

Management's responsibility for financial statements

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dundee REIT. These financial statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments when appropriate.

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


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



MICHAEL J. COOPER

Vice Chairman and Chief Executive Officer

Toronto, Ontario, February 20, 2013



MARIO BARRAFATO

Senior Vice President and Chief Financial Officer

Independent auditor's report

To the Unitholders of Dundee Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Dundee Real Estate Investment Trust and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dundee Real Estate Investment Trust and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario, February 20, 2013

Consolidated balance sheets

(in thousands of Canadian dollars)

	Note	December 31, 2012	December 31, 2011
Assets			
NON-CURRENT ASSETS			
Investment properties	8	\$ 5,477,560	\$ 4,154,179
Investment in Dundee Industrial	9	160,976	–
Investment in joint ventures	10	490,770	144,596
Other non-current assets	11	95,301	22,507
		6,224,607	4,321,282
CURRENT ASSETS			
Promissory notes receivable	12	42,000	–
Amounts receivable	13	31,106	13,618
Prepaid expenses		10,714	11,990
Cash and cash equivalents		24,014	111,870
		107,834	137,478
Assets held for sale	20	20,547	7,707
Total assets		\$ 6,352,988	\$ 4,466,467
Liabilities			
NON-CURRENT LIABILITIES			
Debt	14	\$ 2,470,337	\$ 1,957,538
Subsidiary redeemable units	15	132,078	114,445
Deposits		16,847	13,919
Deferred Unit Incentive Plan	16	18,754	12,971
Other financial instruments	14	1,772	8,028
Deferred tax net liabilities	24	4,492	–
		2,644,280	2,106,901
CURRENT LIABILITIES			
Debt	14	308,089	166,979
Amounts payable and accrued liabilities	17	76,896	63,139
Distributions payable	18	18,056	12,192
		403,041	242,310
Liabilities related to assets held for sale	20	9,268	22
Total liabilities		3,056,589	2,349,233
Equity			
Unitholders' equity		2,829,662	1,745,283
Retained earnings		467,034	373,553
Accumulated other comprehensive loss	28	(297)	(1,602)
Total equity	19	3,296,399	2,117,234
Total liabilities and equity		\$ 6,352,988	\$ 4,466,467

See accompanying notes to the consolidated financial statements.

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



NED GOODMAN
Trustee



MICHAEL J. COOPER
Trustee

Consolidated statements of comprehensive income

(in thousands of Canadian dollars)

	Note	Years ended December 31,	
		2012	2011
Investment properties revenue		\$ 607,796	\$ 375,015
Investment properties operating expenses		259,249	158,949
Net rental income from continuing operations		348,547	216,066
Other income and expenses			
General and administrative		(21,132)	(13,796)
Share of net income and dilution gain from investment in Dundee Industrial	9	1,568	–
Share of net income (loss) from investment in joint ventures	10	(254)	49,728
Fair value adjustments to investment properties	8, 20	105,572	205,560
Net gain on sale of investment properties	20	1,530	–
Acquisition related costs, net	6	(17,549)	(5,688)
Interest:			
Debt	21	(125,118)	(79,787)
Subsidiary redeemable units	21	(7,758)	(7,704)
Debt settlement and other costs, net	22	(3,798)	–
Depreciation and amortization		(2,042)	(580)
Interest and fee income		5,045	2,376
Fair value adjustments to financial instruments	23	(16,588)	(11,065)
Income before income taxes and discontinued operations		268,023	355,110
Deferred income taxes		1,849	–
Income from continuing operations		266,174	355,110
Income from discontinued operations	20	24,899	45,810
Net income for the year		291,073	400,920
Other comprehensive income (loss)			
Unrealized gain (loss) on interest rate swap agreements	28	1,227	(1,602)
Unrealized foreign currency translation gain	28	78	–
		1,305	(1,602)
Comprehensive income for the year		\$ 292,378	\$ 399,318

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in equity

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

	Note	Number of units	Unitholders' equity	Attributable to unitholders of the Trust		
				Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2012		66,209,376	\$ 1,745,283	\$ 373,553	\$ (1,602)	\$ 2,117,234
Net income for the year		-	-	291,073	-	291,073
Distributions paid	18, 19	-	-	(179,536)	-	(179,536)
Distributions payable	18, 19	-	-	(18,056)	-	(18,056)
Public offering of REIT A Units	19	16,947,550	604,812	-	-	604,812
REIT A Units issued for Whiterock transaction	6, 19	12,580,347	434,777	-	-	434,777
Distribution Reinvestment Plan	19	1,200,028	44,127	-	-	44,127
Unit Purchase Plan	19	15,296	578	-	-	578
Deferred units exchanged for REIT A Units	16, 19	25,290	876	-	-	876
Conversion of debentures	19	657,054	17,498	-	-	17,498
Conversion feature on debentures	14, 19	-	5,674	-	-	5,674
Issue costs	19	-	(23,963)	-	-	(23,963)
Other comprehensive income	19, 28	-	-	-	1,305	1,305
Balance at December 31, 2012		97,634,941	\$ 2,829,662	\$ 467,034	\$ (297)	\$ 3,296,399

	Note	Number of units	Unitholders' equity	Attributable to unitholders of the Trust		
				Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2011		45,912,519	\$ 1,118,058	\$ 97,002	\$ -	\$ 1,215,060
Net income for the year		-	-	400,920	-	400,920
Distributions paid	18, 19	-	-	(112,177)	-	(112,177)
Distributions payable	18, 19	-	-	(12,192)	-	(12,192)
Public offering of REIT A Units	19	19,538,500	629,434	-	-	629,434
Distribution Reinvestment Plan	19	688,502	21,857	-	-	21,857
Unit Purchase Plan	19	11,222	359	-	-	359
Deferred units exchanged for REIT A Units	16, 19	32,376	1,035	-	-	1,035
Conversion of debentures	19	26,257	701	-	-	701
Conversion feature on debentures	14, 19	-	302	-	-	302
Issue costs	19	-	(26,463)	-	-	(26,463)
Other comprehensive loss	19, 28	-	-	-	(1,602)	(1,602)
Balance at December 31, 2011		66,209,376	\$ 1,745,283	\$ 373,553	\$ (1,602)	\$ 2,117,234

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(in thousands of Canadian dollars)

	Note	Years ended December 31,	
		2012	2011
Generated from (utilized in) operating activities			
Net income for the year		\$ 291,073	\$ 400,920
Non-cash items:			
Acquisition related costs, net	6, 20	17,551	5,734
Share of net income and dilution gain from investment in Dundee Industrial	9	(1,568)	-
Share of net loss (income) from investment in joint ventures		254	(49,728)
Amortization of lease incentives		3,976	3,566
Amortization of external management contracts		1,321	-
Amortization of financing costs		3,280	2,177
Amortization of fair value adjustments on assumed debt		(7,396)	(1,963)
Fair value adjustments written off on debt extinguishment	22	(5,796)	-
Net gain on sale of investment properties	20	(2,677)	-
Deferred unit compensation expense	16	4,160	3,403
Straight-line rent adjustment		(9,898)	(6,952)
Fair value adjustments to investment properties		(110,759)	(232,987)
Fair value adjustments to financial instruments	23	16,588	11,065
Depreciation on property and equipment		848	579
Deferred income taxes		1,849	-
Reinvestment in subsidiary redeemable units	15, 21	826	771
Investment in lease incentives and initial direct leasing costs		(23,577)	(23,136)
Transaction costs on acquired business	6	(17,551)	(17,528)
Mortgage break fees	22	5,626	-
Debt settlement costs and other non-cash costs	22	3,968	-
Interest paid on subsidiary redeemable units	21	6,926	6,929
Change in non-cash working capital	27	(44,074)	(12,941)
		134,950	89,909
Generated from (utilized in) investing activities			
Investment in building improvements		(20,199)	(8,044)
Investment in development projects		(1,945)	(13,215)
Acquisition of Whiterock (2011 – Realex Properties Corporation), net of cash acquired	6	(147,134)	(154,380)
Acquisition of investment properties	7	(235,019)	(1,014,706)
Acquisition deposits on investment properties		(1,150)	(18,053)
Vendor adjustment on investment properties		-	1,000
Net proceeds from disposal of investment properties	20	212,486	-
Acquisition of joint venture interest		(844,766)	-
Distributions from investment in joint ventures		455,573	(11,118)
Contributions from investment in joint ventures		(11,685)	42,436
Change in restricted cash		181	28
		(593,658)	(1,176,052)
Generated from (utilized in) financing activities			
Mortgages placed		474,789	495,489
Financing costs on mortgages placed		(4,220)	(3,664)
Mortgage principal repayments		(61,685)	(38,082)
Mortgage lump sum repayments		(346,757)	(48,390)
Mortgage break fees	22	(5,626)	-
New term debt		24	-
Term debt principal repayments		(280)	(224)
Draw on bridge loan facility		220,000	-
Repayment of bridge loan facility		(220,000)	-
Revolving credit facility – net draws (repayments)		30,942	2,435
Financing costs on revolving credit facility		(629)	-
Draw on term loan credit facility		-	188,000
Repayment of term loan credit facility		(4,547)	-
Financing costs on term loan credit facility		-	(3,650)
Repayment of convertible debentures		(126,686)	-
Repayment of debentures		(10,340)	-
Distributions paid on Units	18	(147,601)	(98,753)
Interest paid on subsidiary redeemable units		(6,926)	(6,929)
Units issued for cash		605,390	629,434
Unit issue costs		(23,963)	(26,463)
		371,885	1,089,203
Increase (decrease) in cash and cash equivalents		(86,823)	3,060
Foreign exchange loss on cash held in foreign currency		(155)	-
Cash transferred on disposition of discontinued operations		(878)	-
Cash and cash equivalents, beginning of year		111,870	108,810
Cash and cash equivalents, end of year		\$ 24,014	\$ 111,870

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

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

Note 1

Organization

Dundee Real Estate Investment Trust (“Dundee REIT” or the “Trust”) is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dundee REIT include the accounts of Dundee REIT and its consolidated subsidiaries. Dundee REIT’s portfolio comprises office properties located in urban centres across Canada and the United States (“U.S.”). A subsidiary of Dundee REIT performs the property management function.

The Trust’s registered office is 30 Adelaide Street East, Suite 1600, Toronto, Ontario, Canada M5C 3H1. The Trust is listed on the Toronto Stock Exchange under the symbol “D.UN”. Dundee REIT’s consolidated financial statements for the year ended December 31, 2012, were authorized for issuance by the Board of Trustees on February 20, 2013, after which date they may only be amended with the Board of Trustees’ approval.

Equity is described in Note 19; however, for simplicity, throughout the notes, reference is made to the following:

- “REIT A Units”, meaning the REIT Units, Series A
- “REIT B Units”, meaning the REIT Units, Series B
- “REIT Units”, meaning the REIT Units, Series A, and REIT Units, Series B, collectively
- “Units”, meaning REIT Units, Series A; Series B; and Special Trust Units, collectively

Subsidiary redeemable units classified as a liability are described in Note 15; however, for simplicity, throughout the notes, reference is made to “subsidiary redeemable units”, meaning the LP Class B Units, Series 1 of Dundee Properties Limited Partnership (“DPLP”).

At December 31, 2012, Dundee Corporation, the majority shareholder of Dundee Realty Corporation (“DRC”), directly and indirectly through its subsidiaries, held 2,494,383 REIT A Units and 3,528,658 subsidiary redeemable units (December 31, 2011 – 1,776,158 and 3,506,107, respectively).

Note 2

Summary of significant accounting policies

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

Basis of presentation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis of consolidation

The consolidated financial statements comprise the financial statements of Dundee REIT and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, which is the date on which the Trust obtains control, and continue to be consolidated until the date such control ceases. Control exists when the Trust has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefit from its activities. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

Equity accounted investments

Equity accounted investments are investments over which the Trust has significant influence, but not control. Generally, the Trust is considered to exert significant influence when it holds more than a 20% interest in an entity. However, determining significant influence is a matter of judgment and specific circumstances and, from time to time, the Trust may hold an interest of more than 20% in an entity without exerting significant influence. Conversely, the Trust may hold an interest of less than 20% and exert significant influence through representation on the Board of Trustees, direction of management or through contractual agreements.

The financial results of the Trust's equity accounted investments are included in the Trust's consolidated financial statements using the equity method, whereby the investment is carried on the consolidated balance sheets at cost, adjusted for the Trust's proportionate share of post-acquisition profits and losses and for post-acquisition changes in excess of the Trust's carrying amount of its investment over the net assets of the equity accounted investments, less any identified impairment loss. The Trust's share of profits and losses is recognized in the share of net earnings from equity accounted investments in the consolidated statements of comprehensive income. Dilution gains and losses arising from changes in the Trust's interest in equity accounted investments are recognized in earnings. If the Trust's investment is reduced to zero, additional losses are not provided for, and a liability is not recognized, unless the Trust has incurred legal or constructive obligations, or made payments on behalf of the equity accounted investment.

At each reporting date, the Trust evaluates whether there is objective evidence that its interest in an equity accounted investment is impaired. The entire carrying amount of the equity accounted investment is compared to the recoverable amount, which is the higher of the value in use or fair value less costs to sell. The recoverable amount of each investment is considered separately. When the Trust's share of losses of an equity accounted investment equals or exceeds its interest in that investment, the Trust discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent the Trust has incurred legal or constructive obligations to fund the entity or made payments on behalf of that entity. Accounting policies of equity accounted investments have been changed where necessary to ensure consistency with the policies adopted by the Trust.

Where the Trust transacts with its equity accounted investments, unrealized profits and losses are eliminated to the extent of the Trust's interest in the investment. Balances outstanding between the Trust and equity accounted investments in which it has an interest are not eliminated in the consolidated balance sheets.

Joint arrangements

The Trust enters into joint arrangements via jointly controlled entities and co-ownerships. A joint arrangement is a contractual arrangement pursuant to which the Trust and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. Joint arrangements that involve the establishment of a separate entity in which each party has an interest are referred to as joint ventures. In a co-ownership arrangement the Trust owns jointly one or more investment properties with another party and has direct rights to the investment property, and obligations for the liabilities relating to the co-ownership.

The Trust reports its interests in joint ventures using the equity method of accounting as described under equity accounted investments above. The Trust reports its interests in co-ownerships using the proportionate consolidation method. Under this method, the Trust's consolidated financial statements reflect only the Trust's proportionate share of the assets, its share of any liabilities incurred jointly with the other venturers as well as any liabilities incurred directly, its share of any revenues earned or expenses incurred by the joint venture and any expenses incurred directly.

Note 3

Accounting policies selected and applied for significant transactions and events

The significant accounting policies used in the preparation of these consolidated statements are described below:

Investment properties

Investment properties are initially recorded at cost, including related transaction costs in connection with asset acquisitions and include office and industrial properties held to earn rental income and/or for capital appreciation and properties that are being constructed or developed for future use as investment properties. Investment properties and properties under development are measured at fair value, determined based on available market evidence, at the consolidated balance sheet dates. Related fair value gains and losses are recorded in comprehensive income in the period in which they arise. The fair value of each investment property is based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the consolidated balance sheet dates, less future estimated cash outflows in respect of such properties. To determine fair value, the Trust first considers whether it can use current prices in an active market for a similar property in the same location and condition, which is subject to similar leases and other contracts. The Trust has concluded there is insufficient market evidence on which to base investment property valuation using this approach, and has therefore determined that using the income approach is more appropriate. The income approach is one in which the fair value is estimated by capitalizing the net rental income that the property can reasonably be expected to produce over its remaining economic life. The income approach is derived from two methods: the overall capitalization rate method, whereby the net operating income is capitalized at the requisite overall capitalization rate and/or the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. Active properties under development are measured using a discounted cash flow model, net of costs to complete, as of the consolidated balance sheet dates. Development sites in the planning phases are measured using comparable market prices for similar assets. Valuations of investment properties are most sensitive to changes in discount rates and capitalization rates.

The initial cost of properties under development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs directly attributable to properties under development. Borrowing costs associated with direct expenditures on properties under development are capitalized. The amount of capitalized borrowing costs is determined first by reference to project-specific borrowings, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of the development until the date of practical completion when the property is substantially ready for its intended use or sale. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Practical completion is when the property is capable of operating in the manner intended by management. Generally, this occurs on completion of construction and receipt of all necessary occupancy and other material permits.

If the Trust has pre-leased space at or prior to the start of the development, and the lease requires tenant improvements that enhance the value of the property, practical completion is considered to occur when such improvements are completed.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. Lease incentives, which include costs incurred to make leasehold improvements to tenants' space and cash allowances provided to tenants, are added to the carrying amount of investment properties and are amortized on a straight-line basis over the term of the lease as a reduction of investment properties revenue.

Segment reporting

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

Other non-current assets

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

Other non-current assets are derecognized on disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognized.

Revenue recognition

The Trust accounts for tenant leases as operating leases given that it has retained substantially all of the risks and benefits of ownership of its investment properties. Revenues from investment properties include base rents, recoveries of operating expenses including property taxes, percentage participation rents, lease termination fees, parking income and incidental income. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in other non-current assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred. Percentage participation rents are recognized on an accrual basis once tenant sales revenues exceed contractual thresholds. Other revenues are recorded as earned.

Business combinations

The purchase method of accounting is used for acquisitions meeting the definition of a business. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair values irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Trust's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Trust's share of the net assets acquired, the difference is recognized directly in the profit or loss for the year as an acquisition gain. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred over and above the Trust's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored by the Trust at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

External property management contracts

External property management contracts assumed in a business combination are recorded on the consolidated balance sheets and arise when the Trust acquires less than 100% of an investment property, but manages the investment property and earns a property management fee from the co-owner. External property management contracts are in place as long as the property is co-owned by the Trust and are amortized on a straight-line basis into comprehensive income over ten years.

Distributions

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings.

Income taxes

Dundee REIT is taxed as a mutual fund trust for Canadian income tax purposes. The Trust expects to distribute all of its taxable income to its unitholders, which enables it to deduct such distributions for income tax purposes. As the income tax obligations relating to the distributions are those of the individual unitholder, no provision for income taxes is required on such amounts. The Trust expects to continue to distribute its taxable income and to qualify as a real estate investment trust ("REIT") for the foreseeable future.

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

Unit-based compensation plan

As described in Note 16, the Trust has a Deferred Unit Incentive Plan ("DUIP") that provides for the granting of deferred trust units and income deferred trust units to trustees, officers, employees and affiliates and their service providers (including the asset manager). Unvested deferred trust units are recorded as a liability, and compensation expense is recognized over the vesting period at amortized cost based on the fair value of the units. Once vested, the liability is remeasured at each reporting date at amortized cost, based on the fair value of the corresponding REIT A Units, with changes in fair value recognized in comprehensive income as a fair value adjustment to financial instruments. Deferred trust units and income deferred units are only settled in REIT A Units.

Cash and cash equivalents

Cash and cash equivalents include all short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent its use for current purposes. Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits, as required by various lending agreements. Deposits are included in other non-current assets.

Financial instruments

Designation of financial instruments

The following summarizes the Trust's classification and measurement of financial assets and financial liabilities:

	Classification	Measurement
Financial assets		
Promissory notes receivable	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Restricted cash and deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial liabilities		
Mortgages	Other liabilities	Amortized cost
Term debt	Other liabilities	Amortized cost
Convertible debentures – host instrument	Other liabilities	Amortized cost
Convertible debentures – conversion feature	Fair value through profit or loss	Fair value
Debentures	Other liabilities	Amortized cost
Subsidiary redeemable units	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Deferred Unit Incentive Plan	Other liabilities	Amortized cost
Interest rate swaps	Cash flow hedge	Fair value
Amounts payable and accrued liabilities	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost

Financial assets

The Trust classifies its non-derivative financial assets with fixed or determinable payments that are not quoted in an active market as loans and receivables. All financial assets are initially measured at fair value, less any related transaction costs, and are subsequently measured at amortized cost.

Promissory notes receivable are initially measured at fair value and are subsequently measured at amortized cost less impairment losses. The amount of the loss is measured as the difference between the promissory notes receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the promissory notes receivable is reduced and the amount of the loss is recognized in the consolidated statements of comprehensive income.

Amounts receivable are initially measured at fair value and are subsequently measured at amortized cost less provision for impairment. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include payment delinquency and significant financial difficulty of the tenant. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income within investment properties operating expenses. Bad debt write-offs occur when the Trust determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against investment properties operating expenses in the consolidated statements of comprehensive income. Trade receivables that are less than three months past due are not considered impaired unless there is evidence collection is not possible. If in a subsequent period when the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss

is reversed to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Financial assets are derecognized only when the contractual rights to the cash flows from the financial asset expire or the Trust transfers substantially all risks and rewards of ownership.

Financial liabilities

The Trust classifies its financial liabilities on initial recognition as either fair value through profit or loss or other liabilities measured at amortized cost. Financial liabilities are initially recognized at fair value less related transaction costs. Financial liabilities classified as other liabilities are measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial liabilities are recognized in comprehensive income over the expected life of the debt. The Trust's financial liabilities that are classified as fair value through profit or loss are initially recognized at fair value and are subsequently remeasured at fair value each reporting period, with changes in the fair value recognized in comprehensive income.

Mortgages, term debt and debentures are initially recognized at fair value less related transaction costs, or at fair value when assumed in a business or asset acquisition. Subsequent to initial recognition, mortgages and term debt are recognized at amortized cost. Borrowing costs that are directly attributable to investment properties under development are capitalized.

On issuance, convertible debentures are separated into two financial liability components: the host instrument and the conversion feature. This presentation is required because the conversion feature permits the holder to convert the debenture into REIT Units that, except for the available exemption under International Accounting Standard ("IAS") 32, "Financial Instruments: Presentation" ("IAS 32"), would normally be presented as a financial liability because of the redemption feature attached to the REIT A Units. Both components are measured based on their respective estimated fair values at the date of issuance. The fair value of the host instrument is net of any related transaction costs. The fair value of the host instrument is estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without a conversion feature. Subsequent to initial recognition, the host instrument is accounted for at amortized cost. The conversion feature is accounted for at fair value with changes in fair value recognized in comprehensive income each period. When the holder of a convertible debenture converts its interest into REIT A Units, the host instrument and conversion feature are reclassified to unitholders' equity in proportion to the units converted over the total equivalent units outstanding.

Deferred trust units and the subsidiary redeemable units are measured at amortized cost because they are settled in REIT A Units and REIT B Units, which in accordance with IAS 32 are considered liabilities. Consequently, the deferred units and subsidiary redeemable units are remeasured each reporting period based on the fair value of REIT Units, with changes in the liabilities recorded in comprehensive income. Distributions paid on subsidiary redeemable units are recorded as interest expense in comprehensive income. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Derivative financial instruments and hedging activities

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

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

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in equity at that time are recognized when the forecast transaction is ultimately recognized in the consolidated statements of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of other comprehensive income.

Interest on debt

Interest on debt includes coupon interest, amortization of premiums allocated to the conversion features of the convertible debentures, and amortization of ancillary costs incurred in connection with the arrangement of borrowings. Finance costs are amortized to interest expense unless they relate to a qualifying asset.

Equity

The Trust presents REIT Units as equity, notwithstanding the fact that the Trust's REIT Units meet the definition of a financial liability. Under IAS 32, the REIT Units are considered a puttable financial instrument because of the holder's option to redeem REIT Units, generally at any time, subject to certain restrictions, at a redemption price per unit equal to the lesser of 90% of a 20-day weighted average closing price prior to the redemption date or 100% of the closing market price on the redemption date. The total amount payable by Dundee REIT in any calendar month will not exceed \$50 unless waived by Dundee REIT's Board of Trustees at their sole discretion. The Trust has determined the REIT Units can be presented as equity and not financial liabilities because the REIT Units have all of the following features, as defined in IAS 32 (hereinafter referred to as the "puttable exemption"):

- REIT Units entitle the holder to a pro rata share of the Trust's net assets in the event of its liquidation. Net assets are those assets that remain after deducting all other claims on the assets.
- REIT Units are the class of instruments that are subordinate to all other classes of instruments because they have no priority over other claims to the assets of the Trust on liquidation, and do not need to be converted into another instrument before they are in the class of instruments that is subordinate to all other classes of instruments.
- All instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
- Apart from the contractual obligation for the Trust to redeem the REIT Units for cash or another financial asset, the REIT Units do not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Trust, and it is not a contract that will or may be settled in the Trust's own instruments.
- The total expected cash flows attributable to the REIT Units over their lives are based substantially on the profit or loss, the change in the recognized net assets and unrecognized net assets of the Trust over the life of the REIT Units.

REIT Units are initially recognized at the fair value of the consideration received by the Trust. Any transaction costs arising on the issuance of REIT Units are recognized directly in unitholders' equity as a reduction of the proceeds received.

Provisions

Provisions for legal claims are recognized when the Trust has a present legal or constructive obligation as a result of past events; it is probable an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Assets held for sale and discontinued operations

Assets and liabilities (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Investment properties continue to be measured at fair value and the remainder of the disposal group is stated at the lower of the carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Trust that either has been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business, or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resell.

Foreign currencies

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Trust and the presentation currency for the consolidated financial statements.

Assets and liabilities related to properties held in a foreign entity with a functional currency other than the Canadian dollar are translated at the rate of exchange at the consolidated balance sheet dates. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates at the dates of the transactions are used. The resulting foreign currency translation adjustments are recognized in other comprehensive income.

Note 4

Critical accounting judgments, estimates and assumptions in applying accounting policies

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying amounts of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Critical accounting judgments

The following are the critical accounting judgments used in applying the Trust's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

Investment in Dundee Industrial Real Estate Investment Trust ("Dundee Industrial")

Management has assessed the level of influence the Trust has on Dundee Industrial and has determined it has significant influence. Management assessed whether or not the Trust has control over Dundee Industrial based on whether the Trust has the practical ability to direct the relevant activities of Dundee Industrial unilaterally. In making its judgment, management considered the Trust's initial absolute 44.1% interest in Dundee Industrial combined with the 2.1% absolute interest held by the Chief Executive Officer ("CEO") of the Trust, together totalling 46.2% (identified as a de facto agent of the Trust) (December 31, 2012 – 30.9% and 1.4%, respectively, and together totalling 32.3%) as well as the relative dispersion of the remaining interests in Dundee Industrial. Management also reviewed Dundee Industrial's Amended and Restated Declaration of Trust to determine what decisions with respect to relevant activities are required to be put to a unitholder vote and the level of approvals required by those votes. Management concluded that the Trust, combined with the CEO of the Trust, does not have the ability to control the voting interest to direct the relevant activities of Dundee Industrial, and therefore has concluded the Trust does not control Dundee Industrial.

Investment properties

Critical judgments are made in respect of the fair values of investment properties and the investment properties held in equity accounted investments. The fair values of these investments are reviewed regularly by management with reference to independent property valuations and market conditions existing at the reporting date, using generally accepted market practices. The independent valuers are experienced, nationally recognized and qualified in the professional valuation of 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.

The Trust makes judgments with respect to whether lease incentives provided in connection with a lease enhance the value of the leased space, which determines whether or not such amounts are treated as tenant improvements and added to investment property. Lease incentives, such as cash, rent-free periods and lessee- or lessor-owned improvements, may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties and are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease.

Judgment is also applied in determining whether certain costs are additions to the carrying amount of the investment property and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying amount of the development property.

Leases

Judgments are also made in determining whether certain leases, in particular those with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the Trust is lessor, are operating or finance leases. The Trust has determined all of its leases are operating leases.

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 specified investment flow-through (“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.

Treatment of REIT Units

The Trust has considered the criteria in IAS 32 to classify the REIT Units as equity based on the puttable exemption.

Treatment of subsidiary redeemable units

The Trust has considered the criteria in IAS 32 to classify the subsidiary redeemable units as a liability, on the basis that they do not have identical features to REIT Units and are not the most subordinated instrument.

Business combinations

Accounting for business combinations under IFRS 3, “Business Combinations” (“IFRS 3”), only applies if it is considered that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the Trust. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. Judgment is used by management in determining whether the acquisition of an individual property qualifies as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, the Trust applies judgment when considering the following:

- whether the investment property or properties are capable of producing outputs
- whether the market participant could produce outputs if missing elements exist

In particular, the Trust considers the following:

- whether employees were assumed in the acquisition
- whether an operating platform has been acquired

Currently, when the Trust acquires properties or a portfolio of properties and not legal entities, does not take on or assume employees, or does not acquire an operating platform, it classifies the acquisition as an asset acquisition.

Classification of joint ventures and associates

The Trust makes judgments as to whether the joint ventures, partnerships and co-ownerships provide it with joint control, significant influence or no influence.

Impairment

The Trust assesses the possibility and amount of any impairment loss or write-down as it relates to the investment in Dundee Industrial REIT promissory notes receivable, amounts receivable, property and equipment, external management contracts, and goodwill.

Estimates and assumptions

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

Valuation of investment properties

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 regional, national or international economic conditions, the fair value of investment properties may change materially.

Valuation of financial instruments

The Trust makes estimates and assumptions relating to the fair value measurement of the subsidiary redeemable units, the deferred trust units, 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, and assessment of the effectiveness of hedging relationships.

For certain financial instruments, including cash and cash equivalents, promissory notes receivable, 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 is determined by reference to quoted market prices from an active market.

Note 5

Future accounting policy changes

Financial instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the IASB on November 12, 2009, and upon adoption 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 and the derecognition of financial instruments. 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 the consolidated financial statements.

IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), has been amended to require additional disclosures on transition from IAS 39 to IFRS 9.

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", and eliminates the option to proportionately consolidate interests in certain types of joint ventures. The Trust will start the application of IFRS 11 in the consolidated financial statements effective January 1, 2013. The Trust is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

Financial instruments: Disclosures (amendment regarding disclosures on transfer of financial assets and presentation)

IFRS 7 requires the Trust to provide disclosures related to offsetting financial assets and liabilities. The Trust is currently evaluating the impact of IFRS 7 on its consolidated financial statements and will start the application of this amendment on January 1, 2013. IAS 32, "Financial Instruments: Presentation" ("IAS 32"), has been amended to clarify requirements for offsetting financial assets and financial liabilities. The Trust will start the application of this amendment on January 1, 2014, and is currently evaluating the impact on the consolidated financial statements.

Consolidated financial statements

IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), replaces the guidance on control and consolidation in the current IAS 27, "Consolidated and Separate Financial Statements". IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. 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 the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

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 the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

Fair value measurement

IFRS 13, "Fair Value Measurement" ("IFRS 13"), defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurement. The Trust will start the application of IFRS 13 in the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

Presentation of items of other comprehensive income

Amendments to IAS 1, "Presentation of Financial Statements" ("IAS 1"), provide guidance on the presentation of items contained in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future. The Trust will start the application of this amendment in the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements as a result of adopting this standard.

Note 6

Business combinations

Business combination in the year ended December 31, 2012

On March 2, 2012, Dundee REIT acquired Whiterock Real Estate Investment Trust ("Whiterock") for total cash consideration of \$159,779 and the issuance of 12,580,347 REIT A Units for \$434,777, representing total consideration of \$594,556. The Trust considered Whiterock an excellent strategic fit with the existing portfolio that will increase its market presence as the dominant office REIT in Canada. On closing, the fair value of the net identifiable assets and liabilities acquired equalled \$532,498. The total consideration exceeded the net identifiable assets and liabilities by \$62,058, which has been recorded as goodwill on acquisition. The Whiterock Portfolio consisted of 7.4 million square feet of office, industrial and retail properties.

Dundee REIT took up approximately 40.9% of the outstanding units of Whiterock under its offer to acquire any and all units in consideration for \$16.25 per unit, or 0.4729 units of Dundee REIT, as elected by depositing unitholders. Approximately 9,832,563, or 27%, of the Whiterock units were tendered to Dundee REIT's offer for cash totalling \$159,779. No elections were pro-rated under the offer. The remaining outstanding units of Whiterock were redeemed by Whiterock in consideration for 0.4729 units of Dundee REIT, or 12,580,347 REIT A Units.

The fair value of the 12,580,347 REIT A Units issued as part of the consideration for Whiterock was \$34.56 per unit, which was the published share price at 8 a.m. on March 2, 2012, the time Dundee REIT acquired control.

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

	Note	
Investment properties, including \$106,754 classified as assets held for sale on date of acquisition		\$ 1,419,889
Other non-current assets		2,802
Amounts receivable		6,243
Cash and cash equivalents		12,645
Prepaid expenses		2,799
External management contracts		16,512
Amounts payable and accrued liabilities assumed		(29,989)
Deposits		(3,855)
Deferred tax net liabilities		(2,633)
Financial instruments		(3,363)
Assumed debt		(888,552)
Total identifiable net assets and liabilities		532,498
Goodwill ⁽¹⁾	11	62,058
Fair value of consideration		\$ 594,556

⁽¹⁾ Goodwill arises principally from the ability to realize synergies on integration of the Trust's operating platform with Whiterock's as well as projected future growth.

Acquisition related costs comprise \$17,549 in transaction costs. Included in the acquired amounts receivable is trade receivables with a fair value of \$433 and other amounts receivable with a fair value of \$5,810. The gross contractual amount for trade receivables is \$2,833, of which \$2,400 is expected to be uncollectible.

During the year ended December 31, 2012, the Trust recognized \$125,970 of revenue and \$59,348 of comprehensive income, before fair value adjustments, related to the acquisition of Whiterock. Had the acquisition occurred on January 1, 2012, the Trust would have recognized an additional \$26,481 of revenue and \$7,691 of comprehensive income, before fair value adjustments.

Business combination in the year ended December 31, 2011

On February 8, 2011, Dundee REIT acquired all of the outstanding shares of Realex Properties Corporation ("Realex") for a total cash consideration of \$154,380. At that date, the fair value of the net assets and liabilities acquired equalled \$166,174. The Realex Portfolio consisted of 1.8 million square feet of office and industrial properties.

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

Investment properties	\$ 352,609
Investments in joint ventures	6,582
Other non-current assets	2,326
Amounts receivable	2,987
Cash and cash equivalents	211
Amounts payable and accrued liabilities assumed	(9,060)
Assumed debt	(189,481)
Total identifiable net assets and liabilities	166,174
Fair value of acquisition	154,380
Acquisition gain	\$ 11,794

Acquisition related costs of \$5,734 comprise: (i) \$8,673 in transaction costs; (ii) \$8,855 of acquisition related costs that were triggered by contractual change of control provisions in place; and (iii) net of an \$11,794 acquisition gain. The fair value of acquired amounts receivable is \$2,987 and includes tenant receivables with a fair value of \$1,507.

During the year ended December 31, 2011, the Trust recognized \$48,713 of revenue, and \$21,615 of comprehensive income before fair value adjustments related to the acquisition of Realex. Had the acquisition occurred on January 1, 2011, the Trust would have recognized an additional \$6,013 of revenue and \$2,364 of comprehensive income.

Note 7

Property acquisitions

Detailed below are the acquisitions completed during the year ended December 31, 2012.

	Property type	Interest acquired (%)	Purchase price ⁽¹⁾	Fair value of mortgage assumed	Date acquired
5001 Yonge Street, Toronto	office	100.0	\$ 112,984	\$ –	January 19, 2012
67 Richmond Street West, Toronto	office	100.0	14,464	6,104	January 30, 2012
Parking lots, Saskatoon	office	100.0	18,242	–	March 12, 2012
1 Riverside Drive, Windsor	office	100.0	36,014	–	April 26, 2012
Trans America Group properties, Edmonton ⁽²⁾	office/industrial	60.0	75,787	41,780	October 4, 2012
30 Adelaide Street East (State Street Financial Centre), Toronto ⁽³⁾	office	50.0	78,774	27,045	December 28, 2012
Total			\$ 336,265	\$ 74,929	

(1) Includes transaction costs.

(2) Prior to October 4, 2012, the Trust held its 40% interests in these nine co-ownerships through a partnership interest acquired with the Whiterock transaction and they were accounted for as co-ownerships. On October 4, 2012, the Trust acquired the remaining 60% interests previously held by co-owners. The cost to acquire the 60% interests not previously owned by the Trust, including transaction costs, was \$75,787.

(3) Prior to December 28, 2012, the Trust held its 50% interest in 30 Adelaide Street East (State Street Financial Centre) in Toronto through a partnership interest, which was accounted for as a joint venture. On December 28, 2012, the Trust acquired the remaining 50% interest previously held by the partner. The cost to acquire the 50% interest not previously owned by the Trust, including transaction costs, was \$78,774.

Year ended December 31, 2011	Property type	Interest acquired (%)	Purchase price ⁽¹⁾	Fair value of mortgage assumed	Date acquired
Saskatoon Square, Saskatoon	office	100.0	\$ 51,349	\$ –	January 4, 2011
400 Cumberland, Ottawa	office	100.0	39,179	–	January 17, 2011
55 King Street West, Kitchener	office	100.0	13,506	–	March 31, 2011
586 Argus Road, Oakville	office	100.0	16,986	–	May 2, 2011
Morgex Building (11120 178th Street), Edmonton	office	100.0	9,877	–	May 19, 2011
Multivesco portfolio, Gatineau	office/industrial	100.0	15,999	–	June 9, 2011
700 de la Gauchetière, Montréal	office	100.0	287,766	123,003	July 11, 2011
13888 Wireless Way, Richmond	office	100.0	32,447	17,005	July 12, 2011
81 Wright Avenue and 170 Joseph Zatzman Drive, Halifax	industrial	100.0	7,631	1,217	July 27, 2011
Blackstone Portfolio, Ontario, Alberta	office	100.0	703,365	–	August 15, 2011
Richmond Place (8100 Granville Avenue), Richmond	office	100.0	24,867	–	November 22, 2011
Total			\$1,202,972	\$ 141,225	

(1) Includes transaction costs.

On August 15, 2011, the Trust completed its acquisition of a portfolio of properties (the "Blackstone Portfolio") located in Toronto, Ottawa, Calgary and Edmonton from affiliates of Blackstone Real Estate Advisors LP and Slate Properties Inc. for \$844,758. As part of the transaction, the Trust immediately redirected five of the properties ("redirected properties") to third parties. The funds to purchase the redirected properties, totalling \$141,393, were paid directly by the third parties to the seller's counsel in escrow on the closing date. The Trust paid \$703,365 for the 24 properties it acquired.

Prior to May 19, 2011, the Trust held its 25% interest in 11120 178th Street in Edmonton through a partnership interest acquired with Realex. The Trust's 25% interest was accounted for as a joint venture until May 19, 2011, at which time the Trust disposed of its 25% interest in the property held in the partnership, and acquired 100% as a directly held property under DPLP. The cost to acquire the 75% interest not previously owned by the Trust, including transaction costs, was \$10,054.

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

	Years ended December 31,	
	2012	2011
Investment properties		
Office	\$ 413,957	\$ 1,195,314
Industrial	–	11,135
Transfer of interest from investment in joint ventures to investment properties	(77,692)	(3,477)
Total purchase price	\$ 336,265	\$ 1,202,972

The consideration paid consists of:

Cash:

Paid during the year	\$ 253,966	\$ 1,014,706
Deposits applied	6,150	19,703
	260,116	1,034,409
Assumed mortgages at fair value	74,929	141,225
Assumed non-cash working capital	1,220	27,338
Total consideration	\$ 336,265	\$ 1,202,972

Note 8

Investment properties

	Note	Years ended December 31,	
		2012	2011
Balance at beginning of year		\$ 4,154,179	\$ 2,330,005
Additions:			
Acquisitions from business combinations	6	1,419,889	352,609
Property acquisitions	7	336,265	1,202,972
Transfer of interest from investment in joint ventures to investment properties	7	77,692	3,477
Building improvements		20,199	8,044
Lease incentives and initial direct leasing costs		23,577	23,136
Development projects		1,945	13,215
Amortization of lease incentives		(3,976)	(3,566)
Vendor adjustment on investment property		–	(1,000)
Properties reclassified as discontinued operations		(551,710)	–
Properties reclassified as other assets held for sale	20	(111,952)	(7,700)
Foreign currency translation gain		693	–
Fair value adjustments to investment properties		110,759	232,987
Balance at end of year		\$ 5,477,560	\$ 4,154,179

Investment properties have been reduced by \$21,002 (December 31, 2011 – \$15,132) related to straight-line rent receivables, which have been reclassified to other non-current assets.

The key valuation metrics for investment properties, including investment in joint ventures, and excluding assets related to discontinued operations and assets held for sale, are set out below:

	December 31, 2012		December 31, 2011	
	Range (%)	Weighted average (%)	Range (%)	Weighted average (%)
Capitalization rate ("cap rate")	5.25–9.25	6.35	5.50–9.25	6.64
Discount rate	6.50–10.50	7.53	7.50–10.50	7.94
Terminal rate	5.25–9.75	6.62	6.00–9.75	7.12

Investment properties, including investment in joint ventures and excluding assets related to discontinued operations and assets held for sale with an aggregate fair value of \$787,449 at December 31, 2012 (September 30, 2012 – \$321,610; June 30, 2012 – \$1,544,237; March 31, 2012 – \$299,375; December 31, 2011 – \$342,850), were valued by qualified external valuation professionals.

If the cap rate were to increase by 25 basis points ("bps"), the value of investment properties (including investments in joint ventures and excluding assets related to discontinued operations and assets held for sale) would decrease by \$244,983. If the cap rate were to decrease by 25 bps, the value of investment properties (including investments in joint ventures and excluding assets related to discontinued operations and other assets held for sale) would increase by \$264,823.

Investment properties, including investment in joint ventures and excluding assets related to discontinued operations and assets held for sale, with a fair value of \$5,869,242 (December 31, 2011 – \$3,480,221), are pledged as security for mortgages.

Investment properties, including investments in joint ventures and excluding assets related to discontinued operations and other assets held for sale, pledged as security for demand revolving credit facilities and term loan facility, are as follows:

Facility	Ranking	Number of properties		Fair value	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Demand revolving credit facilities:					
Formula-based maximum not to exceed \$171,535	first ranking	9	–	\$ 248,459	\$ –
Formula-based maximum not to exceed \$40,000	first ranking	2	2	39,846	40,000
	second ranking	1	1	81,349	75,000
Formula-based maximum not to exceed \$35,000	second ranking	2	3	181,349	181,500
Formula-based maximum not to exceed \$35,000	first ranking	1	–	37,486	–
	second ranking	1	–	111,861	–
Term loan facility	first ranking	8	9	269,602	278,136
				\$ 969,952	\$ 574,636

Note 9

Investment in Dundee Industrial

Dundee Industrial is an unincorporated, open-ended real estate investment trust. Dundee Industrial owns a portfolio of 158 primarily light industrial properties comprising approximately 11.4 million square feet of gross leasable area.

On October 4, 2012, Dundee REIT completed the sale of 77 industrial properties to Dundee Industrial for a total sale price of approximately \$575,469 (including working capital adjustments). The sale price of the 77 industrial properties was satisfied by cash consideration of approximately \$136,267, the receipt of \$160,346 of Class B limited partnership units of Dundee Industrial Limited Partnership ("DILP") (a subsidiary of Dundee Industrial), which are exchangeable for units of Dundee Industrial, and promissory notes receivable from Dundee Industrial of \$42,000, offset by an amount due to Dundee Industrial of \$457 and the mortgages assumed on disposition. Dundee REIT's initial interest in Dundee Industrial was approximately 44.1%.

On December 13, 2012, Dundee Industrial issued 13,570,000 units in an underwritten public offering at a price of \$10.60 per unit. Dundee REIT did not participate in the offering and, as a result, its share in Dundee Industrial was diluted to 30.9%.

	Year ended December 31, 2012
Investment in Dundee Industrial, January 1	\$ -
Initial purchase of limited partnership units of Dundee Industrial Limited Partnership	160,346
Units purchased through Distribution Reinvestment Plan	1,773
Distributions	(2,711)
Share of net income from investment in Dundee Industrial	1,052
Dilution gain	516
Investment in Dundee Industrial, December 31	\$ 160,976
Dundee Industrial initial units held – October 4, 2012	16,034,631
Ownership % – October 4, 2012	44.1%
Dundee Industrial units held – December 31, 2012	16,198,745
Ownership % – December 31, 2012	30.9%

At December 31, 2012, the fair value of the Trust's interest in Dundee Industrial, which is listed on the Toronto Stock Exchange, was \$181,426.

The following amounts represent the ownership interest in the assets, liabilities, revenues, expenses and cash flows in the investment in Dundee Industrial, in which the Trust participates.

	December 31, 2012	December 31, 2011
Non-current assets		
Investment properties	\$ 354,320	\$ —
Other non-current assets	11,421	—
	365,741	—
Amounts receivable	166	—
Prepaid expenses	909	—
Cash and cash equivalents	712	—
	1,787	—
Total assets	\$ 367,528	\$ —
Non-current liabilities		
Debt	\$ 169,518	\$ —
Subsidiary redeemable units	56,024	—
Deposits	1,776	—
Conversion feature on the convertible debentures	1,923	—
Deferred Unit Incentive Plan	16	—
	229,257	—
Current liabilities		
Debt	31,153	—
Amounts payable and accrued liabilities	5,767	—
Distributions payable	630	—
	37,550	—
Total liabilities	\$ 266,807	\$ —
Net assets	\$ 100,721	\$ —
	Years ended December 31,	
	2012	2011
Investment properties revenue	\$ 6,345	\$ —
Investment properties operating expenses	1,717	—
Net rental income	4,628	—
Other income and expenses		
General and administrative	(322)	—
Fair value adjustments to investment properties	2,278	—
Acquisition related costs	(3,641)	—
Interest on debt	(1,208)	—
Interest on subsidiary redeemable units	(1,021)	—
Interest and fee income	5	—
Fair value adjustments to financial instruments	(7,960)	—
Net loss before the undernoted adjustments	(7,241)	—
Add-back:		
Interest on subsidiary redeemable units	1,021	—
Fair value adjustments to subsidiary redeemable units	7,272	—
Share of net income	\$ 1,052	\$ —

Note 10

Joint arrangements

	December 31, 2012	December 31, 2011
Investment in joint ventures	\$ 490,770	\$ 144,596

Investment in joint ventures

The Trust participates in partnerships ("joint ventures") with other parties that own investment properties, and accounts for its interests using the equity accounting method.

On June 15, 2012, the Trust acquired a two-thirds interest in the Scotia Plaza complex in downtown Toronto for \$844,339. Dundee REIT has entered into a joint venture with H&R REIT, the owner of the remaining one-third interest in the complex. The acquisition was financed with seven-year first mortgage bonds contracted by the joint venture, of which the portion attributable to the Trust is \$433,333, and proceeds from the June 12, 2012 public equity offering (see Note 19). Acquisition costs attributable to the Trust amounted to \$31,170.

Name	Location	Principal activity	Ownership interest (%)	
			December 31, 2012	December 31, 2011
Scotia Plaza	Toronto, Ontario	Investment property	66.7	–
State Street Financial Centre	Toronto, Ontario	Investment property	–	50.0
TELUS Tower	Calgary, Alberta	Investment property	50.0	50.0
IBM Corporate Centre	Calgary, Alberta	Investment property	33.0	33.0
Capital Centre	Edmonton, Alberta	Investment property	25.0	25.0
Plaza 124	Edmonton, Alberta	Investment property	25.0	25.0
Riverbend Atrium	Calgary, Alberta	Investment property	25.0	25.0
Stockman Centre	Calgary, Alberta	Investment property	25.0	25.0

On December 28, 2012, the Trust acquired the remaining 50% interest in 30 Adelaide Street East (State Street Financial Centre) in Toronto. Prior to December 28, 2012, the Trust held a 50% interest in the property through a partnership interest and accounted for it as a joint venture.

The following amounts represent the ownership interest in the assets, liabilities, revenues, expenses and cash flows in the equity accounted investments in which the Trust participates, excluding the interest in Dundee Industrial disclosed in Note 9.

	December 31, 2012	December 31, 2011
Non-current assets		
Investment properties	\$ 1,038,867	\$ 264,505
Other non-current assets	2,940	2,386
	1,041,807	266,891
Current assets		
Amounts receivable	2,100	65
Prepaid expenses	440	89
Cash and cash equivalents	7,179	11,536
	9,719	11,690
Total assets	\$ 1,051,526	\$ 278,581
Non-current liabilities		
Debt	\$ 489,976	\$ 127,246
Deposits	354	160
	490,330	127,406
Current liabilities		
Debt	36,992	2,977
Amounts payable and accrued liabilities	33,434	3,602
	70,426	6,579
Total liabilities	\$ 560,756	\$ 133,985
Net assets	\$ 490,770	\$ 144,596
Years ended December 31,		
	2012	2011
Investment properties revenue	\$ 78,768	\$ 29,759
Investment properties operating expenses	36,175	12,696
Net rental income	42,593	17,063
Other income and expenses		
General and administrative	(82)	-
Fair value adjustments to investment properties	(23,964)	37,969
Loss on sale of investment properties	-	(103)
Interest on debt	(13,779)	(5,323)
Depreciation and amortization	(4)	-
Interest and fee income	168	122
Fair value adjustments to financial instruments	(5,186)	-
Net income (loss)	\$ (254)	\$ 49,728
Years ended December 31,		
	2012	2011
Cash flow generated from (utilized in):		
Operating activities	\$ 25,794	\$ 12,241
Investing activities	(19,479)	(644)
Financing activities	(10,672)	(8,555)
Increase (decrease) in cash and cash equivalents	\$ (4,357)	\$ 3,042

Co-owned investment properties

The Trust's interests in co-owned investment properties are accounted for on a proportionate consolidated basis. The co-owned investment properties acquired in the year ended December 31, 2012, relate to the acquisition of Whiterock, as described in Note 6.

Name	Location	Principal activity	Ownership interest (%)	
			December 31, 2012	December 31, 2011
10199 101st Street NW	Edmonton, Alberta	Investment property	50.0	50.0
St. Albert Trail Centre	Edmonton, Alberta	Investment property	50.0	50.0
2240 Premier Way (GE Turbine Building)	Edmonton, Alberta	Investment property	–	50.0
2810 Matheson Boulevard East	Mississauga, Ontario	Investment property	49.9	–
50 and 90 Burnhamthorpe (Sussex Centre)	Mississauga, Ontario	Investment property	49.9	–
300–304 The East Mall (Valhalla Executive Centre)	Mississauga, Ontario	Investment property	49.9	–
Tillsonburg Gateway Centre	Tillsonburg, Ontario	Investment property	49.9	–
185–195 The West Mall	Toronto, Ontario	Investment property	49.9	–
460 Two Nations Crossing	Fredericton, New Brunswick	Investment property	40.0	–
350–450 Lansdowne Street	Kamloops, British Columbia	Investment property	40.0	–
275 Dundas Street West (London City Centre)	London, Ontario	Investment property	40.0	–
80 Whitehall Drive	Markham, Ontario	Investment property	40.0	–
6501–6523 Mississauga Road	Mississauga, Ontario	Investment property	40.0	–
6531–6559 Mississauga Road	Mississauga, Ontario	Investment property	40.0	–
2010 Winston Park Drive	Oakville, Ontario	Investment property	40.0	–
219 Laurier Avenue West	Ottawa, Ontario	Investment property	40.0	–
55 Norfolk Street South	Simcoe, Ontario	Investment property	40.0	–
10 Lower Spadina Avenue	Toronto, Ontario	Investment property	40.0	–
49 Ontario Street	Toronto, Ontario	Investment property	40.0	–
401–405 The West Mall (Commerce West)	Toronto, Ontario	Investment property	40.0	–
2261 Keating Cross Road	Victoria, British Columbia	Investment property	40.0	–
117 Kearney Lake Road	Halifax, Nova Scotia	Investment property	35.0	–
Centre 70	Calgary, Alberta	Investment property	15.0	15.0

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

	December 31, 2012	December 31, 2011
Non-current assets		
Investment properties	\$ 454,703	\$ 34,642
Other non-current assets	1,106	77
	455,809	34,719
Current assets		
Amounts receivable	8,251	202
Prepaid expenses and other assets	453	20
Cash and cash equivalents	8,310	300
	17,014	522
Total assets	\$ 472,823	\$ 35,241
Non-current liabilities		
Debt	\$ 183,678	\$ 24,374
Deposits	1,635	219
	185,313	24,593
Current liabilities		
Debt	52,514	737
Amounts payable and accrued liabilities	8,676	435
	61,190	1,172
Total liabilities	\$ 246,503	\$ 25,765
Years ended December 31,		
	2012	2011
Investment properties revenue	\$ 48,204	\$ 3,587
Investment properties operating expenses	22,721	1,496
Net rental income from continuing operations	25,483	2,091
Other income and expenses		
General and administrative	(3)	(207)
Fair value adjustments to investment properties	(16,515)	3,406
Interest on debt	(8,909)	(1,218)
Interest and fee income	-	1
Income from continuing operations	56	4,073
Loss from discontinued operations	(4,782)	-
Net income (loss)	\$ (4,726)	\$ 4,073

Note 11

Other non-current assets

	December 31, 2012	December 31, 2011
Property and equipment, net of accumulated depreciation of \$1,946 (December 31, 2011 – \$1,308)	\$ 3,022	\$ 2,690
Deposits	4,858	3,065
Restricted cash	2,165	1,620
Straight-line rent receivable	21,002	15,132
External management contracts, net of accumulated amortization of \$1,119 (December 31, 2011 – \$nil)	11,883	–
Goodwill	52,371	–
Total	\$ 95,301	\$ 22,507

Deposits largely represent amounts provided by the Trust in connection with property acquisitions. Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages.

The Trust leases various vehicles and machinery under non-cancellable finance lease agreements. The lease terms are between four and ten years.

	Note	External management contracts	Goodwill
As at January 1, 2012		\$ –	\$ –
Amounts recorded on acquisition of Whiterock	6	16,512	62,058
Amounts allocated to discontinued operations	20	(2,053)	(8,064)
Write-off on termination of contracts	22	(1,255)	–
Derecognition of goodwill due to properties disposed		–	(1,369)
Reclassified to assets held for sale		–	(254)
Amortization of external management contracts – discontinued operations		(125)	–
Amortization of external management contracts – continuing operations		(1,196)	–
As at December 31, 2012		\$ 11,883	\$ 52,371

As a result of the disposition of the industrial properties portfolio, goodwill of \$8,064 and property management contracts of \$2,053 were allocated to the disposal group and included in the determination of the net gain on sale (see Note 20). Goodwill amounting to \$1,369 was further derecognized as a result of other properties disposed in the year and \$254 was reclassified to assets held for sale. In connection with the acquisition of the co-owner's interest in the Trans America Group properties, the external management contracts for these properties were terminated, resulting in the write-off of the intangible asset of \$1,255 (see Note 22).

Note 12

Promissory notes receivable

	December 31, 2012	December 31, 2011
Promissory notes receivable	\$ 42,000	\$ –

On October 4, 2012, the Trust entered into promissory notes receivable from a subsidiary of Dundee Industrial totalling \$42,000. The promissory notes receivable bear interest at 3.1% and are due on the later of (i) the date of closing and funding of the last of the outstanding financing currently being assessed by Dundee Industrial and (ii) January 2, 2013. Dundee Industrial has the option to prepay all or a portion of the promissory notes payable prior to the maturity date. On January 10, 2013, the promissory notes receivable and accrued interest were fully repaid by Dundee Industrial.

Note 13**Amounts receivable**

Amounts receivable are net of credit adjustments aggregating \$7,010 (December 31, 2011 – \$4,842).

	December 31, 2012	December 31, 2011
Trade receivables	\$ 12,772	\$ 8,791
Less: Provision for impairment of trade receivables	(1,993)	(955)
Trade receivables, net	10,779	7,836
Other amounts receivable	20,327	5,782
	\$ 31,106	\$ 13,618

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

	Years ended December 31,	
	2012	2011
As at January 1	\$ 955	\$ 547
Provision for impairment of trade receivables	1,424	657
Receivables written off during the year as uncollectible	(386)	(249)
As at December 31	\$ 1,993	\$ 955

The carrying value of amounts receivable approximates fair value due to their current nature. As at December 31, 2012, trade receivables of approximately \$7,161 (December 31, 2011 – \$1,139) were past due but not considered impaired as the Trust has ongoing relationships with these tenants and the aging of these trade receivables is not indicative of expected default.

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

	December 31, 2012
2013	\$ 320,316
2014 to 2017	905,422
2018 to 2031	349,437
	\$ 1,575,175

Note 14**Debt**

	December 31, 2012	December 31, 2011
Mortgages ⁽¹⁾	\$ 2,441,663	\$ 1,805,571
Term debt	248	504
Demand revolving credit facilities ⁽¹⁾	67,557	2,435
Term loan facility ⁽¹⁾	180,837	184,654
Convertible debentures	52,092	131,353
Debentures	36,029	–
Total	2,778,426	2,124,517
Less: Current portion	308,089	166,979
Non-current debt	\$ 2,470,337	\$ 1,957,538

⁽¹⁾ Secured by charges on specific investment properties (refer to Note 8).

Convertible debentures

	Carrying value	
	December 31, 2012	December 31, 2011
6.5% Debentures	\$ -	\$ 2,802
5.7% Debentures	-	7,497
6.0% Debentures	-	121,054
5.5% Series H Debentures	52,092	-
	\$ 52,092	\$ 131,353

	Date issued	Maturity date	Original principal issued	Interest rate	Outstanding principal amount	
					December 31, 2012	December 31, 2011
6.5% Debentures	June 21, 2004	June 30, 2014	\$ 75,000	6.5%	\$ -	\$ 2,916
5.7% Debentures	April 1, 2005	March 31, 2015	100,000	5.7%	-	7,539
6.0% Debentures	January 14, 2008	December 31, 2014	125,000	6.0%	-	124,965
5.5% Series H Debentures	December 9, 2011	March 31, 2017	51,650	5.5%	51,128	-
			\$ 351,650		\$ 51,128	\$ 135,420

6.5% Debentures

Each 6.5% Debenture is convertible at any time by the debenture holder into 40 REIT A Units per one thousand dollars of face value, representing a conversion price of \$25.00 per unit. On or after June 30, 2010, the 6.5% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. Interest on the 6.5% Debentures is payable semi-annually on June 30 and December 31. On December 31, 2012, the remaining principal was redeemed.

5.7% Debentures

Each 5.7% Debenture is convertible at any time by the debenture holder into 33.33333 REIT A Units per one thousand dollars of face value, representing a conversion price of \$30.00 per unit. On or after March 31, 2011, the 5.7% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. Interest on the 5.7% Debentures is payable semi-annually on March 31 and September 30. On December 31, 2012, the remaining principal was redeemed.

6.0% Debentures

Each 6.0% Debenture is convertible at any time by the debenture holder into 24.15459 REIT A Units per one thousand dollars of face value, representing a conversion price of \$41.40 per unit. On or after December 31, 2010, and prior to December 31, 2012, the 6.0% Debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, provided the weighted average trading price for the Trust's units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On or after December 31, 2012, the 6.0% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. Interest on the 6.0% Debentures is payable semi-annually on June 30 and December 31. On December 31, 2012, the remaining principal was redeemed.

In connection with the acquisition of Whiterock, Dundee REIT assumed the principal amount outstanding under each of the Whiterock Series F, G and H Convertible Debentures.

6.0% Series F Debentures

The Series F Debentures are convertible at the request of the holder after July 15, 2009, subject to certain terms and conditions, into 35.77156 REIT A Units per one thousand dollars of face value, representing a conversion price of \$27.96 per unit. The Series F Debentures are redeemable at the option of the Trust at 115% of the principal amount, subject to certain terms and conditions. Interest on the Series F Debentures is payable quarterly on the 15th day of January, April, July and October. On July 15, 2012, the Series F Debentures matured and were repaid.

7.0% Series G Debentures

The Series G Debentures are convertible at the request of the holder, subject to certain terms and conditions, into 54.43972 REIT A Units per one thousand dollars of face value, representing a conversion price of \$18.37 per unit. The Series G Debentures are redeemable at the Trust's option at the principal amount, subject to certain terms and conditions, from December 31, 2012 and, prior to December 31, 2013, provided the 20-day weighted average trading price of the units is at least \$22.97 and, after December 31, 2013, at their principal amount. Interest on the Series G Debentures is payable semi-annually on June 30 and December 31. On December 31, 2012, the remaining principal was redeemed.

5.5% Series H Debentures

The Series H Debentures are convertible at the request of the holder, subject to certain terms and conditions, into 27.25648 REIT A Units per one thousand dollars of face value, representing a conversion price of \$36.69 per unit. The Series H Debentures are redeemable at the principal amount at the Trust's option, subject to certain terms and conditions, from March 31, 2015 and, prior to March 31, 2016, provided the 20-day weighted average trading price of the units is at least \$45.87 and, on and after March 31, 2016, at their principal amount. Interest on the Series H Debentures is payable semi-annually on March 31 and September 30.

Principal redemptions

On December 31, 2012 (the "Redemption Date"), the Trust completed the redemption of its remaining 6.5% Debentures, 5.7% Debentures, 6.0% Debentures and 7.0% Series G Debentures (the "Redeemed Debentures"), in accordance with the provisions of the indentures and supplemental indentures related to the Redeemed Debentures. The redemption price was paid in cash and was equal to the aggregate of (i) \$1 for each \$1 principal amount of Redeemed Debentures issued and outstanding on the Redemption Date and (ii) all accrued and unpaid interest on the Redeemed Debentures up to but excluding the Redemption Date. Debt settlement costs incurred are described in Note 22.

Details of the convertible debentures redeemed on December 31, 2012, are as follows:

	Interest rate	Principal redeemed
6.5% Debentures	6.5%	\$ 452
5.7% Debentures	5.7%	1,139
6.0% Debentures	6.0%	124,785
7.0% Series G Debentures	7.0%	118
	6.0%	\$ 126,494

Debentures

In connection with the acquisition of Whiterock, Dundee REIT assumed the Whiterock Series K and Series L Debentures. The principal amount outstanding and the carrying value for each series are as follows:

	Date issued	Maturity date	Original principal issued	Interest rate	December 31, 2012	
					Outstanding principal	Carrying value
Series K Debentures	April 26, 2011	April 26, 2016	\$ 35,000	5.95%	\$ 25,000	\$ 25,741
Series L Debentures	August 8, 2011	September 30, 2016	10,000	5.95%	10,000	10,288
			\$ 45,000		\$ 35,000	\$ 36,029

Series K and Series L Debentures

The Series K and Series L Debentures are redeemable at the Trust's option, subject to certain terms and conditions. Interest is payable monthly.

Demand revolving credit facilities

On March 2, 2012, the Trust entered into a \$10,000 equity bridge facility and a \$210,000 secured term facility. The equity bridge facility was in the form of rolling one-month bankers' acceptances ("BAs") bearing interest at the BA rate plus 2.35%. The secured term facility was in the form of rolling one-month BAs, bearing interest at the BA rate plus 1.75%. The equity bridge facility was fully repaid on April 5, 2012. The secured term facility was converted into a revolving credit facility on April 17, 2012, and matures on March 5, 2013. The revolving credit facility is in the form of rolling one-month BAs bearing interest at the BA rate plus 1.75% or at the bank's prime rate (3.0% at December 31, 2012) plus 0.75%, and is secured by nine properties as first-ranking mortgages. The facility is available up to a formula-based maximum not to exceed \$171,535. As at December 31, 2012, the formula-based amount available under this facility was \$117,535. At December 31, 2012, \$54,000 was drawn on the facility.

A demand revolving credit facility is available up to a formula-based maximum not to exceed \$40,000, bearing interest generally at the bank's prime rate (3.0% as at December 31, 2012) plus 1.5% or at bankers' acceptance rates plus 3.0%. This facility is secured by a first-ranking collateral mortgage on two properties and a second-ranking collateral mortgage on one property. The facility expires on April 30, 2013. As at December 31, 2012, the formula-based amount available under this facility was \$26,323, less \$1,626 in the form of letters of guarantee (December 31, 2011 – \$36,075 less \$3,975 drawn). As at December 31, 2012, \$13,677 was drawn on the facility.

Through an acquisition in 2011, the Trust assumed a demand revolving credit facility with a formula-based maximum not to exceed \$22,000, bearing interest generally at the bank's prime rate (3.0% as at December 31, 2012) plus 0.85%. In the third quarter of 2011, the Trust negotiated an increase in the facility to a maximum of \$35,000. The facility is secured by a second-ranking collateral mortgage on two properties and expires on April 30, 2013. As at December 31, 2012, the formula-based amount available under the facility was \$35,000, less \$2,031 in the form of letters of guarantee. As at December 31, 2012, nothing was drawn from the facility.

In addition, pursuant to the acquisition of Whiterock, the Trust assumed a revolving acquisition and operating facility of up to \$35,000. The facility can be increased by up to an additional \$20,000. Interest is borne generally at the bank's prime rate (3.0% as at December 31, 2012) plus 0.85% or bankers' acceptance rates plus 1.85%. The facility is secured by a first-ranking collateral mortgage on one property and a second-ranking collateral mortgage on one property and the guarantee of the Trust. The facility expires on August 23, 2013. As at December 31, 2012, the amount available under the facility was \$35,000, less \$300 in the form of letters of guarantee. As at December 31, 2012, nothing was drawn from the facility.

Term loan facility

On August 15, 2011, the Trust entered into a term loan facility for \$188,000 in the form of rolling one-month bankers' acceptances. The term loan facility bears interest at BA rates plus 1.85% payable monthly. The term loan facility is secured by first-ranking collateral mortgages on eight properties. On August 15, 2012, the Trust repaid \$4,547 on the term loan facility as one of the properties securing the facility was sold. As at December 31, 2012, \$183,453 was outstanding on the term loan facility. The term loan facility expires on August 15, 2016.

On August 15, 2011, the Trust entered into interest rate swap agreements to modify the interest rate profile of the current variable rate debt on the \$188,000 term loan facility, without an exchange of the underlying principal amounts. On December 31, 2012, the notional amount of interest rate swaps hedged against the term loan facility was \$183,453. The Trust has applied hedge accounting to this relationship, whereby the change in fair value of the effective portion of the hedging derivative is recognized in other comprehensive income (loss). Settlement of both the fixed and variable portions of the interest rate swaps occurs on a monthly basis.

Debt weighted average effective interest rates and maturity

	Weighted average effective interest rates ⁽¹⁾			Debt amount	
	December 31, 2012	December 31, 2011	Maturity dates	December 31, 2012	December 31, 2011
Fixed rate					
Mortgages	4.56%	4.95%	2013–2028	\$ 2,392,766	\$ 1,805,571
Term debt	7.83%	7.58%	2013	248	504
Term loan facility ⁽²⁾	3.83%	3.83%	2016	180,837	184,654
Convertible debentures	3.80%	7.03%	2017	52,092	131,353
Debentures	5.02%	–	2016	36,029	–
Total fixed rate debt	4.50%	4.98%		2,661,972	2,122,082
Variable rate					
Mortgages	4.26%	–	2013–2015	48,897	–
Demand revolving credit facilities	3.90%	4.50%	2013	67,557	2,435
Total variable rate debt	4.05%	4.50%		116,454	2,435
Total debt	4.48%	4.98%		\$ 2,778,426	\$ 2,124,517

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

(2) Under a hedging arrangement, the Trust has entered into two interest rate swaps to fix the interest rate of the term loan facility: a five-year interest rate swap on a notional balance of \$129,783, fixing interest at a bankers' acceptance rate of 1.67% plus a spread of 185 bps, and a three-year interest rate swap on a notional balance of \$53,670, fixing interest at a bankers' acceptance rate of 1.18% plus a spread of 185 bps. The effective interest rate on the term loan facility is 3.83% after accounting for financing costs.

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Term debt	Demand revolving credit facilities	Term loan facility	Convertible debentures	Debentures	Total
2013	\$ 240,164	\$ 248	\$ 67,677	\$ –	\$ –	\$ –	\$ 308,089
2014	153,937	–	–	–	–	–	153,937
2015	467,352	–	–	–	–	–	467,352
2016	333,765	–	–	183,453	–	35,000	552,218
2017	318,050	–	–	–	51,128	–	369,178
2018 and thereafter	916,742	–	–	–	–	–	916,742
	2,430,010	248	67,677	183,453	51,128	35,000	2,767,516
Financing costs	(7,905)	–	(120)	(2,616)	–	–	(10,641)
Fair value adjustments	19,558	–	–	–	964	1,029	21,551
	11,653	–	(120)	(2,616)	964	1,029	10,910
	\$ 2,441,663	\$ 248	\$ 67,557	\$ 180,837	\$ 52,092	\$ 36,029	\$ 2,778,426

Other financial instruments

The Trust has other financial instruments as follows:

	December 31, 2012	December 31, 2011
Fair value of interest rate swaps	\$ 375	\$ 1,602
Conversion feature on the convertible debentures	1,397	6,426
Other financial instruments – liability	\$ 1,772	\$ 8,028

Interest rate swaps

The following table summarizes the details of the interest rate swaps that are outstanding as at December 31, 2012:

Transaction date	Term loan facility principal amount (notional)	Fixed interest rate	Maturity date	Financial instrument classification	Fair value
August 15, 2011	\$ 129,783	3.52%	August 15, 2016	Cash flow hedge	\$ 549
August 15, 2011	53,670	3.03%	August 15, 2014	Cash flow hedge	(174)
Non-current debt	\$ 183,453	3.38%			\$ 375

For those interest rate swaps designated as cash flow hedges, the Trust has assessed that there is no ineffectiveness in the hedges of its interest rate exposure. The effectiveness of the hedging relationship is reviewed on a quarterly basis. As an effective hedge, unrealized gains or losses on the interest rate swap agreements are recognized in other comprehensive income (loss). As at December 31, 2012, the aggregate fair value of the interest rate swaps amounted to a \$375 financial liability (December 31, 2011 – \$1,602 financial liability). The associated unrealized gains or losses that are recognized in other comprehensive income (loss) will be reclassified into net income in the same period or periods during which the interest payments on the hedged item affect net income.

Conversion feature on the convertible debentures

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

	Note	Years ended December 31,	
		2012	2011
As at January 1		\$ 6,426	\$ 6,491
Assumed from business combination		3,363	–
Reduction of conversion feature on the debentures converted during the year		(5,674)	(302)
Remeasurement of conversion feature	23	(2,718)	237
Ending balance as at December 31		\$ 1,397	\$ 6,426

Note 15

Subsidiary redeemable units

The Trust has the following subsidiary redeemable units outstanding:

	Note	Year ended December 31, 2012		Year ended December 31, 2011	
		Number of units issued and outstanding	Amount	Number of units issued and outstanding	Amount
Opening balance, January 1		3,506,107	\$ 114,445	3,481,733	\$ 105,148
Distribution Reinvestment Plan		22,551	826	24,374	771
Remeasurement of carrying value	23	–	16,807	–	8,526
Ending balance		3,528,658	\$ 132,078	3,506,107	\$ 114,445

During the year ended December 31, 2012, the Trust incurred \$7,758 (December 31, 2011 – \$7,704) in distributions on the subsidiary redeemable units, which is included as interest expense in comprehensive income (see Note 21).

DPLP, a subsidiary of Dundee REIT, is authorized to issue an unlimited number of LP Class B limited partnership units. These units have been issued in two series: subsidiary redeemable units and LP Class B Units, Series 2. The subsidiary redeemable units, together with the accompanying Special Trust Units, have economic and voting rights equivalent in all material respects to the REIT A Units. Generally, each subsidiary redeemable unit entitles the holder to a distribution equal to distributions declared on REIT Units, Series B, or if no such distribution is declared, on REIT Units, Series A. Subsidiary redeemable units may be surrendered or indirectly exchanged on a one-for-one basis at the option of the holder, generally at any time, subject to certain restrictions, for REIT Units, Series B.

Holders of the LP Class B Units, Series 2 are entitled to vote at meetings of the limited partners of DPLP and each Unit entitles the holder to a distribution equal to distributions on the subsidiary redeemable units. As at December 31, 2012, and December 31, 2011, all issued and outstanding LP Class B Units, Series 2 are owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

Special Trust Units are issued in connection with subsidiary redeemable units. The Special Trust Units are not transferable separately from the subsidiary redeemable units to which they relate and will be automatically redeemed for a nominal amount and cancelled on surrender or exchange of such subsidiary redeemable units. Each Special Trust Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT B Units that may be obtained on the surrender or exchange of the subsidiary redeemable units to which they relate. As at December 31, 2012, 3,528,658 Special Trust Units were issued and outstanding (December 31, 2011 – 3,506,107).

Note 16

Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan ("DUIP") provides for the grant of deferred trust units to trustees, officers and employees as well as affiliates and their service providers, including the asset manager. Deferred trust units are granted at the discretion of the trustees and earn income deferred trust units based on the payment of distributions. Once issued, each deferred trust unit and the related distribution of income deferred trust units vest evenly over a three- or five-year period on the anniversary date of the grant. Subject to an election option available for certain participants to postpone receipt of REIT A Units, such units will be issued immediately on vesting. As at December 31, 2012, up to a maximum of 1.75 million (December 31, 2011 – 1.00 million) deferred trust units are issuable under the DUIP.

The movement in the DUIP balance was as follows:

	Note	
As at January 1, 2011		\$ 8,301
Compensation during the year		3,403
REIT A Units issued for vested units		(1,035)
Remeasurements of carrying value	23	2,302
As at December 31, 2011		12,971
Compensation during the year		4,160
REIT A Units issued for vested units		(876)
Remeasurements of carrying value	23	2,499
As at December 31, 2012		\$ 18,754

During the year ended December 31, 2012, \$4,160 of compensation expense was recorded (December 31, 2011 – \$3,403) and included in general and administrative expenses. For the same period, \$2,499 (December 31, 2011 – \$2,302) was recognized in fair value adjustments to financial instruments representing the remeasurement of the DUIP liability during the year.

	Deferred trust units	Income deferred trust units	Total units
Outstanding at January 1, 2011	300,447	74,151	374,598
Granted during the year	113,791	33,670	147,461
REIT A Units issued	(25,383)	(6,995)	(32,378)
Fractional units paid in cash	–	(13)	(13)
Outstanding at December 31, 2011	388,855	100,813	489,668
Granted during the year	125,391	30,077	155,468
REIT A Units issued	(21,204)	(4,086)	(25,290)
Fractional units paid in cash	–	(21)	(21)
Outstanding and payable at December 31, 2012	493,042	126,783	619,825
Vested but not issued at December 31, 2012	175,259	73,932	249,191

On February 23, 2012, 114,100 deferred trust units were granted to trustees and senior managers. Of the units granted, 29,000 relate to key management personnel. The grant date value of these deferred trust units was \$34.54 per unit granted. On June 25, 2012, an additional 11,291 deferred trust units were granted to trustees who elected to receive their 2012 annual retainer in the form of deferred trust units rather than cash. The grant date value of these deferred trust units was \$37.64.

On March 4, 2011, 100,500 deferred trust units were granted to trustees and senior managers. Of the units granted, 27,000 relate to key management personnel. A further 13,291 deferred trust units were granted to trustees who elected to receive their 2011 annual retainer in the form of deferred trust units rather than cash. The grant date value of these deferred trust units was \$31.60.

Note 17**Amounts payable and accrued liabilities**

	December 31, 2012	December 31, 2011
Trade payables	\$ 6,571	\$ 6,451
Accrued liabilities and other payables	51,905	46,155
Accrued interest	10,858	8,157
Rent received in advance	7,562	2,376
Total	\$ 76,896	\$ 63,139

Note 18**Distributions**

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

	REIT Units, Series A	REIT Units, Series B	2012	Total 2011
Paid in cash	\$ 147,565	\$ 36	\$ 147,601	\$ 98,753
Paid by way of reinvestment in REIT A Units	44,127	-	44,127	21,857
Less: Payable at December 31, 2011 (December 31, 2010)	(12,189)	(3)	(12,192)	(8,433)
Plus: Payable at December 31, 2012 (December 31, 2011)	18,053	3	18,056	12,192
Total	\$ 197,556	\$ 36	\$ 197,592	\$ 124,369

On December 18, 2012, the Trust announced a cash distribution of \$0.183 per REIT A Unit for the month of December 2012, totalling \$17,980. The amount payable at December 31, 2012, was satisfied on January 15, 2013, by \$14,962 in cash and \$3,018 in connection with the issuance of 80,912 REIT A Units.

On January 21, 2013, the Trust announced a cash distribution of \$0.183 per REIT A Unit for the month of January 2013. The January 2013 distribution will be payable on February 15, 2013, to unitholders of record as at January 31, 2013.

Dundee REIT's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15th day of the following month. The amount of the annualized distribution to be paid is based on a percentage of distributable income. Distributable income is defined in the Declaration of Trust and the percentage is determined by the trustees, at their sole discretion, based on what they consider appropriate given the circumstances of the Trust. Distributions may be adjusted for amounts paid in prior periods if the actual distributable income for those prior periods is greater or lesser than the estimates used for those prior periods. In addition, the trustees may declare distributions out of the income, net realized capital gains, net recapture income and capital of the Trust, to the extent such amounts have not already been paid, allocated or distributed. Distributable income is not a measure defined by IFRS and therefore may not be comparable to similar measures presented by other real estate investment trusts. The Trust declared distributions of \$0.183 per unit per month, or \$2.20 per unit per year during 2012 and 2011.

Note 19**Equity**

	December 31, 2012		December 31, 2011	
	Number of units	Amount	Number of units	Amount
REIT Units, Series A	97,618,625	\$ 3,295,983	66,193,060	\$ 2,118,116
REIT Units, Series B	16,316	713	16,316	720
Accumulated other comprehensive loss	-	(297)	-	(1,602)
Total	97,634,941	\$ 3,296,399	66,209,376	\$ 2,117,234

Dundee REIT Units

Dundee REIT is authorized to issue an unlimited number of REIT Units and an unlimited number of Special Trust Units. The REIT Units are divided into and issuable in two series: REIT Units, Series A and REIT Units, Series B. The Special Trust Units may only be issued to holders of subsidiary redeemable units.

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

	REIT Units, Series A		REIT Units, Series B		Accumulated other comprehensive income (loss)	Total	
	Number of units	Amount	Number of units	Amount		Number of units	Amount
Equity, January 1, 2012	66,193,060	\$ 2,118,116	16,316	\$ 720	\$ (1,602)	66,209,376	\$ 2,117,234
Net income for the year	–	291,044	–	29	–	–	291,073
Distributions paid	–	(179,503)	–	(33)	–	–	(179,536)
Distributions payable	–	(18,053)	–	(3)	–	–	(18,056)
Public offering of REIT A Units	16,947,550	604,812	–	–	–	16,947,550	604,812
Units issued for Whiterock transaction	12,580,347	434,777	–	–	–	12,580,347	434,777
Distribution Reinvestment Plan	1,200,028	44,127	–	–	–	1,200,028	44,127
Unit Purchase Plan	15,296	578	–	–	–	15,296	578
Deferred units exchanged for REIT A Units	25,290	876	–	–	–	25,290	876
Conversion of debentures	657,054	17,498 ⁽¹⁾	–	–	–	657,054	17,498
Conversion feature on debentures	–	5,674	–	–	–	–	5,674
Issue costs	–	(23,963)	–	–	–	–	(23,963)
Other comprehensive income	–	–	–	–	1,305	–	1,305
Equity, December 31, 2012	97,618,625	\$ 3,295,983	16,316	\$ 713	\$ (297)	97,634,941	\$ 3,296,399

⁽¹⁾ Amount represents carrying value of debentures on conversion.

	REIT Units, Series A		REIT Units, Series B		Accumulated other comprehensive loss	Total	
	Number of units	Amount	Number of units	Amount		Number of units	Amount
Equity, January 1, 2011	45,896,203	\$ 1,214,604	16,316	\$ 456	\$ –	45,912,519	\$ 1,215,060
Net income for the year	–	400,620	–	300	–	–	400,920
Distributions paid	–	(112,144)	–	(33)	–	–	(112,177)
Distributions payable	–	(12,189)	–	(3)	–	–	(12,192)
Public offering of REIT A Units	19,538,500	629,434	–	–	–	19,538,500	629,434
Distribution Reinvestment Plan	688,502	21,857	–	–	–	688,502	21,857
Unit Purchase Plan	11,222	359	–	–	–	11,222	359
Deferred units exchanged for REIT A Units	32,376	1,035	–	–	–	32,376	1,035
Conversion of debentures	26,257	701	–	–	–	26,257	701
Conversion feature on debentures	–	302	–	–	–	–	302
Issue costs	–	(26,463)	–	–	–	–	(26,463)
Other comprehensive loss	–	–	–	–	(1,602)	–	(1,602)
Equity, December 31, 2011	66,193,060	\$ 2,118,116	16,316	\$ 720	\$ (1,602)	66,209,376	\$ 2,117,234

Public offering of REIT A Units

On June 12, 2012, the Trust completed a public offering of 10,392,550 REIT A Units, at a price of \$35.90 per unit for gross proceeds of \$373,093. Costs related to the offering totalled \$14,564 and were charged directly to unitholders' equity. The offering includes 390,000 REIT A Units purchased by Dundee Corporation and 278,600 REIT A Units purchased by Michael Cooper, Vice Chairman and Chief Executive Officer of the Trust, in each case at the public offering price.

On March 28, 2012, the Trust completed a public offering of 6,555,000 REIT A Units, including an over-allotment option, at a price of \$35.35 per unit for gross proceeds of \$231,719. Costs related to the offering totalled \$9,353 and were charged directly to unitholders' equity. The offering includes 364,800 REIT A Units purchased by Dundee Corporation at the public offering price.

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 \$143,870. Costs related to the offering totalled \$6,355 and were charged directly to unitholders' equity.

On August 15, 2011, the Trust completed a public offering of 5,037,000 REIT A Units at a price of \$32.40 per unit for gross proceeds of \$163,199. Costs related to the offering totalled \$6,600 and were charged directly to unitholders' equity. The offering includes 407,000 REIT A Units purchased by Dundee Corporation pursuant to the exercise of its pre-emptive right under the Trust'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 \$155,178. 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 \$23,277. Costs related to the offering totalled \$7,138 and were charged directly to unitholders' equity. The offering includes 356,000 REIT A Units purchased by Dundee Corporation at the public offering price.

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 \$143,910. Costs related to the offering totalled \$6,258 and were charged directly to unitholders' equity.

Units issued for Whiterock transaction

Pursuant to the acquisition of Whiterock on March 2, 2012, the Trust issued 12,580,347 REIT A Units to Whiterock unitholders who elected to redeem their Whiterock units for units of Dundee REIT.

Distribution Reinvestment and Unit Purchase Plan

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

For the year ended December 31, 2012, 1,200,028 REIT A Units were issued under the DRIP for \$44,127 (December 31, 2011 – 688,502 REIT A Units for \$21,857).

The Unit Purchase Plan feature of the DRIP facilitates the purchase of additional REIT A Units by existing unitholders. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT A Units that may be acquired. The price per unit is calculated in the same manner as the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase features of the DRIP. For the year ended December 31, 2012, 15,296 REIT A Units were issued under the Unit Purchase Plan for \$578 (December 31, 2011 – 11,222 REIT A Units for \$359).

Debenture conversions

For the year ended December 31, 2012, the following REIT A Units were issued on the conversion of principal amounts of the convertible debentures.

	Years ended December 31,			
	2012		2011	
	REIT A Units issued	Principal amount	REIT A Units issued	Principal amount
6.5% Debentures	98,520	\$ 2,463	17,360	\$ 434
5.7% Debentures	213,311	6,400	8,897	267
6.0% Debentures	4,347	180	–	–
6.0% Series F Debentures	232,332	6,495	–	–
7.0% Series G Debentures	108,544	1,994	–	–
Total	657,054	\$ 17,532	26,257	\$ 701

Normal course issuer bid

The Trust renewed its normal course issuer bid, which commenced on December 2, 2011, and remained 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 had 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 Toronto Stock Exchange). No purchases had been made under the bid. On December 1, 2012, the normal course issuer bid expired and was not renewed.

Short form base shelf prospectus

On November 26, 2012, the Trust issued a short form base shelf prospectus, which is valid for a 25-month period, during which time the Trust may offer and issue, from time to time, units and debt securities convertible into or exchangeable for units of the Trust, or any combination thereof, with an aggregate offering price of up to \$2,000,000. As at December 31, 2012, no units and no debt securities have been issued under the short form base shelf prospectus.

Note 20

Discontinued operations and assets and related liabilities held for sale

Discontinued operations – industrial properties

On October 4, 2012, the Trust completed the sale of its entire industrial segment (77 industrial properties in total) to Dundee Industrial for a total sale price of approximately \$575,469 (including working capital adjustments). The sale price of the 77 industrial properties was satisfied by cash consideration of approximately \$136,267, the issuance of \$160,346 of limited partnership units of Dundee Industrial Limited Partnership (a subsidiary of Dundee Industrial), which are exchangeable for units of Dundee Industrial, promissory notes receivable from Dundee Industrial of \$42,000, offset by an amount due to Dundee Industrial of \$457 and the assumption of mortgages. The Trust is now discharged from all rights and obligations relating to the 77 industrial properties. As a result of the sale, the Trust recognized a net gain of \$1,147 in income from discontinued operations. The revenues and expenses are as follows:

	Years ended December 31,	
	2012	2011
Investment properties revenue	\$ 37,628	\$ 36,573
Investment properties operating expenses	9,517	8,565
Net rental income	28,111	28,008
Other income and expenses		
General and administrative	(970)	(968)
Fair value adjustments to investment properties	5,187	27,427
Gain on sale of investment properties	1,147	–
Acquisition related costs, net	(2)	(46)
Interest on debt	(8,448)	(8,611)
Depreciation and amortization	(127)	–
Interest and fee income	1	–
Income	\$ 24,899	\$ 45,810

	Years ended December 31,	
	2012	2011
Cash flow generated from (utilized in):		
Operating activities	\$ 9,591	\$ (11,419)
Investing activities	78,493	(42,930)
Financing activities	(88,159)	54,424
Increase (decrease) in cash and cash equivalents	\$ (75)	\$ 75

Assets and related liabilities held for sale

As at December 31, 2012, the Trust classified three retail buildings as held for sale. At December 31, 2012, management had committed to a plan of sale, and therefore the properties have been reclassified as non-current assets held for sale.

	December 31, 2012	December 31, 2011
Investment properties	\$ 20,295	\$ 7,700
Other non-current assets	249	–
Amounts receivable	–	3
Prepaid expenses	3	4
Assets held for sale	20,547	7,707
Debt	(9,200)	(16)
Deposits	(17)	–
Accounts payable and accrued liabilities	(51)	(6)
Liabilities held for sale	(9,268)	(22)
Net assets	\$ 11,279	\$ 7,685

Investment properties held for sale

	Note	Years ended December 31,	
		2012	2011
Balance at beginning of year		\$ 7,700	\$ –
Additions:			
Investment properties reclassified as held for sale	8	111,952	7,700
Investment properties disposed of during the year		(99,357)	–
Balance at end of year		\$ 20,295	\$ 7,700

For the year ended December 31, 2012, the following dispositions were completed:

Year ended December 31, 2012	Property type	Disposed GLA (sq. ft.)	Gross proceeds ⁽¹⁾	Mortgages/ term loan discharged	Net gain (loss) on sale	Date disposed
ARAM Building, Calgary	office	36,428	\$ 7,700	\$ –	\$ (314) ⁽²⁾	February 2, 2012
West Chambers, Edmonton	office	92,560	24,200	6,786	(849) ⁽²⁾	August 15, 2012
4250 Albert Street, Regina	retail	41,238	9,600	5,126	(11) ⁽²⁾	August 15, 2012
885 Don Mills Road, Toronto	office	59,449	8,975	4,547	1,770	August 30, 2012
12804 137th Avenue, Edmonton	retail	54,514	18,900	12,633	(653) ⁽²⁾	September 14, 2012
Bisma Centre, Calgary	office	27,496	9,200	–	2,054	September 19, 2012
998 Parkland Drive, Halifax	retail	33,857	7,170	4,624	67	October 4, 2012
193 Malpeque Road, Charlottetown	retail	41,573	5,100	–	(43) ⁽²⁾	October 4, 2012
655 University Avenue, Charlottetown	retail	26,043	3,800	2,357	25	October 4, 2012
7102–7220 Barlow Trail SE, Calgary	industrial	234,676	10,150	–	(516) ⁽²⁾	November 30, 2012
Total		647,834	\$ 104,795	\$ 36,073	\$ 1,530	

⁽¹⁾ Gross proceeds before transaction costs.

⁽²⁾ Loss on sale recognized is related to transaction costs and write-off of goodwill.

There were no dispositions for the year ended December 31, 2011.

Note 21

Interest

Interest on debt

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

	Years ended December 31,	
	2012	2011
Interest expense incurred, at contractual and hedged rate of debt	\$ 129,310	\$ 80,410
Amortization of financing costs	3,280	2,000
Amortization of fair value adjustments on acquired debt	(7,396)	(1,811)
Interest capitalized to investment properties	(76)	(812)
Interest expense	125,118	79,787
Add/(deduct):		
Amortization of financing costs	(3,280)	(2,000)
Amortization of fair value adjustments on acquired debt	7,396	1,811
Cash interest paid for discontinued operations	8,844	8,587
Change in accrued interest	(2,998)	(2,761)
Interest capitalized to investment properties	76	812
Cash interest paid	\$ 135,156	\$ 86,236

Certain debt assumed in connection with acquisitions has been adjusted to fair value using the estimated market interest rate at the time of the acquisition ("fair value adjustment"). This fair value adjustment is amortized to interest expense over the expected life of the debt using the effective interest rate method. Interest capitalized includes interest on specified and general debt attributed to a property considered to be under redevelopment. Non-cash adjustments to interest expense are recorded as a change in non-cash working capital in the consolidated statement of cash flows.

Interest on subsidiary redeemable units

Interest payments charged to comprehensive income are recorded as follows:

	Years ended December 31,	
	2012	2011
Paid in cash	\$ 6,926	\$ 6,929
Paid by way of reinvestment in subsidiary redeemable units	828	771
Less: Interest payable at December 31, 2011 (December 31, 2010)	(644)	(640)
Plus: Interest payable at December 31, 2012 (December 31, 2011)	648	644
Total	\$ 7,758	\$ 7,704

The interest payable at December 31, 2012, was satisfied on January 15, 2013, by \$577 in cash, and \$71 in connection with the issue of 1,908 subsidiary redeemable units.

Note 22**Debt settlement and other costs, net**

Debt settlement costs include the difference between the carrying amount of mortgages payable that were settled during the year, including fair value adjustments written off on debt extinguishment of \$5,796, and the settlement amount, which included a \$5,626 prepayment penalty as well as the difference between the carrying amount of convertible debentures that were redeemed during the year and their principal amount.

Other costs consist of the write-off of the external management contracts associated with the Trust's acquisition of its co-owners' interest in the Trans America Group properties on October 4, 2012, which resulted in the termination of the external management contract for these properties.

	Years ended December 31,	
	2012	2011
Mortgage break fees	\$ 5,626	\$ —
Debt settlement costs incurred on redemption of convertible debentures	2,713	—
Fair value adjustments written off on debt extinguishment	(5,796)	—
Write-off of external management contracts	1,255	—
Total	\$ 3,798	\$ —

Note 23**Fair value adjustments to financial instruments**

	Note	Years ended December 31,	
		2012	2011
Remeasurement of conversion feature on convertible debentures	14	\$ 2,718	\$ (237)
Remeasurement of carrying value of subsidiary redeemable units	15	(16,807)	(8,526)
Remeasurement of deferred trust units	16	(2,499)	(2,302)
		\$ (16,588)	\$ (11,065)

Note 24**Income taxes**

The Trust is subject to taxation in the U.S. on the taxable income earned by its investment properties located in the U.S. A deferred tax liability arises from the temporary differences between the carrying value and the tax basis of the net assets of the U.S. properties. The tax effects of temporary differences arise from investment properties. The deferred tax liability as at December 31, 2012 is \$4,492 (December 31, 2011 – \$nil), which is calculated using the U.S. tax rate of 38.46%, on the temporary differences of approximately \$11,681 between the carrying value of net assets for accounting purposes and the amount used for the tax basis of the investment properties.

Note 25**Segmented information**

The Trust's investment properties have been segmented into office and industrial components. Investment properties classified as held for sale have been included in "Other" for segment disclosure. The Trust does not allocate interest expense to these segments since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, general and administrative expenses, interest and fee income, and fair value adjustments to financial instruments are not allocated to the segment expenses.

These segments include the Trust's proportionate share of its joint ventures. The column entitled "Reconciliation" adjusts the segmented results to account for these joint ventures using the equity method of accounting as applied in these consolidated financial statements.

The Trust completed the sale of 77 industrial properties on October 4, 2012. As a result, going forward, the Trust will no longer have an industrial segment.

Year ended December 31, 2012	Office	Industrial	Segment total	Other ⁽¹⁾	Subtotal	Reconciliation ⁽²⁾	Total
Operations							
Investment properties revenue	\$ 684,808	\$ 37,628	\$ 722,436	\$ 1,756	\$ 724,192	\$ (116,396)	\$ 607,796
Investment properties operating expenses	294,849	9,517	304,366	575	304,941	(45,692)	259,249
Net rental income from continuing operations	389,959	28,111	418,070	1,181	419,251	(70,704)	348,547
Share of net income from investment in joint ventures	-	-	-	-	-	(254)	(254)
Fair value adjustments to investment properties	82,587	5,187	87,774	(979)	86,795	18,777	105,572
Segment income (loss)	472,546	33,298	505,844	202	506,046	(52,181)	453,865
Other income and expenses							
General and administrative	-	-	-	(22,184)	(22,184)	1,052	(21,132)
Share of net income and dilution gain from investment in Dundee Industrial	-	-	-	1,568	1,568	-	1,568
Net gain on sale of investment properties	-	-	-	2,677	2,677	(1,147)	1,530
Acquisition related costs, net	-	-	-	(17,551)	(17,551)	2	(17,549)
Interest:							
Debt	-	-	-	(147,345)	(147,345)	22,227	(125,118)
Subsidiary redeemable units	-	-	-	(7,758)	(7,758)	-	(7,758)
Debt settlement and other costs, net	-	-	-	(3,798)	(3,798)	-	(3,798)
Depreciation and amortization	-	-	-	(2,173)	(2,173)	131	(2,042)
Interest and fee income	-	-	-	5,214	5,214	(169)	5,045
Fair value adjustments to financial instruments	-	-	-	(21,774)	(21,774)	5,186	(16,588)

Year ended December 31, 2012	Office	Industrial	Segment total	Other ⁽¹⁾	Subtotal	Reconciliation ⁽²⁾	Total
Income (loss) before income taxes and discontinued operations							
	\$ 472,546	\$ -	\$ 472,546	\$ (204,523)	\$ 268,023	\$ -	\$ 268,023
Deferred income taxes	-	-	-	1,849	1,849	-	1,849
Income (loss) from continuing operations	472,546	-	472,546	(206,372)	266,174	-	266,174
Income (loss) from discontinued operations	-	33,298	33,298	(8,399)	24,899	-	24,899
Net income (loss)	\$ 472,546	\$ 33,298	\$ 505,844	\$ (214,771)	\$ 291,073	\$ -	\$ 291,073

Capital expenditures

Year ended December 31, 2012	Office	Industrial	Segment total	Other ⁽¹⁾	Subtotal	Reconciliation ⁽³⁾	Total
Investment in building improvements	\$ (20,203)	\$ (101)	\$ (20,304)	\$ -	\$ (20,304)	\$ 105	\$ (20,199)
Investment in lease incentives and initial direct leasing costs	(23,979)	(956)	(24,935)	(95)	(25,030)	1,453	(23,577)
Investment in development projects	(1,945)	-	(1,945)	-	(1,945)	-	(1,945)
Acquisition of investment properties	(235,019)	-	(235,019)	-	(235,019)	-	(235,019)
Acquisition of Whiterock	(129,408)	(17,726)	(147,134)	-	(147,134)	-	(147,134)
Total capital expenditures	\$ (410,554)	\$ (18,783)	\$ (429,337)	\$ (95)	\$ (429,432)	\$ 1,558	\$ (427,874)

(1) Includes corporate amounts not specifically related to the segments and amounts for assets held for sale.

(2) Includes the Trust's proportionate share of its joint ventures, accounted for using the equity method of accounting and discontinued operations – industrial properties.

(3) Includes the Trust's proportionate share of its joint ventures, accounted for using the equity method of accounting.

Year ended December 31, 2011	Office	Industrial	Segment total	Other ⁽¹⁾	Subtotal	Reconciliation ⁽²⁾	Total
Operations							
Investment properties revenue	\$ 403,928	\$ 36,573	\$ 440,501	\$ 846	\$ 441,347	\$ (66,332)	\$ 375,015
Investment properties operating expenses	171,404	8,565	179,969	241	180,210	(21,261)	158,949
Net rental income from continuing operations	232,524	28,008	260,532	605	261,137	(45,071)	216,066
Share of net income from investment in joint ventures	-	-	-	-	-	49,728	49,728
Fair value adjustments to investment properties	242,442	27,427	269,869	1,087	270,956	(65,396)	205,560
Segment income (loss)	474,966	55,435	530,401	1,692	532,093	(60,739)	471,354
Other income and expenses							
General and administrative	-	-	-	(14,764)	(14,764)	968	(13,796)
Net loss on sale of investment properties	-	-	-	(103)	(103)	103	-
Acquisition related costs, net	-	-	-	(5,734)	(5,734)	46	(5,688)
Interest:							
Debt	-	-	-	(93,721)	(93,721)	13,934	(79,787)
Subsidiary redeemable units	-	-	-	(7,704)	(7,704)	-	(7,704)
Depreciation and amortization	-	-	-	(580)	(580)	-	(580)
Interest and fee income	-	-	-	2,498	2,498	(122)	2,376
Fair value adjustments to financial instruments	-	-	-	(11,065)	(11,065)	-	(11,065)

Year ended December 31, 2011	Office	Industrial	Segment total	Other ⁽¹⁾	Subtotal	Reconciliation ⁽²⁾	Total
Income (loss) from continuing operations	\$ 474,966	\$ -	\$ 474,966	\$ (119,856)	\$ 355,110	\$ -	\$ 355,110
Income (loss) from discontinued operations	-	55,435	55,435	(9,625)	45,810	-	45,810
Net income (loss)	\$ 474,966	\$ 55,435	\$ 530,401	\$ (129,481)	\$ 400,920	\$ -	\$ 400,920

Capital expenditures

Year ended December 31, 2011	Office	Industrial	Segment total	Other ⁽¹⁾	Subtotal	Reconciliation ⁽³⁾	Total
Investment in building improvements	\$ (7,795)	\$ (489)	\$ (8,284)	\$ -	\$ (8,284)	\$ 240	\$ (8,044)
Investment in lease incentives and initial direct leasing costs	(22,274)	(1,303)	(23,577)	13	(23,564)	428	(23,136)
Investment in development projects	(13,018)	(194)	(13,212)	(3)	(13,215)	-	(13,215)
Acquisition of investment properties	(1,005,115)	(9,591)	(1,014,706)	-	(1,014,706)	-	(1,014,706)
Acquisition of Realex	(139,923)	(14,457)	(154,380)	-	(154,380)	-	(154,380)
Total capital expenditures	\$(1,188,125)	\$ (26,034)	\$(1,214,159)	\$ 10	\$(1,214,149)	\$ 668	\$(1,213,481)

As at December 31, 2012	Office	Industrial	Segment total	Other ⁽¹⁾	Subtotal	Reconciliation ⁽³⁾	Total
Total assets	\$ 6,893,197	\$ -	\$ 6,893,197	\$ 20,547	\$ 6,913,744	\$ (560,756)	\$ 6,352,988
Total liabilities	\$ 3,608,077	\$ -	\$ 3,608,077	\$ 9,268	\$ 3,617,345	\$ (560,756)	\$ 3,056,589

As at December 31, 2011	Office	Industrial	Segment total	Other ⁽¹⁾	Subtotal	Reconciliation ⁽³⁾	Total
Total assets	\$ 4,109,812	\$ 363,725	\$ 4,473,537	\$ 126,915	\$ 4,600,452	\$ (133,985)	\$ 4,466,467
Total liabilities	\$ 1,835,004	\$ 166,917	\$ 2,001,921	\$ 481,297	\$ 2,483,218	\$ (133,985)	\$ 2,349,233

(1) Includes corporate amounts not specifically related to the segments and amounts for assets held for sale.

(2) Includes the Trust's proportionate share of its joint ventures, accounted for using the equity method of accounting and discontinued operations – industrial properties.

(3) Includes the Trust's proportionate share of its joint ventures, accounted for using the equity method of accounting.

Note 26

Related party transactions and arrangements

From time to time, Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Dundee REIT, Dundee Management Limited Partnership (a wholly owned subsidiary of DPLP) and DRC are parties to an administrative services agreement (the "Services Agreement") that is in effect until June 30, 2013. Effective August 24, 2007, Dundee REIT also has an asset management agreement (the "Asset Management Agreement") with DRC pursuant to which DRC provides certain asset management services to Dundee REIT and its subsidiaries.

Asset Management Agreement

The Asset Management Agreement provides for a broad range of asset management services for the following fees:

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

Related party transactions

The portion of fees received from or paid to related parties, including both continuing and discontinued operations, were as follows:

	Years ended December 31,	
	2012	2011
Fees received		
Fees received from DRC – related to cost recoveries under the Services Agreement	\$ 3,386	\$ 2,733
Operating and administration costs of regional offices recovered from DRC (included in investment property operating expenses of the Trust)	13,287	6,790
Fees paid		
Fees paid by Dundee REIT under the Asset Management Agreement included in:		
General and administrative expenses	\$ 14,946	\$ 9,144
Acquisition related costs	7,236	1,867
Property acquisitions	6,963	5,988
Financing costs reported in debt	694	–
Amounts capitalized to properties under development	69	612
Total fees paid under the Asset Management Agreement	\$ 29,908	\$ 17,611
Amounts paid to DRC (reported in general and administrative expenses)	\$ 300	\$ –
Amounts paid to DRC (reported in investment property and operating expenses of the Trust)	\$ 1,103	\$ 223

Included in amounts receivable at December 31, 2012, is \$1,532 (December 31, 2011 – \$368) related to the Services Agreement and \$3,267 (December 31, 2011 – \$841) related to additional services provided by DRC. Amounts payable and accrued liabilities at December 31, 2012, include \$4,129 related to the Asset Management Agreement (December 31, 2011 – \$868).

Also included in amounts payable and accrued liabilities at December 31, 2012 is a net amount due to Dundee Industrial of \$41 for acquisition related costs and issuance costs related to the initial public offering, paid by Dundee REIT on behalf of Dundee Industrial offset by working capital and post-closing adjustments as a result of the disposition of the industrial properties.

The Trust entered into promissory notes receivable with a subsidiary of Dundee Industrial totalling \$42,000 (see Note 12). Furthermore, included in amounts receivable is a distribution receivable from Dundee Industrial of \$938 related to the cash distribution of \$0.05625 per Dundee Industrial REIT Unit, for the month of December 2012 and interest receivable on the promissory notes receivable in the amount of \$317.

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

	Years ended December 31,	
	2012	2011
Unit-based awards ⁽¹⁾	\$ 998	\$ 853

⁽¹⁾ Deferred trust units granted vest over a five-year period with one-fifth of the deferred trust units vesting each year. Amounts are determined based on the grant date fair value of deferred trust units multiplied by the number of deferred trust units granted in the year.

Note 27

Supplementary cash flow information

	Years ended December 31,	
	2012	2011
(Increase) decrease in amounts receivable	\$ (12,269)	\$ 239
Decrease (increase) in prepaid expenses	2,700	(8,661)
Increase in other non-current assets	(4,498)	(505)
Decrease in amounts payable and accrued liabilities	(31,509)	(10,165)
Increase in tenant deposits	1,502	6,151
Change in non-cash working capital	\$ (44,074)	\$ (12,941)

The following amounts were paid on account of interest:

	Years ended December 31,	
	2012	2011
Interest:		
Debt	\$ 135,156	\$ 86,236
Subsidiary redeemable units	6,926	6,929

Note 28

Supplemental other comprehensive income (loss) information

	Years ended December 31,					
	2012			2011		
	Opening balance January 1	Net change during the year	Closing balance December 31	Opening balance January 1	Net change during the year	Closing balance December 31
Unrealized gain (loss) on interest rate swap agreements	\$ (1,602)	\$ 1,227	\$ (375)	\$ –	\$ (1,602)	\$ (1,602)
Unrealized foreign currency translation gain	–	78	78	–	–	–
Accumulated other comprehensive income (loss)	\$ (1,602)	\$ 1,305	\$ (297)	\$ –	\$ (1,602)	\$ (1,602)

Note 29

Commitments and contingencies

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

As at December 31, 2012, Dundee REIT's future minimum commitments under operating and finance leases are as follows:

	Operating lease payments	Finance lease payments
No longer than 1 year	\$ 498	\$ 237
1–5 years	1,165	–
Longer than 5 years	1,350	–
Total	\$ 3,013	\$ 237

During the year ended December 31, 2012, the Trust paid \$1,472 (December 31, 2011 – \$1,203) in minimum lease payments, which has been included in comprehensive income for the year.

As at December 31, 2012 and December 31, 2011, the Trust had no capital commitments with respect to its investment in joint ventures.

The Trust's share of contingent liabilities arising from its investments in joint ventures is as follows:

	December 31, 2012	December 31, 2011
Contingent liabilities for the obligation of the other owners of investments in joint ventures	\$ 353,468	\$ 168,888

Purchase and other obligations

The Trust has entered into lease agreements that may require tenant improvement costs of approximately \$33,727.

The Trust has entered into fixed price contracts to purchase electricity and gas as follows:

	Number of properties	Expiry date	Minimum payments due			
			2013	2014	2015	Total
Electricity						
Calgary	14	January 31, 2013	\$ 170	\$ –	\$ –	\$ 170
Edmonton, Parkland County and Strathcona County	9	May 31, 2015	755	755	327	1,837
Toronto and Ottawa	14	September 30, 2013	416	–	–	416
			\$ 1,341	\$ 755	\$ 327	\$ 2,423

Note 30

Capital management

The primary objective of the Trust's capital management is to ensure it remains within its quantitative banking covenants and maintains a strong credit rating.

The Trust's capital consists of debt, including mortgages, convertible debentures, debentures, subsidiary redeemable units and demand revolving credit facilities, and unitholders' equity. The Trust's objectives in managing capital are to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions, to fund leasing costs and capital expenditure requirements, and to provide for resources needed to acquire new properties.

Various debt, equity and earnings distribution ratios are used to ensure capital adequacy and monitor capital requirements. The primary ratios used for assessing capital management are the interest coverage ratio and net debt-to-gross carrying value. Other significant indicators include weighted average interest rate, average term to maturity of debt and variable debt as a portion of total debt. These indicators assist the Trust in assessing that the debt level maintained is sufficient to provide adequate cash flows for unitholder distributions, and capital expenditures and for evaluating the need to raise funds for further expansion. Various mortgages have debt covenant requirements that are monitored by the Trust to ensure there are no defaults. These covenants include loan-to-value ratios, cash flow coverage ratios, interest coverage ratios and debt service coverage ratios. These covenants are measured at the subsidiary limited partnership level, and all have been complied with.

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

The Trust monitors capital primarily using a debt-to-book value ratio, which is calculated as the amount of outstanding debt divided by total assets. During the year the Trust did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

The DPLP Partnership Agreement limits the Trust's interest coverage ratio to no less than 1.4 times. The interest coverage ratio is calculated as net operating income from continuing operations plus interest and fee income less general and administrative expense from continuing operations, including investments in joint ventures divided by interest expense. For the year ended December 31, 2012, the Trust's interest coverage ratio was 2.7 times, reflecting its ability to cover interest expense requirements. When calculating the interest coverage ratio, the Trust includes the results of investments in joint ventures using proportionate consolidation of its ownership.

	Years ended December 31,	
	2012 ⁽¹⁾	2011
Investment properties revenue	\$ 686,564	\$ 441,347
Investment properties operating expenses	295,424	180,210
Net rental income	391,140	261,137
Add: Interest and fee income	5,213	2,498
Less: General and administrative expenses	21,214	15,447
	\$ 375,139	\$ 248,188
Interest expense – debt	\$ 138,897	\$ 93,721
Interest coverage ratio	2.7 times	2.6 times

(1) Excludes the results of discontinued operations.

Note 31

Financial instruments

Risk management

IFRS 7, "Presentation of Financial Statements" ("IFRS 7"), places emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks, including market, credit and liquidity risks.

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other market price risk. The Trust has some exposure to interest rate risk primarily as a result of its variable rate debt. In addition, there is interest rate risk associated with the Trust's fixed rate debt due to the expected requirement to refinance such debts in the year of maturity. The Trust is exposed to the variability in market interest rates on maturing debt to be renewed. Variable rate debt at December 31, 2012, was 4.2% of the Trust's total debt (December 31, 2011 – 0.1%). Included in fixed rate debt is the term loan facility of \$183,453, which has a variable rate of interest at bankers' acceptances plus 1.85% payable monthly. The Trust has entered into two interest rate swap agreements, one for three years at 3.03% for a notional value of \$53,670 and one for five years at 3.52% for a notional value of \$129,783, fixing the rate of interest at 3.38%. In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and variable rate debt, manage maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The following interest rate sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate financial assets and liabilities for the prospective 12-month period. A 1% change is considered a reasonable level of fluctuation on variable rate financial assets and liabilities. The table below includes the Trust's proportionate share of investment in joint ventures.

	Interest rate risk				
			-1%	+1%	
	Amount	Income	Equity	Income	Equity
Financial assets					
Cash and cash equivalents ⁽¹⁾	\$ 31,193	\$ (312)	\$ (312)	\$ 312	\$ 312
Financial liabilities					
Variable rate debt and fixed rate debt due to mature in 2013	\$ 311,049	\$ 3,110	\$ 3,110	\$ (3,110)	\$ (3,110)

⁽¹⁾ Cash and cash equivalents are short-term investments with an original maturity of three months or less, and exclude cash subject to restrictions that prevent their use for current purposes. These balances generally receive interest income at the bank's prime rate less 1.85%. Cash and cash equivalents are short term in nature and the current balance may not be representative of the balance for the rest of the year.

The Trust is not exposed to significant foreign exchange risks.

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

Liquidity risk is the risk the Trust will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The Trust manages maturities of the fixed rate debts, and monitors the repayment dates to ensure sufficient capital will be available to cover obligations.

Derivatives and hedging activities

The Trust uses interest rate swaps to manage its cash flow risk associated with changes in interest rates on variable rate debt. As at December 31, 2012, the Trust had the following interest rate swaps outstanding (December 31, 2011 – \$188,000):

Hedging item	Notional	Rate (%)	Maturity	Fair value	Hedged item
Interest rate swap	\$ 53,670	3.03	August 15, 2014	\$ 174	Interest payments on forecasted issuance of bankers' acceptances
Interest rate swap	\$ 129,783	3.52	August 15, 2016	\$ (549)	Interest payments on forecasted issuance of bankers' acceptances

The maximum term over which interest rate hedging gains and losses reflected in other comprehensive income will be recognized is five years as the hedged interest payments occur.

Fair value of financial instruments

Promissory notes receivable, amounts receivable, restricted cash and deposits, cash and cash equivalents, term debt, subsidiary redeemable units, security deposits, amounts payable and accrued liabilities, and distributions payable are carried at amortized cost which approximates fair value. The convertible debentures conversion feature and interest rate swaps are measured at fair value.

	December 31, 2012		December 31, 2011	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages	\$ 2,441,663	\$ 2,520,972	\$ 1,805,571	\$ 1,901,706
Convertible debentures	52,092	56,113	131,353	141,653
Debentures	36,029	35,975	–	–
Term loan credit facilities	180,837	183,453	184,654	188,000

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

	December 31, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial liabilities						
Conversion feature of the convertible debentures	\$ –	\$ –	\$ 1,397	\$ –	\$ –	\$ 6,426
Fair value of interest rate swaps	–	375	–	–	1,602	–

Note 32

Subsequent events

Subsequent to December 31, 2012, Dundee REIT completed the following dispositions:

	Property type	Disposed GLA (sq. ft.)	Gross proceeds ⁽¹⁾	Mortgages discharged	Date disposed
625 University Park Drive, Regina	retail	17,145	\$ 5,182	\$ –	January 31, 2013
2640, 2510–2550 Quance Street, Regina	retail	69,554	16,300	–	January 31, 2013
Total		86,699	\$ 21,482	\$ –	

⁽¹⁾ Gross proceeds before transaction costs.