DUNDEE REIT

2012 ANNUAL REPORT

OWNS HIGH-QUALITY, STABLE AND DIVERSIFIED PROPERTIES

HARD-TO-REPLACE ASSETS WITH ORGANIC GROWTH

STRONG MANAGEMENT TEAM WITH SOLID UNDERSTANDING OF THE MARKETPLACE

LARGEST PURE-PLAY

OFFICE REIT IN CANADA

DUNDEE REIT OWNS AND OPERATES HIGH-QUALITY, WELL-LOCATED AND COMPETITIVELY PRICED BUSINESS PREMISES. OUR PORTFOLIO COMPRISES APPROXIMATELY 23 MILLION SQUARE FEET OF CENTRAL BUSINESS DISTRICT AND SUBURBAN OFFICE PROPERTIES LOCATED IN CANADA'S KEY OFFICE MARKETS.

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IBC CORPORATE INFORMATION

Cover
150 York Street, Toronto
HSBC Bank Place, Edmonton (inset top)
441 5th Avenue, Calgary (inset bottom)

Inside front cover
181 University Avenue, Toronto

LETTER TO UNITHOLDERS

Dundee REIT is finishing its tenth year of operations and has become one of the market leaders in the Canadian REIT sector. The execution of $2.6 billion of acquisitions and $680 million of dispositions throughout 2012 has resulted in Dundee REIT becoming Canada's largest pure-play office REIT, with a market capitalization of almost $3.8 billion at year-end.

We have thoughtfully assembled a national portfolio of high-quality assets, in key office markets, that would be difficult to replicate. Overall portfolio occupancy remains sound, rental rates are increasing and our risk exposure to any single tenant is mitigated by the scale of the business. Financially, we continue to reduce our level of debt, have made progress in realizing significant interest savings on refinancing our mortgage maturities, and continue to look for opportunities to take advantage of lower interest rates and longer terms. In 2012, Dundee REIT delivered a total return of 21.3% to its unitholders, outperforming both the S&P/TSX Capped REIT Index's 17% and the S&P/TSX Composite Index's 7.2%. Overall, the business has never been stronger and our unitholders are benefiting from increasing AFFO per unit, better liquidity, a stable and growing yield, and capital appreciation.

The first half of 2012 was incredibly busy with the completion of $2.5 billion of acquisitions, including purchasing a two-thirds interest in Scotia Plaza in Toronto, a marquee, institutional-quality asset that we successfully acquired and financed without diluting our business. The third quarter was relatively quiet with only a handful of dispositions and, for the first time since 2009, not a single acquisition. The big news in the fourth quarter was not the $154 million of properties added to our portfolio, but rather the $575 million sale of our industrial portfolio to a newly created entity, which we sponsored, Dundee Industrial REIT (TSX: DIR.UN). This transaction, together with the sale of other non-strategic assets, completed Dundee's transformation into a pure-play office REIT. Altogether, throughout the year we acquired $2.6 billion of properties and sold $680 million. In addition to conventional mortgage financings, acquisition purchase prices were satisfied by two equity offerings completed in the first half of the year as well as a mortgage bond. The cash proceeds from the industrial portfolio were primarily used to redeem $126.5 million of convertible debentures that carried a weighted average effective interest rate of 6.8%, making a significant contribution to reducing our overall debt level, as well as our overall weighted average cost of debt.

Our strategy is not just about getting bigger, it's about getting better. Along with the benefits derived from the increased scale of our operations, the new properties have also improved the overall quality of our portfolio, further diversified our tenant mix and strengthened our cash flows. Nearly 70% of our net operating income is now derived from assets located in central business districts. Our properties are considered to be well located, competitively priced and appealing to tenants. And, with a well-staggered lease maturity profile and in-place rents that are about 12% below estimated market rents, we have embedded growth within our portfolio. Also contributing to our cash flow are the cost savings achieved through repaying debt with the proceeds of asset sales and refinancing debt at lower interest rates. At year-end, our debt-to-gross book value was down to 48% and our weighted average interest rate was 4.3%.

The strength of the business is further demonstrated by the continued growth in AFFO per unit. In 2012 we grew our AFFO per unit to $2.41, resulting in our lowest ever reported payout ratio, at 90%. Looking ahead, AFFO per unit is expected to continue to grow. With this in mind, management and our trustees believe that it is appropriate to increase the annual distribution rate for the first time. In February, we announced that beginning in May 2013 our annual distribution rate will become $2.24 per unit, an increase of four cents per unit.

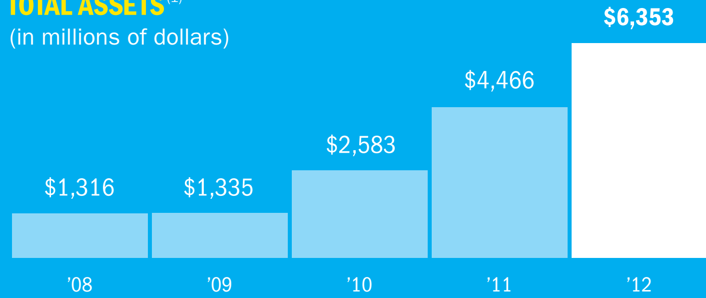
While we have been very focused on the appropriate composition of our portfolio, we have also dedicated a great deal of attention to our organizational structure and the resources necessary to ensure the proper management of our assets and tenant relationships. To this end, we were very pleased to announce the appointment of Ana Radic as Chief Operating Officer of Dundee REIT. Ana has been with Dundee since 1997, with the exception of a brief three-year hiatus, and has made significant contributions to building our platform in Eastern Canada. We are confident that Dundee REIT will benefit from her experience and her dedicated focus on the operations of the entire portfolio.

After nearly 30 years of working in the real estate industry, I remain completely enthusiastic about the sector and excited by the different avenues that can be followed in the pursuit of value creation. I believe that there remain many opportunities ahead of us to continue improving Dundee REIT on a per unit basis. We have enjoyed high returns for many years and I believe that we can continue to generate our current and increasing yield and generate capital appreciation.

On a final note, I would like to express my great appreciation to our trustees, to my colleagues and to our employees. Last year was very demanding yet each of you met the challenges with energy and enthusiasm. As the CEO and, more importantly, as an investor, I express my sincere gratitude. There are many reasons to be optimistic about 2013. I look forward to seeing our past successes contribute to our future performance and also to the opportunities that are yet to be uncovered.

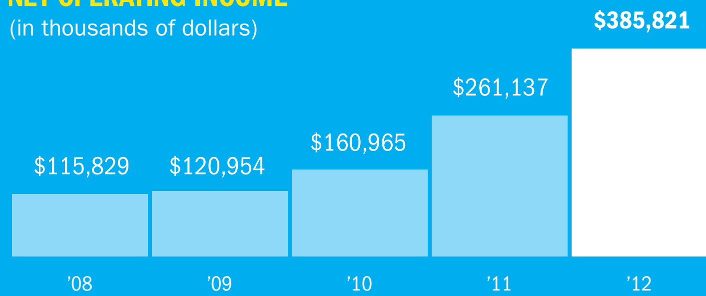
MICHAEL J. COOPER
Vice Chairman and Chief Executive Officer
March 15, 2013

TOTAL ASSETS [1]
(in millions of dollars)

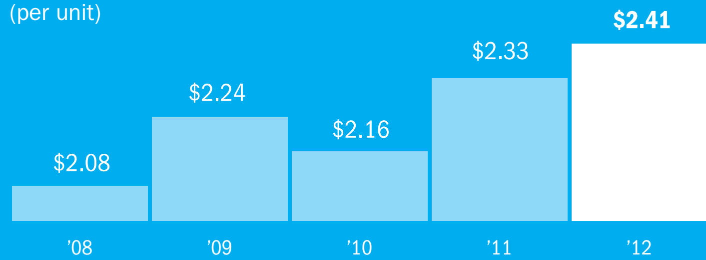


[1] Results reported under previous GAAP.

NET OPERATING INCOME
(in thousands of dollars)



ADJUSTED FUNDS FROM OPERATIONS
(per unit)



DEBT-TO-GROSS BOOK VALUE	INTEREST COVERAGE RATIO
48%	**2.7x**

Adelaide Place, Scotia Plaza and
36 Toronto Street, Toronto

PORTFOLIO AT-A-GLANCE

GEOGRAPHIC DIVERSIFICATION
(thousands of square feet)

DIVERSIFIED, HIGH-QUALITY TENANTS

(December 31, 2012)

Tenant	Owned area (square feet)	% of owned area	% of gross rental revenue	Average remaining lease term (years)	Credit rating
Bank of Nova Scotia	915,177	4.0%	7.9%	11.6	AA
Government of Canada	1,574,670	6.9%	6.9%	3.8	AA+
Government of Ontario	479,184	2.1%	2.3%	6.5	AA+
Bell Canada	376,694	1.6%	2.0%	5.3	BBB+
Government of Québec	695,629	3.0%	2.0%	13.7	A+
Enbridge Pipelines	247,019	1.1%	1.5%	5.9	A-
TELUS	289,103	1.3%	1.5%	3.3	BBB+
State Street Trust Company	244,936	1.1%	1.5%	9.3	AA-
Government of Alberta	346,810	1.5%	1.3%	2.6	AA+
Government of Saskatchewan	334,240	1.5%	1.3%	4.2	AA+
Total	**5,503,462**	**24.1%**	**28.2%**	**6.6**	

NUMBER OF PROPERTIES
173

OCCUPIED AND COMMITTED
95.1%

MARKET RENT/IN-PLACE RENT
11.9%

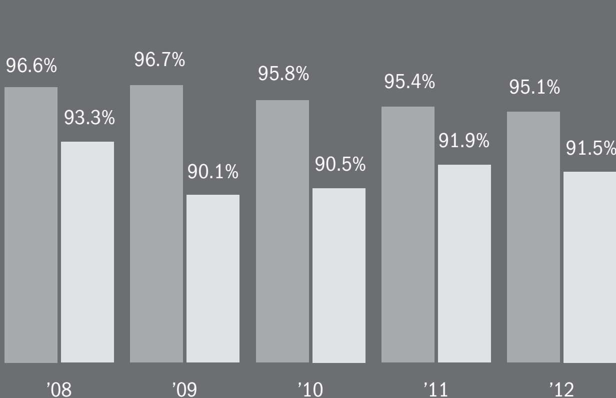
% NOI CENTRAL BUSINESS DISTRICT
# 69%

AVERAGE TENANT SIZE (square feet)
11,146

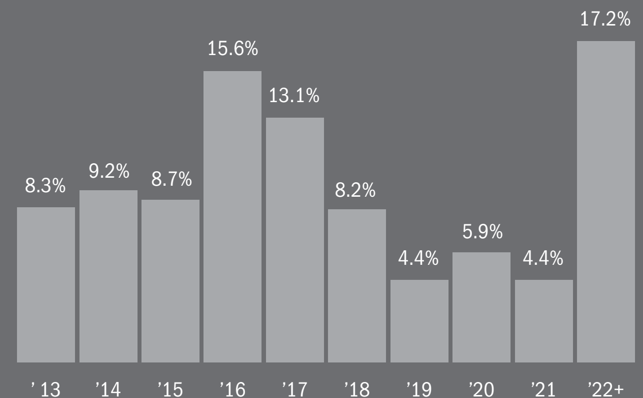
GROSS LEASABLE AREA (thousands of square feet)
22,948

AVERAGE REMAINING LEASE TERM (years)
5.49

OCCUPANCY



BALANCED LEASE EXPIRIES



700 rue de la Gauchetière ouest, Montréal

Scotia Plaza, Toronto

Airport Corporate Centre, Calgary

1 MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's discussion and analysis

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

Section I – Objectives and financial highlights

Basis of presentation

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

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

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

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

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

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

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

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

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

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

Our objectives

We are committed to:

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

Distributions

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

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

Our strategy

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

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

Investing in high-quality office properties

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

Optimizing the performance, value and cash flow of our portfolio

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

Diversifying our portfolio to mitigate risk

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

Maintaining and strengthening our conservative financial profile

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

Our assets

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

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

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

(1) Includes two properties located in the U.S.

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

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

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

Key performance indicators

Performance is measured by these and other key indicators:

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

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

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

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

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

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

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

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

Financial overview

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

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

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

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

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

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

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

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

Outlook

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

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

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

Section II – Executing the strategy

Our operations

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

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

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

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

Occupancy

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

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

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

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

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

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

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

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

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

Vacancy schedule

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

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

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

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

In-place net rental rates

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

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

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

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

Leasing and tenant profile

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

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

(1) Excludes properties held for sale.

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

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

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

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

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

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

(1) Excludes properties held for sale.

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

Initial direct leasing costs and lease incentives

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

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

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

(1) Includes investment in joint ventures.

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

Tenant base profile

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

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

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

Our resources and financial condition

Investment properties

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

During Q4 2012, we:

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

During Q3 2012, we:

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

During Q2 2012, we:

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

During Q1 2012, we:

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

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

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

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

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

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

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

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

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

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

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

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

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

Investing activities

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

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

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

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

(3) Includes transaction costs.

Acquisitions

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

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

(1) Includes transaction costs.

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

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

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

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

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

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

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

(1) Includes transaction costs.

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

Building improvements

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

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

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

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

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

Development

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

Dispositions

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

Year ended December 31, 2012

	Property type	Disposed GLA (sq. ft.)	Gross proceeds[1]	Mortgages/ term loan discharged	Net gain (loss) on sale	Date disposed
ARAM Building, Calgary	office	36,428	$ 7,700	$ –	$ (314)[2]	February 2, 2012
West Chambers, Edmonton	office	92,560	24,200	6,786	(849)[2]	August 15, 2012
4250 Albert Street, Regina	retail	41,238	9,600	5,126	(11)[2]	August 15, 2012
885 Don Mills Road, Toronto	office	59,449	8,975	4,547	1,770	August 30, 2012
12804 137th Avenue, Edmonton	retail	54,514	18,900	12,633	(653)[2]	September 14, 2012
Bisma Centre, Calgary	office	27,496	9,200	–	2,054	September 19, 2012
998 Parkland Drive, Halifax	retail	33,857	7,170	4,624	67	October 4, 2012
193 Malpeque Road, Charlottetown	retail	41,573	5,100	–	(43)[2]	October 4, 2012
655 University Avenue, Charlottetown	retail	26,043	3,800	2,357	25	October 4, 2012
Industrial Portfolio	industrial	5,134,114	575,469	225,592	1,147	October 4, 2012
7102–7220 Barlow Trail SE, Calgary	industrial	234,676	10,150	–	(516)[2]	November 30, 2012
Total		5,781,948	$ 680,264	$ 261,665	$ 2,677	

(1) Gross proceeds before transaction costs.

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

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

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

(1) Gross proceeds before transaction costs.

Our financing

Liquidity and capital resources

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

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

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

Financing activities

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

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

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

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

Debt

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

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

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

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

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

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

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

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

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

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

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

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

Debt financing activities

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

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

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

(2) Includes mortgage bond.

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

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

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

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

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

On March 2, 2012, we entered into a $10.0 million equity bridge facility and a $210.0 million secured term facility. The equity bridge facility was in the form of rolling one-month BAs bearing interest at the BA rate plus 2.35%. The secured term facility was in the form of rolling one-month BAs, bearing interest at the BA rate plus 1.75%. The equity bridge facility was fully repaid on April 5, 2012. The secured term facility was converted into a revolving credit facility on April 17, 2012, and matures on March 5, 2013. The revolving credit facility is in the form of rolling one-month BAs bearing interest at the BA rate plus 1.75% or at the bank's prime rate (3.0% at December 31, 2012) plus 0.75%, and is secured by nine properties as first-ranking mortgages. As at January 31, 2013, the formula-based amount available under this facility was $171.5 million, reduced from previous periods as a result of dispositions during Q4 2012. At December 31, 2012, $54.0 million was drawn on the facility.

A demand revolving credit facility is available up to a formula-based maximum not to exceed $40.0 million, generally bearing interest at the bank's prime rate (3.0% as at December 31, 2012) plus 1.5%, or bankers' acceptance rates plus 3.0%. This facility is secured by a first-ranking collateral mortgage on two properties and a second-ranking collateral mortgage on one property. The facility matures on April 30, 2013. At December 31, 2012, the formula-based amount available under this facility was $26.3 million, less $1.6 million in the form of letters of guarantee. At December 31, 2012, $13.7 million was drawn on the facility.

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

In connection with the acquisition of Whiterock, we assumed a revolving acquisition and operating facility of up to $35.0 million. Interest is incurred at floating rates determined, at our option, by reference to the prime rate plus 85 bps or bankers' acceptance rates plus 185 bps. The facility is secured by a first-ranking collateral mortgage on one property and a second-ranking collateral mortgage on one property and the guarantee of the Trust. The facility expires on August 23, 2013. At December 31, 2012, $0.3 million is being utilized in the form of letters of guarantee and $34.7 million remains available.

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

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

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

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

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

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

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

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

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

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

Convertible debentures

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

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

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

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

Debentures

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

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

Commitments and contingencies

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

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

	December 31, 2012	
	Operating lease payments	Finance lease payments
No longer than 1 year	$ 498	$ 237
1–5 years	1,165	–
Longer than 5 years	1,350	–
Total	$ 3,013	$ 237

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

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

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

Our equity

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

				Unitholders' equity
		December 31, 2012		December 31, 2011
	Number of units	**Amount**	Number of units	Amount
REIT Units, Series A	**97,618,625**	**$ 3,295,983**	66,193,060	$ 2,118,116
REIT Units, Series B	**16,316**	**713**	16,316	720
Accumulated other comprehensive loss	**–**	**(297)**	–	(1,602)
	97,634,941	**3,296,399**	66,209,376	2,117,234
Add: LP B Units	**3,528,658**	**132,078**	3,506,107	114,445
Total	**101,163,599**	**$ 3,428,477**	69,715,483	$ 2,231,679

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

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

The following table summarizes the changes in our outstanding equity.

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

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

On March 28, 2012, we completed a public offering of 6,555,000 REIT A Units, including an over-allotment option, at a price of $35.35 per unit for gross proceeds of $231.7 million. Costs related to the offering totalled $9.4 million and were charged directly to unitholders' equity.

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

Normal course issuer bid

The Trust renewed its normal course issuer bid, which commenced on December 2, 2011, and remained in effect until the earlier of December 1, 2012, or the date on which the Trust has purchased the maximum number of Units permitted under the bid. Under the bid, the Trust had the ability to purchase for cancellation up to a maximum of 5,910,181 REIT A Units (representing 10% of the REIT's public float of 59,101,809 REIT A Units at the time of renewal through the facilities of the Toronto Stock Exchange). On December 1, 2012, the normal course issuer bid expired and was not renewed. No purchases had been made under the bid.

Short form base shelf prospectus

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

Distribution policy

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

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

(1) Includes distributions on LP B Units.

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

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

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

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

(2) Includes distributions on LP B Units.

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

Our results of operations

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

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

Basis of accounting

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

Investment properties revenue

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

Investment properties operating expenses

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

General and administrative expenses

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

Fair value adjustments to investment properties

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

Gain (loss) on sale of investment properties

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

Acquisition related costs, net

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

Interest expense – debt

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

Interest expense – subsidiary redeemable units

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

Debt settlement costs and other costs, net

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

Depreciation and amortization

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

Interest and fee income

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

Fair value adjustments to financial instruments

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

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

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

Related party transactions

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

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

Deferred income taxes

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

Income from discontinued operations

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

Other comprehensive income

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

Net operating income

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

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

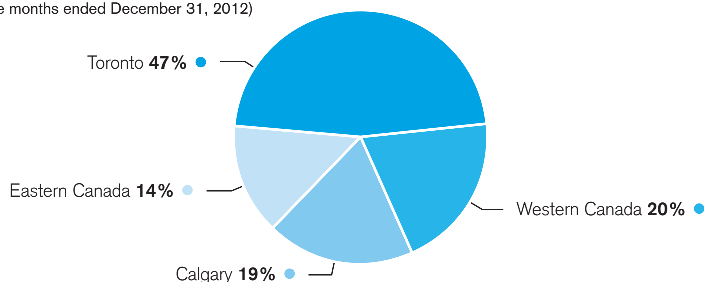
	Three months ended December 31,		Years ended December 31,	
	2012	2011	**2012**	2011
Net rental income	**$ 90,391**	$ 66,641	**$ 348,547**	$ 216,066
Share of net rental income from investment in joint ventures that are equity accounted	**16,044**	4,375	**42,593**	17,063
Income from discontinued properties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

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

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

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

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



NOI comparative portfolio

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

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

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

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

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

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

2013 NOI classification

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

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

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

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

NOI prior quarter comparison

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

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

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

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

Funds from operations and adjusted funds from operations

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

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

Funds from operations and adjusted funds from operations per unit amounts

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

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

Funds from operations

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

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

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

Adjusted funds from operations

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

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

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

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

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

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

Selected annual information

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

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

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

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

Quarterly information

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

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

Calculation of funds from operations

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

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

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

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

Section III – Disclosure controls and procedures

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

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

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

Section IV – Risks and our strategy to manage

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

Real estate ownership

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

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

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

Rollover of leases

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

Concentration of properties and tenants

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

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

Financing

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

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

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

Changes in law

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

Interest rates

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

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

Environmental risk

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

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

Joint arrangements

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

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

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

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

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

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

Competition

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

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

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

Insurance

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

Section V – Critical accounting policies

Critical accounting judgments, estimates and assumptions in applying accounting policies

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

Changes in accounting estimates and changes in accounting policies

Future accounting policy changes

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

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

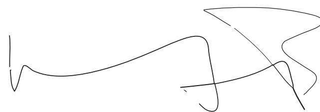
Management's responsibility for financial statements

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

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

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

MICHAEL J. COOPER
Vice Chairman and Chief Executive Officer



MARIO BARRAFATO
Senior Vice President and Chief Financial Officer

Toronto, Ontario, February 20, 2013

Independent auditor's report

To the Unitholders of Dundee Real Estate Investment Trust

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario, February 20, 2013

Consolidated balance sheets

(in thousands of Canadian dollars)

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

See accompanying notes to the consolidated financial statements.

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

NED GOODMAN
Trustee

MICHAEL J. COOPER
Trustee

Consolidated statements of comprehensive income

(in thousands of Canadian dollars)

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

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in equity

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

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

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

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(in thousands of Canadian dollars)

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

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

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

Note 1
Organization

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

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

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

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

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

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

Note 2
Summary of significant accounting policies

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

Basis of presentation and statement of compliance

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

Basis of consolidation

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

Equity accounted investments

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

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

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

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

Joint arrangements

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

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

Note 3

Accounting policies selected and applied for significant transactions and events

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

Investment properties

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

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

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

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

Segment reporting

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

Other non-current assets

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

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

Revenue recognition

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

Business combinations

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

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

Goodwill

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

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

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

External property management contracts

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

Distributions

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

Income taxes

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

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

Unit-based compensation plan

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

Cash and cash equivalents

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

Financial instruments

Designation of financial instruments

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

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

Financial assets

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

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

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

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

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

Financial liabilities

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

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

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

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

Derivative financial instruments and hedging activities

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

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

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

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

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

Interest on debt

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

Equity

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

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

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

Provisions

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

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

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

Assets held for sale and discontinued operations

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

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

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

Foreign currencies

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

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

Note 4
Critical accounting judgments, estimates and assumptions in applying accounting policies

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

Critical accounting judgments

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

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

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

Investment properties

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

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

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

Leases

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

Compliance with REIT legislation

In order to continue to be taxed as a mutual fund trust, the Trust needs to maintain its REIT status. In 2007, the Trust undertook certain transactions to qualify as a REIT under the specified investment flow-through ("SIFT") rules in the Canadian *Income Tax Act*. The Trust's current and continuing qualification as a REIT depends on its ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. The Trust applies judgment in determining whether it continues to qualify as a REIT under the SIFT rules.

Treatment of REIT Units

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

Treatment of subsidiary redeemable units

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

Business combinations

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

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

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

In particular, the Trust considers the following:

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

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

Classification of joint ventures and associates

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

Impairment

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

Estimates and assumptions

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

Valuation of investment properties

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

Valuation of financial instruments

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

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

Note 5
Future accounting policy changes

Financial instruments

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

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

Joint arrangements

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

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

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

Consolidated financial statements

IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), replaces the guidance on control and consolidation in the current IAS 27, "Consolidated and Separate Financial Statements". IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. The standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Trust will start the application of IFRS 10 in the consolidated financial statements effective January 1, 2013, and is currently evaluating the impact on the consolidated financial statements.

Disclosure of interests in other entities

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

Fair value measurement

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

Presentation of items of other comprehensive income

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

Note 6
Business combinations
Business combination in the year ended December 31, 2012

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

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

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

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

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

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

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

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

Business combination in the year ended December 31, 2011

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

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

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

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

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

Note 7
Property acquisitions

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

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

(1) Includes transaction costs.

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

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

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

(1) Includes transaction costs.

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

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

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

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

The consideration paid consists of:

	2012	2011
Cash:		
Paid during the year	**$ 253,966**	$ 1,014,706
Deposits applied	**6,150**	19,703
	260,116	1,034,409
Assumed mortgages at fair value	**74,929**	141,225
Assumed non-cash working capital	**1,220**	27,338
Total consideration	**$ 336,265**	$ 1,202,972

Note 8
Investment properties

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

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

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

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

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

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

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

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

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

Note 9

Investment in Dundee Industrial

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

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

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

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

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

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

	December 31, 2012	December 31, 2011
Non-current assets		
Investment properties	**$ 354,320**	$ –
Other non-current assets	**11,421**	–
	365,741	–
Amounts receivable	**166**	–
Prepaid expenses	**909**	–
Cash and cash equivalents	**712**	–
	1,787	–
Total assets	**$ 367,528**	$ –
Non-current liabilities		
Debt	**$ 169,518**	$ –
Subsidiary redeemable units	**56,024**	–
Deposits	**1,776**	–
Conversion feature on the convertible debentures	**1,923**	–
Deferred Unit Incentive Plan	**16**	–
	229,257	–
Current liabilities		
Debt	**31,153**	–
Amounts payable and accrued liabilities	**5,767**	–
Distributions payable	**630**	–
	37,550	–
Total liabilities	**$ 266,807**	$ –
Net assets	**$ 100,721**	$ –

	Years ended December 31,	
	2012	2011
Investment properties revenue	**$ 6,345**	$ –
Investment properties operating expenses	**1,717**	–
Net rental income	**4,628**	–
Other income and expenses		
General and administrative	**(322)**	–
Fair value adjustments to investment properties	**2,278**	–
Acquisition related costs	**(3,641)**	–
Interest on debt	**(1,208)**	–
Interest on subsidiary redeemable units	**(1,021)**	–
Interest and fee income	**5**	–
Fair value adjustments to financial instruments	**(7,960)**	–
Net loss before the undernoted adjustments	**(7,241)**	–
Add-back:		
Interest on subsidiary redeemable units	**1,021**	–
Fair value adjustments to subsidiary redeemable units	**7,272**	–
Share of net income	**$ 1,052**	$ –

Note 10
Joint arrangements

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

Investment in joint ventures

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

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

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

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

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

	December 31, 2012	December 31, 2011
Non-current assets		
Investment properties	**$ 1,038,867**	$ 264,505
Other non-current assets	**2,940**	2,386
	1,041,807	266,891
Current assets		
Amounts receivable	**2,100**	65
Prepaid expenses	**440**	89
Cash and cash equivalents	**7,179**	11,536
	9,719	11,690
Total assets	**$ 1,051,526**	$ 278,581
Non-current liabilities		
Debt	**$ 489,976**	$ 127,246
Deposits	**354**	160
	490,330	127,406
Current liabilities		
Debt	**36,992**	2,977
Amounts payable and accrued liabilities	**33,434**	3,602
	70,426	6,579
Total liabilities	**$ 560,756**	$ 133,985
Net assets	**$ 490,770**	$ 144,596

	Years ended December 31,	
	2012	2011
Investment properties revenue	**$ 78,768**	$ 29,759
Investment properties operating expenses	**36,175**	12,696
Net rental income	**42,593**	17,063
Other income and expenses		
General and administrative	**(82)**	–
Fair value adjustments to investment properties	**(23,964)**	37,969
Loss on sale of investment properties	**–**	(103)
Interest on debt	**(13,779)**	(5,323)
Depreciation and amortization	**(4)**	–
Interest and fee income	**168**	122
Fair value adjustments to financial instruments	**(5,186)**	–
Net income (loss)	**$ (254)**	$ 49,728

	Years ended December 31,	
	2012	2011
Cash flow generated from (utilized in):		
Operating activities	**$ 25,794**	$ 12,241
Investing activities	**(19,479)**	(644)
Financing activities	**(10,672)**	(8,555)
Increase (decrease) in cash and cash equivalents	**$ (4,357)**	$ 3,042

Co-owned investment properties

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

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

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

	December 31, 2012	December 31, 2011
Non-current assets		
Investment properties	**$ 454,703**	$ 34,642
Other non-current assets	**1,106**	77
	455,809	34,719
Current assets		
Amounts receivable	**8,251**	202
Prepaid expenses and other assets	**453**	20
Cash and cash equivalents	**8,310**	300
	17,014	522
Total assets	**$ 472,823**	$ 35,241
Non-current liabilities		
Debt	**$ 183,678**	$ 24,374
Deposits	**1,635**	219
	185,313	24,593
Current liabilities		
Debt	**52,514**	737
Amounts payable and accrued liabilities	**8,676**	435
	61,190	1,172
Total liabilities	**$ 246,503**	$ 25,765

	Years ended December 31,	
	2012	2011
Investment properties revenue	**$ 48,204**	$ 3,587
Investment properties operating expenses	**22,721**	1,496
Net rental income from continuing operations	**25,483**	2,091
Other income and expenses		
General and administrative	**(3)**	(207)
Fair value adjustments to investment properties	**(16,515)**	3,406
Interest on debt	**(8,909)**	(1,218)
Interest and fee income	**–**	1
Income from continuing operations	**56**	4,073
Loss from discontinued operations	**(4,782)**	–
Net income (loss)	**$ (4,726)**	$ 4,073

Note 11
Other non-current assets

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

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

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

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

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

Note 12
Promissory notes receivable

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

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

Note 13
Amounts receivable

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

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

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

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

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

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

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

Note 14
Debt

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

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

Convertible debentures

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

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

6.5% Debentures

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

5.7% Debentures

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

6.0% Debentures

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

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

6.0% Series F Debentures

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

7.0% Series G Debentures

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

5.5% Series H Debentures

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

Principal redemptions

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

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

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

Debentures

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

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

Series K and Series L Debentures

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

Demand revolving credit facilities

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

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

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

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

Term loan facility

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

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

Debt weighted average effective interest rates and maturity

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

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

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

The scheduled principal repayments and debt maturities are as follows:

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

Other financial instruments

The Trust has other financial instruments as follows:

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

Interest rate swaps

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

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

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

Conversion feature on the convertible debentures

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

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

Note 15

Subsidiary redeemable units

The Trust has the following subsidiary redeemable units outstanding:

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

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

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

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

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

Note 16

Deferred Unit Incentive Plan

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

The movement in the DUIP balance was as follows:

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

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

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

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

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

Note 17
Amounts payable and accrued liabilities

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

Note 18
Distributions

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

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

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

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

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

Note 19
Equity

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

Dundee REIT Units

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

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

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

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

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

Public offering of REIT A Units

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

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

On December 20, 2011, the Trust completed a public offering of 4,393,000 REIT A Units, including an over-allotment option, at a price of $32.75 per unit for gross proceeds of $143,870. Costs related to the offering totalled $6,355 and were charged directly to unitholders' equity.

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

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

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

Units issued for Whiterock transaction

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

Distribution Reinvestment and Unit Purchase Plan

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

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

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

Debenture conversions

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

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

Normal course issuer bid

The Trust renewed its normal course issuer bid, which commenced on December 2, 2011, and remained in effect until the earlier of December 1, 2012, or the date on which the Trust has purchased the maximum number of Units permitted under the bid. Under the bid, the Trust had the ability to purchase for cancellation up to a maximum of 5,910,181 REIT A Units (representing 10% of the REIT's public float of 59,101,809 REIT A Units at the time of renewal through the facilities of the Toronto Stock Exchange). No purchases had been made under the bid. On December 1, 2012, the normal course issuer bid expired and was not renewed.

Short form base shelf prospectus

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

Note 20

Discontinued operations and assets and related liabilities held for sale

Discontinued operations – industrial properties

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

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

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

Assets and related liabilities held for sale

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

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

Investment properties held for sale

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

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

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

(1) Gross proceeds before transaction costs.

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

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

Note 21
Interest
Interest on debt

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

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

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

Interest on subsidiary redeemable units

Interest payments charged to comprehensive income are recorded as follows:

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

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

Note 22
Debt settlement and other costs, net

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

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

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

Note 23
Fair value adjustments to financial instruments

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

Note 24
Income taxes

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

Note 25
Segmented information

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

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

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

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

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

Capital expenditures

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

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

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

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

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

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

Capital expenditures

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

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

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

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

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

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

Note 26

Related party transactions and arrangements

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

Asset Management Agreement

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

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

Related party transactions

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

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

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

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

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

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

	Years ended December 31,	
	2012	2011
Unit-based awards[1]	**$ 998**	$ 853

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

Note 27
Supplementary cash flow information

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

The following amounts were paid on account of interest:

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

Note 28
Supplemental other comprehensive income (loss) information

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

Note 29
Commitments and contingencies

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

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

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

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

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

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

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

Purchase and other obligations

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

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

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

Note 30
Capital management

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

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

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

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

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

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

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

(1) Excludes the results of discontinued operations.

Note 31

Financial instruments

Risk management

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

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

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

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

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

The Trust is not exposed to significant foreign exchange risks.

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

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

Derivatives and hedging activities

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

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

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

Fair value of financial instruments

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

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

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

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

Note 32
Subsequent events

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

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

[1] Gross proceeds before transaction costs.

Trustees and officers

Trustees

DETLEF BIERBAUM[1, 2, 4]
Köln, Germany
Corporate Director

DONALD K. CHARTER
Toronto, Ontario
President and Chief Executive Officer
Corsa Coal Corp.

MICHAEL J. COOPER[2]
Toronto, Ontario
Vice Chairman and Chief Executive Officer
Dundee REIT

PETER A. CROSSGROVE[1, 3, 4]
Toronto, Ontario
Executive Chairman
Excellon Resources Inc.

JOANNE FERSTMAN
Toronto, Ontario
Corporate Director

ROBERT G. GOODALL[1, 3]
Mississauga, Ontario
President
Canadian Mortgage Capital Corporation

DAVID J. GOODMAN
Toronto, Ontario
Corporate Director

NED GOODMAN[2, 5]
Innisfil, Ontario
President and Chief Executive Officer
Dundee Corporation

DUNCAN JACKMAN[1, 4]
Toronto, Ontario
Chairman, President and CEO
E-L Financial Corporation Limited

ROBERT TWEEDY[4]
Toronto, Ontario
Corporate Director

Officers

NED GOODMAN
Chairman

MICHAEL J. COOPER
Vice Chairman and Chief Executive Officer

MARIO BARRAFATO
Senior Vice President and Chief Financial Officer

ANA RADIC
Chief Operating Officer

JANE GAVAN
Corporate Secretary

1 Member of the Audit Committee
2 Member of the Investment Committee
3 Member of the Compensation Committee
4 Member of the Governance and Environmental Committee
5 Chairman of the Board of Trustees

Notes

Corporate information

Head office

DUNDEE REAL ESTATE INVESTMENT TRUST
State Street Financial Centre
30 Adelaide Street East, Suite 1600
Toronto, Ontario M5C 3H1
Phone: (416) 365-3535
Fax: (416) 365-6565

Transfer agent

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

COMPUTERSHARE TRUST COMPANY OF CANADA
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Phone: (514) 982-7555 or
1 800 564-6253
Fax: (416) 263-9394 or
1 888 453-0330
E-mail: service@computershare.com

Auditors

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Corporate counsel

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Toronto, Ontario M5X 1B8

Investor relations

Phone: (416) 365-3536
Toll free: 1 877 365-3535
E-mail: info@dundeereit.com
Web site: www.dundeereit.com

Taxation of distributions

Distributions paid to unitholders in respect of the tax year ending December 31, 2012, are taxed as follows:
Other income: 31.3%
Capital gains: 24.8%
Return of capital: 43.9%

Management estimates that 55% of the distributions to be made by the REIT in 2013 will be tax deferred.

Stock exchange listing

THE TORONTO STOCK EXCHANGE
Listing symbols:
REIT Units, Series A: D.UN
5.5% Series H Convertible Debentures: D.DB.H
5.95% Senior Unsecured Debentures, Series K: D.DB.K

Annual meeting of unitholders

Wednesday, May 8, 2013,
at 4:00 pm (EST)
Toronto Board of Trade, East Ballroom
1 First Canadian Place, Street Level
Toronto, Ontario, Canada
(entrance via 100 King Street West or 77 Adelaide Street West)

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. 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.

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

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.

Concept and Design: THE WORKS DESIGN COMMUNICATIONS www.worksdesign.com

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OUR TENANTS' NEEDS.

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OTTAWA MONTRÉAL QUÉBEC CITY HALIFAX YELLOWKNIFE REGINA SASKATOON
VICTORIA VANCOUVER CALGARY EDMONTON