Management's discussion and analysis

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

Section I – Objectives and financial highlights

Basis of presentation

Our discussion and analysis of the financial position and results of operations of Dundee Industrial Real Estate Investment Trust ("Dundee Industrial REIT" or "Dundee Industrial" or the "Trust") should be read in conjunction with the audited consolidated financial statements of Dundee Industrial for the period from July 20, 2012 to December 31, 2012.

This management's discussion and analysis is dated as at January 31, 2013, except where otherwise noted.

For simplicity, throughout this discussion, we may make reference to the following:

- "REIT Units", meaning the REIT Units
- "LP B Units" and "subsidiary redeemable units", meaning the LP Class B Units
- "Units", meaning REIT Units and LP B Units

Certain market information has been obtained from CB Richard Ellis, Canadian Industrial MarketView, Fourth Quarter 2012, a publicly available document prepared by an independent third party commercial firm that provides information relating to the real estate industry. Although we believe this information is reliable, its accuracy and completeness is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Trust's control, which could cause actual results to differ materially from those disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; our ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; our ability to source and complete accretive acquisitions; and interest rates.

Although the forward-looking statements contained in this MD&A are based on 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; and our continued compliance with the REIT exemption under the specified investment flow-through trust ("SIFT") legislation; and other risks and factors described from time to time in the documents filed by the Trust with securities regulators.

All forward-looking information is as of January 31, 2013, except where otherwise noted. Dundee Industrial 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. Certain filings are also available on our web site at www.dundeeindustrial.com.

Background

Dundee Industrial REIT is an unincorporated, open-ended real estate investment trust that was formed to provide investors with the opportunity to invest in a Canadian focused, pure-play industrial REIT. Dundee Industrial was founded on July 20, 2012 by Dundee Real Estate Investment Trust ("Dundee REIT"), which at January 31, 2013 had a retained investment of 30.9%. After taking into account the equity offering announced on February 11, 2013, Dundee REIT's retained interest in the Trust would be approximately 26.4%. Our REIT Units are listed on the Toronto Stock Exchange under the trading symbol DIR.UN.

On October 4, 2012, we completed our initial public offering ("IPO"), acquiring 77 industrial properties totalling 6.0 million square feet (the "Initial Properties") from subsidiaries of Dundee REIT and affiliates of Return On Innovation Capital Ltd. ("ROI") for cash consideration of approximately $177.7 million, subject to working capital adjustments, $160.3 million of LP B Units issued to wholly owned subsidiaries of Dundee REIT, which are exchangeable for REIT Units of Dundee Industrial, a $42.0 million promissory note payable to wholly owned subsidiaries of Dundee REIT and the assumption of mortgages.

On November 30, 2012, we acquired two fully leased income-producing light industrial properties totalling 0.2 million square feet located in the Greater Toronto Area ("GTA") for $17.2 million including transaction costs. The acquisition was funded with cash on hand from the IPO and by drawing $10.0 million on our revolving credit facility.

On December 19, 2012, we acquired 79 industrial properties totalling 5.2 million square feet from KingSett Capital Inc. ("KingSett" and the "KingSett Portfolio") for cash consideration of $293.8 million, $25.0 million of REIT Units, $25.0 million of 5.25% unsecured subordinated convertible debentures issued to an affiliate of KingSett, and the assumption of $148.5 million in mortgages before fair value adjustments.

At December 31, 2012, we owned 158 income-producing light industrial buildings located in primary and secondary markets in seven Canadian provinces.

Our objectives

We are committed to:

- managing our business to provide growing cash flow and stable and sustainable returns through adapting our strategy and tactics to changes in the real estate industry and the economy;
- building and maintaining a diversified, growth-oriented portfolio of light industrial properties in major Canadian markets, based on an established platform;
- providing predictable and sustainable cash distributions to unitholders and prudently managing distributions over time; and
- maintaining a REIT that satisfies the REIT exception under the SIFT legislation in order to provide certainty to unitholders with respect to taxation of distributions.

Distributions

We currently pay monthly distributions to unitholders of $0.056 per unit, or $0.675 per unit on an annual basis. At December 31, 2012, approximately 45.6% of our total Units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP"), including 2.6% of the REIT Units and 100% of the LP B Units. Commencing January 1, 2013, the LP B Units will no longer be in the DRIP (see a description of Our Equity on page 15).

			2012
	October	November	December
Distribution rate	$ 0.051	$ 0.056	$ 0.056
Month-end closing price	$ 11.39	$ 10.70	$ 11.20

Our strategy

Dundee Industrial REIT is a growth-oriented owner of income-producing light industrial properties across Canada providing stable and predictable distributions to unitholders on a tax-efficient basis. Our strategy is to grow our portfolio and the distributable income that it generates on a per unit basis, and to do so in a manner that minimizes risk. We will continue to review and modify our strategy to meet the ever changing real estate and economic conditions. Our strategy includes:

Seeking accretive growth opportunities

Dundee Industrial REIT seeks to invest in desirable, highly functional properties located in major industrial centres that are well leased on a long-term basis to quality tenants. When evaluating acquisitions we consider a variety of criteria, including per unit accretion, replacement cost of the asset, its functionality and appeal to future tenants, and how it complements our existing portfolio.

Optimizing the performance, value and cash flow of our portfolio

We actively manage our assets to optimize performance, maintain value, retain and attract tenants and to maximize cash flows to our unitholders. Dundee Industrial REIT has experienced staff in all markets where we are active. We strive to ensure that our assets are the most attractive and cost-effective premises for our tenants, the success of which is evidenced by our occupancy rates, which are often higher than the market average.

Growing and diversifying our portfolio to reduce risk

We seek to grow and diversify our portfolio to increase value on a per unit basis, further improve the sustainability of our distributions, strengthen our tenant profile and mitigate risk. We anticipate that growing our portfolio will also reduce our cost of capital, allowing us to both refinance existing mortgages at lower rates and increase our ability to competitively bid on acquisition opportunities. We have experience in each of Canada's key real estate markets and across all asset classes, which we believe will provide us with the flexibility to pursue acquisitions in whichever markets offer compelling investment opportunities.

Maintaining and strengthening our conservative financial profile

We operate our business in a disciplined manner with a strong focus on maintaining a conservative financial structure. We actively manage our mortgage maturity profile, maintain a conservative debt ratio and generate cash flows sufficient to fund our distributions.

Our assets

Our properties

Dundee Industrial REIT owns and manages a portfolio of high-quality light industrial properties located in primary and secondary markets across Canada.

In Q4 2012, we completed our IPO on October 4, 2012 and subsequently completed two additional acquisitions. On November 30, 2012, we acquired two fully leased single tenant properties totalling 0.2 million square feet of gross leasable area ("GLA") in the GTA. On December 19, 2012, we completed the acquisition of a portfolio of 79 light industrial properties comprising 5.3 million square feet of GLA in Halifax, Calgary, the GTA and the Greater Montréal Area.

Dundee Industrial REIT's portfolio comprises 158 properties totalling 11.4 million square feet of GLA. Our properties are located in desirable business parks, close to highways and are generally considered functional and well suited for their respective markets. The occupancy rate across our industrial portfolio is high at 96.3%, ahead of the national industry average occupancy rate of 93.9% (CB Richard Ellis, Canadian Industrial MarketView, Fourth Quarter 2012). Our occupancy rates include lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized.

These properties are geographically diversified as follows:

							December 31, 2012
	Number of properties			Owned GLA (sq. ft.)			
Province	Initial Properties	Acquisitions	Total	Initial Properties	Acquisitions	Total	%
British Columbia	1	–	1	17,405	–	17,405	0.2
Alberta	46	21	67	2,052,933	1,224,622	3,277,555	28.6
Saskatchewan	6	–	6	829,815	–	829,815	7.3
Ontario	8	17	25	883,923	1,033,478	1,917,401	16.8
Québec	9	19	28	1,767,200	1,437,316	3,204,516	27.9
New Brunswick	3	–	3	134,704	–	134,704	1.2
Nova Scotia	4	24	28	320,250	1,736,549	2,056,799	18.0
Total	77	81	158	6,006,230	5,431,965	11,438,195	100.0

Our portfolio comprises multi-tenant buildings totalling 7.0 million square feet, or 39%, and single-tenant buildings totalling 4.4 million square feet, or 61%.

Key performance indicators

Performance is measured by these and other key indicators:

	Three months ended December 31, 2012	Financial forecast for the three months ended December 31, 2012[1]	Period from July 20, 2012 to December 31, 2012	Financial forecast (pro-rated)[1]
Operations				
Occupancy rate (period-end)	96.3%	–	–	–
Average in-place base rent per square foot (period-end)	$ 7.12	$ –	$ –	$ –
Operating results				
Investment properties revenue[2]	$ 17,202	$ 15,365	$ 17,202	$ 14,864
Net operating income ("NOI")[2][3]	12,535	11,893	12,535	11,505
Funds from operations ("FFO")[2][4]	8,452	8,052	8,452	7,789
Adjusted funds from operations ("AFFO")[2][5]	6,492	6,008	6,492	5,812
Fair value increase to investment properties	6,048	–	6,048	–
Distributions				
Declared distributions	$ 6,846		$ 6,846	
Distributions paid in cash	4,171		4,171	
DRIP participation ratio	39%		39%	
Financing				
Weighted average effective interest rate on debt (period-end)			3.72%	
Interest coverage ratio			3.6 times	
Per unit amounts[6]				
Basic:				
FFO[2]	$ 0.22	$ 0.24	$ 0.22	$ 0.24
AFFO[2]	0.17	0.18	0.17	0.18
Distribution rate	0.16		0.16	
Diluted:				
FFO[2]	0.21	0.24	0.21	0.24

(1) Financial forecast – Refers to the financial forecast for the three-month period ended December 31, 2012 included in our prospectus dated September 26, 2012; pro-rated to reflect our ownership of the Initial Properties commencing on October 4, 2012.

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

(3) NOI is defined as net rental income. The reconciliation of NOI to net rental income can be found on page 20.

(4) FFO – The reconciliation of FFO to net income can be found on page 21.

(5) AFFO – The reconciliation of AFFO to FFO can be found on page 21.

(6) A description of the determination of basic and diluted amounts per unit can be found on page 21.

Financial overview

We have had a very exciting first quarter of operations. Not only did we launch the REIT, but since the IPO we have transformed it in many positive ways. Below is an overview of our financial and portfolio highlights for the quarter.

AFFO was $6.5 million, or $0.17 on a per unit basis. At the time of our IPO we forecasted AFFO of $0.18 per unit. The one-cent difference primarily reflects temporary dilution arising from the timing difference between receiving proceeds from the IPO over-allotment and the equity and convertible debenture financings completed on December 19, 2012, and acquisitions completed later in the period.

FFO on a per unit basis was $8.5 million or $0.22 per unit. FFO in the IPO forecast was $0.24 per unit. Similar to AFFO, actual results are lower primarily due to the impact of having excess cash in the quarter.

NOI for the quarter was $12.5 million, of which $10.9 million was generated by the Initial Properties (before straight-line rent).

Property acquisitions in the first quarter totalled $1,140.8 million, of which $643.4 million relates to the Initial Properties and the balance in two subsequent acquisitions. In connection with acquisitions, we assumed $429.9 million of mortgages including fair value adjustments, and entered into new mortgage financing, net of financing costs of $34.5 million with an interest rate of 3.46% and term to maturity of five years. We also secured a revolving credit facility with a formula-based maximum amount of $49.6 million, of which $10.0 million was drawn at December 31, 2012, and entered into a bridge loan credit facility, drawing $32.5 million at the end of the quarter. Finally, we issued $111.3 million principal amount of 5.25% convertible unsecured subordinated debentures. At December 31, 2012, our weighted average interest rate was 4.19%, with a weighted average term to maturity of 4.1 years and a debt-to-gross book value of 54.3%.

On October 4, 2012, we completed our IPO, issuing 18.0 million REIT Units at $10.00 per unit. On October 17, 2012, we issued an additional 2.3 million REIT Units pursuant to the exercise of the over-allotment option granted to the underwriters. Total gross proceeds of the IPO were $203.2 million. On December 13, 2012, we issued an additional 13.6 million REIT Units at a price of $10.60 per unit to the public for gross proceeds of $143.8 million. Finally, on December 19, 2012, we issued 2.4 million REIT Units to an affiliate of KingSett as partial consideration for the KingSett Portfolio. In connection with these equity offerings, we paid $20.8 million in offering costs.

Outlook

Since our IPO, Dundee Industrial REIT has solidified its position as the largest pure-play industrial REIT in Canada. While we began with a strong and established national platform, the acquisitions completed prior to December 31, 2012 significantly improved the Trust by:

- increasing the total size of the portfolio, in particular enhancing our presence in Calgary and Halifax – two markets where investment product is tightly held;
- improved the diversification of our portfolio across the country;
- reduced our exposure to any single tenant;
- strengthened our cash flows;
- doubled our enterprise value; and
- lowered our payout ratio.

Looking ahead, we anticipate that there will be significant acquisition opportunities in 2013 given the highly fragmented ownership within the Canadian industrial sector and we see continued growth of the Trust through acquisition. As has been the case historically, we expect this growth will be fueled by a combination of portfolio transactions and individual property transactions. Dundee Industrial has already earned a reputation for the professional and timely execution of acquisitions and has demonstrated access to the debt and equity markets. We believe that we will be a preferred buyer of industrial assets in 2013.

In pursuing acquisitions, we will remain focused on the established industrial markets and those assets that meet our investment criteria and improve our overall business. The equity and debt markets remain healthy and as a result we believe that Dundee Industrial REIT, with a large diversified portfolio and a conservative balance sheet, is well-positioned to finance new acquisitions. We remain focused on maintaining a manageable AFFO payout ratio, within the range of 85% to 90%, and a conservative debt-to-gross book value ratio within the range of 50% to 55%, and are confident that we can complete accretive acquisitions while maintaining these key metrics.

We will also maintain a continued focus on multi-tenant buildings, as they offer greater tenant diversification and have staggered lease expiry profiles, which we believe to be more conservative.

Our assets are located in the strongest industrial markets in Canada and we believe that there will be continued, modest improvement in overall occupancy rates and net rental rates, which will have a positive impact on our portfolio. Some new industrial properties will be completed in several markets, notably Calgary and Toronto; however, these properties will not have an impact on our portfolio in the coming year. With approximately 10% of our leases coming up for renewal in 2013 and no one tenant representing more than 0.5% of the GLA, we believe our 2013 renewals are quite manageable.

We believe that through the active management of our assets, an active acquisition program and improving leasing fundamentals, we will continue to grow our AFFO in 2013.

Section II – Executing the strategy

Our operations

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

	December 31, 2012		
Performance indicators	Multi-tenant buildings	Single-tenant buildings	Total
Occupancy rate	94.5%	99.0%	96.3%
Average in-place base net rental rates (per sq. ft.)	$ 7.24	$ 6.94	$ 7.12
Tenant maturity profile – average term to maturity (years)	3.64	8.04	5.41

Occupancy

At December 31, 2012, the overall percentage of occupied and committed space across our portfolio was high at 96.3%, well above the national industry average of 93.9%. Occupancy in our Initial Properties improved to 97.1% from 96.8% on October 4, 2012. Occupancy rates discussed in this report with respect to our portfolio include occupied and committed space at December 31, 2012. Below is our occupancy by region:

	Total portfolio	Initial Properties[1]	
(percentage)	December 31, 2012	December 31, 2012	October 4, 2012
Western Canada	95.8	95.7	94.7
Central Canada	97.3	99.8	99.8
Eastern Canada	94.8	90.1	92.5
Total	96.3	97.1	96.8

Vacancy schedule

During the period from October 4, 2012 to December 31, 2012, activity in our portfolio included the assumption of 479,972 square feet of vacancy with acquired properties, 160,845 square feet either expired or terminated, and 129,324 square feet of renewals and new leasing completed. We ended the period with 511,493 square feet of vacant space, of which 83,687 square feet is committed for future occupancy.

(in square feet)	Period from October 4, 2012 to December 31, 2012
Vacancy acquired in the period	479,972
Vacant space at beginning of period	479,972
Expiries	140,118
Early terminations and bankruptcies	20,727
New leases	(27,071)
Renewals	(102,253)
Vacant space – December 31, 2012	511,493
Vacancy committed for future occupancy	83,687
Available for lease – December 31, 2012	427,806

In-place rental rates

At December 31, 2012, estimated market rents were 6.3% higher than portfolio average in-place base rents, presenting us with the opportunity to capture gains when space is renewed or newly leased.

	December 31, 2012		
Total portfolio	Average in-place base rent	Market rent	Market rent/ in-place rent (%)
Western Canada	$ 8.40	$ 9.37	11.6
Central Canada	6.21	6.24	0.5
Eastern Canada	6.87	7.34	6.8
Total	$ 7.12	$ 7.57	6.3

Leasing and tenant profile

The average remaining lease term and other portfolio information are detailed in the following table. Our single-tenant buildings have an average remaining lease term of 8.0 years and our multi-tenant buildings have average remaining lease terms of 3.6 years. The weighted average lease term of our top 20 tenants by annualized base rent is 8.9 years.

	December 31, 2012		
	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place base rent (per sq. ft.)
Western Canada	3.88	8,611	$ 8.40
Central Canada	7.33	30,748	6.21
Eastern Canada	3.72	6,237	6.87
Total	5.41	11,541	$ 7.12

The following table details our lease maturity profile by geographic segment at December 31, 2012. The table distinguishes between lease maturities that have yet to be renewed or re-leased and maturities for which we have a leasing commitment. The uncommitted line should be referenced when considering future leasing risks or opportunities, and the committed line should be referenced when considering the impact of leasing activity. In 2013, 1,238,648 square feet will expire, of which 326,778 square feet, or 26%, has already been committed for future occupancy. Our current maturity profile is well balanced with 10.8% of leases expiring in 2013, 10.6% expiring in 2014 and 13.0% expiring in 2015.

(in sq. ft.)	Current vacancy	Current monthly tenancies	2013	2014	2015	2016	2017 to 2023	Total
Western Canada								
Uncommitted	172,505	12,559	448,585	621,934	616,081	713,245	1,270,999	3,855,908
Committed	–	–	216,876	–	9,809	–	42,182	268,867
Total Western Canada	172,505	12,559	665,461	621,934	625,890	713,245	1,313,181	4,124,775
Central Canada								
Uncommitted	140,779	3,518	213,971	282,438	443,761	155,757	3,830,715	5,070,939
Committed	–	–	50,978	–	–	–	–	50,978
Total Central Canada	140,779	3,518	264,949	282,438	443,761	155,757	3,830,715	5,121,917
Eastern Canada								
Uncommitted	114,522	–	249,314	305,637	418,039	410,588	634,479	2,132,579
Committed	–	–	58,924	–	–	–	–	58,924
Total Eastern Canada	114,522	–	308,238	305,637	418,039	410,588	634,479	2,191,503
Total								
Uncommitted	427,806	16,077	911,870	1,210,009	1,477,881	1,279,590	5,736,193	11,059,426
Committed	–	–	326,778	–	9,809	–	42,182	378,769
Total	427,806	16,077	1,238,648	1,210,009	1,487,690	1,279,590	5,778,375	11,438,195

The following table details expiring rents across our portfolio as well as our estimate of average market rents based on current leasing activity in comparable properties at December 31, 2012. Expiring rents and market rents represent base rates and do not include the impact of lease incentives. Currently, our 2013 market rents are approximately 4.0% above expiring rents and our 2014 market rents are 1.9% above expiring, presenting opportunity to increase rents as space is re-leased.

(per square foot)	Current monthly tenancies	2013	2014	2015	2016
Expiring rents					
Western Canada	$ 9.65	$ 9.80	$ 8.78	$ 8.48	$ 6.48
Central Canada	8.13	6.86	5.61	5.77	6.62
Eastern Canada	–	6.51	6.87	6.49	7.28
Portfolio average	$ 9.32	$ 8.21	$ 7.56	$ 7.10	$ 6.75
Market rents(1)					
Western Canada	$ 12.08	$ 10.25	$ 8.93	$ 9.09	$ 7.91
Central Canada	5.00	6.44	5.50	5.77	5.66
Eastern Canada	–	7.27	7.25	6.75	7.57
Market rent average	$ 10.53	$ 8.54	$ 7.70	$ 7.43	$ 7.52

(1) Estimate only; based on current market rents with no allowance for increases in future years. Subject to changes in market conditions in each market.

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 upon asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. Short-term leases generally have lower costs than long-term leases.

For the period from July 20, 2012 to December 31, 2012, we incurred $0.6 million in leasing costs and lease incentives, representing an average rate of $4.35 per square foot leased.

Performance indicators	Total
Operating activities	
Portfolio size (sq. ft.)	11,438,195
Occupied and committed	96.3%
Square footage leased and occupied in 2012	129,324
Lease incentives and initial direct leasing costs paid in 2012	$ 562

Tenant base profile

Our tenant base profile consists of a diverse range of high-quality tenants. With 954 tenants, our risk exposure to any single large lease or tenant is low. The average size of our industrial tenants is 11,541 square feet, averaging 86,743 square feet across our single-tenant buildings and 7,294 square feet in our multi-tenant buildings.

Tenant	Owned area (sq. ft.)	Owned area (%)	Gross annualized base rent (%)	Weighted average remaining lease term (years)
Spectra/Premium Industries Inc.	642,368	5.6	5.2	12.4
TC Transcontinental	523,345	4.6	4.3	9.3
Molson Breweries	225,000	2.0	3.0	10.0
The Brick	327,000	2.9	2.8	11.4
Royal Group	346,035	3.0	2.4	5.0
Clean Harbors Industrial	93,672	0.8	2.1	5.8
Nellson Nutraceutical Canada	210,710	1.8	1.6	6.8
Effigi Inc.	115,362	1.0	1.3	14.5
Access Distribution	239,901	2.1	1.2	3.2
McKesson Canada	181,000	1.6	1.1	5.0
Total	2,904,393	25.4	25.0	8.9

Our resources and financial condition

Investment properties

At December 31, 2012, the fair value of our investment property portfolio was $1.1 billion, representing a weighted average capitalization rate ("cap rate") of 6.80%.

During Q4 2012 we:

- completed the $643.4 million acquisition of the Initial Properties;
- acquired two properties in the GTA for $17.2 million;
- completed the $480.2 million acquisition of the KingSett Portfolio;
- incurred $0.6 million in lease incentives; and
- recorded fair value gains of $6.0 million.

Fair values were determined using the direct capitalization method and/or the discounted cash flow method. The direct capitalization method applies a cap rate to stabilized NOI and incorporates allowances for vacancy and management fees. The resulting capitalized value is further adjusted for extraordinary costs to stabilize income and non-recoverable capital expenditures, where applicable. Individual properties were valued using cap rates in the range of 5.85% to 8.75%. The discounted cash flow method discounts the expected future cash flows, generally over a term of ten years, and uses discount rates and terminal capitalization rates specific to each property.

The increase in fair value is primarily attributable to the Initial Properties with respect to which there was slight cap rate compression and increases in stabilized NOI.

The fair value of our investment properties is set out below.

	Total portfolio		Initial Properties
	December 31, 2012	December 31, 2012	October 4, 2012
Western Canada	$ 523,683	$ 373,722	$ 370,340
Central Canada	425,017	247,852	246,580
Eastern Canada	198,710	28,995	26,455
Total	$ 1,147,410	$ 650,569	$ 643,375

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

						Capitalization rates
	Total portfolio					Initial Properties
	December 31, 2012		**December 31, 2012**		October 4, 2012	
	Range (%)	**Weighted average (%)**	**Range (%)**	**Weighted average (%)**	Range (%)	Weighted average (%)
Western Canada	**5.85–8.25**	**6.52**	**6.00–8.25**	**6.57**	6.00–8.50	6.62
Central Canada	**6.03–8.75**	**7.02**	**6.25–8.75**	**7.08**	6.25–8.75	7.08
Eastern Canada	**6.03–8.50**	**7.07**	**7.50–8.50**	**7.93**	7.50–8.50	7.90
Total	**5.85–8.75**	**6.80**	**6.00–8.75**	**6.83**	6.00–8.75	6.84

Investing activities

Key performance indicators in the management of our investing activities include the following:

	Three months ended December 31, 2012	Period from July 20, 2012 to December 31, 2012
Investing activities		
Acquisition of investment properties(1)(2)	$ 17,182	$ 17,182
Acquisition of the Initial Properties(1)	643,375	643,375
Acquisition of the KingSett Portfolio(1)	480,243	480,243

(1) Amount is purchase price allocated to investment properties, which does not reflect the actual cash transactions or total purchase price of transactions.

(2) Includes transaction costs.

Acquisitions

During the period from July 20, 2012 to December 31, 2012, we completed the following acquisitions:

	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Date acquired
Initial Properties[2]	industrial	100	6,006,230	97	$ 643,375	October 4, 2012
Lone Oak/Chrislea	industrial	100	172,823	100	17,182[1]	November 30, 2012
KingSett Portfolio	industrial	100	5,259,142	95	480,243	December 19, 2012
Total		100	11,438,195	96	$ 1,140,800	

(1) Includes transaction costs.

(2) Acquired all properties at 100% except for one property which was acquired at 50%.

Dundee Industrial REIT seeks to invest in desirable, highly functional properties located in major industrial centres that are well-leased on a long-term basis to quality tenants. When evaluating acquisitions we consider a variety of criteria, including per unit accretion, replacement cost of the asset, its functionality and appeal to future tenants, and how it complements our existing portfolio.

The Initial Properties portfolio included an attractive mix of flex, warehouse and distribution, and light manufacturing assets. The Initial Properties were well-leased and well-tenanted at the time of acquisition, provided us with immediate scale and presence in established industrial markets across the country and provided a strong platform for organic growth as well as for future acquisitions.

The KingSett Portfolio broadened the geographic diversity of our portfolio and also provided additional scale in the Greater Toronto and Greater Montreal Areas, as well as significant scale in Calgary and Halifax, two attractive markets where investment product is very tightly held. In keeping with the Initial Portfolio, these assets are highly appealing to tenants, they are well-located within markets that we know, and we believe that they will continue to enjoy high occupancy and increasing net operating income.

Our financing

Liquidity and capital resources

Dundee Industrial's primary sources of capital are cash generated from operating activities, credit facilities, mortgage financing and refinancing, 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 principal repayments, interest payments and property acquisitions. We expect to meet all of our ongoing obligations with current cash and cash equivalents, cash flows generated from operations, conventional mortgage refinancings and, as growth requires and when appropriate, new equity or debt issues.

	December 31, 2012
Debt	$ 649,845

Financing activities

Our debt strategy includes managing our maturity schedule to help mitigate interest rate risk and limit exposure in any given year, as well as fixing the rates and extending loan terms as long as possible when interest rates are favourable.

Debt

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

	December 31, 2012
Financing activities(1)	
Average effective interest rate(2)	3.72%
Level of debt (debt-to-gross book value)(3)	54.3%
Interest coverage ratio(4)	3.6 times
Debt-to-EBITDFV (years)(5)	8.8
Proportion of total debt due in 2013	15.3%
Debt – average term to maturity (years)	4.1
Variable rate debt as percentage of total debt	6.5%

(1) The key performance indicators include the results of operations for the period from July 20, 2012 to December 31, 2012.

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

(3) Level of debt is determined as total debt before deferred financing costs and mark-to-market adjustments, divided by total assets.

(4) The interest coverage ratio for the period is calculated as net rental income plus interest and fee income, less general and administrative expenses, all divided by interest expense on debt.

(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 income less non-cash items included in revenue and fair value adjustments, plus interest expense, and acquisition related costs.

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio is 3.6 times, demonstrating our ability to more than adequately cover interest expense requirements. We also monitor our debt-to-EBITDFV ratio to gauge our ability to repay existing debt. Our current debt-to-EBITDFV ratio is 8.80 years. At December 31, 2012, our weighted average face rate of interest is 3.19% and, after accounting for market adjustments and financing costs, the weighted average effective interest rate for outstanding debt is 3.72%.

At December 31, 2012, variable rate debt as a percentage of total debt is 6.5%, as a result of $32.5 million bridge loan financing used to acquire the KingSett Portfolio. In January 2013, we secured $50.0 million in mortgage financing for a term of seven years at a fixed face interest rate of 3.68%. We used the proceeds of this financing to repay our variable rate bridge loan facility and the $10.0 million drawn on the revolving credit facility. Accordingly, at January 31, 2013, we had no variable rate debt.

		December 31, 2012	
	Fixed	Variable	Total
Mortgages	$ 462,359	$ –	$ 462,359
Promissory note payable	42,000	–	42,000
Demand revolving credit facility	–	10,000	10,000
Unsecured non-revolving bridge facility	–	32,394	32,394
Convertible debentures	103,092	–	103,092
Total	$ 607,451	$ 42,394	$ 649,845
Percentage	93.5%	6.5%	100.0%

Mortgages payable include $12.4 million of fair value adjustments, net of mortgages assumed in connection with acquisitions and net of $0.5 million of financing costs. Amounts recorded at December 31, 2012 for the convertible debentures are net of a $4.4 million discount allocated to their conversion features on issuance and net of financing costs of $3.8 million. The fair value adjustments, discounts, and financing costs are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

Debt financing activities

New and assumed mortgages are highlighted in the table below.

	Three months ended December 31, 2012				Period from July 20, 2012 to December 31, 2012			
	Amount	Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective interest rate (%)[1]	Amount	Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective interest rate (%)[1]
New mortgages	$ 34,530	5.0	3.5	3.8	$ 34,530	5.0	3.5	3.8
New mortgages assumed on investment property acquisitions and business combinations	429,892	3.3	4.0	3.3	429,892	3.3	4.0	3.3
Overall	$ 464,422	3.4	4.0	3.3	$ 464,422	3.4	4.0	3.3

(1) After accounting for the impact of financing costs and fair value adjustments on mortgages assumed.

On October 4, 2012, we assumed $281.9 million in mortgages, which include fair value adjustments of $13.9 million, at a weighted average face rate of 4.79% and a weighted average term to maturity of 4.49 years. We also drew $8.5 million on our revolving credit facility, which was subsequently repaid with proceeds from the over-allotment option exercised on October 17, 2012. Also, as partial consideration for the Initial Properties we entered into $42.0 million of promissory notes payable to wholly owned subsidiaries of Dundee REIT, bearing interest at 3.1%. The promissory notes were repaid subsequent to year-end with proceeds of new mortgage financing. We entered into a mortgage of $48.6 million for a term of ten years and an interest rate of 3.95%.

At the end of November we drew $10.0 million on the revolving credit facility to partially fund two property acquisitions.

On December 13, 2012, in advance of the closing of the KingSett Portfolio acquisition, we completed a public offering of 5.25%, seven-year, convertible unsecured subordinated debentures ("convertible debentures") for gross proceeds of $86.3 million including $11.3 million aggregate principal amount issued pursuant to the over-allotment option. On December 19, 2012, on closing of the KingSett Portfolio acquisition, an additional $25.0 million aggregate principal amount was issued to affiliates of KingSett for partial consideration of the acquisition.

On December 19, 2012, in connection with the KingSett Portfolio acquisition, we assumed $147.9 million in mortgages, net of $0.6 million of fair value adjustments, at a weighted average face rate of 3.0%, and with an average term to maturity of 3.1 years. We also entered into a new $35.0 million portfolio mortgage for a term of five years and an interest rate of 3.46%. We also closed a $50.0 million, seven-year term mortgage at an interest rate of 3.68% in January 2013. In order to bridge the financing from the acquisition of the KingSett Portfolio to the closing of the aforementioned mortgage, we entered into an $80.0 million floating rate bridge loan facility on which we drew $32.5 million at a rate of 3.48%, which we repaid in January 2013.

Demand revolving credit facilities

On October 4, 2012, the Trust entered into a $35.0 million demand revolving credit facility. The revolving credit facility is in the form of rolling one-month bankers' acceptances ("BA") 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 $50.0 million, to coincide with the acquisition of the KingSett Portfolio, all other terms of the facility remained unchanged. At December 31, 2012, 15 properties were secured as first-ranking mortgages on the facility and $10.0 million was drawn on the facility. At year-end the formula-based amount available under this facility was $39.6 million. The facility is available up to a formula-based maximum not to exceed $49.6 million. The $10.0 million drawn on the facility was subsequently paid off on January 21, 2013. The facility expires on October 4, 2014.

Unsecured non-revolving bridge facilities

On December 19, 2012, the Trust entered into an $80.0 million unsecured non-revolving bridge facility to facilitate the closing of the KingSett Portfolio. This facility bears interest at the bank's prime rate (3.0% as at December 31, 2012) plus 1.25% or at BA rates plus 2.25%. As at December 31, 2012, $32.5 million was drawn on the facility, which was subsequently paid off on January 21, 2013 with the proceeds of a new mortgage.

	Period from July 20, 2012 to December 31, 2012					
	Mortgages	Promissory notes payable	Demand revolving credit facilities	Unsecured non-revolving bridge facility	Convertible debentures	Total
Debt as at July 20, 2012	$ –	$ –	$ –	$ –	$ –	$ –
New debt assumed on investment property acquisitions	416,612	–	–	–	–	416,612
New debt placed	35,000	42,000	18,500	32,500	111,250	239,250
Scheduled repayments	(1,223)	–	(8,500)	–	–	(9,723)
Other adjustments(1)	11,970	–	–	(106)	(8,158)	3,706
Debt as at December 31, 2012	$ 462,359	$ 42,000	$ 10,000	$ 32,394	$ 103,092	$ 649,845

(1) Other adjustments include finance costs on new debt placed, fair value adjustments, and amortization of finance costs and fair value adjustments.

Our current debt profile is balanced with maturities staggered over the next nine years. The following is our debt maturity profile as at December 31, 2012:

	Debt maturities	Scheduled principal repayments on non-matured debt	Amount	%	Weighted average effective interest rate on balance due at maturity (%)	Weighted average face rate on balance due at maturity (%)
2013	$ 85,800	$ 13,025	$ 98,825	15.29	3.34	3.39
2014	73,763	12,094	85,857	13.29	3.01	4.25
2015	108,296	10,222	118,518	18.35	3.08	3.67
2016	60,855	7,258	68,113	10.54	3.23	4.59
2017	30,136	5,296	35,432	5.49	3.27	4.18
2018 and thereafter	230,484	8,910	239,394	37.04	4.83	4.62
Total	$ 589,334	$ 56,805	$ 646,139	100.00	3.82	4.19
Financing costs			(4,349)			
Fair value adjustments			8,055			
Total			$ 649,845			

As at January 31, 2013, we have repaid $84.5 million of the debt maturing in 2013.

Convertible debentures

The total principal amounts outstanding for all of the convertible debentures are as follows:

	Date issued	Maturity date	**Outstanding principal December 31, 2012**	Outstanding principal January 31, 2013	REIT Units if converted January 31, 2013
5.25% convertible debentures – public	December 13, 2012	December 31, 2019	**$ 86,250**	$ 86,250	6,250,000
5.25% convertible debentures – KingSett	December 19, 2012	December 31, 2019	**25,000**	25,000	1,811,594
Total			**$ 111,250**	$ 111,250	8,061,594

The fair value of the conversion feature of the convertible debentures is remeasured each period, with changes in fair value being recorded in comprehensive income. At December 31, 2012, the conversion feature amounted to $6.2 million and was included in non-current liabilities on the consolidated balance sheet.

Commitments and contingencies

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

Dundee Industrial did not enter into any operating or finance leases during this reporting period. As at December 31, 2012, the Trust has entered into lease agreements that may require tenant improvement costs of approximately $0.3 million.

Our equity

Our discussion of equity includes LP Class B Units, which are economically equivalent to REIT Units. Pursuant to IFRS, the LP B Units are classified as a liability in our consolidated financial statements as subsidiary redeemable units.

	Unitholders' equity December 31, 2012	
	Number of Units	Amount
REIT Units	36,257,538	$ 326,211
Add: LP B Units	16,198,747	181,426
Total	52,456,285	$ 507,637

Our Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: REIT Units and Special Trust Units. The Special Trust Units may only be issued to holders of LP B Units, are not transferable separately from these units, and are used to provide voting rights with respect to Dundee Industrial REIT to persons holding LP B Units. The LP B Units are held by wholly owned subsidiaries of Dundee REIT. Both the REIT Units and Special Trust Units entitle the holder to one vote for each unit at all meetings of the unitholders. The LP B Units are exchangeable on a one-for-one basis for REIT Units at the option of the holder. The LP B Units and corresponding Special Trust Units together have economic and voting rights equivalent in all material respects to REIT Units. The REIT Units have economic and voting rights equivalent in all material respects to each other.

At December 31, 2012, Dundee REIT, indirectly through its wholly owned subsidiaries, held 16,198,747 LP B Units representing a total ownership interest of approximately 30.9%.

The following table summarizes the changes in our outstanding equity.

	REIT Units	LP B Units	Total
Units issued and outstanding on formation of the Trust	20,325,000	16,034,631	36,359,631
Units issued pursuant to public offering	13,570,000	–	13,570,000
Units issued pursuant to KingSett transaction	2,358,491	–	2,358,491
Units issued pursuant to DRIP	4,047	164,116	168,163
Total Units outstanding on December 31, 2012	36,257,538	16,198,747	52,456,285
Percentage of all Units	69.1%	30.9%	100.0%
Units issued pursuant to Unit Purchase Plan	89	–	89
Units issued pursuant to DRIP on January 15, 2013	3,172	83,349	86,521
Total Units outstanding on January 31, 2013	36,260,799	16,282,096	52,542,895
Percentage of all Units	69.0%	31.0%	100.0%

On October 4, 2012, the Trust completed its IPO issuing of 15,500,000 REIT Units, at a price of $10.0 per unit for gross proceeds of $155.0 million. Concurrently with the IPO, Dundee Corporation and Michael Cooper, Chief Executive Officer of Dundee Realty Corporation, purchased 1,750,000 REIT Units and 750,000 REIT Units, respectively, at a price of $10.00 per unit for total gross proceeds of $25.0 million. On October 17, 2012, an additional 2,325,000 REIT Units were issued, pursuant to the exercise of the over-allotment option granted to the underwriters, for total gross proceeds of $23.3 million. Costs related to the IPO of $14.5 million (including costs of the over-allotment option) were charged directly to unitholders' equity.

In connection with the IPO, Dundee Industrial Limited Partnership ("DILP") issued 16,034,631 LP B Units to wholly owned subsidiaries of Dundee REIT in partial consideration for the acquisition of the Initial Properties.

On December 13, 2012, we completed a public offering of 13,570,000 REIT Units, at a price of $10.60 per unit for gross proceeds of $143.8 million, including 1,770,000 REIT Units issued pursuant to the exercise of the over-allotment option granted to the underwriters. Costs related to the offering of $6.2 million were charged directly to unitholders' equity.

On December 19, 2012, we issued 2,358,491 REIT Units to an affiliate of KingSett as partial consideration for the KingSett Portfolio. Costs related to the issuance to KingSett of $0.1 million were charged directly to unitholders' equity.

Subsequent events

On February 11, 2013, we announced that we had entered in an agreement to sell 9,100,000 REIT Units on a bought deal basis at a price of $11.00 per unit for gross proceeds of $100.1 million. In addition, we 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 REIT Units which, if exercised, would increase the gross offering size to $115.1 million.

Short form base shelf prospectus

On November 27, 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 at December 31, 2012, no units and no debt securities have been issued under the short form base shelf prospectus.

Distribution policy

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 distributable income. 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 costs are considered to be non-recurring.

	Three months ended December 31, 2012			Period from July 20, 2012 to December 31, 2012		
	Declared distributions	3% bonus distributions	Total	Declared distributions	3% bonus distributions	Total
2012 distributions						
Paid in cash or reinvested in units	$ 3,896	$ 53	$ 3,949	$ 3,896	$ 53	$ 3,949
Payable at December 31, 2012	2,950	27	2,977	2,950	27	2,977
Total distributions(1)	$ 6,846	$ 80	$ 6,926	$ 6,846	$ 80	$ 6,926
2012 reinvestment						
Reinvested to December 31, 2012	$ 1,764	$ 53	$ 1,817	$ 1,764	$ 53	$ 1,817
Reinvested on January 15, 2013	911	27	938	911	27	938
Total distributions reinvested	$ 2,675	$ 80	$ 2,755	$ 2,675	$ 80	$ 2,755
Distributions paid in cash	$ 4,171			$ 4,171		
Reinvestment to distribution ratio	39.1%			39.1%		
Cash payout ratio	60.9%			60.9%		

(1) Includes distributions on LP B Units.

Distributions declared for the three months ended December 31, 2012 and for the period from July 20, 2012 to December 31, 2012 were $6.8 million. Of the distributions declared for the three months ended December 31, 2012, and for the period from July 20, 2012 to December 31, 2012, $2.7 million, or approximately 39.1%, was reinvested in additional units resulting in a cash payout ratio of 60.9% (60.9% for the period from July 20, 2012 to December 31, 2012).

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 December 31, 2012	Period from July 20, 2012 to December 31, 2012
Net loss	$ (20,873)	$ (20,873)
Cash flows from operating activities(1)	18,014	18,014
Distributions paid and payable(2)	6,926	6,926
Cash flows from operating activities over distributions paid and payable	11,088	11,088

(1) Cash flows from operating activities exclude cash flows from transaction costs on acquired businesses.

(2) Includes distributions on LP B Units.

For the three months ended December 31, 2012 and for the period from July 20, 2012 to December 31, 2012, cash flows from operating activities exceeded distributions paid and payable by $11 million. When establishing distribution payments, we do not take into consideration fluctuations in working capital and transaction costs on business combinations, but rather use a normalized amount as a proxy for leasing costs. Net loss included distributions paid and payable of $2.7 million for the three months ended December 31, 2012 and for the period from July 20, 2012 to December 31, 2012 paid on subsidiary redeemable units. Net income (loss) is not used as a proxy for distributions as it includes acquisition costs on business combinations, fair value changes on investment properties, and fair value changes on financial instruments which are not reflective of the Trust's ability to make distributions.

Our results of operations

	Three months ended December 31, 2012	Financial forecast for the three months ended December 31, 2012[1]	**Period from July 20, 2012 to December 31, 2012**	Financial forecast (pro-rated)[1]
Investment properties revenue	**$ 17,202**	$ 15,365	**$ 17,202**	$ 14,864
Investment properties operating expenses	**4,667**	3,472	**4,667**	3,359
Net rental income	**12,535**	11,893	**12,535**	11,505
Other income and expenses				
General and administrative	**(855)**	(1,020)	**(855)**	(987)
Fair value adjustments to investment properties	**6,048**	–	**6,048**	–
Acquisition related costs	**(11,528)**	(3,000)	**(11,528)**	(3,000)
Interest:				
Debt	**(3,244)**	(2,838)	**(3,244)**	(2,745)
Subsidiary redeemable units	**(2,711)**	(2,706)	**(2,711)**	(2,618)
Interest and fee income	**16**	–	**16**	–
Fair value adjustments to financial instruments	**(21,134)**	–	**(21,134)**	–
Net (loss) income and comprehensive income	**$ (20,873)**	$ 2,329	**$ (20,873)**	$ 2,155

(1) Pro-rated to reflect our ownership commencing October 4, 2012.

Basis of discussion

The forecast included in our IPO Prospectus dated September 26, 2012 was based on forecasted results of the Initial Properties and did not contemplate or account for the acquisition of the KingSett Portfolio on December 19, 2012 or two properties acquired on November 30, 2012. For the purposes of this management`s discussion and analysis, the actual results in the table above include the results of operations of the Initial Properties, the results of operations of the KingSett Portfolio from the date acquired on December 19, 2012 and of the two properties acquired on November 30, 2012. See below for a discussion of the impact of the acquisition of the KingSett Portfolio and these two other properties. The forecast also assumed the completion of the IPO on October 1, 2012 (the IPO was actually completed on October 4, 2012). All forecasted results, except acquisition related costs, have been adjusted to reflect the completion of the IPO and the acquisition of the Initial Properties on October 4, 2012. Additionally, there was no activity from the formation of the REIT on July 20, 2012 to October 3, 2012. This discussion addresses results of operations from October 4, 2012, through to December 31, 2012. Because of the significance of the impact of the KingSett Portfolio on our results of operations, we believe that a comparison of actual results to the forecast results for the same period in our IPO Prospectus is no longer meaningful. Key assumptions underlying the forecast that are no longer valid include: the size of our portfolio (the Initial Properties consisted of 77 properties, whereas we had a total of 158 properties as at December 31, 2012) and the associated net rental income from our portfolio, acquisition related costs, and our total indebtedness and associated interest expense, all of which have increased since the date of our IPO Prospectus due to the acquisitions referred to above. Accordingly, we are withdrawing the forecast included in our IPO Prospectus in respect of all future periods.

Investment properties revenue

Investment properties revenue includes net rental income from investment properties as well as the recovery of operating costs and property taxes from tenants. Investment properties revenues totalled $17.2 million for period consisting of $15.2 million from the Initial Properties, $1.9 million from the KingSett Portfolio and $0.1 million from other property acquisitions. Compared to forecast, our Initial Properties revenue was $0.3 million higher as a result of higher recovery revenues generated from higher recoverable expenses.

Investment properties operating expenses

Operating expenses comprise occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing. Operating expenses fluctuate with changes in occupancy levels, weather, utility costs, realty taxes, and repairs and maintenance. Investment properties operating expenses of $4.7 million for the period consisted of $3.9 million from the Initial Properties, $0.7 million from the KingSett Portfolio and $0.1 million from other property acquisitions. Compared to forecast, the Initial Properties investment properties operating expenses were up $0.5 million primarily related to increases in recoverable operating expenses as well as approximately $0.1 million in higher non-recoverable costs due to vacant units.

General and administrative

General and administrative expenses primarily comprise expenses related to corporate management, trustees' fees and expenses, investor relations and asset management fees. For the period, general and administrative expenses totalled $0.9 million consisting of: $0.4 million in asset management fees, $44 thousand above forecast due to acquisitions, $0.2 million in professional fees (primarily relating to audit fees for the fiscal year audit), $0.1 million related to trustees' fees, $0.1 million related to the Deferred Unit Incentive Plan and $0.1 million related to general corporate expenses. Some costs such as professional fees would typically be accrued over the year, but were recorded at the full amount for the period ended. Other costs, such as general corporate expenses are lower for the quarter, primarily due to the timing of hiring employees.

Fair value adjustments to investment properties

A $6.0 million fair value adjustment was recorded during the quarter, primarily relating to valuation increases on the Initial Properties due to slight cap rate compression and stabilized NOI increases.

Acquisition related costs

In the quarter we have recorded $11.5 million in acquisition related costs in connection with the acquisition of the Initial Properties ($3.5 million) and the acquisition of the KingSett Portfolio ($8.0 million). Acquisition related costs on Initial Properties are $0.5 million over forecast; however, these were offset by lower costs recorded in unitholders' equity relating to the IPO.

Interest expense – Debt

Interest expense on debt for the period was $3.2 million versus forecasted interest expense of $2.7 million. The difference of $0.5 million primarily relates to interest expense incurred on debt assumed from the acquisition of the KingSett Portfolio, a new mortgage related to the acquisition of the KingSett Portfolio, a bridge loan facility drawn on acquisition of the KingSett Portfolio as well as interest expense on convertible debentures. Offsetting this increase in interest expense was lower interest expense on the revolving credit facility assumed to be used on acquisition of the Initial Properties. The Trust was able to repay the $8.5 million initially drawn on the revolving credit facility with the proceeds of the IPO over-allotment option.

Interest expense – Subsidiary redeemable units

Interest on subsidiary redeemable units was $2.7 million, an increase of $0.1 million over forecast as a result of the additional units issued in connection with the bonus feature of the DRIP.

Interest and fee income

Interest and fee income represents amounts for items such as fees earned from third-party property management, including management and leasing fees, and interest earned on bank accounts and related fees. Except for property management fees, this revenue is not necessarily of a recurring nature and the amounts may vary quarter-to-quarter and year-to-year. Interest and fee income was $16 thousand for the quarter comprising $10 thousand earned on bank accounts and $6 thousand related to management fees earned on a co-owned property.

Fair value adjustments to financial instruments

Fair value adjustments to financial instruments include fair value adjustments on the conversion features of convertible debt, remeasurement of the carrying value of subsidiary redeemable units and remeasurement of the deferred trust units. In the period, the trading price of the convertible debentures increased above the issue price resulting in a $1.8 million net loss relating to the fair value adjustment on the conversion feature. Similarly, we recorded a $19.3 million loss on the remeasurement of the carrying value of the subsidiary redeemable units due to the increase in trading price of REIT Units.

Related party transactions

From time to time, Dundee Industrial and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms and as disclosed in Note 20 to the consolidated financial statements. Pursuant to the Asset Management Agreement, we paid $4.5 million, including $0.4 million reported in general and administration expenses for asset management fees, $3.5 million recorded for acquisition related costs in the statement of other comprehensive income, $0.2 million recorded for acquisition costs in investment properties and $0.3 million recorded as a financing cost.

Net operating income

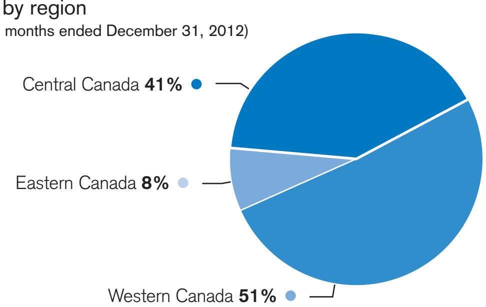
We define NOI as the total of investment property revenue less investment property operating expenses.

Net operating income is an important measure used by management in evaluating property operating performance; however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other income trusts.

	Three months ended December 31, 2012	Period from July 20, 2012 to December 31, 2012
Total portfolio		
Western Canada	$ 6,371	$ 6,371
Central Canada	5,138	5,138
Eastern Canada	1,026	1,026
Net rental income	$ 12,535	$ 12,535

Net operating income for the three months ended December 31, 2012 and for the period from July 20, 2012 to December 31, 2012 was $12.5 million.

NOI by region
(Three months ended December 31, 2012)



NOI Initial Properties portfolio

Net operating income shown below details the Initial Properties and subsequent acquisitions including the KingSett Portfolio as well as two other properties acquired in the period to assist in understanding the impact each component has on NOI. Initial Properties NOI and NOI attributed to acquisitions exclude straight-line rents and amortization of lease incentives.

NOI from the Initial Properties was $11.3 million, including straight-line rent of $0.4 million.

	Three months ended December 31, 2012	Period from July 20, 2012 to December 31, 2012
Western Canada	$ 5,903	$ 5,903
Central Canada	4,416	4,416
Eastern Canada	588	588
Initial Properties	10,907	10,907
Acquisitions	1,228	1,228
Straight-line rent	400	400
NOI	$ 12,535	$ 12,535

Funds from operations and adjusted funds from operations

	Three months ended December 31, 2012	Period from July 20, 2012 to December 31, 2012
Net (loss) income	$ (20,873)	$ (20,873)
Add (deduct):		
Interest expense on subsidiary redeemable units	2,711	2,711
Acquisition related costs	11,528	11,528
Fair value adjustments to investment properties	(6,048)	(6,048)
Fair value adjustments to financial instruments	21,134	21,134
FFO	$ 8,452	$ 8,452
Funds from operations	$ 8,452	$ 8,452
Add (deduct):		
Amortization of fair value adjustments on assumed debt	(819)	(819)
Deferred unit compensation expense	46	46
Straight-line rent	(400)	(400)
	7,279	7,279
Deduct:		
Normalized initial direct leasing costs and lease incentives	562	562
Normalized non-recoverable recurring capital expenditures	225	225
AFFO	$ 6,492	$ 6,492

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 the weighted average of all REIT Units, LP B Units and vested but unissued deferred trust units and income deferred trust units. The diluted weighted average number of units assumes the conversion of the convertible debentures. Diluted FFO for the quarter and for the period ended December 31, 2012, includes $0.3 million in interest on convertible debentures. The impact of unvested deferred trust units was not included for the period as they were anti-dilutive.

	Three months ended December 31, 2012	Period from July 20, 2012 to December 31, 2012
Weighted average units outstanding for basic per unit amounts (in thousands)	39,320	39,320
Weighted average units outstanding for diluted per unit amounts (in thousands)	40,828	40,828

Funds from operations

Management believes FFO is an important measure of our operating performance. This non-GAAP measurement is a commonly used measure of performance of real estate operations; however, it does not represent cash flow from operating activities, as defined by GAAP, and is not necessarily indicative of cash available to fund Dundee Industrial's needs. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", FFO has been reconciled to net income in a previous table.

	Three months ended December 31, 2012	Period from July 20, 2012 to December 31, 2012
FFO	$ 8,452	$ 8,452
FFO per unit – basic	$ 0.22	$ 0.22
FFO per unit – diluted	$ 0.21	$ 0.21

For the three months ended December 31, 2012 and for the period from July 20, 2012 to December 31, 2012, FFO per diluted unit was $0.22, reflecting our first partial quarter of results from the Initial Properties acquired on October 4, 2012, acquisition of the KingSett Portfolio on December 19, 2012 and two other properties on November 30, 2012.

Adjusted funds from operations

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

Our calculation of AFFO includes a deduction for an estimated amount of normalized non-recoverable maintenance capital expenditures, initial direct leasing costs and tenant incentives that we expect to incur based on our current portfolio, and expected average leasing activity. Our estimates of initial direct leasing costs and lease incentives are based on the average of our expected leasing activity over the next two to three years and multiplied by the average cost per square foot that we have budgeted, adjusted for properties that have been acquired or sold. 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.

	Three months ended December 31, 2012	Period from July 20, 2012 to December 31, 2012
AFFO	$ 6,492	$ 6,492
AFFO per unit – basic	$ 0.17	$ 0.17

AFFO was $6.5 million, or $0.17 per unit, reflecting our first partial quarter of results from the Initial Properties acquired on October 4, 2012, the acquisition of the KingSett Portfolio on December 19, 2012 and two other properties on November 30, 2012.

AFFO is not defined by IFRS and, therefore, may not be comparable to similar measures presented by other real estate investment trusts. In compliance with 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 December 31, 2012	Period from July 20, 2012 to December 31, 2012
Cash generated from operating activities	$ 6,486	$ 6,486
Add (deduct):		
Initial direct leasing costs and lease incentives incurred	562	562
Transaction costs on acquired businesses	11,528	11,528
Change in non-cash working capital	(11,197)	(11,197)
Normalized initial direct leasing costs and lease incentives	(562)	(562)
Normalized non-recoverable recurring capital expenditures	(225)	(225)
Amortization of financing costs on debt	(100)	(100)
AFFO	$ 6,492	$ 6,492

Section III – Internal controls

The Chief Executive Officer and Chief Financial Officer are responsible for the design of the Trust's Disclosure Controls and Procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109")) to provide reasonable assurance that: (i) material information relating to the Trust and its consolidated subsidiaries is made known to them by others, particularly during the period in which the interim filings are being prepared; and (ii) information required to be disclosed by the Trust in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported on a timely basis. The Chief Executive Officer and Chief Financial Officer are also responsible for the design of the Trust's Internal Control over Financial Reporting (as defined in NI 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with section 3.3(1)(c) of National Instrument 51-109, the Chief Executive Officer and Chief Financial Officer have limited the scope of our design of the Trust's Disclosure Controls and Procedures and Internal Control over Financial Reporting to exclude controls, policies and procedures related to the portfolios of properties we acquired in the fourth quarter of 2012, as they form the business that we acquired less than 365 days before our financial year-end. The results of the acquired businesses, which collectively form our entire business, are included in our consolidated financial statements for the period ended December 31, 2012. We intend to complete our design of Disclosure Controls and Procedures and Internal Control over Financial Reporting by the end of our third quarter in 2013. Subject to the above limitation, the Chief Executive Officer and Chief Financial Officer have evaluated the Trust's Disclosure Controls and Procedures and Internal Control over Financial Reporting and in each case concluded that they were effective as at December 31, 2012.

Internal controls over financial reporting

The Trust's Chief Executive Officer and Chief Financial Officer are designing or causing to be designed under their supervision the Trust's internal control over financial reporting (as defined by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Section IV – Risks and our strategy to manage

Dundee Industrial REIT is exposed to various risks and uncertainties, many of which are beyond our control. The following is a review of the material risks and uncertainties that could materially affect our operations and future performance.

Real estate ownership

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

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

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

Rollover of leases

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

Concentration of properties and tenants

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

Financing

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

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

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

Changes in law

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

Interest rates

When entering into financing agreements or extending such agreements, we depend on our ability to agree on terms for interest payments that will not impair our desired profit, and on amortization schedules that do not restrict our ability to pay distributions on our Units and interest payments on our debentures. In addition to existing variable rate portions of our financing agreements, we may enter into future financing agreements with variable interest rates. An increase in interest rates could result in a significant increase in the amount we pay to service debt, which could limit our ability to pay distributions to unitholders and could impact the market price of the Units and/or the debentures. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a significant negative effect on our ability to sell any of our properties.

Environmental risk

As an owner of real property, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect our ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against us. In order to obtain financing for the purchase of a new property through traditional channels, we may be requested to arrange for an environmental audit to be conducted. Although such an audit provides us and our lenders with some assurance, we may become subject to liability for undetected pollution or other environmental hazards on our properties against which we cannot insure, or against which we may elect not to insure where premium costs are disproportionate to our perception of relative risk.

We have formal policies and procedures to review and monitor environmental exposure. These policies include the requirement to obtain a Phase I Environmental Site Assessment, conducted by an independent and qualified environmental consultant, before acquiring any real property or any interest therein.

Competition

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

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

Insurance

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

Section V – Critical accounting policies

Critical accounting judgments, estimates and assumptions in applying accounting policies

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

Changes in accounting estimates and changes in accounting policies

Future accounting policy changes

Dundee Industrial's future accounting policy changes are described in Note 5 in the consolidated financial statements.