Management's discussion and analysis

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

Section I – Overview and financial highlights

- Acquired six office properties for approximately $259 million in some of Germany's largest office markets in 2012 with an additional $788 million of office properties closed or under contract as at February 20, 2013;
- Diversified tenant profile with the REIT's largest tenant Deutsche Post contributing 65% to the overall gross rental income ("GRI") at the end of 2012, down from 85% at the end of 2011;
- Reached 110,000 square feet of net absorption in 2012;
- Closed three equity offerings for total gross proceeds of $208 million and announced $220 million equity offering on February 4, 2013.

	For the three months ended December 31, 2012[1]	For the three months ended December 31, 2011[1]	**For the year ended December 31, 2012**[1]	For the period from August 3, 2011 to December 31, 2011[1]
Operations				
Occupancy rate (period-end)[2]	**83%**	88%		
In-place rent per square foot	**$ 8.20**	$ 7.13		
Operating results				
Investment properties revenue	**$ 35,926**	$ 31,726	**$ 138,661**	$ 54,274
Net rental income	**22,057**	20,969	**85,439**	34,500
Funds from operations ("FFO")[3]	**12,348**	10,600	**48,320**	18,100
Adjusted funds from operations ("AFFO")[4]	**11,887**	10,240	**46,164**	16,965
Distributions				
Declared distributions and interest on Exchangeable Notes	**$ 12,953**	$ 10,391	**$ 46,064**	$ 17,082
Distributions paid and payable in cash (including interest on Exchangeable Notes)[5]	**11,888**	10,195	**44,095**	16,802
Financing				
Weighted average interest rate (period-end)	**3.98%**	4.36%	**3.98%**	4.36%
Interest coverage ratio	**3.23 times**	2.57 times	**3.03 times**	2.67 times
Per unit amounts				
Basic:[6]				
FFO[3]	**$ 0.19**	$ 0.20	**$ 0.84**	$ 0.35
AFFO[4]	**0.19**	0.20	**0.80**	0.33
Distribution rate	**0.20**	0.20	**0.80**	0.33
Basic (excluding impact of undeployed cash):				
FFO[3]	**0.24**		**0.98**	
AFFO[4]	**0.24**		**0.94**	

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

[1] Results from operations were converted into Canadian dollars from euros using the following average exchange rates: the three-month and year ended December 31, 2012 periods were converted at $1.2861:€1 and $1.285:€1, respectively; for 2011, the three-month and August 3 to December 31, 2011 periods were converted at $1.379:€1 and $1.383:€1, respectively.

[2] Including the head lease results in an 89% occupancy rate as at December 31, 2012.

[3] FFO – The reconciliation of FFO to net income can be found on page 28.

[4] AFFO – The reconciliation of AFFO to FFO and net income can be found on page 28.

[5] Exchangeable Notes were exchanged in April and September 2012.

[6] A description of the determination of basic and diluted amounts per unit can be found on page 29.

Basis of presentation

Our discussion and analysis of the financial position and results of operations of Dundee International Real Estate Investment Trust ("Dundee International REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012.

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

This management's discussion and analysis has been dated as at February 4, 2013, except where otherwise noted. For simplicity, throughout this discussion, we may make reference to the following:

- "Debentures", meaning the 5.5% convertible unsecured subordinated debentures of the Trust due July 31, 2018;
- "Exchangeable Notes", meaning the Exchangeable Notes, Series A and the Exchangeable Notes, Series B issued by a subsidiary of Dundee International REIT;
- "GLA", meaning gross leasable area;
- "GRI", meaning gross rental revenue;
- "Initial Properties", meaning the income-producing properties we acquired on August 3, 2011; and
- "Units", meaning the Units of the Trust.

Certain information has been obtained from CB Richard Ellis Germany ("CBRE"), a commercial firm that provides information relating to the German real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

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

In addition, certain disclosure incorporated by reference into this report includes information regarding Deutsche Post, Deutsche Postbank, ERGO Direkt Lebensversicherungs AG, Maersk Deutschland, GroupM Germany GmbH and Deutsche Telekom that has been obtained from publicly available information. We have not independently verified any of such information.

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

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

All forward-looking information is as of February 4, 2013, except where otherwise noted. Dundee International REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators. These filings are also available on our website at www.dundeeinternational.com.

Background

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

As at December 31, 2012, our portfolio consisted of 293 office, mixed use and industrial properties comprising approximately 13.3 million square feet of GLA located in Germany.

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

Our objectives

We are committed to:

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

Distributions

We currently pay monthly distributions to unitholders of $0.06667 per unit, or $0.80 per unit on an annual basis. At December 31, 2012, approximately 9.3% of our total Units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP").

	2011												2012
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Distribution rate ($)	0.0667	0.0667	0.0667	0.0667	0.0667	0.0667	0.0667	0.0667	0.0667	0.0667	0.0667	0.0667	0.0667
Month-end closing price ($)	10.00	10.25	10.35	10.11	10.00	9.79	9.94	10.73	10.59	11.00	11.15	10.29	10.93

Our strategy

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

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

We manage our properties to optimize their performance, value and long-term cash flow. We seek to do this by achieving high occupancy and rental rates. Together with our management team in Canada, we also have an established management team in Germany and Luxembourg, bringing a history with our Initial Properties, continuity with our major tenant, deep market knowledge and established relationships with other market participants. Leasing, capital expenditure and construction initiatives are internally managed by us, while property management services, including general maintenance, rent collection and administration of operating expenses and tenant leases, are carried out by third-party service providers.

Diversifying our portfolio to mitigate risk

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

Investing in stable income-producing properties outside of Canada

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

Maintaining and strengthening a conservative financial profile

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

Our assets

As at December 31, 2012, our assets consisted of a portfolio of 293 office, mixed use and industrial properties, with a small residential component, comprising approximately 13.3 million square feet of GLA located in Germany. Our properties are strategically located in major city and town centres, often on a central square in close proximity to the main train station and/or bus station. The locations typically provide excellent visibility, access to a major street and proximity to a transportation hub and city centre pedestrian/shopping areas.

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

Office

As at December 31, 2012, this category included six office properties acquired in 2012 as well as eight regional administration headquarters pertaining to the Initial Properties acquired in August 2011. The Initial Properties contain national and regional administration offices of Deutsche Post, are generally located just outside major city centres and typically have higher rental rates than the other two asset categories listed below. The properties acquired in 2012 are high-quality properties located in the largest office markets in Germany and are generally newer or recently refurbished buildings.

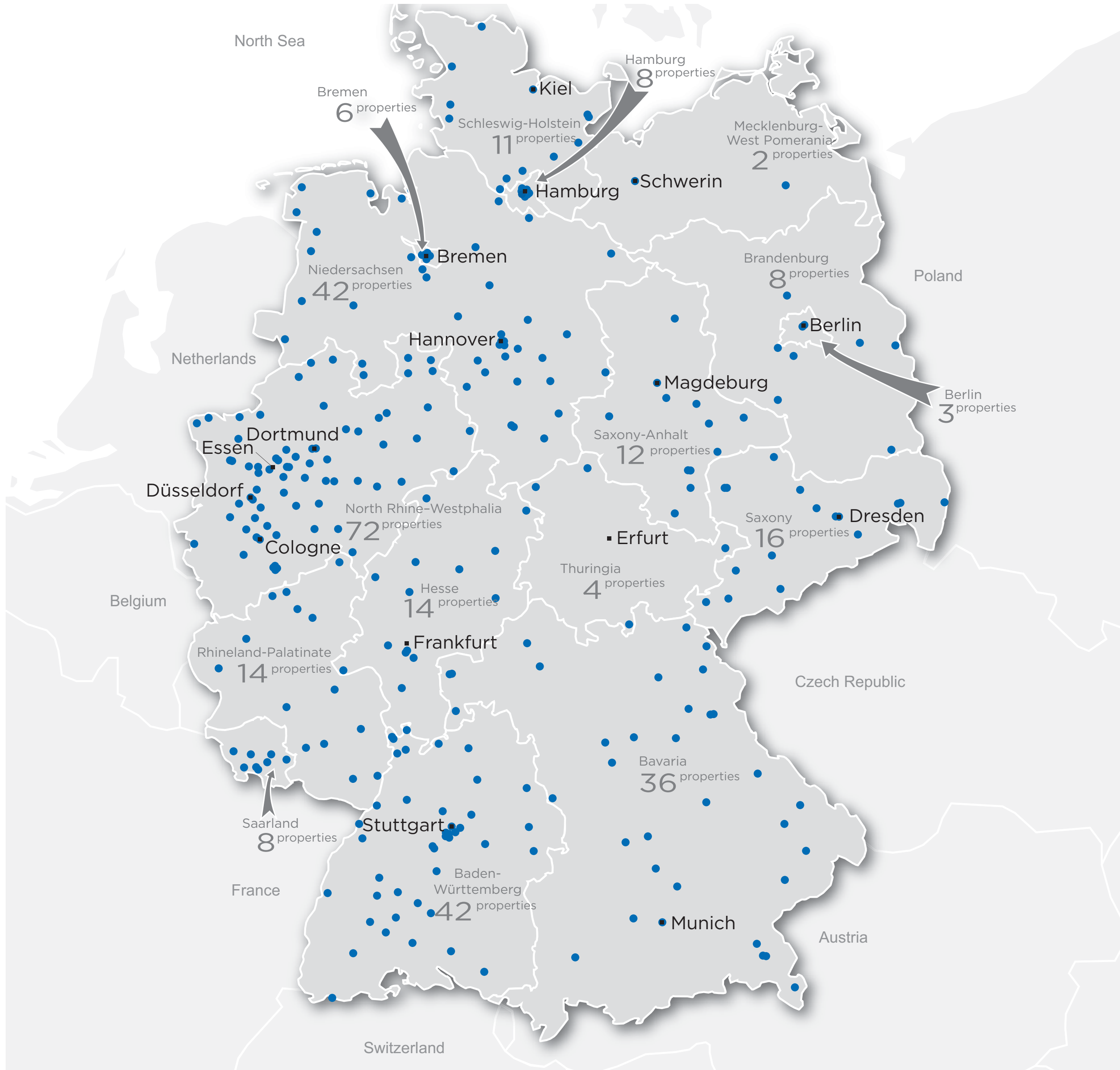
Mixed use

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

Industrial

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

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



Our properties are located throughout Germany with a heavy concentration in the Western German states of North Rhine–Westphalia, Baden-Württemberg, Niedersachsen, Bavaria and Hesse. Approximately 70% of our overall GLA is located in these five states.

The table below highlights the geographic diversification of our properties as at December 31, 2012.

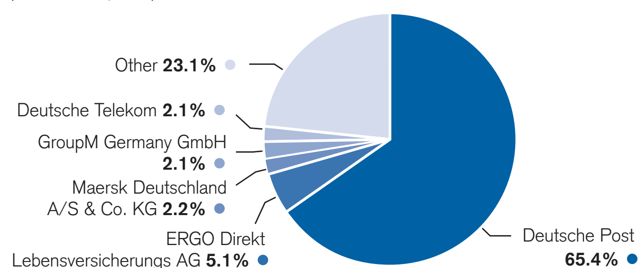
States	Total GLA (sq. ft.)	Total GLA (%)	Weighted average occupancy (%)
Baden-Württemberg	1,593,871	12%	93%
Bavaria	1,843,298	14%	87%
Berlin	304,006	2%	83%
Brandenburg	141,370	1%	88%
Bremen	328,108	2%	88%
Hamburg	600,303	4%	90%
Hesse	1,041,238	8%	79%
Mecklenburg–West Pomerania	34,347	–%	100%
Niedersachsen	1,809,546	14%	69%
North Rhine–Westphalia	2,907,638	22%	91%
Rhineland-Palatinate	501,275	4%	62%
Saarland	482,961	4%	84%
Saxony	644,414	5%	79%
Saxony-Anhalt	449,226	3%	57%
Schleswig-Holstein	536,904	4%	92%
Thuringia	127,267	1%	72%
Total	13,345,772	100%	83%

Tenants

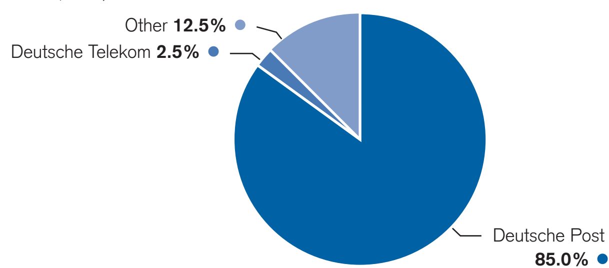
In 2012, the Trust diversified its tenant base through an active acquisitions and dispositions program. The table and charts below highlight the diversification away from the single-tenant nature of our portfolio:

	December 31, 2012		December 31, 2011	
Tenant	**GRI (%)**	**GLA (%)**	GRI (%)	GLA (%)
Deutsche Post	**65.4**	**61.5**	85.0	74.6
ERGO Direkt Lebensversicherungs AG	**5.1**	**2.0**	–	–
Maersk Deutschland A/S & Co. KG	**2.2**	**0.6**	–	–
GroupM Germany GmbH	**2.1**	**0.6**	–	–
Deutsche Telekom	**2.1**	**1.3**	2.5	1.4
Other	**23.1**	**34.0**	12.5	24.0
	100	**100**	100	100

2012 TENANTS
(December 31, 2012)



2011 TENANTS
(December 31, 2011)



Deutsche Post

Deutsche Post is an integral part of the German economy and continues to be an important part of day-to-day life in Germany. Deutsche Post is Europe's largest postal company and the only provider of universal postal services in Germany. Through its acquisition of DHL in 2002, Deutsche Post DHL has become a global logistics market leader. It employs approximately 470,000 people in more than 220 countries and territories. As the only provider of universal postal services in Germany, Deutsche Post must provide certain minimum levels of service to German residents. On a daily basis, it serves two to three million customers through its retail outlets and delivers 65 million letters and 3 million parcels within Germany via mail and parcel sorting facilities. Its infrastructure network in Germany includes 82 mail centres, 33 parcel centres and 20,000 retail outlets and points of sale.(1)

Deutsche Postbank ("Postbank")

Postbank is a public company controlled by Deutsche Bank and is integral to its retail banking business. Postbank offers retail financial services in its branches within Deutsche Post's network, which generates increased traffic through the postal services offered in those branches. Our portfolio features approximately 194 Postbank branches, allowing for the delivery of integrated financial and postal services. Postbank branches are typically located at ground level with a view to attracting a high volume of retail and business customers seeking financial or postal services. These locations may include retail space (where consumer staples are offered for sale), a banking or investment advisory area, mailboxes for rent, and an automated postal/banking services station or traditional banking teller service.

ERGO Direkt Lebensversicherungs AG ("ERGO")

After Deutsche Post, ERGO is the second largest tenant in our portfolio as measured by GRI. With approximately 50,000 employees, it is one of the largest insurance companies in Germany. ERGO belongs to the Munich RE group of companies.(2) ERGO occupies approximately 2.0% of the GLA of our properties and currently generates approximately 5.1% of the portfolio's overall GRI.

The Maersk Group ("Maersk")

Maersk, the world's largest ocean carrier, operates mainly in two industries: shipping and oil and gas. Through its various divisions, the group employs approximately 117,000 people, and generated over US$60 billion in revenues in 2011.(3) Maersk Deutschland A/S & Co. KG is the REIT's third largest tenant and occupies approximately 71% of the GLA in Humboldt House, a property located at Am Sandtorkai 37 in Hamburg. Maersk occupies approximately 0.6% of the REIT's overall GLA and generates approximately 2.2% of the overall GRI.

GroupM Germany GmbH ("GroupM")

GroupM is a leading global media investment management group with over 400 offices in 81 countries, billings of more than US$90 billion and over 21,000 employees.(4) GroupM is the REIT's fourth largest tenant and occupies approximately 56% of the GLA in doubleU, a property located at Derendorfer Allee 4 in Düsseldorf. GroupM occupies approximately 0.6% of the REIT's overall GLA and generates approximately 2.1% of the overall GRI.

Deutsche Telekom

Deutsche Telekom is one of the world's leading telecommunications and information technology service companies. In 2011, Deutsche Telekom Group generated revenue of approximately €58 billion, and had approximately 236,000 employees in total as of December 31, 2011.(5) Deutsche Telekom, the REIT's fifth largest tenant, occupies approximately 1.3% of the GLA of our properties and currently generates approximately 2.1% of the portfolio's overall GRI. The occupied space is mainly used for server and cable rooms, forming an integral part of Deutsche Telekom's infrastructure.

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

(2) As disclosed at ERGO's website www.ergo.com.

(3) As disclosed at Maersk's website www.maersk.com.

(4) As disclosed at GroupM's website www.groupm.com.

(5) As disclosed at Deutsche Telekom's website www.telekom.com.

Market overview – Germany

German economy

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

Recent developments

Overall, the German economy remained stable in 2012 with German GDP increasing by 0.7%[1] according to the German government. Germany's unemployment rate continues to remain low with a rate of 6.7%[1] in December 2012. The strong labour market has been one of the main drivers of growth in Germany and remains one of the healthiest within the European Union.

Economic impact on the German real estate sector

The commercial real estate market in Germany continued to perform well in 2012. The stability in the office market is supported by a relatively moderate degree of new space coming to market as well as the redevelopment of vacant office space for alternative use. With limited new supply, overall office vacancies further decreased year-over-year in the five largest office markets from 10.7% at the end of 2011 to 9.8% at the end of 2012.[2]

Due to a year-end rally, overall commercial real estate investments in Germany increased by 11% in 2012 to approximately €25.2 billion, with €10.7 billion of transactions taking place in the fourth quarter of 2012 alone. The office sector was dominant with more than €11 billion of transactions in 2012 alone, accounting for 44% of the overall commercial properties transactions. Over half of all transactions took place in the top five locations, with Berlin accounting for the largest transaction volume.[3]

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

(2) CBRE Office Market Overview Q4 2012.

(3) CBRE MarketView, Germany Investment Quarterly Q4 2012.

Outlook

2012 was a transformative year for Dundee International REIT and set the tone for continuous growth and diversification of our business. We acquired six office properties in Germany's largest office markets for approximately $259 million. In addition, during the first seven weeks of 2013, we closed or have under contract an additional $788 million of assets, including a portfolio of 11 German office properties the REIT is acquiring from investment funds managed by SEB Asset Management ("SEB").

Through these acquisitions, we have improved the quality of our portfolio, diversified our tenant base and improved the Trust's long-term cash flow. Most significantly, the gross rental income ("GRI") contributed by our largest tenant Deutsche Post was reduced from 85% of the REIT's overall GRI at the end of 2011 to 65% at the end of 2012 and will further decrease to approximately 42% after we close the acquisitions we currently have under contract.

We also continue to be quite active on the financing front. We finalized three public offerings to sell, on a bought-deal basis, $208 million of units in 2012 and announced a $220 million equity offering on February 4, 2013, scheduled to close in early March 2013. All our offerings have been very well received by the investment community and in each of the public offerings that closed to date, additional units were sold as part of an over-allotment option granted to the underwriting syndicate. To provide further flexibility with respect to our growth, the Trust obtained a revolving credit facility with a Canadian bank providing additional financing capacity of €10 million of operating funds and up to €35 million as a bridge-to-mortgage financing. To date, no amount has been drawn down on this facility. In addition, the Trust obtained mortgage financings in 2012 in the amount of approximately €117 million ($152 million) from European lenders at an average face rate of 2.7% and an average term to maturity of 5.7 years.

The first full year of Dundee International REIT was a year of growth and diversification. We made significant progress growing our platform in Europe. With various groups of real estate owners having to dispose of their assets, we had started to see how big the opportunity was in Germany to buy high-quality real estate at good cap rates and attractive borrowing rates. By acting quickly and taking advantage of these opportunities, we will have added over $1 billion of accretive assets to our portfolio once current acquisitions under contract close. We continue to see a healthy acquisition pipeline and will seek further growth in Germany, one of the most stable economies in Europe.

Section II — Executing the strategy

Our operations

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

Performance indicators	**December 31, 2012**	December 31, 2011
Occupancy rate[(1)]	**83%**	88%
In-place rental rates (per sq. ft/year)	**$ 8.20**	$ 7.13
Tenant maturity profile – average term to maturity	**5.5 years**	5.9 years

(1) Includes in-place occupancy at December 31, 2012; terminated space for which the Trust receives a head lease is reflected as vacant space as at December 31, 2012, as the termination with respect to 17 properties became effective at the beginning of July 2012, the same time payments under the head lease commenced. Including the head lease, the occupancy is 89%.

Occupancy

Effective July 1, 2012, Deutsche Post terminated 17 leases in connection with its early termination rights. The Trust receives payments pursuant to a head lease for the terminated space in these properties until June of 2014 and effectively receives rent for 88.9% of space in the portfolio, including new acquisitions.

Excluding the impact of the acquisitions, dispositions and Deutsche Post terminations, occupancy in our Initial Portfolio, on a comparative basis, would have increased to 88.4% at the end of the fourth quarter of 2012 compared to 87.9% at the end of the prior year fourth quarter, reflecting positive absorption.

The table below details the percentage of occupied and committed space for the total portfolio as well as the comparative portfolio.

	Total portfolio		Comparative properties	
(percent)	**Q4 2012[(1)]**	Q4 2011	**Q4 2012[(1)]**	Q4 2011
Office	**84.8**	84.4	**72.6**	84.4
Mixed use	**81.7**	88.3	**81.7**	88.4
Industrial	**87.7**	87.2	**87.7**	87.2
Total	**83.2**	87.8	**82.1**	87.9

(1) Includes in-place occupancy at December 31, 2012; terminated space for which the Trust receives a head lease is reflected as vacant space.

The table below details the percentage of occupied and committed space for the previous six quarters for the total portfolio, including new acquisitions.

(percent)	**Q4 2012[(1)]**	Q3 2012[(1)]	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Office	**84.8**	80.2	90.0	86.5	84.4	84.2
Mixed use	**81.7**	81.1	88.1	88.0	88.3	88.2
Industrial	**87.7**	88.1	87.8	87.7	87.2	87.0
Total	**83.2**	82.2	88.3	87.8	87.8	87.7

(1) Includes in-place occupancy at December 31, 2012; terminated space for which the Trust receives a head lease is reflected as vacant space.

Vacancy schedule

The tables below highlight our leasing activity. During the fourth quarter of 2012, our overall space available for lease decreased by 56,271 square feet to 2,245,524 square feet, reflecting positive absorption as well as lower overall vacancy due to the sale of a number of properties with above average vacancy rates. A total of 122,986 square feet of expiries, terminations and bankruptcies, and remeasurements was offset by 46,359 square feet of renewals and 30,873 square feet of new leases. At the end of 2012, approximately 95,952 square feet was committed for future leases, leaving approximately 2,245,524 square feet available for lease.

				For the three months ended December 31, 2012
(in square feet)	Office	Mixed use	Industrial	Total
Available for lease – October 1, 2012	299,895	1,734,298	267,602	2,301,795
Acquisitions	52,796	–	–	52,796
Dispositions	–	(58,869)	–	(58,869)
Remeasurements	5,908	2,462	642	9,012
Expiries	38,238	60,158	13,447	111,843
DPI terminations	–	–	–	–
Early termination and bankruptcies	–	2,131	–	2,131
New leases	(4,548)	(25,272)	(1,053)	(30,873)
Renewals	(318)	(44,410)	(1,631)	(46,359)
Future leases	(82,847)	(10,785)	(2,320)	(95,952)
Available for lease – December 31, 2012	309,124	1,659,713	276,687	2,245,524

				For the year ended December 31, 2012
(in square feet)	Office	Mixed use	Industrial	Total
Available for lease – January 1, 2012	138,976	1,074,452	287,059	1,500,487
Acquisitions	66,721	–	–	66,721
Dispositions	–	(71,797)	–	(71,797)
Remeasurements	3,329	8,038	3,221	14,588
Expiries	130,077	496,376	25,691	652,144
DPI terminations	160,104	699,950	–	860,054
Early termination and bankruptcies	17,258	19,357	3,555	40,170
New leases	(42,255)	(176,588)	(32,467)	(251,310)
Renewals	(82,239)	(379,290)	(8,052)	(469,581)
Future leases	(82,847)	(10,785)	(2,320)	(95,952)
Available for lease – December 31, 2012	309,124	1,659,713	276,687	2,245,524

In-place rental rates

The following chart and table provide a comparison between in-place rents and market rents in our portfolio as at December 31, 2012. Market rents are management's estimates of rental rates that could be achieved for space in our properties. In-place rents in our office segment have increased in the fourth quarter largely due to acquisitions completed during the quarter. In-place rents in the mixed use and industrial segments remain below market rents, allowing for rental uplifts as space is renewed or re-leased. Overall, average market rents in our portfolio remain approximately 7% above in-place rents.

								December 31, 2012
(per square foot/year)				In-place rent[1]				Market rent
Office	€	10.84	$	14.22	€	10.84	$	14.22
Mixed use		5.56		7.29		6.04		7.93
Industrial		4.85		6.36		5.47		7.17
Overall	€	6.25	$	8.20	€	6.69	$	8.78

(1) Excludes rent received under head lease guarantee.

Leasing and tenant profile

At December 31, 2012, the weighted average remaining term of all leases was approximately 5.5 years.

Average remaining lease term (years)	**December 31, 2012**	December 31, 2011
Office	**6.54**	5.07
Mixed use	**5.35**	5.83
Industrial	**5.34**	6.27
Overall	**5.54**	5.86

Lease rollover profile

The following table outlines our lease maturity profile by asset type as at December 31, 2012. In 2013, 277,958 square feet of our leases expire, accounting for approximately 2.1% of the overall space.

(in square feet)	Current vacancy	Month-to-month	2013	2014	2015	2016	2017 to 2031	Total
Office	309,124	29,091	68,689	71,491	42,953	216,214	1,301,258	2,038,820
Mixed use	1,659,713	278,019	180,646	70,468	140,241	61,944	6,668,244	9,059,275
Industrial	276,687	60,879	28,623	18,353	53,968	17,124	1,792,043	2,247,677
Total	2,245,524	367,989	277,958	160,312	237,162	295,282	9,761,545	13,345,772

Deutsche Post leases

The leases with Deutsche Post, which generally expire on June 30, 2018 (many of which provide Deutsche Post with an option to extend the term until June 30, 2023), comprise approximately 62% of the GLA and account for approximately 65% of the portfolio's GRI.

Rent adjustment

The rents under the Deutsche Post leases are subject to automatic adjustments (up or down) in relation to the consumer price index for Germany. If the consumer price index for Germany changes by more than 4.7 index points as compared to the index at the commencement of the applicable lease or the previous rent adjustment, the rent payable under the Deutsche Post leases is automatically adjusted by 100% of the index change of 4.7 points, with effect as of the time of the index change. The hurdle rate for an upward adjustment was last reached in December 2011.

Termination rights and head lease

In general, the Deutsche Post leases have a fixed term of ten years, expiring on June 30, 2018. Certain leases entitle Deutsche Post to terminate space in June 2012, 2014 and 2016, subject to certain limitations and requirements, including that Deutsche Post provide 12 months' prior written notice to us. The right of Deutsche Post to terminate a Deutsche Post lease is limited by various tests which apply collectively to the Deutsche Post leases and the leases in respect of the remaining properties forming the portfolio of approximately 1,200 properties that the vendor acquired from Deutsche Post in July 2008 (the "Caroline DP Leases"), considered as a whole. On June 30, 2011, Deutsche Post gave notice to terminate 17 leases with respect to the 2012 termination rights, comprising approximately 9.9% of our GRI and 1.1 million square feet (approximately 8.0% of our GLA), and waived its second termination right in respect of 21 leases (effective June 30, 2014). On June 30, 2012, Deutsche Post gave notice to terminate one additional lease subject to its 2012 termination rights which will become effective as at July 1, 2013 and for which we will receive an additional payment under the head lease. In addition, Deutsche Post waived its second termination right in respect of 24 leases (effective June 30, 2014). Deutsche Post may terminate Deutsche Post leases and Caroline DP Leases aggregating no more than 20% of the total annual Reference Rent payable under all of the Deutsche Post leases and Caroline DP Leases on June 30, 2014, and no more than an additional 10% of such rent on June 30, 2016. The "Reference Rent" for a lease is an amount set out in a specified notarial deed and may differ from the actual rent payable under the lease. To the extent that Deutsche Post does not exercise all of its available early termination rights with respect to any particular effective termination date, the unused portion may be carried forward, provided that Deutsche Post cannot terminate Deutsche Post leases and Caroline DP Leases aggregating more than 20% of the total Reference Rent of all Deutsche Post leases and Caroline DP Leases, considered as a whole, during any lease year. One property, for which Deutsche Post has not waived its termination right in 2014, was sold in September 2012. This means that Deutsche Post has the right to terminate up to 65 leases in 2014 and up to an additional 45 leases in 2016 (110 leases in total), subject to certain limitations. Although we think it is unlikely that Deutsche Post will terminate the maximum amount of space that it is entitled to terminate (being approximately 2.8 million square feet or 21% of our GLA), if it were to do so, and not re-lease any of the terminated space, our GRI would be reduced by 22%.

In light of the 2012 terminations, the vendor of the properties has set aside an amount of €17.3 million to lease the vacant space resulting from all 2012 terminations for the period commencing on July 1, 2012 to, and including, June 30, 2014. The Trust receives a portion of this amount each month for two years, until June 2014. In addition, the vendor committed to pay an additional €0.2 million in connection with the termination of one additional lease pertaining to the 2012 termination rights.

In connection with the 17 leases terminated in 2012, Postbank re-leased space in 12 of the 15 properties that feature Postbank branches, and Deutsche Post re-leased space in seven of the 17 properties, five of which feature Postbank branches, for an aggregated total of 202,000 square feet, or 17.2% of the originally terminated space, for an average lease term of 4.8 years.

Our resources and financial condition

Investment properties

The fair value of our investment property portfolio at December 31, 2012 was $1,183 million. Since December 31, 2011, the fair value of our investment properties increased by $241.3 million. The largest item contributing to the change is the acquisition of six properties for $259.1 million excluding transaction costs. We also invested $3.4 million in building improvements and lease incentive costs. During the year, we disposed of five properties which had a fair value of $7.4 million and entered into agreements to dispose of another eight properties deemed to be non-core holdings. Under IFRS accounting rules, we reduced the value of acquired properties by $11.6 million, representing the capitalized transaction costs and a further $3.4 million in building improvement and lease incentive costs. A further fair value loss of $6.7 million was also recognized for Initial Properties due to existing vacancies and the impact of termination rights exercised by Deutsche Post. The balance of the reduction relates to foreign exchange and other minor adjustments.

Fair values were determined using the capitalization method which is based upon the capitalization of stabilized net operating income ("NOI") and incorporates allowances for vacancy and re-leasing assumptions. Stabilized NOI is capitalized taking into consideration the yields for comparable market transactions. Stabilized NOI reflects all non-recoverable expenses and incorporates a provision for structural vacancy. The resulting capitalized value was further adjusted for non-recoverable capital expenditures and leasing costs, where applicable.

Acquisitions

During 2012, Dundee International REIT completed six office property acquisitions for approximately $259.1 million (excluding transaction costs), comprising approximately 1.1 million square feet of office space.

Property	Property type	Acquired GLA (sq. ft.)	Occupancy at acquisition[1] (%)	Purchase price[1]	Purchase price[1]	Date acquired
Grammophon Büropark, Hannover	office	212,047	95	$ 34,732	€ 25,800	February 29, 2012
Karl-Martell-Strasse 60, Nuremberg	office	268,936	100	62,761	48,200	April 26, 2012
Derendorfer Allee 4–4a (doubleU), Düsseldorf	office	141,744	100	55,951	45,100	July 19, 2012
Greifswalder Strasse 154–156 (Goldpunkt-Haus), Berlin	office	250,239	88	36,900	28,830	December 7, 2012
Am Sandtorkai 37, Hamburg	office	112,361	90	34,784	26,516	December 31, 2012
Leopoldstrasse 252, 252a and 252b, Munich	office	153,435	97	33,923	25,860	December 31, 2012
Total		1,138,762	95	$ 259,051	€ 200,306	

(1) Excludes transaction costs.

Acquisitions closed and under contract subsequent to year-end

On January 31, 2013, we completed the acquisition of a property located at Hammer Strasse 30–34 in Hamburg for $56.3 million (excluding acquisition costs). The property comprises approximately 172,300 square feet of GLA, has an occupancy rate of 100% and a weighted average remaining lease term of 10.1 years.

On February 15, 2013, we completed the acquisition of a property located at Neue Mainzer Strasse 28 in Frankfurt for $83.3 million (excluding acquisition costs). The property comprises approximately 123,300 square feet of GLA, has an occupancy rate of 90% and a weighted average remaining lease term of 3.0 years.

As at February 20, 2013, we have two properties under contract in Munich and Berlin for an aggregate purchase price of approximately €60 million ($81 million) as disclosed in the table below. We expect to close on these acquisitions in the first quarter of 2013.

On February 4, 2013, the Trust announced the acquisition of a 1.5 million square foot portfolio of office properties in Germany for approximately €420 million ($567 million) from investment funds managed by SEB Asset Management ("SEB"), the SEB Group's specialist real estate asset manager in Germany. The properties are located in desirable locations in some of Germany's largest office markets, have a current occupancy rate of 94% and a weighted average lease term of over 5.4 years.

Acquisitions under contract	Approx. GLA (sq. ft.)
Dillwächter Strasse 5 and Tübinger Strasse 11, Munich	81,900
Beuthstrasse 6–8, Seydelstrasse 2–5 (Löwenkontor), Berlin	258,000
SEB Portfolio (11 properties)	1,476,500
Total	1,816,400

Dispositions

Dundee International REIT completed the sale of five small properties in 2012 for an aggregate sales price of approximately €5.7 million ($7.4 million). These properties are located at Bahnhofplatz 4 in Traunstein; Ziegelstrasse 15 in Ravensburg; Bahnhofstrasse 12 in Pullendorf; Mecklenburgstrasse 4–6 in Schwerin; and Eichendorffstrasse 14 in Traunreut. Subsequent to year-end, we sold two properties for an aggregate sales price of approximately $2.2 million and are a party to agreements to sell six properties comprising approximately 178,000 square feet of GLA.

Building improvements

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

Initial direct leasing costs and lease incentives

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

In 2012, we leased or renewed approximately 817,000 square feet of space and as at December 31, 2012, we had commitments for $5.8 million of leasing costs, of which $1 million was paid during the year.

Commitments and contingencies

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

As at December 31, 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 $0.5 million in minimum lease payments, which have been included in comprehensive income for the period.

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

In addition, the previous owner had entered into two energy supply agreements with GDF SUEZ Energie Deutschland AG and Watt Deutschland GmbH to purchase all the electricity requirements of the properties, each of which had a term expiring on December 31, 2012. During the third quarter of 2012, the Trust entered into a new contract with GDF SUEZ Energie Deutschland AG to purchase all electricity requirements for properties leased to Deutsche Post for a two-year term starting on January 1, 2013.

Our capital

Liquidity and capital resources

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

As at December 31, 2012, we had $181.6 million of cash on hand. After reserving for current payables, operating requirements and acquisitions under contract, approximately $50 million is available for general purposes. Our debt-to-book value at year-end was 52%.

Financing activities

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

Equity issues

On April 17, 2012, we completed a public offering of Units pursuant to which we issued 4,600,000 Units, and the holder of the Exchangeable Notes exchanged the equivalent of $46.0 million principal value of Exchangeable Notes into 4,600,000 Units, all of which were sold to the syndicate of underwriters at a price of $10.10 per unit. The issued amount included the exercise of the over-allotment option of 1,200,000 Units.

On September 5, 2012, we completed a public offering pursuant to which we issued 4,420,000 Units and the holder of Exchangeable Notes exchanged the equivalent of $34.0 million in principal value of Exchangeable Notes into 3,400,000 Units at a price of $10.55 per unit. The number of Units issued included the exercise of the over-allotment option of 1,020,000 Units.

On November 8, 2012, 12,875 Units were issued for the year ended December 31, 2012 to officers and employees pursuant to the Deferred Unit Incentive Plan, at a price of $10.74 per unit.

On December 7, 2012, we completed a public offering of 11,166,500 Units, including an over-allotment option, at a price of $10.30 per unit.

New debt

On September 27, 2012, we obtained a revolving credit facility with a Canadian bank for €10 million plus a senior credit facility for up to €35 million secured by investment properties. The revolving credit facility has a term of two years and was not drawn upon during 2012.

During the year we obtained the following new mortgages:

Property		Mortgage ($'000)		Mortgage (€'000)	Face rate	Date of funding	Date of maturity
Grammophon Büropark, Hannover[1]	$	20,805	€	15,454	4.17%	February 29, 2012	February 28, 2015
Karl-Martell-Strasse 60, Nuremberg		34,734		26,675	2.45%	May 25, 2012	June 30, 2017
Derendorfer Allee 4–4a (doubleU), Düsseldorf		32,256		26,000	2.09%	July 19, 2012	July 31, 2017
Greifswalder Strasse 154–156 (Goldpunkt-Haus), Berlin		21,758		17,000	3.22%	December 7, 2012	December 31, 2022
Am Sandtorkai 37 (Humboldt-Haus), Hamburg		22,300		17,000	2.27%	December 31, 2012	December 31, 2017
Leopoldstrasse 252, 252a and 252b, Munich		19,841		15,125	2.21%	December 31, 2012	September 30, 2019
Total	$	151,694	€	117,254			

[1] Mortgage assumed on acquisition. Effective interest rate was marked down to 2.41%.

Debt

Debt strategy

Our debt strategy is to obtain secured mortgage financing on a fixed rate basis, with a term to maturity that is appropriate in relation to the lease maturity profile of our portfolio. Our preference is to have staggered debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. We also intend to enter into long-term loans at fixed rates when borrowing conditions are favourable. This strategy will be complemented with the use of unsecured convertible debentures and floating rate credit facilities. We intend to target a debt level in a range of 55% to 60% of the historical purchase price of properties including convertible debentures.

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

	December 31, 2012	December 31, 2011
Financing activities		
Weighted average interest rate[1]	**3.98%**	4.36%
Level of debt (debt-to-book value)[2]	**52%**	56%
Interest coverage ratio[3]	**3.03 times**	2.67 times
Debt-to-EBITDFV (years)[4]	**9.3**	8.0
Proportion of total debt due in current year	**0.4%**	–
Debt – average term to maturity (years)	**4.4**	5.1
Variable rate debt as percentage of total debt	**11%**	15%

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

(2) Debt-to-book value is determined as total debt divided by total assets (total assets include $181.6 million of cash).

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

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

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio for the year is 3.03 times, and reflects our ability to cover interest expense requirements. We also monitor our debt-to-EBITDFV ratio to gauge our ability to pay off existing debt. Our current debt-to-EBITDFV ratio is 9.3 years and reflects the approximate amount of time to pay off all debt. After accounting for market adjustments and financing costs, the weighted average effective interest rate is 4.39%.

	December 31, 2012			December 31, 2011		
	Variable	**Fixed**	**Total**	Variable	Fixed	Total
Term loan credit facility[1]	**$ 82,512**[1]	**$ 344,028**[2]	**$ 426,540**	$ 86,469	$ 345,879	$ 432,348
Mortgage debt	**–**	**151,862**	**151,862**	–	–	–
Debentures	**–**	**148,428**	**148,428**	–	146,658	146,658
Total	**$ 82,512**	**$ 644,318**	**$ 726,830**	$ 86,469	$ 492,537	$ 579,006
Percentage	**11%**	**89%**	**100%**	15%	85%	100%

(1) 20% of the term loan credit 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.

(2) 80% of the term loan credit facility is subject to an interest rate swap in place until August 3, 2016 pursuant to the term loan credit facility agreement and has been presented as fixed rate debt.

Amounts recorded as at December 31, 2012 for the Debentures are net of $6.8 million of premiums allocated to their conversion features on issuance. The premiums are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

Term loan credit facility

Concurrent with the closing of our Initial Public Offering, we obtained a term loan credit facility (the "Facility") from a syndicate of German and French banks for gross proceeds of €328.5 million ($448.4 million). During the year ended December 31, 2012, we repaid $3.4 million (€2.7 million) on disposal of five properties, including a prepayment premium. As at December 31, 2012, the remaining principal balance on the term loan credit facility was $427.4 million (€325.8 million). The initial term of the Facility is five years with a two-year renewal option. Variable rate interest is payable quarterly under the Facility at a rate equal to the three-month EURIBOR, plus a margin of 200 basis points and agency fees of 10 basis points. Pursuant to the requirements of the Facility, we entered into an interest rate swap to fix 80% of the interest payments at 1.89% plus margin and agency fees, and purchased an instrument to cap 10% of the Facility such that interest does not exceed 5% of that portion. Effective December 30, 2011, we entered into an interest rate swap to fix the remaining 20% of the interest payments under the Facility at 3.37% for a period of one year. This contract expired on December 31, 2012.

As at December 31, 2012, the weighted average rate of the Facility is 3.91%. Including costs, net of the payment received from the vendor, the effective interest rate under the Facility is 3.98%. On January 1, 2013, as the three-month EURIBOR decreased to 0.184%, the variable rate the Trust pays on the 20% of the Facility decreased to 2.32%. As a result, the Trust paid a blended face rate of 3.7% on January 1, 2013.

The Facility requires that at each interest rate payment date the debt service coverage ratio is equal to or above 145%, and that the loan-to-value does not exceed 59% during the first three years the loan is outstanding and 54% during the final two years. As at December 31, 2012, we were in compliance with these covenants.

Under the terms of the Facility, we have the option to repay €100 million plus an applicable prepayment premium of 15% through dispositions or refinancings of a portion of the portfolio by August 3, 2013, failing which we will be required to pay additional interest of 1% on the portion of the €100 million not repaid beginning August 3, 2013. Management will explore refinancing options.

Revolving credit facility

On September 27, 2012, the Trust obtained a revolving credit facility with a Canadian bank in an aggregate amount not exceeding €10 million, and a €15 million senior secured credit facility to provide interim bridge financing for the acquisition of investment properties in Germany on a property by property basis. The latter facility may be increased by an additional €20 million, subject to prior approval and 30 days' notice. The interest rate on Canadian dollar advances is prime plus 200 basis points and/or bankers' acceptance rates plus 300 basis points. The interest rate for euro advances is 300 basis points over the three-month EURIBOR rate. The revolving credit facility has a term of two years. No amount has been drawn on this facility during the year.

Convertible debentures

As at December 31, 2012, the total principal amount of debentures outstanding was $161.0 million, convertible into an aggregate of 12,384,619 Units. The debentures bear interest at 5.5% per annum, are payable semi-annually on July 31 and January 31 each year, and mature on July 31, 2018. Each $1,000 principal amount of the debentures is convertible at any time by the holder thereof into 76.9231 Units, representing a conversion price of $13.00 per unit. On or after August 31, 2014, and prior to August 31, 2016, the debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided the weighted average trading price for the Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On or after August 31, 2016, and prior to July 31, 2018, the maturity date, the debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest.

The conversion feature of the debentures is remeasured in each reporting period to fair value, with changes in fair value being recorded in comprehensive income. During the year, the fair value attributed to the conversion feature decreased by $2.4 million.

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

	Debt maturities	Scheduled principal repayments on non-matured debt	Total	%	Weighted average effective rate on balance due at maturity (%)	Weighted average face rate on balance due at maturity (%)
2013	$ –	$ 2,711	$ 2,711	0.4	–	–
2014	–	7,317	7,317	1.0	–	–
2015	18,806	11,573	30,379	4.1	2.41%	4.17%
2016	410,193	7,278	417,471	56.3	3.98%	3.91%
2017	81,226	2,064	83,290	11.2	2.62%	2.27%
2018 and thereafter	197,791	2,347	200,138	27.0	6.50%	4.99%
Total	$ 708,016	$ 33,290	741,306	100.0	4.49%	4.03%
Fair value adjustments			(6,050)			
Transaction costs			(8,426)			
Total			$ 726,830			

Equity

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

				Unitholders' equity
	December 31, 2012		December 31, 2011	
	Number of Units	**Amount**	Number of Units	Amount
Units	**72,232,494**	**$ 596,078**	43,872,316	$ 350,809
Exchangeable Notes	**–**	**–**	8,000,000	80,000
Total	**72,232,494**	**$ 596,078**	51,872,316	$ 430,809

Units

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

The Trust has a Deferred Unit Incentive Plan ("DUIP") that provides for the grant of deferred trust units and income deferred trust units to trustees, officers, employees, affiliates and their service providers, including DRC, our asset manager. On August 3, 2011, DRC elected to receive the base asset management fees of the first $3.5 million payable on the properties acquired on August 3, 2011 by way of deferred trust units under the Asset Management Agreement for the next five years. The deferred trust units granted to DRC vest 20% annually, commencing on the fifth anniversary date of being granted. On termination of the Asset Management Agreement, unvested trust units granted to DRC vest immediately.

The following table summarizes the changes in our outstanding equity:

	Units
Total Units outstanding on December 31, 2011	43,872,316
Units issuable upon exchange of Exchangeable Notes	8,000,000
Total Units outstanding (on a fully exchanged basis) on December 31, 2011	51,872,316
Exchange of Exchangeable Notes	(8,000,000)
Units issued pursuant to public offering[(1)]	28,186,500
Units issued pursuant to the DUIP	12,875
Units issued pursuant to the DRIP[(2)]	160,803
Total Units outstanding on December 31, 2012	72,232,494
Units issued pursuant to the DRIP on January 15, 2013	42,805
Total Units outstanding on January 31, 2013	72,275,299

(1) Includes secondary offering of 8,000,000 Units issued upon the exchange of Exchangeable Notes.

(2) Distribution Reinvestment and Unit Purchase Plan.

On April 17, 2012, the Trust closed a public offering of Units pursuant to which the Trust issued 4,600,000 Units, and LSF REIT Holdings S.à.r.l. (“LSF”) exchanged the equivalent of $46.0 million principal value of Exchangeable Notes into 4,600,000 Units, resulting in a total of 9,200,000 Units having been sold to a syndicate of underwriters.

On September 5, 2012, the Trust closed a public offering of Units pursuant to which the Trust issued 4,420,000 Units, and LSF exchanged the equivalent of $34.0 million principal value of its remaining Exchangeable Notes into 3,400,000 Units, resulting in a total of 7,820,000 Units having been sold to a syndicate of underwriters.

On December 7, 2012, the Trust closed a public offering of Units pursuant to which the Trust issued 11,166,500 Units which were sold to a syndicate of underwriters.

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

Distributions

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

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.

Asset management fee

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

During the year ended December 31, 2012, pursuant to the provisions of the Asset Management Agreement, $1.9 million of asset management expense on the Initial Properties was recognized, for which 330,423 deferred units were granted during the year and 26,747 deferred units were granted on January 1, 2013. As at January 1, 2013, 504,887 unvested deferred and income deferred units were outstanding with respect to the Asset Management Agreement. The asset management fees were recorded based on the fair value of the deferred units issued, with an appropriate discount applied to reflect the restricted period of exercise.

In addition, the Trust paid an asset management fee of $0.3 million for properties acquired in 2012, a financing fee of $0.4 million related to new debt arranged in the year, and acquisition fees of $2.4 million related to properties acquired during the year.

Distributions and Exchangeable Notes interest

Exchangeable Notes were economically equivalent to our Units in all material respects. Interest payable to the holder of Exchangeable Notes is therefore included in the table below. On September 5, 2012, the holder of the Exchangeable Notes exchanged its remaining holdings and therefore received its last interest payment on September 15, 2012.

	For the three months ended December 31, 2012			For the year ended December 31, 2012		
	Declared amounts	4% bonus distribution	Total	Declared amounts	4% bonus distribution	Total
2012 distributions and interest expense						
Paid in cash or reinvested in Units	$ 8,137	$ 25	$ 8,162	$ 41,248	$ 61	$ 41,309
Payable at December 31, 2012	4,816	–	4,816	4,816	–	4,816
Total distributions and interest expense	$ 12,953	$ 25	$ 12,978	$ 46,064	$ 61	$ 46,125
2012 reinvestment						
Reinvested to December 31, 2012	$ 615	$ 25	$ 640	$ 1,519	$ 61	$ 1,580
Reinvested on January 15, 2013	450	18	468	450	18	468
Total distributions reinvested	$ 1,065	$ 43	$ 1,108	$ 1,969	$ 79	$ 2,048
Distributions and interest expense paid in cash	$ 11,888			$ 44,095		
Reinvestment to distribution ratio	8.2%			4.3%		
Cash payout ratio	91.8%			95.7%		

Distributions declared and interest expense on Exchangeable Notes for the year ended December 31, 2012, were $46.1 million. Of this amount, $2.0 million, or approximately 4.3%, was reinvested in additional Units pursuant to the DRIP, resulting in a cash payout ratio of 95.7%. For the quarter ended December 31, 2012, distributions declared and interest expense on Exchangeable Notes amounted to $13.0 million. Of this amount, $1.1 million, or approximately 8.2%, was reinvested in additional Units pursuant to the DRIP, resulting in a cash payout ratio of 91.8%.

At December 31, 2012, we had various currency forward contracts in place to sell euros for Canadian dollars for the next 36 months. On settlement of a contract, we realize a gain or loss on the difference between the forward rate and the spot rate; this amounted to a gain of $2.4 million in the year. We also mark the contracts to market quarterly and realized a gain of $0.5 million in the current year. The Trust currently has foreign exchange forward contracts to sell €3.1 million in January 2013, €3.7 million each month from February 2013 to December 2014, and €1.5 million each month from January 2015 to December 2015 at an average exchange rate of $1.327:€1.

We currently pay monthly distributions to unitholders of $0.06667 per unit, or $0.80 per unit on an annual basis. At December 31, 2012, approximately 9.3% of our total Units were enrolled in the DRIP.

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

	For the three months ended December 31, 2012	For the year ended December 31, 2012
Net income	$ (8,687)	$ 10,916
Cash flow from operating activities	16,712	52,320
Distributions paid and payable (including Exchangeable Notes)	12,953	46,064
Surplus of cash flow from operating activities over distributions paid and payable	3,759	6,256
Shortfall of net income over distributions paid and payable	(21,640)	(35,148)

Cash flow from operations exceeded distributions paid and payable by $3.8 million and $6.3 million for the three months and year ended December 31, 2012, respectively. Distributions paid and payable exceeded net income by $21.6 million and $35.1 million for the three months and year ended December 31, 2012, respectively. Net income for the respective periods reflect fair value adjustments to financial instruments and investment properties. In establishing distribution payments, we do not take fluctuations in working capital into consideration and we use a normalized amount as a proxy for leasing and building improvement costs.

Our results of operations

	For the three months ended December 31, 2012[(1)]	For the three months ended December 31, 2011[(1)]	**For the year ended December 31, 2012**[(1)]	For the period from August 3, 2011 to December 31, 2011[(1)]
Investment properties revenue	**$ 35,926**	$ 31,726	**$ 138,661**	$ 54,274
Investment properties operating expenses	**13,869**	10,757	**53,222**	19,774
Net rental income	**22,057**	20,969	**85,439**	34,500
Other income and expenses				
Portfolio management	**(1,019)**	(894)	**(4,201)**	(1,566)
General and administrative	**(1,638)**	(2,253)	**(6,579)**	(3,114)
Fair value adjustments to investment properties	**(16,870)**	(31,704)	**(23,349)**	(23,147)
Interest expense	**(6,100)**	(8,591)	**(27,379)**	(13,856)
Interest and other income	**289**	122	**503**	132
Share of income from equity accounted investment	**11**	32	**21**	7
Depreciation and amortization	**(7)**	–	**(53)**	–
Fair value adjustments to financial instruments	**(6,736)**	(8,557)	**(15,214)**	(14,567)
Acquisition related costs, net	**–**	(467)	**–**	(7,853)
Loss on sale of investment property	**(258)**	–	**(320)**	–
Income before income taxes	**(10,271)**	(31,343)	**8,868**	(29,464)
Income taxes				
Current income taxes	**84**	–	**226**	–
Deferred income taxes	**(1,668)**	(5,367)	**(2,274)**	(6,263)
Income tax expense (recovery)	**(1,584)**	(5,367)	**(2,048)**	(6,263)
Net income (loss)	**(8,687)**	(25,976)	**10,916**	(23,201)
Foreign currency translation adjustment	**20,758**	(20,342)	**(4,388)**	(18,558)
Comprehensive income (loss)	**$ 12,071**	$ (46,318)	**$ 6,528**	$ (41,759)

(1) Results from operations were converted into Canadian dollars from euros using the following average exchange rates: the three-month and year ended December 31, 2012 periods were converted at $1.2861:€1 and $1.285:€1, respectively; for 2011, the three-month and August 3 to December 31, 2011 periods were converted at $1.379:€1 and $1.383:€1, respectively .

Statement of comprehensive income results

Net rental income

	For the three months ended December 31, 2012	For the three months ended December 31, 2011	**For the year ended December 31, 2012**	For the period from August 3, 2011 to December 31, 2011
Office	**$ 4,698**	$ 1,888	**$ 14,147**	$ 3,144
Mixed use	**14,971**	15,620	**59,152**	25,962
Industrial	**2,388**	3,461	**12,140**	5,394
Net rental income	**$ 22,057**	$ 20,969	**$ 85,439**	$ 34,500

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

For the year ended December 31, 2012, net rental income was $85.4 million, representing an increase of $50.9 million compared to the period from April 21 to December 31, 2011. After adjusting 2011 to a full year of operations and excluding the $6.5 million negative impact of the weakened euro, the net rental income would have increased by $8.6 million, mainly a result of contributions from newly acquired properties in 2012.

For the three months ended December 31, 2012, net rental income was $22.1 million, representing an increase of $1.1 million compared to the same quarter of 2011. Excluding the $1.6 million negative impact of the weakened euro, the net rental income would have increased by $2.7 million, mainly a result of positive leasing absorption and contributions from newly acquired properties in 2012.

Portfolio management

Portfolio management expenses totalled $4.2 million for the year ended December 31, 2012, an increase of $2.6 million compared to the period from April 21 to December 31, 2011. After adjusting 2011 to a full year of operations, the increase would be $0.4 million, representing higher personnel costs incurred in 2012.

Portfolio management expenses were $1.0 million for the three months ended December 31, 2012, an increase of approximately $0.1 million compared to the three months ended December 31, 2011.

General and administrative

General and administrative expenses totalled $6.6 million for the year ended December 31, 2012, an increase of $3.5 million compared to the period from April 21 to December 31, 2011. After adjusting 2011 to a full year of operations, the general and administrative expenses would have decreased by $0.9 million, mainly reflecting lower asset management fee expenses and corporate expenses.

General and administrative expenses totalled $1.6 million in the last quarter of 2012, a decrease of $0.6 million from the same quarter last year for similar reasons as a result of lower regulatory and corporate expenses.

Fair value adjustment to investment properties

The fair value loss adjustment of investment properties amounted to $23.3 million for the year ended December 31, 2012, compared to a loss of $23.1 million for the period from April 21 to December 31, 2011. $11.6 million of the loss relates to transaction costs capitalized on the six acquisitions completed during the year, and $1.7 million of the loss (excluding payments received under head lease arrangements) relates to fair value adjustments to the properties sold or under contracts for sale. $3.4 million of the loss relates to capital costs incurred during the year and the remaining $6.7 million reflects the current vacancies in the Initial Properties and impact of termination rights exercised by Deutsche Post in 2012. The $23.1 million loss in fair value for the period from April 21 to December 31, 2011 reflected an increase in cap rates since acquisition of the Initial Properties and the impact of an increase in German real estate transaction taxes.

The loss in fair value adjustment of investment properties amounted to $16.9 million for the three months ended December 31, 2012, compared to a loss of $31.7 million in the same quarter last year.

Interest expense

Interest expense was $27.4 million for the year ended December 31, 2012, an increase of $13.5 million compared to the period from April 21 to December 31, 2011. After adjusting 2011 to a full year of operation, the interest expense would have decreased by $6.1 million. Adjusting for the $1.3 million impact of favourable exchange rates realized, interest expense would have been $4.8 million lower than in 2011. The decrease is a result of the reduction in interest expense of $3.2 million on the Facility, as the three-month EURIBOR rates decreased from 1.544% in December 2011 to 0.222% in December 2012. Offsetting the decrease was mortgage interest expense of $1.5 million due to mortgages for properties acquired in 2012 and stand-by charge on the corporate revolving line of credit of $0.1 million in 2012. We fix our variable rate positions using interest rate swaps, and the cash outlays on the settlement of the swap contracts are presented as a component of fair value adjustments of financial instruments. During the year ended December 31, 2012, $4.3 million of swap settlements were paid, compared to $0.6 million paid in the period from April 21 to December 31, 2011. Including these payments, interest expenses on the credit facility were in line with the last year.

Interest expense was $6.1 million for the quarter, a decrease of $2.5 million compared to the same quarter last year. After adjusting for the $0.2 million impact of favourable exchange rates realized, interest expense was $2.3 million lower than in the same quarter last year. The decrease is a result of interest on Exchangeable Notes being $1.6 million lower in the current quarter compared to the same quarter last year, as the holder of the Exchangeable Notes exchanged the remaining Exchangeable Notes for REIT Units by September 2012. In addition, interest on our term loan credit facility was lower by $1.6 million, as the three-month EURIBOR rates dropped from 0.652% in September 2012 to 0.222% in December 2012. Offsetting the decrease was mortgage interest expense of $0.8 million due to mortgage debts on acquired properties in 2012 and interest on the corporate revolving line of credit of $0.1 million in 2012. During the quarter, $1.7 million of swap settlements were paid compared to $0.3 million paid in the same quarter last year. Including these payments, interest expense on the credit facility in the current quarter was in line with the same quarter last year. The actual weighted average interest on the Facility for the three months ended December 31, 2012 was 3.91%. On an effective interest rate basis, the rate was 3.98%.

Fair value adjustment to financial instruments

For the year ended December 31, 2012, we incurred an unrealized net loss in fair value of financial instruments of $15.2 million. The net loss comprises a $15.5 million loss recognized on the fair value change in the interest rate swaps and cap as a result of a significant decrease in the forward price of interest rates during the year. A $17.9 million loss was recognized in 2011 for the same reasons. The REIT recognized a $2.4 million fair value gain on the conversion feature of the convertible debentures, a $2.3 million loss on the fair value adjustment on the Exchangeable Notes, and a $0.5 million unrealized gain related to our foreign currency forward contracts. For the period from April 21 to December 31, 2011, the Trust recorded a gain of $1.5 million in the fair value adjustment on the conversion feature of the convertible debentures, and a $1.8 million unrealized gain related to our foreign currency forward contracts due to a significant depreciation of the euro compared to the Canadian dollar in 2011.

For the three months ended December 31, 2012, we incurred an unrealized net loss in fair value of financial instruments of $6.7 million. The net loss comprises a $2.0 million loss recognized on the fair value change in the interest rate swaps and cap as a result of a decrease in the forward price of interest rates during the quarter. A $4.7 million loss was recognized in the same quarter last year for the same reason. The REIT recognized a $0.7 million fair value adjustment loss on the conversion feature of the convertible debentures and a $4.0 million unrealized loss related to our foreign currency forward contracts due to an appreciation of the euro compared to the Canadian dollar during the quarter. The comparative quarter comprises a loss of $5.7 million in the fair value adjustment on the conversion feature of the convertible debentures and a $2.4 million loss on the fair value adjustment on the Exchangeable Notes. During the same quarter last year, the REIT recognized a $4.3 million unrealized gain related to our foreign currency forward contracts due to a significant depreciation of the euro compared to the Canadian dollar.

Income taxes

We recognized an income tax recovery of $2.0 million for the year ended December 31, 2012, compared to an income tax recovery of $6.3 million for the period from August 3 to December 31, 2011. The difference is mainly a result of the deferred income tax impact associated with the loss carry-forwards and fair value change related to financial instruments.

We recognized an income tax recovery of $1.6 million for the three months ended December 31, 2012, compared to an income tax recovery of $5.4 million for the same quarter last year. The difference in the income tax provision is mainly a result of the deferred income tax impact associated with the fair value change related to investment properties and financial instruments.

Impact of foreign exchange

Comprehensive income was impacted by a foreign currency translation loss of $4.4 million for the year ended December 31, 2012. The exchange rates decreased slightly from $1.3193:€1 as at December 31, 2011 to $1.3118:€1 as at December 31, 2012. The results of our euro-denominated operations included in net income for the year were translated at an average exchange rate of $1.2850:€1 compared to $1.3830:€1 for the period from April 21 to December 31, 2011.

Comprehensive income was impacted by a foreign currency translation gain of $20.7 million for the three months ended December 31, 2012. The exchange rates increased from $1.2646:€1 as at September 30, 2012 to $1.3118:€1 as at December 31, 2012. The results of our euro-denominated operations included in net income for the quarter were translated at an average exchange rate of $1.2861:€1 compared to $1.3788:€1 in the same quarter last year.

Funds from operations and adjusted funds from operations

	For the three months ended December 31, 2012	For the three months ended December 31, 2011	**For the year ended December 31, 2012**	For the period from August 3, 2011 to December 31, 2011
Net income (loss)	**$ (8,687)**	$ (25,976)	**$ 10,916**	$ (23,201)
Add (deduct):				
Depreciation of property and equipment	**9**	7	**69**	13
Amortization of lease incentives	**9**	–	**17**	–
Interest expense on Exchangeable Notes	**–**	1,609	**2,558**	2,641
Acquisition related costs, net	**–**	467	**–**	7,853
Loss on sale of investment property	**258**	–	**320**	–
Deferred income taxes	**(1,668)**	(5,367)	**(2,274)**	(6,263)
Term debt swap settlement	**(1,660)**	(317)	**(4,255)**	(573)
Gain on settlement of foreign currency contracts	**481**	(84)	**2,406**	(84)
Fair value adjustments to investment properties	**16,870**	31,704	**23,349**	23,147
Fair value adjustments to financial instruments	**6,736**	8,557	**15,214**	14,567
FFO	**$ 12,348**	$ 10,600	**$ 48,320**	$ 18,100
Add (deduct):				
Amortization of financing costs	**366**	265	**1,183**	424
Accretion of debenture conversion feature	**240**	223	**930**	366
Amortization of fair value adjustment of assumed debt	**(26)**	–	**(206)**	–
Deferred unit compensation expense	**138**	88	**628**	88
Deferred asset management fees	**502**	831	**1,907**	841
Straight-line rent	**(56)**	(142)	**(98)**	(187)
	$ 13,512	$ 11,865	**$ 52,664**	$ 19,632
Deduct:				
Normalized leasing costs and tenant incentives	**(1,025)**	(1,025)	**(4,100)**	(1,682)
Normalized non-recoverable recurring capital expenditures	**(600)**	(600)	**(2,400)**	(985)
AFFO	**$ 11,887**	$ 10,240	**$ 46,164**	$ 16,965

Funds from operations and adjusted funds from operations per Unit amounts

The basic weighted average number of Units outstanding used in the FFO and AFFO calculations include all Units and the aggregate number of Units issuable upon the exchange of Exchangeable Notes. The diluted weighted average number of Units assumes the conversion of the Debentures. The incremental unvested deferred trust units represent the potential Units that would have to be purchased in the open market to fund the unvested obligation. The weighted average number of Units outstanding for basic and diluted FFO calculations for the three months ended December 31, 2012 is 64,064,093 and 77,017,591, respectively. Diluted FFO includes interest and amortization adjustments related to the Debentures of $2.7 million for the three months ended December 31, 2012. The weighted average number of Units outstanding for basic and diluted FFO calculations for the year ended December 31, 2012 is 57,379,400 and 70,201,274, respectively. Diluted FFO includes interest and amortization adjustments related to the Debentures of $10.7 million for the year ended December 31, 2012.

On average for the quarter, the REIT had approximately $115.0 million of cash available for acquisitions. Over the course of the year, the REIT had approximately $73.0 million of cash available for acquisitions. Consistent with our newly acquired investment properties, we estimate that these funds, if invested, would generate a return on equity of approximately 11.0% and would have contributed $3.2 million and $8.0 million, respectively, to FFO and AFFO for the quarter and year ended December 31, 2012, respectively.

Funds from operations

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

	For the three months ended December 31, 2012	For the three months ended December 31, 2011	**For the year ended December 31, 2012**	For the period from August 3, 2011 to December 31, 2011
FFO	**$ 12,348**	$ 10,600	**$ 48,320**	$ 18,100
FFO per unit – basic	**$ 0.19**	$ 0.20	**$ 0.84**	$ 0.35
FFO per unit – diluted	**$ 0.19**	$ 0.20	**$ 0.84**	$ 0.35
Excluding the impact of undeployed cash:				
FFO per unit – basic	**$ 0.24**		**$ 0.98**	
FFO per unit – diluted	**$ 0.24**		**$ 0.95**	

Adjusted funds from operations

	For the three months ended December 31, 2012	For the three months ended December 31, 2011	**For the year ended December 31, 2012**	For the period from August 3, 2011 to December 31, 2011
AFFO	**$ 11,887**	$ 10,240	**$ 46,164**	$ 16,965
AFFO per unit – basic	**$ 0.19**	$ 0.20	**$ 0.80**	$ 0.33
Excluding the impact of undeployed cash:				
AFFO per unit – basic	**$ 0.24**		**$ 0.94**	

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

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

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

	For the three months ended December 31, 2012	For the three months ended December 31, 2011	**For the year ended December 31, 2012**	For the period from August 3, 2011 to December 31, 2011
Cash generated from operating activities	**$ 16,712**	$ 10,803	**$ 52,320**	$ 22,611
Add (deduct):				
Transaction costs on acquired properties	**–**	467	**–**	7,853
Change in non-cash working capital	**(3,488)**	477	**(287)**	(10,931)
Share of general and administrative expenses from equity accounted investments	**13**	39	**37**	20
Deferred (gain) loss on settlement of foreign exchange contracts	**(248)**	32	**(417)**	32
Investment in lease incentives and initial direct leasing costs	**523**	47	**1,011**	47
Normalized leasing costs and lease incentives	**(1,025)**	(1,025)	**(4,100)**	(1,682)
Normalized non-recoverable recurring capital expenditures	**(600)**	(600)	**(2,400)**	(985)
AFFO	**$ 11,887**	$ 10,240	**$ 46,164**	$ 16,965

Selected annual information

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

	For the year ended December 31, 2012	For the period from August 3, 2011 to December 31, 2011
Revenues	**$ 138,661**	$ 54,274
Income (loss) before discontinued operations	**10,916**	(23,201)
Net income (loss)	**10,916**	(23,201)
Total Assets	**1,400,269**	1,039,340
Debt	**726,830**	579,006
Distributions declared	**43,568**	14,441
Units Outstanding:		
REIT Units	**72,232,494**	43,872,316
Exchangeable Notes	**–**	8,000,000

Quarterly information

The following tables show quarterly information since August 3, 2011:

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
REVENUES						
Investment properties revenue	**$ 35,926**	$ 33,765	$ 34,896	$ 34,074	$ 31,726	$ 22,548
Investment properties operating expenses	**13,869**	12,024	13,992	13,337	10,757	9,017
NET RENTAL INCOME	**22,057**	21,741	20,904	20,737	20,969	13,531
OTHER INCOME AND EXPENSES						
Portfolio management	**(1,019)**	(1,096)	(1,051)	(1,035)	(894)	(672)
Interest and other income	**289**	59	63	92	122	10
Interest expense	**(6,100)**	(6,531)	(6,629)	(8,119)	(8,591)	(5,265)
General and administrative	**(1,638)**	(1,856)	(1,598)	(1,487)	(2,253)	(861)
Fair value adjustments to investment properties	**(16,870)**	(2,574)	(3,010)	(895)	(31,704)	8,557
Fair value adjustments to financial instruments	**(6,736)**	(5,950)	130	(2,658)	(8,557)	(6,010)
Depreciation and amortization	**(7)**	(35)	(11)	–	–	–
Acquisition related gain, net	**–**	–	–	–	(467)	(7,386)
Loss on sale of investment property	**(258)**	(62)	–	–	–	–
Share of net losses from equity accounted investments	**11**	(13)	12	11	32	(25)
Income before taxes	**(10,271)**	3,683	8,810	6,646	(31,343)	1,879
Current income taxes	**84**	77	29	36	–	–
Deferred income taxes	**(1,668)**	(57)	(334)	(215)	(5,367)	(896)
NET INCOME (LOSS)	**$ (8,687)**	$ 3,663	$ 9,115	$ 6,825	$ (25,976)	$ 2,775
Add (deduct):						
Depreciation of property and equipment	**9**	38	16	6	7	6
Amortization of lease incentives	**9**	8	–	–	–	–
Interest on Exchangeable Notes	**–**	406	632	1,520	1,609	1,032
Acquisition related gain, net	**–**	–	–	–	467	7,386
Loss on sale of investment property	**258**	62	–	–	–	–
Deferred income taxes	**(1,668)**	(57)	(334)	(215)	(5,367)	(896)
Term debt swap settlement	**(1,660)**	(1,155)	(1,038)	(402)	(317)	(256)
Deferred gain/loss on settlement of Forex contracts	**481**	954	496	475	(84)	–
Fair value adjustments to investment properties	**16,870**	2,574	3,010	895	31,704	(8,557)
Fair value adjustments to financial instruments	**6,736**	5,950	(130)	2,658	8,557	6,010
FFO	**$ 12,348**	$ 12,443	$ 11,767	$ 11,762	$ 10,600	$ 7,500
FFO per unit – basic	**$ 0.19**	$ 0.22	$ 0.21	$ 0.23	$ 0.2	$ 0.15
FFO per unit – diluted	**0.19**	0.21	0.21	0.22	0.2	0.15
Funds from operations	**$ 12,348**	$ 12,443	$ 11,767	$ 11,762	$ 10,600	$ 7,500
Add (deduct):						
Amortization of financing costs	**366**	279	273	265	265	159
Accretion of debenture conversion feature	**240**	235	230	225	223	143
Amortization of FV adjustment of debt	**(26)**	(76)	(78)	(26)	–	–
Deferred compensation expense	**138**	180	158	152	88	–
Deferred asset management expense	**502**	504	488	413	831	10
Straight-line rent	**(56)**	(78)	18	18	(142)	(45)
	13,512	13,487	12,856	12,809	11,865	7,767
Deduct:						
Normalized initial direct leasing costs and tenant incentives	**(1,025)**	(1,025)	(1,025)	(1,025)	(1,025)	(657)
Normalized non-recoverable recurring capital expenditures	**(600)**	(600)	(600)	(600)	(600)	(385)
AFFO	**$ 11,887**	$ 11,862	$ 11,231	$ 11,184	$ 10,240	$ 6,725
AFFO per unit – basic	**$ 0.19**	$ 0.21	$ 0.20	$ 0.22	$ 0.20	$ 0.13
AFFO per unit – diluted	**0.19**	0.20	0.20	0.21	0.20	0.13
Weighted average number of units						
Basic	**64,064,093**	57,795,412	55,697,600	51,882,467	51,862,716	50,066,374
Diluted	**77,017,591**	70,666,219	68,474,767	64,565,100	64,396,562	61,739,125
Quarterly average exchange rate ($:€1)	**1.286**	1.245	1.296	1.313	1.379	1.389

Section III – Disclosure controls and procedures and internal controls over financial reporting

Our Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their direct supervision, the Trust's Disclosure Controls and Procedures (as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109")) to provide reasonable assurance that: (i) material information relating to the Trust and its consolidated subsidiaries is made known to them by others, particularly during the period in which the interim filings are being prepared; and (ii) information required to be disclosed by the Trust in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported on a timely basis. Our Chief Executive Officer and Chief Financial Officer have also designed, or caused to be designed under their direct supervision, the Trust's Internal Control over Financial Reporting (as defined in NI 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. The Trust is continually reviewing and evaluating its systems of controls and procedures and, subject to inherent limitations noted above, has concluded that they were effective as at December 31, 2012.

Section IV – Risks and our strategy to manage

We are exposed to various risks and uncertainties, many of which are beyond our control. For a full list and explanation of our risks and uncertainties, please refer to our 2011 Annual Report or our Annual Information Form dated March 30, 2012, filed on SEDAR (www.sedar.com).

Real estate ownership

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

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

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

Rollover of leases

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

The majority of the Deutsche Post leases expire in 2018. Deutsche Post has early termination rights entitling it to terminate certain leases prior to their expiry upon 12 months' prior notice. As of the date hereof, these termination rights pertain to approximately 21% of the Trust's GLA at December 31, 2012.

Concentration of properties and tenants

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

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

Financing

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

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

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

Tax matters

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

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

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

Changes in law

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

Foreign exchange rate fluctuations

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

unable to satisfy their obligations. If any counterparties default on their obligations under the hedging contracts or seek bankruptcy protection, it could have an adverse effect on our ability to fund planned activities and could result in a larger percentage of future revenue being subject to currency changes.

Interest rates

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

Environmental risk

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

Organizational structure

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

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

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

Competition

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

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

Insurance

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

Section V – Critical accounting policies

Critical accounting judgments, estimates and assumptions in applying accounting policies

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

Changes in accounting estimates and changes in accounting policies

Future accounting policy changes

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

Additional information relating to Dundee International REIT, including our Annual Information Form dated March 30, 2012, is available on SEDAR at www.sedar.com.