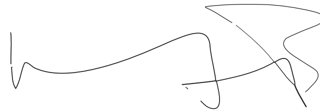
Management's responsibility for financial statements

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

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

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



SCOTT HAYES
President and Chief Executive Officer

MARIO BARRAFATO
Chief Financial Officer

Toronto, Ontario, February 19, 2013

Independent Auditor's Report

To the Unitholders of Dundee Industrial Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Dundee Industrial Real Estate Investment Trust and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the period from July 20, 2012 to December 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dundee Industrial Real Estate Investment Trust and its subsidiaries as at December 31, 2012 and their financial performance and their cash flows for the period from July 20, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

February 19, 2013

Consolidated balance sheet

(in thousands of dollars)

	Note	December 31, 2012
Assets		
NON-CURRENT ASSETS		
Investment properties	8	**$ 1,147,410**
Other non-current assets	10	**37,029**
		1,184,439
CURRENT ASSETS		
Amounts receivable	11	**536**
Prepaid expenses and other assets		**2,944**
Cash and cash equivalents		**2,306**
		5,786
Total assets		**$ 1,190,225**
Liabilities		
NON-CURRENT LIABILITIES		
Debt	12	**$ 548,959**
Subsidiary redeemable units	13	**181,426**
Deposits		**5,750**
Conversion feature on the convertible debentures	12	**6,228**
Deferred Unit Incentive Plan	14	**51**
		742,414
CURRENT LIABILITIES		
Debt	12	**100,886**
Amounts payable and accrued liabilities	15	**18,675**
Distributions payable	16, 17	**2,039**
		121,600
Total liabilities		**864,014**
Equity		
Unitholders' equity		**347,084**
Deficit		**(20,873)**
Total equity	17	**326,211**
Total liabilities and equity		**$ 1,190,225**

See accompanying notes to the consolidated financial statements.

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

JOANNE FERSTMAN
Trustee

VINCENZA SERA
Trustee

Consolidated statement of comprehensive loss

(in thousands of dollars)

	Note	Period from July 20, 2012 to December 31, 2012
Investment properties revenue		$ 17,202
Investment properties operating expenses		4,667
Net rental income		12,535
Other income and expenses		
General and administrative		(855)
Fair value adjustments to investment properties	8	6,048
Acquisition related costs	6	(11,528)
Interest:		
Debt	18	(3,244)
Subsidiary redeemable units	18	(2,711)
Interest and fee income		16
Fair value adjustments to financial instruments	19	(21,134)
Net loss and comprehensive loss		$ (20,873)

See accompanying notes to the consolidated financial statements.

Consolidated statement of changes in equity

(in thousands of dollars, except number of units)

		Attributable to unitholders of the Trust			
	Note	Number of Units	Unitholders' equity	Deficit	Total
Balance at July 20, 2012		–	$ –	$ –	$ –
Net loss for the period		–	–	(20,873)	(20,873)
Distributions paid	16	–	–	(2,176)	(2,176)
Distributions payable	16	–	–	(2,039)	(2,039)
Public offering of REIT Units	17	33,895,000	347,092	–	347,092
REIT Units issued for KingSett transaction	6	2,358,491	25,000	–	25,000
Distribution Reinvestment Plan	16, 17	4,047	44	–	44
Issue costs	17	–	(20,837)	–	(20,837)
Balance at December 31, 2012		**36,257,538**	**$ 351,299**	**$ (25,088)**	**$ 326,211**

See accompanying notes to the consolidated financial statements.

Consolidated statement of cash flows

(in thousands of dollars)

	Note	Period from July 20, 2012 to December 31, 2012
Generated from (utilized in) operating activities		
Net loss		$ (20,873)
Non-cash items:		
Amortization of financing costs	12, 18	100
Amortization of fair value adjustments on assumed debt	18	(819)
Deferred unit compensation expense	14	46
Straight-line rent adjustment	8, 10	(400)
Fair value adjustments to investment properties	8	(6,048)
Fair value adjustments to financial instruments	12, 13, 14	21,134
Reinvestment in subsidiary redeemable units	13, 18	2,711
Investment in lease incentives and initial direct leasing costs	8	(562)
Change in non-cash working capital	21	11,197
		6,486
Generated from (utilized in) investing activities		
Additions to property and equipment	10	(2)
Acquisition of investment properties – Initial Properties (net of cash acquired)	6	(175,316)
Acquisition of investment properties – KingSett Portfolio	6	(293,847)
Acquisition of investment properties	7	(16,847)
		(486,012)
Generated from (utilized in) financing activities		
Mortgages placed	12	35,000
Financing costs on mortgages placed	12	(470)
Mortgage principal repayments		(1,223)
Draw on unsecured non-revolving bridge loan facility	12	32,500
Financing costs on unsecured non-revolving bridge facility	12	(130)
Convertible debentures placed	12	86,250
Issue costs on convertible debentures	12	(3,798)
Draw on demand revolving credit facility	12	18,500
Repayment on demand revolving credit facility	12	(8,500)
Financing costs on demand revolving credit facility		(420)
Distributions paid on Units	16	(2,132)
Units issued for cash	17	347,092
Issue costs	17	(20,837)
		481,832
Increase in cash and cash equivalents		2,306
Cash and cash equivalents, beginning of period		–
Cash and cash equivalents, end of period		$ 2,306

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

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

Note 1
Organization

Dundee Industrial Real Estate Investment Trust ("Dundee Industrial" or the "Trust") is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dundee Industrial include the accounts of Dundee Industrial and its consolidated subsidiaries. Dundee Industrial's portfolio comprises industrial properties located in urban centres across Canada. A subsidiary of Dundee Industrial performs the property management function.

The Trust's registered office is 30 Adelaide Street East, Suite 1600, Toronto, Ontario, Canada M5C 3H1. The Trust is listed on the Toronto Stock Exchange under the symbol "DIR.UN". Dundee Industrial's consolidated financial statements for the period ended December 31, 2012, were authorized for issue by the Board of Trustees on February 19, 2013, after which date they may only be amended with the Board of Trustees' approval.

Equity is described in Note 17; however, for simplicity, throughout the Notes, reference is made to the following:

- "REIT Units", meaning the REIT Units
- "Special Trust Units", meaning units which are exchangeable for REIT Units, including the LP Class B limited partnership units.
- "Units", meaning REIT Units; and Special Trust Units, collectively

Subsidiary redeemable units classified as a liability are described in Note 13; however, for simplicity, throughout the Notes, reference is made to "subsidiary redeemable units", meaning the LP Class B Units of Dundee Industrial Limited Partnership ("DILP").

At December 31, 2012, Dundee Real Estate Investment Trust ("Dundee REIT"), directly and indirectly through its subsidiaries, held all 16,198,747 subsidiary redeemable units.

Note 2
Summary of significant accounting policies
Basis of presentation

The Trust prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of consolidation

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

Joint arrangements

The Trust enters into joint arrangements through jointly controlled entities and co-ownerships. A joint arrangement is a contractual arrangement pursuant to which the Trust and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. Joint arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities. In a co-ownership arrangement, the Trust owns jointly one or more investment properties with another party, and has direct rights to the investment property and obligations for the liabilities relating to the co-ownership.

The Trust reports its interests in jointly controlled entities using the equity method of accounting whereby the investment is carried on the consolidated balance sheet at cost, adjusted for the Trust's proportionate share of post-acquisition profits and losses and for post-acquisition changes in excess of the Trust's carrying amount of its investment over the net assets of the equity accounted investments, less any identified impairment losses. The Trust's share of profits and losses is recognized in the share of net earnings from equity accounted investments in the statement of comprehensive income. Dilution gains and losses arising from changes in the Trust's interest in equity accounted investments are recognized in earnings. If the Trust's investment is reduced to zero, additional losses are not provided for, and a liability is not recognized, unless the Trust has incurred legal or constructive obligations, or made payments on behalf of the equity accounted investment.

The Trust reports its interests in co-ownerships using the proportionate consolidation method. Under this method, the Trust's consolidated financial statements reflect only the Trust's proportionate share of the assets, liabilities, revenues and expenses of the co-ownership in the respective lines in the consolidated financial statements.

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

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

Investment properties

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

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

Segment reporting

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

Other non-current assets

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

Business combinations

The purchase method of accounting is used for acquisitions meeting the definition of a business. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair values irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Trust's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Trust's share of the net assets acquired, the difference is recognized directly in the profit or loss for the period as an acquisition gain. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

Goodwill

Goodwill arises on the acquisition of a business and represents the excess of the consideration transferred over and above the Trust's interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored by the Trust at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Revenue recognition

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

Distributions

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings (increase in deficit).

Income taxes

Dundee Industrial is taxed as a mutual fund trust for Canadian income tax purposes. The Trust expects to distribute all of its taxable income to its unitholders, which enables it to deduct such distributions for income tax purposes. As the income tax obligations relating to the distributions are those of the individual unitholder, no provision for income taxes is required on such amounts. The Trust expects to continue to distribute its taxable income and to qualify as a real estate investment trust ("REIT") for the foreseeable future. As such, deferred taxes have not been recorded in the consolidated financial statements.

Unit-based compensation plan

As described in Note 14, 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 and affiliates and their service providers (including the asset manager). Deferred units are recorded as a liability, and compensation expense is recognized over the vesting period at amortized cost based on the fair value of the units. Once vested, the liability is remeasured at each reporting date at amortized cost, based on the fair value of the corresponding REIT Units, with changes in fair value being recognized in comprehensive income as a fair value adjustment to financial instruments. Deferred trust units and income deferred units are only settled in REIT Units.

Cash and cash equivalents

Cash and cash equivalents include all short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent its use for current purposes. Deposits are included in other non-current assets.

Financial instruments

Designation of financial instruments

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

	Classification	Measurement
Financial assets		
Amounts receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial liabilities		
Mortgages	Other liabilities	Amortized cost
Convertible debentures – host instrument	Other liabilities	Amortized cost
Convertible debentures – conversion feature	Fair value through profit or loss	Fair value
Subsidiary redeemable units	Other liabilities	Amortized cost
Demand revolving credit facility	Other liabilities	Amortized cost
Unsecured non-revolving bridge facility	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Deferred Unit Incentive Plan	Other liabilities	Amortized cost
Amounts payable and accrued liabilities	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Promissory notes payable	Other liabilities	Amortized cost

Financial assets

The Trust classifies its non-derivative financial assets with fixed or determinable payments that are not quoted in an active market as loans and receivables. All financial assets are initially measured at fair value, less any related transaction costs, and subsequently are measured at amortized cost.

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

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

Financial liabilities

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

Mortgages and promissory notes payable are initially recognized at fair value less any related transaction costs, or at fair value when assumed in a business or asset acquisition. Subsequent to initial recognition, mortgages and promissory notes payable are recognized at amortized cost.

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

Deferred units and the subsidiary redeemable units are measured at amortized cost because they are settled in REIT Units, which in accordance with IAS 32 are considered liabilities. Consequently, the deferred units and subsidiary redeemable units are remeasured each period based on the fair value of REIT Units, with changes in the liabilities being recorded in comprehensive income. Distributions paid on subsidiary redeemable units are recorded as interest expense, in comprehensive income and as a financing activity in the statement of cash flows. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Interest on debt

Interest on debt includes coupon interest, amortization of discounts, premium and mark-to-market adjustments allocated to the conversion feature of the convertible debentures, and amortization of ancillary costs incurred in connection with the arrangement of borrowings. Finance costs are amortized to interest expense unless they relate to a qualifying asset.

Equity

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

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

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

Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

Note 4

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

Critical accounting judgments

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

Investment properties

Critical judgments are made with respect to the fair values of investment properties. The fair values of investment properties are reviewed regularly by management with reference to independent property valuations and market conditions existing at the reporting date, using generally accepted market practices. The independent valuators are experienced, nationally recognized and qualified in the professional valuation of industrial buildings in their respective geographic areas. Judgment is also applied in determining the extent and frequency of independent appraisals. At each annual reporting period, a select number of properties, determined on a rotational basis, will be valued by qualified valuation professionals. For properties not subject to independent appraisals, internal appraisals are prepared by management during each reporting period.

The Trust makes judgments with respect to whether lease incentives provided in connection with a lease enhance the value of the leased space, which determines whether or not such amounts are treated as tenant improvements and added to investment properties. Lease incentives, such as cash, rent-free periods and lessee- or lessor-owned improvements, may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties and are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease.

Judgment is also applied in determining whether certain costs are additions to the carrying amount of the investment property.

Leases

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

Compliance with REIT legislation

In order to continue to be taxed as a mutual fund trust, the Trust needs to maintain its REIT status. At inception, the Trust undertook certain transactions to qualify as a REIT under the specified investment flow-through ("SIFT") rules in the Canadian *Income Tax Act*. The Trust's current and continuing qualification as a REIT depends on its ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. The Trust applies judgment in determining whether it continues to qualify as a REIT under the SIFT rules.

Treatment of REIT Units

The Trust has considered the criteria in IAS 32 and classified the REIT Units as equity as it has determined that it meets the puttable exemption.

Treatment of subsidiary redeemable units

The Trust has considered the criteria in IAS 32 and classified the subsidiary redeemable units as a liability because they are exchangeable into REIT Units and are not the most subordinated instrument.

Business combinations

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

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

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

In particular, the Trust considers the following:

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

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

Classification of joint ventures and associates

The Trust makes judgments as to whether the jointly controlled entities and co-ownerships provide it with joint control, significant influence or no influence.

Impairment

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

Estimates and assumptions

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

Valuation of investment property

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

Valuation of financial instruments

The Trust makes estimates and assumptions relating to the fair value measurement of the subsidiary redeemable units, the Deferred Unit Incentive Plan, the convertible debenture conversion feature and the fair value disclosure of the convertible debentures and mortgages. The critical assumptions underlying the fair value measurements and disclosures include the market price of REIT Units and market interest rates.

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

Note 5
Future accounting policy changes

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

Financial instruments

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

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

Joint arrangements

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

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

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

Consolidated financial statements

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

Disclosure of interests in other entities

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

Fair value measurement

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

Presentation of items of other comprehensive income

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

Note 6
Business combinations

On October 4, 2012, the Trust completed the purchase of 77 industrial properties totalling 6.0 million square feet (the "Initial Properties") from the subsidiaries of Dundee REIT and affiliates of Return On Innovation Capital Ltd. ("ROI"). The purchase price was satisfied with cash consideration of $177,714, the issuance of 16,034,631 subsidiary redeemable units for $160,346, and the assumption of promissory notes payable to Dundee REIT for $42,000 and a receivable from Dundee REIT for $4,065 (relating to working capital items on acquisition), representing total consideration of $380,060. On closing, the fair value of the net identifiable assets and liabilities acquired equalled $361,504. The total consideration exceeded the net identifiable assets and liabilities by $18,556, which has been recorded as goodwill on acquisition.

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

	Note	
Investment properties		$ 643,375
Prepaid expenses		1,862
Amounts receivable		1,849
Related party receivables		4,131
Cash and cash equivalents		2,398
Amounts payable and accrued liabilities assumed		(2,753)
Deposits		(2,551)
Deferred revenue		(4,847)
Assumed debt at fair value		(281,960)
Total identifiable net assets and liabilities		361,504
Goodwill	10	18,556
Fair value of consideration		$ 380,060

Acquisition related costs for the Initial Properties comprise $3,485 in transaction costs. The fair value of acquired tenant receivables is $1,849. The gross contractual amount for tenant receivables is $2,124, of which $275 is expected to be uncollectible. Fair value of the related party receivables is $4,131.

During the period October 4, 2012 to December 31, 2012, the Trust recognized $15,224 of revenue, and $7,424 of comprehensive income before fair value adjustments, related to the acquisition of the Initial Properties. Had the acquisition occurred on July 20, 2012, the Trust would have recognized an additional $13,000 of revenue and $6,340 of comprehensive income, before fair value adjustments.

On December 19, 2012, the Trust completed the purchase of 79 industrial properties totalling 5.3 million square feet (the "KingSett Portfolio") from an affiliate of KingSett Capital Inc. ("KingSett"). The purchase price was satisfied with cash consideration of $293,847, the issuance of 2,358,491 REIT Units for $25,000, the issuance of 5.25% convertible debentures for a total of $25,000 representing total consideration of $343,847. On closing, the fair value of the net identifiable assets and liabilities acquired equalled $326,210. The total consideration exceeded the net identifiable assets and liabilities by $17,637, which has been recorded as goodwill on acquisition.

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

	Note		
Investment properties		$	480,243
Prepaid expenses			2,090
Amounts payable and accrued liabilities assumed			(3,010)
Deposits			(3,206)
Deferred revenue			(1,975)
Assumed debt			(147,932)
Total identifiable net assets and liabilities			326,210
Goodwill	10		17,637
Fair value of consideration		$	343,847

Acquisition related costs for the KingSett Portfolio comprise $8,032 in transaction costs.

During the period December 19, 2012 to December 31, 2012, the Trust recognized $1,833 of revenue, and $935 of comprehensive income, before fair value adjustments, related to the acquisition of the KingSett Portfolio. Had the acquisition occurred on July 20, 2012, the Trust would have recognized an additional $21,428 of revenue and $10,939 of comprehensive income, before fair value adjustments.

The initial accounting for the assets and liabilities recognized upon the acquisition of the Initial Properties and the KingSett Portfolio has been completed provisionally with respect to the valuations of investment properties, goodwill, assumed debt, determination of final working capital balances and other financial instruments.

Note 7

Property acquisitions

Detailed below are the acquisitions completed during the period from July 20, 2012 to December 31, 2012.

	Interest acquired (%)		Purchase price[1]	Date acquired
2 Lone Oak Court, Etobicoke, ON	100.0	$	7,615	November 30, 2012
441 Chrislea Road, Vaughan, ON	100.0		9,567	November 30, 2012
Total		$	17,182	

(1) Includes transaction costs.

The assets acquired and liabilities assumed in these transactions were allocated as follows:

	Period from July 20, 2012 to December 31, 2012
Investment properties	$ 17,182
Total purchase price	$ 17,182
The consideration paid consists of:	
Cash:	
Paid during the period	$ 16,847
	16,847
Transaction costs included in amounts payable	64
Assumed non-cash working capital	271
Total consideration	$ 17,182

Note 8
Investment properties

	Note	Period from July 20, 2012 to December 31, 2012
Balance at beginning of period		$ –
Additions:		
Acquisitions from business combinations	6	1,123,618
Property acquisitions	7	17,182
Lease incentives and initial direct leasing costs		562
Fair value adjustments to investment properties		6,048
Balance at end of period		$ 1,147,410

Investment properties have been reduced by $400 related to straight-line rent receivables, which have been reclassified to other non-current assets.

The key valuation metrics for investment properties are set out below:

	December 31, 2012	
	Range (%)	Weighted average (%)
Capitalization rate	5.85–8.75	6.80
Discount rate	6.75–9.50	7.65
Terminal rate	6.25–9.00	6.88

Investment properties with an aggregate fair value of $178,088 at December 31, 2012 were valued by qualified external valuation professionals. The Initial Properties, aggregating $643,375 at time of acquisition, were subject to external appraisals for their acquisition fair values.

If the cap rate were to increase by 25 basis points ("bps"), the value of investment properties would decrease by $28,956. If the cap rate were to decrease by 25 bps, the value of investment properties would increase by $56,455.

Investment properties with a fair value of $878,269 are pledged as first-ranking and/or second-ranking collateral for mortgages. Investment properties with a fair value of $79,497 are pledged as security for the Trust's demand revolving credit facility.

Note 9

Joint arrangements

Co-owned investment property

The Trust's interest in a co-owned investment property is accounted for on a proportionately consolidated basis. The property acquired was part of the Initial Properties, as described in Note 6.

Name	Principal activity	Location	Ownership interest (%) December 31, 2012
2240 Premier Way (GE Turbine Building)	Investment property	Edmonton, Alberta	50.0

The following amounts represent the ownership interest in the assets, liabilities, revenues and expenses in the co-owned property in which the Trust participates.

	December 31, 2012
Non-current assets	
Investment properties	$ 2,250
	2,250
Current assets	
Amounts receivable	2
Prepaid expenses and other assets	1
Cash and cash equivalents	52
	55
Total assets	$ 2,305
Current liabilities	
Debt	1,320
Amounts payable and accrued liabilities	14
	1,334
Total liabilities	$ 1,334

	Period from July 20, 2012 to December 31, 2012
Investment properties revenue	$ 48
Investment properties operating expenses	17
Net rental income	31
Other income and expenses	
Fair value adjustments to investment properties	85
Interest on debt	(10)
Net income	$ 106

Note 10

Other non-current assets

	December 31, 2012
Deposits	$ 434
Property and equipment	2
Straight-line rent receivable	400
Goodwill	36,193
Total	$ 37,029

Deposits largely represent amounts provided by the Trust in connection with property acquisitions.

Note 11
Amounts receivable

	December 31, 2012
Amounts receivable	$ 536

Amounts receivable are recorded net of a provision for impairment of $275.

The carrying value of amounts receivable approximates fair value due to their current nature. As at December 31, 2012, trade receivables of approximately $298 were past due but not considered impaired as the Trust has ongoing relationships with these tenants and the aging of these trade receivables is not indicative of expected default.

Note 12
Debt

	December 31, 2012
Mortgages[(1)]	$ 462,359
Demand revolving credit facility[(1)]	10,000
Promissory notes payable	42,000
Unsecured non-revolving bridge facility	32,394
Convertible debentures	103,092
Total	649,845
Less: Current portion	100,886
Non-current debt	$ 548,959

(1) Secured by charges on specific investment properties (refer to Note 8).

Convertible debentures

	Carrying value December 31, 2012
5.25% Debentures	$ 103,092
	$ 103,092

The original and outstanding principal was issued on December 13, 2012 and December 19, 2012 for $86,250 and $25,000, respectively, with a maturity date of December 31, 2019. The Debentures are convertible at any time by the holder into 72.4638 REIT Units per one thousand dollars of face value, representing a conversion price of $13.80 per unit. On and after December 31, 2015, but prior to December 31, 2017, the Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. Interest on the Debentures is payable at a rate of 5.25% semi-annually on June 30 and December 31. Transaction costs associated with these debentures amounted to $3,798 and had been netted against the carrying value.

Demand revolving credit facility

On October 4, 2012, the Trust entered into a $35,000 demand revolving credit facility. The revolving credit facility is in the form of rolling one-month bankers' acceptances ("BAs") bearing interest at the BA rate plus 1.90% or at the bank's prime rate (3.0% at December 31, 2012) plus 0.90%. On December 19, 2012, the Trust increased the available capacity under the demand revolving credit facility to $50,000, to coincide with the acquisition of the KingSett Portfolio; all other terms under the demand revolving credit facility remained the same. The revolving credit facility matures on October 4, 2014. At December 31, 2012, $10,000 was drawn on the facility; the formula-based amount available under this facility was $39,584. Fifteen properties are secured as first-ranking mortgages on the facility. The facility is available up to a formula-based maximum not to exceed $49,584. On January 21, 2013, the demand revolving credit facility was fully repaid.

Promissory notes payable

On October 4, 2012, the Trust entered into promissory notes payable with subsidiaries of Dundee REIT totalling $42,000. The promissory notes payable bear interest at 3.1% and are due on the later of (i) the date of closing of and funding of the last of the outstanding financing currently being assessed by the Trust and (ii) January 2, 2013. The Trust had the option to prepay all or a portion of the promissory notes payable prior to the maturity date. On January 10, 2013, the Trust fully repaid the promissory notes payable.

Unsecured non-revolving bridge facility

On December 19, 2012, the Trust entered into an $80,000 unsecured non-revolving bridge facility to facilitate the acquisition of the KingSett Portfolio. The non-revolving bridge facility was available up to a formula-based maximum not to exceed $80,000, bearing interest at the bank's prime rate (3.0% as at December 31, 2012) plus 1.25% or at BA rates plus 2.25%. On December 19, 2012, the Trust drew $32,500 on this facility, which remained outstanding at December 31, 2012. The Trust paid $130 of financing costs in connection with the facility. The facility expires on February 19, 2013. On January 21, 2013, the non-revolving bridge facility was fully repaid.

Debt weighted average effective interest rates and maturity

	Weighted average effective interest rates[1] December 31, 2012	Maturity dates	Debt amount December 31, 2012
Fixed rate			
Mortgages	3.27%	2013–2021	$ 462,359
Promissory notes payable	3.10%	2013	42,000
Convertible debentures	6.09%	2019	103,092
Total fixed rate debt	3.74%		607,451
Variable rate			
Unsecured non-revolving bridge facility	3.48%	2013	32,394
Demand revolving credit facility	3.90%	2014	10,000
Total variable rate debt	3.58%		42,394
Total debt	3.72%		$ 649,845

(1) The effective interest rate method includes the impact of fair value adjustments on assumed debt and financing costs.

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Promissory notes payable	Demand revolving credit facility	Unsecured non-revolving bridge facility	Convertible debentures	Total
2013	$ 14,325	$ 42,000	$ 10,000	$ 32,500	$ –	$ 98,825
2014	85,857	–	–	–	–	85,857
2015	118,518	–	–	–	–	118,518
2016	68,113	–	–	–	–	68,113
2017	35,432	–	–	–	–	35,432
2018 and thereafter	128,144	–	–	–	111,250	239,394
	450,389	42,000	10,000	32,500	111,250	646,139
Financing costs	(467)	–	–	(106)	(3,776)	(4,349)
Fair value adjustments	12,437	–	–	–	(4,382)	8,055
	11,970	–	–	(106)	(8,158)	3,706
	$ 462,359	$ 42,000	$ 10,000	$ 32,394	$ 103,092	$ 649,845

The Trust has a conversion feature on convertible debentures as follows:

		December 31, 2012
Conversion feature on the convertible debentures	$	6,228

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

	Note		Period from July 20, 2012 to December 31, 2012
As at July 20, 2012		$	–
New issuance of convertible debentures			4,406
Remeasurement of conversion feature	19		1,822
As at December 31, 2012		$	6,228

Note 13
Subsidiary redeemable units

DILP, a subsidiary of Dundee Industrial, is authorized to issue an unlimited number of LP Class B limited partnership units. The subsidiary redeemable units, together with the accompanying Special Trust Units, have economic and voting rights equivalent in all material respects to the REIT Units. Generally, each subsidiary redeemable unit entitles the holder to a distribution equal to distributions declared on REIT Units. Subsidiary redeemable units may be surrendered or indirectly exchanged for REIT Units on a one-for-one basis at the option of the holder, generally at any time, subject to certain restrictions.

The Trust has the following subsidiary redeemable units outstanding:

	Note	Number of units issued and outstanding		Amount
New issuance of units		16,034,631	$	160,346
Distribution Reinvestment Plan		164,116		1,773
Remeasurement of carrying value	19	–		19,307
Ending balance, December 31, 2012		16,198,747	$	181,426

During the period from July 20, 2012 to December 31, 2012, the Trust incurred $2,711 in distributions on the subsidiary redeemable units, which are included as interest expense in comprehensive income (see Note 18). All units were enrolled in the Distribution Reinvestment Plan. Accordingly, no cash was paid on distribution.

Holders of the LP Class A Units are entitled to vote at meetings of the limited partners of DILP and each Unit entitles the holder to a distribution equal to distributions on the subsidiary redeemable units. As at December 31, 2012, all issued and outstanding LP Class A Units are owned directly by Dundee Industrial and have been eliminated in the consolidated balance sheet.

Special Trust Units are issued in connection with subsidiary redeemable units. The Special Trust Units are not transferable separately from the subsidiary redeemable units to which they relate and will be automatically redeemed for a nominal amount and cancelled on surrender or exchange of such subsidiary redeemable units. Each Special Trust Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT Units that may be obtained on the surrender or exchange of the subsidiary redeemable units to which they relate. As at December 31, 2012, 16,198,747 Special Trust Units were issued and outstanding.

Note 14
Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan provides for the grant of deferred trust units to trustees, officers and employees as well as affiliates and their service providers, including the asset manager. Deferred trust units are granted at the discretion of the trustees and earn income deferred trust units based on the payment of distributions. Once issued, each deferred trust unit and the related distribution of income deferred trust units vest evenly over a three- or five-year period on the anniversary date of the grant. Subject to an election option available for certain participants to postpone receipt of REIT Units, such units will be issued immediately on vesting. As at December 31, 2012, up to a maximum of 1,500,000 deferred trust units are issuable under the Deferred Unit Incentive Plan.

The movement in the Deferred Unit Incentive Plan balance was as follows:

	Note		
As at July 20, 2012		$	–
Compensation during the period			46
Remeasurements of carrying value	19		5
As at December 31, 2012		$	51

During the period from July 20, 2012 to December 31, 2012, $46 of compensation expense was recorded and included in general and administrative expenses. For the same period, $5 was recognized in fair value adjustments to financial instruments representing the remeasurement of the Deferred Unit Incentive Plan liability during the period.

	Deferred trust units	Income deferred trust units	Total units
Granted during the period	40,418	402	40,820
Outstanding and payable at December 31, 2012	40,418	402	40,820

On October 18, 2012, 40,418 deferred trust units were granted to trustees and senior managers of the Trust. Of the units granted, 12,500 units relate to key management personnel. The grant date value of these deferred trust units was $11.15 per unit granted. None of the units were vested at December 31, 2012.

Note 15
Amounts payable and accrued liabilities

		December 31, 2012
Trade payables	$	2,109
Accrued liabilities and other payables		13,391
Accrued interest		2,753
Rent received in advance		422
Total	$	18,675

Note 16
Distributions

The following table breaks down distribution payments for the period from July 20, 2012 to December 31, 2012:

Paid in cash	$	2,132
Paid by way of reinvestment in REIT Units		44
Payable at December 31, 2012		2,039
Total	$	4,215

On December 18, 2012, the Trust announced a cash distribution of $0.05625 per REIT Unit for the month of December 2012. The December 2012 distribution will be payable on January 15, 2013, to unitholders of record as at December 31, 2012.

Dundee Industrial's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15th day of the following month. The amount of the annualized distribution to be paid is based on a percentage of distributable income. Distributable income is defined in the Declaration of Trust and the percentage is determined by the Trustees, at their sole discretion, based on what they consider appropriate given the circumstances of the Trust. Distributions may be adjusted for amounts paid in prior periods if the actual distributable income for those prior periods is greater or lesser than the estimates used for those prior periods. In addition, the trustees may declare distributions out of the income, net realized capital gains, net recapture income and capital of the Trust, to the extent such amounts have not already been paid, allocated or distributed. Distributable income is not a measure defined by IFRS and therefore may not be comparable to similar measures presented by other real estate investment trusts. The Trust declared distributions of $0.05081 per unit for the period October 4 to October 31, 2012 and $0.05625 per unit for the months of November and December, or $0.16331 per unit during the period from July 20, 2012 to December 31, 2012.

Note 17
Equity

	December 31, 2012	
	Number of Units	Amount
REIT Units	36,257,538	$ 326,211
Total	36,257,538	$ 326,211

Dundee Industrial REIT Units

Dundee Industrial is authorized to issue an unlimited number of REIT Units and an unlimited number of Special Trust Units. The Special Trust Units may only be issued to holders of subsidiary redeemable units.

REIT Units represent an undivided beneficial interest in Dundee Industrial and in distributions made by Dundee Industrial. No REIT Unit has preference or priority over any other. Each REIT Unit entitles the holder to one vote at all meetings of unitholders.

	Number of REIT Units	Amount
Equity, July 20, 2012	–	$ –
Net loss for the period	–	(20,873)
Distributions paid	–	(2,176)
Distributions payable	–	(2,039)
Public offering of REIT Units	33,895,000	347,092
REIT Units issued for KingSett transaction	2,358,491	25,000
Distribution Reinvestment Plan	4,047	44
Issue costs	–	(20,837)
Equity, December 31, 2012	36,257,538	$ 326,211

Public offering of REIT Units

On October 4, 2012, the Trust completed its initial public offering of 15,500,000 Units, at a price of $10 per unit for gross proceeds of $155,000. Concurrently with the initial public offering, Dundee Corporation and a Trustee purchased 1,750,000 Units and 750,000 Units, respectively, at a price of $10 per unit for gross proceeds totalling $25,000. On October 17, 2012, the Trust issued an additional 2,325,000 Units, pursuant to the exercise of the over-allotment option granted to the underwriters, for gross proceeds of $23,250. Costs related to the initial public offering of $14,531 (including costs of the over-allotment option) were charged directly to unitholders' equity.

On December 13, 2012, the Trust completed a public offering of 13,570,000 REIT Units, at a price of $10.60 per unit for gross proceeds of $143,842, including 1,770,000 REIT Units pursuant to the exercise of the over-allotment option granted to the underwriters. Costs related to the offering of $6,224 were charged directly to unitholders' equity.

Units issued for KingSett transaction

Pursuant to the acquisition of the KingSett Portfolio on December 19, 2012, the Trust issued 2,358,491 REIT Units to an affiliate of KingSett Capital Inc. as partial consideration for the KingSett Portfolio. Costs related to the issue of REIT Units to KingSett of $82 were charged directly to unitholders' equity.

Distribution Reinvestment and Unit Purchase Plan

The Distribution Reinvestment and Unit Purchase Plan ("DRIP") allows holders of REIT Units or subsidiary redeemable units, other than unitholders who are resident of or present in the United States, to elect to have all cash distributions from Dundee Industrial reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 3.0% of each cash distribution that was reinvested. The price per unit is calculated by reference to a five-day weighted average closing price of the REIT Units on the Toronto Stock Exchange preceding the relevant distribution date, which typically is on or about the 15th day of the month following the declaration.

For the period ended December 31, 2012, 4,047 REIT Units were issued under the DRIP for $44.

The Unit Purchase Plan feature of the DRIP facilitates the purchase of additional REIT Units by existing unitholders. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT Units that may be acquired. The price per unit is calculated in the same manner as the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase features of the DRIP. For the period ended December 31, 2012, no REIT Units were issued under the Unit Purchase Plan.

Short form base shelf prospectus

On November 26, 2012, the Trust issued a short form base shelf prospectus which is valid for a 25-month period, during which time the Trust may offer and issue, from time to time, units and debt securities convertible into or exchangeable for units of the Trust, or any combination thereof, having an aggregate offering price of up to $1 billion. As of December 31, 2012, $168,842 in REIT Units and $111,250 in debt securities have been issued under the short form base shelf prospectus.

Note 18
Interest
Interest on debt

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

	Period from July 20, 2012 to December 31, 2012
Interest expense incurred, at contractual rate	$ 3,963
Amortization of financing costs	100
Amortization of fair value adjustments on acquired debt and debentures	(819)
Interest expense	3,244
Add/deduct:	
Amortization of financing costs	(100)
Amortization of fair value adjustments on acquired debt and debentures	819
Change in accrued interest	(1,654)
Cash interest paid	$ 2,309

Certain debt assumed in connection with acquisitions has been adjusted to fair value using the estimated market interest rate at the time of the acquisition ("fair value adjustment"). This fair value adjustment is amortized to interest expense over the expected life of the debt using the effective interest rate method. Non-cash adjustments to interest expense are recorded as a change in non-cash working capital in the consolidated statement of cash flows.

Interest on subsidiary redeemable units

Interest payments charged to comprehensive income are recorded as follows:

	Period from July 20, 2012 to December 31, 2012
Paid by way of reinvestment in subsidiary redeemable units	$ 1,773
Plus: Interest payable at December 31, 2012	938
Total	$ 2,711

The interest payable at December 31, 2012, was satisfied on January 15, 2013, in connection with the issue of 83,349 subsidiary redeemable units.

Note 19
Fair value adjustments to financial instruments

	Note	Period from July 20, 2012 to December 31, 2012
Fair value adjustment on conversion feature of the convertible debentures	12	$ 1,822
Remeasurement of carrying value of subsidiary redeemable units	13	19,307
Remeasurement of Deferred Unit Incentive Plan	14	5
		$ 21,134

Note 20

Related party transactions and arrangements

From time to time, Dundee Industrial and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Dundee Industrial, DILP, Dundee Industrial Management Limited Partnership (a wholly owned subsidiary of DILP), Dundee Industrial Management Corporation and Dundee Realty Management Corporation ("DRMC") are parties to an administrative services agreement (the "Services Agreement") that is in effect until October 4, 2013. Effective October 4, 2012, Dundee Industrial also has an asset management agreement (the "Asset Management Agreement") with Dundee Realty Corporation ("DRC"), pursuant to which DRC provides certain asset management services to Dundee Industrial and its subsidiaries, which is in effect until October 4, 2022.

Asset Management Agreement

The Asset Management Agreement provides for a broad range of asset management services for the following fees:

- base annual management fee calculated and payable on a monthly basis, equal to 0.25% of the gross asset value of properties (which, with respect to the Initial Properties, will be the sum of the purchase prices reflected in the ROI purchase agreement);
- incentive fee equal to 15% of Dundee Industrial's adjusted funds from operations per unit in excess of $0.80 per unit, increasing annually by 50% of the increase in the consumer price index;
- capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1.0 million, excluding work done on behalf of tenants or any maintenance capital expenditures;
- acquisition fee equal to: (a) 1.0% of the purchase price of a property, on the first $100 million of properties in each fiscal year; (b) 0.75% of the purchase price of a property on the next $100 million of properties acquired in each fiscal year; and (c) 0.50% of the purchase price on properties in excess of $200 million in each fiscal year. No acquisition fee was payable to DRC from the Trust in respect of the acquisition of the Initial Properties; with the exception of the proportionate share acquired from ROI;
- financing fee equal to 0.25% of the amount of debt and equity relating to all financing transactions completed to a maximum of actual expenses incurred by DRC in supplying services relating to financing transactions. No financing fee was due with respect to the acquisition of the Initial Properties or the initial public offering.

In addition, Dundee Industrial will reimburse DRC for all reasonable actual out-of-pocket costs and expenses incurred in connection with the performance of the services described in the Asset Management Agreement or such other services that Dundee Industrial and DRC agree in writing are to be provided from time to time by DRC.

Related party transactions

The portion of fees paid and payable to related parties were as follows:

	Period from July 20, 2012 to December 31, 2012
Amounts paid and payable	
Fees paid by Dundee Industrial under the Asset Management Agreement included in:	
General and administrative expenses	$ 439
Property acquisitions and acquisition related costs	3,744
Financing costs reported in debt	314
Total fees paid and payable under the Asset Management Agreement	$ 4,497

During the period the Trust also incurred service fees of $1,020 charged by DRMC.

Included in amounts payable and accrued liabilities at December 31, 2012 is $3,237 related to the Asset Management Agreement.

Included in amounts receivable at December 31, 2012 is a net amount due from Dundee REIT of $41 for acquisition related costs and issuance costs related to the initial public offering, paid by Dundee REIT on behalf of Dundee Industrial, offset by the working capital adjustments as a result of the acquisition of the Initial Properties. Also included in the accounts receivable is an amount of $64 for an overpayment of service fees to DRMC. Furthermore, included in accounts payable and accrued liabilities is an amount payable to Dundee REIT of $938 related to the cash distribution of $0.05625 per REIT Unit for the month of December 2012. An interest payable on the promissory notes payable due to Dundee REIT for $317 is also included in accounts payable and accrued liabilities as at December 31, 2012. For the three-month period ended December 31, 2012, and for the period July 20, 2012 to December 31, 2012, the Trust had recorded $2,711 in interest expense on subsidiary redeemable units relating to distributions paid to Dundee REIT on their LP B Units. At December 31, 2012, Dundee REIT's retained interest in the Trust was 30.9%.

Concurrently with the initial public offering (see Note 17), Dundee Corporation and a Trustee who is also the Chief Executive Officer of DRC purchased 1,750,000 and 750,000 Units, respectively, at a price of $10 per unit for gross proceeds totalling $25,000. Included in distributions payable is an amount payable to the Trustee for $42 and DRC for $98 related to the cash distribution of $0.05625 per REIT Unit for the month of December 2012.

Compensation of key management personnel for the period from July 20, 2012 to December 31, 2012, is as follows:

Unit-based awards[(1)]	$	136
Total	$	136

(1) Deferred trust units granted vest over a five-year period with one-fifth of the deferred trust units vesting each year. Amounts are determined based on the grant date fair value of deferred trust units multiplied by the number of deferred trust units granted in the period.

Note 21
Supplementary cash flow information

		Period from July 20, 2012 to December 31, 2012
Decrease in amounts receivable	$	5,382
Decrease in prepaid expenses and other assets		1,414
Increase in other non-current assets		(435)
Increase in amounts payable and accrued liabilities		11,910
Decrease in tenant deposits		(248)
Decrease in deferred revenue		(6,826)
Change in non-cash working capital	$	11,197

The following amounts were paid on account of interest:

		Period from July 20, 2012 to December 31, 2012
Interest:		
Debt	$	2,309

Note 22

Commitments and contingencies

Dundee Industrial REIT and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of Dundee Industrial.

Purchase and other obligations

The Trust has entered into lease agreements that may require tenant improvement costs of approximately $254.

Note 23

Capital management

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

The Trust's capital consists of debt, including mortgages, promissory notes payable, convertible debentures, subsidiary redeemable units, credit and bridge facilities, and unitholders' equity. The Trust's objectives in managing capital are to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions, to fund leasing costs and capital expenditure requirements, and to provide for resources needed to acquire new properties.

Various debt, equity and earnings distribution ratios are used to ensure capital adequacy and monitor capital requirements. The primary ratios used for assessing capital management are the interest coverage ratio and net debt-to-gross carrying value. Other significant indicators include weighted average interest rate, average term to maturity of debt and variable debt as a portion of total debt. These indicators assist the Trust in assessing whether the debt level maintained is sufficient to provide adequate cash flows for unitholder distributions and capital expenditures and for evaluating the need to raise funds for further expansion. Various mortgages have debt covenant requirements that are monitored by the Trust to ensure there are no defaults. These include loan-to-value ratios, cash flow coverage ratios, interest coverage ratios and debt service coverage ratios. These covenants are measured at the subsidiary limited partnership level, and all have been complied with.

The Trust's equity consists of REIT Units, in which the carrying value is impacted by earnings and unitholder distributions. The Trust endeavours to make annual distributions of $0.675 per unit. Amounts retained in excess of the distributions are used to fund leasing costs, capital expenditures and working capital requirements. Management monitors distributions through various ratios to ensure adequate resources are available. These include the proportion of distributions paid in cash, DRIP participation ratio, total distributions as a percent of distributable income and distributable income per unit.

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

The DILP agreement limits the Trust's interest coverage ratio to no less than 1.4 times. The interest coverage ratio is calculated as net operating income from continuing operations, plus interest and fee income, less general and administrative expense from continuing operations, including equity accounted investments, divided by interest expense. For the period ended December 31, 2012, the Trust's interest coverage ratio was 3.6 times, reflecting its ability to cover interest expense requirements.

	Period from July 20, 2012 to December 31, 2012
Investment properties revenue	$ 17,202
Investment properties operating expenses	4,667
Net rental income	12,535
Add: Interest and fee income	16
Less: General and administrative expenses	855
	$ 11,696
Interest expense – debt	$ 3,244
Interest coverage ratio	3.6 times

Note 24
Financial instruments
Risk management

IFRS 7, “Financial Instruments: Disclosures” (“IFRS 7”), places emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks, including market, credit and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other market price risk. The Trust has some exposure to interest rate risk primarily as a result of its variable rate debt. In addition, there is interest rate risk associated with the Trust’s fixed rate debt due to the expected requirement to refinance such debts in the year of maturity. The Trust is exposed to the variability in market interest rates on maturing debt to be renewed. Variable rate debt at December 31, 2012, was 6.52% of the Trust’s total debt.

The following interest rate sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate assets and liabilities for the prospective 12-month period and the fixed rate debt due to mature in 2013. A 1% change is considered a reasonable level of fluctuation on variable rate assets and liabilities.

		Interest rate risk			
		–1%		+1%	
	Carrying amount	Income	Equity	Income	Equity
Financial assets					
Cash and cash equivalents[1]	$ 2,306	$ (23)	$ (23)	$ 23	$ 23
Financial liabilities					
Variable rate debt and fixed rate debt due to mature in a year	$ 85,800	$ 858	$ 858	$ (858)	$ (858)

(1) Cash and cash equivalents are short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent its use for current purposes. These balances generally receive interest income less than 1%. Cash and cash equivalents are short term in nature and the current balance may not be representative of the balance for the rest of the year.

The Trust is not exposed to currency risk or other price risk. Credit risk arises from the possibility that tenants in investment properties may not fulfill their lease or contractual obligations. The Trust mitigates its credit risks by attracting tenants of sound financial standing and by diversifying its mix of tenants. It also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. Cash and cash equivalents, deposits and restricted cash carry minimal credit risk as all funds are maintained with highly reputable financial institutions.

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

Fair value of financial instruments

Amounts receivable, cash and cash equivalents, subsidiary redeemable units, the Deferred Unit Incentive Plan, deposits, amounts payable and accrued liabilities, and distributions payable are carried at amortized cost which approximates fair value. The conversion feature on the convertible debentures is measured at fair value.

Financial instruments carried at amortized cost where carrying value does not approximate fair value are noted below:

	December 31, 2012	
	Total	
	Carrying value	Fair value
Mortgages	$ 462,359	$ 463,279
Demand revolving credit facility	10,000	10,000
Promissory notes payable	42,000	42,000
Unsecured non-revolving bridge facility	32,394	32,500
Convertible debentures	103,092	108,081

The Trust values financial instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Trust maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The fair value of the conversion feature of the convertible debentures was determined using critical inputs, some of which are not directly observable based on market data. The critical inputs are the unit price and the units' distribution yield, the underlying unit volatility, the risk-free rate and the assumed credit spread.

	December 31, 2012		
	Level 1	Level 2	Level 3
Financial liabilities			
Conversion feature of the convertible debentures	$ –	$ –	$ 6,228

Note 25

Subsequent events

Subsequent to December 31, 2012, Dundee Industrial made repayments on some of the outstanding debts, entered into two mortgage agreements and also announced a bought-deal financing. The transactions are described below in the chronological order.

On January 9, 2013, the Trust entered into a $48,606 mortgage facility at an interest rate of 3.95%.

On January 10, 2013, the Trust repaid the promissory notes and the interest payable to Dundee REIT in full.

On January 18, 2013, the Trust entered into a new $50,000 mortgage facility at an interest rate of 3.68%.

On January 21, 2013, the Trust repaid the $32,500 drawn on the unsecured non-revolving bridge facility and the $10,000 outstanding debt on the demand revolving credit facility.

On February 11, 2013, Dundee Industrial announced that it has entered into an agreement to sell 9,100,000 Units on a bought deal basis at a price of $11.00 per unit for gross proceeds of $100,100. In addition, Dundee Industrial has granted the syndicate an over-allotment option, exercisable for a period of 30 days following closing, to purchase up to an additional 1,365,000 Units which, if exercised, would increase the gross offering size to $115,115. A preliminary short form prospectus relating to the issuance of the Units was filed with the securities commissions or other similar regulatory authorities in each of the provinces of Canada on or before February 15, 2013.