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, 2011.

Effective January 1, 2011, the Trust adopted International Financial Reporting Standards ("IFRS") as our basis of financial reporting, commencing with our interim consolidated financial statements for the three months ended March 31, 2011, and using January 1, 2010, as our transition date. Refer to the December 31, 2011, audited consolidated financial statements for details on the transition to IFRS and the impact on our reported results as at January 1, 2010, December 31, 2010 and for the year ended December 31, 2010. Comparative figures presented in this MD&A, in respect of December 31, 2010, have been restated to comply with IFRS. Refer to page 44 of this MD&A for details on the impact of the transition to IFRS on our reported funds from operations ("FFO") for the three and twelve months ended December 31, 2010. There was no impact on adjusted funds from operations ("AFFO"). Where indicated, our discussion is based on the Trust's equity accounted investments at the Trust's proportionate share of assets, liabilities, revenue and expenses for its equity accounted investments.

This management's discussion and analysis is dated as at January 31, 2012, 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" and "subsidiary redeemable units", meaning the LP Class B Units, Series 1

Certain market information has been obtained from the CB Richard Ellis MarketView, Fourth Quarter 2011, 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 on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Dundee REIT's control, which 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.

Although the forward-looking statements contained in this MD&A are based on what we believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in close proximity to the Trust's properties; timely leasing of vacant space and re-leasing of occupied space upon expiration; dependence on tenants' financial condition; the uncertainties of acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; that the specified investment flow-through trust ("SIFT") rules and the normal growth guidelines are not applicable to Dundee REIT; 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, 2012, 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 our latest Annual Information Form. Certain 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 and maintaining 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 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 per unit on an annual basis. At December 31, 2011, approximately 20.6% of our total units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP"), including 21.1% of the REIT A Units and 10.0% of the LP B Units. There is no equivalent program for the REIT B Units (see a description of Our Equity on page 30).

	2010												2011
	Dec	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**	**$0.183**
Month-end closing price	$30.20	$30.28	$31.49	$33.10	$33.73	$33.05	$32.50	$32.42	$31.90	$31.77	**$33.00**	**$32.69**	**$32.67**

OUR STRATEGY

Dundee REIT's core strategy is investing in the office and industrial sectors in key markets across Canada and providing a solid platform for stable and growing cash flows. The majority of our portfolio currently comprises central business district office properties concentrated in nine of Canada's top ten office markets. The execution of our strategy is continuously reviewed including acquisitions and dispositions, our capital structure and our analysis of current economic conditions. Our executive team is seasoned, knowledgeable and highly motivated to continue to increase the value of our portfolio and provide stable, reliable and growing returns for our unitholders. In addition, Dundee REIT is steadfast in maintaining its status as a real estate investment trust under the SIFT legislation.

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

Investing in high-quality office and industrial properties

Dundee REIT has an established presence in key urban markets across the country. Our portfolio comprises high-quality 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 compelling 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

Over the past two years, we have carefully repositioned our portfolio through an impressive number of accretive acquisitions. In addition to expanding and diversifying our geographic footprint across the country, the acquisitions have served to enhance the stability of our business: diversifying and strengthening the quality of our revenue stream and increasing cash flow. We will continue to pursue opportunities for growth but only when it enhances our overall portfolio, further improves the sustainability of distributions, strengthens our tenant profile and mitigates risk. We have experience in each of Canada's key markets and have the flexibility to pursue acquisitions 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 staggered debt maturities.

OUR ASSETS

Dundee REIT provides high-quality, affordable business premises. Our portfolio comprises central business district and suburban office properties as well as industrial and prestige industrial properties. Our assets are predominantly located in major urban centres across Canada including Vancouver, Calgary, Edmonton, Yellowknife, Saskatoon, Regina, Toronto, Kitchener-Waterloo, London, Ottawa, Montréal and Halifax.

	Owned gross leasable area (sq. ft.)					
	December 31, 2011				December 31, 2010	
	Office	**Industrial**	**Total**	**%**	Total	%
Western Canada	**3,496,461**	**554,753**	**4,051,214**	**21**	2,584,078	21
Calgary	**3,936,691**	**1,287,943**	**5,224,634**	**28**	4,180,974	34
Toronto	**5,740,201**	**499,605**	**6,239,806**	**33**	3,710,839	30
Eastern Canada	**2,104,062**	**1,321,878**	**3,425,940**	**18**	1,783,755	15
Total	**15,277,415**	**3,664,179**	**18,941,594**	**100**	12,259,646	100
Percentage	**81%**	**19%**	**100%**			
Total at December 31, 2010	9,015,265	3,244,381	12,259,646			
Percentage	74%	26%	100%			

At December 31, 2011, our total gross leasable area was 18.9 million square feet, including 6.6 million square feet acquired since December 31, 2010 and 0.1 million square feet reclassified from redevelopment properties to investment properties. Along with increasing the size of our operations, acquisitions have been consistent with our strategy to create a more geographically diversified portfolio and to improve the quality of our cash flow.

In the fourth quarter, we acquired a 94,646 million square foot office building in Richmond, British Columbia, that is 100% occupied for $24.9 million. In the third quarter, we acquired approximately 3.9 million square feet of office properties in Toronto, Ottawa, Edmonton, Calgary, Montréal, Halifax and Vancouver. The most significant acquisition was a portfolio of 24 office properties comprising 2.7 million square feet from affiliates of Blackstone Real Estate Advisors LP (“Blackstone”) and Slate Properties Inc., hereinafter referred to as the “Blackstone Portfolio”. The Blackstone Portfolio consists of properties located in Toronto, Ottawa, Edmonton and Calgary. The properties are well-leased downtown office properties, the bulk of which are situated in the heart of Toronto’s vibrant financial district. In addition, we acquired 700 de la Gauchetière, a 28-storey, 1.0 million square foot Class A office building located in the heart of downtown Montréal, strengthening our position in this market. During the first and second quarters of 2011, we completed several acquisitions totalling approximately 2.6 million square feet, including the acquisition of Realex Properties Corp. (“Realex”), which added interests in 24 office and industrial properties in Ontario, Alberta and British Columbia.

Office rental properties

At December 31, 2011, our ownership interests included 118 office properties (134 buildings) comprising approximately 15.3 million square feet located in Vancouver, Calgary, Edmonton, Yellowknife, Saskatoon, Regina, Toronto, Kitchener-Waterloo, Ottawa, Montréal and Halifax. These office properties can generally be categorized as high-quality, affordable, central business district and suburban buildings. The occupancy rate across our office portfolio remains high at 95.4%, well ahead of the national industry average occupancy rate of 91.9% (CB Richard Ellis, Canadian Office MarketView, Fourth Quarter 2011). Our occupancy rates include lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized.

Industrial rental properties

At December 31, 2011, our industrial portfolio included 54 prime suburban industrial properties (57 buildings) comprising approximately 3.7 million square feet in Calgary, Edmonton, Toronto, London, Ottawa, Montréal and Halifax. The occupancy rate across our industrial portfolio is 96.6%, also well ahead of the national industry average of 93.4% (CB Richard Ellis, Canadian Industrial MarketView, Fourth Quarter 2011). Our occupancy rates include lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized.

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,	
	2011	2010	**2011**	2010
Operations				
Occupancy rate (period-end)(1)	**95.6%**	96.1%		
In-place rent per square foot (office and industrial)(1)	**$ 15.01**	$ 14.29		
Operating results				
Investment properties revenue, including equity accounted investments(2)	**$ 136,320**	$ 78,726	**$ 441,347**	$ 268,218
Net operating income(2)(3)(4)	**78,116**	46,020	**261,137**	160,965
Funds from operations(2)(3)(5)	**48,210**	28,147	**159,397**	94,059
Adjusted funds from operations(3)(6)	**41,047**	25,245	**137,675**	83,572
Fair value increase to investment properties, including those held in equity accounted investments	**184,555**	138,003	**270,956**	170,495
Distributions				
Declared distributions	**$ 36,549**	$ 25,685	**$ 131,168**	$ 86,048
Distributions paid in cash	**29,456**	22,947	**107,860**	77,651
DRIP participation ratio	**19%**	10%	**18%**	10%
Financing				
Weighted average effective interest rate (period-end) on debt			**4.96%**	5.43%
Interest coverage ratio(2)			**2.6 times**	2.5 times
Per unit amounts(7)				
Basic:				
FFO(2)(3)	**$ 0.73**	$ 0.61	**$ 2.69**	$ 2.43
AFFO(3)	**0.62**	0.55	**2.33**	2.16
Distribution rate	**0.55**	0.55	**2.20**	2.20
Diluted:				
FFO(2)(3)	**0.73**	0.61	**2.69**	2.43

(1) Excludes redevelopment properties and disposed properties.

(2) Prior year comparatives have been restated for IFRS.

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

(4) NOI — Is defined as net rental income, excluding redevelopment and income from disposed properties. The reconciliation of NOI to net income can be found on page 37.

(5) FFO — The reconciliation of FFO to net income can be found on page 44.

(6) AFFO — The reconciliation of AFFO to FFO can be found on page 44.

(7) A description of the determination of basic and diluted amounts per unit can be found on page 45.

FINANCIAL OVERVIEW

Dundee REIT had another very busy and exciting year. We continued to execute on our strategic objectives to geographically diversify and grow our portfolio through accretive acquisitions, increase cash flows by capturing rental rate increases on higher market rents and maintain high occupancy levels. Throughout the year, we added approximately 6.7 million square feet to our portfolio, including the Realex and the Blackstone Portfolios, for approximately $1.6 billion. To help finance these acquisitions, we completed four equity offerings, totalling $629 million.

For the year ended December 31, 2011, FFO was $159.4 million, an increase of $65.3 million or 69.5% over 2010. On a per unit basis, FFO increased by 11% to $2.69, driven primarily by accretive acquisitions and the deployment of capital. FFO for the fourth quarter was $48.2 million, an increase of $20.1 million over the prior year comparative quarter. On a per unit basis, FFO was up by 20% to $0.73 compared to the prior year fourth quarter. Included in FFO for the quarter is $0.7 million of lease terminations and other income; excluding this, FFO would have been $0.72 per unit. Details of our FFO begin on page 44.

AFFO increased by 65% to $137.7 million for 2011. On a per unit basis, AFFO increased by 8% to $2.33, primarily as a result of accretive acquisitions and the deployment of capital. On a quarterly basis, AFFO was $41.0 million, a 63% increase over the prior year fourth quarter. On a per unit basis, AFFO was $0.62, up by 13% over the prior year comparative quarter. Details of our AFFO begin on page 44.

Our portfolio continues to produce revenue growth, up 65% to $441.3 million for the year and up 73% to $136.3 million for the quarter, primarily reflecting the contribution from acquisitions in 2010 and 2011. Details of our investment properties rental revenue and NOI are on pages 37 to 43.

For the year ended December 31, 2011, NOI from comparative properties declined by $1.5 million or 1%, primarily reflecting leases in the Calgary office portfolio rolling off of historically high rental rates to lower current market rents. Offsetting this, we had significant NOI growth in our Western Canada portfolio, which increased by $1.5 million or 5% year-over-year, reflecting growth in both occupancy and in-place rent. On a quarterly basis, comparative NOI decreased by $0.4 million or 1% over the prior year fourth quarter. Details of our NOI begin on page 37.

Occupancy was 95.6% at year-end versus 96.1% at the end of 2010. The appeal of our buildings and the success of our leasing efforts are evidenced by the strength and stability of the occupancy rates in our office portfolio (2011 — 95.4%, 2010 — 95.8%) and in our industrial portfolio (2011 — 96.6%, 2010 — 96.9%).

In-place rents are currently $15.01, up 5% year-over-year, driven by the impact of acquisitions and rental rate growth in certain office and industrial markets. Overall, in-place rents are currently estimated to be 10% below market rents and those leases expiring in 2012 are currently estimated to be 5% below market, representing an opportunity to capture increases when space is renewed or leased.

During the year we secured $761.9 million in new mortgages and term loan facilities at a weighted average face rate of 4.21% for an average term of 7.67 years. In addition to the new financings, we assumed $335.8 million of mortgages in connection with acquisitions at a weighted average face rate of 5.55% for an average term of 5.33 years. Together, the new and assumed financings have reduced our overall weighted average face rate to 4.98% compared to 5.41% at the end of 2010. Details of our financing activity begin on page 25.

OUTLOOK

The acquisition strategy executed over the past two years has repositioned Dundee REIT's business very effectively. The acquisitions have increased our physical footprint and, even more importantly, they have served to diversify and strengthen the sources of our income, both geographically and by tenant base. A portfolio that was once heavily weighted in Calgary is now balanced across Canada with a strong presence in nine of Canada's top ten office real estate markets and with a notable concentration of assets located in central business districts.

On January 17, 2012, Dundee REIT announced that it would acquire all of the outstanding units of Whiterock REIT ("Whiterock"). The Whiterock Portfolio is an excellent strategic fit with Dundee REIT's existing portfolio and will solidify our position as the dominant office REIT in Canada. This transaction makes Dundee REIT a more valuable investment vehicle and provides Dundee REIT unitholders with the following benefits:

- Increased scale: Dundee REIT will become the fourth largest REIT by market capitalization and its position as the largest provider of office space in the Canadian REIT market will be further solidified. The increased scale will provide our business with greater stability in volatile markets and further improve our cost of capital.
- Improved portfolio diversification: The addition of Whiterock's properties will enhance the geographic diversification of our portfolio, strengthening our position in existing markets and establishing a presence in new markets. The new properties will enhance our balanced lease expiry profile and provide additional opportunities to capitalize on the gaps between in-place and market rents.
- Immediately realizable synergies: The integration of operating platforms will immediately generate cost savings from operational and leasing synergies as well as the internalization of property management for certain owned assets that are currently managed by third parties.
- Strengthened tenant base: Similar to our tenant profile, almost 30% of Whiterock's gross rent comes from government entities and other high-quality tenants. Overall, the combined tenant roster will be further diversified and strengthened comprising stable, high credit quality tenants with long-term leases.
- Potential for accretive refinancings: The term to maturity of Whiterock's debt is shorter than ours (4.4 years vs. 5.2 years) and, at 5.2%, their average interest rate is higher than ours, affording us the opportunity to capitalize on the current interest rate environment as this debt matures and reduce our cost of debt more quickly than with our current portfolio.
- Valuable in-place relationships: Dundee REIT will be able to leverage the relationship with a new joint venture partner, a respected and creative capital provider.

The following table provides a pro forma snapshot of the Whiterock Portfolio as at year-end:

Portfolio	Number of assets	GLA (sq. ft.)	Average lease term (years)	Occupancy	Average tenant size (per sq. ft.)	Average in-place rent (per sq. ft.)	Market rent (per sq. ft.)
Atlantic Canada	11	569,100	4.8	96.1%	11,543	$ 12.67	$ 13.86
Québec	11	1,522,600	12.9	98.6%	33,356	7.44	12.07
Ontario	10	631,000	4.3	97.2%	19,618	9.88	11.40
Greater Toronto Area ("GTA")	19	2,342,900	4.2	97.2%	7,818	15.51	15.28
Saskatchewan	14	795,300	3.0	98.7%	7,594	11.72	14.42
Alberta	16	579,600	5.0	92.9%	5,630	14.60	14.69
British Columbia	2	150,000	4.4	98.7%	6,148	15.37	17.78
United States	2	902,300	13.9	100.0%	451,169	6.40	13.28
Total	85	7,492,800	7.0	97.6%	10,465	$ 11.09	$ 13.13

Once the transaction is completed, the stability of our income will be enhanced, we will have the opportunity to reduce our cost and level of debt and we will achieve economies of scale from our operating platform — all of which contribute to making Dundee REIT a more attractive investment vehicle. The transaction is subject to approval of the Whiterock unitholders voting at a special meeting on February 27, 2012, and is scheduled to close on or about March 2, 2012.

SECTION II — EXECUTING THE STRATEGY

OUR OPERATIONS

The following key performance indicators influence the cash generated from operating activities.

Performance indicators (office and industrial average)[1]	**December 31, 2011**	December 31, 2010
Occupancy rate	**95.6%**	96.1%
In-place rental rates (per sq. ft.)	**$ 15.01**	$ 14.29
Tenant maturity profile — average term to maturity (years)	**5.22**	5.87

[1] Excludes redevelopment properties and disposed properties.

Occupancy

At December 31, 2011, the overall percentage of occupied and committed space across our investment properties portfolio remained strong at 95.6%, consistent with the third quarter of 2011. Portfolio occupancy has declined slightly from prior year reflecting the impact of properties acquired in 2011 with an average occupancy rate of 94.6% at the time of acquisition, below that of our comparative portfolio. The average occupancy rate across our office portfolio is 95.4%, well above the national industry average of 91.9%. In addition, the average occupancy rate across our industrial portfolio is 96.6%, also well above the national industry average of 93.4%. Occupancy rates discussed in this report with respect to our portfolio include occupied and committed space at December 31, 2011.

	Total portfolio		Comparative properties[2]	
(percentage)	**December 31, 2011**	September 30, 2011	**December 31, 2011**	September 30, 2011
Office				
Western Canada	**96.0**	97.0	**95.9**	97.0
Calgary	**94.8**	95.4	**94.8**	95.4
Toronto	**94.9**	95.0	**94.9**	95.0
Eastern Canada	**97.1**	96.5	**97.1**	96.5
Total office	**95.4**	95.7	**95.4**	95.7
Industrial				
Western Canada	**95.1**	95.1	**95.1**	95.1
Calgary	**96.0**	94.7	**96.0**	94.7
Toronto	**93.6**	93.6	**93.6**	93.6
Eastern Canada	**99.1**	98.8	**99.1**	98.8
Total industrial	**96.6**	96.1	**96.6**	96.1
Overall[1]	**95.6**	95.8	**95.6**	95.8

[1] Excludes redevelopment properties and discontinued properties.

[2] Comparative properties include all properties owned by the Trust at September 30, 2011.

Our office portfolio continues to reflect the appeal of our properties as well as our ability to lease space, evidenced by continued strong occupancy of 95.4% (September 30, 2011 — 95.7%). On a comparative basis, the industrial portfolio occupancy rate improved from 96.1% to 96.6% during the fourth quarter, reflecting 176,000 square feet of new and committed leasing, all in our Calgary industrial portfolio. Our Western Canada office portfolio decreased quarter-over-quarter, resulting from a vacancy in Edmonton. This decrease was partially offset by an increase in our Eastern Canada office portfolio.

The table below details the percentage of occupied and committed space for the last eight quarters, demonstrating the strength and consistency of our leasing profile.

(percentage)	**Q4 2011**	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Office	**95.4**	95.7	96.1	95.8	95.8	96.6	96.6	97.0
Industrial	**96.6**	96.1	97.9	97.0	96.9	98.5	96.8	97.0
Overall	**95.6**	95.8	96.5	96.1	96.1	97.1	96.6	97.0

Vacancy schedule

Overall, we remain very active on the leasing front. During the quarter, new leasing and renewal activity included 498,193 square feet of office space and 112,631 square feet of industrial space. At quarter-end, vacancy in the office portfolio was reduced by 28,777 square feet, or 3%, and vacancy in the industrial portfolio increased by 52,833, or 33%, over September 30, 2011. Vacancy committed for future occupancy at year-end totalled 824,418 square feet, and has reduced both the office and industrial space available for lease across our portfolio by 23% or 242,694 square feet.

	For the three months ended December 31, 2011			For the year ended December 31, 2011		
(in square feet)	Office	Industrial	Total	Office	Industrial	Total
Available for lease	645,826	143,007	788,833	377,510	99,980	477,490
Vacancy committed for future leases	237,883	16,340	254,223	100,530	13,924	114,454
Vacant space at beginning of period	883,709	159,347	1,043,056	478,040	113,904	591,944
Acquired vacancy	—	—	—	334,969	56,795	391,764
Vacant space — restated	883,709	159,347	1,043,056	813,009	170,699	983,708
Remeasurements	14,331	360	14,691	13,608	603	14,211
Expiries	395,312	82,041	477,353	1,733,890	396,158	2,130,048
Early terminations and bankruptcies	59,773	83,063	142,836	156,701	98,488	255,189
New leases	(250,957)	(33,562)	(284,519)	(734,938)	(227,291)	(962,229)
Renewals	(247,236)	(79,069)	(326,305)	(1,127,338)	(226,477)	(1,353,815)
Vacant space — December 31, 2011	854,932	212,180	1,067,112	854,932	212,180	1,067,112
Vacancy committed for future occupancy	153,848	88,846	242,694	153,848	88,846	242,694
Available for lease — December 31, 2011	701,084	123,334	824,418	701,084	123,334	824,418

In-place rental rates

During the quarter, our in-place rents increased on both a total portfolio basis and a comparative property basis, reflecting the impact of contractual rent escalations and new and renewed leasing completed at higher contractual rents. Both office and industrial market rents continue to strengthen, improving on average by 3% over the prior quarter, and are approximately 10.3% above in-place rents. This represents an opportunity to continue contractual rent escalations as well as capture market rate increases on future leasing, leading to higher NOI.

	December 31, 2011			September 30, 2011		
Total portfolio	**Average in-place net rent[1]**	**Market rent**	**Market rent/ in-place rent (%)**	Average in-place rent	Market rent	Market rent/ in-place rent (%)
Office						
Western Canada	**$ 17.67**	**$ 21.50**	**21.7**	$ 17.85	$ 21.62	21.1
Calgary	**18.66**	**19.57**	**4.9**	18.75	17.74	(5.4)
Toronto	**15.87**	**17.32**	**9.1**	15.60	17.06	9.4
Eastern Canada	**15.29**	**16.79**	**9.8**	14.85	16.75	12.8
Total office	**$ 16.92**	**$ 18.79**	**11.1**	$ 16.82	$ 18.23	8.4
Industrial						
Western Canada	**$ 8.11**	**$ 8.99**	**10.9**	$ 8.09	$ 8.56	5.8
Calgary	**7.84**	**8.70**	**11.0**	8.16	8.34	2.2
Toronto	**6.39**	**5.68**	**(11.1)**	6.39	5.68	(11.1)
Eastern Canada	**6.37**	**6.07**	**(4.7)**	6.40	6.07	(5.2)
Total industrial	**$ 7.14**	**$ 7.37**	**3.2**	$ 7.26	$ 7.18	(1.1)
Overall	**$ 15.01**	**$ 16.56**	**10.3**	$ 14.96	$ 16.07	7.4

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

The following table demonstrates the change in average in-place rents and market rents for comparative properties owned at September 30, 2011. Overall, office market rents increased by 3% over the third quarter. In Calgary, estimated office market rents increased by an impressive 10%, building on the three prior quarters of consecutive growth and evidencing the improving outlook of this market. The in-place rents of our Calgary office portfolio continue to roll down from historic highs; however, we expect that this trend will continue to diminish as new leasing is completed. Overall, in-place rents are also showing incremental growth, reflecting leasing completed at higher rents and contractual rent steps.

	December 31, 2011		September 30, 2011	
Comparative properties	**In-place rent**	**Market rent**	In-place rent	Market rent
Office				
Western Canada	**$ 17.68**	**$ 21.61**	$ 17.85	$ 21.62
Calgary	**18.66**	**19.57**	18.75	17.74
Toronto	**15.87**	**17.32**	15.60	17.06
Eastern Canada	**15.29**	**16.79**	14.85	16.75
Total office	**$ 16.91**	**$ 18.79**	$ 16.82	$ 18.23
Industrial				
Western Canada	**$ 8.11**	**$ 8.99**	$ 8.09	$ 8.56
Calgary	**7.84**	**8.70**	8.16	8.34
Toronto	**6.39**	**5.68**	6.39	5.68
Eastern Canada	**6.37**	**6.07**	6.40	6.07
Total industrial	**$ 7.14**	**$ 7.37**	$ 7.26	$ 7.18
Overall	**$ 14.99**	**$ 16.55**	$ 14.96	$ 16.07

Leasing and tenant profile

The average remaining lease term and other portfolio information is detailed below. Properties acquired during the year had an average remaining lease term of 5.29 years on acquisition, which has slightly shortened our average remaining lease term to 5.22 years from 5.87 years at December 31, 2010. The shorter average lease term affords us an earlier opportunity to capitalize on the embedded value of below-market in-place rental rates as leases roll over.

	December 31, 2011[1]			December 31, 2010[1]		
Total portfolio	**Average remaining lease term (years)**	**Average tenant size (sq. ft.)**	**Average in-place net rent[2] (per sq. ft.)**	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent[2] (per sq. ft.)
Office						
Western Canada	**4.85**	**10,201**	**$ 17.67**	5.42	8,443	$ 18.91
Calgary	**3.81**	**7,956**	**18.66**	4.29	8,747	17.57
Toronto	**4.51**	**8,470**	**15.87**	5.28	13,408	15.76
Eastern Canada	**6.10**	**13,011**	**15.29**	3.45	7,580	13.74
Total office	**4.63**	**9,122**	**$ 16.92**	4.87	9,838	$ 16.95
Industrial						
Western Canada	**5.69**	**29,309**	**$ 8.11**	7.21	30,404	$ 8.09
Calgary	**4.21**	**6,753**	**7.84**	4.36	6,621	6.07
Toronto	**10.70**	**155,815**	**6.39**	12.58	206,222	6.79
Eastern Canada	**10.61**	**30,466**	**6.37**	12.15	64,111	6.14
Total industrial	**7.66**	**14,335**	**$ 7.14**	8.62	14,424	$ 6.99
Portfolio average	**5.22**	**9,820**	**$ 15.01**	5.87	10,750	$ 14.29

(1) Excludes redevelopment properties.

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

The following two tables detail our lease maturity profile by asset type and geographic segment at December 31, 2011. 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.

In 2012, 2,132,070 square feet of our leases will expire, of which 602,032 square feet, or 28%, has already been committed for future occupancy.

(in sq. ft.)	Current vacancy	Current monthly tenancies	2012	2013	2014	2015	2016 to 2031	Total
Office — uncommitted	701,084	5,561	1,314,611	1,993,048	1,521,199	1,356,244	7,432,538	14,324,285
Office — committed	—	—	504,786	182,344	2,287	7,084	256,629	953,130
Total office	701,084	5,561	1,819,397	2,175,392	1,523,486	1,363,328	7,689,167	15,277,415
Industrial — uncommitted	123,334	—	215,427	309,614	172,643	230,174	2,497,802	3,548,994
Industrial — committed	—	—	97,246	17,939	—	—	—	115,185
Total industrial	123,334	—	312,673	327,553	172,643	230,174	2,497,802	3,664,179
Total — uncommitted	824,418	5,561	1,530,038	2,302,662	1,693,842	1,586,418	9,930,340	17,873,279
Total — committed	—	—	602,032	200,283	2,287	7,084	256,629	1,068,315
Total	824,418	5,561	2,132,070	2,502,945	1,696,129	1,593,502	10,186,969	18,941,594

(in sq. ft.)	Current vacancy	Current monthly tenancies	2012	2013	2014	2015	2016 to 2031	Total
Western Canada — uncommitted	167,620	3,648	470,687	412,615	284,486	303,957	2,188,824	3,831,837
Western Canada — committed	—	—	117,839	93,926	—	6,284	1,329	219,378
Total Western Canada	167,620	3,648	588,526	506,541	284,486	310,241	2,190,153	4,051,215
Calgary — uncommitted	257,631	1,505	483,337	890,224	673,024	476,814	2,186,074	4,968,609
Calgary — committed	—	—	229,258	9,491	—	800	16,475	256,024
Total Calgary	257,631	1,505	712,595	899,715	673,024	477,614	2,202,549	5,224,633
Toronto — uncommitted	325,991	408	339,902	898,996	550,586	559,852	3,157,564	5,833,299
Toronto — committed	—	—	209,644	78,927	2,287	—	115,649	406,507
Total Toronto	325,991	408	549,546	977,923	552,873	559,852	3,273,213	6,239,806
Eastern Canada — uncommitted	73,176	—	236,112	100,827	185,746	245,795	2,397,878	3,239,534
Eastern Canada — committed	—	—	45,291	17,939	—	—	123,176	186,406
Total Eastern Canada	73,176	—	281,403	118,766	185,746	245,795	2,521,054	3,425,940
Total — uncommitted	824,418	5,561	1,530,038	2,302,662	1,693,842	1,586,418	9,930,340	17,873,279
Total — committed	—	—	602,032	200,283	2,287	7,084	256,629	1,068,315
Total	824,418	5,561	2,132,070	2,502,945	1,696,129	1,593,502	10,186,969	18,941,594

The following tables detail expiring rents across our portfolio as well as our estimate of average market rents based on current leasing activity in comparable properties at December 31, 2011. Expiring rents and market rents represent base rates and do not include the impact of lease incentives. Currently, our 2012 expiring rents are approximately 5% below market rents.

	Current monthly tenancies	2012	2013	2014	2015	2016 to 2023
Expiring rents						
Office	$ 4.63	$ 17.69	$ 18.58	$ 17.30	$ 15.64	$ 18.81
Industrial	—	6.95	8.35	8.93	8.73	8.07
Portfolio average	4.63	16.17	17.20	16.45	14.63	16.26
Market rents[1]						
Office	$ 17.79	$ 18.62	$ 18.16	$ 18.16	$ 17.29	$ 19.32
Industrial	—	7.44	8.88	8.07	8.75	7.02
Market rent average	17.79	17.04	16.91	17.13	16.05	16.40

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

	Current monthly tenancies	2012	2013	2014	2015	2016 to 2023
Expiring rents						
Office						
Western Canada	$ —	$ 18.06	$ 19.24	$ 17.70	$ 17.33	$ 20.32
Calgary	13.06	19.42	22.25	18.02	13.63	20.21
Toronto	15.00	18.19	15.75	16.75	14.76	17.72
Eastern Canada	—	13.18	15.04	16.08	19.14	17.12
Industrial						
Western Canada	—	4.12	5.07	6.87	9.15	11.65
Calgary	—	8.63	10.81	9.85	9.20	8.00
Toronto	—	—	—	—	—	8.22
Eastern Canada	—	7.27	5.38	5.98	6.09	7.25
Portfolio average	$ 4.63	$ 16.17	$ 17.20	$ 16.45	$ 14.63	$ 16.26
Market rents[1]						
Office						
Western Canada	$ 18.00	$ 22.51	$ 20.89	$ 22.76	$ 19.78	$ 21.45
Calgary	18.57	17.59	20.19	17.91	17.67	20.61
Toronto	13.00	18.45	15.88	17.03	15.87	17.92
Eastern Canada	—	13.31	15.36	15.16	17.52	17.48
Industrial						
Western Canada	—	5.57	8.56	6.00	9.31	10.22
Calgary	—	8.98	9.45	8.80	9.21	8.32
Toronto	—	—	—	—	—	5.68
Eastern Canada	—	5.64	6.00	6.00	5.96	6.09
Market rent average	$ 17.79	$ 17.04	$ 16.91	$ 17.13	$ 16.05	$ 16.40

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

Initial direct leasing costs and lease incentives

Initial direct leasing costs include leasing fees and related costs, and broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include costs incurred to make leasehold improvements to tenant spaces and cash allowances. Initial direct leasing costs and lease incentives are dependent upon asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. Short-term leases generally have lower costs than long-term leases, and leasing costs associated with office space are generally higher than costs associated with industrial space.

For the year ended December 31, 2011, we incurred $23.6 million in leasing costs and lease incentives. With respect to office properties, we incurred $22.3 million of leasing costs, representing an average of $11.95 per square foot. Included in this amount is approximately $1.0 million of expenditures relating to two properties acquired in 2010 for which we negotiated purchase price reductions. Excluding these costs, office leasing costs averaged $11.41 per square foot. For industrial space, $1.3 million of leasing costs were incurred, averaging $2.87 per square foot.

Performance indicators	Office	Industrial	Total
Operating activities (continuing portfolio)[1]			
Portfolio size (sq. ft.)[2]	15,277,415	3,664,179	18,941,594
Occupied and committed[2]	95.4%	96.6%	95.6%
Square footage leased and occupied in 2011	1,862,276	453,768	2,316,044
Leasing incentives and initial direct leasing costs paid in 2011	$ 22,248	$ 1,303	$ 23,551

(1) Includes equity accounted investments.

(2) Excludes redevelopment properties.

Tenant base profile

Our tenant base includes municipal, provincial and federal governments, as well as a wide range of high-quality large international corporations and small to medium-sized businesses across the country. With approximately 1,845 tenants, our risk exposure to any single large lease or tenant is low. The average sizes of our office and industrial tenants are 9,122 square feet and 14,335 square feet, respectively. 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 increases.

The stability and quality of our cash flow is further enhanced by the fact that rental revenue from government and government agencies comprises 17% of our total rental revenue. The list of our ten largest tenants includes both federal and provincial governments as well as other nationally and internationally recognizable high-quality corporations and businesses. The following table outlines their contributions to our rental revenues.

Tenant	Owned area in sq. ft.	% of owned area	% of gross rental revenue	Average remaining lease term (years)
Government of Canada	1,209,973	6.4	6.8	3.6
Bell Canada	372,693	2.0	2.8	5.9
Government of Ontario	317,519	1.7	2.2	8.1
TELUS	275,653	1.4	2.0	4.3
Government of Alberta	356,286	1.9	1.9	2.8
Enbridge Pipelines	221,638	1.2	1.9	8.7
Aviva	335,900	1.8	1.8	4.6
Government of British Columbia	238,397	1.2	1.5	5.1
Loyalty Management	200,466	1.0	1.5	5.8
State Street Trust Company	135,548	0.7	1.2	9.9
Total	3,664,073	19.3	23.6	5.3

OUR RESOURCES AND FINANCIAL CONDITION

Investment properties

At December 31, 2011, the fair value of our investment property portfolio (including those held in equity accounted investments) increased to $4.4 billion from $4.2 billion at September 30, 2011, representing a weighted average capitalization rate ("cap rate") of 6.68%. During the fourth quarter, we acquired an office property for $24.9 million, including transaction costs, added $4.0 million to our development property and increased investment properties by approximately $13 million through building improvements, initial direct leasing costs and lease incentives. Our portfolio subsequently increased by $185 million due to the revaluation of cap rates to 6.68% at year-end from 6.97% at September 30, 2011.

Fair values were determined using the direct capitalization method and/or the discounted cash flow method. The direct capitalization method applies a cap rate to stabilized NOI and incorporates allowances for vacancy and management fees. The resulting capitalized value was further adjusted for extraordinary costs to stabilize income and non-recoverable capital expenditures, where applicable. Individual properties were valued using cap rates in the range of 5.50% to 9.25%. The discounted cash flow method discounts the expected future cash flows, generally over a term of ten years, and uses discount rates and terminal capitalization rates specific to each property.

The fair value of our investment properties, including equity accounted investments, is set out below.

	Total portfolio		
	December 31, 2011	September 30, 2011	December 31, 2010
Office			
Western Canada	**$ 981,811**	$ 936,022	$ 623,166
Calgary	**1,098,595**	1,022,897	662,886
Toronto	**1,467,120**	1,386,253	836,522
Eastern Canada	**494,142**	491,991	113,284
Total office	**$ 4,041,668**	$ 3,837,163	$ 2,235,858
Industrial			
Western Canada	**$ 63,873**	$ 60,810	$ 31,617
Calgary	**148,897**	144,810	136,055
Toronto	**45,029**	40,052	39,635
Eastern Canada	**101,405**	97,029	83,073
Total industrial	**$ 359,204**	$ 342,701	$ 290,380
	$ 4,400,872	$ 4,179,864	$ 2,526,238
Add: Development properties	**25,511**	21,903	12,503
Total portfolio	**$ 4,426,383**	$ 4,201,767	$ 2,538,741
Less: Equity accounted investments	**264,504**	242,347	208,736
Less: Assets held for sale	**7,700**	6,300	—
Consolidated balance sheet	**$ 4,154,179**	$ 3,953,120	$ 2,330,005

	Comparative properties[1]		
	December 31, 2011	September 30, 2011	Change
Office			
Western Canada	**$ 958,013**	$ 936,022	$ 21,991
Calgary	**1,098,595**	1,022,897	75,698
Toronto	**1,467,120**	1,386,253	80,867
Eastern Canada	**494,142**	491,991	2,151
Total office	**$ 4,017,870**	$ 3,837,163	$ 180,707
Industrial			
Western Canada	**$ 63,873**	$ 60,810	$ 3,063
Calgary	**148,897**	144,810	4,087
Toronto	**45,029**	40,052	4,977
Eastern Canada	**101,405**	97,029	4,376
Total industrial	**$ 359,204**	$ 342,701	$ 16,503
	$ 4,377,074	$ 4,179,864	$ 197,210
Add: Development properties	**25,511**	21,903	3,608
Total portfolio	**$ 4,402,585**	$ 4,201,767	$ 200,818
Less: Equity accounted investments	**264,505**	242,347	22,158
Less: Assets held for sale	**7,700**	6,300	1,400
Total comparative properties	**$ 4,130,380**	$ 3,953,120	$ 177,260

[1] Comparative properties are properties owned by the Trust on September 30, 2011.

Our total portfolio increased in value by $200.8 million to $4.4 billion during the quarter, representing a cap rate of 6.68%. The increase in value is primarily attributed to cap rate compression in downtown Calgary and Toronto. In our office segment, the weighted average cap rate compressed by 29 basis points (bps) over the prior quarter.

On a comparative property basis, the fair value of our Calgary office portfolio increased by $75.7 million, primarily reflecting weighted average cap rate compression of 50 bps. The Toronto office portfolio fair value increased $80.9 million reflecting weighted average cap rate compression of approximately 27 bps. The fair value of the Western Canada office portfolio increased by $22.0 million. Our Eastern Canada office portfolio remained relatively flat quarter-over-quarter. Our comparative industrial portfolio increased by $16.5 million in the quarter.

The key valuation metrics for investment properties, including properties accounted for under the equity method, are set out in the table below:

					Capitalization rates	
	Total portfolio				Comparative properties	
	December 31, 2011		**December 31, 2011**		September 30, 2011	
	Range (%)	**Weighted average (%)**	**Range (%)**	**Weighted average (%)**	Range (%)	Weighted average (%)
Office						
Western Canada	**5.75–9.25**	**6.69**	**5.75–9.25**	**6.68**	5.65–9.50	6.83
Calgary	**5.50–8.50**	**7.01**	**5.50–8.50**	**7.01**	6.05–8.54	7.51
Toronto	**5.50–9.00**	**6.36**	**5.50–9.00**	**6.36**	5.84–9.12	6.63
Eastern Canada	**6.20–8.00**	**6.56**	**6.20–8.00**	**6.56**	6.29–9.47	6.73
Total office	**5.50–9.25**	**6.64**	**5.50–9.25**	**6.64**	5.65–9.50	6.93
Industrial						
Western Canada	**6.75–7.50**	**7.00**	**6.75–7.50**	**7.00**	6.25–8.24	7.16
Calgary	**6.50–7.50**	**7.05**	**6.50–7.50**	**7.05**	5.77–9.07	7.32
Toronto	**6.75–7.00**	**6.80**	**6.75–7.00**	**6.80**	7.74–7.80	7.79
Eastern Canada	**6.75–9.25**	**7.45**	**6.75–9.25**	**7.45**	6.99–9.79	7.91
Total industrial	**6.50–9.25**	**7.12**	**6.50–9.25**	**7.12**	5.77–9.79	7.50
Total portfolio	**5.50–9.25**	**6.68**	**5.50–9.25**	**6.68**	5.65–9.79	6.97

Investing activities

Key performance indicators in the management of our investing activities include the following:

	For the three months ended December 31,		For the years ended December 31,	
	2011	2010	**2011**	2010
Investing activities[1]				
Acquisition of investment properties	**$ 24,867**	$ 282,682	**$1,206,449**	$ 922,171
Acquisition of Realex	**—**	—	**363,697**	—
Building improvements	**5,195**	2,094	**8,284**	8,397
Development projects	**3,661**	3,876	**13,212**	6,706

(1) Includes equity accounted investments.

Acquisitions

During 2011, we completed the following acquisitions:

For the year ended December 31, 2011	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price[1]	Date acquired
Saskatoon Square, Saskatoon	office	100	209,593	100	$ 51,349	January 4, 2011
400 Cumberland Road, Ottawa	office	100	174,921	100	39,179	January 17, 2011
Realex Portfolio	office/industrial	100	1,837,277	96	363,697[2]	February 8, 2011
55 King Street West, Kitchener	office	100	124,100	73	13,506	March 31, 2011
586 Argus Road, Oakville	office	100	74,570	95	16,986	May 2, 2011
Morgex Building (11120-178th Street), Edmonton	office	100	39,750	100	13,354	May 19, 2011
Multivesco Portfolio, Gatineau	office/industrial	100	148,198	100	15,999	June 9, 2011
700 de la Gauchetière, Montréal	office	100	987,706	94	287,766	July 11, 2011
13888 Wireless Way, Richmond	office	100	116,530	100	32,447	July 12, 2011
81 Wright and 170 Joseph Zatzman, Halifax	industrial	100	109,737	98	7,631	July 27, 2011
Blackstone Portfolio, Ontario, Alberta	office	100	2,661,914	94	703,365	August 15, 2011
Richmond Place (8100 Granville Avenue), Richmond	office	100	94,646	100	24,867	November 22, 2011
Total			6,578,942	95	$ 1,570,146	

(1) Includes transaction costs.

(2) Includes $20.8 million of equity accounted investments.

Significant transactions completed during the year included the Blackstone and Realex Portfolios as well as a 1.0 million square foot Class A office property in Montréal.

The Blackstone Portfolio acquisition (accounted for as an asset acquisition) was completed on August 15, 2011, and included 24 office properties totalling 2.7 million square feet from Blackstone for $703.4 million, including transaction costs. The Blackstone Portfolio offers embedded NOI growth potential with occupancy upside and in-place rents that are below estimated market rents. On July 11, 2011, we acquired 700 de la Gauchetière, a 1.0 million square foot Class A office property in downtown Montréal for $287.8 million, including transaction costs.

The acquisition of the Realex Portfolio (accounted for as a business combination) was completed on February 8, 2011. Dundee REIT acquired all of the 18,712,663 outstanding shares of Realex for $8.25 per share, for a total cash consideration of $154.4 million, as well as $203.9 million in assumed mortgages and $5.4 million in assumed working capital, representing a total purchase price of $363.7 million. Including equity accounted investments, the acquisition of Realex consisted of $373.4 million of investment properties; $6.1 million of cash, amounts receivable and other assets, along with $203.9 million of assumed mortgages, at fair value; and $9.4 million of accounts payable and other liabilities. Acquisition related costs of $5.7 million comprised (i) $8.7 million in transaction costs; (ii) $8.8 million of acquisition related costs that were triggered by contractual change of control provisions in place; and (iii) net of an $11.8 million acquisition gain.

In 2011, we have assumed $345.1 million (including fair value adjustments) in mortgages in connection with acquisitions.

The following acquisitions were completed in 2010:

For the year ended December 31, 2010	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price[1]	Date acquired
Adelaide Place, Toronto	office	100	654,249	98	$ 217,708	January 18, 2010
Aviva Corporate Centre, Toronto	office/redevelopment	100	436,704	99[2]	45,660	February 10, 2010
10130-103 Street, Edmonton	office	100	265,625	95	90,007	April 16, 2010
2340 St. Laurent Boulevard, Ottawa	industrial	100	114,724	100	11,344	April 26, 2010
4915-52 Street, Yellowknife	redevelopment	100	—	—	678	April 30, 2010
Financial Building, Regina	office	100	65,763	100	14,222	May 4, 2010
30 Eglinton Avenue West, Mississauga	office	100	164,987	90	38,543	May 31, 2010
625 Cochrane Drive, Markham	office	100	161,997	100	29,917	June 18, 2010
Valleywood Corporate Centre, Markham	office	100	154,116	98	31,645	June 18, 2010
275 Wellington Street East, Aurora	industrial	100	317,000	100	25,438	July 30, 2010
8000 av Blaise-Pascal, Montréal	industrial	100	206,305	100	11,296	July 30, 2010
6509 Airport Road, Mississauga	office	100	60,000	100	12,295	August 3, 2010
3035 Orlando Drive, Mississauga	office	100	16,754	86	2,410	August 3, 2010
2075 Kennedy Road, Toronto	office	100	201,730	96	31,750	August 12, 2010
1421 rue Ampère, Boucherville	industrial	100	457,875	100	29,381	September 2, 2010
1313 Autoroute Chomedey, Laval	industrial	100	184,493	100	12,716	September 2, 2010
150 Metcalfe Street, Ottawa	office	100	109,374	91	34,540	September 16, 2010
236 Brownlow Avenue, Darmouth	office	100	60,739	95	7,455	October 5, 2010
970 Fraser Drive, Burlington	industrial	100	95,444	100	7,090	October 19, 2010
2200 & 2204 Walkley Road, Ottawa	office	100	156,551	100	23,653	November 2, 2010
2625 Queensview Drive, Ottawa	office	100	46,156	100	8,656	November 5, 2010
30 Simmonds Drive, Dartmouth	industrial	100	37,240	88	1,621	November 22, 2010
105 Akerley Boulevard, Dartmouth	industrial	100	57,524	88	3,101	November 22, 2010
4259–4299 Canada Way, Burnaby	office	100	118,536	96	26,280	December 15, 2010
2665 Renfrew Street, Vancouver	office	100	81,662	100	34,649	December 21, 2010
AFIAA Portfolio, Toronto, Mississauga and Calgary	office	100	198,392	95	45,348	December 21, 2010
10250-101 Street, Edmonton	office	100	296,961	79	84,619	December 22, 2010
100 Gough Road, Toronto	office	100	111,840	100	30,475	December 30, 2010
580 Industrial Road, London	industrial	100	113,595	100	9,674	December 30, 2010
Total			4,946,336	97	$ 922,171	

[1] Includes transaction costs.

[2] Excludes redevelopment component of the property.

For the year ended December 31, 2010, we assumed mortgages with fair values of $158.9 million.

Acquisitions under contract subsequent to year-end

Effective January 19, 2012, the Trust completed the acquisition of a 310,600 square foot office building in Toronto, Ontario. The purchase price, excluding transaction costs, was approximately $107.8 million.

Effective January 30, 2012, the Trust completed the acquisition of a 50,100 square foot office building in Toronto, Ontario. The purchase price, excluding transaction costs, was approximately $13.5 million.

Effective February 2, 2012, the Trust completed the disposition of a 36,400 square foot office building in Calgary, Alberta. The sale price, excluding transaction costs, was approximately $7.7 million.

Building improvements

During the quarter, we incurred $5.2 million of expenditures related to building improvements, bringing the year-to-date total to $8.3 million, substantially all of which will be recovered from tenants.

Building improvements represent investments made in our properties to ensure optimal performance. Recurring recoverable expenditures of $4.8 million included elevator modernization, roofing upgrades, HVAC and chiller work. During the quarter, approximately $0.7 million was spent on sustainability and environmental initiatives. Non-recurring building improvements include major capital expenditures that generally would not be expected to recur over the useful life of the building. Approximately $2.4 million of the recurring recoverable amount relates to acquired properties and was identified at the time of acquisition.

The table below represents amounts paid and accrued during the year:

	For the three months ended December 31,		For the years ended December 31,	
	2011	2010	**2011**	2010
Building improvements[1]				
Recurring recoverable	**$ 4,798**	$ 1,892	**$ 7,848**	$ 7,653
Recurring non-recoverable	**5**	—	**12**	175
Non-recurring	**392**	202	**424**	569
Total	**$ 5,195**	$ 2,094	**$ 8,284**	$ 8,397

(1) Includes equity accounted investments.

Development

We are constructing an office building in Yellowknife (the Gallery Building) that is fully leased to the Government of Canada for a ten-year term. Construction costs are estimated to be $20.0 million (excluding financing costs) and will be funded by cash on hand and our credit facility. During the fourth quarter, $3.6 million of expenditures were incurred relating to the Gallery Building. Year-to-date, total expenditures are $13.0 million. The project is near completion, with $19.4 million in total costs incurred.

OUR FINANCING

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, interest payments, and property acquisitions. We expect to meet all of our ongoing obligations with current cash and cash equivalents, cash flows generated from operations, conventional mortgage refinancings and, as growth requires and when appropriate, new equity or debt issues.

Our discussion of financing activities will be based on the debt balances below, which include debt related to equity accounted investments at the Trust's proportionate ownership.

	December 31, 2011	December 31, 2010
Debt	**$ 2,254,756**	$ 1,296,851
Less: Debt related to equity accounted investments and liabilities related to assets held for sale	**130,239**	94,843
Consolidated balance sheets	**$ 2,124,517**	$ 1,202,008

Financing activities

Acquisitions are financed 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. In the fourth quarter of 2011, we secured $6.0 million of new mortgage financing with a weighted average face rate of 3.57% and an average term to maturity of 5.1 years. During the fourth quarter, scheduled mortgage repayments totalled $12.8 million and we also made a $13.7 million lump sum repayment.

For the year ended December 31, 2011, we secured $761.9 million of new financings, primarily comprising mortgages at a weighted average face rate of 4.21% with an average term to maturity of 7.7 years. In addition, we entered into a $188.0 million variable rate term loan facility with respect to which we entered into two interest rate swap agreements to fix the interest payments at 3.52% for a notional value of $133.0 million over five years and 3.03% for a notional value of $55.0 million over three years. For this reason we consider the $188.0 million term loan facility to have a fixed rate of interest. In connection with the acquisition of Realex and other property acquisitions, we also assumed $335.8 million in mortgages, with an average term to maturity of 5.3 years and a weighted average face rate of 5.55%. During the year, scheduled mortgage repayments were $43.0 million and mortgage lump sum repayments were $100.2 million.

Debt

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

	December 31, 2011	December 31, 2010
Financing activities		
Average effective interest rate[1]	**4.96%**	5.43%
Level of debt (debt-to-gross book value)[2][5]	**49.0%**	46.9%
Interest coverage ratio[3][5]	**2.6 times**	2.5 times
Debt-to-EBITDFV (years)[4][5]	**7.63**	6.98
Proportion of total debt due in current year	**7.52%**	8.40%
Debt — average term to maturity (years)	**5.2**	4.8
Variable rate debt as percentage of total debt	**1.26%**	2.2%

(1) Average effective interest rate is calculated as the weighted average interest rate of all interest bearing debt, including debts related to equity accounted investments.

(2) Level of debt is determined as total debt including debts related to equity accounted investments divided by total assets (including total assets of equity accounted investments and adjusted for accumulated amortization on property and equipment).

(3) The interest coverage ratio for the year, including results from equity accounted investments, is calculated as NOI plus interest and fee income, less general and administrative expenses, excluding income from disposed properties, all divided by interest expense on debt.

(4) Debt-to-EBITDFV is calculated as total debt divided by annualized EBITDFV for the current quarter. EBITDFV is calculated as net income less non-cash items included in revenue plus interest expense, depreciation, fair value adjustments and acquisition related costs.

(5) Performance indicators have been restated for IFRS.

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Dundee Properties Limited Partnership ("DPLP"), a subsidiary of the Trust, is required to maintain an interest coverage ratio of no less than 1.4 times. Our current interest coverage ratio is 2.6 times, demonstrating our ability to more than adequately cover interest expense requirements. We also monitor our debt-to-EBITDFV ratio to gauge our ability to pay off existing debt. Our current debt-to-EBITDFV ratio is 7.59 years. Our weighted average face rate of interest at December 31, 2011, was 4.98%, down from 5.41% at the start of the year, mainly reflecting the impact of new and assumed mortgage financing completed at a weighted average face rate of 4.61%. After accounting for market adjustments and financing costs, the weighted average effective interest rate is 4.96%.

Variable rate debt as a percentage of total debt decreased to 1.3% from 2.2% as a result of loan repayments and, more significantly, new and assumed financings entered into at a fixed rate during the year.

	December 31, 2011			December 31, 2010		
	Fixed	**Variable**	**Total**	Fixed	Variable	Total
Mortgages	**$1,909,828**	**$ 25,982**	**$ 1,935,810**	$ 1,136,906	$ 28,737	$ 1,165,643
Term debt	**504**	**—**	**504**	341	—	341
Demand revolving credit facility	**—**	**2,435**	**2,435**	—	—	—
Term loan facility	**184,654**	**—**	**184,654**	—	—	—
6.5% Debentures	**2,802**	**—**	**2,802**	3,192	—	3,192
5.7% Debentures	**7,497**	**—**	**7,497**	7,752	—	7,752
6.0% Debentures	**121,054**	**—**	**121,054**	119,923	—	119,923
Total	**$2,226,339**	**$ 28,417**	**$2,254,756**	$ 1,268,114	$ 28,737	$ 1,296,851
Percentage	**98.7%**	**1.3%**	**100%**	97.8%	2.2%	100.0%

Mortgages payable include $10.5 million of fair value adjustments on mortgages assumed in connection with acquisitions (December 31, 2010 — $3.6 million). Amounts recorded at December 31, 2011, for the 6.5%, 5.7% and 6.0% Debentures are net of $1.1 million of premiums allocated to their conversion features on issuance (December 31, 2010 — $1.4 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

New and assumed mortgage and term loan financing is highlighted in the table below.

	For the three months ended December 31, 2011				For the year ended December 31, 2011			
		Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective interest rate (%)[1]		Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective interest rate (%)[1]
New mortgages and term loan facility placed	$ 6,000	5.08	3.57	3.67	$ 761,888	7.67	4.21	4.39
New mortgages assumed on investment property acquisitions	—	—	—	—	335,803	5.33	5.55	4.61
Overall	$ 6,000	5.08	3.57	3.67	$1,097,691	6.97	4.61	4.46

(1) After accounting for the impact of financing costs and fair value adjustments on mortgages assumed.

A demand revolving credit facility is available up to a formula-based maximum not to exceed $40.0 million, generally bearing interest at the bank prime rate (3% as at December 31, 2011) plus 1.5%, or bankers' acceptance rates, plus 3.0%. At December 31, 2011, the formula-based amount available is $36.1 million. This facility is secured by a first-ranking collateral mortgage on two properties and a second-ranking collateral mortgage on one property. Currently, $2.4 million is being utilized in the form of overdraft and $1.5 million is being utilized in the form of letters of guarantee. Funds available under this facility are $32.1 million.

In connection with the acquisition of Realex, we assumed a revolving credit facility authorized to a formula-based maximum of $22.0 million. In the third quarter of 2011 we negotiated an increase in the authorized amount of this facility to $35.0 million. At December 31, 2011, $nil amounts are drawn from the facility. The facility is secured by a second-ranking mortgage on three properties and bears interest based on the bank's prime rate (3% as at December 31, 2011) plus 0.85%.

We also have a $188.0 million term loan facility outstanding, drawn to finance the acquisition of the Blackstone Portfolio in the third quarter of 2011. This facility expires on August 15, 2016, and bears interest monthly at bankers' acceptances plus 1.85%. In order to manage the interest rate fluctuations, we have entered into two interest rate swap agreements (the "swaps") to effectively make the interest rate fixed. The Trust has applied hedge accounting to the swaps.

At December 31, 2011, we had $123.4 million in cash and $67.1 million available from our revolving credit facilities. In addition, we have 18 unencumbered properties that may be leveraged to provide additional financing. Subsequent to year-end, 13 unencumbered properties have been pledged to a secured line of credit to fund the acquisition of Whiterock and the cash has been deployed to fund acquisitions.

Changes in debt levels are as follows:

	For the three months ended December 31, 2011					
	Mortgages	Revolving credit facilities	Term loan facility	Term debt	Convertible debentures	Total
Debt as at September 30, 2011	$ 1,956,914	$ —	$ 184,696	$ 554	$ 131,212	$ 2,273,376
New debt placed	6,000	2,435	—	—	—	8,435
Scheduled repayments	(12,822)	—	—	(50)	—	(12,872)
Lump sum repayments	(13,677)	—	—	—	—	(13,677)
Conversion to unitholders' equity	—	—	—	—	(183)	(183)
Other adjustments[1]	(605)	—	(42)	—	324	(323)
Debt as at December 31, 2011	$ 1,935,810	$ 2,435	$ 184,654	$ 504	$ 131,353	$ 2,254,756

[1] Other adjustments include issue costs on new debt placed, fair value adjustments and amortization of issue costs and fair value adjustments.

	For the year ended December 31, 2011					
	Mortgages	Revolving credit facilities	Term loan facility	Term debt	Convertible debentures	Total
Debt at December 31, 2010	$ 1,165,643	$ —	$ —	$ 341	$ 130,867	$ 1,296,851
New debt assumed on investment property acquired	335,803	—	—	—	—	335,803
New debt placed	573,888	34,289	188,000	387	—	796,564
Scheduled repayments	(43,019)	—	—	(224)	—	(43,243)
Lump sum repayments	(100,243)	(31,854)	—	—	—	(132,097)
Conversion to unitholders' equity	—	—	—	—	(701)	(701)
Other adjustments[1]	3,738	—	(3,346)	—	1,187	1,579
Debt at December 31, 2011	$ 1,935,810	$ 2,435	$ 184,654	$ 504	$ 131,353	$ 2,254,756

[1] Other adjustments include issue costs on new debt placed, fair value adjustments and amortization of issue costs and fair value adjustments.

Throughout the year we have been securing ten-year debt when available. The acquisition of the Blackstone Portfolio afforded us the opportunity to rebalance our debt profile and better stagger our maturities into years where we had very little debt maturing. The following is our debt maturity profile, as at December 31, 2011:

	Debt maturities	Scheduled principal repayments on non-matured debt	Amount	%	Weighted average effective interest rate on balance due at maturity (%)	Weighted average face rate on balance due at maturity (%)
2012	$ 116,087	$ 53,869	$ 169,956	7.5	5.31	5.46
2013	118,562	49,548	168,110	7.5	5.06	5.56
2014	207,715	48,369	256,084	11.3	6.53	5.91
2015	338,308	40,665	378,973	16.8	4.44	4.97
2016	423,293	33,107	456,400	20.2	4.52	4.31
2017 and thereafter	738,436	91,207	829,643	36.7	4.97	4.93
Total	$ 1,942,401	$ 316,765	$ 2,259,166	100.0		4.98
Fair value adjustments			9,396			
Transaction costs			(13,806)			
Total			$2,254,756			

Convertible debentures

With respect to the 6.0% Debentures, the total principal outstanding at January 31, 2012, was $125.0 million (December 31, 2011 — $125.0 million), convertible into approximately 3,018,479 REIT A Units. For the 5.7% Debentures, the total principal outstanding was $7.3 million (December 31, 2011 — $7.5 million), convertible into approximately 243,351 REIT A Units. For the 6.5% Debentures, the total principal outstanding was $2.8 million (December 31, 2011 — $2.9 million), convertible into approximately 111,840 REIT A Units.

The fair value of the conversion feature of the convertible debentures is remeasured each period, with changes in fair value being recorded in comprehensive income. At December 31, 2011, the conversion feature totalled $6.4 million (December 31, 2010 — $6.5 million), representing the fair value of the conversion feature related to the convertible debentures.

Commitments and contingencies

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

Dundee REIT's future minimum commitments under operating and finance leases, including equity accounted investments, are as follows:

	December 31, 2011	
	Operating lease payments	Finance lease payments
Less than 1 year	$ 1,295	$ 298
1–5 years	2,176	238
Longer than 5 years	2,345	—
Total	$ 5,816	$ 536

During the year ended December 31, 2011, we made $1.2 million (December 31, 2010 — $1.0 million) in minimum lease payments, which has been included in comprehensive income for the year.

Effective February 1, 2010, we entered into three fixed price contracts to purchase electricity for 14 office properties in Calgary, allowing us to manage our operating expenses more effectively. The contracted volumes are based on historical electricity consumption at each of the buildings. The contracts expire on January 31, 2013, and commit us to total minimum payments of $2.2 million for 2012, and $0.2 million for 2013.

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 commit us to total annual minimum payments of $0.6 million for 2012.

OUR EQUITY

Our discussion of equity is inclusive of LP Class B Units, Series 1, which are economically equivalent to REIT Units. Pursuant to IFRS, the LP B Units are classified as a liability in our consolidated financial statements as subsidiary redeemable units because of their redemption feature upon exchange for a REIT Unit.

				Unitholders' equity
	December 31, 2011		December 31, 2010[1]	
	Number of Units	**Amount**	Number of Units	Amount
REIT Units, Series A	**66,193,060**	**$ 2,118,116**	45,896,203	$ 1,214,604
REIT Units, Series B	**16,316**	**720**	16,316	456
Accumulated other comprehensive loss	**—**	**(1,602)**	—	—
	66,209,376	**2,117,234**	45,912,519	1,215,060
Add: LP B Units	**3,506,107**	**114,445**	3,481,733	105,148
Total	**69,715,483**	**$ 2,231,679**	49,394,252	$1,320,208

[1] Amounts have been restated for IFRS.

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, 2011, Dundee Corporation, directly and indirectly through its subsidiaries, held 1,776,158 REIT A Units and 3,506,107 LP B Units, for a total ownership interest of approximately 7.6%.

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 January 1, 2011	45,896,203	16,316	3,481,733	49,394,252
Units issued pursuant to public offering	19,538,500	—	—	19,538,500
Units issued pursuant to DRIP	688,502	—	24,374	712,876
Units issued pursuant to Unit Purchase Plan	11,222	—	—	11,222
Units issued pursuant to Deferred Unit Incentive Plan	32,376	—	—	32,376
Conversion of debentures	26,257	—	—	26,257
Total units outstanding on December 31, 2011	66,193,060	16,316	3,506,107	69,715,483
Percentage of all units	94.95%	0.02%	5.03%	100.00%
Units issued pursuant to DRIP on January 15, 2012	77,445	—	1,947	79,392
Units issued pursuant to Unit Purchase Plan	204	—	—	204
Units issued pursuant to Deferred Unit Incentive Plan	12,793	—	—	12,793
Total units outstanding on January 31, 2012	66,283,502	16,316	3,508,054	69,807,872
Percentage of all units	94.95%	0.02%	5.03%	100.00%

On December 20, 2011, the Trust completed a public offering of 4,393,000 REIT A Units, including an over-allotment option, at a price of $32.75 per Unit for gross proceeds of $143.9 million. Costs related to the offering totalled $6.4 million and were charged directly to unitholders' equity.

On August 15, 2011, the Trust completed a public offering of 5,037,000 REIT A Units, including an over-allotment option, at a price of $32.40 per Unit for gross proceeds of $163.2 million. Costs related to the offering were $6.6 million and were charged directly to unitholders' equity. The offering included 407,000 Units to be purchased by Dundee Corporation pursuant to the exercise of its pre-emptive right under Dundee REIT's Declaration of Trust.

On June 14, 2011, the Trust completed a public offering of 4,660,000 REIT A Units at a price of $33.30 per Unit for gross proceeds of $155.2 million. On June 29, 2011, the Trust issued an additional 699,000 REIT A Units, pursuant to the exercise of the over-allotment option granted to the underwriter for gross proceeds of approximately $23.3 million. Costs related to the offering totalled $7.1 million and were charged directly to unitholders' equity.

On February 4, 2011, the Trust completed a public offering of 4,749,500 REIT A Units at a price of $30.30 per Unit, for gross proceeds of $143.9 million. Costs related to the offering totalled $6.3 million and were charged directly to unitholders' equity.

Normal course issuer bid

The Trust renewed its normal course issuer bid, which commenced on December 2, 2011, and will remain in effect until the earlier of December 1, 2012, or the date on which the Trust has purchased the maximum number of units permitted under the bid. Under the bid, the Trust has the ability to purchase for cancellation up to a maximum of 5,910,181 REIT A Units (representing 10% of the REIT's public float of 59,101,809 REIT A Units at the time of renewal through the facilities of the TSX). As of December 31, 2011, no purchases had been made. Based on the closing price of REIT A Units on December 31, 2011, the Trust may purchase up to $193.1 million worth of REIT A Units.

For the year ended December 31, 2010, the Trust did not purchase any REIT A Units pursuant to its previous bid, which terminated on November 2, 2011.

Distribution policy

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of income that would be in the best interest of the Trust. Amounts retained in excess of the declared distributions are used to fund leasing costs and capital expenditure requirements. Given that working capital tends to fluctuate over time and should not affect our distribution policy, we disregard it when determining distributable income. We also exclude the impact of leasing costs, which fluctuate with lease maturities, renewal terms and the type of asset being leased. We evaluate the impact of leasing activity based on averages for our portfolio over a two- to three-year time frame. We exclude the impact of transaction costs expensed on business combinations as these are considered to be non-recurring. Additionally, we exclude the impact of the amortization of deferred financing costs 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 and office equipment incurred after the formation of the Trust. We include the impact of vendor head lease income that has not been recognized in net income.

	For the three months ended December 31, 2011			For the year ended December 31, 2011		
	Declared distributions	4% bonus distributions	Total	Declared distributions	4% bonus distributions	Total
2011 distributions						
Paid in cash or reinvested in Units	$ 35,702	$ 353	$ 36,055	$ 118,410	$ 827	$ 119,237
Payable at December 31, 2011	847	(6)	841	12,758	78	12,836
Total distributions[1]	$ 36,549	$ 347	$ 36,896	$ 131,168	$ 905	$ 132,073
2011 reinvestment						
Reinvested to December 31, 2011	$ 6,727	$ 353	$ 7,080	$ 20,685	$ 827	$ 21,512
Reinvested on January 15, 2012	366	(6)	360	2,623	78	2,701
Total distributions reinvested	$ 7,093	$ 347	$ 7,440	$ 23,308	$ 905	$ 24,213
Distributions paid in cash	$ 29,456			$107,860		
Reinvestment to distribution ratio	19.4%			17.8%		
Cash payout ratio	80.6%			82.2%		

(1) Includes distributions on LP B Units.

Distributions declared for the year ended December 31, 2011, were $131.2 million, up $45.1 million over the same period last year. For fourth quarter, distributions declared were $36.5 million, up $10.9 million over the prior year comparative quarter. The increase reflects a larger number of units outstanding as a result of the equity issues completed in 2010 and 2011 as well as distributions reinvested in additional units and vested deferred trust units exchanged for REIT A Units. Of the distributions declared for the year, $23.3 million, or approximately 17.8%, were reinvested in additional units resulting in a cash payout ratio of 82.2%.

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,	
	2011	2010[1]	**2011**	2010[1]
Net income	**$ 222,761**	$ 155,703	**$ 400,920**	$ 215,995
Cash flow from operating activities[2]	**38,117**	16,951	**102,150**	71,330
Distributions paid and payable[3]	**36,896**	25,785	**132,073**	86,373
Excess (shortfall) of cash flow from operating activities over distributions paid and payable	**1,221**	(8,834)	**(29,923)**	(15,043)

(1) Amounts have been restated for IFRS.

(2) Cash flows from operating activities exclude cash flows utilized for transaction costs on acquired businesses, and include operating cash flows from equity accounted investments.

(3) Includes distributions on LP B Units.

Cash flow from operations exceeded distributions paid and payable by $0.9 million for the fourth quarter ended December 31, 2011. When establishing distribution payments, we do not take into consideration fluctuations in working capital and transaction costs on business combinations but rather use a normalized amount as a proxy for leasing costs. Net income exceeded distributions paid and payable by $185.9 million for the quarter ended December 31, 2011.

OUR RESULTS OF OPERATIONS

Results of operations for the three months ended December 31, 2011

	For the three months ended December 31,					
			2011			2010[1]
	Amounts per financial statements	**Share of income from equity accounted investments**	**Total**	Amounts per financial statements	Share of income from equity accounted investments	Total
Investment properties revenue	**$ 128,642**	**$ 7,678**	**$ 136,320**	$ 70,337	$ 8,389	$ 78,726
Investment properties operating expenses	**54,901**	**3,303**	**58,204**	29,645	3,061	32,706
Net rental income	**73,741**	**4,375**	**78,116**	40,692	5,328	46,020
Other income and expenses						
General and administrative	**(4,264)**	**—**	**(4,264)**	(2,795)	(1)	(2,796)
Share of net earnings from equity accounted investments	**24,847**	**(24,847)**	**—**	24,554	(24,554)	—
Fair value adjustments to investment properties	**162,617**	**21,938**	**184,555**	117,538	20,465	138,003
Gain (loss) on sale of investment properties	**—**	**—**	**—**	(500)	—	(500)
Acquisition related costs, net	**—**	**—**	**—**	—	—	—
Interest						
Debt	**(26,679)**	**(1,499)**	**(28,178)**	(15,005)	(1,266)	(16,271)
Subsidiary redeemable units	**(1,931)**	**—**	**(1,931)**	(1,918)	—	(1,918)
Interest and fee income	**863**	**33**	**896**	509	28	537
Fair value adjustments to financial instruments	**(6,433)**	**—**	**(6,433)**	(7,372)	—	(7,372)
Net income for the period	**$ 222,761**	**$ —**	**$ 222,761**	$ 155,703	$ —	$ 155,703

[1] Results have been restated for IFRS.

Investment properties revenue

Investment properties revenues include net rental income from investment properties as well as the recovery of operating costs and property taxes from tenants. Revenue generated by acquisitions completed in 2010 and 2011 were the primary drivers of the $57.6 million, or 73.2%, increase in investment property revenue over the comparative quarter.

Investment properties operating expenses

Operating expenses comprise occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing. Operating expenses fluctuate with changes in occupancy levels, weather, utility costs, realty taxes, and repairs and maintenance. Expenses increased $25.5 million, or 78.0%, over the prior year comparative quarter, reflecting the additional costs associated with properties acquired in the last quarter of 2010 and 2011.

General and administrative

General and administrative expenses primarily comprise expenses related to corporate management, trustees' fees and expenses, and investor relations. Included in the $4.3 million of expenses this quarter is a $1.0 million non-cash component including $0.9 million relating to the DUIP. On a cash basis, general and administrative expenses increased by $1.3 million over the comparative quarter primarily as a result of asset management fees related to property acquisitions in 2011. In our non-cash component of general and administrative expenses, the Deferred Unit Incentive Plan increased by $0.2 million over the comparative fourth quarter.

Fair value adjustments to investment properties

A fair value adjustment of $184.6 million was recognized in the quarter primarily resulting from overall cap rate compression of 29 bps.

Interest expense — Debt

Interest on debt increased $11.9 million, or 73.2%, for the fourth quarter of 2011, mainly reflecting the additional mortgage debt and term loan credit facility entered into in 2011, in particular with respect to the Blackstone Portfolio and the 700 de la Gauchetière acquisitions. The interest coverage ratio for the year ended December 31, 2011, remains strong at 2.6 times reflecting our ability to more than cover our interest expense requirements.

Interest expense — Subsidiary redeemable units

Interest on subsidiary redeemable units increased marginally over the comparative quarter, reflecting a greater number of units outstanding as a result of the distribution reinvestment plan in 2011.

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 earned on bank accounts and related fees. These revenues are not necessarily of a recurring nature and the amounts may vary quarter-to-quarter. The $0.4 million increase over the prior year comparative fourth quarter is primarily a result of management fees earned on jointly owned properties acquired in 2011 as well as interest income from cash deposits.

Fair value adjustments to financial instruments

Fair value adjustments to financial instruments were more favourable by $0.9 million over the comparative quarter. The favourability results from a $3.1 million valuation adjustment on the subsidiary redeemable units compared to $7.3 million the prior year, reflecting a smaller incremental unit price increase in the fourth quarter of 2011 versus 2010, offset by an increased valuation adjustment on the conversion feature on convertible debentures, which increased by $3.4 million. The fair value change on the Deferred Unit Incentive Plan increased marginally as a result of a smaller incremental change in unit price in 2011 versus the prior year comparative quarter. This is offset by more units having been amortized into the liability. The valuations of these instruments are impacted by, amongst other things, the trading value of the REIT Units. Accordingly, as REIT Unit prices decrease, the valuation of the financial instrument is reduced and vice versa.

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 23 to the consolidated financial statements. During the fourth quarter, we received $0.7 million related to the DRC Services Agreement. Other costs in the fourth quarter recovered from DRC include $1.9 million for operating and administrative costs. We paid $3.1 million related to asset management fees for the three months ended December 31, 2011.

Results of operations for the year ended December 31, 2011

	For the years ended December 31,					
	2011			2010[1]		
	Amounts per financial statements	**Share of income from equity accounted investments**	**Total**	Amounts per financial statements	Share of income from equity accounted investments	Total
Investment properties revenue	**$ 411,588**	**$ 29,759**	**$ 441,347**	$ 239,378	$ 28,840	$ 268,218
Investment properties operating expenses	**167,514**	**12,696**	**180,210**	95,727	11,526	107,253
Net rental income	**244,074**	**17,063**	**261,137**	143,651	17,314	160,965
Other income and expenses						
General and administrative	**(15,344)**	**(103)**	**(15,447)**	(10,614)	(2)	(10,616)
Share of net earnings from equity accounted investments	**49,728**	**(49,728)**	**—**	33,245	(33,245)	—
Fair value adjustments to investment properties	**232,987**	**37,969**	**270,956**	149,572	20,923	170,495
Loss on sale of investment properties	**—**	**—**	**—**	(301)	—	(301)
Acquisition related costs, net	**(5,734)**	**—**	**(5,734)**	—	—	—
Interest						
Debt	**(88,398)**	**(5,323)**	**(93,721)**	(54,649)	(5,083)	(59,732)
Subsidiary redeemable units	**(7,704)**	**—**	**(7,704)**	(7,647)	—	(7,647)
Interest and fee income	**2,376**	**122**	**2,498**	1,484	93	1,577
Fair value adjustments to financial instruments	**(11,065)**	**—**	**(11,065)**	(38,746)	—	(38,746)
Net income for the period	**$ 400,920**	**$ —**	**$ 400,920**	$ 215,995	$ —	$ 215,995

[1] Results have been restated for IFRS.

Investment properties revenue

Revenue generated by properties acquired in 2010 and 2011 were the primary drivers of the $173.1 million, or 64.6%, increase in investment property revenue over the prior year.

Investment properties operating expenses

Expenses increased $73.0 million, or 68.0%, over the prior year, reflecting the additional costs associated with a larger portfolio.

General and administrative

Included in general and administrative expenses this year is a $4.0 million non-cash component, which primarily consists of the DUIP expense, up $1.2 million over the prior year. On a cash basis, general and administrative expenses increased by $3.6 million over the prior year primarily as a result of asset management fees related to property.

Fair value adjustments to investment properties

A $100.5 million change in the fair value adjustment was recognized in the year, reflecting overall cap rate compression of 52 bps offset by transaction costs on acquired properties.

Interest expense — Debt

Interest on debt increased $34.0 million, or 56.9%, for the year, mainly reflecting the additional mortgage debt and term loan credit facility entered into in 2011, particularly with respect to the Blackstone Portfolio and the 700 de la Gauchetière acquisitions. The interest coverage ratio remains strong at 2.6 times, reflecting our ability to more than adequately cover our interest expense requirements.

Interest expense — Subsidiary redeemable units

Interest on subsidiary redeemable units increased marginally over the prior year reflecting a greater number of units outstanding as a result of the distribution reinvestment plan.

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 earned on bank accounts and related fees. These revenues are not necessarily of a recurring nature and the amounts will vary year-to-year. The $0.9 million increase over the prior year is primarily a result of management fees earned on jointly owned properties acquired in 2011 as well as interest income from cash deposits.

Fair value adjustments to financial instruments

Fair value adjustments to financial instruments increased by $27.7 million for the year. The increase was primarily due to a favourable valuation adjustment change of $24.2 million on the subsidiary redeemable units compared to the prior year, resulting from Unit price decreases in the year.

Related party transactions

During the year, we received $2.7 million related to the DRC Services Agreement. Other costs recovered from DRC include $6.6 million for operating and administrative costs. We paid $17.8 million related to the Asset Management Agreement, which primarily consists of $9.1 million in asset management fees and $7.9 million paid for investment property acquisition fees.

Net operating income

We define NOI as the total of investment property revenues, including property management income, less investment property operating expenses.

Net operating income is an important measure used by management in evaluating property operating performance; however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other income trusts. Net operating income for the respective 2010 comparative period has been restated to reflect the removal of market rent adjustments on acquired leases and the inclusion of lease incentive amortization to comply with IFRS.

	For the three months ended December 31,		For the years ended December 31,	
	2011	2010[1]	**2011**	2010[1]
Net rental income	**$ 73,741**	$ 40,692	**$ 244,074**	$ 143,651
Share of net rental income from equity accounted investments	**4,375**	5,328	**17,063**	17,314
NOI including income from redevelopment and disposed properties	**$ 78,116**	$ 46,020	**$ 261,137**	$ 160,965

(1) Results have been restated for IFRS.

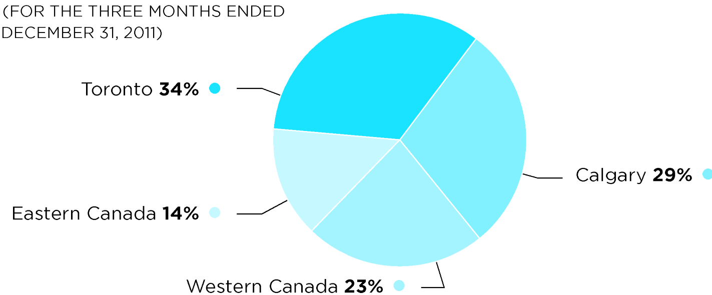
Net operating income, before income from disposed properties, increased by 70% to $77.9 million in the fourth quarter and by 63% to $260.5 million for the year over the respective comparative periods. The increase is mainly attributable to income generated by properties acquired in 2010 and 2011.

	For the three months ended December 31,				For the years ended December 31,			
			Growth				Growth	
	2011	2010[1]	Amount	%	**2011**	2010[1]	Amount	%
Office	**$ 71,438**	$ 40,344	$ 31,094	77	**$234,766**	$144,694	$ 90,072	62
Industrial	**6,506**	5,454	1,052	19	**25,714**	15,536	10,178	66
NOI	**77,944**	45,798	32,146	70	**260,480**	160,230	100,250	63
Income from disposed properties	**172**	222	(50)		**657**	735	(78)	
NOI including redevelopment and disposed properties	**$ 78,116**	$ 46,020	$ 32,096	70	**$ 261,137**	$160,965	$ 100,172	62

	For the three months ended December 31,				For the years ended December 31,			
			Growth				Growth	
	2011	2010[1]	Amount	%	**2011**	2010[1]	Amount	%
Western Canada	**$ 17,848**	$ 9,506	$ 8,342	88	**$ 63,015**	$ 34,722	$ 28,293	81
Calgary	**22,449**	16,592	5,857	35	**81,299**	66,842	14,457	22
Toronto	**26,130**	16,141	9,989	62	**85,171**	51,661	33,510	65
Eastern Canada	**11,517**	3,559	7,958	224	**30,995**	7,005	23,990	342
NOI	**77,944**	45,798	32,146	70	**260,480**	160,230	100,250	63
Income from disposed properties	**172**	222	(50)		**657**	735	(78)	
NOI including redevelopment and disposed properties	**$ 78,116**	$ 46,020	$ 32,096	70	**$ 261,137**	$160,965	$ 100,172	62

(1) Results have been restated for IFRS.

NOI BY REGION
(FOR THE THREE MONTHS ENDED DECEMBER 31, 2011)



NOI comparative portfolio

Net operating income shown below details comparative and non-comparative items to assist in understanding the impact each component has on NOI. The comparative properties disclosed in the following tables are properties acquired prior to January 1, 2010. Income from disposed properties contributing to NOI in comparative periods is shown separately. Comparative NOI and NOI attributed to acquisitions exclude lease termination fees and GAAP adjustments that relate to straight-line rents and amortization of lease incentives.

	For the three months ended December 31,				For the years ended December 31,			
			Growth				Growth	
	2011	2010[1]	Amount	%	**2011**	2010[1]	Amount	%
Office	**$ 27,213**	$ 27,411	$ (198)	(1)	**$ 107,758**	$ 109,491	$ (1,733)	(2)
Industrial	**2,908**	3,098	(190)	(6)	**12,191**	11,926	265	2
Comparative properties	**30,121**	30,509	(388)	(1)	**119,949**	121,417	(1,468)	(1)
Lease termination fees and other	**696**	1,520	(824)		**1,263**	1,689	(426)	
Rent arbitration adjustment	**—**	—	—		**—**	357	(357)	
Acquisitions	**46,072**	13,454	32,618		**136,452**	34,239	102,213	
Straight-line rent	**2,460**	856	1,604		**6,821**	3,772	3,049	
Amortization of lease incentives	**(1,405)**	(541)	(864)		**(4,005)**	(1,244)	(2,761)	
NOI	**77,944**	45,798	32,146	70	**260,480**	160,230	100,250	63
Income (loss) from disposed properties	**172**	222	(50)		**657**	735	(78)	
NOI including redevelopment and disposed properties	**$ 78,116**	$ 46,020	$ 32,096	70	**$ 261,137**	$ 160,965	$ 100,172	62

	For the three months ended December 31,				For the years ended December 31,			
			Growth				Growth	
	2011	2010[1]	Amount	%	**2011**	2010[1]	Amount	%
Western Canada	**$ 7,927**	$ 7,333	$ 594	8	**$ 30,511**	$ 29,032	$ 1,479	5
Calgary	**15,679**	16,580	(901)	(5)	**64,044**	66,686	(2,642)	(4)
Toronto	**5,722**	5,815	(93)	(2)	**22,334**	22,551	(217)	(1)
Eastern Canada	**793**	781	12	2	**3,060**	3,148	(88)	(3)
Comparative properties	**30,121**	30,509	(388)	(1)	**119,949**	121,417	(1,468)	(1)
Lease termination fees and other	**696**	1,520	(824)		**1,263**	1,689	(426)	
Rent arbitration adjustment	**—**	—	—		**—**	357	(357)	
Acquisitions	**46,072**	13,454	32,618		**136,452**	34,239	102,213	
Straight-line rent	**2,460**	856	1,604		**6,821**	3,772	3,049	
Amortization of lease incentives	**(1,405)**	(541)	(864)		**(4,005)**	(1,244)	(2,761)	
NOI	**77,944**	45,798	32,146	70	**260,480**	160,230	100,250	63
Income (loss) from disposed properties	**172**	222	(50)		**657**	735	(78)	
NOI including redevelopment and disposed properties	**$ 78,116**	$ 46,020	$ 32,096	70	**$ 261,137**	$ 160,965	$ 100,172	62

[1] Results have been restated for IFRS.

For the three-month period, comparative property NOI decreased by $0.4 million, or 1%, over the prior year period. NOI from the comparative office portfolio was down $0.2 million, or 1%, and the comparative industrial portfolio was down $0.2 million, or 6%.

For the year ended December 31, 2011, comparative property NOI decreased by $1.5 million or 1%, reflecting a $1.7 million or 2% decrease in our comparative office portfolio, and a $0.3 million or 2% increase in our comparative industrial portfolio.

Comparative office portfolio

	For the three months ended December 31,				For the years ended December 31,			
			Growth				Growth	
	2011	2010[1]	Amount	%	**2011**	2010[1]	Amount	%
Western Canada	**$ 7,292**	$ 6,834	$ 458	7	**$ 28,161**	$ 27,207	$ 954	4
Calgary	**13,406**	13,981	(575)	(4)	**54,203**	56,585	(2,382)	(4)
Toronto	**5,722**	5,815	(93)	(2)	**22,334**	22,551	(217)	(1)
Eastern Canada	**793**	781	12	2	**3,060**	3,148	(88)	(3)
Comparative properties	**27,213**	27,411	(198)	(1)	**107,758**	109,491	(1,733)	(2)
Lease termination fees and other	**696**	1,515	(819)		**1,263**	1,683	(420)	
Rent arbitration adjustment	**—**	—	—		**—**	357	(357)	
Acquisitions	**42,756**	11,259	31,497		**123,853**	30,802	93,051	
Straight-line rent	**2,098**	595	1,503		**5,571**	3,324	2,247	
Amortization of lease incentives	**(1,325)**	(436)	(889)		**(3,679)**	(963)	(2,716)	
NOI — office portfolio	**$ 71,438**	$ 40,344	$ 31,094	77	**$234,766**	$144,694	$ 90,072	62

[1] Results have been restated for IFRS.

Our comparative office portfolio NOI decreased by $0.2 million or 1% for the fourth quarter over the comparative period. In Western Canada, NOI grew by 7%, driven by increased occupancy in Saskatoon, Yellowknife and Vancouver as well as a $0.3 million one-time item. The Calgary office portfolio was down $0.6 million or 4% over the same period last year, primarily as a result of leases rolling over from all-time highs to lower current market rents. The Toronto portfolio remained fairly consistent with the prior year comparative period, decreasing by $0.1 million or 2%. Our Eastern Canada comparative portfolio remained flat compared to the same period last year. Included in NOI for the quarter is $0.3 million of bad debt expenses not expected to recur.

On an annual basis, comparative office NOI decreased $1.7 million or 2% over the prior year. This change is primarily attributable to the Calgary office portfolio which decreased by $2.4 million or 4%, mainly resulting from vacancies in the earlier part of 2011 as well as leases expiring that had higher average in-place rents than the current market rental rates. Both Toronto and Eastern Canada had slight decreases of $0.2 million, or 1%, and $0.1 million, or 3%, respectively. The decrease in Toronto primarily relates to a lease that terminated in Q4 2010 for which the space was not re-leased until mid way through 2011, and for which we received a termination payment of $1.5 million. Offsetting these decreases, the Western Canada office portfolio increased by $1.0 million or 4% over the same period last year, reflecting higher average occupancy throughout the year, as well as increased in-place rents.

Comparative industrial portfolio

	For the three months ended December 31,				For the years ended December 31,			
			Growth				Growth	
	2011	2010[1]	Amount	%	**2011**	2010[1]	Amount	%
Western Canada	**$ 635**	$ 499	$ 136	27	**$ 2,350**	$ 1,825	$ 525	29
Calgary	**2,273**	2,599	(326)	(13)	**9,841**	10,101	(260)	(3)
Comparative properties	**2,908**	3,098	(190)	(6)	**12,191**	11,926	265	2
Lease termination fees and other	**—**	5	(5)		**—**	6	(6)	
Acquisitions	**3,316**	2,195	1,121		**12,599**	3,437	9,162	
Straight-line rent	**362**	261	101		**1,250**	448	802	
Amortization of lease incentives	**(80)**	(105)	25		**(326)**	(281)	(45)	
NOI — industrial portfolio	**$ 6,506**	$ 5,454	$ 1,052	19	**$ 25,714**	$ 15,536	$ 10,178	66

[1] Results have been restated for IFRS.

Net operating income from our comparative industrial portfolio decreased by $0.2 million, or 6%, in the fourth quarter over Q4 2010, primarily reflecting vacancies for which new leases will commence in early 2012.

On an annual basis, our comparative industrial portfolio increased by $0.3 million, or 2%, over the prior year, primarily reflecting a tenant expansion in early 2011 in Western Canada that contributed an additional $0.5 million to NOI. Offsetting this increase, the Calgary industrial portfolio declined by $0.3 million or 3% over 2010 as a result of vacancies in the year, for which new leases will commence in early 2012.

2012 NOI classification

Due to the volume of acquisition activity in 2010 and 2011, the following table serves as a benchmark for comparative property NOI to be reported in our MD&A in 2012.

	For the three months ended December 31, 2011	For the year ended December 31, 2011
Office	$ 41,835	$ 167,741
Industrial	5,385	22,164
Comparative properties	47,220	189,905
Lease termination fees and other	696	1,263
Acquisitions	28,579	65,101
Straight-line rent	2,460	6,821
Amortization of lease incentives	(1,405)	(4,005)
Properties held for development	394	1,395
NOI	77,944	260,480
Discontinued operations	172	657
NOI including redevelopment and discontinued operations	$ 78,116	$ 261,137

Comparative property NOI includes investment properties acquired prior to January 1, 2011. Furthermore, income from a Yellowknife building has been reclassified to properties held for development, as will be the case, late in the first quarter of 2012.

NOI prior quarter comparison

The comparative properties disclosed in the following tables include properties acquired prior to July 1, 2011.

	For the three months ended			
			Growth	
	December 31, 2011	September 30, 2011	Amount	%
Office	**$ 52,526**	$ 52,275	$ 251	—
Industrial	**6,060**	6,252	(192)	(3)
Comparative properties	**58,586**	58,527	59	—
Lease termination fees and other	**696**	266	430	
Acquisitions	**17,607**	10,407	7,200	
Straight-line rent	**2,460**	2,083	377	
Other GAAP adjustments	**(1,405)**	(805)	(600)	
NOI	**77,944**	70,478	7,466	11
Income (loss) from disposed properties	**172**	221	(49)	
NOI including redevelopment and disposed properties	**$ 78,116**	$ 70,699	$ 7,417	10

	For the three months ended			
			Growth	
	December 31, 2011	September 30, 2011	Amount	%
Western Canada	**$ 14,794**	$ 15,070	$ (276)	(2)
Calgary	**19,494**	19,715	(221)	(1)
Toronto	**19,160**	18,938	222	1
Eastern Canada	**5,138**	4,804	334	7
Comparative properties	**58,586**	58,527	59	—
Lease termination fees and other	**696**	266	430	
Acquisitions	**17,607**	10,407	7,200	
Straight-line rent	**2,460**	2,083	377	
Amortization of lease incentives	**(1,405)**	(805)	(600)	
NOI	**77,944**	70,478	7,466	11
Income (loss) from disposed properties	**172**	221	(49)	
NOI including redevelopment and disposed properties	**$ 78,116**	$ 70,699	$ 7,417	10

Comparative properties NOI increased by $0.1 million over the third quarter of 2011.

Comparative office portfolio

	For the three months ended			
			Growth	
	December 31, 2011	September 30, 2011	Amount	%
Western Canada	**$ 13,684**	$ 13,941	$ (257)	(2)
Calgary	**17,155**	17,199	(44)	—
Toronto	**18,423**	18,230	193	1
Eastern Canada	**3,264**	2,905	359	12
Comparative properties	**52,526**	52,275	251	—
Lease termination fees	**696**	266	430	
Acquisitions	**17,443**	10,276	7,167	
Straight-line rent	**2,098**	1,806	292	
Amortization of lease incentives	**(1,325)**	(725)	(600)	
NOI	**$ 71,438**	$ 63,898	$ 7,540	12

Overall, comparative office NOI has increased by $0.3 million over the prior quarter. The Calgary office portfolio remained flat reflecting higher contractual rent increases in the period being offset by lease expiries with higher in-place rents than the current market rates. The comparative Toronto portfolio increased by $0.2 million or 1% in the quarter resulting from a slight increase in weighted average in-place occupancy. Our comparative Eastern Canada portfolio increased by $0.4 million, or 12%, driven by higher in-place occupancy as well as the recognition of base rent for a lease that previously had a free rent period. The comparative Western portfolio decreased in the period by $0.3 million or 2% as a result of a lease expiry in an Edmonton property.

Comparative industrial portfolio

	For the three months ended			
			Growth	
	December 31, 2011	September 30, 2011	Amount	%
Western Canada	**$ 1,110**	$ 1,129	$ (19)	(2)
Calgary	**2,339**	2,516	(177)	(7)
Toronto	**737**	708	29	4
Eastern Canada	**1,874**	1,899	(25)	(1)
Comparative properties	**6,060**	6,252	(192)	(3)
Lease termination fees	**—**	—	—	
Acquisitions	**164**	131	33	
Straight-line rent	**362**	277	85	
Amortization of lease incentives	**(80)**	(80)	—	
NOI	**$ 6,506**	$ 6,580	$ (74)	(1)

Overall, the comparative industrial portfolio decreased by $0.2 million or 3% quarter-over-quarter. The comparative Calgary industrial portfolio decreased by $0.2 million or 7% in the quarter, reflecting the full quarter effect of leases that expired in the third quarter as well as lease expiries in the fourth quarter. During the first quarter of 2012, 82,176 square feet of leases will commence that will partially mitigate this decline.

Funds from operations and adjusted funds from operations

	For the three months ended December 31,		For the years ended December 31,	
	2011	2010[1]	**2011**	2010[1]
Net income	**$ 222,761**	$ 155,703	**$ 400,920**	$ 215,995
Add (deduct):				
Depreciation of property and equipment	**156**	112	**579**	544
Amortization of lease incentives	**1,351**	301	**3,951**	1,004
Loss on disposal of rental properties	**—**	500	**—**	301
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(55)**	(55)	**(293)**	(196)
Interest expense on subsidiary redeemable units	**1,931**	1,918	**7,704**	7,647
Acquisition related costs	**—**	—	**5,776**	—
Leasing incentives expensed on lease terminations	**53**	240	**53**	240
Fair value adjustments to investment properties	**(162,617)**	(117,538)	**(232,987)**	(149,572)
Fair value adjustments to investment properties held in equity accounted investments	**(21,938)**	(20,465)	**(37,969)**	(20,924)
Fair value adjustments to financial instruments	**6,433**	7,372	**11,065**	38,746
Fair value adjustments of DUIP included in general and administrative	**135**	59	**598**	274
FFO	**$ 48,210**	$ 28,147	**$ 159,397**	$ 94,059

	For the three months ended December 31,		For the years ended December 31,	
	2011	2010[1]	**2011**	2010[1]
Funds from operations	**$ 48,210**	$ 28,147	**$ 159,397**	$ 94,059
Add (deduct):				
Amortization of:				
Fair value adjustments on assumed debt	**(799)**	(175)	**(2,156)**	(764)
Financing costs	**750**	411	**2,279**	1,481
Deferred unit compensation expense	**696**	580	**2,805**	2,009
Straight-line rent	**(2,459)**	(857)	**(6,820)**	(3,771)
Amortization of deferred financing costs incurred subsequent to June 30, 2003	**(547)**	(391)	**(1,900)**	(1,393)
Non-recoverable costs incurred subsequent to June 30, 2003	**(10)**	(11)	**(57)**	(43)
Vendor head lease income	**598**	171	**1,217**	608
Revenue supplement from vendor on acquisition	**—**	—	**—**	1,122
	$ 46,439	$ 27,875	**$ 154,765**	$ 93,308
Deduct:				
Normalized initial direct leasing costs and lease incentives	**5,317**	2,555	**16,790**	9,436
Normalized non-recoverable recurring capital expenditures	**75**	75	**300**	300
AFFO	**$ 41,047**	$ 25,245	**$ 137,675**	$ 83,572

[1] Results have been restated for IFRS.

Funds from operations and adjusted funds from operations per unit amounts

The basic weighted average number of units outstanding used in the FFO and AFFO calculations include all REIT Units, LP B Units and 155,814 vested but unissued deferred trust units. The diluted weighted average number of Units assumes the conversion of the 6.5%, 5.7% and 6.0% Debentures.

	For the three months ended December 31,		For the years ended December 31,	
	2011	2010	**2011**	2010
Weighted average units outstanding for basic per unit amounts	**65,941,519**	46,054,582	**59,181,658**	38,757,113
Weighted average units outstanding for diluted per unit amounts	**69,430,422**	49,596,634	**62,672,793**	42,280,715

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,	
	2011	2010[1]	**2011**	2010[1]
FFO	**$ 48,210**	$ 28,147	**$ 159,397**	$ 94,059
FFO per unit — basic	**$ 0.73**	$ 0.61	**$ 2.69**	$ 2.43
FFO per unit — diluted	**$ 0.73**	$ 0.61	**$ 2.69**	$ 2.43

(1) Results have been restated for IFRS.

For the three-month period, FFO per unit was $0.72, up 20% over the comparative period, reflecting the impact of accretive acquisitions completed in 2010 and 2011. Total FFO increased by 71.3% to $48.2 million in the quarter, driven by NOI growth from properties acquired in 2010 and 2011.

For the year, FFO per unit was $2.69, up 11%, reflecting the impact of accretive acquisitions completed in 2010 and 2011. Total FFO was $159.4 million, an increase of $65.3 million or 69.5% over 2010.

The prior year's FFO has been restated for IFRS. Total FFO for the quarter ended December 31, 2010, was reduced by $2.2 million as a result of IFRS. The change reflects the elimination of $2.3 million in market rent adjustments that were included under previous GAAP offset by $0.1 million in accelerated compensation expense related to the Deferred Unit Incentive Plan ("DUIP") under IFRS.

Adjusted funds from operations

	For the three months ended December 31,		For the years ended December 31,	
	2011	2010[1]	**2011**	2010[1]
AFFO	**$ 41,047**	$ 25,245	**$ 137,675**	$ 83,572
AFFO per unit — basic	**$ 0.62**	$ 0.55	**$ 2.33**	$ 2.16

[1] Results have been restated for IFRS.

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

Our calculation of AFFO includes an estimated amount of normalized non-recoverable maintenance capital expenditures, initial direct leasing costs and tenant incentives that we expect to incur based on our current portfolio, and expected average leasing activity. Our estimates of initial direct leasing costs and lease incentives are based on the average of our expected leasing activity over the next two to three years and multiplied by the average cost per square foot that we incurred and committed to in 2011, adjusted for properties that have been acquired or sold. Our estimates of normalized non-recoverable capital expenditures are based on our expected average expenditures for our current property portfolio. This estimate will differ from actual experience due to the timing of expenditures and any growth in our business resulting from property acquisitions.

For the fourth quarter, AFFO per unit was $0.62, up 12.7% over the comparative period, reflecting the impact of accretive acquisitions completed in 2010 and 2011. Total AFFO for the quarter was $41.0 million, an increase of $15.8 or 62.6% over the same quarter of 2010.

Year-over-year, AFFO per unit increased by 7.9% to $2.33 from $2.16 in 2010, reflecting the contribution from accretive acquisitions in 2010 and 2011. Total AFFO was $137.7 million for the year, an increase of $54.1 million or 64.7% over 2010.

AFFO is not defined by IFRS and, therefore, may not be comparable to similar measures presented by other real estate investment trusts. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles AFFO to cash generated from operating activities.

	For the three months ended December 31,		For the years ended December 31,	
	2011	2010[1]	**2011**	2010[1]
Cash generated from operating activities	**$ 33,901**	$ 11,989	**$ 89,909**	$ 58,579
Add (deduct):				
Share of earnings from equity accounted investments	**24,847**	24,554	**49,728**	33,245
Initial direct leasing costs and lease incentives incurred	**7,509**	6,104	**23,136**	16,963
Transaction costs on acquired businesses including those recorded in equity accounted investments	**—**	—	**17,528**	—
Change in non-cash working capital	**1,917**	5,872	**12,941**	5,584
Adjustments for equity accounted investments:				
Fair value adjustments to investment property	**(21,938)**	(20,465)	**(37,969)**	(20,923)
Straight-line rent	**(83)**	(23)	**(155)**	(116)
Fair value adjustments on assumed debt	**—**	(143)	**(193)**	(557)
Amortization of lease incentives	**97**	44	**385**	176
Other	**(409)**	(228)	**(1,762)**	(1,373)
Vendor head lease income	**598**	171	**1,217**	608
Vendor revenue supplement	**—**	—	**—**	1,122
Normalized initial direct leasing costs and lease incentives	**(5,317)**	(2,555)	**(16,790)**	(9,436)
Normalized non-recoverable recurring capital expenditures	**(75)**	(75)	**(300)**	(300)
AFFO	**$ 41,047**	$ 25,245	**$ 137,675**	$ 83,572

[1] Results have been restated for IFRS.

SELECTED ANNUAL INFORMATION

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

	2011	2010[1]	2009[2]
Revenues[3]	**$ 443,845**	$ 269,795	$ 193,759
Income before discontinued operations	**400,920**	215,995	18,201
Net income	**400,920**	215,995	13,420
Total assets	**4,466,467**	2,583,248	1,335,242
Add share of equity accounted investments:			
Debt	**130,223**	94,843	—
Amounts payable, accrued liabilities and deposits	**3,762**	3,183	—
	$4,600,452	$2,681,274	$1,335,242
Debt	**$ 2,124,517**	$1,202,008	$ 857,060
Add debt related to equity accounted investments and liabilities held for sale	**130,239**	94,843	—
	$2,254,756	$ 1,296,851	$ 857,060
Distributions declared	**131,168**	86,048	48,450
Units outstanding:			
REIT Units, Series A	**66,193,060**	45,896,203	21,247,397
REIT Units, Series B	**16,316**	16,316	16,316
LP Class B Units, Series 1	**3,506,107**	3,481,733	3,454,188

(1) Results are in accordance with IFRS.

(2) Results reported under previous GAAP.

(3) Including equity accounted investments in 2010 and 2011.

QUARTERLY INFORMATION

The following tables show quarterly information since January 1, 2010.

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010[(1)]	Q3 2010[(1)]	Q2 2010[(1)]	Q1 2010[(1)]
Investment properties revenue	**$ 128,642**	$ 110,856	$ 88,238	$ 83,852	$ 70,337	$ 63,206	$ 55,229	$ 50,606
Investment properties operating expenses	**54,901**	44,508	34,200	33,905	29,645	25,220	20,371	20,491
Net rental income	**73,741**	66,348	54,038	49,947	40,692	37,986	34,858	30,115
Other income and expenses								
General and administrative	**(4,264)**	(3,936)	(3,667)	(3,477)	(2,795)	(2,777)	(2,595)	(2,447)
Share of net earnings from equity accounted investments	**24,847**	14,054	6,880	3,947	24,554	2,808	2,339	3,544
Fair value adjustments to investment properties	**162,617**	10,902	39,712	19,756	117,538	17,149	8,306	6,579
Gain (loss) on sale of investment properties	**—**	—	—	—	(500)	—	—	199
Acquisition related costs	**—**	—	—	(5,734)	—	—	—	—
Interest:								
Debt	**(26,679)**	(24,098)	(19,870)	(17,751)	(15,005)	(13,949)	(13,241)	(12,454)
Subsidiary redeemable units	**(1,931)**	(1,928)	(1,926)	(1,919)	(1,918)	(1,914)	(1,907)	(1,908)
Interest and fee income	**863**	643	437	433	509	336	394	245
Fair value adjustments to financial instruments	**(6,433)**	5,870	2,729	(13,231)	(7,372)	(15,681)	4,699	(20,392)
Net income for the period	**$ 222,761**	$ 67,855	$ 78,333	$ 31,971	$ 155,703	$ 23,958	$ 32,853	$ 3,481

(1) Results have been restated for IFRS.

Calculation of funds from operations

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010[1]	Q3 2010[1]	Q2 2010[1]	Q1 2010[1]
NET INCOME	**$ 222,761**	$ 67,855	$ 78,333	$ 31,971	$ 155,703	$ 23,958	$ 32,853	$ 3,481
Add (deduct):								
Depreciation of property and equipment	**156**	173	133	117	112	208	118	106
Amortization of lease incentives	**1,351**	805	1,009	786	301	249	229	225
Loss (gain) on disposal of investment properties	**—**	—	—	—	500	—	—	(199)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(55)**	(62)	(142)	(34)	(55)	(55)	(41)	(45)
Interest expense on subsidiary redeemable units	**1,931**	1,928	1,926	1,919	1,918	1,914	1,907	1,908
Acquisition related costs	**—**	—	—	5,776	—	—	—	—
Leasing incentives expensed on lease terminations	**53**	—	—	—	240	—	—	—
Fair value adjustments to investment properties	**(162,617)**	(10,902)	(39,712)	(19,756)	(117,538)	(17,149)	(8,306)	(6,579)
Fair value adjustments to investment properties held in equity accounted investments	**(21,938)**	(11,206)	(3,598)	(1,227)	(20,465)	(138)	398	(719)
Fair value adjustments to financial instruments	**6,433**	(5,870)	(2,729)	13,231	7,372	15,681	(4,699)	20,392
Fair value adjustments of DUIP included in general and administrative expenses	**135**	111	271	81	59	112	20	83
FFO	**$ 48,210**	$ 42,832	$ 35,491	$ 32,864	$ 28,147	$ 24,780	$ 22,479	$ 18,653
FFO per unit — basic[2]	**$ 0.73**	$ 0.68	$ 0.64	$ 0.63	$ 0.61	$ 0.60	$ 0.62	$ 0.61
FFO per unit — diluted[2]	**$ 0.73**	$ 0.68	$ 0.64	$ 0.63	$ 0.61	$ 0.60	$ 0.62	$ 0.61

(1) Results have been restated for IFRS.

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

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010[1]	Q3 2010[1]	Q2 2010[1]	Q1 2010[1]
FUNDS FROM OPERATIONS	**$ 48,210**	$ 42,832	$ 35,491	$ 32,864	$ 28,147	$ 24,780	$ 22,479	$ 18,653
Add (deduct):								
Amortization of:								
Fair value adjustment on assumed debt	**(799)**	(638)	(382)	(337)	(175)	(215)	(168)	(206)
Financing costs	**750**	635	490	404	411	369	364	337
Deferred compensation expense	**696**	697	753	659	580	483	534	412
Straight-line rent	**(2,459)**	(2,083)	(1,199)	(1,079)	(857)	(1,564)	(1,178)	(172)
Amortization of deferred financing costs incurred subsequent to June 30, 2003	**(547)**	(501)	(477)	(375)	(391)	(349)	(344)	(309)
Vendor head lease income	**598**	342	131	146	171	171	171	95
Non-recoverable costs incurred subsequent to June 30, 2003	**(10)**	(16)	(16)	(15)	(11)	(11)	(11)	(10)
Revenue supplement from vendor on acquisition	**—**	—	—	—	—	506	616	—
	$ 46,439	$ 41,268	$ 34,791	$ 32,267	$ 27,875	$ 24,170	$ 22,463	$ 18,800
Adjusted for:								
Normalized initial direct leasing costs and lease incentives	**5,317**	4,613	3,430	3,430	2,555	2,505	2,287	2,089
Normalized non-recoverable recurring capital expenditures	**75**	75	75	75	75	75	75	75
Adjusted funds from operations	**$ 41,047**	$ 36,580	$ 31,286	$ 28,762	$ 25,245	$ 21,590	$ 20,101	$ 16,636
AFFO per unit — basic[2]	**$ 0.62**	$ 0.58	$ 0.56	$ 0.55	$ 0.55	$ 0.52	$ 0.55	$ 0.54
Weighted average units outstanding for FFO and AFFO								
Basic	**65,941,519**	62,638,417	55,388,860	52,525,703	46,054,582	41,627,961	36,418,168	30,713,775
Diluted	**69,430,422**	66,118,114	58,887,400	56,011,583	49,596,634	45,106,887	39,871,032	34,175,445

[1] Results have been restated for IFRS.

[2] The LP B Units are included in the calculation of basic AFFO per unit.

SECTION III — TRANSITION TO IFRS — KEY CHANGES

Dundee REIT adopted IFRS effective January 1, 2010 (the "transition date"), and has prepared its opening IFRS balance sheet as at that date. Prior to the adoption of IFRS, the Trust prepared its consolidated financial statements in accordance with previous GAAP.

We have summarized below certain key changes as a result of IFRS.

Investment property

Under previous GAAP, revenue properties, including office and industrial properties, were recorded at cost and depreciated over their estimated useful lives. Under IAS 40, "Investment Property" ("IAS 40"), the Trust has elected to measure investment property at fair value and record changes in fair value in comprehensive income during the period of change. In addition, intangible assets and liabilities recognized on the acquisition of a revenue property were recognized under previous GAAP, which is not required when applying the fair value model under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of the investment properties. Finally, investment property related to equity accounted investments, inclusive of intangible assets, intangible liabilities and deferred costs, was reclassified to equity accounted investments.

Equity accounted investments

Under previous GAAP, the Trust accounted for its investments in joint ventures using the proportionate consolidation method. In accordance with IAS 31, "Interests in Joint Ventures" ("IAS 31"), we have opted to equity account for investments in joint ventures. The effect is to remove the proportionately consolidated assets and liabilities of the respective joint ventures and record a corresponding equity accounted investment on the consolidated balance sheet.

Deferred Unit Incentive Plan

Under previous GAAP, deferred unit grants were recognized as compensation expense evenly over the three- or five-year vesting period based on the value of the deferred unit on the grant date. Upon adopting IFRS, the balance related to the Deferred Unit Incentive Plan recorded in equity was reclassified to non-current liabilities, and compensation expense is recognized over the vesting period based upon the fair value of the deferred units. Changes in the non-current liability in respect of the vested deferred units are as a result of unit price movements, and are recorded in fair value adjustments to financial instruments.

Subsidiary redeemable units

Under previous GAAP, the Trust accounted for its subsidiary redeemable units as a component of unitholders' equity. In accordance with IAS 32, "Financial Instruments — Presentation" ("IAS 32"), these units have been reclassified from unitholders' equity to liabilities because they are not the least subordinated instrument of units in issuance and because there is a redemption feature at the option of the holder. Accordingly, distributions on subsidiary redeemable units are recorded as interest expense in comprehensive income.

Conversion feature of convertible debentures

Under IAS 32, we are required to present the conversion feature of the convertible debentures as a liability measured at fair value. Upon initial adoption of IFRS, the conversion feature is recorded separately from the conversion debenture ("host contract"). Under previous GAAP, the conversion feature was recorded in unitholders' equity upon the issuance of convertible debentures.

SECTION IV — DISCLOSURE CONTROLS AND PROCEDURES

For the December 31, 2011, 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 GAAP. Using the framework established in "Risk Management and Governance: Guidance on Control (COCO Framework)", published by 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, 2011.

The conversion to IFRS from previous GAAP impacts the way we present our financial results and the accompanying disclosures. We have evaluated the impact of the conversion on our disclosures and procedures for recording, processing and summarizing material information. The most significant change has been recording our investment properties at fair value. This change has required us to design and implement new procedures for recording, processing, and summarizing with respect to determining the fair value. This includes, among other things, rental income from current leases and estimates about rental income from future leases reflecting market conditions at year-end, less future cash outflows from such leases. It also includes estimates of discount rates, terminal capitalization rates, capitalization rates, and the engagement of external specialists to determine fair value.

There were no other changes in the internal controls over financial reporting during the financial year-end December 31, 2011, which have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

SECTION V — RISKS AND OUR STRATEGY TO MANAGE

Dundee REIT is exposed to various risks and uncertainties, many of which are beyond our control. The following is a review of the material risks and uncertainties that could materially affect our operations and future performance.

Real estate ownership

Real estate ownership is generally subject to numerous factors and risks, including changes in general economic conditions (such as the availability, terms and cost of mortgage financings and other types of credit), local economic conditions (such as an oversupply of office and other commercial properties or a reduction in demand for real estate in the area), the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs.

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable, and during an economic recession we may be faced with ongoing expenditures with a declining prospect of incoming receipts.

In such circumstances, it may be necessary for us to dispose of properties at lower prices in order to generate sufficient cash for operations and making distributions and interest payments.

Certain significant expenditures (e.g. property taxes, maintenance costs, mortgage payments, insurance costs and related charges) must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. In order to retain desirable rentable space and to generate adequate revenue over the long term, we must maintain or, in some cases, improve each property's condition to meet market demand. Maintaining a rental property in accordance with market standards can entail significant costs, which we may not be able to pass on to our tenants. Numerous factors, including the age of the relevant building structure, the material and substances used at the time of construction, or currently unknown building code violations, could result in substantial unbudgeted costs for refurbishment or modernization. In the course of acquiring a property, undisclosed defects in design or construction or other risks might not have been recognized or correctly evaluated during the pre-acquisition due diligence process. These circumstances could lead to additional costs and could have an adverse effect on our proceeds from sales and rental income of the relevant properties.

Rollover of leases

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

Concentration of properties and tenants

Currently, all of our properties are located in Canada and, as a result, are impacted by economic and other factors specifically affecting the real estate markets in Canada. These factors may differ from those affecting the real estate markets in other regions. Due to the concentrated nature of our properties, a number of our properties could experience any of the same conditions at the same time. If real estate conditions in Canada decline relative to real estate conditions in other regions, our cash flows and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

Financing

We require access to capital to maintain our properties as well as to fund our growth strategy and significant capital expenditures. There is no assurance that capital will be available when needed or on favourable terms. Our access to third-party financing will be subject to a number of factors, including general market conditions; the market's perception of our growth potential; our current and expected future earnings; our cash flow and cash distributions and cash interest payments; and the market price of our Units.

A significant portion of our financing is debt. Accordingly, we are subject to the risks associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest, and that, on maturities of such debt, we may not be able to refinance the outstanding principal under such debt or that the terms of such refinancing will be more onerous than those of the existing debt. If we are unable to refinance debt at maturity on terms acceptable to us or at all, we may be forced to dispose of one or more of our properties on disadvantageous terms, which may result in losses and could alter our debt-to-equity ratio or be dilutive to unitholders. Such losses could have a material adverse effect on our financial position or cash flows.

The degree to which we are leveraged could have important consequences to our operations. A high level of debt will: reduce the amount of funds available for the payment of distributions to unitholders and interest payments on our debentures; limit our flexibility in planning for and reacting to changes in the economy and in the industry, and increase our vulnerability to general adverse economic and industry conditions; limit our ability to borrow additional funds, dispose of assets, encumber our assets and make potential investments; place us at a competitive disadvantage compared to other owners of similar real estate assets that are less leveraged and, therefore, may be able to take advantage of opportunities that our indebtedness would prevent us from pursuing; make it more likely that a reduction in our borrowing base following a periodic valuation (or redetermination) could require us to repay a portion of then outstanding borrowings; and impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general trust or other purposes.

Changes in law

We are subject to applicable federal, provincial, municipal, local and common laws and regulations governing the ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in such laws or regulations, or changes in their application, enforcement or regulatory interpretation, could result in changes in the legal requirements affecting us (including with retroactive effect). In addition, the political conditions in the jurisdictions in which we operate are also subject to change. Any changes in investment policies or shifts in political attitudes may adversely affect our investments. Any changes in the laws to which we are subject in the jurisdictions in which we operate could materially affect our rights and title in and to the properties and the revenues we are able to generate from our investments.

Interest rates

When entering into financing agreements or extending such agreements, we depend on our ability to agree on terms for interest payments that will not impair our desired profit, and on amortization schedules that do not restrict our ability to pay distributions on our Units and interest payments on our debentures. In addition to existing variable rate portions of our financing agreements, we may enter into future financing agreements with variable interest rates. An increase in interest rates could result in a significant increase in the amount we pay to service debt, which could limit our ability to pay distributions to unitholders and could impact the market price of the Units and/or the debentures. We have implemented an active hedging program in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders and cash interest payments under the debentures should current variable interest rates increase. However, to the extent that we fail to adequately manage these risks, including if any such hedging arrangements do not effectively or completely hedge increases in variable interest rates, our financial results, our ability to pay distributions to unitholders and cash interest payments under our financing arrangements, and the debentures and future financings may be negatively affected. Hedging transactions involve inherent risks. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a significant negative effect on our ability to sell any of our properties.

Environmental risk

As an owner of real property, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect our ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against us. In order to obtain financing for the purchase of a new property through traditional channels, we may be requested to arrange for

an environmental audit to be conducted. Although such an audit provides us and our lenders with some assurance, we may become subject to liability for undetected pollution or other environmental hazards on our properties against which we cannot insure, or against which we may elect not to insure where premium costs are disproportionate to our perception of relative risk.

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

Joint arrangements

We are a participant in jointly controlled entities and co-ownerships, combined ("Joint arrangements") with third parties. A Joint arrangement involves certain additional risks, including:

(i) the possibility that such third parties 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 third parties 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 third parties' 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 arrangement;

(iii) the risk that such third parties may, through their activities on behalf of or in the name of the Joint arrangements, expose or subject us to liability; and

(iv) the need to obtain third parties' 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 arrangements 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 arrangement within the time frame or otherwise on the basis we desire.

Our investment in properties through Joint arrangements is subject to the investment guidelines set out in our Declaration of Trust.

Competition

The real estate market in Canada is highly competitive and fragmented and we compete for real property acquisitions with individuals, corporations, institutions and other entities that may seek real property investments similar to those we desire. An increase in the availability of investment funds or an increase in interest in real property investments may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them. If competing properties of a similar type are built in the area where one of our properties is located or if similar properties located in the vicinity of one of our properties are substantially refurbished, the net operating income derived from and the value of such property could be reduced.

Numerous other developers, managers and owners of properties will compete with us in seeking tenants. To the extent that our competitors own properties that are better located, of better quality or less leveraged than the properties owned by us, they may be in a better position to attract tenants who might otherwise lease space in our properties. To the extent that our competitors are better capitalized or stronger financially, they will be better able to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition.

Insurance

We carry general liability, umbrella liability and excess liability insurance with limits that are typically obtained for similar real estate portfolios in Canada and otherwise acceptable to our trustees. For the property risks, we carry "All Risks" property insurance including, but not limited to, flood, earthquake and loss of rental income insurance (with at least a 24-month indemnity period). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. However, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. We partially self-insure against terrorism risk for our entire portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. We do not carry title insurance on our properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

SECTION VI — CRITICAL ACCOUNTING POLICIES

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances, but that are inherently uncertain and unpredictable, the result of which forms the basis of the carrying amounts of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the asset or liability affected in the future. Dundee REIT's significant accounting policies are described in Note 2 in the consolidated financial statements. Management believes the policies that are most subject to estimation and management's judgment are those outlined below.

Investment properties

Critical judgments are made in respect of the fair values of investment properties and the investment properties held in equity accounted investments. Management regularly reviews the fair value of these investments with reference to independent property valuations and market conditions existing at the reporting date, using generally accepted market practices. The independent valuators are experienced, nationally recognized and qualified in the professional valuation of office and industrial buildings in their respective geographic areas. Judgment is also applied in determining the extent and frequency of independent appraisals. At each annual reporting period a select number of properties, determined on a rotational basis, will be valued by qualified valuation professionals. For properties not subject to independent appraisals, internal appraisals are prepared by management during each reporting period.

Compliance with "REIT" legislation

In order to continue to be taxed as a mutual fund trust, the Trust needs to maintain its REIT status. In 2007, the Trust undertook certain transactions to qualify as a REIT under the SIFT rules in the Canadian *Income Tax Act*.

The Trust's current and continuing qualification as a REIT depends on its ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. The Trust applies judgment in determining whether it continues to qualify as a REIT under the SIFT rules.

Estimates and assumptions

The Trust makes estimates and assumptions that affect carrying amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amount of income for the period. Actual results could differ from estimates. The estimates and assumptions that are critical in determining the amounts reported in the consolidated financial statements relate to the following:

Valuation of investment property

Critical assumptions relating to the estimates of fair values of investment properties include the receipt of contractual rents, expected future market rents, renewal rates, maintenance requirements, discount rates that reflect current market uncertainties, capitalization rates and current and recent property investment prices. If there is any change in these assumptions or in regional, national or international economic conditions, the fair value of property investments may change materially.

Valuation of financial instruments

The Trust makes estimates and assumptions relating to the fair value measurement of the subsidiary redeemable units, the DUIP, the convertible debenture conversion feature, interest rate swaps and the fair value disclosure of the convertible debentures, mortgages and term debt. The critical assumptions underlying the fair value measurements and disclosures include the market price of REIT Units, market interest rates for mortgages, term debt and unsecured debentures.

For certain financial instruments, including cash and cash equivalents, amounts receivable, amounts payable and accrued liabilities, deposits, and distributions payable, the carrying amounts approximate fair values due to their immediate or short-term maturity. The fair values of mortgages, term debt and interest rate swaps are determined based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The fair value of convertible debentures uses quoted market prices from an active market.

CHANGES IN ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

Future accounting policy changes

Financial Instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the International Accounting Standards Board ("IASB") on November 12, 2009, and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Trust is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Income Taxes

In December 2010, the IASB made amendments to IAS 12, “Income Taxes” (“IAS 12”), that are applicable to the measurement of deferred income tax liabilities and deferred income tax assets where investment property is measured using the fair value model in IAS 40, “Investment Property”. The amendments introduce a rebuttable presumption that, for purposes of determining deferred income tax consequences associated with temporary differences relating to investment properties, the carrying amount of an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. The Trust does not expect any impact on its consolidated financial statements as a result of the amendment to IAS 12.

Joint Arrangements

On May 12, 2011, the IASB issued IFRS 11, “Joint Arrangements” (“IFRS 11”). This new standard replaces IAS 31, “Interests in Joint Ventures” (“IAS 31”). The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures. IFRS 11 is effective from January 1, 2013. The Trust is currently evaluating the impact of this standard on its consolidated financial statements.

Financial Instruments: Disclosures, amendment regarding disclosures on transfer of financial assets

IFRS 7, “Financial Instruments: Disclosures, Amendment regarding Disclosures on Transfer of Financial Assets” (“IFRS 7”), requires that the Trust provides the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. The Trust will start the application of IFRS 7 in its consolidated financial statements effective from January 1, 2012. The Trust has not yet evaluated the impact to the consolidated financial statements as a result of adopting this standard.

In addition, IFRS 7 requires that the Trust provides disclosures related to offsetting financial assets and liabilities. The Trust will start the application of this amendment January 1, 2013. The Trust does not expect any impact to its consolidated financial statements as a result of this standard.

Consolidated Financial Statements

IFRS 10, “Consolidated Financial Statements” (“IFRS 10”), replaces the current IAS 27, “Consolidated and Separate Financial Statements” (“IAS 27”). The standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Trust will start the application of IFRS 10 in its consolidated financial statements effective January 1, 2013. The Trust has not yet evaluated the impact to the consolidated financial statements as a result of adopting this standard.

Disclosure of Interests in Other Entities

IFRS 12, “Disclosure of Interests in Other Entities” (“IFRS 12”), requires disclosures relating to an entity’s interests in subsidiaries. The Trust will start the application of IFRS 12 in its consolidated financial statements effective from January 1, 2013. The Trust is currently evaluating the impact to its consolidated financial statements as a result of adopting this standard.

Fair Value Measurements

IFRS 13, "Fair Value Measurements" ("IFRS 13"), defines fair value, provides guidance on its determination, and introduces consistent requirements for disclosures on fair value measurements. The Trust will start the application of IFRS 13 in the financial statements effective January 1, 2013. The Trust has not yet evaluated the impact on the consolidated financial statements.

Presentation of Items of Other Comprehensive Income

Amendments to IAS 1, "Presentation of Financial Statements", provide guidance on the presentation of items contained in other comprehensive income ("OCI") and their classification within OCI. The Trust will start the application of this amendment in its consolidated financial statements effective from January 1, 2013. The Trust is currently evaluating the impact to its consolidated financial statements as a result of adopting this standard.

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