# 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

- Included in the S&P/TSX Composite Index and S&P/TSX Capped REIT Index on June 21, 2013
- Acquired two office properties in Q2 2013 in Berlin and Munich – the two largest office markets in Germany – for approximately $141.3 million, increasing year-to-date total acquisitions to $863 million
- Diversified tenant profile with the REIT's largest tenant, Deutsche Post, contributing 41% to the overall gross rental income ("GRI") at the end of Q2 2013, down from 65% at the end of 2012
- Closed an equity offering for total gross proceeds of $140.7 million in Q2 2013
- Locked in terms for $88.6 million of mortgage financings to fund acquisitions in Q2 2013 at an average face rate of 2.56% and an average term to maturity of 6.1 years

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013**[1] | 2012[1] | **2013**[1] | 2012[1] |
| **Operations** | | | | |
| Occupancy rate (period-end) | **86%**[2] | 88% | | |
| In-place rent per square foot | **$ 11.13** | $ 7.56 | | |
| **Operating results** | | | | |
| Investment properties revenue | **$ 54,413** | $ 34,896 | **$ 100,777** | $ 68,970 |
| Net rental income | **36,191** | 20,904 | **63,502** | 41,641 |
| Funds from operations ("FFO")[3] | **21,393** | 11,767 | **37,186** | 23,529 |
| Adjusted funds from operations ("AFFO")[4] | **19,607** | 11,231 | **34,377** | 22,415 |
| **Distributions** | | | | |
| Declared distributions and interest on Exchangeable Notes[5] | **$ 20,092** | $ 11,255 | **$ 36,168** | $ 21,552 |
| Distributions paid and payable in cash (including interest on Exchangeable Notes)[5] | **17,708** | 10,843 | **32,142** | 21,001 |
| **Financing** | | | | |
| Weighted average interest rate (period-end) | **3.35%** | 4.21% | **3.35%** | 4.21% |
| Interest coverage ratio | **3.37 times** | 3.05 times | **3.40 times** | 2.91 times |
| **Per unit amounts** | | | | |
| **Basic:**[6] | | | | |
| FFO[3] | **$ 0.22** | $ 0.21 | **$ 0.42** | $ 0.44 |
| AFFO[4] | **0.20** | 0.20 | **0.39** | 0.42 |
| Distribution rate | **0.20** | 0.20 | **0.40** | 0.40 |
| **Basic (excluding impact of undeployed cash):** | | | | |
| FFO[3] | **0.24** | 0.24 | **0.48** | 0.50 |
| AFFO[4] | **0.22** | 0.23 | **0.45** | 0.48 |
| Weighted average number of units outstanding | **99,037,061** | 55,697,600 | **89,206,701** | 53,790,034 |

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 six-month periods ended June 30, 2013 were converted at $1.337:€1 and $1.335:€1, respectively; for 2012, the three-month and six-month periods ended June 30, 2012 were converted at $1.296:€1 and $1.304:€1, respectively.

(2) Including the space in the Initial Properties for which the Trust receives a head lease payment, occupancy increases to 90%.

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

(4) AFFO – The reconciliation of AFFO to FFO and net income can be found on page 24. The reconciliation to operating cash flows can be found on page 25.

(5) Exchangeable Notes were fully exchanged in April and September 2012.

(6) 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", the "REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements of the Trust for the year ended December 31, 2012 and the unaudited interim condensed financial statements of the Trust for the period ended June 30, 2013.

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

This management's discussion and analysis has been dated as at August 7, 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 income;
- "Initial Properties", meaning the income-producing properties we acquired on August 3, 2011;
- "nm", meaning that certain data is not meaningful; and
- "Units", meaning the Units of the Trust.

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

When we use the terms such as "we", "us" and "our", we are referring to the REIT and its subsidiaries and the Dundee fonds commun de placement ("FCPs").

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 our largest tenants that has been obtained from publicly available information. We have not independently verified any such information.

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

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

All forward-looking information is as of August 7, 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 June 30, 2013, our portfolio consisted of 299 properties, comprising approximately 15.4 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 6.667 cents per unit, or 80 cents per unit on an annual basis. At June 30, 2013, approximately 9.5% of our total Units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP").

| | 2012 | | | | | | 2013 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| Distribution rate ($) | 0.0667 | 0.0667 | 0.0667 | 0.0667 | 0.0667 | 0.0667 | 0.0667 | 0.0667 | 0.0667 | 0.0667 | 0.0667 | 0.0667 |
| Month-end closing price ($) | 10.73 | 10.59 | 11.00 | 11.15 | 10.29 | 10.93 | 11.39 | 10.85 | 10.64 | 11.00 | 10.25 | 9.94 |

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

### Diversifying our portfolio to mitigate risk

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

### Investing in stable income-producing properties outside of Canada

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

### Maintaining and strengthening a conservative financial profile

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

## OUR ASSETS

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

### Initial Properties

As at June 30, 2013, this category included 277 national and regional administration offices, mixed use retail, banking and distribution properties and regional logistics headquarters of Deutsche Post. The properties are generally strategically located near central train stations and main retail areas and are easily accessible by public transport.

### Acquisitions 2012 and 2013

As at June 30, 2013, this category included 22 office properties acquired in 2012 and the first six months of 2013. These properties are high-quality office buildings located in Germany’s largest office markets and are generally newer or recently refurbished buildings.

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

| City | Total GLA (sq. ft.) | Total GLA (%) | Total GRI (%) |
|---|---|---|---|
| Berlin | 676,323 | 4 | 5 |
| Cologne | 783,967 | 5 | 6 |
| Düsseldorf | 1,568,963 | 10 | 11 |
| Frankfurt | 1,206,271 | 8 | 11 |
| Hamburg | 1,291,849 | 8 | 13 |
| Hannover | 959,386 | 6 | 4 |
| Munich | 674,446 | 4 | 8 |
| Nuremberg | 638,957 | 4 | 6 |
| Stuttgart | 559,077 | 4 | 4 |
| Other | 7,044,855 | 46 | 31 |
| **Total** | 15,404,094 | 100 | 100 |

## TENANTS

Through an active acquisitions and dispositions program during the first six months of 2013, the Trust continued with the diversification of its tenant base that commenced in 2012. The table below highlights the diversification away from the single-tenant nature of the initial portfolio. At the end of Q2 2013, Deutsche Post's GRI was further reduced to approximately 41% of the Trust's overall GRI compared to over 65% at the end of 2012.

| Tenant | **June 30, 2013 GRI (%)** | December 31, 2012 GRI (%) |
|---|---|---|
| Deutsche Post | **40.6** | 65.4 |
| ERGO Direkt | **3.3** | 5.1 |
| Imtech | **2.6** | - |
| AIG Europe Limited | **2.2** | - |
| Google Germany GmbH | **2.1** | - |
| BNP Paribas Fortis SA/NV | **2.1** | - |
| State of Bavaria/Technische Universitat München | **1.7** | - |
| Maersk Deutschland A/S & Co. KG | **1.7** | 2.1 |
| Jobcenter Berlin Mitte – Federal Employment Agency | **1.5** | - |
| Deutsche Telekom | **1.3** | 2.1 |
| Other third-party tenants | **40.9** | 25.3 |
| **Total** | **100.0** | 100.0 |

### Deutsche Post

Deutsche Post is an integral part of the German economy and continues to be an important part of day-to-day life in Germany. Through its acquisition of DHL in 2002, Deutsche Post DHL has become a global logistics market leader. It employs approximately 475,000 people in more than 220 countries and territories and generated revenue of more than 55 billion euros in 2012.[1] As the only provider of universal postal services in Germany, Deutsche Post must provide certain minimum levels of service to German residents.

Some of the space leased to Deutsche Post is occupied by Deutsche Postbank ("Postbank"), a public company controlled by Deutsche Bank and integral to its retail banking business. Postbank offers retail financial services in its branches within Deutsche Post's network, which generates increased traffic through the postal services offered in those branches. Our portfolio features approximately 192 Postbank branches, allowing for the delivery of integrated financial and postal services. Leases for 15 Postbank branches are direct leases and not included in the leases with Deutsche Post. Postbank branches are typically located at ground level with a view to attracting a high volume of retail and business customers seeking financial or postal services.

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

### ERGO Direkt Lebensversicherungs AG (“ERGO”)

ERGO is the second-largest tenant in our portfolio as measured by GRI. With approximately 48,000 employees in over 30 countries, ERGO is one of the largest insurance companies in Germany.[2] ERGO, which belongs to the Munich RE group of companies, occupies the entire space in our property located at Karl-Martell-Strasse 60 in Nuremberg, and generated approximately 3.3% of the REIT’s overall GRI as at June 30, 2013.

### Imtech

Imtech Germany & Eastern Europe is a leader in the energy and technical building equipment sector in Germany, Poland, Austria, Hungary, Romania, Russia and Switzerland. Imtech Germany & Eastern Europe employs approximately 5,800 people and is part of the Royal Imtech N.V. Group, which is based in the Netherlands and employs approximately 29,000 people.[3] This tenant occupies the entire space in our property located at Hammer Strasse 30–34 in Hamburg, which is Imtech’s German head office, and contributed approximately 2.6% to the REIT’s overall GRI as at June 30, 2013.

### AIG Europe Limited (“AIG”)

AIG Europe Limited is a part of AIG, a leading international insurance company focused on property casualty insurance, life insurance and retirement services, mortgage insurance and aircraft leasing. AIG has clients in over 130 countries and employs approximately 63,000 people.[4] AIG occupies approximately 60% of the space in Werfthaus, our property located at Speicherstrasse 55 in Frankfurt and currently generates approximately 2.2% of the REIT’s overall GRI as at June 30, 2013.

### Google Germany GmbH (“Google”)

Google is an American multinational corporation specializing in internet-related services and products and employs over 30,000 people worldwide.[6] Google Hamburg is the company’s commercial headquarters for Germany, Austria, Switzerland and the Nordics and occupies approximately 56% of the GLA in ABC Bogen, our property located in the heart of Hamburg at ABC Strasse 19. Google currently generates approximately 2.1% of the REIT’s overall GRI as at June 30, 2013.

### BNP Paribas Fortis

BNP Paribas Fortis is a financial services provider, offering services to private and professional clients, corporate clients and public entities through a number of networks. The company is owned approximately 75% by the BNP Paribas Group and 25% by the Belgian State and employs approximately 34,000 people.[5] BNP Paribas Fortis occupies approximately 56% of the space in Cäcilienkloster in Cologne as well as 8% in Z-UP in Stuttgart, and currently generates approximately 2.1% of the REIT’s overall GRI as at June 30, 2013.

### State of Bavaria/Technische Universität München

The Technische Universität München (“TUM”) is one of Europe’s top universities. TUM comprises 13 faculties which focus on engineering, medicine, natural and life sciences, business and education. Approximately 31,000 students are currently enrolled at TUM.[7] TUM’s School of Education occupies approximately 48% of the GLA in our property located at Marsstrasse 20–22 in the city centre of Munich. TUM currently generates approximately 1.7% of the REIT’s overall GRI as at June 30, 2013.

### Maersk Deutschland A/S & Co. KG (“Maersk”)

Maersk is the world’s largest ocean carrier and operates mainly in two industries: shipping and oil and gas. Through its various divisions, the group employs approximately 117,000 people and generated over US$60 billion in revenues in 2011.[8] Maersk occupies approximately 70% of the GLA in Humboldt House, our property located at Am Sandtorkai 37 in Hamburg. Maersk generates approximately 1.7% of the REIT’s overall GRI as at June 30, 2013.

(2) As disclosed at ERGO’s web site at www.ergo.com
(3) As disclosed at Imtech’s web site at www.imtech.de
(4) As disclosed at AIG’s web site at www.aig.com
(5) As disclosed at BNP Paribas’ web site at www.bnpparibas.com
(6) As disclosed at Google’s web site at www.google.com and www.google.ca/about/jobs/locations/hamburg
(7) As disclosed at Technische Universität München’s web site at www.tum.de/en/homepage/
(8) As disclosed at Maersk’s web site at www.maersk.com

### Jobcenter Berlin Mitte – Federal Employment Agency

Jobcenter Berlin Mitte is part of the Federal Employment Agency (Bundesagentur für Arbeit – BA), the largest provider of labour market services in Germany. It has a network of more than 700 agencies and branch offices nationwide.[9] Jobcenter Berlin Mitte occupies approximately 52% of the GLA in Löwenkontor, our property located at Beuthstrasse 6–8 and Seydelstrasse 2–5 in Berlin. Jobcenter Berlin Mitte currently generates approximately 1.5% of the REIT's overall GRI as at June 30, 2013.

### Deutsche Telekom

Deutsche Telekom is one of the world's leading telecommunications and information technology services companies. In 2012, Deutsche Telekom Group generated revenue of approximately €58 billion, and had approximately 230,000 employees worldwide as at December 2012.[10] Deutsche Telekom currently generates approximately 1.3% of the REIT's overall GRI as at June 30, 2013.

(9) As disclosed at Jobcenter Berlin Mitte's web site at www.arbeitsagentur.de
(10) As disclosed at Deutsche Telekom's web site at 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 continues to be the main driving force of Europe's economy. Germany's labour market is very robust and at 6.8% at the end of June 2013, unemployment remains near all-time lows since Germany's reunification in 1989. In addition, consumer confidence was reported to have risen to its highest level in almost six years at the end of June 2013[1] and the Ifo Business Climate Index, an indicator of satisfaction with the current business situation, rose for the third consecutive month in July.[2]

### Economic impact on the German real estate sector

The commercial real estate market in Germany has been performing well. The stability in the office market is supported by a relatively moderate degree of new space coming to market and take-up for the redevelopment of vacant office space for alternative use. With limited new supply, overall office vacancies in the five largest markets remain stable at 9.8% at June 30, 2013, compared to 10.0% a year earlier.[3]

Overall commercial real estate investments in Germany increased by 34% during the first six months of 2013 compared to the same period in 2012, with a transaction volume of approximately €12.6 billion. The office sector remains the dominant asset class for investments with over 44% of all transactions taking place in this category. The five largest real estate markets in Germany continue to account for the majority of the overall investment volume, with more than half of all the transactions taking place in Berlin, Düsseldorf, Frankfurt, Hamburg and Munich.[4]

(1) Gesellschaft für Konsumforschung ("GfK"), Germany's largest market research institute
(2) Ifo Business Survey for July 2013
(3) CBRE Office Market Overview Q2 2013
(4) CBRE MarketView, Germany Investment Quarterly Q2 2013

## OUTLOOK

Q2 was an active quarter for Dundee International REIT. We completed the acquisitions of two office properties in Berlin and Munich, Germany's top two office markets, adding $141.3 million in assets to our portfolio, and selectively disposed of three small non-core assets. Through these transactions, we have made good progress in executing our plan of improving the quality of our asset base and cash flow and further diversified our tenant base. To date in 2013, we have been one of the most active buyers of real estate in Germany and have further raised our profile in the German real estate community.

We continue to be active on the financing front as well. On June 6, 2013, we finalized a public offering of 11,700,000 Units, followed by the exercise of the over-allotment option on June 24, 2013 of an additional 1,445,000 Units, raising overall gross proceeds of approximately $140.7 million. In addition, to finance the properties acquired in the quarter, the Trust obtained two new mortgage financings for approximately $88.6 million at an average face rate of 2.56% and an average term to maturity of 6.1 years. One of the mortgages for $36.6 million was drawn down on April 30, 2013, while the second mortgage for $52.0 million will be drawn down on August 27, 2013. The spreads between cap rates for acquisitions in our pipeline and mortgage interest rates remain attractive.

On June 21, Dundee International REIT was included in the S&P/TSX Composite Index, which contains the largest TSX-traded Canadian public companies. At the same time, the REIT was also added to the S&P/TSX Capped REIT Index. This was a significant milestone for the REIT, as it increased our exposure in the capital markets and added to the appeal of our REIT to a wider range of investors.

Deutsche Post has the right to terminate leases in respect of 59 properties in 2014. According to their lease contracts, Deutsche Post was required to provide termination notices to the Trust no later than June 30, 2013. On June 24, 2013, it exercised its rights with respect of five of the 59 properties, comprising an aggregate gross leasable area of 613,000 square feet and contributing approximately 3.1% to the REIT's current GRI. In addition, the Trust and Deutsche Post came to an agreement to extend the deadline for providing notice of further terminations to August 31, 2013, in order to explore mutually beneficial alternatives. Our team in Germany will focus its efforts to re-lease the space in these five terminated properties, and will also pursue disposition and redevelopment opportunities.

The first six months of 2013 have been the most active since our IPO in 2011. We have made significant progress in reshaping our asset base and reached a number of significant milestones, including the inclusion in the S&P/TSX Index and surpassing a market capitalization of $1 billion. Germany's economy remains vibrant, with unemployment rates remaining near historic lows and rising business confidence. With an active acquisition pipeline we see further opportunities to grow, diversify and improve our business in this market.

## SECTION II – EXECUTING THE STRATEGY

### OUR OPERATIONS

#### Occupancy

Overall occupancy rates increased from 83.2% at the end of 2012 to 85.7% at the end of June 2013. Properties that we acquired in 2012 and 2013 now make up a significantly larger portion of our overall portfolio. On average, these properties have significantly higher occupancy rates compared to our Initial Properties. In addition, occupancy rates in our Initial Properties also increased, 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) | **June 30, 2013**[(1)] | December 31, 2012[(1)] | **June 30, 2013**[(1)] | December 31, 2012[(1)] |
| Initial Properties | **82.9** | 82.1 | **82.9** | 82.3 |
| Acquisitions 2012 and 2013 | **95.3** | 94.5 | **95.8** | 94.5 |
| **Total** | **85.7** | 83.2 | **84.0** | 83.4 |

(1) Includes in-place occupancy; space for which the Trust receives a head lease is reflected as vacant space.

The improvement in the Q2 2013 occupancy rate in our Initial Properties results from positive absorption as well as the sale of properties with low occupancy. Some of the properties had low occupancy due to lease terminations pursuant to Deutsche Post's 2012 lease termination rights. As part of these termination rights, 17 leases were terminated effective July 1, 2012, for which the Trust receives payments pursuant to a head lease for the terminated space in these properties until June 2014 and effectively receives rent for 90% of the space in the portfolio as at June 30, 2013.

#### Vacancy schedule

The tables below highlight our leasing activity for the three-month and six-month periods ended on June 30, 2013. During the second quarter of 2013, our overall space available for lease decreased by 99,872 square feet to 2,198,703 square feet due to our active leasing program resulting in positive absorption. For the three months ended on June 30, 2013, a total of 97,242 square feet of expiries, early terminations and bankruptcies were offset by 75,373 square feet of renewals and 36,689 square feet of new leases. In addition, another 98,003 square feet were committed for future leases, leaving approximately 2,198,703 square feet available for lease.

| | | **For the three months ended June 30, 2013** | |
|---|---|---|---|
| (in square feet) | Initial Properties | Acquisitions 2012 and 2013 | Total |
| **Available for lease – April 1, 2013** | 2,112,400 | 186,175 | 2,298,575 |
| Acquisitions | - | 25,742 | 25,742 |
| Dispositions | (10,025) | - | (10,025) |
| Remeasurements | (1,475) | (1,291) | (2,766) |
| Subtotal – Available for lease | 2,100,900 | 210,626 | 2,311,526 |
| Expiries | 78,102 | 11,722 | 89,824 |
| Early termination and bankruptcies | 1,964 | 5,454 | 7,418 |
| New leases | (9,648) | (27,041) | (36,689) |
| Renewals | (63,651) | (11,722) | (75,373) |
| Future leases | (72,109) | (25,894) | (98,003) |
| **Available for lease – June 30, 2013** | **2,035,558** | **163,145** | **2,198,703** |

| | | For the six months ended June 30, 2013 | |
|---|---|---|---|
| (in square feet) | Initial Properties | Acquisitions 2012 and 2013 | Total |
| **Available for lease – January 1, 2013** | 2,182,694 | 62,830 | 2,245,524 |
| Acquisitions | - | 148,771 | 148,771 |
| Dispositions | (75,731) | - | (75,731) |
| Remeasurements | 9,984 | (10,247) | (263) |
| Subtotal – Available for lease | 2,116,947 | 201,354 | 2,318,301 |
| Expiries | 157,152 | 46,643 | 203,795 |
| Early termination and bankruptcies | 2,520 | 5,454 | 7,974 |
| New leases | (49,386) | (28,501) | (77,887) |
| Renewals | (87,938) | (29,420) | (117,358) |
| Future leases | (103,737) | (32,385) | (136,122) |
| **Available for lease – June 30, 2013** | **2,035,558** | **163,145** | **2,198,703** |

## In-place rental rates

The following table provides a comparison between in-place rents and market rents in our portfolio as at June 30, 2013. Market rents are management's estimates of rental rates that could be achieved for space in our properties. In-place rents have increased from approximately $8.20 per square foot/year at the end of 2012 to approximately $11.13 at June 30, 2013, largely due to acquisitions completed during the six months ended June 30, 2013. The majority of the leases in the properties acquired in 2012 and 2013 include rent adjustment clauses linked to an increase in the consumer price index ("CPI"). Overall, average market rents for our portfolio remain approximately 3.5% above in-place rents at June 30, 2013.

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

| In-place vs. market rents (per square foot/year) | | | | **June 30, 2013** |
|---|---|---|---|---|
| | In-place rent | Market rent | In-place rent | Market rent |
| Initial Properties – Deutsche Post | $ 7.62 | $ 8.37 | € 5.57 | € 6.12 |
| Initial Properties – third party | 7.44 | 8.59 | 5.44 | 6.28 |
| Total Initial Properties | 7.59 | 8.41 | 5.55 | 6.15 |
| Acquisitions 2012 and 2013 | 21.68 | 20.79 | 15.85 | 15.20 |
| **Overall** | $ 11.13 | $ 11.52 | € 8.14 | € 8.42 |

At June 30, 2013, the weighted average remaining term of all leases was approximately 5.1 years. The average remaining lease term ("WALT") of 6.1 years for acquisitions completed in 2012 and 2013 is higher than the WALT for the Initial Properties.

| Average remaining lease term (years) | **June 30, 2013** | December 31, 2012 |
|---|---|---|
| Initial Properties – Deutsche Post | **4.8**[(1)] | 5.6 |
| Initial Properties – third party | **4.5** | 4.3 |
| Total Initial Properties | **4.7** | 5.3 |
| Acquisitions 2012 and 2013 | **6.1** | 7.4 |
| **Overall** | **5.1** | 5.5 |

(1) WALT at June 30, 2013 reflects a shortened lease term for five properties for which the Trust received termination notices on June 24, 2013.

## Leasing and tenant profile

### Lease rollover profile

The following table outlines our lease maturity profile by asset type as at June 30, 2013. During the remainder of 2013, 167,290 square feet of our leases expire, accounting for approximately 1.1% of the overall space.

| (in square feet) | Current vacancy | Month-to-month | 2013 | 2014 | 2015 | 2016 | 2017 to 2027 | Total |
|---|---|---|---|---|---|---|---|---|
| Initial Properties | 2,035,558 | 335,375 | 103,192 | 730,748 | 238,275 | 115,933 | 8,360,038 | 11,919,119 |
| Acquisitions | | | | | | | | |
| 2012 and 2013 | 163,145 | 67,758 | 64,098 | 196,741 | 330,672 | 347,514 | 2,315,047 | 3,484,975 |
| **Total** | 2,198,703 | 403,133 | 167,290 | 927,489 | 568,947 | 463,447 | 10,675,085 | 15,404,094 |

### 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 52% of the portfolio's GLA and account for approximately 41% of the portfolio's GRI.

*Rent adjustment*

The rents under the Deutsche Post leases are subject to automatic adjustments (up or down) in relation to the CPI for Germany. If the consumer price index for Germany changes by more than 4.7 index points as compared to the index at the commencement of the applicable lease or the previous rent adjustment, the rent payable under the Deutsche Post leases is automatically adjusted by 100% of the index change of 4.7 points, with effect as of the time of the index change. The hurdle rate for an upward adjustment was last reached in December 2011. At that time, the German CPI reached 102.9 index points. The most recent CPI numbers indicate that CPI has increased to 105.6 index points.

*Termination rights and head lease*

In general, the Deutsche Post leases have a fixed term of ten years, expiring on June 30, 2018. Certain leases entitle Deutsche Post to terminate space in June 2012, 2014 and 2016, subject to certain limitations and requirements. 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 that the vendor acquired from Deutsche Post in July 2008 (the "Caroline DP Leases"), considered as a whole.

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.

Deutsche Post has given notice to terminate five properties as part of their 2014 termination rights, which represents 3.1% of the REIT's current GRI. In addition, they have the right to terminate up to a further 54 leases in 2014 and up to an additional 41 leases in 2016 (95 leases in total), subject to certain limitations. Although we think it is unlikely that Deutsche Post will terminate all 95 leases, being approximately 2.1 million square feet or 13% of the current GLA, if it were to do so and not take back any of the terminated space, our current GRI would be reduced by a further 10%.

2012 Termination rights

With respect to its 2012 termination rights, Deutsche Post terminated 17 leases, comprising approximately 6.3% of our current GRI and 1.1 million square feet (approximately 7.0% of our current GLA) and gave notice on June 30, 2012 to terminate one additional lease subject to its 2012 termination rights, which became effective as at July 1, 2013, and for which we receive an additional payment under the head lease. Subsequent to the terminations, the Trust has been successful in releasing and selling over one third of the space to date. With respect to its 2012 termination rights, Deutsche Post has exercised all of its available early termination rights.

In light of the 2012 terminations, the vendor of the Initial 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, which became effective as at July 1, 2013, also 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 which 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.

2014 Termination rights

With respect to its 2014 termination rights, Deutsche Post has the right to terminate leases in respect of 59 properties in Dundee International REIT's portfolio, effective July 1, 2014. Deutsche Post has exercised such right in respect of five properties, comprising an aggregate gross leasable area of 613,000 square feet and contributing approximately 3.1% to the REIT's current GRI. The REIT has agreed with Deutsche Post to extend the deadline for providing notice of termination in respect of the remaining 54 properties to August 31, 2013 in order to explore mutually beneficial alternatives with Deutsche Post. If Deutsche Post exercises its right to terminate all 54 properties, our current GRI would be reduced by an additional 6.3%. Deutsche Post will continue to pay rent until June 30, 2014 for any terminated space pertaining to its 2014 termination rights. The GLA of the terminated space will be reflected as occupied until that date.

## OUR RESOURCES AND FINANCIAL CONDITION

### Investment properties

The fair value of our investment property portfolio at June 30, 2013 was $2.1 billion. Since December 31, 2012, the value of our investment properties increased by $919.1 million. The largest item contributing to the increase in the value is the acquisition of 16 properties for $863.5 million, excluding transaction costs. During the six months ending June 30, 2013, we also invested $3.5 million in building improvements and lease incentive costs. During the same period, we disposed of ten properties which had a fair value of $13.6 million and entered into an agreement to dispose of an additional property, all considered to be non-core holdings. For the six months ended June 30, 2013, in accordance with IFRS accounting rules, we reduced the value of acquired properties by $53.3 million, representing the capitalized transaction costs, and a further $0.9 million in capitalized leasing costs. Additionally, a loss of $0.7 million was recognized for properties sold or under contract for sale during the period. These losses were offset by a foreign exchange gain of $68.3 million due to appreciation of the euro against the Canadian dollar from December 31, 2012.

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. We have derived implied capitalization rates based on the fair values determined under the capitalization method and the annualized net rental income as at June 30, 2013 and December 31, 2012.

The table below highlights the change in fair value in our portfolio.

| | **June 30, 2013** | December 31, 2012 | Change |
|---|---|---|---|
| Initial Properties | **$ 946,700** | $ 906,721 | $ 39,979 |
| 2012 Acquisitions | **273,938** | 262,943 | 10,995 |
| **Comparative properties[1]** | **1,220,638** | 1,169,664 | 50,974 |
| 2013 Acquisitions | **881,226** | - | 881,226 |
| Dispositions | **-** | 13,093 | (13,093) |
| **Total portfolio** | **$ 2,101,864** | $ 1,182,757 | $ 919,107 |

(1) Comparative properties are properties owned by the Trust at June 30, 2013 and December 31, 2012.

## Acquisitions

On April 30, 2013, we completed the acquisition of Löwenkontor, a property located at Beuthstrasse 6–8 and Seydelstrasse 2 in Berlin, for $55.0 million (excluding transaction costs). The property comprises approximately 258,000 square feet of GLA and had an occupancy rate of 95% and a weighted average remaining lease term of 9.1 years at the time of acquisition.

On June 28, 2013, we completed the acquisition of a property located at Marsstrasse 20–22 in Munich for $86.3 million (excluding transaction costs). The property comprises approximately 238,700 square feet of GLA and had an occupancy rate of 95% and a weighted average remaining lease term of 7.1 years at the time of acquisition.

During the first six months of 2013, we completed the following acquisitions:

| Office property | Acquired GLA (sq. ft.) | Occupancy at acquisition (%) | Purchase price[1] | Date acquired |
|---|---|---|---|---|
| Hammer Strasse 30–34, Hamburg | 172,300 | 100 | $ 56,328 | January 31, 2013 |
| Neue Mainzer Strasse 28 (K26), Frankfurt | 123,300 | 90 | 82,351 | February 15, 2013 |
| Dillwächterstrasse 5 and Tübinger Strasse 11, Munich | 81,900 | 99 | 24,579 | March 2, 2013 |
| Schlossstrasse 8a–8g, Hamburg | 165,200 | 85 | 42,885 | March 12, 2013 |
| ABC-Strasse 19 (ABC Bogen), Hamburg | 158,400 | 96 | 93,585 | March 12, 2013 |
| Moskauer Strasse 25, 27, Düsseldorf | 217,200 | 95 | 62,350 | March 12, 2013 |
| Cäcilienkloster 2, 6, 8, 10, Cologne | 200,900 | 100 | 95,820 | March 12, 2013 |
| Vordernbergstrasse 6 / Heilbronner Strasse 35 (Z-UP), Stuttgart | 88,600 | 84 | 38,354 | March 13, 2013 |
| Bertoldstrasse 48, 50 / Sedanstrasse 7, Freiburg | 121,100 | 100 | 40,251 | March 13, 2013 |
| Lörracher Strasse 16–16a, Freiburg | 56,000 | 100 | 10,699 | March 13, 2013 |
| Westendstrasse 160, 162 / Barthstrasse 24, 26, Munich | 122,200 | 82 | 30,619 | March 13, 2013 |
| Am Stadtpark 2 / Bayreuther Str. 33 (Parcside), Nuremberg | 94,600 | 99 | 33,308 | March 13, 2013 |
| Speicherstrasse 55 (Werfthaus), Frankfurt | 151,800 | 100 | 81,113 | March 14, 2013 |
| Reichskanzler-Müller-Strasse 21, 23, 25, Mannheim | 100,500 | 95 | 29,984 | March 14, 2013 |
| Löwenkontor, Berlin | 258,000 | 95 | 54,960 | April 30, 2013 |
| Marsstrasse 20–23, Munich | 238,700 | 95 | 86,296 | June 28, 2013 |
| **Total** | 2,350,700 | 95 | $ 863,482 | |

(1) Excludes transaction costs.

## Dispositions

Dundee International REIT completed the sale of three small properties during the three months ended June 30, 2013, for an aggregate sales price of approximately $6.6 million. These properties are located at Berliner-Tor-Platz 1 in Wesel, Lotzbeckstrasse 4 in Lahr and Gartenstrasse 16 in Sindelfingen. Part of the net proceeds totalling $3.6 million were used to reduce our term loan credit facility. During the first six months of 2013, we completed the sale of 10 small properties for an aggregate sales price of $13.6 million.

## Building improvements

Building improvements represent investments made in our rental properties to ensure our buildings are operating at an optimal level. During the three and six months ended June 30, 2013, we spent $0.5 million and $1.0 million, respectively, in building improvements. In general, building improvements are non-recoverable from the tenants unless specifically provided for in the lease agreement.

## Initial direct leasing costs and lease incentives

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

During the three and six months ended June 30, 2013, we incurred $0.8 million and $1.2 million, respectively, of lease incentives and $0.4 million and $1.3 million, respectively, of initial direct leasing costs. As at June 30, 2013, we had outstanding leasing cost commitments of $6.2 million.

## Commitments and contingencies

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

As at June 30, 2013, the REIT's future minimum commitments under operating leases are as follows:

| | | Operating lease payments |
|---|---|---|
| Less than 1 year | $ | 619 |
| 1–5 years | | 1,922 |
| Longer than 5 years | | 155 |
| **Total** | $ | 2,696 |

During the three-month and six-month periods ending June 30, 2013, the Trust paid $0.1 million and $0.3 million in minimum lease payments, respectively, 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 which started 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 June 30, 2013, we had $124.0 million of cash on hand. After reserving for current payables and operating requirements, and after drawing down the mortgage on our property located at Marsstrasse 20–23 before the end of August, approximately $139.0 million is available for general purposes. Our debt-to-book value at June 30, 2013 is 54%. Excluding our convertible debentures, our debt-to-book value is 47%.

## Financing activities

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

### Equity issues

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

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

## New debt

During the six months ended June 30, 2013, we obtained the following new mortgages:

| Property | | Mortgage ($000s) | | Mortgage (€000s) | Face rate | Date of funding | Date of maturity |
|---|---|---|---|---|---|---|---|
| Hammer Strasse 30–34, Hamburg | $ | 33,797 | € | 24,900 | 2.41% | January 31, 2013 | January 31, 2018 |
| Neue Mainzer Strasse 28 (K26), Frankfurt | | 50,725 | | 37,700 | 2.92% | February 15, 2013 | December 31, 2022 |
| Dillwächterstrasse 5 & Tübinger Strasse 11, Munich | | 14,693 | | 11,000 | 2.68% | March 2, 2013 | February 29, 2020 |
| Schlossstrasse 8 and ABC Bogen | | 80,373 | | 60,200 | 2.32% | March 12, 2013 | March 12, 2018 |
| Moskauer Strasse 25, 27 and Cäcilienkloster 2, 6, 8, 10 | | 98,597 | | 73,850 | 2.08% | March 12, 2013 | March 7, 2018 |
| Werfthaus and Reichskanzler-Müller-Strasse 21, 23, 25 | | 68,455 | | 51,400 | 3.32% | March 14, 2013 | March 14, 2023 |
| Z-UP, Bertoldstrasse 48, 50, Lörracher Strasse 16, Westendstrasse 160, 162, and Parcside | | 95,109 | | 71,500 | 2.63% | March 13, 2013 | March 31, 2021 |
| Löwenkontor, Berlin | | 36,611 | | 27,600 | 2.37% | April 30, 2013 | March 29, 2018 |
| **Total** | $ | 478,360 | € | 358,150 | | | |

On April 30, 2013, the Trust obtained a mortgage with a principal balance of €27.6 million ($36.6 million) at a fixed interest rate of 2.37% per annum, maturing on March 29, 2018, in connection with its acquisition of Löwenkontor in Berlin.

On June 28, 2013, the Trust also entered into a mortgage agreement with a principal balance of €38.0 million ($52.0 million) at a fixed interest rate of 2.69% per annum, maturing on June 30, 2020 in connection with the acquisition of Marsstrasse 20–23 in Munich. As of June 30, 2013, this mortgage remains undrawn. A commitment fee of 3% per annum would commence on August 27, 2013 on any undrawn loan amounts. The Trust used cash on hand at June 28, 2013 to close the acquisition and intends to draw down the mortgage before August 27, 2013.

## 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 including convertible debentures in a range of 55% to 60% of the historical purchase price of properties.

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

| | **June 30, 2013** | December 31, 2012 |
|---|---|---|
| **Financing activities** | | |
| Weighted average interest rate[(1)] | **3.35%** | 3.98% |
| Level of debt (debt-to-book value)[(2)] | **54%** | 52% |
| Level of debt (debt-to-book value, net of cash)[(3)] | **51%** | 45% |
| Interest coverage ratio[(4)] | **3.40 times** | 3.03 times |
| Debt-to-EBITDFV (years)[(5)] | **8.9** | 8.5 |
| Proportion of total debt due in current year | **1.0%** | 0.4% |
| Debt – average term to maturity (years) | **4.9** | 4.4 |
| Variable rate debt as percentage of total debt | **6%** | 11% |

(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.
(3) Debt-to-book value, net of cash is determined as total debt divided by total assets, each of which excludes $124.0 million of cash at June 30, 2013 and $181.6 million of cash at December 31, 2012.
(4) 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).
(5) Debt-to-EBITDFV, a non-GAAP measure, is calculated as total debt divided by annualized EBITDFV for the current quarter. EBITDFV is calculated as net rental income plus interest and other income, less portfolio management and general and administrative expenses.

The higher debt-to-book value ratio at June 30, 2013 reflects the increase in mortgages in the first six months of 2013 related to acquisitions, as well as a lower level of cash on hand compared to December 31, 2012.

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio for the first six months of 2013 is 3.4 times and reflects our ability to cover interest expense requirements. We also monitor our debt-to-EBITDFV ratio to gauge our ability to pay off existing debt. Our debt-to-EBITDFV ratio for the first six months of 2013 is 8.9 years and reflects the approximate amount of time to pay off all debt.

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **June 30, 2013** | | | | | | December 31, 2012 | | | | |
| | | **Variable** | | **Fixed** | | **Total** | | Variable | | Fixed | | Total |
| **Term loan credit facility[2]** | **$** | **77,946** | **$** | **358,763[1]** | **$** | **436,709** | $ | 82,512 | $ | 344,028[1] | $ | 426,540 |
| **Mortgage debt[2]** | | **-** | | **636,169** | | **636,169** | | - | | 151,862 | | 151,862 |
| **Debentures[2]** | | **-** | | **149,360** | | **149,360** | | - | | 148,428 | | 148,428 |
| **Total** | **$** | **77,946** | **$** | **1,144,292** | **$** | **1,222,238** | $ | 82,512 | $ | 644,318 | $ | 726,830 |
| **Percentage** | | **6%** | | **94%** | | **100%** | | 11% | | 89% | | 100% |

(1) 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.
(2) Balance shown is net of deferred financing costs and mark-to-market adjustments.

Amounts recorded as at June 30, 2013 for the Debentures are net of $6.3 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 six months ended June 30, 2013, we repaid $8.0 million (€5.9 million) on disposition of ten properties, in addition to the $3.4 million (€2.7 million) repaid in 2012 on the disposition of five properties, including a prepayment premium. As at June 30, 2013, the remaining principal balance on the term loan credit facility was $437.5 million (€319.9 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.

As at June 30, 2013, the weighted average rate of the Facility is 3.74%. Including financing costs, the effective interest rate under the Facility is 3.99%. At December 31, 2012, the weighted average rate was 3.91% and the effective rate was 3.98%.

The Facility requires that at each interest rate payment date the debt service coverage ratio is equal to or above 145% and that the loan-to-value ratio does not exceed 59% during the first three years the loan is outstanding and 54% during the final two years. As at June 30, 2013, we were in compliance with these covenants.

Under the terms of the Facility, we are required to pay additional interest of 1% per annum beginning on August 3, 2013, on €100 million plus a 15% prepayment premium, less any amounts repaid. Mandatory repayments of between 110% and 125% (with the average being 115%) of the principal allocated to a particular Initial Property are required for any Initial Property sold or refinanced by the Trust. From September 2012 to June 2013, the Trust has repaid $11.3 million (€8.6 million) in principal payments including prepayment premiums on various property dispositions. Opportunities to repay the balance of €106.4 million will come from maximizing the leverage on new acquisitions and from additional dispositions of non-core properties.

## 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 period.

## Convertible debentures

As at June 30, 2013, the total principal amount of Debentures outstanding was $161 million, convertible into an aggregate of 12,384,619 Units. The Debentures bear interest at 5.5% per annum, are payable semi-annually on July 31 and January 31 each year, and mature on July 31, 2018. Each $1,000 principal amount of the Debentures is convertible at any time by the holder into 76.9231 Units, representing a conversion price of $13.00 per unit. On or after August 31, 2014, and prior to August 31, 2016, the Debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided the weighted average trading price for the Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On or after August 31, 2016, and prior to July 31, 2018, the maturity date, the Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest.

The conversion feature of the Debentures is remeasured in each reporting period to fair value, with changes in fair value recorded in comprehensive income. During the three-month and six-month periods ended June 30, 2013, the fair value attributed to the conversion feature decreased by $1.5 million and $2.4 million, respectively.

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 (%) |
|---|---|---|---|---|---|---|
| Remainder of 2013 | $ - | $ 6,198 | $ 6,198 | 0.5 | - | - |
| 2014 | - | 17,290 | 17,290 | 1.4 | - | - |
| 2015 | 19,606 | 21,867 | 41,473 | 3.3 | 2.41% | 4.17% |
| 2016 | 419,541 | 17,531 | 437,072 | 35.2 | 3.99% | 3.74% |
| 2017 | 84,687 | 12,241 | 96,928 | 7.8 | 2.63% | 2.27% |
| 2018 and thereafter | 622,343 | 21,859 | 644,202 | 51.8 | 4.02% | 3.33% |
| **Total** | $ 1,146,177 | $ 96,986 | 1,243,163 | 100.0 | 3.88% | 3.42% |
| Fair value adjustments | | | (5,752) | | | |
| Transaction costs | | | (15,173) | | | |
| **Total** | | | $ 1,222,238 | | | |

## Equity

The table below highlights our equity outstanding:

| | Unitholders' equity | | | |
|---|---|---|---|---|
| | **June 30, 2013** | | December 31, 2012 | |
| | **Number of Units** | **Amount** | Number of Units | Amount |
| Units | **108,969,591** | **$ 962,493** | 72,232,494 | $ 596,078 |

### Units

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

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

The following table summarizes the changes in our outstanding equity:

| | Units |
|---|---|
| **Total Units outstanding on December 31, 2012** | 72,232,494 |
| Units issued pursuant to public offering | 36,375,000 |
| Units issued pursuant to the DUIP | 4,250 |
| Units issued pursuant to the DRIP[(1)] | 357,847 |
| **Total units outstanding on June 30, 2013** | 108,969,591 |
| Units issued pursuant to the DRIP on July 15, 2013 | 74,393 |
| **Total units outstanding on July 31, 2013** | 109,043,984 |

(1) Distribution Reinvestment and Unit Purchase Plan.

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

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

For the six months ended June 30, 2013, 4,250 Units were issued pursuant to the Deferred Unit Incentive Plan (December 31, 2012 – 12,875 Units).

## 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 of unitholders and holders of Debentures, the Trust has entered into foreign exchange forward contracts.

For the quarter ended June 30, 2013, distributions declared amounted to $20.0 million. Of this amount, $2.3 million, or approximately 11.6%, was reinvested in additional Units pursuant to the DRIP, resulting in a cash payout ratio of 88.4%. Distributions declared for the six months ended June 30, 2013 were $36.0 million. Of this amount, $3.9 million, or approximately 10.8%, was reinvested in additional Units pursuant to the DRIP, resulting in a cash payout ratio of 89.2%.

| | Three months ended June 30, 2013 | | | Six months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Declared amounts | 4% bonus distribution | Total | Declared amounts | 4% bonus distribution | Total |
| **2013 distributions** | | | | | | |
| Paid in cash or reinvested in Units | $ 12,762 | $ 65 | $ 12,827 | $ 28,775 | $ 128 | $ 28,903 |
| Payable at June 30, 2013 | 7,265 | - | 7,265 | 7,265 | - | 7,265 |
| **Total distributions** | $ 20,027 | $ 65 | $ 20,092 | $ 36,040 | $ 128 | $ 36,168 |
| **2013 reinvestment** | | | | | | |
| Reinvested to June 30, 2013 | $ 1,627 | $ 65 | $ 1,692 | $ 3,206 | $ 128 | $ 3,334 |
| Reinvested on July 15, 2013 | 692 | 28 | 720 | 692 | 28 | 720 |
| **Total distributions reinvested** | $ 2,319 | $ 93 | $ 2,412 | $ 3,898 | $ 156 | $ 4,054 |
| Distributions paid in cash | $ 17,708 | | | $ 32,142 | | |
| Reinvestment to distribution ratio | 11.6% | | | 10.8% | | |
| Cash payout ratio | 88.4% | | | 89.2% | | |

We currently pay monthly distributions to unitholders of $0.06667 per unit, or $0.80 per unit on an annual basis. At June 30, 2013, approximately 9.5% of our total Units were enrolled in the DRIP.

## Foreign currency contracts

At June 30, 2013, 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. We also mark the contracts to market quarterly and recorded an unrealized loss of $7.9 million and $5.6 million for the three- and six-month periods ended June 30, 2013, respectively. The Trust currently has foreign exchange forward contracts to sell €5.3 million each month from July 2013 to September 2013, €5.6 million each month from October 2013 to June 2014, €5.2 million each month from July 2014 to May 2015, €3.9 million in June 2015, €2.4 million each month from July 2015 to September 2015, €2.1 million each month from October 2015 to May 2016, and €1.8 million in June 2016, at an average exchange rate of $1.340 per euro.

## Other

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Net income (loss) | **$ 9,007** | $ 9,115 | **$ (10,157)** | $ 15,940 |
| Cash flow from operating activities | **12,789** | 14,913 | **43,059** | 23,541 |
| Distributions paid and payable | **20,027** | 11,255 | **36,040** | 21,552 |
| Surplus (shortfall) of cash flow from operating activities over distributions paid and payable | **(7,238)** | 3,658 | **7,019** | 1,989 |
| Shortfall of net income over distributions paid and payable | **(11,020)** | (2,140) | **(46,197)** | (5,612) |

Cash flow from operations exceeded distributions paid and payable by $7.0 million for the six months ended June 30, 2013, and distributions paid and payable exceeded net income by $46.2 million for same period. This compares to a surplus of $2.0 million of cash flow from operations over distributions paid and payable and a shortfall of $5.6 million of net income over distributions paid and payable for the respective period in 2012. Distributions paid and payable exceeded cash flow from operating activities for the three months ended June 30, 2013 by $7.2 million and distributions paid and payable exceeded net income by $11.0 million for same period. This compares to surplus of $3.7 million of cash flow from operations over distributions paid and payable for the three months ended June 30, 2012, and shortfall of $2.1 million of net income over distributions paid and payable for the same period in 2012. Net income for the period reflects fair value adjustments to financial instruments and investment properties. These non-cash items do not impact cash flows and are not considered in our distribution policy. In establishing distribution payments, we do not take fluctuations in working capital into consideration and we use a normalized amount as a proxy for leasing and building improvement costs.

## Asset management fee

On August 3, 2011, 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 three- and six-month periods ended June 30, 2013, asset management expenses pertaining to the Initial Properties were $0.5 million and $1.0 million, respectively. A total of 65,020 and 153,530 deferred units were granted during the respective periods as compensation for the fees. An additional 28,704 deferred units were granted on July 1, 2013, pertaining to the asset management fee for the month of June 2013. As at July 1, 2013, 687,120 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 $0.9 million and $1.3 million, respectively, for the three- and six-month periods ended June 30, 2013, for properties acquired since the acquisition of our Initial Properties. It further paid a financing fee of $0.1 million related to new equity offerings in each of the three- and six-month periods, and acquisition fees related to properties acquired during the three- and six-month periods of $0.7 million and $4.5 million, respectively.

## OUR RESULTS OF OPERATIONS

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013**[1] | 2012[1] | **2013**[1] | 2012[1] |
| Investment properties revenue | **$ 54,413** | $ 34,896 | **$ 100,777** | $ 68,970 |
| Investment properties operating expenses | **18,222** | 13,992 | **37,275** | 27,329 |
| **Net rental income** | **36,191** | 20,904 | **63,502** | 41,641 |
| **Other income and expenses** | | | | |
| Portfolio management | **(882)** | (1,051) | **(1,758)** | (2,086) |
| General and administrative | **(3,045)** | (1,598) | **(5,495)** | (3,085) |
| Fair value adjustments to investment properties | **(8,726)** | (3,010) | **(54,948)** | (3,905) |
| Depreciation and amortization | **(24)** | (11) | **(39)** | (11) |
| Loss on sale of investment properties | **(252)** | - | **(513)** | - |
| Share of income from equity accounted investment | **13** | 12 | **20** | 23 |
| Interest and other income | **446** | 63 | **844** | 155 |
| Interest expense | **(9,700)** | (6,629) | **(16,777)** | (14,748) |
| Fair value adjustments to financial instruments | **(4,570)** | 130 | **(182)** | (2,528) |
| (Loss) income before income taxes | **9,451** | 8,810 | **(15,346)** | 15,456 |
| **Income taxes** | | | | |
| Current income taxes | **316** | 29 | **647** | 65 |
| Deferred income taxes recovery | **128** | (334) | **(5,836)** | (549) |
| Recovery of income taxes | **444** | (305) | **(5,189)** | (484) |
| **Net (loss) income** | **9,007** | 9,115 | **(10,157)** | 15,940 |
| Foreign currency translation adjustment | **44,314** | (17,589) | **32,513** | (13,387) |
| **Comprehensive (loss) income** | **$ 53,321** | $ (8,474) | **$ 22,356** | $ 2,553 |

(1) Results from operations were converted into Canadian dollars from euros using the following average exchange rates: the three- and six-month periods ended June 30, 2013 were converted at $1.337:€1 and $1.335:€1, respectively; for 2012, the three- and six-month periods ended June 30, 2012 were converted at $1.296:€1 and $1.304:€1, respectively.

## Statement of comprehensive income results

### Net rental income

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Initial Properties | **$ 19,320** | $ 19,458 | **$ 38,976** | $ 39,994 |
| Acquisitions 2012 and 2013 | **16,871** | 1,446 | **24,526** | 1,647 |
| **Net rental income** | **$ 36,191** | $ 20,904 | **$ 63,502** | $ 41,641 |

For the three months ended June 30, 2013, net rental income was $36.2 million, representing an increase of $15.3 million compared to the same quarter in 2012. Excluding the $1.1 million positive impact of a stronger euro, net rental income would have increased by $14.2 million compared to the same quarter last year, mainly as a result of contributions from newly acquired properties since July 2012, slightly offset by revenue reductions related to property dispositions pertaining to the Initial Properties.

### Portfolio management

Our portfolio management team comprises the employees of our advisory subsidiaries in Germany and Luxembourg who are responsible for providing asset management services for the investment properties, including asset strategy and leasing activities.

Portfolio management expense was $0.9 million for the three-month period ended June 30, 2013, a decrease of approximately $0.2 million, compared to the same period in 2012. For the six-month period ended June 30, 2013, an expense of $1.8 million was recorded, representing a decrease of approximately $0.3 million compared to the same period in 2012. A total of $0.4 million and $0.9 million of leasing staff costs incurred during the three-month and six-month periods ended June 30, 2013, respectively, have been capitalized as initial leasing costs of the respective properties to better reflect the true nature of the costs and underlying services being provided.

### General and administrative

General and administrative expenses totalled $3.0 million and $5.5 million for the three- and six-month periods ended June 30, 2013, respectively, representing increases of $1.4 million and $2.4 million over same periods last year. The increases resulted from higher asset management fees, and regulatory and corporate compliance costs associated with the new acquisitions.

### Fair value adjustment to investment properties

For the three-month period ended June 30, 2013, a loss of $8.7 million was recognized compared to a loss of $3.0 million in the comparative quarter last year. The loss comprises $7.9 million related to transaction costs initially capitalized on the two acquisitions we completed during the quarter, capitalized leasing costs of $0.4 million and fair value adjustments of $0.4 million in connection with planned dispositions. For the six-month period ended June 30, 2013, the fair value adjustment to investment properties amounted to a loss of $54.9 million compared to a loss of $3.9 million during the same period in 2012. The loss comprises capitalized transaction costs of $53.3 million primarily related to the SEB Portfolio acquisition completed in the first quarter, capitalized leasing costs of $0.9 million and fair value adjustments of $0.7 million in connection with dispositions.

### Interest expense

Interest expense was $9.7 million for the three-month period ended June 30, 2013, an increase of $3.1 million compared to the same quarter last year. Excluding the unfavourable exchange rate impact of $0.2 million, mortgage interest expense increased by $3.9 million as a result of new mortgage debt placed on properties we acquired in 2012 and 2013. Offsetting this increase was interest payable on Exchangeable Notes to $nil in the current quarter, compared to $0.6 million in the same quarter last year. The holder of the Exchangeable Notes exchanged its remaining Exchangeable Notes for REIT Units in September 2012. In addition, interest on our Facility decreased by $0.5 million, as the three-month EURIBOR rates dropped from 0.787% in March 2012 to 0.213% in March 2013.

Interest expense was $16.8 million for the six-month period ended June 30, 2013, an increase of $2.0 million compared to the same period last year. Excluding the unfavourable exchange rate impact of $0.3 million, mortgage interest expense increased by $5.7 million as a result of new mortgage debt placed on properties we acquired in 2012 and 2013. Offsetting this was a decrease in interest payable on Exchangeable Notes to $nil in the current six-month period, compared to $2.2 million in the same period last year. In addition, interest on our Facility decreased by $1.9 million as the underlying three-month EURIBOR rates dropped to an average of 0.199% in 2013 from 1.087% in 2012.

We currently have interest rate swaps in place that fix the interest rate payable on €262.8 million at a rate of 1.89%. The REIT does not apply hedge accounting in relation to these swaps and, as a result, their impact is not included in interest expense but accounted through the fair value adjustments as described below. During the quarter, $1.5 million of swap settlements were settled compared to $1.0 million in the same quarter last year, reflecting the reduction in the underlying interest rates. During the six-month period ended June 30, 2013, $3.0 million of interest swap settlements were settled compared to $1.4 million in the same period last year, reflecting the reduction in the underlying interest rates. Including the swaps, the actual weighted average interest rate on the Facility as at June 30, 2013 is 3.74%. On an effective interest rate basis, the rate is 3.99%. Any adjustments arising from the interest rate swaps are reflected in the fair value adjustments to financial instruments and not in interest expense.

### Fair value adjustment to financial instruments

For the three months ended June 30, 2013, we incurred an unrealized loss in the fair value of financial instruments of $4.6 million compared to a gain of $0.1 million in the comparative period. The fair value adjustments in the quarter mainly comprise the following components:

- a $1.4 million gain recognized on the fair value change in the interest rate swaps and cap as a result of the settlement of one contract in the quarter for $1.5 million and an increase in the forward price of interest rates. A $4.9 million loss was recognized in the comparative quarter last year due to a decrease in the forward price of interest rates;

- a $1.5 million fair value gain recognized on the conversion feature of the convertible debentures mainly reflecting a decline in the market price of our Units compared to a gain of $1.6 million in the same period in 2012;
- an unrealized loss of $7.9 million was recognized related to our foreign currency forward contracts due to an appreciation of the euro compared to the Canadian dollar versus a $2.8 million unrealized gain during the comparative quarter due to a depreciation of the euro compared to the Canadian dollar; and
- a $0.6 million gain in the comparative quarter on the fair value adjustment on the Exchangeable Notes that were settled in September 2012.

For the six months ended June 30, 2013, we incurred an unrealized loss in fair value of financial instruments of $0.2 million compared to an unrealized loss of $2.5 million during the same period in 2012. The fair value adjustments in the six-month period mainly comprise the following components:

- a $2.5 million gain recognized on the fair value change in the interest rate swaps and cap as a result of the settlement of two contracts in the period for $3.0 million and an increase in the forward price of interest rates. A $9.2 million loss was recognized in the comparative quarter last year due to a decrease in the forward price of interest rates;
- a $2.4 million fair value gain recognized on the conversion feature of the convertible debentures mainly reflecting a decline in the market price of our Units compared to a gain of $4.5 million in the same period in 2012;
- an unrealized loss of $5.6 million was recognized related to our foreign currency forward contracts due to an appreciation of the euro compared to the Canadian dollar versus a $2.4 million unrealized gain related during the comparative quarter due to a depreciation of the euro compared to the Canadian dollar; and
- a $0.3 million loss in the comparative six-month period on the fair value adjustment on the Exchangeable Notes, which were settled in September 2012.

### Income taxes

We recognized current income tax expenses of $0.3 million and $0.6 million, respectively, for the three- and six-month periods ended June 30, 2013, compared to current income tax expenses of $nil million and $0.1 million, respectively, for the comparative periods in 2012. The difference is mainly a result of current income taxes related to new acquisitions. We also recognized a deferred income tax expense of $0.1 million and a deferred income tax recovery of $5.8 million, respectively, for the three- and six-month periods ended June 30, 2013, compared to deferred income tax recoveries of $0.3 million and $0.5 million, respectively, for the comparative periods in 2012. The difference is mainly a result of the deferred income tax impact associated with the loss carry-forwards, fair value adjustments related to investment properties and fair value changes related to financial instruments.

### Impact of foreign exchange

Comprehensive income was impacted by a foreign currency translation gain of $44.3 million and $32.5 million, respectively, for the three- and six-month periods ended June 30, 2013. The exchange rates increased from $1.3118:€1 as at December 31, 2012 to $1.3676:€1 as at June 30, 2013. The quarterly results of our euro-denominated operations included in net income were translated at an average exchange rate of $1.3374:€1 compared to $1.2959:€1 in the same quarter last year. For the six months ended June 30, 2013, results were translated at an average exchange rate of $1.3346:€1 compared to $1.3044:€1 in the same period last year.

## Funds from operations and adjusted funds from operations

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Net income (loss)** | **$ 9,007** | $ 9,115 | **$ (10,157)** | $ 15,940 |
| Add (deduct): | | | | |
| Depreciation of property and equipment | **-** | 16 | **-** | 22 |
| Amortization of lease incentives | **112** | - | **249** | - |
| Interest expense on Exchangeable Notes | **-** | 632 | **-** | 2,152 |
| Loss on sale of investment property | **252** | - | **513** | - |
| Tax on gains on sale of investment property | **79** | - | **221** | - |
| Deferred income taxes | **128** | (334) | **(5,836)** | (549) |
| Term debt swap settlement | **(1,533)** | (1,038) | **(3,020)** | (1,440) |
| Gain on settlement of foreign currency contracts | **52** | 496 | **86** | 971 |
| Fair value adjustments to investment properties | **8,726** | 3,010 | **54,948** | 3,905 |
| Fair value adjustments to financial instruments | **4,570** | (130) | **182** | 2,528 |
| **FFO** | **$ 21,393** | $ 11,767 | **$ 37,186** | $ 23,529 |
| Add (deduct): | | | | |
| Amortization of financing costs | **666** | 273 | **1,113** | 538 |
| Accretion of debenture conversion feature | **250** | 230 | **494** | 455 |
| Amortization of fair value adjustment of assumed debt | **(84)** | (78) | **(222)** | (104) |
| Deferred unit compensation expense | **378** | 158 | **644** | 310 |
| Deferred asset management fees | **523** | 488 | **1,045** | 901 |
| Straight-line rent | **(623)** | 18 | **(802)** | 36 |
| | **$ 22,503** | $ 12,856 | **$ 39,458** | $ 25,665 |
| Deduct: | | | | |
| Normalized leasing costs and tenant incentives | **(1,629)** | (1,025) | **(2,858)** | (2,050) |
| Normalized non-recoverable recurring capital expenditures | **(1,267)** | (600) | **(2,223)** | (1,200) |
| **AFFO** | **$ 19,607** | $ 11,231 | **$ 34,377** | $ 22,415 |

### 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. For the three-month period ended June 30, 2012, the outstanding Units also include the aggregate number of Units issuable upon the exchange of Exchangeable Notes. All Exchangeable Notes were exchanged in 2012. The diluted weighted average number of Units assumes the conversion of the Debentures. 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 June 30, 2013 is 99,037,061 and 112,358,396, respectively. Diluted FFO includes interest and amortization adjustments related to the Debentures of $2.7 million for the three months ended June 30, 2013.

Over the course of the quarter, the REIT had approximately $81.0 million on average of excess undeployed 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 10.0% and would have contributed $2.0 million to FFO and AFFO for the quarter ended June 30, 2013.

### Funds from operations

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **FFO** | **$ 21,393** | $ 11,767 | **$ 37,186** | $ 23,529 |
| **FFO per unit – basic** | **$ 0.22** | $ 0.21 | **$ 0.42** | $ 0.44 |
| **FFO per unit – diluted** | **$ 0.21** | $ 0.21 | **$ 0.42** | $ 0.43 |

Excluding the impact of undeployed cash:

| | | | | |
|---|---|---|---|---|
| **FFO per unit – basic** | **$ 0.24** | $ 0.24 | **$ 0.48** | $ 0.50 |
| **FFO per unit – diluted** | **$ 0.23** | $ 0.23 | **$ 0.47** | $ 0.48 |

## Adjusted funds from operations

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **AFFO** | **$ 19,607** | $ 11,231 | **$ 34,377** | $ 22,415 |
| **AFFO per unit – basic** | **$ 0.20** | $ 0.20 | **$ 0.39** | $ 0.42 |

Excluding the impact of undeployed cash:

| | | | | |
|---|---|---|---|---|
| **AFFO per unit – basic** | **$ 0.22** | $ 0.23 | **$ 0.45** | $ 0.48 |

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

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Cash generated from operating activities** | **$ 12,789** | $ 14,913 | **$ 43,059** | $ 23,541 |
| Add (deduct): | | | | |
| Change in non-cash working capital | **8,595** | (2,173) | **(5,850)** | 1,960 |
| Share of general and administrative expenses from equity accounted investments | **(11)** | 18 | **(19)** | 35 |
| Unrealized loss on settlement of foreign exchange contracts | **(218)** | (59) | **(457)** | (51) |
| Tax on gains on sale of investment property | **79** | - | **221** | - |
| Investment in lease incentives and initial direct leasing costs | **1,269** | 157 | **2,504** | 180 |
| Normalized leasing costs and lease incentives | **(1,629)** | (1,025) | **(2,858)** | (2,050) |
| Normalized non-recoverable recurring capital expenditures | **(1,267)** | (600) | **(2,223)** | (1,200) |
| **AFFO** | **$ 19,607** | $ 11,231 | **$ 34,377** | $ 22,415 |

## QUARTERLY INFORMATION

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

| | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| Investment properties revenue | **$ 54,413** | $ 46,364 | $ 35,926 | $ 33,765 | $ 34,896 | $ 34,074 | $ 31,726 | $ 22,548 |
| Investment properties operating expenses | **18,222** | 19,053 | 13,869 | 12,024 | 13,992 | 13,337 | 10,757 | 9,017 |
| NET RENTAL INCOME | **36,191** | 27,311 | 22,057 | 21,741 | 20,904 | 20,737 | 20,969 | 13,531 |
| OTHER INCOME AND EXPENSES | | | | | | | | |
| Portfolio management | **(882)** | (876) | (1,019) | (1,096) | (1,051) | (1,035) | (894) | (672) |
| General and administrative | **(3,045)** | (2,450) | (1,638) | (1,856) | (1,598) | (1,487) | (2,253) | (861) |
| Fair value adjustments to investment properties | **(8,726)** | (46,222) | (16,870) | (2,574) | (3,010) | (895) | (31,704) | 8,557 |
| Amortization and depreciation | **(24)** | (15) | (7) | (35) | (11) | - | - | - |
| Loss on sale of investment property | **(252)** | (261) | (258) | (62) | - | - | - | - |
| Share of net losses from equity accounted investments | **13** | 7 | 11 | (13) | 12 | 11 | 32 | (25) |
| Acquisition related gain, net | **-** | - | - | - | - | - | (467) | (7,386) |
| Interest and other income | **446** | 398 | 289 | 59 | 63 | 92 | 122 | 10 |
| Interest expense | **(9,700)** | (7,077) | (6,100) | (6,531) | (6,629) | (8,119) | (8,591) | (5,265) |
| Fair value adjustments to financial instruments | **(4,570)** | 4,388 | (6,736) | (5,950) | 130 | (2,658) | (8,557) | (6,010) |
| Income before taxes | **9,451** | (24,797) | (10,271) | 3,683 | 8,810 | 6,646 | (31,343) | 1,879 |
| Current income taxes | **316** | 331 | 84 | 77 | 29 | 36 | - | - |
| Deferred income taxes | **128** | (5,964) | (1,668) | (57) | (334) | (215) | (5,367) | (896) |
| **NET INCOME (LOSS)** | **$ 9,007** | $ (19,164) | $ (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 | **112** | 137 | 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 | **252** | 261 | 258 | 62 | - | - | - | - |
| Tax on gains on sale of investment property | **79** | 142 | - | - | - | - | - | - |
| Deferred income taxes | **128** | (5,964) | (1,668) | (57) | (334) | (215) | (5,367) | (896) |
| Term debt swap settlement | **(1,533)** | (1,487) | (1,660) | (1,155) | (1,038) | (402) | (317) | (256) |
| Gain/loss on settlement of Forex contracts | **52** | 34 | 481 | 954 | 496 | 475 | (84) | - |
| Fair value adjustments to investment properties | **8,726** | 46,222 | 16,870 | 2,574 | 3,010 | 895 | 31,704 | (8,557) |
| Fair value adjustments to financial instruments | **4,570** | (4,388) | 6,736 | 5,950 | (130) | 2,658 | 8,557 | 6,010 |
| **FFO** | **$ 21,393** | $ 15,793 | $ 12,348 | $ 12,443 | $ 11,767 | $ 11,762 | $ 10,600 | $ 7,500 |
| **FFO per unit – basic** | **$ 0.22** | $ 0.20 | $ 0.19 | $ 0.22 | $ 0.21 | $ 0.23 | $ 0.20 | $ 0.15 |
| **FFO per unit – diluted** | **0.21** | 0.20 | 0.19 | 0.21 | 0.21 | 0.22 | 0.20 | 0.15 |
| Funds from operations | **$ 21,393** | $ 15,793 | $ 12,348 | $ 12,443 | $ 11,767 | $ 11,762 | $ 10,600 | $ 7,500 |
| Add (deduct): | | | | | | | | |
| Amortization of financing costs | **666** | 447 | 366 | 279 | 273 | 265 | 265 | 159 |
| Accretion of debenture conversion feature | **250** | 244 | 240 | 235 | 230 | 225 | 223 | 143 |
| Amortization of FV adjustment of debt | **(84)** | (138) | (26) | (76) | (78) | (26) | - | - |
| Deferred compensation expense | **378** | 266 | 138 | 180 | 158 | 152 | 88 | - |
| Deferred asset management expense | **523** | 522 | 502 | 504 | 488 | 413 | 831 | 10 |
| Straight-line rent | **(623)** | (179) | (56) | (78) | 18 | 18 | (142) | (45) |
| | **22,503** | 16,955 | 13,512 | 13,487 | 12,856 | 12,809 | 11,865 | 7,767 |
| Deduct: | | | | | | | | |
| Normalized initial direct leasing costs and tenant incentives | **(1,629)** | (1,229) | (1,025) | (1,025) | (1,025) | (1,025) | (1,025) | (657) |
| Normalized non-recoverable recurring capital expenditures | **(1,267)** | (956) | (600) | (600) | (600) | (600) | (600) | (385) |
| **AFFO** | **$ 19,607** | $ 14,770 | $ 11,887 | $ 11,862 | $ 11,231 | $ 11,184 | $ 10,240 | $ 6,725 |
| **AFFO per unit – basic** | **$ 0.20** | $ 0.19 | $ 0.19 | $ 0.21 | $ 0.20 | $ 0.22 | $ 0.20 | $ 0.13 |
| **AFFO per unit – diluted** | **0.20** | 0.19 | 0.19 | 0.21 | 0.20 | 0.21 | 0.20 | 0.13 |
| **Weighted average number of units:** | | | | | | | | |
| Basic | **99,037,061** | 79,267,113 | 64,064,093 | 57,795,412 | 55,697,600 | 51,882,467 | 51,862,716 | 50,066,374 |
| Diluted | **112,358,396** | 92,382,159 | 77,017,591 | 70,666,219 | 68,474,767 | 64,565,100 | 64,396,562 | 61,739,125 |
| **Quarterly average exchange rate ($:€1)** | **1.337** | 1.332 | 1.286 | 1.245 | 1.296 | 1.313 | 1.379 | 1.389 |

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

At June 30, 2013, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Trust, along with the assistance of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to Dundee International REIT is made known to the CEO and CFO, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the condensed consolidated financial statements in accordance with IFRS.

During the three months ended June 30, 2013, there have not been any changes that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

For an explanation of our disclosure controls and procedures, please refer to our 2012 Annual Report or our Annual Information Form for the year ended December 31, 2012, filed on SEDAR (www.sedar.com).

## SECTION IV – RISKS AND OUR STRATEGY TO MANAGE

We are exposed to various risks and uncertainties, many of which are beyond our control. For a full list and explanation of our risks and uncertainties, please refer to our 2012 Annual Report or our Annual Information Form dated April 1, 2013, filed on SEDAR (www.sedar.com).

## 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

#### Accounting policy changes

Dundee International REIT's future accounting policy changes are described in Note 5 in the audited consolidated financial statements of the Trust for the year ended December 31, 2012.

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