Management's discussion and analysis

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

SECTION I — OBJECTIVES AND FINANCIAL HIGHLIGHTS

BASIS OF PRESENTATION

Our discussion and analysis of the financial position and results of operations of Dundee Real Estate Investment Trust ("Dundee REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements of Dundee REIT for the year ended December 31, 2009.

This management's discussion and analysis has been dated as at January 31, 2010, except where otherwise noted. For simplicity, throughout this discussion, 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
- "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

Certain market information has been obtained from the CB Richard Ellis MarketView, Fourth Quarter 2009, a publication prepared by a commercial firm that provides information relating to the real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

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

Although the forward-looking statements contained in this management's discussion and analysis are based upon what we believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in close proximity to the Trust's properties; timely leasing of vacant space and re-leasing of occupied space upon expiration; dependence on tenants' financial condition; the uncertainties of acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; that the specified investment flow-through trust ("SIFT") Rules and the normal growth guidelines are not applicable to us; and other risks and factors described from time to time in the documents filed by the Trust with the securities regulators.

All forward-looking information is as of January 31, 2010, except where otherwise noted. Dundee REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators, including the latest annual information form of Dundee REIT. These filings are also available on our web site at www.dundeereit.com.

OUR OBJECTIVES

We are committed to:

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

Distributions

We currently pay monthly distributions to unitholders of $0.183 per unit or $2.20 on an annual basis. We also have a Distribution Reinvestment and Unit Purchase Plan ("DRIP"), which allows unitholders to have their distributions automatically reinvested into additional units. Unitholders who enrol in the DRIP receive a bonus distribution of 4% with each reinvestment. At January 31, 2010, approximately 8% of our total units were enrolled in the DRIP, including 8% of the REIT A Units and 9% of the LP B Units. There is no equivalent program for the REIT B Units (see a description of Our Equity on page 9).

2009	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	**Oct**	**Nov**	**Dec**
Distribution rate	$0.183	$0.183	$0.183	$0.183	$0.183	$0.183	$0.183	$0.183	$0.183	**$0.183**	**$0.183**	**$0.183**
Month-end closing price	$11.89	$13.75	$12.75	$13.40	$15.05	$15.15	$16.50	$19.30	$19.46	**$19.25**	**$19.17**	**$20.75**

OUR STRATEGY

Dundee REIT's core strategy is to invest in the office and industrial sectors in key markets across Canada, providing a solid platform for stable and growing cash flows. The execution of that strategy, however, is continuously reviewed including acquisitions and dispositions, our capital structure, as well as our analysis of current economic conditions. Our executive team has worked together for many years and has experience operating through a number of real estate cycles. We are highly motivated to continue to increase the value of our portfolio and maintain a sharp focus on providing stable and reliable returns for our unitholders. In addition, Dundee REIT was among the first REITs to qualify as a real estate investment trust under the SIFT legislation and we are steadfast in maintaining that status.

Dundee REIT's methodology to meet its strategy and objectives includes:

Investing in high-quality office and industrial properties

Our portfolio is concentrated in Canada's key urban markets and is comprised of properties that are well located, attractively priced and produce consistent cash flow. When considering acquisition opportunities we look for quality tenancies, strong occupancy, the appeal of the property to future tenants, how it complements our existing portfolio and how we can create additional value.

Optimizing the performance, value and cash flow of our portfolio

We manage our properties to optimize long-term cash flow and value. With fully internalized property management, we offer a strong team of highly experienced real estate professionals who are focused on achieving more from our assets. Occupancy rates across our portfolio have remained steady and strong for a number of years. We view this as strong evidence of the appeal of our properties and our ability to meet and exceed tenant expectations. Dundee REIT has a proven ability to identify and execute value-add opportunities and a track record for outperforming the real estate index.

Diversifying our portfolio to mitigate risk

With the acquisitions completed in 2009 and those that closed subsequent to year-end, we have demonstrated our commitment to once again achieving greater geographic diversification across our portfolio. We will continue to pursue growth by acquiring properties that enhance our overall portfolio, further improve the sustainability of distributions, strengthen our tenant profile and help mitigate risk. We have experience in each of Canada's key markets and have the flexibility to pursue the acquisition of office and industrial properties in whichever markets offer compelling investment opportunities.

Maintaining and strengthening our conservative financial profile

We have always operated our business in a disciplined manner, with a keen eye on financial analysis and balance sheet management to ensure that we maintain a prudent capital structure. We continue to generate cash flows sufficient to fund our distributions while maintaining a conservative debt ratio and balanced debt maturities.

OUR ASSETS

We provide high-quality, affordable business premises with a primary focus on mid-sized urban and suburban office properties as well as industrial and prestige industrial properties. Our assets are located in major urban centres across Canada including: Ottawa, Toronto, Saskatoon, Regina, Calgary, Edmonton, Vancouver and Yellowknife.

					Owned gross leasable area (sq. ft.)	
December 31				**2009**		2008
	Office	**Industrial**	**Total**	**%**	Total	%
British Columbia	**519,215**	**—**	**519,215**	**7**	514,864	8
Alberta	**2,877,728**	**1,660,109**	**4,537,837**	**61**	4,724,573	69
Saskatchewan & NWT	**848,575**	**—**	**848,575**	**12**	849,329	12
Ontario	**1,488,741**	**—**	**1,488,741**	**20**	728,874	11
Total[1]	**5,734,259**	**1,660,109**	**7,394,368**	**100**	6,817,640	100
Percentage	**78%**	**22%**	**100%**			
Total as at December 31, 2008[2]	4,969,858	1,847,782	6,817,640			
Percentage	73%	27%	100%			

[1] Excludes redevelopment properties and properties held for sale.

[2] 7102 Barlow Trail has been restated as continuing operations.

Subsequent to year-end, we acquired approximately 1.1 million square feet of office space in Ontario. The addition of these properties reduces our exposure to the Alberta market from 61% of owned gross leasable area ("GLA") to 54%.

Office rental properties

Dundee REIT owns interests in 46 office properties (57 buildings) comprising approximately 5.7 million square feet, excluding redevelopment properties, located in Ottawa, Toronto, Saskatoon, Regina, Calgary, Vancouver and Yellowknife. These office properties can generally be categorized as high-quality, affordable, suburban and downtown buildings. The occupancy rate across our office portfolio remains high at 96.7%, well ahead of the national industry average occupancy rate of 90.1% (CB Richard Ellis, Canadian Office MarketView, Fourth Quarter 2009). Our occupancy rates include lease commitments for space which is currently being readied for occupancy but for which rent is not yet being recognized.

Subsequent to December 31, 2009, we acquired Adelaide Place, a two-tower Class A office complex in downtown Toronto comprising 655,000 square feet with an occupancy rate of 97%. We also acquired the Aviva Corporate Centre in Toronto, a four-building office complex comprising 439,000 square feet with an occupancy rate of 99%.

Additionally, in the second quarter of 2010, we will be purchasing a fully leased building located in suburban Toronto that will further geographically diversify our portfolio.

Industrial rental properties

Our industrial portfolio consists of 34 prime suburban industrial properties (37 buildings) comprising approximately 1.7 million square feet, concentrated in Calgary and Edmonton. Dundee REIT's strategy is to own clusters of properties, allowing it to respond quickly and efficiently to tenants' needs during times of change in their operations or size of their workforce. The occupancy rate across our industrial portfolio has softened to 90.6%, from 92.0% at the end of the third quarter. The industry average occupancy rates in our two industrial markets, Calgary and Edmonton, were 94.8% and 96.2%, respectively (CB Richard Ellis, Calgary and Edmonton Industrial MarketView, Fourth Quarter 2009).

OUR EQUITY

				Unitholders' equity
December 31		**2009**		2008
	Number of units	**Amount**	Number of units	Amount
REIT Units, Series A	**21,247,397**	**$ 312,743**	16,947,240	$ 271,087
REIT Units, Series B	**16,316**	**362**	16,316	371
LP Class B Units, Series 1	**3,454,188**	**92,656**	3,454,188	98,260
Cumulative foreign currency translation adjustment	**—**	**(6,609)**	—	(5,275)
Total	**24,717,901**	**$ 399,152**	20,417,744	$ 364,443

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

At December 31, 2009, Dundee Corporation, directly and indirectly through its subsidiaries, held 921,299 REIT A Units and 3,454,188 LP B Units.

KEY PERFORMANCE INDICATORS

Performance is measured by these and other key indicators:

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Operations				
Occupancy rate (period-end)[1]	**95.4%**	94.0%		
In-place rent per square foot (office and industrial)[1]	**$ 15.30**	$ 15.30		
Operating results				
Rental properties revenue[2]	**$ 50,156**	$ 48,385	**$ 192,083**	$ 179,779
Net operating income ("NOI")[3]	**30,791**	30,203	**120,954**	113,753
Funds from operations ("FFO")[4]	**17,363**	16,985	**67,633**	64,652
Adjusted funds from operations ("AFFO")[5]	**13,033**	11,745	**49,783**	43,856
Distributions				
Declared distributions	**$ 13,562**	$ 11,194	**$ 48,450**	$ 45,756
Distributions paid in cash	**12,591**	10,266	**45,354**	37,112
DRIP participation ratio	**7%**	8%	**6%**	19%
Deferral rate			**77%**	93%
Financing				
Weighted average interest rate (period-end)	**5.75%**	5.83%		
Interest coverage ratio	**2.4 times**	2.3 times	**2.3 times**	2.3 times
Per unit amounts				
Basic:				
FFO	**$ 0.70**	$ 0.82	**$ 3.04**	$ 3.06
Distributable income	**0.59**	0.65	**2.55**	2.40
Distribution rate	**0.55**	0.55	**2.20**	2.20
Total distributions as a percentage of distributable income	**93%**	85%	**86%**	92%
AFFO	**0.52**	0.57	**2.24**	2.08
Diluted:[6]				
FFO	**$ 0.69**	$ 0.80	**$ 3.00**	$ 3.01
Distributable income	**0.60**	0.65	**2.57**	2.40

NOI, FFO, distributable income and AFFO are key measures of performance used by real estate operating companies; however, they are not defined by Canadian generally accepted accounting principles ("GAAP"), do not have standard meanings and may not be comparable with other industries or income trusts.

(1) Excludes redevelopment properties and discontinued property.

(2) Prior year comparatives have been restated for discontinued operations.

(3) NOI — rental property revenues less operating expenses, excluding redevelopment and discontinued operations. Prior year comparatives have been restated as a result of discontinued operations. The reconciliation of NOI to net income can be found on page 37.

(4) FFO — the reconciliation of FFO to net income can be found on page 25.

(5) AFFO — the reconciliation of AFFO to distributable income can be found on page 28.

(6) Diluted amounts assume the conversion of the 6.5%, 5.7% and 6.0% Debentures.

FINANCIAL OVERVIEW

Overall occupancy increased to 95.4% from 94.0% at the end of the prior year. Occupancy across our office portfolio has remained stable at 96.7% compared to last year, while our industrial portfolio has improved to 90.6% from 87.0%. Our operations remain strong, with continued year-over-year growth in our rental property revenue and NOI. Rental property revenue increased year-over-year by 7% to $192.1 million and NOI increased by 6% to $121.0 million. On a quarterly basis, rental property revenue and NOI grew by $1.8 million and $0.6 million, respectively, reflecting our ability to effectively manage our business as well as accretive leasing activity coming on-line. Details of our NOI begin on page 37.

We have a successful track record for managing our lease rollover activity. Renewal and new leasing activity have allowed us to take advantage of generally higher market rates in many of our market segments. The market rental rates in the Calgary office segment have declined over the past year; however, at 95.2%, our Alberta office portfolio occupancy remains well above the industry average. Details of our leasing profile are provided on page 14.

For the year, AFFO increased 14% to $49.8 million, or $2.24 per unit, largely reflecting solid growth in NOI, lower interest expense and the impact of deploying our capital.

In the fourth quarter we acquired $96.9 million of office properties, bringing total acquisitions for the year to $122.9 million. The acquisitions, comprising 596,000 square feet in Toronto and 239,000 square feet in Ottawa, provided our portfolio with greater geographic diversification and set the stage for further growth in 2010.

Financing activity for the year included the placement of $36.0 million of new mortgage financing, $26.7 million of assumed mortgages related to property acquisitions, $15.5 million of principal repayments and $54.5 million of mortgages discharged at maturity. Overall, the weighted average interest rate of our mortgage debt is 5.75%, down slightly from 5.83% in the prior year. We also raised $67.3 million, net of costs, from an equity offering on September 9, 2009. Details of financing activity and debt begin on page 31.

OUTLOOK

We began the year with a great deal of uncertainty with respect to general economic conditions and their potential effect on our tenants, the credit markets and our business. A year later, the Canadian economy is outperforming that of many other countries and our business is performing soundly. Our occupancy rate has improved, our tenants continue to operate their businesses, we've successfully managed our debt maturities and we are growing our portfolio. Each of our key performance metrics demonstrates stability and, with the addition of high-quality Ontario-based assets bringing greater geographic diversity to our portfolio, our stock price is also on the rise.

Year-over-year, overall occupancy has increased with both the office and industrial portfolios performing well. The Calgary market represents our greatest challenge, as increased competition for downtown office space has resulted in a significant decline in market rents. We have been actively working with tenants well in advance of their expiries to secure commitments to renew or identify leasing opportunities and to ensure the continuity of our cash flow. While deterioration is expected to continue in this market, our occupancy rate is currently well above the average market rate and we have a proven ability to retain and attract tenants. In addition, the characteristics of our portfolio and tenant base are such that we don't believe we will be impacted to the same extent as the broader market. Further, as we continue to grow our portfolio, any changes in this market will have less of an impact on our overall performance.

Going into 2010, we are pleased with the condition of our company. We feel that confidence and liquidity have returned to the debt and capital markets and we no longer need to maintain a significant amount of cash on hand. Our team has a proven track record for creating value and, in many ways, Dundee REIT is ideally positioned to take advantage of opportunities that will become available in an improving economy. We look to the year ahead with optimism about our capability to grow our portfolio and improve our business.

SECTION II — EXECUTING THE STRATEGY

OUR RESOURCES AND FINANCIAL CONDITION

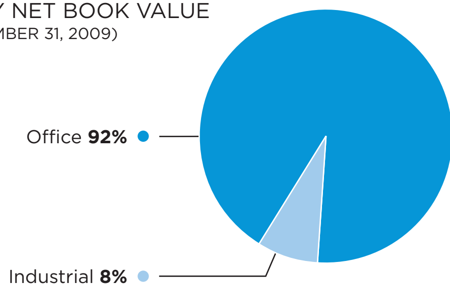
Rental properties

The net book value of segmented rental properties by geographic location and asset type is set out below.

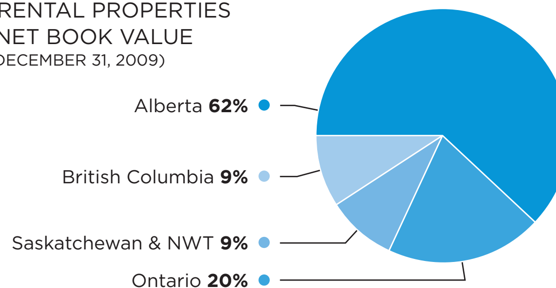
December 31			2009[1]		2008[1]	
	Office	Industrial	Total	%	Total	%
British Columbia	$ 99,834	$ —	$ 99,834	9	$ 101,485	9
Alberta	646,207	90,310	736,517	62	761,650	68
Saskatchewan & NWT	107,754	—	107,754	9	109,490	10
Ontario	235,195	—	235,195	20	149,611	13
Total	**$1,088,990**	**$ 90,310**	**$ 1,179,300**	**100**	$ 1,122,236	100
Percentage	92%	8%	100%			
Total as at December 31, 2008	$ 1,019,280	$ 102,956	$ 1,122,236			
Percentage	91%	9%	100%			

[1] Excludes $1.8 million related to redevelopment properties and $17.6 million related to discontinued properties (December 31, 2008 — excludes $22.8 million related to Greenbriar Mall and $1.0 million related to other redevelopment properties).

PORTFOLIO ASSET TYPE BY NET BOOK VALUE (AT DECEMBER 31, 2009)



GEOGRAPHIC DISTRIBUTION OF RENTAL PROPERTIES BY NET BOOK VALUE (AT DECEMBER 31, 2009)



Market information

In an effort to give additional context for our portfolio, provided below is some general information with respect to those markets where we have established a critical mass of properties. The source for market occupancy, vacancy, availability and rental rates for British Columbia, Alberta and Ontario is CB Richard Ellis MarketView, Fourth Quarter 2009. Market information for Saskatchewan and the Northwest Territories is based on local estimates.

British Columbia

The downtown Vancouver office market experienced a surge in leasing activity in the last part of the year, pushing the vacancy rate down to 5.8%. The amount of sublease space on the market also declined significantly, down 34%. Leasing activity in suburban Vancouver was mixed with the Surrey market remaining relatively strong but the Burnaby market experiencing weakness. Little activity is expected in the first half of 2010; however, it is anticipated that the economy will show some improvement in the second half of the year.

Alberta

In Calgary, the combined effect of 1.2 million square feet of new office supply coming on stream in 2009 and weakening demand for space from oil and gas companies resulted in rising vacancy rates and weakening rental rates throughout the year. Vacancy at year-end averaged about 15.6% across all classes with sublet space accounting for approximately 47% of total vacancy. It is anticipated that rental rates will continue to trend down as landlords work to maintain their tenant base. Slightly positive absorption in the fourth quarter indicates that there may be some demand for office space in 2010; however, the next 24 months will see another 2.5 million square feet added to the office inventory causing vacancy to continue to rise.

In Edmonton, a number of industrial projects comprising 1.3 million square feet were completed and added to inventory applying upward pressure on vacancy rates which rose to 3.8%. Looking ahead, it is anticipated that demand for industrial space will increase and that existing inventory will remain static as new speculative construction has dried up. The Edmonton office market remains strong with downtown vacancy at 7.9%.

Saskatchewan and NWT

Saskatoon's GDP growth in 2009, while flat, led the nation and is expected to continue doing so in the year ahead. Inventory in the downtown office market grew in 2009, ending the year at just over two million square feet. The demand for office space remains strong and even though vacancy has increased slightly to 6.1%, it remains low and there is continued upward pressure on rental rates.

The Regina market continues to offer stability and growth. It is expected that the high pace of infrastructure activity and potential spin-off effects from federal infrastructure spending will bode well for Regina in 2010. This office market comprises approximately 3.4 million square feet with virtually no vacancy. An announcement regarding the construction of at least one new office tower is expected in early 2010. Since it will not be ready for tenant occupancy until 2012, vacancy rates are expected to remain low with continued upward pressure on rental rates.

The economy of the Northwest Territories is driven by the government and resource-based businesses. With the resource sector expected to show modest growth and increased infrastructure spending, the outlook for Yellowknife calls for sustained gradual growth. Vacancy remains very tight in this market and we anticipate that rental rates will continue to increase throughout 2010.

Ontario

Although the economy has demonstrated some improvements, the addition of 3.2 million square feet of new office space in Toronto's financial core and a general weakening in demand continue to impact vacancy rates, which rose for the fourth consecutive quarter to 7.3% at year-end. The vacancy rate in suburban Toronto also increased to 11.7%. Net absorption is expected to return to positive levels by 2011.

The Ottawa office market remained relatively stable throughout 2009. Improvements in occupancy in the suburban east and west markets led to an improvement across the overall region with vacancy dropping to 5.7% at year-end. Overall, the region experienced positive absorption and asking rental rates increased.

Leasing profile

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

Performance indicators at December 31		**2009**		2008[1]
Operating activities (office and industrial average)[2]				
Occupancy level		**95.4%**		94.0%[1]
Tenant maturity profile — average term to maturity (years)		**4.5**		4.5
In-place rental rates	**$**	**15.30**	$	15.30

[1] 7102 Barlow Trail has been restated as continuing operations.

[2] Excludes redevelopment properties and properties held for sale.

Throughout the year we continued to capture rental rate increases across most of our markets. The average in-place rent in Ontario, however, was impacted by acquisitions completed during the fourth quarter that carried an average in-place rental rate of $11.69, which lowered the average rate for Ontario and caused our overall average in-place rental rate to remain unchanged year-over-year.

In-place rental rates at December 31		**2009**		2008
British Columbia	**$**	**16.38**	$	15.59
Alberta		**18.69**		18.47
Saskatchewan & NWT		**18.41**		17.93
Ontario		**14.56**		17.49
Total office		**17.34**		17.94
Industrial				
Alberta		**7.77**		7.35
Overall	**$**	**15.30**	$	15.30

For the period-end, the percentage of occupied and committed space is as follows:

(percentage)	**Q4 2009**	Q3 2009	Q2 2009	Q1 2009[1]	Q4 2008[1]	Q3 2008	Q2 2008	Q1 2008
Office	**96.7**	95.9	96.0	96.4	96.6	97.6	97.4	96.0
Industrial	**90.6**	92.0	89.3	91.1	87.0	90.9	94.1	92.3
Overall[2]	**95.4**	94.9	94.2	95.0	94.0	95.8	96.5	95.0

[1] 7102 Barlow Trail has been restated as continuing operations.

[2] Excludes redevelopment properties and properties held for sale.

The overall percentage of occupied and committed space across our rental properties portfolio was 95.4% at quarter-end. The average occupancy rate across our office portfolio is 96.7%, an increase over the last quarter and the prior year and well above the national industry average of 90.1%. The average occupancy rate across our industrial portfolio is 90.6%, down from the last quarter due to a 24,000 square foot increase in vacancy, but an improvement over the prior year. The overall occupancy rates for industrial space in Calgary and Edmonton were 94.8% and 96.2%, respectively (CB Richard Ellis, Canadian office and Calgary and Edmonton Industrial MarketViews, Fourth Quarter 2009). Our occupancy rates discussed in this report include occupied and committed space at December 31, 2009.

			Total portfolio			Comparative properties
(percentage)	**December 31, 2009**	September 30, 2009	December 31, 2008[1]	**December 31, 2009**	September 30, 2009	December 31, 2008[1]
Office						
British Columbia	**95.3**	93.5	96.9	**95.3**	93.5	96.9
Alberta	**95.2**	95.1	96.4	**95.2**	95.1	96.4
Saskatchewan & NWT	**98.7**	99.3	98.2	**98.7**	99.3	98.2
Ontario	**99.1**	96.4	95.2	**99.6**	99.6	98.6
Total office	**96.7**	95.9	96.6	**96.4**	96.3	97.1
Industrial						
Alberta	**90.6**	92.2	87.0	**90.6**	92.0	85.6
Overall[2]	**95.4**	94.9	94.0	**94.9**	95.2	94.2

(1) 7102 Barlow Trail has been restated as continuing operations.

(2) Excludes redevelopment properties.

Vacancy schedule

The tables below distinguish between space that is currently vacant and space that is committed for future occupancy, and provide a continuity for the vacant space component.

During the fourth quarter, approximately 206,000 square feet of leases expired or were terminated, and we completed approximately 239,000 square feet of renewals and new leasing. Overall, we reduced vacancy by 51,000 square feet. Throughout the year approximately 1,216,000 square feet of leases expired or were terminated and we completed 1,260,000 square feet of renewals and new leasing. Of the vacant space at period-end, approximately 90,000 square feet, or 21%, is committed for future occupancy, leaving approximately 343,000 square feet available for lease.

	For the three months ended December 31, 2009		
(in square feet)	Office	Industrial	Total
Available for lease	210,732	132,338	343,070
Vacancy committed for future leases	67,392	74,992	142,384
Vacant space — October 1, 2009	278,124	207,330	485,454
Acquired/Disposed vacancy	(17,655)	—	(17,655)
Remeasurements	(461)	—	(461)
Expiries	96,001	80,202	176,203
Early terminations and bankruptcies	14,337	15,280	29,617
New leases	(72,587)	(84,361)	(156,948)
Renewals	(61,865)	(20,136)	(82,001)
Vacant space — December 31, 2009	235,894	198,315	434,209
Vacancy committed for future leases	49,083	41,852	90,935
Available for lease — December 31, 2009	186,811	156,463	343,274

	For the year ended December 31, 2009		
(in square feet)	Office	Industrial	Total
Available for lease	169,479	48,079	217,558
Vacancy committed for future leases	85,138	10,440	95,578
Vacant space — January 1, 2009	254,617	58,519	313,136
Vacancy on property previously held for sale	—	191,240	191,240
Vacant space — January 1, 2009 (restated)	254,617	249,759	504,376
Acquired/Disposed vacancy	(17,655)	(6,707)	(24,362)
Remeasurements	2,965	(4,734)	(1,769)
Expiries	751,691	358,475	1,110,166
Early terminations and bankruptcies	62,612	43,040	105,652
New leases	(279,680)	(322,103)	(601,783)
Renewals	(538,656)	(119,415)	(658,071)
Vacant space — December 31, 2009	235,894	198,315	434,209
Vacancy committed for future leases	49,083	41,852	90,935
Available for lease — December 31, 2009	186,811	156,463	343,274

The following two tables detail our lease maturity profile by asset type and geographic segment as at December 31, 2009. The tables distinguish between lease maturities that have yet to be renewed or re-leased and maturities for which we have a leasing commitment. The uncommitted line should be referenced when considering future leasing risks or opportunities and the committed line should be referenced when considering the impact of leasing activity.

We have a long and successful track record in managing our lease rollovers. During 2010, approximately 13% of our leases will expire. Of these expiries, approximately 26% have been renewed as of year-end, leaving 74% to be renewed by the end of 2010.

(in square feet)	Current vacancy	Current monthly tenancies	2010	2011	2012	2013	2014 to 2022	Total
Office — uncommitted	186,811	29,122	490,853	661,024	604,702	867,210	2,500,070	5,339,792
Office — committed	—	—	202,343	59,378	93,589	7,229	31,928	394,467
Total office	186,811	29,122	693,196	720,402	698,291	874,439	2,531,998	5,734,259
Industrial — uncommitted	156,463	15,200	211,930	227,150	346,013	203,139	439,514	1,599,409
Industrial — committed	—	—	46,600	14,100	—	—	—	60,700
Total industrial	156,463	15,200	258,530	241,250	346,013	203,139	439,514	1,660,109
Total — uncommitted	343,274	44,322	702,783	888,174	950,715	1,070,349	2,939,584	6,939,201
Total — committed	—	—	248,943	73,478	93,589	7,229	31,928	455,167
Total	343,274	44,322	951,726	961,652	1,044,304	1,077,578	2,971,512	7,394,368

(in square feet)	Current vacancy	Current monthly tenancies	2010	2011	2012	2013	2014 to 2022	Total
British Columbia — uncommitted	24,200	10,799	34,346	94,916	28,969	60,797	265,188	519,215
British Columbia — committed	—	—	—	—	—	—	—	—
Total British Columbia	24,200	10,799	34,346	94,916	28,969	60,797	265,188	519,215
Alberta — uncommitted	294,938	33,408	619,956	648,443	653,037	569,784	1,474,415	4,293,981
Alberta — committed	—	—	176,381	57,073	—	7,229	3,173	243,856
Total Alberta	294,938	33,408	796,337	705,516	653,037	577,013	1,477,588	4,537,837
Saskatchewan & NWT — uncommitted	10,691	115	19,773	74,531	207,828	125,723	334,676	773,337
Saskatchewan & NWT — committed	—	—	70,602	4,636	—	—	—	75,238
Total Saskatchewan & NWT	10,691	115	90,375	79,167	207,828	125,723	334,676	848,575
Ontario — uncommitted	13,445	—	28,708	70,284	60,881	314,045	865,305	1,352,668
Ontario — committed	—	—	1,960	11,769	93,589	—	28,755	136,073
Total Ontario	13,445	—	30,668	82,053	154,470	314,045	894,060	1,488,741
Total — uncommitted	343,274	44,322	702,783	888,174	950,715	1,070,349	2,939,584	6,939,201
Total — committed	—	—	248,943	73,478	93,589	7,229	31,928	455,167
Total	343,274	44,322	951,726	961,652	1,044,304	1,077,578	2,971,512	7,394,368

The following tables provide expiring rents across our portfolio as well as our estimate of average market rents based on current leasing activity in comparable properties as at December 31, 2009.

	Current monthly tenancies	2010	2011	2012	2013	2014 to 2022
Expiring rents						
Office	$ 19.08	$ 16.98	$ 18.06	$ 20.43	$ 18.73	$ 18.22
Industrial	7.27	8.91	8.09	6.75	9.77	8.59
Portfolio average	15.03	14.55	15.51	15.45	17.03	16.80
Market rents[(1)]						
Office	$ 19.39	$ 16.62	$ 16.69	$ 18.88	$ 16.03	$ 17.90
Industrial	8.57	9.31	9.94	7.62	9.13	6.91
Market rent average	15.68	14.41	14.96	14.78	14.72	16.28

(1) Estimate only; based on current market rents with no allowance for increases in future years and subject to change with market conditions in each market segment.

	Current monthly tenancies	2010	2011	2012	2013	2014 to 2022
Expiring rents						
British Columbia	$ 19.99	$ 12.98	$ 15.47	$ 15.38	$ 17.11	$ 18.92
Alberta office	18.18	17.36	19.24	21.55	21.33	20.07
Saskatchewan & NWT	74.67	24.52	18.25	21.13	20.55	17.44
Ontario	—	11.18	14.25	14.83	15.27	16.11
Alberta industrial	7.27	8.91	8.09	6.75	9.77	8.59
Portfolio average	15.03	14.55	15.51	15.45	17.03	16.80
Market rents[(1)]						
British Columbia	$ 25.00	$ 16.09	$ 17.17	$ 21.35	$ 14.54	$ 21.03
Alberta office	16.06	16.59	15.47	17.05	15.71	17.58
Saskatchewan & NWT	20.00	25.75	25.09	22.79	22.54	20.35
Ontario	—	11.39	14.41	13.62	14.09	16.45
Alberta industrial	8.57	9.31	9.94	7.62	9.13	6.91
Market rent average	15.68	14.41	14.96	14.78	14.72	16.28

(1) Estimate only; based on current market rents with no allowance for increases in future years and subject to change with market conditions in each market segment.

The average remaining lease term and other portfolio information as at December 31 is detailed below.

December 31	**2009[1]**			2008[1]		
	Average remaining lease term (years)	**Average tenant size (sq. ft.)**	**Average in-place net rent (per sq. ft.)[2]**	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent (per sq. ft.)[2]
Office	**4.75**	**10,198**	**$ 17.34**	4.89	9,544	$ 17.94
Industrial	**3.83**	**7,335**	**7.77**	3.39	7,404	7.35
Portfolio average	**4.54**	**9,414**	**15.30**	4.52	8,907	15.30

(1) Excludes redevelopment properties.

(2) Average in-place rents include straight-line rent adjustments.

Impact of Adelaide Place and Aviva Corporate Centre on portfolio indicators

Subsequent to December 31, 2009, we acquired Adelaide Place and Aviva Corporate Centre in Toronto. Overall, the acquisitions have the effect of generally improving the difference between expiring and market rents. The pro forma impact of these acquisitions on our portfolio rents is summarized below.

	Current monthly tenancies	2010	2011	2012	2013	2014 to 2023
Expiring rents						
At December 31, 2009	$ 15.03	$ 14.55	$ 15.51	$ 15.45	$ 17.03	$ 16.80
Pro forma 2010 acquisitions	15.03	14.46	13.96	16.27	17.36	16.32
Market rents						
At December 31, 2009	$ 15.68	$ 14.41	$ 14.96	$ 14.78	$ 14.72	$ 16.28
Pro forma 2010 acquisitions	15.68	14.61	13.89	15.97	15.47	18.17

Acquisitions completed subsequent to year-end will lengthen the average remaining lease term and increase the average in-place rental rate.

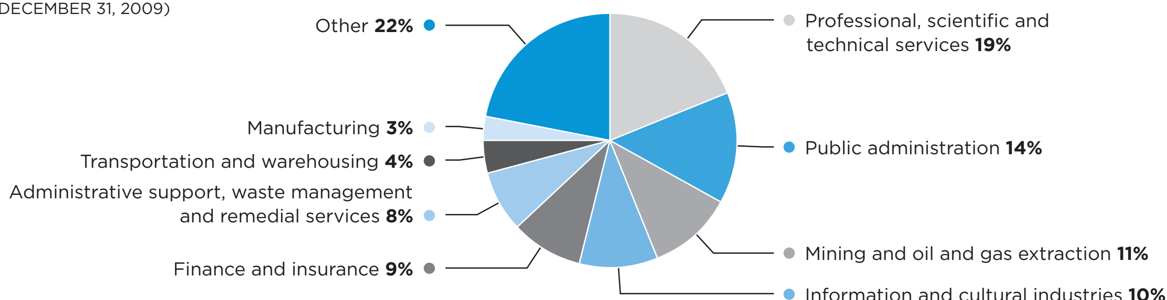
December 31, 2009			Pro forma 2010 acquisitions
	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average net rent (per sq. ft.)
Office	4.81	10,173	$ 17.07
Portfolio average	4.61	11,123	15.33

Tenant base profile

Our tenant base includes a wide range of high-quality tenants such as the government, large international corporations and small entrepreneurial businesses across the country. With 749 tenants, our risk exposure to any single large lease or tenant is low. The average sizes of our office and industrial tenants are approximately 10,200 and 7,300 square feet, respectively, placing us at the lower end of our peer group. Effectively managing this diverse tenant base is one of our key strengths and has helped us maintain consistently high occupancy levels and to continually capitalize on rental rate uplifts.

The following chart illustrates the diversity of our tenant base, broken down by the percentage contribution to total contract rent. Tenants have been classified according to their North American Industry Classification System ("NAICS") codes. NAICS is a system used for classifying the industry in which tenants operate.

TENANT BASE BY PERCENTAGE CONTRIBUTION TO TOTAL CONTRACT RENT
(AT DECEMBER 31, 2009)



The diversity of our tenant base helps to ensure segments that undergo greater than average stress do not unduly impact us. Much of the Alberta economy is influenced by the oil and gas sector, therefore our greatest area of vulnerability for this segment of our portfolio is not necessarily with respect to a specific industry sector as much as it is to the impact of the oil and gas sector on the general economy of Alberta. In the fourth quarter we completed four acquisitions in Ontario and, subsequent to year-end, we have completed two more in Toronto. The addition of these properties improves the geographic diversification of our portfolio and reduces our exposure to the Alberta market to 54% from 61% based on owned gross leasable area. We are very proactive in analyzing our portfolio and tenancies, and are focused on tenant retention and leasing. The manufacturing sector continues to feel the greatest impact from the current economic conditions and strengthening in the Canadian dollar. As indicated by the chart above, manufacturing comprises only a minor component of our portfolio.

The stability and quality of our cash flow is enhanced by the fact that government and government agencies contribute 18% to our total gross rental revenue. Our ten largest tenants feature both federal and provincial governments as well as other nationally and internationally recognizable and high-quality businesses. The table below sets out our ten largest tenants and outlines their contributions to our rental revenues.

Tenant	Owned area in sq. ft.	% of owned area	% of gross rental revenue	Expiry
TELUS Communications	311,253	4.2	5.4	2013–2016
Government of Ontario	247,743	3.3	4.3	2014
Government of Canada	279,497	3.8	4.3	2010–2019
Loyalty Management Group	183,014	2.5	3.2	2017
Government of British Columbia	181,944	2.5	3.1	2010–2014
State Street Trust Company	122,344	1.7	2.7	2022
Government of Northwest Territories	121,793	1.6	2.7	2010–2014
Winners Merchants International	178,418	2.4	2.2	2010–2015
Government of Saskatchewan	141,469	1.9	1.8	2011–2018
Hatch Optima Ltd.	94,388	1.3	1.8	2016
Total	1,861,863	25.2	31.5	

Liquidity and capital resources

Dundee REIT's primary sources of capital are cash generated from operating activities, credit facilities, mortgage financing and refinancing, and equity and debt issues. Our primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt principal and interest payments and property acquisitions. We expect to meet all of our ongoing obligations through current cash and cash equivalents, cash flows from operations, conventional mortgage refinancings and, as growth requires and when appropriate, new equity or debt issues.

During the fourth quarter, only $6.0 million of mortgage debt matured and was repaid with available cash. An additional $11.7 million will mature in 2010. While the credit markets have increased the availability of capital, we remain cautious in managing our debt; however, we remain confident in our ability to refinance our maturities. Further discussion and information is provided on page 31 under "Financing activities".

The following table details the change in cash and cash equivalents.

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Cash generated from operating activities	**$ 11,342**	$ 7,266	**$ 59,507**	$ 41,126
Cash utilized in investing activities	**(85,750)**	(3,942)	**(104,977)**	(150,865)
Cash generated from (utilized in) financing activities	**(22,940)**	(30,550)	**(11,577)**	141,279
Increase (decrease) in cash and cash equivalents	**$ (97,348)**	$ (27,226)	**$ (57,047)**	$ 31,540

At December 31, 2009, cash and cash equivalents were $12.0 million, a decrease of $57.2 million year-over-year, reflecting cash utilized for acquisitions and the repayment of $54.5 million of maturing debt, partially offset by $67.3 million of net proceeds from the equity offering completed in the third quarter. Funds utilized during the fourth quarter included $68.0 million to purchase four properties and $13.8 million used as deposits on two additional properties that closed in the first quarter of 2010. With over $12.0 million in cash, a further $32.6 million, less letters of guarantee, available through our revolving credit facility and six unencumbered properties that can be leveraged, we are confident that we have adequate capital resources for 2010 and beyond.

Operating activities

The following table details the cash generated from operating activities.

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Net income	**$ 6,606**	$ 3,566	**$ 13,420**	$ 10,460
Non-cash items:				
Amortization of market rent adjustments on acquired leases	**(2,297)**	(3,270)	**(10,276)**	(12,736)
All other depreciation and amortization	**12,903**	13,732	**51,326**	54,652
(Gain) loss on disposal of rental properties	**30**	(336)	**(4,255)**	(79)
Provision for impairment in value of discontinued assets	**2,212**	—	**11,513**	—
Deferred unit compensation expense	**220**	151	**858**	399
Future income taxes	**(4,203)**	221	**(3,739)**	327
Straight-line rent adjustment	**(412)**	(298)	**(1,053)**	(1,026)
	15,059	13,766	**57,794**	51,997
Leasing costs incurred	**(1,273)**	(1,465)	**(4,296)**	(4,993)
Change in non-cash working capital	**(2,444)**	(5,035)	**6,009**	(5,878)
Cash generated from operating activities	**$ 11,342**	$ 7,266	**$ 59,507**	$ 41,126

Cash generated from operations for the quarter increased relative to the comparative period, mainly reflecting growth in NOI and fluctuations in non-cash working capital.

The amortization of market rent adjustments on acquired leases mainly represents the impact of leases with below-market rents, largely related to certain properties acquired from 2006 to 2009. Below-market leases are recorded as intangible liabilities and are amortized to rental property revenue over the terms of the related leases.

Dundee REIT distributes all taxable earnings to unitholders and as such, under current legislation, the obligation to pay tax rests with each unitholder and no current tax provision is required on the majority of Dundee REIT's income. Certain of our Canadian and U.S. subsidiaries are taxable and any tax-related costs are reflected in the consolidated balance sheets and consolidated statements of income and comprehensive income. On December 31, 2009, we effected the transfer of our interest in a property held in a taxable Canadian subsidiary to an entity that distributes taxable earnings to unitholders. In addition, on February 5, 2010, we sold our interest in the U.S. subsidiary. As a result of these transactions, we are no longer exposed to the tax-related costs of those entities for periods subsequent to their respective transaction dates.

The straight-line rent adjustment represents the difference between the straight-line method of rental revenue recognition and the cash rents received. Any cumulative difference is included in accounts receivable.

Leasing costs include fees and related costs, except for initial leasing costs that are included in rental properties, and leasing costs associated with acquisitions. Leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense.

Leasing costs and tenant improvements

Leasing costs include leasing fees and related costs, broker commissions and tenant inducements. Tenant improvements include costs incurred to make leasehold improvements. Leasing costs and tenant improvement expenditures are dependent on asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. Short-term leases generally have lower costs than long-term leases, and leasing costs associated with office space are generally higher than costs associated with industrial space.

During the year, 1.3 million square feet were leased and occupied, and we incurred $9.7 million in leasing costs and tenant improvements. Included in this amount is $1.0 million incurred at IBM Corporate Park in Calgary for which we received a credit to the purchase price when the property was acquired in 2008. Excluding these costs, leasing costs and tenant improvements were $8.7 million, or an average per square foot of $9.40 for office and $2.34 for industrial space. The leasing costs related to office space are higher than normal due to the completion of several large long-term leasing deals.

Performance indicators	Office	Industrial	Total
Operating activities (continuing portfolio)			
Portfolio size (sq. ft.)	5,734,259	1,660,109	7,394,368
Occupied and committed	96.7%	90.6%	95.4%
Square footage leased and occupied in 2009	818,336	441,518	1,259,854
Leasing costs	$ 3,513	$ 476	$ 3,989
Tenant improvements	$ 5,177	$ 559	$ 5,736

Excludes redevelopment properties.

The table below provides our annualized estimates of expected leasing activity and leasing costs over a two- to three-year time horizon. These estimates are based on our portfolio at December 31, 2009, and assume that market conditions remain consistent with our current experience.

	Office	Industrial
Estimated average annual leasing activity (sq. ft.)	696,000	311,000
Average leasing costs (per sq. ft.)	$ 10.75	$ 2.75
Expected average annual leasing costs	$ 7,500	$ 900

Other assets and liabilities

Other assets consist of leasing costs and tenant improvements, prepaid expenses, intangible assets and liabilities, deposits and restricted cash. Other liabilities consist of intangible liabilities related to leases acquired with below-market rates.

Leasing costs and tenant improvements increased by $6.2 million for the year to $39.6 million. This change includes an approximate $8.2 million increase related to acquisitions and $9.7 million related to current year leasing activity, less $9.8 million in amortization and $1.9 million related to the reclassification of properties sold or held for sale. Complete details of leasing costs and tenant improvements are provided in Note 5 of the consolidated financial statements.

Intangible assets and liabilities include the value of above- and below-market leases, in-place leases, lease origination costs and tenant relationships. Complete details of these assets and liabilities are provided in Note 8 of the consolidated financial statements. During the year, net intangible assets increased by $7.6 million to $57.6 million, mainly due to $21.3 million of acquisitions, offset by $13.4 million of amortization and $0.3 million of dispositions. Net intangible liabilities decreased $6.9 million during the year to $35.0 million, as a result of approximately $10.7 million related to amortization, offset by a $3.8 million increase related to acquisitions.

Deposits represent cash amounts held for the repayment of tenant security deposits as required by various lending agreements and deposits for potential acquisitions. As of December 31, 2009, the balance was $13.9 million (December 31, 2008 — $nil) comprising deposits paid for acquisitions completed in 2010.

Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages. As of December 31, 2009, the balance is $1.7 million, a decrease of $1.5 million from December 31, 2008.

Commitments and contingencies

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

Our future minimum commitments under operating and capital leases are as follows:

For the years ending December 31	Operating lease payments	Capital lease payments
2010	$ 1,103	$ 142
2011	968	106
2012	827	—
2013	687	—
Total	$ 3,585	$ 248

Effective September 1, 2009, we entered into three fixed price contracts to purchase natural gas with respect to 14 office properties in Calgary. The contracts expire on December 31, 2012, and guarantee total minimum payments of $0.6 million annually for each of the years 2010, 2011 and 2012.

Funds from operations

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

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Net income	**$ 6,606**	$ 3,566	**$ 13,420**	$ 10,460
Add (deduct):				
Depreciation of rental properties	**7,075**	6,993	**28,283**	27,106
Amortization of deferred leasing costs, tenant improvements and intangibles	**5,683**	6,621	**22,583**	27,109
Imputed amortization of leasing costs related to the rent supplement	**—**	—	**—**	17
Provision for impairment in value of discontinued assets	**2,212**	—	**11,513**	—
Gain on disposal of rental property	**30**	(336)	**(4,255)**	(79)
Future income taxes	**(4,203)**	221	**(3,739)**	327
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(40)**	(80)	**(172)**	(288)
FFO	**$ 17,363**	$ 16,985	**$ 67,633**	$ 64,652
FFO per unit — basic	**$ 0.70**	$ 0.82	**$ 3.04**	$ 3.06
FFO per unit — diluted	**$ 0.69**	$ 0.80	**$ 3.00**	$ 3.01

FFO per unit was $0.70 for the quarter, down 15% compared to the same period in 2008, mainly as a result of the dilutive effect of the equity offering completed in the third quarter. Total FFO increased by 2.2% to $17.4 million in the quarter driven by NOI growth from comparative properties and accretive acquisitions. Below-market rents, which result in a non-cash amortization to our operating results, contributed $2.4 million and $10.7 to FFO in the quarter and year, respectively.

Diluted FFO, distributable income and AFFO per unit amounts assume the conversion of the 6.5%, 5.7% and 6.0% Debentures. The weighted average number of units outstanding for basic and diluted FFO calculations for the quarter are 24,967,255 and 28,417,078, respectively. For the year, the weighted average number of units outstanding for basic and diluted FFO calculations are 22,216,344 and 25,645,266, respectively. Diluted FFO includes interest and amortization adjustments of $2.3 million and $9.2 million for the three- and twelve-month periods, respectively. The basic and diluted weighted average number of units outstanding include 52,988 and 71,484 vested deferred trust units for the quarter and the twelve-month period, respectively.

Distributions and distributable income

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of distributable income that would be in the best interest of the Trust. Amounts retained in excess of the declared distributions are used to fund leasing costs and capital expenditure requirements. Given that working capital tends to fluctuate over time and should not affect our distribution policy, we disregard it when determining distributable income. We also exclude the impact of deferred leasing costs, which fluctuate with lease maturities, renewal terms and the type of asset being leased. We evaluate the impact of leasing activity based on averages for our portfolio over a two- to three-year time frame. Additionally, we exclude the impact of the amortization of deferred financing and non-recoverable costs that were incurred prior to the formation of the Trust, but deduct amortization of non-real estate assets such as software, office equipment and building improvement costs incurred after the formation of the Trust.

Distributable income

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Cash generated from operating activities	**$ 11,342**	$ 7,266	**$ 59,507**	$ 41,126
Add (deduct):				
Leasing costs incurred	**1,273**	1,465	**4,296**	4,993
Amortization of financing costs incurred prior to June 30, 2003	**12**	21	**67**	67
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	**(12)**	(7)	**(45)**	(7)
Amortization of tenant inducements	**55**	68	**255**	200
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(40)**	(80)	**(172)**	(289)
Amortization of financing costs	**(327)**	(309)	**(1,260)**	(1,256)
Change in non-cash working capital	**2,444**	5,035	**(6,009)**	5,878
Distributable income	**$ 14,747**	$ 13,459	**$ 56,639**	$ 50,712
Distributable income per unit — basic	**$ 0.59**	$ 0.65	**$ 2.55**	$ 2.40
Distributable income per unit — diluted	**$ 0.60**	$ 0.65	**$ 2.57**	$ 2.40
Distributions per unit	**$ 0.55**	$ 0.55	**$ 2.20**	$ 2.20

Distributable income is not defined by GAAP and therefore may not be comparable to similar measures presented by other real estate investment trusts. Distributable income is defined in our Declaration of Trust to facilitate the determination of distributions to our unitholders. In compliance with the Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, our table reconciles distributable income to cash generated from operating activities.

For the quarter ended December 31, 2009, distributable income per unit was $0.59 and declared distributions per unit were $0.55, representing a 93% payout ratio. In the prior year comparative period, distributable income per unit was $0.65 and declared distributions per unit were $0.55, representing an 84% payout ratio. Distributable income exceeded distributions paid and payable by $1.2 million for the quarter. We retain a portion of our distributable income in order to fund capital requirements related to leasing, rental property improvements and working capital.

Distributions

The distributions presented in the table below comprise $41.0 million relating to REIT Units and $7.6 million relating to LP B Units.

	Declared distributions	4% bonus distributions	Total
2009 distributions			
Paid in cash or reinvested in units	$ 43,927	$ 105	$ 44,032
Payable at December 31, 2009	4,523	11	4,534
Total distributions	$ 48,450	$ 116	$ 48,566
2009 reinvestment			
Reinvested to December 31, 2009	$ 2,627	$ 105	$ 2,732
Reinvested on January 15, 2010	469	11	480
Total distributions reinvested	$ 3,096	$ 116	$ 3,212
Distributions paid in cash	$ 45,354		
Reinvestment to distribution ratio	6.4%		
Cash distribution payout ratio	93.6%		

Distributions declared in the period ended December 31, 2009, totalled $48.5 million, up $2.7 million over the comparative period. The increase reflects a higher number of units outstanding as a result of the equity issue completed in September 2009, as well as distributions reinvested in additional units and vested deferred trust units exchanged for REIT A Units, offset by the purchase and cancellation of units under the normal course issuer bid in the second half of 2008. Of this amount, $3.1 million, or approximately 6.4%, was reinvested in additional units resulting in a cash payout ratio of 93.6%.

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following table outlines the differences between cash flow from operating activities and cash distributions as well as the differences between net income and cash distributions in accordance with the guidelines.

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Net income	**$ 6,606**	$ 3,566	**$ 13,420**	$ 10,460
Cash flow from operating activities	**11,342**	7,266	**59,507**	41,126
Distributions paid and payable	**13,594**	11,225	**48,566**	46,102
Excess (shortfall) of cash flow from operating activities over cash distributions	**$ (2,252)**	$ (3,959)	**$ 10,941**	$ (4,976)

For the quarter, distributions paid and payable exceeded cash flow from operations as a result of changes in non-cash working capital balances. In establishing distribution payments, we do not take fluctuations in working capital into consideration and use a normalized amount as a proxy for leasing costs. Distributions paid and payable exceeded net income by $7.0 million for the quarter and $35.1 million for the year. This excess was mainly a result of a provision for impairment on a discontinued property and non-cash depreciation and amortization expense, which are not considered in determining our cash distribution policy.

Adjusted funds from operations

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Distributable income	**$ 14,747**	$ 13,459	**$ 56,639**	$ 50,712
Adjusted for:				
Normalized leasing costs and tenant improvements	**(1,514)**	(1,514)	**(6,056)**	(6,056)
Normalized non-recoverable recurring capital expenditures	**(200)**	(200)	**(800)**	(800)
AFFO	**$ 13,033**	$ 11,745	**$ 49,783**	$ 43,856
AFFO per unit — basic	**$ 0.52**	$ 0.57	**$ 2.24**	$ 2.08

Management believes that AFFO is an important measure of our economic performance and is indicative of our ability to pay distributions. This non-GAAP measurement is commonly used for assessing real estate performance; however, it does not represent cash flow from operating activities as defined by GAAP and is not necessarily indicative of cash available to fund Dundee REIT's needs. Please see our description of distributable income on page 26, which reconciles distributable income to cash flow from operating activities.

Our calculation of AFFO starts with distributable income adjusted for an estimated amount of normalized non-recoverable maintenance capital expenditures, leasing costs and tenant improvements that we expect to incur based on our current portfolio and expected average leasing activity. Our estimates of normalized leasing costs and tenant improvements are based on the average of our expected leasing activity over the next two to three years and multiplied by the average cost per square foot that we incurred and committed to in 2008, adjusted for properties that have been sold. Our estimates of normalized non-recoverable capital expenditures are based on our expected average expenditures for our current property portfolio. This estimate will differ from actual experience due to the timing of expenditures and any growth in our business resulting from property acquisitions.

AFFO per unit was $0.52 for the quarter, down 9% compared to the same period in 2008 mainly due to the dilutive impact of the equity offering completed in the third quarter.

Investing activities

The following table details our cash utilized in investing activities.

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Investment in rental properties	**$ (2,699)**	$ (2,897)	**$ (5,921)**	$ (5,843)
Investment in tenant improvements	**(1,300)**	(889)	**(6,121)**	(2,731)
Acquisition of rental properties	**(68,045)**	—	**(94,526)**	(155,348)
Acquisition deposit on rental properties	**(13,755)**	—	**(13,755)**	—
Repayment of promissory note	**—**	—	**—**	12,116
Net proceeds from disposal of rental properties	**(10)**	—	**14,927**	—
Change in restricted cash, net	**59**	(156)	**419**	941
Cash utilized in investing activities	**$ (85,750)**	$ (3,942)	**$ (104,977)**	$ (150,865)

Key performance indicators in the management of our investing activities are:

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Investing activities				
Acquisition of rental properties	**$ 96,939**	$ —	**$ 122,887**	$ 160,772
Building improvements	**2,619**	2,973	**6,144**	5,784

Acquisitions and dispositions

During 2009, we completed the following acquisitions:

For the year ended December 31, 2009	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
720 Bay Street, Toronto	office	50	123,870	100	$ 25,948	$ —	Sept. 1, 2009
1125-1145 Innovation Drive, Ottawa	office	100	118,563	100	16,679	—	Dec. 16, 2009
6655-6725 Airport Road, Mississauga	office	100	329,728	100	50,637	26,717	Dec. 18, 2009
Gateway Business Park, Ottawa	office	100	120,600	91	14,700	—	Dec. 30, 2009
2645 Skymark Avenue, Mississauga	office	100	142,487	100	14,923	—	Dec. 30, 2009
Total			835,248	99	$ 122,887	$ 26,717	

On December 30, 2009, we acquired 2645 Skymark Avenue in Mississauga for $14.9 million. This building is located in the Airport Corporate Centre near the Toronto Pearson International Airport and comprises approximately 143,000 square feet of office and flex space.

On December 30, 2009, we acquired Gateway Office Park in Ottawa for $14.7 million. This three-building office complex is located in the Kanata submarket in western Ottawa. The property was built between 1987 and 1989 and comprises approximately 121,000 square feet.

On December 18, 2009, we acquired 6655-6725 Airport Road in Mississauga for $50.6 million and assumed two mortgages totalling $26.7 million. This four-building office complex is located opposite Toronto's Pearson International Airport. The property, which was built between 1983 and 1987, comprises approximately 330,000 square feet of space.

On December 16, 2009, we acquired 1125-1145 Innovation Drive in Ottawa for $16.7 million. The property consists of three linked suburban office buildings in the Kanata submarket. The property, which was built in 2001, contains approximately 119,000 square feet of space fully occupied by three tenants. Together with the acquisition of Gateway Office park, these properties will help Dundee REIT to re-establish a presence in Ottawa.

On September 1, 2009, we purchased our partner's 50% interest in 720 Bay Street in Toronto for $25.9 million, inclusive of transaction costs. As the mortgage matured on the acquisition closing date, we and our former partner elected to repay the balance outstanding and therefore, there is no debt related to this property.

We sold two industrial properties located in Edmonton on August 21, 2009. These dispositions, along with adjustments from prior year sales, resulted in net consideration of $14.9 million and gain on sale of $4.3 million.

Acquisitions completed subsequent to year-end:

On January 18, 2010, we purchased Adelaide Place, comprising 181 University Avenue and 150 York Street in Toronto, for $211.5 million before transaction costs. This two-tower Class A office complex is located in the financial core of Toronto, on the north side of Adelaide Street West between York Street and University Avenue, and is connected to Toronto's PATH underground walkway system. It contains approximately 655,000 square feet of space, the vast majority of which is office but also includes some retail and a bank branch at grade level. Both towers were extensively retrofitted in 2001, including a full exterior re-cladding and re-glazing and connection to the Enwave Deep Lake Water Cooling System. The buildings are certified BOMA BEST Level 3.

On February 10, 2010, we acquired the Aviva Corporate Centre in Toronto, a 438,000 square foot multi-tenant office complex with ancillary warehouse space for $45.7 million before transaction costs. Three office buildings comprise approximately 351,000 square feet, the majority of which is leased to Aviva, one of the world's largest insurance companies. The fourth building, which comprises approximately 87,000 square feet of warehouse space, is currently vacant and offers some redevelopment potential. Dundee REIT previously acquired this property in 2006 but it was included in the sale of our portfolio of properties in eastern Canada in 2007.

Building improvements

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Building improvements:				
Recurring recoverable	**$ 1,774**	$ 2,381	**$ 5,102**	$ 4,315
Recurring non-recoverable	**—**	20	**32**	179
Non-recurring	**845**	572	**1,010**	1,290
Total	**$ 2,619**	$ 2,973	**$ 6,144**	$ 5,784

Building improvements represent investments made in our rental properties to ensure our buildings are operating at an optimal level. Non-recurring building improvements represent expenditures for major capital additions that generally would not be expected to re-occur over the useful life of the building. These expenditures represent major structural improvements, development and re-development costs. Capital expenditures or expenditures accrued for rental property building improvements and equipment were $2.6 million for the three-month period (December 31, 2008 — $3.0 million), and $6.1 million for the year (December 31, 2008 — $5.8 million). Recurring recoverable expenditures incurred include elevator modernization, roofing upgrades, lighting and fire panel upgrades. Non-recurring capital expenditures of $1.0 million include approximately $0.7 million for development of an office building in Yellowknife, and $0.1 million for the exterior wall restoration of an office building in Saskatchewan.

Purchase obligations

We have an agreement to purchase, from a former joint venture partner, a fully leased office building, currently under construction, at a future date for $20.8 million. Maximum adjustments to the closing price will not exceed $0.5 million. The closing is expected to take place in the first half of 2010. Funding for this purchase is available through cash on hand and an available line of credit.

Construction obligation

We have agreed to construct an office building in Yellowknife, that is fully leased to the Government of Canada for a ten-year term. Construction costs are estimated to be $20.0 million and will be funded by cash on hand and our line of credit.

Financing activities

We finance the ownership of our assets using equity as well as conventional mortgage financing, term debt, floating rate credit facilities and convertible debentures. Our debt strategy includes managing our maturity schedule to help mitigate interest rate risk and limit exposure in any given year as well as fixing the rates and extending loan terms as long as possible when interest rates are favourable. During the fourth quarter of 2009, we repaid $6.0 million of matured mortgage debt.

The following table details our cash generated from financing activities.

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Mortgages placed, net of costs	**$ (255)**	$ 1	**$ 35,993**	$ 95,312
Mortgage principal repayments	**(3,937)**	(3,758)	**(15,498)**	(13,934)
Mortgage lump sum repayments	**(5,958)**	—	**(54,496)**	(508)
Term debt principal repayments	**(30)**	(18)	**(126)**	(106)
Convertible debentures issued, net of costs	**—**	—	**—**	119,200
Distributions paid on Units	**(12,797)**	(10,358)	**(44,730)**	(37,501)
Purchase of REIT A Units under normal course issuer bid	**—**	(16,428)	**—**	(21,798)
Units issued, net of costs	**37**	11	**67,280**	614
Cash generated from (utilized in) financing activities	**$ (22,940)**	$ (30,550)	**$ (11,577)**	$ 141,279

Debt

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

December 31	**2009**	2008
Financing activities		
Average interest rate	**5.75%**	5.83%
Level of debt (debt-to-gross book value)	**59.3%**	61.4%
Interest coverage ratio[1]	**2.3 times**	2.3 times
Proportion of total debt due in current year	**3.4%**	10.2%
Debt — average term to maturity (years)	**4.9**	5.5
Variable rate debt as percentage of total debt	**3.7%**	5.8%

[1] The interest coverage ratio is calculated as NOI from continuing operations plus interest and fee income, less general and administrative expense from continuing operations, divided by interest expense.

We currently use cash flow performance indicators, including the interest coverage ratio, to assess our ability to meet our financing obligations. Our Declaration of Trust requires that we maintain an interest coverage ratio of no less than 1.4 times. Our current interest coverage ratio is 2.3 times, and reflects our ability to cover interest expense requirements. Our average interest rate as at December 31, 2009, was 5.75%, down slightly from the start of the year, mainly reflecting lower interest rates on variable rate mortgages.

The new and assumed mortgages related to the Adelaide Place and Aviva Corporate Centre acquisitions completed subsequent to year-end will significantly reduce our weighted average interest rate to 5.64% and slightly lengthen our average term to maturity. Our debt-to-gross book value and interest coverage ratio will remain consistent with the ratios reported at December 31, 2009.

Effective June 30, 2009, we classified our 50% interest in Greenbriar Mall located in Atlanta, Georgia, as a discontinued asset as discussed in Note 20 of the consolidated financial statements. As a result, we have excluded $16.8 million of related mortgage debt from our analysis due to its non-recourse nature.

Variable rate debt as a percentage of total debt decreased to 3.7% as a result of the reclassification of Greenbriar Mall as a discontinued asset.

December 31			**2009**			2008
	Fixed	**Variable**	**Total**	Fixed	Variable	Total
Mortgages	**$ 695,608**	**$ 31,293**	**$ 726,901**	$ 703,409	$ 51,039	$ 754,448
Term debt	**219**	**—**	**219**	345	—	345
6.5% Debentures	**3,293**	**—**	**3,293**	3,277	—	3,277
5.7% Debentures	**7,743**	**—**	**7,743**	7,703	—	7,703
6.0% Debentures	**118,904**	**—**	**118,904**	117,922	—	117,922
Total	**$ 825,767**	**$ 31,293**	**$ 857,060**	$ 832,656	$ 51,039	$ 883,695
Percentage	**96.3%**	**3.7%**	**100%**	94.2%	5.8%	100%

Mortgages payable include $2.7 million of fair value adjustments on mortgages assumed in connection with acquisitions (December 31, 2008 — $3.8 million). Amounts recorded as at December 31, 2009 for the 6.5%, 5.7% and 6.0% Debentures are net of $1.7 million of premiums allocated to their conversion features (December 31, 2008 — $2.0 million). The fair value adjustments and premiums are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

Debt financing activity

During the quarter, we made scheduled repayments of $4.0 million on mortgages and term debt and repaid an additional $6.0 million upon the maturity of a mortgage related to one property.

A demand revolving credit facility is available up to a formula-based maximum not to exceed $40.0 million, bearing interest generally at the bank prime rate (2.25% as at December 31, 2009) plus 1.5%, or bankers' acceptance rates, plus 3.0%. As a result of the sale of two properties which provided collateral security for the facility, as at December 31, 2009, the formula-based amount available is $32.6 million. The facility is now secured by a first-ranking collateral mortgage on two properties and a second-ranking collateral mortgage on one property. Currently, $1.1 million of the facility is being utilized in the form of letters of guarantee. The facility matures on April 30, 2010. We have not commenced the renewal process but are confident that we will renew this facility at a level that meets the needs of our acquisition strategy for 2010.

We currently have $12.0 million in cash, a revolving credit facility and six unencumbered properties which may be leveraged to provide additional financing.

Subsequent to year-end, we placed $120.0 million of mortgage financing contemporaneously with the acquisition of Adelaide Place with a face rate of 4.795% and term of five years. We also assumed a $30.6 million mortgage with a face rate of 5.3% upon acquiring Aviva Corporate Centre.

Changes in debt levels are as follows:

For the three months ended December 31, 2009	Mortgages	Term debt	Convertible debentures	Total
Debt as at September 30, 2009	$ 710,474	$ 249	$ 129,654	$ 840,377
New debt assumed on rental property acquisitions	26,717	—	—	26,717
Scheduled repayments	(3,937)	(30)	—	(3,967)
Lump sum repayments	(5,958)	—	—	(5,958)
Amortization and other adjustments	(395)	—	286	(109)
Debt as at December 31, 2009	$ 726,901	$ 219	$ 129,940	$ 857,060

For the year ended December 31, 2009	Mortgages	Term debt	Convertible debentures	Total
Debt as at December 31, 2008	$ 754,448	$ 345	$ 128,902	$ 883,695
New debt assumed on rental property acquisitions	26,717	—	—	26,717
New debt placed	36,779	—	—	36,779
Scheduled repayments	(15,498)	(126)	—	(15,624)
Lump sum repayments	(54,496)	—	—	(54,496)
Discontinued liability	(16,825)	—	—	(16,825)
Amortization and other adjustments	(4,224)	—	1,038	(3,186)
Debt as at December 31, 2009	$ 726,901	$ 219	$ 129,940	$ 857,060

	Debt maturities	Scheduled principal repayments on non-matured debt	Amount	%	Weighted average interest rate on balance due at maturity %	Weighted average face rate on balance due at maturity %
2010	$ 11,691	$ 17,603	$ 29,294	3.4	5.38	5.38
2011	71,987	17,293	89,280	10.3	6.01	6.79
2012	99,994	15,303	115,297	13.4	5.57	5.46
2013	102,480	11,956	114,436	13.3	4.79	5.17
2014	191,570	10,019	201,589	23.3	6.72	5.96
2015 and thereafter	293,497	19,816	313,313	36.3	5.53	5.48
Total	$ 771,219	$ 91,990	863,209	100		5.68
Fair value adjustments			947			
Transaction costs			(7,096)			
Total			$ 857,060			

Convertible debentures

With respect to the 6.0% Debentures, the total principal outstanding at January 31, 2010, was $125.0 million, and is convertible into approximately 3,019,323 REIT A Units. For the 5.7% Debentures, the total principal outstanding at January 31, 2010, was $7.8 million and is convertible into approximately 260,200 REIT A Units. For the 6.5% debentures, the total principal outstanding was $3.5 million and is convertible to approximately 139,520 REIT A Units.

Equity

The following table summarizes the changes in our outstanding equity:

	REIT A Units	REIT B Units	LP B Units	Total
Units issued and outstanding on December 31, 2008	16,947,240	16,316	3,454,188	20,417,744
Units issued pursuant to DRIP	196,987	—	—	196,987
Units issued pursuant to the Unit Purchase Plan	10,997	—	—	10,997
Units issued pursuant to Deferred Unit Incentive Plan	239,873	—	—	239,873
Units issued pursuant to public offering	3,852,500	—	—	3,852,500
Unit redemption	(200)	—	—	(200)
Total units outstanding on December 31, 2009	21,247,397	16,316	3,454,188	24,717,901
Percentage of all units	86.0%	—%	14.0%	100.0%
Units issued pursuant to DRIP on January 15, 2010	18,004	—	2,494	20,498
Units issued pursuant to the Unit Purchase Plan	—	—	—	—
Units issued pursuant to public offering	5,520,000	—	—	5,520,000
Total units outstanding on January 31, 2010	26,785,401	16,316	3,456,682	30,258,399
Percentage of all units	89%	—%	11%	100%

Public offering of units

On September 9, 2009, we completed a public offering of 3,350,000 REIT A Units at a price of $18.35 per unit, for gross cash proceeds of $61.5 million. On September 29, 2009, we issued an additional 502,500 REIT A Units, pursuant to the exercise of the over-allotment option granted to the underwriters for gross proceeds of approximately $9.2 million. Costs related to the offering of $3.6 million were charged directly to unitholders' equity.

On January 7, 2010, we completed a public offering of 5,520,000 REIT A Units at a price of $18.75 per unit, for gross proceeds of $103.5 million. Costs related to the offering were approximately $4.9 million.

Normal course issuer bid

On September 23, 2009, the Trust renewed its normal course issuer bid. Under the bid, Dundee REIT has the ability to purchase for cancellation up to a maximum of 1,648,026 REIT A Units (representing 10% of the REIT's public float, comprising 16,480,260 REIT A Units on September 17, 2009) through the facilities of the TSX. The bid commenced on September 26, 2009, and will remain in effect until the earlier of September 25, 2010, or the date on which the Trust has purchased the maximum number of units permitted under the bid. As of December 31, 2009, the maximum number of REIT A Units remaining for purchase under the bid is 1,648,026. Based on the closing price of the REIT A Units on December 31, 2009, the Trust may purchase up to $34.2 million worth of REIT A Units. No units were acquired in 2009 pursuant to this bid.

OUR RESULTS OF OPERATIONS

	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Revenues				
Rental properties revenue	**$ 50,156**	$ 48,385	**$ 192,083**	$ 179,779
Interest and fee income	**409**	786	**1,676**	3,663
	50,565	49,171	**193,759**	183,442
Expenses				
Rental properties operating expenses	**19,365**	18,182	**71,129**	66,026
Interest	**12,190**	12,642	**49,736**	48,226
Depreciation of rental properties	**7,025**	6,711	**27,512**	26,018
Amortization of leasing costs, tenant improvements and intangibles	**5,665**	6,485	**22,231**	26,609
General and administrative	**1,608**	1,875	**6,706**	6,740
	45,853	45,895	**177,314**	173,619
Income before income taxes	**4,712**	3,276	**16,445**	9,823
Income taxes				
Current income taxes	**2**	9	**12**	13
Future income taxes	**(2,232)**	150	**(1,768)**	349
	(2,230)	159	**(1,756)**	362
Income before discontinued operations	**6,942**	3,117	**18,201**	9,461
Discontinued operations	**(336)**	449	**(4,781)**	999
Net income	**$ 6,606**	$ 3,566	**$ 13,420**	$ 10,460

Income statement results

Rental properties revenue

Revenues include net rental income from rental properties as well as the recovery of operating costs and property taxes from tenants. Revenue generated by acquisitions completed in the second half of 2008 and in 2009 and comparative property growth were the primary drivers of the $1.8 million, or 3.7%, increase in rental property revenue over the comparative quarter. Similarily, for the twelve-month period, rental properties revenue increased by $12.3 million or 6.8%.

Interest and fee income

Interest and fee income represents amounts for items such as fees earned from third-party property management including management, construction and leasing fees, and interest on bank accounts and related fees. These revenues and expenses are not necessarily of a recurring nature and the amounts will vary from quarter to quarter. The $0.4 million decrease over the comparative quarter is mainly a result of investing undeployed cash at generally lower interest rates. For the year, the $2.0 million decrease is a result of deploying our cash through property acquisitions and paying down maturing debt.

Rental properties operating expenses

Operating expenses mainly comprise occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing. Operating expenses fluctuate with occupancy levels, weather, utility costs, taxes, and repairs and maintenance. Expenses for the quarter increased $1.2 million, or 6.5%, reflecting higher recoverable operating costs and the additional costs associated with properties acquired over the course of 2008. For the year, operating expenses increased by $5.1 million or 7.7%, mainly reflecting the impact of acquisitions.

Interest expense

Interest expense for the quarter declined $0.5 million over the comparative quarter, mainly reflecting the repayment of mortgage debt in the current and prior quarters. The interest coverage ratio, which reflects our ability to cover our interest expense requirements, remains strong at 2.3 times. For the year, interest expense increased by $1.5 million or 3.1%, mainly reflecting a full year of interest related to debt placed on the AIR MILES Tower in July 2008.

Depreciation of rental properties

Acquisitions completed in 2008 and 2009 resulted in a $0.3 million, or 4.7%, increase in depreciation over the comparative period. For the year, depreciation increased by $1.5 million or 5.7%, reflecting the impact of acquired properties.

Amortization of leasing costs, tenant improvements and intangibles

Amortization decreased $0.8 million, or 12.6%, over the comparative quarter, largely due to asset write-offs at the time of lease expiries. Similarily, for the year, amortization decreased by $4.4 million or 16.5%.

General and administrative expenses

General and administrative expenses primarily comprise the expenses related to corporate management, trustees' fees and expenses, and investor relations. Expenses for the quarter were $1.6 million, a decrease of $0.3 million or 14.2% from the comparative period. For the year, expenses decreased by 1%.

Income tax expense

Dundee REIT distributes or designates all taxable earnings to unitholders and as such, under current legislation, the obligation to pay tax rests with each unitholder and no tax provision is currently required on the majority of Dundee REIT's income. Certain of our Canadian and U.S. subsidiaries were taxable and any tax-related costs are reflected in the consolidated balance sheets and consolidated statements of income. On December 31, 2009, we effected the transfer of our interest in a property held in a taxable Canadian subsidiary to an entity that distributes taxable earnings to unitholders. In addition, on February 5, 2010, we disposed of our interest in the U.S. subsidiary. As a result of these transactions we are no longer exposed to the tax-related costs of those entities for periods subsequent to their respective transaction dates. For the three- and twelve-month periods, we recovered $2.1 million of future taxes related to the re-organization of a taxable Canadian subsidiary.

Discontinued operations

Discontinued operations include assets that have been sold or classified as held for sale and meet specific criteria as discontinued assets in accordance with GAAP. These operations are disclosed separately on the consolidated statements of net income. Discontinued operations include two industrial properties sold for gross proceeds of $15.1 million in the third quarter, and the classification of a joint venture office property in Toronto classified as held for sale in the fourth quarter. The disposition of our interest in Greenbriar Mall, which was classified as held for sale in June 2009, was completed on February 5, 2010 for proceeds of $0.3 million. Further information is provided in Note 20 to the consolidated financial statements.

Related-party transactions

From time to time, Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms and as disclosed in Note 19 to the consolidated financial statements. During the twelve-month period, we received $1.9 million related to the DRC Services Agreement. Other costs recovered from DRC include $3.4 million for staff, operating and administrative costs. We paid $6.0 million related to the Asset Management Agreement.

Net operating income

Net operating income is an important measure used by management to evaluate the operating performance of the properties; however, it is not defined by GAAP, does not have a standard meaning and may not be comparable with other income trusts. Provided below is our reconciliation of NOI to net income.

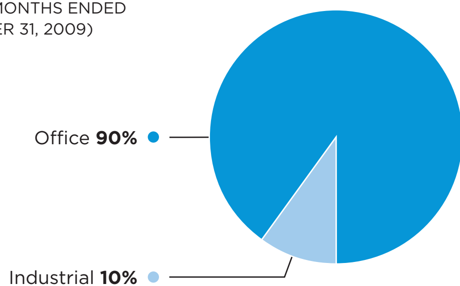
	For the three months ended December 31		For the years ended December 31	
	2009	2008	**2009**	2008
Net income	**$ 6,606**	$ 3,566	**$ 13,420**	$ 10,460
Add (deduct):				
Interest expense	**12,190**	12,642	**49,736**	48,226
Depreciation of rental properties	**7,025**	6,711	**27,512**	26,018
Amortization of leasing costs, tenant improvements and intangibles	**5,665**	6,485	**22,231**	26,609
General and administrative expenses	**1,608**	1,875	**6,706**	6,740
Interest and fee income	**(409)**	(786)	**(1,676)**	(3,663)
Income taxes	**(2,230)**	159	**(1,756)**	362
Depreciation, amortization, interest, gain (loss) on disposal of rental properties and impairment loss, included in discontinued operations	**402**	529	**7,043**	2,937
NOI including discontinued operations	**$ 30,857**	$ 31,181	**$ 123,216**	$ 117,689

We define NOI as the total of rental property revenues, including property management income, less rental property operating expenses. NOI, before discontinued operations, increased 2% for the quarter over the comparative period. The increase is attributable to strong comparable property growth and income generated by properties acquired in 2008 and 2009. Discontinued operations includes the results of two industrial buildings in Edmonton that were sold August 31, 2009, the results of our 50% interest in a Toronto-based office property, and the results and impairment loss of Greenbriar Mall effective June 30, 2009.

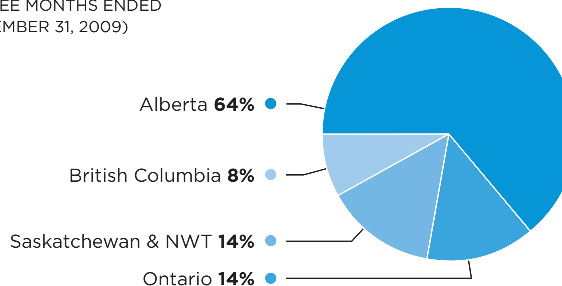
	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2009	2008	Amount	%	**2009**	2008	Amount	%
Office	**$ 27,854**	$ 27,623	$ 231	1	**$ 109,823**	$ 103,055	$ 6,768	7
Industrial	**2,937**	2,580	357	14	**11,131**	10,698	433	4
NOI	**30,791**	30,203	588	2	**120,954**	113,753	7,201	6
Discontinued operations	**66**	978	(912)		**2,262**	3,936	(1,674)	
NOI including discontinued operations	**$ 30,857**	$ 31,181	$ (324)	(1)	**$ 123,216**	$ 117,689	$ 5,527	5

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2009	2008	Amount	%	**2009**	2008	Amount	%
British Columbia	**$ 2,493**	$ 2,411	$ 82	3	**$ 10,010**	$ 9,200	$ 810	9
Alberta	**19,584**	20,406	(822)	(4)	**78,461**	77,528	933	1
Saskatchewan & NWT	**4,394**	4,212	182	4	**17,227**	15,266	1,961	13
Ontario	**4,320**	3,174	1,146	36	**15,256**	11,759	3,497	30
NOI	**30,791**	30,203	588	2	**120,954**	113,753	7,201	6
Discontinued operations	**66**	978	(912)		**2,262**	3,936	(1,674)	
NOI including discontinued operations	**$ 30,857**	$ 31,181	$ (324)	(1)	**$ 123,216**	$ 117,689	$ 5,527	5

NOI BY SEGMENT
(THREE MONTHS ENDED DECEMBER 31, 2009)



NOI BY REGION
(THREE MONTHS ENDED DECEMBER 31, 2009)



NOI comparative portfolio

NOI shown below details comparative and non-comparative items to assist in understanding the impact each component has on NOI. The comparative properties disclosed in the following tables are properties acquired prior to January 1, 2008. Discontinued operations contributing to NOI in comparative periods are shown separately to conform to the required income statement presentation. Comparative NOI and acquisitions exclude GAAP adjustments that relate to straight-line rents and amortization of market rent adjustments on acquired leases.

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2009	2008	Amount	%	**2009**	2008	Amount	%
Office	**$ 21,918**	$ 21,733	$ 185	1	**$ 87,593**	$ 82,400	$ 5,193	6
Industrial	**2,906**	2,592	314	12	**11,007**	10,615	392	4
Comparative properties	**24,824**	24,325	499	2	**98,600**	93,015	5,585	6
Acquisitions	**3,399**	2,425	974		**11,332**	7,215	4,117	
Rent supplement	**—**	—	—		**—**	34	(34)	
GAAP adjustments	**2,568**	3,453	(885)		**11,022**	13,489	(2,467)	
NOI	**30,791**	30,203	588	2	**120,954**	113,753	7,201	6
Discontinued operations	**66**	978	(912)		**2,262**	3,936	(1,674)	
NOI including discontinued operations	**$ 30,857**	$ 31,181	$ (324)	(1)	**$ 123,216**	$ 117,689	$ 5,527	5

	For the three months ended December 31				For the year ended December 31			
			Growth				Growth	
	2009	2008	Amount	%	**2009**	2008	Amount	%
British Columbia	**$ 2,190**	$ 2,028	$ 162	8	**$ 8,593**	$ 8,390	$ 203	2
Alberta	**16,615**	16,581	34	—	**65,980**	63,564	2,416	4
Saskatchewan & NWT	**4,318**	4,129	189	5	**16,890**	14,954	1,936	13
Ontario	**1,701**	1,587	114	7	**7,137**	6,107	1,030	17
Comparative properties	**24,824**	24,325	499	2	**98,600**	93,015	5,585	6
Acquisitions	**3,399**	2,425	974		**11,332**	7,215	4,117	
Rent supplement	**—**	—	—		**—**	34	(34)	
GAAP adjustments	**2,568**	3,453	(885)		**11,022**	13,489	(2,467)	
NOI	**30,791**	30,203	588	2	**120,954**	113,753	7,201	6
Discontinued operations	**66**	978	(912)		**2,262**	3,936	(1,674)	
NOI including discontinued operations	**$ 30,857**	$ 31,181	$ (324)	(1)	**$ 123,216**	$ 117,689	$ 5,527	5

Overall, comparative properties are achieving incremental improvements in both occupancy and rental rates as reflected by increases in NOI of 2% and 6% on a quarterly and annual basis, respectively. Comparative office NOI increased by $0.2 million or 1% for the quarter, reflecting both occupancy and rental rate increases. Our industrial portfolio increased by $0.3 million or 12%, reflecting rental rate increases and slightly higher occupancy. Properties acquired in 2008 and 2009 contributed $1.0 million to NOI growth.

Comparative office portfolio

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2009	2008	Amount	%	**2009**	2008	Amount	%
British Columbia	**$ 2,190**	$ 2,028	$ 162	8	**$ 8,593**	$ 8,390	$ 203	2
Alberta	**13,709**	13,989	(280)	(2)	**54,973**	52,949	2,024	4
Saskatchewan & NWT	**4,318**	4,129	189	5	**16,890**	14,954	1,936	13
Ontario	**1,701**	1,587	114	7	**7,137**	6,107	1,030	17
Comparative properties	**21,918**	21,733	185	1	**87,593**	82,400	5,193	6
Acquisitions	**3,399**	2,425	974		**11,332**	7,215	4,117	
Rent supplement	**—**	—	—		**—**	34	(34)	
GAAP adjustments	**2,537**	3,465	(928)		**10,898**	13,406	(2,508)	
Office NOI	**$ 27,854**	$ 27,623	$ 231	1	**$ 109,823**	$ 103,055	$ 6,768	7

We achieved growth across our comparative office portfolio for both the three- and twelve-month periods. Our properties in British Columbia continued to perform well with growth in rental income offsetting a slight reduction in occupancy. Our portfolio in Saskatchewan and the Northwest Territories also produced strong growth due to rental rate increases and an occupancy increase at a building in Saskatoon. The Ontario portfolio produced strong NOI growth driven by the leasing of two previously vacant floors at State Street Financial Centre, which offset increased vacancy elsewhere. NOI from our office portfolio in Alberta was up on an annual basis, however, decreased by $0.3 million, or 2%, compared to the same quarter in 2008, mainly as a result of a significant vacancy at the Airport Corporate Centre in Calgary.

Comparative industrial portfolio

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2009	2008	Amount	%	**2009**	2008	Amount	%
Alberta	**$ 2,906**	$ 2,592	$ 314	12	**$ 11,007**	$ 10,615	$ 392	4
Comparative properties	**2,906**	2,592	314	12	**11,007**	10,615	392	4
GAAP adjustments	**31**	(12)	43		**124**	83	41	
Industrial NOI	**$ 2,937**	$ 2,580	$ 357	14	**$ 11,131**	$ 10,698	$ 433	4

Comparative industrial NOI increased by 12% on a quarterly basis, largely as a result of rental rate increases and occupancy increasing to 90.6% from 85.6%. The improved occupancy reflects leasing at our Barlow Trail properties in Calgary, offset by vacancy in Edmonton.

NOI prior quarter comparison

The comparative properties disclosed in the following tables are properties acquired prior to July 1, 2009. Comparative property NOI increased by 2%, or $0.6 million, mainly as a result of occupancy increases in our office portfolio together with increases in property management and leasing fees earned by our property management business. NOI from the office portfolio increased by $0.5 million or 2% mainly reflecting improved occupancy at two office properties in Calgary. Our industrial portfolio's results were in line with the previous quarter.

	For the three months ended			
			Growth	
	December 31, 2009	September 30, 2009	Amount	%
Office	**$ 24,564**	$ 24,017	$ 547	2
Industrial	**2,906**	2,898	8	—
Comparative properties	**27,470**	26,915	555	2
Acquisitions	**753**	159	594	
GAAP adjustments	**2,568**	2,772	(204)	
NOI	**30,791**	29,846	945	3
Discontinued operations	**66**	261	(195)	
NOI including discontinued operations	**$ 30,857**	$ 30,107	$ 750	2

	For the three months ended			
			Growth	
	December 31, 2009	September 30, 2009	Amount	%
British Columbia	**$ 2,418**	$ 2,397	$ 21	1
Alberta	**17,428**	16,851	577	3
Saskatchewan & NWT	**4,318**	4,293	25	1
Ontario	**3,306**	3,374	(68)	(2)
Comparative properties	**27,470**	26,915	555	2
Acquisitions	**753**	159	594	
GAAP adjustments	**2,568**	2,772	(204)	
NOI	**30,791**	29,846	945	3
Discontinued operations	**66**	261	(195)	
NOI including discontinued operations	**$ 30,857**	$ 30,107	$ 750	2

SELECTED ANNUAL INFORMATION

The following table provides select financial information for the past three years:

December 31	**2009**	2008	2007
Revenues	**$ 193,759**	$ 183,442	$ 157,154
Income before discontinued operations	**18,201**	9,461	11,058
Net income	**13,420**	10,460	762,302
Total assets	**1,335,242**	1,315,987	1,156,441
Debt	**857,060**	883,695	680,479
Distributions declared	**48,450**	45,756	79,534
Per unit amounts:			
Basic income from continuing operations	**$ 0.82**	$ 0.45	$ 0.29
Basic net income	**0.60**	0.50	19.95
Diluted income from continuing operations	**0.82**	0.45	0.29
Diluted net income	**0.60**	0.50	19.94

QUARTERLY INFORMATION

The following tables show quarterly information since January 1, 2008.

	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenues								
Rental properties revenue	**$ 50,156**	$ 47,398	$ 46,387	$ 48,142	$ 48,385	$ 45,801	$ 43,471	$ 42,122
Interest and fee income	**409**	299	491	477	786	969	745	1,163
	50,565	47,697	46,878	48,619	49,171	46,770	44,216	43,285
Expenses								
Rental properties operating expenses	**19,365**	17,551	16,219	17,994	18,182	16,918	15,286	15,640
Interest	**12,190**	12,487	12,552	12,507	12,642	12,694	11,716	11,174
Depreciation of rental properties	**7,025**	6,935	6,767	6,785	6,711	6,719	6,495	6,093
Amortization of leasing costs, tenant improvements and intangibles	**5,665**	5,338	5,608	5,620	6,485	6,865	6,723	6,536
General and administrative	**1,608**	1,667	1,710	1,721	1,875	1,750	1,694	1,421
	45,853	43,978	42,856	44,627	45,895	44,946	41,914	40,864
Income before income and large corporations taxes	**4,712**	3,719	4,022	3,992	3,276	1,824	2,302	2,421
Income taxes (recovery)								
Current income and large corporations taxes	**2**	4	—	6	9	63	(4)	(55)
Future income taxes	**(2,232)**	87	137	240	150	7	95	97
Income tax expense (recovery)	**(2,230)**	91	137	246	159	70	91	42
Income before discontinued operations	**6,942**	3,628	3,885	3,746	3,117	1,754	2,211	2,379
Discontinued operations	**(336)**	4,099	(8,657)	113	449	371	(104)	283
Net income (loss)	**$ 6,606**	$ 7,727	$ (4,772)	$ 3,859	$ 3,566	$ 2,125	$ 2,107	$ 2,662
Net income (loss) per unit								
Basic	**$ 0.26**	$ 0.35	$ (0.23)	$ 0.18	$ 0.17	$ 0.10	$ 0.10	$ 0.13
Diluted[1]	**$ 0.26**	$ 0.35	$ (0.23)	$ 0.18	$ 0.17	$ 0.10	$ 0.10	$ 0.13

[1] Excludes impact of 6.5%, 5.7% and 6.0% Debentures, which are currently not dilutive to net income.

Calculation of funds from operations and distributable income

	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Net income (loss)	**$ 6,606**	$ 7,727	$ (4,772)	$ 3,859	$ 3,566	$ 2,125	$ 2,107	$ 2,662
Add (deduct):								
Depreciation of rental properties	**7,075**	7,021	7,095	7,092	6,993	6,990	6,763	6,360
Amortization of leasing costs, tenant improvements and intangibles	**5,683**	5,377	5,779	5,744	6,621	6,985	6,850	6,653
Future income taxes	**(4,203)**	107	67	290	221	(38)	76	68
Imputed amortization of leasing costs related to the rent supplement	**—**	—	—	—	—	—	8	10
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(40)**	(35)	(35)	(61)	(80)	(66)	(87)	(56)
(Gain) loss on disposal of rental properties and land held for sale	**30**	(4,285)	—	—	(336)	(169)	426	—
Provision for (reversal of) impairment in value of rental property	**2,212**	297	9,004	—	—	—	—	—
Funds from operations	**$ 17,363**	$ 16,209	$ 17,138	$ 16,924	$ 16,985	$ 15,827	$ 16,143	$ 15,697
Funds from operations per unit[2]								
Basic[1]	**$ 0.70**	$ 0.74	$ 0.82	$ 0.81	$ 0.82	$ 0.75	$ 0.76	$ 0.74
Diluted	**$ 0.69**	$ 0.73	$ 0.80	$ 0.79	$ 0.80	$ 0.73	$ 0.74	$ 0.72
Cash generated from operating activities	**$ 11,342**	$ 15,973	$ 14,807	$ 17,385	$ 7,266	$ 12,631	$ 9,644	$ 11,585
Add (deduct):								
Deferred leasing costs incurred	**1,273**	1,166	1,012	845	1,465	1,788	980	760
Amortization of financing costs incurred prior to June 30, 2003	**12**	11	21	23	21	17	18	11
Amortization of non-recoverable costs incurred prior to June 30, 2003	**(12)**	(12)	(12)	(9)	(7)	—	—	—
Amortization of tenant inducements	**55**	60	58	81	68	43	41	37
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(40)**	(35)	(35)	(61)	(80)	(66)	(87)	(56)
Amortization of financing costs	**(327)**	(302)	(326)	(305)	(309)	(302)	(332)	(313)
Change in non-cash working capital	**2,444**	(3,400)	(1,098)	(3,955)	5,035	(1,681)	2,199	325
Distributable income ("DI")	**$ 14,747**	$ 13,461	$ 14,427	$ 14,004	$ 13,459	$ 12,430	$ 12,463	$ 12,349
Distributable income per unit[2]								
Basic[1]	**$ 0.59**	$ 0.62	$ 0.69	$ 0.67	$ 0.65	$ 0.59	$ 0.59	$ 0.58
Diluted	**$ 0.60**	$ 0.62	$ 0.68	$ 0.67	$ 0.65	$ 0.59	$ 0.59	$ 0.58
Weighted average units outstanding for FFO and DI								
Basic	**24,967,255**	21,883,358	21,018,003	20,956,343	20,720,901	21,248,773	21,300,089	21,179,939
Diluted	**28,417,078**	25,312,351	24,456,839	24,392,013	24,144,476	24,676,672	24,719,316	24,609,778

(1) The LP Class B Units, Series 1, are included in the calculation of basic FFO per unit and basic DI per unit.

(2) Please see pages 25 and 26 for further discussion on FFO and distributable income.

SECTION III — DISCLOSURE CONTROLS AND PROCEDURES

For the December 31, 2009, financial year-end, the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), together with other members of management, have evaluated the design and operational effectiveness of Dundee REIT's disclosure controls and procedures, as defined in National Instrument 52-109. The Certifying Officers have concluded that the disclosure controls and procedures for recording, processing and summarizing material information are adequate and effective in order to provide reasonable assurance that material information has been accumulated and communicated to management, to allow timely decisions of required disclosures by Dundee REIT and its consolidated subsidiary entities, within the required time periods.

The internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles. Using the framework established in "Risk Management and Governance: Guidance on Control (COCO Framework)", published by the CICA, the Certifying Officers, together with other members of management, have evaluated and concluded that the design and operation of Dundee REIT's internal controls over financial reporting are effective for the financial year-end December 31, 2009.

There were no changes in the internal controls over financial reporting during the financial year-end December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

SECTION IV — RISKS AND OUR STRATEGY TO MANAGE

Dundee REIT is exposed to various risks and uncertainties. Risks and uncertainties inherent in an investment in our units include but are not limited to the following:

REAL ESTATE OWNERSHIP

Real estate ownership is generally subject to numerous risks, including changes in general economic conditions, such as the availability and cost of mortgage funds, local economic conditions such as an oversupply of office, industrial and retail properties or a reduction in demand for real estate in the area, the attractiveness of properties to potential tenants or purchasers, competition of others with available space, the ability of the owner to provide adequate maintenance at an economic cost and other factors.

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

Our properties are located primarily in Western Canada, with a significant majority of our properties, measured by gross leasable area, located in the province of Alberta. As a result, our properties are impacted by factors specifically affecting the real estate markets in Alberta, British Columbia, Saskatchewan and the Northwest Territories. These factors may differ from those affecting the real estate markets in other regions of Canada. If real estate conditions in Western Canada were to decline relative to real estate conditions in other regions, this could more adversely impact our revenues and results of operations than those of other more diversified REITs in Canada. Our ability to manage risk through geographical diversification is currently limited.

ILLIQUIDITY OF REAL ESTATE INVESTMENTS

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and during an economic recession we may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for us to dispose of properties at lower prices in order to generate sufficient cash for operations and making distributions. We manage our portfolio actively and are attentive to market conditions and property values. We review our properties on an ongoing basis to identify strengths and weaknesses of individual properties and our portfolio as a whole, allowing us to quickly reposition assets when warranted or identify non-core or underperforming assets for disposition.

COMPETITION IN THE OFFICE AND INDUSTRIAL REAL ESTATE MARKET

We compete with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Some of the commercial office and industrial properties of our competitors are newer, better located or better capitalized than our properties. Certain of these competitors have greater financial and other resources and greater operating flexibility than us. The existence of competing managers and owners could have a material adverse effect on our ability to lease space in our properties and on the rents we are able to charge, and could adversely affect our revenues and our ability to meet our obligations. We strive to deliver a level of service that meets or exceeds tenant expectations. We believe that providing a consistent, high level of service puts us in a better position to re-lease space to existing tenants and helps to attract new tenants to lease vacant space quickly and cost-effectively.

ENVIRONMENTAL RISK

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

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

FINANCING RISK

Upon the expiry of the term of the financing of any particular property, operating or acquisition debt facility, refinancing may not be available in the amounts required or may be available only on terms less favourable to us than existing financing. We may require additional financing in order to grow and expand our operations. It is possible that such financing will not be available or, if it is available, will not be available on favourable terms. Future financing may take many forms, including debt or equity financing, which could alter the current debt-to-equity ratio or which could be dilutive to our unitholders. It is our intent to reduce the interest rate risk associated with refinancing by ensuring that debt maturities are scheduled over several years, with limited exposure in any given year.

INSURANCE

We carry general liability, umbrella liability and excess liability insurance with a total limit of $76.0 million. For the property risks we carry "All Risks" property insurance including but not limited to flood, earthquake and loss of rental income insurance (with a 24-month indemnity period). We also carry Boiler and Machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) that are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. We currently self-insure against terrorism risk for the entire Canadian portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of the properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. Additionally, we generally have owners' title insurance policies with respect to our properties located in the United States. However, the amount of coverage under such policies may be less than the full value of such properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

JOINT VENTURE, PARTNERSHIP AND CO-OWNERSHIP AGREEMENTS

We are a participant in joint ventures and partnerships with third parties in respect of four properties. A joint venture or partnership involves certain additional risks, including:

(i) the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with ours or take actions contrary to our instructions or requests or to our policies or objectives with respect to our real estate investments;

(ii) the risk that such co-venturers/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands on us to maintain and operate such properties or repay the co-venturers'/partners' share of property debt guaranteed by us or for which we will be liable and/or result in our suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions;

(iii) the risk that such co-venturers/partners may, through their activities on behalf of or in the name of the ventures or partnerships, expose or subject us to liability; and

(iv) the need to obtain co-venturers'/partners' consents with respect to certain major decisions, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to rights of first refusal or first offer and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when we may not desire to sell but may be forced to do so because we do not have the cash to purchase the other party's interests. Such rights may also inhibit our ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis we desire.

Our investment in properties through joint venture and partnership agreements is subject to the investment guidelines set out in our Declaration of Trust.

SECTION V — CRITICAL ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES

Management of Dundee REIT believes the policies outlined below are those most subject to estimation and management's judgment.

Impairment of long-lived assets

Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been impaired. Dundee REIT's long-lived assets consist of rental properties, intangible assets and liabilities, and leasing costs and tenant improvements relating to those properties. The fair value of rental properties and their associated leasing costs and tenant improvements is dependent upon anticipated future cash flows from operations over the anticipated holding period.

The review of anticipated cash flows involves subjective assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors that may affect the ultimate value of the property. These assumptions are subjective and may not ultimately be achieved.

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment loss would be recognized.

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 income statements 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 income statements. Trade receivables that are less than three months past due are not considered impaired unless there is evidence that collection is not possible.

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 market 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. For acquisitions initiated prior to September 12, 2003, the purchase price was allocated to land and building 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 the 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 and tenant relationships is amortized on a straight-line basis over the expected term of the relationship, which includes an estimated probability of the lease renewal and the estimated 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 leased 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 will be expensed.

Depreciation

The Trust uses the straight-line method of depreciation for rental properties, initial leasing costs and major expansions and renovations. The estimated useful life of the properties continues to be between 30 and 40 years. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based upon management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

Leasing costs and tenant improvements

Leasing costs and tenant improvements may include:

- 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; and
- 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.

Income taxes

On June 12, 2007, amendments to the *Income Tax Act* (Canada) were substantively enacted, which modify the tax treatment of certain publicly traded trusts and partnerships that are SIFTs.

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. Canadian and U.S.-based incorporated subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. Accordingly, prior to June 12, 2007, the only provision for income taxes recorded in the consolidated financial statements was to reflect the future tax obligations of these incorporated subsidiaries and comprise the amounts resulting from the differences in tax and book values relating to the underlying rental properties.

Under the SIFT Rules, certain distributions by a SIFT entity relating to income from a business carried on in Canada by the SIFT and income, other than taxable dividends, or capital gains from non-portfolio properties (as defined in the *Income Tax Act*) will not be deductible for tax purposes and will accordingly will be taxed in the SIFT entity at a rate that is generally comparable to the combined provincial/federal corporate income tax rate for ordinary business income. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be treated as a taxable dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. For Canadian resident beneficiaries or partners, such dividend will be taxed as an eligible dividend and will be subject to the applicable gross-up and dividend tax credit rules. Pursuant to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006, if the "SIFT trust" and "SIFT partnership" definitions in the *Income Tax Act* had been in force as of that date.

Certain real estate investment trusts that satisfy certain specified conditions (the "REIT Exception") are excluded from the SIFT definition and therefore will not be subject to the SIFT Rules. In order to qualify for the REIT Exception in respect of a taxation year, the REIT (i) must not, at any time in that taxation year, hold non-portfolio property other than "qualified REIT properties" (as defined in the *Income Tax Act*); (ii) must derive at least 95% of the REIT's revenues for that taxation year from rent generated by real or immovable properties, interest, capital gains from dispositions of real or immovable properties, dividends and royalties; (iii) must derive at least 75% of the REIT's revenues for that taxation year from rent, interest, mortgages or hypothecs on, and capital gains from the disposition of, real or immovable properties situated in Canada; and (iv) must, throughout the taxation year, hold real or immovable properties situated in Canada, cash and certain government-guaranteed debt with a total fair market value that is not less than 75% of the REIT's equity value.

CHANGES IN ACCOUNTING POLICIES

Deferred recoverable costs

On January 1, 2009, the Trust adopted amendments to The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1000, "Financial Statement Concepts" and new CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaced CICA Handbook Section 3062, "Goodwill and Other Intangible Assets", and 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 these amendments, the deferral and matching of operating expenses over future revenues is no longer appropriate. The impact of these amendments increased revenue properties by $1.9 million, decreased deferred costs by $2.1 million and decreased unitholders' equity by approximately $0.2 million. The decrease in unitholder equity is due to deferred recoverable costs that are short-term and recurring maintenance costs which are better classified as operating expenses. The remainder of deferred recoverable costs has been reclassified to building improvements. These costs are considered to be betterments to the properties.

Future changes in accounting policies

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 accounting standards for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". 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 accounting standards 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 IFRS IAS 27, "Consolidated and Separate Financial Statements".

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 adopting these sections.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("ASB") confirmed that International Financial Reporting Standards ("IFRS") will replace current accounting standards and interpretations for public companies for fiscal years beginning on or after January 1, 2011.

IFRS are premised on a conceptual framework similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. The Trust has not yet determined the full accounting effects of adopting IFRS, since some key accounting policy alternatives and implementation decisions are still being evaluated. We do not expect the adoption of IFRS to have a material impact on the reported cash flows of the Trust, but it is expected to have a material impact on the consolidated balance sheet and statement of net income including IFRS transition adjustments against opening retained earnings for retrospective application of standards, where required.

The conversion from Canadian GAAP to IFRS will be applicable in the first quarter of 2011, when the current and comparative information will be prepared under IFRS. We have performed an initial assessment of the impact of IFRS and expect significant accounting policy changes pertaining to investment property, joint ventures, equity and revenue recognition upon transition.

The transition process will consist of three primary phases: the scoping and diagnostic phase; the impact analysis, evaluation and design phase; and the implementation and review phase.

The diagnostic phase of the project was completed in 2008, which included identifying major accounting differences or their relevance and formulating key IFRS conversion issues to be resolved in the second phase of the project. We have provided IFRS education for key employees responsible for financial reporting.

The impact analysis, evaluation and design phase of the project is currently progressing through the establishment of functional implementation teams who are responsible for effecting required changes to business and accounting processes and systems. This second phase is currently ongoing and is expected to be completed by mid-2010.

The implementation and review phase includes implementing recommendations that were approved during the second phase. Phase three will ensure that all policies that require changes are properly implemented and that training is provided to all stakeholders.

The following table summarizes the key elements identified in phases two and three and timing for transitioning to IFRS and the progress made with respect to each activity:

Key activities	Milestones	Status
Financial statement presentation:		
• Identify differences between IFRS and the Trust's existing policies and procedures under Canadian accounting standards • Quantify the effects of conversion to IFRS • Analyze and select one-time policy choice exemptions to be adopted at the transition date • Assess and implement revisions to accounting and procedures manuals where required • Prepare financial statements and related note disclosures in compliance with IFRS	• Assessment and quantification of the significant effects of the conversion will be completed by Q3 2010 • Revised accounting policy and procedures manuals in place by January 1, 2011	• Completed the identification of significant IFRS differences • Selection of one-time policy choices have been identified • Evaluation and selection of accounting policy alternatives has commenced and will continue to be assessed • Revised accounting policy and procedures manuals will be drafted throughout 2010 • Preparation of IFRS financial statements and notes disclosure has commenced
Training and communication:		
• Develop awareness of the likely effects of the transition throughout the company • Provide company specific training on revised policies and procedures to affected personnel • Provide timely communication on the impacts of our conversion to external stakeholders • Provide topic specific training to key employees involved in implementation	• Specific detailed training to be rolled out in Q2 and Q3 2010 • Changes related to conversion to be communicated to affected employees throughout 2010	• Key employees involved in the IFRS conversion team have attended training courses in 2008 and 2009 • Training and resource documents have been updated for recent amendments and interpretations • Continuous communication to external stakeholders through MD&A disclosures. Future disclosures will provide further detail on the impacts of the transition once key accounting policy and implementation decisions have been made
Business impact assessments:		
• Determine impact of IFRS accounting standards on business activities • Develop a valuation process for investment properties • Identify impact of conversion on contracts including financial covenants and employee compensation plans • Complete any required changes to affected agreements	• Impact on contracts identified by Q2 2010 • Complete opening balance sheet by Q3 2010	• Valuation of investment properties at January 1, 2010 has been substantially completed • Significant IFRS differences have been identified, including potential impacts on the Declaration of Trust, co-ownership and partnership agreements, debt agreements and lease agreements
Information technology and data systems:		
• Identify changes required to information systems and implement solutions • Determine and implement solutions for capturing information relating to the parallel run of Canadian GAAP and IFRS financial information	• Necessary changes to information systems implemented by Q4 2010 • Solution for capturing financial information under dual GAAP reporting to be finalized by Q2 2010	• Required changes to information systems and data collection processes are being identified as each work stream progresses
Control environment:		
• For all changes to policies and procedures identified, assess effectiveness of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") and implement any necessary changes • Design and implement internal controls over the IFRS changeover process	• Document and design key controls over investment property valuation process • Internal controls over IFRS changeover process in place by Q3 2010 • Conduct implementation audit by internal control during Q4 2010 • Update CEO/CFO certification process by Q4 2010	• Design of investment property valuation process has commenced • IFRS differences with process impacts have been identified

As we continue to evaluate the impact of adopting IFRS on our business activities, processes and accounting policies, we will continue to revisit the conversion plan. Accordingly, changes to the plan may be required as more information becomes known.

Impact of adoption of IFRS

Adoption of IFRS will initially require retrospective application as of the transition date, on the basis that an entity has prepared its financial statements in accordance with IFRS since its formation. Certain adoptive relief mechanisms are available under IFRS to assist with difficulties associated with reformulating historical accounting information. The general relief mechanism is to allow for prospective, rather than retrospective treatment, under certain conditions as prescribed by IFRS 1, "First-time Adoption of International Financial Reporting Standards". The standard specifies that adjustments arising on the conversion to IFRS from Canadian GAAP should be recognized in opening retained earnings.

IFRS 1: First-time Adoption of International Financial Reporting Standards ("IFRS 1")

The adoption of IFRS requires application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires an entity to apply all IFRSs effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions in specified areas of certain standards from this general requirement. Certain exemptions including cumulative translation differences, designation of previously recognized financial instruments and arrangements containing a lease are not expected to be applicable to the Trust. Certain relevant first-time adoption options are discussed below.

Business combinations (refer to discussion under IFRS Accounting Standards)

IFRS 1 generally provides for the business combinations standard to be applied either retrospectively or prospectively from the date of transition to IFRS (or to restate all business combinations after a selected date). Retrospective application would require an entity to restate all prior transactions that meet the definition of a business under IFRS. Pending the outcome of the decision to early adopt CICA Handbook Section 1582, "Business Combinations", which is the equivalent of the IFRS standard, this exception may not be applicable to the Trust.

Leases

Adoption of the IFRS Leases standard will initially require retrospective application as of the transition date, on the basis that an entity has prepared its financial statements in accordance with IFRS since its formation. As discussed below under IFRS Accounting Standards, Leases, there will be Canadian GAAP IFRS differences relating to the calculation of rental revenue on a straight-line basis and the income statement classification of the amortization of tenant incentives against rental revenue.

Share-based payments

Generally an entity may elect prospective application for options granted on or after November 7, 2002, or for grants after November 7, 2002, that vested before the later of: (i) the date of transition to IFRS; and (ii) January 1, 2005. Although the impact is not expected to be significant, Dundee is still in the process of assessing the application of this first-time adoption option.

Borrowing costs

Prior to January 1, 2009, the capitalization of borrowing costs was optional under IFRS. At adoption, an entity may designate any date on or before January 1, 2010 to commence capitalization of borrowing costs relating to all qualifying development projects commencing after such date. It is currently expected that this first-time adoption option will have no application to Dundee due to the application of fair value on transition.

IFRS accounting standards

IFRS is premised on a conceptual framework similar to Canadian GAAP; however, significant differences exist in certain areas of recognition, measurement and disclosure. The following paragraphs outline the significant accounting policies, which are required, or we currently expect to apply upon adoption of IFRS, that will be significantly different than Canadian GAAP accounting policies. As discussed below, we currently expect that certain IFRS accounting standards will significantly impact net income. We also expect that the IFRS standard will impact key performance indicators such as NOI, FFO, AFFO, interest coverage ratio and debt-to-gross book value. We cannot quantify at this time the impact that the future adoption of these IFRS standards will have on our financial statements and operating performance measures; however, we expect the impact to be material.

This discussion has been prepared using the standards and interpretations currently issued and expected to be effective for Dundee's first annual reporting period under IFRS for the year ended December 31, 2011 and for each quarter commencing March 31, 2011. Certain accounting policies currently expected to be adopted under IFRS, and the application of such policies to certain transactions or circumstances may be modified and, as a result, the impact may be different than our current expectations. Further, the IASB is currently in the process of amending, or expects to amend, numerous accounting standards that will be applicable to the Trust. As these IFRS standards are amended, and as the Trust continues to evaluate the impact of adoption on its processes and accounting policies, Dundee will provide updated disclosure where appropriate.

Investment property

IFRS defines an investment property as a property held to earn rental revenue or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity. All of Dundee's rental properties will qualify as investment property.

As with Canadian GAAP, investment property is initially measured at cost; however subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property.

(a) The fair value model requires an entity to record a gain or loss in net earnings arising from a change in the fair value of investment property in the period of change. The determination of fair value is based upon, among other things, rental revenue from current leases, and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current conditions, less future cash outflows in respect of tenant improvement costs and the investment property operations. Under the fair value model, lease- and tenant-related amounts currently reported under Canadian GAAP as Deferred Costs, Intangible Assets and Intangible Liabilities would be presented as an investment property component (see discussions below). No depreciation related to investment property is recognized under the fair value model.

(b) The cost model is generally consistent with Canadian GAAP in that separate components are recognized for each significant part of an asset, which is carried at its cost less any accumulated depreciation and any accumulated impairment losses. It is expected that the balance sheet categorization of certain components, such as the differential between contractual and market rents which are currently reported by the Trust as Intangible Assets and Liabilities for Canadian GAAP presentation, would be presented as an investment property component under IFRS. Tenant improvement costs that are currently presented as Deferred Costs may be re-characterized as tenant incentives and would be presented with Prepaid Expenses and Other Assets. Where an entity selects the cost model, it is required to disclose, at least annually, the fair value of investment property in the notes to its financial statements.

Impairment

Under Canadian GAAP, impairment is recognized for non-financial assets based on estimated fair value when the undiscounted future cash flows from an asset, or group of assets, is less than the carrying value. Under IFRS, an entity is required to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value-in-use, is less than its carrying value. Value-in-use is the discounted present value of estimated future cash flows expected to arise from the planned use of an asset and from its disposal at the end of its useful life. This standard would only be applicable to the Trust if the cost model is adopted.

Business combinations

Both IFRS and current Canadian GAAP require the acquisition method of accounting for all business combinations, however significant differences exist between the two frameworks in other areas. The most significant differences are that under IFRS transaction costs are expensed immediately whereas under Canadian GAAP such amounts are included in the cost of the asset. Further, IFRS requires the purchaser to measure any non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets, whereas Canadian GAAP requires minority interest to be measured at the non-controlling interest's proportionate share of the historic carrying value of the acquiree's identifiable net assets. Additionally, contingent consideration under IFRS is recognized at fair value on the date of acquisition, with subsequent changes generally recognized in net earnings. Under Canadian GAAP contingent consideration is recognized initially to the extent such amounts are assured beyond a reasonable doubt, and any change is recognized in the carrying cost of the asset.

The IFRS definition of a business is broader than the current Canadian GAAP definition and may capture single asset acquisitions. By definition investment property includes all ancillary processes that may not be significant to the overall operation of the investment property. In circumstances where only some minor ancillary processes are acquired with an investment property, this may lead to an assessment that such investment property acquisitions are the acquisition of an asset, rather than the acquisition of a business. Under Canadian GAAP, the Trust accounts for its property acquisitions as asset acquisitions, rather than a business combination. The Trust is in the process of assessing which of its rental properties will qualify as asset acquisitions versus the acquisition of a business; however, it does not expect that the standard will have a material impact.

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations". This section is the equivalent of the IFRS standard and 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, but may be early adopted at the beginning of a fiscal year. The Trust is currently evaluating whether or not to early adopt this standard.

Leases

Both Canadian GAAP and IFRS require tenant incentives to be recorded as a reduction of rental revenue. However, the IFRS definition of tenant incentives differs from what the Trust currently applies under Canadian GAAP, which may result in more tenant improvement costs being amortized against revenue. Consequently, management currently expects a reduction in the rental revenue as a result of this change under IFRS; however it cannot quantify the impact of any adjustment at the present time.

IFRS requires rental revenue to be determined on a straight-line basis considering all rents from the inception of the lease, whereas Canadian GAAP only required rental revenue to be recognized on a straight-line basis prospectively commencing on January 1, 2004. As a result, the Trust expects that this difference, applied retrospectively, will result in a reduction of straight-line rental revenue under IFRS; however, management cannot quantify the impact of this adjustment at the present time.

If the fair value model is selected, the Trust would cease to account for the differential between contractual and market rents on the acquisition of investment property thereby reducing rental revenue and net operating income under IFRS; however, management cannot quantify the impact of this adjustment at the present time.

Basis of consolidation

The International Accounting Standards Board is in the process of amending certain IFRS that will, if implemented in their current form, prohibit proportionate consolidation of joint ventures that are held through a legal entity, or where the venturers do not have rights to individual assets or obligations of the venture, because joint venturers in these circumstances do not have a direct ownership of the underlying net assets of the joint venture. IFRS currently allows joint ventures in these circumstances to be either proportionately consolidated or equity accounted.

Where the Trust's joint venture activities are jointly controlled assets, wherein the Trust has an undivided interest in the net assets, it is currently expected that Dundee will continue to proportionately consolidate these activities. Where the Trust controls an entity, like Canadian GAAP, it will continue to consolidate that entity under IFRS. The Trust is in the process of assessing the implication of these proposed amendments to certain IFRS on its co-ownership activities.

Additional information relating to Dundee REIT, including the latest annual information form of Dundee REIT, is available on SEDAR at www.sedar.com.