Management's responsibility for financial statements

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

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

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

MICHAEL J. COOPER
Vice Chairman and
Chief Executive Officer

MARIO BARRAFATO
Senior Vice President and
Chief Financial Officer

Toronto, Ontario, February 17, 2009

Auditors' report

To the Unitholders of Dundee Real Estate Investment Trust

We have audited the consolidated balance sheets of Dundee Real Estate Investment Trust (the "Trust") as at December 31, 2008 and 2007 and the consolidated statements of net income and comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS,
LICENSED PUBLIC ACCOUNTANTS

Toronto, Ontario, February 17, 2009

Consolidated balance sheets

(in thousands of dollars) December 31	Note	**2008**	2007
Assets			
Rental properties	4	**$ 1,137,107**	$1,004,198
Deferred costs	5	**35,199**	31,433
Amounts receivable	6	**11,787**	9,761
Prepaid expenses and other assets	7	**5,424**	20,928
Cash and cash equivalents		**69,267**	37,727
Intangible assets	8	**49,969**	52,394
Assets held for sale	20	**7,417**	—
		$ 1,316,170	$ 1,156,441
Liabilities			
Debt	9	**$ 872,314**	$ 680,479
Amounts payable and accrued liabilities	10	**18,605**	24,389
Distributions payable	11	**3,749**	3,818
Future income tax liability	15	**3,387**	2,746
Intangible liabilities	8	**41,941**	36,869
Liabilities held for sale	20	**11,548**	—
		951,544	748,301
Unitholders' equity	12	**364,626**	408,140
		$ 1,316,170	$ 1,156,441

See accompanying notes to the consolidated financial statements

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

NED GOODMAN
Trustee

MICHAEL J. COOPER
Trustee

Consolidated statements of net income and comprehensive income

(in thousands of dollars, except per unit amounts) For the years ended December 31	Note	2008	2007
Revenues			
Rental properties revenue		$ 187,461	$ 154,213
Interest and fee income		3,702	2,941
		191,163	157,154
Expenses			
Rental properties operating expenses		69,742	55,163
Interest	14	49,103	37,394
Depreciation of rental properties		26,873	23,155
Amortization of deferred leasing costs, tenant improvements and intangibles		27,102	23,323
General and administrative		6,740	7,600
		179,560	146,635
Income before the undernoted items		11,603	10,519
Internalization of property manager	23	—	(1,230)
Gain on disposal of land		—	2,328
Provision for impairment in value of rental property	20	—	(1,352)
Income before income taxes		11,603	10,265
Provision for (recovery of) income taxes	15		
Current income taxes		13	30
Future income taxes		327	(823)
		340	(793)
Income before discontinued operations		11,263	11,058
Discontinued operations	20	(803)	751,244
Net income		$ 10,460	$ 762,302
Basic income per unit	16		
Continuing operations		$ 0.53	$ 0.29
Discontinued operations		(0.03)	19.66
Net income		$ 0.50	$ 19.95
Diluted income per unit	16		
Continuing operations		$ 0.53	$ 0.29
Discontinued operations		(0.03)	19.65
Net income		$ 0.50	$ 19.94
Net income		$ 10,460	$ 762,302
Other comprehensive income (loss)			
Change in foreign currency translation adjustment		968	(1,127)
Comprehensive income		$ 11,428	$ 761,175

See accompanying notes to the consolidated financial statements

Consolidated statements of unitholders' equity

(in thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Accumulated other comprehensive loss	Total
Unitholders' equity, January 1, 2008		**20,863,819**	**$ 544,850**	**$ 796,138**	**$ (926,605)**	**$ (6,243)**	**$ 408,140**
Net income		**—**	**—**	**10,460**	**—**	**—**	**10,460**
Distributions paid	**11**	**—**	**—**	**—**	**(42,353)**	**—**	**(42,353)**
Distributions payable	**11**	**—**	**—**	**—**	**(3,749)**	**—**	**(3,749)**
Distribution Reinvestment Plan	**12**	**305,799**	**8,670**	**—**	**—**	**—**	**8,670**
Unit Purchase Plan	**12**	**23,222**	**700**	**—**	**—**	**—**	**700**
Deferred Unit Incentive Plan	**12**	**10,492**	**399**	**—**	**—**	**—**	**399**
Purchase of units under normal course issuer bid	**12**	**(826,900)**	**(21,715)**	**—**	**(83)**	**—**	**(21,798)**
Conversion of 6.5% Debentures	**12**	**24,920**	**623**	**—**	**—**	**—**	**623**
Conversion of 5.7% Debentures	**12**	**16,392**	**492**	**—**	**—**	**—**	**492**
Issue costs		**—**	**(86)**	**—**	**—**	**—**	**(86)**
Equity portion of 6.0% Debentures	**9**	**—**	**2,160**	**—**	**—**	**—**	**2,160**
Change in foreign currency translation adjustment		**—**	**—**	**—**	**—**	**968**	**968**
Unitholders' equity, December 31, 2008		**20,417,744**	**$ 536,093**	**$ 806,598**	**$ (972,790)**	**$ (5,275)**	**$ 364,626**

(in thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Accumulated other comprehensive loss	Total
Unitholders' equity, January 1, 2007		43,419,648	$ 1,067,125	$ 33,836	$ (207,286)	$ (5,116)	$ 888,559
Net income		—	—	762,302	—	—	762,302
Distributions paid		—	—	—	(76,190)	—	(76,190)
Distributions payable		—	—	—	(3,818)	—	(3,818)
Public offering of REIT A Units	12	4,195,000	170,946	—	—	—	170,946
Distribution Reinvestment Plan	12	348,418	14,304	—	—	—	14,304
Unit Purchase Plan	12	1,170	51	—	—	—	51
Deferred Unit Incentive Plan	12	30,370	6,031	—	—	—	6,031
Conversion of 6.5% Debentures	12	818,880	20,472	—	—	—	20,472
Conversion of 5.7% Debentures	12	1,921,043	57,631	—	—	—	57,631
Units issued on internalization of property manager	23	44,674	1,230	—	—	—	1,230
Issue costs		—	(11,271)	—	—	—	(11,271)
Unit redemptions	12	(29,915,384)	(781,669)	—	(639,311)	—	(1,420,980)
Change in foreign currency translation adjustment		—	—	—	—	(1,127)	(1,127)
Unitholders' equity, December 31, 2007		20,863,819	$ 544,850	$ 796,138	$ (926,605)	$ (6,243)	$ 408,140

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows

(in thousands of dollars) For the years ended December 31	Note	**2008**	2007
Generated from (utilized in) operating activities			
Net income		**$ 10,460**	$ 762,302
Non-cash items:			
Depreciation of rental properties		**27,106**	42,984
Amortization of deferred leasing costs, tenant improvements and intangibles		**27,109**	40,942
Amortization of deferred financing costs		**1,256**	938
Amortization of fair value adjustment on acquired debt		**(819)**	(1,811)
Internalization of property manager		**—**	1,230
Gain on disposal of rental properties		**(79)**	(731,488)
Gain on disposal of land		**—**	(2,328)
Provision for impairment in value of rental property		**—**	1,352
Deferred unit compensation expense		**399**	1,177
Future income taxes		**327**	(823)
Amortization of market rent adjustments on acquired leases		**(12,736)**	(11,833)
Straight-line rent adjustment		**(1,026)**	(2,946)
		51,997	99,696
Deferred leasing costs incurred		**(4,993)**	(5,628)
Change in non-cash working capital	22	**(5,878)**	(10,101)
		41,126	83,967
Generated from (utilized in) investing activities			
Investment in rental properties		**(5,843)**	(11,295)
Investment in tenant improvements		**(2,731)**	(6,424)
Investment in land development		**—**	(3,111)
Acquisition of rental properties	3	**(155,348)**	(560,324)
Acquisition deposit on rental properties		**—**	(2,600)
Investment in mezzanine loan		**—**	(570)
Receipt of mezzanine loan		**—**	4,020
Repayment (issuance) of promissory note		**12,116**	(11,747)
Net proceeds from disposal of rental properties		**—**	1,496,351
Net proceeds from disposal of land held for sale		**—**	20,034
Change in restricted cash, net		**941**	1,412
		(150,865)	925,746
Generated from (utilized in) financing activities			
Mortgages placed, net of costs		**95,312**	391,266
Mortgage principal repayments		**(13,934)**	(24,896)
Mortgage lump sum repayments		**(508)**	(68,983)
Term debt principal repayments		**(106)**	(65)
Term debt lump sum repayments		**—**	(6,921)
Term debt placed, net of costs		**—**	84
Convertible debentures issued, net of costs		**119,200**	—
Distributions paid on Units	11	**(37,501)**	(70,534)
Deferred trust units and income deferred trust units purchased and cancelled		**—**	(5,492)
Purchase of REIT A Units under normal course issuer bid	12	**(21,798)**	—
Redemption of Units		**—**	(1,420,980)
Units issued for cash, net of costs		**614**	163,538
		141,279	(1,042,983)
Increase (decrease) in cash and cash equivalents		**31,540**	(33,270)
Cash and cash equivalents, beginning of year		**37,727**	70,997
Cash and cash equivalents, end of year		**$ 69,267**	$ 37,727

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

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

Note 1
ORGANIZATION

Dundee Real Estate Investment Trust ("Dundee REIT" or the "Trust") is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dundee REIT include the accounts of Dundee REIT and its subsidiaries, together with Dundee REIT's proportionate share of the assets and liabilities, and revenues and expenses of joint ventures in which it participates.

Our equity is fully described in Note 12; however, for simplicity, throughout the notes we may make reference to the following:

- "REIT A Units", meaning the REIT Units, Series A
- "REIT B Units", meaning the REIT Units, Series B
- "REIT Units", meaning the REIT Units, Series A, and REIT Units, Series B, collectively
- "LP B Units", meaning the LP Class B Units, Series 1
- "Units", meaning REIT Units, Series A; REIT Units, Series B; LP Class B Units, Series 1; and Special Trust Units, collectively

On December 12, 2007, the Trust announced that its unitholders approved, at a special meeting of unitholders, a special resolution relating to the modification of the organizational structure of Dundee REIT (the "Reorganization"). The Reorganization was proposed in order to provide greater certainty that Dundee REIT would be able to qualify as a "real estate investment trust" by January 1, 2008, for the purposes of the amendments to the *Income Tax Act* that modify the tax treatment of publicly traded specified investment flow-through trusts or partnerships ("SIFTs") that were implemented by the Canadian federal government on June 22, 2007. A trust that satisfies the definition of "real estate investment trust" throughout its taxation year is exempt from the taxes and the restricted growth that would otherwise apply under the SIFT Rules.

The Reorganization was completed on December 31, 2007, the effect of which eliminated the trusts through which Dundee REIT held its interest in Dundee Properties Limited Partnership ("DPLP"), the entity that holds the commercial revenue-producing properties, and replaced them with two limited partnerships. As a result of modifying the organizational structure and reorganizing various business activities, Dundee REIT qualified as a real estate investment trust as at December 31, 2007, and throughout 2008.

On August 24, 2007, the Trust completed the sale of its portfolio of real estate assets located principally in Ontario, Québec and Newfoundland (the "Eastern Portfolio") to GE Real Estate ("GE"), including the assumption of liabilities by GE relating to the Eastern Portfolio (the "Transaction"). Dundee REIT's portfolio now comprises office and industrial properties located primarily in Western Canada, and a subsidiary of Dundee REIT continues to perform the property management function.

Pursuant to the Transaction, the Trust made certain amendments to its Declaration of Trust and to other governing documents of the Trust and its subsidiaries. In general, the Trust and its subsidiaries cannot take any action that would prevent it from qualifying as a "real estate investment trust" and the Trust could not take any action that at any time prior to January 1, 2008, would cause it to exceed "normal growth" as determined by the normal growth guidelines pertaining to SIFTs, or to be subject to tax under paragraph 122(1) (b) of the *Income Tax Act*, which specifies taxes payable by a SIFT entity.

At December 31, 2008, Dundee Corporation, the majority shareholder of Dundee Realty Corporation ("DRC"), directly and indirectly through its subsidiaries, held 780,851 REIT A Units and 3,454,188 LP B Units (December 31, 2007 — 333,520 and 3,315,349 Units, respectively). At December 31, 2008, GE held 2,997,371 REIT A Units and 16,316 REIT B Units (December 31, 2007 — 2,997,371 and 476,316, respectively).

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants ("CICA"). The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Changes in accounting policies in 2008

Capital disclosures

On January 1, 2008, the Trust adopted CICA Handbook Section 1535, "Capital Disclosures", which requires the disclosure of information that enables users of financial statements to evaluate an entity's objectives, policies and processes for managing capital, including any externally imposed capital requirements and the consequences of non-compliance. This standard impacts the Trust's disclosures but does not affect its consolidated financial position, results of operations or cash flows.

Financial instruments — disclosures and presentation

CICA Handbook Section 3862, "Financial Instruments — Disclosures" and Section 3863, "Financial Instruments — Presentation" replace Section 3861, "Financial Instruments — Disclosure and Presentation", revise and enhance its disclosure requirements and carry forward its presentation requirements unchanged. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks. These standards impact the Trust's disclosure but do not affect its consolidated financial position, results of operations or cash flows. Details of the required capital and financial instruments disclosures can be found in Note 24.

Future changes in accounting policies

Deferred recoverable costs

Amendments to CICA Handbook Section 1000, "Financial Statement Concepts" and new CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replace CICA Handbook Section 3062, "Goodwill and Other Intangible Assets", have been issued and apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The objectives of these amendments and new section are to:

- reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and
- clarify the application of the concept of matching revenues and expenses, such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated.

Under the amendments to CICA Handbook Section 1000, "Financial Statement Concepts", effective January 1, 2009, the deferral and matching of operating expenses over future revenues is no longer appropriate. The impact of this will increase rental properties by $1,954, decrease deferred costs by $2,126 and decrease unitholders' equity by $172.

Business combinations

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish a new section for accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Trust is currently evaluating the impact of the adoption of these sections.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board ("ASB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies are required to converge with IFRS for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed that January 1, 2011 would be the effective date of the initial adoption of IFRS.

IFRS are premised on a conceptual framework similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. As the Trust continues to evaluate the impact of adoption on its processes and accounting policies, it will provide updated disclosure where appropriate. While the adoption of IFRS will not have a material impact on the reported cash flows of the Trust, it will have a material impact on the Trust's consolidated balance sheets and statements of net income and comprehensive income. The Trust has performed an initial assessment of the impact of IFRS and has identified significant accounting policy changes pertaining to investment property, joint ventures and lease incentives that will be required or are currently expected to be applied by the Trust on its adoption of IFRS that will be significantly different than its Canadian GAAP accounting policies. A detailed discussion of the significant policy changes can be found in the management's discussion and analysis.

Revenue recognition

The Trust has retained substantially all of the benefits and risks of ownership of its rental properties and therefore accounts for leases as operating leases.

Revenues from rental properties include base rents, recoveries of operating expenses including property taxes, percentage participation rents, lease cancellation fees, parking income and incidental income. The Trust uses the straight-line method of rental revenue recognition, whereby the total of cash rents due over the initial term of a lease are recognized in income evenly over that term. The difference between the amount recorded as revenue under the straight-line method and cash rents received is included in amounts receivable. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred. Percentage participation rents are recognized on an accrual basis once tenant sales revenues exceed contractual thresholds. Other revenues are recorded as earned. The Trust provides an allowance for doubtful accounts against that portion of amounts receivable that is estimated to be uncollectible. Such allowances are reviewed periodically based on the recovery experience of the Trust and the creditworthiness of the debtor.

Rental properties

Rental properties are stated at historical cost less accumulated depreciation and impairment charges, if any. Rental properties under development include interest on project-specific and general debt, property taxes, carrying charges and applicable general and administrative expenses incurred in the pre-development and construction periods, and initial leasing costs, less incidental revenues and expenses earned prior to the project being declared operational. Properties are considered operational at the earlier of the achievement of a predetermined level of occupancy or at the expiry of a reasonable period following substantial completion.

The Trust uses the straight-line method of depreciation for rental properties, building improvements, initial leasing costs and major expansions and renovations. The estimated useful life of the properties is between 30 and 40 years. Vehicles, office premises improvements, furniture and computer equipment are depreciated on a declining balance basis over their estimated useful lives ranging from 8% to 30% per annum. Building improvements are depreciated over their estimated useful lives, which range from 10 to 20 years depending on the type of improvement.

Purchase price allocations

For acquisitions initiated on or after September 12, 2003, the purchase price of a rental property is allocated based on estimated fair values to land, building, deferred leasing costs acquired, lease origination costs associated with in-place leases, the value of above- and below-market leases and other intangible lease assets. Other intangible lease assets include the value of in-place leases and the value of tenant relationships, if any. The fair value of buildings is determined using the depreciated replacement cost approach. For acquisitions initiated prior to September 12, 2003, the purchase price was allocated to land and buildings based on their respective fair market values.

Intangible assets and liabilities

Intangible assets and liabilities include the value of above- and below-market leases, in-place leases, lease origination costs and tenant relationships. Intangible assets and liabilities are stated at historic cost less accumulated amortization and impairment charges, if any.

The values of above- and below-market leases are amortized on a straight-line basis to rental property revenues over the remaining term of the associated lease. The value associated with in-place leases is amortized on a straight-line basis over the remaining term of the lease. The value of tenant relationships is amortized on a straight-line basis over the remaining term of the lease plus an estimated renewal term. Lease origination costs are amortized on a straight-line basis over the term of the applicable lease. In the event a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible is expensed.

Impairment of long-lived assets

The Trust uses a two-step process for determining when an impairment of rental properties and intangible assets should be recognized in the consolidated financial statements. If events or circumstances indicate that the carrying value of a property may be impaired, a recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from property operations and the property's projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to its estimated fair value and an impairment loss is recognized.

Deferred costs

Deferred costs may include:

- deferred leasing costs, which include leasing fees and costs, except for initial leasing costs that are included in rental properties, and deferred leasing costs acquired. Deferred leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- tenant inducements, which are payments for which the tenant has no obligation to make leasehold improvements to the leased space and which are amortized against rental properties revenue on a straight-line basis over the term of the applicable lease;
- tenant improvements, which include costs incurred to make leasehold improvements to tenants' space and which are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- deferred recoverable operating expenses, which are amortized to operating expenses over the period during which they are recoverable from tenants;
- Deferred financing costs relating to revolving credit facilities, which include debt issue fees and expenses that are amortized to interest expense on a straight-line basis over the term of the debt; and
- direct acquisition fees and costs, which exclude general and administrative costs, and which are deferred until the acquisition is completed and the costs are capitalized to the acquisition or the acquisition is abandoned and the costs are written off.

Impairment of amounts receivable

Trade receivables are recognized initially at fair value. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the tenant. The carrying amount of the asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of net income within operating expenses. Bad debt write-offs occur when the Trust determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of net income. Trade receivables that are less than three months past due are not considered impaired unless there is evidence that collection is not possible.

Impairment of loans receivable

Loans receivable are classified as impaired when, in the opinion of management, there is a reasonable doubt as to the timely collection of principal, interest and the underlying security of the loan. The carrying amount of a loan receivable classified as impaired is reduced to its estimated fair value.

Foreign currency translation

The Trust's foreign operations are considered financially self-sustaining and operationally independent. Accordingly, assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period. Translation gains and losses are deferred as a separate component of unitholders' equity until there is a realized reduction in the net investment in the foreign operation.

Income taxes

Dundee REIT uses the liability method of accounting for future income taxes relating to incorporated subsidiaries. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the reported carrying amount of assets and liabilities and their carrying amounts for tax purposes. In addition, the benefit of tax losses available to be carried forward to future years for tax purposes, which are more likely than not to be realized, is recognized as a reduction of the income tax liability. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse and tax losses are utilized. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the tax rate change is substantively enacted.

Unit-based compensation plan

Dundee REIT has a Deferred Unit Incentive Plan, as described in Note 12, that provides for the grant of deferred trust units and income deferred trust units to trustees, officers and employees, and affiliates and their service providers (including the asset manager). The Trust recognizes compensation expense on a straight-line basis over the period that the deferred units vest, based on the market price of REIT A Units on the date of grant. Deferred trust units that have vested but for which the corresponding REIT A Units have not been issued, and where the ultimate issuance of such REIT A Units is simply a matter of the passage of time, are considered to be outstanding from the date of vesting for basic income per unit calculations.

Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, the Trust considers all short-term investments with an original maturity of three months or less to be cash equivalents, and excludes cash subject to restrictions that prevent its use for current purposes. As at December 31, 2008, cash and cash equivalents includes the Trust's proportionate share of cash balances of joint ventures of $1,232 (December 31, 2007 — $2,116). Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits as required by various lending agreements.

Financial instruments

The Trust follows CICA accounting standards for financial instruments comprising Section 3855, "Financial Instruments — Recognition and Measurement", Section 1530, "Comprehensive Income", and Section 3251, "Equity".

The standards require that all financial assets be classified as held for trading, available for sale, held to maturity or loans and receivables. In addition, the standards require that all financial assets be measured at fair value, with the exception of loans, receivables and investments intended to be, and classified as, held to maturity, which are required to be measured at amortized cost. Financial liabilities are classified either as held for trading, which are measured at fair value, or other liabilities, which are measured at amortized cost.

Accumulated other comprehensive income is included as a separate component of unitholders' equity and comprises only accumulated foreign currency gains and losses related to the Trust's net investment in Greenbriar Mall in Atlanta, Georgia.

All loans and receivables and all financial liabilities are recorded at amortized cost. Upon initial recognition, these instruments are recorded at fair value less any related transaction costs. Interest expense related to financial liabilities, including deferred financing costs, is recognized using the effective interest rate method.

For certain of the Trust's financial instruments, including cash and cash equivalents, amounts receivable, amounts payable and accrued liabilities, and distributions payable, the carrying amounts approximate fair values due to their immediate or short-term maturity. The fair values of mortgages and term debt are determined by discounting the future contractual cash flows under current financing arrangements. The discount rates represent management's best estimate of borrowing rates presently available to the Trust for loans with similar terms and maturities. The fair value of the convertible debentures is based on the market value of the debentures.

Convertible debentures

Upon issuance, convertible debentures are separated into debt and equity components and recorded at amortized cost. These components are measured based on their respective estimated fair values at the date of issuance, less any related transaction costs. The fair value of the debt component is estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the estimated fair value ascribed to the holders' option to convert the debentures into REIT A Units. The difference between the fair value of the debt and the face value is recognized as interest expense on an effective interest rate basis over the term to maturity of the debentures with corresponding accretion to the principal of the debt.

Discontinued operations

The Trust classifies properties that meet certain criteria as held for sale and separately discloses any net income/loss and gain/loss on disposal for current and prior periods as discontinued operations. A property is classified as held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the property and is actively locating a buyer for the property at a sales price that is reasonable in relation to the current estimated fair value of the property, and the sale is expected to be completed within a one-year period. Properties held for sale are carried at the lower of their carrying values and estimated fair values less costs to sell. In addition, assets held for sale are no longer depreciated. A property that is subsequently reclassified as held and in use is measured at the lower of: (a) its carrying amount before it was classified as held for sale, adjusted for any amortization expense that would have been recognized had it been continuously classified as held and in use; and (b) its estimated fair value at the date of the subsequent decision not to sell.

Variable Interest Entities

The Trust follows the requirements of CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), which provides guidance for applying the principles in CICA Handbook Section 1590, "Subsidiaries", to those entities defined as Variable Interest Entities ("VIEs"). This standard considers a VIE to be an entity in which either the equity at risk is not sufficient to permit it to finance its activities without additional subordinated financial support from other parties or equity investors lack either voting control, or an obligation to absorb expected losses, or the right to receive expected residual returns. AcG-15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns.

Note 3

PROPERTY ACQUISITIONS

The Trust completed the following acquisitions during the years ended December 31, 2008, and December 31, 2007, which have contributed to the operating results from the date of acquisition:

For the year ended December 31, 2008	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
Air Miles Tower, Toronto	office	100	322,557	92	$ 91,988	$ —	January 31, 2008
IBM Corporate Park, Calgary	office	33	118,804	100	57,300	—	May 14, 2008
4370 Dominion Street, Burnaby	office	100	63,943	99	11,484	2,111	July 10, 2008
Total			505,304	95	$ 160,772	$ 2,111	

For the year ended December 31, 2007	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
30 and 55 St. Clair Avenue West, Toronto[1]	office	100	426,000	96	$ 110,798	$ —	January 9, 2007
625 Agnes Street, New Westminster	office	100	83,000	88	14,587	—	January 24, 2007
Aspen Portfolio, Calgary	office	100	543,000	99	172,130	29,225	March 13, 2007
HCI Portfolio, Vaughan, Burlington and Mississauga[1]	industrial	100	2,100,000	98	237,721	56,528	May 1, 2007
501 Applewood Crescent, Vaughan[1]	industrial	100	76,000	100	6,787	—	May 1, 2007
154 University Avenue, Toronto[1]	office	100	67,000	100	13,784	5,487	May 10, 2007
4400 Dominion Street, Burnaby	office	100	91,000	93	18,637	—	June 27, 2007
Airport Corporate Centre, Calgary	office	100	148,000	100	38,207	—	July 6, 2007
Development property, Yellowknife	office	100	—	—	366	—	August 30, 2007
435 4th Avenue, Calgary	office	100	89,000	100	35,735	9,457	October 9, 2007
960 Quayside Drive, New Westminster	office	100	60,000	95	16,726	—	November 29, 2007
Total			3,683,000	98	$ 665,478	$ 100,697	

[1] Disposed of as a part of the Eastern Portfolio.

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

For the years ended December 31	**2008**	2007
Rental properties		
Land	**$ 30,531**	$ 180,693
Buildings	**126,440**	434,290
	156,971	614,983
Tenant improvements acquired	**6,271**	15,851
Intangible assets		
Value of in-place leases	**7,431**	31,609
Lease origination costs	**2,012**	5,313
Value of above-market rent leases	**419**	1,460
Value of tenant relationships	**5,944**	26,096
	179,048	695,312
Intangible liabilities		
Value of below-market rent leases	**(18,276)**	(29,834)
Total purchase price	**$ 160,772**	$ 665,478

The consideration paid consists of:		
Cash		
Paid during the period	**$ 155,348**	$ 560,324
Deposit	**2,350**	3,600
	157,698	563,924
Assumed mortgages at fair value	**2,111**	100,697
Assumed accounts payable and accrued liabilities	**963**	857
Total consideration	**$ 160,772**	$ 665,478

Note 4
RENTAL PROPERTIES

December 31			**2008**			2007
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Land	**$ 221,772**	**$ —**	**$ 221,772**	$ 191,935	$ —	$ 191,935
Buildings and improvements	**1,002,540**	**(89,786)**	**912,754**	875,619	(65,690)	809,929
Fixed assets and equipment	**2,439**	**(882)**	**1,557**	1,985	(502)	1,483
Rental properties under development	**1,024**	**—**	**1,024**	851	—	851
Total	**$ 1,227,775**	**$ (90,668)**	**$ 1,137,107**	$1,070,390	$ (66,192)	$1,004,198

Note 5

DEFERRED COSTS

December 31			2008			2007
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Deferred leasing costs	**$ 12,090**	**$ (3,765)**	**$ 8,325**	$ 7,639	$ (4,710)	$ 2,929
Tenant improvements	**42,862**	**(18,114)**	**24,748**	36,115	(10,352)	25,763
Deferred recoverable costs	**4,988**	**(2,862)**	**2,126**	4,746	(2,007)	2,739
Other deferred costs	**—**	**—**	**—**	507	(505)	2
Total	**$ 59,940**	**$ (24,741)**	**$ 35,199**	$ 49,007	$ (17,574)	$ 31,433

Amortization of deferred recoverable costs included in operating expenses for the year ended December 31, 2008 was $917 (December 31, 2007 — $1,578).

Note 6

AMOUNTS RECEIVABLE

Amounts receivable are net of credit adjustments of $2,801 (December 31, 2007 — $2,871).

December 31	**2008**	2007
Trade receivables	**$ 2,321**	$ 1,867
Straight-line rent receivables	**6,714**	5,857
Other accounts receivables	**2,752**	2,037
	$ 11,787	$ 9,761

December 31	**2008**	2007
Trade receivables	**$ 2,870**	$ 2,280
Less: provision for impairment of trade receivables	**(549)**	(413)
Trade receivables, net	**$ 2,321**	$ 1,867

The movement in the provision for impairment of trade receivables during the year ended December 31, 2008, is as follows:

December 31	**2008**
As at January 1, 2008	**$ 413**
Provision for impairment of trade receivables	**543**
Receivables written off during the year as uncollectible	**(218)**
Reduction of other receivables written off during the year	**(216)**
Translation adjustment	**27**
As at December 31, 2008	**$ 549**

As at December 31, 2008, trade receivables of approximately $504 were past due but not considered impaired. These relate to tenants with which the Trust has ongoing relationships and default is not expected.

Note 7

PREPAID EXPENSES AND OTHER ASSETS

December 31	**2008**	2007
Prepaid expenses	**$ 2,156**	$ 2,170
Promissory notes	**—**	11,963
Deposits	**24**	2,609
Restricted cash	**3,244**	4,186
Total	**$ 5,424**	$ 20,928

Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages.

Effective November 1, 2007, the Trust sold its 60% interest in two joint venture projects (see Note 20). As part of the transaction, all mezzanine loans were repaid and related agreements terminated. Consideration for the sale included second and third mortgages totalling $11,747 bearing interest at 11.0%, secured by the lands owned by the purchaser. On November 2, 2007, the Trust assigned the mortgages to DRC for a purchase price equal to the mortgage amounts. As consideration, the Trust received two promissory notes from DRC bearing interest at 10.9% compounded monthly. On February 20, 2008, these promissory notes were repaid.

Note 8

INTANGIBLE ASSETS AND LIABILITIES

December 31			**2008**			2007
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Intangible assets						
Value of above-market rent leases	**$ 2,754**	**$ (1,058)**	**$ 1,696**	$ 2,481	$ (735)	$ 1,746
Value of in-place leases	**39,561**	**(19,462)**	**20,099**	36,469	(13,947)	22,522
Lease origination costs	**8,284**	**(3,402)**	**4,882**	6,680	(2,129)	4,551
Value of tenant relationships	**32,901**	**(9,609)**	**23,292**	29,818	(6,243)	23,575
Total	**$ 83,500**	**$ (33,531)**	**$ 49,969**	$ 75,448	$ (23,054)	$ 52,394
Intangible liabilities						
Value of below-market rent leases	**$ 68,654**	**$ (26,713)**	**$ 41,941**	$ 53,786	$ (16,917)	$ 36,869

Note 9
DEBT

December 31	**2008**	2007
Mortgages	**$ 743,067**	$ 668,188
Convertible debentures	**128,902**	11,840
Term debt	**345**	451
Total	**$ 872,314**	$ 680,479

Mortgages are secured by charges on specific rental properties.

On January 14, 2008, the Trust issued $125,000 principal amount convertible unsecured subordinated debentures (the "6.0% Debentures"). The 6.0% Debentures bear interest at 6.0% per annum, payable semi-annually on June 30 and December 31 each year, and mature on December 31, 2014. Each 6.0% Debenture is convertible at any time by the debenture holder into 24.15459 REIT Units, per one thousand dollars of face value, representing a conversion price of $41.40 per unit. The 6.0% Debentures may not be redeemed prior to December 31, 2010. On or after December 31, 2010, and prior to December 31, 2012, the 6.0% Debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, provided the weighted average trading price for the Trust's units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On or after December 31, 2012, and prior to December 31, 2014, the 6.0% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3863 of the CICA Handbook, the 6.0% Debentures were initially recorded on the consolidated balance sheets as debt of $122,840 less costs of $5,800, and equity of $2,160.

On April 1, 2005, the Trust issued $100,000 principal amount convertible unsecured subordinated debentures (the "5.7% Debentures"). The 5.7% Debentures bear interest at 5.7% per annum, payable semi-annually on March 31 and September 30 each year, and mature on March 31, 2015. Each 5.7% Debenture is convertible at any time by the debenture holder into 33.33 REIT Units, per one thousand dollars of face value, representing a conversion price of $30.00 per unit. The 5.7% Debentures may not be redeemed prior to March 31, 2009. On or after March 31, 2009, but prior to March 31, 2011, the 5.7% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided that the market price for the Trust's units is not less than $37.50. On or after March 31, 2011, the 5.7% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3863 of the CICA Handbook, the 5.7% Debentures were initially recorded on the consolidated balance sheets as debt of $98,800 and equity of $1,200.

On June 21, 2004, the Trust issued $75,000 principal amount convertible unsecured subordinated debentures (the "6.5% Debentures"). The 6.5% Debentures bear interest at 6.5% per annum, payable semi-annually on June 30 and December 31 each year, and mature on June 30, 2014. Each 6.5% Debenture is convertible at any time by the debenture holder into 40 REIT Units, per one thousand dollars of face value, representing a conversion price of $25.00 per unit. The 6.5% Debentures may not be redeemed prior to June 30, 2008. On or after June 30, 2008, but prior to June 30, 2010, the 6.5% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided the market price for the Trust's units is not less than $31.25. On or after June 30, 2010, the 6.5% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3863 of the CICA Handbook, the 6.5% Debentures were initially recorded on the consolidated balance sheets as debt of $74,400 and equity of $600.

At December 31, 2008, convertible debentures comprise $117,922 of the 6.0% Debentures, $7,703 of the 5.7% Debentures, and $3,277 of the 6.5% Debentures (December 31, 2007 — $nil, $7,983 and $3,857).

A demand revolving credit facility was renewed on June 30, 2008. The facility is available up to a formula-based maximum not to exceed $55,000, bearing interest generally at the bank prime rate (3.5% as at December 31, 2008) plus 0.5% or bankers' acceptance rates plus 1.875%. The facility expires on April 30, 2009, and is secured by a first ranking collateral mortgage on four of the Trust's properties and a second ranking collateral mortgage on one property. As at December 31, 2008, the formula-based amount available under this facility was $55,000, none of which was drawn or used in the form of letters of guarantee (December 31, 2007 — $nil drawn).

The weighted average interest rates for the fixed and floating components of debt are as follows:

	Weighted average interest rates			Debt amount	
December 31	**2008**	2007	Maturity dates	**2008**	2007
Fixed rate					
Mortgages	**5.70%**	5.70%	2009—2019	**$ 692,028**	$ 651,844
Convertible debentures	**7.03%**	6.59%	2014—2015	**128,902**	11,840
Term debt	**9.03%**	9.03%	2009—2011	**345**	451
Total fixed rate debt	**5.91%**	5.71%		**821,275**	664,135
Variable rate					
Mortgages	**4.54%**	7.70%	2009—2013	**51,039**	16,344
Total variable rate debt	**4.54%**	7.70%		**51,039**	16,344
Total debt	**5.83%**	5.76%		**$ 872,314**	$ 680,479

The scheduled principal repayments and debt maturities are as follows:

For the years ending December 31	Mortgages	Term debt	Convertible debentures	Total
2009	$ 89,065	$ 116	$ —	$ 89,181
2010	21,295	127	—	21,422
2011	87,197	102	—	87,299
2012	103,144	—	—	103,144
2013	112,598	—	—	112,598
2014 and thereafter	328,276	—	136,294	464,570
	741,575	345	136,294	878,214
Deferred financing cost and fair value adjustments	1,492	—	(7,392)	(5,900)
	$ 743,067	$ 345	$ 128,902	$ 872,314

Included in mortgages is $3,755 in fair value adjustments (December 31, 2007 — $4,827), which reflects the fair value adjustments for mortgages assumed as part of acquisitions, net of $2,263 (December 31, 2007 — $2,374) of unamortized deferred financing costs. The convertible debentures are reduced by a $2,008 premium (December 31, 2007 — $111) allocated to their conversion features and $5,384 of unamortized deferred financing costs (December 31, 2007 — $458). The fair value adjustment, premium and deferred financing costs are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

The estimated fair value of debt is as follows:

December 31	**2008**	2007
Mortgages	**$ 705,088**	$ 681,896
Convertible debentures	**95,181**	15,365
Term debt	**345**	443
Total	**$ 800,614**	$ 697,704

Note 10
AMOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31	**2008**	2007
Trade payables	**$ 181**	$ 270
Accrued liabilities and other payables	**9,071**	14,762
Accrued interest	**3,521**	3,068
Deposits	**4,930**	4,422
Rent received in advance	**902**	1,867
Total	**$ 18,605**	$ 24,389

Note 11
DISTRIBUTIONS

The following table sets out distribution payments for the year ended December 31, 2008:

	REIT Units, Series A	REIT Units, Series B	LP Class B Units, Series 1	Total
Paid in cash	$ 33,319	$ 1,046	$ 3,136	$ 37,501
Paid by way of reinvestment in REIT A Units	4,175	—	—	4,175
Paid by way of reinvestment in LP B Units	—	—	4,495	4,495
Less: payable at December 31, 2007	(3,124)	(87)	(607)	(3,818)
Plus: payable at December 31, 2008	3,114	3	632	3,749
Total	$ 37,484	$ 962	$ 7,656	$ 46,102

The amount payable at December 31, 2008, was satisfied on January 15, 2009, by way of $3,442 in cash and $307 by way of 26,172 REIT A Units. Included in the total distributions is $334, representing the 4% bonus distribution that forms part of the Distribution Reinvestment Plan (“DRIP”).

Dundee REIT’s Declaration of Trust requires monthly distribution payments to unitholders payable on or about the 15th day of the following month. The amount of the annualized distribution to be paid is based on a percentage of distributable income. Distributable income is defined in the Declaration of Trust and the percentage is determined by the trustees, in their sole discretion, based on what they consider appropriate given the circumstances of the Trust. Distributions may be adjusted for amounts paid in prior periods if the actual distributable income for those prior periods is greater or lesser than the estimates used for those prior periods. In addition, the trustees may declare distributions out of the income, net realized capital gains, net recapture income and capital of the Trust to the extent that such amounts have not already been paid, allocated or distributed. Distributable income is not a measure defined by GAAP and therefore may not be comparable to similar measures presented by other real estate investment trusts. The Trust declares distributions of $0.183 per unit per month, or $2.20 per year.

Note 12
UNITHOLDERS' EQUITY

December 31		**2008**		2007
	Number of units	**Amount**	Number of units	Amount
REIT Units, Series A	**16,947,240**	**$ 271,221**	17,072,154	$ 300,216
REIT Units, Series B	**16,316**	**371**	476,316	14,376
LP Class B Units, Series 1	**3,454,188**	**98,309**	3,315,349	99,791
Cumulative foreign currency translation adjustment	**—**	**(5,275)**	—	(6,243)
Total	**20,417,744**	**$ 364,626**	20,863,819	$ 408,140

Dundee REIT Units

Dundee REIT is authorized to issue an unlimited number of REIT Units and an unlimited number of Special Trust Units. The REIT Units are divided into and issuable in two series: REIT Units, Series A and REIT Units, Series B. REIT Units are redeemable at the option of the holder, generally at any time, subject to certain restrictions, at a redemption price per REIT Unit equal to the lesser of 90% of a 20-day weighted average closing price prior to the redemption date and 100% of the closing market price on the redemption date. The total amount payable by Dundee REIT in any calendar month shall not exceed $50 unless waived by Dundee REIT's trustees at their sole discretion. Any dollar amount in excess of this monthly dollar maximum, unless waived, will be paid by notes of one of Dundee REIT's subsidiaries.

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

During the year ended December 31, 2007, 729,341 LP B Units were exchanged indirectly by Dundee Corporation for 729,341 REIT B Units which were then exchanged for 729,341 REIT A Units. The exchanges were valued at a pro rata carrying amount of the LP B Units. For the year ended December 31, 2008, there were no exchanges made by Dundee Corporation. In the fourth quarter of 2008, DRC acquired 460,000 REIT B Units from GE, and subsequently converted these units to REIT A Units.

On August 24, 2007, the Trust completed the redemption and cancellation of 29,915,284 units for $47.50 per unit. These included 25,813,262 REIT A Units and 4,102,022 REIT B Units. The REIT B Units were initially exchanged from LP B Units and were valued at a pro rata carrying amount of the LP B Units. In addition, GE purchased 3,473,687 outstanding units at a purchase price of $47.50 per unit. These included 2,997,371 REIT A Units and 476,316 REIT B Units. The REIT B Units were initially exchanged from LP B Units and were valued at a pro rata carrying amount of the LP B Units.

Special Trust Units are issued in connection with LP B Units. The Special Trust Units are not transferable separately from the LP B Units to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such LP B Units. Each Special Trust Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT B Units that may be obtained upon the surrender or exchange of the LP B Units to which they relate. At December 31, 2008, 3,454,188 Special Trust Units were issued and outstanding (December 31, 2007 — 3,315,349 issued and outstanding).

Dundee REIT's Declaration of Trust provides each of Dundee Corporation and GE with a pre-emptive right pursuant to which Dundee REIT will not issue any REIT A Units, or any securities convertible into or exchangeable for REIT A Units, to any person without first making an offer to Dundee Corporation and GE to issue that number of REIT A Units, securities or a comparable number of LP B Units necessary to maintain the percentage of the outstanding voting interest in Dundee REIT held by Dundee Corporation and its affiliates or GE at the date of offer.

DPLP units

DPLP is authorized to issue an unlimited number of LP Class A and an unlimited number of LP Class B limited partnership units and such other classes as the general partner of DPLP, a wholly owned subsidiary of Dundee REIT, may decide. The LP Class B Units have been issued in two series: LP Class B Units, Series 1 and LP Class B Units, Series 2.

The LP Class B Units, Series 1, together with the accompanying Special Trust Units, have economic and voting rights equivalent in all material respects to the REIT Units, Series A and REIT Units, Series B. Generally, each LP Class B Unit, Series 1 entitles the holder to a distribution equal to distributions declared on REIT Units, Series B, or if no such distribution is declared, on REIT Units, Series A. LP Class B Units, Series 1 may be surrendered or indirectly exchanged on a one-for-one basis at the option of the holder, generally at any time, subject to certain restrictions, for REIT Units, Series B. The LP Class B Units, Series 1 are not entitled to vote at any meeting of the limited partners of DPLP.

The LP Class A Units and LP Class B Units, Series 2 are entitled to vote at meetings of the limited partners of DPLP and each unit entitles the holder to a distribution equal to distributions on the LP Class B Units, Series 1. At December 31, 2008, 16,947,240 LP Class A Units (December 31, 2007 — 17,072,154), 3,454,188 LP Class B Units, Series 1 (December 31, 2007 — 3,315,349) and nil LP Class B Units, Series 2 (December 31, 2007 — nil) were issued and outstanding. As at December 31, 2008, and December 31, 2007, all issued and outstanding LP Class A Units and LP Class B Units, Series 2 are owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

	REIT Units, Series A		REIT Units, Series B		LP Class B Units, Series 1		Accumulated other comprehensive loss	Total	
	Number of units	Amount	Number of units	Amount	Number of units	Amount		Number of units	Amount
Unitholders' equity, January 1, 2008	17,072,154	$ 300,216	476,316	$ 14,376	3,315,349	$ 99,791	$ (6,243)	20,863,819	$ 408,140
Net income	—	8,539	—	242	—	1,679	—	—	10,460
Distributions paid	—	(34,370)	—	(959)	—	(7,024)	—	—	(42,353)
Distributions payable	—	(3,114)	—	(3)	—	(632)	—	—	(3,749)
Distribution Reinvestment Plan	166,960	4,175	—	—	138,839	4,495	—	305,799	8,670
Unit Purchase Plan	23,222	700	—	—	—	—	—	23,222	700
Deferred Unit Incentive Plan	10,492	399	—	—	—	—	—	10,492	399
Purchase of units under normal course issuer bid	(826,900)	(21,798)	—	—	—	—	—	(826,900)	(21,798)
Purchase of REIT B Units and subsequent conversion to REIT A Units by DRC	460,000	13,285	(460,000)	(13,285)	—	—	—	—	—
Conversion of 6.5% Debentures	24,920	623	—	—	—	—	—	24,920	623
Conversion of 5.7% Debentures	16,392	492	—	—	—	—	—	16,392	492
Issue costs	—	(86)	—	—	—	—	—	—	(86)
Equity portion of 6.0% Debentures	—	2,160	—	—	—	—	—	—	2,160
Change in foreign currency translation adjustment	—	—	—	—	—	—	968	—	968
Unitholders' equity, December 31, 2008	16,947,240	$ 271,221	16,316	$ 371	3,454,188	$ 98,309	$ (5,275)	20,417,744	$ 364,626

Public offering of REIT A Units

On March 12, 2007, the Trust completed a public offering of 3,700,000 REIT A Units at a price of $40.75 per unit for gross cash proceeds of $150,775. On March 29, 2007, the Trust issued an additional 495,000 REIT A Units, pursuant to the exercise of the over-allotment option granted to the underwriters for gross proceeds of approximately $20,171. The exercise of the over-allotment option increased the total gross proceeds of the offering to approximately $170,946. Costs relating to the offering of $7,413 were charged directly to unitholders' equity.

Distribution Reinvestment and Unit Purchase Plan

The Distribution Reinvestment Plan ("DRIP") allows holders of REIT A Units or LP B Units, other than unitholders who are resident of or present in the United States, to elect to have all cash distributions from Dundee REIT reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 4% of each cash distribution that was reinvested. The price per unit is calculated by reference to a five-day weighted average closing price of the REIT A Units on the Toronto Stock Exchange preceding the relevant distribution date, which typically is on or about the 15th day of the month following the declaration.

For the year ended December 31, 2008, 166,960 REIT A Units and 138,839 LP B Units were issued under the DRIP for $8,670 (December 31, 2007 — 335,159 REIT A Units and 13,259 LP B Units for $14,304).

Unit Purchase Plan

The Unit Purchase Plan feature of the DRIP allows existing unitholders to purchase additional REIT A Units. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT A Units that may be acquired. The price per unit is calculated in a similar manner to the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase feature of the DRIP.

For the year ended December 31, 2008, 23,222 REIT A Units were issued under the Unit Purchase Plan for $700 (December 31, 2007 — 1,170 REIT A Units for $51).

Conversion of debentures

During the year ended December 31, 2008, the Trust issued 24,920 REIT A Units upon the conversion of $623 of the 6.5% Debentures (December 31, 2007 — issued 818,880 REIT A Units upon conversion of $20,472) and 16,392 REIT A Units upon conversion of $492 of the 5.7% Debentures (December 31, 2007 — issued 1,921,043 REIT A Units upon conversion of $57,631).

Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan provides for the grant of deferred trust units and income 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 while income deferred trust units are credited to holders of deferred trust units based on distributions paid on these units. Once issued, each deferred trust unit vests evenly over a three- or five-year period on the anniversary date of the grant, while income deferred trust units vest on the same date as the associated deferred trust unit. Subject to an election for certain participants to postpone receipt of REIT A Units, such units will be issued immediately upon vesting. Up to a maximum of one million deferred trust units are issuable under the Deferred Unit Incentive Plan. Compensation expense is recorded based on the fair market value of a REIT A Unit at the date of grant and amortized as earned over the vesting period or the remaining service period of the participant, whichever is less.

During the year ended December 31, 2008, $399 of compensation expense was recorded (December 31, 2007 — $1,177) and is included in general and administrative expenses. During the year ended December 31, 2007, an additional $4,280 was recognized as a transaction cost related to the sale of the Eastern Portfolio as a result of the accelerated vesting of the deferred trust units. Income deferred trust units are accounted for as a distribution and an issuance of REIT A Units when the related deferred trust units vest. No amount in relation to income deferred trust units is recognized in net income.

	Weighted average grant date value	Deferred trust units	Income deferred trust units	Total units
Outstanding at December 31, 2006	$ 27.87	266,200	38,076	304,276
Granted during the period (see Note 20)	42.69	94,200	16,136	110,336
REIT A Units issued on vesting	31.80	(27,715)	(2,655)	(30,370)
Vested deferred units cancelled by management (see Note 20)	29.56	(99,156)	(16,468)	(115,624)
Fractional units paid in cash	—	(18)	(3)	(21)
Outstanding at December 31, 2007	32.66	233,511	35,086	268,597
Granted during the period	**33.45**	**84,846**	**33,437**	**118,283**
Cancelled	**30.68**	**(450)**	**(5)**	**(455)**
REIT A Units issued	**30.61**	**(8,681)**	**(1,811)**	**(10,492)**
Fractional units paid in cash	**—**	**—**	**(47)**	**(47)**
Outstanding and payable at December 31, 2008	**$ 32.94**	**309,226**	**66,660**	**375,886**
Vested but not issued at December 31, 2008	**$ 32.74**	**224,380**	**60,453**	**284,833**

Normal course issuer bid

Pursuant to the issuer bid initiated in September 2007, and which expired on September 4, 2008, the Trust repurchased 174,000 REIT A Units during the year ended December 31, 2008, for consideration of $5,370.

Pursuant to the September 23, 2008 renewal of its normal course issuer bid, the Trust purchased 652,900 units for consideration of $16,428. Under the bid, Dundee REIT has the ability to purchase for cancellation up to a maximum of 1,326,762 REIT A Units (representing 10% of the REIT's public float of 13,267,620 REIT A Units on September 23, 2008) through the facilities of the TSX. The bid commenced on September 26, 2008, and will remain in effect until the earlier of September 25, 2009, or the date on which the Trust has purchased the maximum number of units permitted under the bid. As of December 31, 2008, the maximum number of REIT A Units remaining for purchase under the normal course issuer bid is 673,862. Based on the closing price of the REIT A Units on December 31, 2008, the Trust may purchase up to $8,491 worth of REIT A Units.

Note 13

JOINT VENTURES AND CO-OWNERSHIPS

The Trust participates in incorporated and unincorporated joint ventures, partnerships and co-ownerships (the "joint ventures") with other parties and accounts for its interests using the proportionate consolidation method. The following amounts represent the total assets and liabilities of rental property joint ventures in which the Trust participates and its proportionate share of the assets, liabilities, revenues, expenses and cash flows therein.

	Total		Proportionate share	
December 31	**2008**	2007	**2008**	2007
Assets	**$ 519,514**	$ 319,291	**$ 228,138**	$ 160,252
Liabilities	**354,539**	233,596	**157,326**	116,954

	Proportionate share	
For the years ended December 31	**2008**	2007
Revenues	**$ 34,689**	$ 31,816
Expenses	**30,772**	29,522
	$ 3,917	$ 2,294

For the years ended December 31	**2008**	2007
Cash flow generated from (utilized in):		
Operating activities	**$ 7,177**	$ 4,422
Investing activities	**(1,275)**	16,014
Financing activities	**(6,096)**	(21,007)
Decrease in cash and cash equivalents	**$ (194)**	$ (571)

The Trust is contingently liable for the obligations of the other owners of the unincorporated joint ventures at December 31, 2008, in the aggregate amount of $174,963 (December 31, 2007 — $113,092). In each case, however, the co-owners' share of assets is available to satisfy these obligations.

Note 14

INTEREST

Interest incurred and charged to earnings is recorded as follows:

For the years ended December 31	**2008**	2007
Interest expense incurred, at stated rate of debt	**$ 48,720**	$ 37,692
Amortization of deferred financing costs	**1,256**	693
Amortization of fair value adjustments on acquired debt	**(819)**	(968)
Interest capitalized	**(54)**	(23)
Interest expense	**$ 49,103**	$ 37,394

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 remaining life of the debt using the effective interest rate method. Interest capitalized includes interest on specified and general debt attributed to a recently acquired property considered to be under redevelopment. Non-cash adjustments to interest expense are recorded as a change in non-cash working capital in the consolidated statements of cash flows.

Note 15

INCOME TAXES

Dundee REIT is taxed as a mutual fund trust for Canadian income tax purposes. The Trust is required by its Declaration of Trust to distribute all of its taxable income to its unitholders, which currently enables the Trust to deduct such distributions for income tax purposes. As the income tax obligations relating to the distributions are those of the unitholders, no provision for income taxes is required on such amounts.

Canadian and U.S.-based incorporated subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. A future income tax liability as at December 31, 2008, of $3,387 (December 31, 2007 — $2,746) has been recorded to reflect the future tax obligations of these subsidiaries and comprises amounts resulting from the differences in tax and book values relating to the underlying rental properties. The reported carrying amount of Dundee REIT's net assets, excluding those in incorporated subsidiaries at December 31, 2008, exceeds the corresponding tax cost by approximately $37,000 (December 31, 2007 — $24,000).

A reconciliation of income tax expense for the period is as follows:

For the years ended December 31	2008	2007
Income before income taxes	$ 11,603	$ 10,265
Income (loss) before income taxes from discontinued operations	(803)	751,544
	10,800	761,809
Less: income allocable to unitholders	(9,821)	(760,500)
Income subject to Canadian tax in consolidated entity	979	1,309
Tax thereon at 29.5% current statutory rate (2007 — 31.62%)	289	414
Foreign current and future tax recovery in respect of foreign entities	(23)	(923)
Other	74	16
	340	(493)
Less: total income tax expense from discontinued operations	—	300
Total income tax provision (recovery) from continuing operations	$ 340	$ (793)

For the period ended June 30, 2007, the Trust did not meet the technical REIT exception pursuant to the June 12, 2007 amendments to the *Income Tax Act*, which modified the tax treatment of SIFTs. Consequently, a future income tax liability in the amount of $40,000 was recorded as at June 30, 2007, based on the temporary differences that were expected to reverse on or after January 1, 2011. The future income tax liability was recorded as a charge to the consolidated statements of net income and comprehensive income for the period ended June 30, 2007.

During the quarter ended September 30, 2007, a future income tax liability in the amount of $25,000 relating to assets sold during the quarter was reversed. During the quarter ended December 31, 2007, the Trust modified its organizational structure in order to qualify as a "real estate investment trust" and meet the REIT exception. As a result, the Trust met the REIT exception as at December 31, 2007, and accordingly, the remaining $15,000 of future tax liability was reversed and recorded as a recovery through the consolidated statements of net income and comprehensive income.

Note 16

INCOME PER UNIT

The weighted average number of units outstanding was as follows:

For the years ended December 31	**2008**	2007
REIT A Units and REIT B Units	**17,439,521**	31,794,371
LP B Units	**3,402,438**	6,276,491
Vested deferred trust units	**269,769**	147,565
Total weighted average number of units outstanding for basic income per unit amounts	**21,111,728**	38,218,427
Add incremental units:		
Unvested deferred trust units	**4,521**	—
Income deferred trust units	**1,087**	17,366
Total weighted average number of units outstanding for diluted income per unit amounts	**21,117,336**	38,235,793

The 3,419,110 incremental REIT A Units to be issued upon an assumed conversion of all debentures issued at December 31, 2008 (December 31, 2007 — 1,554,745 incremental REIT A Units) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

Note 17

EMPLOYEE FUTURE BENEFITS

The Trust has an optional defined contribution pension plan available to all full-time employees who have been employed by the Trust for a minimum of one year. The pension plan covers employees of the Trust, Dundee Realty Management Corp., DRC and any other entity as appointed by the sponsor of the plan. The plan is sponsored by Dundee Realty Management Corp., a wholly owned subsidiary of Dundee Management Limited Partnership (“DMLP”). For 2008, the total cost recognized and cash payments for employee future benefits, consisting of cash contributed to the defined contribution plan, was $101 (2007 — $175).

Note 18

SEGMENTED INFORMATION

The Trust's rental properties have been segmented into office and industrial components. 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, income taxes and general and administrative expenses are not allocated to the segment expenses.

For the year ended December 31, 2008	Office	Industrial	Segment total	Other	Total
Operations					
Revenues	$ 165,959	$ 17,297	$ 183,256	$ 4,205	$ 187,461
Operating expenses	62,092	5,335	67,427	2,315	69,742
Net operating income	103,867	11,962	115,829	1,890	117,719
Depreciation of rental properties	23,427	2,751	26,178	695	26,873
Amortization of deferred leasing costs, tenant improvements and intangibles	25,124	1,757	26,881	221	27,102
Segment income	$ 55,316	$ 7,454	$ 62,770	$ 974	63,744
Interest expense					(49,103)
General and administrative expenses					(6,740)
Interest and fee income					3,702
Income taxes					(340)
Discontinued operations					(803)
Net income					$ 10,460
Segment rental properties	$ 1,017,990	$ 95,331	$ 1,113,321	$ 23,786	$ 1,137,107
Capital expenditures					
Investment in rental properties	$ (5,545)	$ (120)	$ (5,665)	$ (178)	$ (5,843)
Investment in tenant improvements	(2,249)	(345)	(2,594)	(137)	(2,731)
Acquisition of rental properties	(155,348)	—	(155,348)	—	(155,348)
Deferred leasing costs	(3,962)	(1,027)	(4,989)	(4)	(4,993)
Total capital expenditures	$ (167,104)	$ (1,492)	$ (168,596)	$ (319)	$ (168,915)

For the year ended December 31, 2007	Office	Industrial	Segment total	Other	Total
Operations					
Revenues	$ 134,081	$ 16,020	$ 150,101	$ 4,112	$ 154,213
Operating expenses	48,486	4,444	52,930	2,233	55,163
Net operating income	85,595	11,576	97,171	1,879	99,050
Depreciation of rental properties	19,846	2,771	22,617	538	23,155
Amortization of deferred leasing costs, tenant improvements and intangibles	21,283	1,875	23,158	165	23,323
Segment income	$ 44,466	$ 6,930	$ 51,396	$ 1,176	52,572
Interest expense					(37,394)
General and administrative expenses					(7,600)
Internalization of property manager					(1,230)
Gain on disposition of land					2,328
Provision for impairment in value of rental property					(1,352)
Interest and fee income					2,941
Income taxes					793
Discontinued operations					751,244
Net income					$ 762,302
Segment rental properties	$ 879,218	$ 105,125	$ 984,343	$ 19,855	$1,004,198
Capital expenditures					
Investment in rental properties	$ (7,284)	$ (2,152)	$ (9,436)	$ (1,859)	$ (11,295)
Investment in tenant improvements	(3,500)	(2,751)	(6,251)	(173)	(6,424)
Investment in land development	—	—	—	(3,111)	(3,111)
Acquisition of rental properties	(377,664)	(182,294)	(559,958)	(366)	(560,324)
Deferred leasing costs	(3,222)	(1,484)	(4,706)	(922)	(5,628)
Total capital expenditures	$ (391,670)	$ (188,681)	$ (580,351)	$ (6,431)	$ (586,782)

Note 19

RELATED-PARTY TRANSACTIONS AND ARRANGEMENTS

From time to time, Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Prior to May 1, 2006, Dundee REIT, DPLP, DMLP and DRC were parties to a property management agreement and an administrative services agreement (the “Management Agreement” and the “Services Agreement”). In addition, DMLP and DRC are parties to a separate administrative services agreement. Effective May 1, 2006, the Trust acquired DRC’s 50% interest in DMLP (see Note 23). As a result, DRC is no longer party to the Management Agreement, other than its rent supplement obligation and the Services Agreement.

Asset Management Agreement

Effective August 24, 2007, Dundee REIT entered into an asset management agreement with DRC pursuant to which DRC provides certain asset management services to Dundee REIT and its subsidiaries (the "Asset Management Agreement"). The Asset Management Agreement provides for a broad range of asset management services for the following fees:

- base annual management fee calculated and payable on a monthly basis, equal to 0.25% of the gross asset value of properties, reflecting the market value of the properties at August 23, 2007 (the date of the GE transaction), and the purchase price of properties acquired subsequent to that date, adjusted for any properties sold;
- incentive fee equal to 15% of Dundee REIT's adjusted funds from operations per unit in excess of $2.65 per unit;
- capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000, excluding work done on behalf of tenants or any maintenance capital expenditures;
- acquisition fee, calculated over a fiscal year based on the anniversary date of the Asset Management Agreement, equal to (i) 1.0% of the purchase price of a property, on the first $100,000 of properties acquired; (ii) 0.75% of the purchase price of a property on the next $100,000 of properties acquired; and (iii) 0.50% of the purchase price on properties acquired in excess of $200,000; and
- financing fee equal to 0.25% of the debt and equity of all financing transactions completed on behalf of Dundee REIT to a maximum of actual expenses incurred by DRC in supplying services relating to financing transactions.

The Trust received total fees from DRC of $1,942 for the year ended December 31, 2008. These fees relate to cost recoveries under the Services Agreement. In the prior year, the Trust received total fees from DRC of $2,279. These fees relate to the rent supplement received under the Management Agreement and fees under the Services Agreement. Other costs recovered from DRC include $3,047 for the year ended December 31, 2008, for operating and administration costs of regional offices.

The Trust paid total fees to DRC of $6,213 for the year ended December 31, 2008 (December 31, 2007 — $2,122), under the Asset Management Agreement.

Included in amounts receivable at December 31, 2008, is $(43) related to the DRC Services Agreement (December 31, 2007 — $15), $210 related to the Asset Management Agreement and $156 related to other amounts owed by DRC. Accrued liabilities and other payables at December 31, 2008, include $nil for amounts related to the Asset Management Agreement (December 31, 2007 — $363) and $nil for other amounts collected on behalf of DRC (December 31, 2007 — $751).

Note 20
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The fulfillment of obligations and realization of assets related to the properties noted below have been reclassified as discontinued operations to comply with the disclosure requirements of the CICA Handbook Section 3475. The results of operations of any property that has been sold and identified as discontinued operations are reported separately and comparative amounts are also reclassified as discontinued operations.

During the fourth quarter of 2008, the Trust classified an industrial property located in Alberta as held for sale. In accordance with the requirements of CICA Handbook Section 3475, the property's carrying value is established to be the lower of its carrying value or its estimated fair value less selling costs. On the transfer of the property to assets held for sale, no impairment has been recognized.

The following table presents the assets and liabilities of the discontinued property as at December 31, 2008.

Assets	
Rental properties	$ 6,943
Deferred costs	365
Amounts receivable	90
Prepaid expenses and other assets	19
	$ 7,417
Liabilities	
Debt	$ 11,381
Amounts payable and accrued liabilities	167
	$ 11,548

On August 24, 2007, the Trust completed the sale of the Eastern Portfolio to GE for gross proceeds of $2,256,700 less estimated working capital adjustments net of capital expenditure adjustments of $3,288. Net proceeds include cash consideration of $1,483,622, which includes $9,468 of adjustments relating to the sale, and the assumption of liabilities of $771,116 by GE relating to this portfolio. The total disposition includes $1,550,017 of assets and $808,070 of liabilities. The Trust recognized a gain on sale of $721,867, which includes transaction costs of $18,481. Included in transaction costs is $4,280 relating to the accelerated vesting of 194,933 deferred trust units and 28,047 income deferred trust units; $2,135 relating to the purchase and cancellation by the Trust of 99,156 deferred trust units and 16,468 income deferred trust units from trustees, senior officers and employees transferred to DRC who had elected such purchases, the value of which represents the difference between $47.50 per unit and the grant date unit values; and $3,931 related to the special award of 92,000 deferred trust units in connection with the Transaction.

Related to the Transaction, on August 31, 2007, the Trust completed the sale of 3901 rue Jarry, Montréal, to its tenant, which exercised its first right to purchase the property. The Trust completed the sale for proceeds of $8,000 and recognized a gain of $4,653.

For the year ended December 31, 2008, the Trust recognized a further $79 of net gains, reflecting revisions to its prior year cost of sale estimates associated with the GE transaction and other previously sold properties.

During the third quarter of 2007, the Trust had classified its remaining 50% interest in Greenbriar Mall located in Atlanta as held for sale as the finalization of its sale to GE was only pending consent of the property's mortgage lender, which the Trust expected to receive in the fourth quarter of 2007. The Trust had recorded the property at the lower of carrying value and fair value, less the estimated cost to sell and recognized an impairment loss of $1,352. The Trust had also decreased the carrying value of the property by an additional $6,298 relating to the cumulative foreign currency translation loss that was expected to be realized on the anticipated sale and realized reduction in the net investment in the foreign operation. As of December 31, 2007, it was determined that the sale of Greenbriar Mall to GE would not be completed as management did not believe that the required consent of the property's mortgage lender would be obtained. The extension period to complete the sale expired as of January 15, 2008. As the property is not being actively marketed, it has been reclassified as held and in use. As a result, in the fourth quarter of 2007 the $6,298 write-down relating to the cumulative foreign currency translation was reversed.

Effective November 1, 2007, the Trust sold its 60% interest in two joint venture projects to its former joint venture partner for total consideration of $16,770, in which all outstanding mezzanine loans were repaid and related agreements terminated. The Trust recognized a gain on sale of $2,553. Consideration for the sale included second and third mortgages totalling $11,747 secured by the lands owned by the purchaser.

On October 31, 2007, the Trust completed the sale of 2705–2737 57th Ave SE, a 20,711 square foot industrial property in Calgary, Alberta. The Trust received proceeds of $8,200 and recognized a gain on sale of $2,423.

The following table summarizes the income (loss) from discontinued operations:

For the years ended December 31	**2008**	2007
Revenues		
Rental properties revenue	**$ 530**	$ 148,526
Interest and fee income	**—**	3
	530	148,529
Expenses		
Rental properties operating expenses	**559**	65,680
Interest	**613**	25,345
Depreciation of rental properties	**233**	19,829
Amortization of deferred leasing costs, tenant improvements and intangibles	**7**	17,619
	1,412	128,473
Income (loss) before the undernoted item	**(882)**	20,056
Gain on disposition of rental properties, net	**79**	731,488
Current income taxes expense	**—**	300
Income (loss) from discontinued operations	**$ (803)**	$ 751,244

Note 21

COMMITMENTS AND CONTINGENCIES

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

Dundee REIT's future minimum commitments under operating and capital leases are as follows:

Year ending December 31	Operating lease payments	Capital lease payments
2009	$ 941	$ 142
2010	829	142
2011	818	106
2012	763	—
2013	649	—
Total	$ 4,000	$ 390

Purchase and other obligations

The Trust has entered into lease agreements that require tenant improvement costs of $2,468.

The Trust has entered into a co-ownership agreement that includes typical rights of the co-owners for dispute resolution and a one-time put option exercisable by its co-owner. The put would require Dundee REIT to purchase the remaining 50% of the building, effective April 1, 2009, at the price paid by the Trust for its initial 50% interest in the property. On January 23, 2009, the put has been exercised and the Trust will purchase the building, located in Toronto, for $25,400 and assume debt maturing in September 2009 of approximately $20,600.

The Trust has entered into a fixed price utility contract with respect to four office properties in Calgary. The contract is for a period of one year (expiring on December 31, 2009) and locks the Trust in for total minimum payments of $817.

The Trust has entered into an agreement to purchase, from a former joint venture partner, an office building, currently under construction, at a future date for $20,788, with maximum adjustments to the closing price of $500. The closing date will be determined when the vendor notifies the Trust that the building is substantially complete, at which time the Trust is permitted 20 days for due diligence.

Note 22
SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31	2008	2007
Increase in accounts receivable	$ (1,760)	$ (689)
Decrease in deferred costs (other than leasing costs)	672	224
Decrease (increase) in prepaid expenses and other assets (excluding restricted cash, promissory notes and mezzanine loans)	77	(3,764)
Decrease in accounts payable and accrued liabilities (excluding leasing costs)	(5,170)	(5,902)
Increase in accounts payable relating to leasing costs	303	30
Change in non-cash working capital	**$ (5,878)**	**$ (10,101)**

The following amounts were paid on account of interest and income taxes:

For the years ended December 31	2008	2007
Interest	$ 48,827	$ 38,265
Income taxes	166	38

Note 23
INTERNALIZATION OF PROPERTY MANAGER

On May 12, 2006, through DPLP, the Trust acquired DRC's 50% interest in DMLP, the entity that provides property management and real estate advisory services to the Trust. The transaction was effective May 1, 2006, and increased the Trust's ownership of DMLP to 100%.

On closing, 450,000 LP B Units were issued for total consideration of $12,393, of which $417 was allocated to the net tangible assets acquired of DMLP and $12,154, including $178 of transaction costs, was expensed. The $27.54 issue price per LP B Unit was estimated based on a five-day weighted average trading price of the REIT A Units on the TSX with the midpoint being May 4, 2006, the date the substantive terms of the internalization were publicly announced, net of an implied discount for issuance costs.

Also on closing, 92,000 LP B Units were issued, placed in trust and enrolled in the DRIP to satisfy the maximum number of units that DRC would be entitled to receive on June 30, 2007. The cost of these units was expensed and added to cumulative capital as qualifying properties were acquired. In the first quarter of 2007, DPLP acquired $214,432 of qualifying properties, and accordingly, $1,230 was expensed and added to cumulative capital, representing the cost of the additional 44,674 LP B Units that DRC was entitled to receive on June 30, 2007. As of March 31, 2007, DRC had earned the maximum cumulative additional 100,000 LP B Units that it was entitled to receive, and subsequently, these units were released from trust on June 30, 2007, to DRC.

Note 24
CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS RISK MANAGEMENT

CICA Handbook Section 1535, "Capital Disclosures", requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements.

The Trust's capital consists of debt, including mortgages, convertible debentures and lines of credit, and unitholders' equity. The Trust's objectives in managing capital are to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions, to fund leasing costs and capital expenditure requirements, and to provide for resources needed to acquire new properties. The Trust does not expect the current economic conditions and tightening in the credit markets to impact its ability to manage existing mortgages that come due over the next two years. The Trust's existing debt levels and its strong financial position provide confidence in its ability to renew existing mortgage obligations.

Various debt, equity and earnings distribution ratios are used to monitor capital adequacy and requirements. For debt management, interest coverage ratio and net debt to enterprise value are the primary ratios used in capital management. Other significant indicators include weighted average interest rate, debt average term to maturity and variable debt as a portion to total debt. These indicators assist the Trust in assessing that the debt level maintained is sufficient to provide adequate cash flows for unitholder distributions, capital expenditures and for evaluating the need to raise funds for further expansion.

The Trust's equity consists of Units, in which the carrying value is impacted by earnings and unitholder distributions. The Trust makes annual distributions of $2.20 per unit. Amounts retained in excess of the distributions are used to fund leasing costs, capital expenditure and working capital requirements. Management monitors distributions through various ratios to ensure adequate resources are available. These include the proportion of distributions paid in cash, DRIP participation ratio, total distributions as a percent of distributable income and distributable income per unit.

The Trust's Declaration of Trust limits its interest coverage ratio to no less than 1.4 times. The interest coverage ratio is calculated as net operating income from continuing operations plus interest and fee income less general and administrative expenses, divided by interest expense from continuing operations. At December 31, 2008, the Trust's interest coverage ratio was 2.3 times, reflecting its ability to cover interest expense requirements.

For the years ended December 31	**2008**	2007
Rental properties revenue	**$ 187,461**	$ 154,213
Rental properties operating expense	**69,742**	55,163
Net operating income	**117,719**	99,050
Add: interest and fee income	**3,702**	2,941
Less: general and administrative expenses	**6,740**	7,600
	$ 114,681	$ 94,391
Interest expense	**$ 49,103**	$ 37,394
Interest coverage ratio	**2.3 times**	2.5 times

CICA Handbook Section 3862, "Financial Instruments — Disclosures", places increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks, including market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other market price risk.

The Trust has some exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt at December 31, 2008, was 5.9% of the Trust's total debt (December 31, 2007 — 2.4%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, manage maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The following interest sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate assets and liabilities for the year ended December 31, 2008. A 1% change is considered a reasonable level of fluctuation on variable rate assets and debts.

		Interest rate risk			
		–1%		+1%	
	Carrying amount	Income	Equity	Income	Equity
Financial asset					
Cash and cash equivalents[1]	$ 69,267	$ (173)	$ (173)	$ 173	$ 173
Financial liabilities					
Variable rate mortgages[2]	$ 51,039	$ 128	$ 128	$ (128)	$ (128)

[1] Cash and cash equivalents are short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent its use for current purposes. These balances generally receive bank prime less 1.5%. Sensitivity to a -1% change in rates: ([$69,267 x 2%] – [$69,267 x 1%])/4 = $(173). Similarly, for a +1% movement in interest rates, impact = $173. Cash and cash equivalents are short term in nature and the current balance may not be representative of the balance for the rest of the year.

[2] Variable rate mortgages include a floating rate mortgage at a rate of LIBOR plus 0.355%, to a maximum of 8.75% and a floating rate mortgage at a rate of LIBOR plus 0.62%. Sensitivity to a -1% change in rates: ([$51,039 x 4.54%] – [$51,039 x 3.54%])/4 = $128. Similarly, for a +1% movement in interest rates, impact = $(128).

Due to fluctuations in the exchange rate between the Canadian and U.S. dollars, the Trust is exposed to foreign exchange risk relating to its self-sustaining U.S. operations. The impact of foreign exchange fluctuations is deferred as a separate component of unitholders' equity until there is a realized reduction in the net investment in the foreign operation. The Trust currently does not employ hedging activities to manage its financial risks, and the associated currency risks are considered immaterial.

The Trust's assets consist of office and industrial rental properties. Credit risk arises from the possibility that tenants in rental properties may not fulfill their lease or contractual obligations. The Trust mitigates its credit risks by attracting tenants of sound financial standing and by diversifying its mix of tenants. It also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. A further description of credit risk relating to tenants is disclosed in Note 6. Cash and cash equivalents, deposits and restricted cash carry minimal credit risk, as all funds are maintained with highly reputable financial institutions.

Liquidity risk is the risk that the Trust will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The Trust manages maturities of the fixed rate debts, and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. A schedule of principal repayments and debt maturities is provided in Note 9.

Note 25
SUBSEQUENT EVENTS

Effective January 23, 2009, a put option has been exercised by an office building co-owner and the Trust will purchase the building, located in Toronto, for $25,400 and assumed debt, maturing in September 2009, of approximately $20,600.