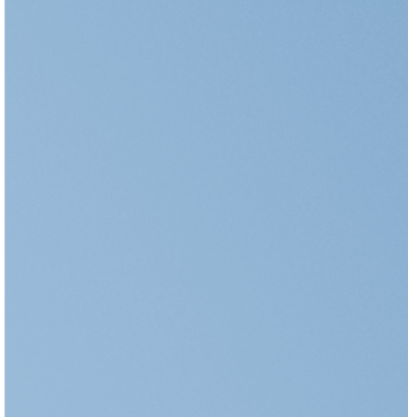
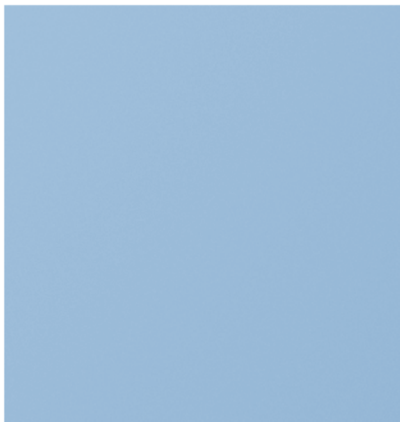


# ANNUAL REPORT **2012**



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## Dear fellow unitholder,

It is with great pleasure that we present Dundee Industrial REIT's inaugural annual report.

Dundee Industrial REIT was created in the fall of 2012 to take advantage of the incredible opportunities that are available within the industrial sector. As an asset class, the ownership of light industrial properties in Canada is highly fragmented and Dundee Industrial REIT was conceived to be the consolidator in the space. While all asset classes in Canada have enjoyed value appreciation in recent years, the recovery of the industrial sector has been slower than others and has been under represented in the public markets. In our view, industrial properties, with their consistent and predictable cash flows, low operating costs and high overall occupancy, represent a compelling investment opportunity.

**RANDY CAMERON**
Interim President and
Chief Executive Officer

**MARIO BARRAFATO**
Chief Financial Officer

The properties in our initial portfolio were the industrial assets held by Dundee REIT, the sponsor of Dundee Industrial and a significant unitholder, today owning 26%. By separating the assets in this fashion, we created a pure-play industrial REIT with an established national footprint and Dundee REIT became a pure-play office REIT. Our initial offering to the public was very well received, demonstrated by strong demand from both institutional and retail investors and reinforced by sustained strong demand for our subsequent equity and debt offerings.

At the time of our IPO, we were the largest pure-play industrial REIT in Canada, with 77 properties housing close to 400 tenants and totalling 6.0 million rentable square feet across seven provinces. Within seven weeks, we nearly doubled our size, acquiring 5.4 million square feet of complementary assets in key markets. At year-end, we owned 158 assets housing over 900 tenants and totalling 11.4 million square feet. These acquisitions reinforced the merits of our initial investment thesis: the sector was ripe with opportunities and we could quickly grow and strengthen the business. The portfolio now enjoys greater diversification by asset type, location and tenant base, enhancing the quality and stability of our cash flow, and our increased market capitalization provides Dundee Industrial REIT with greater liquidity, which is appealing to large investors who are interested in investing in the largest industrial REIT in Canada.

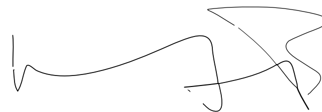
The fundamentals of the Canadian real estate market continue to improve, with modest increases to net rents and declines in vacancy. We are confident that there is embedded growth potential within our current portfolio. In addition, we will actively seek out opportunities to generate additional value from our properties, be it through our proactive leasing program, property intensification or energy savings initiatives. Looking ahead, we are also confident that we will continue to find opportunities to grow our business through acquisitions. With an attractive cost of capital and many compelling investment opportunities, we believe that we will grow in such a way that Dundee Industrial REIT becomes an even more valuable investment.

We take a conservative approach to managing our balance sheet and are disciplined in our use of debt. Our strategy is to maintain a debt-to-gross book value ratio within the range of 50%–55%. We are confident that we can complete accretive acquisitions, and that our debt ratio will decrease and our business will become more stable as we grow over the long term.

While we have been very focused on growing and strengthening the portfolio, we have also taken steps to strengthen our team of professionals, adding dedicated staff in the various markets where we operate assets. We firmly believe that the service we provide to our tenants impacts the overall quality of our business and the returns we deliver to our unitholders. To this end, we will continue to hire property managers and leasing managers dedicated to Dundee Industrial REIT.

We've accomplished quite a lot in our first few months of operations. In addition to a very successful launch, we have clearly demonstrated our ability to execute on our strategy and have done so in a responsible manner that provides investors with the stability they expect in this asset class. In fact, successfully executing on our strategy and completing accretive acquisitions has already positioned us to increase the annualized distribution rate by nearly 4%, beginning with the April distribution payable in May, while maintaining an AFFO payout ratio below 90%.

We thank our investors for the confidence placed in us; our trustees for their guidance; our colleagues for their dedication and hard work; and, our advisors for their continued support. We are very proud of the company we have created and look forward to the year ahead with great anticipation.



**RANDY CAMERON**
Interim President and Chief Executive Officer
April 10, 2013

**MARIO BARRAFATO**
Chief Financial Officer

# 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

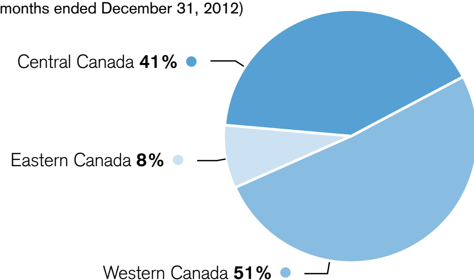
We define NOI as the total of investment property revenue less investment property operating expenses.

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

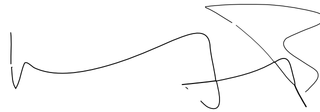
Dundee Industrial's future accounting policy changes are described in Note 5 in the consolidated financial statements.

# 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

Toronto, Ontario, February 19, 2013

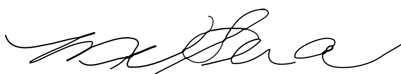
# Consolidated balance sheet

(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.

# Trustees and officers


## Trustees

**MICHAEL J. COOPER**[2]
Toronto, Ontario
Chair, Executive Committee
Dundee Industrial REIT

**PETER A. CROSSGROVE**[1, 3]
Toronto, Ontario
Executive Chairman,
Excellon Resources Inc.

**JOANNE FERSTMAN**[2, 4]
Toronto, Ontario
Corporate Director

**ROBERT G. GOODALL**[1]
Mississauga, Ontario
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Capital Corporation

**LEEROM SEGAL**[3]
Toronto, Ontario
President and Chief Executive Officer,
Klick Health

**VINCENZA SERA**[1, 3]
Toronto, Ontario
Corporate Director

## Officers

**JOANNE FERSTMAN**
Chair

**RANDY CAMERON**
Interim President and Chief Executive Officer

**MARIO BARRAFATO**
Chief Financial Officer

[1] Member of the Audit Committee
[2] Member of the Executive Committee
[3] Member of the Governance and Environmental Committee
[4] Chairman of the Board of Trustees


# Corporate information

## Head office

**DUNDEE INDUSTRIAL REAL ESTATE INVESTMENT TRUST**
State Street Financial Centre
30 Adelaide Street East, Suite 1600
Toronto, Ontario M5C 3H1
Phone: (416) 365-3535
Fax: (416) 365-6565

## Transfer agent

(for change of address, registration or other unitholder inquiries)

**COMPUTERSHARE TRUST COMPANY OF CANADA**
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Phone: (514) 982-7555 or
1 800 564-6253
Fax: (416) 263-9394 or
1 888 453-0330
E-mail: service@computershare.com

## Auditors

**PRICEWATERHOUSECOOPERS LLP**
PwC Tower, 18 York Street, Suite 2600
Toronto, Ontario M5J 0B2

## Corporate counsel

**OSLER, HOSKIN & HARCOURT LLP**
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Suite 6100
Toronto, Ontario M5X 1B8

## Investor relations

Phone: (416) 365-3536
Toll free: 1 877 365-3535
E-mail: info@dundeeindustrial.com
Web site: www.dundeeindustrial.com

## Taxation of distributions

Distributions paid to unitholders in respect of the tax year ending December 31, 2012, are taxed as follows:
Return of capital: 100%

Management estimates that 65% of the distributions to be made by the REIT in 2013 will be tax deferred.

## Stock exchange listing

**THE TORONTO STOCK EXCHANGE**
Listing symbols:
REIT Units: DIR.UN
5.25% Convertible Debentures: DIR.DB

## Annual meeting of unitholders

Tuesday, May 7, 2013,
at 4:00 pm (EST)
The King Edward Hotel,
Sovereign Ballroom
37 King Street East
Toronto, Ontario, Canada

## Distribution Reinvestment and Unit Purchase Plan

The purpose of our Distribution Reinvestment and Unit Purchase Plan ("DRIP") is to provide unitholders with a convenient way of investing in additional units without incurring transaction costs such as commissions, service charges or brokerage fees. By participating in the Plan, you may invest in additional units in two ways:

Distribution reinvestment: Unitholders will have cash distributions from Dundee Industrial REIT reinvested in additional units as and when cash distributions are made. If you register in the DRIP you will also receive a "bonus" distribution of units equal to 3% of the amount of your cash distribution reinvested pursuant to the Plan. In other words, for every $1.00 of cash distributions reinvested by you under the Plan, $1.03 worth of units will be purchased.

Cash purchase: Unitholders may invest in additional units by making cash purchases.

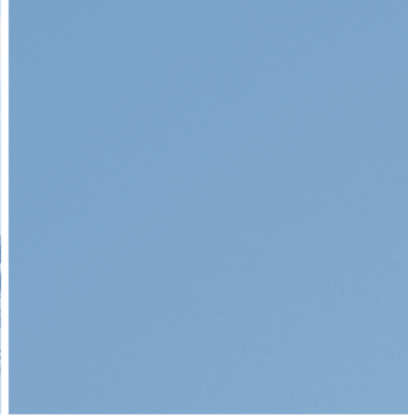
To enrol, contact:

**COMPUTERSHARE TRUST COMPANY OF CANADA**
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Attention: Dividend Reinvestment Services

Or call their Customer Contact Centre at
1 800 564-6253 (toll free)
or (514) 982-7555

For more information, you may also visit our web site: www.dundeeindustrial.com.

Concept and Design: THE WORKS DESIGN COMMUNICATIONS www.worksdesign.com



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