Management's responsibility for financial statements

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dundee International Real Estate Investment Trust. These financial statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments when appropriate.

The Board of Trustees is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The audit committee, which comprises trustees, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial responsibilities and to review its consolidated financial statements and the report of the auditors. The audit committee reports its findings to the Board of Trustees, which approves the consolidated financial statements.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee, with or without management present.

P. JANE GAVAN
President and Chief Executive Officer

RENE D. GULLIVER
Chief Financial Officer

Toronto, Ontario, February 21, 2013

Independent auditor's report

To the Unitholders of Dundee International Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Dundee International Real Estate Investment Trust and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended December 31, 2012 and the period from April 21, 2011 to December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dundee International Real Estate Investment Trust and its subsidiaries, as at December 31, 2012 and December 31, 2011, and their financial performance and their cash flows for the year then ended December 31, 2012 and the period from April 21, 2011 to December 31, 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario, February 21, 2013

Consolidated balance sheets

(in thousands of Canadian dollars)

	Note	**December 31, 2012**	December 31, 2011
Assets			
NON-CURRENT ASSETS			
Investment properties	8	**$ 1,182,757**	$ 941,442
Amount in escrow	9	**5,568**	–
Deferred income tax assets	21	**8,491**	7,034
Other non-current assets	10	**548**	364
		1,197,364	948,840
CURRENT ASSETS			
Amounts receivable	11	**4,822**	2,010
Prepaid expenses		**4,354**	583
Amount in escrow	9	**12,110**	–
Cash		**181,619**	87,907
		202,905	90,500
Total assets		**$ 1,400,269**	$ 1,039,340
Liabilities			
NON-CURRENT LIABILITIES			
Debt	12	**$ 724,119**	$ 579,006
Exchangeable Notes	13	**–**	80,000
Deferred rent	9	**5,568**	–
Deposits		**895**	481
Derivative financial instruments	14	**23,076**	11,754
Deferred Unit Incentive Plan	15	**3,629**	945
		757,287	672,186
CURRENT LIABILITIES			
Debt	12	**2,711**	–
Amounts payable and accrued liabilities	16	**26,863**	13,420
Income tax payable		**404**	–
Deferred rent	9	**12,110**	–
Distributions payable	17	**4,816**	2,925
		46,904	16,345
Total liabilities		**804,191**	688,531
Equity			
Unitholders' equity		**689,318**	407,009
Deficit		**(70,294)**	(37,642)
Accumulated other comprehensive loss		**(22,946)**	(18,558)
Total equity	18	**596,078**	350,809
Total liabilities and equity		**$ 1,400,269**	$ 1,039,340

See accompanying notes to the consolidated financial statements

On behalf of the Board of Trustees of Dundee International Real Estate Investment Trust:

MICHAEL J. COOPER
Trustee

P. JANE GAVAN
Trustee

Consolidated statements of comprehensive income (loss)

(in thousands of Canadian dollars)

	Note	**For the year ended December 31, 2012**	For the period from April 21 to December 31, 2011
Investment properties revenue		**$ 138,661**	$ 54,274
Investment properties operating expenses		**53,222**	19,774
Net rental income		**85,439**	34,500
Other income and expenses			
Portfolio management		**(4,201)**	(1,566)
General and administrative		**(6,579)**	(3,114)
Fair value adjustments to investment properties	8	**(23,349)**	(23,147)
Depreciation and amortization		**(53)**	–
Loss on sale of investment property	8	**(320)**	–
Share of income from equity accounted investment	10	**21**	7
Acquisition related costs, net		**–**	(7,853)
Interest and other income		**503**	132
Interest expense	19	**(27,379)**	(13,856)
Fair value adjustments to financial instruments	20	**(15,214)**	(14,567)
Income before income taxes		**8,868**	(29,464)
Current income taxes		**226**	–
Deferred income taxes		**(2,274)**	(6,263)
Provision for (recovery of) income taxes	21	**(2,048)**	(6,263)
Net income (loss)		**10,916**	(23,201)
Foreign currency translation adjustment		**(4,388)**	(18,558)
Comprehensive income (loss)		**$ 6,528**	$ (41,759)

See accompanying notes to the consolidated financial statements

Consolidated statement of changes in equity

(in thousands of Canadian dollars, except number of Units)

		Attributable to unitholders of the Trust							
	Note	**Number of Units**		**Unitholders' equity**		**Deficit**		**Accumulated other comprehensive loss**	**Total**
Balance at January 1, 2012		**43,872,316**	**$**	**407,009**	**$**	**(37,642)**	**$**	**(18,558)**	**$ 350,809**
Net income for the year		**–**		**–**		**10,916**		**–**	**10,916**
Distributions paid	17	**–**		**–**		**(38,752)**		**–**	**(38,752)**
Distributions payable	17	**–**		**–**		**(4,816)**		**–**	**(4,816)**
Public offering of Units	18	**28,186,500**		**290,436**		**–**		**–**	**290,436**
Distribution Reinvestment Plan	18	**157,432**		**1,644**		**–**		**–**	**1,644**
Unit Purchase Plan	18	**3,371**		**36**		**–**		**–**	**36**
Deferred Unit Incentive Plan	18	**12,875**		**138**		**–**		**–**	**138**
Issue costs		**–**		**(9,945)**		**–**		**–**	**(9,945)**
Foreign currency translation adjustment		**–**		**–**		**–**		**(4,388)**	**(4,388)**
Balance at December 31, 2012		**72,232,494**	**$**	**689,318**	**$**	**(70,294)**	**$**	**(22,946)**	**$ 596,078**

		Attributable to unitholders of the Trust							
	Note	Number of Units		Unitholders' equity		Deficit		Accumulated other comprehensive loss	Total
Balance at April 21, 2011		–	$	–	$	–	$	–	$ –
Units issued on formation	18	800,000		400		–		–	400
Net loss for the period		–		–		(23,201)		–	(23,201)
Distributions paid	17	–		–		(11,516)		–	(11,516)
Distributions payable	17	–		–		(2,925)		–	(2,925)
Public offering of Units	18	43,050,000		430,500		–		–	430,500
Distribution Reinvestment Plan	18	22,316		217		–		–	217
Issue costs	18	–		(24,108)		–		–	(24,108)
Foreign currency translation adjustment		–		–		–		(18,558)	(18,558)
Balance at December 31, 2011		43,872,316	$	407,009	$	(37,642)	$	(18,558)	$ 350,809

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows

(in thousands of Canadian dollars)

	Note	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Generated from (utilized in) operating activities			
Net income (loss)		**$ 10,916**	$ (23,201)
Non-cash items:			
Share of income from equity accounted investment		**(21)**	(7)
Deferred income taxes		**(2,274)**	(6,263)
Amortization of lease incentives		**17**	–
Amortization of financing costs		**1,183**	424
Amortization of fair value adjustment on acquired debt		**(206)**	–
Amortization of initial discount on convertible debentures		**930**	366
Loss on sale of investment property		**320**	–
Depreciation and amortization		**53**	–
Deferred unit compensation expense and asset management fees	15	**2,535**	929
Straight-line rent adjustment		**(98)**	(187)
Fair value adjustments to financial instruments	20	**15,214**	14,567
Fair value adjustments to investment properties		**23,349**	23,147
Cash settlement on foreign exchange contracts		**2,822**	(116)
Interest on Exchangeable Notes	19	**2,558**	2,641
Cash settlement on interest rate swap		**(4,255)**	(573)
Lease incentives and initial direct leasing costs		**(1,010)**	(47)
Change in non-cash working capital	23	**287**	10,931
		52,320	22,611
Generated from (utilized in) investing activities			
Investment in building improvements	8	**(2,391)**	(488)
Acquisition of investment properties	6, 7	**(241,032)**	(998,266)
Prepaid transaction costs on investment properties		**(2,969)**	–
Proceeds from disposal of investment property		**7,095**	–
		(239,297)	(998,754)
Generated from (utilized in) financing activities			
Purchase of derivative instruments		**–**	(9,986)
Proceeds from vendor for financing charges		**–**	9,555
Mortgages placed		**130,889**	–
Financing costs on debts placed		**(2,330)**	–
Mortgage principal repayments		**(908)**	–
Lump sum repayment		**(3,426)**	–
Issue of convertible debentures, net of costs		**–**	154,069
Proceeds of term debt, net of costs		**–**	438,163
Issue of Exchangeable Notes		**–**	80,000
Units issued for cash		**208,142**	430,900
Unit issue costs		**(8,961)**	(23,838)
Distributions paid on Units		**(40,033)**	(11,299)
Interest on Exchangeable Notes	19	**(2,558)**	(2,641)
		280,815	1,064,923
Increase in cash		**93,838**	88,780
Effect of exchange rate changes on cash		**(126)**	(873)
Cash, beginning of period		**87,907**	–
Cash, end of period		**$ 181,619**	$ 87,907

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

(All dollar amounts in thousands of Canadian dollars, except unit or per unit amounts)

Note 1
Organization

Dundee International Real Estate Investment Trust (the "REIT" or the "Trust") is an open-ended investment trust created pursuant to a Declaration of Trust dated April 21, 2011, under the laws of the Province of Ontario, and is domiciled in Ontario. The consolidated financial statements of the REIT include the accounts of the REIT and its consolidated subsidiaries. The REIT's portfolio comprises office, industrial and mixed use properties located in Germany.

The address of the Trust's registered office is 30 Adelaide Street East, Suite 1600, Toronto, Ontario, Canada M5C 3H1. The Trust is listed on the Toronto Stock Exchange under the symbol "DI.UN". The Trust's consolidated financial statements for the year ended December 31, 2012, were authorized for issue by the Board of Trustees on February 21, 2013, after which date the consolidated financial statements may only be amended with Board approval.

On April 11, 2011, 800,000 Units were issued to Dundee Realty Corporation ("DRC") for $400 cash. During the period from April 21, 2011 to August 2, 2011, the Trust had no operating activity.

At December 31, 2012, Dundee Corporation, the majority shareholder of DRC, directly and indirectly through its subsidiaries, held 12,800,000 Units.

Note 2
Summary of significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of presentation

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars, which is also the Trust's functional currency. All financial information has been rounded to the nearest thousand except when otherwise indicated. The accounting policies set out below have been applied consistently in all material respects. Certain new accounting standards and guidelines relevant to the Trust that were issued at the date of approval of the financial statements but not yet effective for the current accounting period are described in Note 5.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties, the conversion feature of the convertible debentures, Exchangeable Notes, financial derivatives, and the Deferred Unit Incentive Plan, which are measured at carrying values impacted by fair values.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, which is the date on which the Trust obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Trust has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Joint arrangements

A joint venture is a contractual arrangement pursuant to which the Trust and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities.

The Trust reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, equity accounted investments are carried on the consolidated balance sheets at cost, adjusted for the Trust's proportionate share of post-acquisition profits and losses, and for post-acquisition changes in excess of the Trust's carrying amount of its investment over the net assets of the equity accounted investments, less any identified impairment loss. The Trust's share of profits and losses is recognized in the share of net earnings from equity accounted investments in the consolidated statements of comprehensive income (loss). At each period-end, the Trust evaluates whether there is objective evidence that its interest in an equity accounted investment is impaired. The entire carrying amount of the equity accounted investment is compared to the recoverable amount, which is the higher of the value in use or fair value less costs to sell. The recoverable amount of each investment is considered separately. When the Trust's share of losses of an equity accounted investment equals or exceeds its interest in that investment, the Trust discontinues recognizing its share of further losses. Any additional share of losses is provided for and a liability is recognized only to the extent that the Trust has incurred legal or constructive obligations to fund the entity or made payments on behalf of that entity. Accounting policies of equity accounted investments have been changed where necessary to ensure consistency with the policies adopted by the Trust.

Where the Trust transacts with its equity investments, unrealized profits and losses are eliminated to the extent of the Trust's interest in the investment. Balances outstanding between the Trust and equity accounted investments in which it has an interest are not eliminated in the consolidated balance sheets.

Note 3
Accounting policies selected and applied for significant transactions and events

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

Investment properties

Investment properties are initially recorded at cost including related transaction costs in connection with asset acquisitions, except if acquired in a business combination, in which case they are initially recorded at fair value, and include office, industrial and other commercial properties held to earn rental income and/or for capital appreciation. Investment properties are subsequently measured at fair value, determined based on available market evidence, at the consolidated balance sheet date. Related fair value gains and losses are recorded in comprehensive income in the period in which they arise. The fair value of each investment property is based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the consolidated balance sheet date, less future estimated cash outflows in respect of such properties. To determine fair value, the Trust first considers whether it can use current prices in an active market for a similar property in the same location and condition, and subject to similar leases and other contracts. The Trust has concluded there is insufficient market evidence on which to base investment property valuation using this approach and has therefore determined to use the income approach. The income approach is one in which the fair value is estimated by capitalizing the net operating income that the property can reasonably be expected to produce over its remaining economic life. The income approach is derived from two methods: the overall capitalization rate method whereby the net operating income is capitalized at the requisite overall capitalization rate; and/or the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. Valuations of investment properties are most sensitive to changes in discount rates and capitalization rates.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. Lease incentives, which include costs incurred to make leasehold improvements to tenants' space and cash allowances provided to tenants, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction of investment properties revenue.

Segment reporting

The Trust owns and operates investment properties located in Germany. In measuring performance, the Trust does not distinguish or group its operations on a geographic or any other basis and, accordingly, has a single reportable segment for disclosure purposes.

The Trust's major tenant is Deutsche Post, accounting for approximately 65% of the gross rental income generated by the Trust's properties for the year ended December 31, 2012 (December 31, 2011 – 85%).

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the REIT's operating subsidiaries is euros. The consolidated financial statements are presented in Canadian dollars, which is the group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statements of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the consolidated statements of comprehensive income.

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statements of income as part of the gain or loss on sale.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Other non-current assets

Other non-current assets include equity accounted investments, property and equipment, and straight-line rent receivables. Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of property and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their expected useful lives of three to ten years. The residual values and useful lives of all assets are reviewed and adjusted, if appropriate, at least at each financial year-end. Cost includes expenditures that are directly attributable to the acquisition and expenditures for replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance are charged to comprehensive income during the financial period in which they are incurred.

Other non-current assets are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in comprehensive income in the year the asset is derecognized.

Provisions

Provisions for legal claims are recognized when the Trust has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Revenue recognition

The Trust accounts for leases with tenants as operating leases, as it has retained substantially all of the risks and benefits of ownership of its investment properties. Revenues from investment properties include base rents, recoveries of operating expenses including property taxes, lease termination fees, parking income and incidental income. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in other non-current assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred and collectability reasonably assured. Other revenues are recorded as earned.

Lease incentives, such as cash, rent-free periods and lessee or lessor owned improvements, may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying value of investment properties and are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease.

Business combinations

The purchase method of accounting is used for acquisitions meeting the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair values irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Trust's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Trust's share of the net assets acquired, the difference is recognized directly in comprehensive income for the year as an acquisition gain. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

Distributions

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as an increase to the deficit.

Income taxes

The REIT is taxed as a mutual fund trust under the *Income Tax Act* (Canada). The REIT is not a specified investment flow-through trust ("SIFT"), and will not be, provided that the REIT complies at all times with its investment restrictions, which preclude the REIT from investing in any entity other than a portfolio investment entity or from holding any non-portfolio property. The Trust intends to distribute all taxable income directly earned by the REIT to unitholders and to deduct such distributions for income tax purposes. The tax deductibility of the REIT's distributions to unitholders represents, in substance, an exception from current Canadian tax, and from deferred tax relating to temporary differences in the REIT, so long as the REIT continues to expect to distribute all of its taxable income and taxable capital gains to its unitholders. Accordingly, no net current Canadian income tax expense or deferred income tax assets or liabilities have been recorded in these consolidated financial statements.

The tax expense related to non-Canadian taxable subsidiaries for the period comprises current and deferred taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date where the subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date, and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Unit-based compensation plan

The Trust has a Deferred Unit Incentive Plan ("DUIP"), as described in Note 18, that provides for the grant of deferred trust units and income deferred trust units to trustees, officers, employees, affiliates and their service providers (including the asset manager). Unvested deferred trust units are recorded as a liability and compensation expense and, where applicable, asset management expense. Grants to trustees, officers and employees are recognized as compensation expense and included in general and administrative expense. They are recognized over the vesting period at the amortized cost based on the fair value of the units. Once vested, the liability is remeasured at each reporting date at amortized cost based on the fair value of the corresponding units, with changes in fair value being recognized in comprehensive income, as a fair value adjustment to financial instruments. Deferred units granted to DRC for payment of asset management fees are included in general and administrative expense during the period for accounting purposes as they relate to services provided during the period and the units and fees are initially measured by applying a discount to the fair value of the corresponding units. The discount is estimated by applying the Black-Scholes model, taking into consideration the volatility of the Canadian REIT equity market and the German real estate industry. Once recognized, the liability is remeasured at each reporting date at a discount to the fair values of the corresponding units, with the change being recognized in comprehensive income as fair value adjustment to financial instruments.

Cash and cash equivalents

Cash and cash equivalents include all short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent its use for current purposes. Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits as required by various lending agreements.

Financial instruments

Designation of financial instruments

The following summarizes the Trust's classification and measurement of financial assets, liabilities and financial derivatives:

	Classification	Measurement
Financial assets		
Amounts receivable	Loans and receivables	Amortized cost
Restricted cash and deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial liabilities		
Mortgage debt	Other liabilities	Amortized cost
Term loan credit facility	Other liabilities	Amortized cost
Convertible debentures – host instrument	Other liabilities	Amortized cost
Exchangeable Notes	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Deferred Unit Incentive Plan	Other liabilities	Amortized cost
Amounts payable and accrued liabilities	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Income taxes payable	Other liabilities	Amortized cost
Financial derivatives		
Derivative assets	Fair value through profit and loss	Fair value
Derivative liabilities	Fair value through profit and loss	Fair value
Convertible debentures – conversion feature	Fair value through profit and loss	Fair value

Financial assets

The Trust classifies its financial assets upon initial recognition as loans and receivables. All financial assets are initially measured at fair value, less any related transaction costs. Subsequently, financial assets are measured at amortized cost.

Amounts receivable are initially measured at fair value and are subsequently measured at amortized cost less provision for impairment. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the tenant. The carrying amount of the asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income within investment property operating expenses. Bad debt write-offs occur when the Trust determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against investment property operating expenses in the consolidated statements of comprehensive income. Trade receivables that are less than three months past due are not considered impaired unless there is evidence that collection is not possible. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in income or loss.

Financial assets are derecognized only when the contractual rights to the cash flows from the financial asset expire or the Trust transfers substantially all risks and rewards of ownership.

Financial liabilities

The Trust classifies its financial liabilities upon initial recognition as either fair value through income and loss or other liabilities measured at amortized cost. Financial liabilities are initially recognized at fair value (net of transaction costs). Financial liabilities classified as other liabilities are measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial liabilities are recognized in comprehensive income over the expected life of the debt. The Trust's financial liabilities that are classified as fair value through income and loss are initially recognized at fair value and are subsequently remeasured at fair value each reporting period, with changes in the fair value recognized in comprehensive income.

Term loans are initially recognized at fair value less attributable transaction costs, or at fair value when assumed in a business or asset acquisition. Subsequent to initial recognition, term loans are recognized at amortized cost.

Upon issuance, convertible debentures are separated into two financial liability components: the host instrument and the conversion feature. This presentation is required because the conversion feature permits the holder to convert the debenture into Units that, except for the available exemption under IAS 32, "Financial Instruments: Presentation" ("IAS 32"), would normally be presented as a liability because of the redemption feature attached to the Units. Both components are measured based on their respective estimated fair values at the date of issuance. The fair value of the host instrument is net of any related transaction costs. The fair value of the host instrument is estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without a conversion feature. Subsequent to initial recognition, the host instrument is accounted for at amortized cost. The conversion feature is accounted for at fair value with changes in fair value recognized in comprehensive income each period. When the holder of a convertible debenture converts its interest into Units, the host instrument and conversion feature are reclassified to unitholders' equity in proportion to the units converted over the total equivalent units outstanding.

The DUIP and the Exchangeable Notes are measured at amortized cost because they are settled in Units, which in accordance with IAS 32 are liabilities. Consequently, the DUIP and Exchangeable Notes are remeasured each period based on the fair value of Units, with changes in the liabilities recorded in comprehensive income. Distributions paid on Exchangeable Notes are recorded as interest expense in comprehensive income.

The Trust considers interest expense on the Exchangeable Notes to be a financing activity in the statements of cash flows.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Financial derivatives

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Derivative instruments are recorded in the consolidated balance sheets at fair value. Changes in fair value of derivative instruments that are not designated as hedges for accounting purposes are recognized in fair value adjustments to financial instruments.

The Trust has not designated any derivatives as hedges for accounting purposes.

Interest

Interest on debt includes coupon interest on term loans and mortgage debt, amortization of premiums allocated to the conversion features of the convertible debentures, amortization of ancillary costs incurred in connection with the arrangement of borrowings, and net settlement of financial interest rate derivatives and interest on Exchangeable Notes. Finance costs are amortized to interest expense unless they relate to a qualifying asset.

Equity

The Trust classifies the Units as equity. Under IAS 32 the Units are considered a puttable financial instrument because of the holder's option to redeem Units, generally at any time, subject to certain restrictions, at a redemption price per unit equal to the lesser of 90% of a 20-day weighted average closing price prior to the redemption date or 100% of the closing market price on the redemption date. The total amount payable by the REIT in any calendar month shall not exceed $50 unless waived by the REIT's trustees at their sole discretion. The Trust has determined that the Units can be classified as equity and not financial liabilities because the Units have the following features, as defined in IAS 32 (hereinafter referred to as the "puttable exemption"):

- Units entitle the holder to a pro rata share of the Trust's net assets in the event of the Trust's liquidation. The Trust's net assets are those assets that remain after deducting all other claims on its assets.
- Units are the class of instruments that are subordinate to all other classes of instruments because they have no priority over other claims to the assets of the Trust on liquidation, and do not need to be converted into another instrument before they are in the class of instruments that is subordinate to all other classes of instruments.
- All instruments in the class of instruments that are subordinate to all other classes of instruments have identical features.
- Apart from the contractual obligation for the Trust to redeem the Units for cash or another financial asset, the Units do not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Trust, and it is not a contract that will or may be settled in the Trust's own instruments.
- The total expected cash flows attributable to the Units over their life are based substantially on the profit or loss, the change in the recognized net assets and unrecognized net assets of the Trust over the life of the Units.

In addition to the Units meeting all of the above criteria, the REIT has determined it has no other financial instrument or contract that has total cash flows based substantially on the profit or loss, the change in the recognized assets, or the change in the fair value of the recognized and unrecognized net assets of the REIT. The REIT also has no other financial instrument or contract that has the effect of substantially restricting or fixing the residual return to unitholders.

Units are initially recognized at the fair value of the consideration received by the Trust. Any transaction costs arising on the issue of Units are recognized directly in unitholders' equity as a reduction of the proceeds received.

Note 4
Critical accounting judgments, estimates and assumptions in applying accounting policies

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. Management bases its judgments and estimates on experience in the industry and other various factors it believes to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying values of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Critical accounting judgments

The following are the critical judgments made in applying the Trust's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

Investment properties

Critical judgments are made by the Trust in respect of the fair values of investment properties. The fair value of these investments is reviewed regularly by management with reference to independent property valuations and market conditions existing at the reporting date, using generally accepted market practices. The independent valuators are experienced and nationally recognized and qualified in the professional valuation of office, industrial and other commercial buildings in the geographic areas of the properties held by the Trust. Judgment is also applied in determining the extent and frequency of independent appraisals.

Judgment is also applied in determining whether certain costs are additions to the carrying amount of the investment property or are of a repair and maintenance nature.

Leases

In applying the revenue recognition policy, the Trust makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased space, which determines whether or not such amounts are treated as additions to the investment property.

The Trust also makes judgments in determining whether certain leases, in particular those with long contractual terms where the lessee is the sole tenant in a property and those long-term ground leases where the Trust is lessor, are operating or finance leases. The Trust has determined that all of its leases are operating leases.

Income tax treatment

The REIT indirectly owns a majority of its properties through 15 FCPs (fonds commun de placement). The income tax treatment of non-German residents, such as the FCP unitholders indirectly owned by the REIT, is not entirely clear and is subject to significant judgment, and accordingly it is not currently possible to determine with certainty whether the FCP unitholders will or will not be taxable in Germany on their net rental income and capital gains. In light of this uncertainty, the REIT has structured its affairs assuming that the FCP unitholders would be subject to corporate income tax in Germany, and has prepared these consolidated financial statements on that basis.

On January 30, 2013, the German federal government approved a draft of an *Investment Tax Act* reform bill. Based on the draft bill, it is considered likely that foreign investment funds such as the FCPs will become subject to corporate income tax in Germany. Although the draft bill is subject to change and the consequences of such bill are still to be definitively determined, the REIT does not believe that the draft bill will have a material impact. Further, the REIT believes that the consequences of the draft would be the same from a German corporate tax perspective irrespective of whether it is the FCPs or the FCP unitholders that are determined to be the taxpayer.

The Trust computes current and deferred income taxes included in the consolidated financial statements based on the following:

- The rate of corporate tax payable on German taxable income is 15.825%, including a 5.5% solidarity surcharge;
- Taxable income for German corporate income tax purposes is determined by deducting certain expenses incurred in connection with the acquisition and ownership of real property as well as certain operating expenses, provided that the costs are incurred under arm's length terms;
- Buildings can generally be amortized on a straight-line basis at a rate of 2% to 3% depending on the age of the property; and
- The deduction of interest expense, which must reflect arm's length terms, is generally restricted by the so-called "interest capping rules". These rules apply to limit the deduction of all interest expense incurred up to a maximum of 30% of the taxable earnings before interest, tax, depreciation and amortization. However, an exception is available when annual interest expense is less than €3,000 for each taxpayer.

Treatment of Units

The Trust has considered the criteria in IAS 32 and has presented the Units as equity because of the puttable exemption.

Treatment of Exchangeable Notes

The Trust has considered the criteria in IAS 32 and has presented the Exchangeable Notes as liabilities because they do not have identical features to Units, and are not the most subordinated instrument.

Business combinations

Accounting for business combinations under IFRS 3, "Business Combinations" ("IFRS 3"), only applies if it is considered that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the Trust. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. The Trust applies judgment in determining whether property acquisitions qualify as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, the Trust applies judgment when considering the following:

- whether the investment property or properties are capable of producing outputs
- whether the market participant could produce outputs if missing elements exist

In particular, the Trust considers the following:

- whether employees were assumed in the acquisition
- whether an operating platform has been acquired

Currently, when the Trust acquires properties or a portfolio of properties, does not take on or assume employees or does not acquire an operating platform, it classifies the acquisition as an asset acquisition.

Impairment

The Trust assesses the possibility and amount of any impairment loss or write-down as it relates to amounts receivable and other assets.

Estimates and assumptions

The Trust makes estimates and assumptions that affect carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amount of other comprehensive income for the period. Actual results could differ from estimates. The estimates and assumptions critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

Valuation of investment property

The Trust's critical assumptions relating to the estimates of fair values of investment properties include the receipt of contractual rents, expected future market rents, renewal rates, maintenance requirements, discount rates that reflect current market uncertainties, capitalization rates, and current and recent property investment prices. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially.

Valuation of financial instruments

The Trust makes estimates and assumptions relating to the fair value measurement of the Exchangeable Notes, the Deferred Unit Incentive Plan, the convertible debenture conversion feature, derivative instruments, and the fair value disclosure of the convertible debentures, mortgages and term loans. The critical assumptions underlying the fair value measurements and disclosures include the market price of Units, market interest rates for debt and interest rate derivatives, unsecured debentures and foreign currency derivatives.

For certain financial instruments, including cash and cash equivalents, amounts receivable, amounts payable and accrued liabilities, income taxes payable, and distributions payable, the carrying amounts approximate fair values due to their immediate or short-term maturity. The fair value of term loans and mortgage debt is determined based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The fair value of convertible debentures uses quoted market prices from an active market.

Note 5
Future accounting policy changes

The following are future accounting policy changes to be implemented by the Trust in future years:

Financial instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the IASB on November 12, 2009, and upon adoption will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities and the derecognition of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Trust does not expect any impact on its consolidated financial statements upon the adoption of IFRS 9.

IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), has been amended to require additional disclosures on transition from IAS 39 to IFRS 9.

Joint arrangements

On May 12, 2011, the IASB issued IFRS 11, "Joint Arrangements" ("IFRS 11"). This new standard replaces IAS 31, "Interests in Joint Ventures", and eliminates the option to proportionately consolidate interests in certain types of joint ventures. The Trust will start the application of IFRS 11 in the consolidated financial statements effective January 1, 2013. The Trust does not expect any impact on its consolidated financial statements upon the adoption of IFRS 11.

Financial instruments: Disclosures (amendment regarding disclosures on transfer of financial assets and presentation)

IFRS 7 requires the Trust to provide disclosures related to offsetting financial assets and liabilities. The Trust is currently evaluating the impact of IFRS 7 on its consolidated financial statements and will start the application of this amendment on January 1, 2013. IAS 32, "Financial Instruments: Presentation" ("IAS 32"), has been amended to clarify requirements for offsetting financial assets and financial liabilities. The Trust will start the application of this amendment on January 1, 2014, and will report the required disclosures in its consolidated financial statements.

Consolidated financial statements

IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), replaces the guidance on control and consolidation in the current IAS 27, "Consolidated and Separate Financial Statements". IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. The standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Trust will start the application of IFRS 10 in the consolidated financial statements effective January 1, 2013, and does not expect it to have any impact on the consolidated financial statements.

Disclosure of interests in other entities

IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"), requires disclosures relating to an entity's interests in subsidiaries. The Trust will start the application of IFRS 12 in the consolidated financial statements effective January 1, 2013, and does not expect it to have an impact on the consolidated financial statements.

Fair value measurement

IFRS 13, "Fair Value Measurement" ("IFRS 13"), defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurement. The Trust will start the application of IFRS 13 in the consolidated financial statements effective January 1, 2013, and will report the required disclosures as per IFRS 13 on its consolidated financial statements.

Presentation of items of other comprehensive income

Amendments to IAS 1, "Presentation of Financial Statements" ("IAS 1"), provide guidance on the presentation of items contained in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future. The Trust will start the application of this amendment in the consolidated financial statements effective January 1, 2013, and does not expect it to have an impact on the consolidated financial statements as a result of adopting this standard.

Note 6
Property acquisitions

Detailed below are the acquisitions during the year ended December 31, 2012:

For the year ended December 31, 2012	Property type	Interest acquired	Purchase price[1]	Date acquired
Grammophon Büropark, Hannover	office	100%	$ 35,632	February 29, 2012
Karl-Martell-Strasse 60, Nuremberg	office	100%	65,935	April 26, 2012
Derendorfer Allee 4–4a (doubleU), Düsseldorf	office	100%	56,620	July 19, 2012
Greifswalder Str. 154–156 and Erich-Weinert-Str. 145, (Goldpunkt-Haus), Berlin	office	100%	39,570	December 7, 2012
Am Sandtorkai 37, (Humboldt-Haus), Hamburg	office	100%	37,074	December 31, 2012
Leopoldstrasse 252, 252a and 252b (Leo252), Munich	office	100%	35,830	December 31, 2012
Total			$ 270,661	

(1) Includes transaction costs.

On February 29, 2012, the REIT acquired Grammophon Büropark, an office property located in Hannover, Germany, for $35,632. The acquisition was partially financed by assuming a mortgage with a fair value of $21,803. After working capital adjustments, the REIT paid $13,692 for the acquisition in cash.

On April 26, 2012, the REIT acquired Karl-Martell-Strasse 60, an office property located in Nuremberg, Germany, for $65,935. In May 2012, mortgage financing was obtained for this property in the amount of $34,196, net of costs of $538.

On July 19, 2012, the REIT acquired doubleU, an office property located at Derendorfer Allee 4 in Düsseldorf, Germany, for a price of $56,620. The acquisition was partially financed by a new mortgage for $31,956, net of costs of $300.

On December 7, 2012, the REIT acquired Goldpunkt-Haus, an office and retail complex located in Berlin, Germany, for $39,570. The acquisition was partially financed by a new mortgage for $21,406, net of costs of $352.

On December 31, 2012, the REIT acquired Humboldt-Haus, an office building located in Hamburg, Germany, for $37,074. The acquisition was partially financed by a new mortgage for $21,861, net of costs of $439.

On December 31, 2012, the REIT also acquired Leo252, an office building located in Munich, Germany, for $35,830. The acquisition was partially financed by a new mortgage of $19,643, net of costs of $198.

The assets acquired and liabilities assumed in the transaction were allocated as follows:

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Investment properties[(1)]	**$ 270,661**	$ –
Total purchase price	**$ 270,661**	$ –
The consideration paid consists of:		
Cash	**$ 241,032**	$ –
Assumed non-cash working capital	**812**	–
Fair value of mortgage debt assumed	**21,803**	–
Transaction costs accrued	**7,014**	–
Total consideration	**$ 270,661**	$ –

(1) Includes transaction costs.

Note 7
Business combinations

On August 3, 2011, the REIT indirectly through a wholly owned subsidiary acquired 292 commercial properties (the "properties") located in Germany. Costs relating to the acquisition were $7,853 and were charged directly to comprehensive income as acquisition related costs. The acquisition was financed by way of net proceeds from the offering of Units, a term loan credit facility and Units issued to DRC and Dundee Corporation, and the issuance of Exchangeable Notes, Series A and Exchangeable Notes, Series B ("Exchangeable Notes").

The following are the recognized amounts of identifiable assets acquired and liabilities assumed, measured at their respective fair values:

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Investment properties	**$ –**	$ 1,006,334
Vendor payment for capital costs	**–**	(8,557)
	–	997,777
Equity investments	**–**	221
Working capital adjustments	**–**	268
Cash	**–**	998,266
Fair value of consideration transferred	**$ –**	$ 998,266

In conjunction with the acquisition, the REIT received payment from the vendor totalling $8,557, which related to adjustments for capital costs at certain properties. The accounting treatment of the payment received for capital costs reduced the fair value of the investment properties below the appraised value on acquisition.

Note 8
Investment properties

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Balance at beginning of period	**$ 941,442**	$ –
Additions:		
Acquisitions	**270,661**	997,777
Building improvements	**2,391**	488
Lease incentives and initial direct leasing costs	**1,011**	47
Amortization of lease incentives	**(17)**	–
Disposals	**(7,415)**	–
Fair value adjustment	**(23,349)**	(23,147)
Foreign currency translation	**(1,967)**	(33,723)
Balance at end of period	**$ 1,182,757**	$ 941,442

The fair value of investment properties has been reduced by $278 (December 31, 2011 – $177) as a result of straight-line rent receivable being reclassified to other non-current assets.

Investment properties with an aggregate fair value of $1,182,757 at December 31, 2012 (December 31, 2011 – $941,442), were valued by qualified valuation professionals during the year. During 2012, six investment properties were acquired for $270,661 representing a capitalization rate of approximately 7.22%; refer to Note 6 for details of the acquisitions.

During 2012, the REIT also disposed of five investment properties valued at $7,415. These properties were acquired in 2011 as part of the Initial Properties. On September 13, 2012, the Trust sold a property located at Bahnhofplatz 4 in Traunstein, for net proceeds of $1,027. A loss of $55 was recorded for this transaction in connection with transaction costs. On November 13, 2012, the Trust sold a property located at Ziegelstr. 15, 15A in Ravensburg for net proceeds of $1,815. A loss of $77 was recorded for this transaction in connection with transaction costs. On November 30, 2012, the Trust sold a property located at Bahnhofstr. 12 in Pullendorf for net proceeds of $803. A loss of $39 was recorded in connection with transaction costs. On December 28, 2012, the Trust sold a property located at Eichendorffstr. 14 in Traunreut for net proceeds of $877. A loss of $42 was recorded in connection with transaction costs. On December 31, 2012, the Trust sold a property located at Mecklenburgstr. 4–6 in Schwerin for net proceeds of $2,548. A loss of $107 was recorded in connection with transaction costs.

On December 31, 2012, the fair values of the investment properties were adjusted downwards by $23,349, of which $11,582 related to capitalized transaction costs associated with the six property acquisitions. Another write-down amount of $3,402 related to building improvement and leasing costs incurred during the year and $1,661 pertained to the five properties sold and properties under contract for sale. The remaining $6,704 pertained to the decrease in fair value of the Initial Properties since the end of 2011. During the year ended December 31, 2012, the value of investment properties decreased by $1,967 due to the slight depreciation of the euro against the Canadian dollar from 2011.

The valuation methodology adopted in the calculation of fair values of investment properties is European-based and is different from the methodology adopted in North America. The methodology commonly used by European valuators is a net basis whereas in North America a gross basis is used. The primary difference in approaches is the adjustment to values for transaction costs including real estate transfer taxes, which results in a lower valuation under a net basis. In measuring value, it is appropriate to use the valuation approach used in the market where the real estate is located rather than the method practised in the market where the entity reports.

Fair values at December 31, 2012 and December 31, 2011 were determined using the direct capitalization method. The direct capitalization method applies a capitalization rate to stabilized NOI and incorporates allowances for vacancy and management fees. The resulting capitalized value was further adjusted for extraordinary costs to stabilize income and non-recoverable capital expenditures, where applicable. If the cap rates were to increase by 25 bps, the investment properties balance would decrease by $39,164. If cap rates were to decrease by 25 bps, the investment properties balance would increase by $41,942.

The Initial Properties were acquired on August 3, 2011, for $1,006,334, representing a capitalization rate of approximately 8.2%. An amount of $8,557 received from the vendor at the time of closing for capital costs reduced the acquisition price by the same amount, to $997,777.

Future minimum contractual rent (excluding service charges) under current operating leases is as follows:

	December 31, 2012[1]
Less than 1 year	$ 103,070
1–5 years	339,624
Longer than 5 years	115,947
Total	$ 558,641

(1) Includes income from head lease.

Note 9
Amount in escrow and deferred rent

	December 31, 2012	December 31, 2011
Amount in escrow	**$ 17,678**	$ –
Less: current portion	**12,110**	–
Non-current portion	**$ 5,568**	$ –
Deferred rent	**$ 17,678**	$ –
Less: current portion	**12,110**	–
Non-current portion	**$ 5,568**	$ –

On June 30, 2011, Deutsche Post gave notice to terminate 17 leases with respect to its 2012 termination rights. In light of these terminations, the vendor of the properties has entered into a lease agreement with the Trust for the space and has paid an amount of $22,372 (€17,329) plus all interest accrued thereon for the rent covering the period commencing on July 1, 2012 to, and including, June 30, 2014. This amount has been set aside by the vendor in a bank account out of which the REIT will be paid on a monthly basis, starting from July 1, 2012, the net rent payable for two years plus prepayments of operating costs. On June 30, 2012, Deutsche Post gave notice to terminate one additional lease, pursuant to their 2012 termination rights. This termination, for which we received an additional payment from the vendor of approximately $218 (€169), will become effective as at July 1, 2013. During the year ended December 31, 2012, the Trust has received $10,424 out of escrow.

Note 10
Other non-current assets

	December 31, 2012	December 31, 2011
Equity accounted investment	$ 192	$ 173
Computer equipment	78	14
Straight-line rent receivable	278	177
Total	**$ 548**	$ 364

Investment in joint ventures

The Trust participates in a jointly controlled corporate entity (the "joint venture") with other parties and accounts for its interests using the equity accounting method.

Details of the Trust's joint venture:

Name	Principal activity	Location	Ownership interest (%) December 31, 2012
Lorac Investment Management S.à r.l.	Investment management	Luxembourg	50

Note 11
Amounts receivable

	December 31, 2012	December 31, 2011
Trade receivables	$ 247	$ 1,607
Less: Provision for impairment of trade receivables	(239)	(76)
Trade receivables, net	8	1,531
Other amounts receivable	4,814	479
Total	**$ 4,822**	$ 2,010

At December 31, 2012, other amounts receivable includes proceeds receivable from the sale of a property at Mecklenburgstr. 4–6 in Schwerin for $2,420, which was subsequently received on January 8, 2013. It also includes amounts receivable from tenants regarding operating cost recoveries of $1,404.

The carrying amount of amounts receivable approximates fair value due to their current nature.

Note 12
Debt

	December 31, 2012	December 31, 2011
Mortgage debt	**$ 151,862**	$ –
Convertible debentures	**148,428**	146,658
Term loan credit facility	**426,540**	432,348
Total	**726,830**	579,006
Less: Current portion	**2,711**	–
Non-current debt	**$ 724,119**	$ 579,006

First-ranking mortgages on all of the investment properties have been provided as security for either the mortgage debt or the term loan credit facility.

Mortgage debt

On February 29, 2012, the Trust assumed a mortgage with a principal balance of €15,454 ($20,805) at a fixed interest rate of 4.17% per annum maturing on February 28, 2015, in connection with the acquisition of Grammophon Büropark. The mortgage requires monthly repayments with a principal amortization of 2.00% per year. As a result of the non-market rate debt assumed, a fair value adjustment of $998 was recorded.

On May 25, 2012, the Trust obtained a mortgage with a principal balance of €26,675 ($34,734) at a fixed interest rate of 2.45% per annum maturing June 30, 2017, on the newly acquired property Karl-Martell-Strasse 60. The mortgage requires monthly repayments with principal amortization increasing from 2% to 4% incrementally starting from July 2012 to maturity.

On July 19, 2012, the Trust obtained a mortgage with a principal balance of €26,000 ($32,256) at a fixed interest rate of 2.09% per annum maturing July 31, 2017, on the newly acquired property doubleU. The mortgage requires monthly repayments with principal amortization of 1.4% per annum throughout the term.

On December 7, 2012, the Trust obtained a mortgage with a principal balance of €17,000 ($21,758) at a fixed rate of 3.22% per annum maturing December 31, 2022, on acquisition of Goldpunkt-Haus. The mortgage requires quarterly payments with principal repayments of 1.75% of the initial loan amount.

On December 31, 2012, the Trust obtained a mortgage with a principal balance of €17,000 ($22,300) at a fixed rate of 2.27% per annum maturing December 31, 2017, on acquisition of Humboldt-Haus. The mortgage requires quarterly payments with principal repayments of 2%. On the same day, the Trust obtained another mortgage with a principal balance of €15,125 ($19,841) at a fixed rate of 2.21% per annum maturing September 30, 2019, on acquisition of Leo252. The mortgage requires monthly payments with principal repayments of 1%.

Convertible debentures

On August 3, 2011, the Trust issued $140,000 principal amount of convertible unsecured subordinated debentures (the “Debentures”). On August 29, 2011, the Trust issued an additional $21,000 principal amount of Debentures. The Debentures bear interest at 5.5% per annum, payable semi-annually on July 31 and January 31 each year, and mature on July 31, 2018. Each Debenture is convertible at any time by the debenture holder into 76.9231 Units per one thousand dollars of face value, representing a conversion price of $13.00 per REIT 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 Trust's 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 Debentures were initially recorded on the consolidated balance sheet as debt of $152,894 less costs of $6,931. In addition, the Trust allocated $8,106 to the conversion feature upon initial recognition. The conversion feature will be accreted to the principal amount of the Debenture over its term. As at December 31, 2012, the outstanding principal amount is $161,000 (December 31, 2011 – $161,000).

Term loan credit facility

On August 3, 2011, the Trust obtained a term loan credit facility (the "Facility") for gross proceeds of €328,500 ($448,395). Costs relating to the Facility were $10,832. During the year ended December 31, 2012, additional costs of $64 were incurred. These costs were reduced by proceeds received from the vendor to compensate the Trust for higher than expected financing costs in the amount of $9,555. The Facility has a term of five years, which may be extended for a further two years, subject to the satisfaction of certain conditions precedent at the time of the extension. Variable rate interest is calculated and payable quarterly under the Facility at a rate equal to the aggregate of the three-month EURIBOR plus a margin of 200 basis points (the "margin") and an agency fee of 10 basis points. Pursuant to the Facility, the Trust was required to enter into an interest rate swap that fixed 80% of the variable interest rate payable under the Facility at a fixed interest rate not to exceed 3.5%, excluding the margin, and was required to purchase a cap instrument to cover 10% of the variable rate interest payable so that such interest rate does not exceed 5% (excluding the margin). The remaining 10% of interest payable would continue to be calculated quarterly on a variable rate basis. To comply with the Facility's requirement, on the day of closing the Trust entered into an interest rate swap to pay a fixed rate of 4.05% on 80% of the Facility and an interest rate cap of 5.00% on 10% of the Facility at a cost of $9,986. In December 2011, the Trust entered into another interest rate swap to pay a fixed rate of 3.37% on the 20% variable portion of the Facility for 2012. This contract expired on December 31, 2012. As at December 31, 2012, the Trust paid a fixed rate of 4.05% (December 31, 2011 – 4.05%) on 80% and a variable rate of 3.37% (December 31, 2011 – 3.69%) on the remaining 20% of the Facility. As a result, the Trust paid a blended rate of 3.91% in 2012.

No amortization of principal under the Facility is required during the first three years after closing. Thereafter, interest together with amortization of principal equal to 2% per annum of the initial loan amount will be payable on a quarterly basis (including the extension term, if any). In addition, the Trust has the option to repay between 110% and 125% (with the average being 115%) of a principal amount of €100,000 through dispositions and refinancing of a portion of the Initial Properties by August 3, 2013. The applicable prepayment fee decreases from 1.5% of the repayment amounts for repayment made prior to August 3, 2012, to 0.95% for repayments made prior to August 3, 2013, to 0.6% for repayments made prior to August 3, 2014 and to 0.25% for repayments made prior to August 3, 2015. There is no repayment fee for repayments made in the final year of the Facility. If the full optional principal repayment is not repaid by August 3, 2013, the Trust will be required to pay additional interest of 1% on the portion of the €100,000 that has not been repaid, starting on August 3, 2013. During the year ended December 31, 2012, the Trust repaid €2,665 in connection with the disposition of five properties of the Initial Properties, including prepayment premiums, in accordance with the terms of the Facility.

The Facility requires that certain bank accounts are to be pledged, and that all net rental income from the Initial Properties be paid into a rent collections account established by the Trust, to be released only after budgeted non-recoverable operating expenses (including an agreed property and asset management fee) are paid.

The Facility includes default and cash trap covenants requiring the Trust to maintain certain loan-to-value and debt service coverage ratios, each of which are calculated on a quarterly basis. The Facility agreement requires the debt service coverage ratio to be equal to or above 145% at each interest payment date. If these ratios are not met at any time, the lenders may withhold 50% of the excess cash flow on a monthly basis as additional security for the Facility until the ratios are once again satisfied. Upon satisfaction of the relevant ratio, the excess cash flow may again be distributed to the Trust; however, any cash previously trapped will not be released and will be used at the time of each future quarterly testing date until the ratio is satisfied for two consecutive quarters. As at December 31, 2012, the Trust was in compliance with its loan covenants.

In addition, the Facility requires that DRC and Dundee Corporation combined maintain at least $120,000 of equity in the REIT for a two-year period from closing and at least $48,000 of equity for the remainder of the term of the Facility.

Revolving credit facility

On September 27, 2012, the Trust obtained a revolving credit facility with a Canadian bank for an aggregate amount not exceeding €10,000 for general corporate purposes, available by way of EURIBOR-based loans in euros, Canadian dollar prime loans and/or Canadian dollar bankers' acceptances, and a €15,000 senior credit facility secured by a first charge on investment properties to provide interim bridge financing for acquisitions of such properties in Germany on a property by property basis. The latter facility may be increased by an additional €20,000, subject to prior approval and 30 days' notice. The advances are to be repaid when permanent financing is in place or within six months from the date of the advance. Amounts in excess of €15,000 are to be repaid within a year. The interest rate on any Canadian dollar advances is prime plus 200 basis points and/or bankers' acceptance rates plus 300 basis points. For euro advances, the rate is 300 basis points over the three-month EURIBOR rate. The facility required an upfront fee payment of €187. Total financing costs incurred amounted to $439 in 2012. An additional 35 basis point fee will be payable per advance, up to a maximum of €150, for advances drawn in excess of €15,000. Undrawn amounts under the facility will be subject to a stand-by fee of 75 basis points. Funding requests in excess of €15,000 from this facility will be subject to a 75 basis point stand-by fee if the advance has not been made within 45 days of the funding request. The revolving credit facility agreement requires the Trust to maintain a debt-to-book value rating not to exceed 0.6:1; a minimum interest coverage ratio of 2:1; and a minimum net worth of $300,000. The revolving credit facility has a term of two years. As at December 31, 2012, the outstanding balance of the credit facility was $nil and the Trust is in compliance with the covenants of the revolving credit facility.

The weighted average interest rates for the fixed and floating components of debt are as follows:

	Face interest rates		Weighted average effective interest rates			Debt amount	
	Dec. 31, 2012	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011	Maturity dates	**Dec. 31, 2012**	Dec. 31, 2011
FIXED RATE							
Mortgage debt	**2.66%**	–	**2.69%**	–	2015–2022	**$ 151,862**	$ –
Term loan credit facility(1)	**4.05%**	4.05%	**4.12%**	4.11%	2016	**344,028**	345,879
Convertible debentures	**5.50%**	5.50%	**7.31%**	7.31%	2018	**148,428**	146,658
Total fixed rate debt	**4.05%**	4.48%	**4.52%**	5.06%		**644,318**	492,537
VARIABLE RATE							
Term loan credit facility(2)	**3.37%**	3.69%	**3.43%**	3.75%	2016	**82,512**	86,469
Total variable rate debt	**3.37%**	3.69%	**3.43%**	3.75%		**82,512**	86,469
Total debt	**3.98%**	4.36%	**4.39%**	4.86%		**$ 726,830**	$ 579,006

(1) 80% of the Facility is subject to an interest rate swap in place until August 3, 2016, pursuant to the Facility agreement and has been presented as fixed rate debt.

(2) 20% of the Facility is subject to an interest rate swap until December 31, 2012, and has been presented as variable rate debt due to the short duration of the swap agreement.

The scheduled principal repayments and debt maturities are as follows:

	Mortgage	Term debt	Convertible debentures	Total
2013	$ 2,711	$ –	$ –	$ 2,711
2014	3,008	4,309	–	7,317
2015	21,760	8,619	–	30,379
2016	2,969	414,502	–	417,471
2017	83,290	–	–	83,290
2018 and thereafter	39,138	–	161,000	200,138
	$ 152,876	$ 427,430	$ 161,000	$ 741,306
Acquisition date fair value adjustments				(6,050)
Transaction costs				(8,426)
				$ 726,830

Note 13
Exchangeable Notes

The Trust had the following Exchangeable Notes outstanding:

	December 31, 2012	December 31, 2011
Balance at beginning of period	**$ 80,000**	$ 80,000
Conversion to REIT Units	**(82,330)**	–
Remeasurement of carrying amount	**2,330**	–
Balance at end of period	**$ –**	$ 80,000

In conjunction with the initial public offering (the "Offering"), a subsidiary of the Trust issued Exchangeable Notes for gross proceeds of $80,000. Each €7.326 (the euro equivalent of $10.00 based on the same exchange rate as the proceeds of the Offering) principal amount of Exchangeable Notes is exchangeable by the holder for one Unit, subject to customary anti-dilutive adjustments. The Exchangeable Notes and corresponding Special Trust Units (see Note 18) together have economic and voting rights equivalent in all material respects to the Units.

On April 17, 2012, $46,000 principal amount of Exchangeable Notes was exchanged into 4,600,000 Units and concurrently these Units were sold as part of the public offering completed on April 17, 2012, when a total of 9,200,000 Units were issued and sold to the public at an issue price of $10.10 per unit. Issue costs related to the 4,600,000 Units sold by the Exchangeable Notes holder were borne by the holder.

On September 5, 2012, $34,000 principal amount of Exchangeable Notes was exchanged into 3,400,000 Units and concurrently these Units were sold as part of the public offering completed on September 5, 2012, when a total of 7,820,000 Units were issued and sold to the public at an issue price of $10.55 per unit. Issue costs related to the 3,400,000 Units sold by the Exchangeable Notes holder were borne by the holder.

Interest was payable at an amount per month equal to the product of the aggregate number of Units for which the outstanding Exchangeable Notes are exchangeable multiplied by the cash distribution declared for each Unit on such month, converted into euros at an exchange rate equivalent to the rate of the foreign exchange contract the Trust entered for payment of monthly distributions to holders of Units. During the year ended December 31, 2012, the Trust incurred $2,558 as interest on the Exchangeable Notes (period ended December 31, 2011 – $2,641), which is included as interest expense in comprehensive income.

As at December 31, 2012, the Trust no longer had any Exchangeable Notes outstanding.

Note 14
Derivative financial instruments

	December 31, 2012	December 31, 2011
Interest rate swaps (Note 26)	**$ 18,513**	$ 7,204
Interest rate cap (Note 26)	**(11)**	(97)
Foreign exchange forward contracts (Note 26)	**429**	(1,942)
Conversion feature of the Debentures	**4,145**	6,589
Total	**$ 23,076**	$ 11,754

The movement in the conversion feature on the convertible debentures for the period was as follows:

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Balance at beginning of period	**$ 6,589**	$ 8,106
Remeasurement of conversion feature	**(2,444)**	(1,517)
Balance at end of period	**$ 4,145**	$ 6,589

The Trust currently has foreign exchange forward contracts to sell €3,100 in January 2013, €3,700 each month from February 2013 to December 2014, and €1,550 each month from January 2015 to December 2015 at an average exchange rate of $1.327 per euro.

Note 15
Deferred Unit Incentive Plan

The movement in the Deferred Unit Incentive Plan (see Note 18) balance was as follows:

Opening liability at April 21, 2011	$ –
Compensation during the period	88
Asset management fees during the period	841
Remeasurements of carrying value	16
As at December 31, 2011	945
Compensation during the period	628
Asset management fees during the period	1,907
Issue of deferred units	(138)
Remeasurements of carrying value	287
As at December 31, 2012	$ 3,629

On August 3, 2011, DRC elected to receive the first $3,500 of the base asset management fees payable on the properties acquired on August 3, 2011, by way of deferred trust units under the Asset Management Agreement in each year for the next five years. The deferred trust units granted to DRC vest annually over five years, commencing on the fifth anniversary date of being granted.

On termination of the Asset Management Agreement, unvested trust units granted to DRC vest immediately.

During the year ended December 31, 2012, $1,907 (period ended December 31, 2011 – $841) of asset management fees were recorded based on the fair value of the deferred units issued with an appropriate discount to reflect the restricted period of exercise and included in general and administrative expenses. The fees were settled by the grant of 357,170 deferred trust units (for the period ended December 31, 2011 – 147,717 deferred trust units). At December 31, 2012, 504,887 unvested deferred trust units and income deferred units (December 31, 2011 – 147,717) were outstanding with respect to the asset management fee.

On November 8 and December 8, 2011, 87,000 and 33,784 deferred trust units were granted to senior management and trustees, respectively. Of the 87,000 units granted, 66,000 relate to trustees and key management personnel. The 33,784 deferred trust units were granted to trustees who elected to receive their 2011 and 2012 annual retainer in the form of deferred trust units rather than cash. The grant date values for the deferred units of the two grants were $9.65 and $9.84, respectively.

Deferred units granted to DRC for payment of asset management fees are initially measured, and subsequently remeasured at each reporting date, at fair value. The deferred units are considered to be restricted stock and the fair value is estimated by applying a discount to the market price of the corresponding Units. The discount is estimated based upon a hypothetical put-call option, valued using a Black-Scholes option-pricing model which takes into consideration the volatility of the Canadian REIT and the German real estate equity markets, the respective holding period of the deferred units, and the risk-free interest rate. The carrying value of the deferred units granted to DRC is most sensitive to changes in volatility and the relative weighting of the put option and call option values.

Note 16
Amounts payable and accrued liabilities

	December 31, 2012	December 31, 2011
Trade payables	**$ 7,398**	$ 2,675
Accrued liabilities and other payables	**15,551**	6,555
Accrued interest	**3,914**	4,190
Total	**$ 26,863**	$ 13,420

Note 17
Distributions

The following table breaks down distribution payments for the periods ended December 31:

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Paid in cash	**$ 40,033**	$ 11,299
Paid by way of reinvestment in Units	**1,644**	217
Less: Payable at December 31, 2011	**(2,925)**	–
Plus: Payable at December 31, 2012 (December 31, 2011)	**4,816**	2,925
Total	**$ 43,568**	$ 14,441

The distribution for the month of December 2012 in the amount of $0.06667 per unit, declared on December 31, 2012, and payable on January 15, 2013, amounted to $4,816. The amount payable at December 31, 2012, was satisfied on January 15, 2013, by $4,366 cash, and $450 through the issuance of 40,958 Units. The distribution for the months of January 2013 and February 2013 were declared in the amount of $0.06667 per unit per month, payable on February 15, 2013 and March 15, 2013, respectively.

The REIT's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15th day of the following month. The Declaration of Trust provides the 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 the leasing costs and capital expenditure requirements. Given that working capital tends to fluctuate over time and should not affect the REIT's distribution policy, the REIT disregards it when determining its distributions. The REIT also excludes the impact of leasing costs, which fluctuate with lease maturities, renewal terms and the type of asset being leased. The REIT evaluates the impact of leasing activity based on averages for its portfolio over a two- to three-year time frame. The REIT excludes the impact of transaction costs expensed on business combinations as these are considered to be non-recurring. Additionally, the REIT deducts amortization of non–real estate assets such as software and office equipment incurred after the formation of the Trust. The Trust declared distributions of $0.06237 per unit for the month of August 2011 and $0.06667 per unit per month for the months of September to December 2011, or $14,441 in 2011. The Trust declared distributions of $0.06667 per unit per month for the months of January to December 2012, or $43,568 in 2012.

Note 18
Equity

	December 31, 2012		December 31, 2011	
	Number of Units	**Amount**	Number of Units	Amount
Total	**72,232,494**	**$ 596,078**	43,872,316	$ 350,809

REIT Units

The REIT is authorized to issue an unlimited number of Units and an unlimited number of Special Trust Units. The Special Trust Units may only be issued to holders of Exchangeable Notes.

Special Trust Units were issued in connection with Exchangeable Notes. The Special Trust Units were not transferable separately from the Exchangeable Notes to which they related and were automatically redeemed for a nominal amount and cancelled upon the settlement of the Exchangeable Notes. Each Special Trust Unit entitled the holder to the number of votes at any meeting of unitholders that was equal to the number of Units that could be obtained upon the surrender or exchange of the Exchangeable Notes to which they related. As at December 31, 2012, there were no Special Trust Units outstanding (December 31, 2011 – 8 million).

On April 21, 2011, 800,000 Units were issued to DRC for $400 cash.

Public offering of REIT Units

On December 7, 2012, the REIT completed a public offering of 11,166,500 Units, including an over-allotment option, at a price of $10.30 per unit. The Trust received gross proceeds of $115,015. Costs related to the offering totalled $5,362 and were charged directly to unitholders' equity.

On September 5, 2012, the REIT completed a public offering of 7,820,000 Units, including an over-allotment option, at a price of $10.55 per unit. The offering included the 3,400,000 Units offered for sale by the Exchangeable Notes holder, who had concurrently exchanged 3,400,000 Exchangeable Notes for 3,400,000 Units. The Trust received gross proceeds of $46,631. Costs related to the offering totalled $2,278 and were charged directly to unitholders' equity.

On April 17, 2012, the REIT completed a public offering of 9,200,000 Units, including an over-allotment option, at a price of $10.10 per unit. The offering included the 4,600,000 Units offered for sale by the Exchangeable Notes holder, who had concurrently exchanged 4,600,000 Exchangeable Notes for 4,600,000 Units. The Trust received gross proceeds of $46,460. Costs related to the offering totalled $2,277 and were charged directly to unitholders' equity.

On August 3, 2011, the REIT completed a public offering of 27,000,000 Units at a price of $10.00 per unit for gross proceeds of $270,000. On August 29, 2011, the REIT issued an additional 4,050,000 Units at a price of $10.00 per unit. Costs related to the offering totalled $24,078 and were charged directly to unitholders' equity. In addition to the initial public offering, 10,000,000 Units were purchased by Dundee Corporation at the offering price and 2,000,000 Units were purchased by DRC at the offering price.

Distribution Reinvestment and Unit Purchase Plan

The Distribution Reinvestment Plan ("DRIP") allows holders of Units, other than unitholders who are resident of or present in the United States of America, to elect to have all cash distributions from the REIT reinvested in additional Units. Unitholders who participate in the DRIP receive an additional distribution of Units equal to 4% of each cash distribution that was reinvested. The price per unit is calculated by reference to a five-day weighted average closing price of the Units on the Toronto Stock Exchange preceding the relevant distribution date, which is typically on or about the 15th day of the month following the declaration. For the year ended December 31, 2012, 157,432 Units were issued pursuant to the DRIP for $1,644 (December 31, 2011 – 22,316 Units were issued for $217).

The Unit Purchase Plan feature of the DRIP facilitates the purchase of additional Units by existing unitholders. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional Units that may be acquired. The price per unit is calculated in a similar manner to the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase features of the DRIP. For the year ended December 31, 2012, 3,371 Units were issued under the Unit Purchase Plan for $36 (December 31, 2011 – $nil).

Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan provides for the grant of deferred trust units to trustees, officers and employees as well as affiliates and their service providers, including the asset manager. Deferred trust units are granted at the discretion of the trustees and earn income deferred trust units based on the payment of distributions. Once issued, each deferred trust unit and the related distribution of income deferred trust units vest evenly over a three- or five-year period on the anniversary date of the grant except for certain deferred trust units granted to DRC under the Asset Management Agreement. Subject to an election option available for certain participants to postpone receipt of units, such units will be issued immediately upon vesting. Up to a maximum of 2,074,000 deferred trust units are issuable under the Deferred Unit Incentive Plan.

For the year ended December 31, 2012, 12,875 Units were issued to officers and employees pursuant to the Deferred Unit Incentive Plan for $138 (December 31, 2011 – $nil).

Note 19
Interest expense
Interest on debt

Interest on debt incurred and charged to comprehensive income is recorded as follows:

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Interest on term loan credit facility	**$ 12,348**	$ 6,840
Interest on convertible debentures	**8,887**	3,585
Interest on mortgage debt	**1,551**	–
Interest on bank indebtedness	**128**	–
Amortization of financing costs and discounts	**1,907**	790
Interest on Exchangeable Notes	**2,558**	2,641
Interest expense	**$ 27,379**	$ 13,856

Interest on Exchangeable Notes

Interest payments on the Exchangeable Notes charged to comprehensive income is recorded as follows:

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Paid in cash	**$ 2,558**	$ 2,115
Plus: Payable at December 31	**–**	526
Total	**$ 2,558**	$ 2,641

Note 20
Fair value adjustments to financial instruments

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Fair value adjustment on interest rate swaps and cap	**$ (15,493)**	$ (17,895)
Fair value adjustment on conversion feature of convertible debentures	**2,444**	1,517
Fair value adjustment on Deferred Unit Incentive Plan	**(287)**	(16)
Fair value adjustment on Exchangeable Notes	**(2,330)**	–
Fair value adjustment on foreign exchange forward contracts	**452**	1,827
	$ (15,214)	$ (14,567)

Note 21
Income taxes
Reconciliation of tax expense

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Income before income taxes	**$ 8,868**	$ (29,464)
Tax calculated at the German corporate tax rate of 15.825%	**1,403**	(4,662)
Increase (decrease) resulting from:	**–**	–
Expenses not deductible for tax	**369**	81
Effect of different tax rates in countries in which the group operates	**(119)**	(93)
Income distributed and taxable to unitholders	**(3,473)**	(1,528)
Tax benefits not previously recognized	**(220)**	–
Other items	**(8)**	(61)
Income taxes (recovery of taxes)	**$ (2,048)**	$ (6,263)

Deferred income tax assets consist of the following:

	December 31, 2012	December 31, 2011
Deferred tax asset related to difference in tax and book basis of investment properties	**$ 1,812**	$ 2,065
Deferred tax asset related to difference in tax and book basis of Exchangeable Notes	**–**	771
Deferred tax asset related to difference in tax and book basis of financial instruments	**4,045**	2,537
Deferred tax asset related to tax loss carry-forwards	**1,603**	319
Deferred tax asset related to differences in tax and book basis of deferred financing costs	**1,031**	1,342
Total deferred income tax assets	**$ 8,491**	$ 7,034

Note 22
Related party transactions and arrangements

The REIT entered into an asset management agreement with DRC ("Asset Management Agreement") pursuant to which DRC provides certain asset management services to the REIT and its subsidiaries. The Asset Management Agreement provides for a broad range of asset management services for the following fees:

- base annual management fee calculated and payable on a monthly basis, equal to 0.35% of the historical purchase price of the properties;
- incentive fee equal to 15% of the REIT's adjusted funds from operations per unit in excess of $0.93 per unit; increasing annually by 50% of the increase in the weighted average consumer price index (or other similar metric as determined by the trustees) of the jurisdictions in which the properties are located;
- capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000, excluding work done on behalf of tenants or any maintenance capital expenditures;
- acquisition fee equal to: (a) 1.0% of the purchase price of a property, on the first $100,000 of properties in each fiscal year; (b) 0.75% of the purchase price of a property on the next $100,000 of properties acquired in each fiscal year; and (c) 0.50% of the purchase price on properties in excess of $200,000 in each fiscal year. DRC did not receive an acquisition fee in respect of the acquisition of the Initial Properties; and
- financing fee equal to 0.25% of the debt and equity of all financing transactions completed on behalf of the REIT to a maximum of actual expenses incurred by DRC in supplying services relating to financing transactions. DRC did not receive a financing fee in respect of the acquisition of the Initial Properties.

Pursuant to the Asset Management Agreement, DRC may elect to receive all or part of the fees payable to it for its asset management services in deferred trust units under the Deferred Unit Incentive Plan. The number of deferred trust units issued to DRC will be calculated by dividing the fees payable to DRC by the fair value for this purpose on the relevant payment date of the Units. Fair value for this purpose is the weighted average closing price of the Units on the principal market on which the Units are quoted for trading for the five trading days immediately preceding the relevant payment date. The deferred trust units will vest on a five-year schedule, pursuant to which one-fifth of the deferred trust units will vest, starting on the sixth anniversary date of the grant date for deferred trust units granted during the first five years of the Asset Management Agreement and starting on the first anniversary date of the grant date thereafter. Income deferred trust units will be credited to DRC based on distributions paid by the Trust on the Units and such income deferred trust units will vest on the same five-year schedule as their corresponding deferred trust units. For accounting purposes, the deferred units relate to services provided during the period and the corresponding expense is recognized during the period. DRC has irrevocably elected to receive the first $3,500 of the fees payable to it in each year for the first five years for its asset management services in deferred trust units.

During the year ended December 31, 2012, the REIT recognized $2,251 (period ended December 31, 2011 – $841) in general and administrative expense in relation to asset management fees under the Asset Management Agreement with DRC, of which $1,907 (period ended December 31, 2011 – $841) was payable in deferred trust units and $344 (period ended December 31, 2011 – $nil) was payable in cash. The REIT also paid $2,430 for asset acquisition fees incurred on acquisition of Grammophon, Karl-Martell-Strasse, doubleU, Goldpunkt-Haus, Humboldt-Haus and Leo252 during the year, which were capitalized as acquisition costs. The REIT also incurred $358 in financing fees related to the September and December equity offerings. The fees were charged against equity as equity issue costs. As at December 31, 2012, 504,887 deferred trust and income units were granted under this agreement and remained unvested.

Included in amounts payable at December 31, 2012, is $490 (December 31, 2011 – $nil) related to the Asset Management Agreement, and general and administrative expenses DRC has incurred on behalf of the Trust.

Note 23
Supplementary cash flow information

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Increase in amounts receivable	**$ (2,622)**	$ –
Increase in prepaid expenses and other assets	**(440)**	(1,276)
Increase (decrease) in amounts payable and accrued liabilities	**3,057**	(583)
Increase in deposits	**292**	12,790
Change in non-cash working capital	**$ 287**	$ 10,931

The following amounts were paid on account of interest:

	For the year ended December 31, 2012	For the period from April 21 to December 31, 2011
Debt	**$ 22,663**	$ 6,641
Exchangeable Notes	**$ 3,084**	$ 2,115

Note 24
Commitments and contingencies

The REIT and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that 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 the consolidated financial statements of the REIT.

As at December 31, 2012, the REIT's future minimum commitments under operating leases are as follows:

	Operating lease payments
Less than 1 year	$ 484
1–5 years	1,890
Longer than 5 years	473
Total	$ 2,847

During the period the Trust paid $497 in minimum lease payments, which have been included in comprehensive income for the period.

The REIT also has commitments for lease incentives and initial direct leasing costs of approximately $4,807.

Note 25
Capital management

The primary objective of the Trust's capital management is to ensure that it remains within its quantitative banking covenants.

At December 31, 2012, the Trust's capital consists of debt and unitholders' equity. The Trust's objectives in managing capital are to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions and to fund leasing costs and capital expenditure requirements.

Various debt, equity and earnings distribution ratios are used to ensure capital adequacy and monitor capital requirements. The primary ratios used for assessing capital management are the interest coverage and debt-to-book value ratios. Other significant indicators include weighted average interest rate, average term to maturity of debt, and variable debt as a portion of total debt. These indicators assist the Trust in assessing that the debt level maintained is sufficient to provide adequate cash flows for unitholder distributions and capital expenditures, and for evaluating the need to raise funds for further expansion.

The Trust's equity consists of Units, in which the carrying value is impacted by earnings and unitholder distributions. The Trust endeavours to make annual distributions of $0.80 per unit. Amounts retained in excess of the distributions are used to fund leasing costs, capital expenditure and working capital requirements. Management monitors distributions through various ratios to ensure adequate resources are available. These include the proportion of distributions paid in cash, DRIP participation ratio, total distributions as a percentage of distributable income and distributable income per unit.

The Trust monitors capital primarily using a debt-to-book value ratio, which is calculated as the amount of outstanding debt divided by total assets. During the period the Trust did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

The term loan credit facility agreement requires the debt service coverage ratio to be equal to or above 145% at each interest rate payment date. For the year ended December 31, 2012, the REIT's debt service coverage ratio was 303% and therefore in compliance with the term loan credit facility's requirement.

Note 26
Financial instruments
Risk management

IFRS 7, "Presentation of Financial Statements" ("IFRS 7"), places emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks, including market, credit and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other market price risk. The Trust has exposure to interest rate risk primarily as a result of its term loan credit facility, which has a variable rate of interest. In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, manage maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset. Additionally, the Trust has entered into interest rate swaps and caps to economically hedge the variable rate debt and has entered into foreign exchange forward contracts to manage its currency risk from paying distributions and debt servicing in Canadian dollars. The Trust is also exposed to interest rate risk on its derivatives.

The following interest rate sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate assets and liabilities for a prospective 12-month period. A 1% change is considered a reasonable level of fluctuation on variable rate assets and debts.

		Interest rate risk			
		–1%		1%	
	Carrying amount	Income	Equity	Income	Equity
Financial assets					
Cash[1]	$ 181,619	$ (1,816)	$ (1,816)	$ 1,816	$ 1,816
Amount in escrow	17,678	(177)	(177)	177	177
Financial liabilities					
Term loan credit facility	$ 82,512	$ 825	$ (825)	$ (825)	$ 825

(1) Cash excludes cash subject to restrictions that prevent its use for current purposes. These balances generally receive interest income at bank prime less 1.85%. Cash and cash equivalents are short term in nature and the current balance may not be representative of the balance for the rest of the year.

The Trust is exposed to currency risk. The Trust's functional and presentation currency is Canadian dollars. The Trust's operating subsidiaries' functional currency is the euro, accordingly the assets and liabilities are translated at the prevailing rate at period end, and comprehensive income is translated at the average rate for the period. In order to manage the exposure to currency risk to unitholders and holders of Debentures, the Trust has entered into foreign exchange forward contracts. The Trust currently has foreign exchange forward contracts to sell €3,100 in January 2013, €3,700 each month from February 2013 to December 2014, and €1,550 each month from January 2015 to December 2015 at an average exchange rate of $1.327:€1.

The Trust is exposed to credit risk from its leasing activities and from its financing activities and derivatives. The Trust manages credit risk by requiring tenants to pay rents in advance and monitoring the credit quality of the tenants on a regular basis. The Trust monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. Credit risk with respect to financing activities and derivatives is managed by entering into arrangements with highly reputable institutions.

The Trust does not use derivatives for speculative purposes.

Liquidity risk is the risk that the Trust will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The Trust manages maturities of its debts, and monitors the repayment dates to ensure sufficient capital will be available to cover obligations.

Interest rate derivatives

The following table provides details on interest rate derivatives outstanding as at December 31, 2012:

Hedging item	Notional	Rate	Maturity	Carrying value
Interest rate swap	$ 344,741	4.05%	2016	$ (18,513)
Interest rate cap	41,345	5.00%	2016	11
	$ 386,086			$ (18,502)

Foreign currency derivatives

The following table provides details on foreign currency hedging (foreign currency forward contracts) outstanding as at December 31, 2012 and December 31, 2011:

	For the year ended December 31, 2012				
Hedging currency	**Notional amount of future contracts**	**Blended exchange rate**	**Forward contracts start date**	**Forward contracts end date**	**Carrying value**
Euro	**106,800**	**1.327**	**January 2, 2013**	**December 15, 2015**	**$ (429)**

	For the period ended December 31, 2011				
Hedging currency	Notional amount of future contracts	Blended exchange rate	Forward contracts start date	Forward contracts end date	Carrying value
Euro	62,400	1.368	January 3, 2012	December 16, 2013	$ 1,942

Fair value of financial instruments

	December 31, 2012		December 31, 2011	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets				
Amounts receivable	**$ 4,822**	**$ 4,822**	$ 2,010	$ 2,010
Cash and cash equivalents	**181,619**	**181,619**	87,907	87,907
Financial liabilities				
Convertible debentures including conversion feature	**152,573**	**165,717**	153,247	157,394
Mortgage debt	**151,862**	**152,012**	–	–
Term loan credit facility	**426,540**	**426,540**	432,348	432,348
Exchangeable Notes	**–**	**–**	80,000	80,000
Derivative financial instruments, excluding conversion feature of the Debentures	**18,931**	**18,931**	5,165	5,165
Deferred Unit Incentive Plan	**3,629**	**3,629**	945	945
Deposits	**895**	**895**	481	481
Amounts payable and accrued liabilities	**26,863**	**26,863**	13,420	13,420
Distributions payable	**4,816**	**4,816**	2,925	2,925
Income taxes payable	**404**	**404**	–	–

Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments recognized in the consolidated balance sheet at fair value by level of fair value hierarchy.

	December 31, 2012			December 31, 2011		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Financial instruments						
Exchangeable Notes	**$ –**	**$ –**	**$ –**	$ –	$ (80,000)	$ –
Interest rate derivatives	**–**	**(18,502)**	**–**	–	(7,107)	–
Foreign currency derivatives	**–**	**(429)**	**–**	–	1,942	–
Conversion feature of Debentures	**–**	**(4,145)**	**–**	–	(6,589)	–

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 – use of a model with inputs (other than quoted prices included in Level 1) that are directly or indirectly observable market data;

Level 3 – use of a model with inputs that are not based on observable market data.

Note 27
Subsequent events

On January 31, 2013, the REIT acquired an office building, located at Hammer Strasse 30–34 in Hamburg, Germany, for €41,500. The acquisition was partially financed by a new mortgage of €24,900 at a face interest rate of 2.41%.

On February 14, 2013, the REIT filed its final prospectus in connection with the issuance of 20,200,000 Units at a price of $10.90 per unit for a net proceed of approximately $210,853, with an over-allotment option of issuing an additional 3,030,000 Units at the same price per unit for additional net proceed of $31,706. The offering is expected to close on March 5, 2013.

On February 15, 2013, the REIT acquired an office building located at Neue Mainzer Strasse 28 in Frankfurt for €60,625. The acquisition was partially financed by a new mortgage of €37,700 at a face rate of 2.92%.