

DUNDEE REIT

Q2

SECOND QUARTER 2011



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## Letter to unitholders

Since the end of the first quarter, Dundee REIT has continued on the path of building a larger business with better quality assets in very desirable markets. In keeping with our long-term goals, management is focused on achieving these objectives while increasing net asset value and cash flow on a per unit basis.

Comparative properties performance in the second quarter was more or less flat on a year-over-year basis, with growth in the majority of the portfolio offsetting rental rate roll-downs in Calgary. What is most encouraging is the 1% increase in comparative net operating income quarter-over-quarter. Dundee REIT has grown very quickly and the year-over-year numbers are a better reflection of what our company looked like at the end of 2009 than what it is today. We have worked diligently to evolve our portfolio from what it was in 2008 and the quarter-over-quarter numbers reflect the effectiveness of our acquisition strategy.

Another area of improvement is with respect to our cash utilization year-over-year. I believe that we are better managing our cash resources as a result of completing smaller equity issues, on a percentage basis, as we grow. In addition, we have carried less cash on our balance sheet as we invest more quickly between issues. The end result is less dilution.

With the pace of our growth, reflecting on past performance is not necessarily the best indicator for the future. For example, the properties acquired in February 2011 through the \$363.7 million Realex transaction have added about \$0.05 per unit to our adjusted funds from operations (AFFO). The \$316.9 million of acquisitions completed subsequent to quarter-end include the \$277.8 million acquisition of 700 rue de la Gauchetière, a 1.0 million square foot Class A office property in downtown Montréal. In addition, we announced an agreement to acquire the Blackstone portfolio, comprising 24 office properties totalling 2.7 million square feet of gross leaseable area for \$689.8 million. This was an exceptional opportunity to acquire a large portfolio of well-leased downtown office properties, the bulk of which are situated in the heart of Toronto's vibrant financial district.

With the acquisitions completed to-date, our cash resources are fully deployed and the Blackstone portfolio, which is being acquired free of any debt, will be financed in part with a \$163.2 million equity offering announced on July 26th. The issue sold well and we anticipate that the over-allotment will be exercised bringing the issue to \$185.7 million. As a result of this issue, our debt-to-enterprise value will be 52%. I believe that this debt level is sustainable and well within acceptable industry standards.

Given the significant change in the composition of our portfolio, we have initiated an asset review to identify those assets that may no longer fit within our strategy. For the balance of the year, we anticipate acquiring more properties as compelling opportunities become available. Our primary focus, however, will be concentrated on integrating new properties and achieving the level of leasing necessary to optimize the growth potential embedded in our business. We will also spend time reviewing our portfolio, contemplating the market and determining how we would like to grow from here.



**MICHAEL J. COOPER**

Vice Chairman and Chief Executive Officer

August 3rd, 2011

## 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, 2010, and the interim consolidated financial statements of Dundee REIT for the period ended June 30, 2011.

Effective January 1, 2011, the Trust has adopted International Financial Reporting Standards (“IFRS”, “GAAP”) as our basis of financial reporting commencing with our interim financial statements for the three and six months ended June 30, 2011, and using January 1, 2010, as our transition date. Refer to the June 30, 2011, Interim Consolidated Financial Statements for details on the transition to IFRS and the impact on our reported results as at January 1, 2010, December 31, 2010, and the three- and six-month periods ended June 30, 2010. Refer to page 35 of this Management's Discussion and Analysis for details of the impact of the transition to IFRS on our reported funds from operations (“FFO”) for the three- and six-month periods ended June 30, 2010. There was no impact on adjusted funds from operations (“AFFO”) from the transition to IFRS. Where indicated, our discussion of results is based on grossed-up amounts for the Trust's equity accounted investments at the Trust's proportionate share.

This management's discussion and analysis has been dated as at July 31, 2011, except where otherwise noted. For simplicity, throughout this discussion, we may make reference to the following:

- “REIT A Units”, meaning the REIT Units, Series A
- “REIT B Units”, meaning the REIT Units, Series B
- “REIT Units”, meaning the REIT Units, Series A, and REIT Units, Series B
- “LP B Units” and “Subsidiary redeemable units”, meaning the LP Class B Units, Series 1

Certain market information has been obtained from the CB Richard Ellis MarketView, Second Quarter 2011, a publication prepared by a commercial firm that provides information relating to the real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

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

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

All forward-looking information is as of July 31, 2011, except where otherwise noted. Dundee REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators, including the latest annual information form of Dundee REIT. These filings are also available on our web site at [www.dundeereit.com](http://www.dundeereit.com).

## OUR OBJECTIVES

We are committed to:

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

## Distributions

We currently pay monthly distributions to unitholders of \$0.183 per unit, or \$2.20 on an annual basis. At June 30, 2011, approximately 18% of our total units were enrolled in the Distribution Reinvestment and Unit Purchase Plan (“DRIP”), including 18% of the REIT A Units and 10% of the LP B Units. There is no equivalent program for the REIT B Units (see a description of Our Equity on page 25).

	July/10	Aug/10	Sept/10	Oct/10	Nov/10	Dec/10	Jan/11	Feb/11	Mar/11	Apr/11	May/11	June/11
Distribution rate	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	<b>\$0.183</b>	<b>\$0.183</b>	<b>\$0.183</b>
Month-end closing price	\$25.55	\$25.43	\$28.09	\$29.21	\$29.76	\$30.20	\$30.28	\$31.49	\$33.10	<b>\$33.73</b>	<b>\$33.05</b>	<b>\$32.50</b>

## OUR STRATEGY

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

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

### Investing in high-quality office and industrial properties

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

### Optimizing the performance, value and cash flow of our portfolio

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

### Diversifying our portfolio to mitigate risk

With the acquisitions completed since the second half of 2009, we have demonstrated our commitment once again to achieving greater geographic diversification across our portfolio. We will continue to pursue growth but only when it enhances our overall portfolio, further improves the sustainability of distributions, strengthens our tenant profile and mitigates risk. We have experience in each of Canada's key markets and have the flexibility to pursue acquisitions in whichever markets offer compelling investment opportunities.

### Maintaining and strengthening our conservative financial profile

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

### OUR ASSETS

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

				Owned gross leasable area (sq. ft.)		
	<b>June 30, 2011</b>			December 31, 2010		
	Office	Industrial	Total	%	Total	%
Western Canada	2,738,527	554,753	3,293,280	22	2,584,078	21
Calgary	3,354,024	1,287,351	4,641,375	31	4,180,974	34
Toronto	4,446,468	499,605	4,946,073	33	3,710,839	30
Eastern Canada	892,824	1,212,211	2,105,035	14	1,783,755	15
<b>Total<sup>(1)</sup></b>	<b>11,431,843</b>	<b>3,553,920</b>	<b>14,985,763</b>	<b>100</b>	<b>12,259,646</b>	<b>100</b>
Percentage	76%	24%	100%			
<b>Total as at</b>						
<b>December 31, 2010</b>	9,015,265	3,244,381	12,259,646			
Percentage	74%	26%	100%			

<sup>(1)</sup> Excludes redevelopment properties.

In the second quarter of 2011, we acquired approximately 0.3 million square feet of office and industrial properties located in Oakville, Ontario, Edmonton, Alberta and Gatineau, Québec. During the first quarter of 2011 we acquired close to 2.4 million square feet of space, including approximately 0.5 million square feet of office space in Ottawa, Kitchener-Waterloo and Saskatoon. In addition, we acquired Realex Properties Corp. ("Realex"), adding interests in 24 office and industrial assets in Ontario, Alberta and British Columbia, totalling 1.8 million square feet.

The cumulated impact of our 2011 acquisitions brings our total gross leasable area to approximately 15.0 million square feet, an increase of 2.7 million square feet since December 2010, and 5.7 million square feet since June 2010. Subsequent to June 30, 2011, we acquired three additional properties comprising 1.2 million square feet in Québec, British Columbia and Nova Scotia. Among these properties is 700 rue de la Gauchetière, a 28-storey Class A office building encompassing approximately 1.0 million square feet in downtown Montréal. In addition, we have 3.0 million square feet under contract, including a portfolio of 24 office properties in Toronto, Ottawa, Edmonton and Calgary and two office properties in Richmond, British Columbia, and Toronto, Ontario.

Along with increasing the size of our operations, these acquisitions have created a geographically diversified portfolio.

### **Office rental properties**

At June 30, 2011, our ownership interests included 90 office properties (106 buildings) comprising approximately 11.4 million square feet located in Vancouver, Calgary, Edmonton, Yellowknife, Saskatoon, Regina, Toronto, Kitchener-Waterloo, Ottawa, Gatineau and Halifax. These office properties can generally be categorized as high-quality, affordable, suburban and downtown buildings. The occupancy rate across our office portfolio remains high at 96.1%, well ahead of the national industry average occupancy rate of 91.4% (CB Richard Ellis, Canadian Office MarketView, Second Quarter 2011). Our occupancy rates include lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized.

### **Industrial rental properties**

At June 30, 2011, our industrial portfolio consisted of 52 prime suburban industrial properties (55 buildings) comprising approximately 3.6 million square feet in Calgary, Edmonton, Toronto, London, Ottawa, Montréal and Halifax. The occupancy rate across our industrial portfolio is 97.9%, significantly ahead of the national industry average of 93.0% (CB Richard Ellis, Canadian Industrial MarketView, Second Quarter 2011).

### **Subsequent events**

On July 11, 2011, we acquired 700 rue de la Gauchetière, a 28-storey Class A office property in downtown Montréal encompassing approximately 1.0 million square feet of space which we acquired for approximately \$277.8 million. On July 12, 2011, we acquired a 116,530 square foot office property in suburban Vancouver for approximately \$31.8 million. On July 27, 2011, we completed the acquisition of two office properties in Dartmouth, Nova Scotia, comprising approximately 108,211 square feet for \$7.4 million.

On July 21, 2011, we announced the acquisition of a portfolio of 29 office properties in Toronto, Ottawa, Edmonton and Calgary at a purchase price of \$831.8 million. As part of the transaction, we entered into agreements to direct five of these assets to third parties. The 24 office properties ultimately being acquired by us total approximately \$689.8 million (excluding transaction costs). The closing of this transaction is expected to take place on August 15, 2011. The portfolio being acquired is free and clear of any existing debt. The Trust has a commitment for a secured credit facility that covers the entire acquisition. In addition, the Trust has cash on hand and the option to place new mortgage financing on unencumbered properties.

On July 26, we announced that we have entered into an agreement to sell 5,037,000 REIT A Units on a bought deal basis at a price of \$32.40 per unit for gross proceeds of \$163.2 million. In addition, we have granted the syndicate of underwriters an over-allotment option of an additional 694,500 Units which, if exercised, would increase the gross offering size to \$185.7 million. The net proceeds will be mainly used to partially fund the portfolio acquisition of 24 office properties.

## KEY PERFORMANCE INDICATORS

Performance is measured by these and other key indicators:

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010
<b>Operations</b>				
Occupancy rate (period-end) <sup>(1)</sup>	<b>96.5%</b>	96.6%		
In-place rent per square foot (office and industrial) <sup>(1)</sup>	<b>\$ 14.37</b>	\$ 15.43		
<b>Operating results</b>				
Revenue including equity accounted investments <sup>(2)</sup>	<b>\$ 95,556</b>	\$ 61,727	<b>\$ 186,561</b>	\$ 119,556
Net operating income (“NOI”) <sup>(2)(3)</sup>	<b>58,323</b>	38,836	<b>112,355</b>	72,976
Funds from operations (“FFO”) <sup>(2)(4)</sup>	<b>35,491</b>	22,479	<b>68,355</b>	41,132
Adjusted funds from operations (“AFFO”) <sup>(6)</sup>	<b>31,286</b>	20,101	<b>60,048</b>	36,737
Fair value increase to investment properties including equity accounted investments	<b>43,310</b>	7,908	<b>64,293</b>	15,205
<b>Distributions</b>				
Declared distributions	<b>\$ 30,860</b>	\$ 20,037	<b>\$ 59,770</b>	\$ 37,505
Distributions paid in cash	<b>25,851</b>	18,140	<b>50,847</b>	33,932
DRIP participation ratio	<b>16%</b>	10%	<b>15%</b>	10%
<b>Financing</b>				
Weighted average interest rate (period-end)	<b>5.30%</b>	5.66%		
Interest coverage ratio <sup>(2)</sup>	<b>2.6 times</b>	2.5 times		
<b>Per unit amounts<sup>(5)</sup></b>				
<b>Basic:</b>				
FFO <sup>(2)</sup>	<b>\$ 0.64</b>	\$ 0.62	<b>\$ 1.27</b>	\$ 1.23
Distribution rate	<b>0.55</b>	0.55	<b>1.10</b>	1.10
AFFO	<b>0.56</b>	0.55	<b>1.11</b>	1.09
<b>Diluted:</b>				
FFO <sup>(2)</sup>	<b>\$ 0.64</b>	\$ 0.62	<b>\$ 1.27</b>	\$ 1.23

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.

(1) Excludes redevelopment properties and disposed properties.

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

(3) NOI — Investment property revenues less operating expenses, excluding redevelopment and income from disposed properties. The reconciliation of NOI to net income can be found on page 30.

(4) FFO — the reconciliation of FFO to net income can be found on page 35.

(5) A description of the determination of basic and diluted amounts per unit can be found on page 36.

(6) AFFO — the reconciliation of AFFO to FFO can be found on page 35.



## FINANCIAL OVERVIEW

Dundee REIT continues to pursue its strategic objectives of growing its business to diversify the portfolio, maintaining occupancy and increasing cash flow. During the second quarter of 2011, we acquired 0.3 million square feet of office and industrial properties, after having acquired close to 2.4 million square feet in the first quarter. In addition, we acquired 1.2 million square feet of space subsequent to quarter-end. In order to finance our growth we completed an equity offering on June 14, 2011, followed by the issuance of additional units as part of the over-allotment option on June 29, 2011, for gross proceeds of \$178.5 million. This is our second equity issue in 2011, after completing an offering for \$144 million on February 4, 2011.

AFFO increased by \$11.2 million, or 56%, over the same quarter in 2010. On a per unit basis, AFFO increased to \$0.56 from \$0.55 during the same period in 2010, reflecting accretive acquisitions made in 2010 and 2011, partially offsetting declines related to the timing of deploying capital raised. Details of our FFO and AFFO begin on page 35.

NOI from comparable properties increased by 1% over the prior quarter, reflecting improved occupancy in both our office and industrial portfolio. Compared to the same quarter in 2010, NOI decreased by 1%. Our office portfolio NOI is down 2%, largely due to recent tenant vacancies in Calgary and Toronto, while increased weighted average occupancy in our industrial portfolio improved NOI by 4%. Our operations remain strong and we continue to grow our revenue base. During the second quarter, rental property revenue increased by \$33.8 million or 55% to \$95.6 million, and NOI increased by \$19.5 million or 50% to \$58.3 million. This growth reflects the impact of acquisitions completed in 2010 and 2011. Details of our NOI begin on page 30.

Overall occupancy increased to 96.5%, from 96.1% at March 31, 2011, with occupancy across our office portfolio at 96.1% and our industrial portfolio at 97.9%, respectively. Our comparative office property occupancy increased to 96.1%, up from 95.8% on March 31, 2011, and our industrial portfolio is 97.9% occupied compared to 97.0% at March 31, 2011.

The average remaining lease term was 5.47 years, down slightly from 5.58 years at March 31, 2011, and 5.87 years at December 31, 2010, mainly due to acquisitions completed with an average remaining lease term of 4.87 years. Our average in-place rents remain below market rents, a positive indicator of future growth. Details of our leasing profile begin on page 9.

At June 30, 2011, the fair value of our investment property portfolio increased to \$3.1 billion from \$3.0 billion at March 31, 2011, representing a capitalization rate of 7.1%. During the second quarter, we completed acquisitions with a fair value of \$46.3 million, representing an average capitalization rate of 7.4%.

In the first quarter of 2011, we acquired \$467.7 million of properties comprising 2.2 million square feet of high-quality office space, together with 0.2 million square feet of industrial space followed by another 0.3 million square feet acquired in the second quarter. The acquisitions provide our portfolio with continued geographic diversification and set the stage for continued AFFO growth in the remainder of 2011. Details of our acquisitions begin on page 19.

During the quarter, we completed an equity offering for gross proceeds of \$178.5 million. We issued 5.4 million REIT A Units at a price of \$33.30 per unit. Costs related to the offering were approximately \$7.1 million. All of the proceeds will be utilized by the third quarter of 2011 as we continue to grow our portfolio. With respect to our mortgage debt, we placed \$214.8 million of new debt at a weighted average effective interest rate of 4.85%, resulting in an overall reduction from 5.43% at the end of 2010 to 5.30% at the end of the second quarter. Subsequent to period end, we have announced an equity offering for 5,037,000 REIT A Units, followed by an over-allotment of another 694,500 units, at an offer price of \$32.40. The offering is expected to raise gross proceeds of \$185.7 million. Details of financing activity and debt begin on page 22.

## OUTLOOK

Since the end of the first quarter, we have continued on our path of creating a larger business with better quality assets in very desirable markets. In keeping with our long-term goals, we are focused on achieving these goals while increasing net asset value and cash flow on a per unit basis.

Subsequent to quarter-end, we will add almost 4 million square feet of high-quality properties in downtown locations. In July, we acquired 700 rue de la Gauchetière, a 28-storey, 1.0 million square foot Class A office building located in the heart of downtown Montréal. In addition, we have approximately \$756 million of properties under contract, comprising 3.0 million square feet of office buildings primarily located in downtown Toronto. Financed with low cost debt, our acquisitions continue to be very accretive to our company and strengthen the quality of our distributions and improve our payout ratio.

These acquisitions will make the third quarter of 2011 the busiest quarter since the creation of Dundee REIT in 2003. Since the fall of 2009, we've completed, or placed under contract, \$2.6 billion of acquisitions, all of which make Dundee REIT a stronger investment today and in the future. For the balance of 2011, we will continue to make improvements to our operations, focus on maintaining strong occupancy and capturing rental rate increases as leases expire. In addition, we will focus on integrating our newly acquired properties into our operations and disposing of assets that contribute less than average to our portfolio. We remain committed to managing our platform in a way that maximizes returns to our unitholders.

## 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 (office and industrial average) <sup>(1)</sup>	June 30, 2011	December 31, 2010
Occupancy rate	96.5%	96.1%
In-place rental rates	\$ 14.37	\$ 14.29
Tenant maturity profile — average term to maturity (years)	5.47	5.87

<sup>(1)</sup> Excludes redevelopment properties and disposed properties.

## Occupancy

The overall percentage of occupied and committed space across our investment properties portfolio was 96.5% at June 30, 2011. Occupancy levels in our existing portfolio continue to be strong. In addition, occupancy levels of the properties acquired in Q2 2011 averaged about 96% at the time of acquisition. The average occupancy rate across our office portfolio is 96.1% and remains well above the national industry average of 91.4%. The average occupancy rate across our industrial portfolio is 97.9%, an increase of 0.9% over the first quarter of 2011, mainly reflecting increased occupancy in the comparative properties in our Western industrial portfolio. Our occupancy rates discussed in this report include occupied and committed space at June 30, 2011.

(percentage)	Total portfolio		Comparative properties <sup>(2)</sup>	
	June 30, 2011	March 31, 2011	June 30, 2011	March 31, 2011
<b>Office</b>				
Western Canada	95.4	95.7	95.4	95.7
Calgary	96.4	94.8	96.4	94.8
Toronto	96.1	96.3	96.1	96.3
Eastern Canada	97.5	97.4	97.2	97.4
<b>Total office</b>	<b>96.1</b>	<b>95.8</b>	<b>96.1</b>	<b>95.8</b>
<b>Industrial</b>				
Western Canada	99.5	90.5	99.5	90.5
Calgary	94.9	96.5	94.9	96.5
Toronto	100.0	100.0	100.0	100.0
Eastern Canada	99.4	99.3	99.4	99.3
<b>Total industrial</b>	<b>97.9</b>	<b>97.0</b>	<b>97.9</b>	<b>97.0</b>
<b>Overall<sup>(1)</sup></b>	<b>96.5</b>	<b>96.1</b>	<b>96.5</b>	<b>96.1</b>

<sup>(1)</sup> Excludes redevelopment properties and discontinued properties.

<sup>(2)</sup> Comparative properties include all properties owned by the Trust on both dates during the comparative period.

On a comparative basis, our office portfolio continues to reflect the impact of strong leasing activity, evidenced by continued strong occupancy, growing from 95.8% at March 31, 2011, to 96.1% at June 30, 2011. Our comparative industrial portfolio occupancy increased from 97.0% to 97.9% during the same period.

The percentage of occupied and committed space for the previous eight quarters, demonstrating the strength of our leasing profile, is as follows:

(percentage)	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Office	96.1	95.8	95.8	96.6	96.6	97.0	96.7	95.9
Industrial	97.9	97.0	96.9	98.5	96.8	97.0	90.6	92.0
Overall	96.5	96.1	96.1	97.1	96.6	97.0	95.4	94.9

### Vacancy schedule

During the quarter our leasing activity continued to be strong. We reduced the amount of vacant space by 7,945 square feet, from 729,722 square feet of vacant space at the beginning of the quarter to 721,777 square feet as of June 30, 2011. During the quarter, approximately 533,681 square feet of leases expired or terminated early. We renewed 297,515 square feet of the space and entered into new leases on 243,427 square feet, of which approximately 94,762 square feet were previously vacant. Of the vacant space at quarter-end, approximately 28%, or 203,087 square feet, is committed for future occupancy.

(in square feet)	For the three months ended June 30, 2011			For the six months ended June 30, 2011		
	Office	Industrial	Total	Office	Industrial	Total
Available for lease	473,365	106,672	580,037	377,510	99,980	477,490
Vacancy committed for future leases	132,338	13,341	145,679	100,530	13,924	114,454
Vacant space at beginning of period	605,703	120,013	725,716	478,040	113,904	591,944
Acquired vacancy	4,006	—	4,006	112,953	55,000	167,953
Vacant space — restated	609,709	120,013	729,722	590,993	168,904	759,897
Remeasurements	(677)	(7)	(684)	2,379	(7)	2,372
Expiries	419,668	72,155	491,823	698,821	166,142	864,963
Early terminations and bankruptcies	35,616	6,242	41,858	64,321	9,242	73,563
New leases	(176,375)	(67,052)	(243,427)	(278,088)	(169,993)	(448,081)
Renewals	(263,039)	(34,476)	(297,515)	(453,524)	(77,413)	(530,937)
Vacant space — June 30, 2011	624,902	96,875	721,777	624,902	96,875	721,777
Vacancy committed for future leases	181,451	21,636	203,087	181,451	21,636	203,087
<b>Available for lease — June 30, 2011</b>	<b>443,451</b>	<b>75,239</b>	<b>518,690</b>	<b>443,451</b>	<b>75,239</b>	<b>518,690</b>

### In-place rental rates

During the quarter, our in-place rents decreased resulting from leases expiring at higher step rents. The overall average in-place rent remains approximately 6% below existing market rates, providing an opportunity to capture rental rate increases through new and renewed leasing activity. Excluding the Calgary office segment, in-place rents would be 10% below market rents.

	June 30, 2011	
	In-place rent	Market rent
<b>Office</b>		
Western Canada	\$ 18.31	\$ 22.58
Calgary	18.47	17.47
Toronto	14.87	16.05
Eastern Canada	13.18	14.22
<b>Total office</b>	<b>\$ 16.62</b>	<b>\$ 17.87</b>
<b>Industrial</b>		
Western Canada	\$ 8.27	\$ 8.54
Calgary	8.22	8.34
Toronto	5.98	5.54
Eastern Canada	6.38	6.08
<b>Total industrial</b>	<b>\$ 7.27</b>	<b>\$ 7.19</b>
<b>Overall</b>	<b>\$ 14.37</b>	<b>\$ 15.30</b>

The following table demonstrates the change in average in-place rents and market rents comprising properties owned as of March 31, 2011. Office market rents increased slightly since the end of the first quarter due to an increase in market rents in our Calgary portfolio.

Comparative properties	June 30, 2011		March 31, 2011	
	In-place rent	Market rent	In-place rent	Market rent
<b>Office</b>				
Western Canada	\$ 18.31	\$ 22.58	\$ 18.11	\$ 22.76
Calgary	18.47	17.47	19.21	16.69
Toronto	14.87	16.01	14.86	15.99
Eastern Canada	14.40	14.82	14.88	14.82
<b>Total office</b>	<b>\$ 16.73</b>	<b>\$ 17.85</b>	<b>\$ 16.93</b>	<b>\$ 17.74</b>
<b>Industrial</b>				
Western Canada	\$ 8.27	\$ 8.54	\$ 8.63	\$ 8.42
Calgary	8.22	8.34	8.26	8.36
Toronto	5.98	5.54	5.60	5.54
Eastern Canada	6.26	5.92	6.21	5.92
<b>Total industrial</b>	<b>\$ 7.24</b>	<b>\$ 7.15</b>	<b>\$ 7.23</b>	<b>\$ 7.12</b>
<b>Overall</b>	<b>\$ 14.45</b>	<b>\$ 15.28</b>	<b>\$ 14.59</b>	<b>\$ 15.18</b>

## Leasing and tenant profile

The average remaining lease term and other portfolio information as at the end of the period is detailed below. The June 30, 2011, average remaining lease term of 5.47 years is down from 5.87 years at December 31, 2010, due to acquisitions completed during the year.

	June 30, 2011 <sup>(1)</sup>			December 31, 2010 <sup>(1)</sup>		
	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent <sup>(2)</sup> (per sq. ft.)	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent <sup>(2)</sup> (per sq. ft.)
<b>Office</b>						
Western Canada	5.06	9,639	\$ 18.31	5.42	8,443	\$ 18.91
Calgary	4.11	8,401	18.47	4.29	8,747	17.57
Toronto	5.07	12,944	14.87	5.28	13,408	15.76
Eastern Canada	4.01	10,616	13.18	3.45	7,580	13.74
<b>Total office</b>	<b>4.70</b>	<b>10,289</b>	<b>\$ 16.62</b>	<b>4.87</b>	<b>9,838</b>	<b>\$ 16.95</b>
<b>Industrial</b>						
Western Canada	5.90	30,672	\$ 8.27	7.21	30,404	\$ 8.09
Calgary	4.16	6,826	8.22	4.36	6,621	6.07
Toronto	10.49	124,901	5.98	12.58	206,222	6.79
Eastern Canada	11.49	43,039	6.38	12.15	64,111	6.14
<b>Total industrial</b>	<b>7.89</b>	<b>15,191</b>	<b>\$ 7.27</b>	<b>8.61</b>	<b>14,424</b>	<b>\$ 6.99</b>
<b>Portfolio average</b>	<b>5.47</b>	<b>11,154</b>	<b>\$ 14.37</b>	<b>5.87</b>	<b>10,750</b>	<b>\$ 14.29</b>

<sup>(1)</sup> Excludes redevelopment properties.

<sup>(2)</sup> Average in-place rents include straight-line rent adjustments.

The following two tables detail our lease maturity profile by asset type and geographic segment as at June 30, 2011. The tables distinguish between lease maturities that have yet to be renewed or re-leased and maturities for which we have a leasing commitment. The uncommitted line should be referenced when considering future leasing risks or opportunities, and the committed line should be referenced when considering the impact of leasing activity.

For the remainder of 2011, approximately 1,116,579 square feet of our leases will expire, of which approximately 512,703 square feet, or 46%, have been committed.

(in square feet)	Current vacancy	Current monthly tenancies	2011	2012	2013	2014	2015 to 2023	Total
Office — uncommitted	443,451	3,206	411,526	1,032,925	1,668,523	1,188,359	5,823,258	10,571,248
Office — committed	—	—	470,747	140,172	94,030	9,788	145,858	860,595
<b>Total office</b>	<b>443,451</b>	<b>3,206</b>	<b>882,273</b>	<b>1,173,097</b>	<b>1,762,553</b>	<b>1,198,147</b>	<b>5,969,116</b>	<b>11,431,843</b>
Industrial — uncommitted	75,239	—	192,350	254,302	289,916	136,273	2,514,014	3,462,094
Industrial — committed	—	—	41,956	49,870	—	—	—	91,826
<b>Total industrial</b>	<b>75,239</b>	<b>—</b>	<b>234,306</b>	<b>304,172</b>	<b>289,916</b>	<b>136,273</b>	<b>2,514,014</b>	<b>3,553,920</b>
Total — uncommitted	518,690	3,206	603,876	1,287,227	1,958,439	1,324,632	8,337,272	14,033,342
Total — committed	—	—	512,703	190,042	94,030	9,788	145,858	952,421
<b>Total</b>	<b>518,690</b>	<b>3,206</b>	<b>1,116,579</b>	<b>1,477,269</b>	<b>2,052,469</b>	<b>1,334,420</b>	<b>8,483,130</b>	<b>14,985,763</b>

(in square feet)	Current vacancy	Current monthly tenancies	2011	2012	2013	2014	2015 to 2023	Total
Western Canada – uncommitted	129,052	1,236	137,315	395,302	363,799	260,630	1,844,077	3,131,411
Western Canada – committed	–	–	20,612	48,452	76,187	7,501	9,117	161,869
<b>Total Western Canada</b>	129,052	1,236	157,927	443,754	439,986	268,131	1,853,194	3,293,280
Calgary – uncommitted	185,220	1,562	280,186	503,149	760,654	503,479	2,168,227	4,402,477
Calgary – committed	–	–	150,760	64,877	2,702	–	20,559	238,898
<b>Total Calgary</b>	185,220	1,562	430,946	568,026	763,356	503,479	2,188,786	4,641,375
Toronto – uncommitted	175,004	408	113,960	204,029	777,478	389,756	2,937,081	4,597,716
Toronto – committed	–	–	138,034	76,713	15,141	2,287	116,182	348,357
<b>Total GTA/Toronto</b>	175,004	408	251,994	280,742	792,619	392,043	3,053,263	4,946,073
Eastern Canada – uncommitted	29,414	–	72,415	184,747	56,508	170,767	1,387,887	1,901,738
Eastern Canada – committed	–	–	203,297	–	–	–	–	203,297
<b>Total Eastern Canada</b>	29,414	–	275,712	184,747	56,508	170,767	1,387,887	2,105,035
Total – uncommitted	518,690	3,206	603,876	1,287,227	1,958,439	1,324,632	8,337,272	14,033,342
Total – committed	–	–	512,703	190,042	94,030	9,788	145,858	952,421
<b>Total</b>	518,690	3,206	1,116,579	1,477,269	2,052,469	1,334,420	8,483,130	14,985,763

The following tables provide expiring rents across our portfolio as well as our estimate of average market rents based on current leasing activity in comparable properties as at June 30, 2011. Expiring rents and market rents represent base rates and do not include the impact of lease incentives. Currently, our 2011 and 2012 expiring rents are below market rents.

	Current monthly tenancies	2011	2012	2013	2014	2015 to 2023
<b>Expiring rents</b>						
Office	\$ 12.72	\$ 16.28	\$ 18.03	\$ 17.80	\$ 16.57	\$ 17.96
Industrial	–	6.47	7.15	8.52	9.57	8.10
<b>Portfolio average</b>	12.72	13.15	15.88	16.42	15.85	15.19
<b>Market rents<sup>(1)</sup></b>						
Office	\$ 19.74	\$ 16.67	\$ 19.09	\$ 16.98	\$ 17.14	\$ 18.11
Industrial	–	8.09	7.49	8.56	7.96	6.90
<b>Market rent average</b>	19.74	13.94	16.80	15.73	16.20	14.97

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

	Current monthly tenancies	2011	2012	2013	2014	2015 to 2023
<b>Expiring rents</b>						
<b>Office:</b>						
Western Canada	\$ 10.00	\$ 18.08	\$ 18.71	\$ 19.25	\$ 17.86	\$ 20.73
Calgary	14.27	17.40	19.64	21.45	17.20	19.42
Toronto	15.00	12.92	18.52	14.80	15.33	16.05
Eastern Canada	—	13.09	13.15	14.17	15.98	14.07
<b>Industrial:</b>						
Western Canada	—	10.80	4.20	5.07	6.87	11.25
Calgary	—	7.45	8.29	10.83	10.80	7.99
Toronto	—	—	—	—	—	8.22
Eastern Canada	—	5.96	7.19	6.00	6.84	7.22
<b>Portfolio average</b>	12.72	13.15	15.88	16.42	15.85	15.19
<b>Market rents<sup>(1)</sup></b>						
<b>Office:</b>						
Western Canada	\$ 24.50	\$ 21.53	\$ 24.69	\$ 21.41	\$ 23.31	\$ 22.31
Calgary	17.74	16.06	17.25	17.73	16.02	17.91
Toronto	13.00	13.50	18.09	15.13	15.34	16.33
Eastern Canada	—	12.86	13.19	14.52	14.87	14.49
<b>Industrial:</b>						
Western Canada	—	7.72	4.63	8.13	6.00	9.72
Calgary	—	10.49	8.72	8.92	8.91	7.72
Toronto	—	3.50	—	—	—	5.68
Eastern Canada	—	5.88	5.53	6.00	5.75	6.10
<b>Market rent average</b>	19.74	13.94	16.80	15.73	16.20	14.97

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

#### ***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 on asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. Short-term leases generally have lower costs than long-term leases, and leasing costs associated with office space are generally higher than costs associated with industrial space.

For the six months ended June 2011, we incurred \$10.1 million for leasing costs and lease incentives. For office properties, we incurred a total \$9.5 million of leasing costs, representing an average of \$12.97 per square foot. For these costs incurred, approximately \$1.0 million was reduced from the purchase price of two 2010 property acquisitions. Excluding these costs, office leasing costs are an average of \$11.58 per square foot. For industrial space, we incurred \$0.6 million of leasing costs, representing an average of \$2.28 per square foot.



Performance indicators	Office	Industrial	Total
<b>Operating activities (continuing portfolio)</b>			
Portfolio size (sq. ft.) <sup>(1)</sup>	11,431,843	3,553,920	14,985,763
Occupied and committed	96.1%	97.9%	96.5%
Square footage leased and occupied in 2011	731,612	247,406	979,018
Leasing incentives and initial direct leasing costs	\$ 9,488	\$ 564	\$ 10,052

<sup>(1)</sup> Excludes redevelopment properties.

### Tenant base profile

Our tenant base includes a wide range of high-quality tenants such as municipal, provincial and federal governments, large international corporations and small to medium-sized entrepreneurial businesses across the country. With approximately 1,300 tenants, our risk exposure to any single large lease or tenant is low. The average sizes of our office and industrial tenants are 10,289 and 15,191 square feet, respectively. Effectively managing this diverse tenant base is one of our key strengths and has helped us maintain consistently high occupancy levels and to continually capitalize on rental rate uplifts.

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

Tenant	Owned area in sq. ft.	% of owned area	% of gross rental revenue	Average remaining lease term (years)
Government of Canada	1,087,838	7.3	8.0	3.0
Government of Ontario	315,733	2.1	2.9	8.6
Telus	275,653	1.8	2.6	4.8
Aviva	335,900	2.2	2.4	5.1
Enbridge Pipelines	189,232	1.3	2.4	9.2
Loyalty Management	200,466	1.3	1.9	6.3
Government of Alberta	239,176	1.6	1.7	2.5
Government of British Columbia	186,519	1.2	1.6	5.6
Government of Northwest Territories	117,718	0.8	1.4	3.4
State Street Trust Company	109,393	0.7	1.3	11.3
<b>Total</b>	<b>3,057,628</b>	<b>20.3</b>	<b>26.2</b>	<b>5.0</b>

## OUR RESOURCES AND FINANCIAL CONDITION

### Investment properties

The fair value of our investment property portfolio (including equity accounted investments) at June 30, 2011, was \$3,139 million, representing a weighted average capitalization rate (“Cap Rate”) of 7.12%. At March 31, 2011, our comparable properties were valued at \$3,029.3 million representing a capitalization rate of approximately 7.31%. Properties owned as of March 31, 2011, increased in value by \$49.1 million to \$3,078.4 million during the second quarter, representing a Cap Rate of 7.11%. The increase in value can be primarily attributed to Cap Rate compressions in all markets, offset by NOI decreases. Overall, the weighted average Cap Rate of our office portfolio compressed by 18 basis points over the prior quarter. Accounting for NOI decreases, this resulted in a \$40.4 million increase in fair value in our comparative office portfolio.

During the second quarter of 2011, we acquired 0.3 million square feet of properties at an acquisition price of \$46 million including transaction costs.

Fair values were determined using the direct capitalization method and/or the discounted cash flow method. The direct capitalization method applies a Cap Rate to stabilized NOI and incorporates allowances for vacancy and management fees. The resulting capitalized value was further adjusted for extraordinary costs to stabilize income and non-recoverable capital expenditures, where applicable. Individual properties were valued using Cap Rates in the range of 6.00% to 9.25%. The discounted cash flow method discounts the expected future cash flows, generally over a term of ten years, and using discount rates and terminal capitalization rates specific to each property.

The fair value of our investment properties, including properties accounted for under the equity method, is set out below.

	June 30, 2011	March 31, 2011	Total portfolio December 31, 2010
<b>Office</b>			
Western Canada	\$ 760,262	\$ 740,040	\$ 623,166
Calgary	832,623	827,528	662,886
Toronto	1,029,377	991,039	836,522
Eastern Canada	163,322	147,951	113,284
<b>Total office</b>	<b>\$ 2,785,584</b>	<b>\$ 2,706,558</b>	<b>\$ 2,235,858</b>
<b>Industrial</b>			
Western Canada	60,094	59,902	31,617
Calgary	145,030	139,527	136,055
Toronto	40,085	39,988	39,635
Eastern Canada	89,541	83,278	83,073
<b>Total industrial</b>	<b>\$ 334,750</b>	<b>\$ 322,695</b>	<b>\$ 290,380</b>
<b>Total portfolio</b>	<b>\$ 3,120,334</b>	<b>\$ 3,029,253</b>	<b>\$ 2,526,238</b>
Add: Development properties	18,448	15,095	12,503
Less: Equity accounted investments	231,218	230,780	208,736
<b>Consolidated balance sheet</b>	<b>\$2,907,564</b>	<b>\$ 2,813,568</b>	<b>\$2,330,005</b>

	Comparative properties	
	June 30, 2011	March 31, 2011
<b>Office</b>		
Western Canada	\$ 750,367	\$ 740,040
Calgary	832,623	827,528
Toronto	1,012,845	991,039
Eastern Canada	151,121	147,951
<b>Total office</b>	<b>\$ 2,746,956</b>	<b>\$ 2,706,558</b>
<b>Industrial</b>		
Western Canada	60,094	59,902
Calgary	145,030	139,527
Toronto	40,085	39,988
Eastern Canada	86,206	83,278
<b>Total industrial</b>	<b>\$ 331,415</b>	<b>\$ 322,695</b>
<b>Total portfolio</b>	<b>\$ 3,078,371</b>	<b>\$ 3,029,253</b>
Add: Development properties	18,448	15,095
Less: Equity accounted investments	231,218	230,780
<b>Consolidated balance sheet — comparative properties</b>	<b>\$ 2,865,601</b>	<b>\$ 2,813,568</b>

On a comparative property basis our Calgary office portfolio increased by \$5.1 million resulting primarily from Cap Rate compression partially offset by decreased NOI. The NOI decrease can be attributed to leases with higher step rents expiring, bringing the overall in-place rents down. Our Western Canada office portfolio increased over prior quarter as a result of Cap Rate compression primarily in Edmonton. Our comparative Toronto office portfolio increased \$22 million over prior quarter; on average Toronto Cap Rates compressed by 25 basis points. Our Eastern Canada office portfolio increased slightly over prior quarter due in part from Cap Rate compression offset by decreased NOI.

Our comparative industrial portfolio increased by \$8.7 in the quarter, primarily in our Calgary and Eastern Canada markets, both resulting from Cap Rate compression.

The final valuation of investment properties includes a straight-line rent balance of \$13.5 million (December 31, 2010 — \$11.2 million).

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

	<b>Total portfolio</b>		<b>Capitalization rate</b>			
	<b>June 30, 2011</b>		<b>June 30, 2011</b>		<b>Comparative properties</b>	
	<b>Range (%)</b>	<b>Weighted average (%)</b>	<b>Range (%)</b>	<b>Weighted average (%)</b>	March 31, 2011	Weighted average (%)
<b>Office</b>						
Western Canada	6.00—9.25	6.91	6.00—9.25	6.91	6.00—9.25	7.01
Calgary	6.75—9.25	7.73	6.75—8.50	7.73	6.75—8.75	7.89
Toronto	6.00—8.50	6.73	6.00—8.50	6.73	6.00—9.00	7.00
Eastern Canada	6.25—8.25	7.05	6.25—8.25	6.98	6.50—8.00	7.12
<b>Total office</b>	<b>6.00—9.25</b>	<b>7.10</b>	<b>6.00—9.25</b>	<b>7.10</b>	<b>6.00—9.25</b>	<b>7.28</b>
<b>Industrial</b>						
Western Canada	6.75—8.00	7.03	6.75—8.00	7.03	6.75—7.83	7.30
Calgary	6.25—7.50	7.02	6.25—7.50	7.02	6.25—7.75	7.29
Toronto	6.50—8.00	7.50	6.50—8.00	7.50	6.00—9.00	7.75
Eastern Canada	6.75—9.25	7.69	6.75—9.25	7.68	7.25—9.50	7.95
<b>Total industrial</b>	<b>6.25—9.25</b>	<b>7.48</b>	<b>6.25—9.25</b>	<b>7.24</b>	<b>6.25—9.50</b>	<b>7.52</b>
<b>Total portfolio</b>	<b>6.00—9.25</b>	<b>7.12</b>	<b>6.00—9.25</b>	<b>7.11</b>	<b>6.00—9.50</b>	<b>7.31</b>

### Investing activities

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

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010
<b>Investing activities</b>				
Acquisition of investment properties	\$ 46,339	\$ 214,112	\$ 150,373	\$ 477,480
Acquisition of Realex	—	—	154,380	—
Building improvements	1,040	2,455	1,950	3,991
Development	3,354	610	5,943	967

**Acquisitions**

During the first and second quarters of 2011, we completed the following investment property acquisitions:

For the six months ended June 30, 2011	Property type	Interest acquired (%)	Acquired GLA <sup>(1)</sup> (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Date acquired
Saskatoon Square, Saskatoon	Office	100	209,593	100	\$ 51,349	Jan. 4, 2011
400 Cumberland, Ottawa	Office	100	174,921	100	39,179	Jan. 17, 2011
Realex Portfolio	Office/ industrial	100	1,837,277	96	363,697 <sup>(2)</sup>	Feb. 8, 2011
55 King Street West, Kitchener	Office	100	124,100	73	13,506	Mar. 31, 2011
586 Argus Road, Oakville	Office	100	74,570	95	16,986	May 2, 2011
Morgex Building (11120-178th Street), Edmonton	Office	100	39,750	100	13,354	May 19, 2011
Multivesco Portfolio, Gatineau, Québec	Office/ industrial	100	148,198	100	15,999	June 9, 2011
<b>Total</b>			<b>2,608,409</b>	<b>96</b>	<b>\$ 514,070</b>	

<sup>(1)</sup> Gross leasable area ("GLA").

<sup>(2)</sup> Includes \$20.8 million of equity accounted investments.

The acquisition of the Realex portfolio was completed on February 8, 2011. The Trust acquired all of the 18,712,663 outstanding shares of Realex for \$8.25 per share, for a total consideration of \$154.4 million with \$203.9 million in assumed mortgages, at fair value, and \$5.4 million in assumed working capital, for a total purchase price of \$363.7 million. Including equity accounted investments, the acquisition of Realex consisted of \$373.4 million of investment properties, \$6.1 million of cash, amounts receivable and other assets, along with \$203.9 million of assumed mortgages, at fair value, and \$9.4 million of accounts payable and other liabilities. An acquisition gain of \$11.8 million was recognized on the transaction.

**Acquisitions completed during the first and second quarters of 2010**

For the six months ended June 30, 2010	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Date acquired
Adelaide Place, Toronto	Office	100	654,249	98	\$ 217,461	Jan. 18, 2010
Aviva Corporate Centre, Toronto	Office/ redevelopment	100	436,704	99	45,907	Feb. 10, 2010
10130-103 Street, Edmonton	Office	100	265,625	95	87,780	April 16, 2010
2340 St. Laurent Boulevard, Ottawa	Industrial	100	114,724	100	11,344	April 26, 2010
4915-52 Street (Lots 17 & 18), Yellowknife	Redevelopment	100	—	—	678	April 30, 2010
Financial Building, Regina	Office	100	65,763	100	14,222	May 4, 2010
30 Eglinton Avenue West, Mississauga	Office	100	164,987	90	38,526	May 31, 2010
625 Cochrane Drive, Markham	Office	100	161,997	100	29,917	June 18, 2010
Valleywood Corporate Centre, Markham	Office	100	154,116	98	31,645	June 18, 2010
<b>Total</b>			2,018,165	98	\$ 477,480	

We assumed a mortgage with a fair value of \$30.3 million on the acquisition of Aviva Corporate Centre in the first quarter of 2010. In the second quarter of 2010, we assumed \$27.8 million on the acquisition of 10103-103 Street, Edmonton, and \$21.5 million on the acquisition of 30 Eglinton Avenue West, Mississauga.

**Acquisitions completed subsequent to period end**

On July 11, 2011, we completed the acquisition of a Class A office building in Montréal, Québec, consisting of approximately 1,014,000 square feet. The purchase price, excluding transaction costs, was approximately \$277.8 million.

On July 12, 2011, we completed the acquisition of an office building in Richmond, B.C., consisting of approximately 117,000 square feet. The purchase price, excluding transaction costs, was approximately \$31.8 million.

On July 27, 2011, we completed the acquisition of two office buildings in Dartmouth, N.S., consisting of approximately 108,000 square feet. The purchase price, excluding transaction costs, was approximately \$7.4 million.

In addition, on July 21, 2011, we announced the acquisition of a portfolio of 29 office properties in Toronto, Ottawa, Edmonton and Calgary at a purchase price of \$831.8 million. As part of the transaction, Dundee REIT has entered into agreements to direct five of these assets to third parties for proceeds of \$142.0 million. The 24 office properties ultimately being acquired by us total \$689.8 million (excluding transaction costs) and comprise 2.7 million square feet.

**Building improvements**

During the second quarter of 2011, we incurred \$1.0 million of expenditures, for a year-to-date total of \$2.0 million, related to improvements to our properties. Substantially all are related to expenditures that will be recovered from tenants.

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

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010
Building improvements:				
Recurring recoverable	\$ 867	\$ 2,322	\$ 1,639	\$ 3,679
Recurring non-recoverable	8	69	32	175
Non-recurring	165	64	279	137
<b>Total</b>	<b>\$ 1,040</b>	<b>\$ 2,455</b>	<b>\$ 1,950</b>	<b>\$ 3,991</b>

Building improvements represent investments made in our rental properties to ensure our buildings are operating at an optimal level. Recurring recoverable expenditures of \$0.9 million included elevator modernization, roofing upgrades, lighting, and fire panel upgrades. Non-recurring building improvements represent expenditures for major capital additions that generally would not be expected to recur over the useful life of the building.

#### ***Development***

During the second quarter of 2011, we incurred \$3.4 million of expenditures related to the construction of an office building in Yellowknife. For the year, total expenditures are \$5.9 million.

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

#### ***Commitments and contingencies***

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

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

	June 30, 2011	
	Operating lease payments	Finance lease payments
Less than 1 year	\$ 1,149	\$ 298
1—5 years	1,812	387
Longer than 5 years	1,008	—
<b>Total</b>	<b>\$ 3,969</b>	<b>\$ 685</b>

During the period the Trust paid \$597 (2010 — \$561) in minimum lease payments, which have been included in comprehensive income for the period.

Effective February 1, 2010, we entered into three fixed price contracts to purchase electricity for 14 office properties in Calgary. The contracted volumes are based on historical electricity consumption of each of the buildings and allow us to effectively manage our operating expenses. The contracts expire on January 31, 2013, and commit the Trust to total minimum payments of \$2.2 million for each of 2011 and 2012, and \$0.2 million for 2013.

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

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

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

	June 30, 2011	December 31, 2010
Debt	<b>\$1,643,753</b>	\$ 1,296,851
Less: Debt related to equity accounted investments	<b>131,788</b>	94,843
<b>Consolidated balance sheet</b>	<b>\$ 1,511,965</b>	<b>\$1,202,008</b>

### Financing activities

We finance the ownership of our assets using equity as well as conventional mortgage financing, term debt, floating rate credit facilities and convertible debentures. Our debt strategy includes managing our maturity schedule to help mitigate interest rate risk and limit exposure in any given year, as well as fixing the rates and extending loan terms as long as possible when interest rates are favourable. In the second quarter, we placed \$214.8 million of new mortgage financing at a weighted average interest rate of 4.70% and an average term to maturity of 8.0 years. We also made scheduled payments of \$11.6 million and lump sum payments of \$70.5 million related to mortgage debt for the second quarter.

### Debt

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

	June 30, 2011	December 31, 2010
<b>Financing activities</b>		
Average effective interest rate <sup>(1)</sup>	<b>5.30%</b>	5.43%
Level of debt (debt-to-book value) <sup>(2)</sup>	<b>48.0%</b>	46.9%
Interest coverage ratio <sup>(3)</sup>	<b>2.6 times</b>	2.5 times
Debt-to-EBITDFV (years) <sup>(4)</sup>	<b>7.10</b>	7.88
Proportion of total debt due in current year	<b>1.6%</b>	8.4%
Debt — average term to maturity (years)	<b>5.3</b>	4.8
Variable rate debt as percentage of total debt	<b>1.6%</b>	2.2%

<sup>(1)</sup> Average interest rate is calculated as the weighted average interest rate of all interest bearing debt including debts of equity accounted investments.

<sup>(2)</sup> Debt-to-book value is determined as total debt including debts of equity accounted investments divided by total assets including total assets of equity accounted investments adjusted for accumulated amortization on property and equipment.

<sup>(3)</sup> The interest coverage ratio for the quarter is calculated as NOI plus interest and fee income, less general and administrative expenses, excluding income from disposed properties, divided by interest expense.

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



We currently use cash flow performance and debt level indicators to assess our ability to meet our financing obligations. Dundee Properties Limited Partnership (“DPLP”), a subsidiary of the Trust, is required to maintain an interest coverage ratio of no less than 1.4 times. Our current interest coverage ratio is 2.6 times for the quarter, and reflects our ability to cover interest expense requirements. We also monitor our debt-to-EBITDFV ratio to gauge our ability to pay off existing debt. Our current debt-to-EBITDFV ratio is 7.10 years and reflects the approximate amount of time to pay off all debt. Our average interest coupon rate as at June 30, 2011, was 5.27%, down slightly from March 31, 2011 and the start of the year, mainly reflecting the impact of new and assumed mortgage financing completed year-to-date at a weighted average rate of 5.13%. After accounting for market adjustments and financing costs, the weighted average effective interest rate is 5.30%.

Variable rate debt as a percentage of total debt decreased to 1.6% from 2.2% as a result of repayments of variable rate loans and, more significantly, new and assumed financing entered into at a fixed rate during the period.

	June 30, 2011			December 31, 2010		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 1,486,070	\$ 25,976	\$ 1,512,046	\$ 1,136,906	\$ 28,737	\$ 1,165,643
Term debt	616	—	616	341	—	341
6.5% Debentures	2,992	—	2,992	3,192	—	3,192
5.7% Debentures	7,627	—	7,627	7,752	—	7,752
6.0% Debentures	120,472	—	120,472	119,923	—	119,923
<b>Total</b>	<b>\$ 1,617,777</b>	<b>\$ 25,976</b>	<b>\$ 1,643,753</b>	<b>\$ 1,268,114</b>	<b>\$ 28,737</b>	<b>\$ 1,296,851</b>
Percentage	98.4%	1.6%	100%	97.8%	2.2%	100.0%

Mortgages payable include \$5.4 million of fair value adjustments on mortgages assumed in connection with acquisitions (December 31, 2010 — \$3.6 million). Amounts recorded as at June 30, 2011, for the 6.5%, 5.7% and 6.0% Debentures are net of \$1.3 million of premiums allocated to their conversion features on issuance (December 31, 2010 — \$1.4 million). The fair value adjustments and premiums are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

### Debt financing activity

New and assumed mortgage financing:

	For the three months ended June 30, 2011				For the six months ended June 30, 2011			
		Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective rate (%) <sup>(1)</sup>		Average term to maturity (years)	Weighted average interest rate (%)	Weighted average effective rate (%) <sup>(1)</sup>
New mortgages placed	\$ 214,833	8.01	4.70	4.85	\$ 250,933	8.13	4.72	4.88
New mortgages assumed on investment property acquisitions	—	—	—	—	201,307	6.70	5.68	5.29
<b>Overall</b>	<b>\$ 214,833</b>	<b>8.01</b>	<b>4.70</b>	<b>4.85</b>	<b>\$ 452,240</b>	<b>7.52</b>	<b>5.13</b>	<b>5.06</b>

<sup>(1)</sup> After accounting for the impact of financing costs and marked-to-market of mortgages assumed.

A demand revolving credit facility is available up to a formula-based maximum not to exceed \$40.0 million, generally bearing interest at the bank prime rate (3.0% as at June 30, 2011) plus 1.5%, or bankers' acceptance rates, plus 3.0%. As at June 30, 2011, the formula-based amount available is \$36.1 million. The facility is now secured by a first-ranking collateral mortgage on two properties and a second-ranking collateral mortgage on one property. Currently \$1.5 million is being utilized in the form of letters of guarantee.

In connection with the acquisition of Realex Properties Corp. we assumed a revolving credit facility authorized to a maximum of \$22.0 million. At June 30, 2011, nothing was drawn on the facility. The facility is secured by a second-ranking mortgage on three properties and bears interest based on the bank's prime rate (3.0% as at June 30, 2011) plus 2.75%.

At June 30, 2011, we had \$241.3 million in cash, \$56.5 million from our revolving credit facilities and a significant portion of these funds will be used to partially fund acquisitions scheduled to close in the third quarter. In addition, we have 26 unencumbered properties, which may be leveraged to provide additional financing.

Changes in debt levels are as follows:

	For the three months ended June 30, 2011				
	Mortgages	Revolving credit facilities	Term debt	Convertible debentures	Total
Debt as at March 31, 2011	\$ 1,381,287	\$ 14,854	\$ 679	\$ 131,033	\$ 1,527,853
New debt placed	214,833	—	—	—	214,833
Scheduled repayments	(11,603)	—	49	—	(11,554)
Lump sum repayments	(70,490)	(14,854)	(112)	—	(85,456)
Conversion to unit equity	—	—	—	(250)	(250)
Amortization and other adjustments	(1,981)	—	—	308	(1,673)
<b>Debt as at June 30, 2011</b>	<b>\$ 1,512,046</b>	<b>\$ —</b>	<b>\$ 616</b>	<b>\$ 131,091</b>	<b>\$ 1,643,753</b>

	For the six months ended June 30, 2011				
	Mortgages	Revolving credit facilities	Term debt	Convertible debentures	Total
Debt as at December 31, 2010	\$ 1,165,643	\$ —	\$ 341	\$ 130,867	\$ 1,296,851
New debt assumed on investment property acquisitions	201,307	—	—	—	201,307
New debt placed	250,933	31,854	387	—	283,174
Scheduled repayments	(19,579)	—	(112)	—	(19,691)
Lump sum repayments	(86,566)	(31,854)	—	—	(118,420)
Conversion to unit equity	—	—	—	(354)	(354)
Amortization and other adjustments	308	—	—	578	886
<b>Debt as at June 30, 2011</b>	<b>\$ 1,512,046</b>	<b>\$ —</b>	<b>\$ 616</b>	<b>\$ 131,091</b>	<b>\$ 1,643,753</b>

	Debt maturities	Scheduled principal repayments on non-matured debt	Amount	Weighted average interest rate on balance due % at maturity (%)	Weighted average face rate on balance due at maturity (%)
2011	\$ 7,705	\$ 19,472	\$ 27,177	1.6	2.97
2012	122,087	38,713	160,800	9.8	5.53
2013	102,947	36,211	139,158	8.4	5.57
2014	207,125	34,905	242,030	14.7	5.91
2015	239,197	31,197	270,394	16.4	4.81
2016 and thereafter	728,604	80,689	809,293	49.1	5.19
<b>Total</b>	<b>\$1,407,665</b>	<b>\$ 241,187</b>	<b>\$1,648,852</b>	<b>100.0</b>	<b>5.27</b>
Fair value adjustments			4,108		
Transaction costs			(9,207)		
<b>Total</b>			<b>\$1,643,753</b>		

### Convertible debentures

With respect to the 6.0% Debentures, the total principal outstanding at July 31, 2011, was \$125 million and is convertible into approximately 3,018,478 REIT A Units. For the 5.7% Debentures, the total principal outstanding was \$7.6 million and is convertible into approximately 254,400 REIT A Units. For the 6.5% Debentures, the total principal outstanding was \$3.0 million and is convertible into approximately 121,400 REIT A Units.

The conversion feature of convertible debentures is remeasured each period to fair value with changes in fair value being recorded in comprehensive income. At June 30, 2011, the conversion feature was \$7.3 million (December 31, 2010 — \$6.5 million) representing the fair value of the conversion feature related to the convertible debentures.

### Financing commitments

Subsequent to June 30, 2011, we had entered into agreements for new and renewed mortgage financing totalling approximately \$34.0 million, which closed as of August 2, 2011. Currently, we have another \$101.8 million committed.

In addition, the Trust has a commitment for a secured credit facility in connection with the acquisition of 24 office properties, covering the entire acquisition.

## OUR EQUITY

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

	June 30, 2011		Unitholders' equity December 31, 2010 <sup>(1)</sup>	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	56,333,865	\$ 1,588,018	45,896,203	\$ 1,214,604
REIT Units, Series B	16,316	526	16,316	456
	56,350,181	\$1,588,544	45,912,519	\$ 1,215,060
Add: LP B Units	3,493,736	113,551	3,481,733	105,148
<b>Total</b>	<b>59,843,917</b>	<b>\$1,702,095</b>	<b>49,394,252</b>	<b>\$1,320,208</b>

<sup>(1)</sup> Amounts have been restated for IFRS.

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

At June 30, 2011, Dundee Corporation, directly and indirectly through its subsidiaries, held 1,346,849 REIT A Units and 3,493,736 LP B Units, for a total ownership interest of approximately 8%.

The following table summarizes the changes in our outstanding equity.

	REIT A Units	REIT B Units	LP B Units	Total
Units issued and outstanding on				
December 31, 2010	45,896,203	16,316	3,481,733	49,394,252
Units issued pursuant to DRIP	280,767	—	12,003	292,770
Units issued pursuant to the Unit Purchase Plan	6,203	—	—	6,203
Units issued pursuant to Deferred				
Unit Incentive Plan	28,907	—	—	28,907
Units issued pursuant to public offering	10,108,500	—	—	10,108,500
Conversion of debentures	13,285	—	—	13,285
<b>Total units outstanding on June 30, 2011</b>	<b>56,333,865</b>	<b>16,316</b>	<b>3,493,736</b>	<b>59,843,917</b>
<b>Percentage of all units</b>	<b>94.1%</b>	<b>—%</b>	<b>5.9%</b>	<b>100.0%</b>
Units issued pursuant to DRIP on July 15, 2011	59,927	—	1,973	61,900
Units issued pursuant to Unit Purchase Plan	156	—	—	156
Conversion of debentures	5,073	—	—	5,073
<b>Total units outstanding on July 31, 2011</b>	<b>56,399,021</b>	<b>16,316</b>	<b>3,495,709</b>	<b>59,911,046</b>
<b>Percentage of all units</b>	<b>94%</b>	<b>—%</b>	<b>6%</b>	<b>100%</b>

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

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

On July 26, 2011, we announced an equity offering expected to close on August 15, 2011. The offering is for 5,037,000 REIT A Units, followed by an over-allotment of another 694,500 Units. At an offer price of \$32.40 we are expecting to raise gross proceeds of \$185.7 million. The offering includes 407,000 Units to be purchased by Dundee Corporation pursuant to the exercise of its pre-emptive right under Dundee REIT’s Declaration of Trust.

**Normal course issuer bid**

We have a normal course issuer bid, which commenced on November 3, 2010, and will remain in effect until the earlier of November 2, 2011, or the date on which the Trust has purchased the maximum number of units permitted under the bid. Under the bid, the Trust has the ability to purchase for cancellation up to a maximum of 4,010,675 REIT A Units (representing 10% of the REIT's public float of 40,106,751 REIT A Units at the time of renewal through the facilities of the TSX). As of June 30, 2011, no purchases had been made. Based on the closing price of REIT A Units on June 30, 2011, the Trust may purchase up to \$130.3 million worth of REIT A Units.

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

	For the three months ended June 30, 2011			For the six months ended June 30, 2011		
	Declared distributions	4% bonus distributions	Total	Declared distributions	4% bonus distributions	Total
<b>2011 distributions</b>						
Paid in cash or						
reinvested in units	\$ 29,846	\$ 200	\$ 30,046	\$ 48,818	\$ 313	\$ 49,131
Payable at June 30, 2011	1,014	14	1,028	10,952	70	11,022
<b>Total distributions</b>	<b>\$ 30,860</b>	<b>\$ 214</b>	<b>\$ 31,074</b>	<b>\$ 59,770</b>	<b>\$ 383</b>	<b>\$ 60,153</b>
<b>2011 reinvestment</b>						
Reinvested to June 30, 2011	\$ 4,656	\$ 200	\$ 4,856	\$ 7,161	\$ 313	\$ 7,474
Reinvested on July 15, 2011	353	14	367	1,762	70	1,832
<b>Total distributions reinvested</b>	<b>\$ 5,009</b>	<b>\$ 214</b>	<b>\$ 5,223</b>	<b>\$ 8,923</b>	<b>\$ 383</b>	<b>\$ 9,306</b>
Distributions paid in cash	\$ 25,851			\$ 50,847		
Reinvestment to distribution ratio	16.2%			14.9%		
Cash payout ratio	83.8%			85.1%		

Distributions declared for the six months ended June 30, 2011, were \$59.8 million, an increase of \$22.3 million over the prior year comparative period. For the three months ended June 30, 2011, distributions declared were \$30.9 million, an increase of \$10.8 million over the prior year comparative quarter. The increase reflects a larger number of units outstanding as a result of the equity issues completed in 2010 as well as distributions reinvested in additional units and vested deferred trust units exchanged for REIT A Units. Of the distributions declared for the quarter, \$5.0 million, or approximately 16.2%, were reinvested in additional units resulting in a cash payout ratio of 83.8%.

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.

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010 <sup>(1)</sup>
Net income	\$ 78,333	\$ 32,853	\$ 110,304	\$ 36,334
Cash flow from operating activities <sup>(2)</sup>	23,308	14,130	54,055	33,332
Distributions paid and payable <sup>(3)</sup>	31,074	20,118	60,153	37,648
Excess (shortfall) of cash flow from operating activities over distributions paid and payable	(7,766)	(5,988)	(6,098)	(4,316)

<sup>(1)</sup> Balances have been restated for IFRS.

<sup>(2)</sup> Cash flows from operating activities exclude cash flows from transaction costs on acquired businesses, and include operating cash flows from equity accounted investments.

<sup>(3)</sup> Includes distributions on LP B Units.

Distributions paid and payable exceed cash flow from operations by \$7.8 million for the quarter. In establishing distribution payments, we do not take fluctuations in working capital and transaction costs on business combinations into consideration and use a normalized amount as a proxy for leasing costs. Net income exceeded distributions paid and payable by \$47.3 million for the quarter.

## OUR RESULTS OF OPERATIONS

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010
Investment properties revenue	\$ 88,238	\$ 55,229	\$ 172,090	\$ 105,835
Investment properties operating expenses	34,200	20,371	68,105	40,862
<b>Net rental income</b>	<b>54,038</b>	34,858	<b>103,985</b>	64,973
<b>Other income and expenses</b>				
General and administrative	(3,667)	(2,595)	(7,144)	(5,042)
Share of net earnings from equity accounted investments	6,880	2,339	10,827	5,883
Fair value adjustments to investment properties	39,712	8,306	59,468	14,885
Gain on sale of investment properties	—	—	—	199
Acquisition-related costs	—	—	(5,734)	—
Interest:				
Debt	(19,870)	(13,241)	(37,621)	(25,695)
Subsidiary redeemable units	(1,926)	(1,907)	(3,845)	(3,815)
Interest and fee income	437	394	870	639
Fair value adjustments to financial instruments	2,729	4,699	(10,502)	(15,693)
<b>Net income and comprehensive income for the period</b>	<b>\$ 78,333</b>	<b>\$ 32,853</b>	<b>\$ 110,304</b>	<b>\$ 36,334</b>

## **Statement of comprehensive income results**

### ***Investment properties revenue***

Revenues include net rental income from investment properties as well as the recovery of operating costs and property taxes from tenants. Revenue generated by acquisitions completed in 2010 and 2011 were the primary drivers of the \$33.0 million, or 60.0%, increase in investment property revenue over the comparative quarter.

### ***Investment properties operating expenses***

Operating expenses mainly comprise occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing. Operating expenses fluctuate with occupancy levels, weather, utility costs, realty taxes, and repairs and maintenance. Expenses increased \$13.8 million, or 67.9%, for the quarter, reflecting the additional costs associated with properties acquired in 2011 and in the first two quarters of 2011.

### ***General and administrative expenses***

General and administrative expenses primarily comprise the expenses related to corporate management, trustees' fees and expenses, and investor relations as well as amortization of property and equipment. Expenses for the quarter were \$3.7 million, an increase of \$1.1 million, or 41.3%, over the comparative quarter, mostly due to an increase in asset management fees as a result of acquisitions as well as non-cash deferred unit incentive plan costs of \$0.5 million.

### ***Share of net earnings from equity accounted investments***

Share of net earnings from equity accounted investments include the net rental income of the investments as well as the fair value adjustments to investment properties. During the quarter, share of net earnings from equity accounted investments increased by \$4.5 million relating primarily to a full quarter of income generated by properties acquired in Q1.

### ***Fair value adjustment to investment properties***

The Trust recognized a fair value adjustment of \$39.7 million in the period. The increase was spread across our portfolio, mainly in our office segment. During the quarter we observed compression of capitalization rates resulting in an increase in our property valuations.

### ***Acquisition related costs***

Resulting from the acquisition of Realex on February 8, 2011, the Trust incurred acquisition related costs that have been expensed in the period. Of the \$17.5 million of costs, \$8.7 million was incurred by the Trust and \$8.9 million was incurred by Realex prior to the acquisition. Additionally, the Trust recognized an acquisition gain of \$11.8 million related to the acquisition, resulting from the fair value of total identifiable net assets acquired being larger than the consideration transferred.

### ***Interest expense — debt***

Interest on debt increased \$6.6 million, or 50.0%, for the quarter, mainly reflecting the additional mortgage debt related to acquired properties as well as new financing entered into during 2010 and so far in 2011. The interest coverage ratio, which reflects our ability to cover our interest expense requirements, remains strong at 2.6 times.

### ***Interest expense — subsidiary redeemable units***

Interest on subsidiary redeemable units increased marginally over the prior period resulting from more units outstanding.

**Interest and fee income**

Interest and fee income represents amounts for items such as fees earned from third-party property management, including management, construction and leasing fees, and interest earned on bank accounts and related fees. These revenues are not necessarily of a recurring nature and the amounts will vary from quarter to quarter. Interest and fee income was flat quarter over quarter.

**Fair value adjustment to financial instruments**

Fair value adjustments on financial instruments decreased by \$2.0 million, which includes valuation adjustments of \$(0.5) million and \$2.1 million on the Deferred Unit Incentive Plan and the subsidiary redeemable units, respectively, versus \$0.1 million and \$5.0 million in the prior year quarter.

**Related-party transactions**

From time to time, Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms and as disclosed in Note 23 to the consolidated financial statements. During the quarter, we received \$0.6 million related to the DRC Services Agreement. Other costs recovered from DRC include \$1.5 million for operating and administrative costs of regional offices. We paid \$2.6 million related to the Asset Management Agreement.

**Net operating income**

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010 <sup>(1)</sup>	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010 <sup>(1)</sup>
<b>Net rental income</b>	<b>\$ 54,038</b>	\$ 34,858	<b>\$ 103,985</b>	\$ 64,973
Share of net rental income from equity accounted investments	4,292	3,985	8,337	8,052
<b>NOI including income from redevelopment and disposed properties</b>	<b>\$ 58,330</b>	\$ 38,843	<b>\$ 112,322</b>	\$ 73,025

<sup>(1)</sup> Results have been restated for IFRS.

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

NOI for the respective 2010 comparative period has been restated to reflect the removal of market rent adjustments on acquired leases and the inclusion of lease incentive amortization.

We define NOI as the total of investment property revenues, including property management income, less investment property operating expenses. NOI, before income from disposed properties, increased 50% for the quarter over the comparative period. The increase is mainly attributable to income generated by properties acquired in 2010 and 2011.

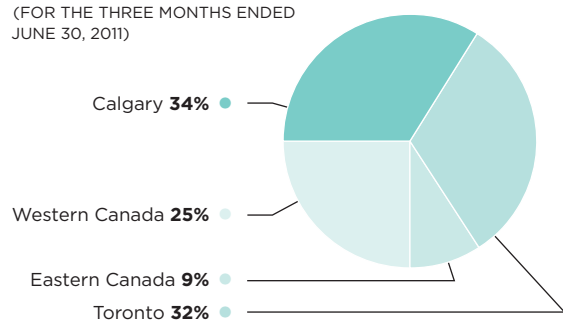


	For the three months ended June 30				For the six months ended June 30			
	2011	2010 <sup>(1)</sup>	Growth		2011	2010 <sup>(1)</sup>	Growth	
			Amount	%			Amount	%
Office	\$ 51,835	\$ 35,763	\$ 16,072	45	\$ 99,727	\$ 67,033	\$ 32,694	49
Industrial	6,488	3,073	3,415	111	12,628	5,943	6,685	112
<b>NOI</b>	<b>58,323</b>	<b>38,836</b>	<b>19,487</b>	<b>50</b>	<b>112,355</b>	<b>72,976</b>	<b>39,379</b>	<b>54</b>
Income from disposed properties	7	7	—		(33)	49	(82)	
<b>NOI including redevelopment and disposed properties</b>	<b>\$ 58,330</b>	<b>\$ 38,843</b>	<b>\$ 19,487</b>	<b>50</b>	<b>\$ 112,322</b>	<b>\$ 73,025</b>	<b>\$ 39,297</b>	<b>54</b>

	For the three months ended June 30				For the six months ended June 30			
	2011	2010 <sup>(1)</sup>	Growth		2011	2010 <sup>(1)</sup>	Growth	
			Amount	%			Amount	%
Western Canada	\$ 14,676	\$ 8,777	\$ 5,899	67	\$ 28,432	\$ 15,840	\$ 12,592	79
Calgary	19,650	16,925	2,725	16	37,881	34,052	3,829	11
Toronto	19,023	12,149	6,874	57	36,370	21,288	15,082	71
Eastern Canada	4,974	985	3,989	405	9,672	1,796	7,876	439
<b>NOI</b>	<b>58,323</b>	<b>38,836</b>	<b>19,487</b>	<b>50</b>	<b>112,355</b>	<b>72,976</b>	<b>39,379</b>	<b>54</b>
Income from disposed properties	7	7	—		(33)	49	(82)	
<b>NOI including redevelopment and disposed properties</b>	<b>\$ 58,330</b>	<b>\$ 38,843</b>	<b>\$ 19,487</b>	<b>50</b>	<b>\$ 112,322</b>	<b>\$ 73,025</b>	<b>\$ 39,297</b>	<b>54</b>

<sup>(1)</sup> Results have been restated for IFRS.

NOI BY REGION  
(FOR THE THREE MONTHS ENDED JUNE 30, 2011)



**NOI comparative portfolio**

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

	For the three months ended June 30				For the six months ended June 30			
	2011	2010 <sup>(1)</sup>	Growth		2011	2010 <sup>(1)</sup>	Growth	
			Amount	%			Amount	%
Office	\$ 27,173	\$ 27,591	\$ (418)	(2)	\$ 54,145	\$ 55,147	\$ (1,002)	(2)
Industrial	3,075	2,953	122	4	6,200	5,882	318	5
<b>Comparative properties</b>	<b>30,248</b>	<b>30,544</b>	<b>(296)</b>	<b>(1)</b>	<b>60,345</b>	<b>61,029</b>	<b>(684)</b>	<b>(1)</b>
Lease termination fees	71	161	(90)		301	162	139	
Rent arbitration adjustment	—	500	(500)		—	357	(357)	
Acquisitions	27,815	6,682	21,133		51,226	10,534	40,692	
Straight-line rent	1,168	1,154	14		2,278	1,348	930	
Amortization of lease incentives	(979)	(205)	(774)		(1,795)	(454)	(1,341)	
<b>NOI</b>	<b>\$ 58,323</b>	<b>\$ 38,836</b>	<b>\$ 19,487</b>	<b>50</b>	<b>\$ 112,355</b>	<b>\$ 72,976</b>	<b>\$ 39,379</b>	<b>54</b>
Income (loss) from disposed properties	7	7	—		(33)	49	(82)	
<b>NOI including redevelopment and disposed properties</b>	<b>\$ 58,330</b>	<b>\$ 38,843</b>	<b>\$ 19,487</b>	<b>50</b>	<b>\$ 112,322</b>	<b>\$ 73,025</b>	<b>\$ 39,297</b>	<b>54</b>

	For the three months ended June 30				For the six months ended June 30			
	2011	2010 <sup>(1)</sup>	Growth		2011	2010 <sup>(1)</sup>	Growth	
			Amount	%			Amount	%
Western Canada	\$ 7,572	\$ 7,297	\$ 275	4	\$ 15,049	\$ 14,369	\$ 680	5
Calgary	16,361	16,854	(493)	(3)	32,580	33,982	(1,402)	(4)
Toronto	5,544	5,597	(53)	(1)	11,141	11,101	40	—
Eastern Canada	771	796	(25)	(3)	1,575	1,577	(2)	—
<b>Comparative properties</b>	<b>30,248</b>	<b>30,544</b>	<b>(296)</b>	<b>(1)</b>	<b>60,345</b>	<b>61,029</b>	<b>(684)</b>	<b>(1)</b>
Lease termination fees	71	161	(90)		301	162	139	
Rent arbitration adjustment	—	500	(500)		—	357	(357)	
Acquisitions	27,815	6,682	21,133		51,226	10,534	40,692	
Straight-line rent	1,168	1,154	14		2,278	1,348	930	
Amortization of lease incentives	(979)	(205)	(774)		(1,795)	(454)	(1,341)	
<b>NOI</b>	<b>\$ 58,323</b>	<b>\$ 38,836</b>	<b>\$ 19,487</b>	<b>50</b>	<b>\$ 112,355</b>	<b>\$ 72,976</b>	<b>\$ 39,379</b>	<b>54</b>
Income (loss) from disposed properties	7	7	—		(33)	49	(82)	
<b>NOI including redevelopment and disposed properties</b>	<b>\$ 58,330</b>	<b>\$ 38,843</b>	<b>\$ 19,487</b>	<b>50</b>	<b>\$ 112,322</b>	<b>\$ 73,025</b>	<b>\$ 39,297</b>	<b>54</b>

<sup>(1)</sup> Results have been restated for IFRS.

Overall, NOI from comparative properties decreased by \$0.3 million or less than 1% this quarter. Our comparative industrial portfolio remained strong, providing an increase of \$0.1 million, or 4%, over the prior year comparative period, resulting from an increase in the weighted average occupancy. Comparative office NOI declined in the quarter by \$0.4 million or 2%. This decline primarily results from the termination of two tenancies in our Calgary and Toronto office portfolios in 2010. In the fourth quarter of 2010 we received a \$1.5 million termination fee for one of the leases terminated. Properties acquired in 2010 and 2011 contributed to \$21.1 million of NOI growth.

### Comparative office portfolio

	For the three months ended June 30					For the six months ended June 30				
	2011	2010 <sup>(1)</sup>	Growth		2011	2010 <sup>(1)</sup>	Growth			
			Amount	%			Amount	%		
Western Canada	\$ 7,002	\$ 6,846	\$ 156	2	\$ 13,968	\$ 13,538	\$ 430	3		
Calgary	13,856	14,352	(496)	(3)	27,461	28,931	(1,470)	(5)		
Toronto	5,544	5,597	(53)	(1)	11,141	11,101	40	—		
Eastern Canada	771	796	(25)	(3)	1,575	1,577	(2)	—		
<b>Comparative properties</b>	<b>27,173</b>	<b>27,591</b>	<b>(418)</b>	<b>(2)</b>	<b>54,145</b>	<b>55,147</b>	<b>(1,002)</b>	<b>(2)</b>		
Lease termination fees	71	161	(90)		301	161	140			
Rent arbitration adjustment	—	500	(500)		—	357	(357)			
Acquisitions	24,624	6,508	18,116		45,243	10,360	34,883			
Straight-line rent	871	1,157	(286)		1,667	1,353	314			
Amortization of lease incentives	(904)	(154)	(750)		(1,629)	(345)	(1,284)			
<b>Office NOI<sup>(1)</sup></b>	<b>\$ 51,835</b>	<b>\$ 35,763</b>	<b>\$ 16,072</b>	<b>45</b>	<b>\$ 99,727</b>	<b>\$ 67,033</b>	<b>\$ 32,694</b>	<b>49</b>		

<sup>(1)</sup> Results have been restated for IFRS.

NOI from our comparative office portfolio was \$27.2 million this quarter, a decrease of \$0.4 million, or 2%, over the prior year comparative period. The decrease results from two lease terminations in a Calgary and a Toronto building in late 2010. A \$1.5 million termination fee was received in Q4 of 2010 for the termination in Toronto. Commitments for the majority of the space are in place with tenancies commencing in Q3 and Q4 of 2011. Our Western portfolio had an increase of \$0.2 million, or 2%, over the prior year comparative period, resulting primarily from increased occupancy in our Yellowknife and Saskatoon portfolios, as well as base rent increases at some of the properties.

### Comparative industrial portfolio

	For the three months ended June 30					For the six months ended June 30				
	2011	2010 <sup>(1)</sup>	Growth		2011	2010 <sup>(1)</sup>	Growth			
			Amount	%			Amount	%		
Western Canada	\$ 570	\$ 451	\$ 119	26	\$ 1,081	\$ 831	\$ 250	30		
Calgary	2,505	2,502	3	—	5,119	5,051	68	1		
<b>Comparative properties</b>	<b>3,075</b>	<b>2,953</b>	<b>122</b>	<b>4</b>	<b>6,200</b>	<b>5,882</b>	<b>318</b>	<b>5</b>		
Lease termination fees	—	—	—		—	1	(1)			
Acquisitions	3,191	174	3,017		5,983	174	5,809			
Straight-line rent	297	(3)	300		611	(5)	616			
Amortization of lease incentives	(75)	(51)	(24)		(166)	(109)	(57)			
<b>Industrial NOI</b>	<b>\$ 6,488</b>	<b>\$ 3,073</b>	<b>\$ 3,415</b>	<b>111</b>	<b>\$ 12,628</b>	<b>\$ 5,943</b>	<b>\$ 6,685</b>	<b>112</b>		

<sup>(1)</sup> Results have been restated for IFRS.

The REIT's comparative industrial portfolio grew by \$0.1 million or 4% in the quarter. Our Western portfolio, which grew by \$0.1 million, had an increase in weighted average occupancy from 74.4% to 90.7% over the prior year comparative period.

#### **NOI prior quarter comparison**

The comparative properties disclosed in the following tables are properties acquired prior to January 1, 2011. Comparative property NOI increased by \$0.4 million, or 1% over the first quarter of 2011.

	For the three months ended			
	June 30, 2011	March 31, 2011	Growth	
			Amount	%
Office	\$ 42,202	\$ 41,854	\$ 348	1
Industrial	5,602	5,539	63	1
<b>Comparative properties</b>	<b>47,804</b>	<b>47,393</b>	<b>411</b>	<b>1</b>
Lease termination fees	71	230	(159)	
Acquisitions	10,259	6,115	4,144	
Straight-line rent	1,168	1,110	58	
Other GAAP adjustments	(979)	(816)	(163)	
<b>NOI</b>	<b>\$ 58,323</b>	<b>\$ 54,032</b>	<b>\$ 4,291</b>	<b>8</b>
Income (loss) from disposed properties	7	(40)	47	
<b>NOI including redevelopment and disposed properties</b>	<b>\$ 58,330</b>	<b>\$ 53,992</b>	<b>\$ 4,338</b>	<b>8</b>

	For the three months ended			
	June 30, 2011	March 31, 2011	Growth	
			Amount	%
Western Canada	\$ 11,804	\$ 11,738	\$ 66	1
Calgary	16,466	16,335	131	1
Toronto	15,618	15,418	200	1
Eastern Canada	3,916	3,902	14	—
<b>Comparative properties</b>	<b>47,804</b>	<b>47,393</b>	<b>411</b>	<b>1</b>
Lease termination fees	71	230	(159)	
Acquisitions	10,259	6,115	4,144	
Straight-line rent	1,168	1,110	58	
Other GAAP adjustments	(979)	(816)	(163)	
<b>NOI</b>	<b>\$ 58,323</b>	<b>\$ 54,032</b>	<b>\$ 4,291</b>	<b>8</b>
Income (loss) from disposed properties	7	(40)	47	
<b>NOI including redevelopment and disposed properties</b>	<b>\$ 58,330</b>	<b>\$ 53,992</b>	<b>\$ 4,338</b>	<b>8</b>

Overall NOI from our office portfolio increased by \$0.3 million or 1% over the prior quarter. Increased NOI resulted from net occupancy growth as well as the recognition of base rent increases for some tenancies that were previously under a free rent period.

## Funds from operations and adjusted funds from operations

	For the three months ended June 30, 2011	For the three months ended June 30, 2010 <sup>(1)</sup>	For the six months ended June 30, 2011	For the six months ended June 30, 2010 <sup>(1)</sup>
<b>Net Income</b>	<b>\$ 78,333</b>	<b>\$ 32,853</b>	<b>\$ 110,304</b>	<b>\$ 36,334</b>
Add (deduct):				
Depreciation of property and equipment	133	118	249	224
Amortization of lease incentives	1,009	229	1,795	454
(Loss) Gain on disposal of rental properties	—	—	—	(199)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(142)	(41)	(175)	(87)
Interest expense on subsidiary redeemable units	1,926	1,907	3,845	3,815
Acquisition related costs	—	—	5,776	—
Fair value adjustments to investment property	(39,712)	(8,306)	(59,468)	(14,885)
Fair value adjustments to investment properties held in equity accounted investments	(3,598)	398	(4,825)	(320)
Fair value adjustments to financial instruments	(2,729)	(4,699)	10,502	15,693
Fair value of deferred unit incentive plan included in G&A	271	20	352	103
<b>FFO</b>	<b>\$ 35,491</b>	<b>\$ 22,479</b>	<b>\$ 68,355</b>	<b>\$ 41,132</b>
Funds from operations	\$ 35,491	\$ 22,479	\$ 68,355	\$ 41,132
Add (deduct):				
Amortization of:				
Marked-to-market adjustments on assumed debt	(382)	(168)	(719)	(374)
Financing costs	490	364	895	701
Deferred unit compensation expense	753	534	1,412	946
Straight-line rent	(1,199)	(1,178)	(2,278)	(1,350)
Amortization of deferred financing costs incurred subsequent to June 30, 2003	(477)	(344)	(853)	(653)
Non-recoverable costs incurred subsequent to June 30, 2003	(16)	(11)	(31)	(21)
Vendor head lease income	131	171	277	266
Revenue supplement from vendor on acquisition	—	616	—	616
	<b>\$ 34,791</b>	<b>\$ 22,463</b>	<b>\$ 67,058</b>	<b>\$ 41,263</b>
Deduct:				
Normalized initial direct leasing costs and tenant incentives	3,430	2,287	6,860	4,376
Normalized non-recoverable recurring capital expenditures	75	75	150	150
<b>AFFO</b>	<b>\$ 31,286</b>	<b>\$ 20,101</b>	<b>\$ 60,048</b>	<b>\$ 36,737</b>

<sup>(1)</sup> Results have been restated for IFRS.

**Funds from operations and adjusted funds from operations per unit amounts**

The basic weighted average number of units outstanding used in the FFO and AFFO calculations include all REIT Units, LP B Units and 108,915 vested deferred trust units for the quarter. The diluted weighted average number of units assume the conversion of the 6.5%, 5.7% and 6.0% Debentures and include 92,983 incremental unvested deferred units. The incremental unvested deferred trust units represent the potential units that would have to be purchased in the open market to fund the unvested obligation. The weighted average number of units outstanding for basic and diluted FFO calculations for the quarter are 55,388,860 and 58,887,400, respectively. Diluted FFO includes interest and amortization adjustments related to convertible debentures of \$2.3 million for the quarter. The weighted average number of units outstanding for basic and diluted FFO calculations for the six months ended are 53,966,233 and 57,454,665, respectively. The diluted FFO includes \$4.6 million of interest and amortization adjustments related to the convertible debentures.

**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.

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010 <sup>(1)</sup>	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010 <sup>(1)</sup>
<b>FFO</b>	<b>\$ 35,491</b>	\$ 22,479	<b>\$ 68,355</b>	\$ 41,132
<b>FFO per unit — basic</b>	<b>\$ 0.64</b>	\$ 0.62	<b>\$ 1.27</b>	\$ 1.23
<b>FFO per unit — diluted</b>	<b>\$ 0.64</b>	\$ 0.62	<b>\$ 1.27</b>	\$ 1.23

<sup>(1)</sup> Results have been restated for IFRS.

FFO per unit was \$0.64 for the quarter, up 3% compared to \$0.62 in 2010, mainly as a result of accretive acquisitions in 2010 and 2011 offset by dilution relating to cash on the balance sheet at period end which was used subsequent to period end for the acquisition of a property in Montréal. Total FFO increased by 57.9% to \$35.5 million in the quarter, driven by NOI growth from properties acquired in 2010 and 2011.

Prior year FFO has been restated for IFRS. Total FFO for the quarter ended June 30, 2010, was reduced by \$2.6 million as a result of IFRS. The change is due to the elimination of \$2.5 million in market rent adjustments that were included under previous GAAP as well as \$0.1 million in accelerated compensation expense related to the DUIP under IFRS.

**Adjusted funds from operations**

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010
<b>AFFO</b>	<b>\$ 31,286</b>	\$ 20,101	<b>\$ 60,048</b>	\$ 36,737
<b>AFFO per unit — basic</b>	<b>\$ 0.56</b>	\$ 0.55	<b>\$ 1.11</b>	\$ 1.09

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

Our calculation of AFFO includes an estimated amount of normalized non-recoverable maintenance capital expenditures, initial direct leasing costs and tenant incentives that we expect to incur based on our current portfolio and expected average leasing activity. Our estimates of initial direct leasing costs and lease incentives are based on the average of our expected leasing activity over the next two to three years and multiplied by the average cost per square foot that we incurred and committed to in 2010, 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.

AFFO per unit was \$0.56 for the quarter, an increase of 2% over the comparative period.

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 the Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles AFFO to cash generated from operating activities.

	<b>For the three months ended June 30, 2011</b>	For the three months ended June 30, 2010 <sup>(1)</sup>	<b>For the six months ended June 30, 2011</b>	For the six months ended June 30, 2010 <sup>(1)</sup>
Cash generated from operating activities	\$ 19,547	\$ 11,250	\$ 31,212	\$ 28,226
Add (deduct):				
Share of earnings from equity accounted investments	6,880	2,339	10,827	5,883
Initial direct leasing costs and lease incentives incurred	5,563	3,805	9,852	6,085
Transaction costs on acquired businesses including those recorded in equity accounted investments	—	—	17,528	—
Change in non-cash working capital	6,877	4,398	3,097	1,489
Adjustments for equity accounted investments:				
Fair value adjustments to investment properties	(3,598)	398	(4,825)	(320)
Straight-line rent	(64)	4	(42)	55
Marked-to-market adjustments on assumed debt	(49)	(138)	(193)	(274)
Amortization of lease incentives	97	44	192	88
Other	(593)	(424)	(867)	(653)
Vendor head lease income	131	171	277	266
Vendor revenue supplement	—	616	—	616
Normalized initial direct leasing costs and lease incentives	(3,430)	(2,287)	(6,860)	(4,574)
Normalized non-recoverable recurring capital expenditures	(75)	(75)	(150)	(150)
<b>AFFO</b>	<b>\$ 31,286</b>	<b>\$ 20,101</b>	<b>\$ 60,048</b>	<b>\$ 36,737</b>

<sup>(1)</sup> Results have been restated for IFRS.

## QUARTERLY INFORMATION

The following tables show quarterly information since July 1, 2009.

	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009 <sup>(1)</sup>	Q3 2009 <sup>(1)</sup>
Investment properties revenue	\$ 88,238	\$ 83,852	\$ 70,337	\$ 63,206	\$ 55,229	\$ 50,606	\$ 50,156	\$ 47,398
Investment properties operating expenses	34,200	33,905	29,645	25,220	20,371	20,491	19,365	17,551
Net rental income	54,038	49,947	40,692	37,986	34,858	30,115	30,791	29,847
<b>Other income and expenses</b>								
General and administrative	(3,667)	(3,477)	(2,795)	(2,781)	(2,595)	(2,447)	(1,608)	(1,667)
Share of net earnings from equity accounted investments	6,880	3,947	24,554	2,808	2,339	3,544	—	—
Fair value adjustments to investment properties	39,712	19,756	117,538	17,149	8,306	6,579	—	—
Gain on sale of investment properties	—	—	(500)	4	—	199	—	—
Acquisition related costs	—	(5,734)	—	—	—	—	—	—
Interest								
Debt	(19,870)	(17,751)	(15,005)	(13,949)	(13,241)	(12,454)	(12,190)	(12,487)
Subsidiary redeemable units	(1,926)	(1,919)	(1,918)	(1,914)	(1,907)	(1,908)	—	—
Interest and fee income	437	433	509	336	394	245	409	299
Fair value adjustments to financial instruments	2,729	(13,231)	(7,372)	(15,681)	4,699	(20,392)	—	—
Depreciation/amortization	—	—	—	—	—	—	(12,690)	(12,273)
Provision for income taxes	—	—	—	—	—	—	2,230	(91)
Discontinued operations	—	—	—	—	—	—	(336)	4,099
<b>Net income and comprehensive income for the period</b>	<b>\$ 78,333</b>	<b>\$ 31,971</b>	<b>\$ 155,703</b>	<b>\$ 23,958</b>	<b>\$ 32,853</b>	<b>\$ 3,481</b>	<b>\$ 6,606</b>	<b>\$ 7,727</b>

<sup>(1)</sup> Results reported under previous GAAP.



## Calculation of funds from operations

	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009 <sup>(2)</sup>	Q3 2009 <sup>(2)</sup>
<b>NET INCOME</b>	<b>\$ 78,333</b>	\$ 31,971	\$ 155,703	\$ 23,958	\$ 32,853	\$ 3,481	\$ 6,606	\$ 7,727
Add (deduct):								
Depreciation on property and equipment	133	117	112	208	118	106	—	—
Depreciation of rental properties and amortization of leasing costs, tenant improvements and intangibles	—	—	—	—	—	—	12,758	12,398
Amortization of lease incentives	1,009	786	301	249	229	225	—	—
Gain on disposal of investment properties	—	—	500	(4)	—	(199)	30	(4,285)
Provision for impairment in value of rental property	—	—	—	—	—	—	2,212	297
Future income taxes	—	—	—	—	—	—	(4,203)	107
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(142)	(34)	(55)	(51)	(41)	(45)	(40)	(35)
Interest expense on subsidiary redeemable units	1,926	1,919	1,918	1,914	1,907	1,908	—	—
Acquisition related costs	—	5,776	—	—	—	—	—	—
Leasing costs and intangibles expensed on lease terminations	—	—	240	—	—	—	—	—
Fair value adjustments to investment properties	(39,712)	(19,756)	(117,538)	(17,149)	(8,306)	(6,579)	—	—
Fair value adjustments to investment properties held in equity accounted investments	(3,598)	(1,227)	(20,465)	(138)	398	(719)	—	—
Fair value adjustments to financial instruments	(2,729)	13,231	7,372	15,681	(4,699)	20,392	—	—
Fair value of DUIP included in G&A	271	81	59	112	20	83	—	—
<b>FFO</b>	<b>\$ 35,491</b>	\$ 32,864	\$ 28,147	\$ 24,780	\$ 22,479	\$ 18,653	\$ 17,363	\$ 16,209
FFO per unit — basic <sup>(1)</sup>	\$ 0.64	\$ 0.63	\$ 0.61	\$ 0.59	\$ 0.62	\$ 0.61	\$ 0.70	\$ 0.74
FFO per unit — diluted <sup>(1)</sup>	\$ 0.64	\$ 0.63	\$ 0.61	\$ 0.60	\$ 0.62	\$ 0.61	\$ 0.69	\$ 0.73

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

<sup>(2)</sup> Results reported under previous GAAP.

	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009 <sup>(2)</sup>	Q3 2009 <sup>(2)</sup>
<b>FUNDS FROM OPERATIONS</b>	<b>\$ 35,491</b>	<b>\$ 32,864</b>	<b>\$ 28,147</b>	<b>\$ 24,780</b>	<b>\$ 22,479</b>	<b>\$ 18,653</b>	<b>\$ 17,363</b>	<b>\$ 16,209</b>
Add (deduct):								
Marked-to-market adjustment on assumed debt	(382)	(337)	(175)	(215)	(168)	(206)	(182)	(198)
Financing costs incurred prior to June 30, 2003	490	404	411	369	364	337	327	301
Deferred compensation expense	753	659	580	483	534	412	221	220
Straight-line rent	(1,199)	(1,079)	(857)	(1,564)	(1,178)	(172)	(411)	(241)
Financing costs incurred subsequent to June 30, 2003	(477)	(375)	(391)	(349)	(344)	(309)	(315)	(291)
Vendor head lease income	131	146	171	171	171	95	—	—
Non-recoverable costs incurred subsequent to June 30, 2003	(16)	(15)	(11)	(11)	(11)	(10)	(13)	(11)
Amortization of above and below market rent and tenant inducement	—	—	—	—	—	—	(2,243)	(2,528)
Revenue supplement from vendor on acquisition	—	—	—	506	616	—	—	—
	<b>\$ 34,791</b>	<b>\$ 32,267</b>	<b>\$ 27,875</b>	<b>\$ 24,170</b>	<b>\$ 22,463</b>	<b>\$ 18,800</b>	<b>\$ 14,747</b>	<b>\$ 13,461</b>
Adjusted for:								
Normalized initial direct leasing costs and lease incentives	3,430	3,430	2,555	2,505	2,287	2,089	1,514	1,514
Normalized non-recoverable recurring capital expenditures	75	75	75	75	75	75	200	200
<b>Adjusted funds from operations</b>	<b>\$ 31,286</b>	<b>\$ 28,762</b>	<b>\$ 25,245</b>	<b>\$ 21,590</b>	<b>\$ 20,101</b>	<b>\$ 16,636</b>	<b>\$ 13,033</b>	<b>\$ 11,747</b>
<b>AFFO per unit</b>								
Basic <sup>(1)</sup>	\$ 0.56	\$ 0.55	\$ 0.55	\$ 0.52	\$ 0.55	\$ 0.54	\$ 0.52	\$ 0.54
<b>Weighted average units outstanding for FFO and AFFO</b>								
Basic	55,388,860	52,525,703	46,054,582	41,627,961	36,418,168	30,713,775	24,967,255	21,883,358
Diluted	58,887,400	56,011,583	49,596,634	45,106,887	39,871,032	34,175,445	28,417,078	25,312,351

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

(2) Results reported under previous GAAP.

## SECTION III — TRANSITION TO IFRS — KEY CHANGES

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

To summarize, the following list of highlighted IFRS impacts captures certain key changes:

### **Investment property**

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

### **Equity accounted investments**

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

### **Deferred unit incentive plan**

Under previous GAAP, grants of deferred units in respect of the deferred unit incentive plan for trustees, officers, and certain employees as well as affiliates and service providers, including the asset manager, were recognized as compensation expense evenly over the three- or five-year vesting period based on the value of the deferred unit on the date of grant. Upon adoption of IFRS, the balance related to the deferred unit incentive plan recorded in equity was reclassified to non-current liabilities, and compensation expense is recognized over the vesting period based upon the fair value of the deferred units. Changes in the non-current liability in respect of the vested deferred units are as a result of unit price movements, and are recorded in fair value adjustments to financial instruments.

### **Subsidiary redeemable units**

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

### **Conversion feature of convertible debentures**

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

## **SECTION IV – DISCLOSURE CONTROLS AND PROCEDURES**

### **Impact of IFRS on disclosure controls and procedures**

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

## **SECTION V – RISKS AND OUR STRATEGY TO MANAGE**

For a full list and explanation of our risks and uncertainties, please refer to our 2010 Annual Report or our Annual Information Form for the year ended December 31, 2010, filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

## SECTION VI — CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

### CRITICAL ACCOUNTING ESTIMATES

Management of Dundee REIT believes that certain policies may be subject to estimation and management's judgment. For a list and explanation of these policies refer to Note 4 of the interim consolidated financial statements.

### CHANGES IN ACCOUNTING POLICIES

#### Future changes in accounting policies

##### *Financial instruments*

IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") on November 12, 2009, and will replace IAS 39, "Financial instruments: Recognition and measurements" ("IAS 39"). IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Trust is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

##### *Income taxes*

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

##### *Joint arrangements*

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

##### *Financial instruments: Disclosures, Amendment regarding disclosures on transfer of financial assets*

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

***Consolidated financial statements***

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

***Disclosure of interests in other entities***

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

***Fair value measurements***

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

***Presentation of items of other comprehensive income***

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

Additional information relating to Dundee REIT, including the latest Annual Information Form of Dundee REIT, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Consolidated balance sheets

(unaudited) (in thousands of Canadian dollars)	Note	June 30, 2011	December 31, 2010 (Note 5)	January 1, 2010 (Note 5)
<b>Assets</b>				
NON-CURRENT ASSETS				
Investment properties	9	\$2,907,564	\$2,330,005	\$ 1,229,608
Equity accounted investments	10	109,143	123,384	92,304
Other non-current assets	11	30,639	14,271	19,634
		<b>3,047,346</b>	2,467,660	1,341,546
CURRENT ASSETS				
Amounts receivable	12	5,373	3,445	1,411
Prepaid expenses		6,854	3,333	2,031
Cash and cash equivalents		231,600	108,810	8,026
		<b>243,827</b>	115,588	11,468
Non-current assets held for sale	19	—	—	10,839
<b>Total assets</b>		<b>\$ 3,291,173</b>	\$ 2,583,248	\$ 1,363,853
<b>Liabilities</b>				
NON-CURRENT LIABILITIES				
Debt	13	\$ 1,468,386	\$ 1,132,462	\$ 730,907
Subsidiary redeemable units	14	113,551	105,148	71,674
Deposits		9,295	7,768	6,096
Deferred unit incentive plan	15	10,602	8,301	3,614
Convertible debentures conversion feature	13	7,281	6,489	3,416
		<b>1,609,115</b>	1,260,168	815,707
CURRENT LIABILITIES				
Debt	13	43,579	69,546	26,358
Amounts payable and accrued liabilities	16	39,555	30,041	14,764
Distributions payable	17	10,380	8,433	3,902
		<b>93,514</b>	108,020	45,024
<b>Total liabilities</b>		<b>\$ 1,702,629</b>	\$ 1,368,188	\$ 860,731
<b>Equity</b>				
Unitholders' equity		1,437,545	1,118,058	543,387
Retained earnings (deficit)		150,999	97,002	(40,265)
<b>Total equity</b>	18	<b>1,588,544</b>	1,215,060	503,122
<b>Total liabilities and equity</b>		<b>\$ 3,291,173</b>	\$ 2,583,248	\$ 1,363,853

See accompanying notes to the consolidated financial statements

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



**NED GOODMAN**  
Trustee



**MICHAEL J. COOPER**  
Trustee

## Consolidated statements of comprehensive income

(unaudited)	Note	For the three months ended June 30,		For the six months ended June 30,	
		2011	2010	2011	2010
(in thousands of Canadian dollars)			(Note 5)		(Note 5)
Investment properties revenue		\$ 88,238	\$ 55,229	\$ 172,090	\$ 105,835
Investment properties operating expenses		34,200	20,371	68,105	40,862
<b>Net rental income</b>		<b>54,038</b>	34,858	<b>103,985</b>	64,973
<b>Other income and expenses</b>					
General and administrative		(3,667)	(2,595)	(7,144)	(5,042)
Share of net earnings from equity accounted investments	10	6,880	2,339	10,827	5,883
Fair value adjustments to investment properties	9	39,712	8,306	59,468	14,885
Gain (loss) on sale of investment properties	19	—	—	—	199
Acquisition-related costs, net	7	—	—	(5,734)	—
Interest					
Debt	20	(19,870)	(13,241)	(37,621)	(25,695)
Subsidiary redeemable units	20	(1,926)	(1,907)	(3,845)	(3,815)
Interest and fee income		437	394	870	639
Fair value adjustments to financial instruments	21	2,729	4,699	(10,502)	(15,693)
<b>Net income and comprehensive income for the period</b>		<b>\$ 78,333</b>	\$ 32,853	<b>\$ 110,304</b>	\$ 36,334

See accompanying notes to the consolidated financial statements



## Consolidated statements of changes in equity

Attributable to unitholders of the Trust					
(unaudited) (in thousands of Canadian dollars, except number of units)	Note	Number of Units	Unitholders' equity	Retained earnings (deficit)	Total
<b>Balance at January 1, 2011</b>	5	45,912,519	\$ 1,118,058	\$ 97,002	\$ 1,215,060
Comprehensive income for the period		—	—	110,304	110,304
Distributions paid	17	—	—	(45,927)	(45,927)
Distributions payable	17	—	—	(10,380)	(10,380)
Public offering of REIT A Units	18	10,108,500	322,365	—	322,365
Distribution Reinvestment Plan	18	280,767	8,900	—	8,900
Conversion of debentures	18	13,285	354	—	354
Conversion feature of debentures		—	227	—	227
Unit Purchase Plan	18	6,203	196	—	196
Deferred Units exchanged for REIT A Units	15	28,907	921	—	921
Issue costs	18	—	(13,476)	—	(13,476)
<b>Balance at June 30, 2011</b>		<b>56,350,181</b>	<b>\$ 1,437,545</b>	<b>\$ 150,999</b>	<b>\$ 1,588,544</b>

Attributable to unitholders of the Trust					
(unaudited) (in thousands of Canadian dollars, except number of units)	Note	Number of Units	Unitholders' equity	Retained earnings (deficit)	Total
Balance at January 1, 2010	5	21,263,713	\$ 543,387	\$ (40,265)	\$ 503,122
Comprehensive income for the period		—	—	36,334	36,334
Distributions paid	17	—	—	(27,181)	(27,181)
Distributions payable	17	—	—	(6,649)	(6,649)
Public offering of REIT A Units	18	14,794,750	333,680	—	333,680
Distribution Reinvestment Plan	18	129,604	3,176	—	3,176
Unit Purchase Plan	18	3,397	84	—	84
Deferred Units exchanged for REIT A Units	15	19,463	478	—	478
Issue costs	18	—	(15,232)	—	(15,232)
Balance at June 30, 2010	5	36,210,927	\$ 865,573	\$ (37,761)	\$ 827,812

See accompanying notes to the consolidated financial statements

## Consolidated statements of cash flows

(unaudited)	Note	For the three months ended		For the six months ended	
		2011	2010	2011	2010
(in thousands of Canadian dollars)			(Note 5)		(Note 5)
<b>Generated from (utilized in) operating activities</b>					
Net income		\$ 78,333	\$ 32,853	\$ 110,304	\$ 36,334
Non-cash items:					
Acquisition-related costs, net	7	—	—	5,734	—
Share of net earnings from equity accounted investments		(6,880)	(2,339)	(10,827)	(5,883)
Amortization of lease incentives		984	185	1,603	366
Amortization of financing costs		495	354	869	680
Amortization of fair value adjustments on acquired debt		(333)	(30)	(526)	(100)
Gain on sale of investment properties		—	—	—	(199)
Deferred unit compensation expense		1,023	555	1,765	1,049
Straight-line rent adjustment		(1,248)	(1,149)	(2,357)	(1,294)
Fair value adjustments to investment properties		(39,712)	(8,306)	(59,468)	(14,885)
Fair value adjustments to financial instruments		(2,729)	(4,699)	10,502	15,693
Depreciation on property and equipment		133	118	249	224
Reinvestment bonus on subsidiary redeemable units	20	189	177	377	349
		30,255	17,719	58,225	32,334
Investment in lease incentives and initial direct leasing costs		(5,563)	(3,805)	(9,852)	(6,085)
Transaction costs on acquired business	7	—	—	(17,528)	—
Interest paid on subsidiary redeemable units	20	1,732	1,734	3,464	3,466
Change in non-cash working capital	24	(6,877)	(4,398)	(3,097)	(1,489)
		19,547	11,250	31,212	28,226
<b>Generated from (utilized in) investing activities</b>					
Investment in building improvements		(4,296)	(1,897)	(7,791)	(3,162)
Acquisition of Realex Properties Corporation	7	—	—	(154,380)	—
Acquisition of investment properties	8	(41,351)	(158,194)	(139,983)	(375,914)
Acquisition deposit on investment properties		(15,500)	100	(15,600)	(500)
Vendor adjustment on investment properties		1,000	—	1,000	—
Proceeds from disposal of investment property		—	—	—	10,850
Distributions from (contributions to) equity accounted investments		34,101	(1,992)	28,035	(754)
Change in restricted cash		122	—	41	—
		(25,924)	(161,983)	(288,678)	(369,480)
<b>Generated from (utilized in) financing activities</b>					
Mortgages placed, net of costs		141,076	—	170,856	119,228
Mortgage principal repayments		(8,450)	(4,586)	(15,937)	(8,588)
Lump sum repayment		(33,074)	—	(34,712)	—
Term debt principal repayments		(63)	—	(112)	(20)
Draw on revolving credit facility		—	—	31,854	—
Repayment of revolving credit facility		(14,854)	—	(31,854)	—
Distributions paid on Units	17	(23,175)	(15,478)	(45,460)	(27,820)
Interest paid on subsidiary redeemable units		(1,732)	(1,734)	(3,464)	(3,466)
Units issued for cash, net of costs		171,459	109,882	309,085	318,448
		231,187	88,084	380,256	397,782
<b>Increase (decrease) in cash and cash equivalents</b>		224,810	(62,649)	122,790	56,528
<b>Cash and cash equivalents, beginning of period</b>		6,790	127,203	108,810	8,026
<b>Cash and cash equivalents, end of period</b>		\$ 231,600	\$ 64,554	\$ 231,600	\$ 64,554

See accompanying notes to the consolidated financial statements

## Notes to the consolidated financial statements

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

### Note 1

#### ORGANIZATION

Dundee Real Estate Investment Trust (“Dundee REIT” or the “Trust”) is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dundee REIT include the accounts of Dundee REIT and its consolidated subsidiaries. Dundee REIT’s portfolio comprises office and industrial properties located across Canada in Vancouver, Calgary, Edmonton, Yellowknife, Saskatoon, Regina, Toronto, Kitchener-Waterloo, London, Ottawa, Montreal and Halifax. A subsidiary of Dundee REIT performs the property management function.

The address of the Trust’s registered office is 30 Adelaide Street East, Suite 1600, Toronto, Ontario, Canada M5C 3H1. The Trust is listed on the Toronto Stock Exchange under the symbol “D.UN”. The Trust’s consolidated financial statements for the period ended June 30, 2011 were authorized for issue by the Board of Trustees on August 3, 2011, after which date the financial statements may only be amended with board approval.

Equity is described in Note 18; however, for simplicity, throughout the Notes reference is made to the following:

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

Units classified as a liability are described in Note 14; however, for simplicity, throughout the Notes reference is made to the following:

- “Subsidiary redeemable units”, meaning the LP Class B Units, Series 1 of Dundee Properties Limited Partnership (“DPLP”)

At June 30, 2011, Dundee Corporation, the majority shareholder of Dundee Realty Corporation (“DRC”), directly and indirectly through its subsidiaries, held 1,346,849 REIT A Units and 3,493,736 subsidiary redeemable units (December 31, 2010 — 976,506 and 3,481,733, respectively).

### Note 2

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”), “Interim Financial Reporting” (“IAS 34”) and IFRS 1, “First-time adoption of International Financial Reporting Standards” (“IFRS 1”). Subject to certain transition elections disclosed in Note 5, the Trust has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Trust’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Trust’s consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of August 3, 2011, the date the Board of Trustees approved the statements. Any subsequent changes to IFRS that are given effect in the Trust's annual consolidated financial statements for the year ending December 31, 2011, could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

### **Basis of presentation**

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars, which is also the Trust's functional currency. All financial information has been rounded to the nearest thousand except when otherwise indicated. The accounting policies set out below have been applied consistently in all material respects. Certain new accounting standards and guidelines relevant to the Trust that were issued at the date of approval of the financial statements but not yet effective for the current accounting period are described in Note 6.

In these consolidated financial statements, the term "previous GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS. Comparative figures for 2010 in these financial statements have been restated to give effect to changes required for the adoption of IFRS. The consolidated financial statements have been prepared on the historical cost basis except for investment properties, the conversion feature of the convertible debentures, subsidiary redeemable units and the deferred unit incentive plan, which are measured at carrying values impacted by fair values.

### **Basis of consolidation**

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

### **Joint arrangements**

A joint venture is a contractual arrangement pursuant to which the Trust and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities.

The Trust reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, equity accounted investments are carried on the consolidated balance sheet at cost, adjusted for the Trust's proportionate share of post-acquisition profits and losses, and for post-acquisition changes in excess of the Trust's carrying amount of its investment over the net assets of the equity accounted investments, less any identified impairment loss. The Trust's share of profits and losses is recognized in the share of net earnings from equity accounted investments in the statement of comprehensive income. At each period-end the Trust evaluates whether there is objective evidence that its interest in an equity accounted investment is impaired. The entire carrying amount of the equity accounted investment is compared to the recoverable amount, which is the higher of the value in use or fair value less costs to sell. The recoverable amount of each investment is considered separately. When the Trust's share of losses of an equity accounted investment equals or exceeds its interest in that investment, the Trust discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Trust has incurred legal or constructive obligations to fund the entity or made payments on behalf of that entity. Accounting policies of equity accounted investments have been changed where necessary to ensure consistency with the policies adopted by the Trust.

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

The Trust reports its interests in co-ownership using proportionate consolidation.

Note 3

### **ACCOUNTING POLICIES SELECTED AND APPLIED FOR SIGNIFICANT TRANSACTIONS AND EVENTS**

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

#### **Investment properties**

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

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

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

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

### **Segment reporting**

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

### **Other non-current assets**

Other non-current assets include property and equipment, deposits, restricted cash, and straight-line rent receivables. Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of property and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their expected useful lives of 4–10 years. The residual values and useful lives of all assets are reviewed and adjusted, if appropriate, at least at each financial year-end. Cost includes expenditures that are directly attributable to the acquisition and expenditures for replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance are charged to comprehensive income during the financial period in which they are incurred.

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

### **Revenue recognition**

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

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

### **Business combinations**

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

### **Distributions**

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

### **Income taxes**

Dundee REIT is taxed as a mutual fund trust for Canadian income tax purposes. The Trust intends to distribute all of its taxable income to its unitholders, which enables it to deduct such distributions for income tax purposes. As the income tax obligations relating to the distributions are those of the unitholder, no provision for income taxes is required on such amounts. The Trust intends to continue to distribute its taxable income and to qualify as a real estate investment trust for the foreseeable future. As such, future taxes have not been recorded in these financial statements.

### Unit-based compensation plan

The Trust has a Deferred Unit Incentive Plan (“DUIP”), as described in Note 15, that provides for the grant of deferred trust units and income deferred trust units to trustees, officers, employees, and affiliates and their service providers (including the asset manager). Unvested deferred trust units are recorded as a liability and compensation expense is recognized over the vesting period at amortized cost based on the fair value of the units. Once vested, the liability is remeasured at each reporting date at amortized cost, based on the fair value of the corresponding REIT A Units with changes in fair value being recognized in comprehensive income.

### Cash and cash equivalents

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

### Financial instruments

#### *Designation of financial instruments*

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

	Classification	Measurement
<b>Financial assets</b>		
Amounts receivable	Loans and receivables	Amortized cost
Restricted cash and deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Mortgages	Other liabilities	Amortized cost
Convertible debentures — host instrument	Other liabilities	Amortized cost
Convertible debentures — conversion feature	Fair value through profit and loss	Fair value
Term debt	Other liabilities	Amortized cost
Subsidiary redeemable units	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Deferred unit incentive plan	Other liabilities	Amortized cost
Amounts payable and accrued liabilities	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost

#### *Financial assets*

The Trust classifies its financial assets upon initial recognition as loans and receivables. All financial assets are initially recorded measured at fair value, less any related transaction costs. Subsequently, financial assets are measured at amortized cost.

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



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

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

### ***Financial liabilities***

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

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

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

The DUIP and the subsidiary redeemable units are measured at amortized cost because they are settled in REIT A Units and REIT B Units, which in accordance with IAS 32 are liabilities. Consequently, the DUIP and subsidiary units are remeasured each period based on the fair value of REIT Units, with changes in the liabilities being recorded in comprehensive income. Distributions paid on subsidiary redeemable units are recorded as interest expense in comprehensive income.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

### **Interest on debt**

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

## Equity

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

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

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

## Assets classified as held for sale

Assets and groups of assets and liabilities, which comprise disposal groups, are categorized as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and changes to the plan are unlikely. Where an asset or disposal group is acquired with a view to resale, it is classified as a non-current asset held for sale if the disposal is expected to take place within one year of the acquisition, and it is highly likely that the other conditions referred to above will be met within a short period following the acquisition.

## Note 4

**CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES**

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

**Critical accounting judgments**

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

***Investment properties***

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

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

***Leases***

In applying the revenue recognition policy, the Trust makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased space, which determines whether or not such amounts are treated as additions to the investment property.

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

***Compliance with Real Estate Investment Trust ("REIT") legislation***

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

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

***Treatment of REIT Units***

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

***Treatment of subsidiary redeemable units***

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

***Business combinations***

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

The Trust applies judgment in determining if the acquisition of an individual property qualifies as a business combination in accordance with IFRS 3 or as an asset acquisition.

***Classification of joint ventures and associates***

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

***Impairment***

The Trust assesses the possibility and amount of any impairment loss or write-down as it relates to amounts receivable, and property and equipment.

**Estimates and assumptions**

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

***Valuation of investment property***

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

**Valuation of financial instruments**

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

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

## Note 5

**TRANSITION TO IFRS**

The Trust has adopted IFRS effective January 1, 2010 (the “transition date”) and has prepared its opening IFRS balance sheet as at that date. Prior to the adoption of IFRS the Trust prepared its financial statements in accordance with previous GAAP. The Trust’s consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. The Trust will ultimately prepare its opening IFRS balance sheet by applying IFRS with an effective date of December 31, 2011 or prior. Accordingly, the opening IFRS balance sheet and the December 31, 2010 comparative balance sheet presented in the consolidated financial statements for the year ending December 31, 2011 may differ from those presented in these interim consolidated financial statements.

**Elected exemptions from full retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1, the Trust has applied certain of the optional exemptions from full retrospective application of IFRS. The elected exemptions adopted by the Trust are described below.

**Cumulative translation differences**

The Trust has elected to set the previous GAAP accumulated cumulative foreign currency translation account, which is included in accumulated other comprehensive income at December 31, 2009, to zero at January 1, 2010.

**Business combinations**

The Trust has applied the business combinations exemption in IFRS 1 in order to avoid retrospective application of IFRS 3, “Business Combinations” to past business combinations completed prior to January 1, 2010.

**Financial instruments: Presentation**

IAS 32 requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the unitholders’ equity component. However, in accordance with this IFRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to IFRS. The Trust has elected not to separate the retained earnings and unitholders’ equity components as it relates to the conversion feature on the convertible debentures for debentures converted prior to January 1, 2010.

### Reconciliation of equity and comprehensive income as previously reported under previous GAAP to IFRS

The following is a reconciliation of total equity reported in accordance with previous GAAP to total equity in accordance with IFRS at the transition date:

	Note	Unitholders' equity	Retained earnings (deficit) <sup>(1)</sup>	Accumulated other comprehensive loss	Total
As reported under previous GAAP — December 31, 2009		\$ 607,282	\$ (201,521)	\$ (6,609)	\$ 399,152
Differences increasing (decreasing) reported amount:					
Investment property	(i)	—	143,491	—	143,491
Equity accounted investments	(ii)	—	32,574	—	32,574
Cumulative foreign currency translation adjustments	(iii)	—	(6,609)	6,609	—
Deferred unit incentive plan	(iv)	(1,069)	(2,545)	—	(3,614)
Subsidiary redeemable units	(v)	(60,266)	(11,408)	—	(71,674)
Conversion feature of convertible debentures	(vi)	(2,560)	(856)	—	(3,416)
Reversal of impairment on non-current assets held for sale	(iii)	—	6,609	—	6,609
As reported under IFRS — January 1, 2010		\$ 543,387	\$ (40,265)	\$ —	\$ 503,122

<sup>(1)</sup> Under previous GAAP, retained earnings was presented as cumulative net income and cumulative distributions.

The following is a reconciliation of total equity reported in accordance with previous GAAP to total equity in accordance with IFRS at June 30, 2010:

	Note	Unitholders' equity	Retained earnings (deficit) <sup>(1)</sup>	Total
As reported under previous GAAP — June 30, 2010		\$ 929,953	\$ (224,555)	\$ 705,398
Differences increasing (decreasing) reported amount:				
Investment properties	(i)	—	185,750	185,750
Equity accounted investments	(ii)	—	31,980	31,980
Deferred unit incentive plan	(iv)	(1,202)	(3,973)	(5,175)
Subsidiary redeemable units	(v)	(60,618)	(24,189)	(84,807)
Convertible debentures conversion feature	(vi)	(2,560)	(2,774)	(5,334)
As reported under IFRS — June 30, 2010		\$ 865,573	\$ (37,761)	\$ 827,812

<sup>(1)</sup> Under previous GAAP, retained earnings was presented as cumulative net income and cumulative distributions.

The following is a reconciliation of total equity reported in accordance with previous GAAP to total equity in accordance with IFRS at December 31, 2010:

	Note	Unitholders' equity	Retained earnings (deficit) <sup>(1)</sup>	Total
As reported under previous GAAP — December 31, 2010		\$ 1,183,705	\$ (260,904)	\$ 922,801
Differences increasing (decreasing) reported amount:				
Investment properties	(i)	—	357,847	357,847
Equity accounted investments	(ii)	—	54,350	54,350
Deferred unit incentive plan	(iv)	(2,134)	(6,167)	(8,301)
Subsidiary redeemable units	(v)	(60,980)	(44,168)	(105,148)
Convertible debentures conversion feature	(vi)	(2,533)	(3,956)	(6,489)
As reported under IFRS — December 31, 2010		\$ 1,118,058	\$ 97,002	\$ 1,215,060

<sup>(1)</sup> Under previous GAAP, retained earnings was presented as cumulative net income and cumulative distributions.

The following is a reconciliation of comprehensive income reported in accordance with previous GAAP to comprehensive income in accordance with IFRS for the three and six months ended June 30, 2010:

	Note	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Comprehensive income as reported under previous GAAP		\$ 7,003	\$ 21,223
Differences increasing (decreasing) reported amount:			
Investment properties	(i)	22,766	42,259
Equity accounted investments	(ii)	453	2,009
Cumulative foreign currency translation adjustments	(iii)	—	(6,609)
Fair value of investment property held for sale	(ii)	—	(2,603)
Deferred unit incentive plan	(iv)	(76)	(1,428)
Interest expense and remeasurement of subsidiary redeemable units	(v)	3,077	(16,598)
Remeasurement of the convertible debenture conversion feature	(vi)	(370)	(1,919)
Comprehensive income as reported under IFRS		\$ 32,853	\$ 36,334

The following is a reconciliation of the Trust's comprehensive income reported in accordance with previous GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2010:

	Note	For the year ended December 31, 2010
Comprehensive income as reported under previous GAAP		\$ 33,599
Differences increasing (decreasing) reported amount:		
Investment properties	(i)	214,359
Equity accounted investments	(ii)	24,380
Cumulative foreign currency translation adjustments	(iii)	(6,609)
Fair value of investment property held for sale	(vii)	(2,603)
Deferred unit incentive plan	(iv)	(3,622)
Interest expense and remeasurement of subsidiary redeemable units	(v)	(40,409)
Remeasurement of the convertible debenture conversion option	(vi)	(3,100)
Comprehensive income as reported under IFRS		\$ 215,995

**Notes to the reconciliations***(i) Investment property*

Under previous GAAP, revenue properties including office and industrial properties were recorded at cost and depreciated over their estimated lives. Under IAS 40, "Investment Property" ("IAS 40"), the Trust has elected to measure investment property at fair value and records changes in fair value in comprehensive income during the period of change. In addition, under previous GAAP intangible assets and liabilities were recognized on the acquisition of revenue properties, which is not required when applying the fair value model under IFRS as the value of the intangible assets and liabilities are considered in determining of the fair value of the investment properties. Accordingly, on the date of transition, all intangible assets and intangible liabilities, net of accumulated amortization, \$57,558 and \$(35,031), respectively, were derecognized by reclassifying them to investment property (December 31, 2010 — \$143,413 and \$(47,749)). Similarly, deferred costs of \$39,589 (December 31, 2010 — \$76,099), net of accumulated amortization, that were recorded separately under previous GAAP, have been included in the carrying balance of investment property. Property and equipment of \$1,168 (December 31, 2010 — \$1,262), net of accumulated amortization, was included with rental properties under previous GAAP, and has been reclassified to other non-current assets. Finally, investment property related to equity accounted investments, inclusive of intangible assets, intangible liabilities, deferred costs of \$155,983 (December 31, 2010 — \$154,385) was reclassified to equity accounted investments. The effect is to increase the carrying amount of investment properties by \$143,491 at the date of transition and \$42,259 and \$214,359 for the six-month period ended June 30, 2010, and the year ended December 31, 2010, respectively, with a corresponding adjustment to retained earnings, which represents the cumulative unrealized gain in respect of the Trust's investment properties. The effect on comprehensive income for 2010 is to increase "change in fair value of investment property" under IFRS and remove amortization related to revenue properties. "Revenue properties" as described under previous GAAP is described as "Investment property" under IFRS.

*(ii) Equity accounted investments*

Under previous GAAP, the Trust accounted for its investments in joint ventures under the proportionate consolidation method. In accordance with IAS 31, "Interests in Joint Ventures" ("IAS 31"), the Trust has opted to equity account for investments in joint ventures. The effect is to remove the proportionately consolidated assets and liabilities of \$199,511 and \$(102,207) (December 31, 2010 — \$221,410 and \$(98,026)) on transition of the respective joint ventures and record a corresponding equity accounted investment on the balance sheet. This adjustment includes fair value adjustments on transition of \$32,574, determined in a similar manner as for investment properties, which include \$2,603 related to non-current assets held for sale on the date of transition, and \$453 and \$2,009 in the statement of comprehensive income for the three- and six-month period ended June 30, 2010, and the year ended December 31, 2010, respectively. The effect on the statement of comprehensive income is to remove the proportionately consolidated revenues and expenses and reflect the Trust's share of earnings on its equity accounted investments in one line.

*(iii) Cumulative foreign currency translation adjustments*

Under previous GAAP, exchange gains and losses accumulated in other comprehensive income on foreign operations were included as part of the carrying amount of the investment in the foreign operation when evaluating the investment for impairment. As the Trust has elected to set the cumulative translation account to zero at January 1, 2010, the investment had a lower carrying amount which resulted in the reversal of a portion of the impairment charge recorded in net income (loss) from discontinued operations for the year ended December 31, 2009. As a result, an adjustment of \$6,609 was recorded to the opening deficit at January 1, 2010. Additionally, for the year ended December 31, 2010, and the six-month period ended June 30, 2010, a reversal of cumulative translation adjustments of \$(6,609) has been recognized in other comprehensive income.



*(iv) Deferred unit incentive plan*

Under previous GAAP, grants of deferred units in respect of the deferred unit incentive plan for trustees, officers, and certain employees as well as affiliates and service providers, including the asset manager, were recognized as compensation expense evenly over the three- or five-year vesting period based on the value of the deferred unit on the date of grant. This change resulted in increased compensation expense recorded in general and administrative expenses of \$159 and \$435 for the three- and six-month periods ended June 30, 2010, respectively. Upon adoption of IFRS, the balance related to the deferred unit incentive plan recorded in equity was reclassified to non-current liabilities and compensation expense is recognized over the vesting period based upon the fair value of the deferred units. Changes in the non-current liability in respect of the vested deferred units are as a result of unit price movements, and are recorded in fair value adjustments to financial instruments. For the three- and six-month periods ended June 30, 2010, the Trust recognized \$(83) and \$993 respectively in the statement of comprehensive income as a fair value adjustment to financial instruments. The effect is to recognize a charge to opening retained earnings of \$2,545 on transition to reflect the measurement of the liability at the market price of REIT A Units and the vesting of deferred units over the vesting period as each portion of the grant vests, on a straight-line basis. Additionally, amounts previously recognized in unitholders' equity relating to the deferred units have been reclassified to liabilities. On date of transition the Trust recorded a liability of \$3,614 (December 31, 2010 — \$8,301).

*(v) Subsidiary redeemable units*

Under previous GAAP, the Trust accounted for its subsidiary redeemable units as a component of unitholders' equity. In accordance with IAS 32, "Financial Instruments - Classification" ("IAS 32"), these units have been reclassified from unitholders' equity to liabilities because they are not the least subordinated instrument of units in issuance and because there is a redemption feature at the option of the holder. On date of transition a liability of \$71,674 (December 31, 2010 — \$105,148) was recorded. Accordingly, distributions on subsidiary redeemable units are recorded as interest expense in comprehensive income. The Trust made an adjustment to comprehensive income for the three- and six-month periods ended June 30, 2010, of \$1,907 and \$3,815, respectively, to reflect this. At each reporting period the subsidiary redeemable units are remeasured to fair value using the fair value of REIT Units; on transition to IFRS this resulted in an adjustment to opening retained earnings of \$11,408 and comprehensive income for the three- and six-month periods ended June 30, 2010, of \$(4,986) and \$12,781, respectively.

*(vi) Conversion feature of convertible debentures*

The Trust is required under IAS 32 to present the conversion feature of the convertible debentures as a liability measured at fair value. Upon initial adoption of IFRS, the conversion feature is recorded separately from the conversion debenture ("host contract"). Under previous GAAP, the conversion feature was recorded in unitholders' equity upon the issuance of convertible debentures. The equity component of \$2,560 on January 1, 2010, has been reclassified to a liability, with a remaining fair value adjustment of \$856 being recorded in retained earnings. On date of transition the Trust recorded a liability of \$3,416 (December 31, 2010 — \$6,489). Under IFRS the conversion feature will be adjusted to unitholders' equity upon conversion of a debenture. The conversion feature is remeasured each reporting period with changes in the fair value of the conversion feature being recorded in comprehensive income through the "fair value adjustment to financial instruments". For the three- and six-month periods ended June 30, 2010, the Trust recorded (\$370) and (\$1,919), respectively, in comprehensive income as a fair value adjustment to financial instruments.

*(vii) Fair value adjustment on disposed assets*

Under IAS 40 the Trust has remeasured its investment property, including investment property that has been classified as an asset held for sale at fair value on transition to IFRS. Accordingly, the Trust recognized a fair value increase of \$2,603 in an investment property classified as held for sale at January 1, 2010, which was subsequently sold on March 1, 2010. This resulted in a decrease to the gain on disposal of rental properties recognized under previous GAAP.

### **Statement of cash flows**

Cash and cash equivalents have been reduced by \$3,996 as at January 1, 2010 (December 31, 2010 — \$8,494) under IFRS as a result of equity accounting treatment applied to jointly controlled entities. Cash flows from operating activities for the three- and six-month periods ended June 30, 2010, have decreased by \$4,757 and \$8,810, respectively, from previous GAAP primarily resulting from: the reclassification of interest expense on subsidiary redeemable units from financing, the reclassification of additions to tenant improvements from investing cash flows, and from the effects of accounting for joint ventures as equity accounted investments. Cash outflows from investing activities decreased by \$598 and \$4,267 for the three- and six-month periods ended June 30, 2010, resulting from the effects of accounting for joint ventures as equity accounted investments including the removal of proportionately consolidated investment property additions and the recognition of distributions from the investments, as well as the reclassification of additions to tenant improvements to operating cash flows. Cash flows from financing activities increased by \$3,089 and \$3,542 for the three- and six-month periods ended June 30, 2010, resulting from the effects of equity accounted investments on the repayment of mortgages and the reclassification of interest expense on subsidiary redeemable units, previously classified as a financing activity.

### Note 6

#### **FUTURE ACCOUNTING POLICY CHANGES**

##### **Financial instruments**

IFRS 9, “Financial Instruments” (“IFRS 9”) was issued by the International Accounting Standards Board (“IASB”) on November 12, 2009, and will replace IAS 39, “Financial instruments: Recognition and measurements” (“IAS 39”). IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Trust is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

##### **Income taxes**

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

##### **Joint arrangements**

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

**Financial instruments: Disclosures, Amendment regarding disclosures on transfer of financial assets**

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

**Consolidated financial statements**

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

**Disclosure of interests in other entities**

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

**Fair value measurements**

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

**Presentation of items of other comprehensive income**

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

## Note 7

**BUSINESS COMBINATIONS**

On February 8, 2011, Dundee REIT acquired all of the outstanding shares of Realex Properties Corporation (“Realex”) for a total cash consideration of \$154,380. At that date, the fair value of the net assets and liabilities acquired equaled \$166,174.

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

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

Acquisition related costs of \$5,734 are comprised of (i) \$8,673 in transaction costs, for the six months ended June 30, 2011; (ii) \$8,855 of acquisition related costs that was incurred as a result of contracts that Realex had in place that were triggered by a change in control; and (iii) net of an acquisition gain of \$11,794.

During the three and six months ended June 30, 2011, the Trust recognized \$13,544 and \$21,366 of revenue, respectively, and \$6,031 and \$10,661 of comprehensive income before fair value adjustments, respectively, related to the acquisition of Realex. Had the acquisition occurred on January 1, 2011, the Trust would have recognized an additional \$6,013 of revenue and \$2,364 of comprehensive income.

The initial accounting for the assets and liabilities recognized with respect to the acquisition of Realex has been completed provisionally and has not been finalized; and is therefore subject to adjustment.

## Note 8

**PROPERTY ACQUISITIONS**

Detailed below are the acquisitions completed during the six months ended June 30, 2011 and June 30, 2010.

For the six months ended June 30, 2011	Property type	Interest acquired (%)	Purchase price	Fair value of mortgage assumed	Date acquired
Saskatoon Square, Saskatoon	office	100	\$ 51,349	\$ —	January 4, 2011
400 Cumberland, Ottawa	office	100	39,179	—	January 17, 2011
55 King Street West, Kitchener	office	100	13,506	—	March 31, 2011
585 Argus Road, Oakville	office	100	16,986	—	May 2, 2011
Morgex Building (11120-178th Street), Edmonton	office	100	13,354	—	May 19, 2011
Multivesco Portfolio, Gatineau, Québec	office/industrial	100	15,999	—	June 9, 2011
<b>Total</b>			\$ 150,373	\$ —	

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

For the six months ended June 30, 2010	Property type	Interest acquired (%)	Purchase price	Fair value of mortgage assumed	Date acquired
Adelaide Place, Toronto	office	100	\$ 217,461	\$ —	January 18, 2010
Aviva Corporate Centre, Toronto	office/redevelopment	100	45,907	30,321	February 10, 2010
10130-103 Street, Edmonton	office	100	87,780	27,794	April 16, 2010
2340 St. Laurent Boulevard, Ottawa	Industrial	100	11,344	—	April 26, 2010
4915-52 Street (Lots 17 & 18), Yellowknife	redevelopment	100	678	—	April 30, 2010
Financial Building, Regina	office	100	14,222	—	May 4, 2010
30 Eglinton Avenue West, Mississauga	office	100	38,526	21,496	May 31, 2010
625 Cochrane Drive, Markham	office	100	29,917	—	June 18, 2010
Valleywood Corporate Centre, Markham	office	100	31,645	—	June 18, 2010
<b>Total</b>			<b>\$477,480</b>	<b>\$ 79,611</b>	

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

For the six months ended June 30	2011	2010
Investment properties		
Office	\$ 146,869	\$ 471,787
Industrial	3,504	—
Properties under development	—	5,693
<b>Total purchase price</b>	<b>\$ 150,373</b>	<b>\$ 477,480</b>

The consideration paid consists of:

Cash		
Paid during the year	\$ 139,983	\$ 375,914
Deposits applied	4,553	13,755
	<b>144,536</b>	<b>389,669</b>
Transfer of interest from equity accounted investment	3,477	—
Assumed mortgages at fair value	—	79,611
Assumed non-cash working capital	2,360	8,200
<b>Total consideration</b>	<b>\$ 150,373</b>	<b>\$ 477,480</b>

## Note 9

## INVESTMENT PROPERTIES

	Note	For the six months ended June 30, 2011	For the year ended December 31, 2010
Balance at beginning of period		\$ 2,330,005	\$ 1,229,608
Additions			
Acquisitions from business combinations	7	352,609	—
Property acquisitions	8	150,373	922,171
Building improvements		7,791	12,541
Lease incentives and initial direct leasing costs		9,921	16,541
Amortization of lease incentives		(1,603)	(850)
Disposals		—	(9,682)
Vendor adjustment on investment property		(1,000)	—
Properties reclassified as held for sale		—	10,104
Fair value adjustments to investment properties		59,468	149,572
<b>Balance at period end</b>		<b>\$ 2,907,564</b>	<b>\$ 2,330,005</b>

The Trust obtained valuations of selected properties prepared by qualified valuation professionals and considered the results when arriving at its own conclusions on values. The final investment property valuation included \$10,505 (December 31, 2010 — \$8,180, January 1, 2010 — \$4,499) related to straight-line rent receivable, which has been reclassified to other non-current assets. Accordingly, investment properties have been reduced by this value.

The key valuation metrics for all investment properties, including those accounted for as equity accounted investments, are set out below:

Total portfolio	June 30, 2011 <sup>(1)</sup>		December 31, 2010 <sup>(1)</sup>		January 1, 2010 <sup>(1)</sup>	
	Range %	Average %	Range %	Average %	Range %	Average %
<b>Office</b>						
Capitalization rate	6.00—9.25	7.10	6.25—9.50	7.16	6.75—9.50	8.01
Discount rate	7.25—10.50	8.09	7.50—10.50	8.04	8.00—10.50	8.66
Terminal rate	6.00—9.75	7.25	6.50—9.75	7.31	7.25—9.75	7.97
<b>Industrial</b>						
Capitalization rate	6.25—9.25	7.48	6.25—8.00	7.42	7.25—8.50	7.61
Discount rate	8.00—9.50	8.59	7.75—9.75	8.81	8.50—10.00	8.75
Terminal rate	7.00—8.75	7.68	7.25—9.00	7.93	7.75—9.00	7.85
<b>Overall</b>						
Capitalization rate	<b>6.00—9.25</b>	<b>7.12</b>	<b>6.25—9.50</b>	<b>7.20</b>	<b>6.75—9.50</b>	<b>8.00</b>
Discount rate	<b>7.25—10.50</b>	<b>8.15</b>	<b>7.50—10.50</b>	<b>8.12</b>	<b>8.00—10.50</b>	<b>8.68</b>
Terminal rate	<b>6.10—9.75</b>	<b>7.30</b>	<b>6.50—9.75</b>	<b>7.38</b>	<b>7.25—9.75</b>	<b>7.95</b>

<sup>(1)</sup> Ranges and averages were calculated using all properties owned at each respective period end.

Commercial properties with an aggregate fair value including straight-line rent of \$137,660 at June 30, 2011 (December 31, 2010 — \$692,750, January 1, 2010 — \$730,545) were valued by qualified valuation professionals.

Investment properties including equity accounted investments with a fair value of \$2,693,063 (December 31, 2010 — \$2,205,031) are pledged as security for mortgages. Investment properties with a fair value of \$37,947 (December 31, 2010 — \$37,950) are pledged as first-ranking collateral, and an investment property with a fair value of \$63,581 (December 31, 2010 — \$63,800) is pledged as second-ranking collateral against the demand revolving credit facility with maximum \$40,000 available for draw. Three investment properties with a fair value of \$162,696 (December 31, 2010 — \$nil) are pledged as second-ranking collateral against the demand revolving credit facility with a maximum of \$22,000 available to draw.

#### Note 10

### JOINT ARRANGEMENTS

	June 30, 2011	December 31, 2010	January 1, 2010
Investments in joint ventures	\$ 109,143	\$ 123,384	\$ 92,304

#### Investments in joint ventures

The Trust participates in partnerships (the “joint ventures”) with other parties and accounts for its interests using the equity accounting method.

#### Details of the Trust’s joint ventures

Name	Location	Principal activity	Ownership interest		
			June 30, 2011 (%)	December 31, 2010 (%)	January 1, 2010 (%)
IBM Corporate Center	Calgary, Alberta	Investment property	33	33	33
Telus Tower	Calgary, Alberta	Investment property	50	50	50
110 Sheppard Ave. E. State Street	Toronto, Ontario	Investment property	—	—	50
Financial Centre	Toronto, Ontario	Investment property	50	50	50
Greenbriar Mall	US	Investment property	—	—	50
Riverbend Atrium	Calgary, Alberta	Investment property	25	—	—
Stockman Centre	Calgary, Alberta	Investment property	25	—	—
Plaza 124	Edmonton, Alberta	Investment property	25	—	—
Capital Centre	Edmonton, Alberta	Investment property	25	—	—

During the quarter the Trust acquired the remaining 75% interest in the Morgex Building.

The following amounts represent the total assets and liabilities of investment property joint ventures in which the Trust participates and its ownership interest of the assets, liabilities, revenues, expenses and cash flows therein.

	June 30, 2011	December 31, 2010	January 1, 2010
<b>Non-current assets</b>			
Investment properties	\$ 231,218	\$ 208,736	\$ 185,739
Other non-current assets	3,060	4,313	4,678
	<b>234,278</b>	213,049	190,417
<b>Current assets</b>			
Amounts receivable	(305)	(214)	(189)
Prepaid expenses	180	81	88
Cash and cash equivalents	9,679	8,494	4,195
	<b>9,554</b>	8,361	4,094
Total assets	<b>\$ 243,832</b>	\$ 221,410	\$ 194,511
<b>Non-current liabilities</b>			
Debt	\$ 129,083	\$ 56,004	\$ 97,410
Deposits	126	64	82
	<b>129,209</b>	56,068	97,492
<b>Current liabilities</b>			
Debt	2,705	38,839	2,385
Amounts payable and accrued liabilities	2,775	3,119	2,330
	<b>5,480</b>	41,958	4,715
Total liabilities	<b>\$ 134,689</b>	\$ 98,026	\$ 102,207
Net assets	<b>\$ 109,143</b>	\$ 123,384	\$ 92,304

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 7,341	\$ 6,519	\$ 14,527	\$ 13,765
Expenses				
Operating	3,026	2,513	6,134	5,670
General and administrative	(42)	—	—	—
Interest	972	1,269	2,288	2,532
Income before fair value gains	3,385	2,737	6,105	5,563
Loss on sale of investment properties	(103)	—	(103)	—
Fair value adjustments to investment properties	3,598	(398)	4,825	320
Income	<b>\$ 6,880</b>	\$ 2,339	<b>\$ 10,827</b>	\$ 5,883



	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Cash flow generated from (utilized in):	\$ 3,761	\$ 2,880	\$ 5,315	\$ 5,106
Operating activities				
Investing activities	(178)	(1,087)	(296)	(1,638)
Financing activities	(1,449)	(723)	(3,834)	(2,468)
<b>Decrease in cash and cash equivalents</b>	<b>\$ 2,134</b>	<b>\$ 1,070</b>	<b>\$ 1,185</b>	<b>\$ 1,000</b>

### Co-owned properties

The Trust's interests in co-owned properties are accounted for on a proportionate consolidated basis.

Name	Location	Principal activity	Ownership interest (%)	
			June 30, 2011	December 31, 2010
10199-101st Street NW	Edmonton, Alberta	Investment property	50	—
St. Albert Trail Centre	Edmonton, Alberta	Investment property	50	—
GE Turbine Building	Sherwood Park, Alberta	Investment property	50	—
Centre 70	Calgary, Alberta	Investment property	15	—

June 30, 2011

### Non-current assets

Investment properties	\$ 33,316
Other non-current assets	16
	<b>33,332</b>

### Current assets

Amounts receivable	272
Prepaid expenses	24
Cash and cash equivalents	347
	<b>643</b>

Total assets	\$ 33,975
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### Non-current liabilities

Debt	\$ 24,930
Deposits	219
	<b>25,149</b>

### Current liabilities

Debt	534
Amounts payable and accrued liabilities	471
	<b>1,005</b>

Total liabilities	\$ 26,154
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Net assets	\$ 7,821
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	For the three months ended June 30, 2011	For the six months ended June 30, 2011
Revenues	\$ 1,073	\$ 1,679
Expenses	729	1,378
Income before fair value adjustments	344	301
Fair value adjustments to investment properties	2,336	2,325
Net income	\$ 2,680	\$ 2,626

## Note 11

**OTHER NON-CURRENT ASSETS**

	June 30, 2011	December 31, 2010	January 1, 2010
Property and equipment (net of accumulated depreciation of \$1,165 (December 31, 2010 — \$707, January 1, 2010 — \$834))	\$ 2,017	\$ 1,251	\$ 1,155
Deposits	16,484	4,741	13,881
Restricted cash	1,633	99	99
Straight-line rent receivable	10,505	8,180	4,499
<b>Total</b>	<b>\$ 30,639</b>	<b>\$ 14,271</b>	<b>\$ 19,634</b>

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

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

## Note 12

**AMOUNTS RECEIVABLE**

Amounts receivable are net of credit adjustments aggregating to \$7,296 (December 31, 2010 — \$3,664, January 1, 2010 — \$2,383).

	June 30, 2011	December 31, 2010	January 1, 2010
Trade receivables	\$ 5,936	\$ 3,110	\$ 3,125
Less: Provision for impairment of trade receivables	(1,012)	(547)	(1,093)
Trade receivables, net	4,924	2,563	2,032
Other amounts receivable (payable)	449	882	(621)
	<b>\$ 5,373</b>	<b>\$ 3,445</b>	<b>\$ 1,411</b>

The movement in the provision for impairment of trade receivables during the period ended June 30 was as follows:

	2011	2010
As at January 1	\$ 547	\$ 1,093
Provision for impairment of trade receivables	536	80
Receivables written off during the period as uncollectible	(167)	(311)
Reduction of other receivables written off during the period	(58)	(32)
Properties acquired in a business combination	154	—
<b>As at June 30</b>	<b>\$ 1,012</b>	<b>\$ 830</b>

The carrying amount of amounts receivable approximates fair value due to their current nature. As at June 30, 2011, trade receivables of approximately \$527 were past due but not considered impaired. The Trust has ongoing relationships with these tenants and default is not expected.

### Note 13

#### DEBT

	June 30, 2011	December 31, 2010	January 1, 2010
Mortgages	\$ 1,380,258	\$ 1,070,800	\$ 627,106
Convertible debentures	131,091	130,867	129,940
Term debt	616	341	219
Total	\$ 1,511,965	\$ 1,202,008	\$ 757,265
Less: Current portion	43,579	69,546	26,358
Non-current debt	\$ 1,468,386	\$ 1,132,462	\$ 730,907

Mortgages are secured by charges on specific investment properties (refer to note 9).

Convertible debentures comprise \$120,472 of the 6.0% Debentures, \$7,627 of the 5.7% Debentures and \$2,992 of the 6.5% Debentures (December 31, 2010 — \$119,923, \$7,752 and \$3,192, respectively, and January 1, 2010 — \$118,904, \$7,743 and \$3,293, respectively).

On January 14, 2008, the Trust issued \$125,000 principal amount convertible unsecured subordinated debentures (the “6.0% Debentures”). The 6.0% Debentures bear interest at 6.0% per annum, payable semi-annually on June 30 and December 31 each year, and mature on December 31, 2014. Each 6.0% Debenture is convertible at any time by the debenture holder into 24.15459 REIT A Units, per one thousand dollars of face value, representing a conversion price of \$41.40 per unit. On or after December 31, 2010, and prior to December 31, 2012, the 6.0% Debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, provided the weighted average trading price for the Trust’s units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On or after December 31, 2012, and prior to December 31, 2014, the 6.0% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. The 6.0% Debentures were initially recorded on the consolidated balance sheet as debt of \$122,840 less costs of \$5,800. As at June 30, 2011, the outstanding principal amount is \$124,965 (December 31, 2010 — \$124,965, January 1, 2010 — \$125,000).

On April 1, 2005, the Trust issued \$100,000 principal amount convertible unsecured subordinated debentures (the “5.7% Debentures”). The 5.7% Debentures bear interest at 5.7% per annum, payable semi-annually on March 31 and September 30 each year, and mature on March 31, 2015. Each 5.7% Debenture is convertible at any time by the debenture holder into 33.33 REIT A Units, per one thousand dollars of face value, representing a conversion price of \$30.00 per unit. On or after March 31, 2009, but prior to March 31, 2011, the 5.7% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided that the market price for the Trust’s units is not less than \$37.50. On or after March 31, 2011, the 5.7% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. The 5.7% Debentures were initially recorded on the consolidated balance sheet as debt of \$98,800 less costs of \$4,558. As at June 30, 2011, the outstanding principal amount is \$7,675 (December 31, 2010 – \$7,806, January 1, 2011 – \$7,806).

On June 21, 2004, the Trust issued \$75,000 principal amount convertible unsecured subordinated debentures (the “6.5% Debentures”). The 6.5% Debentures bear interest at 6.5% per annum, payable semi-annually on June 30 and December 31 each year, and mature on June 30, 2014. Each 6.5% Debenture is convertible at any time by the debenture holder into 40 REIT A Units, per one thousand dollars of face value, representing a conversion price of \$25.00 per unit. On or after June 30, 2010, the 6.5% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. The 6.5% Debentures were initially recorded on the consolidated balance sheet as debt of \$74,400 less costs of \$3,605. As at June 30, 2011, the outstanding principal amount is \$3,126 (December 31, 2010 – \$3,245, January 1, 2010 – \$3,488).

A demand revolving credit facility is available up to a formula-based maximum not to exceed \$40,000, bearing interest generally at the bank prime rate (3.0% as at June 30, 2011) plus 1.5% or bankers’ acceptance rates plus 3.0%. The facility is secured by a first-ranking collateral mortgage on two of the Trust’s properties and a second-ranking collateral mortgage on one property. As at June 30, 2011, the formula-based amount available under this facility was \$36,075, less \$1,540 in the form of letters of guarantee (December 31, 2010 – \$1,540 drawn, January 1, 2010 – \$1,090 drawn). The facility, which expired on April 30, 2011, was renewed as of April 27, 2011, for a one-year term.

In addition, through the acquisition of Realex Properties Corporation, a demand revolving credit facility is available up to a formula-based maximum not to exceed \$22,000, bearing interest generally at the bank prime rate (3.0% as at June 30, 2011) plus 2.75%. As at June 30, 2011, the formula-based amount available under the facility was \$22,000. The facility is secured by a second-ranking collateral mortgage on three of the Trust’s properties. The facility expires on April 30, 2012.

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

	Weighted average interest rates			Maturity dates	Debt amount		
	June 30, 2011	December 31, 2010	January 1, 2010		June 30, 2011	December 31, 2010	January 1, 2010
<b>Fixed rate</b>							
Mortgages	5.21%	5.23%	5.59%	2011–2019	\$ 1,380,258	\$ 1,070,800	\$ 627,106
Convertible debentures	7.03%	7.03%	7.03%	2014–2015	131,091	130,867	129,940
Term debt	7.55%	8.77%	9.03%	2011	616	341	219
<b>Total fixed rate debt</b>	<b>5.36%</b>	<b>5.43%</b>	<b>5.84%</b>		<b>1,511,965</b>	<b>1,202,008</b>	<b>757,265</b>
<b>Total debt</b>	<b>5.36%</b>	<b>5.43%</b>	<b>5.84%</b>		<b>\$ 1,511,965</b>	<b>\$ 1,202,008</b>	<b>\$ 757,265</b>

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Term debt	Convertible debentures	Total
2011 (remainder of year)	\$ 25,763	\$ 118	\$ —	\$ 25,881
2012	157,553	269	—	157,822
2013	84,524	229	—	84,753
2014	106,636	—	128,091	234,727
2015	260,786	—	7,675	268,461
2016 and thereafter	745,102	—	—	745,102
	1,380,364	616	135,766	1,516,746
Financing costs and fair value adjustments	(2,717)	—	(4,675)	(7,392)
Fair value adjustments on assumed mortgages	2,611	—	—	2,611
	\$1,380,258	\$ 616	\$ 131,091	\$ 1,511,965

The movement in the conversion feature on the convertible debentures for the period was as follows:

	For the six months ended June 30, 2011	For the year ended December 31, 2010
As at January 1	\$ 6,489	\$ 3,416
Conversion of convertible debentures to REIT A Units	(227)	(27)
Remeasurement of conversion feature	1,019	3,100
Ending balance	\$ 7,281	\$ 6,489

#### Note 14

#### SUBSIDIARY REDEEMABLE UNITS

The Trust has the following subsidiary redeemable units outstanding:

	For the six months ended June 30, 2011		For the year ended ended December 31, 2010	
	Number of units issued and outstanding	Amount	Number of units issued and outstanding	Amount
Opening balance, January 1	3,481,733	\$ 105,148	3,454,188	\$ 71,674
Distribution reinvestment plan	12,003	377	27,545	714
Remeasurement of carrying value	—	8,026	—	32,760
Ending balance	3,493,736	\$ 113,551	3,481,733	\$ 105,148

During the six-month period ended June 30, 2011, the Trust incurred \$3,845 (June 30, 2010 — \$3,815) in distributions on the subsidiary redeemable units which are included as interest expense in comprehensive income (Note 20).

DPLP, a subsidiary of Dundee REIT, is authorized to issue an unlimited number of LP Class B limited partnership units. These units have been issued in two series: subsidiary redeemable units and LP Class B Units, Series 2. The subsidiary redeemable units, together with the accompanying Special Trust Units, have economic and voting rights equivalent in all material respects to the Units. Generally, each subsidiary redeemable unit entitles the holder to a distribution equal to distributions declared on REIT Units, Series B, or if no such distribution is declared, on REIT Units, Series A. Subsidiary redeemable units may be surrendered or indirectly exchanged on a one-for-one basis at the option of the holder, generally at any time, subject to certain restrictions, for REIT Units, Series B. The subsidiary redeemable units are not entitled to vote at any meeting of the limited partners of DPLP.

The LP Class B Units, Series 2 are entitled to vote at meetings of the limited partners of DPLP and each unit entitles the holder to a distribution equal to distributions on the LP Class B Units, Series 1. As at June 30, 2011, December 31, 2010, and January 1, 2010, all issued and outstanding LP Class B Units, Series 2 are owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

Note 15

**DEFERRED UNIT INCENTIVE PLAN**

The movement in the deferred unit incentive plan balance was as follows:

	Deferred trust units
Opening liability at January 1, 2010	\$ 3,614
Compensation during the period	2,283
REIT A Units issued for vested units	(483)
Remeasurements of carrying value	2,887
<b>Total liability at December 31, 2010</b>	<b>8,301</b>
Compensation during the period	1,765
REIT A Units issued for vested units	(921)
Remeasurements of carrying value	1,457
<b>Total liability at June 30, 2011</b>	<b>\$ 10,602</b>

During the six months ended June 30, 2011, \$1,765 of compensation expense was recorded (June 30, 2010 — \$1,049) and included in general and administrative expenses. For the same period, \$1,457 (June 30, 2010 — \$993) was recognized in fair value adjustments to financial instruments representing the remeasurement of the deferred unit incentive plan liability during the period.

	Deferred trust units	Income deferred trust units	Total units
<b>Outstanding at December 31, 2010</b>	<b>300,447</b>	<b>74,151</b>	<b>374,598</b>
Granted during the period	113,791	15,310	129,101
REIT A Units issued	(21,362)	(7,547)	(28,909)
Fractional units paid in cash	—	(14)	(14)
<b>Outstanding and payable at June 30, 2011</b>	<b>392,876</b>	<b>81,900</b>	<b>474,776</b>
<b>Vested but not issued at June 30, 2011</b>	<b>115,507</b>	<b>46,449</b>	<b>161,956</b>

On March 4, 2011, 100,500 deferred trust units were granted to trustees and senior managers. Of the units granted, 27,000 relate to key management personnel. A further 12,391 deferred trust units were granted to trustees who elected to receive their 2011 annual retainer in the form of deferred trust units rather than cash. The grant date value of these deferred trust units was \$31.60.

## Note 16

**AMOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>June 30, 2011</b>	December 31, 2010	January 1, 2010
Trade payables	<b>\$ 6,307</b>	\$ 2,292	\$ 1,552
Accrued liabilities and other payables	<b>24,395</b>	20,427	8,786
Accrued interest	<b>6,749</b>	5,402	3,643
Rent received in advance	<b>2,104</b>	1,920	783
<b>Total</b>	<b>\$ 39,555</b>	\$ 30,041	\$ 14,764

## Note 17

**DISTRIBUTIONS**

The following table breaks down distribution payments for the period ended June 30, 2011:

	REIT Units, Series A	REIT Units, Series B	Total
Paid in cash	\$ 45,442	\$ 18	\$ 45,460
Paid by way of reinvestment in REIT A Units	8,900	—	8,900
Less: Payable at December 31, 2010	(8,430)	(3)	(8,433)
Plus: Payable at June 30, 2011	10,377	3	10,380
<b>Total</b>	<b>\$ 56,289</b>	<b>\$ 18</b>	<b>\$ 56,307</b>

On June 16, 2011, a distribution for the month of June, payable on July 15, 2011, of \$0.183 per unit has been declared, amounting to a total distribution of \$56,307. The amount payable at June 30, 2011, was satisfied on July 15, 2011, by \$8,986 in cash, and \$1,959 in connection with the issuance of 59,928 REIT A Units.

Dundee REIT's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15th day of the following month. The amount of the annualized distribution to be paid is based on a percentage of distributable income. Distributable income is defined in the Declaration of Trust and the percentage is determined by the trustees, at their sole discretion, based on what they consider appropriate given the circumstances of the Trust. Distributions may be adjusted for amounts paid in prior periods if the actual distributable income for those prior periods is greater or lesser than the estimates used for those prior periods. In addition, the trustees may declare distributions out of the income, net realized capital gains, net recapture income and capital of the Trust to the extent that such amounts have not already been paid, allocated or distributed. Distributable income is not a measure defined by IFRS and therefore may not be comparable to similar measures presented by other real estate investment trusts. The Trust declared distributions of \$0.183 per unit per month, or \$2.20 per year during 2010 and to date in 2011.

## Note 18

## EQUITY

	June 30, 2011		December 31, 2010		January 1, 2010	
	Number of units	Amount	Number of units	Amount	Number of units	Amount
REIT Units, Series A	56,333,865	\$ 1,588,018	45,896,203	\$ 1,214,604	21,247,397	\$ 502,736
REIT Units, Series B	16,316	526	16,316	456	16,316	386
<b>Total</b>	<b>56,350,181</b>	<b>\$ 1,588,544</b>	<b>45,912,519</b>	<b>\$ 1,215,060</b>	<b>21,263,713</b>	<b>\$ 503,122</b>

**Dundee REIT units**

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

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

Special Trust Units are issued in connection with subsidiary redeemable units. The Special Trust Units are not transferable separately from the subsidiary redeemable units to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such subsidiary redeemable units. Each Special Trust Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT B Units that may be obtained upon the surrender or exchange of the subsidiary redeemable units to which they relate. At June 30, 2011, 3,493,736 Special Trust Units were issued and outstanding (December 31, 2010 — 3,481,733, January 1, 2010 — 3,454,188).

	REIT Units, Series A		REIT Units, Series B		Total	
	Number of units	Amount	Number of units	Amount	Number of units	Amount
<b>Equity, January 1, 2011</b>	45,896,203	\$ 1,214,604	16,316	\$ 456	45,912,519	\$ 1,215,060
Comprehensive income	—	110,216	—	88	—	110,304
Distributions paid	—	(45,912)	—	(15)	—	(45,927)
Distributions payable	—	(10,377)	—	(3)	—	(10,380)
Public offering of REIT A Units	10,108,500	322,365	—	—	10,108,500	322,365
Distribution Reinvestment Plan	280,767	8,900	—	—	280,767	8,900
Unit Purchase Plan	6,203	196	—	—	6,203	196
Deferred Units exchanged for REIT A Units	28,907	921	—	—	28,907	921
Conversion of 6.5% Debentures	8,920	223	—	—	8,920	223
Conversion of 5.7% Debentures	4,365	131	—	—	4,365	131
Conversion feature of debentures	—	227	—	—	—	227
Issue costs	—	(13,476)	—	—	—	(13,476)
<b>Equity, June 30, 2011</b>	<b>56,333,865</b>	<b>\$ 1,588,018</b>	<b>16,316</b>	<b>\$ 526</b>	<b>56,350,181</b>	<b>\$ 1,588,544</b>



	REIT Units, Series A		REIT Units, Series B		Total	
	Number of units	Amount	Number of units	Amount	Number of units	Amount
<b>Equity, January 1, 2010</b>	21,247,397	\$ 502,736	16,316	\$ 386	21,263,713	\$ 503,122
Comprehensive income	—	36,313	—	21	—	36,334
Distributions paid	—	(27,166)	—	(15)	—	(27,181)
Distributions payable	—	(6,646)	—	(3)	—	(6,649)
Public offering of REIT A Units	14,794,750	333,680	—	—	14,794,750	333,680
Distribution Reinvestment Plan	129,604	3,176	—	—	129,604	3,176
Unit Purchase Plan	3,397	84	—	—	3,397	84
Deferred Units exchanged						
for REIT A Units	19,463	478	—	—	19,463	478
Issue costs	—	(15,232)	—	—	—	(15,232)
<b>Equity, June 30, 2010</b>	<b>36,194,611</b>	<b>\$ 827,423</b>	<b>16,316</b>	<b>\$ 389</b>	<b>36,210,927</b>	<b>\$ 827,812</b>

#### ***Public offering of REIT A Units***

On June 14, 2011, the Trust completed a public offering of 4,660,000 REIT A Units at a price of \$33.30 per unit for gross proceeds of \$155,178. On June 29, 2011, the Trust issued an additional 699,000 REIT A Units, pursuant to the exercise of the over-allotment option granted to the underwriter for gross proceeds of approximately \$23,277. Costs related to the offering totalled \$7,138 and were charged directly to unitholders' equity. The offering includes 356,000 REIT A Units purchased by Dundee Corporation at the offering price.

On February 4, 2011, the Trust completed a public offering of 4,749,500 REIT A Units at a price of \$30.30 per unit, for gross proceeds of \$143,910. Costs related to the offering totalled \$6,258 and were charged directly to unitholders' equity.

On June 2, 2010, the Trust completed a public offering of 4,100,000 REIT A Units at a price of \$24.40 per unit for gross proceeds of \$100,040. On June 17, 2010, the Trust issued an additional 615,000 REIT A Units pursuant to the exercise of the over-allotment option granted to the underwriter for gross proceeds of approximately \$15,007. Costs related to the offering totalled \$5,157 and were charged directly to unitholders' equity.

On March 16, 2010, the Trust completed a public offering of 3,965,000 REIT A Units at a price of \$25.25 per unit for gross proceeds of \$100,116. On March 26, 2010, the Trust issued an additional 594,750 REIT A Units, pursuant to the exercise of the over-allotment option granted to the underwriter for gross proceeds of approximately \$15,017. Costs related to the offering totalled \$5,180 and were charged directly to unitholders' equity.

On January 7, 2010, the Trust completed a public offering of 5,520,000 REIT A Units at a price of \$18.75 per unit, for gross proceeds of \$103,500. Costs related to the offering were approximately \$4,887.

#### ***Distribution Reinvestment and Unit Purchase Plan***

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

For the six months ended June 30, 2011, 280,767 REIT A Units were issued under the DRIP for \$8,900 (June 30, 2010 — 129,604 REIT A Units for \$3,176).

The Unit Purchase Plan feature of the DRIP facilitates the purchase of additional REIT A Units by existing unitholders. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT A Units that may be acquired. The price per unit is calculated in a similar manner to the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase features of the DRIP. For the same period, 6,203 REIT A Units were issued under the Unit Purchase Plan for \$196 (June 30, 2010 – 3,397 REIT A Units for \$84).

**Conversion of debentures**

For the period ended June 30, 2011, there were 8,920 REIT A Units issued on the conversion of \$223 principal amount of the 6.5% convertible debentures and 4,365 REIT A Units on the conversion of \$131 principal amount of the 5.7% convertible debentures. Related to these conversions, another \$227 was recognized as an adjustment to the conversion feature of the debentures. During the period ended June 30, 2010, there were no conversions of any of the convertible debentures.

**Normal course issuer bid**

The Trust renewed its normal course issuer bid which commenced on November 3, 2010, and will remain in effect until the earlier of November 2, 2011, or the date on which the Trust has purchased the maximum number of units permitted under the bid. Under the bid, the Trust has the ability to purchase for cancellation up to a maximum of 4,010,675 REIT A Units (representing 10% of the REIT’s public float of 40,106,751 REIT A Units at the time of renewal through the facilities of the TSX). As of June 30, 2011, no purchases had been made. Based on the closing price of REIT A Units on June 30, 2011, the Trust may purchase up to \$130,347 worth of REIT A Units.

For the period ended June 30, 2011, the Trust did not purchase any REIT A Units pursuant to its previous bid which expires on November 2, 2011.

Note 19

**NON-CURRENT ASSETS HELD FOR SALE**

On February 5, 2010, the Trust completed the sale of its 50% interest in Greenbriar Mall in Atlanta, Georgia, to its joint venture partner, for which it received net proceeds of \$185. On March 1, 2010, the Trust sold its 50% interest in a joint venture office property located in Toronto, Ontario, for net proceeds of \$10,665. The Trust is now discharged from all rights and obligations relating to both properties. A net gain of \$199 was recognized for the period ended March 31, 2010.

	January 1, 2010
Equity accounted investments	\$ 10,839
Net assets	\$ 10,839

## Note 20

**INTEREST****Interest on debt**

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

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Interest expense incurred, at stated rate of debt	\$ 19,916	\$ 12,975	\$ 37,630	\$ 25,221
Amortization of financing costs	478	353	869	680
Amortization of fair value adjustments				
on acquired debt	(334)	(30)	(526)	(100)
Interest capitalized	(190)	(57)	(352)	(106)
Interest expense	\$ 19,870	\$ 13,241	\$ 37,621	\$ 25,695

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

**Interest on subsidiary redeemable units**

Interest payments charged to comprehensive income for the six months ended June 30, 2011 comprise the following:

	2011	2010
Paid in cash	\$ 3,464	\$ 3,466
Paid by way of reinvestment in subsidiary redeemable units	377	349
Less: Payable at December 31	(640)	(632)
Plus: Payable at June 30	644	632
<b>Total</b>	<b>\$ 3,845</b>	<b>\$ 3,815</b>

The amount payable at June 30, 2011, was satisfied on July 15, 2011 by \$578 in cash, and \$64 of reinvestments resulting in 1,973 subsidiary redeemable units.

## Note 21

**FAIR VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS**

		For the three months ended June 30,		For the six months ended June 30,	
	Note	2011	2010	2011	2010
Fair value adjustment on convertible debt conversion feature	13	\$ 1,098	\$ (370)	\$ (1,019)	\$ (1,919)
Fair value adjustment on subsidiary redeemable units	14	2,083	4,986	(8,026)	(12,781)
Fair value adjustment on deferred unit incentive plan	15	(452)	83	(1,457)	(993)
		\$ 2,729	\$ 4,699	\$ (10,502)	\$ (15,693)

## Note 22

**SEGMENTED INFORMATION**

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

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

For the three months ended June 30, 2011	Office	Industrial	Segment total	Other	Subtotal	Reconciliation	Total
<b>Operations</b>							
Investment properties revenues	\$ 87,191	\$ 8,364	\$ 95,555	\$ 1	\$ 95,556	\$ (7,318)	\$ 88,238
Investment properties operating expenses	(35,356)	(1,876)	(37,232)	6	(37,226)	3,026	(34,200)
Net rental income	51,835	6,488	58,323	7	58,330	(4,292)	54,038
Share of net earnings from equity accounted investments	—	—	—	—	—	6,880	6,880
Fair value adjustments to investment properties	34,954	8,350	43,304	6	43,310	(3,598)	39,712
<b>Segment income</b>	<b>\$ 86,789</b>	<b>\$ 14,838</b>	<b>\$ 101,627</b>	<b>\$ 13</b>	<b>\$ 101,640</b>	<b>\$ (1,010)</b>	<b>\$ 100,630</b>
<b>Interest expense</b>							
Debt	—	—	—	(20,842)	(20,842)	972	(19,870)
Redeemable subsidiary units	—	—	—	(1,926)	(1,926)	—	(1,926)
General and administrative expenses	—	—	—	(3,770)	(3,770)	103	(3,667)
Interest and fee income	—	—	—	460	460	(23)	437
Acquisition related costs	—	—	—	42	42	(42)	—
Fair value adjustments to financial instruments	—	—	—	2,729	2,729	—	2,729
<b>Net income</b>	<b>\$ 86,789</b>	<b>\$ 14,838</b>	<b>\$ 101,627</b>	<b>\$ (23,294)</b>	<b>\$ 78,333</b>	<b>\$ —</b>	<b>\$ 78,333</b>
<b>Capital expenditures</b>							
Investment in investment properties	\$ (972)	\$ (68)	\$ (1,040)	\$ (3,353)	\$ (4,393)	\$ 97	\$ (4,296)
Investment in lease incentives and initial direct leasing costs	(5,434)	(218)	(5,652)	9	(5,643)	80	(5,563)
Acquisition of investment properties	(38,023)	(3,328)	(41,351)	—	(41,351)	—	(41,351)
<b>Total capital expenditures</b>	<b>\$ (44,429)</b>	<b>\$ (3,614)</b>	<b>\$ (48,043)</b>	<b>\$ (3,344)</b>	<b>\$ (51,387)</b>	<b>\$ 177</b>	<b>\$ (51,210)</b>

For the three months ended June 30, 2010	Office	Industrial	Segment total	Other	Subtotal	Reconciliation	Total
<b>Operations</b>							
Investment properties revenues	\$ 57,194	\$ 4,516	\$ 61,710	\$ 17	\$ 61,727	\$ (6,498)	\$ 55,229
Investment properties operating expenses	(21,431)	(1,443)	(22,874)	(10)	(22,884)	2,513	(20,371)
Net rental income	35,763	3,073	38,836	7	38,843	(3,985)	34,858
Share of net earnings from equity accounted investments	—	—	—	—	—	2,339	2,339
Fair value adjustments to investment properties	8,510	(602)	7,908	—	7,908	398	8,306
<b>Segment income</b>	<b>\$ 44,273</b>	<b>\$ 2,471</b>	<b>\$ 46,744</b>	<b>\$ 7</b>	<b>\$ 46,751</b>	<b>\$ (1,248)</b>	<b>\$ 45,503</b>
Interest expense							
Debt	—	—	—	(14,510)	(14,510)	1,269	(13,241)
Redeemable subsidiary units	—	—	—	(1,907)	(1,907)	—	(1,907)
General and administrative expenses	—	—	—	(2,585)	(2,585)	—	(2,585)
Interest and fee income	—	—	—	415	415	(21)	394
Fair value adjustments to financial instruments	—	—	—	4,699	4,699	—	4,699
Loss on sale of investment properties	—	—	—	(10)	(10)	—	(10)
<b>Net income</b>	<b>\$ 44,273</b>	<b>\$ 2,471</b>	<b>\$ 46,744</b>	<b>\$ (13,891)</b>	<b>\$ 32,853</b>	<b>\$ —</b>	<b>\$ 32,853</b>
<b>Capital expenditures</b>							
Investment in investment properties	\$ (1,698)	\$ (643)	\$ (2,341)	\$ (672)	\$ (3,013)	\$ 1,116	\$ (1,897)
Investment in lease incentives and initial direct leasing costs	(3,358)	(800)	(4,158)	65	(4,093)	288	(3,805)
Acquisition of investment properties	(147,429)	(10,133)	(157,562)	(632)	(158,194)	—	(158,194)
<b>Total capital expenditures</b>	<b>\$ (152,485)</b>	<b>\$ (11,576)</b>	<b>\$ (164,061)</b>	<b>\$ (1,239)</b>	<b>\$ (165,300)</b>	<b>\$ 1,404</b>	<b>\$ (163,896)</b>

For the six months ended June 30, 2011	Office	Industrial	Segment total	Other	Subtotal	Reconciliation	Total
<b>Operations</b>							
Investment properties revenue	\$ 170,328	\$ 16,241	\$ 186,569	\$ (8)	\$ 186,561	\$ (14,471)	\$ 172,090
Investment properties operating expenses	(70,601)	(3,613)	(74,214)	(25)	(74,239)	6,134	(68,105)
Net rental income	99,727	12,628	112,355	(33)	112,322	(8,337)	103,985
Share of net earnings from equity accounted investments	—	—	—	—	—	10,827	10,827
Fair value adjustments to investment properties	56,309	8,533	64,842	(549)	64,293	(4,825)	59,468
<b>Segment income</b>	<b>\$ 156,036</b>	<b>\$ 21,161</b>	<b>\$ 177,197</b>	<b>\$ (582)</b>	<b>\$ 176,615</b>	<b>\$ (2,335)</b>	<b>\$ 174,280</b>
<b>Interest expense</b>							
Debt	—	—	—	(39,909)	(39,909)	2,288	(37,621)
Redeemable subsidiary units	—	—	—	(3,845)	(3,845)	—	(3,845)
General and administrative expenses	—	—	—	(7,247)	(7,247)	103	(7,144)
Interest and fee income	—	—	—	926	926	(56)	870
Acquisition related costs	—	—	—	(5,734)	(5,734)	—	(5,734)
Fair value adjustments to financial instruments	—	—	—	(10,502)	(10,502)	—	(10,502)
<b>Net income</b>	<b>\$ 156,036</b>	<b>\$ 21,161</b>	<b>\$ 177,197</b>	<b>\$ (66,893)</b>	<b>\$ 110,304</b>	<b>\$ —</b>	<b>\$ 110,304</b>
<b>Capital expenditures</b>							
Investment in investment properties	\$ (1,813)	\$ (137)	\$ (1,950)	\$ (5,942)	\$ (7,892)	\$ 101	\$ (7,791)
Acquisition of Realex Properties Corporation	(139,923)	(14,457)	(154,380)	—	(154,380)	—	(154,380)
Investment in lease incentives and initial direct leasing costs	(9,488)	(564)	(10,052)	6	(10,046)	194	(9,852)
Acquisition of investment properties	(136,655)	(3,328)	(139,983)	—	(139,983)	—	(139,983)
<b>Total capital expenditures</b>	<b>\$ (287,879)</b>	<b>\$ (18,486)</b>	<b>\$ (306,365)</b>	<b>\$ (5,936)</b>	<b>\$ (312,301)</b>	<b>\$ 295</b>	<b>\$ (312,006)</b>

For the six months ended June 30, 2010	Office	Industrial	Segment total	Other	Subtotal	Reconciliation	Total
<b>Operations</b>							
Investment properties revenue	\$ 110,449	\$ 8,787	\$ 119,236	\$ 320	\$ 119,556	\$ (13,721)	\$ 105,835
Investment properties operating expenses	(43,416)	(2,844)	(46,260)	(271)	(46,531)	5,669	(40,862)
Net rental income	67,033	5,943	72,976	49	73,025	(8,052)	64,973
Share of net earnings from equity accounted investments	—	—	—	—	—	5,883	5,883
Fair value adjustments to investment properties	15,177	28	15,205	—	15,205	(320)	14,885
<b>Segment income</b>	<b>\$ 82,210</b>	<b>\$ 5,971</b>	<b>\$ 88,181</b>	<b>\$ 49</b>	<b>\$ 88,230</b>	<b>\$ (2,489)</b>	<b>\$ 85,741</b>
<b>Interest expense</b>							
Debt	—	—	—	(28,227)	(28,227)	2,532	(25,695)
Redeemable subsidiary units	—	—	—	(3,815)	(3,815)	—	(3,815)
General and administrative expenses	—	—	—	(5,033)	(5,033)	1	(5,032)
Interest and fee income	—	—	—	683	683	(44)	639
Fair value adjustments to financial instruments	—	—	—	(15,693)	(15,693)	—	(15,693)
Gain on sale of investment properties	—	—	—	189	189	—	189
<b>Net income</b>	<b>\$ 82,210</b>	<b>\$ 5,971</b>	<b>\$ 88,181</b>	<b>\$ (51,847)</b>	<b>\$ 36,334</b>	<b>\$ —</b>	<b>\$ 36,334</b>
<b>Capital expenditures</b>							
Investment in investment properties	\$ (2,975)	\$ (880)	\$ (3,855)	\$ (974)	\$ (4,289)	\$ 1,667	\$ (3,162)
Investment in lease incentives and initial direct leasing costs	(5,210)	(1,163)	(6,373)	—	(6,373)	288	(6,085)
Acquisition of investment properties	(358,726)	(10,133)	(368,859)	(7,055)	(375,914)	—	(375,914)
<b>Total capital expenditures</b>	<b>\$ (366,911)</b>	<b>\$ (12,176)</b>	<b>\$ (379,087)</b>	<b>\$ (8,029)</b>	<b>\$ (387,116)</b>	<b>\$ 1,955</b>	<b>\$ (385,161)</b>
<b>At June 30, 2011</b>							
	<b>Office</b>	<b>Industrial</b>	<b>Segment total</b>	<b>Other</b>		<b>Reconciliation</b>	<b>Total</b>
Total assets	\$ 2,818,052	\$ 333,456	\$ 3,151,508	\$ 274,355		\$ (134,690)	\$ 3,291,173
Total liabilities	\$ 1,405,676	\$ 145,134	\$ 1,550,810	\$ 286,509		\$ (134,690)	\$ 1,702,629
<b>At December 31, 2010</b>							
	<b>Office</b>	<b>Industrial</b>	<b>Segment total</b>	<b>Other</b>		<b>Reconciliation</b>	<b>Total</b>
Total assets	\$ 2,261,098	\$ 292,334	\$ 2,553,432	\$ 127,842		\$ (98,026)	\$ 2,583,248
Total liabilities	\$ 1,064,260	\$ 133,064	\$ 1,197,324	\$ 268,890		\$ (98,026)	\$ 1,368,188

Note 23

**RELATED-PARTY TRANSACTIONS AND ARRANGEMENTS**

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

**Asset management agreement**

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

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

**Related-party transactions**

For the six months ended June 30, 2011, the Trust received total fees from DRC of \$1,254 (June 30, 2010 — \$1,008). These fees relate to cost recoveries under the Services Agreement. Other costs recovered from DRC for the period ended June 30, 2011, include \$2,979 for operating and administration costs of regional offices (June 30, 2010 — \$1,992) which are included in investment property operating expenses of the Trust.

For the six months ended June 30, 2011, the Trust incurred total fees of \$6,942 (June 30, 2010 — \$5,623) under the Asset Management Agreement. Included in this amount is \$3,980 (June 30, 2010 — \$2,721) which is reported in general and administrative expenses; \$2,584 (June 30, 2010 — \$2,633) which is reported with property acquisitions; \$nil (June 30, 2010 — \$259) in financing costs reported with debt; \$263 (June 30, 2010 — \$10) capitalized to properties under development; and \$115 (June 30, 2010 — \$nil) included in investment properties operating expense.

Included in amounts receivable at June 30, 2011, is \$7 related to the Services Agreement (December 31, 2010 — \$(128), January 1, 2010 — \$(155)), \$440 related to the Asset Management Agreement (December 31, 2010 — \$328, January 1, 2010 — \$224) and \$171 related to other amounts owed by DRC (December 31, 2010 — \$115, January 1, 2010 — \$158). Accrued liabilities and other payables at June 30, 2011, include \$868 for amounts related to the Asset Management Agreement (December 31, 2010 — \$775, January 1, 2010 — \$954).



Compensation of key management personnel is included in the fees paid under the Asset Management Agreement.

#### Note 24

### SUPPLEMENTARY CASH FLOW INFORMATION

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Decrease (increase) in amounts receivable	\$ (186)	\$ 2,993	\$ 1,629	\$ 1,950
Increase (decrease) in prepaid expenses	2,439	(733)	(3,521)	(718)
Increase (decrease) in other non-current assets	(1,468)	90	(542)	(230)
Increase in amounts payable and accrued liabilities	(8,144)	(6,766)	(2,190)	(3,363)
Increase in tenant deposits	482	18	1,527	872
<b>Change in non-cash working capital</b>	<b>\$ (6,877)</b>	<b>\$ (4,398)</b>	<b>\$ (3,097)</b>	<b>\$ (1,489)</b>

The following amounts were paid on account of interest:

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Interest				
Debt	\$ 22,510	\$ 16,650	\$ 38,964	\$ 27,806
Subsidiary redeemable units	1,912	1,734	3,464	3,466

#### Note 25

### COMMITMENTS AND CONTINGENCIES

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

As at June 30, 2011, Dundee REIT's future minimum commitments under operating and finance leases are as follows:

Years ending December 31	Operating lease payments	Finance lease payments
No longer than 1 year	\$ 1,149	\$ 298
1–5 years	1,812	387
Longer than 5 years	1,008	—
<b>Total</b>	<b>\$ 3,969</b>	<b>\$ 685</b>

During the period the Trust paid \$597 (2010 — \$561) in minimum lease payments, which have been included in comprehensive income for the period.

The Trust's share of the capital commitments of its equity accounted investments are as follows:

	<b>June 30, 2011</b>	December 31, 2010	January 1, 2010
Commitments for the Trust's share of capital commitments	<b>\$ —</b>	\$ 574	\$ 738

The Trust's share of contingent liabilities arising from its equity accounted investments are as follows:

	<b>June 30, 2011</b>	December 31, 2010	January 1, 2010
Contingent liabilities for the obligations of the other owners of equity accounted investments	<b>\$ 170,318</b>	\$ 123,527	\$ 147,446

### Purchase and other obligations

The Trust has entered into lease agreements that may require tenant improvement costs of approximately \$8,400.

Effective February 1, 2010, the Trust entered into three fixed price contracts to purchase electricity for 14 office properties in Calgary. The contracts expire on January 31, 2013, and commit the Trust to total minimum payments of \$2,200 for each of 2011 and 2012, and \$200 for 2013.

Effective September 1, 2009, the Trust entered into three fixed price contracts to purchase natural gas with respect to 14 office properties in Calgary. The contracts expire on December 31, 2012, and commit the Trust to a total minimum \$600 annually for 2011 and 2012.

During the second quarter of 2009, the Trust committed to construct an office property in Yellowknife, Northwest Territories, which is fully leased for a ten-year term to the Government of Canada. Estimated construction costs are \$20,000. Funding for this development is available through cash on hand and an available line of credit.

### Note 26

#### CAPITAL MANAGEMENT

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

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

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

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

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

The DPLP Partnership Agreement limits the Trust's interest coverage ratio to no less than 1.4 times. The interest coverage ratio is calculated as net operating income from continuing operations plus interest and fee income less general and administrative expense from continuing operations including equity accounted investments divided by interest expense. For the three months ended at June 30, 2011, the Trust's interest coverage ratio was 2.64 times, reflecting its ability to cover interest expense requirements.

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Investment properties revenue	\$ 95,556	\$ 61,727	\$ 186,561	\$ 119,556
Investment properties operating expenses	37,226	22,884	74,239	46,531
Net rental income	58,330	38,843	112,322	73,025
Add: interest and fee income	460	415	926	683
Less: general and administrative expenses	3,770	2,585	7,247	5,033
	\$ 55,020	\$ 36,673	\$ 106,001	\$ 68,675
Interest expense — debt	\$ 20,842	\$ 14,510	\$ 39,909	\$ 28,227
<b>Interest coverage ratio</b>	<b>2.64 times</b>	2.53 times	<b>2.66 times</b>	2.43 times

## Note 27

**FINANCIAL INSTRUMENTS****Risk management**

IFRS 7, "Presentation of Financial Statements" ("IFRS7"), places emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks, including market, credit and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other market price risk. The Trust has some exposure to interest rate risk primarily as a result of its variable rate debt. In addition, there is interest rate risk associated with the Trust's fixed rate debt due to the expected requirement to refinance such debts in the year of maturity. The Trust is exposed to the variability in market interest rates on maturing debt to be renewed. Variable rate debt at June 30, 2011, was nil of the Trust's total debt (December 31, 2010 – 2.2%), which represents a demand revolving credit facility that was drawn on during the quarter. In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, manage maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The following interest rate sensitivity table outlines the potential impact of a 1% change in the interest rate on variable rate assets and liabilities for the prospective twelve-month period. A 1% change is considered a reasonable level of fluctuation on variable rate assets and debts. This information is prepared on a proportionately consolidated basis for jointly held properties.

	Carrying amount	Interest rate risk			
		-1%		+1%	
		Income	Equity	Income	Equity
<b>Financial assets</b>					
Cash and cash equivalents <sup>(1)</sup>	\$ 241,279	\$ (2,413)	\$ (2,413)	\$ 2,413	\$ 2,413
<b>Financial liabilities</b>					
Fixed rate debt due to mature in a year	\$ 46,284	\$ 463	\$ 463	\$ (463)	\$ (463)

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

The Trust is not exposed to currency risk or other price risk.

The Trust currently does not employ hedging activities to manage its financial risks.

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

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

## Fair value of financial instruments

	June 30, 2011					December 31, 2010		January 1, 2010	
	FVTPL		Loans and receivables		Total	Total		Total	
	Fair value	Fair value	Amortized cost	Carrying value		Fair value	Carrying value	Fair value	Carrying value
<b>Financial assets</b>									
Restricted cash									
and deposits	\$ —	\$ 30,639	\$ 30,639	\$ 30,639	\$ 30,639	\$ 13,020	\$ 13,020	\$ 18,479	\$ 18,479
Amounts receivable	—	7,446	7,446	7,446	7,446	3,445	3,445	1,411	1,411
Cash and cash equivalents	—	229,507	229,507	229,507	229,507	108,810	108,810	8,026	8,026
<b>Financial liabilities</b>									
Mortgages	\$ —	\$ 1,379,943	\$ 1,380,258	\$ 1,380,258	\$ 1,418,776	\$ 1,070,800	\$ 1,102,021	\$ 627,106	\$ 628,546
Convertible debentures	—	131,091	131,091	131,091	142,576	130,867	141,381	129,940	134,923
Term debt	—	616	616	616	616	341	341	219	219
Conversion feature on convertible debenture	7,281	—	—	7,281	7,281	6,489	6,489	3,416	3,416
Subsidiary redeemable units	—	113,548	113,548	113,548	113,548	105,148	105,148	71,674	71,674
Deferred unit incentive plan	—	10,602	10,602	10,602	10,602	8,301	8,301	3,614	3,614
Deposits	—	9,295	9,295	9,295	9,295	7,768	7,768	6,096	6,096
Amounts payable and accrued liabilities	—	39,555	39,555	39,555	39,555	38,474	38,474	18,666	18,666
Distributions payable	\$ —	\$ 10,380	\$ 10,380	\$ 10,380	\$ 10,380	\$ 8,430	\$ 8,430	\$ 3,899	\$ 3,899

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

## Note 28

**SUBSEQUENT EVENTS**

Effective July 11, 2011, the Trust completed the acquisition of an office building in Montreal, Quebec, consisting of approximately 1,014,000 square feet, including shared common space. The purchase price, excluding transactions costs, was approximately \$277,750.

Effective July 12, 2011, the Trust completed the acquisition of an office building in Richmond, B.C., consisting of approximately 116,500 square feet. The purchase price, excluding transaction costs, was approximately \$31,800.

Effective July 27, 2011, the Trust completed the acquisition of two office buildings in Halifax, N.S., consisting of approximately 108,000 square feet. The purchase price, excluding transaction costs, was approximately \$7,350.

On July 21, 2011, the Trust announced that it had reached an agreement to acquire a portfolio of 29 office properties in Toronto, Ottawa, Edmonton and Calgary, for a purchase price of \$831,800. As part of the transaction, five of the properties will be redirected to third parties for proceeds of \$142,000. The 24 office properties comprising 2.7 million square feet ultimately being acquired by the Trust total \$689,767, excluding transaction costs. Closing is expected to take place on August 15, 2011. The portfolio being acquired is free and clear of any existing mortgage debt. The Trust expects to finance the acquisition with cash on hand, the

estimated net proceeds of the equity offering announced subsequent to quarter end, new mortgage financing, drawings under a secured term credit facility, and drawings under an operating line of credit.

On July 29, 2011, the Trust filed a preliminary prospectus for a public offering of 5,037,000 REIT A Units, including 407,000 Units to be purchased by Dundee Corporation pursuant to the exercise of its pre-emptive right under the Trust's Declaration of Trust. The offering is at a price of \$32.40 per unit for gross proceeds of \$163,199, and is expected to close on August 15, 2011. The underwriters have been granted an over-allotment option, exercisable for a period of 30 days after closing, for an additional 694,500 REIT A Units, for gross proceeds of \$22,502. Costs related to the offering are estimated to be \$7,500 (including the over-allotment option) and will be charged directly to unitholders' equity.

# Corporate information

## Head office

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## Transfer agent

(for change of address, registration  
or other unitholder inquiries)

### COMPUTERSHARE TRUST COMPANY OF CANADA

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Fax: (416) 263-9394 or  
1 888 453-0330  
E-mail: [service@computershare.com](mailto:service@computershare.com)

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## Stock exchange listing

### THE TORONTO STOCK EXCHANGE

## Listing symbols

REIT Units, Series A: D.UN  
6.5% Convertible Debentures: D.DB  
5.7% Convertible Debentures: D.DB.A  
6.0% Convertible Debentures: D.DB.B

## Distribution Reinvestment and Unit Purchase Plan

The purpose of our Distribution Reinvestment and Unit Purchase Plan (“DRIP”) is to provide unitholders with a convenient way of investing in additional units without incurring transaction costs such as commissions, service charges or brokerage fees. By participating in the Plan, you may invest in additional units in two ways:

**Distribution reinvestment:** Unitholders will have cash distributions from Dundee REIT reinvested in additional units as and when cash distributions are made.

**Cash purchase:** Unitholders may invest in additional units by making cash purchases.

If you register in the DRIP you will also receive a “bonus” distribution of units equal to 4% of the amount of your cash distribution reinvested pursuant to the Plan. In other words, for every \$1.00 of cash distributions reinvested by you under the Plan, \$1.04 worth of units will be purchased.

To enrol, contact:

### COMPUTERSHARE TRUST COMPANY OF CANADA

100 University Avenue, 9th Floor  
Toronto, Ontario M5J 2Y1  
Attention: Dividend Reinvestment Services

Or call their Customer Contact Centre  
at 1 800 564-6253 (toll free) or (514) 982-7555

For more information, you may also visit our  
web site: [www.dundeereit.com](http://www.dundeereit.com)



**DUNDEE REAL ESTATE INVESTMENT TRUST**

State Street Financial Centre  
30 Adelaide Street East, Suite 1600  
Toronto, Ontario M5C 3H1

[www.dundeereit.com](http://www.dundeereit.com)

