for fixed rate interest obligations for five years. We also hedged an additional 10% of our variable rate interest with a cap not to exceed 5% per annum (excluding the margin). Our executive committee reviews our interest rate hedging strategy from time to time and makes recommendations to our Board of Trustees.

On November 8, 2011, the Trust entered into an interest rate swap to pay a fixed rate of 3.38% on the variable rate portion of the Facility comprising 20% of the overall loan for one year, effective as of December 30, 2011. Essentially, under the Facility, we will pay a blended fixed rate of 3.91% in 2012.

In conjunction with the closing of the offering, a subsidiary of the Trust issued Exchangeable Notes for gross proceeds of €58.6 million (the euro equivalent of $80 million based on the same exchange rate as the proceeds of the offering were converted into euros). Each €7.326 principal amount of Exchangeable Notes (the euro equivalent of $10.00, based on the same exchange rate as the proceeds of the offering, was converted into euros) is exchangeable for one Unit, subject to customary anti-dilutional adjustments. The Exchangeable Notes and corresponding Special Trust Units together have economic and voting rights equivalent in all material respects to the Units.

Debt

Debt strategy

Our debt strategy is to obtain secured mortgage financing on a fixed rate basis, with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio. Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. We also intend to enter into long-term loans at fixed rates when borrowing conditions are favourable. This strategy will be complemented with the use of unsecured convertible debentures and floating rate credit facilities. We intend to target a debt level in a range of 55% to 60% of the historical purchase price of properties including convertible debentures. In the future, as we secure mortgages on individual properties in excess of this range, we will be in a position to accumulate unencumbered properties. These properties will provide added flexibility to our capital structure as we will be able to place financing on them to take advantage of a buying opportunity or to replace expiring debt when refinancing options are limited or expensive.

The key performance indicators in the management of our debt are:

	December 31, 2011
Financing activities	
Average coupon interest rate(1)	4.36%
Level of debt (debt-to-book value)(2)	56%
Interest coverage ratio(3)	2.67 times
Debt-to-EBITDFV (years)(4)	8.0
Proportion of total debt due in current year	—%
Debt — average term to maturity (years)	5.1
Variable rate debt as percentage of total debt	15%

(1) Average interest rate is calculated as the weighted average interest rate of all interest bearing debt.

(2) Debt-to-book value is determined as total debt divided by total assets.

(3) The interest coverage ratio for the quarter is calculated as net rental income plus interest and fee income, less portfolio management and general and administrative expenses, divided by interest expense.

(4) Debt-to-EBITDFV is calculated as total debt divided by annualized EBITDFV for the current quarter. EBITDFV is calculated as net income less non-cash items included in revenue plus interest expense, depreciation, fair value adjustments and acquisition related costs.

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio is 2.67 times, and reflects our ability to cover interest expense requirements. We also monitor our debt-to-EBITDFV ratio to gauge our ability to pay off existing debt.

Our current debt-to-EBITDFV ratio is 8.0 years and reflects the approximate amount of time to pay off all debt. After accounting for market adjustments and financing costs, the weighted average effective interest rate is 4.86%.

			December 31, 2011
	Variable	Fixed	Total
Term loan credit "Facility"[(1)]	$ 86,469	$ 345,879	$ 432,348
Debentures	—	146,658	146,658
Total	**$ 86,469**	**$ 492,537**	**$ 579,006**
Percentage	15%	85%	100%

(1) The portion of the Facility subject to the interest rate swap has been presented as fixed rate debt in this table.

Amounts recorded as at December 31, 2011, for the Debentures are net of $7.7 million of premiums allocated to their conversion features on issuance. The premiums are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

Term loan credit facility

The term of the Facility is five years with a two-year renewal option. Variable rate interest is payable quarterly under the Facility at a rate equal to the three-month EURIBOR, plus margin and agency fees of 200 and 10 basis points ("bps"), respectively. As discussed under "Financing activities", pursuant to the requirements of the Facility, we entered into an interest rate swap to fix 80% of the interest payments at 1.89% plus margin and agency fees and purchased an instrument to cap 10% of the Facility, such that interest does not exceed 5%. Concurrent with entering into the interest rate swap, the Trust received $9.5 million (€7 million) from the vendor of the properties and used the proceeds to buy down the swap rate by 54 bps to reflect the difference between the cost of the Facility and the negotiated cost. We have accounted for this receipt as an increase to the Facility, which is recognized as a reduction to interest expense over the term of the Facility. Costs relating to the Facility are $10.8 million and are charged directly to the Facility. Effective December 30, 2011 we entered into an interest rate swap to fix the remaining 20% of the interest payments under the Facility at 3.38%. The weighted average rate of the Facility is 3.98%. Including costs, net of the payment received from the vendor, the effective interest rate under the Facility is 4.04%.

The Facility requires that at each interest rate payment date the debt service coverage ratio is equal to or above 145% and that the loan-to-value does not exceed 59% during the first three years the loan is outstanding and 54% during the final two years. As at December 31, 2011, we were in compliance with these covenants.

We are required to repay €100 million plus an applicable prepayment premium of 15% through dispositions or refinancings of a portion of the portfolio within the first two years following the closing of the financing, failing which we will be required to pay additional interest of 1% on the portion of the €100 million not repaid by the second anniversary of the closing. We are currently in discussions with various banks in respect of refinancing portions of the Facility for terms ranging from three to five years and in some cases even longer. Although there is currently limited access to debt financing in Germany, interest rates in Germany remain at historically low levels.

Convertible debentures

As at December 31, 2011, the total principal amount of Debentures outstanding was $161.0 million, convertible into an aggregate of 12,384,619 Units. The Debentures bear interest at 5.5% per annum, are payable semi-annually on July 31 and January 31 each year, and mature on July 31, 2018. Each Debenture is convertible at any time by the holder thereof into 76.9231 Units per one thousand dollars of face value, representing a conversion price of $13.00 per Unit. On or after August 31, 2014, and prior to August 31, 2016, the Debentures may be redeemed by the holders thereof, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided the weighted average trading price for the Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On or after August 31, 2016, and prior to July 31, 2018, the maturity date, the Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest.

An amount of $8.1 million has been allocated to the conversion feature to reflect its fair value at the date of issuance. Costs relating to the issuance of Debentures, including underwriters' fees, are $6.9 million and are charged to the Debentures. Including costs and the amount allocated to the conversion feature, the effective interest rate is 7.31%. The conversion feature of the Debentures is remeasured in each reporting period to fair value, with changes in fair value being recorded in comprehensive income. During the period, the fair value attributed to the conversion feature decreased by $1.5 million.

The table below highlights the maturity and interest rate profile of our debt:

	Debt maturities	Scheduled principal repayments on non-matured debt	Total	%	Weighted average interest rate on balance due at maturity (%)	Weighted average face rate on balance due at maturity (%)
2012	$ —	$ —	$ —	—	—	—
2013	—	—	—	—	—	—
2014	—	1,164	1,164	0.2	—	—
2015	—	2,873	2,873	0.5	—	—
2016	427,624	1,729	429,353	72.2	4.04	3.98
2017 and thereafter	161,000	—	161,000	27.1	7.31	5.5
Total	$ 588,624	$ 5,766	594,390	100	4.93	4.39
Fair value adjustments			(7,741)			
Transaction costs			(7,643)			
Total			$ 579,006			

Equity

Our discussion of equity is inclusive of Exchangeable Notes, which are economically equivalent to our Units. In our consolidated financial statements the Exchangeable Notes are classified as a liability under IFRS because of the redemption feature upon the exchange for a Unit.

	Unitholders' equity	
	December 31, 2011	
	Number of Units	Amount
Units	**43,872,316**	**$ 346,671**
Add: Exchangeable Notes	**8,000,000**	**80,000**
Total	**51,872,316**	**$ 426,671**

Units

Our Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: Units and Special Trust Units. The Special Trust Units may only be issued to holders of securities exchangeable for Units, are not transferable, and are used to provide holders of such securities with voting rights with respect to Dundee International REIT. Each Unit and Special Trust Unit entitles the holder thereof to one vote for each Unit at all meetings of unitholders of the Trust.

On April 21, 2011, 800,000 Units were issued to DRC for $0.4 million. On August 3, 2011, the Trust completed an IPO of 27 million Units at a price of $10.00 per unit for gross proceeds of $270.0 million. Concurrent with the offering, Dundee Corporation and its subsidiaries (including DRC) purchased an aggregate of 12 million Units at a price of $10.00 per Unit. On August 29, 2011, pursuant to the over-allotment option provided to the underwriters, the Trust issued an additional 4.05 million Units at a price of $10.00 per Unit. Costs related to the IPO totalled $24.1 million and were charged directly to unitholders' equity.

The Trust has a Deferred Unit Incentive Plan ("DUIP") that provides for the grant of deferred trust units and income deferred trust units to trustees, officers, employees, affiliates and their service providers, including DRC, the Trust's asset manager. On August 3, 2011, DRC elected to receive the base asset management fees payable on the properties acquired on August 3, 2011 by way of deferred trust units under the Asset Management Agreement for the next five years. The deferred trust units granted to DRC vest 20% annually, commencing on the fifth anniversary date of being granted. On termination of the Asset Management Agreement, unvested trust units granted to DRC vest immediately.

The following table summarizes the changes in our outstanding equity:

	Units
Units issued upon formation of the Trust	800,000
Units issued to Dundee Corporation and DRC, concurrently with IPO	12,000,000
Units issued pursuant to the IPO and over-allotment	31,050,000
Units issued pursuant to the DRIP[1]	22,316
Total Units outstanding on September 30, 2011	43,872,316
Units issuable upon exchange of Exchangeable Notes	8,000,000
Total Units outstanding (on a fully exchanged basis) on December 31, 2011	51,872,316
Units issued pursuant to the DRIP on January 15, 2012	6,540
Total Units outstanding (on a fully exchanged basis) on January 31, 2012	51,878,856

(1) Distribution Reinvestment and Unit Purchase Plan.

Distributions

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of income that would be in the best interest of the Trust. Amounts retained in excess of the declared distributions are used to fund leasing costs and capital expenditure requirements. Given that working capital tends to fluctuate over time and should not affect our distribution policy, we disregard it when determining our distributions. We also exclude the impact of leasing costs, which fluctuate with lease maturities, renewal terms and the type of asset being leased. We evaluate the impact of leasing activity based on averages for our portfolio over a two- to three-year time frame. We exclude the impact of transaction costs expensed on business combinations as these are considered to be non-recurring. Additionally, we exclude the impact of the amortization of deferred financing costs and non-recoverable costs that were incurred prior to the formation of the Trust, but deduct amortization of non–real estate assets such as software and office equipment incurred after the formation of the Trust.

In order to ensure the predictability of distributions to our unitholders and debentureholders, we have established an active foreign exchange hedging program on a rolling 24-month period. The average exchange rate on these 24 contracts is 1.368 as at December 31, 2011.

Asset management fee

On August 3, 2011, DRC elected to receive the base asset management fees payable on the properties acquired on August 3, 2011 by way of deferred trust units under the Asset Management Agreement for the next five years. The deferred trust units granted to DRC vest 20% annually, commencing on the fifth anniversary date of being granted. On termination of the Asset Management Agreement, unvested trust units granted to DRC vest immediately.

During the period from August 3, 2011 to December 31, 2011, $841 of asset management fees were recorded and included in general and administrative expenses. They were settled by the grant of 117,188 deferred units during the period and 29,348 deferred units on January 15, 2012. At December 31, 2011, 147,717 unvested deferred and income deferred units were outstanding with respect to the asset management fee.

Distributions and Exchangeable Notes interest

Exchangeable Notes are economically equivalent to our Units in all material respects. Interest payable to the holder of Exchangeable Notes is therefore included in the table below.

	For the period from August 3, 2011 to December 31, 2011		
	Declared amounts	4% bonus distributions	Total
2011 distributions and interest expense			
Paid in cash or reinvested in Units	$ 13,623	$ 8	$ 13,631
Payable at December 31, 2011	3,451	—	3,451
Total distributions and interest expense	$ 17,074	$ 8	$ 17,082
2011 reinvestment			
Reinvested to December 31, 2011	$ 209	$ 8	$ 217
Reinvested on January 13, 2012	63	—	63
Total distributions reinvested	$ 272	$ 8	$ 280
Distributions and interest paid in cash	$ 16,802		
Reinvestment to distribution ratio	1.6%		
Cash payout ratio	98.4%		

Distributions declared and interest expensed on the Exchangeable Notes for the period from August 3, 2011, to December 31, 2011, were $17,074. Of these amounts approximately $272, or 1.6%, were reinvested in additional Units pursuant to the DRIP resulting in a cash payout ratio of 98.4%.

During the fourth quarter, we declared distributions and interest expenses for the Exchangeable Notes of $10,383 of which $188 were reinvested in additional Units resulting in a cash payout ratio of 98.2%.

On closing of the offering, in order to provide more certainty regarding distribution and interest payments to holders of Units and Debentures, we entered into a series of foreign currency contracts to sell €2.6 million each month at a rate of 1.3639 for an initial period of 24 months. On settlement of a contract, we realize a gain or loss on the difference between the forward rate and the spot rate; this amounted to a loss of $0.1 million in the quarter. We also mark the contracts to market quarterly and realized a gain of $1.8 million during the period of our ownership. As we settle each contract, we enter into a new contract; consequently we entered into contracts to sell €2.6 million in each of September, October, November and December of 2013. The average rate of the contracts in place as at December 31, 2011 is 1.368.

We currently pay monthly distributions to unitholders of $0.06667 per Unit, or $0.80 per Unit on an annual basis. At December 31, 2011, approximately 2.1% of our total Units were enrolled in the DRIP.

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following table outlines the differences between cash flow from operating activities and cash distributions, as well as the differences between net income and cash distributions in accordance with the guidelines.

	For the three months ended December 31, 2011	For the period from August 3, 2011, to December 31, 2011
Net loss	$ (25,976)	$ (23,201)
Cash flow from operating activities	10,803	22,611
Distributions paid and payable (including Exchangeable Notes)	10,195	16,802
Excess of cash flow from operating activities over distributions paid and payable	608	5,809

Cash flow from operations exceeded distributions paid and payable for the quarter by $0.6 million and for the period from August 3, 2011 to December 31, 2011 by $5.8 million. The cash flow from operating activities includes changes in non-cash working capital. Distributions paid and payable exceeded net loss by $36.2 million for the quarter and by $40.0 million for the period from August 3, 2011, to December 31, 2011, mainly as a result of fair value adjustments to financial instruments and investment properties. In establishing distribution payments, we do not take fluctuations in working capital into consideration and we use a normalized amount as a proxy for leasing and building improvement costs.

OUR RESULTS OF OPERATIONS

	For the three months ended December 31, 2011	Financial forecast for the three months ended December 31, 2011	For the period from August 3, 2011, to December 31, 2011	Financial forecast for the period from August 3, 2011, to December 31, 2011[1]
Investment properties revenue	$ 31,726	$ 35,482	$ 54,274	$ 57,882
Investment properties operating expenses	10,757	14,753	19,774	24,206
Net rental income	20,969	20,729	34,500	33,676
Portfolio management	(894)	(1,194)	(1,566)	(1,960)
General and administrative	(2,253)	(943)	(3,114)	(1,548)
Fair value adjustments to investment properties	(31,704)	—	(23,147)	—
Interest expense	(8,591)	(8,974)	(13,856)	(14,690)
Interest and other income	122	—	132	—
Share of net losses from equity accounted investments	32	—	7	—
Transaction costs	(467)	—	(7,853)	(6,389)
Fair value adjustments to financial instruments	(8,557)	—	(14,567)	—
Income (loss) before income taxes	(31,343)	9,618	(29,464)	9,089
Deferred income taxes	5,367	(954)	6,263	(1,579)
Net income (loss)	(25,976)	8,664	(23,201)	7,510
Foreign currency translation adjustment	(20,342)	—	(18,558)	—
Comprehensive income (loss) for the period	$ (46,318)	$ 8,664	$ (41,759)	$ 7,510

(1) Pro-rated to reflect our ownership commencing August 3, 2011.

Statement of comprehensive income results

Net rental income

For the period from August 3 to December 31, 2011, net rental income increased by approximately $0.8 million compared to the pro-rated forecast due to a slight increase in occupancy, a favourable exchange rate for the reporting period compared to the forecast and overall lower level of property operating expenses. For similar reasons, net rental income for the quarter ended December 31, 2011 also increased by approximately $0.2 million compared to forecast.

Portfolio management

Portfolio management expenses decreased by approximately $0.4 million and $0.3 million compared to the pro-rated forecast for the period August 3, 2011 to December 31, 2011 and for the quarter ended December 31, 2011, respectively, mainly due to the reclassification of certain costs to general and administrative expenses.

General and administrative

General and administrative expenses increased by approximately $1.6 million and $1.3 million for the period August 3, 2011 to December 31, 2011 and for the quarter ended December 31, 2011, respectively. An increase in the valuation of deferred units granted to DRC for payment of asset management fees accounted for $0.6 million and $0.7 million of the increase, respectively. The fixed nature of certain annual expenses and reclassification of costs from portfolio management accounted for the remaining variance.

Fair value adjustment to investment properties

The unrealized loss on the change in the fair value of investment properties amounted to $23.1 million for the period August 3, 2011 to December 31, 2011 and $31.7 million for the quarter ended December 31, 2011. The fair value of our investment property portfolio at December 31, 2011, was $941.4 million, representing, a capitalization rate of 8.5% for the portfolio. We acquired our properties on August 3, 2011 for $1,006.3 million, representing a capitalization rate of approximately 8.2%. Since acquisition, our properties decreased in value by $56.3 million of which $33.7 million is attributable to the weakening of the euro against the Canadian dollar and $23.1 million attributable to an increase in Cap Rates and the impact of an increase in German real estate transaction taxes.

Interest expense

Interest expense decreased by $0.8 million and $0.4 million, respectively, compared to the pro-rated forecast for the period August 3, 2011 to December 31, 2011 and for the quarter ended December 31, 2011, mainly due to a reduction in the realized interest rate on the credit facility partially offset by additional interest related to the over-allotment of the Debentures and appreciation of the euro compared to the forecast. The actual weighted average interest rate realized on the Facility for the period August 3, 2011 to December 31, 2011 and for the quarter ended December 31, 2011, was 3.97% and 3.98%, respectively, compared to 4.10% that we expected to realize in the forecast. Additionally, on an effective interest rate basis, we realized a rate of 4.02% for the period August 3, 2011 to December 31, 2011 and 4.04% for the quarter ended December 31, 2011, compared to 4.60% in the forecast, mainly reflecting the receipt of $9.5 million from the vendor for the purchase of an in-the-money swap. This increase was partially offset by additional interest related to $21 million of Debentures issued pursuant to the over-allotment.

Transaction costs

Transaction costs of $7.9 million were incurred for the period from August 3, 2011 to December 31, 2011. During the quarter, we incurred $0.5 million of transaction costs. Transaction costs mainly represent legal, accounting and tax advisory fees in relation to the purchase of our properties. The forecast anticipated transaction costs of $6.4 million.

Fair value adjustment to financial instruments

For the period from August 3, 2011 to December 31, 2011, we incurred an unrealized net loss on the change in the fair value of financial instruments of $14.6 million. The net loss is composed of a $17.9 million loss related to the fair value change in the interest rate swap and cap as a result of a significant decrease in the forward price of interest rates since acquiring the in-the-money swap on August 3, 2011. The loss was partially offset by unrealized fair value gains of approximately $1.8 million related to our foreign currency forward contracts due to a depreciation of the euro compared to the Canadian dollar and by an unrealized gain of $1.5 million related to the conversion feature of the Debentures.

For the quarter, we incurred an unrealized net loss on the change in the fair value of financial instruments of $8.6 million. The net loss is composed of the following: a $4.7 million loss related to the fair value change in the interest rate swap and cap that were entered into pursuant to the requirements of our credit facility as a result of a significant decrease in the forward price of interest rates since September 30, 2011; an unrealized loss of $5.7 million related to the conversion feature of the Debentures; and an unrealized loss of $2.5 million related to a fair value change on the Exchangeable Notes. The losses were partially offset by unrealized fair value gains of approximately $4.3 million related to our foreign currency forward contracts due to a depreciation of the euro compared to the Canadian dollar.

Income taxes

We recognized a deferred income tax recovery of $6.3 million and $5.4 million, respectively, for the period August 3, 2011 to December 31, 2011 and for the quarter ended December 31, 2011, respectively, compared to a deferred tax expense of $1.6 million and $1.0 million for the respective forecast periods. The difference is mainly as a result of the tax impact associated with the fair value change related to investment properties and financial instruments.

Impact of foreign exchange

There was a foreign currency translation loss of $18.6 million and $20.3 million for the period August 3, 2011 to December 31, 2011 and for the quarter ended December 31, 2011, respectively. The exchange rates decreased from 1.365 at the time of acquisition to 1.3193 as at the end of December 2011.

Net rental income

	For the three months ended December 31, 2011	For the period from August 3, 2011, to December 31, 2011
Office	$ 1,888	$ 3,144
Mixed use	15,620	25,962
Industrial	3,461	5,394
Net rental income	**$ 20,969**	**$ 34,500**

Our portfolio management team is comprised of the employees of our advisory subsidiaries in Germany and Luxembourg who are responsible for providing asset management services for the investment properties, including asset strategy and leasing activities. The costs of these activities are not allocated to net rental income.

Funds from operations and adjusted funds from operations

	For the three months ended December 31, 2011	For the period from August 3, 2011, to December 31, 2011
NET INCOME	$ (25,976)	$ (23,201)
Add (deduct):		
Amortization related to investment in joint ventures	7	13
Interest expense on Exchangeable Notes	1,609	2,641
Transaction costs	467	(7,853)
Deferred income taxes	(5,367)	(6,263)
Term debt swap settlement	(317)	(573)
Loss on settlement of foreign currency contracts	(84)	(84)
Fair value adjustments to investment properties	31,704	23,147
Fair value adjustments to financial instruments	8,557	14,567
FFO	$ 10,600	$ 18,100
Add (deduct):		
Amortization of financing costs	488	790
Deferred unit compensation expense	88	88
Deferred asset management fees	831	841
Straight-line rent	(142)	(187)
	$ 11,865	$ 19,632
Deduct:		
Normalized leasing costs and tenant incentives	(1,025)	(1,682)
Normalized non-recoverable recurring capital expenditures	(600)	(985)
AFFO	$ 10,240	$ 16,965

Funds from operations and adjusted funds from operations per Unit amounts

The basic weighted average number of Units outstanding used in the FFO and AFFO calculations include all Units and the aggregate number of Units issuable upon the exchange of Exchangeable Notes. The diluted weighted average number of Units assumes the conversion of the Debentures. The incremental unvested deferred trust units represent the potential Units that would have to be purchased in the open market to fund the unvested obligation. The weighted average number of Units outstanding for basic and diluted FFO calculations for the period from August 3, 2011 to December 31, 2011 is 51,160,834 and 63,363,664, respectively. The weighted average number of Units outstanding for the basic and diluted FFO calculation for the quarter ended December 31, 2011 is 51,862,716 and 64,396,562, respectively. Diluted FFO includes interest and amortization adjustments related to the Debentures of $4.3 million for the quarter.

To allow a better comparison with the financial forecast, the impact of the over-allotment was excluded. Excluding proceeds of $40.5 million received for Units and $21.0 million for Debentures, the weighted average number of units outstanding for basic and diluted FFO per unit calculation for the period August 3 to December 31, 2011 is 47,808,185 and 58,673,776, respectively. The weighted average number of units outstanding for basic and diluted FFO per unit calculation for the quarter ended December 31, 2011 is 47,812,716 and 58,731,177, respectively. In calculating basic FFO, $0.4 million and $0.3 million were added back to FFO for the interest paid on the over-allotment of Debentures for the period August 3 to December 31, 2011 and the quarter ended December 31, 2011, respectively. Diluted FFO includes interest and amortization adjustments related to the Debentures of $3.9 million and $2.4 million for the period August 3, 2011 to December 31, 2011 and for the quarter ended December 31, 2011, respectively.

Funds from operations

Management believes FFO is an important measure of our operating performance. This non-IFRS measurement is a commonly used measure of performance of real estate operations; however, it does not represent cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Dundee International REIT's needs.

	For the three months ended December 31, 2011	For the period from August 3, 2011, to December 31, 2011
FFO	$ 10,600	$ 18,100
FFO per unit — basic	$ 0.20	$ 0.35
FFO per unit — diluted	$ 0.20	$ 0.35

Excluding the impact of uninvested over-allotment proceeds:

FFO per unit — basic	$ 0.23	$ 0.39
FFO per unit — diluted	$ 0.22	$ 0.37

Adjusted funds from operations

	For the three months ended December 31, 2011	For the period from August 3, 2011, to December 31, 2011
AFFO	$ 10,240	$ 16,965
AFFO per unit — basic	$ 0.20	$ 0.33

Excluding the impact of uninvested over-allotment proceeds:

AFFO per unit — basic	$ 0.22	$ 0.36

AFFO is an important measure of our economic performance and is indicative of our ability to pay distributions. This non-IFRS measurement is commonly used for assessing real estate performance; however, it does not represent cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Dundee International REIT's needs.

Our calculation of AFFO includes an estimated amount of normalized non-recoverable maintenance capital expenditures, initial direct leasing costs and tenant incentives that we expect to incur based on our current portfolio and expected average leasing activity. Our estimates of initial direct leasing costs and lease incentives are based on the average of our expected leasing activity over the next two to three years and multiplied by the average cost per square foot that we expect to incur. Our estimates of normalized non-recoverable capital expenditures are based on our expected average expenditures for our current property portfolio. This estimate will differ from actual experience due to the timing of expenditures and any growth in our business resulting from property acquisitions.

AFFO is not defined by IFRS and therefore may not be comparable to similar measures presented by other real estate investment trusts. In compliance with the Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles AFFO to cash generated from operating activities.

	For the three months ended December 31, 2011	For the period from August 3, 2011, to December 31, 2011
Cash generated from operating activities	$ 10,803	$ 22,611
Add (deduct):		
Transaction costs on acquired properties	467	7,853
Change in non-cash working capital	477	(10,931)
Share of general and administrative expenses from equity accounted investments	39	20
Deferred gain/loss on settlement of foreign exchange contracts	32	32
Investment in lease incentives and initial direct leasing costs	47	47
Normalized leasing costs and lease incentives	(1,025)	(1,682)
Normalized non-recoverable recurring capital expenditures	(600)	(985)
AFFO	$ 10,240	$ 16,965

SECTION III — DISCLOSURE CONTROLS AND PROCEDURES

In accordance with section 3.3(1)(c) of National Instrument 51-109, the Chief Executive Officer and Chief Financial Officer have limited the scope of our design of Disclosure Controls and Procedures and Internal Controls over Financial Reporting to exclude controls, policies and procedures related to the portfolio of properties we acquired on August 3, 2011, as they form the business that we acquired less than 365 days before our financial year-end. The results of the acquired business, which forms our entire business, are included in our consolidated financial statements for the period ended December 31, 2011. We intend to complete our design of Disclosure Controls and Procedures and Internal Controls over Financial Reporting by the end of our first quarter in 2012.

Internal controls over financial reporting

The REIT's Chief Executive Officer and Chief Financial Officer are designing the REIT's internal control over financial reporting (as defined by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

SECTION IV — RISKS AND OUR STRATEGY TO MANAGE

We are exposed to various risks and uncertainties, many of which are beyond our control. The following is a review of the material risks and uncertainties that could materially affect our operations and future performance. A more detailed description of our business environment and the risks and uncertainties that could affect our operations and future performance are contained in our prospectus dated July 21, 2011, which is available at www.sedar.com.

Real estate ownership

Real estate ownership is generally subject to numerous factors and risks, including changes in general economic conditions (such as the availability, terms and cost of mortgage financings and other types of credit), local economic conditions (such as an oversupply of office and other commercial properties or a reduction in demand for real estate in the area), the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs.

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and during an economic recession we may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for us to dispose of properties at lower prices in order to generate sufficient cash for operations and making distributions and interest payments.

Certain significant expenditures (e.g., property taxes, maintenance costs, mortgage payments, insurance costs and related charges) must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. In order to retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property's condition to meet market demand. Maintaining a rental property in accordance with market standards can entail significant costs, which we may not be able to pass on to our tenants. Numerous factors, including the age of the relevant building structure, the material and substances used at the time of construction, or currently unknown building code violations, could result in substantial unbudgeted costs for refurbishment or modernization. In the course of acquiring a property, undisclosed defects in design or construction or other risks might not have been recognized or correctly evaluated during the pre-acquisition due diligence process. These circumstances could lead to additional costs and could have an adverse effect on our proceeds from sales and rental income of the relevant properties.

Rollover of leases

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. Furthermore, the terms of any subsequent lease may be less favourable than those of the existing lease. Our cash flows and financial position would be adversely affected if our tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in our properties could not be leased on economically favourable lease terms. In the event of default by a tenant, we may experience delays or limitations in enforcing our rights as lessor and incur substantial costs in protecting our investment. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to us.

The majority of the Deutsche Post leases expire in 2018. Deutsche Post has early termination rights entitling it to terminate certain leases prior to their expiry upon 12 months' prior notice. As of the date hereof, these termination rights pertain to approximately 30% of Deutsche Post's GLA.

Concentration of properties and tenants

Currently, all of our properties are located in Germany and as a result are impacted by economic and other factors specifically affecting the real estate markets in Germany. These factors may differ from those affecting the real estate markets in other regions. Due to the concentrated nature of our properties, a number of our properties could experience any of the same conditions at the same time. If real estate conditions in Germany decline relative to real estate conditions in other regions, our cash flows and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

We derive a significant portion of our rental income from Deutsche Post. Consequently, our revenues are dependent on the ability of Deutsche Post to meet its rent obligations and our ability to collect rent from Deutsche Post.

Financing

We require access to capital to maintain our properties as well as to fund our growth strategy and significant capital expenditures. There is no assurance that capital will be available when needed or on favourable terms. Our access to third-party financing will be subject to a number of factors, including general market conditions; the market's perception of our growth potential; our current and expected future earnings; our cash flow and cash distributions and cash interest payments; and the market price of our Units.

A significant portion of our financing is debt. Accordingly, we are subject to the risks associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest, and that on maturities of such debt we may not be able to refinance the outstanding principal under such debt or that the terms of such refinancing will be more onerous than those of the existing debt. If we are unable to refinance debt at maturity on terms acceptable to us or at all, we may be forced to dispose of one or more of our properties on disadvantageous terms, which may result in losses and could alter our debt-to-equity ratio or be dilutive to unitholders. Such losses could have a material adverse effect on our financial position or cash flows.

The degree to which we are leveraged could have important consequences to our operations. A high level of debt will: reduce the amount of funds available for the payment of distributions to unitholders and interest payments on our Debentures; limit our flexibility in planning for, and reacting to, changes in the economy and in the industry and increase our vulnerability to general adverse economic and industry conditions; limit our ability to borrow additional funds, dispose of assets, encumber our assets and make potential investments; place us at a competitive disadvantage compared to other owners of similar real estate assets that are less leveraged and therefore may be able to take advantage of opportunities that our indebtedness would prevent us from pursuing; make it more likely that a reduction in our borrowing base following a periodic valuation (or redetermination) could require us to repay a portion of then outstanding borrowings; and impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general trust or other purposes.

Tax matters

Although we have been structured with the objective of maximizing after-tax distributions, tax charges and withholding taxes in various jurisdictions in which we invest will affect the level of distributions made to us by our subsidiaries. No assurance can be given as to the level of taxation suffered by us or our subsidiaries. Currently, our revenues are derived from our investments located in Germany. It is possible that certain of our subsidiaries could be subject to German corporate income tax on their net rental income and capital gains from the sale of properties. Although we have managed our tax affairs on the assumption that certain of our subsidiaries will be subject to German corporate income tax (with a view to minimizing, to the extent possible, the amount of taxable income from operations in Germany), there is no certainty that we will not pay German corporate income tax. In addition, German real estate transfer tax ("RETT") is triggered when among other things there is a transfer of legal title of properties from one legal person to another. In the case of the initial reallocation of our properties, legal title was not transferred and, consequently, no RETT should be payable in connection therewith. However, if, unexpectedly, RETT does become payable as a result of the reallocation of our properties, we will be required to pay 50% of such RETT.

Our debt financing agreements with third parties and affiliates require us to pay principal and interest. Several rules in German tax laws restrict the tax deductibility of interest expenses for corporate income and municipal trade tax purposes. Such rules have been changed considerably on several occasions in the recent past. As a result, major uncertainties exist as to the interpretation and application of such rules, which are not yet clarified by the tax authorities and the tax courts. Accordingly, there is a risk of additional taxes being triggered on the rental income and capital gains in case the tax authorities or the tax courts adopt deviating views on such rules.

We have structured our affairs to ensure that none of the Luxembourg entities through which we hold our real property investment in Germany (our "FCPs") has a permanent establishment in Germany, which is relevant for determining whether they would also be liable to municipal trade tax. If it is determined that any of our subsidiaries does have a permanent establishment in one or more German municipalities, the overall rate of German income tax applicable to taxable income could materially increase.

Changes in law

We are subject to applicable federal, state, municipal, local and common laws and regulations governing the ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in such laws or regulations or changes in their application, enforcement or regulatory interpretation could result in changes in the legal requirements affecting us (including with retroactive effect). In addition, the political conditions in the jurisdictions in which we operate are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which we are subject in the jurisdictions in which we operate could materially affect our rights and title in and to the properties and the revenues we are able to generate from our investments.

Foreign exchange rate fluctuations

Substantially all of our investments and operations will be conducted in currencies other than Canadian dollars; however, we pay distributions to unitholders and interest payments on our Debentures in Canadian dollars. We also raise funds primarily in Canada from the sale of securities in Canadian dollars and invest such funds indirectly through our subsidiaries in currencies other than Canadian dollars. As a result, fluctuations in such foreign currencies against the Canadian dollar could have a material adverse effect on our financial results, which will be denominated and reported in Canadian dollars, and on our ability to pay cash distributions to unitholders and cash interest payments on our Debentures. We have implemented active hedging programs in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders and interest payments on our Debentures if the Canadian dollar increases in value compared to foreign currencies. However, to the extent that we fail to adequately manage these risks, including if any such hedging arrangements do not effectively or completely hedge changes in foreign currency rates, our financial results, and our ability to pay distributions to unitholders and cash interest payments on our Debentures, may be negatively impacted. Hedging transactions involve the risk that counterparties, which are generally financial institutions, may be unable to satisfy their obligations. If any counterparties default on their obligations under the hedging contracts or seek bankruptcy protection, it could have an adverse effect on our ability to fund planned activities and could result in a larger percentage of future revenue being subject to currency changes.

Interest rates

When entering into financing agreements or extending such agreements, we depend on our ability to agree on terms for interest payments that will not impair our desired profit and on amortization schedules that do not restrict our ability to pay distributions on our Units and interest payments on our Debentures. In addition to existing variable rate portions of our financing agreements, we may enter into future financing agreements with variable interest rates. An increase in interest rates could result in a significant increase in the amount paid by us to service debt, which could limit our ability to pay distributions to unitholders and could impact the market price of the Units and/or the Debentures. We have implemented an active hedging program in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders and cash interest payments under the Debentures should current variable interest rates increase. However, to the extent that we fail to adequately manage these risks, including if any such hedging arrangements do not effectively or completely hedge increases in variable interest rates, our financial results, and our ability to pay distributions to unitholders and cash interest payments under our financing arrangements, the Debentures and future financings may be negatively affected. Hedging transactions involve inherent risks. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a significant negative effect on our ability to sell any of our properties. See "Foreign exchange rate fluctuations" above.

Environmental risk

We are subject to various laws relating to environmental matters. Our properties may contain ground contamination, hazardous substances, wartime relics or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances above the allowable or recommended thresholds, or the buildings could bear other environmental risks. Actual and contingent liabilities may be imposed on us under applicable environmental laws to assess and, if required, undertake remedial action on contaminated sites and in contaminated buildings. These obligations may relate to sites we currently own or operate, sites we formerly owned or operated, or sites where waste from our operations has been deposited. Furthermore, actions for damages or remediation measures may be brought against us, including under the German Federal Soil Protection Act (*Bundesbodenschutzgesetz*). According to this Act, not only the polluter but also its legal successor, the owner of the contaminated site and certain previous owners may be held liable for soil contamination. The costs of any removal, investigation or remediation of any residual pollution on such sites or in such buildings, as well as costs related to legal proceedings, including potential damages, regarding such matters, may be substantial, and it may be impossible, for a number of reasons, for us to have recourse against a polluter and/or former seller of a contaminated site or building or the party that may otherwise be responsible for the contamination. Furthermore, the discovery of any residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages or other breach of warranty claims against us. Environmental laws may also impose liability on us for the release of certain materials into the air or water from a property, including asbestos, and such release could form the basis for liability to third persons for personal injury or other damages.

Organizational structure

We hold a 50% equity interest in Lorac, which is the manager of our FCPs and the registered owner on title to our properties. Lorac is also the manager of another fund and the registered owner on title to a portfolio of properties on behalf of that other fund. We and the owner of the remaining Lorac shares have entered into a shareholders' agreement, which provides us with the right to appoint three of the six directors of Lorac. In addition, the directors of Lorac have adopted governance rules pursuant to which, subject to applicable law, our appointed directors generally have responsibility for matters relating to our properties, and the other three directors, who are nominated by the other owner of the Lorac shares, generally have responsibility for matters affecting other properties of which Lorac is the registered owner on title. Pursuant to such shareholders' agreement and the governance rules, certain matters such as filing tax returns and shared employee matters will require the approval of a majority of the directors. Each of the directors has a fiduciary duty to act in the best interests of Lorac and Lorac has a duty to manage our FCPs and the other fund in the best interests of the respective unitholders. However, it is possible that we will need the approval of a majority of the directors of Lorac with respect to certain matters involving our properties and there can be no assurance that such matters will be approved at all or on the terms requested. Any matter with respect to which our appointed directors and those appointed by the other owner of the Lorac shares cannot agree will be submitted to the Lorac shareholders. However, since we have only 50% of the voting shares of Lorac, there can be no assurance that any such matter will be approved in the manner in which we would hope. Such dispute could have a material and adverse effect on our cash flows, financial condition and results of operations, and on our ability to make distributions on the Units or cash interest payments on the Debentures.

As manager of the other fund since 2008, Lorac has incurred and will continue to incur liabilities as a result of managing that other fund and its assets. To the extent that the other fund is unable to satisfy such liabilities, a third party could seek recourse against Lorac. If Lorac is unable to satisfy such liabilities, Lorac could be required to seek protection from creditors under applicable bankruptcy or insolvency legislation. Taking such steps could result in Lorac being replaced as the manager of our FCPs with the result that legal title to our properties would be required to be transferred to a new manager. This would result in the payment of RETT in Germany. The amount of such taxes could have a material and adverse effect on our cash flows, financial condition and results of operations. We have negotiated certain limited indemnities from the other fund in connection with any prior existing liabilities of the other fund and with those that may arise as a result of actions or omissions of the other fund. In addition to the foregoing, we have been advised by our Luxembourg counsel that creditors of the other fund could only seek recourse against the assets of the other fund and could not seek recourse against the assets of our FCPs regardless of the fact that Lorac may have entered into the contract on behalf of the other fund or our FCPs creating such right to a claim.

Competition

The real estate market in Germany is highly competitive and fragmented and we compete for real property acquisitions with individuals, corporations, institutions and other entities that may seek real property investments similar to those we desire. An increase in the availability of investment funds or an increase in interest in real property investments may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them. If competing properties of a similar type are built in the area where one of our properties is located or if similar properties located in the vicinity of one of our properties are substantially refurbished, the net operating income derived from and the value of such property could be reduced.

Numerous other developers, managers and owners of properties will compete with us in seeking tenants. To the extent that our competitors own properties that are better located, of better quality or less leveraged than the properties owned by us, they may be in a better position to attract tenants who might otherwise lease space in our properties. To the extent that our competitors are better capitalized or stronger financially, they will be better able to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition.

Insurance

We carry general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in Germany and otherwise acceptable to our trustees. For the property risks, we carry "All Risks" property insurance including, but not limited to, flood, earthquake and loss of rental income insurance (with at least a 24-month indemnity period). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. However, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. We partially self-insure against terrorism risk for our entire portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. We do not carry title insurance on our properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

SECTION V — CRITICAL ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

Management of Dundee International REIT believes that certain policies may be subject to estimation and management's judgment. For a list and explanation of these policies refer to Note 4 of the consolidated financial statements.

For a list and explanation of future accounting policy changes, refer to Note 5 of the financial statements.

Additional information relating to Dundee International REIT is available on SEDAR at www.sedar.com.