Management's responsibility for financial statements

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dundee Real Estate Investment Trust. These financial statements have been prepared in accordance with Canadian GAAP, using management's best estimates and judgments when appropriate.

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

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

MICHAEL J. COOPER
Vice Chairman and
Chief Executive Officer

MARIO BARRAFATO
Senior Vice President and
Chief Financial Officer

Toronto, Ontario, February 24, 2010

Independent auditor's report

To the Unitholders of Dundee Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Dundee Real Estate Investment Trust (the Trust) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of net income and comprehensive income, unitholders' equity and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Trust and its subsidiaries as at December 31, 2010 and December 31, 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS,
LICENSED PUBLIC ACCOUNTANTS

Toronto, Ontario, February 24, 2011

Consolidated balance sheets

(in thousands of dollars) December 31	Note	**2010**	2009
Assets			
Rental properties	4	**$1,955,980**	$ 1,181,058
Leasing costs and tenant improvements	5	**76,099**	39,589
Amounts receivable	6	**14,499**	8,881
Prepaid expenses and other assets	7	**9,529**	17,718
Cash and cash equivalents		**117,304**	12,022
Intangible assets	8	**143,413**	57,558
Assets held for sale	20	**—**	18,416
		$2,316,824	$1,335,242
Liabilities			
Debt	9	**$1,296,851**	$ 857,060
Amounts payable and accrued liabilities	10	**40,350**	22,525
Distributions payable	11	**9,073**	4,534
Intangible liabilities	8	**47,749**	35,031
Liabilities related to assets held for sale	20	**—**	16,940
		1,394,023	936,090
Unitholders' equity	12	**922,801**	399,152
		$2,316,824	$1,335,242

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 net income and comprehensive income

(in thousands of dollars, except per unit amounts) For the years ended December 31	Note	**2010**	2009
Revenues			
Rental properties revenue		**$ 279,352**	$ 192,083
Interest and fee income		**1,577**	1,676
		280,929	193,759
Expenses			
Rental properties operating expenses		**106,954**	71,129
Interest	14	**59,732**	49,736
Depreciation of rental properties		**40,656**	27,512
Amortization of leasing costs, tenant improvements and intangibles		**39,685**	22,231
General and administrative		**9,317**	6,706
		256,344	177,314
Income before income taxes		**24,585**	16,445
Provision for (recovery of) income taxes	15		
Current income taxes		**13**	12
Future income taxes		**—**	(1,768)
		13	(1,756)
Income before discontinued operations		**24,572**	18,201
Net income (loss) from discontinued operations	20	**2,418**	(4,781)
Net income		**$ 26,990**	$ 13,420
Basic and diluted income (loss) per unit	16		
Continuing operations		**$ 0.64**	$ 0.82
Discontinued operations		**0.06**	(0.22)
Net income		**$ 0.70**	$ 0.60
Net income		**$ 26,990**	$ 13,420
Other comprehensive income			
Change in foreign currency translation adjustment		**—**	(1,334)
Transfer foreign currency translation adjustment to net income on sale of property	20	**6,609**	—
Comprehensive income		**$ 33,599**	$ 12,086

See accompanying notes to the consolidated financial statements

Consolidated statements of unitholders' equity

(in thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Accumulated other comprehensive loss	Total
Unitholders' equity, January 1, 2010		24,717,901	$ 607,282	$ 819,835	$(1,021,356)	$ (6,609)	$ 399,152
Net income		—	—	26,990	—	—	26,990
Distributions paid	11	—	—	—	(77,300)	—	(77,300)
Distributions payable	11	—	—	—	(9,073)	—	(9,073)
Public offering of REIT A Units	12	24,328,250	593,025	—	—	—	593,025
Distribution Reinvestment Plan	12	306,495	8,028	—	—	—	8,028
Unit Purchase Plan	12	15,739	412	—	—	—	412
Deferred Unit Incentive Plan	12	—	1,547	—	—	—	1,547
Deferred Units exchanged for REIT A Units	12	19,463	—	—	—	—	—
Conversion of 6.5% Debentures	12	5,560	139	—	—	—	139
Conversion of 6.0% Debentures	12	844	35	—	—	—	35
Issue costs	12	—	(26,763)	—	—	—	(26,763)
Transfer foreign currency translation adjustment to net income on sale of property	20	—	—	—	—	6,609	6,609
Unitholders' equity, December 31, 2010		49,394,252	$1,183,705	$ 846,825	$(1,107,729)	$ —	$ 922,801

See accompanying notes to the consolidated financial statements

(in thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Accumulated other comprehensive income (loss)	Total
Unitholders' equity, January 1, 2009		20,417,744	$ 536,093	$ 806,415	$ (972,790)	$ (5,275)	$ 364,443
Net income		—	—	13,420	—	—	13,420
Distributions paid		—	—	—	(44,032)	—	(44,032)
Distributions payable		—	—	—	(4,534)	—	(4,534)
Public offering of REIT A Units	12	3,852,500	70,693	—	—	—	70,693
Distribution Reinvestment Plan	12	196,987	3,051	—	—	—	3,051
Unit Purchase Plan	12	10,997	180	—	—	—	180
Deferred Unit Incentive Plan	12	—	858	—	—	—	858
Deferred Units exchanged for REIT A Units	12	239,873	—	—	—	—	—
Issue costs	12	—	(3,590)	—	—	—	(3,590)
Unit redemption		(200)	(3)	—	—	—	(3)
Change in foreign currency translation adjustment		—	—	—	—	(1,334)	(1,334)
Unitholders' equity, December 31, 2009		24,717,901	$ 607,282	$ 819,835	$(1,021,356)	$ (6,609)	$ 399,152

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows

(in thousands of dollars) For the years ended December 31	Note	**2010**	2009
Generated from (utilized in) operating activities			
Net income		**$ 26,990**	$ 13,420
Non-cash items:			
Depreciation of rental properties		**40,656**	28,283
Amortization of leasing costs, tenant improvements and intangibles		**39,685**	22,583
Amortization of financing costs		**1,481**	1,260
Amortization of fair value adjustment on acquired debt		**(764)**	(800)
(Gain) loss on disposal of rental properties	20	**(2,296)**	7,258
Deferred unit compensation expense		**1,547**	858
Future income taxes		**—**	(3,739)
Amortization of market rent adjustments on acquired leases		**(10,820)**	(10,276)
Straight-line rent adjustment		**(3,771)**	(1,053)
		92,708	57,794
Leasing costs incurred		**(8,265)**	(4,296)
Change in non-cash working capital	22	**(5,060)**	6,009
		79,383	59,507
Generated from (utilized in) investing activities			
Investment in rental properties		**(13,864)**	(5,921)
Investment in tenant improvements		**(8,936)**	(6,121)
Acquisition of rental properties	3	**(731,974)**	(94,526)
Acquisition deposit on rental properties		**(3,750)**	(13,755)
Net proceeds from disposal of rental properties	20	**10,850**	14,927
Change in restricted cash, net		**353**	419
		(747,321)	(104,977)
Generated from (utilized in) financing activities			
Mortgages placed, net of costs		**306,977**	35,993
Mortgage principal repayments		**(21,496)**	(15,498)
Mortgage lump sum repayments		**(5,224)**	(54,496)
Term debt principal repayments		**(103)**	(126)
Distributions paid on Units	11	**(73,806)**	(44,730)
Units issued for cash, net of costs	12	**566,674**	67,280
		773,022	(11,577)
Increase (decrease) in cash and cash equivalents		**105,084**	(57,047)
Cash and cash equivalents, beginning of year — continuing operations		**12,022**	69,267
Cash and cash equivalents, beginning of year — from assets held for sale		**198**	—
Cash and cash equivalents, end of year		**$ 117,304**	$ 12,220

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

(All dollar amounts in thousands, 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 subsidiaries, together with Dundee REIT's proportionate share of the assets and liabilities, and revenues and expenses of joint ventures in which it participates.

The Trust's equity is described in Note 12; 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
- "LP B Units", meaning the LP Class B Units, Series 1
- "Units", meaning REIT Units, Series A; REIT Units, Series B; LP Class B Units, Series 1; and Special Trust Units, collectively

At December 31, 2010, Dundee Corporation, the majority shareholder of Dundee Realty Corporation ("DRC"), directly and indirectly through its subsidiaries, held 976,506 REIT A Units and 3,481,733 LP B Units (December 31, 2009 — 921,299 and 3,454,188 Units, respectively).

Note 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These consolidated financial statements have been prepared in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants ("CICA"). The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions include impairment of accounts receivable, estimates of useful lives of rental properties, impairment of long-lived assets, impairment of intangible assets and the determination of the purchase price allocations used for acquired properties. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the Trust and its wholly owned subsidiaries. The Trust carries on certain of its activities through co-ownerships and joint ventures, and records its proportionate share of the respective assets, liabilities, revenues and expenses of those ventures.

Revenue recognition

The Trust has retained substantially all of the benefits and risks of ownership of its rental properties and therefore accounts for leases as operating leases.

Revenues from rental properties include base rents, recoveries of operating expenses including property taxes, percentage participation rents, lease cancellation fees, parking income and incidental income. The Trust uses the straight-line method of rental revenue recognition, whereby the total of cash rents due over the initial term of a lease are recognized in income evenly over that term. The difference between the amount recorded as revenue under the straight-line method and cash rents received is included in amounts receivable. 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 provides an allowance for doubtful accounts against that portion of amounts receivable that is estimated to be uncollectible. Such allowances are reviewed periodically based on the Trust's recovery experience and the creditworthiness of the debtor.

Rental properties

Rental properties are stated at historical cost less accumulated depreciation and impairment charges, if any. Rental properties under development include interest on project-specific and general debt, property taxes, carrying charges and applicable general and administrative expenses incurred in the pre-development and construction periods, and initial leasing costs, less incidental revenues and expenses earned prior to the project achieving its accounting completion date. Properties are considered to have achieved their accounting completion date at the earlier of the achievement of a predetermined level of occupancy or at the expiry of a reasonable period following substantial completion of construction.

The Trust uses the straight-line method of depreciation for rental properties, building improvements, initial leasing costs and major expansions and renovations. The estimated useful life of the properties is between 30 and 40 years. Vehicles, office premises improvements, furniture and computer equipment are depreciated on a straight-line basis over their estimated useful lives ranging from five to ten years. Building improvements are depreciated over their estimated useful lives, which range from ten to 20 years depending on the type of improvement.

Purchase price allocations

As a result of revised CICA accounting and disclosure standards for acquisitions initiated on or after September 12, 2003, the purchase price of a rental property is allocated, based on estimated fair values, to land, building, deferred leasing costs acquired, lease origination costs associated with in-place leases, the value of above- and below-market leases and other intangible lease assets. Other intangible lease assets include the value of in-place leases and the value of tenant relationships, if any. The fair value of buildings is determined using the depreciated replacement cost approach. For acquisitions initiated prior to September 12, 2003, the purchase price was allocated to land and buildings based on their respective fair market values.

Intangible assets and liabilities

Intangible assets and liabilities include the value of above- and below-market leases, in-place leases, lease origination costs and tenant relationships. Intangible assets and liabilities are stated at acquisition cost less accumulated amortization and impairment charges, if any.

The values of above- and below-market leases are amortized on a straight-line basis to rental property revenues over the remaining term of the associated lease. The value associated with in-place leases is amortized on a straight-line basis over the remaining term of the lease. The value of tenant relationships is amortized on a straight-line basis over the remaining term of the lease plus an estimated renewal term. Lease origination costs are amortized on a straight-line basis over the term of the applicable lease. In the event that a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangibles is expensed.

Impairment of long-lived assets

The Trust uses a two-step process for determining when an impairment of rental properties and intangible assets should be recognized in the consolidated financial statements. If events or circumstances indicate that the carrying value of a property may be impaired, a recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from property operations and the property's projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to its estimated fair value and an impairment loss is recognized in the consolidated statement of net income.

Leasing costs and tenant improvements

Certain leasing costs and tenant improvements are included on the consolidated balance sheets of the Trust:

- leasing costs include leasing fees and costs, except for initial leasing costs that are included in rental properties, and leasing costs acquired. These leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- tenant inducements, which are payments for which the tenant has no obligation to make leasehold improvements to the leased space and that are amortized against rental properties revenue on a straight-line basis over the term of the applicable lease; and
- tenant improvements, which include costs incurred to make leasehold improvements to tenants' space and that are amortized on a straight-line basis over the term of the applicable lease to amortization expense.

Impairment of amounts receivable

Trade receivables are recognized initially at fair value. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the tenant. The carrying amount of the asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of net 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 statements of net income. Trade receivables that are less than three months past due are not considered impaired unless there is evidence that collection is not possible.

Foreign currency translation

In the current year, the Trust does not have any foreign operations that are considered financially self-sustaining and operationally independent. As a result, translation gains and losses are recognized in net income in the period they are incurred. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the consolidated balance sheet date. Revenues and expenses are translated at the average rate for the period.

For the comparative year, the Trust had U.S. operations and the foreign currency translations were deferred as a separate component of unitholders' equity. The Trust has divested from those U.S. operations in 2010 and, as a result, the carried forward accumulated foreign currency translation adjustments have been transferred from accumulated other comprehensive loss to net income.

Income taxes

Dundee REIT is taxed as a mutual fund trust for Canadian income tax purposes. The Trust distributes all of its taxable income to its unitholders, which enables the Trust to deduct such distributions for income tax purposes. As the income tax obligations relating to the distributions are those of the unitholders, no provision for income taxes is required on such amounts.

In the comparative period, Dundee REIT used the liability method of accounting for future income taxes relating to incorporated subsidiaries. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the reported carrying amount of assets and liabilities and their carrying amounts for tax purposes. In addition, the benefit of tax losses available to be carried forward to future years for tax purposes, which are more likely than not to be realized, is recognized as a reduction of the income tax liability. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse and tax losses are utilized. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the rate change is substantively enacted.

Unit-based compensation plan

As described in Note 12, Dundee REIT has a Deferred Unit Incentive Plan that provides for the grant of deferred trust units and income deferred trust units to trustees, officers and employees, and affiliates and their service providers (including the asset manager). The Trust recognizes compensation expense on a straight-line basis over the period that the deferred units vest, based on the market price of REIT A Units on the date of grant. Deferred trust units that have vested but for which the corresponding REIT A Units have not been issued, and where the ultimate issuance of such REIT A Units is simply a matter of the passage of time, are considered to be outstanding from the date of vesting for basic income per unit calculations.

Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, the Trust considers all short-term investments with an original maturity of three months or less to be cash equivalents and excludes cash subject to restrictions that prevent its use for current purposes. As at December 31, 2010, cash and cash equivalents includes $8,735, representing the Trust's proportionate share of cash balances of joint ventures (December 31, 2009 — $4,294). Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits as required by various lending agreements.

Financial instruments

The Trust follows CICA accounting standards for financial instruments comprising Section 3855, "Financial Instruments — Recognition and Measurement", Section 1530, "Comprehensive Income", and Section 3251, "Equity".

The standards require that all financial assets be classified as held for trading, available for sale, held to maturity or loans and receivables. In addition, the standards require that all financial assets be measured at fair value, with the exception of loans, receivables and investments intended to be and classified as held to maturity, which are required to be measured at amortized cost. Financial liabilities are classified either as held for trading, which are measured at fair value, or other liabilities, which are measured at amortized cost.

Accumulated other comprehensive loss is included as a separate component of unitholders' equity. The balance carried forward from the prior year comprises only accumulated foreign currency gains and losses related to the Trust's net investment in Greenbriar Mall in Atlanta, Georgia.

All loans and receivables and all financial liabilities are recorded at amortized cost. Upon initial recognition, these instruments are recorded at fair value less any related transaction costs. Interest expense related to financial liabilities, including deferred financing costs, is recognized using the effective interest rate method.

Financial assets comprise cash and cash equivalents and amounts receivable. Financial liabilities comprise mortgages payable, term debt, convertible debentures, amounts payable and accrued liabilities, and distributions payable. 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 by discounting the future contractual cash flows under current financing arrangements. The discount rates represent management's best estimate of borrowing rates presently available to the Trust for loans with similar terms and maturities. The fair value of the convertible debentures is based on the market value of the debentures.

Convertible debentures

Upon issuance, convertible debentures are separated into debt and equity components and recorded at amortized cost. These components are measured based on their respective estimated fair values at the date of issuance, less any related transaction costs. The fair value of the debt component 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. The value assigned to the equity component is the estimated fair value ascribed to the holders' option to convert the debentures into REIT A Units. The difference between the fair value of the debt and the face value is recognized as interest expense on an effective interest rate basis over the term to maturity of the debentures with corresponding accretion to the principal of the debt.

Discontinued operations

The Trust classifies properties that meet certain criteria as held for sale and separately discloses any net income/loss and gain/loss on disposal for current and prior periods as discontinued operations. A property is classified as held for sale at the point when it is available for immediate sale, management has committed to a plan to sell the property and is actively locating a buyer for the property at a sales price that is reasonable in relation to the current estimated fair value of the property, and the sale is expected to be completed within a one-year period. Properties held for sale are carried at the lower of their carrying values and estimated fair values less costs to sell. In addition, assets held for sale are no longer depreciated. A property that is subsequently reclassified as held and in use is measured at the lower of: (i) its carrying amount before it was classified as held for sale, adjusted for any amortization expense that would have been recognized had it been continuously classified as held and in use; and (ii) its estimated fair value at the date of the subsequent decision not to sell.

Variable interest entities

The Trust follows the requirements of CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), which provides guidance for applying the principles in CICA Handbook Section 1590, "Subsidiaries", to those entities defined as variable interest entities ("VIEs"). This standard considers a VIE to be an entity in which either the equity at risk is not sufficient to permit it to finance its activities without additional subordinated financial support from other parties or equity investors lack either voting control, or an obligation to absorb expected losses, or the right to receive expected residual returns. AcG-15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns.

Future changes in accounting policies

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("ASB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies are required to comply with IFRS for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed that January 1, 2011, would be the effective date for the initial adoption of IFRS.

IFRS are premised on a conceptual framework similar to GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not have a material impact on the reported cash flows of the Trust, it will have a material impact on the Trust's consolidated balance sheet and statements of net income and comprehensive income. The Trust has identified significant accounting policy changes that it expects to apply upon adoption of IFRS which are significantly different than its GAAP policies. The Trust continues to evaluate the impact of these IFRS accounting policy changes, and is executing its convergence plan with the intent to prepare its first consolidated financial statements in accordance with IFRS for the three month period ending March 31, 2011. These consolidated financial statements will include comparative results for the periods commencing January 1, 2010.

Business Combinations

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes accounting standards for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for preparing consolidated financial statements.

CICA Handbook Section 1602 establishes accounting standards for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, "Consolidated and Separate Financial Statements".

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. Dundee REIT did not adopt these policies prior to January 1, 2011.

Note 3
PROPERTY ACQUISITIONS

Below are the acquisitions completed during the years ended December 31, 2010, and December 31, 2009.

These acquisitions have been accounted for using the purchase method. The earnings from the properties acquired have been included in the consolidated statement of net income and comprehensive income for the year commencing on their date of acquisition.

For the year ended December 31, 2010	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)[2]	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
Adelaide Place, Toronto	office	100	654,249	98	$ 217,708	$ —	January 18, 2010
Aviva Corporate Centre, Toronto	office/redevelopment	100	436,704	99[1]	45,660	30,321	February 10, 2010
10130-103 Street, Edmonton	office	100	265,625	95	90,007	27,794	April 16, 2010
2340 St. Laurent Boulevard, Ottawa	industrial	100	114,724	100	11,344	—	April 26, 2010
4915-52 Street, Yellowknife	land	100	—	—	678	—	April 30, 2010
Financial Building, Regina	office	100	65,763	100	14,222	—	May 4, 2010
30 Eglinton Avenue West, Mississauga	office	100	164,987	90	38,543	21,496	May 31, 2010
625 Cochrane Drive, Markham	office	100	161,997	100	29,917	—	June 18, 2010
Valleywood Corporate Centre, Markham	office	100	154,116	98	31,645	—	June 18, 2010
275 Wellington Street East, Aurora	industrial	100	317,000	100	25,438	—	July 30, 2010
8000 av Blaise-Pascal, Montréal	industrial	100	206,305	100	11,296	—	July 30, 2010
6509 Airport Road, Mississauga	office	100	60,000	100	12,295	—	August 3, 2010
3035 Orlando Drive, Mississauga	office	100	16,754	86	2,410	—	August 3, 2010
2075 Kennedy Road, Toronto	office	100	201,730	96	31,750	—	August 12, 2010
1421 rue Ampère, Boucherville	industrial	100	457,875	100	29,381	—	September 2, 2010
1313 Autoroute Chomedey, Laval	industrial	100	184,493	100	12,716	—	September 2, 2010
150 Metcalfe Street, Ottawa	office	100	109,374	91	34,540	—	September 16, 2010
236 Brownlow Avenue, Dartmouth	office	100	60,739	95	7,455	—	October 5, 2010
970 Fraser Drive, Burlington	industrial	100	95,444	100	7,090	—	October 19, 2010
2200-2204 Walkley Road, Ottawa	office	100	156,551	100	23,653	18,242	November 2, 2010
2625 Queensview Drive, Ottawa	office	100	46,156	100	8,656	—	November 5, 2010
30 Simmonds Drive, Dartmouth	industrial	100	37,240	88	1,621	—	November 22, 2010
105 Akerley Boulevard, Dartmouth	industrial	100	57,524	88	3,101	—	November 22, 2010
4259-4299 Canada Way, Burnaby	office	100	118,536	96	26,280	17,184	December 15, 2010
2665 Renfrew Street, Vancouver	office	100	81,662	100	34,649	—	December 21, 2010
AFIAA Portfolio, Toronto, Mississauga and Calgary	office	100	198,392	95	45,348	—	December 21, 2010
10250–101 Street, Edmonton	office	100	296,961	79	84,619	25,957	December 22, 2010
100 Gough Road, Toronto	office	100	111,840	100	30,475	13,094	December 30, 2010
580 Industrial Road, London	industrial	100	113,595	100	9,674	4,780	December 30, 2010
Total			4,946,336	97	$ 922,171	$ 158,868	

[1] Excludes redevelopment component of the property.

[2] Gross leasable area (“GLA”).

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

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

For the years ended December 31	2010	2009
Rental properties		
Land	$ 112,811	$ 20,418
Buildings	681,693	76,846
Properties under development	5,693	—
	800,197	97,264
Tenant improvements acquired	34,392	8,181
Intangible assets		
Value of in-place leases	44,712	6,714
Lease origination costs	8,325	2,176
Value of above-market rent leases	18,968	1,471
Value of tenant relationships	40,696	10,909
	947,290	126,715
Intangible liabilities		
Value of below-market rent leases	(25,119)	(3,828)
Total purchase price	$ 922,171	$ 122,887

The consideration paid consists of:

For the years ended December 31	2010	2009
Cash		
Paid during the period	$ 731,974	$ 94,526
Deposits applied	13,755	—
	745,729	94,526
Assumed mortgages at fair value	158,868	26,717
Assumed non-cash working capital and adjustments to purchase price	17,574	1,644
Total consideration	$ 922,171	$ 122,887

During 2010, the allocation of the purchase price of properties acquired in 2009 was finalized. The value of intangible assets and liabilities and leasing costs has been reduced by approximately $9,700; the value of land has been reduced by approximately $4,900; and the value of buildings has increased by approximately $14,600. The allocation of the purchase price of properties acquired in 2010 was finalized in the fourth quarter of 2010. The value of intangible assets has been increased by approximately $11,800; the value of land has been reduced by approximately $1,300; and the value of buildings has been reduced by approximately $10,500. These adjustments are the result of finalized valuator appraisals received for the acquired properties.

Note 4
RENTAL PROPERTIES

December 31			**2010**			2009
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Land	**$ 347,834**	**$ —**	**$ 347,834**	$ 235,025	$ —	$ 235,025
Buildings and improvements	**1,743,059**	**(150,332)**	**1,592,727**	1,053,465	(110,358)	943,107
Fixed assets and equipment	**1,980**	**(718)**	**1,262**	2,011	(843)	1,168
Rental properties under development	**14,157**	**—**	**14,157**	1,758	—	1,758
Total	**$2,107,030**	**$ (151,050)**	**$1,955,980**	$ 1,292,259	$ (111,201)	$ 1,181,058

Rental properties with a net book value of $1,730,582 are pledged as security for mortgages. Rental properties with a net book value of $27,969 are pledged as first-ranking collateral and a rental property with a net book value of $69,016 is pledged as second-ranking collateral against the demand revolving credit facility.

Note 5
LEASING COSTS AND TENANT IMPROVEMENTS

December 31			**2010**			2009
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Leasing costs	**$ 20,564**	**$ (5,444)**	**$ 15,120**	$ 14,214	$ (4,292)	$ 9,922
Tenant improvements	**87,561**	**(26,582)**	**60,979**	49,418	(19,751)	29,667
Total	**$ 108,125**	**$ (32,026)**	**$ 76,099**	$ 63,632	$ (24,043)	$ 39,589

Note 6
AMOUNTS RECEIVABLE

Amounts receivable are net of credit adjustments totalling $4,157 (December 31, 2009 — $2,972).

December 31	**2010**	2009
Trade receivables, net	**$ 2,587**	$ 2,048
Straight-line rent receivables	**11,208**	7,409
Other amounts receivable (payable)	**704**	(576)
Total	**$ 14,499**	$ 8,881

December 31	**2010**	2009
Trade receivables	**$ 3,134**	$ 3,141
Less: Provision for impairment of trade receivables	**(547)**	(1,093)
Trade receivables, net	**$ 2,587**	$ 2,048

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

	2010	2009
As at January 1	**$ 1,093**	$ 549
Provision for impairment of trade receivables	**496**	1,428
Receivables written off during the year as uncollectible	**(1,042)**	(884)
As at December 31	**$ 547**	$ 1,093

The carrying amount of amounts receivable is reduced through the use of an allowance account and any loss is recognized within property operating expenses. Where a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Any subsequent recovery of amounts previously written off is credited against operating expenses in the consolidated statement of net income.

Note 7

PREPAID EXPENSES AND OTHER ASSETS

December 31	**2010**	2009
Prepaid expenses	**$ 3,414**	$ 2,110
Deposits	**4,747**	13,887
Restricted cash	**1,368**	1,721
Total	**$ 9,529**	$ 17,718

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.

Note 8

INTANGIBLE ASSETS AND LIABILITIES

December 31			**2010**			2009
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Intangible assets						
Value of above-market rent leases	**$ 22,721**	**$ (2,559)**	**$ 20,162**	$ 3,914	$ (1,140)	$ 2,774
Value of in-place leases	**75,245**	**(24,274)**	**50,971**	37,727	(17,625)	20,102
Lease origination costs	**16,799**	**(5,198)**	**11,601**	9,383	(3,718)	5,665
Value of tenant relationships	**76,803**	**(16,124)**	**60,679**	39,635	(10,618)	29,017
Total	**$ 191,568**	**$ (48,155)**	**$ 143,413**	$ 90,659	$ (33,101)	$ 57,558
Intangible liabilities						
Value of below-market rent leases	**$ 78,717**	**$ (30,968)**	**$ 47,749**	$ 60,854	$ (25,823)	$ 35,031

Note 9
DEBT

December 31	**2010**	2009
Mortgages	**$1,165,643**	$ 726,901
Convertible debentures	**130,867**	129,940
Term debt	**341**	219
Total	**$1,296,851**	$ 857,060

Mortgages are secured by charges on specific rental properties.

As at December 31, 2010, convertible debentures comprise $119,923 of the 6.0% Debentures, $7,752 of the 5.7% Debentures and $3,192 of the 6.5% Debentures (December 31, 2009 — $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. The 6.0% Debentures may not be redeemed prior to December 31, 2010. 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. In accordance with Section 3863 of the CICA Handbook "Financial Instruments — Presentation", the 6.0% Debentures were initially recorded on the consolidated balance sheet as debt of $122,840, less costs of $5,800, and equity of $2,160. As at December 31, 2010, the outstanding principal amount was $124,965 (December 31, 2009 — $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. The 5.7% Debentures may not be redeemed prior to March 31, 2009. 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. In accordance with Section 3863 of the CICA Handbook, the 5.7% Debentures were initially recorded on the consolidated balance sheet as debt of $98,800, less costs of $4,558, and equity of $1,200. As at December 31, 2010, the outstanding principal amount was $7,806 (December 31, 2009 — $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. The 6.5% Debentures may not be redeemed prior to June 30, 2008. On or after June 30, 2008, but prior to June 30, 2010, the 6.5% 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 market price for the Trust's units is not less than $31.25. 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. In accordance with Section 3863 of the CICA Handbook, the 6.5% Debentures were initially recorded on the consolidated balance sheet as debt of $74,400, less costs of $3,605, and equity of $600. As at December 31, 2010, the outstanding principal amount was $3,349 (December 31, 2009 — $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 December 31, 2010) 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 December 31, 2010, the formula-based amount available under this facility was $36,075, less $1,540 drawn in the form of letters of guarantee (December 31, 2009 — $1,090 drawn).

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

	Weighted average interest rates			Debt amount	
December 31	**2010**	2009	Maturity dates	**2010**	2009
Fixed rate					
Mortgages	**5.32%**	5.68%	2011—2020	**$1,136,906**	$ 695,608
Convertible debentures	**7.03%**	7.03%	2014—2015	**130,867**	129,940
Term debt	**8.77%**	9.03%	2013	**341**	219
Total fixed rate debt	**5.49%**	5.90%		**1,268,114**	825,767
Variable rate					
Mortgages	**2.82%**	2.01%	2013	**28,737**	31,293
Total variable rate debt	**2.82%**	2.01%		**28,737**	31,293
Total debt	**5.43%**	5.75%		**$ 1,296,851**	$ 857,060

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Term debt	Convertible debentures	Total
2011	$ 109,115	$ 98	$ —	$ 109,213
2012	143,878	116	—	143,994
2013	124,677	127	—	124,804
2014	86,530	—	128,314	214,844
2015	218,106	—	7,806	225,912
2016 and thereafter	484,067	—	—	484,067
	1,166,373	341	136,120	1,302,834
Financing costs and fair value adjustments	(730)	—	(5,253)	(5,983)
	$ 1,165,643	$ 341	$ 130,867	$ 1,296,851

Included in mortgages is $3,637 in fair value adjustments (December 31, 2009 — $2,671), which reflects the fair value adjustments for mortgages assumed as part of acquisitions, reduced by $4,367 of unamortized financing costs (December 31, 2009 — $2,465). The convertible debentures are reduced by a $1,421 premium allocated to their conversion features (December 31, 2009 — $1,724) and $3,832 of unamortized financing costs (December 31, 2009 — $4,630). The fair value adjustment, premium and financing costs are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

The fair value of mortgages and term debt is estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The fair value of debentures uses quoted market prices from an active market.

December 31	2010	2009
Mortgages	**$1,200,049**	$ 730,809
Convertible debentures	**141,381**	134,923
Term debt	**341**	219
Total	**$ 1,341,771**	$ 865,951

Note 10

AMOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31	2010	2009
Trade payables	**$ 2,375**	$ 1,602
Accrued liabilities and other payables	**21,626**	9,521
Accrued interest	**5,273**	3,426
Deposits	**7,833**	6,159
Rent received in advance	**3,243**	1,817
Total	**$ 40,350**	$ 22,525

Note 11

DISTRIBUTIONS

The following table breaks down distribution payments for the year ended December 31, 2010:

	REIT Units, Series A	REIT Units, Series B	LP Class B Units, Series 1	Total
Paid in cash	$ 66,843	$ 36	$ 6,927	$ 73,806
Paid by way of reinvestment in REIT A Units	7,314	—	—	7,314
Paid by way of reinvestment in LP B Units	—	—	714	714
Less: Payable at December 31, 2009	(3,899)	(3)	(632)	(4,534)
Plus: Payable at December 31, 2010	8,430	3	640	9,073
Total	$ 78,688	$ 36	$ 7,649	$ 86,373

The amount payable at December 31, 2010, was satisfied on January 15, 2011, by $7,945 in cash, $1,066 of 34,960 REIT A Units and $62 of 2,023 LP B Units. Included in the total distributions is $325 representing the 4% bonus distribution that forms part of the Distribution Reinvestment and Unit Purchase Plan ("DRIP").

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 GAAP 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 2009 and 2010.

Note 12
UNITHOLDERS' EQUITY

December 31		**2010**		2009
	Number of units	**Amount**	Number of units	Amount
REIT Units, Series A	**45,896,203**	**$ 834,261**	21,247,397	$ 312,743
REIT Units, Series B	**16,316**	**359**	16,316	362
LP Class B Units, Series 1	**3,481,733**	**88,181**	3,454,188	92,656
Cumulative foreign currency translation adjustment	**—**	**—**	—	(6,609)
Total	**49,394,252**	**$ 922,801**	24,717,901	$ 399,152

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. REIT Units are redeemable at the option of the holder, generally at any time, subject to certain restrictions, at a redemption price per REIT 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. Any dollar amount in excess of this monthly dollar maximum, unless waived, will be paid by notes of one of Dundee REIT's subsidiaries.

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 held at all meetings of unitholders.

For the years ended December 31, 2010 and 2009, there were no exchanges made by Dundee Corporation of LP B Units for REIT B Units and subsequently for REIT A Units.

Special Trust Units are issued in connection with LP B Units. The Special Trust Units are not transferable separately from the LP B Units to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such LP B 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 LP B Units to which they relate. At December 31, 2010, 3,481,733 Special Trust Units were issued and outstanding (December 31, 2009 — 3,454,188 issued and outstanding).

Dundee REIT's Declaration of Trust provides each of Dundee Corporation and GE Real Estate ("GE") with a pre-emptive right pursuant to which Dundee REIT will not issue any REIT A Units, or any securities convertible into or exchangeable for REIT A Units, to any person without first making an offer to Dundee Corporation and GE to issue that number of REIT A Units, securities or a comparable number of LP B Units necessary to maintain the percentage of the outstanding voting interest in Dundee REIT held by Dundee Corporation and its affiliates or GE at the date of offer.

DPLP Units

DPLP is authorized to issue an unlimited number of LP Class A and an unlimited number of LP Class B limited partnership units and such other classes as the general partner of DPLP, a wholly owned subsidiary of Dundee REIT, may decide. The LP Class B Units have been issued in two series: LP Class B Units, Series 1 and LP Class B Units, Series 2.

The LP Class B Units, Series 1, together with the accompanying Special Trust Units, have economic and voting rights equivalent in all material respects to the REIT Units, Series A and REIT Units, Series B. Generally, each LP Class B Unit, Series 1 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. LP Class B Units, Series 1 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 LP Class B Units, Series 1 holders are not entitled to vote at any meeting of the limited partners of DPLP.

The LP Class A Units and 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. At December 31, 2010, 45,436,203 LP Class A Units (December 31, 2009 — 20,787,397), 3,481,733 LP Class B Units, Series 1 (December 31, 2009 — 3,454,188) and 476,316 LP Class B Units, Series 2 (December 31, 2009 — 476,316) were issued and outstanding. As at December 31, 2010 and December 31, 2009, all issued and outstanding LP Class A Units and LP Class B Units, Series 2 are owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

	REIT Units, Series A		REIT Units, Series B		LP Class B Units, Series 1		Accumulated other comprehensive loss	Total	
	Number of units	Amount	Number of units	Amount	Number of units	Amount		Number of units	Amount
Unitholders' equity, January 1, 2010	21,247,397	$ 312,743	16,316	$ 362	3,454,188	$ 92,656	$ (6,609)	24,717,901	$ 399,152
Net income	—	24,497	—	33	—	2,460	—	—	26,990
Distributions paid	—	(70,258)	—	(33)	—	(7,009)	—	—	(77,300)
Distributions payable	—	(8,430)	—	(3)	—	(640)	—	—	(9,073)
Public offering of REIT A Units	24,328,250	593,025	—	—	—	—	—	24,328,250	593,025
Distribution Reinvestment Plan	278,950	7,314	—	—	27,545	714	—	306,495	8,028
Unit Purchase Plan	15,739	412	—	—	—	—	—	15,739	412
Deferred Unit Incentive Plan	—	1,547	—	—	—	—	—	—	1,547
Deferred Units exchanged for REIT A Units	19,463	—	—	—	—	—	—	19,463	—
Conversion of 6.5% Debentures	5,560	139	—	—	—	—	—	5,560	139
Conversion of 6.0% Debentures	844	35	—	—	—	—	—	844	35
Issue costs	—	(26,763)	—	—	—	—	—	—	(26,763)
Transfer foreign currency translation adjustment to net income on sale of property	—	—	—	—	—	—	6,609	—	6,609
Unitholders' equity, December 31, 2010	45,896,203	$ 834,261	16,316	$ 359	3,481,733	$ 88,181	$ —	49,394,252	$ 922,801

Public offering of REIT A Units

On December 21, 2010, the Trust completed a public offering of 3,864,000 REIT A Units at a price of $29.85 per unit, for gross proceeds of $115,340. Costs related to the offering totalled $5,179 and were charged directly to unitholders' equity.

On September 2, 2010, the Trust completed a public offering of 5,669,500 REIT A Units at a price of $25.40 per unit, for gross proceeds of $144,005. Costs related to the offering totalled $6,325 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 totalled $4,887 and were charged directly to unitholders' equity.

On September 9, 2009, the Trust completed a public offering of 3,350,000 REIT A Units at a price of $18.35 per unit for gross cash proceeds of $61,473. On September 29, 2009, the Trust issued an additional 502,500 REIT A Units, pursuant to the exercise of the over-allotment option granted to the underwriters for gross proceeds of approximately $9,220. Costs related to the offering totalled $3,590 and were charged directly to unitholders' equity.

Distribution Reinvestment and Unit Purchase Plan

The Distribution Reinvestment Plan ("DRIP") allows holders of REIT A Units or LP B 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 year ended December 31, 2010, 278,950 REIT A Units and 27,545 LP B Units were issued under the DRIP for $8,028 (December 31, 2009 — 196,987 REIT A Units and nil LP B Units for $3,051).

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 year ended December 31, 2010, 15,739 REIT A Units were issued under the Unit Purchase Plan for $412 (December 31, 2009 — 10,997 REIT A Units for $180).

Debenture conversions

During the year ended December 31, 2010, the Trust issued 5,560 REIT A Units upon conversion of $139 of the principal amount of the 6.5% Debentures (December 31, 2009 — nil) and 844 REIT A Units upon the conversion of $35 of the 6.0% Debentures (December 31, 2009 — nil).

Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan provides for the grant of deferred trust units to trustees, officers and employees as well as affiliates and their service providers, including the asset manager. Deferred trust units are granted at the discretion of the trustees and earn income deferred trust units based on the payment of distributions. Once issued, each deferred trust unit and the related distribution of income deferred trust units vest evenly over a three- or five-year period on the anniversary date of the grant. Subject to an election option available for certain participants to postpone receipt of REIT A Units, such units will be issued immediately upon vesting. Up to a maximum of one million deferred trust units are issuable under the Deferred Unit Incentive Plan. Compensation expense is recorded based on the fair market value of a REIT A Unit at the date of grant and amortized as earned over the vesting period or the remaining service period of the participant, whichever is less.

During the year ended December 31, 2010, $1,547 of compensation expense was recorded (December 31, 2009 — $858) and included in general and administrative expenses. Income deferred trust units are accounted for as a distribution and an issuance of REIT A Units when the related deferred trust units vest. No amount related to income deferred trust units is recognized in net income.

	Weighted average grant date value	Deferred trust units	Income deferred trust units	Total units
Outstanding at January 1, 2009	**$ 32.94**	**309,226**	**66,660**	**375,886**
Granted during the year	13.49	98,003	32,126	130,129
REIT A Units issued	27.92	(189,311)	(50,562)	(239,873)
Fractional units paid in cash	—	—	(9)	(9)
Outstanding at January 1, 2010	**$ 28.55**	**217,918**	**48,215**	**266,133**
Granted during the year	24.96	98,666	29,502	128,168
Cancelled	13.49	(200)	(27)	(227)
REIT A Units issued	23.16	(15,937)	(3,526)	(19,463)
Fractional units paid in cash	—	—	(13)	(13)
Outstanding and payable at December 31, 2010	**$ 27.67**	**300,447**	**74,151**	**374,598**
Vested but not issued at December 31, 2010	**$ 30.10**	**63,949**	**37,916**	**101,865**

On February 23, 2010, 88,450 deferred trust units were granted to trustees and senior managers. A further 10,216 deferred trust units were granted to trustees who elected to receive their 2010 annual retainer in the form of deferred trust units rather than cash.

On January 2, 2009, trustees and senior management elected to have 233,293 REIT A Units issued for vested deferred trust units and income deferred trust units. An additional 6,580 units were exchanged in the second quarter of 2009.

On February 17, 2009, 79,100 deferred trust units were granted to trustees and senior managers. A further 18,903 deferred trust units were granted to trustees who elected to receive their 2009 annual retainer in the form of deferred trust units rather than cash.

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 December 31, 2010, no purchases had been made. Based on the closing price of REIT A Units on December 31, 2010, the Trust may purchase up to $121,122 worth of REIT A Units.

For the year ended December 31, 2009, the Trust did not purchase any REIT A Units pursuant to its previous bid, which expired on September 25, 2010.

Note 13

JOINT VENTURES AND CO-OWNERSHIPS

The Trust participates in incorporated and unincorporated joint ventures, partnerships and co-ownerships (the "joint ventures") with other parties and accounts for its interests using the proportionate consolidation method. The following amounts represent the total assets and liabilities of rental property joint ventures in which the Trust participates and its proportionate share of the assets, liabilities, revenues, expenses and cash flows therein. These amounts include the joint venture properties classified as held for sale in 2009. Amounts relating to a property that was previously held as a joint venture, but which is now entirely owned by the Trust, have been excluded.

	Total		Proportionate share	
December 31	**2010**	2009	**2010**	2009
Assets	**$ 414,903**	$ 458,889	**$ 176,246**	$ 193,139
Liabilities	**244,350**	291,986	**104,604**	126,426

	Proportionate share	
For the years ended December 31	**2010**	2009
Revenues	**$ 30,477**	$ 35,488
Expenses	**16,039**	40,242
	$ 14,438	$ (4,754)

For the years ended December 31	**2010**	2009
Cash flow generated from (utilized in):		
Operating activities	**$ 13,658**	$ 11,279
Investing activities	**8,443**	(1,816)
Financing activities	**(17,662)**	(7,090)
Increase in cash and cash equivalents	**$ 4,439**	$ 2,373

The Trust is contingently liable for the obligations of the other owners of the unincorporated joint ventures at December 31, 2010, in the aggregate amount of $123,527 (December 31, 2009 — $147,446). In each case, however, the co-owners' share of assets is available to satisfy these obligations.

Note 14

INTEREST

Interest incurred and charged to earnings is recorded as follows:

For the years ended December 31	**2010**	2009
Interest expense incurred, at stated rate of debt	**$ 59,322**	$ 49,332
Amortization of financing costs	**1,481**	1,229
Amortization of fair value adjustments on acquired debt	**(764)**	(800)
Interest capitalized	**(307)**	(25)
Interest expense	**$ 59,732**	$ 49,736

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 non-cash adjustment to net income in determining cash flow from operating activities.

Note 15
INCOME TAXES

In 2009, Canadian and U.S.-based incorporated subsidiaries were subject to tax on their respective taxable incomes at their corresponding legislated rates. On December 31, 2009, the Trust effected the transfer of its interest in a property held in a taxable Canadian subsidiary to an entity that distributes taxable earnings to unitholders. On February 5, 2010, the Trust disposed of its interest in the U.S. entity. As a result of these transactions, the Trust is no longer exposed to the tax-related costs of those entities for periods subsequent to their respective transaction dates.

The reported carrying amount of Dundee REIT's net assets, excluding those in incorporated subsidiaries at December 31, 2010, exceeds the corresponding tax cost by approximately $24,000 (December 31, 2009 — $46,000).

A reconciliation of income tax expense for the year is as follows:

For the years ended December 31	2010	2009
Income before income taxes	$ 24,585	$ 16,445
Income (loss) before income taxes from discontinued operations	2,418	(6,705)
	27,003	9,740
Less: Income allocable to unitholders	(26,958)	(8,440)
Income subject to Canadian tax in consolidated entity	45	1,300
Tax thereon at 29% current statutory rate (2009 — 29%)	13	377
Foreign current and future tax recovery in respect of foreign entities	—	(1,924)
Elimination of future tax liability in connection with reorganization	—	(2,133)
	13	(3,680)
Less: Total income tax recovery from discontinued operations	—	(1,924)
Total income tax provision (recovery) from continuing operations	**$ 13**	$ (1,756)

Note 16
INCOME PER UNIT

The weighted average number of units outstanding was as follows:

For the years ended December 31	**2010**	2009
REIT A Units and REIT B Units	**35,183,224**	18,690,672
LP B Units	**3,468,485**	3,454,188
Vested deferred trust units	**105,404**	71,484
Total weighted average number of units outstanding for basic income per unit amounts	**38,757,113**	22,216,344
Add incremental units:		
Unvested deferred trust units	**93,049**	—
Income deferred trust units	**13,058**	9,812
Total weighted average number of units outstanding for diluted income per unit amounts	**38,863,220**	22,226,156

Income per unit information is based on the weighted average number of units outstanding for the year. The calculation of diluted per unit information considers the potential exercise of outstanding unvested deferred trust units and income deferred trust units, and the incremental REIT A Units to be issued upon an assumed conversion of all outstanding debentures, to the extent that these are dilutive. 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 of the weighted average number of unvested deferred trust units outstanding for the year.

The 3,412,638 incremental REIT A Units to be issued upon an assumed conversion of all debentures outstanding at December 31, 2010 (December 31, 2009 — 3,419,043) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

Note 17
EMPLOYEE FUTURE BENEFITS

The Trust has an optional defined contribution pension plan available to all full-time employees who have been employed by the Trust for a minimum of one year. The pension plan covers employees of the Trust, Dundee Realty Management Corp., DRC and any other entity as appointed by the sponsor of the plan. The plan is sponsored by Dundee Realty Management Corp., a wholly owned subsidiary of Dundee Management Limited Partnership (“DMLP”). For 2010, the total cost recognized and cash payments for employee future benefits, consisting of cash contributed to the defined contribution plan, was $147 (2009 — $107).

Note 18

SEGMENTED INFORMATION

The Trust's rental properties have been segmented into office and industrial components. The "other" category represents rental properties under development. 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 and general and administrative expenses are not allocated to the segment expenses.

For the year ended December 31, 2010	Office	Industrial	Segment total	Other	Total
Operations					
Rental properties revenue	$ 257,704	$ 21,648	$ 279,352	$ —	$ 279,352
Rental properties operating expenses	101,028	5,926	106,954	—	106,954
Net operating income	156,676	15,722	172,398	—	172,398
Depreciation of rental properties	37,123	3,533	40,656	—	40,656
Amortization of leasing costs, tenant improvements and intangibles	37,863	1,822	39,685	—	39,685
Segment income	$ 81,690	$ 10,367	$ 92,057	$ —	92,057
Interest expense					(59,732)
General and administrative expenses					(9,317)
Interest and fee income					1,577
Income taxes					(13)
Discontinued operations					2,418
Net income					$ 26,990
Segment rental properties	$1,757,787	$ 184,036	$1,941,823	$ 14,157	$1,955,980
Capital expenditures					
Investment in rental properties	$ (6,516)	$ (1,713)	$ (8,229)	$ (5,635)	$ (13,864)
Investment in tenant improvements	(7,285)	(1,651)	(8,936)	—	(8,936)
Acquisition of rental properties	(620,787)	(104,178)	(724,965)	(7,009)	(731,974)
Leasing costs	(6,517)	(1,727)	(8,244)	(21)	(8,265)
Total capital expenditures	$ (641,105)	$ (109,269)	$ (750,374)	$ (12,665)	$ (763,039)

For the year ended December 31, 2009	Office	Industrial	Segment total	Other	Total
Operations					
Rental properties revenue	$ 175,635	$ 16,448	$ 192,083	$ —	$ 192,083
Rental properties operating expenses	65,812	5,317	71,129	—	71,129
Net operating income	109,823	11,131	120,954	—	120,954
Depreciation of rental properties	24,611	2,901	27,512	—	27,512
Amortization of leasing costs, tenant improvements and intangibles	20,673	1,558	22,231	—	22,231
Segment income	$ 64,539	$ 6,672	$ 71,211	$ —	71,211
Interest expense					(49,736)
General and administrative expenses					(6,706)
Interest and fee income					1,676
Income taxes					1,756
Discontinued operations					(4,781)
Net income					$ 13,420
Segment rental properties	$1,088,990	$ 90,310	$ 1,179,300	$ 1,758	$ 1,181,058
Capital expenditures					
Investment in rental properties	$ (4,993)	$ (217)	$ (5,210)	$ (711)	$ (5,921)
Investment in tenant improvements	(5,177)	(559)	(5,736)	(385)	(6,121)
Acquisition of rental properties	(94,526)	—	(94,526)	—	(94,526)
Leasing costs	(3,513)	(476)	(3,989)	(307)	(4,296)
Total capital expenditures	$ (108,209)	$ (1,252)	$ (109,461)	$ (1,403)	$ (110,864)

Note 19

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, DMLP and DRC are parties to an administrative services agreement (the "Services Agreement") that is in effect until June 30, 2013. Effective August 24, 2007, Dundee REIT also has an asset management agreement (the "Asset Management Agreement") with DRC pursuant to which DRC provides certain asset management services to Dundee REIT and its subsidiaries.

Asset Management Agreement

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

- base annual management fee calculated and payable on a monthly basis, equal to 0.25% of the gross asset value of properties, reflecting the market value of the properties at August 23, 2007 (the date of the sale of our portfolio of properties in eastern Canada), and 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) 1.00% 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 year ended December 31, 2010, the Trust received total fees from DRC of $2,051 (December 31, 2009 — $1,903). These fees relate to cost recoveries under the Services Agreement. Other costs recovered from DRC for the year ended December 31, 2010, include $4,182 for operating and administrative costs of regional offices (December 31, 2009 — $3,405), which are included in operating expenses of the Trust.

For the year ended December 31, 2010, the Trust incurred total fees of $12,506 (December 31, 2009 — $6,020) under the Asset Management Agreement. Of this amount, $5,843 (December 31, 2009 — $4,551) is included in general and administrative expenses; $5,547 (December 31, 2009 — $954) is included in property acquisitions; $841 (December 31, 2009 — $515) is included in financing costs and reported with debt; $252 (December 31, 2009 — $nil) is capitalized to properties under development; and $23 (December 31, 2009 — $nil) is included in rental properties operating expense.

Included in amounts receivable at December 31, 2010, is $(128) related to the Services Agreement (December 31, 2009 — $(155)); $328 related to the Asset Management Agreement (December 31, 2009 — $224); and $115 related to other amounts owed by DRC (December 31, 2009 — $158). Accrued liabilities and other payables at December 31, 2010, include $775 for amounts related to the Asset Management Agreement (December 31, 2009 — $954).

Included in rental properties revenue are amounts received from Dundee Securities Corporation, a subsidiary of Dundee Corporation, for the rental of office premises of $260 for the year ended December 31, 2010 (December 31, 2009 — $nil). These amounts have been recorded at the exchange amount.

Note 20

ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The results of operations of any property that has been sold and identified as discontinued operations are reported separately and comparative amounts are reclassified as discontinued operations. Any property identified as held for sale is also reported separately in the relevant period.

During the fourth quarter of 2010, the Trust recognized an additional $499 in expenses for costs related to the sale of properties to GE Real Estate in 2007. These costs relate to the settlement of claims made by third parties, prior to the sale, on the sold properties.

On March 1, 2010, the Trust sold its 50% interest in a joint venture office property located in Toronto, Ontario. It received net proceeds of $10,665 and recognized a gain of $2,200.

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. The Trust is now discharged from all rights and obligations relating to the property. As at December 31, 2009, a total provision for impairment of $11,513 was recognized, including a $4,904 write-down in the carrying value of the net assets of the property and a $6,609 provision for the accumulated foreign currency translation adjustment associated with the investment in the net assets of the property. The future tax liability of $1,971 associated with the U.S. operations was also written off. The sale closed in 2010 resulting in a net gain of $595 for the current year including the reclassification of the foreign currency translation adjustment from other comprehensive income.

On August 31, 2009, the Trust sold two industrial properties located in Edmonton, Alberta, for which it received $14,927, net of adjustments for prior year sales, and recognized a $4,255 gain.

There were no assets held for sale at December 31, 2010.

The following table presents the assets and liabilities of the discontinued properties as at December 31, 2009.

Assets	
Rental properties	$ 17,644
Leasing costs and tenant improvements	561
Prepaid expenses and other assets	13
Cash and short-term deposits	198
	18,416
Liabilities	
Mortgages payable	16,825
Amounts payable and accrued liabilities	115
	$ 16,940

The following table summarizes the net income from discontinued operations:

For the years ended December 31	**2010**	2009
Revenues		
Rental properties revenue	**$ 422**	$ 8,825
Interest and other income	**—**	17
	422	8,842
Expenses		
Rental properties operating expenses	**300**	6,563
Interest	**—**	586
Depreciation of rental properties	**—**	771
Amortization of leasing costs, tenant improvements and intangibles	**—**	352
General and administrative	**—**	17
	300	8,289
Income before undernoted	**122**	553
(Gain) loss on disposal of rental properties	**(2,296)**	7,258
Current income taxes	**—**	47
Future income tax recovery	**—**	(1,971)
Net income (loss) from discontinued operations	**$ 2,418**	$ (4,781)

Note 21

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.

Dundee REIT's future minimum commitments under operating and capital leases are as follows:

Years ending December 31	Operating lease payments	Capital lease payments
2011	$ 1,012	$ 133
2012	865	133
2013	727	132
2014	16	—
Total	$ 2,620	$ 398

Purchase and other obligations

The Trust has entered into lease agreements that require tenant improvement costs of approximately $6,500.

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 total minimum payments of $600 annually for each of 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, of which $6,700 has been incurred to date. Funding for this development is available through cash on hand and an available line of credit.

Note 22

SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31	2010	2009
Decrease in amounts receivable	$ 2,083	$ 3,537
Decrease in tenant inducements	267	373
Increase in prepaid expenses and other assets, excluding restricted cash	(2,158)	(56)
Increase (decrease) in amounts payable and accrued liabilities (excluding leasing costs)	(4,014)	2,375
Decrease in amounts payable relating to leasing costs	(1,238)	(220)
Change in non-cash working capital	**$ (5,060)**	$ 6,009

The following amounts were paid on account of interest and income taxes:

For the years ended December 31	2010	2009
Interest	$ 57,531	$ 49,975
Income taxes	19	21

Note 23

CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS RISK MANAGEMENT

CICA Handbook Section 1535, "Capital Disclosures", requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements.

The Trust's capital consists of debt, including mortgages, convertible debentures 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 book 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 general partner level, and all have been complied with.

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

The Trust's Declaration of Trust limits its 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 expenses, divided by interest expense from continuing operations. At December 31, 2010, the Trust's interest coverage ratio was 2.8 times (December 31, 2009 — 2.3 times), reflecting its ability to cover interest expense requirements.

For the years ended December 31	**2010**	2009
Rental properties revenue	**$ 279,352**	$ 192,083
Rental properties operating expense	**106,954**	71,129
Net operating income	**172,398**	120,954
Add: Interest and fee income	**1,577**	1,676
Less: General and administrative expenses	**9,317**	6,706
	$ 164,658	$ 115,924
Interest expense	**$ 59,732**	$ 49,736
Interest coverage ratio	**2.8 times**	2.3 times

CICA Handbook Section 3862, "Financial Instruments — Disclosures", places increased 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. Variable rate debt at December 31, 2010, was 2.2% of the Trust's total debt (December 31, 2009 — 3.7%). 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 liabilities and fixed rate debt maturing within one year, for the year ended December 31, 2010. A 1% change is considered a reasonable level of fluctuation on variable rate assets and debts as well as for refinanced fixed rate debts.

		Interest rate risk			
		–1%		+1%	
	Carrying amount	Income	Equity	Income	Equity
Financial liabilities					
Variable rate mortgages[1]	$ 28,737	$ 287	$ 287	$ (287)	$ (287)
Fixed rate mortgages due within one year	79,692	797	797	(797)	(797)

(1) Variable rate mortgages include a floating rate mortgage at a rate of LIBOR plus 0.62%.

The Trust is not exposed to currency risk.

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

The Trust's assets consist of office and industrial rental properties. Credit risk arises from the possibility that tenants in rental 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. A schedule of principal repayments and debt maturities is provided in Note 9.

Note 24
SUBSEQUENT EVENTS

Effective February 8, 2011, the Trust completed the acquisition of Realex Properties Corporation (Realex). Realex owned interests in 24 office and industrial assets in Ontario and Alberta, totalling approximately 1.8 million square feet. The Trust acquired all 18,712,663 outstanding common shares of Realex for $8.25 per common share, or approximately $154,379 excluding transaction costs, and assumed mortgages of approximately $210,128.

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 $5,756 and were charged directly to unitholders' equity.

Effective January 17, 2011, the Trust completed the acquisition of an office building in Ottawa, Ontario, consisting of approximately 175,000 square feet. The purchase price of the property, excluding transaction costs, was approximately $38,300.

Effective January 4, 2011, the Trust completed the acquisition of an office building in Saskatoon, Saskatchewan, consisting of approximately 210,000 square feet. The purchase price of the property, excluding transaction costs, was approximately $50,000.