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

- Q1 2012 marks the third quarter of solid results since Trust's initial public offering ("IPO") — in line with expectations and forecast
- Growth through active and accretive acquisition pipeline with two acquisitions closed in the first four months of 2012 for an aggregate amount of almost $100 million
- Solid occupancy of 87.8% at March 31, 2012

	For the three months ended March 31, 2012	Financial forecast for the three months ended March 31, 2012[1]
Operations		
Occupancy rate (period-end)	**88%**	—
In-place rent per square foot	**$ 7.25**	$ —
Operating results		
Investment properties revenue	**$ 34,074**	$ 35,945
Net rental income	**20,737**	20,902
Funds from operations ("FFO")[2]	**11,762**	11,659
Adjusted funds from operations ("AFFO")[3]	**11,184**	10,990
Distributions		
Declared distributions and interest on Exchangeable Notes	**$ 10,305**	$ 9,400
Distributions paid and payable in cash (including Exchangeable Notes)	**10,087**	9,400
Financing		
Coupon interest rate (period-end)	**4.31%**	4.45%
Interest coverage ratio	**2.77 times**	2.16 times
Per unit amounts		
Basic:[4]		
FFO[2]	**0.23**	0.24
AFFO[3]	**0.22**	0.23
Distribution rate	**0.20**	0.20
Basic (excluding impact of the over-allotment):		
FFO[2]	**0.25**	0.24
AFFO[3]	**0.24**	0.23

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

(1) Financial Forecast — Refers to the financial forecast for the three-month period ending March 31, 2012 included in our prospectus dated July 21, 2011.

(2) FFO — The reconciliation of FFO to net income can be found on page 23.

(3) AFFO — The reconciliation of AFFO to FFO and net income can be found on page 23.

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

BASIS OF PRESENTATION

Our discussion and analysis of the financial position and results of operations of Dundee International Real Estate Investment Trust ("Dundee International REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements and unaudited interim condensed financial statements of Dundee International REIT for the periods ended December 31, 2011 and March 31, 2012, respectively.

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

This management's discussion and analysis has been dated as at April 30, 2012 except where otherwise noted. For simplicity, throughout this discussion, we may make reference to the following:

- "Debentures", meaning the 5.5% convertible unsecured subordinated debentures of the Trust due July 31, 2018;
- "Exchangeable Notes", meaning the Exchangeable Notes, Series A and the Exchangeable Notes, Series B issued by a subsidiary of Dundee International REIT;
- "GLA", meaning gross leasable area;
- "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 Jones Lang LaSalle, Office Market Overview Q1 2012, a publication prepared by a commercial firm that provides information relating to the German real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

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 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 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 April 30, 2012, except where otherwise noted. Except as required by securities law in connection with our financial forecast included in our prospectus dated July 21, 2011, Dundee International REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators. These filings are also available on our web site at www.dundeeinternational.com.

BACKGROUND

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

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

At March 31, 2012, our portfolio consisted of 293 office, mixed use and industrial properties comprising approximately 12.5 million square feet of GLA located in Germany.

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

OUR OBJECTIVES

We are committed to:

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

OUR STRATEGY

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

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

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

Diversifying our portfolio to mitigate risk

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

Investing in stable income-producing properties outside of Canada

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

Maintaining and strengthening a conservative financial profile

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

OUR ASSETS

As at March 31, 2012, our assets consist of a portfolio of 293 office, mixed use and industrial properties, with a small residential component, comprising approximately 12.5 million square feet of GLA located in Germany. Our properties are strategically located in major city and town centres, often on a central square in close proximity to the main train station and/or bus station. The locations typically provide excellent visibility, access to a major street and proximity to a transportation hub and city centre pedestrian/shopping areas.

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

Office

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

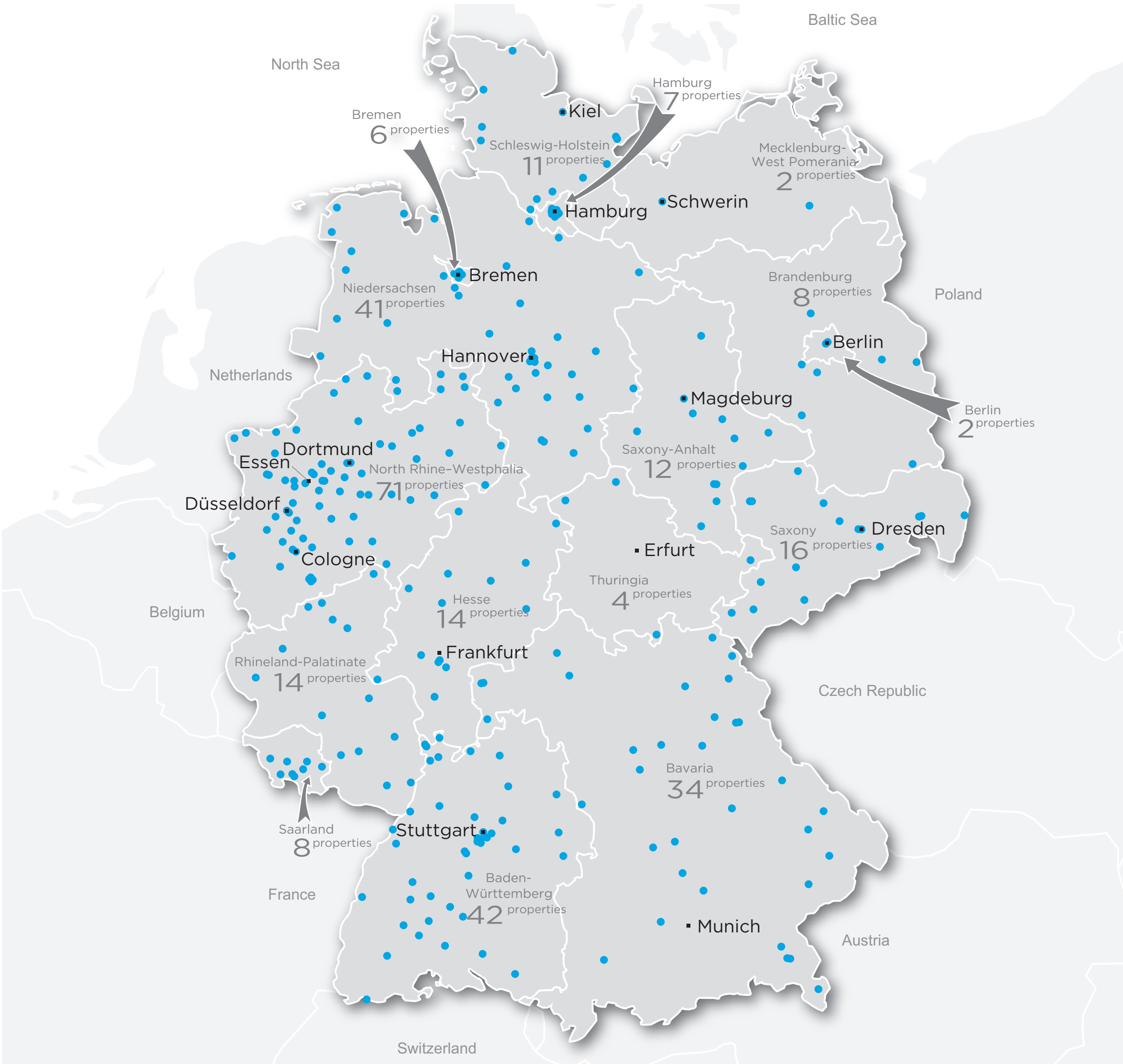
Mixed use

This category includes mixed use retail, banking and distribution properties that contain mail and distribution centres and administration offices. The properties are generally strategically located near central train stations 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 that are critical elements of Deutsche Post's distribution network. The properties are mostly located near major cities and have access to significant infrastructure, including railways and highways.

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



Our properties are located throughout Germany with a heavy concentration in the Western German states of North-Rhine Westphalia, Baden-Württemberg, Niedersachsen, Bavaria and Hesse. Approximately 69% of our overall GLA is located in these five states.

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

States	Total GLA (sq. ft.)	Total GLA (%)	Weighted average occupancy (%)
Baden-Württemberg	1,623,262	13%	93%
Bavaria	1,461,345	12%	86%
Berlin	53,767	—	91%
Brandenburg	141,370	1%	88%
Bremen	320,886	3%	83%
Hamburg	485,757	4%	89%
Hesse	1,041,500	8%	90%
Mecklenburg–West Pomerania	101,023	1%	87%
Niedersachsen	1,804,053	14%	81%
North Rhine–Westphalia	2,761,193	22%	91%
Rhineland–Palatinate	501,281	4%	86%
Saarland	482,671	4%	91%
Saxony	643,850	5%	78%
Saxony–Anhalt	449,226	4%	85%
Schleswig-Holstein	536,904	4%	95%
Thuringia	127,267	1%	70%
Total	12,535,355	100%	88%

A comprehensive list of all properties can be found in the Appendix starting on page 44 of this report.

TENANTS

Deutsche Post

As at March 31, 2012, all but one of the REIT's properties were formerly owned by Deutsche Post. Deutsche Post contributes approximately 83% to the Trust's overall gross rental income ("GRI").

Deutsche Post is an integral part of the German economy and continues to be an important part of day-to-day life in Germany. Deutsche Post is Europe's largest postal company and the only provider of universal postal services in Germany. Through its acquisition of DHL in 2002, Deutsche Post has become a global logistics market leader. It employs approximately 470,000 people in more than 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 2.9 million parcels within Germany via mail and parcel sorting facilities. Its infrastructure network in Germany includes 82 mail centres, 33 parcel centres and 20,000 retail outlets and points of sale.

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

Deutsche Postbank

Our portfolio features approximately 200 Postbank branches, allowing for the delivery of integrated financial and postal services. The properties featuring Postbank branches are typically located at ground level with a view to attracting a high volume of retail and business customers seeking financial or postal services. These locations may include retail space (where consumer staples are offered for sale), a banking or investment advisory area, mailboxes for rent, an automated postal/banking services station or traditional banking teller service. Many Postbank branches in our properties have recently undergone refurbishment and now feature contemporary designs, expanded retail sections, enhanced lighting and automated postal and financial services centres. The delivery of banking and postal services are integrated such that customers can purchase consumer staples, send or receive mail or parcels and attend to their financial services needs, including making deposits, loans, transfers, investments and purchasing insurance.

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

With 14 million active domestic customers and over 19,000 employees, Postbank is one of Germany's major financial services providers. Postbank's focus is on its retail business with private customers. Postbank has the densest branch network of any bank in Germany, which makes it conveniently accessible and attractive to its retail banking customer base.

Deutsche Telekom

After Deutsche Post, Deutsche Telekom is the second-largest tenant in our properties. Deutsche Telekom occupies approximately 1.4% of the GLA of our properties and currently generates approximately 2.4% of the portfolio's overall GRI. The occupied space is mainly used for server and cable rooms, forming an integral part of Deutsche Telekom's infrastructure.

Deutsche Telekom is one of the world's leading telecommunications and information technology service companies. In 2011, Deutsche Telekom Group generated revenue of approximately €58 billion, and had approximately 236,000 employees in total as of December 31, 2011.

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 performed very well during the first three months of 2012. German GDP increased by 3%[(1)] in 2011, the highest in all of the G7 countries. Despite earlier concerns about a contraction, it is also expected that Germany will record GDP growth in the first quarter 2012. In addition, business confidence in Germany rose every month for the last six months as measured by the Ifo Business Climate Index, which is based on a survey of 7,000 executives.

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

While domestic demand continues to be the main driver of growth, the country's export strength also helped it to escape the worst effects of Europe's debt crisis. Germany's labour market shows continued strength with an unemployment rate of 6.7%[2] in March 2012, an indication of the continuing strength of the economy.

Economic impact on the German real estate sector

The commercial real estate market in Germany performed well during the first three months of 2012. The stability in the office market is supported by a relatively moderate degree of new space coming to market. Although completions of office space increased by approximately 20% in the first quarter 2012 compared to the same period in 2011, building activity remains quite low in absolute terms and the majority of new space coming to market is already leased or used by owner-occupiers. With limited new supply, overall office vacancies further decreased year-over-year to 9.3% as at the end of the first quarter 2012.[3]

OUTLOOK

Our trend of solid results since our IPO in August 2011 has continued, as evidenced by the financial performance of the first quarter. The occupancy in our Initial Portfolio has remained stable and we are starting to see the benefits of our first acquisition.

We remain focused on increasing the occupancy of our existing properties and growing and diversifying our portfolio. Subsequent to quarter-end we completed our first offering of units, raising net proceeds of $44.6 million. We intend to use these proceeds, together with cash available from our initial public offering, to continue with our acquisition strategy.

At the end of April, we acquired a property in Nuremberg that is 100% leased until the end of 2026 to a large German insurance company. We have a very attractive acquisition pipeline which will allow us to deploy our cash, grow our business and diversify our tenant base.

We are working closely with Deutsche Post, not only to lease back space in the previously terminated buildings, but also to understand their future requirements in order to address their needs within the current portfolio.

We continue to build relationships with the lending community in Germany and Europe and are working diligently to refinance a portion of our initial credit facility to take advantage of lower interest rates and to diversify our maturity risk.

We have a dynamic and experienced management team on the ground in Germany. We are very focused on growing our business in Germany, which continues to be the economic engine of Europe, and believe that we are uniquely positioned to capitalize on opportunities provided by the dislocation of capital in Europe.

(2) Deutsche Bundesbank.

(3) Jones Lang LaSalle Office Market Overview Q1 2012.

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	March 31, 2012
Occupancy rate[(1)]	88%
In-place rental rates	$ 7.25
Tenant maturity profile — average term to maturity[(2)]	5.6 years

(1) Includes in-place occupancy at March 31, 2012.

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

Occupancy

The overall weighted average occupancy rate across our portfolio remained unchanged at 87.8% at March 31, 2012 compared to the end of 2011. Overall occupied space increased to 11.0 million square feet at the end of the quarter from 10.8 million square feet at December 31, 2011, an increase of approximately 0.2 million square feet, largely due to the acquisition of Grammophon Büropark at the end of February 2012.

Vacancy schedule

The tables below highlight our leasing activity. During the first quarter of 2012, our overall vacancy increased slightly by 28,124 square feet to 1,548,096 square feet. During the quarter, approximately 93,516 square feet expired or were terminated, offset by 25,808 square feet of new leases and 34,527 square feet of renewals. Of the vacant space at the end of the quarter, approximately 17,332 square feet were committed for future leases, leaving approximately 1,530,764 square feet available for lease.

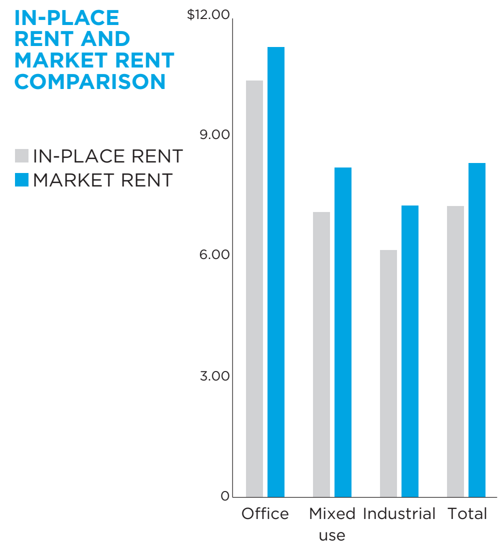
				For the three months ended March 31, 2012
(in square feet)	Office	Mixed use	Industrial	Total
Vacant space — January 1, 2012	138,976	1,091,832	289,164	1,519,972
Vacancy committed for future leases	—	(17,380)	(2,104)	(19,484)
Available for lease	138,976	1,074,452	287,060	1,500,488
Acquisitions	13,924	—	—	13,924
Remeasurements	—	504	—	504
Expiries	—	82,194	10,143	92,337
Early terminations and bankruptcies	—	1,179	—	1,179
New leases	—	(6,225)	(19,583)	(25,808)
Renewals	—	(33,149)	(1,378)	(34,527)
Vacant space — March 31, 2012	152,900	1,118,955	276,242	1,548,097
Vacancy committed for future leases	(4,486)	(12,847)	—	(17,333)
Available for lease — March 31, 2012	**148,414**	**1,106,108**	**276,242**	**1,530,764**

In-place rental rates

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

Since the Trust's IPO, renewals have been completed at approximately 7% above expiring rents.

IN-PLACE RENT AND MARKET RENT COMPARISON



								March 31, 2012
				In-place rent				Market rent
Office	€	7.81	$	10.40	€	8.38	$	11.17
Mixed use		5.36		7.14		6.13		8.17
Industrial		4.63		6.17		5.46		7.28
Overall	**€**	**5.44**	**$**	**7.25**	**€**	**6.21**	**$**	**8.27**

Leasing and tenant profile

At March 31, 2012, the weighted average remaining term of all leases was approximately 5.6 years, which factors in the termination of 17 leases in June 2012 by Deutsche Post pursuant to its termination rights. As there is a rent guarantee in place for these leases until June 2014, these leases are reflected as June 2014 expiries in the schedule below.

	March 31, 2012
	Average remaining lease term (years)
Office	4.71
Mixed use	5.63
Industrial	6.03
Overall	**5.62**

Lease rollover profile

The following table outlines our lease maturity profile by asset type as at March 31, 2012. During the remainder of 2012, approximately 169,265 square feet of our leases expire, accounting for approximately 1.4% of the overall space.

(in square feet)	Current vacancy	Month-to-month	2012	2013	2014	2015	2016 to 2027	Total
Office	148,415	35,289	47,906	52,693	205,731	19,340	593,496	1,102,870
Mixed use	1,106,108	277,782	118,729	101,249	965,580	92,127	6,527,079	9,188,654
Industrial	276,241	68,813	2,630	11,200	23,221	48,557	1,813,169	2,243,831
Total	1,530,764	381,884	169,265	165,142	1,194,532	160,024	8,933,744	12,535,355

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 73% of the GLA and account for approximately 83% of the portfolio's GRI.

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.

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 required for an upward adjustment to the rental rates in the Deutsche Post leases has been reached.

Termination rights and rent guarantee

In general, the Deutsche Post leases have a fixed term of ten years, expiring on June 30, 2018. 129 of the leases entitle Deutsche Post to terminate space in June 2012, 2014 and 2016, subject to certain limitations and requirements, including that Deutsche Post provide 12 months' prior written notice to us. 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 11.0% of our GRI and 1.1 million square feet (approximately 8.6% of our GLA), and waived its second termination right in respect of 21 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. This means that Deutsche Post has the right to terminate up to 91 leases in 2014 and up to 112 leases in 2016, subject to certain limitations. Although we think it is unlikely that Deutsche Post will terminate the maximum amount of space that it is entitled to terminate (being approximately 2.9 million square feet or 23.2% of our GLA), if it were to do so, and not release any of the terminated space, our total GRI would be reduced by 24.8%.

In light of the 2012 terminations, the vendor of the properties has paid the amount of €17,329,135 plus all interest accrued thereon to offset the lost rent resulting from all 2012 terminations for the period commencing on July 1, 2012 to, and including, June 30, 2014, regardless of whether we sell, or re-lease space in, any terminated properties. This amount has been set aside by the vendor in a bank account out of which we will be paid on a monthly basis (or otherwise as we request), starting from July 1, 2012 (or such earlier date as we may determine), the net rent payable for two years plus prepayments of operating costs payable for one year which would otherwise have been payable under the Deutsche Post leases in respect of all 2012 terminations.

We are currently in discussions with Deutsche Post and Postbank regarding leasing back up to 22% of the GLA of the properties in respect of which Deutsche Post has exercised its termination right for an average lease term of approximately 4.2 years. However, Deutsche Post is a sophisticated, flexible organization and there can be no assurance that these discussions will result in a definitive agreement or, if they do, what the terms (including the amount of GLA and term) of any such leasing arrangements will be. Based on our discussions to date with Deutsche Post and Postbank, of the 17 terminated properties we understand that Postbank wishes to remain in 12 of the 15 properties that feature Postbank branches and Deutsche Post wishes to lease space in eight of the 17 properties, five of which feature Postbank branches.

OUR RESOURCES AND FINANCIAL CONDITION

Investment properties

The fair value of our investment property portfolio at March 31, 2012 was $985.4 million. On February 29, 2012, we completed the purchase of approximately 99.74% of Grammophon Büropark, an office property located in Hannover, Germany. The aggregate purchase price for the asset was approximately $34.7 million (€25.8 million), excluding transaction costs. DRC acquired an indirect equity beneficial interest in the remaining 0.26% of Grammophon Büropark. The value of the property was adjusted downward by $0.9 million to reflect its current fair value. On August 3, 2011, we acquired a portfolio of 292 properties in connection with our initial public offering ("Initial Portfolio") for $997.8 million, representing a Cap Rate of approximately 8.2%. Since December 31, 2011, the value of the Initial Portfolio increased by $9.7 million to $951.1 million, mainly as a result of the strengthening of the euro against the Canadian dollar.

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

Acquisitions during the quarter and subsequent to quarter-end

On February 29, 2012, we completed the purchase of Grammophon Büropark in Hannover, Germany. The property comprises approximately 211,000 square feet of office space. At the time of acquisition, the property was 95% leased and had an average lease term of 4.2 years.

Subsequent to quarter-end, we completed the acquisition of Karl-Martell-Strasse 60, an office property in Nuremberg, Germany, for $62.8 million. The property comprises approximately 269,000 square feet and is fully leased to one of Germany's largest insurance companies.

Building improvements

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

Initial direct leasing costs and lease incentives

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

For the period from January 1 to March 31, 2012, we leased or renewed approximately 77,668 square feet of space for which we will incur $0.3 million of leasing costs.

Commitments and contingencies

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

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

	Operating lease payments	
	March 31, 2012	December 31, 2011
Less than 1 year	**$ 389**	$ 365
1–5 years	**1,177**	1,458
Longer than 5 years	**185**	365
Total	**$ 1,751**	$ 2,188

During the quarter, the Trust paid $0.1 million in minimum lease payments, which have been included in comprehensive income for the period.

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

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

OUR CAPITAL

Liquidity and capital resources

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

As at March 31, 2012, we had $73.4 million of cash available. After reserving for current payables and operating requirements, approximately $50 million is available for acquisitions. Our debt-to-book value is 56%, which is within our target range.

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.

On February 29, 2012, we assumed a mortgage in connection with our acquisition of Grammophon Büropark in Hannover, Germany, in the amount of $21.8 million (€15.5 million) maturing in February 2015 and bearing interest at a face rate of 4.17%. The effective interest rate of 2.41% reflects a mark-to-market adjustment.

On March 27, 2012, we announced an $80.8 million bought deal financing and secondary offering ($92.9 million including the exercise of the over-allotment option). Pursuant to this offering, which closed on April 17, 2012, we issued 4.6 million Units and the current holder of the Exchangeable Notes exchanged the equivalent of $46.0 million of Exchangeable Notes into 4.6 million Units, all of which were sold to the syndicate of underwriters. The offering included an over-allotment option of 1.2 million Units. As a result of the exchange of Exchangeable Notes to Units, indebtedness decreased by $46.0 million. For further details with respect to this offering, please refer to the section “Equity” in this report.

Debt

Debt strategy

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

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

	March 31, 2012	December 31, 2011
Financing activities		
Average coupon interest rate(1)	**4.31%**	4.36%
Level of debt (debt-to-book value)(2)	**56%**	56%
Interest coverage ratio(3)	**2.77 times**	2.67 times
Debt-to-EBITDFV (years)(4)	**8.4**	8.0
Proportion of total debt due in current year	**—%**	—%
Debt — average term to maturity (years)	**4.8**	5.1
Variable rate debt as percentage of total debt	**14%**	15%

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

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

(3) The interest coverage ratio for the quarter is calculated as net rental income plus interest and fee income, less portfolio management and general and administrative expenses, divided by interest expense (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 is 2.77 times, and reflects our ability to cover interest expense requirements. We also monitor our debt-to-EBITDFV ratio to gauge our ability to pay off existing debt. Our current debt-to-EBITDFV ratio is 8.4 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 4.73%.

			March 31, 2012			December 31, 2011
	Variable	Fixed	Total	Variable	Fixed	Total
Term loan credit facility[1]	**$ 87,327[1]**	**$ 349,307[2]**	**$ 436,634**	$ 86,469	$ 345,879	$ 432,348
Mortgage debt	**—**	**21,550**	**21,550**	—	—	—
Debentures	**$ —**	**$ 147,092**	**$ 147,092**	$ —	$ 146,658	$ 146,658
Total	**87,327**	**517,949**	**605,276**	86,469	492,537	579,006
Percentage	**14%**	**86%**	**100%**	15%	85%	100%

(1) 20% of the Facility is subject to an interest rate swap until December 31, 2012, and has been presented as variable rate debt due to the short duration of the swap agreement.

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

Amounts recorded as at March 31, 2012 for the Debentures are net of $7.5 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 $448.4 million (€328.5 million). The term of the Facility is five years with a two-year renewal option. Variable rate interest is payable quarterly under the Facility at a rate equal to the three-month EURIBOR, plus a margin of 200 basis points ("bps") and agency fees of 10 bps. Pursuant to the requirements of the Facility, we entered into an interest rate swap to fix 80% of the interest payments at 1.89% plus margin and agency fees and purchased an instrument to cap 10% of the Facility, such that interest does not exceed 5%. Concurrent with entering into the interest rate swap, the Trust received $9.5 million (€7 million) from the vendor of the properties and used the proceeds to buy down the swap rate by 54 bps to reflect the difference between the cost of the Facility and the negotiated cost. 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.

As at March 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 3.97%.

The Facility requires that at each interest rate payment date, the debt service coverage ratio is equal to or above 145% and 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 March 31, 2012, we were in compliance with these covenants.

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

Convertible debentures

As at March 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 Debenture is convertible at any time by the holder thereof into 76.9231 Units per one thousand dollars of face value, representing a conversion price of $13.00 per Unit. On or after August 31, 2014 and prior to August 31, 2016, the Debentures may be redeemed by the holders thereof, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided the weighted average trading price for the Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On or after August 31, 2016 and prior to July 31, 2018, the maturity date, the Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest.

The conversion feature of the Debentures is remeasured in each reporting period to fair value, with changes in fair value being recorded in comprehensive income. During the period, the fair value attributed to the conversion feature decreased by $2.9 million.

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

	Debt maturities	Scheduled principal repayments on non-matured debt	Total	%	Weighted average interest rate on balance due at maturity (%)	Weighted average face rate on balance due at maturity (%)
2012	$ —	$ 354	$ 354	—	—	—
2013	—	492	492	—	—	—
2014	—	1,955	1,955	0.3	—	—
2015	19,186	3,014	22,200	3.6	2.41	4.17
2016	431,686	1,529	433,215	70	3.97	3.91
2017 and thereafter	161,000	—	161,000	26.1	7.31	5.50
Total	$ 611,872	$ 7,344	619,216	100	4.80	4.34
Fair value adjustments			(6,553)			
Transaction costs			(7,387)			
Total			$ 605,276			

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
		March 31, 2012		December 31, 2011
	Number of Units	Amount	Number of Units	Amount
Units	**43,892,678**	**$ 353,226**	43,872,316	$ 350,809
Exchangeable Notes	**8,000,000**	**80,880**	8,000,000	80,000
Total	**51,892,678**	**$ 434,106**	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 payable on the properties acquired on August 3, 2011 by way of deferred trust units under the Asset Management Agreement for the next five years. The deferred trust units granted to DRC vest 20% annually, commencing on the fifth anniversary date of being granted. On termination of the Asset Management Agreement, unvested trust units granted to DRC vest immediately.

The following table summarizes the changes in our outstanding equity:

	Units
Units issued upon formation of the Trust	800,000
Units issued to Dundee Corporation and DRC, concurrently with IPO	12,000,000
Units issued pursuant to the IPO and over-allotment	31,050,000
Units issued pursuant to the DRIP[(1)]	22,316
Total Units outstanding on December 31, 2011	43,872,316
Units issued pursuant to the DRIP[(1)]	20,362
Total Units outstanding on March 31, 2012	43,892,678
Units issuable upon exchange of Exchangeable Notes	8,000,000
Total Units outstanding (on a fully exchanged basis) on March 31, 2012	51,892,678
Exchange of Exchangeable Notes	(4,600,000)
Units issued pursuant to public offering[(2)]	9,200,000
Units issued pursuant to the DRIP[(1)]	7,623
Total units outstanding (on a fully exchanged basis) on April 30, 2012	56,500,301

(1) Distribution Reinvestment and Unit Purchase Plan.

(2) Includes secondary offering of 4.6 million Units issued upon the exchange of Exchangeable Notes.

On March 27, 2012, the Trust announced that, together with LSF REIT Holdings S.à r.l. ("LSF"), it entered into an agreement to sell up to 9.2 million Units at a price of $10.10 per Unit to a syndicate of underwriters. Pursuant to this public offering, which closed on April 17, 2012 and included an over-allotment option of 1.2 million Units, the Trust issued 4.6 million Units and LSF exchanged the equivalent of $46.0 million of Exchangeable Notes into 4.6 million Units, both of which were sold to the syndicate of underwriters.

Distributions

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

In order to ensure the predictability of distributions to our unitholders and debenture holders, we have established an active foreign exchange hedging program on a rolling 24-month period. The average exchange rate on these 24 contracts is $1.363:€1 as at March 31, 2012.

Asset management fee

On August 3, 2011, DRC elected to receive the base asset management fees payable on the properties acquired on August 3, 2011 by way of deferred trust units under the Asset Management Agreement for the next five years. 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 quarter, pursuant to the provisions of the Asset Management Agreement, $413 of asset management expense was recognized for which 56,276 deferred units were granted during the period and 29,872 deferred units were granted on April 1, 2012. At March 31, 2012, 206,866 unvested deferred and income deferred units were outstanding with respect to the Asset Management Agreement.

Distributions and Exchangeable Notes interest

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

	For the three months ended March 31, 2012		
	Declared amounts	4% bonus distributions	Total
2012 distributions and interest expense			
Paid in cash or reinvested in Units	$ 7,373	$ 6	$ 7,379
Payable at March 31, 2012	2,926	—	2,926
Total distributions and interest expense	$ 10,299	$ 6	$ 10,305
2012 reinvestment			
Reinvested to March 31, 2012	$ 139	$ 6	$ 145
Reinvested on April 15, 2012	73	3	76
Total distributions reinvested	$ 212	$ 9	$ 221
Distributions and interests paid in cash	$ 10,087		
Reinvestment to distribution ratio	2.1%		
Cash payout ratio	97.9%		

Distribution declared and interest expense on Exchangeable Notes for the quarter ended March 31, 2012 were $10,299. Of this amount, $212, or approximately 2.1%, was reinvested in additional Units pursuant to the DRIP resulting in a cash payout ratio of 97.9%.

We currently have 24 foreign currency contracts in place. 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 $0.5 million in the quarter. We also mark the contracts to market quarterly and realized a loss of $0.4 million during the period of our ownership. As we settle each contract, we enter into a new contract; consequently, we entered into contracts to sell €2.6 million in each of January, February and March of 2014. The average rate of the contracts in place as at March 31, 2012 is $1.363:€1.

We currently pay monthly distributions to unitholders of $0.06667 per Unit, or $0.80 per Unit on an annual basis. At March 31, 2012, approximately 2.5% 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 March 31, 2012
Net income	$ 6,825
Cash flow from operating activities	8,628
Distributions paid and payable (including Exchangeable Notes)	10,087
Shortfall of cash flow from operating activities over distributions paid and payable	(1,459)
Shortfall of net income over distributions paid and payable	(3,262)

Cash flow from operations was short of distributions paid and payable for the quarter by $1.5 million for the three months ended March 31, 2012. The cash flow from operating activities includes changes in non-cash working capital. Distributions paid and payable exceeded net income by $3.3 million for the three months ended March 31, 2012, mainly as a result of fair value adjustments to financial instruments and investment properties. In establishing distribution payments, we do not take fluctuations in working capital into consideration and we use a normalized amount as a proxy for leasing and building improvement costs.

OUR RESULTS OF OPERATIONS

	For the three months ended March 31, 2012	Financial forecast for the three months ended March 31, 2012
Investment properties revenue	**$ 34,074**	$ 35,945
Investment properties operating expenses	**13,337**	15,043
Net rental income	**20,737**	20,902
Other income and expenses		
Portfolio management	**(1,035)**	(1,194)
General and administrative	**(1,487)**	(943)
Fair value adjustments to investment properties	**(895)**	—
Interest expense	**(8,119)**	(8,934)
Interest and other income	**92**	—
Share of net losses from equity accounted investments	**11**	—
Transaction costs	**—**	—
Fair value adjustments to financial instruments	**(2,658)**	—
Income (loss) before income taxes	**6,646**	9,831
Income taxes		
Current income taxes	**36**	—
Deferred income taxes	**(215)**	943
Recovery of taxes	**(179)**	943
Net income	**6,825**	8,888
Foreign currency translation adjustment	**4,202**	—
Comprehensive income	**$ 11,027**	$ 8,888

Statement of comprehensive income results

Net rental income

For the three months ended March 31, 2012, net rental income was $20.7 million, $0.2 million lower than the financial forecast. The realized foreign exchange rate significantly impacted results. Excluding this effect, net rental income increased by $0.7 million, mainly reflecting improved recoveries of operating expenses and the impact of Grammophon Büropark, which was acquired during the quarter.

Portfolio management

Portfolio management expenses were lower by approximately $0.2 million compared to the forecast for the three months ended March 31, 2012, mainly due to certain expenditures that are now presented as general and administrative expenses. Excluding this change in presentation, portfolio management expenses exceeded forecast by $0.1 million reflecting the incremental cost of personnel to run our portfolio.

General and administrative

General and administrative expenses were approximately $0.5 million higher than forecast for the three months ended March 31, 2012. Excluding the $0.3 million impact of the change in presentation of certain expenditures, general and administrative expenses increased by $0.3 million, mainly reflecting the recognition of costs associated with our deferred unit plan and higher management fee expenses compared to forecast.

Fair value adjustment to investment properties

The unrealized loss on the change in the fair value of investment properties amounted to $0.9 million for the three months ended March 31, 2012 and relates to transaction costs incurred for the acquisition of Grammophon Büropark in February 2012.

Interest expense

Interest expense was $8.1 million for the quarter, a decrease of $0.8 million compared to the financial forecast. Excluding the $0.2 million impact of favourable foreign exchange rates realized during the quarter and an additional $0.3 million of Debenture interest related to the over-allotment proceeds, interest expense on our credit facility decreased by $0.9 million, reflecting lower three-month EURIBOR rates. We fix our variable rate positions using interest rate swaps; however, the cash outlays on the settlement of the swap contracts are presented as a component of fair value adjustments to financial instruments. After considering the $0.4 million related to swap settlements paid in the quarter, interest expense on the credit facility decreased by $0.6 million, reflecting lower rates realized on interest swaps. The actual weighted average interest rate realized with respect to the Facility for the three months ended March 31, 2012 was 3.91%, compared to 4.10% in our forecast. Additionally, on an effective interest rate basis, we realized a rate of 3.97% for the three months ended March 31, 2012, compared to 4.60% in the forecast, mainly reflecting the receipt of $9.5 million from the vendor for the purchase of an in-the-money swap.

Fair value adjustment to financial instruments

For the three months ended March 31, 2012, we incurred an unrealized net loss on the change in the fair value of financial instruments of $2.7 million. The net loss comprises a $4.3 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 since December 31, 2011. We also recognized a $0.9 million unrealized loss on the Exchangeable Notes as the Unit trading price increased slightly since December 31, 2011 and a $0.4 million unrealized loss related to our foreign currency forward contracts due to an appreciation of the euro compared to the Canadian dollar during the three months ended March 31, 2012. These losses were partially offset by an unrealized gain of $2.9 million related to the conversion feature of the Debentures.

Income taxes

We recognized a deferred income tax recovery of $0.2 million for the three months ended March 31, 2012, compared to a deferred tax expense of $0.9 million for the same forecast period. The difference in deferred tax provision is mainly a result of the 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 gain of $4.2 million for the three months ended March 31, 2012. The exchange rates increased from $1.3193:€1 as at December 31, 2011 to $1.3322:€1 as at March 31, 2012. The financial forecast assumed the foreign exchange rate would remain unchanged at $1.365:€1.

Net rental income

	For the three months ended March 31, 2012
Office	$ 2,114
Mixed use	15,809
Industrial	2,814
Net rental income	$ 20,737

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

Funds from operations and adjusted funds from operations

	For the three months ended March 31, 2012
NET INCOME	$ 6,825
Add (deduct):	
Amortization related to investment in joint ventures	6
Interest expense on Exchangeable Notes	1,520
Deferred income taxes	(215)
Term debt swap settlement	(402)
Gain on settlement of foreign currency contracts	475
Fair value adjustments to investment properties	895
Fair value adjustments to financial instruments	2,658
FFO	$ 11,762
Add (deduct):	
Amortization of financing costs	265
Accretion of debenture conversion feature	225
Amortization of fair value adjustment of assumed debt	(26)
Deferred unit compensation expense	152
Deferred asset management fees	413
Straight-line rent	18
	$ 12,809
Deduct:	
Normalized leasing costs and tenant incentives	(1,025)
Normalized non-recoverable recurring capital expenditures	(600)
AFFO	$ 11,184

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 March 31, 2012 is 51,882,467 and 64,565,100, respectively. Diluted FFO includes interest and amortization adjustments related to the Debentures of $2.6 million for the three months ended March 31, 2012.

To allow a better comparison with the financial forecast, the impact of the over-allotment was excluded. Excluding proceeds of $40.5 million received for Units and $21.0 million for Debentures, the weighted average number of units outstanding for basic and diluted FFO per unit calculation for the three months ended March 31, 2012 is 47,832,467 and 58,899,715, respectively. In calculating basic FFO, $0.3 million was added back to FFO for the interest paid on the over-allotment of Debentures for the three months ended March 31, 2012, and $0.2 million was deducted from FFO to exclude funds contributed from the acquisition of Grammophon Büropark and interest income earned on over-allotment funds. Diluted FFO includes interest and amortization adjustments related to the Debentures of $2.6 million for the three months ended March 31, 2012.

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 March 31, 2012	Financial forecast for the three months ended March 31, 2012
FFO	**$ 11,762**	$ 11,659
FFO per unit — basic	**$ 0.23**	$ 0.24
FFO per unit — diluted	**$ 0.22**	$ —

Excluding the impact of uninvested over-allotment proceeds:

FFO per unit — basic	**$ 0.25**	$ 0.24
FFO per unit — diluted	**$ 0.24**	$ —

Adjusted funds from operations

	For the three months ended March 31, 2012	Financial forecast for the three months ended March 31, 2012
AFFO	**$ 11,184**	$ 10,990
AFFO per unit — basic	**$ 0.22**	$ 0.23
Excluding the impact of uninvested over-allotment proceeds:		
AFFO per unit — basic	**$ 0.24**	$ 0.23

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

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

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 March 31, 2012
Cash generated from operating activities	$ 8,628
Add (deduct):	
Change in non-cash working capital	4,133
Share of general and administrative expenses from equity accounted investments	17
Deferred gain/loss on settlement of foreign exchange contracts	8
Investment in lease incentives and initial direct leasing costs	23
Normalized leasing costs and lease incentives	(1,025)
Normalized non-recoverable recurring capital expenditures	(600)
AFFO	$ 11,184

	Q1 2012	Q4 2011	Q3 2011
			(Restated)
REVENUES			
Investment properties revenue	**34,074**	31,726	22,548
Investment properties operating expenses	**13,337**	10,757	9,017
NET RENTAL INCOME	**20,737**	20,969	13,531
OTHER INCOME AND EXPENSES			
Portfolio management	**(1,035)**	(894)	(672)
Interest and other income	**92**	122	10
Interest expense	**(8,119)**	(8,591)	(5,265)
General and administrative	**(1,487)**	(2,253)	(861)
Fair value adjustments to investment properties	**(895)**	(31,704)	8,557
Fair value adjustments to financial instruments	**(2,658)**	(8,557)	(6,010)
Acquisition related gain, net	**—**	(467)	(7,386)
Share of net losses from equity accounted investments	**11**	32	(25)
Income before taxes	**6,646**	(31,343)	1,879
Current income taxes	**36**	—	—
Deferred income taxes	**(215)**	(5,367)	(896)
NET INCOME	**6,825**	(25,976)	2,775
Add (deduct):			
Amortization	**6**	7	6
Interest on Exchangeable Notes	**1,520**	1,609	1,032
Acquisition related gain, net	**—**	467	7,386
Deferred income taxes	**(215)**	(5,367)	(896)
Term debt swap settlement	**(402)**	(317)	(256)
Deferred gain/loss on settlement of Forex contracts	**475**	(84)	
Fair value adjustments to investment properties	**895**	31,704	(8,557)
Fair value adjustments to financial instruments	**2,658**	8,557	6,010
FFO	**11,762**	10,600	7,500
FFO per unit — basic	**0.23**	0.20	0.15
FFO per unit — diluted	**0.22**	0.20	0.15
Funds from operations	**11,762**	10,600	7,500
Add (deduct):			
Amortization of financing costs	**265**	265	159
Accretion of debenture conversion feature	**225**	223	143
Amortization of FV adjustment of debt	**(26)**	—	—
Deferred compensation expense	**152**	88	—
Deferred asset management expense	**413**	831	10
Straight-line rent	**18**	(142)	(45)
	12,809	11,865	7,767
Deduct:			
Normalized initial direct leasing costs and tenant incentives	**(1,025)**	(1,025)	(657)
Normalized non-recoverable recurring capital expenditures	**(600)**	(600)	(385)
AFFO	**11,184**	10,240	6,725
AFFO per unit — basic	**0.22**	0.20	0.13
AFFO per unit — diluted	**0.21**	0.20	0.13
Weighted average number of units:			
Basic	**51,882,467**	51,862,716	50,066,374
Diluted	**64,565,100**	64,396,562	61,739,125

SECTION III — DISCLOSURE CONTROLS AND PROCEDURES

Internal controls over financial reporting

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining Disclosure Controls and Procedures and Internal Controls over Financial Reporting, as those terms are defined in National Instrument 52-109 — "Certification of Disclosure in Issuers' Annual and Interim Filings", for the Trust. In accordance with section 3.3(1)(c) of National Instrument 51-109, our Chief Executive Officer and Chief Financial Officer have limited the scope of our design of Disclosure Controls and Procedures and Internal Controls over Financial Reporting to exclude controls, policies and procedures related to the portfolio of properties we acquired on August 3, 2011 and properties we acquired since that date, as they form the business that we acquired less than 365 days before the last day of the interim period ended March 31, 2012. The results of the acquired business, which forms our entire business, are included in our consolidated financial statements for the period ended March 31, 2012. We intend to complete our design of Disclosure Controls and Procedures and Internal Controls over Financial Reporting by the end of our third quarter in 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 and our Annual Information Form dated March 30, 2012, filed on SEDAR (www.sedar.com).

SECTION V — CRITICAL ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

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

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