Management's discussion and analysis

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

Section I – Objectives and financial highlights

Basis of presentation

Our discussion and analysis of the financial position and results of operations of Dundee Real Estate Investment Trust ("Dundee REIT" or the "Trust") should be read in conjunction with the audited consolidated financial statements of Dundee REIT for the year ended December 31, 2012. Unless otherwise indicated, our discussion of assets, liabilities, revenue and expenses includes our investment in joint ventures that are equity accounted for at our proportionate share of assets, liabilities, revenue and expenses.

On October 4, 2012, the Trust completed the sale of its industrial segment comprising 77 properties (the "Industrial Portfolio") to Dundee Industrial Real Estate Investment Trust ("Dundee Industrial") for a total sale price of approximately $575.5 million (including working capital adjustments). The sale price of the 77 industrial properties was satisfied by cash consideration of approximately $136.3 million and the issuance of $160.3 million 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 $42.0 million, offset by the mortgages assumed on dispositions and working capital adjustments. The Trust is now discharged from all rights and obligations relating to the 77 industrial properties. As a result of the sale, these properties and their contribution to our operating performance have been reclassified in the consolidated financial statements and in this management's discussion and analysis ("MD&A") as discontinued operations. Dundee REIT's retained interest in Dundee Industrial at December 31, 2012, is approximately 30.9% and is accounted for as an equity investment. On February 11, 2013, Dundee Industrial announced that it has entered into an agreement to sell 9.1 million units on a bought deal basis at a price of $11.00 per unit to a syndicate of underwriters for gross proceeds of $100.1 million. As a result of this offering, Dundee REIT's interest in Dundee Industrial will be further diluted to 26.4%. Unless otherwise indicated, our operating metrics and financial information for the current period and prior periods reflect the investment property portfolio excluding assets sold and held for sale as well as the 77 industrial properties sold to Dundee Industrial.

This MD&A is dated as at January 31, 2013, except where otherwise noted.

For simplicity, throughout this discussion, we may make reference to the following:

- "REIT A Units", meaning the REIT Units, Series A
- "REIT B Units", meaning the REIT Units, Series B
- "REIT Units", meaning the REIT Units, Series A, and REIT Units, Series B
- "LP B Units" and "subsidiary redeemable units", meaning the LP Class B Units, Series 1

Certain market information has been obtained from CB Richard Ellis, Canadian Office MarketView, Fourth Quarter 2012, a publication prepared by a commercial firm that provides information relating to the real estate industry. Although we believe this information is reliable, its accuracy and completeness is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

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

Although the forward-looking statements contained in this MD&A are based on what we believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in

close proximity to the Trust's properties; timely leasing of vacant space and re-leasing of occupied space upon expiration; dependence on tenants' financial condition; the uncertainties of acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; and that we continue to comply with the real estate investment trust ("REIT") exemption under the specified investment flow-through trust ("SIFT") legislation; and other risks and factors described from time to time in the documents filed by the Trust with securities regulators.

All forward-looking information is as of January 31, 2013, except where otherwise noted. Dundee REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators, including our latest Annual Information Form. Certain filings are also available on our website at www.dundeereit.com.

Our objectives

We are committed to:

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

Distributions

We currently pay monthly distributions to unitholders of $0.183 per unit, or $2.20 per unit on an annual basis. At December 31, 2012, approximately 16% of our total units were enrolled in the Distribution Reinvestment and Unit Purchase Plan ("DRIP"), including 16% of the REIT A Units and 11% of the LP B Units. There is no equivalent program for the REIT B Units (see a description of Our Equity on page 24).

												2012
	Jan	Feb	March	April	May	June	July	Aug	Sept	**Oct**	**Nov**	**Dec**
Distribution rate	$0.183	$0.183	$0.183	$0.183	$0.183	$0.183	$0.183	$0.183	$0.183	**$0.183**	**$0.183**	**$0.183**
Month-end closing price	$33.47	$34.40	$35.20	$36.88	$36.02	$38.19	$38.43	$38.24	$37.66	**$36.65**	**$36.20**	**$37.43**

Our strategy

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

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

Investing in high-quality office properties

Dundee REIT has an established presence in key urban markets across Canada. Our portfolio comprises high-quality office properties that are well-located and attractively priced and produce consistent cash flow. When considering acquisition opportunities, we look for quality tenancies, strong occupancy, the appeal of the property to future tenants, how it complements our existing portfolio and how we can create additional value.

Optimizing the performance, value and cash flow of our portfolio

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

Diversifying our portfolio to mitigate risk

Since 2009, we have carefully repositioned our portfolio through an impressive number of accretive acquisitions. In addition to expanding and diversifying our geographic footprint across the country, the acquisitions have served to enhance the stability of our business, diversifying and strengthening the quality of our revenue stream and increasing cash flow. Our existing tenant base is well diversified, representing a number of industries and different space requirements and with strong financial covenants. Our lease maturity profile is well staggered over the next ten years. We will continue to pursue opportunities for growth but only when it enhances our overall portfolio, further improves the sustainability of distributions, strengthens our tenant profile and mitigates risk. We have experience in each of Canada's key markets and have the flexibility to pursue acquisitions in whichever markets offer compelling investment opportunities.

Maintaining and strengthening our conservative financial profile

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

Our assets

Dundee REIT provides high-quality, well-located and attractively priced business premises. Our portfolio comprises central business district and suburban office properties predominantly located in major urban centres across Canada including Toronto, Calgary, Edmonton, Montréal, Kitchener-Waterloo, Ottawa, Vancouver, Regina, Saskatoon, Quebec City, Yellowknife and Halifax.

At December 31, 2012, our ownership interests included 173 office properties (205 buildings) totalling approximately 23.1 million square feet of gross leasable area ("GLA"), including 22.9 million square feet of office properties, 0.1 million square feet of properties classified as held for sale and 0.1 million square feet of redevelopment properties. The assets classified as held for sale were sold subsequent to year-end. The occupancy rate across our office portfolio remains high at 95.1%, well ahead of the national industry average occupancy rate of 91.5% (CB Richard Ellis, Canadian Office MarketView, Fourth Quarter 2012). Our occupancy rates include lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized.

				Owned GLA (sq. ft.)
	December 31, 2012		December 31, 2011	
	Total	**%**	Total	%
Western Canada	**4,447,819**	**19**	3,351,617	22
Calgary	**3,684,326**	**16**	3,872,766	26
Toronto	**10,489,256**	**46**	5,767,793	38
Eastern Canada[1]	**4,326,892**	**19**	2,104,062	14
Total[2]	**22,948,293**	**100**	15,096,238	100

[1] Includes two properties located in the U.S.

[2] Excludes development and redevelopment properties, discontinued operations – industrial properties and properties held for sale.

Throughout the year we completed $2.6 billion of acquisitions, adding 9.9 million square feet to our portfolio, including Scotia Plaza and the Whiterock Portfolio for approximately $2.3 billion. Along with increasing the scale of our operations, the new assets serve to improve the quality of our portfolio, further diversify our tenant mix, strengthen our cash flows and make Dundee REIT stronger overall.

In addition to pursuing accretive acquisitions, management kept a strong focus on portfolio analysis and pruning assets that no longer fit within our strategy focused in the office segment. Throughout the year we completed the sale of approximately $680.3 million of non-strategic industrial and other non-core assets, comprising 5.8 million square feet. Proceeds from asset sales were redeployed in a variety of ways to strengthen the business, including redeeming $126.5 million of convertible debentures, which reduced our overall level of debt and lowered interest costs.

Key performance indicators

Performance is measured by these and other key indicators:

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Operations				
Occupancy rate (period-end)[1]	**95.1%**	95.4%		
Average in-place net rent per square foot (period-end)[1]	**$ 17.22**	$ 16.92		
Operating results				
Investment properties revenue[2]	**$ 191,999**	$ 126,912	**$ 686,564**	$ 404,774
Net operating income ("NOI")[2][3][4]	**105,853**	70,065	**385,821**	229,439
Comparative properties NOI[2][3][4]	**42,477**	41,034	**166,993**	162,717
Funds from operations ("FFO")[3][5]	**68,905**	48,210	**263,488**	159,397
Adjusted funds from operations ("AFFO")[3][6]	**58,060**	41,047	**221,960**	137,675
Fair value increase to investment properties, excluding transaction costs[2]	**49,719**	168,861	**123,363**	272,171
Distributions				
Declared distributions	**$ 55,357**	$ 36,549	**$ 203,596**	$ 131,168
Distributions paid in cash	**43,613**	29,456	**160,024**	107,860
DRIP participation ratio	**21%**	19%	**21%**	18%
Financing				
Weighted average effective interest rate on debt (year-end)			**4.33%**	4.96%
Interest coverage ratio			**2.7 times**	2.6 times
Per unit amounts[7]				
Basic:				
FFO[3]	**$ 0.68**	$ 0.73	**$ 2.86**	$ 2.69
AFFO[3]	**0.57**	0.62	**2.41**	2.33
Distribution rate	**0.55**	0.55	**2.20**	2.20
Diluted:				
FFO[3]	**0.68**	0.73	**2.85**	2.69

(1) December 31, 2012 excludes redevelopment properties, discontinued operations – industrial properties and properties held for sale. December 31, 2011 amounts are those reported for office properties.

(2) Includes investment in joint ventures and excludes discontinued operations.

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

(4) NOI is defined as net rental income, excluding net rental income from discontinued operations and properties sold and held for sale. The reconciliation of NOI to net rental income can be found on page 31.

(5) FFO – The reconciliation of FFO to net income can be found on page 36.

(6) AFFO – The reconciliation of AFFO to FFO can be found on page 36.

(7) A description of the determination of basic and diluted amounts per unit can be found on page 37.

Financial overview

Dundee REIT remains focused on its strategy, including strong portfolio and property management and maintaining a prudent capital structure. During the year, we added approximately 9.9 million square feet of central business district and suburban office properties to our portfolio, including Scotia Plaza and the strategic acquisition of the Whiterock Portfolio, for approximately $2.3 billion. These acquisitions were mainly funded by two equity offerings and a mortgage bond totalling approximately $1.0 billion. In addition, during the fourth quarter, we completed the sale of our industrial segment to Dundee Industrial as well as other non-core assets to become substantially a pure-play office REIT.

AFFO for the year increased to $2.41 per unit, up 3.4% over the prior year, reflecting the impact of accretive acquisitions completed in 2011 and 2012 as well as growth in comparative property NOI. Total AFFO for the year was $222.0 million, up 61.2% over the prior year. On a quarterly basis, AFFO was $58.1 million, a 41.4% increase over the prior year fourth quarter. On a per unit basis, AFFO was $0.57, down by 8.1% over the prior year comparative quarter mainly due to the sale of the industrial segment at the beginning of the fourth quarter and the use of proceeds from this sale being deployed at the end of the quarter.

Diluted FFO per unit for the year was $2.85, up 5.9% over the prior year, primarily driven by accretive acquisitions as well as growth in comparative property NOI. Included in FFO is the favourable impact of straight-line rents as well as the amortization of fair value adjustments recorded on assumed debt. On a quarterly basis, diluted FFO per unit was $0.68, down by 6.8% over the prior year comparative quarter mainly due to the sale of the industrial segment at the beginning of the fourth quarter and the use of proceeds from this sale being deployed at the end of the quarter.

NOI from comparative properties increased 3.5%, or $1.4 million, for the fourth consecutive quarter, and 2.6%, or $4.3 million, for the year. Total NOI grew $35.8 million over the prior year comparative quarter, including $35.0 million generated by acquired properties. NOI including income from discontinued operations, properties sold and other assets held for sale was $106.8 million, comprising $105.8 million from continuing operations, $0.4 million from discontinued operations (Industrial Portfolio) and $0.6 million from properties sold and held for sale. Year-over-year, comparative property NOI increased 2.6%, or $4.3 million, primarily in Western Canada and Calgary.

In-place and committed occupancy at year-end remained strong at 95.1% versus 95.4% at the end of 2011. The stable occupancy rates evidence our ability to attract and retain our tenants.

Average in-place net rents and market rents continue to grow across the portfolio. Average in-place net rents per square foot for the quarter were $17.22, up from $17.18 in the prior quarter and up from $16.92 in the prior year, mainly driven by the impact of acquisitions and rental rate growth in certain geographical locations. Market rents per square foot at December 31, 2012 were $19.27, an increase of $0.03 over the prior quarter and an increase of $0.48 over the prior year. Our average in-place net rents are approximately 11.9% below market representing an opportunity to capture rental rate increases when space is leased or renewed.

During the quarter, we completed $35.1 million of gross financings at a weighted average face rate of 3.62% with an average term to maturity of six years. In addition, we repaid and discharged $46.4 million of mortgages at a weighted average face rate of 4.40% (weighted average effective interest rate – 3.71%) during the quarter. Furthermore, we redeemed $126.5 million principal amount of convertible debentures outstanding. The redeemed convertible debentures bore interest at a weighted average face rate of 6.0% and a weighted average effective rate of 7.0%. During the year we secured $908.1 million in new mortgages at a weighted average face rate of 3.59% (weighted average effective interest rate – 3.85%) for an average term of 6.8 years.

During the quarter, we completed the sale of the industrial segment for gross proceeds of $575.5 million (including working capital adjustments), together with $225.6 million of related debt at a weighted average face rate of 4.70% (weighted average effective interest rate – 4.36%) that was assumed by Dundee Industrial and four properties for gross proceeds of $26.2 million, together with $7.0 million of related debt at a weighted average face rate of 5.43% (weighted average effective interest rate – 3.79%) that was either assumed by the purchaser or discharged. For the 12-month period, we sold 10 properties for gross proceeds of $104.8 million, together with $36.1 million of related debt.

Outlook

This past year was a true turning point for Dundee REIT. Throughout the year we completed approximately $2.6 billion of acquisitions, adding approximately 9.9 million square feet to our portfolio. In addition, we completed the sale of approximately $680.3 million of non-strategic assets, totalling approximately 5.8 million square feet. The asset sales completed our transformation into a pure-play office REIT and the proceeds were redeployed in a variety of ways to strengthen the business. The acquisitions increased the scale of our operations, and also improved the overall quality of our portfolio, further diversifying our tenant mix, strengthening our cash flows and making Dundee REIT stronger overall.

Entering our tenth year, Dundee REIT is positioned as one of the market leaders in the Canadian REIT sector. We are the third largest REIT and the largest pure-play office REIT in Canada. Financially, our overall level of debt is down, lower interest rates are contributing to increased cash flow and AFFO per unit is strong. Operationally, occupancy remains sound; the business is sufficiently large that there is minimal risk exposure to any single tenant; and rental rates continue to increase incrementally. Our current operating metrics, including embedded rent steps, a manageable lease rollover profile and below market expiring rents, set the stage for continued organic growth.

Looking forward into 2013, we have a portfolio of high-quality assets that are generating high-quality income and, on a per unit basis, AFFO is comfortably in excess of distributions. We will remain focused on our strategy, including strong asset and property management, maintaining a prudent capital structure and seeking ways to continue strengthening the business.

Section II – Executing the strategy

Our operations

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

Performance indicators		**December 31, 2012**[1]		December 31, 2011[2]
Occupancy rate		**95.1%**		95.4%
Average in-place net rent rates (per sq. ft.)	**$**	**17.22**	$	16.92
Tenant maturity profile – average term to maturity (years)		**5.49**		4.63

(1) Excludes redevelopment properties, discontinued operations – industrial properties and other properties held for sale.

(2) December 31, 2011 amounts are those reported for office properties.

Occupancy

At December 31, 2012, the overall percentage of occupied and committed space across our total and comparative property portfolios remained strong at 95.1%, consistent with Q3 2012 and remaining well above the national industry average of 91.5%. Occupancy rates discussed in this report with respect to our portfolio include occupied and committed space at December 31, 2012.

On a comparative property basis, the occupancy rate across our portfolio increased slightly to 95.2% (September 30, 2012 – 95.1%), primarily driven by gains in downtown Calgary, Montréal and Ottawa, offset by declines in Vancouver and Saskatoon.

	Total portfolio[1]		Comparative properties[2]	
(percentage)	**December 31, 2012**	September 30, 2012	**December 31, 2012**	September 30, 2012
Office				
Western Canada	**94.3**	95.2	**94.6**	95.2
Calgary	**94.4**	93.7	**94.4**	93.7
Toronto	**94.7**	94.6	**94.5**	94.6
Eastern Canada	**97.8**	97.4	**97.8**	97.4
Total office	**95.1**	95.1	**95.2**	95.1

(1) Excludes redevelopment properties, discontinued operations – industrial properties and other properties held for sale.

(2) Comparative properties include all properties owned by the Trust at September 30, 2012, excluding redevelopment properties, discontinued operations – industrial properties and other properties held for sale.

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

				2012				2011
(percentage)[1]	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Office	**95.1**	95.1	95.2	95.2	95.4	95.7	96.1	95.8
Industrial[2]	**–**	–	97.1	97.4	96.6	96.1	97.9	97.0
Overall	**95.1**	95.1	95.6	95.6	95.6	95.8	96.5	96.1

(1) Excludes redevelopment properties and other properties held for sale.

(2) As of September 30, 2012, the industrial properties were reclassified as discontinued operations and subsequently sold.

Vacancy schedule

During the quarter, vacancy was reduced by approximately 43,700 square feet. Leasing activity included approximately 497,300 square feet of renewals and approximately 277,300 square feet of new leases, more than offsetting approximately 727,600 square feet of lease expiries and terminations. At year-end, another approximately 163,500 square feet of vacancy was committed for future occupancy.

(in square feet)	Three months ended December 31, 2012[1]
Available for lease	1,096,783
Vacancy committed for future leases	189,300
Vacant space at beginning of period	1,286,083[2]
Acquired vacancy	37,707
Vacant space – restated	1,323,790
Remeasurements/reclassifications	3,279
Expiries	694,246
Early terminations and bankruptcies	33,393
New leases	(277,287)
Renewals	(497,319)
Vacant space – December 31, 2012	1,280,102
Vacancy committed for future occupancy	163,536
Available for lease – December 31, 2012	1,116,566

(1) Excludes assets related to discontinued operations – industrial properties and properties held for sale and properties sold.

(2) Opening vacancy has been restated for discontinued operations – industrial properties and properties held for sale and properties sold.

In-place net rental rates

Average in-place net rents across our total portfolio increased to $17.22 per square foot from $17.18 at September 30, 2012, primarily reflecting gains in the Toronto market. Estimated market rents remain approximately 12% higher than our portfolio average in-place net rents, affording us a competitive advantage in attracting and retaining tenants as well as the opportunity to surface additional value as leases roll over.

	December 31, 2012			September 30, 2012		
Total portfolio	**Average in-place net rent[1][2]**	**Market rent**	**Market rent/ in-place rent (%)**	Average in-place net rent[1][2]	Market rent	Market rent/ in-place rent (%)
Office						
Western Canada	**$ 18.24**	**$ 20.58**	**12.8**	$ 18.31	$ 21.18	15.7
Calgary	**19.53**	**24.86**	**27.3**	19.79	24.57	24.2
Toronto	**18.18**	**19.20**	**5.6**	17.98	19.06	6.0
Eastern Canada	**12.08**	**13.31**	**10.2**	12.17	13.31	9.4
Total	**$ 17.22**	**$ 19.27**	**11.9**	$ 17.18	$ 19.24	12.0

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

(2) Excludes discontinued operations – industrial properties and properties held for sale.

Leasing and tenant profile

The average remaining lease term and other portfolio information are detailed in the following table. The portfolio average remaining lease term at December 31, 2012, is 5.49 years (September 30, 2012 – 5.58 years), reflecting the impact of acquisitions in Western Canada in the fourth quarter with lower average remaining lease terms.

	December 31, 2012[1]			September 30, 2012[1]		
	Average remaining lease term (years)	**Average tenant size (sq. ft.)**	**Average in-place net rent[2] (per sq. ft.)**	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent[2] (per sq. ft.)
Office						
Western Canada	**4.17**	**9,736**	**$ 18.24**	4.41	9,647	$ 18.31
Calgary	**3.90**	**9,260**	**19.53**	3.71	9,149	19.79
Toronto	**5.29**	**10,959**	**18.18**	5.32	10,951	17.98
Eastern Canada	**8.58**	**18,308**	**12.08**	8.77	17,944	12.17
Total	**5.49**	**11,146**	**$ 17.22**	5.58	11,061	$ 17.18

(1) Excludes properties held for sale.

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

The following table details our lease maturity profile by geographic segment at December 31, 2012. The table distinguishes between lease maturities that have yet to be renewed or re-leased and maturities for which we have a leasing commitment. The uncommitted line should be referenced when considering future leasing risks or opportunities, and the committed line should be referenced when considering the impact of leasing activity. Our lease maturity profile remains staggered with 12% of leases expiring in 2013, 10% expiring in 2014, 9% expiring in 2015 and 16% expiring in 2016. Approximately 0.9 million square feet of the space expiring in 2013 is already committed for future occupancy.

(in sq. ft.)	Current vacancy	Current monthly tenancies	2013	2014	2015	2016	2017 to 2031	Total
Western Canada – uncommitted	252,952	6,378	478,488	459,754	378,774	756,429	1,837,437	4,170,212
Western Canada – committed	–	–	229,649	9,119	28,569	540	9,730	277,607
Total Western Canada	252,952	6,378	708,137	468,873	407,343	756,969	1,847,167	4,447,819
Calgary – uncommitted	206,058	740	371,152	581,002	295,046	868,254	940,521	3,262,773
Calgary – committed	–	–	286,723	36,130	27,137	1,492	70,071	421,553
Total Calgary	206,058	740	657,875	617,132	322,183	869,746	1,010,592	3,684,326
Toronto – uncommitted	560,547	16,911	911,583	869,581	919,059	1,735,394	4,544,617	9,557,692
Toronto – committed	–	–	351,803	168,281	6,315	24,232	380,933	931,564
Total GTA/Toronto	560,547	16,911	1,263,386	1,037,862	925,374	1,759,626	4,925,550	10,489,256
Eastern Canada – uncommitted	97,009	–	153,856	197,784	403,249	209,572	3,127,297	4,188,767
Eastern Canada – committed	–	–	46,273	8,365	–	–	83,487	138,125
Total Eastern Canada	97,009	–	200,129	206,149	403,249	209,572	3,210,784	4,326,892
Total – uncommitted	1,116,566	24,029	1,915,079	2,108,121	1,996,128	3,569,649	10,449,872	21,179,444
Total – committed	–	–	914,448	221,895	62,021	26,264	544,221	1,768,849
Total[1]	1,116,566	24,029	2,829,527	2,330,016	2,058,149	3,595,913	10,994,093	22,948,293

(1) Excludes discontinued operations – industrial properties and properties held for sale.

The following table details expiring rents across our portfolio as well as our estimate of average market rents based on current leasing activity in comparable properties at December 31, 2012. Expiring rents and market rents represent base rates and do not include the impact of lease incentives. Currently, our 2013 expiring rents are approximately 5% below market and our 2014 expiring rents are 11% below market, which, when coupled with our well-staggered lease rollover profile, positions us to continue capturing gains on rates with new leasing.

	Current monthly tenancies	2013	2014	2015	2016	2017 to 2031
Expiring rents[1]						
Office						
Western Canada	$ 8.18	$ 17.42	$ 17.51	$ 16.76	$ 17.57	$ 21.70
Calgary	26.25	21.95	19.83	14.46	20.45	22.45
Toronto	3.73	15.16	16.20	15.08	16.60	21.89
Eastern Canada	–	14.88	14.54	16.22	16.13	12.72
Portfolio average	$ 5.60	$ 17.02	$ 17.33	$ 15.54	$ 17.71	$ 19.47
Market rents[2]						
Office						
Western Canada	$ 16.86	$ 18.77	$ 19.18	$ 18.85	$ 19.50	$ 22.17
Calgary	26.73	23.72	26.40	22.99	28.07	23.58
Toronto	15.16	15.83	16.19	16.82	17.92	21.46
Eastern Canada	–	14.66	14.42	15.34	16.52	12.65
Market rent average	$ 15.97	$ 18.00	$ 19.49	$ 17.81	$ 20.64	$ 19.46

(1) Excludes properties held for sale.

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

Initial direct leasing costs and lease incentives

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

For the year ended December 31, 2012, we incurred $24.0 million in leasing costs and lease incentives, representing an average of $8.16 per square foot leased.

Performance indicators	Total
Operating activities (continuing portfolio)[1][2]	
Portfolio size (sq. ft.)	22,948,293
Occupied and committed	95.1%
Square footage leased and occupied in 2012	2,940,136
Lease incentives and initial direct leasing costs paid in 2012	$ 23,979

(1) Includes investment in joint ventures.

(2) Excludes redevelopment properties, discontinued operations – industrial properties and properties held for sale.

Tenant base profile

Our tenant base includes municipal, provincial and federal governments as well as a wide range of high-quality large international corporations, including Canada's third largest bank and three of Canada's prominent law firms, and small to medium-sized businesses across Canada. With approximately 2,290 tenants, our risk exposure to any single large lease or tenant is low. The average size of our office tenants is approximately 11,000 square feet. Effectively managing this diverse tenant base is one of our key strengths and has helped us to maintain consistently high occupancy levels and to continually capitalize on rental rate increases.

The stability and quality of our cash flow is further enhanced by the fact that rental revenue from government and government agencies comprises approximately 17% of our total rental revenue. The list of our 20 largest tenants includes both federal and provincial governments as well as other nationally and internationally recognizable high-quality corporations and businesses. The following table outlines their contributions to our rental revenue.

Tenant	Owned area (sq. ft.)	Owned area (%)	Gross rental revenue (%)	Weighted average remaining lease term (years)
Bank of Nova Scotia	915,177	4.0	7.9	11.6
Government of Canada	1,574,670	6.9	6.9	3.8
Government of Ontario	479,184	2.1	2.3	6.5
Bell Canada	376,694	1.6	2.0	5.3
Government of Quebec	695,629	3.0	2.0	13.7
Enbridge Pipelines Inc.	247,019	1.1	1.5	5.9
TELUS	289,103	1.3	1.5	3.3
State Street Trust Company	244,936	1.1	1.5	9.3
Government of Alberta	346,810	1.5	1.3	2.6
Government of Saskatchewan	334,240	1.5	1.3	4.2
Borell Management	135,436	0.6	1.2	4.0
Aviva Canada Inc.	335,900	1.5	1.2	3.6
Government of British Columbia	278,158	1.2	1.1	4.4
Loyalty Management	194,018	0.8	1.0	4.8
Miller Thomson	146,922	0.6	0.9	5.2
Winners Merchants International	219,685	1.0	0.8	2.5
SNC-Lavalin Inc.	192,092	0.8	0.8	7.3
Cassels Brock Blackwell	94,507	0.4	0.8	12.0
International Financial Data Services	134,522	0.6	0.8	10.8
Daimler Chrysler Canada Inc.	132,500	0.6	0.7	9.7
Total	7,367,202	32.2	37.5	7.0

Our resources and financial condition

Investment properties

For the year ended December 31, 2012, the fair value of our investment property portfolio, including those assets held in investment in joint ventures and excluding redevelopment properties and assets held for sale, increased to $6.5 billion from $4.0 billion at December 31, 2011, representing a weighted average capitalization rate ("cap rate") of 6.35%.

During Q4 2012, we:

- acquired our co-owner's interest in nine properties for $75.8 million, including transaction costs;
- acquired our joint venture partner's share in a property for $78.8 million, including transaction costs;
- completed the disposition of 77 industrial properties with a fair value of $551.5 million;
- sold other non-core assets for gross proceeds of $26.2 million;
- incurred $9.6 million in building improvements and $9.6 million in lease incentives; and
- recorded fair value gains of $45.1 million (excluding assets related to discontinued operations and other assets held for sale).

During Q3 2012, we:

- sold non-core assets for gross proceeds of $70.9 million;
- incurred $4.2 million in building improvements and $5.0 million in lease incentives;
- recorded fair value gains of $24.5 million (excluding assets related to discontinued operations and other assets held for sale); and
- reclassified nine buildings with a total fair value of $46.4 million as assets held for sale.

During Q2 2012, we:

- acquired a two-thirds interest in the Scotia Plaza complex for $875.5 million, including transaction costs;
- acquired one office building for $36.0 million, including transaction costs;
- incurred building improvement costs totalling $3.8 million and lease incentive costs totalling $5.7 million;
- recorded fair value gains of $14.8 million (fair value losses of $17.1 million including transaction costs); and
- reclassified one property owned as at December 31, 2011, with a total fair value of $6.9 million, to assets held for sale.

During Q1 2012, we:

- acquired the Whiterock Portfolio for $1.4 billion; of which $106.8 million was reclassified as assets held for sale;
- acquired two office buildings for $127.5 million (including transaction costs) and parking lots adjacent to one of our office properties for $18.2 million (including transaction costs);
- sold an office property for $7.7 million, which was classified as held for sale at December 31, 2011;
- incurred $2.8 million in building improvement costs and $4.6 million in lease incentive costs;
- spent $1.9 million to finalize the Gallery Building in Yellowknife, which was substantially completed in February 2012;
- recorded fair value gains of $47.4 million (fair value gains of $42.2 million including transaction costs); and
- reclassified two properties with a total fair value of $28.8 million, to assets held for sale.

Fair values were determined using the direct capitalization method and/or the discounted cash flow method. The direct capitalization method applies a cap rate to stabilized NOI and incorporates allowances for vacancy and management fees. The resulting capitalized value is further adjusted for extraordinary costs to stabilize income and non-recoverable capital expenditures, where applicable. Individual properties were valued using cap rates in the range of 5.25% to 9.25%. The discounted cash flow method discounts the expected future cash flows, generally over a term of ten years, and uses discount rates and terminal capitalization rates specific to each property.

The fair value of our investment properties, including investment in joint ventures, is set out below.

			Total portfolio
	December 31, 2012	September 30, 2012[1]	December 31, 2011[1]
Office			
Western Canada	**$ 1,272,704**	$ 1,183,879	$ 974,587
Calgary	**1,148,522**	1,102,480	1,025,315
Toronto	**3,257,009**	3,174,647	1,466,066
Eastern Canada	**827,492**	826,079	494,142
Total	**6,505,727**	6,287,085	3,960,110
Add:			
Redevelopment properties	**10,700**	10,700	10,700
Assets related to discontinued operations – industrial properties	**–**	551,522	396,658
Other assets held for sale	**20,295**	46,448	58,915
Total portfolio	**$ 6,536,722**	$ 6,895,755	$ 4,426,383
Less:			
Investment in joint ventures	**1,038,867**	1,116,952	264,505
Assets related to discontinued operations – industrial properties	**–**	551,522	396,658
Other assets held for sale	**20,295**	46,448	58,915
Amount per consolidated balance sheet	**$ 5,477,560**	$ 5,180,833	$ 3,706,305

(1) Certain properties owned at September 30, 2012 and December 31, 2011 have been reclassified to conform with the December 31, 2012 presentation.

The fair value of our total portfolio (before redevelopment properties, assets related to discontinued operations and other assets held for sale) increased by $218.6 million in Q4 2012, including fair value gains of $45.1 million, acquisitions of approximately $154.5 million, and capital expenditures and leasing costs of approximately $19.0 million. The increase in fair value is primarily attributable to cap rate compression in downtown Calgary where our weighted average cap rate declined from 6.99% at September 30, 2012, to 6.76% at December 31, 2012. The weighted average cap rate across our portfolio compressed to 6.35% from 6.39% in the prior quarter.

			Comparative properties[1]
	December 31, 2012	September 30, 2012[2]	Change
Office			
Western Canada	**$ 1,197,728**	$ 1,183,879	$ 13,849
Calgary	**1,148,522**	1,102,480	46,042
Toronto	**3,172,286**	3,174,647	(2,361)
Eastern Canada	**827,492**	826,079	1,413
Total	**6,346,028**	6,287,085	58,943
Add:			
Redevelopment properties	**10,700**	10,700	–
Assets related to discontinued operations – industrial properties	**–**	551,522	(551,522)
Other assets held for sale	**20,295**	46,448	(26,153)
Total portfolio	**$ 6,377,023**	$ 6,895,755	$ (518,732)
Less:			
Investment in joint ventures	**1,123,430**	1,116,952	6,478
Assets related to discontinued operations – industrial properties	**–**	551,522	(551,522)
Other assets held for sale	**20,295**	46,448	(26,153)
Total comparative properties	**$ 5,233,298**	$ 5,180,833	$ 52,465

(1) Comparative properties are properties owned by the Trust on September 30, 2012.

(2) Certain properties owned at September 30, 2012 and December 31, 2011, have been reclassified to conform with the December 31, 2012 presentation.

On a comparative property basis, the fair value of our Calgary office portfolio increased by $46.0 million, primarily reflecting weighted average cap rate compression of 23 basis points ("bps"). The Toronto office portfolio was flat for the quarter. The fair value of the Western Canada office portfolio increased by $13.8 million, primarily driven by cap rate compression in our Saskatoon market. Our Eastern Canada office portfolio remained relatively flat quarter-over-quarter.

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

	Capitalization rates[1]			
	Total portfolio			
	December 31, 2012		September 30, 2012	
	Range (%)	**Weighted average (%)**	Range (%)	Weighted average (%)
Western Canada	**5.75–9.25**	**6.63**	5.80–9.25	6.67
Calgary	**5.75–8.50**	**6.76**	6.00–8.50	6.99
Toronto	**5.25–9.25**	**6.05**	5.21–9.50	6.06
Eastern Canada	**5.75–7.75**	**6.48**	5.75–7.75	6.46
Total	**5.25–9.25**	**6.35**	5.21–9.50	6.39

(1) Capitalization rates do not include assets related to discontinued operations – industrial properties and other assets held for sale.

Investing activities

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

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Investing activities[1]				
Acquisition of investment properties[2][3]	**$ 155,041**	$ 21,390	**$ 336,265**	$ 1,202,972
Acquisition of equity accounted interest in Scotia Plaza[2][3]	**–**	–	**875,509**	–
Acquisition of Whiterock Portfolio[2]	**–**	–	**1,419,899**	–
Acquisition of Realex Portfolio[2]	**–**	–	**–**	363,697
Building improvements	**9,609**	5,195	**20,410**	8,284
Development projects	**–**	3,661	**1,945**	13,215

(1) Includes investment in joint ventures, assets related to discontinued operations – industrial properties and properties held for sale.

(2) Amount represents the purchase price, which does not reflect the actual cash transactions.

(3) Includes transaction costs.

Acquisitions

During the year ended December 31, 2012, we completed the following acquisitions:

	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price[1]	Date acquired
5001 Yonge Street, Toronto	**office**	**100.0**	**309,138**	**100.0**	**$ 112,984**	**January 19, 2012**
67 Richmond Street West, Toronto	**office**	**100.0**	**44,996**	**100.0**	**14,464**	**January 30, 2012**
Whiterock Portfolio	**office/industrial/retail**	**100.0**	**7,368,679**	**97.6**	**1,419,899**	**March 2, 2012**
Parking lots, Saskatoon	**office**	**100.0**	**9,567**	**100.0**	**18,242**	**March 12, 2012**
1 Riverside Drive, Windsor	**office**	**100.0**	**235,915**	**78.0**	**36,014**	**April 26, 2012**
Scotia Plaza, Toronto	**office**	**66.7**	**1,317,795**	**99.5**	**875,509**[2]	**June 15, 2012**
Trans America Group properties, Edmonton	**office/industrial**	**60.0**	**373,121**	**88.7**	**75,787**	**October 4, 2012**
30 Adelaide Street East (State Street Financial Centre), Toronto	**office**	**50.0**	**206,967**	**99.9**	**78,774**	**December 28, 2012**
Total			**9,866,178**	**97.2**	**$ 2,631,673**	

(1) Includes transaction costs.

(2) Investment in joint venture that is equity accounted.

Significant transactions completed during the year include the acquisition of Scotia Plaza as well as the acquisition of the Whiterock Portfolio.

On June 15, 2012, we completed the acquisition of a two-thirds interest in the Scotia Plaza complex in the heart of Toronto's financial district for $844.3 million, excluding transaction costs. At the time of acquisition, Scotia Plaza was 99.5% occupied by outstanding tenants, including The Bank of Nova Scotia and three of Canada's prominent law firms, and had a weighted average remaining lease term of 10.6 years. Scotia Plaza is accounted for using the equity accounting method, and is jointly managed pursuant to a joint venture agreement with our co-owner, H&R REIT. The acquisition was financed by way of a private placement of $650.0 million of mortgage bonds completed by the joint venture, with our proportionate share being $433.3 million. The remainder of the purchase price was funded by the issuance of 10,392,550 REIT A Units at $35.90 per unit, for gross proceeds of $373.1 million, and by drawing on existing revolving credit facilities.

The acquisition of Whiterock was completed on March 2, 2012, and was accounted for as a business combination. The acquisition included $1.4 billion of investment properties. The purchase was funded with $159.8 million in cash and the issuance of 12,580,347 REIT A Units, valued at $34.56 per unit, representing a total consideration of $594.6 million.

Mortgages assumed in connection with the acquisitions completed in the fourth quarter totalled $68.8 million (including fair value adjustments). Mortgages assumed in connection with acquisitions completed in Q1 2012 totalled $758.0 million (including fair value adjustments).

The following acquisitions were completed during the year ended December 31, 2011:

Year ended December 31, 2011	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price[1]	Date acquired
Saskatoon Square, Saskatoon	office	100	209,593	100	$ 51,349	January 4, 2011
400 Cumberland Road, Ottawa	office	100	174,921	100	39,179	January 17, 2011
Realex Portfolio	office/industrial	100	1,837,277	96	363,697[2]	February 8, 2011
55 King Street West, Kitchener	office	100	124,100	73	13,506	March 31, 2011
586 Argus Road, Oakville	office	100	74,570	95	16,986	May 2, 2011
Morgex Building (11120 178th Street), Edmonton	office	100	39,750	100	9,877	May 19, 2011
Multivesco Portfolio, Gatineau	office/industrial	100	148,198	100	15,999	June 9, 2011
700 de la Gauchetière, Montréal	office	100	987,706	94	287,766	July 11, 2011
13888 Wireless Way, Richmond	office	100	116,530	100	32,447	July 12, 2011
81 Wright Avenue and 170 Joseph Zatzman Drive, Halifax	industrial	100	109,737	98	7,631	July 27, 2011
Blackstone Portfolio, Ontario and Alberta	office	100	2,661,914	94	703,365	August 15, 2011
Richmond Place (8100 Granville Avenue), Richmond	office	100	94,646	100	24,867	November 22, 2011
Total			6,578,942	95	$ 1,566,669	

(1) Includes transaction costs.

(2) Includes $20.8 million of investments in joint ventures that are equity accounted.

Building improvements

Building improvements represent investments made to ensure optimal building performance. For the three and 12 months ended December 31, 2012, we incurred $9.6 million and $20.4 million of expenditures, respectively, related to building improvements, including sustainability and environmental initiatives, substantially all of which are recoverable from tenants. Also included are certain amounts relating to acquired properties, which were identified at the time of acquisition.

Recurring recoverable expenditures for the three and 12 months ended December 31, 2012 were $7.7 million and $15.2 million, respectively, and included elevator modernization, roofing upgrades, HVAC and chiller work. During the fourth quarter, approximately $0.2 million ($2.0 million year-to-date) was spent on sustainability and environmental initiatives, substantially all of which is recovered from tenants. Non-recurring building improvements include major capital expenditures that generally would not be expected to recur over the useful life of the building.

The table below represents amounts either paid or accrued during the period:

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Building improvements[1]				
Recurring recoverable	**$ 7,717**	$ 4,798	**$ 15,244**	$ 7,848
Recurring non-recoverable	**212**	5	**314**	12
Non-recurring	**1,492**	392	**2,828**	424
Sustainability and environmental initiatives	**188**	–	**2,024**	–
Total	**$ 9,609**	$ 5,195	**$ 20,410**	$ 8,284

(1) Includes investment in joint ventures that are equity accounted, assets related to discontinued operations – industrial properties and properties held for sale.

Development

During the first quarter of 2012, we completed construction of the Gallery Building, an office property in Yellowknife that is fully leased to the Government of Canada for a ten-year term, which commenced in March 2012. During the first quarter, $1.9 million was spent to complete the construction. The Gallery Building was reclassified to investment properties effective February 1, 2012, upon substantial completion of the development project.

Dispositions

Pursuant to the strategic repositioning of our portfolio, we completed the following dispositions in the year:

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
Industrial Portfolio	industrial	5,134,114	575,469	225,592	1,147	October 4, 2012
7102–7220 Barlow Trail SE, Calgary	industrial	234,676	10,150	–	(516)[2]	November 30, 2012
Total		5,781,948	$ 680,264	$ 261,665	$ 2,677	

(1) Gross proceeds before transaction costs.

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

Subsequent to December 31, 2012, we completed the dispositions detailed below. With these sales there are no properties remaining as held for sale:

	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.

Our financing

Liquidity and capital resources

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

Our discussion of financing activities will be based on the debt balances below, which include debt related to investments in joint ventures that are equity accounted at our proportionate ownership as well as debt related to discontinued operations – industrial properties and other assets held for sale.

	December 31, 2012	December 31, 2011
Debt	**$ 3,314,594**	$ 2,254,756
Less debt related to:		
Investment in joint ventures	**526,968**	130,223
Assets held for sale	**9,200**	16
Consolidated balance sheets	**$ 2,778,426**	$ 2,124,517

Financing activities

Our debt strategy includes managing our maturity schedule to help mitigate interest rate risk and limit exposure in any given year as well as fixing the rates and extending mortgage terms as long as possible when interest rates are favourable.

On December 31, 2012, we completed the redemption of $126.5 million aggregate principal amount outstanding on our 6.5% Convertible Unsecured Subordinated Debentures (6.5% Debentures), 2005-1 5.7% Convertible Unsecured Subordinated Debentures ("5.7% Debentures"), 6.0% Convertible Unsecured Subordinated Debentures ("6.0% Debentures") and 7.0% Series G Convertible Unsecured Subordinated Debentures ("7.0% Debentures"). The redeemed convertible debentures bore interest at a weighted average face rate of 6.0% and a weighted average effective rate of 7.0%. In connection with the sale of the Industrial Portfolio and the sale of other non-core assets, $250.3 million of mortgages were assumed by the purchasers.

In Q3 2012, we pursued strategic financing initiatives to take advantage of low interest rates and, where possible, refinance existing mortgages with longer terms and lower interest rates. We evaluated our existing debt portfolio and identified mortgages on investment properties with low loan to values, high interest rates and shorter terms to maturity to execute this strategy. We placed $389.2 million of new or refinanced mortgages at a weighted average interest rate of 3.96%, and a term to maturity of 7.1 years. In addition, we repaid/discharged debt totalling $402.3 million at a weighted average interest rate of 4.7%, including a $145.0 million repayment of our revolving credit facility.

In Q2 2012, we entered into a $650.0 million mortgage bond with our joint venture partner via a bought deal private placement ($433.3 million at our share in equity accounted investments) to partially fund the acquisition of Scotia Plaza. The bond was entered into simultaneously with the closing of the acquisition on June 15, 2012. The bond bears interest semi-annually at a face rate of 3.21% for a term of seven years. After accounting for deferred financing costs, the effective interest rate on the bond is 3.55%. In April 2012, we repaid the $220.0 million bridge loan facility drawn on March 2, 2012, to acquire Whiterock. The facility was converted into a revolving credit facility with a one-year term and bearing interest at either the bank's prime rate plus 75 bps or bankers' acceptances ("BAs") plus 175 bps. At December 31, 2012, $54.0 million was drawn on the facility.

Debt

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

	December 31, 2012	December 31, 2011
Financing activities[1]		
Average effective interest rate[2]	**4.33%**	4.96%
Level of debt (debt-to-gross book value)[3]	**48.0%**	49.0%
Interest coverage ratio[4]	**2.7 times**	2.6 times
Debt-to-EBITDFV (years)[5]	**8.37**	7.63
Proportion of total debt due in current year	**10.4%**	7.5%
Debt – average term to maturity (years)	**5.1**	5.2
Variable rate debt as percentage of total debt	**4.3%**	1.3%

(1) The key performance indicators for December 31, 2012 exclude the results of operations and the debt of discontinued operations – industrial properties.

(2) Average effective interest rate is calculated as the weighted average interest rate of all interest bearing debt, including debt related to investment in joint ventures that are equity accounted.

(3) Level of debt is determined as total debt, including debt related to investment in joint ventures that are equity accounted, divided by total assets (including total assets of investment in joint ventures that are equity accounted) and adjusted for accumulated amortization on property and equipment.

(4) The interest coverage ratio for the year, including results from investment in joint ventures that are equity accounted, is calculated as net rental income plus interest and fee income, less general and administrative expenses, all divided by interest expense on debt.

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

We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Our current interest coverage ratio is 2.7 times, demonstrating our ability to more than adequately cover interest expense requirements. We also monitor our debt-to-EBITDFV ratio to gauge our ability to repay existing debt. Our current debt-to-EBITDFV ratio is 8.37 years. Our weighted average face rate of interest at December 31, 2012, is 4.50%, down 48 bps from 4.98% at December 31, 2011, and down 9 bps from 4.59% at September 30, 2012, reflecting the redeemed convertible debentures which had a weighted average face rate of 6.0%. After accounting for fair value adjustments and financing costs, the weighted average effective interest rate for outstanding debt is 4.33% at December 31, 2012.

Variable rate debt as a percentage of total debt increased to 4.3% from 1.3% at December 31, 2011, as a result of $48.9 million in new financings in the form of variable rate mortgages and amounts drawn on demand revolving credit facilities.

	December 31, 2012			December 31, 2011		
	Fixed	**Variable**	**Total**[1]	Fixed	Variable	Total[1]
Mortgages	**$ 2,902,942**	**$ 74,889**	**$ 2,977,831**	$ 1,909,828	$ 25,982	$ 1,935,810
Term debt	**248**	**–**	**248**	504	–	504
Demand revolving credit facilities	**–**	**67,557**	**67,557**	–	2,435	2,435
Term loan facility	**180,837**	**–**	**180,837**	184,654	–	184,654
Convertible debentures	**52,092**	**–**	**52,092**	131,353	–	131,353
Debentures	**36,029**	**–**	**36,029**	–	–	–
Total	**$ 3,172,148**	**$ 142,446**	**$ 3,314,594**	$ 2,226,339	$ 28,417	$ 2,254,756
Percentage	**95.7%**	**4.3%**	**100.0%**	98.7%	1.3%	100.0%

(1) Includes debt related to investment in joint ventures that are equity accounted, discontinued operations – industrial properties and other assets held for sale.

Mortgages payable include $19.9 million of fair value adjustments on mortgages assumed in connection with acquisitions (December 31, 2011 – $10.5 million). Amounts recorded at December 31, 2012, for the convertible debentures include a net fair value adjustment of $1.0 million, recorded at the time of assumption. The debentures include a $1.0 million fair value adjustment. The fair value adjustments and premiums, net of discounts, are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

Debt financing activities

New and assumed mortgage and term loan financings are highlighted in the table below.

	Three months ended December 31, 2012				Year ended December 31, 2012			
	Amount	Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective interest rate (%)[1]	Amount	Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective interest rate (%)[1]
New mortgages[2]	$ 35,093	6.0	3.62	3.74	$ 908,124	6.8	3.59	3.85
New mortgages assumed on investment property acquisitions and business combinations	66,489	2.1	6.15	4.26	794,882	3.7	4.86	3.73
Overall	$101,582	3.4	5.28	4.08	$1,703,006	5.3	4.18	3.79

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

(2) Includes mortgage bond.

On December 31, 2012, we used $126.5 million of our excess cash to redeem convertible debentures with a weighted average coupon rate of 6.0%. The remaining unamortized deferred financing costs and premium/discounts on initial recognition of the debentures have been written off to debt settlement costs in the amount of $2.7 million. In connection with the sale of industrial properties and the sale of non-core assets, $250.3 million of mortgages were assumed by purchasers upon disposition of the properties.

On September 28, 2012, we capitalized on the value of an investment property by refinancing a mortgage for a ten-year term, increasing the principal outstanding from $111.4 million at the time of discharge to $180.0 million, and reducing the face rate from 5.35% to 4.20%. In connection with the refinancing, we were subject to a prepayment penalty of $5.6 million, and wrote off the $4.1 million fair value adjustment related to the mark-to-market recorded when the debt was assumed. The net amount of $1.5 million was recorded on the consolidated statement of comprehensive income as a component of debt settlement costs. Total debt settlement costs for the quarter were $0.7 million, reflecting the write-off of $0.8 million in relation to three other mortgages that we discharged early.

In addition to the mortgages discussed above, we discharged $174.9 million of mortgages and a portion of the term loan facility with a combined weighted average interest rate of 5.28%, by way of repayment, refinancing or selling the related asset in Q3 2012.

On June 15, 2012, we placed $433.3 million ($650 million including our partner's share) of mortgage bond financing, which is included in equity accounted investments, at a face rate of 3.21% and an effective interest rate of 3.55% for a term of seven years. The interest is payable semi-annually based on a 30-day amortization period.

The Trust has four demand revolving credit facilities totalling approximately $281.5 million, of which $209.9 million is available as at December 31, 2012, after deducting $67.7 million that was drawn on the available facilities and $3.9 million that was utilized in the form of letters of guarantee.

On March 2, 2012, we entered into a $10.0 million equity bridge facility and a $210.0 million secured term facility. The equity bridge facility was in the form of rolling one-month 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. As at January 31, 2013, the formula-based amount available under this facility was $171.5 million, reduced from previous periods as a result of dispositions during Q4 2012. At December 31, 2012, $54.0 million was drawn on the facility.

A demand revolving credit facility is available up to a formula-based maximum not to exceed $40.0 million, generally bearing interest at the bank's prime rate (3.0% as at December 31, 2012) plus 1.5%, or 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 matures on April 30, 2013. At December 31, 2012, the formula-based amount available under this facility was $26.3 million, less $1.6 million in the form of letters of guarantee. At December 31, 2012, $13.7 million was drawn on the facility.

In connection with the acquisition of Realex in Q1 2011, we assumed a demand revolving credit facility authorized to a formula-based maximum of $22.0 million. In Q3 2011, we negotiated an increase in the authorized amount of this facility to $35.0 million. The facility is secured by a second-ranking mortgage on two properties and bears interest based on the bank's prime rate (3.0% as at December 31, 2012) plus 0.85%. The facility matures on April 30, 2013. At December 31, 2012, $2.0 million is being utilized in the form of letters of guarantee with $33.0 million available.

In connection with the acquisition of Whiterock, we assumed a revolving acquisition and operating facility of up to $35.0 million. Interest is incurred at floating rates determined, at our option, by reference to the prime rate plus 85 bps or bankers' acceptance rates plus 185 bps. 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. At December 31, 2012, $0.3 million is being utilized in the form of letters of guarantee and $34.7 million remains available.

We also have a $188.0 million term loan facility outstanding, drawn to finance the acquisition of the Blackstone Portfolio in Q3 2011. This facility expires on August 15, 2016, and bears interest monthly at bankers' acceptance rates plus 1.85%. In order to manage the interest rate fluctuations, we have entered into two interest rate swap agreements (the "swaps") to effectively fix the interest rate. We have applied hedge accounting to the swaps. On August 15, 2012, the Trust repaid $4.5 million on the term loan facility as one of the properties securing the facility was sold. As at December 31, 2012, $183.5 million was drawn on the term loan facility.

At December 31, 2012, we had $24.0 million in cash (excluding cash held in investment in joint ventures that are equity accounted) and $209.9 million available from our revolving credit facilities after accounting for the discharge of industrial properties secured against the revolving credit facility. In addition, we have four unencumbered properties that may be leveraged to provide additional financing.

Changes in debt levels, including debt related to investment in joint ventures that are equity accounted, discontinued operations – industrial properties and assets held for sale, are as follows:

	Three months ended December 31, 2012						
	Mortgages	Term debt	Demand revolving credit facilities	Term loan facility	Convertible debentures	Debentures	Total
Debt as at September 30, 2012	$ 3,180,793	$ 288	$ –	$ 180,448	$ 182,979	$ 36,102	$ 3,580,610
New debt assumed on investment property acquisitions	66,489	–	–	–	–	–	66,489
New debt placed	35,093	–	67,677	–	–	–	102,770
Scheduled repayments	(20,492)	(40)	–	–	–	–	(20,532)
Lump sum repayments	(46,425)	–	–	–	(126,494)	–	(172,919)
Mortgages assumed on property dispositions	(232,573)	–	–	–	–	–	(232,573)
Conversion to unitholders' equity	–	–	–	–	(7,393)	–	(7,393)
Foreign exchange	597	–	–	–	–	–	597
Other adjustments[1]	(5,651)	–	(120)	389	3,000	(73)	(2,455)
Debt as at December 31, 2012	$ 2,977,831	$ 248	$ 67,557	$ 180,837	$ 52,092	$ 36,029	$ 3,314,594

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

Year ended December 31, 2012

	Mortgages	Term debt	Demand revolving credit facilities	Term loan facility	Bridge loan facility	Convertible debentures	Debentures	Total
Debt as at December 31, 2011	$ 1,935,810	$ 504	$ 2,435	$ 184,654	$ –	$ 131,353	$ –	$ 2,254,756
New debt assumed on investment property acquisitions	794,882	–	34,300	–	–	59,927	45,000	934,109
New debt placed	908,124	24	255,289	–	220,000	–	–	1,383,437
Scheduled repayments	(69,010)	(280)	–	–	–	–	–	(69,290)
Lump sum repayments	(339,407)	–	(224,347)	–	(220,000)	(126,686)	(10,000)	(920,440)
Lump sum repayments on property dispositions	(6,786)	–	–	(4,547)	–	–	–	(11,333)
Mortgages assumed on property dispositions	(250,332)	–	–	–	–	–	–	(250,332)
Conversion to unitholders' equity	–	–	–	–	–	(17,498)	–	(17,498)
Foreign exchange	450	–	–	–	–	–	–	450
Other adjustments[1]	4,100	–	(120)	730	–	4,996	1,029	10,735
Debt as at December 31, 2012	$ 2,977,831	$ 248	$ 67,557	$ 180,837	$ –	$ 52,092	$ 36,029	$ 3,314,594

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

Our current debt profile is balanced with staggered maturities over the next 16 years. The following is our debt maturity profile as at December 31, 2012:

	Debt maturities	Scheduled principal repayments on non-matured debt	Amount[1]	%	Weighted average effective interest rate on balance due at maturity (%)	Weighted average face rate on balance due at maturity (%)
2013	$ 270,634	$ 74,770	$ 345,404	10.4	4.28	5.26
2014	97,913	72,838	170,751	5.2	5.27	5.83
2015	410,523	68,587	479,110	14.5	3.96	4.25
2016	575,161	58,908	634,069	19.2	4.36	4.40
2017	329,293	50,001	379,294	11.5	4.56	4.97
2018 and thereafter	1,164,634	133,587	1,298,221	39.2	4.31	4.22
Total	$ 2,848,158	$ 458,691	$ 3,306,849	100.0	4.33	4.50
Fair value adjustments			21,912			
Financing costs			(14,167)			
Total			$ 3,314,594			

[1] Includes debt related to investment in joint ventures that are equity accounted and assets held for sale.

Convertible debentures

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

	Date issued	Maturity date	**Outstanding principal December 31, 2012**	Outstanding principal January 31, 2013	REIT A Units if converted January 31, 2013
5.5% Series H Debentures	December 9, 2011	March 31, 2017	**$ 51,128**	$ 51,128	1,393,569

On December 31, 2012, the Trust redeemed all the outstanding 6.5% Debentures, 5.7% Debentures, 6.0% Debentures and 7.0% Debentures. The redemption price was determined in accordance with the provisions of the indentures and supplemental debentures related to the redeemed convertible debentures. The aggregate principal amount redeemed was $126.5 million. Debt settlement costs of $2.7 million were recorded on the statement of comprehensive income relating to the write-off of financing costs and fair value adjustments related to the redeemed convertible debentures.

The fair value of the conversion features of the convertible debentures is remeasured each period, with changes in fair value being recorded in comprehensive income. At December 31, 2012, the conversion feature amounted to a $1.4 million financial liability (December 31, 2011 – $6.4 million financial liability).

Debentures

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

	Date issued	Maturity date	Interest rate	Outstanding principal December 31, 2012
Series K	April 26, 2011	April 26, 2016	5.95%	$ 25,000
Series L	August 8, 2011	September 30, 2016	5.95%	10,000
Total				$ 35,000

Commitments and contingencies

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

Dundee REIT's future minimum commitments under operating and finance leases, including investment in joint ventures that are equity accounted, are as follows:

	December 31, 2012	
	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, we paid $1.5 million (December 31, 2011 – $1.2 million) in minimum lease payments, which have been included in comprehensive income for the period.

We have entered into fixed price contracts to purchase electricity and gas as follows:

			Minimum payments due			
	Number of properties	Expiry date	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

Our equity

Our discussion of equity includes LP Class B Units, Series 1 ("subsidiary redeemable units"), which are economically equivalent to REIT Units. Pursuant to IFRS, the subsidiary redeemable units are classified as a liability in our consolidated financial statements.

				Unitholders' 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)
	97,634,941	**3,296,399**	66,209,376	2,117,234
Add: LP B Units	**3,528,658**	**132,078**	3,506,107	114,445
Total	**101,163,599**	**$ 3,428,477**	69,715,483	$ 2,231,679

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

At December 31, 2012, Dundee Corporation, directly and indirectly through its subsidiaries, held 2,494,383 REIT A Units and 3,528,658 LP B Units for a total ownership interest of approximately 6.0%.

The following table summarizes the changes in our outstanding equity.

	REIT A Units	REIT B Units	LP B Units	Total
Units issued and outstanding on January 1, 2012	66,193,060	16,316	3,506,107	69,715,483
Units issued pursuant to public offering	16,947,550	–	–	16,947,550
Units issued pursuant to Whiterock transaction	12,580,347	–	–	12,580,347
Units issued pursuant to DRIP	1,200,028	–	22,551	1,222,579
Units issued pursuant to the Unit Purchase Plan	15,296	–	–	15,296
Units issued pursuant to Deferred Unit Incentive Plan ("DUIP")	25,290	–	–	25,290
Conversion of debentures	657,054	–	–	657,054
Total units outstanding on December 31, 2012	97,618,625	16,316	3,528,658	101,163,599
Percentage of all units	96.49%	0.02%	3.49%	100.00%
Units issued pursuant to DRIP on January 15, 2013	80,912	–	1,908	82,820
Units issued pursuant to Unit Purchase Plan	99	–	–	99
Units issued pursuant to Deferred Unit Incentive Plan ("DUIP")	3,680	–	–	3,680
Total units outstanding on January 31, 2013	97,703,316	16,316	3,530,566	101,250,198
Percentage of all units	96.49%	0.02%	3.49%	100.00%

On June 12, 2012, we completed a public offering of 10,392,550 REIT A Units, including the over-allotment option, at a price of $35.90 per unit for gross proceeds of $373.1 million. Costs related to the offering totalled $14.6 million and were charged directly to unitholders' equity.

On March 28, 2012, we 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 $231.7 million. Costs related to the offering totalled $9.4 million and were charged directly to unitholders' equity.

On March 2, 2012, Dundee REIT took up approximately 40.9% of the outstanding Whiterock units under its offer to acquire any and all Whiterock units in consideration for $16.25 or 0.4729 REIT A Units, as elected by Whiterock unitholders. Approximately 9,832,563, or 27%, of the Whiterock units were tendered to our offer for cash totalling $159.8 million and the remaining Whiterock units were redeemed by Whiterock in consideration for 0.4729 REIT A Units for each Whiterock unit. In total, we issued 12,580,347 REIT A Units in connection with the transaction, which were recorded at $34.56 per unit, representing total equity consideration valued at $434.8 million.

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). On December 1, 2012, the normal course issuer bid expired and was not renewed. No purchases had been made under the bid.

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 billion. As at December 31, 2012, no units and no debt securities have been issued under the short form base shelf prospectus.

Distribution policy

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

	Three months ended December 31, 2012			Year ended December 31, 2012		
	Declared distributions	4% bonus distributions	Total	Declared distributions	4% bonus distributions	Total
2012 distributions						
Paid in cash or reinvested in units	$ 36,783	$ 351	$ 37,134	$ 185,022	$ 1,624	$ 186,646
Payable at December 31, 2012	18,574	130	18,704	18,574	130	18,704
Total distributions[1]	$ 55,357	$ 481	$ 55,838	$ 203,596	$ 1,754	$ 205,350
2012 reinvestment						
Reinvested to December 31, 2012	$ 8,774	$ 351	$ 9,125	$ 40,602	$ 1,624	$ 42,226
Reinvested on January 15, 2013	2,970	119	3,089	2,970	119	3,089
Total distributions reinvested	$ 11,744	$ 470	$ 12,214	$ 43,572	$ 1,743	$ 45,315
Distributions paid in cash	$ 43,613			$ 160,024		
Reinvestment to distribution ratio	21.2%			21.4%		
Cash payout ratio	78.8%			78.6%		

(1) Includes distributions on LP B Units.

Distributions declared for the three months ended December 31, 2012, were $55.4 million, up $18.8 million over the comparative prior year period. Distributions declared for the year ended December 31, 2012, were $203.6 million, up $72.4 million over the comparative prior year period. The increase reflects a larger number of units outstanding as a result of the equity issues completed in 2011 and 2012 as well as distributions reinvested in additional units and vested deferred trust units exchanged for REIT A Units. Of the distributions declared for the three months ended December 31, 2012, $11.7 million ($43.6 million for the year), or approximately 21.2% (21.4% for the year), were reinvested in additional units resulting in a cash payout ratio of 78.8% (78.6% for the year).

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

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Net income	**$ 100,542**	$ 222,761	**$ 291,073**	$ 400,920
Cash flows from operating activities[1]	**45,394**	38,117	**178,295**	119,678
Distributions paid and payable[2]	**55,838**	36,896	**205,350**	132,073
Cash flows from operating activities over (shortfall) distributions paid and payable	**(10,444)**	1,221	**(27,055)**	(12,395)

(1) Cash flows from operating activities exclude cash flows from transaction costs on acquired businesses, and include operating cash flows from investment in joint ventures that are equity accounted.

(2) Includes distributions on LP B Units.

For the three months ended December 31, 2012, distributions paid and payable exceeded cash flow from operating activities by $10.4 million ($27.1 million for the year ended December 31, 2012). When establishing distribution payments, we do not take into consideration fluctuations in working capital and transaction costs on business combinations, but rather use a normalized amount as a proxy for leasing costs. Net income exceeded distributions paid and payable by $44.7 million for the three months ended December 31, 2012, and exceeded distributions paid and payable by $85.7 million for the year ended December 31, 2012.

Our results of operations

	Three months ended December 31,					
	2012			2011		
	Amounts per financial statements	**Share of income from investment in joint ventures**	**Total**	Amounts per financial statements	Share of income from investment in joint ventures	Total
Investment properties revenue	**$ 162,014**	**$ 29,985**	**$ 191,999**	$ 119,234	$ 7,678	$ 126,912
Investment properties operating expenses	**71,623**	**13,941**	**85,564**	52,593	3,303	55,896
Net rental income from continuing operations	**90,391**	**16,044**	**106,435**	66,641	4,375	71,016
Other income and expenses						
General and administrative	**(5,774)**	**(81)**	**(5,855)**	(3,856)	–	(3,856)
Share of net income and dilution gain from investment in Dundee Industrial	**1,568**	**–**	**1,568**	–	–	–
Share of net income from investment in joint ventures	**10,488**	**(10,488)**	**–**	24,847	(24,847)	–
Fair value adjustments to investment properties	**45,595**	**(487)**	**45,108**	145,856	21,938	167,794
Net loss on sale of investment properties	**(1,289)**	**–**	**(1,289)**	–	–	–
Interest:						
Debt	**(33,239)**	**(5,028)**	**(38,267)**	(24,326)	(1,499)	(25,825)
Subsidiary redeemable units	**(1,944)**	**–**	**(1,944)**	(1,931)	–	(1,931)
Debt settlement and other costs, net	**(3,066)**	**–**	**(3,066)**	–	–	–
Depreciation and amortization	**(613)**	**–**	**(613)**	(157)	–	(157)
Interest and fee income	**1,435**	**40**	**1,475**	863	33	896
Fair value adjustments to financial instruments	**(4,179)**	**–**	**(4,179)**	(6,433)	–	(6,433)
Income before income taxes and discontinued operations	**99,373**	**–**	**99,373**	201,504	–	201,504
Deferred income taxes	**263**	**–**	**263**	–	–	–
Income from continuing operations	**99,110**	**–**	**99,110**	201,504	–	201,504
Income from discontinued operations	**1,432**	**–**	**1,432**	21,257	–	21,257
Net income	**100,542**	**–**	**100,542**	222,761	–	222,761
Other comprehensive income (loss)						
Unrealized gain (loss) on interest rate swap agreements	**344**	**–**	**344**	(868)	–	(868)
Unrealized foreign currency translation gain	**320**	**–**	**320**	–	–	–
	664	**–**	**664**	(868)	–	(868)
Comprehensive income	**$ 101,206**	**$ –**	**$ 101,206**	$ 221,893	$ –	$ 221,893

						Years ended December 31,
			2012			2011
	Amounts per financial statements	**Share of income from investment in joint ventures**	**Total**	Amounts per financial statements	Share of income from investment in joint ventures	Total
Investment properties revenue	**$ 607,796**	**$ 78,768**	**$ 686,564**	$ 375,015	$ 29,759	$ 404,774
Investment properties operating expenses	**259,249**	**36,175**	**295,424**	158,949	12,696	171,645
Net rental income from continuing operations	**348,547**	**42,593**	**391,140**	216,066	17,063	233,129
Other income and expenses						
General and administrative	**(21,132)**	**(82)**	**(21,214)**	(13,796)	–	(13,796)
Share of net income and dilution gain from investment in Dundee Industrial	**1,568**	**–**	**1,568**	–	–	–
Share of net (loss) income from investment in joint ventures	**(254)**	**254**	**–**	49,728	(49,728)	–
Fair value adjustments to investment properties	**105,572**	**(23,964)**	**81,608**	205,560	37,969	243,529
Net gain (loss) on sale of investment properties	**1,530**	**–**	**1,530**	–	(103)	(103)
Acquisition related costs, net	**(17,549)**	**–**	**(17,549)**	(5,688)	–	(5,688)
Interest:						
Debt	**(125,118)**	**(13,779)**	**(138,897)**	(79,787)	(5,323)	(85,110)
Subsidiary redeemable units	**(7,758)**	**–**	**(7,758)**	(7,704)	–	(7,704)
Debt settlement and other costs, net	**(3,798)**	**–**	**(3,798)**	–	–	–
Depreciation and amortization	**(2,042)**	**(4)**	**(2,046)**	(580)	–	(580)
Interest and fee income	**5,045**	**168**	**5,213**	2,376	122	2,498
Fair value adjustments to financial instruments	**(16,588)**	**(5,186)**	**(21,774)**	(11,065)	–	(11,065)
Income before income taxes and discontinued operations	**268,023**	**–**	**268,023**	355,110	–	355,110
Deferred income taxes	**1,849**	**–**	**1,849**	–	–	–
Income from continuing operations	**266,174**	**–**	**266,174**	355,110	–	355,110
Income from discontinued operations	**24,899**	**–**	**24,899**	45,810	–	45,810
Net income	**291,073**	**–**	**291,073**	400,920	–	400,920
Other comprehensive income (loss)						
Unrealized gain (loss) on interest rate swap agreements	**1,227**	**–**	**1,227**	(1,602)	–	(1,602)
Unrealized foreign currency translation gain	**78**	**–**	**78**	–	–	–
	1,305	**–**	**1,305**	(1,602)	–	(1,602)
Comprehensive income	**$ 292,378**	**$ –**	**$ 292,378**	$ 399,318	$ –	$ 399,318

Basis of accounting

Our discussion in income from continuing operations excludes the results of the 77 industrial properties sold to Dundee Industrial REIT on October 4, 2012, as it is included and discussed in income from discontinued operations. Prior year amounts have been restated to conform to current year presentation.

Investment properties revenue

Investment properties revenue includes net rental income from investment properties as well as the recovery of operating costs and property taxes from tenants. Revenues generated by acquisitions completed in 2011 and in 2012 were the primary drivers of the $65.1 million, or 51.3%, increase in investment properties revenue over the prior year comparative quarter, and $281.8 million, or 69.6%, increase in investment properties revenue year-over-year. Revenues from investment properties owned as of January 1, 2011, grew by $0.3 million over the prior year comparative quarter and by $3.7 million year-over-year, mainly driven by occupancy increases in Western Canada and Calgary.

Investment properties operating expenses

Investment properties operating expenses comprise occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing. Operating expenses fluctuate with changes in occupancy levels, weather, utility costs, realty taxes, and repairs and maintenance. Operating expenses increased by $29.7 million, or 53.1%, over the prior year comparative quarter, and by $123.8 million, or 72.1%, over the prior year driven largely by acquisitions completed in both 2011 and 2012. Operating expenses from investment properties owned as of January 1, 2011, grew by $0.9 million over the prior year comparative quarter and by $2.2 million over the prior year, mainly driven by occupancy increases in Western Canada and Calgary.

General and administrative expenses

General and administrative expenses primarily comprise expenses related to corporate management, Board of Trustees' fees and expenses, investor relations and asset management fees. For Q4 2012, general and administrative expenses included a $1.1 million non-cash component relating to the DUIP, an increase of $0.3 million over the prior year comparative quarter, primarily as a result of unit price increases driving higher amortization amounts. On a cash basis, general and administrative expenses increased $1.7 million over the prior year comparative quarter, primarily as a result of asset management fees related to acquisitions completed in 2011 and 2012, along with higher general corporate costs and professional fees resulting from the growth of the portfolio. For the year ended December 31, 2012, general and administrative expenses included a $4.2 million non-cash component relating to the DUIP, an increase of $0.8 million over the prior year, primarily as a result of unit price increases driving higher amortization amounts. On a cash basis, general and administrative expenses increased $6.7 million over the prior year, primarily as a result of asset management fees related to acquisitions completed in 2011 and in 2012, along with higher general corporate costs and professional fees resulting from the growth of the portfolio.

Fair value adjustments to investment properties

A $45.1 million fair value adjustment was recorded during Q4 2012, primarily reflecting cap rate compression in our downtown Calgary portfolio where cap rates compressed by 23 bps on average, offset by the impact of acquisition related transaction costs. For the year ended December 31, 2012, a fair value adjustment of $81.6 million was recorded, primarily reflecting an overall cap rate compression of 29 bps compared to the prior year, offset by the impact of acquisition related transaction costs. For the year ended December 31, 2012, the weighted average cap rate across our portfolio was 6.35% (December 31, 2011 – 6.64%).

Gain (loss) on sale of investment properties

During Q4 2012, the Trust recorded a $1.3 million net loss on the disposition of four non-core investment properties. For the year ended December 31, 2012, the Trust recorded a net gain of $1.5 million on the disposition of ten non-core investment properties.

Acquisition related costs, net

For the year ended December 31, 2012, the Trust recorded $17.5 million in costs related to the acquisition of Whiterock in March 2012. In the prior year, the Trust recorded $5.7 million in costs related to the acquisition of Realex Properties in February of 2011.

Interest expense – debt

Interest expense on debt increased by $12.4 million, or 48.2%, over the prior year comparative quarter, and $53.8 million, or 63.2%, year-over-year. The increase in interest expense resulted from new debt assumed on investment properties acquired in 2011 and 2012 as well as new debt entered into during the year.

Interest expense – subsidiary redeemable units

Interest expense on subsidiary redeemable units for the quarter and for the year ended December 31, 2012, increased marginally over the comparative prior periods, reflecting a greater number of subsidiary redeemable units outstanding as a result of the Distribution Reinvestment Plan.

Debt settlement costs and other costs, net

During the first nine months of 2012, the Trust incurred net debt settlement costs and other costs of $0.7 million, of which $5.6 million is related to a prepayment penalty on a mortgage that was discharged and refinanced, offset by a $4.9 million gain resulting from the write-off of fair value adjustments on mortgages that were refinanced prior to maturity during Q3 2012. During Q4 2012, the Trust incurred net debt settlement costs and other costs of $3.1 million. Included in this amount is a $2.7 million write-off of the financing costs of convertible debentures, as a result of their redemption, and a $1.3 million write-off of external management contracts as a result of the acquisition of the co-owner's interest in the Trans America Group properties, offset by a $0.9 million gain resulting from the write-off of fair value adjustments on mortgages that were refinanced prior to maturity or discharged as a result of asset sales.

Depreciation and amortization

For the three and 12 months ended December 31, 2012, depreciation and amortization expense increased by $0.5 million, or 290.4%, and $1.5 million, or 252.8%, over the respective prior year comparative periods. The increase in depreciation and amortization expense over the prior year comparative periods is primarily due to the amortization of external management contracts acquired as part of the acquisition of Whiterock in Q1 2012.

Interest and fee income

Interest and fee income comprises fees earned from third-party property management, including management, construction and leasing fees, and interest earned on bank accounts and related fees. Except for property management fees, the income included in interest and fee income is not necessarily of a recurring nature and the amounts may vary quarter-over-quarter and year-over-year. The $0.6 million, or 64.6%, increase over the prior year comparative quarter is primarily as a result of property management fees earned on properties acquired in the Whiterock acquisition that are co-owned. The increase of $2.7 million, or 108.7%, over the prior year is also driven by increases in third-party management fees earned from new investment property acquisitions where we are either a co-owner or under a joint venture arrangement, most of which were acquired in the Whiterock Portfolio.

Fair value adjustments to financial instruments

Fair value adjustments to financial instruments include: fair value adjustments on the conversion features of convertible debt, remeasurement of the carrying value of subsidiary redeemable units and remeasurement of deferred trust units. During Q4 2012, the fair value adjustment on the conversion features of convertible debt resulted in a net loss of $4.7 million (for the year ended December 31, 2012 – net gain of $2.7 million) mainly as a result of the write-off of the conversion feature on the convertible debentures redeemed at year-end.

Our remeasurement of the carrying value of subsidiary redeemable units resulted in a gain of $0.8 million for Q4 2012 as a result of unit price decrease over the prior quarter and a loss of $16.8 million as a result of unit price increase over the prior year.

The remeasurement of the deferred trust units resulted in a loss of $0.2 million for Q4 2012 (for the year ended December 31, 2012 – loss of $2.5 million) due to a larger number of amortized deferred trust units being remeasured.

Related party transactions

From time to time, Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms and as disclosed in Note 26 to the consolidated financial statements. During Q4 2012, the Trust received $1.0 million related to the DRC Services Agreement (for the year ended December 31, 2012 – $3.4 million) and also recovered $3.5 million for operating and administrative costs (for the year ended December 31, 2012 – $13.3 million). Pursuant to the Asset Management Agreement, we paid $5.4 million (for the year ended December 31, 2012 – $29.9 million), including $3.9 million (for the year ended December 31, 2012 – $15.0 million) reported in general and administrative expenses for asset management fees, $nil recorded for business acquisition related costs (for the year ended December 31, 2012 – $7.2 million), $1.4 million related to property acquisition costs (for the year ended December 31, 2012 – $7.0 million) and $0.2 million recorded as a financing cost (for the year ended December 31, 2012 – $0.7 million).

Pursuant to the terms of the $42 million promissory notes receivable from Dundee Industrial, the Trust recognized interest income of $317 for the year ended December 31, 2012, which is included in interest and fee income.

Deferred income taxes

During Q4 2012, $0.3 million of deferred income taxes were recognized relating to the two investment properties located in the United States that were part of the Whiterock Portfolio. For the year ended December 31, 2012, $1.8 million of deferred incomes taxes were recognized.

Income from discontinued operations

Income from discontinued operations relates to the 77 industrial properties that were sold as of October 4, 2012. During Q4 2012 and for the year ended December 31, 2012, income from discontinued operations decreased by $19.8 million, or 93.3%, over the prior year comparative quarter and $20.9 million, or 45.6%, over the prior year. The decrease is mainly attributable to the sale of the Industrial Portfolio with the recognition of three days of operations during Q4 2012 versus a full quarter in the prior year comparative period and less significant cap rate compression causing a smaller fair value adjustment in investment properties in 2012. Offsetting these decreases was income growth from properties acquired in 2011 and in 2012, and the recognition of a gain on sale of investment properties of $1.1 million.

Other comprehensive income

Included in other comprehensive income for the quarter is a $0.3 million unrealized gain on interest rate swap agreements ($1.2 million for the year ended December 31, 2012) and a $0.3 million unrealized foreign currency translation gain related to the two properties located in the United States ($0.1 million for the year ended December 31, 2012).

Net operating income

We define NOI as the total of investment property revenue, including the share of net rental income from investment in joint ventures and property management income, less investment property operating expenses, excluding property revenue and operating expenses for properties sold and held for sale.

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

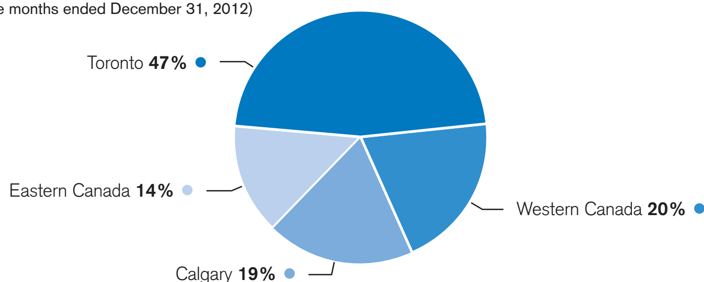
	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Net rental income	**$ 90,391**	$ 66,641	**$ 348,547**	$ 216,066
Share of net rental income from investment in joint ventures that are equity accounted	**16,044**	4,375	**42,593**	17,063
Income from discontinued properties	**395**	7,100	**28,111**	28,008
NOI including income from discontinued operations, properties sold and assets held for sale	**$ 106,830**	$ 78,116	**$ 419,251**	$ 261,137

Net operating income, before income from discontinued operations, properties sold and other properties held for sale for the three months ended December 31, 2012, was $105.8 million, a 51% increase over the prior year comparative period. For the year ended December 31, 2012, net operating income, before income from discontinued operations, properties sold and other properties held for sale was $385.8 million, a 68% increase over the prior year. The increase is mainly attributable to income generated by investment properties acquired in 2011 and in 2012 as well as comparative property NOI growth.

	Three months ended December 31,				Years ended December 31,			
			Growth				Growth	
	2012	2011	Amount	%	**2012**	2011	Amount	%
Western Canada	**$ 21,677**	$ 16,363	$ 5,314	32	**$ 80,968**	$ 57,453	$ 23,515	41
Calgary	**19,873**	19,068	805	4	**78,515**	67,225	11,290	17
Toronto	**49,919**	25,280	24,639	97	**171,698**	81,936	89,762	110
Eastern Canada	**14,384**	9,354	5,030	54	**54,640**	22,825	31,815	139
NOI	**105,853**	70,065	35,788	51	**385,821**	229,439	156,382	68
NOI from discontinued operations(1)	**395**	7,100	(6,705)		**28,111**	28,008	103	
NOI from properties sold and held for sale(1)	**582**	951	(369)		**5,319**	3,690	1,629	
NOI including income from discontinued operations and properties sold and held for sale	**$106,830**	$ 78,116	$ 28,714	37	**$419,251**	$261,137	$158,114	61

(1) Includes straight-line rents and amortization of lease incentives.

NOI BY REGION
(Three months ended December 31, 2012)



NOI comparative portfolio

Net operating income shown below details comparative and non-comparative items to assist in understanding the impact each component has on NOI. The comparative properties disclosed in the following tables are properties acquired prior to January 1, 2011. Income from discontinued operations, properties sold and other properties held for sale contributing to NOI in comparative periods is shown separately. Comparative NOI and NOI attributed to acquisitions exclude lease termination fees, straight-line rents and amortization of lease incentives.

Comparative properties NOI increased by $1.4 million, or 4%, over the prior year comparative quarter and by $4.3 million, or 3%, over the prior year.

	Three months ended December 31,				Years ended December 31,			
			Growth				Growth	
	2012	2011	Amount	%	**2012**	2011	Amount	%
Western Canada	**$ 12,096**	$ 11,267	$ 829	7	**$ 47,327**	$ 44,345	$ 2,982	7
Calgary	**13,365**	12,502	863	7	**51,554**	50,503	1,051	2
Toronto	**14,900**	15,043	(143)	(1)	**59,664**	59,467	197	–
Eastern Canada	**2,116**	2,222	(106)	(5)	**8,448**	8,402	46	1
Comparative properties	**42,477**	41,034	1,443	4	**166,993**	162,717	4,276	3
Lease termination fees and other	**97**	141	(44)		**922**	659	263	
Properties held for redevelopment	**(94)**	394	(488)		**281**	1,395	(1,114)	
Acquisitions	**62,633**	27,677	34,956		**213,645**	62,497	151,148	
Straight-line rent	**2,019**	2,054	(35)		**8,118**	5,493	2,625	
Amortization of lease incentives	**(1,279)**	(1,235)	(44)		**(4,138)**	(3,322)	(816)	
NOI	**105,853**	70,065	35,788	51	**385,821**	229,439	156,382	68
NOI from discontinued operations[1]	**395**	7,100	(6,705)		**28,111**	28,008	103	
NOI from properties sold and properties held for sale[1]	**582**	951	(369)		**5,319**	3,690	1,629	
NOI including income from discontinued operations, properties sold and assets held for sale	**$106,830**	$ 78,116	$ 28,714	37	**$419,251**	$261,137	$158,114	61

(1) Includes straight-line rents and amortization of lease incentives.

On a quarterly basis, NOI from comparative properties increased by 4%, or $1.4 million, over the prior year comparative quarter (year ended December 31, 2012 – 3% or $4.3 million). NOI from Western Canada increased by 7% both quarter-over-quarter and year-over-year, largely driven by occupancy increases in our downtown Edmonton properties, which contributed $0.7 million and $1.9 million to the gains in each period, respectively. In addition, NOI from properties in Vancouver and Saskatchewan grew by $0.4 million and $0.5 million, respectively, for the year ended December 31, 2012 as a result of occupancy increases in Vancouver as well as stepped rent increases in Saskatchewan. NOI in Calgary increased 7% for the quarter and 2% for the year, primarily as a result of new leases commencing in the quarter, and, on a year-over-year basis as a result of increased occupancy and higher in-place rents on new leases. On a relative basis, our Toronto and Eastern Canada regions did not move significantly quarter-over-quarter and year-over-year.

For the year ended December 31, 2012, we received more in termination fees, which increased NOI by $0.3 million over the comparative period. Additionally, we had NOI declines of $0.5 million (year ended December 31, 2012 – $1.1 million) related to a property that no longer has a lease in-place and which has been classified as redevelopment.

2013 NOI classification

Due to the volume of acquisition activity in 2011 and 2012, the following table serves as a benchmark for comparative property NOI to be reported in our MD&A in 2013.

	Three months ended December 31, 2012	Year ended December 31, 2012
Western Canada	**$ 17,097**	$ 66,929
Calgary	**19,723**	77,503
Toronto	**24,316**	97,914
Eastern Canada	**8,756**	35,204
Comparative properties	**69,892**	277,550
Lease termination fees and other	**97**	922
Properties held for redevelopment	**(94)**	281
Acquisitions	**35,218**	103,088
Straight-line rent	**2,019**	8,118
Amortization of lease incentives	**(1,279)**	(4,138)
NOI	**105,853**	385,821
NOI from discontinued operations[1]	**395**	28,111
NOI from properties sold and held for sale[1]	**582**	5,319
NOI including income from discontinued operations and properties sold and held for sale	**$ 106,830**	$ 419,251

(1) Includes straight-line rent and amortization of lease incentives.

Comparative property NOI includes investment properties acquired prior to January 1, 2012.

NOI prior quarter comparison

The comparative properties disclosed in the following table include properties acquired prior to July 1, 2012.

	Three months ended			
			Growth	
	December 31, 2012	September 30, 2012	Amount	%
Western Canada	**$ 20,613**	$ 20,556	$ 57	–
Calgary	**20,196**	19,528	668	3
Toronto	**49,252**	49,777	(525)	(1)
Eastern Canada	**13,814**	14,153	(339)	(2)
Comparative properties	**103,875**	104,014	(139)	–
Lease termination fees and other	**97**	71	26	
Properties held for redevelopment	**(94)**	(151)	57	
Acquisitions	**1,235**	–	1,235	
Straight-line rent	**2,019**	2,359	(340)	
Amortization of lease incentives	**(1,279)**	(926)	(353)	
NOI	**105,853**	105,367	486	–
NOI from discontinued operations[1]	**395**	9,771	(9,376)	
NOI from properties sold and held for sale[1]	**582**	1,429	(847)	
NOI including income from discontinued operations and properties sold and held for sale	**$106,830**	$116,567	$ (9,737)	(8)

[1] Includes straight-line rent and amortization of lease incentives.

As measured against Q3 2012, comparative NOI was relatively stable with gains in Calgary offsetting small declines in Toronto and Eastern Canada. Western Canada remained flat against the prior quarter. Calgary NOI increased by an impressive 3%, or $0.7 million, over Q3 2012 driven by higher weighted average in-place occupancy as well as leases renewing at higher rents. NOI from the Toronto portfolio was down $0.5 million, primarily reflecting lower weighted average in-place occupancy as a result of temporary downtime between lease expiries and subsequent renewals and new leasing. We leased and renewed space in excess of the expiring space, but there was some downtime in the quarter, ultimately causing most of the $0.5 million, or 1%, decline in NOI for the quarter. Eastern Canada declined by $0.3 million, or 2%, over the prior quarter primarily as a result of higher non-recoverable expenses.

Funds from operations and adjusted funds from operations

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Net income	**$ 100,542**	$ 222,761	**$ 291,073**	$ 400,920
Add (deduct):				
Share of net income and dilution gain from investment in Dundee Industrial	**(1,568)**	–	**(1,568)**	–
Share of FFO from investment in Dundee Industrial	**3,458**	–	**3,458**	–
Depreciation of property and equipment	**254**	156	**851**	579
Amortization of property management contracts	**359**	–	**1,321**	–
Amortization of lease incentives	**1,278**	1,351	**4,383**	3,951
Loss (gain) on disposal of investment properties	**142**	–	**(2,677)**	–
Interest expense on subsidiary redeemable units	**1,944**	1,931	**7,758**	7,704
Acquisition related costs, net	**–**	–	**17,551**	5,776
Leasing incentives expensed on lease terminations	**–**	–	**287**	–
Fair value adjustments to investment properties	**(45,595)**	(162,617)	**(110,759)**	(232,987)
Fair value adjustments to investment properties held in joint ventures	**487**	(21,938)	**23,964**	(37,969)
Fair value adjustments to financial instruments	**4,179**	6,433	**16,588**	11,065
Fair value adjustments of DUIP included in general and administrative expenses	**181**	135	**745**	598
Debt settlement and other costs, net	**3,066**	–	**3,798**	–
Hedge-break fee for financial instrument held in joint venture	**–**	–	**5,186**	–
Deferred income taxes	**263**	–	**1,849**	–
Other	**(85)**	(2)	**(320)**	(240)
FFO	**$ 68,905**	$ 48,210	**$ 263,488**	$ 159,397

	Three months ended December 31, 2012	Three months ended December 31, 2011	Years ended December 31, 2012	Years ended December 31, 2011
Funds from operations	**$ 68,905**	$ 48,210	**$ 263,488**	$ 159,397
Add (deduct):				
Share of FFO from investment in Dundee Industrial	**(3,458)**	–	**(3,458)**	–
Share of AFFO from investment in Dundee Industrial	**2,597**	–	**2,597**	–
Amortization of fair value adjustments on assumed debt	**(1,426)**	(799)	**(7,976)**	(2,156)
Deferred unit compensation expense	**904**	696	**3,415**	2,805
Straight-line rent	**(2,120)**	(2,459)	**(9,313)**	(6,820)
Revenue supplement from vendor on acquisition	**–**	598	**1,495**	1,217
Other	**(41)**	193	**(56)**	322
	65,361	46,439	**250,192**	154,765
Deduct:				
Normalized initial direct leasing costs and lease incentives	**7,226**	5,317	**27,932**	16,790
Normalized non-recoverable recurring capital expenditures	**75**	75	**300**	300
AFFO	**$ 58,060**	$ 41,047	**$ 221,960**	$ 137,675

Funds from operations and adjusted funds from operations per unit amounts

The basic weighted average number of units outstanding used in the FFO and AFFO calculations includes the weighted average of all REIT Units, LP B Units and vested but unissued deferred trust units and income deferred trust units. The diluted weighted average number of units assumes the conversion of the 6.5%, 5.7%, 6.0%, 7.0% and 5.5% Series H Debentures. Diluted FFO for the quarter includes $3.1 million in interest and general and administrative expense adjustments related to convertible debentures and unvested deferred trust units. Diluted FFO for the year ended December 31, 2012, includes $12.0 million in interest and general and administrative expense adjustments related to convertible debentures and non-vested deferred units.

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Weighted average units outstanding for basic per unit amounts (in thousands)	**101,184**	65,942	**92,048**	59,182
Weighted average units outstanding for diluted per unit amounts (in thousands)	**106,021**	69,430	**96,805**	62,673

Funds from operations

Management believes FFO is an important measure of our operating performance. This non-GAAP measurement is a commonly used measure of performance of real estate operations; however, it does not represent cash flow from operating activities, as defined by GAAP, and is not necessarily indicative of cash available to fund Dundee REIT's needs. In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", FFO has been reconciled to net income in a previous table.

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
FFO	**$ 68,905**	$ 48,210	**$ 263,488**	$ 159,397
FFO per unit – basic	**$ 0.68**	$ 0.73	**$ 2.86**	$ 2.69
FFO per unit – diluted	**$ 0.68**	$ 0.73	**$ 2.85**	$ 2.69

For the three months ended December 31, 2012, FFO per diluted unit was $0.68, down 6.8% over the prior year comparative period, reflecting the sale of the Industrial Portfolio. FFO per diluted unit was $2.85, up 5.9% over the prior year comparative period, reflecting the impact of accretive acquisitions in 2011 and 2012. For the three months ended December 31, 2012, total FFO was $68.9 million, up $20.7 million, or 42.9% (year ended December 31, 2012 – $263.5 million, up $104.1 million, or 65.3%), reflecting the impact of accretive acquisitions completed in 2011 and 2012.

Adjusted funds from operations

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

Our calculation of AFFO includes a deduction for an estimated amount of normalized non-recoverable maintenance capital expenditures; initial direct leasing costs and tenant incentives that we expect to incur based on our current portfolio; and expected average leasing activity. Our estimates of initial direct leasing costs and lease incentives are based on the average of our expected leasing activity over the next two to three years and multiplied by the average cost per square foot that we incurred and committed to in 2012, adjusted for properties that have been acquired or sold. Our estimates of normalized non-recoverable capital expenditures are based on our expected average expenditures for our current property portfolio. This estimate will differ from actual experience due to the timing of expenditures and any growth in our business resulting from property acquisitions.

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
AFFO	**$ 58,060**	$ 41,047	**$ 221,960**	$ 137,675
AFFO per unit – basic	**$ 0.57**	$ 0.62	**$ 2.41**	$ 2.33

Accretive acquisitions completed in 2011 and 2012 contributed to AFFO per unit increases of 3.4% year-over-year, or increases in total AFFO of $84.3 million. For the quarter, total AFFO was $58.1 million, up $17.0 million, or 41.4%, and $0.57 on a per unit basis, down 8% over the same quarter in 2011 as a result of the sale of the Industrial Portfolio.

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

	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Cash generated from operating activities	**$ 32,574**	$ 33,901	**$ 134,950**	$ 89,909
Add (deduct):				
Share of AFFO from investment in Dundee Industrial	**2,597**	–	**2,597**	–
Share of net income (loss) from investment in joint ventures	**10,488**	24,847	**(254)**	49,728
Initial direct leasing costs and lease incentives incurred	**8,859**	7,509	**23,577**	23,136
Transaction costs on acquired businesses including those recorded in investment in joint ventures	**–**	–	**17,551**	17,528
Change in non-cash working capital	**11,649**	1,917	**44,074**	12,941
Adjustments for investment in joint ventures:				
Fair value adjustments to investment properties	**487**	(21,938)	**23,964**	(37,969)
Straight-line rent	**189**	(83)	**214**	(155)
Fair value adjustments on assumed debt	**–**	–	**–**	(193)
Amortization of lease incentives	**137**	97	**406**	385
Hedge-break fee for financial instrument	**–**	–	**5,186**	–
Revenue supplement from vendor on acquisition	**–**	598	**1,495**	1,217
Normalized initial direct leasing costs and lease incentives	**(7,226)**	(5,317)	**(27,932)**	(16,790)
Normalized non-recoverable recurring capital expenditures	**(75)**	(75)	**(300)**	(300)
Other	**(1,619)**	(409)	**(3,568)**	(1,762)
AFFO	**$ 58,060**	$ 41,047	**$ 221,960**	$ 137,675

Selected annual information

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

	2012	2011	2010[2]
Revenues[1]	**$ 691,777**	$ 407,272	$ 269,795
Income from continuing operations	**266,174**	355,110	215,995
Net income	**291,073**	400,920	215,995
Total assets	**6,352,988**	4,466,467	2,583,248
Add share of investment in joint ventures that are equity accounted			
Debt	**526,968**	130,223	94,843
Amounts payable, accrued liabilities and deposits	**33,788**	3,762	3,183
	$ 6,913,744	$ 4,600,452	$ 2,681,274
Debt	**$ 2,778,426**	$ 2,124,517	$ 1,202,008
Add debt related to investment in joint ventures that are equity accounted and liabilities related to assets held for sale	**536,168**	130,239	94,843
	$ 3,314,594	$ 2,254,756	$ 1,296,851
Distributions declared	**$ 203,596**	$ 131,168	$ 86,048
Units outstanding			
REIT Units, Series A	**97,618,625**	66,193,060	45,896,203
REIT Units, Series B	**16,316**	16,316	16,316
LP Class B Units, Series 1	**3,528,658**	3,506,107	3,481,733

(1) Including revenues from investment in joint ventures, interest and fee income and excluding discontinued operations.

(2) 2010 amounts have not been restated for discontinued operations.

Quarterly information

The following tables show quarterly information since January 1, 2011.

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investment properties revenue	**$162,014**	$157,421	$156,684	$131,677	$119,234	$101,540	$ 79,072	$ 75,169
Investment properties operating expenses	**71,623**	66,459	65,177	55,990	52,593	42,308	32,114	31,934
Net rental income from continuing operations	**90,391**	90,962	91,507	75,687	66,641	59,232	46,958	43,235
Other income and expenses								
General and administrative	**(5,774)**	(5,748)	(5,267)	(4,343)	(3,856)	(3,513)	(3,295)	(3,132)
Share of net income and dilution gain from investment in Dundee Industrial	**1,568**	–	–	–	–	–	–	–
Share of net income from investment in joint ventures	**10,488**	12,105	(31,354)	8,507	24,847	14,054	6,880	3,947
Fair value adjustments to investment properties	**45,595**	17,307	11,213	31,457	145,856	9,267	30,872	19,565
Net (loss) gain on sale of investment properties	**(1,289)**	2,988	–	(169)	–	–	–	–
Acquisition related costs, net	**–**	(230)	–	(17,319)	–	–	2	(5,690)
Interest:								
Debt	**(33,239)**	(32,439)	(32,512)	(26,928)	(24,326)	(21,882)	(17,754)	(15,825)
Subsidiary redeemable units	**(1,944)**	(1,941)	(1,938)	(1,935)	(1,931)	(1,928)	(1,926)	(1,919)
Debt settlement and other costs, net	**(3,066)**	(732)	–	–	–	–	–	–
Depreciation and amortization	**(613)**	(574)	(554)	(301)	(157)	(174)	(133)	(117)
Interest and fee income	**1,435**	1,413	1,255	942	863	644	437	433
Fair value adjustments to financial instruments	**(4,179)**	4,144	(8,120)	(8,433)	(6,433)	5,870	2,729	(13,231)
Income before income taxes and discontinued operations	**99,373**	87,255	24,230	57,165	201,504	61,570	64,770	27,266
Deferred income taxes	**263**	921	665	–	–	–	–	–
Income from continuing operations	**99,110**	86,334	23,565	57,165	201,504	61,570	64,770	27,266
Income from discontinued operations	**1,432**	4,634	8,278	10,555	21,257	6,285	13,563	4,705
Net income	**100,542**	90,968	31,843	67,720	222,761	67,855	78,333	31,971
Other comprehensive income (loss)								
Unrealized gain (loss) on interest rate swaps	**344**	259	(1,906)	2,530	(868)	(734)	–	–
Unrealized foreign currency translation gain (loss)	**320**	(1,107)	588	277	–	–	–	–
	664	(848)	(1,318)	2,807	(868)	(734)	–	–
Comprehensive income	**$101,206**	$ 90,120	$ 30,525	$ 70,527	$221,893	$ 67,121	$ 78,333	$ 31,971

Calculation of funds from operations

				2012				2011
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
NET INCOME	**$100,542**	$ 90,968	$ 31,843	$ 67,720	$222,761	$ 67,855	$ 78,333	$ 31,971
Add (deduct):								
Share of net income and dilution gain from investment in Dundee Industrial	**(1,568)**	–	–	–	–	–	–	–
Share of FFO from investment in Dundee Industrial	**3,458**	–	–	–	–	–	–	–
Depreciation of property and equipment	**254**	221	193	183	156	173	133	117
Amortization of property management contracts	**359**	413	412	138	–	–	–	–
Amortization of lease incentives	**1,278**	1,068	1,023	1,014	1,351	805	1,009	786
Gain (loss) on disposal of investment properties	**142**	(2,988)	–	169	–	–	–	–
Interest expense on subsidiary redeemable units	**1,944**	1,941	1,938	1,935	1,931	1,928	1,926	1,919
Acquisition related costs, net	**–**	230	2	17,319	–	–	–	5,776
Leasing incentives expensed on lease terminations	**–**	45	13	229	53	–	–	–
Fair value adjustments to investment properties	**(45,593)**	(15,294)	(13,319)	(36,551)	(162,617)	(10,902)	(39,712)	(19,756)
Fair value adjustments to investment properties held in joint ventures	**487**	(1,336)	30,438	(5,625)	(21,938)	(11,206)	(3,598)	(1,227)
Fair value adjustments to financial instruments	**4,179**	(4,144)	8,120	8,433	6,433	(5,870)	(2,729)	13,231
Fair value of DUIP included in general and administrative expenses	**181**	188	203	173	135	111	271	81
Debt settlement and other costs, net	**3,066**	732	–	–	–	–	–	–
Hedge-break fee for financial instrument held in joint venture	**–**	–	5,186	–	–	–	–	–
Deferred income taxes	**263**	921	665	–	–	–	–	–
Other	**(87)**	(86)	(84)	(66)	(55)	(62)	(142)	(34)
FFO	**$ 68,905**	$ 72,879	$ 66,633	$ 55,071	$ 48,210	$ 42,832	$ 35,491	$ 32,864
FFO per unit – basic[1]	**$ 0.68**	$ 0.72	$ 0.72	$ 0.74	$ 0.73	$ 0.68	$ 0.64	$ 0.63
FFO per unit – diluted[1]	**$ 0.68**	$ 0.72	$ 0.72	$ 0.73	$ 0.73	$ 0.68	$ 0.64	$ 0.63

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

				2012				2011
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FUNDS FROM OPERATIONS	**$ 68,905**	$ 72,879	$ 66,633	$ 55,071	$ 48,210	$ 42,832	$ 35,491	$ 32,864
Add (deduct):								
Share of FFO from investment in Dundee Industrial	**(3,458)**	–	–	–	–	–	–	–
Share of AFFO from investment in Dundee Industrial	**2,597**	–	–	–	–	–	–	–
Amortization of fair value adjustment on assumed debt	**(1,426)**	(2,349)	(2,528)	(1,673)	(799)	(638)	(382)	(337)
Deferred compensation expense	**904**	904	858	749	696	697	753	659
Straight-line rent	**(2,120)**	(2,720)	(2,342)	(2,131)	(2,459)	(2,083)	(1,199)	(1,079)
Revenue supplement from vendor on acquisition	**–**	299	598	598	598	342	131	146
Other	**(41)**	(11)	(2)	(2)	193	118	(3)	14
	65,361	69,002	63,217	52,612	46,439	41,268	34,791	32,267
Deduct:								
Normalized initial direct leasing costs and lease incentives	**7,226**	7,641	7,181	5,884	5,317	4,613	3,430	3,430
Normalized non-recoverable recurring capital expenditures	**75**	75	75	75	75	75	75	75
Adjusted funds from operations	**$ 58,060**	$ 61,286	$ 55,961	$ 46,653	$ 41,047	$ 36,580	$ 31,286	$ 28,762
AFFO per unit – basic[1]	**$ 0.57**	$ 0.61	$ 0.61	$ 0.63	$ 0.62	$ 0.58	$ 0.56	$ 0.55
Weighted average units outstanding for FFO and AFFO								
Basic (in thousands)	**101,184**	100,564	91,948	74,527	65,942	62,638	55,389	52,526
Diluted (in thousands)	**106,021**	105,536	97,011	78,663	69,430	66,118	58,887	56,012

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

Section III – Disclosure controls and procedures

For the December 31, 2012 financial year-end, the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), together with other members of management, have evaluated the design and operational effectiveness of Dundee REIT's disclosure controls and procedures, as defined in National Instrument 52-109. The Certifying Officers have concluded that the disclosure controls and procedures for recording, processing and summarizing material information are adequate and effective in order to provide reasonable assurance that material information has been accumulated and communicated to management, to allow timely decisions of required disclosures by Dundee REIT and its consolidated subsidiary entities, within the required time periods.

The internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). Using the framework established in "Risk Management and Governance: Guidance on Control (COCO Framework)", published by The Canadian Institute of Chartered Accountants, the Certifying Officers, together with other members of management, have evaluated and concluded that the design and operation of Dundee REIT's internal controls over financial reporting are effective for the financial year-end December 31, 2012.

There were no other changes in the internal controls over financial reporting during the financial year-end December 31, 2012, which have materially affected, or are reasonably likely to materially affect, Dundee REIT's internal controls over financial reporting.

Section IV – Risks and our strategy to manage

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

Real estate ownership

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

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable, and during an economic recession, we may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for us to dispose of properties at lower prices in order to generate sufficient cash from operations and make distributions and interest payments.

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

Rollover of leases

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

Concentration of properties and tenants

Currently, principally all of our properties are located in Canada and, as a result, are impacted by economic and other factors specifically affecting the real estate markets in Canada. These factors may differ from those affecting the real estate markets in other regions. Due to the concentrated nature of our properties, a number of our properties could

experience any of the same conditions at the same time. If real estate conditions in Canada decline relative to real estate conditions in other regions, our cash flows and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

Financing

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

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

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

Changes in law

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

Interest rates

When entering into financing agreements or extending such agreements, we depend on our ability to agree on terms for interest payments that will not impair our desired profit, and on amortization schedules that do not restrict our ability to pay distributions on our Units and interest payments on our debentures. In addition to existing variable rate portions of our financing agreements, we may enter into future financing agreements with variable interest rates. An increase in interest rates could result in a significant increase in the amount we pay to service debt, which could limit our ability to pay distributions to unitholders and could impact the market price of the Units and/or the debentures. We have implemented an active hedging program in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders and cash interest payments under the debentures should current variable interest rates increase. However, to the extent that we fail to adequately manage these risks, including if any such hedging arrangements do not

effectively or completely hedge increases in variable interest rates, our financial results, our ability to pay distributions to unitholders and cash interest payments under our financing arrangements, and the debentures and future financings may be negatively affected. Hedging transactions involve inherent risks. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a significant negative effect on our ability to sell any of our properties.

Environmental risk

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

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

Joint arrangements

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

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

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

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

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

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

Competition

The real estate market in Canada is highly competitive and fragmented, and we compete for real property acquisitions with individuals, corporations, institutions and other entities that may seek real property investments similar to those we desire. An increase in the availability of investment funds or an increase in interest in real property investments may increase

competition for real property investments, thereby increasing purchase prices and reducing the yield on them. If competing properties of a similar type are built in the area where one of our properties is located or if similar properties located in the vicinity of one of our properties are substantially refurbished, the net operating income derived from and the value of such property could be reduced.

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

Insurance

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

Section V – Critical accounting policies

Critical accounting judgments, estimates and assumptions in applying accounting policies

In preparing the consolidated financial statements management is required to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent liabilities. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances, but that are inherently uncertain and unpredictable, the result of which forms the basis of the carrying amounts of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the asset or liability affected in the future. Dundee REIT's critical accounting judgments, estimates and assumptions in applying accounting policies are described in Note 4 in the consolidated financial statements.

Changes in accounting estimates and changes in accounting policies

Future accounting policy changes

Dundee REIT's future accounting policy changes are described in Note 5 in the consolidated financial statements.

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