

# Dundee Industrial REIT

2013 Annual Report



### **Better Communities to Work In**

We'd like to take the opportunity to thank all our stakeholders for being part of our continued success. Because of all the hard work and dedication to keep doing things better, 2013 was a strong year for us.

Dundee Industrial REIT has been around since 2012, and we've been dedicated to building a national pure-play portfolio of light industrial properties in key markets across Canada. This is so that we can provide our investors with stable and predictable cash flows that generate high yields. Just a few years later, we're happy to announce that we are moving into a new and exciting time in our business. We'd like to let everyone know that starting May 12, 2014, Dundee Industrial REIT's name will be Dream Industrial REIT.

This change is exciting for us because we are now bringing more clarity to our story and aligning all our efforts around one core belief — creating better communities for Canadians to work in — which will result in a better investment for our unit-holders. This sums up what we do and why we do it, and we think it's a better articulation of who we are, which has been such an integral part of our culture, our work and our company's objectives since the beginning.

Starting May 12, 2014,  
Dundee Industrial REIT's  
new name will be  
Dream Industrial REIT.

### **Stock Exchange Listing**

On the Toronto Stock Exchange, Dream Industrial REIT will continue to trade under these listing symbols:

REIT Units:  
**DIR.UN**

5.5% Convertible Debentures:  
**DIR.DB**

**dream**   
industrial REIT



**Our industrial buildings  
are equal to 300 football  
fields and they are full  
of everything we use**

## Letter to unitholders

---



We are pleased to report solid financial results for the three months ended December 31, 2013, which marks the completion of our first full fiscal year of operations since our IPO on October 4, 2012. The fourth quarter's results include the results of operations for our stabilized portfolio of assets which establish our run rate. In the five quarters since the IPO, we have grown the portfolio to 15.7 million square feet comprising \$1.5 billion of assets, maintaining our leverage at 52.6% while growing our quarterly adjusted funds from operations ("AFFO") to the current 19 cents per unit. This growth has allowed the Trust to increase the annualized distribution from 67.5 cents per unit at the time of our IPO to the current rate of 70 cents per unit.

The fundamentals of our business remain strong:

- Vacancy rates are decreasing in most of our core markets, while market rents are increasing.
- Our leasing velocity is increasing with 751,000 square feet of leasing completed in the fourth quarter, representing 35% of the total completed in 2013.
- We have completed over 1.1 million square feet of leasing with terms commencing in 2014, representing 53% of our 2014 expiries.
- New construction of competing multi-tenant industrial space remains limited in our core markets.
- In-place rents per square foot are approximately 6.4% below current estimated market rates, providing opportunities for rent growth as our leases roll over.
- Economic fundamentals for the industries from which we draw our tenant base are stable or improving.

Management remains focused on continuing to deliver solid operating performance, growth in funds from operations ("FFO") and AFFO per unit and, ultimately, a strong and growing distribution for our unitholders. Specifically, we will continue to:

- Leverage and develop the strengths of our leasing, operations and finance teams;
- Manage our tenant renewal rate by continuing to solidify relationships with tenants;
- Enhance the speed and effectiveness with which we complete new leasing transactions; and
- Streamline our operations to keep an efficient cost structure.

The work we have completed in 2013 provides us with a solid foundation to optimize our portfolio composition through capital recycling and redevelopment and intensification opportunities at certain properties. We believe we are well positioned to opportunistically grow our portfolio leveraging our management platform as we move into the next phase of the Trust's development.

In May, we will be introducing our new platform-wide branding and the renaming of our Trust to Dream Industrial REIT. For a preview, please refer to the insert in the inside front cover of the printed annual report, or visit our website at [www.dundeeindustrial.com](http://www.dundeeindustrial.com).

We are looking forward to continuing to execute on enhancing the strength of our business and we thank our unitholders for their continued support.

A handwritten signature in black ink, appearing to read "Randy Cameron". The signature is stylized and cursive.

**Randy Cameron**  
President and Chief Executive Officer  
March 15, 2014

## At-a-glance

# 67%

OF NET OPERATING INCOME  
MULTI-TENANT PROPERTIES

# 95.7%

OCCUPANCY

# 6.4%

MARKET RENTS ABOVE  
IN-PLACE RENTS

# 11,900

AVERAGE TENANT SIZE  
(square feet)

# 4.7

AVERAGE REMAINING  
LEASE TERM  
(years)

# 15.7

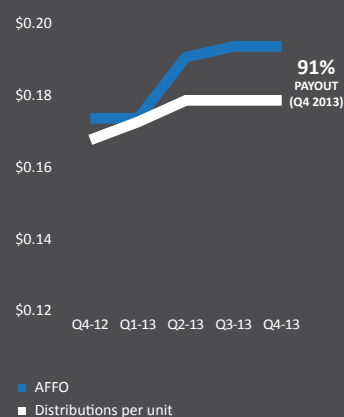
GROSS LEASABLE AREA  
(millions of square feet)

Dundee Industrial REIT is an owner and operator of 15.7 million square feet of geographically diversified light industrial properties across Canada, with a property mix that provides both exposure to near-term rent growth opportunities for multi-tenant assets and lower management costs for single-tenant assets.

### Rent Growth Potential

Province	GLA (in '000 square feet)	In-place rent	Market rent/ in-place rent (%)
Alberta	3,447	\$8.82	11.9%
Nova Scotia	2,676	\$7.21	5.0%
Ontario	4,825	\$6.07	0.8%
Québec	3,733	\$5.94	4.9%
Saskatchewan	830	\$7.28	15.1%
Other	152	\$7.00	2.4%
<b>Total</b>	<b>15,663</b>	<b>\$6.92</b>	<b>6.4%</b>

### AFFO/Distributions (% payout ratio)



### Building Type Diversification

Type	GLA (in '000 square feet)	Average tenant size	Market rent/ in-place rent (%)	Weighted average lease term
Multi-tenant buildings	10,206	8,000	7.3%	3.7
Single-tenant buildings	5,457	82,400	4.2%	6.5
<b>Total</b>	<b>15,663</b>	<b>11,900</b>	<b>6.4%</b>	<b>4.7</b>

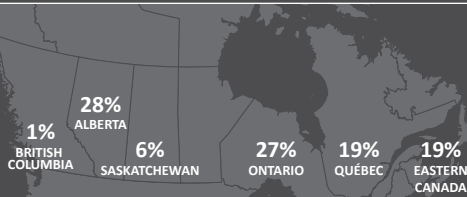
# 2.9x

INTEREST COVERAGE RATIO

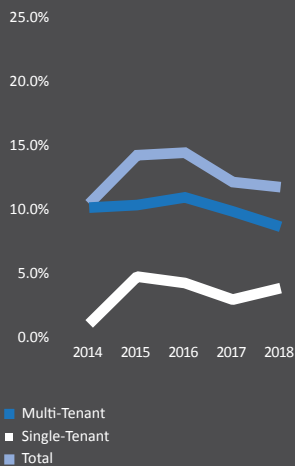
# 4.1

WEIGHTED AVERAGE DEBT MATURITY (years)

Geographic Diversification  
(% net operating income)



### Balanced Lease Expiries



Photos (left to right, top to bottom):  
1421 rue Nobel, Sainte-Julie; 2240 Premier Way, Edmonton; 10001 Metropolitan East, Montréal;  
120 Troop Avenue, Halifax; 650 rue Bergeron, Drummondville; 3250 Sunridge Way, Calgary





## Table of contents

---

Management's discussion and analysis	1
Management's responsibility for financial statements	35
Independent auditor's report	36
Consolidated financial statements	37
Notes to the consolidated financial statements	41
Trustees and officers	IBC
Corporate information	IBC



Photos (top to bottom):  
1400 Castlefield Avenue, Toronto;  
320 Wright Avenue, Halifax;  
970 Fraser Drive, Burlington

## Management's discussion and analysis

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

### SECTION I — 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 year ended December 31, 2013.

This management's discussion and analysis ("MD&A") is dated as at February 25, 2014.

The year ended December 31, 2013 is the Trust's first full fiscal year since formation on July 20, 2012 and commencing operations on October 4, 2012. The results and operations of the Trust are therefore not directly comparable to the prior period ended December 31, 2012 in part due to the time periods covered and in part due to the significant growth in the size of the Trust as described in the Investing activities section of the MD&A. As a result, the commentary in this document that compares the results of operations is focused primarily on quarter-over-quarter changes, as year-over-year changes are explained by the time periods covered and growth in the portfolio.

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 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; 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 February 25, 2014. 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, risks and uncertainties is contained in our filings with securities regulators. Certain filings are also available on our web site at [www.dundeeindustrial.com](http://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 had a retained investment of 22.8% at February 25, 2014. 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”), and acquired a portfolio of 77 industrial properties comprising 6.0 million square feet (the “Initial Properties”) from subsidiaries of Dundee REIT and affiliates of Return On Innovation Capital Ltd. (“ROI”). Including the Initial Properties, we completed the following acquisitions since our IPO:

	Date acquired	Number of properties	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price <sup>(1)</sup>
Initial Properties	October 4, 2012	77	6,007,984	97	\$ 646,871
Lone Oak/Chrislea, GTA	November 30, 2012	2	172,823	100	17,182
KingSett Portfolio	December 19, 2012	79	5,257,894	95	488,275
CanFirst Portfolio	April 24, 2013	22	1,625,844	96	155,650
C2C Portfolio	May 15, 2013	25	2,528,658	95	231,257
Lingard Road, Cambridge, ON	June 7, 2013	1	70,154	100	5,350
<b>Total</b>		<b>206</b>	<b>15,663,357</b>	<b>96</b>	<b>\$ 1,544,585</b>

(1) Includes transaction costs.

Discussion of the acquisitions of the Initial Properties, Lone Oak and Chrislea, and the KingSett Portfolio can be found in the MD&A in the Trust’s annual report for the period ended December 31, 2012, which is available on our web site at [www.dundeeindustrial.com](http://www.dundeeindustrial.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). Discussion of the CanFirst and C2C Portfolio acquisitions as well as the Lingard Road property can be found under the heading Investing activities.

Cumulatively, the acquisitions have been financed through the issuance of approximately \$726 million of Units and the assumption and/or issuance of \$816 million of debt.

At December 31, 2013, we owned 206 light industrial income-producing buildings totalling 15.7 million square feet of gross leasable area (“GLA”) 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 while 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

Effective April 30, 2013, our annualized distribution rate increased to \$0.70 per unit, or \$0.058 per unit on a monthly basis, an increase of 2.5 cents from the original annualized distribution rate of \$0.675, or \$0.056 on a monthly basis. At December 31, 2013, approximately 9.7% of our total Units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP") (see a description of Our equity on page 19).

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
Annualized distribution rate	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.675	\$ 0.675
Monthly distribution rate	\$ 0.058	\$ 0.058	\$ 0.058	\$ 0.056	\$ 0.056
Period-end closing price	\$ 8.85	\$ 8.74	\$ 9.08	\$ 10.82	\$ 11.20
Annualized distribution yield on closing price (%)	7.9%	8.0%	7.7%	6.2%	6.0%

## 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:

### 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 maximize cash flows to our unitholders. Dundee Industrial REIT employs 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.

### 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.

### 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.

### 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.

## OUR PROPERTIES

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

Today, our portfolio consists of 206 properties comprising 15.7 million square feet of GLA. Our properties are located in desirable business parks, situated close to highways, and generally considered functional and well suited for their respective markets. The occupancy rate across our portfolio is 95.7%. Our occupancy rate includes lease commitments totalling approximately 208,000 square feet for space that is currently being readied for occupancy but for which rent is not yet being recognized. Rent recognition on approximately 63% of this space is expected to commence in the first quarter of 2014 and 24% in the second quarter of 2014, with the remaining commencing in the second half of 2014.

Our properties are geographically diversified as follows:

Province	December 31, 2013			December 31, 2012		
	Number of properties	Owned GLA (sq. ft.)	% of owned GLA	Number of properties	Owned GLA (sq. ft.)	% of owned GLA
British Columbia	1	17,405	0.1	1	17,405	0.2
Alberta	69	3,447,114	22.0	67	3,277,555	28.6
Saskatchewan	6	830,085	5.3	6	829,815	7.3
Ontario	58	4,825,231	30.8	25	1,917,401	16.8
Québec	33	3,732,891	23.8	28	3,204,516	27.9
New Brunswick	2	134,704	0.9	2	134,704	1.2
Nova Scotia	37	2,675,927	17.1	29	2,056,799	18.0
<b>Total</b>	<b>206</b>	<b>15,663,357</b>	<b>100.0</b>	<b>158</b>	<b>11,438,195</b>	<b>100.0</b>

Our portfolio consists of multi-tenant buildings totalling 10.2 million square feet, or comprising 65.0% of total GLA, and single-tenant buildings totalling 5.5 million square feet, or 35.0% of total GLA. Of the 5.5 million square feet of single-tenant space, 4.8 million is located in Ontario and Québec. Multi-tenant space is distributed more evenly throughout the provinces in the portfolio, with a relatively higher concentration of 3.9 million square feet in Alberta and Saskatchewan. The differences between single- and multi-tenant buildings can be seen in the following operating metrics:

- Average tenant size – single tenants typically occupy significantly more space on an individual basis than those tenants in multi-tenant buildings;
- Average lease term – single tenants typically have lease terms that are significantly longer than in multi-tenant buildings, which tends to offset the concentration risk of having a large single tenant in a building; and
- Average in-place rents per square foot – which are typically moderately higher in multi-tenant buildings.

Multi-tenant buildings with shorter lease terms allow a landlord to bring rents to market rates on a more regular basis, thereby taking advantage of supply-constrained market conditions. Small bay multi-tenant buildings tend to have higher construction costs and tend to be located in denser urban markets, which increases the barriers to competition from new supply. Selective ownership of single-tenant buildings provides a source of stable cash flow with relatively less management effort required. In addition to the geographic distribution, maintaining a balance of the two building types in the portfolio is part of our diversification strategy.

## KEY PERFORMANCE INDICATORS

Performance is measured by these and other key indicators:

	Three months ended December 31, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
<b>Operations</b>				
Occupancy rate (period-end)	95.7%	95.1%		96.3%
Average in-place base rent per sq. ft. (period-end)	\$ 6.92	\$ 6.89		\$ 7.12
Weighted average remaining lease term	4.7	4.8		5.4
<b>Operating results</b>				
Investment properties revenue	\$ 41,149	\$ 37,842	\$ 142,944	\$ 17,202
Net operating income ("NOI") <sup>(1)(2)</sup>	27,060	27,221	98,927	12,535
Funds from operations ("FFO") <sup>(1)(3)</sup>	16,859	17,126	61,550	8,452
Adjusted funds from operations ("AFFO") <sup>(1)(4)</sup>	13,630	13,729	49,164	6,492
Fair value (decrease) increase to investment properties	(1,308)	1,599	1,151	6,048
<b>Distributions</b>				
Declared distributions	\$ 12,450	\$ 12,430	\$ 46,250	\$ 6,846
Distributions paid in cash	11,247	11,460	43,033	4,171
DRIP participation rate	9.7%	7.8%	7.0%	39.0%
<b>Financing</b>				
Weighted average effective interest rate on debt (period-end)	3.84%	3.83%		3.72%
Weighted average face interest rate on debt (period-end)	4.18%	4.18%		4.19%
Weighted average remaining term to maturity of debt (period-end) (years)	4.1	4.4		4.1
Interest coverage ratio <sup>(5)</sup>	2.9 times	2.9 times	2.9 times	3.0 times
<b>Per unit amounts<sup>(6)</sup></b>				
Distribution rate	\$ 0.17	\$ 0.17	\$ 0.69	\$ 0.16
<b>Basic:</b>				
FFO <sup>(1)</sup>	0.24	0.24	0.93	0.22
AFFO <sup>(1)(7)</sup>	0.19	0.19	0.74	0.17
<b>Diluted</b>				
FFO <sup>(1)</sup>	0.23	0.24	0.91	0.21
<b>Payout ratio (%)<sup>(8)</sup></b>				
FFO	70.8%	70.8%	74.2%	72.7%
AFFO	89.5%	89.5%	93.2%	94.1%

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

(2) NOI (non-GAAP measure) is defined as net rental income. The reconciliation of NOI to net rental income can be found on page 23.

(3) FFO (non-GAAP measure) – The reconciliation of FFO to net income can be found on page 25.

(4) AFFO (non-GAAP measure) – The reconciliation of AFFO to cash generated from operating activities can be found on page 26.

(5) Interest coverage ratio (non-GAAP measure) – The calculation of the interest coverage ratio is included in the "Non-GAAP measures" section of the MD&A.

(6) A description of the determination of basic and diluted amounts per unit can be found on page 30.

(7) AFFO per unit is shown on a basic basis only, as the convertible debentures are anti-dilutive to AFFO.

(8) Payout ratio for FFO and AFFO are calculated as the ratio of distribution rate to basic FFO and AFFO per unit, respectively.

## FINANCIAL OVERVIEW

We have completed our first full fiscal year of operations since our IPO, during which our portfolio increased from 11.4 million square feet in December 2012 to 15.7 million square feet in December 2013. AFFO and FFO per unit for the year were 74 cents and 93 cents, respectively, which represents approximately 9% and 6% growth over annualized fourth quarter 2012 results. This growth was accomplished while increasing the diversification and quality of our portfolio and maintaining a conservative and stable capital structure.

AFFO for the fourth quarter of 2013 was consistent with the third quarter on a per unit basis at 19 cents or \$13.6 million in total. AFFO for the fourth quarter increased to 19 cents per unit, up 12% compared to the same period in the prior year, reflecting the impact of accretive acquisitions completed in 2013 and 2012 as well as growth in comparative property NOI.

Occupancy of the portfolio increased from 95.1% at the end of Q3 2013 to 95.7%. This reflects the efforts of our leasing team in renewing 70% of our expiring tenancies and securing new tenancies, together totalling 696,000 square feet of leasing activity, as well as a net increase in future commitments of 55,000 square feet. The improving outlook for our leasing velocity reflects the increasing depth of our leasing team and strengthening tenant relationships, as well as the improving fundamentals in many of our key markets.

In-place rent was \$6.92 per square foot compared to \$6.89 at September 30, 2013, which we estimate is approximately \$0.44 or 6.4% below the current rental market rates. The multi-tenant nature of two-thirds of our portfolio and its associated relatively short weighted average lease term of 3.7 years provides the Trust with a good opportunity for rent growth in the short to medium term.

Our portfolio size was stable in the quarter at 15.7 million square feet, with total investment properties of \$1.5 billion at fair value, reflecting a weighted average capitalization rate of 6.73% on stabilized net operating income, which is stable compared to September 30, 2013.

Financing metrics remained stable during the quarter with secured debt comprising 44.4% of total assets excluding convertible debentures. Our leverage stood at 52.6% at December 31, 2013, including the convertible debentures. The weighted average remaining term on our debt was 4.1 years and the weighted average face interest rate on our debt was 4.2%, which is modestly higher than what we are currently seeing in the market for comparable mortgage debt.

Subsequent to year-end, on February 24, 2014, the Trust completed a \$56 million refinancing of maturing mortgages on a portfolio of eight of its properties in Halifax ("the Halifax Portfolio Refinancing"). Net proceeds after repayment of the existing mortgage amounted to \$21 million, which were used to repay other maturing mortgages and the outstanding balance on the demand revolving credit facility. The interest rate was fixed at 3.31% for a term of five years. As a result of the repayment of mortgages subsequent to year-end, our unencumbered assets grew by \$16 million to \$138 million from \$122 million at year-end.

Overall, the Trust has performed in line with management's expectations for the quarter and year.

## **OUTLOOK**

Market fundamentals are continuing to improve for industrial real estate in most of our major markets. The GTA, Alberta and Saskatchewan markets are especially supply-constrained for smaller bay multi-tenant assets. We expect this will translate into continued market rent growth and strong leasing volumes. The fourth quarter of 2013 was our strongest quarter yet on the leasing front, with over 750,000 square feet of new and renewal leasing.

In 2014, we will be focused on:

- Continuing to enhance our operations and strengthen our relationships with tenants;
- Exploring value-add intensification opportunities within our existing portfolio; and
- Recycling capital from non-core assets into assets that meet our investment criteria and enhance the quality of our portfolio.

We are expecting to have continued success in growing our AFFO and enhancing the quality and stability of our cash flows in 2014.



## SECTION II — EXECUTING THE STRATEGY

### OUR OPERATIONS

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

Performance indicators	December 31, 2013			December 31, 2012		
	Multi-tenant buildings	Single-tenant buildings	Total	Multi-tenant buildings	Single-tenant buildings	Total
Occupancy rate	94.6%	97.9%	95.7%	94.5%	99.0%	96.3%
Average in-place base rental rates (per sq. ft.)	\$ 7.14	\$ 6.53	\$ 6.92	\$ 7.24	\$ 6.94	\$ 7.12
Tenant maturity profile – average term to maturity (years)	3.7	6.5	4.7	3.6	8.0	5.4
Owned GLA (in millions of sq. ft.)	10.2	5.5	15.7	7.0	4.4	11.4

### Occupancy

At December 31, 2013, the overall percentage of occupied and committed space across our portfolio remained high at 95.7%, which was 0.6% higher than occupancy at September 30, 2013 and 0.6% lower than occupancy at December 31, 2012.

(percentage)	December 31, 2013	September 30, 2013	December 31, 2012
Western Canada	96.7	94.7	95.8
Central Canada	96.1	95.6	97.3
Eastern Canada	93.0	94.2	94.8
<b>Total</b>	<b>95.7</b>	<b>95.1</b>	<b>96.3</b>
<b>Portfolio size (millions of sq. ft.)</b>	<b>15.7</b>	<b>15.7</b>	<b>11.4</b>

Our leasing volumes have increased significantly over the past quarter, as reflected in our 0.6% increase in occupied and committed space since September 30, 2013. This positive trend has been highlighted by continued strength in the Ontario and Alberta markets.

### Vacancy schedule

During the quarter, vacancy decreased by approximately 43,000 square feet. Leasing activity included approximately 447,000 square feet of renewals, approximately 249,000 square feet of new leases and a net increase in space committed for future occupancy of 55,000 square feet.

(in sq. ft.)	Three months ended December 31, 2013	% of total GLA	Year ended December 31, 2013	% of total GLA
Available for lease	766,732	4.9	427,806	3.7
Vacancy committed for future occupancy	153,139	1.0	83,687	0.7
Vacant space at beginning of period	919,871	5.9	511,493	4.5
Acquired vacancy	-	-	200,676	1.3
Vacant space – reflecting acquisitions	919,871	5.9	712,169	4.5
Remeasurements	839	-	5,898	-
Expiries	640,861	4.1	1,999,899	12.8
Early terminations and bankruptcies	11,431	0.1	170,196	1.1
New leases	(249,470)	(1.6)	(609,538)	(3.9)
Renewals	(446,528)	(2.9)	(1,401,620)	(8.9)
Vacant space – December 31, 2013	877,004	5.6	877,004	5.6
Vacancy committed for future occupancy	208,261	1.3	208,261	1.3
<b>Available for lease – December 31, 2013</b>	<b>668,743</b>	<b>4.3</b>	<b>668,743</b>	<b>4.3</b>

The committed occupancy at December 31, 2013 totalled 208,000 square feet. Of this committed space, 132,000 square feet is expected to commence prior to March 31, 2014. By December 31, 2014, all 208,000 square feet of currently committed space is expected to be generating revenue.

### In-place rental rates

At December 31, 2013, estimated current market rents were 6.4% higher than portfolio average in-place base rents, presenting us with the opportunity to capture gains when space is renewed or newly leased. While market rents remained consistent with September 30, 2013, our average in-place rents increased, reflecting our ability to capture these market rents as our leases expire.

	December 31, 2013			September 30, 2013			December 31, 2012		
	Average in-place base rent	Market rent/Market rent <sup>(1)</sup>	Market rent/in-place rent (%)	Average in-place base rent	Market rent/Market rent	Market rent/in-place rent (%)	Average in-place base rent	Market rent/Market rent <sup>(2)</sup>	Market rent/in-place rent (%)
Total portfolio	\$ 8.60	\$ 9.66	12.3	\$ 8.54	\$ 9.72	13.8	\$ 8.40	\$ 9.37	11.6
Western Canada	6.01	6.16	2.5	6.03	6.17	2.3	6.21	6.24	0.5
Central Canada	7.11	7.45	4.8	7.04	7.44	5.7	6.87	7.34	6.8
Eastern Canada	\$ 6.92	\$ 7.36	6.4	\$ 6.89	\$ 7.36	6.8	\$ 7.12	\$ 7.57	6.3
<b>Total</b>									

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

(2) Comparative figures have been restated to conform with the current period presentation.

### Leasing and tenant profile

The average remaining lease term and other portfolio information are detailed in the following table. Overall, our average remaining lease term is 4.7 years and our average tenant size is 12,000 square feet. Our single-tenant buildings have an average remaining lease term of 6.5 years and our multi-tenant buildings have an average remaining lease term of 3.7 years. The weighted average lease term of our top ten tenants, weighted by annualized base rent, is 8.2 years.

	December 31, 2013			September 30, 2013			December 31, 2012		
	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place base rent (per sq. ft.)	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place base rent (per sq. ft.)	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place base rent (per sq. ft.)
Western Canada	4.32	8,830	\$ 8.60	4.36	8,604	\$ 8.54	3.88	8,611	\$ 8.40
Central Canada	5.22	20,771	6.01	5.31	21,035	6.03	7.33	30,748	6.21
Eastern Canada	3.54	6,569	7.11	3.68	6,521	7.04	3.72	6,237	6.87
<b>Total</b>	<b>4.68</b>	<b>11,855</b>	<b>\$ 6.92</b>	<b>4.76</b>	<b>11,748</b>	<b>\$ 6.89</b>	<b>5.41</b>	<b>11,541</b>	<b>\$ 7.12</b>

The following table details our lease maturity profile by region at December 31, 2013. The table distinguishes between lease maturities that have yet to be renewed or re-leased and maturities for which we have leasing commitments. 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 2014, 2,152,000 square feet will expire, of which 633,000 square feet, or 29%, has already been committed for future occupancy. Our current maturity profile is well balanced with 14% of leases expiring in 2014, 15% expiring in 2015 and 14% expiring in 2016.

(in sq. ft.)	Current vacancy	Current monthly tenancies	2014	2015	2016	2017	2018	2019 to 2027	Total
<b>Western Canada</b>									
Uncommitted	139,814	-	549,077	550,067	574,335	565,549	472,329	1,024,596	3,875,767
Committed	-	-	211,537	133,668	1,278	43,854	28,500	-	418,837
<b>Total Western Canada</b>	<b>139,814</b>	<b>-</b>	<b>760,614</b>	<b>683,735</b>	<b>575,613</b>	<b>609,403</b>	<b>500,829</b>	<b>1,024,596</b>	<b>4,294,604</b>
<b>Central Canada</b>									
Uncommitted	332,935	-	557,968	1,110,614	1,031,919	954,672	976,020	3,127,341	8,091,469
Committed	-	-	383,363	20,047	63,243	-	-	-	466,653
<b>Total Central Canada</b>	<b>332,935</b>	<b>-</b>	<b>941,331</b>	<b>1,130,661</b>	<b>1,095,162</b>	<b>954,672</b>	<b>976,020</b>	<b>3,127,341</b>	<b>8,558,122</b>
<b>Eastern Canada</b>									
Uncommitted	195,994	7,989	411,960	457,010	539,959	260,563	280,283	552,571	2,706,329
Committed	-	-	38,067	18,461	-	-	2,685	45,089	104,302
<b>Total Eastern Canada</b>	<b>195,994</b>	<b>7,989</b>	<b>450,027</b>	<b>475,471</b>	<b>539,959</b>	<b>260,563</b>	<b>282,968</b>	<b>597,660</b>	<b>2,810,631</b>
Total uncommitted	668,743	7,989	1,519,005	2,117,691	2,146,213	1,780,784	1,728,632	4,704,508	14,673,565
Total committed	-	-	632,967	172,176	64,521	43,854	31,185	45,089	989,792
<b>Total</b>	<b>668,743</b>	<b>7,989</b>	<b>2,151,972</b>	<b>2,289,867</b>	<b>2,210,734</b>	<b>1,824,638</b>	<b>1,759,817</b>	<b>4,749,597</b>	<b>15,663,357</b>

The following table details expiring rents across our portfolio as well as our estimate of average market rents based on current leasing activity in similar properties at December 31, 2013. Expiring rents and market rents represent base rates and do not include the impact of lease incentives. Currently, 2014 estimated market rents are 5.2% above expiring rents and estimated 2015 market rents are 5.5% above expiring rents, representing an opportunity to increase rents as space is re-leased.

(per sq. ft.)	Current monthly tenancies	2014	2015	2016	2017	2018
<b>Expiring rents<sup>(1)</sup></b>						
Western Canada	\$ -	\$ 8.70	\$ 9.13	\$ 8.00	\$ 9.64	\$ 10.67
Central Canada	-	6.37	5.86	5.50	6.07	6.11
Eastern Canada	2.29	6.69	6.55	7.35	7.59	8.20
<b>Portfolio average</b>	<b>\$ 2.29</b>	<b>\$ 7.30</b>	<b>\$ 6.86</b>	<b>\$ 6.63</b>	<b>\$ 7.42</b>	<b>\$ 7.69</b>
<b>Market rents<sup>(2)</sup></b>						
Western Canada	\$ -	\$ 9.34	\$ 10.50	\$ 9.10	\$ 10.08	\$ 10.82
Central Canada	-	6.41	5.75	5.72	6.13	6.11
Eastern Canada	6.89	7.20	6.93	7.61	7.63	7.83
<b>Market rent average</b>	<b>\$ 6.89</b>	<b>\$ 7.68</b>	<b>\$ 7.24</b>	<b>\$ 7.10</b>	<b>\$ 7.61</b>	<b>\$ 7.68</b>

(1) Expiring rents include the effects of contractual rent steps built into tenant leases.

(2) 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, broker commissions, and internal leasing costs related to 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.

During the year ended December 31, 2013, a total of 2,011,000 square feet was leased and occupied with related costs of \$6.7 million, representing an average rate of \$3.31 per square foot leased.

Performance indicators	Total
<b>Operating activities</b>	
Portfolio size (sq. ft.)	15,663,357
Occupied and committed	95.7%
Square footage leased and occupied in 2013	2,011,158
Lease incentives and initial direct leasing costs for square footage leased and occupied in 2013	\$ 6,653

### Tenant base profile

Our tenant base consists of a diverse range of high-quality businesses and, with 1,266 tenants, we believe our exposure to any single large lease or tenant is low. The average size of our tenants is 12,000 square feet, averaging 82,000 square feet across our single-tenant buildings and 8,000 square feet across our multi-tenant buildings.

The following table outlines the contributions of our top ten tenants to our rental revenue.

Tenant	Owned area (sq. ft.)	Owned area (%)	Gross annualized base rent (%)	Weighted average remaining lease term (years)
Spectra/Premium Industries Inc.	642,368	4.1	4.1	11.4
TC Transcontinental	523,345	3.3	3.6	8.3
Molson Breweries	225,000	1.4	2.4	9.0
The Brick	327,000	2.1	2.3	10.4
Royal Group	346,035	2.2	1.9	4.0
Clean Harbors Industrial	99,432	0.6	1.7	4.8
United Agri Products Canada Inc.	275,335	1.8	1.4	9.8
Nellson Nutraceutical	210,710	1.3	1.3	5.8
Array Canada Inc.	209,754	1.3	1.2	7.0
McKesson Canada Corporation	181,000	1.2	0.9	4.0
<b>Total</b>	3,039,979	19.3	20.8	8.2

On an annualized base rent basis, no single tenant represents more than 5% of total revenue of the portfolio, and the weighted average remaining lease term stands strong at 8.2 years.

## OUR RESOURCES AND FINANCIAL CONDITION

### Investment properties

At December 31, 2013, the fair value of our investment property portfolio was \$1.5 billion, reflecting a weighted average capitalization rate ("cap rate") of 6.73% on stabilized NOI, excluding property management income.

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 6.00% 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 fair value of our investment properties excluding land is set out below.

	Total portfolio		
	December 31, 2013	September 30, 2013	December 31, 2012
Western Canada	\$ 561,442	\$ 558,241	\$ 523,683
Central Canada	706,898	706,403	425,017
Eastern Canada	271,429	270,459	198,710
<b>Total</b>	<b>\$ 1,539,769</b>	<b>\$ 1,535,103</b>	<b>\$ 1,147,410</b>

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

	Capitalization rates – Total portfolio					
	December 31, 2013		September 30, 2013		December 31, 2012	
	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)
Western Canada	6.00 – 8.25	6.48	6.00 – 8.25	6.48	5.85 – 8.25	6.52
Central Canada	6.00 – 8.75	6.83	6.00 – 8.75	6.83	6.03 – 8.75	7.02
Eastern Canada	6.50 – 7.75	7.01	6.50 – 7.75	7.01	6.03 – 8.50	7.07
<b>Total</b>	<b>6.00 – 8.75</b>	<b>6.73</b>	<b>6.00 – 8.75</b>	<b>6.73</b>	<b>5.85 – 8.75</b>	<b>6.80</b>

### Investing activities

The following acquisitions were completed during the year ended December 31, 2013:

	Interest acquired (%)	Acquired GLA (sq. ft.) <sup>(1)</sup>	Occupancy on acquisition (%)	Purchase price allocated to investment properties <sup>(2)</sup>	Date acquired
CanFirst Portfolio	100	1,625,844	96	\$ 155,650	April 24, 2013
C2C Portfolio <sup>(3)</sup>	100	2,528,658	95	231,257	May 15, 2013
Lingard Road, Cambridge, ON	100	70,154	100	5,350	June 7, 2013
<b>Total</b>	<b>100</b>	<b>4,224,656</b>	<b>95</b>	<b>\$ 392,257</b>	

(1) Remeasured GLA as at December 31, 2013.

(2) Includes transaction costs.

(3) The Trust acquired approximately 95% ownership of C2C on May 15, 2013 and acquired the remaining 5% on July 19, 2013.

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

On April 24, 2013, we acquired a portfolio of 22 properties (“CanFirst Portfolio”) comprising 1.6 million square feet of gross leasable area located across the GTA in key industrial markets and situated along major transportation corridors providing direct highway access. The total purchase price was \$151.5 million before transaction costs. The acquisition was funded by assumed debt with a fair value of \$62.0 million with an average term of 1.9 years, with the balance funded by cash from the equity issue that closed on March 6, 2013. The effective interest rate on the assumed debt is approximately 3.09% after giving effect to the vendor’s buy-down of existing rates.

In addition, on May 15, 2013, we acquired approximately 95% of the outstanding common shares of C2C Industrial Properties Inc. (“C2C”, or the “C2C Portfolio”) in exchange for Units of Dundee Industrial. The C2C Portfolio comprises 2.5 million square feet of GLA located primarily in Halifax, Edmonton, the Greater Toronto Area and the Greater Montreal Area. As part of this transaction, we have assumed mortgages with a fair value of \$115.6 million with an average term of 4.6 years and convertible debentures with a fair value of \$21.6 million at 6.75% face rate with 4.4 years to maturity. Subsequent to the announcement, but prior to closing, a tenant occupying 39,000 square feet negotiated the early termination of the lease, with the payment of a \$150,000 lease termination fee, which is reflected in the purchase price allocation of C2C assets.

The following acquisitions were completed during the period from July 20, 2012 to December 31, 2012:

	Interest acquired (%)	Acquired GLA (sq. ft.) <sup>(2)</sup>	Occupancy on acquisition (%)	Purchase price allocated to investment properties <sup>(3)</sup>	Date acquired
Initial Properties <sup>(1)</sup>	100	6,007,984	97	\$ 646,871	October 4, 2012
Lone Oak/Chrislea	100	172,823	100	17,182	November 30, 2012
KingSett Portfolio	100	5,257,894	95	488,275	December 19, 2012
<b>Total</b>	<b>100</b>	<b>11,438,701</b>	<b>96</b>	<b>\$ 1,152,328</b>	

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

(2) Remeasured GLA as at December 31, 2013.

(3) Includes transaction costs.

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.



### Building improvements and leasing costs

The table below represents costs incurred towards building improvement and leasing costs during the year ended December 31, 2013 and for the period from July 20, 2012 to December 31, 2012.

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
<b>Building improvements:</b>		
Recoverable capital expenditures	\$ 2,035	\$ -
Other capital expenditures	180	-
<b>Initial leasing costs and lease incentives:</b>		
Leasing costs	4,748	-
Landlord's work	1,590	83
Tenant improvements	2,512	479
<b>Total</b>	<b>\$ 11,065</b>	<b>\$ 562</b>

During the year, building improvements and leasing costs were proportionately higher than our longer-term expectations due to:

- \$0.7 million incurred to convert a single-tenant building to multi-tenant use, including the subsequent lease up;
- \$0.6 million of costs related to recent acquisitions to reposition certain spaces in the portfolio to our standards;
- A relatively high level of external leasing costs relative to the portfolio size due to staffing up throughout of the year;
- Higher than normal tenant turnover as we absorbed the new portfolios; and
- Specific management decisions to offer incentives to brokers and tenants to lease up vacant spaces in a short period of time.

The majority of these costs were identified as part of our underwriting at the time of acquiring the portfolios.

## 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.

### 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 capital are as follows:

	December 31, 2013	December 31, 2012
<b>Financing activities</b>		
Debt	\$ <b>840,382</b>	\$ 649,845
Average effective interest rate <sup>(1)</sup>	<b>3.84%</b>	3.72%
Average face interest rate	<b>4.18%</b>	4.19%
Level of debt (debt-to-total assets) <sup>(2)</sup>	<b>52.6%</b>	54.2%
Interest coverage ratio <sup>(3)</sup>	<b>2.9</b>	3.0
Maximum proportion of debt maturities due in any one year	<b>17.1% (2015)</b>	18.2% (2019)
Debt – average term to maturity (years)	<b>4.1</b>	4.1
Variable rate debt as percentage of total debt	<b>1.4%</b>	6.5%

(1) Average effective interest rate is calculated as the weighted average interest rate of all interest bearing debt including issue costs and mark-to-market adjustments.

(2) Level of debt (non-GAAP measure) is determined as total debt before deferred financing costs and mark-to-market adjustments, divided by total assets. The calculation for level of debt can be found under the section Non-GAAP measures.

(3) The interest coverage ratio (non-GAAP measure) for the year ended December 31, 2013 and for the period ended December 31, 2012 is calculated as net rental income plus interest and fee income, less general and administrative expenses, plus deferred unit compensation expense, all divided by interest expense on debt excluding deferred financing and mark-to-market adjustments. Please see the section Non-GAAP measures for the detailed calculation of interest coverage ratio.

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio is 2.9 times, demonstrating our ability to more than adequately cover interest expense requirements. At December 31, 2013, our weighted average face rate of interest is 4.18% and, after accounting for market adjustments and financing costs, the weighted average effective interest rate for outstanding debt is 3.84%.

At December 31, 2013, \$11.3 million (December 31, 2012 – \$10.0 million) was drawn on our revolving credit facility. The outstanding balance on the credit facility at year-end primarily resulted from a decision to not refinance certain mortgage maturities and repayments in 2013. Management was in the process of obtaining a commitment on the Halifax Portfolio Refinancing which ultimately generated \$21.0 million in net proceeds, negating the need to refinance these smaller mortgages. The assets that were not refinanced increased our unencumbered assets pool by \$10.2 million in the quarter to \$122.2 million at year-end. This unencumbered assets pool provides the Trust with additional financing flexibility and we intend to continue to work to grow this pool as we refinance maturing debt.

At December 31, 2012, a \$32.5 million variable rate bridge loan had been used to acquire the KingSett Portfolio and \$10.0 million was drawn on our revolving credit facility. As a result, variable rate debt as a percentage of total debt as at December 31, 2012 was 6.5%. In January 2013, \$50.0 million in mortgage financing was secured for a term of seven years at a fixed face interest rate of 3.68%, which was used to repay our variable rate bridge loan facility and the \$10.0 million drawn on the revolving credit facility.

	December 31, 2013			December 31, 2012		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 703,502	\$ -	\$ 703,502	\$ 462,359	\$ -	\$ 462,359
Promissory note payable	-	-	-	42,000	-	42,000
Demand revolving credit facility	-	12,114	12,114	-	10,000	10,000
Unsecured non-revolving bridge facility	-	-	-	-	32,394	32,394
Convertible debentures	124,766	-	124,766	103,092	-	103,092
<b>Total</b>	<b>\$ 828,268</b>	<b>\$ 12,114</b>	<b>\$ 840,382</b>	<b>\$ 607,451</b>	<b>\$ 42,394</b>	<b>\$ 649,845</b>
Percentage	98.6%	1.4%	100.0%	93.5%	6.5%	100.0%

Mortgages payable are recorded net of \$10.9 million of fair value adjustments upon initial recognition and \$1.2 million of financing costs. At December 31, 2013, amounts recorded for the convertible debentures are net of a \$2.6 million discount allocated to their conversion features on issuance and net of financing costs of \$3.3 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, 2013				Year ended December 31, 2013			
	Amount	Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective interest rate (%)	Amount	Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective interest rate (%)
New mortgages	\$ -	-	-	-	\$ 113,106	8.0	3.8	4.0
New mortgages assumed on investment property acquisition and business combination	-	-	-	-	175,425	3.8	3.7	3.3
<b>Overall</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 288,531</b>	<b>5.4</b>	<b>3.7</b>	<b>3.6</b>

We closed a seven-year \$50.0 million term mortgage at an interest rate of 3.68% in January 2013, the proceeds of which were used to repay the \$32.5 million bridge facility bearing interest at 3.48% related to the KingSett Portfolio acquisition. Additionally, we closed on a ten-year \$48.6 million term mortgage at a face interest rate of 3.95% in January 2013, the proceeds of which were used to repay the \$42.0 million promissory note due to Dundee REIT.

As part of the acquisition of the CanFirst Portfolio on April 24, 2013, we assumed \$62.0 million in mortgages, which includes fair value adjustments of \$0.1 million. In addition, as part of the acquisition of C2C on May 15, 2013, we assumed \$115.6 million in mortgages, which includes fair value adjustments of \$2.1 million. We also repaid a \$7.1 million variable rate mortgage assumed as part of the C2C acquisition on June 19, 2013. No prepayment penalties were incurred on the repayment of this mortgage.

In September 2013, we refinanced two mortgages in aggregate for \$14.5 million for a term of five years at an interest rate of 3.84%, the proceeds of which were used to repay another mortgage for \$6.9 million, which was carried at an interest rate of 5.80%.

On October 31, 2013, we repaid a \$1.3 million variable rate mortgage. We also repaid at maturity a \$2.8 million mortgage, which was carried at an interest rate of 3.0%.

## Demand revolving credit facility

On October 4, 2012, we entered into a \$35.0 million demand revolving credit facility with a Canadian chartered bank. Draws under the revolving credit facility are in the form of 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, 2013) plus 0.90% at the Trust's option. 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, while all other terms of the facility remained unchanged. At December 31, 2013, 15 properties were secured as first-ranking mortgages on the facility, and \$11.3 million was drawn on the facility. As of December 31, 2013, the Trust has outstanding letters of credit totalling \$0.5 million issued by the bank under the facility to secure the Trust's obligations under certain contractual arrangements. Based upon the security provided, the amount available to draw under this facility as at December 31, 2013 is \$37.5 million. The facility expires on October 4, 2014.

The outstanding balance on the demand revolving credit facility was paid off on February 25, 2014 using the net proceeds from the Halifax Portfolio Refinancing.

Changes in debt levels are as follows:

	Three months ended December 31, 2013			
	Mortgages	Demand revolving credit facility	Convertible debentures	Total
Debt as at September 30, 2013	\$ 713,561	\$ -	\$ 124,590	\$ 838,151
New debt placed	-	12,114	-	12,114
Scheduled repayments	(5,194)	-	-	(5,194)
Lump sum repayments	(4,051)	-	-	(4,051)
Other adjustments <sup>(1)</sup>	(814)	-	176	(638)
<b>Debt as at December 31, 2013</b>	<b>\$ 703,502</b>	<b>\$ 12,114</b>	<b>\$ 124,766</b>	<b>\$ 840,382</b>

(1) Other adjustments include amortization of finance costs and fair value adjustments.

	Year ended December 31, 2013					
	Mortgages	Promissory notes payable	Demand revolving credit facility	Unsecured non-revolving bridge facility	Convertible debentures	Total
Debt as at December 31, 2012	\$ 462,359	\$ 42,000	\$ 10,000	\$ 32,394	\$ 103,092	\$ 649,845
New debt assumed on investment property acquisition and business combination	175,425	-	-	-	20,125	195,550
New debt placed	113,106	-	12,114	-	-	125,220
Scheduled repayments	(18,163)	-	-	-	-	(18,163)
Lump sum repayments <sup>(1)</sup>	(26,909)	(42,000)	(10,000)	(32,500)	(705)	(112,114)
Other adjustments <sup>(2)</sup>	(2,316)	-	-	106	2,254	44
<b>Debt as at December 31, 2013</b>	<b>\$ 703,502</b>	<b>\$ -</b>	<b>\$ 12,114</b>	<b>\$ -</b>	<b>\$ 124,766</b>	<b>\$ 840,382</b>

(1) Lump sum repayments include the tender of the 6.75% Debentures in connection with the offer to purchase that expired on June 26, 2013.

(2) Other adjustments include finance costs on new debt placed, fair value adjustments, write-off of fair value adjustments on debt lump sum repayments and amortization of finance costs and fair value adjustments.

Our current debt profile is balanced with maturities well-distributed over the next nine years. The following is our debt maturity profile as at December 31, 2013:

	Debt maturities	Scheduled repayments on non-maturing debt	Amount	%	Weighted average effective interest rate on balance due at maturity (%)	Weighted average face rate on balance due at maturity (%)
2014	\$ 90,022	\$ 19,674	\$ 109,696	13.11	3.11	3.82
2015	126,625	17,178	143,803	17.19	3.07	3.66
2016	93,270	13,634	106,904	12.78	3.19	4.26
2017	101,479	10,879	112,358	13.43	3.89	4.50
2018	80,709	6,631	87,340	10.44	3.62	3.36
2019 and thereafter	258,993	17,538	276,531	33.05	4.81	4.69
<b>Total</b>	<b>\$ 751,098</b>	<b>\$ 85,534</b>	<b>\$ 836,632</b>	<b>100.00</b>	<b>3.86</b>	<b>4.19</b>
Financing costs			(4,547)			
Fair value adjustments			8,297			
<b>Total</b>			<b>\$ 840,382</b>			

### Convertible debentures

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

	Date issued	Maturity date	Conversion price	Outstanding principal December 31, 2013	Outstanding principal February 25, 2014	REIT Units if converted February 25, 2014
5.25% Debentures	December 13, 2012	December 31, 2019	\$ 13.80	\$ 86,250	\$ 86,250	6,250,000
5.25% Debentures	December 19, 2012	December 31, 2019	13.80	25,000	25,000	1,811,594
6.75% Debentures	May 15, 2013 <sup>(1)</sup>	November 30, 2017	12.37	19,420	19,420	1,569,346
<b>Total</b>				<b>\$ 130,670</b>	<b>\$ 130,670</b>	<b>9,630,940</b>

(1) The 6.75% Debentures were assumed as part of the C2C acquisition on May 15, 2013.

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 (loss). At December 31, 2013, the conversion feature amounted to \$1.0 million (December 31, 2012 – \$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 as the lessee during this reporting period. As at December 31, 2013, the Trust has entered into lease agreements with tenants that may require leasing and tenant improvement costs of approximately \$3.4 million (December 31, 2012 – \$0.3 million).

### Subsequent events

On February 24, 2014, the Trust completed the Halifax Portfolio Refinancing. The refinanced mortgage carries a variable interest rate of monthly Canadian Dealer Offered Rate (“CDOR”) plus 1.4% for an initial term of five years. In order to hedge the interest rate risk on the variable interest rate, the Trust also entered into a five-year interest rate swap agreement with a Canadian Chartered Bank for a notional value of \$56 million, which effectively fixed the interest rate on this mortgage at 3.31% for the five-year term. Net proceeds after repayment of the existing mortgage amounted to \$21 million, which were used to repay other maturing mortgages and the outstanding balance on the demand revolving credit facility.

## OUR EQUITY

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

	December 31, 2013		December 31, 2012	
	Number of Units	Amount	Number of Units	Amount
REIT Units	54,921,726	\$ 570,816	36,257,538	\$ 326,211
Add: LP B Units	16,282,096	144,096	16,198,747	181,426
<b>Total</b>	<b>71,203,822</b>	<b>\$ 714,912</b>	<b>52,456,285</b>	<b>\$ 507,637</b>

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, 2013, Dundee REIT, indirectly through its wholly owned subsidiaries, held 16,282,096 LP B Units, representing a total ownership interest of approximately 22.9%.

The following table summarizes the changes in our outstanding equity.

	REIT Units	LP B Units	Total
Total Units outstanding on January 1, 2013	36,257,538	16,198,747	52,456,285
Units issued pursuant to public offering	10,465,000	-	10,465,000
Units issued pursuant to C2C acquisition	7,460,654	-	7,460,654
Units issued pursuant to C2C amalgamation	387,399	-	387,399
Units issued pursuant to Distribution Reinvestment and Unit Purchase Plan (“DRIP”)	323,789	83,349	407,138
Units issued pursuant to Unit Purchase Plan	2,784	-	2,784
Units issued pursuant to Deferred Unit Incentive Plan (“DUIP”)	24,562	-	24,562
<b>Total Units outstanding on December 31, 2013</b>	<b>54,921,726</b>	<b>16,282,096</b>	<b>71,203,822</b>
Percentage of all Units	77.1%	22.9%	100.0%
Units issued pursuant to Unit Purchase Plan	491	-	491
Units issued pursuant to DRIP on January 15, 2014	45,489	-	45,489
Units issued pursuant to DRIP on February 15, 2014	33,848	-	33,848
Units vested and issued pursuant to DUIP on February 19, 2014	22,456	-	22,456
<b>Total Units outstanding on February 25, 2014<sup>(1)</sup></b>	<b>55,024,010</b>	<b>16,282,096</b>	<b>71,306,106</b>
Percentage of all Units	77.2%	22.8%	100.0%

(1) The date of this report.

On July 19, 2013, the Trust issued 387,399 REIT Units to purchase the remaining outstanding common shares of C2C by way of an amalgamation.

On May 15, 2013, in connection with the acquisition of C2C, the Trust issued 7,460,654 REIT Units to purchase approximately 95% of the outstanding common shares of C2C.

On March 6, 2013, the Trust completed a public offering of 10,465,000 REIT Units, at a price of \$11.00 per unit for gross proceeds of \$115.1 million, including 1,365,000 REIT Units pursuant to the exercise of the over-allotment option granted to the underwriters. Costs related to the offering of \$5.1 million (including costs of the over-allotment option) 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.

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 October 4, 2012, the Trust completed its IPO, issuing 15,500,000 REIT Units at a price of \$10.00 per unit for gross proceeds of \$155.0 million. Concurrently with the IPO, Dundee Corporation and Michael Cooper, Chief Executive Officer of DREAM Asset Management Corp., formerly known as Dundee Realty Corporation, a subsidiary of DREAM Unlimited Corp., 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.

### 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, debt and debt securities convertible into or exchangeable for Units of the Trust, or any combination thereof, having an aggregate offering price of up to \$1.0 billion. As at December 31, 2013, \$168.8 million in REIT Units and \$111.3 million in 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 the fluctuations when determining distributable income. We also normalize 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 also exclude the impact of transaction costs expensed on business combinations.

	Three months ended December 31, 2013			Year ended December 31, 2013		
	Declared distributions	3% bonus distributions <sup>(2)</sup>	Total	Declared distributions	3% bonus distributions <sup>(2)</sup>	Total
<b>2013 distributions</b>						
Paid in cash or reinvested in Units	\$ 8,296	\$ 24	\$ 8,320	\$ 42,096	\$ 85	\$ 42,181
Payable at December 31, 2013	4,154	-	4,154	4,154	-	4,154
<b>Total distributions<sup>(1)</sup></b>	<b>\$ 12,450</b>	<b>\$ 24</b>	<b>\$ 12,474</b>	<b>\$ 46,250</b>	<b>\$ 85</b>	<b>\$ 46,335</b>
<b>2013 reinvestment</b>						
Reinvested to December 31, 2013	\$ 810	\$ 24	\$ 834	\$ 2,824	\$ 85	\$ 2,909
Reinvested on January 15, 2014	393	12	405	393	12	405
<b>Total distributions reinvested</b>	<b>\$ 1,203</b>	<b>\$ 36</b>	<b>\$ 1,239</b>	<b>\$ 3,217</b>	<b>\$ 97</b>	<b>\$ 3,314</b>
Distributions paid in cash	\$ 11,247			\$ 43,033		
Reinvestment to distribution ratio	9.7%			7.0%		
Cash payout ratio	90.3%			93.0%		

(1) Includes distributions on LP B Units.

(2) Unitholders registered in the DRIP are also eligible to receive a bonus distribution of Units equal to 3% of the amount of the cash distribution reinvested pursuant to the DRIP.

Distributions declared for the three months ended December 31, 2013 were \$12.5 million. Distributions declared for the year ended December 31, 2013 were \$46.3 million. Of the distributions declared for the three months ended December 31, 2013, \$1.2 million, or approximately 10%, was reinvested in additional Units resulting in a cash payout ratio of 90%, and for the year ended December 31, 2013, \$3.2 million, or approximately 7%, was reinvested in additional Units resulting in a cash payout ratio of 93% (60.9% for the period from October 4, 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.

Cash flows from operating activities can fluctuate significantly from period to period because of timing of payments and receipts. Net income contains a number of non-cash items, the effect of which are shown in the table below.

	Three months ended December 31, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Net income (loss)	\$ 11,432	\$ 20,660	\$ 83,981	\$ (20,873)
Cash flows from operating activities	7,666	20,872	49,721	10,241
Add (deduct):				
Investment in lease incentives and initial direct leasing costs	4,355	2,011	8,850	562
Change in non-cash working capital	3,834	(6,894)	(1,126)	(3,424)
<b>Adjusted cash flows from operating activities</b>	<b>15,855</b>	<b>15,989</b>	<b>57,445</b>	<b>7,379</b>
Distributions paid and payable <sup>(1)</sup>	12,474	12,457	46,335	6,926
Add (deduct):				
Distributions on Units issued on March 6	-	-	(1,062)	-
Distributions on Units issued for C2C on May 15	-	-	(211)	-
<b>Adjusted distributions paid and payable</b>	<b>12,474</b>	<b>12,457</b>	<b>45,062</b>	<b>6,926</b>
<b>Adjusted cash flows from operating activities over adjusted distributions paid and payable</b>	<b>3,381</b>	<b>3,532</b>	<b>12,383</b>	<b>453</b>

(1) Includes distributions on LP B Units.

Excess (shortfall) of net income (loss) over distributions paid and Payable	\$ (1,042)	\$ 8,203	\$ 37,646	\$ (27,799)
Excess (shortfall) of cash flows from operating activities over distributions paid and payable	(4,808)	8,415	3,386	3,315

For the three months ended December 31, 2013, adjusted cash flows from operating activities exceeded adjusted distributions paid and payable by \$3.4 million (\$12.4 million for the year ended December 31, 2013). In the table above, for comparison purposes, distributions paid and payable were adjusted to remove the distributions related to the Units issued pursuant to the equity offering completed on March 6, 2013 and the Units issued for acquiring the common shares of C2C on May 15, 2013. The proceeds from the Units issued on March 6, 2013 were not deployed until the acquisition of CanFirst Portfolio on April 24, 2013, and accordingly, the cash flow from operations related to those Units only commenced from April 25, 2013. Distributions on the Units issued for acquiring the common shares of C2C reflect the period from May 1, 2013 to December 31, 2013. However, cash flow from operations associated with these Units only commenced on May 16, 2013. The net income is net of distributions paid and payable on subsidiary redeemable units of \$2.9 million and \$11.3 million, respectively, for the three months and year ended December 31, 2013 (\$2.7 million for the period from July 20, 2012 to December 31, 2012). Net income is not used as a proxy for distributions as it includes 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, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012 <sup>(1)</sup>
Investment properties revenue	\$ 41,149	\$ 37,842	\$ 142,944	\$ 17,202
Investment properties operating expenses	14,089	10,621	44,017	4,667
<b>Net rental income</b>	<b>27,060</b>	<b>27,221</b>	<b>98,927</b>	<b>12,535</b>
<b>Other income and expenses</b>				
General and administrative	(2,052)	(2,009)	(7,346)	(855)
Fair value adjustments to investment properties	(1,308)	1,599	1,151	6,048
Acquisition related costs	-	-	(11,018)	(11,528)
Interest:				
Debt	(8,100)	(8,084)	(30,100)	(3,244)
Subsidiary redeemable units	(2,848)	(2,850)	(11,295)	(2,711)
Other items	(9)	21	234	16
Fair value adjustments to financial instruments	(1,775)	6,114	44,588	(21,134)
Income (loss) before income taxes	10,968	22,012	85,141	(20,873)
Deferred income taxes	464	(1,352)	(1,160)	-
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 11,432</b>	<b>\$ 20,660</b>	<b>\$ 83,981</b>	<b>\$ (20,873)</b>

(1) The Trust was formed on July 20, 2012 with no operating activity from July 20, 2012 to October 3, 2012. The Trust completed its IPO on October 4, 2012.

Thus, prior year period reflected operating results from October 4, 2012 to December 31, 2012.

### 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 revenue totalled \$142.9 million for the year, an increase of \$125.7 million compared to the period from July 20, 2012 to December 31, 2012, due to accretive acquisitions completed during 2013 and 2012 as well as comparative properties NOI growth.

Investment properties revenue totalled \$41.1 million for the quarter, increased by \$3.3 million, or 8.7% over the prior quarter ended September 30, 2013, primarily due to higher recovery revenues recorded in the fourth quarter. Higher recovery revenues are reflective of the typically higher operating costs during the winter months as well as the year-end finalization of adjustments recorded on recovery estimates billed to the tenants during the year.

### 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 increased by \$39.4 million compared to the period from July 20, 2012 to December 31, 2012, due to accretive acquisitions completed during 2013 and 2012 as well as comparative properties NOI growth.

Investment properties operating expenses increased by \$3.5 million, or 32.7%, over the prior quarter ended September 30, 2013, primarily due to higher utilities and snow removal, which is typical of the winter months, timing of the incurrence of certain expenses, and finalization of estimates of certain recoverable operating expenses.

### 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 year ended December 31, 2013, general and administrative expenses included \$3.5 million in asset management fees, \$1.3 million in professional fees, \$1.3 million of general corporate expenses and \$1.2 million related to the DUIP. General and administrative expenses increased by \$6.5 million from December 31, 2012 due to completion of the first full fiscal year along with higher fees resulting from the growth of the portfolio.

For the three months ended December 31, 2013, general and administrative expenses remained stable from Q3 2013 at \$2.0 million, comprising \$1.0 million in asset management fees, \$0.3 million in professional fees, \$0.4 million of general corporate expenses and \$0.3 million related to the DUIP.

#### Fair value adjustments to investment properties

For the year ended December 31, 2013, a fair value gain of \$1.2 million was recorded, primarily reflecting modest cap rate compression. For the quarter ended December 31, 2013, a fair value loss of \$1.3 million was recorded, primarily relating to minor adjustments to stabilized NOI and other valuation assumptions.

#### Interest expense – Debt

Interest expense on debt for the year increased by \$26.9 million compared to the period from July 20, 2012 to December 31, 2012. The increase in interest expense resulted from new debt assumed on investment properties acquired in 2012 and 2013 as well as new debt entered into during the year.

For the three months ended December 31, 2013, interest expense on debt remained stable from Q3 2013 at \$8.1 million.

#### 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. For the year ended December 31, 2013, we recognized gains of \$38.3 million and \$6.3 million on the remeasurement of the subsidiary redeemable units and the remeasurement of the conversion feature on the convertible debentures, respectively, primarily due to a decline in the trading value of REIT Units at the end of Q4 2013 compared to the prior year ended December 31, 2012.

#### Related party transactions

Dundee Industrial and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms and as disclosed in Note 23 to the consolidated financial statements. Pursuant to the Asset Management Agreement, during Q4 2013, we paid \$1.2 million (\$5.3 million for the year ended December 31, 2013), comprising \$1.0 million reported in general and administrative expenses for asset management fees (\$2.9 million for the year ended December 31, 2013), \$0.1 million related to acquisition costs (\$2.0 million for the year ended December 31, 2013), and \$0.1 million recorded as financing costs (\$0.4 million for the year ended December 31, 2013).

#### Net operating income

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

NOI 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.

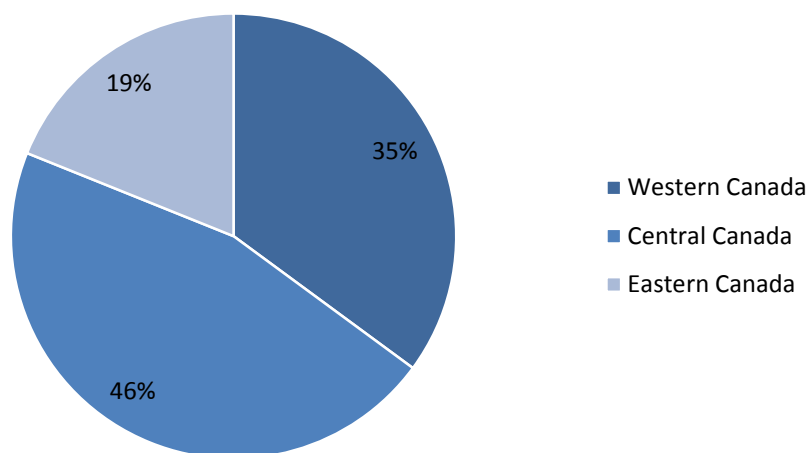
	Three months ended December 31, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
<b>Total portfolio</b>				
Western Canada	\$ 9,496	\$ 9,471	\$ 36,756	\$ 6,371
Central Canada	12,446	12,901	44,402	5,138
Eastern Canada	5,118	4,849	17,769	1,026
<b>Net operating income</b>	<b>\$ 27,060</b>	<b>\$ 27,221</b>	<b>\$ 98,927</b>	<b>\$ 12,535</b>

For the year ended December 31, 2013, net operating income was \$98.9 million, an increase of \$86.4 million compared to the period from July 20, 2012 to December 31, 2012. The increase is attributable to income generated by investment properties acquired in 2012 being included for the full year of operations for the year ended December 31, 2013 and income generated by investment properties acquired in 2013.

Net operating income for the three months ended December 31, 2013 remained stable at \$27.1 million compared to the prior quarter ended September 30, 2013.

## NOI BY REGION

(Three months ended December 31, 2013)



### NOI comparative properties

Net operating income shown below details comparative and non-comparative items to assist in understanding the impact each component has on NOI. The comparative properties disclosed in the following table are properties acquired prior to October 1, 2013. Comparative properties NOI excludes lease termination fees, straight-line rents, bad debt expenses and amortization of lease incentives.

Comparative properties NOI remained stable at \$26.3 million compared to the prior quarter. A slight decrease in average in-place occupancy for the quarter was offset by positive operating costs recoveries adjustments.

	Three months ended		Three months ended		Growth	
	December 31, 2013	September 30, 2013	Amount	%	Amount	%
Western Canada	\$ 9,154	\$ 9,186	\$ (32)	-		
Central Canada	12,148	12,428	(280)	(2)		
Eastern Canada	5,041	4,743	298	6		
<b>Comparative properties</b>	<b>26,343</b>	<b>26,357</b>	<b>(14)</b>	<b>-</b>		
Lease termination fees and other items	36	-	36			
Straight-line rent	784	823	(39)			
Bad debt expenses (recovery)	(83)	67	(150)			
Amortization of tenant inducements	(20)	(26)	6			
<b>NOI</b>	<b>\$ 27,060</b>	<b>\$ 27,221</b>	<b>\$ (161)</b>	<b>(1)</b>		

## Funds from operations and adjusted funds from operations

	Three months ended December 31, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
<b>Net income (loss)</b>	\$ 11,432	\$ 20,660	\$ 83,981	\$ (20,873)
Add (deduct):				
Amortization and depreciation	21	71	116	-
Interest expense on subsidiary redeemable units	2,848	2,850	11,295	2,711
Acquisition related costs	-	-	11,018	11,528
Fair value adjustments to investment properties	1,308	(1,599)	(1,151)	(6,048)
Fair value adjustments to financial instruments	1,775	(6,114)	(44,588)	21,134
Fair value adjustments of DUIP included in general and administrative expenses	(61)	(71)	(191)	-
FFO share related to non-controlling interest of C2C	-	(23)	(90)	-
Deferred income taxes	(464)	1,352	1,160	-
<b>FFO</b>	<b>\$ 16,859</b>	<b>\$ 17,126</b>	<b>\$ 61,550</b>	<b>\$ 8,452</b>
<b>Funds from operations</b>	<b>\$ 16,859</b>	<b>\$ 17,126</b>	<b>\$ 61,550</b>	<b>\$ 8,452</b>
Add (deduct):				
Amortization of fair value adjustments on assumed debt	(812)	(877)	(3,298)	(819)
Deferred unit compensation expense excluding fair value adjustments	351	378	1,434	46
Straight-line rent	(784)	(823)	(3,135)	(400)
Debt settlement gains (losses)	13	(49)	(36)	-
FFO share related to non-controlling interest of C2C	-	23	90	-
AFFO share related to non-controlling interest of C2C	-	(20)	(76)	-
	<b>15,627</b>	<b>15,758</b>	<b>56,529</b>	<b>7,279</b>
Deduct:				
Normalized initial direct leasing costs and lease incentives	1,248	1,267	4,602	562
Normalized recurring capital expenditures	749	762	2,763	225
<b>AFFO</b>	<b>\$ 13,630</b>	<b>\$ 13,729</b>	<b>\$ 49,164</b>	<b>\$ 6,492</b>

## Funds from operations

	Three months ended December 31, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
FFO	\$ 16,859	\$ 17,126	\$ 61,550	\$ 8,452
FFO per unit – basic	\$ 0.24	\$ 0.24	\$ 0.93	\$ 0.22
FFO per unit – diluted	\$ 0.23	\$ 0.24	\$ 0.91	\$ 0.21

For the three months ended December 31, 2013, FFO per diluted unit was \$0.23, a 9.5% increase over the prior year comparative period, reflecting investment properties acquired during 2013. For the year ended December 31, 2013, FFO per diluted unit was \$0.91, a 333.3% increase compared to the period from July 20, 2012 to December 31, 2012, reflecting the investment properties acquired in 2012 being included for the full year and acquisitions completed in 2013.

## Adjusted funds from operations

	Three months ended December 31, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
AFFO	\$ 13,630	\$ 13,729	\$ 49,164	\$ 6,492
AFFO per unit – basic	\$ 0.19	\$ 0.19	\$ 0.74	\$ 0.17

AFFO was \$13.6 million, or \$0.19 per unit. The increase over the prior year comparative quarter is due to the effects of acquisitions completed in 2013.

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, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
<b>Cash generated from operating activities</b>	<b>\$ 7,666</b>	<b>\$ 20,872</b>	<b>\$ 49,721</b>	<b>\$ 10,241</b>
Add (deduct):				
Initial direct leasing costs and lease incentives incurred	4,355	2,011	8,850	562
Change in non-cash working capital	3,834	(6,894)	(1,126)	(3,424)
Amortization of financing costs on debt	(228)	(211)	(852)	(100)
AFFO share related to non-controlling interest of C2C	-	(20)	(76)	-
Normalized initial direct leasing costs and lease incentives	(1,248)	(1,267)	(4,602)	(562)
Normalized recurring capital expenditures	(749)	(762)	(2,763)	(225)
Other	-	-	12	-
<b>AFFO</b>	<b>\$ 13,630</b>	<b>\$ 13,729</b>	<b>\$ 49,164</b>	<b>\$ 6,492</b>

## SELECTED ANNUAL INFORMATION

The following table provides selected financial information for the:

	<b>Year ended December 31, 2013</b>	Period from July 20, 2012 to December 31, 2012
Investment properties revenue	\$ 142,944	\$ 17,202
Income (loss) before income taxes	85,141	(20,873)
Net income (loss)	83,981	(20,873)
Total assets	1,589,805	1,191,866
Debt	840,382	649,845
Distributions declared	35,040	4,215
Units outstanding		
REIT Units	54,921,726	36,257,538
LP B Units	16,282,096	16,198,747



## QUARTERLY INFORMATION

The following tables show quarterly information since October 4, 2012.

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Investment properties revenue	\$ 41,149	\$ 37,842	\$ 34,703	\$ 29,250	\$ 17,202
Investment properties operating expenses	14,089	10,621	9,949	9,358	4,667
<b>Net rental income</b>	<b>27,060</b>	<b>27,221</b>	<b>24,754</b>	<b>19,892</b>	<b>12,535</b>
<b>Other income and expenses</b>					
General and administrative	(2,052)	(2,009)	(1,903)	(1,382)	(855)
Fair value adjustments to investment properties	(1,308)	1,599	283	577	6,048
Acquisition related costs	-	-	(11,018)	-	(11,528)
Interest:					
Debt	(8,100)	(8,084)	(7,365)	(6,551)	(3,244)
Subsidiary redeemable units	(2,848)	(2,850)	(2,849)	(2,748)	(2,711)
Debt settlement gains	(13)	49	-	-	-
Depreciation and amortization	(1)	(45)	-	-	-
Interest and fee income	5	17	186	36	16
Fair value adjustments to financial instruments	(1,775)	6,114	32,149	8,100	(21,134)
<b>Income (loss) before income taxes</b>	<b>10,968</b>	<b>22,012</b>	<b>34,237</b>	<b>17,924</b>	<b>(20,873)</b>
Deferred income taxes	464	(1,352)	(272)	-	-
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 11,432</b>	<b>\$ 20,660</b>	<b>\$ 33,965</b>	<b>\$ 17,924</b>	<b>\$ (20,873)</b>

## Calculation of funds from operations

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
<b>NET INCOME (LOSS)</b>	<b>\$ 11,432</b>	<b>\$ 20,660</b>	<b>\$ 33,965</b>	<b>\$ 17,924</b>	<b>\$ (20,873)</b>
Add (deduct):					
Amortization and depreciation	21	71	20	4	-
Interest expense on subsidiary redeemable units	2,848	2,850	2,849	2,748	2,711
Acquisition related costs	-	-	11,018	-	11,528
Fair value adjustments to investment properties	1,308	(1,599)	(283)	(577)	(6,048)
Fair value adjustments to financial instruments	1,775	(6,114)	(32,149)	(8,100)	21,134
Fair value adjustments of DUIP included in general and administrative expenses	(61)	(71)	(53)	(6)	-
FFO share related to non-controlling interest of C2C	-	(23)	(67)	-	-
Deferred income taxes	(464)	1,352	272	-	-
<b>FFO</b>	<b>\$ 16,859</b>	<b>\$ 17,126</b>	<b>\$ 15,572</b>	<b>\$ 11,993</b>	<b>\$ 8,452</b>
FFO per unit – basic <sup>(1)</sup>	\$ 0.24	\$ 0.24	\$ 0.23	\$ 0.22	\$ 0.22
FFO per unit – diluted <sup>(1)(2)</sup>	\$ 0.23	\$ 0.24	\$ 0.23	\$ 0.22	\$ 0.21

(1) The LP B Units are included in the calculation of basic and diluted FFO per unit.

(2) Diluted FFO for Q4 2013, Q3 2013, Q2 2013, Q1 2013 and Q4 2012 excludes \$2.0 million, \$2.0 million, \$1.8 million, \$1.7 million and \$0.3 million in interest on convertible debentures, respectively.

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
<b>FUNDS FROM OPERATIONS</b>	\$ 16,859	\$ 17,126	\$ 15,572	\$ 11,993	\$ 8,452
Add (deduct):					
Amortization of fair value adjustment on assumed debt	(812)	(877)	(924)	(685)	(819)
Deferred unit compensation expense excluding fair value adjustments	351	378	493	212	46
Straight-line rent	(784)	(823)	(801)	(727)	(400)
Debt settlement gains	13	(49)	-	-	-
FFO share related to non-controlling interest of C2C	-	23	67	-	-
AFFO share related to non-controlling interest of C2C	-	(20)	(56)	-	-
	<b>15,627</b>	15,758	14,351	10,793	7,279
Adjusted for:					
Normalized initial direct leasing costs and lease incentives	1,248	1,267	1,138	949	562
Normalized recurring capital expenditures	749	762	683	569	225
<b>Adjusted funds from operations</b>	\$ <b>13,630</b>	\$ 13,729	\$ 12,530	\$ 9,275	\$ 6,492
AFFO per unit – basic <sup>(1)</sup>	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.17	\$ 0.17
<b>Weighted average Units outstanding for FFO and AFFO</b>					
Basic (in thousands)	<b>71,133</b>	70,931	66,930	55,561	39,320

(1) The LP B Units are included in the calculation of basic AFFO per unit.

## NON-GAAP MEASURES

The following non-GAAP measures are important measures used by management in evaluating the Trust's underlying operating performance and debt management. These non-GAAP measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other income trusts.

### 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 net income or cash flow from operating activities, as defined by GAAP, and is not necessarily indicative of cash available to fund Dundee Industrial REIT's needs.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", FFO has been reconciled to net income under the heading "Funds from operations and adjusted funds from operations".

### Adjusted funds from operations

Management believes 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 the Trust's needs.

In the calculation of AFFO, the Trust assumes 8% of NOI, adjusted for straight-line rent and property management income for normalized initial direct leasing costs and recurring capital expenditures. This assumption will be re-evaluated from time to time based on actual experience as our expenditure pattern is established in the future.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", AFFO has been reconciled to cash generated from operating activities under the heading "Funds from operations and adjusted funds from operations".

### Weighted average number of Units

The basic weighted average number of Units outstanding used in the FFO and AFFO calculations includes 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.

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Weighted average Units outstanding for basic per unit amounts (in thousands)	71,133	70,931	39,320	66,195	39,320
Weighted average Units outstanding for diluted per unit amounts (in thousands)	80,955	80,761	40,828	75,467	40,828

### Level of debt (debt-to-total assets)

Management believes this non-GAAP measurement is an important measure in the management of our debt levels. Level of debt as shown below is determined as total debt before deferred financing costs and mark-to-market adjustments, divided by total assets.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below calculates the level of debt (debt-to-total assets).

Amounts per consolidated financial statements	December 31, 2013	December 31, 2012
Non-current debt	\$ 728,341	\$ 548,959
Current debt	112,041	100,886
<b>Total debt</b>	<b>840,382</b>	649,845
Add (deduct):		
Deferred financing costs	4,547	4,349
Mark-to-market adjustments	(8,297)	(8,055)
Total debt before deferred financing costs and mark-to-market adjustments	836,632	646,139
<b>Total assets</b>	<b>\$ 1,589,805</b>	<b>\$ 1,191,866</b>
<b>Debt-to-total assets</b>	<b>52.6%</b>	54.2%

### Interest coverage ratio

Management believes this non-GAAP measurement is an important measure in determining our ability to cover interest expense based on our operating performance. Interest coverage ratio as shown below is calculated as net rental income plus interest and fee income, less general and administrative expenses, plus deferred unit compensation expense, all divided by interest expense on total debt excluding deferred financing and mark-to-market adjustments.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the table below calculates the interest coverage ratio.

	Three months ended December 31, 2013	Three months ended September 30, 2013	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Amounts per consolidated financial statements				
Net rental income	\$ 27,060	\$ 27,221	\$ 98,927	\$ 12,535
Add (deduct):				
Interest and fee income	5	17	244	16
General and administrative expenses	(2,052)	(2,009)	(7,346)	(855)
Deferred unit compensation expense	290	307	1,243	46
	25,303	25,536	93,068	11,742
Interest expense incurred, at contractual rate	8,684	8,750	32,546	3,963
<b>Interest coverage ratio (times)</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>

## SECTION III — DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

For the December 31, 2013 financial year-end, the Chief Executive Officer and the Chief Financial Officer (the “Certifying Officers”), together with other members of management, have evaluated the design and operational effectiveness of Dundee Industrial’s disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings (“NI 52-109”). The Certifying Officers have concluded that the disclosure controls and procedures are adequate and effective in order to provide reasonable assurance that material information has been accumulated and communicated to management, to allow timely decisions of required disclosures by Dundee Industrial and its consolidated subsidiary entities, within the required time periods.

Dundee Industrial’s internal control over financial reporting (as defined in NI 52-109) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles (“GAAP”). Using the framework established in “Risk Management and Governance: Guidance on Control (COCO Framework)”, published by The Canadian Institute of Chartered Accountants, the Certifying Officers, together with other members of management, have evaluated the design and operation of Dundee Industrial’s internal control over financial reporting. Based on that evaluation, the Certifying Officers have concluded that Dundee Industrial’s internal control over financial reporting was effective as at December 31, 2013.

There were no changes in Dundee Industrial’s internal control over financial reporting during the financial year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, Dundee Industrial’s internal control over financial reporting.

## 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 to make 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 who, 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 in the future to the carrying amounts of the asset or liability affected. 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 changes in accounting policies are described in Note 6 in the consolidated financial statements.

Additional information relating to Dundee Industrial REIT, including the latest annual information form of Dundee Industrial REIT, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 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 is comprised of 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.



Randy Cameron  
President and Chief Executive Officer

Toronto, Ontario, February 25, 2014



John Todd  
Chief Financial Officer



## 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 sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of net income (loss) and comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2013 and 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 audits. We conducted our audits 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 in our audits 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, 2013 and December 31, 2012 and their financial performance and their cash flows for the year ended December 31, 2013 and the period from July 20, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario

February 25, 2014

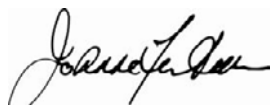
## Consolidated balance sheets

(in thousands of Canadian dollars)

	Note	December 31, 2013	December 31, 2012
<b>Assets</b>			
<b>NON-CURRENT ASSETS</b>			
Investment properties	9	\$ 1,540,791	\$ 1,147,410
Other non-current assets	11	39,416	36,595
Deferred income tax assets	12	1,075	-
		<b>1,581,282</b>	<b>1,184,005</b>
<b>CURRENT ASSETS</b>			
Amounts receivable	13	4,051	2,860
Prepaid expenses and other assets		4,214	3,378
Cash and cash equivalents	14	258	2,306
		<b>8,523</b>	<b>8,544</b>
<b>Total assets</b>		<b>\$ 1,589,805</b>	<b>\$ 1,192,549</b>
<b>Liabilities</b>			
<b>NON-CURRENT LIABILITIES</b>			
Debt	14, 15	\$ 728,341	\$ 548,959
Subsidiary redeemable units	16	144,096	181,426
Tenant security deposits		9,357	5,750
Conversion feature on the convertible debentures	15	973	6,228
Deferred Unit Incentive Plan	17	1,028	51
		<b>883,795</b>	<b>742,414</b>
<b>CURRENT LIABILITIES</b>			
Debt	15	112,041	100,886
Amounts payable and accrued liabilities	18	19,949	20,999
Distributions payable	19	3,204	2,039
		<b>135,194</b>	<b>123,924</b>
<b>Total liabilities</b>		<b>1,018,989</b>	<b>866,338</b>
<b>Equity</b>			
Unitholders' equity		546,680	351,299
Retained earnings (deficit)		24,136	(25,088)
<b>Total equity</b>		<b>570,816</b>	<b>326,211</b>
<b>Total liabilities and equity</b>		<b>\$ 1,589,805</b>	<b>\$ 1,192,549</b>

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 statements of net income (loss) and comprehensive income (loss)

(in thousands of Canadian dollars)

	Note	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Investment properties revenue		\$ 142,944	\$ 17,202
Investment properties operating expenses		44,017	4,667
<b>Net rental income</b>		<b>98,927</b>	<b>12,535</b>
<b>Other income and expenses</b>			
General and administrative		(7,346)	(855)
Fair value adjustments to investment properties	9	1,151	6,048
Acquisition related costs	7	(11,018)	(11,528)
Interest:			
Debt	21	(30,100)	(3,244)
Subsidiary redeemable units	21	(11,295)	(2,711)
Debt settlement gains		36	-
Depreciation and amortization		(46)	-
Interest and fee income		244	16
Fair value adjustments to financial instruments	22	44,588	(21,134)
<b>Income (loss) before income taxes</b>		<b>85,141</b>	<b>(20,873)</b>
Deferred income taxes	12	(1,160)	-
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 83,981</b>	<b>\$ (20,873)</b>
<b>Net income (loss) and comprehensive income (loss) attributable to:</b>			
Unitholders		\$ 84,264	\$ (20,873)
Non-controlling interest		(283)	-
		<b>\$ 83,981</b>	<b>\$ (20,873)</b>

See accompanying notes to the consolidated financial statements.

## Consolidated statements of changes in equity

(in thousands of Canadian dollars, except number of units)

	Note	Attributable to unitholders of the Trust			
		Number of Units	Unitholders' equity	Retained earnings (deficit)	Total
<b>Balance at January 1, 2013</b>		<b>36,257,538</b>	<b>\$ 351,299</b>	<b>\$ (25,088)</b>	<b>\$ 326,211</b>
Net income for the year		-	-	84,264	84,264
Distributions paid and payable	19	-	-	(35,040)	(35,040)
Public offering of REIT Units	20	10,465,000	115,115	-	115,115
REIT Units issued for C2C acquisition	7, 20	7,460,654	78,785	-	78,785
REIT Units issued for C2C amalgamation	7, 20	387,399	3,618	-	3,618
Distribution Reinvestment Plan	19, 20	323,789	2,944	-	2,944
Unit Purchase Plan	20	2,784	26	-	26
REIT Units issued for vested deferred trust units	17, 20	24,562	254	-	254
Issue costs	20	-	(5,361)	-	(5,361)
<b>Balance at December 31, 2013</b>		<b>54,921,726</b>	<b>\$ 546,680</b>	<b>\$ 24,136</b>	<b>\$ 570,816</b>

(in thousands of Canadian dollars, except number of units)	Attributable to unitholders of the Trust			
	Number of Units	Unitholders' equity	Deficit	Total
<b>Balance at July 20, 2012</b>	-	\$ -	\$ -	\$ -
Net loss for the period	-	-	(20,873)	(20,873)
Distributions paid and payable	-	-	(4,215)	(4,215)
Public offering of REIT Units	33,895,000	347,092	-	347,092
REIT Units issued for KingSett transaction	2,358,491	25,000	-	25,000
Distribution Reinvestment Plan	4,047	44	-	44
Issue costs	-	(20,837)	-	(20,837)
<b>Balance at December 31, 2012</b>	<b>36,257,538</b>	<b>\$ 351,299</b>	<b>\$ (25,088)</b>	<b>\$ 326,211</b>

See accompanying notes to the consolidated financial statements.

# Consolidated statements of cash flows

(in thousands of Canadian dollars)

	Note	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
<b>Generated from (utilized in) operating activities</b>			
Net income (loss)		\$ 83,981	\$ (20,873)
Non-cash items:			
Amortization of financing costs and lease incentives	9, 21	926	100
Depreciation of property and equipment		42	-
Amortization of fair value adjustments on debt	21	(3,298)	(819)
Deferred unit compensation expense	17	1,243	46
Straight-line rent adjustment	11	(3,135)	(400)
Fair value adjustments to investment properties	9	(1,151)	(6,048)
Fair value adjustments to financial instruments	22	(44,588)	21,134
Reinvestment in subsidiary redeemable units	16, 21	938	2,711
Deferred income taxes	12	1,160	-
Investment in lease incentives and initial direct leasing costs	9	(8,850)	(562)
Debt settlement gains		(36)	-
Transaction costs included in net income (loss)	7	11,018	11,528
Interest paid on subsidiary redeemable units	21	10,345	-
Change in non-cash working capital	24	1,126	3,424
		<b>49,721</b>	<b>10,241</b>
<b>Generated from (utilized in) investing activities</b>			
Additions to property and equipment	11	(78)	(2)
Investment in investment properties	9	(2,215)	-
Transaction costs paid		(17,002)	(7,831)
Acquisition of investment properties, net of cash acquired	7, 8	(91,223)	(486,010)
		<b>(110,518)</b>	<b>(493,843)</b>
<b>Generated from (utilized in) financing activities</b>			
Proceeds from mortgage financings, net of financing costs	15	112,269	34,530
Mortgage principal repayments		(18,163)	(1,223)
Mortgage lump sum repayments		(26,909)	-
Payment made for the tender of 6.75% Debentures	15	(705)	-
Drawn on unsecured non-revolving bridge loan facility	15	-	32,500
Financing costs on unsecured non-revolving bridge facility		-	(130)
Repayment of unsecured non-revolving bridge loan facility	15	(32,500)	-
Convertible debentures placed	15	-	86,250
Issue costs on convertible debentures	15	-	(3,798)
Draw on demand revolving credit facility	15	12,114	18,500
Repayment of demand revolving credit facility	15	(10,000)	(8,500)
Financing costs on demand revolving credit facility		-	(420)
Repayment of promissory notes payable	15	(42,000)	-
Distributions paid on Units	19	(30,931)	(2,132)
Interest paid on subsidiary redeemable units	21	(10,345)	-
Cash proceeds on issue of Units	20	115,141	347,092
Financing and unit issue costs paid	20	(9,222)	(16,761)
		<b>58,749</b>	<b>485,908</b>
<b>Change in cash and cash equivalents</b>		<b>(2,048)</b>	<b>2,306</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>2,306</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 258</b>	<b>\$ 2,306</b>

See accompanying notes to the consolidated financial statements.

## Notes to the consolidated financial statements

(All dollar amounts in thousands of Canadian dollars, except as otherwise noted and for 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 year ended December 31, 2013 were authorized for issuance by the Board of Trustees on February 25, 2014, after which date they may only be amended with the Board of Trustees’ approval.

Equity is described in Note 20; however, for simplicity, throughout the Notes, reference is made to the following:

- “REIT Units”, meaning the REIT Units
- “Special Trust Units”, meaning units that are exchangeable for REIT Units, including the LP Class B Units
- “Units”, meaning REIT Units and Special Trust Units, collectively

Subsidiary redeemable units classified as a liability are described in Note 16; 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”).

On July 20, 2012, the Trust was formed with issuance of one Unit to Dundee Property Limited Partnership, a subsidiary of Dundee Real Estate Investment Trust (“Dundee REIT”) for cash at \$10 per unit. During the period from July 20, 2012 to October 4, 2012, the Trust had no operating activity. On October 4, 2012, the Trust completed its initial public offering and commenced operations.

At December 31, 2013, Dundee REIT, directly and indirectly through its subsidiaries, held all 16,282,096 (December 31, 2012 – 16,198,747) subsidiary redeemable units.

### Note 2

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for all years presented, unless otherwise stated.

#### 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 all wholly owned entities (including structured entities) over which the Trust has control. The Trust controls an entity when the Trust is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Trust. They are deconsolidated from the date that control ceases.

### Joint arrangements

The Trust enters into joint arrangements through joint ventures 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 venturer has an interest are referred to as joint ventures. 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 joint ventures 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 investment, less any identified impairment losses. The Trust's share of profits and losses is recognized in the share of net earnings from equity accounted investment in the consolidated statement of comprehensive income (loss). Dilution gains and losses arising from changes in the Trust's interest in equity accounted investments are recognized in the consolidated statement of comprehensive income (loss). 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 does not have any joint ventures at this time.

The Trust reports its interests in co-ownerships by accounting for its share of the assets, liabilities, revenues and expenses. Under this method, the Trust's consolidated financial statements reflect only the Trust's 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 financial 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 fair value adjustments to investment properties in the period in which they arise in the consolidated statement of comprehensive income (loss). 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 stabilized 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. Management applies judgment in determining the value which is most representative of the fair value for its investment properties. Active properties under development are measured using a discounted cash flow model, net of costs to complete, as at 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 considers its operations as a whole and, accordingly, has a single reportable segment for disclosure purposes.

## Other non-current assets

Other non-current assets include deposits, property and equipment, straight-line rent receivable, and goodwill. Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of property and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their expected useful lives of four to ten years. The residual values and useful lives of all assets are reviewed and adjusted, if appropriate, at least at each financial year-end. Cost includes expenditures that are directly attributable to the acquisition and expenditures for replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance are charged to comprehensive income (loss) during the financial period in which they are incurred.

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 consolidated statement of comprehensive income (loss) 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 and collectability is reasonably assured. 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.

For one of the Trust's subsidiaries, income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for the expected future tax consequences of temporary differences between the carrying value of balance sheet items and their corresponding tax values. Deferred income taxes are computed using substantively enacted income tax rates or laws for the years in which the temporary differences are expected to reverse or settle.

### **Unit-based compensation plan**

As described in Note 17, 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 (loss) 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
<b>Financial assets</b>		
Amounts receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
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
Tenant security 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 (loss) 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 (loss). 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 (loss) 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 (loss).

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 (loss) 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. To give effect to measuring these at amortized cost, IAS 39 requires that 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 (loss). Distributions paid on subsidiary redeemable units are recorded as interest expense, in comprehensive income (loss) and as a financing activity in the consolidated 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, premiums and mark-to-market adjustments allocated to debt, 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 Board of 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 can be 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 valuers 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 external 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.

## 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 does not assume employees or does not acquire an operating platform.

## Impairment

IAS 36, “Impairment Testing”, requires management to use judgment in determining the recoverable amount of assets tested for impairment, including goodwill. All of the Trust’s goodwill balance is allocated to the industrial properties group of cash-generating units (herein referred to as the goodwill CGU). The recoverable amount of the Trust’s goodwill CGU is determined based on the value-in-use approach. These calculations use cash flow projections forecasted out for a ten-year period, consistent with the internal financial budgets approved by management on a property-by-property basis. The key assumptions used in determining the value-in-use of the goodwill CGU are the estimated growth rate, discount rate and terminal rate. In arriving at the growth rate, the Trust considers past experience and inflation, as well as industry trends. The Trust utilizes weighted average cost of capital (“WACC”) to determine the discount rate and terminal rate. The WACC reflects specific risks that would be attributable to the Trust. As the Trust is not subject to tax, no adjustment is required to adjust the WACC on a pre-tax basis.

## 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 valuation of investment properties at fair value include the receipt of contractual rents, expected future market rents, renewal rates, maintenance requirements, discount rates that reflect current market uncertainties, capitalization rates and recent investment property transactions. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties 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 conversion feature of the convertible debenture and the fair value disclosure of the mortgages, demand revolving credit facility, promissory notes payable, unsecured non-revolving bridge facility and convertible debentures. 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, distributions payable and the demand revolving credit facility, 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

### **CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

The Trust has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

#### **Financial instruments: disclosures**

IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), has been amended to require annual disclosure of information on rights to offset financial instruments and related arrangements. The Trust adopted this amendment effective January 1, 2013. The amendments to IFRS 7 had no impact on the amounts recognized in the Trust's consolidated financial statements. New disclosures are required for all recognized financial instruments that are offset in accordance with IAS 32, "Financial Instruments: Presentation" ("IAS 32"). They also apply to recognized financial instruments that are subject to an enforceable master netting arrangement, irrespective of whether the financial instruments are offset in accordance with IAS 32. The adoption of this amendment did not result in any additional disclosures in the Trust's consolidated financial statements.

#### **Consolidated financial statements**

IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), replaces the guidance on control and consolidation in IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27"), and SIC-12, "Consolidation – Special Purpose Entities". IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Trust assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

#### **Joint arrangements**

IFRS 11, "Joint Arrangements" ("IFRS 11"), supersedes IAS 31, "Interests in Joint Ventures", and requires joint arrangements to be classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, the Trust recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28") (amended in 2011). The other amendments to IAS 28 did not affect the Trust. The Trust has classified its joint arrangement and concluded that the adoption of IFRS 11 on January 1, 2013 did not result in any changes in the accounting for its joint arrangement.

#### **Disclosure of interests in other entities**

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"), to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates, including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e., special purpose entities). The Trust adopted IFRS 12 effective January 1, 2013. The adoption of IFRS 12 did not result in any additional disclosures in the Trust's consolidated financial statements.

#### **Fair value measurement**

IFRS 13, "Fair Value Measurement" ("IFRS 13"), provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Trust adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Trust to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Furthermore, adoption of this standard has led to the inclusion of additional fair value disclosures for financial instruments in Note 28.

### **Presentation of items of other comprehensive income**

The Trust has adopted the amendments to IAS 1, "Presentation of Items of Financial Statements", effective January 1, 2013. These amendments required the Trust to group other comprehensive income items by those that will be reclassified subsequently to the consolidated statement of net income (loss) and comprehensive income (loss) and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income (loss).

### **Impairment of assets**

The IASB published an amendment to IAS 36, "Impairment of Assets" ("IAS 36"), in May 2013 on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs that had been included in IAS 36 by the issue of IFRS 13. The amendment was not mandatory for the Trust until January 1, 2014; however, the Trust decided to early adopt the amendment effective as of January 1, 2013.

### **Note 6**

#### **FUTURE ACCOUNTING POLICY CHANGES**

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

IFRS 9, "Financial Instruments" ("IFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and updated and further amended in October 2010 and November 2013. It replaces the parts of IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of fair value change due to an entity's own credit risk is recorded in other comprehensive income (loss) rather than the consolidated statement of net income (loss), unless this creates an accounting mismatch. IFRS 9 was amended to (i) include guidance on hedge accounting; (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income (without having to adopt the remainder of IFRS 9); and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. The Trust is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 in the accounting period beginning on or after January 1, 2015. The Trust will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

IFRIC 21, "Levies" ("IFRIC 21"), provides guidance on accounting for levies in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. The Trust is currently assessing the impact on the consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Trust.



## Note 7

### BUSINESS COMBINATIONS

#### Business combination for the year ended December 31, 2013

On May 15, 2013, the Trust acquired 16,634,679 common shares representing approximately 95% of the outstanding common shares of C2C Industrial Properties Inc. ("C2C" and the "C2C Portfolio"). The C2C Portfolio comprises 25 properties and one parcel of land totalling 2.5 million square feet of gross leasable area located primarily in Halifax, Edmonton, the Greater Toronto Area and the Greater Montreal Area. The purchase price was satisfied with the issuance of 7,460,654 REIT Units valued at \$78,785 based on the closing price of the Trust's Units on the TSX on May 15, 2013. On closing, the fair value of the net identifiable assets and liabilities amounted to \$82,877.

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

Investment properties	\$	220,239
Deferred income tax assets		2,235
Prepaid expenses and other assets		1,630
Cash and cash equivalents		1,592
Amounts payable and accrued liabilities		(1,918)
Tenant security deposits		(1,567)
Deferred revenue		(1,053)
Assumed debt at fair value		(137,228)
Conversion feature on the convertible debentures		(1,053)
Total identifiable net assets and liabilities		82,877
Non-controlling interest		(4,092)
<b>Fair value of consideration</b>	<b>\$</b>	<b>78,785</b>

Acquisition related costs for the C2C Portfolio totalled \$11,018. On July 19, 2013, the Trust issued 387,399 REIT Units to purchase the remaining 5% of outstanding common shares of C2C by way of an amalgamation and, as a result, the non-controlling interest of \$3,809 was reduced to \$nil with a corresponding increase to unitholders' equity. Refer to Note 20.

During the year ended December 31, 2013, the Trust recognized \$15,363 of revenue and \$4,628 of comprehensive income before fair value adjustments and acquisition related costs, related to the acquisition of the C2C Portfolio. Had the acquisition occurred on January 1, 2013, the Trust would have recognized an additional \$9,218 of revenue and \$2,777 of comprehensive income before fair value adjustments and acquisition related costs.

The initial accounting for the assets and liabilities recognized on the acquisition of the C2C Portfolio has been completed provisionally with respect to the valuations of investment properties, assumed debt, determination of final working capital balances and other financial instruments. Accordingly, the initial accounting has not been finalized and remains subject to adjustment.

#### Business combinations for the period from July 20, 2012 to December 31, 2012

On October 4, 2012, the Trust completed the purchase of 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"). 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. Upon finalizing the accounting for the acquisition of the Initial Properties, the fair value of the net identifiable assets and liabilities has been increased by \$653 resulting from adjustments to the fair value of certain assets and liabilities as at the date of the acquisition. The total consideration exceeded the net identifiable assets and liabilities by \$17,903, which has been recorded as goodwill.



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

Investment properties	\$	643,375
Prepaid expenses and other assets		1,841
Amounts receivable		1,600
Related party receivables		4,131
Cash and cash equivalents		2,398
Amounts payable and accrued liabilities		(1,838)
Tenant security deposits		(2,543)
Deferred revenue		(4,847)
Assumed debt at fair value		(281,960)
Total identifiable net assets and liabilities		362,157
Goodwill		17,903
<b>Fair value of consideration</b>	<b>\$</b>	<b>380,060</b>

Acquisition related costs for the Initial Properties comprise \$3,496 in transaction costs. The fair value of acquired tenant receivables is \$1,600. The gross contractual amount for tenant receivables is \$1,875, 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 and acquisition related costs, 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 and acquisition related costs.

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 and the issuance of 5.25% convertible debentures for a total of \$25,000, representing total consideration of \$343,847. Upon finalizing the accounting for the acquisition of the KingSett Portfolio, the fair value of the net identifiable assets and liabilities has been increased by \$207 resulting from adjustments to the fair value of certain liabilities as at the date of the acquisition. The total consideration exceeded the net identifiable assets and liabilities by \$17,430, which has been recorded as goodwill.

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

Investment properties	\$	480,243
Prepaid expenses and other assets		2,090
Amounts payable and accrued liabilities		(2,803)
Tenant security deposits		(3,206)
Deferred revenue		(1,975)
Assumed debt at fair value		(147,932)
Total identifiable net assets and liabilities		326,417
Goodwill		17,430
<b>Fair value of consideration</b>	<b>\$</b>	<b>343,847</b>

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 and acquisition related costs, 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 and acquisition related costs.

## Note 8

### INVESTMENT PROPERTY ACQUISITIONS

Detailed below are the investment property acquisitions completed during the year ended December 31, 2013 and the period from July 20, 2012 to December 31, 2012.

Year ended December 31, 2013	Interest acquired (%)	Purchase price <sup>(1)</sup>	Date acquired
CanFirst Portfolio	100.0	\$ 155,650	April 24, 2013
100 Lingard Road, Cambridge, ON	100.0	5,350	June 7, 2013
<b>Total</b>		<b>\$ 161,000</b>	

(1) Includes transaction costs.

Period from July 20, 2012 to December 31, 2012	Interest acquired (%)	Purchase price <sup>(1)</sup>	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
<b>Total</b>		<b>\$ 17,182</b>	

(1) Includes transaction costs.

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Cash paid during the period	\$ 92,815	\$ 16,847
Transaction costs included in amounts payable	3,960	64
Assumed mortgages at fair value	62,009	-
Assumed non-cash working capital	2,216	271
<b>Total consideration for investment properties</b>	<b>\$ 161,000</b>	<b>\$ 17,182</b>

## Note 9

### INVESTMENT PROPERTIES

	Note	Year ended December 31, 2013
Balance at beginning of year		\$ 1,147,410
Additions:		
Acquisitions from business combination <sup>(1)</sup>	7	220,239
Investment property acquisitions	8	161,000
Building improvements		2,215
Lease incentives and initial direct leasing costs		8,850
<b>Total additions to investment properties</b>		<b>392,304</b>
Gains and losses included in net income:		
Fair value adjustments to investment properties <sup>(2)</sup>		1,151
Amortization of lease incentives		(74)
<b>Total gains included in net income</b>		<b>1,077</b>
<b>Balance at end of year</b>		<b>\$ 1,540,791</b>

(1) Includes \$1,022 for the parcel of land acquired from C2C.

(2) Equal to change in unrealized gain (losses) included in net income for the year ended December 31, 2013.

	Note	Period from July 20, 2012 to December 31, 2012
Balance at beginning of period		\$ -
Additions:		
Acquisitions from business combinations	7	1,123,618
Investment property acquisitions	8	17,182
Building improvements		-
Lease incentives and initial direct leasing costs		562
Amortization of lease incentives		-
Fair value adjustments to investment properties		6,048
<b>Balance at end of period</b>		<b>\$ 1,147,410</b>

The Trust's investment properties have been reduced by \$3,535 (December 31, 2012 – \$400) related to straight-line rent receivable, which has been reclassified to other non-current assets.

As at December 31, 2013, investment properties with a fair value of \$1,336,887 (December 31, 2012 – \$878,269) are pledged as first-ranking and/or second-ranking collateral for mortgages. As at December 31, 2013, investment properties with a fair value of \$80,692 (December 31, 2012 – \$79,497) are pledged as security for the Trust's demand revolving credit facility.

#### Note 10

#### JOINT ARRANGEMENTS

Name	Principal activity	Location	Ownership interest (%)	
			December 31, 2013	December 31, 2012
2240 Premier Way (GE Turbine Building)	Investment property	Edmonton, AB	50.0	50.0

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

	December 31, 2013	December 31, 2012
<b>Non-current assets</b>		
Investment properties	\$ 2,500	\$ 2,250
	<b>2,500</b>	<b>2,250</b>
<b>Current assets</b>		
Amounts receivable	7	2
Prepaid expenses and other assets	1	1
Cash and cash equivalents	78	52
	<b>86</b>	<b>55</b>
<b>Total assets</b>	<b>\$ 2,586</b>	<b>\$ 2,305</b>
<b>Current liabilities</b>		
Debt	\$ -	\$ 1,320
Amounts payable and accrued liabilities	4	14
<b>Total liabilities</b>	<b>\$ 4</b>	<b>\$ 1,334</b>

	Year ended December 31, 2013	Period from July 20,2012 to December 31, 2012
Investment properties revenue	\$ 204	\$ 48
Investment properties operating expenses	71	17
Net rental income	133	31
<b>Other income and expenses</b>		
Fair value adjustments to investment property	250	85
Interest on debt	(61)	(10)
Debt settlement costs	(13)	-
<b>Net income</b>	<b>\$ 309</b>	<b>\$ 106</b>

#### Note 11

#### OTHER NON-CURRENT ASSETS

	Note	December 31, 2013	December 31, 2012
Deposits		\$ 479	\$ -
Property and equipment		69	2
Straight-line rent receivable		3,535	400
Goodwill	7	35,333	36,193
<b>Total</b>		<b>\$ 39,416</b>	<b>\$ 36,595</b>

The Trust performed its annual goodwill impairment test as at December 31, 2013 in accordance with the methodology set out in IAS 36, by comparing the recoverable amount of the goodwill CGU using the value-in-use approach to its carrying amount. For the purpose of this test, the key assumptions used included an estimated growth rate of 3%, a discount rate of 5.87% and a terminal rate of 5.87%. The Trust performed a sensitivity analysis on each of the key assumptions, assuming a 1% unfavourable change for each individual assumption while holding the other assumptions constant and determined that none of these scenarios would result in the carrying amount of the goodwill CGU to exceed the recoverable amount. Based on the testing performed, the Trust concluded that no goodwill impairment exists as at December 31, 2013.

Note 12

**INCOME TAXES**

DIR Industrial Properties Inc., one of the Trust's subsidiaries, is subject to corporate income taxes. The deferred tax assets relate to temporary differences between the accounting and tax basis of the net assets of the subsidiary, which include non-capital losses on acquisition of \$679, deductible Unit issue and financing costs of \$1,232 and fair value adjustments on assumed debt offset by those on investment properties totalling \$324. The tax asset was reduced by \$1,160 since the acquisition on May 15, 2013, to account for changes in the balances of the tax attributes to date.

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Income (loss) before income taxes	\$ 85,141	\$ (20,873)
Income not subject to taxation	(90,604)	20,873
(Loss) in subsidiary corporation	(5,463)	-
Tax calculated at the Canadian statutory tax rate of 27.6%	(1,508)	-
Increase (decrease) resulting from:		
Expenses not deductible for tax	3,040	-
Adjustment in expected future tax rates	(91)	-
Other items	(281)	-
<b>Income taxes</b>	<b>\$ 1,160</b>	<b>\$ -</b>

Deferred income tax assets consisted of the following:

	December 31, 2013	December 31, 2012
Deferred tax liability related to difference in tax and book basis of investment properties	\$ (1,325)	\$ -
Deferred tax asset related to difference in tax and book basis of financial instruments	824	-
Deferred tax asset related to tax loss carry-forwards	517	-
Deferred tax asset related to difference in tax and book basis of deferred financing costs	1,059	-
<b>Total deferred income tax assets</b>	<b>\$ 1,075</b>	<b>\$ -</b>

Note 13

**AMOUNTS RECEIVABLE**

	December 31, 2013	December 31, 2012
Trade receivables	\$ 2,282	\$ 1,540
Less: Provision for impairment of trade receivables	(284)	(275)
Trade receivables, net	1,998	1,265
Other amounts receivable	2,053	1,595
<b>Amounts receivable</b>	<b>\$ 4,051</b>	<b>\$ 2,860</b>

The movement in the provision for impairment of trade receivables during the year ended December 31, 2013 is as follows:

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
As at January 1	\$ 275	\$ -
Provision for impairment of trade receivables	458	275
Receivables written off during the period as uncollectible	(449)	-
<b>As at December 31</b>	<b>\$ 284</b>	<b>\$ 275</b>

The carrying value of amounts receivable approximates fair value due to their current nature. As at December 31, 2013, trade receivables of approximately \$182 (December 31, 2012 – \$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.

The Trust leases industrial properties to tenants under operating leases. Minimum rental commitments on non-cancellable tenant operating leases over their remaining term are as follows:

	December 31, 2013
2014	\$ 98,857
2015 to 2018	268,854
2019 to 2027	141,295
	<b>\$ 509,006</b>

#### Note 14

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents excludes cash subject to restrictions that prevent its use in the normal operations of the Trust. Overdraft and operating facility balances are included in debt.

#### Note 15

### DEBT

	December 31, 2013	December 31, 2012
Mortgages <sup>(1)</sup>	\$ 703,502	\$ 462,359
Demand revolving credit facility <sup>(1)</sup>	12,114	10,000
Promissory notes payable	-	42,000
Unsecured non-revolving bridge facility	-	32,394
Convertible debentures	124,766	103,092
Total	840,382	649,845
Less: Current portion	(112,041)	(100,886)
<b>Non-current debt</b>	<b>\$ 728,341</b>	<b>\$ 548,959</b>

(1) Secured by charges on specific investment properties (refer to Note 9).

## Convertible debentures

	Carrying value	
	December 31, 2013	December 31, 2012
5.25% Debentures	\$ 104,065	\$ 103,092
6.75% Debentures	20,701	-
<b>Total</b>	<b>\$ 124,766</b>	<b>\$ 103,092</b>

	Date issued	Maturity date	Original principal issued	Interest rate	Outstanding principal amount	
					December 31, 2013	December 31, 2012
5.25% Debentures	December 13, 2012	December 31, 2019	\$ 86,250	5.25%	\$ 86,250	\$ 86,250
5.25% Debentures	December 19, 2012	December 31, 2019	25,000	5.25%	25,000	25,000
6.75% Debentures	May 15, 2013 <sup>(1)</sup>	November 30, 2017	20,125	6.75%	19,420	-
			\$ 131,375		\$ 130,670	\$ 111,250

(1) The 6.75% Debentures were assumed as part of the C2C acquisition on May 15, 2013.

The outstanding principal for the 5.25% Debentures was issued in two tranches: \$86,250 on December 13, 2012 and \$25,000 on December 19, 2012, both maturing on December 31, 2019. The 5.25% 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 or after December 31, 2015, but prior to December 31, 2017, the 5.25% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Units for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price, and with no constraints on the traded price of the Units thereafter but prior to December 31, 2019. Interest on the 5.25% Debentures is payable at a rate of 5.25% semi-annually on June 30 and December 31. Transaction costs associated with the 5.25% Debentures amounted to \$3,798 and the carrying value of the 5.25% Debentures is recorded net of these costs.

The outstanding principal for the 6.75% Debentures was assumed as part of the acquisition of the C2C Portfolio. The 6.75% Debentures are convertible at any time by the holder into REIT Units at a conversion price of \$12.37 per unit. On or after November 30, 2015, but prior to November 30, 2017, the 6.75% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Units for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. Interest on the 6.75% Debentures is payable at a rate of 6.75% semi-annually on May 31 and November 30. During the year ended December 31, 2013, certain holders of the 6.75% Debentures tendered \$705 of the original principal outstanding in connection with an offer to purchase that expired on June 26, 2013.

### Demand revolving credit facility

On October 4, 2012, the Trust entered into a \$35,000 demand revolving credit facility with a Canadian chartered bank. Draws under the demand revolving credit facility are in the form of one-month bankers' acceptances ("BAs") bearing interest at the BA rate plus 1.90% or at the bank's prime rate (3.0% as at December 31, 2013) plus 0.90% at the Trust's option. 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. As at December 31, 2013, \$11,266 (December 31, 2012 – \$10,000) was drawn on the facility. As at December 31, 2013, the Trust has an outstanding letter of credit totalling \$500 issued by the bank under the facility to secure the Trust's obligations under certain contractual arrangements. Based upon the security provided, the formula-based amount available to draw under this facility as at December 31, 2013 is \$37,464 (December 31, 2012 – \$39,584). Fifteen properties are secured as first-ranking mortgages on the facility.

On February 25, 2014, the Trust paid off the outstanding balance on the demand revolving credit facility. Refer to Note 30.

### Promissory notes payable

On October 4, 2012, the Trust entered into promissory notes payable with subsidiaries of Dundee REIT totalling \$42,000 and bearing interest at 3.1%. The promissory notes payable were due on the later of (i) the date of closing of and funding of the last of the outstanding financing that was being assessed by the Trust as at December 31, 2012, 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 plus 1.25% or at BA rates plus 2.25%. The facility was fully repaid on January 21, 2013.

### Debt weighted average effective interest rates and maturity

	Weighted average effective interest rates <sup>(1)</sup>		Maturity dates	Debt amount	
	December 31, 2013	December 31, 2012		December 31, 2013	December 31, 2012
<b>Fixed rate</b>					
Mortgages	3.40%	3.27%	2014–2023	\$ 703,502	\$ 462,359
Promissory notes payable	-	3.10%	2013	-	42,000
Convertible debentures	6.12%	6.09%	2017–2019	124,766	103,092
<b>Total fixed rate debt</b>	<b>3.84%</b>	<b>3.74%</b>		<b>828,268</b>	<b>607,451</b>
<b>Variable rate</b>					
Unsecured non-revolving bridge facility	-	3.48%	2013	-	32,394
Demand revolving credit facility	3.90%	3.90%	2014	12,114	10,000
<b>Total variable rate debt</b>	<b>3.90%</b>	<b>3.58%</b>		<b>12,114</b>	<b>42,394</b>
<b>Total debt</b>	<b>3.84%</b>	<b>3.72%</b>		<b>\$ 840,382</b>	<b>\$ 649,845</b>

(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	Demand revolving credit facility	Convertible debentures	Total
2014	\$ 97,582	\$ 12,114	\$ -	\$ 109,696
2015	143,803	-	-	143,803
2016	106,904	-	-	106,904
2017	92,938	-	19,420	112,358
2018	87,340	-	-	87,340
2019 and thereafter	165,281	-	111,250	276,531
	693,848	12,114	130,670	836,632
Financing costs	(1,221)	-	(3,326)	(4,547)
Fair value adjustments on initial recognition of assumed debt	10,875	-	(2,578)	8,297
	9,654	-	(5,904)	3,750
<b>Total</b>	<b>\$ 703,502</b>	<b>\$ 12,114</b>	<b>\$ 124,766</b>	<b>\$ 840,382</b>



## Conversion feature on the convertible debentures

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

	Note	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Opening balance		\$ 6,228	\$ -
New issuance of convertible debentures		-	4,406
Assumed from business combination	7	1,053	-
Fair value adjustment on conversion feature of the convertible debentures	22	(6,308)	1,822
<b>Ending balance</b>		<b>\$ 973</b>	<b>\$ 6,228</b>

Remeasurement of the conversion feature is included in the fair value adjustments to financial instruments line in the consolidated statements of net income (loss) and comprehensive income (loss). All gains and losses recorded in Note 22 are changes in unrealized gains and losses relating to the items on the consolidated balance sheets.

## Note 16

### SUBSIDIARY REDEEMABLE UNITS

DILP, a subsidiary of Dundee Industrial, is authorized to issue an unlimited number of LP Class B 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	Year ended December 31, 2013		Period from July 20, 2012 to December 31, 2012	
	Number of units issued and outstanding	Amount	Number of units issued and outstanding	Amount
	16,198,747	\$ 181,426	-	\$ -
	-	-	16,034,631	160,346
	83,349	938	164,116	1,773
22	-	(38,268)	-	19,307
<b>Ending balance</b>	<b>16,282,096</b>	<b>\$ 144,096</b>	<b>16,198,747</b>	<b>\$ 181,426</b>

During the year ended December 31, 2013, the Trust recorded \$11,295 (December 31, 2012 – \$2,711) in distributions on the subsidiary redeemable units, which are included as interest expense in the consolidated statement of net income (loss) and comprehensive income (loss) (see Note 21).

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, 2013, 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, 2013, 16,282,096 (December 31, 2012 – 16,198,747) Special Trust Units were issued and outstanding.

Note 17

**DEFERRED UNIT INCENTIVE PLAN**

The Deferred Unit Incentive Plan (“DUIP”) 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, vests 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 defer receipt of REIT Units, such REIT Units will be issued immediately on vesting. As at December 31, 2013, up to a maximum of 1,500,000 (December 31, 2012 – 1,500,000) deferred trust units are issuable under the DUIP.

The movement in the DUIP balance was as follows:

	Note	
As at July 20, 2012		\$ -
Compensation expense during the period		46
Remeasurement of carrying value	22	5
As at December 31, 2012		51
Compensation expense during the year		1,243
REIT Units issued for vested deferred trust units		(254)
Remeasurement of carrying value	22	(12)
<b>As at December 31, 2013</b>		<b>\$ 1,028</b>

During the year ended December 31, 2013, \$1,243 of compensation expense was recorded (period from July 20, 2012 to December 31, 2012 – \$46) and included in general and administrative expenses. For the same period, \$12 (period from July 20, 2012 to December 31, 2012 – \$5) was recognized in fair value adjustments to financial instruments representing the remeasurement of the DUIP liability for the period.

	Deferred trust units	Income deferred trust units	Total units
Outstanding at July 20, 2012	-	-	-
Granted during the period	40,418	402	40,820
<b>Outstanding and payable December 31, 2012</b>	<b>40,418</b>	<b>402</b>	<b>40,820</b>
Granted during the year	212,601	14,549	227,150
REIT Units issued	(24,044)	(518)	(24,562)
Cancelled upon termination	(5,432)	(116)	(5,548)
Fractional units paid in cash	-	(4)	(4)
<b>Outstanding and payable at December 31, 2013</b>	<b>223,543</b>	<b>14,313</b>	<b>237,856</b>
<b>Vested but not issued at December 31, 2013</b>	<b>3,833</b>	<b>272</b>	<b>4,105</b>

On February 19, 2013, 161,500 deferred trust units were granted to trustees and senior managers of the Trust. Of the units granted, 25,000 units relate to key management personnel. The grant date value of these deferred trust units was \$11.11 per unit granted.

On February 22, 2013, 12,540 deferred trust units were granted to trustees who elected to receive their 2012 retainer in the form of deferred trust units rather than cash. The grant date value of these deferred trust units was \$11.09 per unit granted.

On May 7, 2013, 38,561 deferred trust units were granted to trustees who elected to receive their 2013 retainer in the form of deferred trust units rather than cash. The grant date value of these deferred trust units was \$10.73 per unit granted.

During the year ended December 31, 2013, the Trust issued 20,400 REIT Units and cancelled 5,548 deferred trust units and income deferred trust units in relation to the departure of certain officers of the Trust.

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.

Note 18

**AMOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2013	December 31, 2012
Trade payables	\$ 2,658	\$ 2,109
Accrued liabilities and other payables	12,625	15,351
Accrued interest	3,345	3,117
Rent received in advance	1,321	422
<b>Total</b>	<b>\$ 19,949</b>	<b>\$ 20,999</b>

Note 19

**DISTRIBUTIONS**

The following table breaks down distribution payments for the periods ended December 31:

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Paid in cash	\$ 30,931	\$ 2,132
Paid by way of reinvestment in REIT Units	2,944	44
Less: Payable at December 31, 2012 (July 20, 2012)	(2,039)	-
Plus: Payable at December 31, 2013 (December 31, 2012)	3,204	2,039
<b>Total</b>	<b>\$ 35,040</b>	<b>\$ 4,215</b>

On December 18, 2013, the Trust announced a cash distribution of \$0.05833 per REIT Unit for the month of December 2013. The December 2013 distribution was paid on January 15, 2014, to unitholders on record as at December 31, 2013.

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 Board of 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 less than the estimates used for those prior periods. In addition, the Board of 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 \$0.69372 for the year ended December 31, 2013 (\$0.16331 for the period from July 20, 2012 to December 31, 2012).

Note 20

**EQUITY**

	December 31, 2013		December 31, 2012	
	Number of Units	Amount	Number of Units	Amount
REIT Units	54,921,726	\$ 570,816	36,257,538	\$ 326,211
<b>Total</b>	<b>54,921,726</b>	<b>\$ 570,816</b>	<b>36,257,538</b>	<b>\$ 326,211</b>

## 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
<b>Equity, January 1, 2013</b>	<b>36,257,538</b>	<b>\$ 326,211</b>
Net income for the year attributable to unitholders	-	<b>84,264</b>
Distributions paid	-	<b>(31,836)</b>
Distributions payable	-	<b>(3,204)</b>
Public offering of REIT Units	<b>10,465,000</b>	<b>115,115</b>
REIT Units issued for C2C acquisition	<b>7,460,654</b>	<b>78,785</b>
REIT Units issued for C2C amalgamation	<b>387,399</b>	<b>3,618</b>
Distribution Reinvestment Plan	<b>323,789</b>	<b>2,944</b>
Unit Purchase Plan	<b>2,784</b>	<b>26</b>
REIT Units issued for vested deferred trust units	<b>24,562</b>	<b>254</b>
Issue costs	-	<b>(5,361)</b>
<b>Equity, December 31, 2013</b>	<b>54,921,726</b>	<b>\$ 570,816</b>

	Number of REIT Units	Amount
<b>Equity, July 20, 2012</b>	-	\$ -
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)
<b>Equity, December 31, 2012</b>	<b>36,257,538</b>	<b>\$ 326,211</b>

## Public offering of REIT Units

On March 6, 2013, the Trust completed a public offering of 10,465,000 REIT Units, at a price of \$11.00 per unit for gross proceeds of \$115,115, including 1,365,000 REIT Units issued pursuant to the exercise of the over-allotment option granted to the underwriters. Costs related to the offering totalled \$5,105 and were charged directly to unitholders' equity.

During the year ended December 31, 2013, the Trust incurred \$34 (period from July 20, 2012 to December 31, 2012 – \$nil) in relation to the issuance of units for the Distribution Reinvestment Plan and Unit Purchase Plan.

Included in the issue costs is \$413 incurred during the year ended December 31, 2013 for the acquisition of the non-controlling interest of C2C on July 19, 2013.

In relation to the C2C amalgamation, on July 19, 2013, the Trust recorded \$191 for the difference between the fair value of the consideration paid and the carrying amount of non-controlling interest as a reduction to issue costs. The Units were issued at \$9.34 per unit resulting in a fair value of \$3,618.

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 issued pursuant to the exercise of the over-allotment option granted to the underwriters. Costs related to the offering totalled \$6,224 and were charged directly to unitholders' equity.

On October 4, 2012, the Trust completed its initial public offering of 15,500,000 REIT Units, at a price of \$10.00 per unit for gross proceeds of \$155,000. Concurrently with the initial public offering, Dundee Corporation and a trustee purchased 1,750,000 REIT Units and 750,000 REIT Units, respectively, at the same price as the public issuance for gross proceeds totalling \$25,000. On October 17, 2012, the Trust issued an additional 2,325,000 REIT 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 totalled \$14,531 (including costs of the over-allotment option) and were charged directly to unitholders' equity.

#### **Units issued for C2C transaction**

Pursuant to the acquisition of C2C on May 15, 2013, the Trust issued 7,460,654 REIT Units to purchase approximately 95% of the outstanding common shares of C2C. On July 19, 2013, the Trust issued 387,399 REIT Units to purchase the remaining 5% of outstanding common shares of C2C by way of an amalgamation.

#### **Units issued for KingSett transaction**

On December 19, 2012, the Trust issued 2,358,491 REIT Units to an affiliate of KingSett Capital Inc. as partial consideration for acquisition of the KingSett Portfolio. Costs of \$82 related to the issue of REIT Units to KingSett 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 is 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 year ended December 31, 2013, 323,789 (period from July 20, 2012 to December 31, 2012 – 4,047) REIT Units were issued under the DRIP and \$2,944 (period from July 20, 2012 to December 31, 2012 – \$44) was recorded as distributions in the consolidated statement of changes in equity.

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 year ended December 31, 2013, 2,784 (period from July 20, 2012 to December 31, 2012 – \$nil) REIT Units were issued under the Unit Purchase Plan for proceeds of \$26 (period from July 20, 2012 to December 31, 2012 – \$nil).

#### **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, from time to time, offer and issue 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, 2013, \$168,842 (December 31, 2012 – \$168,842) in REIT Units and \$111,250 (December 31, 2012 – \$111,250) in debt securities have been issued under the short form base shelf prospectus.

Note 21

**INTEREST**

**Interest on debt**

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

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Interest expense incurred, at contractual rate	\$ 32,546	\$ 3,963
Amortization of financing costs	852	100
Amortization of fair value adjustments on debt	(3,298)	(819)
<b>Interest expense</b>	<b>30,100</b>	<b>3,244</b>
Add/deduct:		
Amortization of financing costs	(852)	(100)
Amortization of fair value adjustments on debt	3,298	819
Change in accrued interest	(228)	(1,654)
<b>Cash interest paid</b>	<b>\$ 32,318</b>	<b>\$ 2,309</b>

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 remaining term 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 (loss) consisting of distributions to holders of subsidiary redeemable units are recorded as follows:

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Paid in cash	\$ 10,345	\$ -
Paid by way of reinvestment in subsidiary redeemable units	938	1,773
Less: Interest payable at December 31, 2012 (July 20, 2012)	(938)	-
Plus: Interest payable at December 31, 2013 (December 31, 2012)	950	938
<b>Total</b>	<b>\$ 11,295</b>	<b>\$ 2,711</b>

The interest payable at December 31, 2013 was satisfied on January 15, 2014, in cash.

Note 22

**FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS**

	Note	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Fair value adjustment on conversion feature of the convertible debentures	15	\$ (6,308)	\$ 1,822
Remeasurement of carrying value of subsidiary redeemable units	16	(38,268)	19,307
Remeasurement of carrying value of Deferred Unit Incentive Plan	17	(12)	5
		<b>\$ (44,588)</b>	<b>\$ 21,134</b>

## Note 23

### 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”), a subsidiary of Dundee REIT, are parties to an administrative services agreement (the “Services Agreement”) that is in effect until October 4, 2014. Unless terminated by any party to the Services Agreement, the term is automatically renewed for additional one-year terms. Effective October 4, 2012, Dundee Industrial also has an asset management agreement (the “Asset Management Agreement”) with DREAM Asset Management Corp. (“DAM”), formerly known as Dundee Realty Corporation, a subsidiary of DREAM Unlimited Corp., pursuant to which DAM 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 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 Return On Innovation Capital Ltd. (“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 acquired 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 of a property in excess of \$200 million of properties acquired in each fiscal year. No acquisition fee was payable to DAM 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 the lesser of 0.25% of the amount of debt and equity relating to all financing transactions completed and actual expenses incurred by DAM 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 DAM 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 DAM agree in writing are to be provided from time to time by DAM.

#### Shared services and cost sharing agreement

The existing Asset Management Agreement provides the Trust and DAM, from time to time, the opportunity to agree on additional services to be provided to the Trust for which DAM is to be reimbursed for its costs. To formalize and expand this arrangement, the Trust entered into a shared services and cost sharing agreement with DAM on December 1, 2013. The agreement is for a one-year term and will be automatically renewed for further one-year terms unless and until the agreement is terminated in accordance with its terms or by mutual agreement of the parties. Pursuant to the agreement, DAM will be providing additional administrative and support services in order to expand and improve DAM’s service capability in connection with the provision of its asset management services. DAM will receive an annual fee sufficient to reimburse it for all the expenses incurred in providing these additional administrative and support services. Additionally, the Trust will also reimburse DAM in each calendar year for its share of costs incurred in connection with certain business transformation services provided by DAM.

During the year ended December 31, 2013, the Trust paid \$nil to DAM pursuant to the shared services and cost sharing agreement. There are no amounts due to DAM as at December 31, 2013 pertaining to this agreement.

The Trust’s future commitment under the shared services and cost sharing agreement over the next seven years is \$2,520.

## Related party transactions

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

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
<b>Amounts paid and payable</b>		
Fees incurred by Dundee Industrial under the Asset Management Agreement included in:		
General and administrative expenses	\$ 3,889	\$ 439
Property acquisitions and acquisition related costs	2,005	3,744
Financing costs	407	314
<b>Total fees incurred under the Asset Management Agreement</b>	<b>\$ 6,301</b>	<b>\$ 4,497</b>

During the year ended December 31, 2013, the Trust incurred \$5,130 (December 31, 2012 – \$572), in relation to the Services Agreement for salaries and benefits costs and shared service costs incurred by Dundee REIT on behalf of the Trust.

Included in amounts payable and accrued liabilities at December 31, 2013 is \$688 (December 31, 2012 – \$3,237) related to the Asset Management Agreement, and \$389 (December 31, 2012 – \$nil) in cost reimbursements to DAM for certain salaries and benefits costs incurred by DAM on behalf of the Trust. Amounts receivable at December 31, 2013 include \$54 (December 31, 2012 – \$nil) for reimbursement of certain costs paid by the Trust on behalf of DAM.

Included in amounts payable and accrued liabilities as at December 31, 2013 is \$917 (December 31, 2012 – \$4,207) due to Dundee REIT for services costs reimbursement to DRMC. Also included in amounts payable and accrued liabilities is the December 2013 monthly distribution in the amount of \$950 (December 31, 2012 – \$938) payable to Dundee REIT. Amounts receivable as at December 31, 2013 include \$75 (December 31, 2012 – \$4,248) relating to deposits Dundee REIT received on behalf of the Trust. For the year ended December 31, 2013, the Trust has recorded \$32 (period from July 20, 2012 to December 31, 2012 – \$317) in interest expense on the promissory notes payable to Dundee REIT. On January 10, 2013, the Trust repaid the promissory notes along with \$349 of accrued interest. During the year ended December 31, 2013, the Trust had recorded \$11,295 (period from July 20, 2012 to December 31, 2012 – \$2,711) in interest expense on subsidiary redeemable units relating to distributions on its LP Class B Units to Dundee REIT. At December 31, 2013, Dundee REIT's retained interest in the Trust was 22.9%.

Compensation of key management personnel for the periods ended December 31 is as follows:

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Unit-based awards granted during the period <sup>(1)</sup>	\$ 278	\$ 136
<b>Total</b>	<b>\$ 278</b>	<b>\$ 136</b>

(1) Deferred trust units granted to officers 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 24

**SUPPLEMENTARY CASH FLOW INFORMATION**

	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
(Increase) decrease in amounts receivable	\$ (1,530)	\$ 5,382
Decrease in prepaid expenses and other assets	793	1,414
(Increase) in other non-current assets	(479)	(435)
Increase in amounts payable and accrued liabilities	1,873	4,137
Increase (decrease) in tenant security deposits	469	(248)
Decrease in deferred revenue	-	(6,826)
<b>Change in non-cash working capital</b>	<b>\$ 1,126</b>	<b>\$ 3,424</b>

The following amounts were paid on account of interest:

	Note	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Interest			
Debt	21	\$ 32,318	\$ 2,309
Subsidiary redeemable units	21	10,345	-
<b>Total</b>		<b>\$ 42,663</b>	<b>\$ 2,309</b>

Note 25

**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 \$3,350 (December 31, 2012 – \$254).

Pursuant to the Shared Services and Cost Sharing Agreement, the Trust has a commitment to pay \$2,520 to DAM over the next seven years.

Note 26

**CAPITAL MANAGEMENT**

The primary objectives of the Trust’s capital management are to ensure that its operations are adequately funded in a cost efficient manner and it remains compliant with its banking covenants.

The Trust’s capital consists of debt, including mortgages, demand revolving credit facility, promissory notes payable, unsecured non-revolving bridge facility, convertible debentures, subsidiary redeemable units 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 and debt-to-total assets ratios. Other significant indicators include weighted average interest rate, average term to maturity of debt and variable rate 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 \$0.70 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-total assets ratio, which is calculated as the amount of outstanding debt divided by total assets. During the year 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 Partnership Agreement limits the Trust's interest coverage ratio to no less than 1.4 times. The interest coverage ratio, for the purpose of the DILP Partnership Agreement, is calculated as net operating income from continuing operations, plus interest and fee income, less general and administrative expense from continuing operations, all divided by interest expense on total debt. For the year ended December 31, 2013, the Trust's interest coverage ratio was 3.1 times (December 31, 2012 – 3.6 times), reflecting its ability to cover interest expense requirements.

	Note	Year ended December 31, 2013	Period from July 20, 2012 to December 31, 2012
Investment properties revenue		\$ 142,944	\$ 17,202
Investment properties operating expenses		44,017	4,667
Net rental income		98,927	12,535
Add (deduct):			
Interest and fee income		244	16
General and administrative expenses		(7,346)	(855)
		\$ 91,825	\$ 11,696
Interest expense – Debt	21	\$ 30,100	\$ 3,244
<b>Interest coverage ratio</b>		<b>3.1 times</b>	<b>3.6 times</b>

Note 27

**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 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. In addition, variable rate debt as at December 31, 2013 was 1.44% 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 and fixed rate debt due to mature in 2014. A 1% change is considered a reasonable level of fluctuation.

	Interest rate risk				
			-1%	+1%	
	Carrying amount	Income	Equity	Income	Equity
<b>Financial assets</b>					
Cash and cash equivalents <sup>(1)</sup>	\$ 258	\$ (3)	\$ (3)	\$ 3	\$ 3
<b>Financial liabilities</b>					
Variable rate debt and fixed rate debt due to mature in a year	\$ 90,022	\$ 900	\$ 900	\$ (900)	\$ (900)

(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. The Trust’s main sources of liquidity are its demand revolving credit facility and unencumbered assets. The Trust manages maturities of the fixed rate debts, and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. On February 24, 2014, the Trust completed a \$56 million refinancing of maturing mortgages on a portfolio of eight of its properties in Halifax (“the Halifax Portfolio Refinancing”). Net proceeds after repayment of the existing mortgage amounted to \$21 million, which were used to repay other maturing mortgages and the outstanding balance on the demand revolving credit facility.

Note 28

**FAIR VALUE MEASUREMENTS**

Quoted prices in active markets represent a Level 1 valuation. When quoted prices are not available, the Trust maximizes the use of observable inputs. When all significant inputs are observable, either directly or indirectly, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Trust's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 fair value measurements during the year.

The following tables summarize fair value measurements recognized in the consolidated balance sheet by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements.

	Carrying value as at December 31, 2013	Fair value as at December 31, 2013		
		Level 1	Level 2	Level 3
<b>Recurring measurements</b>				
Non-financial assets				
Investment properties	\$ 1,540,791	\$ -	\$ -	\$ 1,540,791
Financial liabilities				
Conversion feature on the convertible debentures	973	-	-	973
December 31, 2012				
		Level 1	Level 2	Level 3
<b>Financial liabilities</b>				
Conversion feature on the convertible debentures		\$ -	\$ -	\$ 6,228

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

	Carrying value as at December 31, 2013	Fair value as at December 31, 2013		
		Level 1	Level 2	Level 3
<b>Fair values disclosed</b>				
Mortgages	\$ 703,502	\$ -	\$ -	\$ 698,912
Demand revolving credit facility	12,114	-	-	12,114
Convertible debentures	124,766	-	-	130,200
December 31, 2012				
		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	

Amounts receivable, cash and cash equivalents, subsidiary redeemable units, the Deferred Unit Incentive Plan, tenant security deposits, amounts payable and accrued liabilities, and distributions payable are carried at amortized cost, which approximates fair value due to their short-term nature.

## Investment properties

Fair value for investment properties is calculated using the overall capitalization rate and discounted cash flow methods, which result in these measurements being classified as Level 3 in the fair value hierarchy. In applying the overall capitalization rate method the stabilized net operating income (“NOI”) of each property is divided by an appropriate capitalization rate (“cap rate”). In applying the discounted cash flow method, the cash flows of a specific property are projected assuming a ten-year hold period. The estimated sale value at the end of the holding period is then calculated by dividing the projected NOI for year 11 by a terminal rate. These projected cash flows are then added together and discounted at a discount rate reflecting the risks of the property being valued. The following are the significant assumptions used under the two methods in determining the value:

- Cap rate – based on actual location, size and quality of the investment property and taking into account any available market data at the valuation date;
- Stabilized NOI – revenues less property operating expenses adjusted for items such as average lease up costs, long-term vacancy rates, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate – reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal rate – taking into account assumptions regarding vacancy rates and market rents; and
- Cash flows – based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties.

Investment properties are valued on a highest and best use basis. For all the Trust’s investment properties the current use is considered to be the highest and best use.

Significant unobservable inputs in Level 3 valuations are as follows:

	December 31, 2013	
	Range (%)	Weighted average
Stabilized NOI	n/a	104,716
Cap rate	6.00–8.75	6.73%
Discount rate	6.75–9.50	7.68%
Terminal rate	6.25–9.00	6.97%
Cash flows	n/a	103,332

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

Generally, under the overall capitalization rate method, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in the cap rate will result in a decrease to the fair value of an investment property. The cap rate magnifies the effect of a change in stabilized NOI, with a lower cap rate resulting in a greater impact to the fair value of an investment property than a higher cap rate. Under the discounted cash flow methods, an increase in cash flows will result in an increase to the fair value of an investment property. An increase in the discount rate will result in a decrease to the fair value of an investment property. An increase in the terminal rate will result in a decrease to the fair value of an investment property. The terminal rate magnifies the effect of a change in cash flows and discount rates, with a lower terminal rate resulting in a greater impact to the fair value of an investment property.

If the cap rate were to increase by 25 basis points (“bps”), the value of investment properties would decrease by \$40,426 (December 31, 2012 – \$28,956). If the cap rate were to decrease by 25 bps, the value of investment properties would increase by \$75,758 (December 31, 2012 – \$56,455).

## Valuation process

Management is responsible for determining the fair value measurements included in the consolidated financial statements. The Trust includes a valuation team that prepares a valuation of each investment property every quarter. On a quarterly basis, the Trust engages independent professionally qualified valuers who hold a recognized relevant professional qualification and have recent experience in the locations and categories of the investment properties to complete valuations of several properties. Each property is valued by an independent valuer at a minimum of once every three years. For properties subject to an independent valuation report the valuation team verifies all major inputs to the valuation and reviews the results with the independent valuers. The valuation team reports directly to the Chief Financial Officer (“CFO”) and Chief Executive Officer (“CEO”). Discussion of valuation processes, key inputs and results are held between the CFO, CEO and the valuation team at least once every quarter, in line with the Trust’s quarterly reporting. Changes in Level 3 fair values are analyzed at each reporting date during the quarterly valuation discussions between the CFO, CEO and the valuation team. As part of this discussion, the team presents a report that explains the reasons for the fair value movements.

Investment properties with an aggregate fair value of \$87,321 as at December 31, 2013 (December 31, 2012 – \$178,088) were valued by qualified external valuation professionals. Investment properties with an aggregate December 31, 2013 fair value of \$1,534,070 were valued by qualified external valuation professionals for the period between October 4, 2012 and December 31, 2013.

## Convertible debentures

The convertible debentures have two components of value – a conventional bond and a call on the equity of the Trust through conversion. Based on its terms (see Note 15) the conversion feature is an embedded derivative and has been separated from the host contract and classified as a financial liability through profit and loss.

The fair value of the conversion feature, categorized in Level 3, is calculated based on the paper by K. Tsiveriotis and C. Fernandes. In this model, a convertible bond consists of two components, an equity component and a debt component, and these components have different default risks. The equity component is discounted at the risk-free rate. The equity component has no default risk since the Trust can always issue its own units. The debt component is discounted at the risk-free rate plus a credit spread.

The fair value of the conversion feature on 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.

A qualified independent consultant calculates the fair value measurement for the financial liability classified as Level 3. The valuation processes and results are determined and reviewed by senior management. The inputs and processes used in the valuation and the results thereof are reviewed by senior management and discussed with the qualified independent consultant to ensure conformity with IFRS.

The significant unobservable inputs used in the fair value measurement of the conversion feature as at December 31, 2013 are the following:

- Volatility: Historical volatility as at December 31, 2013 was derived from the historical prices of the S&P/TSX Capped REIT with maturity equal to the term to maturity of the convertible debentures.
- Credit spread: The credit spread of the convertible debentures was imputed from the traded price of the convertible debentures as at December 31, 2013.

	Credit spread	Volatility
5.25% Debentures	2.952%	19.110%
6.75% Debentures	4.148%	11.971%

A higher volatility will increase the value of the conversion option. A lower credit spread will decrease the value of the conversion option.

The following table shows the changes in fair value of the conversion option from a 5% increase or decrease in volatility and a 100 bps increase or decrease in credit spread, all other inputs being constant.

	Impact of change to volatility		Impact of change to credit spread	
	+5%	-5%	+100 bps	-100 bps
Increase/(decrease) in fair value as at December 31, 2013	\$ 1,550	\$ (790)	\$ 234	\$ (1,581)

The Trust also uses the following techniques in determining the fair values disclosed for the following financial liabilities classified as Level 3:

### Mortgages

The fair value of the mortgage payable as at December 31, 2013 has been calculated by discounting the expected cash flows of each debt using a weighted average discount rate of 3.35%. This discount rate is determined using the Government of Canada benchmark bond yield for instruments of similar maturity adjusted for the Trust’s specific credit risk. In determining the adjustment for credit risk the Trust considers market conditions, the value of the investment properties that the mortgage is secured by and other indicators of the Trust’s creditworthiness.

### Note 29

#### COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2013 consolidated financial statements.

### Note 30

#### SUBSEQUENT EVENTS

As described in Note 27, the Trust completed the Halifax Portfolio Refinancing at a variable interest rate of monthly Canadian Dealer Offered Rate (“CDOR”) plus 1.4% for an initial term of five years. In order to hedge the interest rate risk on the variable interest rate, the Trust also entered into a five-year interest rate swap agreement with a Canadian chartered bank for a notional value of \$56 million, which effectively fixed the interest rate on this mortgage at 3.31% for the five-year term. Net proceeds after repayment of the existing mortgage amounted to \$21 million, which were used to repay other maturing mortgages and the outstanding balance on the demand revolving credit facility.

## Trustees

---

**Michael J. Cooper**<sup>2</sup>  
Toronto, Ontario  
Chair, Executive Committee  
Dundee Industrial REIT

**Peter A. Crossgrove**<sup>1,3</sup>  
Toronto, Ontario  
Executive Chairman,  
Excellon Resources Inc.

**Joanne Ferstman**<sup>2,4</sup>  
Toronto, Ontario  
Corporate Director

**Robert G. Goodall**<sup>1</sup>  
Mississauga, Ontario  
President, Canadian Mortgage  
Capital Corporation

**Johann Koss**  
Toronto, Ontario  
Chief Executive Officer  
Right to Play

**Ben Mulroney**  
Toronto, Ontario  
Television Anchor  
and Producer

**Leerom Segal**<sup>3</sup>  
Toronto, Ontario  
President and Chief Executive Officer,  
Klick Health

**Vincenza Sera**<sup>1,3</sup>  
Toronto, Ontario  
Corporate Director

## Officers

---

**Joanne Ferstman**  
Chair

**Randy Cameron**  
President and Chief Executive Officer

**John Todd**  
Chief Financial Officer

- <sup>1</sup> Member of the Audit Committee
- <sup>2</sup> Member of the Executive Committee
- <sup>3</sup> Member of the Governance, Compensation and Environmental Committee
- <sup>4</sup> 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 enquiries)

**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**  
Box 50, 1 First Canadian Place, Suite 6100  
Toronto, Ontario M5X 1B8

### Investor relations

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

### Taxation of distributions

Distributions paid to unitholders in respect  
of the tax year ended December 31, 2013  
are taxed as follows:  
Return of capital: 100%

Management estimates that 70% of the  
distributions to be made by the REIT in 2014  
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

Monday, May 5, 2014 at 4:00 pm (EST)  
St. Andrew's Club and Conference Centre  
Main Dining Room  
150 King Street West  
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 please visit  
**www.dundeeindustrial.com**



