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

- Acquired an office building in Düsseldorf, Germany for approximately $107.7 million, the REIT’s largest single asset transaction since its inception, which had a 7.6% capitalization rate (“cap rate”) and a mortgage interest rate of 2.3%;
- Total assets acquired in 2013 exceeded $1.0 billion and had an average cap rate of 6.7% and an average borrowing rate of 2.6%;
- Diversified tenant profile with our largest tenant, Deutsche Post, contributing 37% to the overall gross rental income (“GRI”) at the end of 2013, down from 65% at the end of 2012;
- Active leasing resulted in positive absorption of approximately 10,800 square feet of space in Q4, increasing 2013 total absorption to approximately 180,100 square feet;
- Occupancy rate increased to 86.4% at the end of 2013 from 83.2% at the end of 2012.

	Three months ended December 31,		Years ended December 31,	
	2013(1)	2012(1)	**2013(1)**	2012(1)
Operations				
Occupancy rate (period-end)	**86.4%**	83.2%		
In-place rent per square foot (euros)	**€ 8.46**	€ 6.25		
Operating results				
Investment properties revenue	**$ 62,528**	$ 35,926	**$ 220,220**	$ 138,661
Net rental income	**41,872**	22,057	**144,853**	85,439
Net rental income – Initial Properties	**20,033**	19,262	**79,126**	78,646
Net rental income – Acquisition Properties	**21,839**	2,795	**65,727**	6,793
Funds from operations (“FFO”)(2)	**24,235**	12,348	**84,422**	48,320
Adjusted funds from operations (“AFFO”)(3)	**22,259**	11,887	**78,007**	46,164
Net rental income – Acquisition Properties (Pro forma estimate)(4)			**90,000**	18,000
Distributions				
Declared distributions and interest on Exchangeable Notes	**$ 22,005**	$ 12,953	**$ 80,156**	$ 46,064
Distributions paid and payable in cash (including interest on Exchangeable Notes)(5)	**18,249**	11,888	**69,205**	44,095
Financing				
Weighted average interest rate (period-end)	**3.37%**	3.98%	**3.37%**	3.98%
Interest coverage ratio ("ICR")(6)	**3.41 times**	3.23 times	**3.40 times**	3.03 times
Per unit amounts				
Basic:(7)				
FFO(2)	**$ 0.22**	$ 0.19	**$ 0.85**	$ 0.84
AFFO(3)	**0.20**	0.19	**0.79**	0.80
Distribution rate	**0.20**	0.20	**0.80**	0.80
Basic (excluding impact of undeployed cash):				
FFO(2)	**0.24**	0.24	**0.94**	0.98
AFFO(3)	**0.22**	0.24	**0.88**	0.94
Weighted average number of units outstanding	**109,482,435**	64,064,093	**99,335,779**	57,379,400

FFO, AFFO and weighted average interest rate are key measures of performance used by real estate operating companies; however, they are not defined under International Financial Reporting Standards (“IFRS”), do not have standard meanings and may not be comparable with other industries or income trusts.

(1) Results from operations were converted into Canadian dollars from euros using the average exchange rates found on page 24.
(2) FFO – The reconciliation of FFO to net income can be found on page 25.
(3) AFFO – The reconciliation of AFFO to FFO and net income can be found on page 25. The reconciliation to operating cash flows can be found on page 27.
(4) Pro forma estimate assumes that the acquisitions were effective as at January 1 of the respective periods.
(5) Includes interest on Exchangeable Notes which were fully exchanged in April and September 2012.
(6) Interest coverage ratio – The calculation of ICR reconciled to IFRS measures can be found on page 29.
(7) A description of the determination of basic and diluted amounts per unit can be found on page 25.

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", the "REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements of the Trust for the year ended December 31, 2013.

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

This management's discussion and analysis has been dated as at February 26, 2014, 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;
- "GRI", meaning gross rental income;
- "Initial Properties", meaning the income-producing properties we acquired on August 3, 2011;
- "Acquisition Properties", meaning the income-producing properties acquired subsequent to the Trust's initial public offering on August 3, 2011; and
- "Units", meaning the Units of the Trust.

Certain information has been obtained from CB Richard Ellis Germany ("CBRE"), 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.

When we use the terms such as "we", "us" and "our", we are referring to the REIT and its subsidiaries.

When we refer to Deutsche Post as being the lessee or the tenant of the Initial Properties, we are referring to Deutsche Post Immobilien GmbH ("DPI"), which is a wholly owned subsidiary of Deutsche Post. Deutsche Post has provided a letter of support with respect to DPI and its ability to carry out its obligations under leases for the Initial Properties.

In addition, certain disclosure incorporated by reference into this report includes information regarding our largest tenants that has been obtained from publicly available information. We have not independently verified any such information.

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 and other 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; the Trust's continued exemption 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 securities regulators.

All forward-looking information is as of February 26, 2014, except where otherwise noted. 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 web site 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 DREAM Asset Management Corporation ("DAM"), formerly called Dundee Realty Corporation or "DRC", a subsidiary of DREAM Unlimited Corp. (TSX: DRM), which is our asset manager. Our Units are listed on the Toronto Stock Exchange under the trading symbol DI.UN.

As at December 31, 2013, our portfolio consisted of 296 properties, comprising approximately 15.7 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 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.

Distributions

We currently pay monthly distributions to unitholders of 6.667 cents per unit, or 80 cents per unit on an annual basis. At December 31, 2013, approximately 17.4% of our total Units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP").

	December 31,		September 30,		June 30,		March 31,	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Annualized distribution rate	**$ 0.80**	$ 0.80	**$ 0.80**	$ 0.80	**$ 0.80**	$ 0.80	**$ 0.80**	$ 0.80
Monthly distribution rate	**$ 0.0667**	$ 0.0667	**$ 0.0667**	$ 0.0667	**$ 0.0667**	$ 0.0667	**$ 0.0667**	$ 0.0667
Period-end closing unit price	**$ 8.42**	$ 10.93	**$ 9.41**	$ 11.00	**$ 9.85**	$ 9.94	**$ 10.64**	$ 10.11
Annualized distribution yield on closing unit price (%)	**9.50%**	7.32%	**8.50%**	7.27%	**8.12%**	8.05%	**7.52%**	7.91%

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 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 Initial Properties, deep market knowledge and established relationships with other market participants. Leasing, capital expenditure and construction initiatives are either internally managed or overseen by us, while property management services, including general maintenance, rent collection and administration of operating expenses and tenant leases, are carried out by third-party service providers.

Diversifying our portfolio to mitigate risk

We continuously 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. Our profile in Europe, our relationships, our management team in Germany and Luxembourg, and the expertise of our Board members and senior management team are providing us with opportunities to take advantage of real estate transactions available in Germany to date.

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 within our portfolio of properties. The execution of this strategy will be consistently reviewed and will also include 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 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 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 debenture holders.

OUR ASSETS

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

Initial Properties

As at December 31, 2013, this category included 272 national and regional administration offices, mixed use retail, banking and distribution properties and regional logistics headquarters of Deutsche Post. The properties are generally strategically located near central train stations and main retail areas and are easily accessible by public transportation.

Acquisition Properties

As at December 31, 2013, this category included 24 office properties acquired in 2012 and 2013. These properties are high-quality office buildings located in Germany’s largest office markets and are generally newer or recently refurbished buildings.

The majority of our portfolio is concentrated in Germany's largest office markets:

City	Total GLA (sq. ft.)	Total GLA (%)	Total GRI (%)
Berlin	674,362	4	5
Cologne	783,967	5	6
Düsseldorf	1,815,847	12	15
Frankfurt	1,205,885	8	10
Hamburg	1,291,504	8	13
Hannover	959,452	6	4
Munich	633,304	4	8
Nuremberg	640,567	4	5
Stuttgart	729,182	5	5
Other	6,971,355	44	29
Total	15,705,425	100	100

TENANTS

Through an active acquisitions and dispositions program that commenced in 2012, the Trust continued with the diversification of its tenant base. The table below highlights the diversification away from the single-tenant nature of the initial portfolio. At the end of 2013, Deutsche Post's GRI was further reduced to approximately 37% of the Trust's overall GRI compared to over 65% at the end of 2012.

Tenant composition	Total annualized GRI (%)
Deutsche Post	37.3
Freshfields Bruckhaus Deringer	3.2
ERGO Direkt	3.0
Imtech	2.4
Google Germany GmbH	2.1
AIG Europe Limited	2.1
BNP Paribas Fortis SA/NV	2.0
Freistaat Bayern (TU München)	1.7
Maersk Deutschland A/S & Co. KG	1.4
Jobcenter Berlin Mitte – Federal Employment Agency	1.4
Other third-party tenants	43.4
Total	100.0

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. Through its acquisition of DHL in 2002, Deutsche Post DHL has become a global logistics market leader. It employs approximately 475,000 people in more than 220 countries and territories and generated revenue of over €27 billion in the first six months of 2013 alone.(1) As the only provider of universal postal services in Germany, Deutsche Post must provide certain minimum levels of service to German residents.

Some of the space leased to Deutsche Post is occupied by Postbank, a public company controlled by Deutsche Bank and integral to its retail banking business. Postbank offers retail financial services in its branches within Deutsche Post's network, which generates increased traffic through the postal services offered in those branches. As at December 31, 2013, our portfolio featured approximately 188 Postbank branches, allowing for the delivery of integrated financial and postal services. Leases for 14 Postbank branches are direct leases and not included in the leases with Deutsche Post. Subsequent to year-end, we entered into 37 additional direct lease contracts with Postbank for approximately 166,000 square feet of space that Deutsche Post has terminated in connection with its 2014 termination rights. 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.

(1) As disclosed at Deutsche Post DHL's web site at www.dp.dhl.com

Freshfields Bruckhaus Deringer ("Freshfields")

Freshfields is the second largest tenant in our portfolio as measured by GRI. Freshfields is an international law firm with offices in Europe, Asia, North America and the Middle East.[2] Freshfields occupies 71% of the space in our property located at Feldmühleplatz 1 + 15 and generated approximately 3.2% of the REIT's overall GRI as at December 31, 2013.

ERGO Direkt Lebensversicherungs AG ("ERGO")

ERGO is the third largest tenant in our portfolio as measured by GRI. With approximately 48,000 employees in over 30 countries, ERGO is one of the largest insurance companies in Germany.[3] ERGO, which belongs to the Munich RE group of companies, occupies the entire space in our property located at Karl-Martell-Strasse 60 in Nuremberg, and generated approximately 3.0% of the REIT's overall GRI as at December 31, 2013.

Imtech

Imtech Germany & Eastern Europe is a leader in the energy and technical building equipment sector in Germany, Poland, Austria, Hungary, Romania, Russia and Switzerland. Imtech Germany & Eastern Europe employs approximately 5,800 people and is part of the Royal Imtech N.V. Group, which is based in the Netherlands and employs approximately 29,000 people.[4] This tenant occupies the entire space in our property located at Hammer Strasse 30–34 in Hamburg, which is Imtech's German head office, and contributed approximately 2.4% to the REIT's overall GRI as at December 31, 2013.

Google Germany GmbH ("Google")

Google is an American multinational corporation specializing in internet-related services and products and employs over 30,000 people worldwide.[5] Google Hamburg is the company's commercial headquarters for Germany, Austria, Switzerland and the Nordics and occupies approximately 59% of the GLA in ABC Bogen, our property located in the heart of Hamburg at ABC Strasse 19. Google generated approximately 2.2% of the REIT's overall GRI as at December 31, 2013.

AIG Europe Limited ("AIG")

AIG Europe Limited is a part of AIG, a leading international insurance company focused on property casualty insurance, life insurance and retirement services, mortgage insurance and aircraft leasing. AIG has clients in over 130 countries and employs approximately 63,000 people.[6] AIG occupies approximately 60% of the space in Werfthaus, our property located at Speicherstrasse 55 in Frankfurt, and generated approximately 2.1% of the REIT's overall GRI as at December 31, 2013.

BNP Paribas Fortis

BNP Paribas Fortis is a financial services provider, offering services to private and professional clients, corporate clients and public entities through a number of networks. The company is owned approximately 75% by the BNP Paribas Group and 25% by the Belgian State.[7] BNP Paribas Fortis occupies approximately 55% of the space in Cäcilienkloster in Cologne as well as 8% in Z-UP in Stuttgart and generated approximately 2.0% of the REIT's overall GRI as at December 31, 2013.

State of Bavaria/Technische Universität München

The Technische Universität München ("TUM") is one of Europe's top universities. TUM comprises 13 faculties which focus on engineering, medicine, natural and life sciences, business and education. Approximately 32,500 students are currently enrolled at TUM.[8] TUM's School of Education occupies approximately 48% of the GLA in our property located at Marsstrasse 20–22 in the city centre of Munich. TUM generated approximately 1.7% of the REIT's overall GRI as at December 31, 2013.

Maersk Deutschland A/S & Co. KG ("Maersk")

Maersk is the world's largest ocean carrier and operates mainly in two industries: shipping and oil and gas. Through its various divisions, the group employs approximately 121,000 people and generated over US$59 billion in revenues in 2012.[9] Maersk occupies approximately 70% of the GLA in Humboldt House, our property located at Am Sandtorkai 37 in Hamburg. Maersk generated approximately 1.5% of the REIT's overall GRI as at December 31, 2013.

[2] As disclosed at Freshfields' web site at www.freshfields.com

[3] As disclosed at ERGO's web site at www.ergo.com

[4] As disclosed at Imtech's web site at www.imtech.de

[5] As disclosed at Google's web site at www.google.com and www.google.ca/about/jobs/locations/hamburg

[6] As disclosed at AIG's web site at www.aig.com

[7] As disclosed at BNP Paribas' web site at www.bnpparibas.com

[8] As disclosed at Technische Universität München's web site at www.tum.de/en/homepage

[9] As disclosed at Maersk's web site at www.maersk.com

Jobcenter Berlin Mitte

Jobcenter Berlin Mitte is part of the Federal Employment Agency, the largest provider of labour market services in Germany. The Federal Employment Agency has a network of more than 700 agencies and branch offices nationwide.[10] Jobcenter Berlin Mitte occupies approximately 51% of the GLA in Löwenkontor, our property located at Beuthstrasse 6–8 and Seydelstrasse 2–5 in Berlin. Jobcenter Berlin Mitte generated approximately 1.4% of the REIT's overall GRI as at December 31, 2013.

[10] As disclosed at Jobcenter Berlin Mitte's web site at www.arbeitsagentur.de

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 key 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 continues to be the main driving force of Europe. Germany's labour market is very robust and its registered unemployment rate at 6.7%[1] at the end of December 2013 remains near all-time lows since Germany's reunification in 1989. In addition, the Ifo Business Climate Index improved for the third month in a row in January 2014 and reached its highest level since June of 2012, an indicator of satisfaction with the current business situation in Germany.[2]

Economic impact on the German real estate sector

Germany is one of the most highly sought-after real estate investment markets in Europe, benefiting from strong domestic and international investor demand. A positive economic outlook and a strong labour market are key factors for the continued demand in this market. In 2013, the total investment volume for commercial real estate reached over €30 billion.

The office sector remains the dominant asset class for investments, with over 50% of all transactions during 2013 taking place in this category. In total, over €15 billion[3] was invested in German office properties in 2013. The five largest real estate markets in Germany continue to account for the majority of the overall investment volume, with more than half of all the transactions taking place in Berlin, Düsseldorf, Frankfurt, Hamburg and Munich.[3]

The underlying fundamentals in the office sector remain strong. The stability in the office market is supported by a relatively moderate degree of new space coming to market and take-up for the redevelopment of vacant office space for alternative use. Overall office vacancies in the seven largest markets declined year-over-year from 8.8% at December 31, 2012 to 8.3% as at December 31, 2013.[4]

[1] Destatis, Germany's Federal Statistical Office

[2] Ifo Business Survey for January 2014

[3] CBRE MarketView, Germany Investment Quarterly Q4 2013

[4] Jones Lang LaSalle

FINANCIAL OVERVIEW

Our results for the fourth quarter were solid with FFO and AFFO increasing to $24.2 million and $22.3 million, respectively, reflecting the impact from positive absorption of space as well as completed acquisitions. On a per unit basis, FFO and AFFO were 22 cents and 20 cents, respectively. Over the course of the quarter, we had on average approximately $79 million of excess undeployed cash. Excluding the impact of undeployed cash, FFO and AFFO per unit would have been 24 cents and 22 cents, respectively.

During Q4 2013, we continued to make progress in transforming our portfolio. The Trust's focus on asset management through its local operations team in Europe is highlighted by continued occupancy improvements during the quarter. We recorded positive absorption of approximately 10,800 square feet in Q4, increasing our year-to-date total absorption to approximately 180,100 square feet. Overall occupancy increased to 86.4% at December 31, 2013 from 83.2% at the beginning of the year, due to positive absorption in our Initial Properties as well as higher in-place occupancy rates in our Acquisition Properties.

Year-over-year, in-place rents increased from $8.20 (€6.25) per square foot to $12.40 (€8.46) in Q4 2013, largely due to high-quality acquisitions. At $12.68 per square foot, average market rents in our portfolio remain approximately 2.3% above in-place rents.

On a year-over-year basis, our FFO and AFFO on a per unit basis were 85 cents and 79 cents, respectively, for 2013, compared to 84 cents and 80 cents for 2012. The FFO and AFFO numbers, which are comparable to the prior year, reflect the impact from dilution and the increase in the number of units outstanding. The full impact from the completed 2013 acquisitions will not be reflected until 2014.

The Trust continued to be active on the financing front, leading to further decreases in the Trust's average interest rate to 3.37% at the end of 2013, from 3.98% at the end of 2012. The average term to maturity of the Trust's debt increased to 4.6 years at December 31, 2013 from 4.4 years at December 31, 2012, and its interest coverage ratio increased from 3.0 times at the end of 2012 to 3.4 times at the end of 2013, mainly reflecting lower interest rates on new mortgages. Our leverage stood at 54% (net of cash) at December 31, 2013, an increase from 45% (net of cash) at the end of 2012.

The increase in our leverage ratio is largely due to new mortgage financings placed on acquisitions completed in 2013 at higher debt-to-book value than our portfolio at the beginning of the year. We operate in the range of 50% to 60% debt-to-book value and target 55% (net of cash).

On an overall basis, the Trust performed in line with management's expectations for the quarter.

OUTLOOK

With the completion of the acquisition of Feldmühleplatz 1 + 15 in Q4, our acquisitions for 2013 exceeded $1 billion, making the Trust one of the most active investors in office properties in Germany in 2013. Since our IPO, we have acquired high-quality properties totalling $1.3 billion. With these acquisitions, we have made significant improvements in the quality of our cash flow by focusing on newer properties with a broader tenant mix in the seven largest office markets ("Big 7") in Germany.

On average, the properties we acquired since the IPO are 12 years old, have a weighted average lease term of 6.3 years and an average occupancy rate of 95% and account for approximately 53% of our annual GRI. Further, we now have two-thirds of our asset value and 60% of our GRI in the Big 7 office markets in Germany.

We are pleased with the outcome of our discussions with Deutsche Post in 2013. Together with Postbank, they renewed approximately 50% of the space and 53% of the GRI they were eligible to terminate for a lease term of ten years at rates that are approximately 19% higher than the current rates. Our leasing team in Germany is focused on leasing the balance of the terminated space.

We enter 2014 with strong leasing momentum as the economic metrics in Germany remain positive. Our focus will continue to be on tenant retention as well as new leasing to enhance value. We will continue to explore redevelopment and intensification opportunities within our Initial Properties. At the same time, we will be opportunistic in disposing of non-core assets and recycling the capital to further enhance the quality of our cash flows.

SECTION II – EXECUTING THE STRATEGY

OUR OPERATIONS

Occupancy

Overall occupancy rates increased from 83.2% at the end of 2012 to 86.4% at the end of 2013. On average, Acquisition Properties have higher occupancy rates compared to our Initial Properties. Due to our leasing efforts throughout 2013, the occupancy in our Initial Properties increased from 82.1% at the end of 2012 to 83.2% at the end of 2013.

The table below details the percentage of occupied and committed space for the total portfolio as well as the comparative portfolio. The comparative portfolio comprises properties owned by the Trust at December 31, 2012 and December 31, 2013, and excludes properties that were acquired or sold during 2013.

		Total portfolio		Comparative portfolio
(percent)	**December 31, 2013**[1]	December 31, 2012[1]	**December 31, 2013**[1]	December 31, 2012[1]
Initial Properties	**83.2**	82.1	**83.2**	82.4
Acquisition Properties	**96.3**	94.5	**96.7**	94.5
Total	**86.4**	83.2	**84.4**	83.4

[1] Space for which the Trust receives head lease payments is reflected as vacant space.

Vacancy schedule

The tables below highlight our leasing activity for the three-month and twelve-month periods ended December 31, 2013. During 2013, our overall space available for lease decreased by 117,397 square feet to 2,128,127 square feet. The Trust recorded positive absorption of 10,796 square feet during the quarter, increasing absorption for the full year 2013 to 180,128 square feet. The primary drivers of the positive absorption results were our continued focus on tenant retention as well as leasing.

			For the three months ended December 31, 2013
(in square feet)	Initial Properties	Acquisition Properties	Total
Available for lease – October 1, 2013	1,984,395	156,449	2,140,844
Change in vacancy due to dispositions	(5,562)	-	(5,562)
Remeasurements	3,250	391	3,641
Subtotal – Available for lease	1,982,083	156,840	2,138,923
Expiries	65,792	102,962	168,754
Early termination and bankruptcies	2,489	-	2,489
New leases	(30,474)	(4,811)	(35,285)
Renewals	(15,584)	(100,330)	(115,914)
Future leases	(20,121)	(10,719)	(30,840)
Available for lease – December 31, 2013	1,984,185	143,942	2,128,127

			For the year ended December 31, 2013
(in square feet)	Initial Properties	Acquisition Properties	Total
Available for lease – January 1, 2013	2,182,694	62,830	2,245,524
Change in vacancy due to acquisitions	-	148,771	148,771
Change in vacancy due to dispositions	(90,657)	-	(90,657)
Remeasurements	16,021	(11,404)	4,617
Subtotal – Available for lease	2,108,058	200,197	2,308,255
Expiries	354,602	170,042	524,644
Early termination and bankruptcies	27,030	5,454	32,484
New leases	(131,852)	(33,312)	(165,164)
Renewals	(195,097)	(149,784)	(344,881)
Future leases	(178,556)	(48,655)	(227,211)
Available for lease – December 31, 2013	1,984,185	143,942	2,128,127

In-place rental rates

The following table provides a comparison between in-place rents and market rents in our portfolio as at December 31, 2013. Market rents are management's estimates of rental rates that could be achieved for space in our properties. In-place rents have increased from approximately $8.20 per square foot/year at the end of 2012 to approximately $12.40 at December 31, 2013, largely due to acquisitions completed in 2013. The majority of the leases in the Acquisition Properties include rent adjustment clauses linked to an increase in the consumer price index ("CPI"). Overall, average market rents for our portfolio remain approximately 2.3% above in-place rents at December 31, 2013. The 2.3% difference between in-place rents and market rents at December 31, 2013 is lower than the 3.4% reported in Q3, 2013, primarily as a result of the acquisition of Feldmühleplatz 1 + 15 in Q4. This particular property has above-market rents, which were taken into consideration in arriving at the purchase price at the time of the acquisition.

For acquisitions completed in 2012 and 2013, where in-place rents exceeded market rents, the purchase price was adjusted at the time of underwriting these acquisitions to reflect such above-market rents.

				In-place vs. market rents at December 31, 2013
(per square foot/year)	In-place rent	Market rent	In-place rent	Market rent
Initial Properties – Deutsche Post	$ 8.17	$ 8.97	€ 5.57	€ 6.12
Initial Properties – Third party	8.08	9.33	5.51	6.37
Total Initial Properties	8.15	9.04	5.56	6.17
Acquisition Properties	23.59	22.28	16.10	15.20
Overall	$ 12.40	$ 12.68	€ 8.46	€ 8.65

At December 31, 2013, the weighted average remaining lease term ("WALT") of all leases was approximately 4.8 years. The WALT of the Acquisition Properties was 6.0 years. The decrease in the WALT of the Initial Properties reflects the Deutsche Post termination notices, which are effective July 1, 2014.

(years)	**WALT at December 31, 2013**	WALT at December 31, 2012
Initial Properties – Deutsche Post	**4.1**[(1)]	5.6
Initial Properties – Third party	**5.1**	4.3
Total Initial Properties	**4.3**	5.3
Acquisition Properties	**6.0**	7.4
Overall	**4.8**	5.5

(1) WALT at December 31, 2013 reflects a shortened lease term for properties for which the Trust received termination notices in connection with Deutsche Post's 2014 termination rights.

Leasing and tenant profile

Lease rollover profile

The following table outlines our lease maturity profile by asset type as at December 31, 2013.

(in square feet)	Current vacancy	Month-to-month	2014	2015	2016	2017	2018 to 2039	Total
Initial Properties	1,984,185	345,112	1,299,762	252,025	141,214	192,973	7,590,211	11,805,481
Acquisition Properties	143, 942	16,137	127,495	335,590	507,411	389,812	2,379,556	3,899,944
Total	2,128,127	361,249	1,427,257	587,615	648,625	582,785	9,969,767	15,705,425

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 50% of the portfolio's GLA and account for 37% of the portfolio's GRI.

Rent adjustment

The rents under the Deutsche Post leases are subject to automatic adjustments (up or down) in relation to the CPI for Germany. If the consumer price index for Germany changes by more than 4.7 index points as compared to the index at the commencement of the applicable lease or the previous rent adjustment, the rent payable under the Deutsche Post leases is automatically adjusted by 100% of the index change of 4.7 points, with effect as of the time of the index change. Based on the index at the last CPI adjustment date, the index will have to reach 107.6 index points before the next adjustment will become effective. CPI numbers from December 2013 indicate that the CPI has reached 106.5 index points.

Termination rights and head lease

In general, the Deutsche Post leases have a fixed term of ten years, expiring on June 30, 2018. Certain leases entitle Deutsche Post to terminate space in 2012, 2014 and 2016, subject to certain limitations and requirements. The rights of Deutsche Post to terminate a Deutsche Post lease is limited by various tests which apply collectively to the Deutsche Post leases and the leases in respect of the remaining properties forming the portfolio that the vendor acquired from Deutsche Post in July 2008 (the "Caroline DP Leases"), considered as a whole. Deutsche Post exercised their termination rights with respect to 2012 and 2014.

Deutsche Post may terminate Deutsche Post leases and Caroline DP Leases aggregating no more than 10% of the total annual Reference Rent payable under all of the Deutsche Post leases and Caroline DP Leases on June 30, 2016. The "Reference Rent" for a lease is an amount set out in a specified notarial deed and may differ from the actual rent payable under the lease. To the extent that Deutsche Post does not exercise all of its available early termination rights with respect to any particular effective termination date, the unused portion may be carried forward, provided that Deutsche Post cannot terminate Deutsche Post leases and Caroline DP Leases aggregating more than 20% of the total Reference Rent of all Deutsche Post leases and Caroline DP Leases, considered as a whole, during any lease year.

Deutsche Post's 2014 termination rights comprised approximately 1.9 million square feet, or 8.8% of the REIT's current GRI. The tenant exercised such right in respect of 1.1 million square feet, or approximately 5.1% of the REIT's current GRI and committed to remain in approximately 0.8 million square feet of space. Of this space, leases for over 0.6 million square feet were amended by extending the term for five years commencing July 1, 2014, and the termination rights were waived with respect to the balance of the space of approximately 0.2 million square feet. As part of the lease extensions, we agreed to provide Deutsche Post with an annual rent reduction of €1.7 million per year, effective as of July 1, 2014. Based on recent inflation rates in Germany, we anticipate that at some point during 2014, this reduction in annual rent will be substantially offset by CPI rent adjustments provided in the terms of the Deutsche Post leases. In addition, the REIT will reimburse Deutsche Post up to €1.45 million to be used to improve the buildings and the tenant's space.

OUR RESOURCES AND FINANCIAL CONDITION

Investment properties

		For the year ended December 31, 2013		For the year ended December 31, 2012
Balance at beginning of year	**$**	**1,182,757**	$	941,442
Additions				
Acquisitions		**1,075,558**		270,661
Building improvements		**5,821**		2,391
Lease incentives and initial direct leasing costs		**8,246**		1,011
Amortization of lease incentives		**(616)**		(17)
Disposals		**(23,943)**		(7,415)
Reclassified to assets held for sale		**(21,147)**		-
Fair value adjustments		**(59,223)**		(23,349)
Foreign currency translation		**222,791**		(1,967)
Balance at end of year	**$**	**2,390,244**	$	1,182,757

The fair value of our investment property portfolio at December 31, 2013 was $2.4 billion. Since December 31, 2012, the value of our investment properties increased by $1.2 billion. The largest item contributing to the increase in the value is the acquisition of 18 properties for $1.1 billion (including transaction costs).

During the year ended December 31, 2013, we also invested $14.1 million in building improvements, lease incentive and initial direct leasing costs.

During the same period, we disposed of 15 properties which had a fair value of $23.9 million and have entered into agreements to dispose of six more properties, all considered to be non-core holdings with a total fair value of $21.1 million. As at December 31, 2013, these six properties have been reclassified as assets held for sale on the balance sheet and excluded from the value of investment properties, as the REIT had committed to a plan for sale for these properties.

The change in fair value of investment properties comprises of the following:

		Total		Initial Properties		Acquisition Properties
Increase in fair value as a result of valuation update	$	14,436	$	4,841	$	9,595
Building expenditures capitalized during the year		(5,562)		(5,015)		(547)
Leasing expenditures capitalized during the year		(8,246)		(6,543)		(1,703)
Transaction costs capitalized on acquisition		(59,126)		-		(59,126)
Straight-line rent, amortization of lease incentives and other		(725)		(286)		(439)
	$	(59,223)	$	(7,003)	$	(52,220)

The fair value of the Initial Properties increased by $4.8 million based on external appraisals obtained from an independent third-party appraisal firm. The increase is mainly attributable to leasing in these properties. The Acquisition Properties increased by $9.6 million based on internal appraisals and reflect a slight cap rate compression for these properties. We incurred $59.1 million of transaction costs relating to properties acquired during the year, which were subsequently written off under the fair value model used for investment properties. Similarly, we incurred $5.6 million of building expenditures and $8.2 million of leasing costs, primarily related to the Initial Properties that were written off under the fair value model.

As a result of the increase in value of the euro, the investment properties increased in value by $222.8 million in 2013.

The table below highlights the impact of our acquisitions and dispositions on our portfolio:

	December 31, 2013	December 31, 2012	Change
Initial Properties	**$ 1,006,359**	$ 896,987	$ 109,372
2012 Acquisitions	**304,956**	262,943	42,013
Comparative properties[1]	**1,311,315**	1,159,930	151,385
2013 Acquisitions	**1,100,076**	-	1,100,076
Dispositions	**-**	22,827	(22,827)
Properties held for sale	**(21,147)**	-	(21,147)
Total portfolio	**$ 2,390,244**	$ 1,182,757	$ 1,207,487

[1] Comparative properties are properties owned by the Trust at December 31, 2013 and December 31, 2012.

The REIT's management is responsible for determining fair value measurements included in the financial statements, including fair values of investment properties, which are valued on a highest and best use basis. Fair values for investment properties are calculated using both the direct income capitalization and discounted cash flow ("DCF") methods. A description of the critical accounting judgments relating to the valuation of investment properties can be found in Note 4 to the audited consolidated financial statements. A description of valuation techniques underlying management's estimates of fair value and the valuation processes can be found in Note 7 to the audited consolidated financial statements.

Acquisitions

During 2013, we completed 18 office property acquisitions for approximately $1.0 billion (excluding transaction costs), comprising 2.8 million square feet of office space.

Office property	Acquired GLA (sq. ft.)	Occupancy at acquisition (%)	Purchase price[1]	Date acquired
Hammer Strasse 30–34, Hamburg	172,300	100	$ 56,328	January 31, 2013
Neue Mainzer Strasse 28 (K26), Frankfurt	123,300	90	82,351	February 15, 2013
Dillwächterstrasse 5 and Tübinger Strasse 11, Munich	81,900	99	24,579	March 2, 2013
Schlossstrasse 8a–8g, Hamburg	165,200	85	42,885	March 12, 2013
ABC-Strasse 19 (ABC Bogen), Hamburg	158,400	96	93,585	March 12, 2013
Moskauer Strasse 25, 27, Düsseldorf	217,200	95	62,350	March 12, 2013
Cäcilienkloster 2, 6, 8, 10, Cologne	200,900	100	95,820	March 12, 2013
Vordernbergstrasse 6/Heilbronner Strasse 35 (Z-UP), Stuttgart	88,600	84	38,354	March 13, 2013
Bertoldstrasse 48, 50/Sedanstrasse 7, Freiburg	121,100	100	40,251	March 13, 2013
Lörracher Strasse 16–16a, Freiburg	56,000	100	10,699	March 13, 2013
Westendstrasse 160, 162/Barthstrasse 24, 26, Munich	122,200	82	30,619	March 13, 2013
Am Stadtpark 2/Bayreuther Str. 33 (Parcside), Nuremberg	94,600	99	33,308	March 13, 2013
Speicherstrasse 55 (Werfthaus), Frankfurt	151,800	100	81,113	March 14, 2013
Reichskanzler-Müller-Strasse 21, 23, 25, Mannheim	100,500	95	29,984	March 14, 2013
Löwenkontor, Berlin	258,000	95	54,960	April 30, 2013
Marsstrasse 20–22, Munich	238,700	95	86,296	June 28, 2013
Leitzstrasse 45 (Oasis lll), Stuttgart	170,000	100	43,430	September 30, 2013
Feldmühleplatz 1 + 15, Düsseldorf	246,000	100	107,710	November 29, 2013
Total	2,766,700	96	$ 1,014,622	

[1] Excludes transaction costs.

On February 14, 2014, the Trust acquired an office building, located at Werner-Eckert-Straße 8, 10, 12 in München, Germany, for approximately $22.1 million.

On February 11, 2014, the Trust entered into a purchase and sale agreement for a fully leased multi-tenant office property located in a desirable location in Hamburg, Germany, for an approximate purchase price of €60.5 million ($[91.1] million).

Dispositions

The REIT completed the sale of 15 properties in 2013, for an aggregate sales price of approximately $23.9 million, which represented 102% of their book value. Part of the net proceeds of $14.0 million was used to reduce our term loan credit facility. As at December 31, 2013, the REIT had committed to a plan of disposition for properties and thereby reclassified six properties from the Initial Properties with a total fair value of $21.1 million as assets held for sale.

Building improvements

Building improvements represent investments made in our rental properties to ensure our buildings are operating at an optimal level. During the three and twelve months ended December 31, 2013, we spent $2.1 million and $5.8 million, respectively, in building improvements. In general, building improvements are non-recoverable from the tenants unless specifically provided for in the lease agreement.

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.

During the three and twelve months ended December 31, 2013, we incurred $1.8 million and $4.6 million, respectively, of lease incentives and $1.2 million and $3.6 million, respectively, of initial direct leasing costs. Included in the initial direct leasing costs, $0.7 million and $2.2 million represented internal leasing staff costs capitalized, for the three and twelve months ended December 31, 2013, respectively. As at December 31, 2013, we had outstanding leasing cost commitments of $5.8 million.

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.

As at December 31, 2013, the REIT's future minimum commitments under operating leases are as follows:

	Operating lease payments
Less than 1 year	$ 762
1–5 years	1,722
Longer than 5 years	0
Total	$ 2,484

During the three- and twelve-month periods ended December 31, 2013, the Trust paid $0.2 million and $0.7 million in minimum lease payments, respectively, which have been included in comprehensive income for the period.

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.

As at December 31, 2013, we had $106.3 million of cash on hand. After reserving for current payables and operating requirements, approximately $80 million is available for general purposes. Our debt-to-book value at December 31, 2013 is 56%. Excluding our convertible debentures, our debt-to-book value is 48%.

Financing activities

We finance our ownership of assets using equity as well as conventional mortgage financing, term debt, floating rate credit facilities and convertible debentures.

Equity issues

On March 5, 2013, we completed a public offering of 23,230,000 Units, including an over-allotment option, at a price of $10.90 per unit.

On June 6, 2013, we completed a public offering of 11,700,000 Units at a price of $10.70 per unit. On June 24, 2013, the Trust issued an additional 1,445,000 Units at a price of $10.70 per unit pursuant to the exercise by the underwriters of a portion of their over-allotment option.

New debt

During the year ended December 31, 2013, we obtained the following new mortgages:

Property		Mortgage ($000s)		Mortgage (€000s)	Face rate	Date of funding	Date of maturity
Hammer Strasse 30–34, Hamburg	$	33,797	€	24,900	2.41%	January 31, 2013	January 31, 2018
Neue Mainzer Strasse 28 (K26), Frankfurt		50,725		37,700	2.92%	February 15, 2013	December 31, 2022
Dillwächterstrasse 5 and Tübinger Strasse 11, Munich		14,693		11,000	2.68%	March 2, 2013	February 29, 2020
Schlossstrasse 8 and ABC Bogen		80,373		60,200	2.32%	March 12, 2013	March 12, 2018
Moskauer Strasse 25, 27 and Cäcilienkloster 2, 6, 8, 10		98,597		73,850	2.08%	March 12, 2013	March 7, 2018
Werfthaus and Reichskanzler-Müller-Strasse 21, 23, 25		68,455		51,400	3.32%	March 14, 2013	March 14, 2023
Z-UP, Bertoldstrasse 48, 50, Lörracher Strasse 16, Westendstrasse 160, 162 and Parcside		95,109		71,500	2.63%	March 13, 2013	March 31, 2021
Löwenkontor, Berlin		36,611		27,600	2.37%	April 30, 2013	March 29, 2018
Marsstrasse 20–22, Munich		53,409		38,000	2.69%	August 26, 2013	June 30, 2020
Leitzstrasse 45 (Oasis lll), Stuttgart		26,502		18,800	2.73%	November 15, 2013	October 31, 2018
Feldmühleplatz 1 + 15, Düsseldorf		67,546		46,500	2.32%	December 23, 2013	November 26, 2018
Total	$	625,817	€	461,450			

On November 15, 2013, the Trust drew down a mortgage with a principal balance of €18.8 million ($26.5 million) at a fixed interest rate of 2.73% per annum for a term of five years in connection with its acquisition of Oasis III in Stuttgart. The Trust used cash on hand at September 30, 2013 to close the acquisition.

On November 29, 2013, the Trust finalized the terms of a mortgage agreement with a principal balance of €46.5 million ($67.5 million) at a fixed interest rate of 2.32% per annum for a term of five years in connection with its acquisition of Feldmühleplatz 1 + 15 in Düsseldorf.

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 operate within a debt-to-book value range of 50% to 60% and target 55% (net of cash).

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

	December 31, 2013	December 31, 2012
Financing activities		
Weighted average interest rate[1]	**3.37%**	3.98%
Level of debt (debt-to-book value, net of cash, net of convertible debentures)[2]	**48%**	33%
Level of debt (debt-to-book value, net of cash)[2]	**54%**	45%
Interest coverage ratio[2]	**3.40 times**	3.03 times
Debt-to-EBITDFV (years)[2][3]	**8.7**	8.5
Proportion of total debt due in current year	**1.4%**	0.4%
Debt – average term to maturity (years)	**4.6**	4.4
Variable rate debt as percentage of total debt	**5%**	11%

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

(2) Level of debt, interest coverage ratio and debt-to-EBITDFV are non-GAAP measures. Calculations for each reconciled to IFRS balances can be found commencing on page 29.

(3) Calculated as total debt divided by adjusted EBITDFV.

The higher debt-to-book value ratio at December 31, 2013 reflects the increase in mortgages in 2013 related to acquisitions, as well as a lower level of cash on hand compared to December 31, 2012.

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio for the year is 3.4 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 8.7 years and reflects the approximate amount of time to pay off all debt.

	December 31, 2013			December 31, 2012		
	Variable	**Fixed**	**Total**	Variable	Fixed	Total
Term loan credit facility[2]	**$ 64,368**	**$ 384,604** [1]	**$ 448,972**	$ 82,512	$ 344,028 [1]	$ 426,540
Mortgage debt[2]	**-**	**825,014**	**825,014**	-	151,862	151,862
Debentures[2]	**-**	**150,326**	**150,326**	-	148,428	148,428
Total	**$ 64,368**	**$ 1,359,944**	**$ 1,424,312**	$ 82,512	$ 644,318	$ 726,830
Percentage	**5%**	**95%**	**100%**	11%	89%	100%

(1) As at December 31, 2013, 86% of the term loan credit facility is subject to an interest rate swap in place until August 3, 2016 pursuant to the term loan credit facility agreement and has been presented as fixed rate debt.

(2) Balance shown is net of deferred financing costs and mark-to-market adjustments.

Amounts recorded as at December 31, 2013 for the Debentures are net of $5.8 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

Concurrent with the closing of our initial public offering, we obtained a term loan credit facility (the "Facility") from a syndicate of German and French banks for gross proceeds of €328.5 million ($448.4 million). During the year ended December 31, 2013, we repaid $16.8 million (€12.1 million), consisting of $14.0 million (€10.1 million) in connection with the disposition of 15 properties and a lump sum repayment of $2.8 million (€2.0 million) in August 2013. As at December 31, 2013, the remaining principal balance on the term loan credit facility was $459.8 million (€313.7 million), of which $10.1 million (€6.9 million) has been allocated to assets held for sale. The initial 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 a margin of 200 basis points and agency fees of 10 basis points. 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 the interest rate does not exceed 5% on that portion.

As at December 31, 2013, as a result of the REIT's commitment to dispose of six properties from the Initial Properties and thereby reclassifying those properties to assets held for sale, the related portions of the Facility secured by these six properties, valued at $10.1 million (€6.9 million), were also reclassified as liabilities related to assets held for sale.

As at December 31, 2013, the weighted average rate of the Facility was 4.09%. Including financing costs, the effective interest rate under the Facility was 4.13%. At December 31, 2012, the weighted average rate was 3.91% and the effective rate was 3.98%.

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 ratio does not exceed 59% during the first three years the loan is outstanding and 54% during the final two years. As at December 31, 2013, we were in compliance with these covenants.

Under the terms of the Facility, we are required to pay additional interest of 1% per annum beginning on August 3, 2013 on €100 million plus a 15% prepayment amount, less any amounts repaid. Mandatory repayments of between 110% and 125% (with the average being 115%) of the principal allocated to a particular Initial Property are required for any Initial Property sold or refinanced by the Trust. Since the initial public offering, the Trust has repaid $20.2 million (€14.8 million) in principal payments including prepayment amounts on various property dispositions. Opportunities to repay the balance of €100.2 million will come from maximizing the leverage on new acquisitions and from additional dispositions of non-core properties.

Revolving credit facility

On October 9, 2013, the Trust entered into an agreement with a Canadian bank. Under the agreement, the revolving credit facility stands at €25 million. The interest rate on Canadian dollar advances is prime plus 200 basis points and/or bankers' acceptance rates plus 300 basis points. The interest rate for euro advances is 300 basis points over the three-month EURIBOR rate. The revolving credit facility has a term of two years.

Convertible debentures

As at December 31, 2013, the total principal amount of Debentures outstanding was $161 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 $1,000 principal amount of the Debentures is convertible at any time by the holder into 76.9231 Units, 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 Trust, 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.

The conversion feature of the Debentures is remeasured in each reporting period to fair value, with changes in fair value recorded in comprehensive income. During the three- and twelve-month periods ended December 31, 2013, the fair value attributed to the conversion feature increased by $0.4 million and decreased by $3.8 million, respectively.

The table below highlights our debt maturity profile:

	Debt maturities	Scheduled principal repayments on non-matured debt	Total
2014	€ -	€ 13,890	€ 13,890
2015	14,336	17,880	32,216
2016	294,280	14,747	309,027
2017	62,007	10,833	72,840
2018	338,230	6,151	344,381
2019 and thereafter	200,653	13,573	214,226
Total	€ 909,506	€ 77,074	€ 986,580

Equity

The table below highlights our outstanding equity:

	Unitholders' equity				
	December 31, 2013			December 31, 2012	
	Number of Units	**Amount**		Number of Units	Amount
Units	**109,698,977**	**$**	**1,034,005**	72,232,494	$ 596,078

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.

The Trust has a Deferred Unit Incentive Plan ("DUIP") that provides for the grant of deferred trust units and income deferred units to trustees, officers, employees, affiliates and their service providers, including DAM, our asset manager.

The following table summarizes the changes in our outstanding equity:

	Units
Total Units outstanding on December 31, 2012	72,232,494
Units issued pursuant to public offerings	36,375,000
Units issued pursuant to the DUIP	17,632
Units issued pursuant to the DRIP[1]	1,073,851
Total units outstanding on December 31, 2013	109,698,977
Units issued pursuant to the DRIP on January 15, 2014	151,411
Total units outstanding on January 31, 2014	109,850,388

(1) Distribution Reinvestment and Unit Purchase Plan.

On March 5, 2013, the Trust completed a public offering of Units pursuant to which the Trust issued 23,230,000 Units at a price of $10.90 per unit for total gross proceeds of $253.2 million.

On June 6, 2013, the Trust completed a public offering of 11,700,000 Units at a price of $10.70 per unit. On June 24, 2013, the Trust issued an additional 1,445,000 Units at a price of $10.70 per unit pursuant to the exercise by the underwriters of a portion of their over-allotment option. Total gross proceeds amounted to $140.7 million.

For the year ended December 31, 2013, 17,632 Units were issued pursuant to the Deferred Unit Incentive Plan (December 31, 2012 – 12,875 Units) to senior management.

Distribution policy

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. In order to manage the exposure to currency risk of unitholders and holders of Debentures, the Trust has entered into foreign exchange forward contracts.

For the quarter ended December 31, 2013, distributions declared amounted to $21.9 million. Of this amount, $3.7 million was reinvested in additional Units pursuant to the DRIP, resulting in a cash payout ratio of 83.3%. Distributions declared for the year ended December 31, 2013 were $79.8 million. Of this amount, $10.6 million was reinvested in additional Units pursuant to the DRIP, resulting in a cash payout ratio of 86.7%.

	Three months ended December 31, 2013			Year ended December 31, 2013		
	Declared amounts	4% bonus distribution	Total	Declared amounts	4% bonus distribution	Total
2013 distributions						
Paid in cash or reinvested in Units	$ 14,596	$ 95	$ 14,691	$ 72,470	$ 372	$ 72,842
Payable at December 31, 2013	7,314	-	7,314	7,314	-	7,314
Total distributions	$ 21,910	$ 95	$ 22,005	$ 79,784	$ 372	$ 80,156
2013 reinvestment						
Reinvested to December 31, 2013	$ 2,388	$ 95	$ 2,483	$ 9,306	$ 372	$ 9,678
Reinvested on January 15, 2013	1,273	51	1,324	1,273	51	1,324
Total distributions reinvested	$ 3,661	$ 146	$ 3,807	$ 10,579	$ 423	$ 11,002
Distributions paid in cash	$ 18,249			$ 69,205		
Reinvestment to distribution ratio	16.7%			13.3%		
Cash payout ratio	83.3%			86.7%		

We currently pay monthly distributions to unitholders of $0.06667 per unit, or $0.80 per unit on an annual basis. At December 31, 2013, approximately 17.4% of our total Units were enrolled in the DRIP.

Foreign currency contracts

At December 31, 2013, we had various currency forward contracts in place to sell euros for Canadian dollars for the next 30 months. On settlement of a contract, we realize a gain or loss on the difference between the forward rate and the spot rate. We also mark the contracts to market quarterly and recorded an unrealized loss of $8.0 million and $16.0 million for the three- and twelve-month periods ended December 31, 2013, respectively. The Trust currently has foreign exchange forward contracts to sell €5.6 million each month from January 2014 to June 2014, €5.2 million each month from July 2014 to May 2015, €3.9 million in June 2015, €2.4 million each month from July 2015 to September 2015, €2.1 million each month from October 2015 to May 2016, and €1.8 million in June 2016, at an average exchange rate of $1.334 per euro.

Other

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.

	Three months ended December 31,		Years ended December 31,	
	2013	2012	**2013**	2012
Net income (loss)	**$ 15,230**	$ (8,687)	**$ 22,765**	$ 10,916
Cash flow from operating activities	**29,798**	16,712	**85,228**	52,320
Distributions paid and payable	**21,910**	12,953	**79,784**	46,064
Surplus of cash flow from operating activities over distributions paid and payable	**7,888**	3,759	**5,444**	6,256
Shortfall of net income (loss) over distributions paid and payable	**(6,680)**	(21,640)	**(57,019)**	(35,148)

Cash flow from operations exceeded distributions paid and payable by $5.4 million for the year ended December 31, 2013, and distributions paid and payable exceeded net income by $57.0 million for the same period. This compares to a surplus of $6.3 million of cash flow from operations over distributions paid and payable and a shortfall of $35.1 million of net income over distributions paid and payable for the respective period in 2012.

The increase in cash flow from operating activities in 2013, both for the quarter and the year, reflects the acquisitions completed in 2012 and 2013. The shortfall of net income for each period reflects fair value adjustments to financial instruments and investment properties. These adjustments are non-cash items and are not considered in our distribution policy.

Cash flow from operating activities exceeded distributions paid and payable for the three months ended December 31, 2013 by $7.9 million and distributions paid and payable exceeded net income by $6.7 million for the same period. This compares to a surplus of $3.8 million of cash flow from operations over distributions paid and payable for the three months ended December 31, 2012 and a shortfall of $21.6 million of net income over distributions paid and payable for the same period in 2012. The shortfall in net income for each period reflects fair value adjustments to financial instruments and investment properties. These non-cash items do not impact cash flows and are not considered in our distribution policy. 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.

Asset management fee

On August 3, 2011, DAM elected to receive the base asset management fees payable on the Initial Properties acquired on August 3, 2011 by way of deferred trust units under the Asset Management Agreement for up to $3.5 million per year for the next five years. These deferred trust units vest 20% annually, commencing on the fifth anniversary date of being granted. On termination of the Asset Management Agreement, unvested trust units will vest immediately.

During the three- and twelve-month periods ended December 31, 2013, asset management expenses pertaining to the Initial Properties were $0.5 million and $2.1 million, respectively. A total of 83,665 and 373,160 deferred units were granted during the respective periods as compensation for the fees. An additional 34,031 deferred units were granted on January 1, 2014 pertaining to the asset management fee for the month of December 2013. As at January 1, 2014, 912,078 unvested deferred and income deferred units were outstanding with respect to the Asset Management Agreement. The asset management fees were recorded based on the fair value of the deferred units issued, with an appropriate discount applied to reflect the restricted period of exercise.

In addition, the Trust paid an asset management fee of $1.1 million and $3.3 million, respectively, for the three- and twelve-month periods ended December 31, 2013, for properties acquired since the acquisition of our Initial Properties. It further paid a financing fee of $0.3 million and $0.5 million related to new equity offerings in each of the three- and twelve-month periods, and acquisition fees of $0.9 million and $5.9 million related to properties acquired during the three- and twelve-month periods, respectively.

OUR RESULTS OF OPERATIONS

	Three months ended December 31,		Years ended December 31,	
	2013[1]	2012[1]	**2013**[1]	2012[1]
Investment properties revenue	**$ 62,528**	$ 35,926	**$ 220,220**	$ 138,661
Investment properties operating expenses	**20,656**	13,869	**75,367**	53,222
Net rental income	**41,872**	22,057	**144,853**	85,439
Other income and expenses				
Portfolio management	**(409)**	(1,019)	**(3,173)**	(4,201)
General and administrative	**(3,332)**	(1,638)	**(12,226)**	(6,579)
Fair value adjustments to investment properties	**212**	(16,870)	**(59,223)**	(23,349)
Depreciation and amortization	**(16)**	(7)	**(88)**	(53)
Loss on sale of investment properties	**(550)**	(258)	**(1,142)**	(320)
Share of income from equity accounted investment	**10**	11	**28**	21
Interest and other income	**352**	289	**1,547**	503
Interest expense	**(11,288)**	(6,100)	**(38,506)**	(27,379)
Fair value adjustments to financial instruments	**(9,460)**	(6,736)	**(11,450)**	(15,214)
Income (loss) before income taxes	**17,391**	(10,271)	**20,620**	8,868
Income taxes				
Current income taxes (recovery)	**142**	84	**689**	226
Deferred income taxes (recovery)	**2,019**	(1,668)	**(2,834)**	(2,274)
Provision for (recovery) of income taxes	**2,161**	(1,584)	**(2,145)**	(2,048)
Net income (loss)	**15,230**	(8,687)	**22,765**	10,916
Foreign currency translation adjustment	**57,950**	20,758	**109,133**	(4,388)
Comprehensive income	**$ 73,180**	$ 12,071	**$ 131,898**	$ **6,528**

[1] Results from operations were converted into Canadian dollars from euros using the following average exchange rates: the three-month and twelve-month periods ended December 31, 2013 were converted at $1.4296:€1 and $1.3688:€1, respectively; for 2012, the three-month and twelve-month periods ended December 31, 2012 were converted at $1.2861:€1 and $1.285:€1, respectively.

Statement of comprehensive income results

Net rental income

	Three months ended December 31,		Years ended December 31,	
	2013	2012	**2013**	2012
Initial Properties	**$ 20,033**	$ 19,262	**$ 79,126**	$ 78,646
Acquisition Properties	**21,839**	2,795	**65,727**	6,793
Net rental income	**$ 41,872**	$ 22,057	**$ 144,853**	$ 85,439

For the three months ended December 31, 2013, net rental income was $41.9 million, representing an increase of $19.8 million compared to the same quarter in 2012. Excluding the $4.2 million positive impact of a stronger euro, net rental income increased by $15.6 million compared to the same quarter last year, of which $16.9 million is attributable to properties acquired since October 2012, partially offset by a $1.2 million decrease related to property dispositions pertaining to the Initial Properties. For the year ended December 31, 2013, net rental income was $144.9 million, representing an increase of $59.4 million compared to 2012. Excluding the $8.9 million positive impact of a stronger euro, net rental income increased by $50.5 million compared to the same quarter last year, of which $54.9 million is attributable to properties acquired since January 2012, partially offset by a $4.4 million decrease related to property dispositions pertaining to the Initial Properties.

The table below summarizes our revenue and operating expenses in euros:

	Three months ended December 31,		Years ended December 31,	
	2013	2012	**2013**	2012
Investment properties revenue	**€ 43,738**	€ 27,934	**€ 160,885**	€ 107,907
Investment properties operating expenses	**14,449**	10,784	**55,061**	41,418
Net rental income	**€ 29,289**	€ 17,150	**€ 105,824**	€ 66,489

Portfolio management

Our portfolio management team comprises 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.

Portfolio management expense was $0.4 million for the three-month period ended December 31, 2013, a decrease of approximately $0.6 million compared to the same period in 2012. For the year ended December 31, 2013, an expense of $3.2 million was recorded, representing a decrease of approximately $1.0 million compared to 2012. A total of $1.1 million and $2.6 million of leasing staff costs incurred during the three-month and twelve-month periods ended December 31, 2013, respectively, have been capitalized as initial leasing costs of the respective properties to be consistent with our accounting policies to capitalize internal leasing costs. No leasing staff costs were capitalized during the three-month and twelve-month periods in 2012 as the REIT mostly engaged external brokers for new leasing. Excluding the impact of leasing costs capitalized in 2013, portfolio management expense increased by $0.5 million and $1.6 million, reflecting increases in asset management and leasing staff necessary to support the growth of our business.

General and administrative

General and administrative expenses totalled $3.3 million and $12.2 million for the three and twelve months ended December 31, 2013, respectively, representing increases of $1.7 million and $5.6 million over the same periods last year. The increases resulted from asset management fees increasing by $0.9 million and $3.2 million for the three and twelve months ended December 31, 2013, respectively, and higher regulatory and corporate compliance costs associated with the new acquisitions.

Fair value adjustment to investment properties

For the three-month period ended December 31, 2013, a gain of $0.2 million was recognized compared to a loss of $16.9 million in the comparative quarter last year. For the year ended December 31, 2013, a loss of $59.2 million was recognized compared to a loss of $23.3 million in 2012. The increase in 2013 over 2012 is primarily due to the write-off of transaction costs capitalized on completed acquisitions. The following table summarizes the components of the fair value adjustment to investment properties for the years ended December 31, 2013 and 2012:

	For the year ended December 31, 2013	For the year ended December 31, 2012
Increase (decrease) in fair value as a result of valuation updates	**$ 14,436**	$ (8,365)
Write-off of building expenditures capitalized	**(5,562)**	(2,391)
Write-off of leasing expenditures capitalized	**(8,246)**	(1,011)
Write-off of transaction costs capitalized on acquisition	**(59,126)**	(11,582)
Straight-line rent, amortization of lease incentives and other	**(725)**	-
	$ (59,223)	$ (23,349)

Interest expense

Interest expense was $11.3 million for the three-month period ended December 31, 2013, an increase of $5.2 million compared to the same quarter last year. Excluding the unfavourable exchange rate impact of $0.8 million, interest expense increased by $4.3 million as a result of new mortgage debt placed on properties we acquired in 2012 and 2013. In addition, included in interest is increased interest expense related to the term credit facility reflecting the additional 1% interest payable on $100 million principal effective August 2013 offset by lower floating rate interest.

Interest expense was $38.5 million for the year ended December 31, 2013, an increase of $11.1 million compared to the same period last year. Excluding the unfavourable exchange rate impact of $1.8 million, interest expense increased by $9.3 million, of which $13.6 million was a result of new mortgage debt placed on properties we acquired in 2012 and 2013. Offsetting this was a decrease in interest payable on Exchangeable Notes to $nil in the current year, compared to $2.6 million in the prior year. In addition, interest on our term credit facility decreased by $2.3 million as the underlying three-month EURIBOR rates dropped to an average of 0.210% in 2013 from 0.762% in 2012.

We currently have interest rate swaps in place that fix the interest rate payable on €262.8 million at a rate of 1.89%. The REIT does not apply hedge accounting in relation to these swaps and, as a result, their impact is not included in interest expense but accounted for through the fair value adjustments as described below. During the quarter, $1.6 million of swap settlements were settled compared to $1.7 million in the same quarter last year, reflecting the reduction in the underlying interest rates. During the year ended December 31, 2013, $6.2 million of interest swap settlements were settled compared to $4.3 million in the prior year, reflecting the reduction in the underlying interest rates. Including the swaps and the additional 1% on the Facility, the actual weighted average interest rate on the Facility as at December 31, 2013 is 4.09%. On an effective interest rate basis, the rate is 4.13%. Any adjustments arising from the interest rate swaps are reflected in the fair value adjustments to financial instruments and not in interest expense.

Fair value adjustment to financial instruments

For the three months ended December 31, 2013, we incurred an unrealized loss in the fair value of financial instruments of $9.5 million compared to a loss of $6.7 million in the comparative period. The fair value adjustments in the quarter mainly comprise the following components:

- a $1.1 million loss recognized on the fair value change in the interest rate swaps and cap as a result of the settlement of one contract in the quarter for $1.6 million and a decrease in the forward price of interest rates. A $2.0 million loss was recognized in the comparative quarter last year due to a decrease in the forward price of interest rates;
- a $0.4 million fair value loss recognized on the conversion feature of the convertible debentures mainly reflecting an increase in the market price of our Units, compared to a loss of $0.7 million in the same period in 2012;
- an unrealized loss of $8.0 million was recognized related to our foreign currency forward contracts due to an appreciation of the euro compared to the Canadian dollar, versus a $4.0 million unrealized loss during the comparative quarter due to an appreciation of the euro compared to the Canadian dollar; and
- a $0.1 million loss was recognized related to our DUIP mainly reflecting an increase in the market price of our Units, compared to a loss of $0.1 million in the same period in 2012.

For the year ended December 31, 2013, we incurred an unrealized loss in the fair value of financial instruments of $11.5 million compared to an unrealized loss of $15.2 million in 2012. The fair value adjustments in the year mainly comprise the following components:

- a $0.2 million gain recognized on the fair value change in the interest rate swaps and cap as a result of the settlement of four contracts in the period for $6.2 million and an increase in the forward price of interest rates. A $15.5 million loss was recognized in the prior year due to a decrease in the forward price of interest rates;
- a $3.8 million fair value gain recognized on the conversion feature of the convertible debentures mainly reflecting a decline in the market price of our Units, compared to a gain of $2.4 million in 2012;
- an unrealized loss of $16.0 million was recognized related to our foreign currency forward contracts due to an appreciation of the euro compared to the Canadian dollar, versus a $0.5 million unrealized gain during the comparative period due to a depreciation of the euro compared to the Canadian dollar;

- a $0.6 million gain was recognized related to our DUIP mainly reflecting a decrease in the market price of our Units, compared to a loss of $0.3 million in the same period in 2012 reflecting an increase in the market price of our Units; and
- a $2.3 million loss in the prior year on the fair value adjustment on the Exchangeable Notes, which were fully settled in September 2012.

Income taxes

We recognized a current income tax expense of $0.1 million and $0.7 million, respectively, for the three- and twelve-month periods ended December 31, 2013, compared to current income tax expenses of $0.1 million and $0.2 million, respectively, for the comparative periods in 2012. The increase in 2013 is mainly a result of current income taxes related to new acquisitions.

We also recognized a deferred income tax expense of $2.0 million and a deferred income tax recovery of $2.8 million, respectively, for the three- and twelve-month periods ended December 31, 2013, compared to deferred income tax recoveries of $1.7 million and $2.3 million, respectively, for the comparative periods in 2012. The differences are mainly a result of the deferred income tax impact associated with the loss carry-forwards, fair value adjustments related to investment properties net of tax depreciation, and fair value changes related to financial instruments.

Impact of foreign exchange

Exchange rate fluctuations between the Canadian dollar and the euro impact the Trust's reported revenues, expenses, income, cash flows, assets and liabilities. The table below summarizes changes in the exchange rates.

	Three months ended December 31,			Year ended December 31,		
	2013	2012	Change	**2013**	2012	Change
Average exchange rate (Cdn dollars to one euro)	**1.430**	1.286	11.2%	**1.369**	1.285	6.5%
Exchange rate at period-end (Cdn dollars to one euro)	**1.466**	1.312	11.7%	**1.466**	1.312	11.7%

Comprehensive income was impacted by a foreign currency translation gain of $58.0 million and $109.1 million, respectively, for the three- and twelve-month periods ended December 31, 2013. The exchange rates increased from $1.3118:€1 as at December 31, 2012 to $1.4655:€1 as at December 31, 2013. The quarterly results of our euro-denominated operations included in net income were translated at an average exchange rate of $1.4296:€1 compared to $1.2861:€1 in the same quarter last year. For the year ended December 31, 2013, results were translated at an average exchange rate of $1.3688:€1 compared to $1.2850:€1 in the prior year.

Funds from operations and adjusted funds from operations

	Three months ended December 31,		Years ended December 31,	
	2013	2012	**2013**	2012
Net income	**$ 15,230**	$ (8,687)	**$ 22,765**	$ 10,916
Add (deduct):				
Depreciation of fixtures and computer equipment	**-**	9	**-**	69
Share of net losses from equity accounted investments	**3**	-	**3**	-
Amortization of lease incentives	**259**	9	**616**	17
Interest expense on Exchangeable Notes	**-**	-	**-**	2,558
Loss on sale of investment property	**550**	258	**1,142**	320
Tax on gains on sale of investment property	**(33)**	-	**62**	-
Deferred income taxes	**2,019**	(1,668)	**(2,834)**	(2,274)
Term debt swap settlement	**(1,585)**	(1,660)	**(6,179)**	(4,255)
Gain on settlement of foreign currency contracts	**(1,456)**	481	**(1,826)**	2,406
Fair value adjustments to investment properties	**(212)**	16,870	**59,223**	23,349
Fair value adjustments to financial instruments	**9,460**	6,736	**11,450**	15,214
FFO	**$ 24,235**	$ 12,348	**$ 84,422**	$ 48,320
Add (deduct):				
Amortization of financing costs	**$ 794**	$ 366	**$ 2,651**	$ 1,183
Accretion of debenture conversion feature	**260**	240	**1,008**	930
Amortization of fair value adjustment of assumed debt	**(92)**	(26)	**(402)**	(206)
Deferred unit compensation expense	**313**	138	**1,313**	628
Deferred asset management fees	**539**	502	**2,113**	1,907
Straight-line rent	**(440)**	(56)	**(1,510)**	(98)
	25,609	13,512	**89,595**	52,664
Deduct:				
Normalized leasing costs and tenant incentives	**(1,884)**	(1,025)	**(6,518)**	(4,100)
Normalized non-recoverable recurring capital expenditures	**(1,466)**	(600)	**(5,070)**	(2,400)
AFFO	**$ 22,259**	$ 11,887	**$ 78,007**	$ 46,164

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 includes all Units. For the three- and twelve-month periods ended December 31, 2012, the outstanding Units also include the aggregate number of Units issuable upon the exchange of Exchangeable Notes. All Exchangeable Notes were exchanged in 2012. The diluted weighted average number of Units assumes the conversion of the Debentures and incremental unvested deferred trust units related to the Deferred Unit Incentive Plan represented by 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 and AFFO calculations for the three and twelve months ended December 31, 2013 are noted in the table below. Diluted FFO and AFFO includes interest and amortization adjustments related to the Debentures of $2.7 million and $10.8 million for the three and twelve months ended December 31, 2013, respectively.

	Three months ended December 31,		Years ended December 31,	
	2013	2012	**2013**	2012
Weighted average Units outstanding for basic per unit amounts	**109,482,435**	64,064,093	**99,335,779**	57,379,400
Weighted average Units outstanding for diluted per unit amounts	**123,028,441**	77,017,591	**112,691,725**	70,201,374

Over the course of the quarter, the REIT had approximately $79.4 million on average of excess undeployed cash available for acquisitions. Over the course of the year, the REIT had approximately $91.1 million of cash available for acquisitions. We estimate that these funds, if invested, would generate a return on equity of approximately 10.0%, which is consistent with historic returns for acquired investment properties, and would have contributed $2.0 million for the quarter and $9.1 million for the year ended December 31, 2013, respectively, to FFO and AFFO.

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 net income or cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund Dundee International REIT's needs.

	Three months ended December 31,		Years ended December 31,	
	2013	2012	**2013**	2012
FFO	**$ 24,235**	$ 12,348	**$ 84,422**	$ 48,320
FFO per unit – basic	**$ 0.22**	$ 0.19	**$ 0.85**	$ 0.84
FFO per unit – diluted	**$ 0.22**	$ 0.19	**$ 0.84**	$ 0.84

Excluding the impact of undeployed cash:

FFO per unit – basic	**$ 0.24**	$ 0.24	**$ 0.94**	$ 0.98
FFO per unit – diluted	**$ 0.24**	$ 0.24	**$ 0.93**	$ 0.95

Total FFO for the quarter was $24.2 million, an increase of $11.9 million or 96.3% over the prior year comparative quarter (year ended December 31, 2013 – $84.4 million, an increase of $36.1 million or 74.7% over the prior year), reflecting the impact of acquisitions completed in 2012 and 2013. FFO on a per unit basis increased to $0.22 per unit from $0.19 per unit over the prior year comparative quarter (year ended December 31, 2013 – an increase from $0.84 per unit to $0.85 per unit over the prior year). Diluted FFO on a per unit basis increased to $0.22 per unit from $0.19 per unit over the prior year comparative quarter (year ended December 31, 2013 – remained consistent with the prior year at $0.84 per unit). Assuming this excess cash had been invested, diluted FFO per unit would have been $0.24 per unit for the quarter and $0.93 per unit for the year.

Adjusted funds from operations

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.

	Three months ended December 31,		Years ended December 31,	
	2013	2012	**2013**	2012
AFFO	**$ 22,259**	$ 11,887	**$ 78,007**	$ 46,164
AFFO per unit – basic	**$ 0.20**	$ 0.19	**$ 0.79**	$ 0.80

Excluding the impact of undeployed cash:

AFFO per unit – basic	**$ 0.22**	$ 0.24	**$ 0.88**	$ 0.94

Total AFFO for the quarter was $22.3 million, an increase of $10.4 million or 87.3% over the prior year comparative quarter (year ended December 31, 2013 – $78.0 million, an increase of $31.8 million or 69.0% over the prior year), reflecting the impact of acquisitions completed in 2012 and 2013. AFFO on a per unit basis increased to $0.20 per unit from $0.19 per unit (year ended December 30, 2013 – a decrease from $0.80 per unit to $0.79 per unit over the prior year). Assuming this excess cash had been invested, AFFO per unit would have been $0.22 per unit for the quarter and $0.88 per unit for the year.

Our calculation of AFFO includes an estimated amount of normalized non-recoverable capital expenditures, as well as 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 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.

FFO and AFFO are 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.

	Three months ended December 31,		Years ended December 31,	
	2013	2012	**2013**	2012
Cash generated from operating activities	**$ 29,798**	$ 16,712	**$ 85,228**	$ 52,320
Add (deduct):				
Change in non-cash working capital	**(6,704)**	(3,488)	**(2,568)**	(287)
Share of general and administrative expenses from equity accounted investments	**(3)**	13	**(57)**	37
Unrealized loss on settlement of foreign exchange contracts	**(519)**	(248)	**(1,316)**	(417)
Tax on gains on sale of investment property	**(33)**	-	**62**	-
Investment in lease incentives and initial direct leasing costs	**3,070**	523	**8,246**	1,011
Normalized leasing costs and tenant incentives	**(1,884)**	(1,025)	**(6,518)**	(4,100)
Normalized non-recoverable recurring capital expenditures	**(1,466)**	(600)	**(5,070)**	(2,400)
AFFO	**$ 22,259**	$ 11,887	**$ 78,007**	$ 46,164

SELECTED ANNUAL INFORMATION

The following table provides selected information for the past three years:

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the period August 3, 2011 to December 31, 2011
Revenues	**$ 220,220**	$ 138,661	$ 54,274
Net income (loss)	**22,765**	10,916	(23,201)
Total assets	**2,558,674**	1,400,269	1,039,340
Debt	**$ 1,424,312**	$ 726,830	$ 579,006
Distributions declared	**$ 80,173**	$ 43,568	$ 14,441
REIT Units	**109,698,977**	72,232,494	43,872,316
Exchangeable Notes	**-**	-	8,000,000

QUARTERLY INFORMATION

The following tables show quarterly information since January 1, 2012:

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
REVENUES								
Investment properties revenue	**$ 62,528**	$ 56,915	$ 54,413	$ 46,364	$ 35,926	$ 33,765	$ 34,896	$ 34,074
Investment properties operating expenses	**20,656**	17,436	18,222	19,053	13,869	12,024	13,992	13,337
NET RENTAL INCOME	**41,872**	39,479	36,191	27,311	22,057	21,741	20,904	20,737
OTHER INCOME AND EXPENSES								
Portfolio management	**(409)**	(1,006)	(882)	(876)	(1,019)	(1,096)	(1,051)	(1,035)
General and administrative	**(3,332)**	(3,399)	(3,045)	(2,450)	(1,638)	(1,856)	(1,598)	(1,487)
Fair value adjustments to investment properties	**212**	(4,487)	(8,726)	(46,222)	(16,870)	(2,574)	(3,010)	(895)
Amortization and depreciation	**(16)**	(33)	(24)	(15)	(7)	(35)	(11)	0
Loss on sale of investment property	**(550)**	(79)	(252)	(261)	(258)	(62)	0	0
Share of net losses from equity accounted investments	**10**	(2)	13	7	11	(13)	12	11
Acquisition related gain, net	**0**	0	0	0	0	0	0	0
Interest and other income	**352**	351	446	398	289	59	63	92
Interest expense	**(11,288)**	(10,441)	(9,700)	(7,077)	(6,100)	(6,531)	(6,629)	(8,119)
Fair value adjustments to financial instruments	**(9,460)**	(1,808)	(4,570)	4,388	(6,736)	(5,950)	130	(2,658)
Income (loss) before taxes	**17,391**	18,575	9,451	(24,797)	(10,271)	3,683	8,810	6,646
Current income taxes	**142**	(100)	316	331	84	77	29	36
Deferred income taxes	**2,019**	983	128	(5,964)	(1,668)	(57)	(334)	(215)
NET INCOME (LOSS)	**$ 15,230**	$ 17,692	$ 9,007	$ (19,164)	$ (8,687)	$ 3,663	$ 9,115	$ 6,825
Add (deduct):								
Depreciation of property and equipment	**0**	0	0	0	9	38	16	6
Share of net losses from equity accounted investments	**3**	0	0	0	0	0	0	0
Amortization of lease incentives	**259**	108	112	137	9	8	0	0
Interest on Exchangeable Notes	**0**	0	0	0	0	406	632	1,520
Acquisition related gain, net	**0**	0	0	0	0	0	0	0
Loss on sale of investment property	**550**	79	252	261	258	62	0	0
Tax on gains on sale of investment property	**(33)**	(126)	79	142	0	0	0	0
Deferred income taxes	**2,019**	983	128	(5,964)	(1,668)	(57)	(334)	(215)
Term debt swap settlement	**(1,585)**	(1,574)	(1,533)	(1,487)	(1,660)	(1,155)	(1,038)	(402)
Deferred gain/loss on settlement of Forex contracts	**(1,456)**	(456)	52	34	481	954	496	475
Fair value adjustments to investment properties	**(212)**	4,487	8,726	46,222	16,870	2,574	3,010	895
Fair value adjustments to financial instruments	**9,460**	1,808	4,570	(4,388)	6,736	5,950	(130)	2,658
FFO	**$ 24,235**	$ 23,001	$ 21,393	$ 15,793	$ 12,348	$ 12,443	$ 11,767	$ 11,762
FFO per unit – basic	**$ 0.22**	$ 0.21	$ 0.22	$ 0.20	$ 0.19	$ 0.22	$ 0.21	$ 0.23
FFO per unit – diluted	**0.22**	0.21	0.21	0.20	0.19	0.21	0.21	0.22
Funds from operations	**$ 24,235**	$ 23,001	$ 21,393	$ 15,793	$ 12,348	$ 12,443	$ 11,767	$ 11,762
Add (deduct):								
Amortization of financing costs	**794**	744	666	447	366	279	273	265
Accretion of debenture conversion feature	**260**	254	250	244	240	235	230	225
Amortization of FV adjustment of debt	**(92)**	(88)	(84)	(138)	(26)	(76)	(78)	(26)
Deferred compensation expense	**313**	356	378	266	138	180	158	152
Deferred asset management expense	**539**	529	523	522	502	504	488	413
Straight-line rent	**(440)**	(268)	(623)	(179)	(56)	(78)	18	18
	25,609	24,528	22,503	16,955	13,512	13,487	12,856	12,809
Deduct:								
Normalized leasing costs and tenant incentives	**(1,884)**	(1,776)	(1,629)	(1,229)	(1,025)	(1,025)	(1,025)	(1,025)
Normalized non-recoverable recurring capital expenditures	**(1,466)**	(1,381)	(1,267)	(956)	(600)	(600)	(600)	(600)
AFFO	**$ 22,259**	$ 21,371	$ 19,607	$ 14,770	$ 11,887	$ 11,862	$ 11,231	$ 11,184
AFFO per unit – basic	**$ 0.20**	$ 0.20	$ 0.20	$ 0.19	$ 0.19	$ 0.21	$ 0.20	$ 0.22
AFFO per unit – diluted	**0.20**	0.20	0.20	0.19	0.19	0.21	0.20	0.21
Weighted average number of Units:								
Basic	**109,482,435**	109,116,985	99,037,061	79,267,113	64,064,093	57,795,412	55,697,600	51,882,467
Diluted	**123,028,441**	122,552,770	112,358,396	92,382,159	77,017,591	70,666,219	68,474,767	64,565,100
Quarterly average exchange rate ($:€1)	**1.430**	1.376	1.337	1.332	1.286	1.245	1.296	1.313

NON-GAAP MEASURES

The following additional non-GAAP measures are important measures used by management in evaluating the Trust's underlying operating performance and debt management. These non-GAAP measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

Level of debt (debt-to-gross book value)

Management believes this non-GAAP measurement is an important measure in the management of our debt levels. Level of debt as shown below is determined as total debt, divided by total assets.

		December 31, 2013		December 31, 2012
Non-current debt[1]	**$**	**1,403,956**	$	724,119
Current debt		**20,356**		2,711
Total debt		**1,424,312**		726,830
Unamortized discount component of convertible debentures		**5,803**		6,810
Total adjusted debt		**1,430,115**		733,640
Less cash		**106,292**		181,619
Total adjusted debt, net of cash		**1,323,823**		552,021
Total assets		**2,558,674**		1,400,269
Less cash		**106,292**		181,619
Total assets, net of cash	**$**	**2,452,382**	$	1,218,650
Debt-to-gross book value		**56%**		**52%**
Debt-to-gross book value, net of cash		**54%**		**45%**
Debt-to-gross book value, net of cash, net of convertible debentures		**48%**		**33%**

[1] Non-current debt includes convertible debentures valued at $150,326 and $148,428 at December 31, 2013 and 2012, respectively.

Interest coverage ratio

Management believes this non-GAAP measurement is an important measure in determining our ability to cover interest expense based on our operating performance. Interest coverage ratio as shown below is calculated as net rental income plus interest and fee income, less general and administrative expenses and portfolio management expenses, all divided by interest expense on total debt.

		December 31, 2013		December 31, 2012
Net rental income	**$**	**144,853**	$	85,439
Add: Interest and other income		**1,547**		503
Less: General and administrative expenses		**12,226**		6,579
Less: Portfolio management expenses		**3,173**		4,201
		131,001		75,162
Interest expense		**38,506**		27,379
Less: Interest on Exchangeable Notes		**-**		2,558
Total adjusted interest expense		**38,506**		24,821
Interest coverage ratio		**3.40**		3.03

Debt-to-EBITDFV

Management believes this non-GAAP measurement is an important measure in determining the time it takes the Trust, based on its operating performance, to repay our debt. Debt-to-EBITDFV as shown below is calculated as total debt divided by the sum of net income for the quarter adjusted for fair value adjustments to investment properties and financial instruments, gain/loss on sale of investment properties, interest expense, depreciation and income taxes. A further adjustment is made for properties acquired during the quarter to reflect net rental income as if the properties were held for the full quarter.

	December 31, 2013	December 31, 2012
Non-current debt	**$ 1,403,956**	$ 724,119
Current debt	**20,356**	2,711
Total debt	**1,424,312**	726,830
Net income (loss) for the quarter	**15,230**	(8,687)
Fair value adjustments to investment properties	**(212)**	16,870
Fair value adjustments to financial instruments	**9,460**	6,736
Loss on sale of investment property	**550**	258
Depreciation and amortization	**16**	7
Interest expense	**11,288**	6,100
Provision for income taxes	**2,161**	(1,584)
Adjusted net rental income of properties acquired in the quarter	**1,296**	1,185
EBITDFV	**39,789**	20,885
EBITDFV – adjusted for foreign exchange	**40,788**	21,302
Debt-to-EBITDFV (three months ended)	**34.9**	34.1
Debt-to-EBITDFV (years) annualized	**8.7**	8.5

SECTION III – DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

For the December 31, 2013 financial year-end, the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), together with other members of management, have evaluated the design and operational effectiveness of Dundee International REIT's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109"). The Certifying Officers have concluded that the disclosure controls and procedures are adequate and effective in order to provide reasonable assurance that material information has been accumulated and communicated to management, to allow timely decisions of required disclosures by Dundee International REIT and its consolidated subsidiary entities, within the required time periods.

Dundee International REIT's internal control over financial reporting (as defined in NI 52-109) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). Using the framework established in "Risk Management and Governance: Guidance on Control (COCO Framework)", published by The Canadian Institute of Chartered Accountants, the Certifying Officers, together with other members of management, have evaluated the design and operation of Dundee International REIT's internal control over financial reporting. Based on that evaluation, the Certifying Officers have concluded that Dundee International REIT's internal control over financial reporting was effective as at December 31, 2013.

There were no changes in Dundee International REIT's internal control over financial reporting during the financial year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, Dundee International REIT's internal control over financial reporting.

SECTION IV – RISKS AND OUR STRATEGY TO MANAGE

We are exposed to various risks and uncertainties, many of which are beyond our control. For a full list and explanation of our risks and uncertainties, please refer to our 2012 Annual Report or our Annual Information Form dated April 1, 2013, filed on SEDAR (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 for 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 21% of the Trust's GLA at December 31, 2013.

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, these 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; 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 for 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 the 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. As a result of legislation passed on November 29, 2013, certain of our subsidiaries are subject to German corporate income tax on their net rental income and capital gains from the sale of properties. Although we have previously structured our tax affairs on the assumption that those 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 the event 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 Initial 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.

New properties acquired by the Trust are held through Luxembourg limited liability entities outside of the Lorac arrangement.

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 JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent liabilities. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances, but that are inherently uncertain and unpredictable, the result of which forms the basis of the carrying amounts of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment in the future to the carrying amounts of the asset or liability affected. Dundee International REIT's critical accounting judgments, estimates and assumptions in applying accounting policies are described in Note 4 to the consolidated financial statements.

CHANGES IN ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

Accounting policy changes

Dundee International REIT's future accounting policy changes are described in Note 5 to the audited consolidated financial statements.

Additional information relating to Dundee International REIT, including our Annual Information Form dated April 1, 2013, is available on SEDAR at www.sedar.com.