



dream 
industrial REIT

The new name for
Dundee Industrial REIT



Better Communities to Work In

We'd like to take the opportunity to thank all our stakeholders for being part of our continued success.

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 in May 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.

Dundee Industrial REIT's
new name is
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**

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Letter to unitholders

Our business performed well in the first quarter of 2014 as we further invested in our properties, improved our management reporting platform and strengthened both our leasing and property management teams. We are successfully approaching the final steps of our rebranding project and on May 12, 2014, Dundee Industrial REIT will be known as 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.

From a leasing perspective we increased our occupancy across our portfolio to 96.3%, up from 95.7% in the fourth quarter of 2013. Our leasing performance resulted in the Trust realizing another quarter of increasing occupancy as many of our major markets demonstrated increasing demand for our space. We now have commitments for 1.4 million square feet of leases commencing in 2014 compared to expiries of 2.1 million square feet. This increased leasing activity strengthened our occupancy, thereby laying the groundwork for improved net operating income (“NOI”) and adjusted funds from operations (“AFFO”) in this and future quarters.

Our financial metrics, including our comparative property growth over the fourth quarter of 2013, increased by 1.1%, and our AFFO per unit grew to 20 cents from 19 cents. At the same time, the Trust has further reduced its AFFO payout ratio to 86.3%. Our debt metrics are stable, with leverage of 52.4% and weighted average term to maturity of 4.2 years at the end of the quarter, and our unencumbered asset pool grew to \$138 million. This increases the Trust’s capacity and flexibility to acquire and successfully finance growth when appropriate to do so and in a way that will add value to our unitholders.

Our portfolio represents the largest of any Canadian industrial REIT by square footage and we have recently been fortunate to add such well-known names as the Royal Bank, Stantec and AMJ Campbell Van Lines to our tenant roster. The Trust also has a significant presence in most major markets across Canada, enabling us to do business with a number of well-known national corporations such as Honeywell, Goodall Snowden Rubber, and ThyssenKrupp Canada Ltd.

Part of our strategy to grow our business is to identify and improve upon opportunities to intensify tenants’ use of our sites. This activity may take the form of expanding tenants’ footprints within our assets by building onto existing properties and identifying excess lands where additional buildings may be developed.

I am pleased to report that we have formed a relationship with Dream Renewables to rent roof space from Dundee Industrial in order to install solar panels on a number of our warehouse roofs. We have identified a list of 15 properties in the Greater Toronto Area that we believe are good candidates for this project and are preparing to launch a program for four properties in the near term.

We are also in the process of recycling some of our capital to strengthen our portfolio by disposing of non-core assets. We currently have one asset under contract to sell to a tenant in the building for \$11 million.

In summary, we will continue to execute on enhancing the strength of our business. We thank our unitholders for their continued support.



Randy Cameron
President and CEO

May 5, 2014

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 unless otherwise stated)

SECTION I – OVERVIEW AND FINANCIAL HIGHLIGHTS

FINANCIAL OVERVIEW

Adjusted funds from operations ("AFFO") per unit for the quarter was 20 cents, an increase of 3 cents, or 18%, over the prior year comparative quarter, reflecting the impact of accretive acquisitions completed in the second quarter of 2013, as well as growth in comparative property NOI. The prior year comparative quarter AFFO also reflected the dilutive effect of the \$115 million equity issue completed on March 6, 2013 in advance of acquisitions completed in April 2013.

Funds from operations ("FFO") per unit for the quarter was 24 cents, an increase of 2.3 cents, or 11%, over the prior year comparative quarter. The increase resulted from the same factors as the increase in AFFO per unit.

Sequentially, AFFO per unit increased by 2.6% compared to the fourth quarter of 2013 due primarily to an increase in net operating income ("NOI") resulting from increased average occupancy of the portfolio as well as lower general and administrative expenses in the quarter. FFO per unit increased 0.2 cents or 0.8% compared to the fourth quarter of 2013.

Occupancy of the portfolio increased from 95.7% at the end of Q4 2013 to 96.3%. This reflects the efforts of our leasing team in renewing 80% of our expiring tenancies and securing new tenancies, together totalling 400,000 square feet. The positive outlook for our leasing velocity reflects the increasing strength of our tenant relationships as well as the improving fundamentals in many of our key markets.

In-place rent was \$6.96 per square foot compared to \$6.92 at December 31, 2013, which we estimate is approximately \$0.42 or 6.0% 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 3.6 years provide the Trust with a good opportunity for rent growth in the short to medium term.

Our portfolio size was stable in the quarter at 15.6 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 December 31, 2013.

Financing metrics remained stable during the quarter with secured debt comprising 44.1% of total assets excluding convertible debentures. Our leverage stood at 52.4% at March 31, 2014, including the convertible debentures. The weighted average remaining term on our debt was 4.2 years and the weighted average face interest rate on our debt was 4.17%, which is higher than what we are currently seeing in the market for comparable mortgage debt.

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

OUTLOOK

Fundamentals are stable or improving 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.

We now have commitments for 1.4 million square feet of leases commencing throughout 2014 compared to 2.1 million square feet of total expiries. Approximately 700,000 square feet of the total lease expiries for 2014 occur in the second quarter. As a result, growth in physical occupancy in the second quarter will be muted, with further gains in occupancy taking place in the third and fourth quarters.

During the quarter, we entered into an agreement to sell a 65,000 square foot property in Calgary to a major tenant at the property for \$11.2 million. The property is 65% occupied and has been reclassified to asset held for sale and excluded from our operating statistics for the current quarter. In addition, we have waived conditions on the acquisition of our partner's 50% interest in a 26,000 square foot property in Calgary for \$2.3 million in which we had a co-ownership interest. Both transactions are expected to close in the second quarter, and neither transaction will have a significant effect on our 2014 AFFO and FFO per unit.

In 2014, we will continue to be focused on:

- Enhancing our operations and strengthening our relationships with tenants in order to grow NOI internally;
- Leveraging the decreasing vacancy in our markets as well as in our own portfolio to capture rental rate increases;
- Recycling capital from non-core assets into assets that meet our investment criteria and enhance the quality of our portfolio; and
- Exploring selected value-add intensification opportunities within our existing portfolio.

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

KEY PERFORMANCE INDICATORS

Performance is measured by these and other key indicators:

Three months ended	March 31, 2014	December 31, 2013	March 31, 2013
Portfolio			
Number of properties	205	206	158
Gross leasable area ("GLA") (in millions of sq. ft.)	15.6	15.7	11.4
Occupancy rate (period-end) – including committed	96.3%	95.7%	96.5%
Occupancy rate (period-end) – in place	95.3%	94.4%	95.7%
Average in-place base rent per sq. ft. (period-end)	\$ 6.96	\$ 6.92	\$ 7.18
Weighted average remaining lease term (years)	4.6	4.7	5.1
Market rent in excess of in-place rent (%)	6.0%	6.4%	5.6%
Operating results			
Investment properties revenue	\$ 40,914	\$ 41,149	\$ 29,250
NOI ⁽¹⁾	27,215	27,060	19,892
FFO ⁽¹⁾	17,044	16,872	11,993
AFFO ⁽¹⁾	14,006	13,630	9,275
Fair value increase (decrease) to investment properties	501	(182)	577
Distributions			
Declared distributions	\$ 12,487	\$ 12,450	\$ 9,467
DRIP participation rate	8.5%	9.7%	4.4%
Financing			
Weighted average effective interest rate on debt (period-end)	3.86%	3.84%	3.86%
Weighted average face interest rate on debt (period-end)	4.17%	4.18%	4.25%
Weighted average remaining term to maturity of debt (period-end) (years)	4.2	4.1	5.0
Interest coverage ratio	2.9 times	2.9 times	2.7 times
Debt-to-EBITDA	8.5	8.6	7.9
Unencumbered assets	\$ 138,022	\$ 122,190	\$ 23,887
Per unit amounts⁽²⁾			
Distribution rate	\$ 0.17	\$ 0.17	\$ 0.17
Basic:			
FFO ⁽¹⁾	\$ 0.24	\$ 0.24	\$ 0.22
AFFO ⁽¹⁾⁽³⁾	\$ 0.20	\$ 0.19	\$ 0.17
Diluted			
FFO ⁽¹⁾	\$ 0.23	\$ 0.23	\$ 0.22
Payout ratio (%)⁽⁴⁾			
FFO	71.1%	71.7%	78.7%
AFFO	86.3%	88.5%	101.8%

(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, do not have standard meanings and may not be comparable with other industries or income trusts. Reconciliation to the relevant GAAP measures can be found under the heading "Our results of operations".

(2) A description of the determination of basic and diluted amounts per unit, interest coverage ratio and debt-to-EBITDA (non-GAAP measures) can be found under the heading "Non-GAAP measures and other disclosures".

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

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

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 and the condensed consolidated financial statements for the period ended March 31, 2014.

This management’s discussion and analysis (“MD&A”) is dated as at May 5, 2014.

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 May 5, 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 website at www.dundeeindustrial.com.

BACKGROUND

Dundee Industrial REIT is an unincorporated, open-ended real estate investment trust that was formed to provide investors with the opportunity to invest in a Canadian focused, pure-play industrial REIT. Dundee Industrial was founded on July 20, 2012 by Dundee Real Estate Investment Trust (“Dundee REIT”), which had a retained investment of 22.8% at May 5, 2014. Our REIT Units are listed on the Toronto Stock Exchange under the trading symbol DIR.UN.

At March 31, 2014, we owned 205 light industrial income-producing buildings totalling 15.7 million square feet of GLA, including 15.6 million square feet of industrial properties and 0.1 million square feet of property held for sale. Our properties are 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

We currently pay monthly distributions of \$0.058 per unit, or \$0.70 per unit on an annual basis. At March 31, 2014, approximately 7.0% of our total Units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP") (see a description of "Our equity" on page 18).

	2014	2013				2012
	Q1	Q4	Q3	Q2	Q1	Q4
Annualized distribution rate	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.675	\$ 0.675
Monthly distribution rate	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.058	\$ 0.056	\$ 0.056
Period-end closing price	\$ 9.40	\$ 8.85	\$ 8.74	\$ 9.08	\$ 10.82	\$ 11.20
Annualized distribution yield on closing price (%)	7.4%	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 205 properties comprising 15.6 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 96.3%. Our occupancy rate includes lease commitments totalling approximately 157,000 square feet for space that is currently being readied for occupancy but for which rent is not yet being recognized.

Our properties are geographically diversified as follows:

	March 31, 2014			December 31, 2013		
	Number of properties	Owned GLA (sq. ft.)	% of owned GLA	Number of properties	Owned GLA (sq. ft.)	% of owned GLA
Western Canada	75	4,230,256	27.1	76	4,294,604	27.4
Ontario	58	4,825,231	31.0	58	4,825,231	30.8
Québec	33	3,732,891	23.9	33	3,732,891	23.8
Eastern Canada	39	2,810,706	18.0	39	2,810,631	18.0
Total⁽¹⁾	205	15,599,084	100.0	206	15,663,357	100.0

(1) Excludes property held for sale.

Our portfolio consists of multi-tenant buildings totalling 10.2 million square feet, or comprising 65% of total GLA, and single-tenant buildings totalling 5.4 million square feet, or 35% of total GLA. Of the 5.4 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 those for 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 – they 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.

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	March 31, 2014 ⁽¹⁾			December 31, 2013		
	Multi-tenant buildings	Single-tenant buildings	Total	Multi-tenant buildings	Single-tenant buildings	Total
Occupancy rate – including committed	95.4%	97.9%	96.3%	94.6%	97.9%	95.7%
Occupancy rate – in-place ⁽²⁾	93.9%	97.8%	95.3%	92.6%	97.8%	94.4%
Average in-place base rental rates (per sq. ft.)	\$ 7.19	\$ 6.53	\$ 6.96	\$ 7.14	\$ 6.53	\$ 6.92
Tenant maturity profile – average term to maturity (years)	3.6	6.3	4.6	3.7	6.5	4.7
Owned GLA (in millions of sq. ft.)	10.2	5.4	15.6	10.2	5.5	15.7

(1) Excludes property held for sale.

(2) Based on physical occupancy, excluding future commitments.

Occupancy

At March 31, 2014, the overall percentage of occupied and committed space across our portfolio remained high at 96.3%, which was 0.6% higher than occupancy at December 31, 2013.

(percentage)	March 31, 2014 ⁽¹⁾	December 31, 2013
Western Canada	98.3	96.7
Ontario	98.0	98.3
Québec	93.8	93.3
Eastern Canada	93.4	93.0
Total	96.3	95.7
Portfolio size (millions of sq. ft.)	15.6	15.7

(1) Excludes property held for sale.

Occupancy gains occurred in each of our regions with the exception of Ontario. For a multi-tenant portfolio such as ours, occupancy over 98% approaches the maximum effective occupancy for the portfolio.

Occupancy roll-forward

Leasing activity for the quarter included approximately 218,000 square feet of renewals, approximately 183,000 square feet of new leases and a net decrease in space committed for future occupancy of 51,000 square feet.

Three months ended March 31, 2014			
	Weighted average rate per sq. ft.	(sq. ft.)	As a % of total GLA
Occupancy (including committed) at beginning of period		14,994,614	95.7%
Occupancy committed for future leases		(208,261)	(1.3%)
Occupancy at beginning of period		14,786,353	94.8%
Reclassified to held for sale		(42,007)	
Remeasurements/reclassifications		662	
Occupancy at beginning of period – restated		14,745,008	94.5%
Expiries (all leases)	\$ 7.56	(271,003)	(1.7%)
Early terminations and bankruptcies	\$ 11.53	(15,617)	(0.1%)
New leases	\$ 7.13	182,811	1.2%
Renewals	\$ 7.27	217,511	1.4%
Occupancy – March 31, 2014		14,858,710	95.3%
Occupancy committed for future leases		157,504	1.0%
Occupancy (including committed) – March 31, 2014		15,016,214	96.3%

Three months ended	March 31, 2014
Tenant retention ratio	80%
Expiring rents on renewed space (per sq. ft.)	\$ 7.21
Renewal to expiring rent spread (per sq. ft.)	0.06

The committed occupancy at March 31, 2014 totalled 158,000 square feet. Of this committed space, 72% becomes occupied in the second quarter of the year, while the remainder will be occupied by year-end.

For lease renewals commenced during the quarter, the spread between renewal rate and expiring rate was narrow at 0.8%. We expect the decreasing vacancy rate both in our portfolio and in our markets will provide us with the opportunity to improve our leasing spreads. This has been reflected in the lease renewals commitments we obtained during the quarter totaling 446,000 square feet at \$7.84 per square foot compared to expiries at \$7.57 per square foot, a 3.6% increase. New lease commitments totaling 157,000 square feet obtained during the quarter were completed at \$9.08 per square foot. Lease commitments are typically executed three to six months before physical occupancy commences.

In-place rental rates

At March 31, 2014, estimated current market rents were 6.0% higher than our portfolio average in-place base rents, presenting us with the opportunity to capture gains when space is renewed or newly leased. Our average in-place rents increased during the quarter, reflecting our ability to capture these market rents as our leases expire.

	March 31, 2014 ⁽¹⁾			December 31, 2013		
	Average in-place base rent	Market rent ⁽²⁾	Market rent/in-place rent (%)	Average in-place base rent	Market rent	Market rent/in-place rent (%)
Total portfolio						
Western Canada	\$ 8.66	\$ 9.73	12.4	\$ 8.60	\$ 9.66	12.3
Ontario	6.11	6.23	2.0	6.07	6.12	0.8
Québec	5.95	6.16	3.5	5.94	6.23	4.9
Eastern Canada	7.12	7.35	3.2	7.11	7.45	4.8
Total	\$ 6.96	\$ 7.38	6.0	\$ 6.92	\$ 7.36	6.4

(1) Excludes property held for sale.

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

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 4.6 years and our average tenant size is 12,000 square feet. Our single-tenant buildings have an average remaining lease term of 6.3 years and our multi-tenant buildings have an average remaining lease term of 3.6 years. The weighted average lease term of our top ten tenants, weighted by annualized base rent, is 8.0 years.

	March 31, 2014 ⁽¹⁾			December 31, 2013		
	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	4.3	8,968	\$ 8.66	4.3	8,830	\$ 8.60
Ontario	4.3	17,853	6.11	4.4	17,823	6.07
Québec	6.1	26,741	5.95	6.3	26,802	5.94
Eastern Canada	3.4	6,531	7.12	3.5	6,569	7.11
Total	4.6	11,900	\$ 6.96	4.7	11,855	\$ 6.92

(1) Excludes property held for sale.

The following table distinguishes between lease maturities that have yet to be renewed or re-leased and units which are committed for occupancy in any given year. In the remainder of 2014, 1.8 million square feet will expire, compared to 1.0 million square feet of leasing that has already been committed for future occupancy in 2014.

(in sq. ft.)	Current vacancy	Current monthly tenancies	2014 (remainder)	2015	2016	2017	2018	2019 to 2027	Total
Western Canada⁽¹⁾									
Uncommitted	73,457	-	376,616	561,434	578,920	585,920	495,568	938,190	3,610,105
Committed	-	-	397,948	146,967	1,442	45,294	28,500	-	620,151
Total Western Canada	73,457	-	774,564	708,401	580,362	631,214	524,068	938,190	4,230,256
Ontario									
Uncommitted	94,213	-	219,172	737,796	607,263	589,886	885,601	1,301,655	4,435,586
Committed	-	-	342,449	47,196	-	-	-	-	389,645
Total Ontario	94,213	-	561,621	784,992	607,263	589,886	885,601	1,301,655	4,825,231
Québec									
Uncommitted	229,757	-	196,509	372,250	390,308	406,791	92,913	1,787,198	3,475,726
Committed	-	-	153,691	-	103,474	-	-	-	257,165
Total Québec	229,757	-	350,200	372,250	493,782	406,791	92,913	1,787,198	3,732,891
Eastern Canada									
Uncommitted	185,443	7,989	317,149	474,593	543,273	276,494	280,283	564,929	2,650,153
Committed	-	-	97,003	18,461	-	-	-	45,089	160,553
Total Eastern Canada	185,443	7,989	414,152	493,054	543,273	276,494	280,283	610,018	2,810,706
Total uncommitted	582,870	7,989	1,109,446	2,146,073	2,119,764	1,859,091	1,754,365	4,591,972	14,171,570
Total committed	-	-	991,091	212,624	104,916	45,294	28,500	45,089	1,427,514
Total	582,870	7,989	2,100,537	2,358,697	2,224,680	1,904,385	1,782,865	4,637,061	15,599,084

(1) Excludes property held for sale.

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 March 31, 2014. Expiring rents and market rents represent base rates and do not include the impact of lease incentives. Currently, 2014 estimated market rents are 5.0% above expiring rents and estimated 2015 market rents are 4.0% 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
Expiring rents⁽¹⁾						
Western Canada ⁽³⁾	\$ -	\$ 8.25	\$ 9.25	\$ 8.02	\$ 9.68	\$ 10.62
Ontario	-	6.64	6.09	6.25	6.71	6.08
Québec	-	5.28	5.47	4.16	5.34	6.52
Eastern Canada	2.29	6.70	6.54	7.35	7.57	8.20
Portfolio average	\$ 2.29	\$ 6.96	\$ 6.91	\$ 6.63	\$ 7.48	\$ 7.72
Market rents⁽²⁾						
Western Canada ⁽³⁾	\$ -	\$ 8.80	\$ 10.35	\$ 8.98	\$ 10.26	\$ 10.90
Ontario	-	6.88	6.00	5.94	6.66	6.20
Québec	-	5.49	5.41	5.11	5.50	5.85
Eastern Canada	6.68	7.03	6.76	7.48	7.61	7.76
Market rent average	\$ 6.68	\$ 7.33	\$ 7.20	\$ 7.01	\$ 7.68	\$ 7.76

(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.

(3) Excludes property held for sale.

Initial direct leasing costs and lease incentives

Initial direct leasing costs include leasing fees and related costs and broker commissions 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 three months ended March 31, 2014, a total of 400,000 square feet was leased and occupied with related costs of \$1.4 million, representing an average rate of \$3.48 per square foot leased. We are estimating that the average costs for the year will be approximately \$3.00.

Performance indicators ⁽¹⁾	Total
Operating activities	
Portfolio size (sq. ft.)	15,599,084
Occupied and committed	96.3%
Square footage leased and occupied in 2014	400,322
Lease incentives and initial direct leasing costs for square footage leased and occupied in the first quarter	\$ 1,393

(1) Excludes property held for sale.

Tenant base profile

Our tenant base consists of a diverse range of high-quality businesses and, with 1,263 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 83,000 square feet across our single-tenant buildings and 8,100 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	11.2
TC Transcontinental	523,345	3.4	3.6	8.0
Molson Breweries	225,000	1.4	2.4	8.8
The Brick	327,000	2.1	2.3	10.2
Royal Group	346,035	2.2	1.9	3.8
Clean Harbors Industrial	99,432	0.6	1.7	4.5
United Agri Products Canada Inc.	275,335	1.8	1.4	9.5
Nellson Nutraceutical	210,710	1.4	1.3	5.5
Array Canada Inc.	209,754	1.3	1.2	6.8
McKesson Canada Corporation	181,000	1.2	0.9	3.7
Total	3,039,979	19.5	20.8	8.0

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 8.0 years.

OUR RESOURCES AND FINANCIAL CONDITION

Investment properties

At March 31, 2014, 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 8.25%. 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	
	March 31, 2014	December 31, 2013
Western Canada	\$ 554,124	\$ 561,442
Ontario	425,647	425,930
Québec	280,807	280,968
Eastern Canada	270,465	271,429
Total	\$ 1,531,043	\$ 1,539,769

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

Capitalization rates – Total portfolio				
	March 31, 2014		December 31, 2013	
	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)
Western Canada	6.00–8.25	6.46	6.00–8.25	6.48
Ontario	6.00–7.75	6.59	6.00–7.75	6.59
Québec	6.50–8.00	7.16	6.50–8.75	7.15
Eastern Canada	6.50–7.75	7.01	6.50–7.75	7.01
Total	6.00–8.25	6.73	6.00–8.75	6.73

Building improvements and leasing costs

The table below represents costs incurred during the three months ended March 31:

	2014	2013
Building improvements		
Recoverable capital expenditures	\$ 180	\$ 43
Other capital expenditures	363	-
Initial leasing costs and lease incentives		
Leasing costs	439	419
Landlord's work	522	239
Tenant improvements	496	161
Total	\$ 2,000	\$ 862

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.

A summary of debt, capital and liquidity

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

	March 31, 2014	December 31, 2013
Financing and liquidity metrics		
Debt	\$ 836,061	\$ 840,382
Average effective interest rate ⁽¹⁾	3.86%	3.84%
Average face interest rate	4.17%	4.18%
Interest coverage ratio ⁽²⁾	2.9	2.9
Debt-to-EBITDA ⁽³⁾	8.5	8.6
Maximum proportion of debt maturities due in any one year	18.9% (2019)	17.1% (2015)
Level of debt (debt-to-total assets) ⁽⁴⁾	52.4%	52.6%
Debt – average term to maturity (years)	4.2	4.1
Variable rate debt as percentage of total debt	1.2%	1.4%
Encumbered assets	\$ 1,393,021	\$ 1,417,580
Unencumbered assets	138,022	122,190
Cash on hand	66	258
Undrawn lines of credit	49,292	37,464

(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) The interest coverage ratio (a non-GAAP measure) for the three months ended March 31, 2014 and for the year ended December 31, 2013 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. The detailed calculation of interest coverage ratio can be found under the heading "Non-GAAP measures and other disclosures".

(3) Debt-to-EBITDA (a non-GAAP measure) is determined as total debt before deferred financing costs and mark-to-market adjustments, divided by EBITDA. The calculation for debt-to-EBITDA can be found under the heading "Non-GAAP measures and other disclosures".

(4) Level of debt (a non-GAAP measure) is determined as total debt at principal amount outstanding divided by total assets. The calculation for level of debt can be found under the heading "Non-GAAP measures and other disclosures".

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 March 31, 2014, our weighted average face rate of interest was 4.17% and, after accounting for market adjustments and financing costs, the weighted average effective interest rate for outstanding debt was 3.86%.

During the quarter, we completed the refinancing of maturing mortgages on a portfolio of eight of our properties located in Halifax which generated approximately \$21 million in net proceeds. The proceeds were used to repay the amounts drawn on the revolving credit facility and five other mortgages maturing in 2014 totalling \$6.7 million. The assets that were not refinanced increased our unencumbered assets pool by \$15.8 million in the quarter to \$138.0 million at March 31, 2014. This unencumbered assets pool provides the Trust with additional financing flexibility and we intend to continue to grow this pool as we refinance maturing debt.

	March 31, 2014			December 31, 2013		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 700,686	\$ 10,227	\$ 710,913	\$ 703,502	\$ -	\$ 703,502
Promissory note payable	-	-	-	-	-	-
Demand revolving credit facility	-	208	208	-	12,114	12,114
Unsecured non-revolving bridge facility	-	-	-	-	-	-
Convertible debentures	124,940	-	124,940	124,766	-	124,766
Total	\$ 825,626	\$ 10,435	\$ 836,061	\$ 828,268	\$ 12,114	\$ 840,382
Percentage	98.8%	1.2%	100.0%	98.6%	1.4%	100.0%
Weighted average face rate at period-end	4.18%	2.99%	4.17%	4.18%	3.90%	4.18%
Average term to maturity (years)	4.2	0.8	4.2	4.2	0.8	4.1

Mortgages payable are recorded net of \$10.0 million of fair value adjustments upon initial recognition and \$1.8 million of financing costs. At March 31, 2014, amounts recorded for the convertible debentures are net of a \$2.5 million discount allocated to their conversion features on issuance and net of financing costs of \$3.2 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 mortgage is highlighted in the table below.

	Three months ended March 31, 2014			
	Amount	Average term to maturity (years)	Weighted average face interest rate (%)	Weighted average effective interest rate (%)
New mortgage	\$ 56,000	5.0	3.31	3.49

Demand revolving credit facility

The following table summarizes details of the Trust's demand revolving credit facility as at March 31, 2014:

	Borrowing capacity	Letter of credit issued	Outstanding balance	Available to be drawn	Interest rate ⁽³⁾	Maturity date
Demand revolving credit facility ⁽¹⁾⁽²⁾	\$ 50,000	\$ 500	\$ 208	\$ 49,292	3.90%	October 4, 2014

(1) Fifteen properties are secured as first-ranking mortgages on the facility.

(2) Formula-based amount available to be drawn as at March 31, 2014.

(3) Calculated using bankers' acceptances ("BA") rate plus 1.90% or the bank's prime rate plus 0.9%.

Subsequent to March 31, we obtained a commitment to extend the maturity date of the credit facility to June 2016 from October 2014, reducing the interest rate by 15 basis points and increasing the size from \$50 million to \$75 million. This provides the Trust with additional financial flexibility as it refinances debt and recycles capital.

Changes in debt levels are as follows:

Three months ended March 31, 2014					
	Face interest rate	Mortgages	Demand revolving credit facility	Convertible debentures	Total
Debt as at January 1, 2014	4.18%	\$ 703,502	\$ 12,114	\$ 124,766	\$ 840,382
New debt placed	3.31%	56,000	208	-	56,208
Scheduled repayments		(5,297)	-	-	(5,297)
Lump sum repayments	3.45%	(41,888)	(12,114)	-	(54,002)
Other adjustments ⁽¹⁾		(1,404)	-	174	(1,230)
Debt as at March 31, 2014	4.17%	\$ 710,913	\$ 208	\$ 124,940	\$ 836,061

(1) Other adjustments include financing costs on new debt placed 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 March 31, 2014:

	Debt maturities	Scheduled principal 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	\$ 36,334	\$ 16,138	\$ 52,472	6.30	3.07	4.67
2015	126,625	19,418	146,043	17.52	3.07	3.56
2016	93,278	15,866	109,144	13.09	3.19	4.26
2017	101,479	13,119	114,598	13.75	3.89	4.50
2018	80,709	8,871	89,580	10.75	3.62	3.36
2019 and thereafter	303,607	18,097	321,704	38.59	4.62	4.49
Total	\$ 742,032	\$ 91,509	\$ 833,541	100.00	3.89	4.19
Financing costs			(4,985)			
Fair value adjustments			7,505			
Total			\$ 836,061			

Convertible debentures

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

	Date issued	Maturity date	Conversion price	Outstanding principal March 31, 2014	Outstanding principal May 5, 2014	REIT Units if converted May 5, 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 ⁽¹⁾	November 30, 2017	12.37	19,420	19,420	1,569,927
Total				\$ 130,670	\$ 130,670	9,631,521

(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. At March 31, 2014, the conversion feature amounted to \$1.3 million (March 31, 2013 – \$1.0 million) and was included in non-current liabilities on the condensed 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 condensed consolidated financial statements.

Dundee Industrial did not enter into any operating or finance leases as the lessee during this reporting period. As at March 31, 2014, the Trust has entered into lease agreements with tenants that may require leasing and tenant improvement costs of approximately \$3.3 million (March 31, 2013 – \$0.6 million).

The Trust's future commitment for business transformation activities under the shared services and cost sharing agreement with DREAM Asset Management Corp ("DAM") over the next seven years is \$2.4 million. We are presently in the early stages of business transformation activities that will transform our operating platform to allow us to improve data integrity, realize operating efficiencies, establish business analytic tools and ultimately generate better business outcomes. This initiative will form the foundation of our continuous improvement culture.

Subsequent events

Subsequent to March 31, 2014, we have entered into an agreement and waived conditions on the agreement to acquire our partner's 50% interest in a 26,000 square foot property in Edmonton for \$2.3 million, the only property in which the Trust had a co-ownership interest. This transaction is expected to close in the second quarter.

OUR EQUITY

Our discussion of equity includes LP Class B Units ("LP 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 condensed consolidated financial statements as subsidiary redeemable units.

	March 31, 2014		Unitholders' equity	
	Number of Units	Amount	December 31, 2013	Amount
REIT Units	55,063,083	\$ 547,950	54,921,726	\$ 546,680
Retained earnings	-	18,588	-	24,136
Add: LP B Units	16,282,096	153,051	16,282,096	144,096
Accumulated other comprehensive income	-	163	-	-
Total	71,345,179	\$ 719,752	71,203,822	\$ 714,912

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 March 31, 2014, Dundee REIT, indirectly through its wholly owned subsidiaries, held 16,282,096 LP B Units representing a total ownership interest of approximately 22.8%.

The following table summarizes the changes in our outstanding equity.

	REIT Units	LP B Units	Total
Total Units outstanding on January 1, 2014	54,921,726	16,282,096	71,203,822
Units issued pursuant to Distribution Reinvestment and Unit Purchase Plan ("DRIP")	122,510	-	122,510
Units issued pursuant to Unit Purchase Plan	704	-	704
Units issued	18,143	-	18,143
Total Units outstanding on March 31, 2014	55,063,083	16,282,096	71,345,179
Percentage of all Units	77.2%	22.8%	100.0%
Units issued pursuant to Unit Purchase Plan on April 15, 2014	217	-	217
Units issued pursuant to DRIP on April 15, 2014	42,326	-	42,326
Total Units outstanding on May 5, 2014⁽¹⁾	55,105,626	16,282,096	71,387,722
Percentage of all Units	77.2%	22.8%	100.0%

(1) The date of this report.

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 March 31, 2014, \$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 March 31, 2014		
	Declared distributions	3% bonus distributions ⁽²⁾	Total
2014 distributions			
Paid in cash or reinvested in Units	\$ 8,325	\$ 21	\$ 8,346
Payable at March 31, 2014	4,162	-	4,162
Total distributions⁽¹⁾	\$ 12,487	\$ 21	\$ 12,508
2014 reinvestment			
Reinvested to March 31, 2014	\$ 685	\$ 21	\$ 706
Reinvested on April 15, 2014	379	11	390
Total distributions reinvested	\$ 1,064	\$ 32	\$ 1,096
Distributions paid in cash	\$ 11,423		
Reinvestment to distribution ratio	8.5%		
Percentage of total distributions paid in cash	91.5%		

(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 March 31, 2014 were \$12.5 million. Of the distributions declared for the three months ended March 31, 2014, \$1.1 million, or approximately 8.5%, was reinvested in additional Units resulting in percentage of total distributions paid in cash of 91.5%.

OUR RESULTS OF OPERATIONS

Three months ended	March 31, 2014	December 31, 2013	March 31, 2013
Investment properties revenue	\$ 40,914	\$ 41,149	\$ 29,250
Investment properties operating expenses	(13,699)	(14,089)	(9,358)
Net rental income	27,215	27,060	19,892
Other revenue			
Interest and fee income	8	5	36
	8	5	36
Other expenses			
General and administrative	(1,959)	(2,052)	(1,382)
Interest:			
Interest expense on debt	(8,119)	(8,100)	(6,551)
Subsidiary redeemable units	(2,849)	(2,848)	(2,748)
Depreciation and amortization	(5)	(1)	-
	(12,932)	(13,001)	(10,681)
Other items			
Fair value adjustments to investment properties	501	(182)	577
Fair value adjustments to financial instruments	(9,336)	(1,775)	8,100
Gains (costs) on transactions and other activities	(1,035)	(1,139)	-
	(9,870)	(3,096)	8,677
Income before income taxes	4,421	10,968	17,924
Deferred income taxes	(310)	464	-
Net income for the period	\$ 4,111	\$ 11,432	\$ 17,924

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 \$40.9 million for the quarter, an increase of \$11.7 million compared to the prior year comparative quarter, due to accretive acquisitions completed during 2013 and comparative properties NOI growth.

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 \$4.3 million compared to the prior year comparative quarter, due primarily to the increase in the size of the portfolio.

General and administrative

General and administrative expenses primarily comprise expenses related to corporate management, trustees' fees and expenses, investor relations and asset management fees. The following table summarizes our general and administrative expenses for the three months ended:

	March 31, 2014	December 31, 2013	March 31, 2013
Asset management fee	\$ 966	\$ 969	\$ 727
Deferred compensation expenses	291	290	206
Professional fees	248	349	240
General corporate expenses ⁽¹⁾	454	444	209
Total	\$ 1,959	\$ 2,052	\$ 1,382

(1) Includes corporate management and Board of Trustees' fees and expenses.

General and administrative expenses increased by \$0.6 million from the prior year comparative quarter due to higher fees resulting from the growth of the portfolio and higher general corporate expenses. General and administrative expenses decreased by \$0.1 million from Q4 2013 due to the timing of certain legal expenses and certain other professional expenses.

Fair value adjustments to investment properties

For the three months ended March 31, 2014, a fair value gain of \$0.5 million was recorded, primarily reflecting modest cap rate compression.

Interest expense – Debt

Interest expense on debt for the period increased by \$1.6 million compared to the prior year comparative period. The increase in interest expense resulted from new debt assumed on investment properties acquired in 2013.

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 quarter ended March 31, 2014, we recognized losses of \$9.0 million and \$0.3 million on the remeasurement of the subsidiary redeemable units and the remeasurement of the conversion feature on the convertible debentures, respectively, primarily due to the increase in the trading value of REIT Units at the end of Q1 2014 compared to the end of Q4 2013.

Gains (costs) on transactions and other activities

The following table summarizes the nature of expenses included:

Three months ended	March 31, 2014	December 31, 2013	March 31, 2013
Debt settlement costs	\$ (59)	\$ (13)	\$ -
Investment in business transformation activities	(100)	-	-
Internal leasing costs	(841)	(1,126)	-
Acquisition costs	(35)	-	-
Total	\$ (1,035)	\$ (1,139)	\$ -

Debt settlement costs relates to the costs incurred in relation to the early repayment of mortgages during the quarter.

Since January 1, 2014, the Trust retroactively adopted an accounting standards change to expense certain of its internal leasing costs in negotiating and arranging new leases. The Trust internalized its leasing activities in the second quarter of 2013.

Acquisition related costs relates to the costs expensed in the current quarter in relation to the acquisition of C2C in Q2 of 2013. No acquisitions or related costs were incurred in Q4 2013 and Q1 2013.

Included in gains (costs) on transactions and other activities is \$0.1 million of business transformation investments related to process and technology improvement costs. We are presently in the early stages of a new initiative that will transform our operating platform to allow us to improve data integrity, realize operating efficiencies, establish business analytic tools and ultimately generate better business outcomes. The investment in this initiative will form the foundation of our continuous improvement culture. This initial project will take place over a seven-year period with an estimated annual cost of approximately \$0.4 million per year.

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 20 to the condensed consolidated financial statements. Pursuant to the Asset Management Agreement, during Q1 2014, we incurred \$1.0 million of asset management fees included in general and administrative costs.

Net operating income

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

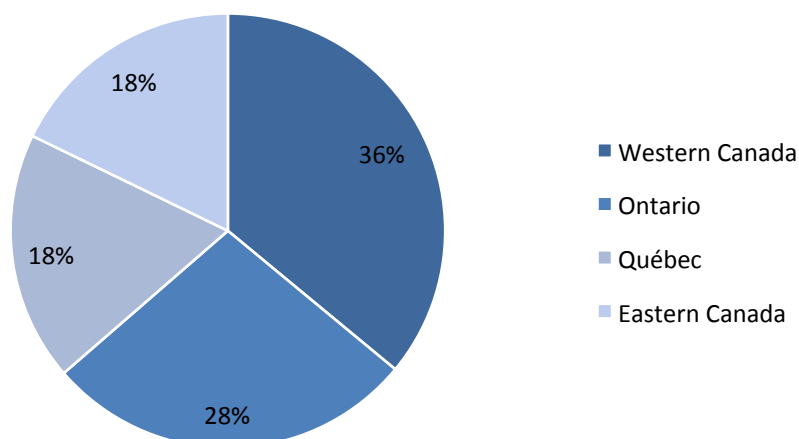
NOI is an important measure used by management in evaluating property operating performance; however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other income trusts.

Three months ended March 31,	2014	2013
Total portfolio		
Western Canada	\$ 9,798	\$ 8,614
Ontario	7,518	2,980
Québec	5,053	4,742
Eastern Canada	4,846	3,556
Net operating income	\$ 27,215	\$ 19,892

For the three months ended March 31, 2014, net operating income was \$27.2 million, an increase of \$7.3 million compared to the prior year comparative period. The increase is attributable to income generated by investment properties acquired in 2013.

NOI BY REGION

(Three months ended March 31, 2014)



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 January 1, 2013. Income from property held for sale contributing to NOI in comparative periods is shown separately. Comparative properties NOI excludes lease termination fees and other one-time items, straight-line rents, bad debt expenses and amortization of tenant inducements.

Three months ended March 31,	2014	2013	Growth	
			Amount	%
Western Canada	\$ 9,125	\$ 8,255	\$ 870	11
Ontario	2,904	2,842	62	2
Québec	4,388	4,632	(244)	(5)
Eastern Canada	3,712	3,418	294	9
Comparative properties	20,129	19,147	982	5
Lease termination fees (expenses) and other items	97	(65)	162	
Acquisitions completed during Q2 2013	6,403	-	6,403	
Straight-line rent	665	727	(62)	
Bad debt expenses	(129)	(97)	(32)	
Amortization of tenant inducements	(40)	(4)	(36)	
NOI	27,125	19,708	7,417	38
NOI from property held for sale	90	184	(94)	
NOI including income from property held for sale	\$ 27,215	\$ 19,892	\$ 7,323	37
In-place occupancy at quarter-end	95.2%	95.7%		
In-place rental rates (per sq. ft.) at quarter-end	\$ 7.25	\$ 7.15		

Comparative properties NOI included the effects of the internalization of the property management function of the KingSett Portfolio in the second quarter of 2013. Excluding this effect, comparative property growth was 2.8%, and reflects the combined effects of increasing rates per square foot and increased operating cost recoveries partially offset by a decrease in occupancy of the portfolio since the first quarter of the prior year.

NOI prior quarter comparison

The comparative properties discussed in the following table include properties acquired prior to October 1, 2013.

Comparative properties NOI increased from the prior quarter due to the combined effects of an increase in occupancy and an increase in rates per square foot. Lease termination fees and other items in this quarter consist of rent credit adjustments related to acquisitions completed in prior years.

Three months ended	March 31, 2014	December 31, 2013	Growth	
			Amount	%
Western Canada	\$ 9,442	\$ 9,061	\$ 381	4
Ontario	7,372	7,121	251	4
Québec	4,877	5,027	(150)	(3)
Eastern Canada	4,841	5,041	(200)	(4)
Comparative properties	26,532	26,250	282	1
Lease termination fees and other items	97	36	61	
Straight-line rent	665	784	(119)	
Bad debt expenses	(129)	(83)	(46)	
Amortization of tenant inducements	(40)	(20)	(20)	
NOI	27,125	26,967	158	1
NOI from property held for sale	90	93	(3)	
NOI including income from property held for sale	\$ 27,215	\$ 27,060	\$ 155	1
In-place occupancy at quarter-end	95.3%	94.5%		
In-place rental rates (per sq. ft.) at quarter-end	\$ 6.96	\$ 6.91		

Funds from operations and adjusted funds from operations

Three months ended March 31,	2014	2013
Net income	\$ 4,111	\$ 17,924
Add (deduct):		
Amortization of tenant inducements	40	4
Interest expense on subsidiary redeemable units	2,849	2,748
Fair value adjustments to investment properties	(501)	(577)
Fair value adjustments to financial instruments	9,336	(8,100)
Fair value adjustments of DUIP included in general and administrative expenses	(36)	(6)
Gains (costs) on transactions and other activities	935	-
Deferred income taxes	310	-
FFO	\$ 17,044	\$ 11,993
Funds from operations	\$ 17,044	\$ 11,993
Add (deduct):		
Amortization of fair value adjustments on assumed debt	(792)	(685)
Deferred unit compensation expense excluding fair value adjustments	327	212
Straight-line rent	(665)	(727)
Investment in business transformation activities	100	-
	16,014	10,793
Deduct:		
Normalized initial direct leasing costs and lease incentives	1,255	949
Normalized recurring capital expenditures	753	569
AFFO	\$ 14,006	\$ 9,275

Funds from operations

Three months ended March 31,	2014	2013
FFO	\$ 17,044	\$ 11,993
FFO per unit – basic	\$ 0.24	\$ 0.22
FFO per unit – diluted	\$ 0.23	\$ 0.22

For the three months ended March 31, 2014, FFO per diluted unit was \$0.23, an increase of \$0.01 over the prior year comparative period, primarily reflecting accretive investment properties acquired during 2013.

Adjusted funds from operations

Three months ended March 31,	2014	2013
AFFO	\$ 14,006	\$ 9,275
AFFO per unit – basic	\$ 0.20	\$ 0.17

AFFO was \$14.0 million, or \$0.20 per unit. The increase over the prior year comparative quarter is due to the effects of acquisitions completed in 2013, including the deployment of excess cash from the March 2013 equity offering as well as comparative property NOI growth.

QUARTERLY INFORMATION

The following tables show quarterly information since the commencement of operations on October 4, 2012.

The following table summarizes key leasing information:

	2014				2013		2012
	Q1	Q4	Q3	Q2	Q1	Q4	
Leasing							
Occupancy rate – including committed	96.3%	95.7%	95.1%	95.8%	96.5%	96.3%	
Occupancy rate – in-place	95.3%	94.4%	94.1%	95.2%	95.7%	95.5%	
Tenant retention rate	80.3%	69.6%	71.1%	66.2%	76.2%	73.0%	
Average in-place base rent per sq. ft. (period-end)	\$ 6.96	\$ 6.92	\$ 6.89	\$ 6.90	\$ 7.18	\$ 7.12	
Market rent in excess of in-place rent (%)	6.0%	6.4%	6.8%	4.8%	5.6%	6.3%	
Financing							
Weighted average effective interest rate on debt	3.86%	3.84%	3.83%	3.81%	3.86%	3.72%	
Weighted average face rate of interest on debt	4.17%	4.18%	4.18%	4.19%	4.25%	4.19%	
Debt – average term to maturity (years)	4.2	4.1	4.4	4.5	5.0	4.1	
Interest coverage ratio (times)	2.9	2.9	2.9	2.9	2.7	3.0	
Unencumbered assets (in millions)	\$ 138.0	\$ 122.2	\$ 112.0	\$ 83.6	\$ 23.9	\$ 189.6	
Debt-to-total assets	52.4%	52.6%	52.5%	53.0%	50.1%	54.3%	
Portfolio							
Number of properties	205	206	206	206	158	158	
Gross leasable area (in millions of sq. ft.)	15.6	15.7	15.7	15.7	11.4	11.4	

	2014				2013		2012
	Q1	Q4	Q3	Q2	Q1	Q4	
Investment properties revenue	\$ 40,914	\$ 41,149	\$ 37,842	\$ 34,703	\$ 29,250	\$ 17,202	
Investment properties operating expenses	(13,699)	(14,089)	(10,621)	(9,949)	(9,358)	(4,667)	
Net rental income	27,215	27,060	27,221	24,754	19,892	12,535	
Other revenue	8	5	17	186	36	16	
Other expenses	(12,932)	(13,001)	(12,988)	(12,117)	(10,681)	(6,810)	
Other items	(9,870)	(3,096)	7,762	21,414	8,677	(26,614)	
Income (loss) before income taxes	4,421	10,968	22,012	34,237	17,924	(20,873)	
Deferred income taxes	(310)	464	(1,352)	(272)	-	-	
Net income (loss)	4,111	11,432	20,660	33,965	17,924	(20,873)	
Other comprehensive income							
Unrealized gain on interest rate swap	163	-	-	-	-	-	
	163	-	-	-	-	-	
Comprehensive income (loss)	\$ 4,274	\$ 11,432	\$ 20,660	\$ 33,965	\$ 17,924	\$ (20,873)	

Calculation of funds from operations

	2014				2013		2012
	Q1	Q4	Q3	Q2	Q1	Q4	
NET INCOME (LOSS)	\$ 4,111	\$ 11,432	\$ 20,660	\$ 33,965	\$ 17,924	\$ (20,873)	
Add (deduct):							
Amortization	40	21	71	20	4	-	
Interest expense on subsidiary redeemable units	2,849	2,848	2,850	2,849	2,748	2,711	
Fair value adjustments to investment properties	(501)	182	(2,263)	(846)	(577)	(6,048)	
Fair value adjustments to financial instruments	9,336	1,775	(6,114)	(32,149)	(8,100)	21,134	
Fair value adjustments of DUIP included in general and administrative expenses	(36)	(61)	(71)	(53)	(6)	-	
FFO share related to non-controlling interest of C2C	-	-	(23)	(67)	-	-	
Deferred income taxes	310	(464)	1,352	272	-	-	
Gains (costs) on transactions and other activities	935	1,139	615	11,581	-	11,528	
FFO	\$ 17,044	\$ 16,872	\$ 17,077	\$ 15,572	\$ 11,993	\$ 8,452	
FFO per unit – basic ⁽¹⁾	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.22	\$ 0.22	
FFO per unit – diluted ⁽¹⁾⁽²⁾	\$ 0.23	\$ 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 Q1 2014, Q4 2013, Q3 2013, Q2 2013, Q1 2013 and Q4 2012 excludes \$2.0 million, \$2.0 million, \$2.0 million, \$1.8 million, \$1.7 million and \$0.3 million in interest on convertible debentures, respectively.

	2014				2013		2012
	Q1	Q4	Q3	Q2	Q1	Q4	
FUNDS FROM OPERATIONS	\$ 17,044	\$ 16,872	\$ 17,077	\$ 15,572	\$ 11,993	\$ 8,452	
Add (deduct):							
Amortization of fair value adjustments on assumed debt	(792)	(812)	(877)	(924)	(685)	(819)	
Deferred unit compensation expense excluding fair value adjustments	327	351	378	493	212	46	
Straight-line rent	(665)	(784)	(823)	(801)	(727)	(400)	
Investment in business transformation activities	100	-	-	-	-	-	
FFO share related to non-controlling interest of C2C	-	-	23	67	-	-	
AFFO share related to non-controlling interest of C2C	-	-	(20)	(56)	-	-	
	16,014	15,627	15,758	14,351	10,793	7,279	
Adjusted for:							
Normalized initial direct leasing costs and lease incentives	1,255	1,248	1,267	1,138	949	562	
Normalized recurring capital expenditures	753	749	762	683	569	225	
Adjusted funds from operations	\$ 14,006	\$ 13,630	\$ 13,729	\$ 12,530	\$ 9,275	\$ 6,492	
AFFO per unit – basic ⁽¹⁾	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.17	\$ 0.17	
Weighted average Units outstanding for FFO and AFFO							
Basic (in thousands)	71,289	71,133	70,931	66,930	55,561	39,320	
Diluted (in thousands)	81,196	80,955	80,761	75,830	63,622	40,828	

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

NON-GAAP MEASURES AND OTHER DISCLOSURES

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 March 31,	2014	2013
Weighted average Units outstanding for basic per unit amounts (in thousands)	71,289	55,561
Weighted average Units outstanding for diluted per unit amounts (in thousands)	81,196	63,622

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 at principal amount outstanding 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).

	March 31, 2014	December 31, 2013
Amounts per condensed consolidated financial statements		
Non-current debt	\$ 751,387	\$ 728,341
Current debt	84,674	112,041
Total debt	836,061	840,382
Add (deduct):		
Deferred financing costs	4,985	4,547
Mark-to-market adjustments	(7,505)	(8,297)
Total debt at principal amount outstanding	833,541	836,632
Total assets	\$ 1,592,180	\$ 1,589,805
Debt-to-total assets	52.4%	52.6%

Debt-to-EBITDA

Management believes this non-GAAP measurement is an important measure in determining the time it takes the Trust, based on its operating performance, to repay its debt.

Debt-to-EBITDA as shown below is determined as total debt at principal amount outstanding divided by annualized EBITDA for the quarter. EBITDA is calculated as net income before taxes adjusted for: fair value adjustments to investment properties and financial instruments, interest expense, depreciation and amortization, and non-cash items included in investment properties revenue.

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

	March 31, 2014	December 31, 2013
Amounts per condensed consolidated financial statements		
Non-current debt	\$ 751,387	\$ 728,341
Current debt	84,674	112,041
Total debt	836,061	840,382
Add (deduct):		
Deferred financing costs	4,985	4,547
Mark-to-market adjustments	(7,505)	(8,297)
Total debt at principal amount outstanding	833,541	836,632
Net income before taxes	4,421	10,968
Add (deduct):		
Fair value adjustments to investment properties	(501)	182
Fair value adjustments to financial instruments	9,336	1,775
Gains (costs) on transactions and other activities	1,035	1,139
Interest – debt	8,119	8,100
Interest – subsidiary redeemable units	2,849	2,848
Depreciation and amortization	5	1
Non-cash items included in investment properties revenues	(722)	(800)
EBITDA – quarterly	24,542	24,213
EBITDA – annualized	\$ 98,168	\$ 96,852
Debt-to-EBITDA (years)	8.5	8.6

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. The 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 for the three months ended:

Amounts per condensed consolidated financial statements	March 31, 2014	March 31, 2013
Net rental income	\$ 27,215	\$ 19,892
Add (deduct):		
Interest and fee income	8	36
General and administrative expenses	(1,959)	(1,382)
Deferred unit compensation expense	291	206
	25,555	18,752
Interest expense incurred, at contractual rate	\$ 8,672	\$ 7,030
Interest coverage ratio (times)	2.9	2.7

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 March 31,	2014	2013
Net income	\$ 4,111	\$ 17,924
Cash flows from operating activities	15,631	12,056
Add (deduct):		
Investment in lease incentives and initial direct leasing costs	1,457	819
Change in non-cash working capital	(1,865)	(1,854)
Adjusted cash flows from operating activities	15,223	11,021
Distributions paid and payable ⁽¹⁾	12,508	9,467
Add (deduct):		
Distributions on Units issued on March 6, 2013	-	(589)
Adjusted distributions paid and payable	12,508	8,878
Adjusted cash flows from operating activities over adjusted distributions paid and payable	2,715	2,143
Excess (shortfall) of net income (loss) over distributions paid and payable	(8,397)	8,457
Excess (shortfall) of cash flows from operating activities over distributions paid and payable	\$ 3,123	\$ 2,589

(1) Includes distributions on LP B Units.

For the three months ended March 31, 2014, adjusted cash flows from operating activities exceeded adjusted distributions paid and payable by \$2.7 million. The net income is net of distributions paid and payable on subsidiary redeemable units of \$2.8 million for the three months ended March 31, 2014. 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.

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 March 31,	2014	2013
Cash generated from operating activities	\$ 15,631	\$ 12,056
Add (deduct):		
Initial direct leasing costs and lease incentives incurred	1,457	819
Change in non-cash working capital	(1,865)	(1,854)
Amortization of financing costs on debt	(239)	(206)
Depreciation of property and equipment	(5)	-
Gains (loss) on transactions and other activities	1,035	-
Normalized initial direct leasing costs and lease incentives	(1,255)	(949)
Normalized recurring capital expenditures	(753)	(569)
Other	-	(22)
AFFO	\$ 14,006	\$ 9,275

SECTION III — DISCLOSURE CONTROLS AND PROCEDURES

At March 31, 2014, the Chief Executive Officer and the Chief Financial Officer (the “Certifying Officers”), together with other members of management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to Dundee Industrial is made known to the Certifying Officers, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the condensed consolidated financial statements in accordance with IFRS.

During the three months ended March 31, 2014, there have not been any changes that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

For an explanation of our disclosure controls and procedures, please refer to our 2013 Annual Report or our Annual Information Form for the year ended December 31, 2013, filed on SEDAR (www.sedar.com).

SECTION IV — RISKS AND OUR STRATEGY TO MANAGE

For a full list and explanations of our risks and uncertainties, please refer to our 2013 Annual Report or our Annual Information Form for the year ended December 31, 2013, filed on SEDAR (www.sedar.com).

SECTION V — CRITICAL ACCOUNTING POLICIES

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

Preparing the condensed 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 to the condensed consolidated financial statements and also in our annual consolidated statements for the year ended December 31, 2013.

CHANGES IN ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

Future accounting policy changes

Dundee Industrial's changes in accounting policies are described in Note 3 to the condensed 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.

Condensed consolidated balance sheets

(unaudited)

(in thousands of Canadian dollars)	Note	March 31, 2014	December 31, 2013
Assets			
NON-CURRENT ASSETS			
Investment properties	5	\$ 1,532,065	\$ 1,540,791
Other non-current assets	6	39,946	39,416
Deferred income tax assets		765	1,075
		1,572,776	1,581,282
CURRENT ASSETS			
Amounts receivable	8	3,922	4,051
Prepaid expenses and other assets		4,229	4,214
Cash and cash equivalents		66	258
		8,217	8,523
Asset held for sale	15	11,187	-
Total assets		\$ 1,592,180	\$ 1,589,805
Liabilities			
NON-CURRENT LIABILITIES			
Debt	9	\$ 751,387	\$ 728,341
Subsidiary redeemable units	10	153,051	144,096
Deferred Unit Incentive Plan	11	1,215	1,028
Other non-current liabilities	12	10,893	10,330
		916,546	883,795
CURRENT LIABILITIES			
Debt	9	84,674	112,041
Amounts payable and accrued liabilities	13	24,259	23,153
		108,933	135,194
Total liabilities		1,025,479	1,018,989
Equity			
Unitholders' equity	14	547,950	546,680
Retained earnings		18,588	24,136
Accumulated other comprehensive income		163	-
Total equity		566,701	570,816
Total liabilities and equity		\$ 1,592,180	\$ 1,589,805

See accompanying notes to the condensed consolidated financial statements.

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



Joanne Ferstman
Trustee



Vincenza Sera
Trustee

Condensed consolidated statements of net income and comprehensive income

(unaudited)

(in thousands of Canadian dollars)	Note	Three months ended March 31,	
		2014	2013
Investment properties revenue		\$ 40,914	\$ 29,250
Investment properties operating expenses		(13,699)	(9,358)
Net rental income		27,215	19,892
Other revenue			
Interest and fee income		8	36
		8	36
Other expenses			
General and administrative		(1,959)	(1,382)
Interest:			
Interest expense on debt	16	(8,119)	(6,551)
Subsidiary redeemable units	16	(2,849)	(2,748)
Depreciation and amortization		(5)	-
		(12,932)	(10,681)
Income before fair value adjustments, income taxes and other items		14,291	9,247
Other items			
Fair value adjustments to investment properties	5	501	577
Fair value adjustments to financial instruments	17	(9,336)	8,100
Gains (costs) on transactions and other activities	18	(1,035)	-
		(9,870)	8,677
Income before income taxes		4,421	17,924
Deferred income taxes	7	(310)	-
Net income for the period		\$ 4,111	\$ 17,924
Other comprehensive income			
Unrealized gain on effective interest rate hedge	9	\$ 163	\$ -
		163	-
Comprehensive income for the period		\$ 4,274	\$ 17,924

See accompanying notes to the condensed consolidated financial statements.

Condensed consolidated statements of changes in equity

(unaudited)

		Attributable to unitholders of the Trust				
					Accumulated other comprehensive income	
(in thousands of Canadian dollars, except number of units)	Note	Number of Units	Unitholders' equity	Retained earnings		Total
Balance at January 1, 2014		54,921,726	\$ 546,680	\$ 24,136	\$ -	\$ 570,816
Net income for the period		-	-	4,111	-	4,111
Distributions paid and payable		-	-	(9,659)	-	(9,659)
Distribution Reinvestment Plan		122,510	1,109	-	-	1,109
REIT Units issued for vested deferred trust units	11	18,143	161	-	-	161
Unit Purchase Plan		704	6	-	-	6
Issue costs		-	(6)	-	-	(6)
Other comprehensive income		-	-		163	163
Balance at March 31, 2014		55,063,083	\$ 547,950	\$ 18,588	\$ 163	\$ 566,701

		Attributable to unitholders of the Trust			
		Number of Units	Unitholders' equity	Deficit	Total
(in thousands of Canadian dollars, except number of units)					
Balance at January 1, 2013		36,257,538	\$ 351,299	\$ (25,088)	\$ 326,211
Net income for the period		-	-	17,924	17,924
Distributions paid and payable		-	-	(6,719)	(6,719)
Public offering of REIT Units		10,465,000	115,115	-	115,115
Distribution Reinvestment Plan		26,476	291	-	291
Unit Purchase Plan		529	6	-	6
Issue costs		-	(5,116)	-	(5,116)
Balance at March 31, 2013		46,749,543	\$ 461,595	\$ (13,883)	\$ 447,712

See accompanying notes to the condensed consolidated financial statements.

Condensed consolidated statements of cash flows

(unaudited)

(in thousands of Canadian dollars)	Note	Three months ended March 31,	
		2014	2013
Generated from (utilized in) operating activities			
Net income		\$ 4,111	\$ 17,924
Non-cash items:			
Depreciation and amortization, net	21	(508)	(475)
Other adjustments	21	8,771	(8,260)
Investment in lease incentives and initial direct leasing costs	5	(1,457)	(819)
Interest paid on subsidiary redeemable units	16	2,849	1,832
Change in non-cash working capital	21	1,865	1,854
		15,631	12,056
Generated from (utilized in) investing activities			
Additions to property and equipment	6	(4)	(1)
Investment in investment properties	5	(543)	(43)
Transaction costs paid		(169)	(4,305)
Deposits on acquisition of investment properties		-	(1,000)
		(716)	(5,349)
Generated from (utilized in) financing activities			
Mortgage financings, net of financing costs	9	55,375	97,982
Mortgage principal repayments		(5,297)	(3,344)
Mortgage lump sum repayments		(41,888)	-
Repayment of debt and other facilities	9	(12,114)	(84,500)
Draw on demand revolving credit facility	9	208	-
Distributions paid on Units		(8,542)	(5,837)
Interest paid on subsidiary redeemable units	16	(2,849)	(1,832)
Cash proceeds on issue of Units		6	115,121
Financing and unit issue costs paid		(6)	(7,173)
		(15,107)	110,417
Change in cash and cash equivalents		(192)	117,124
Cash and cash equivalents, beginning of period		258	2,306
Cash and cash equivalents, end of period		\$ 66	\$ 119,430

See accompanying notes to the condensed consolidated financial statements.

Notes to the condensed 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 REIT”, “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 condensed 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 condensed consolidated financial statements for the year ended March 31, 2014 were authorized for issuance by the Board of Trustees on May 5, 2014, after which date they may only be amended with the Board of Trustees’ approval.

Equity is described in Note 14; 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 10; however, for simplicity, throughout the Notes reference is made to “subsidiary redeemable units”, meaning the LP Class B Units of Dundee Industrial Limited Partnership (“DILP”).

At March 31, 2014, Dundee REIT, directly and indirectly through its subsidiaries, held all 16,282,096 (December 31, 2013 – 16,282,096) subsidiary redeemable units.

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed.

The condensed consolidated financial statements have been prepared using the same significant accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2013, except as disclosed in Note 3 of the condensed consolidated financial statements.

These condensed consolidated financial statements should be read in conjunction with the Trust’s consolidated financial statements for the year ended December 31, 2013.

Note 3

ACCOUNTING POLICIES SELECTED AND APPLIED FOR SIGNIFICANT TRANSACTIONS AND EVENTS

The accounting policies selected and applied for significant transactions and events are consistent with those for the year ended December 31, 2013. In addition, the Trust has adopted the following significant accounting policies in the three months ended March 31, 2014.

Changes in accounting policies

The Trust has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Consolidated financial statements

Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27): The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These investments require an investment entity to measure those subsidiaries at fair value through profit or loss, in accordance with IFRS 9, "Financial Instruments", in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27. The Trust is not considered to be an investment entity and, thus, the Trust adopted these amendments effective January 1, 2014 and they had no impact on the amounts recognized in the Trust's condensed consolidated financial statements or note disclosures for the three months ended March 31, 2014.

Accounting for levies imposed by governments

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. This new interpretation had no impact on the amounts recognized in the Trust's interim condensed consolidated financial statements.

Accounting for internal leasing costs

Prior to January 1, 2014, the Trust capitalized certain internal leasing costs within initial direct leasing costs to investment properties, where these costs would not be incurred had no leasing activity taken place and are reasonably and directly attributable to the leasing activity. On April 2, 2014, the International Financial Reporting Interpretations Committee ("IFRIC") issued an agenda decision indicating that certain internal leasing costs such as salary costs of permanent staff involved in negotiating and arranging new leases do not qualify as incremental costs. As a result, the Trust has adopted an accounting policy of recognizing certain internal leasing costs involved in negotiating and arranging new leases in the condensed consolidated statements of comprehensive income as incurred. This accounting policy has been applied retrospectively. The impact to the three months ended March 31, 2014 and March 31, 2013 is an increase to internal leasing costs expense of \$841 and \$nil, respectively, and a corresponding decrease in fair value adjustments to investment properties of \$841 and \$nil, respectively. This change did not result in an impact to the condensed consolidated balance sheets. External direct leasing costs continue to be capitalized to investment properties.

Segment reporting

A reportable operating segment is a distinguishable component of the Trust that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other reportable segments. The Trust's primary format for segment reporting is based on geographical segments. The geographical segments, Western Canada, Ontario, Québec and Eastern Canada, are based on the Trust's management and internal reporting structure. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, determined to be the Chief Executive Officer of the Trust. The operating segments derive their revenue primarily from rental income from lessees. All of the Trust's business activities and operating segments are reported within the reported segments.

Derivative financial instruments and hedging activity

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. The Trust has designated its interest rate swap as a hedge of the interest on the mortgage.

At the inception of the transaction, the Trust documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Trust also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of comprehensive income.

Amounts accumulated in equity are reclassified to other comprehensive income in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in equity at that time are recognized immediately in the consolidated statements of comprehensive income.

Note 4

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

Preparing the condensed 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 values of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the affected asset or liability in the future. Management has applied the same methodologies in making critical accounting judgments, estimates and assumptions as disclosed in the Trust's consolidated financial statements for the year ended December 31, 2013.

Note 5

INVESTMENT PROPERTIES

	Note	Three months ended March 31, 2014	Year ended December 31, 2013
Balance at beginning of year		\$ 1,540,791	\$ 1,147,410
Additions:			
Acquisitions from business combination		-	220,239
Investment property acquisitions		-	161,000
Building improvements		543	2,215
Lease incentives and initial direct leasing costs		1,457	6,497
Total additions to investment properties		2,000	389,951
Classified as asset held for sale	15	(11,187)	-
Gains and losses included in net income:			
Fair value adjustments to investment properties ⁽¹⁾		501	3,504
Amortization of lease incentives		(40)	(74)
Total gains included in net income		461	3,430
Balance at end of period		\$ 1,532,065	\$ 1,540,791

(1) Equal to change in unrealized gain (loss) included in net income for the periods ended March 31, 2014 and March 31, 2013.

The Trust's investment properties have been reduced by \$4,200 (December 31, 2013 – \$3,535) related to straight-line rent receivable, which has been reclassified to other non-current assets.

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

	March 31, 2014		December 31, 2013	
	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)
Cap rate	6.00–8.25	6.73	6.00–8.75	6.73
Discount rate	7.00–9.00	7.68	6.75–9.50	7.68
Terminal rate	6.25–8.50	6.98	6.25–9.00	6.97

Investment properties with an aggregate fair value of \$29.5 million as at March 31, 2014 (December 31, 2013 – \$87.3 million) were valued by qualified external valuation professionals. Investment properties with an aggregate March 31, 2014 fair value of \$1,525.3 million were valued by external valuation professionals for the period between October 4, 2012 and March 31, 2014.

If the cap rate were to increase by 25 basis points (“bps”), the value of investment properties would decrease by \$40.4 million. If the cap rate were to decrease by 25 bps, the value of investment properties would increase by \$75.9 million.

As at March 31, 2014, investment properties with a fair value of \$1,311,964 (December 31, 2013 – \$1,336,887) are pledged as first-ranking and/or second-ranking collateral for mortgages. As at March 31, 2014, investment properties with a fair value of \$81,057 (December 31, 2013 – \$80,692) are pledged as security for the Trust’s demand revolving credit facility.

Note 6

OTHER NON-CURRENT ASSETS

	Note	March 31, 2014	December 31, 2013
Deposits		\$ 182	\$ 479
Property and equipment		68	69
Straight-line rent receivable		4,200	3,535
Goodwill		35,333	35,333
Interest rate swap	9	163	-
Total		\$ 39,946	\$ 39,416

Note 7

INCOME TAXES

DIR Industrial Properties Inc., one of the Trust’s subsidiaries, is subject to corporate income taxes. The following table reconciles the Trust’s tax rate to its effective tax rate for the three months ended March 31, 2014 and March 31, 2013:

	Three months ended March 31,	
	2014	2013
Income before income taxes	\$ 4,421	\$ 17,924
Income not subject to taxation	(3,071)	(17,924)
Income in subsidiary corporation	1,350	-
Tax calculated at the Canadian statutory tax rate of 27.6%	373	-
Increase (decrease) resulting from:		
Expenses not deductible for tax	-	-
Adjustment in expected future tax rates	-	-
Other items	(63)	-
Deferred income taxes	\$ 310	\$ -

Note 8

AMOUNTS RECEIVABLE

	March 31, 2014	December 31, 2013
Trade receivables	\$ 1,853	\$ 2,282
Less: Provision for impairment of trade receivables	(392)	(284)
Trade receivables, net	1,461	1,998
Other amounts receivable	2,461	2,053
Amounts receivable	\$ 3,922	\$ 4,051

The movement in the provision for impairment of trade receivables during the three months ended March 31, 2014 is as follows:

	Three months ended March 31, 2014	2013
As at January 1	\$ 284	\$ 275
Provision for impairment of trade receivables	108	171
Receivables written off during the period as uncollectible	-	(27)
As at March 31	\$ 392	\$ 419

The carrying value of amounts receivable approximates fair value due to their current nature. As at March 31, 2014, trade receivables of approximately \$584 (December 31, 2013 – \$182) 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:

	March 31, 2014
2014 (remainder of year)	\$ 75,863
2015 to 2018	282,972
2019 to 2027	143,919
	\$ 502,754

Note 9

DEBT

	March 31, 2014	December 31, 2013
Mortgages ⁽¹⁾	\$ 710,913	\$ 703,502
Demand revolving credit facility ⁽¹⁾	208	12,114
Convertible debentures	124,940	124,766
Total	836,061	840,382
Less: Current portion	(84,674)	(112,041)
Non-current debt	\$ 751,387	\$ 728,341

(1) Secured by charges on specific investment properties (refer to Note 5).

Convertible debentures

	Carrying value	
	March 31, 2014	December 31, 2013
5.25% Debentures	\$ 104,313	\$ 104,065
6.75% Debentures	20,627	20,701
Total	\$ 124,940	\$ 124,766

	Date issued	Maturity date	Original principal issued	Interest rate	Outstanding principal amount	
					March 31, 2014	December 31, 2013
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	November 30, 2017	20,125	6.75%	19,420	19,420
			\$ 131,375		\$ 130,670	\$ 130,670

Demand revolving credit facility

The following table summarizes details of the Trust's demand revolving credit facility as at March 31, 2014:

	Borrowing capacity ⁽²⁾	Letter of credit issued	Outstanding balance	Available to be drawn	Interest rate ⁽³⁾	Maturity date
Demand revolving credit facility⁽¹⁾	\$ 50,000	\$ 500	\$ 208	\$ 49,292	3.90%	October 4, 2014

(1) Fifteen properties are secured as first-ranking mortgages on the facility.

(2) Formula-based amount available to be drawn as at March 31, 2014.

(3) Calculated using bankers' acceptances ("BA") rate plus 1.90% or the bank's prime rate plus 0.9%.

The following table summarizes the weighted average effective interest rates and maturity for the debts as at March 31, 2014:

	Weighted average effective interest rates ⁽¹⁾		Maturity dates	Debt amount	
	March 31, 2014	December 31, 2013		March 31, 2014	December 31, 2013
Fixed rate					
Mortgages ⁽²⁾	3.45%	3.40%	2014–2023	\$ 700,686	\$ 703,502
Convertible debentures	6.12%	6.12%	2017–2019	124,940	124,766
Total fixed rate debt	3.87%	3.84%		825,626	828,268
Variable rate					
Mortgage	3.06%	-	2015	10,227	-
Demand revolving credit facility	3.90%	3.90%	2014	208	12,114
Total variable rate debt	3.08%	3.90%		10,435	12,114
Total debt	3.86%	3.84%		\$ 836,061	\$ 840,382

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

(2) On February 24, 2014, the Trust entered into a five-year interest rate swap agreement to fix the interest rate of a mortgage on a portfolio of eight of its properties located in Halifax. The swap agreement fixed the interest rate on this mortgage at 3.31% for the five-year term.

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Demand revolving credit facility	Convertible debentures	Total
2014	\$ 52,264	\$ 208	\$ -	\$ 52,472
2015	146,043	-	-	146,043
2016	109,144	-	-	109,144
2017	95,178	-	19,420	114,598
2018	89,580	-	-	89,580
2019 and thereafter	210,454	-	111,250	321,704
	702,663	208	130,670	833,541
Financing costs	(1,774)	-	(3,211)	(4,985)
Fair value adjustments on initial recognition of assumed debt	10,024	-	(2,519)	7,505
	8,250	-	(5,730)	2,520
Total	\$ 710,913	\$ 208	\$ 124,940	\$ 836,061

Other financial instruments

The following table lists the fair value of financial instruments:

	March 31, 2014	December 31, 2013
Fair value of interest rate swap	\$ (163)	\$ -
Conversion feature on the convertible debentures	1,297	973

Interest rate swap

On February 24, 2014, the Trust completed the refinancing of maturing mortgages on a portfolio of eight of its properties located in Halifax 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. The Trust has applied hedge accounting to this relationship, whereby the change in fair value of the effective portion of the hedging derivative is recognized in other comprehensive income. Settlement of both the fixed and variable portions of the interest rate swap occurs on a monthly basis.

The following table summarizes the details of the interest rate swap that is outstanding at March 31, 2014:

Transaction date	Mortgage principal amount (notional)	Fixed interest rate	Maturity date	Financial instrument classification	Fair value
February 24, 2014	\$ 55,813	3.31%	March 1, 2019	Cash flow hedge	\$ (163)

The Trust has assessed that there is no ineffectiveness in the hedge of its interest rate exposure. The effectiveness of the hedging relationship is reviewed on a quarterly basis. As an effective hedge, unrealized gains or losses on the interest rate swap agreement are recognized in other comprehensive income. At March 31, 2014, the aggregate fair value of the interest rate swap amounted to a \$163 financial asset. The associated unrealized gains or losses that are recognized in other comprehensive income will be reclassified in the same period during which the interest payments on the hedged item affect net income.

Conversion feature on the convertible debentures

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

	Note	March 31, 2014	December 31, 2013
Opening balance		\$ 973	\$ 6,228
Assumed from business combination		-	1,053
Fair value adjustment on conversion feature of the convertible debentures	17	324	(6,308)
Ending balance		\$ 1,297	\$ 973

Remeasurement of the conversion feature is included in the fair value adjustments to financial instruments line in the condensed consolidated statements of net income and comprehensive income. All gains and losses recorded in Note 17 are changes in unrealized gains and losses relating to the items on the condensed consolidated balance sheets.

Note 10

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	Three months ended March 31, 2014		Year ended December 31, 2013	
		Number of units issued and outstanding	Amount	Number of units issued and outstanding	Amount
Opening balance		16,282,096	\$ 144,096	16,198,747	\$ 181,426
Distribution Reinvestment Plan		-	-	83,349	938
Remeasurement of carrying value	17	-	8,955	-	(38,268)
Ending balance		16,282,096	\$ 153,051	16,282,096	\$ 144,096

During the three months ended March 31, 2014, the Trust recorded \$2,849 (March 31, 2013 – \$2,748) in distributions on the subsidiary redeemable units, which are included as interest expense in the condensed consolidated statements of net income and comprehensive income (see Note 16).

As at March 31, 2014, 16,282,096 (December 31, 2013 – 16,282,096) Special Trust Units were issued and outstanding.

Note 11

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 March 31, 2014, up to a maximum of 1,500,000 (December 31, 2013 – 1,500,000) deferred trust units were issuable under the DUIP.

The movement in the DUIP balance was as follows:

	Note	
As at January 1, 2014		\$ 1,028
Compensation expense during the year		291
REIT Units issued for vested deferred trust units		(161)
Remeasurement of carrying value	17	57
As at March 31, 2014		\$ 1,215

During the three months ended March 31, 2014, \$291 of compensation expense (three months ended March 31, 2013 – \$206) was recorded and included in general and administrative expenses. For the same period, \$57 (three months ended March 31, 2013 – \$13) 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 and payable at January 1, 2014	223,543	14,313	237,856
Granted during the period	115,300	5,241	120,541
REIT Units issued	(16,830)	(1,313)	(18,143)
Fractional units paid in cash	-	(9)	(9)
Outstanding and payable at March 31, 2014	322,013	18,232	340,245
Vested but not issued at March 31, 2014	22,833	1,761	24,594

On February 25, 2014, 115,300 deferred trust units were granted to senior managers and employees of the Trust. Of the units granted, 27,500 units relate to key management personnel. The grant date value of these deferred trust units was \$9.12 per unit granted.

Note 12

OTHER NON-CURRENT LIABILITIES

	Note	March 31, 2014	December 31, 2013
Tenant security deposits		\$ 9,596	\$ 9,357
Conversion feature on the convertible debentures	9	1,297	973
Total		\$ 10,893	\$ 10,330

Note 13

AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2014	December 31, 2013
Trade payables	\$ 1,997	\$ 5,274
Accrued liabilities and other payables	12,114	10,009
Accrued interest	5,119	3,345
Rent received in advance	1,817	1,321
Distributions payable	3,212	3,204
Total	\$ 24,259	\$ 23,153

On March 19, 2014, the Trust announced a cash distribution of \$0.05833 per REIT Unit for the month of March 2014. The March 2014 distribution was paid on April 15, 2014 to unitholders on record as at March 31, 2014.

Note 14

EQUITY

	March 31, 2014		December 31, 2013	
	Number of Units	Amount	Number of Units	Amount
REIT Units	55,063,083	\$ 547,950	54,921,726	\$ 546,680
Retained earnings	-	18,588	-	24,136
Accumulated other comprehensive income	-	163	-	-
Total	55,063,083	\$ 566,701	54,921,726	\$ 570,816

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.

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 March 31, 2014, \$168,842 (December 31, 2013 – \$168,842) in REIT Units and \$111,250 (December 31, 2013 – \$111,250) in debt securities have been issued under the short form base shelf prospectus.

Note 15

ASSET HELD FOR SALE

The Trust entered into an agreement to sell a property located in Calgary, Alberta, for \$11.2 million. The sale is expected to close in the second quarter.

	March 31, 2014	December 31, 2013
Investment property	\$ 11,187	\$ -
Asset held for sale	\$ 11,187	\$ -

Note 16

INTEREST

Interest on debt

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

	Three months ended March 31,	
	2014	2013
Interest expense incurred, at contractual rate	\$ 8,672	\$ 7,030
Amortization of financing costs	239	206
Amortization of fair value adjustments on debt	(792)	(685)
Interest expense	8,119	6,551
Add/deduct:		
Amortization of financing costs	(239)	(206)
Amortization of fair value adjustments on debt	792	685
Change in accrued interest	(1,774)	(2,009)
Cash interest paid	\$ 6,898	\$ 5,021

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 statements of cash flows.

Interest on subsidiary redeemable units

Interest payments charged to comprehensive income consisting of distributions to holders of subsidiary redeemable units are recorded as follows:

	Three months ended March 31,	
	2014	2013
Paid in cash	\$ 2,849	\$ 1,832
Paid by way of reinvestment in subsidiary redeemable units	-	938
Less: Interest payable at December 31, 2013 (December 31, 2012)	(950)	(938)
Plus: Interest payable at March 31, 2014 (March 31, 2013)	950	916
Total	\$ 2,849	\$ 2,748

The interest payable at March 31, 2014 was satisfied on April 15, 2014, in cash.

Note 17

FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

		Three months ended March 31,	
	Note	2014	2013
Fair value adjustment on conversion feature of the convertible debentures	9	\$ (324)	\$ 1,921
Remeasurement of carrying value of subsidiary redeemable units	10	(8,955)	6,192
Remeasurement of carrying value of Deferred Unit Incentive Plan	11	(57)	(13)
		\$ (9,336)	\$ 8,100

Note 18

GAINS (COSTS) ON TRANSACTIONS AND OTHER ACTIVITIES

		Three months ended March 31,	
	Note	2014	2013
Debt settlement costs		\$ (59)	\$ -
Investment in business transformation activities	20	(100)	-
Internal leasing costs		(841)	-
Acquisition costs		(35)	-
Total		\$ (1,035)	\$ -

During the quarter, the Trust incurred \$100 of business transformation costs related to the process and technology improvements pursuant to the shared services and cost sharing agreement with DREAM Asset Management Corp.

Note 19

SEGMENTED INFORMATION

For the three months ended March 31, 2014 and March 31, 2013, the Trust's investment properties were segmented into geographic components, namely Western Canada, Ontario, Québec and Eastern Canada. Investment properties classified as held for sale were included in "Other" for segment disclosure purpose. The Trust does not allocate interest expense to these segments since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, other revenue, other expenses, fair value adjustments, gains (costs) on transactions and other activities, and income taxes are not allocated to the segments.

Three months ended March 31, 2014					Segment			
	Western	Ontario	Québec	Eastern	total	Other ⁽¹⁾	Total	
Operations								
Investment properties revenue	\$ 14,052	\$ 11,064	\$ 6,659	\$ 8,243	40,018	\$ 896	\$	40,914
Investment properties operating expenses	(4,610)	(3,692)	(1,782)	(3,402)	(13,486)	(213)		(13,699)
Net rental income	\$ 9,442	\$ 7,372	\$ 4,877	\$ 4,841	\$ 26,532	\$ 683	\$	27,215

(1) Includes asset held for sale and revenue and expense items such as lease termination fees (expenses), straight-line rent, bad debt expenses, amortization of tenant inducements which are included in the net rental income but not allocated to segments.

Three months ended March 31, 2013					Segment			
	Western	Ontario	Québec	Eastern	total	Other ⁽¹⁾	Total	
Operations								
Investment properties revenue	\$ 12,263	\$ 4,011	\$ 5,980	\$ 6,074	28,328	\$ 922	\$	29,250
Investment properties operating expenses	(4,008)	(1,169)	(1,348)	(2,656)	(9,181)	(177)		(9,358)
Net rental income	\$ 8,255	\$ 2,842	\$ 4,632	\$ 3,418	\$ 19,147	\$ 745	\$	19,892

(1) Includes asset held for sale and revenue and expense items such as lease termination fees (expenses), straight-line rent, bad debt expenses, amortization of tenant inducements which are included in the net rental income but not allocated to segments.

The following table summarizes revenues and expenses that are not specifically related to the segments:

	Three months ended March 31,	
	2014	2013
Net rental income	\$ 27,215	\$ 19,892
Other revenue	8	36
Other expenses	(12,932)	(10,681)
Other items	(9,870)	8,677
Income before taxes	4,421	17,924
Deferred income taxes	(310)	-
Net income for the period	\$ 4,111	\$ 17,924

Investment properties

Three months ended March 31, 2014	Segment					Other ⁽¹⁾	Total
	Western	Ontario	Québec	Eastern	total		
Investment properties	\$ 554,124	\$ 425,647	\$ 280,807	\$ 271,487	\$ 1,532,065	\$ -	\$ 1,532,065
Total capital expenditures	\$ 819	\$ 621	\$ 216	\$ 344	\$ 1,980	\$ -	\$ 2,000

(1) Includes corporate amounts not specifically related to the segments.

Year ended December 31, 2013	Segment					Other ⁽¹⁾	Total
	Western	Ontario	Québec	Eastern	total		
Investment properties	\$ 561,442	\$ 425,930	\$ 280,968	\$ 272,451	\$ 1,540,791	\$ -	\$ 1,540,791
Total capital expenditures	\$ 5,036	\$ 1,425	\$ 301	\$ 1,950	\$ 8,712	\$ -	8,712

(1) Includes corporate amounts not specifically related to the segments.

Note 20

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

From time to time, Dundee Industrial and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Dundee Industrial, DILP, Dundee Industrial Management Limited Partnership (a wholly owned subsidiary of DILP), Dundee Industrial Management Corporation and Dundee Realty Management Corporation ("DRMC"), 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.

On December 31, 2013, the Trust entered into a shared services and cost sharing agreement with DAM. 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. See the Trust's consolidated financial statements for the year ended December 31, 2013 for details on the range of asset management services DAM provides.

The Trust's future commitment for business transformation costs under the shared services and cost sharing agreement over the next seven years is \$2,420. These costs relate to process and technology improvements that will be completed during that time.

Related party transactions

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

	Note	Three months ended March 31,	
		2014	2013
Fees charged by DAM included in:			
General and administrative expenses		\$ 1,021	\$ 729
Financing costs		90	118
Investment in business transformation activities	18	100	-
Total fees charged by DAM		\$ 1,211	\$ 847
Amounts paid and payable to Dundee REIT:			
Fees charged under the Services Agreement		\$ 1,390	\$ 333
Distributions to Dundee REIT on subsidiary redeemable units		2,849	2,748
Amounts paid and payable to Dundee REIT		\$ 4,239	\$ 3,081

The following table summarizes the outstanding payables to related parties:

	Note	March 31, 2014	December 31, 2013
Amounts payable and accrued liabilities to DAM for:			
Asset Management Agreement		\$ (1,380)	\$ (688)
Investment in business transformation activities	18	(100)	-
Cost reimbursements		(219)	(389)
Total payable to DAM		(1,699)	(1,077)
Amounts receivable from DAM for:			
Reimbursement of costs paid by the Trust		115	54
Total receivable from DAM		\$ 115	\$ 54
Amounts payable and accrued liabilities to Dundee REIT for:			
Services Agreement		\$ (2,278)	\$ (917)
Distributions on subsidiary redeemable units		(950)	(950)
Total payable to Dundee REIT		(3,228)	(1,867)
Amounts receivable from Dundee REIT for:			
Deposits Dundee REIT received on behalf of the Trust		62	75
Reimbursement of costs paid by the Trust		98	-
Total receivable from Dundee REIT		\$ 160	\$ 75

At March 31, 2014, Dundee REIT's retained interest in the Trust was 22.8%.

Compensation of key management personnel is as follows:

	Three months ended March 31,	
	2014	2013
Unit-based awards granted during the period ⁽¹⁾	\$ 251	\$ 278
Total	\$ 251	\$ 278

(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 on the grant date fair value of deferred trust units multiplied by the number of deferred trust units granted in the period.

Note 21

SUPPLEMENTARY CASH FLOW INFORMATION

The components of amortization and depreciation under operating activities include:

		Three months ended March 31,	
	Note	2014	2013
Amortization of lease incentives	5	\$ 40	\$ 4
Amortization of financing costs	16	239	206
Depreciation of property and equipment		5	-
Amortization of fair value adjustments on debt	16	(792)	(685)
Total		\$ (508)	\$ (475)

The components of other adjustments under operating activities include:

		Three months ended March 31,	
	Note	2014	2013
Deferred unit compensation expense	11	\$ 291	\$ 206
Straight-line rent adjustment	6	(665)	(727)
Fair value adjustments to investment properties	5	(501)	(577)
Fair value adjustments to financial instruments	17	9,336	(8,100)
Reinvestment in subsidiary redeemable units	10, 16	-	938
Deferred income taxes	7	310	-
Other adjustments to operating activities		\$ 8,771	\$ (8,260)

The components of the changes in non-cash working capital under operating activities include:

		Three months ended March 31,	
		2014	2013
Decrease (increase) in amounts receivable		\$ 129	\$ (525)
(Increase) decrease in prepaid expenses and other assets		(67)	780
Decrease (increase) in other non-current assets		297	(33)
Increase in amounts payable and accrued liabilities		1,267	1,380
Increase in tenant security deposits		239	252
Change in non-cash working capital		\$ 1,865	\$ 1,854

The following amounts were paid on account of interest:

		Three months ended March 31,	
	Note	2014	2013
Interest			
Debt	16	\$ 6,898	\$ 5,021
Subsidiary redeemable units	16	2,849	1,832
Total		\$ 9,747	\$ 6,853

Note 22

COMMITMENTS AND CONTINGENCIES

Dundee Industrial REIT and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the condensed 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 \$3,303 (March 31, 2013 – \$629).

Pursuant to the shared services and cost sharing agreement, the Trust has a commitment to pay \$2,420 to DAM over the next seven years.

Note 23

FINANCIAL INSTRUMENTS

Fair value of financial instruments

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. The following table summarizes fair value measurements recognized in the condensed consolidated balance sheets by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurement.

	Carrying value as at March 31, 2014	Fair value as at March 31, 2014		
		Level 1	Level 2	Level 3
Recurring measurements				
Non-financial assets				
Investment properties	\$ 1,532,065	\$ -	\$ -	\$ 1,532,065
Financial assets				
Interest rate swap	163			163
Financial liabilities				
Conversion feature on the convertible debentures	1,297	-	-	1,297

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

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

	Carrying value as at March 31, 2014	Fair value as at March 31, 2014		
		Level 1	Level 2	Level 3
Fair values disclosed				
Mortgages	\$ 710,913	\$ -	\$ -	\$ 714,799
Demand revolving credit facility	208			208
Convertible debentures	124,940	-	-	131,820

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

All gains and losses recorded in fair value adjustments to financial instruments (Note 17) are changes in unrealized gains and losses relating to the items on the condensed consolidated balance sheets.

The conversion feature of the convertible debentures is measured at fair value.

The Trust values financial instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Trust maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The Trust has determined that the conversion feature on convertible debentures and interest rate swaps are valued using Level 3 inputs.

The fair value measurement of the interest rate swap was valued by a qualified independent valuation professional. The fair value measurement of the conversion feature of the convertible debentures was valued by a qualified independent valuation consultant.

The significant unobservable inputs used in the fair value measurement of the conversion feature as at March 31, 2014 are the following:

	Credit spread	Volatility
5.25% Debentures	3.024%	18.769%
6.75% Debentures	3.898%	11.380%

The change in the fair value of the conversion feature of the convertible debentures for the three months ended March 31, 2014 is disclosed in Note 9. Remeasurement of the conversion feature is included in the fair value adjustments to financial instruments line in the condensed consolidated statements of net income and comprehensive income.

Note 24

COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2014 condensed consolidated financial statements.

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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) 365-3535
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

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

