

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, 2008.

This management's discussion and analysis has been dated as at January 31, 2009, 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", meaning the LP Class B Units, Series 1
- "Units", meaning REIT Units, Series A; REIT Units, Series B; LP Class B Units, Series 1; and Special Trust Units, collectively

Certain market information has been obtained from the CB Richard Ellis Market View, Fourth Quarter 2008, a publication prepared by a commercial firm that provides information relating to the real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

On August 24, 2007, Dundee REIT completed the sale of its portfolio of real estate assets located principally in Ontario, Québec and Newfoundland (the "Eastern Portfolio") to GE Real Estate ("GE") for a total purchase price of approximately \$2.3 billion, including the assumption of liabilities by GE relating to the Eastern Portfolio (the "Transaction"). Dundee REIT's portfolio now comprises office and industrial properties located primarily in Western Canada.

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

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

All forward-looking information is as of January 31, 2009, except where otherwise noted. Dundee REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators, including the latest annual information form of Dundee REIT. These filings are also available on our web site at www.dundeereit.com.

OUR OBJECTIVES

We are committed to:

- managing our business to provide growing cash flow and stable and sustainable returns through adapting our strategy and tactics to changes in the real estate industry and the economy;
- building a diversified, growth-oriented portfolio of office and industrial properties in Canada, based on an established platform in Western Canada;
- 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 new SIFT legislation in order to provide certainty to unitholders with respect to taxation of distributions and be more competitive in the real estate industry than other REITs which have not satisfied the REIT exception.

Distributions

We currently pay monthly distributions to unitholders of \$0.183 per unit or \$2.20 on an annual basis. We also have a Distribution Reinvestment and Unit Purchase Plan (“DRIP”), which allows unitholders to have their distributions automatically reinvested into additional units of the Trust. Unitholders who enrol in the DRIP receive a bonus distribution of 4% with each reinvestment. At December 31, 2008, approximately 9% of our total units were enrolled in the DRIP, including 11% of the REIT A Units. There were no LP B Units enrolled in the DRIP at year-end and there is no equivalent program for the REIT B Units (see a description of Our Equity on page 9).

2008	Jan	Feb	Mar	Apr	May	Jun	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	\$31.90	\$34.25	\$32.48	\$33.25	\$33.59	\$31.22	\$32.70	\$32.20	\$29.82	\$18.90	\$12.25	\$12.60

OUR STRATEGY

Dundee REIT’s strategy is to rely on a core portfolio of office and industrial properties that provides a solid platform for stable and growing returns. While our core strategy of investing in the office and industrial sectors remains unchanged, we continuously review components of our strategy including acquisitions and dispositions and our capital markets strategy, particularly in light of the current conditions of the financial markets and uncertainty in the economy as a whole.

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

Effectively managing our business

We manage our properties to optimize long-term cash flow and value. Dundee REIT benefits from the expertise of a group of highly experienced real estate professionals through our internal property management function. In addition, through the Asset Management Agreement, Dundee REIT benefits from the expertise of Dundee Real Estate Asset Management, which provides the strategy, leadership and execution of Dundee REIT’s operating plan. All of these professionals have worked together for many years and will continue to work together to increase the value of Dundee REIT’s portfolio through continuous and active analysis of how its properties and its portfolio as a whole can achieve optimal performance.

Pursuing growth

Dundee REIT will achieve growth by acquiring properties that enhance its overall portfolio, further improve the sustainability of distributions and help it mitigate risk. Dundee REIT's growth strategy is to acquire office and industrial properties in those Canadian markets that offer compelling investment opportunities and reposition existing properties where opportunities exist. Dundee REIT continuously evaluates individual properties and portfolios with a view to maximizing performance and achieving the optimal value and growth potential. Given the volatility of the current business environment, we are being very selective in our growth plans.

Meeting the needs of our tenants

Dundee REIT has a committed team of in-house property management professionals. A strong relationship with our tenants is critical to our success. We strive to be the preferred landlord by anticipating and meeting our tenants' needs. We believe that providing a consistent, high level of service puts us in a better position to re-lease space to existing tenants and helps attract new tenants to lease vacant space quickly and cost-effectively.

OUR ASSETS

We provide high-quality, affordable business premises with a primary focus on mid-sized urban and suburban office properties as well as industrial and prestige industrial properties. The majority of our assets are concentrated in Western Canada, primarily in Calgary, as well as Vancouver, Edmonton, Saskatoon, Regina, Yellowknife and Toronto.

December 31				Owned gross leasable area (sq. ft.)		
	Office	Industrial	Total	2008	2007	
				%	Total	%
British Columbia	514,864	—	514,864	8	449,939	7
Alberta	2,876,791	1,625,212	4,502,003	68	4,593,902	73
Saskatchewan & NWT	849,329	—	849,329	13	848,857	14
Ontario	728,874	—	728,874	11	406,304	6
Total as at December 31	4,969,858	1,625,212	6,595,070	100	6,299,002	100
Percentage	75%	25%	100%			
Total as at December 31, 2007	4,451,341	1,847,661	6,299,002			
Percentage	71%	29%	100%			

Excludes redevelopment properties and properties held for sale.

Office rental properties

Dundee REIT owns interests in 43 office properties (47 buildings) comprising approximately 5.0 million square feet, excluding redevelopment properties, located in Vancouver, Calgary, Edmonton, Regina, Saskatoon, Yellowknife and Toronto. These office properties can generally be categorized as high-quality, affordable, suburban and downtown buildings. The occupancy rate across our office portfolio remains high, and at December 31, 2008, was 96.6%, well ahead of the national industry average occupancy rate of 93.3% (CB Richard Ellis, Canadian Office Market View, Fourth Quarter 2008). Our occupancy rates include lease commitments for space which is currently being readied for occupancy but for which rent is not yet being recognized.

Industrial rental properties

Our industrial portfolio consists of 35 prime suburban industrial properties (39 buildings) comprising approximately 1.6 million square feet, concentrated in Calgary and Edmonton. Dundee REIT's strategy is to own clusters of properties, allowing it to respond quickly and efficiently to tenants' needs during times of change in their operations or size of their workforce. At December 31, 2008, the occupancy rate across our industrial portfolio was 97.0%, in line with the overall occupancy rates in our two industrial markets, Calgary and Edmonton, where occupancy was 96.9% and 97.2%, respectively (CB Richard Ellis, Calgary and Edmonton Industrial Market View, Fourth Quarter 2008).

OUR EQUITY

December 31	2008		Unitholders' equity 2007	
	Number of units	Amount	Number of units	Amount
REIT Units, Series A	16,947,240	\$ 271,221	17,072,154	\$ 300,216
REIT Units, Series B	16,316	371	476,316	14,376
LP Class B Units, Series 1	3,454,188	98,309	3,315,349	99,791
Cumulative foreign currency translation adjustment	—	(5,275)	—	(6,243)
Total	20,417,744	\$ 364,626	20,863,819	\$ 408,140

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, and the REIT B Units are held by GE. 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, 2008, Dundee Corporation, directly and indirectly through its subsidiaries, held 780,851 REIT A Units and 3,454,188 LP B Units and GE held 2,997,371 REIT A Units and 16,316 REIT B Units.

KEY PERFORMANCE INDICATORS

Performance is measured by these and other key indicators:

	Three months ended December 31		Year ended December 31	
	2008	2007	2008	2007
Operations				
Occupancy rate (period-end) ⁽¹⁾	96.7%	96.7%		
In-place rent per square foot (office and industrial) ⁽¹⁾	\$ 15.30	\$ 13.49		
Operating results				
Rental properties revenue ⁽²⁾	\$ 50,419	\$ 42,697	\$ 187,461	\$ 154,213
Net operating income ("NOI") ⁽³⁾	30,756	26,378	115,829	97,171
Funds from operations ("FFO") ⁽⁴⁾	16,985	16,127	64,652	114,539
Adjusted funds from operations ("AFFO") ⁽⁵⁾	11,745	11,054	43,855	87,484
Distributions				
Declared distributions	\$ 11,194	\$ 11,450	\$ 45,756	\$ 79,534
Distributions paid in cash	10,266	11,450	37,112	67,690
DRIP participation ratio	8%	—	19%	15%
Financing				
Weighted average interest rate (period-end)	5.83%	5.76%	—	—
Interest coverage ratio	2.3 times	2.6 times	2.3 times	2.5 times
Per unit amounts				
Basic:				
FFO	\$ 0.82	\$ 0.76	\$ 3.06	\$ 3.00
Distributable income	0.65	0.58	2.40	2.60
Distribution rate	0.55	0.55	2.20	2.20
Total distributions as a % of distributable income	85%	95%	92%	85%
AFFO	0.57	0.52	2.08	2.29
Diluted:⁽⁶⁾				
FFO	\$ 0.80	\$ 0.76	\$ 3.01	\$ 2.95
Distributable income	0.65	0.58	2.40	2.57

NOI, FFO, distributable income and AFFO are key measures of performance used by real estate operating companies; however, they are not defined by Canadian generally accepted accounting principles ("GAAP"), do not have standard meanings and may not be comparable with other industries or income trusts.

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

(2) Prior year comparatives have been restated for discontinued operations.

(3) NOI — rental property revenues less operating expenses, excluding redevelopment and discontinued operations. Prior year comparatives have been restated as a result of discontinued operations. The reconciliation of NOI to net income can be found on page 36.

(4) FFO — the reconciliation of FFO to net income can be found on page 23.

(5) AFFO — the reconciliation of AFFO to distributable income can be found on page 26.

(6) Diluted amounts assume the conversion of the 6.5%, 5.7% and 6.0% Debentures.

FINANCIAL OVERVIEW

Overall occupancy remained strong at 96.7%, with occupancy rates decreasing slightly in the office portfolio, offset by modest occupancy growth in the industrial portfolio. NOI remained very strong, indicating continued growth in our operations. Total fourth quarter rental property revenue and NOI grew to \$50.4 million and \$30.8 million, respectively, reflecting our ability to effectively manage our business as well as accretive leasing activity coming on-line. Details of our NOI begin on page 36.

Lease rollover activity has allowed us to take advantage of generally higher market rental rates, especially in our Calgary office portfolio, and while market rates may experience some softening in 2009, we still anticipate capturing some gains as approximately 9% of our portfolio comes up for renewal in 2009. Our average office portfolio occupancy rate remains well above the national industry average. Details of our leasing profile are provided on page 14.

Distributable income increased 9% to \$13.5 million in the quarter, reflecting market rate increases in renewals, contractual rent increases and strong overall occupancy. In connection with the Transaction in 2007, the number of units outstanding decreased, contributing to the 42% reduction in declared distributions in 2008. Because fewer units were enrolled in our DRIP, our year-to-date cash payout ratio increased to 81% of declared distributions. Details of our distributions and distributable income begin on page 24.

For the current quarter, AFFO increased to \$11.7 million, or \$0.57 per unit, largely reflecting strong NOI growth offset by the dilution arising from surplus cash on our balance sheet.

OUTLOOK

During increasingly uncertain economic times, Dundee REIT is positioned very well. We have a strong balance sheet and a stable portfolio. Our occupancy levels are high and our tenant base is well diversified, with a significant amount of space leased to government agencies and little exposure to high-risk tenants.

Our AFFO for the quarter increased by 10% on a per unit basis over the prior year. Our fourth quarter results highlight our comparative property performance, which increased by 7% over the prior year. We will continue to focus on our properties, tenant relationships and internal growth to maintain comparable property stability.

We anticipate that the current uncertainty in the credit markets will continue to have an impact on interest rates and debt levels. We therefore continue to carry a significant amount of liquidity and have access to an undrawn operating line of \$55 million, which gives us additional flexibility to deal with any unforeseen situations.

Dundee REIT is in very good shape and we are confident that we can overcome any challenges with respect to the current economic situation. We continue to focus on operational excellence, tenant retention and the importance of leasing space to achieve further growth from our property portfolio.

SECTION II — EXECUTING THE STRATEGY

OUR RESOURCES AND FINANCIAL CONDITION

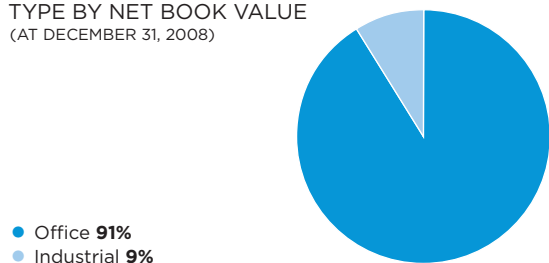
Rental properties

The net book value of segmented rental properties by geography and asset type is set out below.

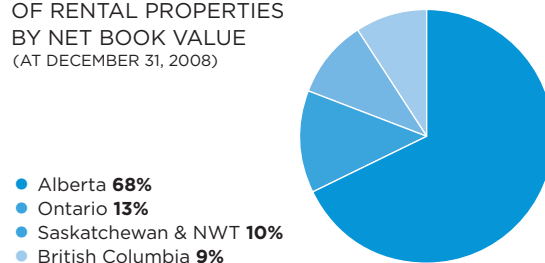
December 31				2008 ⁽¹⁾		2007 ⁽¹⁾
	Office	Industrial	Total	%	Total	%
British Columbia	\$ 101,485	\$ —	\$ 101,485	9	\$ 94,072	10
Alberta	657,404	95,331	752,735	68	711,916	72
Saskatchewan & NWT	109,490	—	109,490	10	111,813	11
Ontario	149,611	—	149,611	13	66,551	7
Total as at December 31	\$ 1,017,990	\$ 95,331	\$ 1,113,321	100	\$ 984,352	100
Percentage	91%	9%	100%			
Total as at December 31, 2007	\$ 879,218	\$ 105,134	\$ 984,352			
Percentage	89%	11%	100%			

⁽¹⁾ Excludes \$22.8 million related to Greenbriar Mall and \$8.0 million related to other redevelopment properties and properties held for sale, totalling \$30.8 million (December 31, 2007 — \$19.9 million).

PORTFOLIO ASSET TYPE BY NET BOOK VALUE (AT DECEMBER 31, 2008)



GEOGRAPHIC DISTRIBUTION OF RENTAL PROPERTIES BY NET BOOK VALUE (AT DECEMBER 31, 2008)



Market information

In an effort to give additional context for our portfolio, provided below is some general information with respect to those markets where we have established a critical mass of properties. The source for market occupancy, vacancy, availability and rental rates for British Columbia, Alberta and Ontario is CB Richard Ellis Market View, Fourth Quarter 2008. Market information for Saskatchewan and the Northwest Territories is based on local estimates.

The majority of our assets are concentrated in Western Canada, with almost 70% located in the province of Alberta alone. The properties are leased to a wide range of high-quality office and industrial tenants. While the overall occupancy is still quite high, falling commodity prices and a significant amount of uncertainty with respect to the economy are starting to impact the demand for space, in particular in the province of Alberta, since they have prompted many companies to delay major new projects.

British Columbia

The Greater Vancouver office market continued to perform relatively well in the fourth quarter and vacancy rates increased only moderately to just over 6% in the overall market. However, there is a significant amount of sublease space and reduced overall demand, which has started to impact both vacancy rates and lease rates. Overall, B.C. continues to outperform most other provinces, partially due to significant infrastructure spending and the upcoming 2010 Olympics.

Alberta

For a number of years, Calgary was one of the fastest growing markets in North America and became the most expensive Canadian office market in 2007. With significantly lower commodity prices and an uncertain economic outlook, demand for space has since softened and the overall vacancy rate for office space increased to 5.2% at the end of 2008. Many tenants are hesitant to make long-term commitments and the amount of sublet space is increasing.

The Calgary industrial market was extremely tight for a long time; however, with the economic outlook changing significantly in the fourth quarter of 2008, vacancy rates and availability rates, while still fairly low at 3.1% and 4.7%, respectively, have increased.

The growth in the Edmonton industrial market was fuelled by investments in numerous oil sands projects, many of which have now been postponed or cancelled due to the drop in oil prices. There are still a number of projects under development and vacancy and availability rates for industrial space continue to be low at 2.8% and 4.7%, respectively. Edmonton's economy remains in a better position than many other key markets. Its labour force continued to show positive growth in 2008 with one of the lowest unemployment rates in the country.

Saskatchewan and NWT

The Saskatchewan market experienced continued economic growth in 2008. Saskatoon led the country with GDP growth of 5.2% in 2008, which has kept vacancy rates low.

The Saskatoon downtown office activity remained strong, with rental rates increasing by 20% or more from 2007 and vacancy rates at historical lows. At the end of 2008, the office market stabilized and the vacancy rate decreased slightly to 4.5%.

The office market in Regina remained strong in 2008, with a reported vacancy rate of 1.1% at year-end. In connection with increased demand from both public and private sector tenants, rental rates are steadily increasing.

The economy of the Northwest Territories is driven by government and resource businesses. As a result, it may be less susceptible to current economic conditions than other markets. The vacancy rate at the end of the fourth quarter was approximately 3.2%.

Ontario

The overall vacancy rate in the Toronto office market remained near a historic low of 6.8% at the end of 2008 and rental rates continue to show resilience with respect to the negative market conditions. The overall quoted asking net rental rate in the Greater Toronto Area ("GTA") increased to \$16.77 per square foot in the fourth quarter. Market fundamentals softened during the second half of 2008 and are expected to continue to weaken, particularly with new product coming on-line in 2009.

Leasing profile

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

Performance indicators at December 31	2008	2007
Operating activities (office and industrial average)		
Occupancy level	96.7%	96.7%
Tenant maturity profile — average term to maturity (years)	4.5	3.9
In-place rental rates	\$ 15.30	\$ 13.49

Excludes redevelopment properties and properties held for sale.

For the period-end, the percentage of occupied and committed space is as follows:

(Percentage)	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Office	96.6	97.6	97.4	96.0	96.7	98.3	96.5	97.0
Industrial	97.0	90.9	94.1	92.3	96.7	94.0	95.8	97.0
Overall	96.7	95.8	96.5	95.0	96.7	97.0	96.2	97.0

Excludes redevelopment properties and properties held for sale.

The overall percentage of occupied and committed space across our rental properties portfolio was 96.7% at year-end. The average occupancy rate across our office portfolio decreased slightly to 96.6%; however, it is ahead of the national industry average of 93.3%. The average occupancy rate across our industrial portfolio increased to 97.0%. The overall occupancy rates for industrial space in Calgary and Edmonton were 96.9% and 97.2%, respectively (CB Richard Ellis, Canadian Office and Calgary and Edmonton Industrial Market Views, Fourth Quarter 2008). Our occupancy rates discussed in this report include occupied and committed space at December 31, 2008.

(Percentage) December 31	Total portfolio		Comparative properties	
	2008	2007	2008	2007
Office				
British Columbia	96.9	96.8	96.4	96.8
Alberta	96.4	97.7	96.3	97.7
Saskatchewan & NWT	98.2	95.8	98.2	95.8
Ontario	95.2	91.6	93.6	91.6
Total office	96.6	96.7	96.4	96.7
Industrial				
Alberta	97.0	96.7	97.0	99.8
Total industrial	97.0	96.7	97.0	99.8
Overall	96.7	96.7	96.6	97.5

Excludes redevelopment properties and properties held for sale.

Vacancy schedule

The tables below distinguish between space that is currently vacant and space that is committed for future occupancy, and provide a continuity for the vacant space component.

During the fourth quarter, approximately 254,000 square feet of leases expired or were terminated, and we completed approximately 240,000 square feet of renewals and new leasing. An additional 202,000 square feet has been classified as held for sale, resulting in a 158,000 square foot decrease in vacant space. For the year, approximately 1.3 million square feet of leases expired or were terminated, we acquired 55,000 square feet of vacant space and completed approximately 1.3 million square feet of renewals and new leasing. Including the impact of the property classified as held for sale, we experienced a 19,000 square foot increase in vacant space.

Of the vacant space at period-end, approximately 96,000 square feet or 31% has been committed for future occupancy, leaving approximately 218,000 square feet available for lease.

(in square feet)	For the three months ended December 31, 2008		
	Office	Industrial	Total
Available for lease	118,375	167,810	286,185
Vacancy committed for future leases	109,423	75,800	185,223
Vacant space — October 1, 2008	227,798	243,610	471,408
Vacancy on held for sale property	—	(201,500)	(201,500)
Remeasurements	(1,263)	—	(1,263)
Expiries	177,610	16,417	194,027
Early terminations	53,953	5,896	59,849
Bankruptcies	15,541	14,816	30,357
New leases	(117,950)	(17,480)	(135,430)
Renewals	(101,072)	(3,240)	(104,312)
Vacant space — December 31, 2008	254,617	58,519	313,136
Vacancy committed for future leases	85,138	10,440	95,578
Available for lease — December 31, 2008	169,479	48,079	217,558

(in square feet)	For the year ended December 31, 2008		
	Office	Industrial	Total
Available for lease	146,372	60,256	206,628
Vacancy committed for future leases	4,093	83,558	87,651
Vacant space — January 1, 2008	150,465	143,814	294,279
Vacancy on held for sale property	—	(57,600)	(57,600)
Acquired vacancy	54,868	—	54,868
Remeasurements	3,200	—	3,200
Expiries	987,642	246,216	1,233,858
Early terminations	60,144	—	60,144
Bankruptcies	15,541	32,846	48,387
New leases	(372,563)	(196,025)	(568,588)
Renewals	(644,680)	(110,732)	(755,412)
Vacant space — December 31, 2008	254,617	58,519	313,136
Vacancy committed for future leases	85,138	10,440	95,578
Available for lease — December 31, 2008	169,479	48,079	217,558

The following two tables detail our lease maturity profile by asset type and geographic segment as at December 31, 2008. The tables distinguish between those lease maturities that have yet to be renewed or re-leased and those 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.

We have a long and successful track record in managing our lease rollovers. For 2009, approximately 14% of our leases expire, of which 5% have already been renewed by December 31, 2008, leaving 9% to be renewed in 2009. With average market rents well above expiring rents, particularly in Alberta, where the majority of our properties are located, our lease maturity profile affords us the opportunity to take advantage of rental rate uplifts. As a result, we anticipate generating higher cash flow as space is re-leased. In Alberta, the estimated average market rent for our office and industrial space expiring in 2009 is \$15.28 per square foot, significantly higher than our 2009 expiring rents of \$9.76 per square foot. We anticipate this may result in future NOI growth.

(in square feet)	Current vacancy	Current monthly tenancies	2009	2010	2011	2012	2013 and thereafter	Total
Office — uncommitted	169,479	65,082	328,036	687,223	558,463	518,077	2,171,976	4,498,336
Office — committed	—	—	318,417	8,980	41,834	8,348	93,943	471,522
Total office	169,479	65,082	646,453	696,203	600,297	526,425	2,265,919	4,969,858
Industrial — uncommitted	48,079	3,000	264,599	217,847	290,106	314,981	423,591	1,562,203
Industrial — committed	—	—	33,932	14,977	14,100	—	—	63,009
Total industrial	48,079	3,000	298,531	232,824	304,206	314,981	423,591	1,625,212
Total — uncommitted	217,558	68,082	592,635	905,070	848,569	833,058	2,595,567	6,060,539
Total — committed	—	—	352,349	23,957	55,934	8,348	93,943	534,531
Grand total	217,558	68,082	944,984	929,027	904,503	841,406	2,689,510	6,595,070

(in square feet)	Current vacancy	Current monthly tenancies	2009	2010	2011	2012	2013 and thereafter	Total
British Columbia — uncommitted	16,061	9,562	44,819	37,389	71,846	33,255	205,926	418,858
British Columbia — committed	—	—	96,006	—	—	—	—	96,006
Total British Columbia	16,061	9,562	140,825	37,389	71,846	33,255	205,926	514,864
Alberta — uncommitted	151,136	16,623	509,808	733,718	697,347	591,645	1,675,596	4,375,873
Alberta — committed	—	—	63,464	23,957	30,007	8,348	354	126,130
Total Alberta	151,136	16,623	573,272	757,675	727,354	599,993	1,675,950	4,502,003
Saskatchewan & NWT — uncommitted	15,035	41,158	30,723	111,471	71,385	192,882	339,719	802,373
Saskatchewan & NWT — committed	—	—	45,742	—	1,215	—	—	46,957
Total Saskatchewan & NWT	15,035	41,158	76,465	111,471	72,600	192,882	339,719	849,330
Ontario — uncommitted	35,326	739	7,286	22,492	7,991	15,276	374,325	463,435
Ontario — committed	—	—	147,136	—	24,712	—	93,590	265,438
Total Ontario	35,326	739	154,422	22,492	32,703	15,276	467,915	728,873
Grand total	217,558	68,082	944,984	929,027	904,503	841,406	2,689,510	6,595,070

The following tables provide expiring rents across our portfolio as well as our estimate of average market rents based on current leasing activity in comparable properties as at December 31, 2008. Estimated market rents across our portfolio remain well above expiring rents throughout the projection periods.

	Current monthly tenancies	2009	2010	2011	2012	2013 and thereafter
Expiring rents						
Office	\$ 19.44	\$ 14.14	\$ 16.46	\$ 18.85	\$ 21.00	\$ 19.35
Industrial	12.00	5.95	8.40	7.76	6.46	9.88
Portfolio average	19.12	10.45	14.52	15.15	15.65	17.90
Market rents⁽¹⁾						
Office	\$ 24.03	\$ 21.66	\$ 23.97	\$ 23.58	\$ 23.29	\$ 23.11
Industrial	11.00	9.20	12.07	11.96	9.45	9.61
Market rent average	23.45	16.05	21.12	19.70	18.19	21.04

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

	Current monthly tenancies	2009	2010	2011	2012	2013 and thereafter
Expiring rents						
British Columbia	\$ 13.21	\$ 13.02	\$ 13.30	\$ 14.21	\$ 15.50	\$ 17.75
Alberta	19.46	9.76	14.03	14.94	14.03	17.91
Saskatchewan & NWT	20.10	17.07	18.20	16.62	20.70	16.31
Ontario	33.00	17.26	14.35	18.67	17.72	18.95
Portfolio average	19.12	10.45	14.52	15.15	15.65	17.90
Market rents⁽¹⁾						
British Columbia	\$ 15.69	\$ 21.45	\$ 20.59	\$ 17.32	\$ 22.60	\$ 21.93
Alberta	26.63	15.28	21.44	19.55	17.52	22.03
Saskatchewan & NWT	24.00	20.67	20.54	23.21	19.41	16.07
Ontario	22.00	17.99	14.33	20.81	20.72	20.96
Market rent average	23.45	16.05	21.12	19.70	18.19	21.04

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

Our estimate of the 2009 average market rental rates is approximately 54% higher than our expiring rental rates. While this is a positive indicator, the marketplace remains competitive and any uplift in our overall average rent will depend on the specific market and our ability to re-lease the space quickly at the higher rates. The current economic uncertainty has led to some softening in market rates and we may experience further softening of rates throughout 2009; however, given the degree to which our rents are below market, we believe we will still have the opportunity to capture gains.

The average remaining lease term and other portfolio information is detailed below:

December 31	2008 ⁽¹⁾			2007 ⁽¹⁾		
	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent (per sq. ft.) ⁽²⁾	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent (per sq. ft.) ⁽²⁾
Office	4.89	9,544	\$ 17.94	4.08	9,121	\$ 16.30
Industrial	3.39	7,404	7.35	3.50	7,909	6.71
Portfolio average	4.52	8,907	15.30	3.91	8,728	13.49

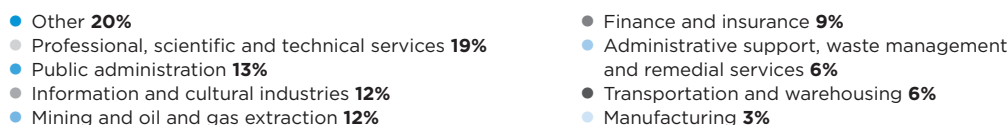
⁽¹⁾ Excludes redevelopment properties and property held for sale.

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

Our tenant base includes a wide range of high-quality tenants, such as the government, large international corporations and small entrepreneurial businesses across the country. With 716 tenants, our risk exposure to any single large lease or tenant is low. The average sizes of our office and industrial tenants are approximately 9,500 and 7,400 square feet, respectively, placing us at the lower end of our peer group. Effectively managing this diverse tenant base has become a key strength and has helped us to maintain consistently high occupancy levels and to continually capitalize on rental rate uplifts.

The following chart illustrates the diversity of our tenant base, broken down by the percentage contribution to total contract rent. Tenants have been classified according to their North American Industry Classification System ("NAICS") codes. NAICS is a system used for classifying the industry in which tenants operate.

TENANT BASE BY PERCENTAGE CONTRIBUTION
TO TOTAL CONTRACT RENT
(AT DECEMBER 31, 2008)



The diversity of our tenant base helps to ensure segments that undergo greater than average stress do not unduly impact us. Much of the Alberta economy is influenced by the oil and gas sector. Since the largest concentration of our portfolio is in Alberta, our greatest area of vulnerability is not necessarily with respect to a specific industry sector as much as it is to the impact of the oil and gas sector on the general economy of Alberta. As discussed elsewhere in this report, our rental rates are sufficiently below market such that if rates soften, we are still well positioned to capture some gains. In addition, we are being very proactive in analyzing our portfolio and tenancies, and are focused on tenant retention and leasing. The manufacturing sector will likely feel the greatest impact of the current economic conditions and fluctuations in the Canadian dollar. As indicated by the chart above, manufacturing comprises only a minor component of our portfolio.

The stability and quality of our cash flow is enhanced by the fact that government and government agencies contribute 17% to our total gross rental revenue. Our ten largest tenants feature both federal and provincial governments as well as other nationally and internationally recognizable and high-quality businesses. The table below sets out our ten largest tenants and outlines their contributions to our rental revenues.

Tenant	Owned area in sq. ft.	% of owned area	% of gross rental revenue	Expiry
TELUS Communications	311,247	4.7	5.9	2013—2016
Government of Canada	272,900	4.1	4.7	2009—2016
Loyalty Management Group	176,566	2.7	3.6	2017
Government of British Columbia	178,345	2.7	3.2	2009—2014
State Street Trust Company	122,344	1.9	3.1	2012
Government of Northwest Territories	117,318	1.8	2.8	2009—2012
Government of Ontario	123,872	1.9	2.5	2009
Government of Saskatchewan	139,529	2.1	2.2	2009—2018
Hatch Optima Ltd.	91,625	1.4	2.0	2011—2016
SNC Lavalin	87,382	1.3	1.6	2012
Total	1,621,128	24.6	31.6	

Liquidity and capital resources

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

The current tightening in the credit markets has forced us to be cautious towards how we approach our debt maturities. We expect that mortgage financing may not be as readily available as it has been in the past and that refinancings may only be available at higher interest rates and that loan-to-value ratios may be lower than previously obtained. To manage these risks we have identified all debt maturities coming due in 2009 and have evaluated the market values of the underlying properties to anticipate any potential cash requirements. We currently have over \$69 million of cash, a further \$55 million available to us through our revolving credit facility and have the ability to raise funds through asset sales. Based on this, we are confident that we have adequate capital resources for 2009 and beyond. Further discussion and information is provided on page 28 under "Financing activities".

The following table details the change in cash and cash equivalents:

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Cash generated from operating activities	\$ 7,266	\$ 9,952	\$ 41,126	\$ 83,967
Cash generated from (utilized in)				
investing activities	(3,942)	(30,045)	(150,865)	925,746
Cash generated from (utilized in)				
financing activities	(30,550)	49,857	141,279	(1,042,983)
Increase (decrease) in cash and cash equivalents	\$ (27,226)	\$ 29,764	\$ 31,540	\$ (33,270)

At December 31, 2008, cash and cash equivalents were \$69.3 million, a decrease of \$27.2 million compared to the third quarter of 2008 and an increase of \$31.5 million compared to December 31, 2007. Funds utilized during the quarter included \$16.4 million utilized to repurchase units pursuant to our normal course issuer bid and \$3.9 million in capital investments in our properties. The increase for the year primarily reflects the completion of new financing activity in the first half of this year. We have an undrawn \$55.0 million revolving credit facility, which is currently available to provide further funding for working capital or as a bridge facility to fund acquisitions. The facility expires on April 30, 2009. Retaining cash is somewhat dilutive to our earnings in the short term; however, we believe that it provides us with flexibility during a time of uncertainty in the lending and capital markets, and gives us the ability to act quickly should we find compelling investment opportunities.

Operating activities

The following table details the cash generated from operating activities:

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Net income	\$ 3,566	\$ 29,224	\$ 10,460	\$ 762,302
Non-cash items:				
Amortization of market rent adjustments on acquired leases	(3,270)	(3,393)	(12,736)	(11,833)
All other depreciation and amortization	13,732	13,287	54,652	83,053
Provision for (reversal of) impairment in value of rental properties	—	(6,298)	—	1,352
Internalization of property manager	—	—	—	1,230
Gain on disposal of rental properties and land held for sale	(336)	(4,968)	(79)	(733,816)
Deferred unit compensation expense	151	—	399	1,177
Future income taxes	221	(15,539)	327	(823)
Straight-line rent adjustment	(298)	(200)	(1,026)	(2,946)
	13,766	12,113	51,997	99,696
Deferred leasing costs incurred	(1,465)	(690)	(4,993)	(5,628)
Change in non-cash working capital	(5,035)	(1,471)	(5,878)	(10,101)
Cash generated from operating activities	\$ 7,266	\$ 9,952	\$ 41,126	\$ 83,967

Cash generated from operations for the quarter decreased relative to the comparative period, mainly reflecting fluctuations in non-cash working capital and leasing costs incurred. For the year, the decrease relative to the comparative period reflects the contribution from the Eastern Portfolio, partially offset by acquisitions.

The amortization of market rent adjustments on acquired leases mainly represents the impact of leases with below-market rents, largely related to certain properties acquired from 2006 to 2008. Below-market leases are recorded as intangible liabilities and are amortized to rental property revenue over the terms of the related leases.

Dundee REIT distributes all taxable earnings to unitholders and as such, under current legislation, the obligation to pay tax rests with each unitholder and no current tax provision is currently required on the majority of Dundee REIT's income. Certain of our Canadian and U.S. subsidiaries are taxable and any tax-related costs are reflected in the consolidated balance sheets and consolidated statements of income and comprehensive income.

The straight-line rent adjustment represents the difference between the straight-line method of rental revenue recognition and the cash rents received. Any cumulative difference is included in accounts receivable.

Deferred leasing costs include fees and related costs, except for initial leasing costs that are included in rental properties, and deferred leasing costs associated with acquisitions. Deferred leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense.

Leasing costs and tenant improvements

Leasing costs include leasing fees and related costs, broker commissions and tenant inducements. Tenant improvements include costs incurred to make leasehold improvements. Leasing costs and tenant improvement expenditures are dependent on asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. Short-term leases generally have lower costs than long-term leases, and leasing costs associated with office space are generally higher than costs associated with industrial space.

For the ongoing properties, leasing costs and tenant improvements for the twelve months ended December 31, 2008, increased 43% to \$7.2 million, while leasing activity increased 45% and resulted in 1.3 million square feet of leased and occupied space. The average leasing costs for office properties during the twelve months was \$6.11 per square foot, reflecting our ability to lease new space and manage renewals without having to incur significant tenant improvement costs. The average leasing cost for industrial space was \$3.28 per square foot leased and occupied during the year, which is in line with our estimates.

Performance indicators	Office	Industrial	Total
Operating activities (continuing portfolio)			
Portfolio size (sq. ft.)	4,969,858	1,625,212	6,595,070
Occupied and committed	96.6%	97.0%	96.7%
Square footage leased and occupied in 2008	1,017,243	306,757	1,324,000
Leasing costs	\$ 3,962	\$ 662	\$ 4,624
Tenant improvements	\$ 2,249	\$ 345	\$ 2,594

Excludes redevelopment properties and properties held for sale.

The table below provides our annualized estimates of expected leasing activity and leasing costs over a two- to three-year time horizon. These estimates are based on our portfolio at December 31, 2008, and assume that market conditions remain consistent with our current experience.

	Office	Industrial
Estimated average annual leasing activity (sq. ft.)	670,000	280,000
Average leasing costs (per sq. ft.)	\$ 8.00	\$ 3.00
Expected average annual leasing costs	\$ 5,360	\$ 840

Other assets and liabilities

Other assets consist of deferred costs, prepaid expenses, intangible assets and liabilities, deposits and restricted cash. Other liabilities consist of intangible liabilities related to leases acquired with below-market rates.

For the year, deferred costs increased \$3.8 million. This change includes an approximate \$6.3 million increase in deferred charges related to acquisitions and \$7.7 million in additional deferred expenditures, less \$10.3 million in amortization. Complete details of deferred costs are provided in Note 5 of the consolidated financial statements.

Intangible assets and liabilities include the value of above- and below-market leases, in-place leases, lease origination costs and tenant relationships. Complete details of these assets and liabilities are provided in Note 8 of the consolidated financial statements. During the year, net intangible assets decreased by \$2.4 million, mainly due to \$18.2 million of amortization, offset by \$15.8 million related to acquisitions. Net intangible liabilities increased \$5.1 million during the year, comprised of approximately \$18.3 million related to acquisitions offset by \$13.2 million in amortization expense.

Deposits represent cash amounts held for the repayment of tenant security deposits as required by various lending agreements and deposits for potential acquisitions. As of December 31, 2008, the balance decreased \$2.6 million to nearly \$nil from December 31, 2007, mainly due to acquisition deposits applied during the year.

Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages. As of December 31, 2008, the balance is \$3.2 million, a decrease of \$0.9 million from December 31, 2007.

Commitments and contingencies

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

Our future minimum commitments under operating and capital leases are as follows:

Year ending December 31	Operating lease payments	Capital lease payments
2009	\$ 941	\$ 142
2010	829	142
2011	818	106
2012	763	—
2013	649	—
Total	\$ 4,000	\$ 390

Funds from operations

Management believes FFO is an important measure of our operating performance. This non-GAAP measurement is the most 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.

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Net income	\$ 3,566	\$ 29,224	\$ 10,460	\$ 762,302
Add (deduct):				
Depreciation of rental properties	6,993	6,193	27,106	42,984
Amortization of deferred leasing costs, tenant improvements and intangibles	6,621	7,286	27,109	40,942
Imputed amortization of leasing costs related to the rent supplement	—	6	17	234
Internalization of property manager	—	—	—	1,230
Gain on disposal of rental property and land held for sale	(336)	(4,968)	(79)	(733,816)
Provision for (reversal of) impairment in value of rental property	—	(6,298)	—	1,352
Future income tax	221	(15,539)	327	(823)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(80)	(77)	(288)	(166)
Income tax expense incurred as a result of the Transaction	—	300	—	300
FFO	\$ 16,985	\$ 16,127	\$ 64,652	\$ 114,539
FFO per unit — basic	\$ 0.82	\$ 0.76	\$ 3.06	\$ 3.00
FFO per unit — diluted	\$ 0.80	\$ 0.76	\$ 3.01	\$ 2.95

FFO per unit was \$0.82 for the quarter and \$3.06 for the year, representing increases of 8% and 2%, respectively, compared to the same periods in 2007. The 5% increase in FFO to \$17.0 million in the quarter is due to NOI growth from comparative properties and growth from acquisitions. The decrease for the year reflects the impact of the sale of the Eastern Portfolio in 2007, offset by revenue generated by acquisitions as well as benefits from rising rental rates. Below-market rents, which result in a non-cash amortization to our operating results, contributed \$3.4 million and \$13.2 million to FFO in the quarter and year, respectively.

Diluted FFO per unit amounts assume the conversion of the 6.5%, 5.7% and 6.0% Debentures. The weighted average number of units outstanding for basic and diluted FFO calculations for the quarter are 20,720,901 and 24,144,476, respectively. For the year, the weighted average number of units outstanding for basic and diluted FFO calculations are 21,111,728 and 24,442,520, respectively. Diluted FFO includes interest and amortization adjustments of \$2.3 million and \$8.9 million for the quarter and year, respectively. The basic and diluted weighted average number of units outstanding include 270,295 vested deferred trust units for the three-month period and 269,769 for the twelve-month period.

Distributions and distributable income

Our Declaration of Trust provides our trustees with the discretion to determine the percentage payout of distributable 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 deferred 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. Additionally, we exclude the impact of the amortization of deferred financing 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, office equipment and building improvement costs incurred after the formation of the Trust.

Distributable income

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Cash generated from operating activities	\$ 7,266	\$ 9,952	\$ 41,126	\$ 83,967
Add (deduct):				
Deferred leasing costs incurred	1,465	690	4,993	5,628
Amortization of deferred financing costs incurred prior to June 30, 2003	21	20	67	269
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	(7)	(4)	(7)	31
Amortization of tenant inducements	68	25	199	113
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(80)	(77)	(289)	(166)
Amortization of deferred financing costs	(309)	(57)	(1,256)	(938)
Change in non-cash working capital	5,035	1,471	5,878	10,101
Income tax expense incurred as a result of the Transaction	—	300	—	300
Distributable income	\$ 13,459	\$ 12,320	\$ 50,711	\$ 99,305
Distributable income per unit — basic	\$ 0.65	\$ 0.58	\$ 2.40	\$ 2.60
Distributable income per unit — diluted	\$ 0.65	\$ 0.58	\$ 2.40	\$ 2.57
Distributions per unit	\$ 0.55	\$ 0.55	\$ 2.20	\$ 2.20

Distributable income is not defined by GAAP and therefore may not be comparable to similar measures presented by other real estate investment trusts. Distributable income is defined in our Declaration of Trust to facilitate the determination of distributions to our unitholders. In compliance with the Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", our table reconciles distributable income to cash generated from operating activities.

For the twelve-month period ended December 31, 2008, distributable income per unit was \$2.40 and declared distributions per unit were \$2.20, representing a 92% payout ratio. In the prior year comparative period, distributable income per unit was \$2.60 and declared distributions per unit were \$2.20, representing an 85% payout ratio. Distributable income exceeds distributions paid and payable by \$2.2 million for the quarter and \$4.6 million for the year. We retain a portion of our distributable income in order to fund capital requirements related to leasing, rental property improvements and working capital.

Distributions

The distributions presented in the table below comprise \$37.5 million relating to REIT A Units, \$1.0 million relating to REIT B Units and \$7.7 million relating to LP B Units. Prior to June 28, 2007, cash distributions were only paid to holders of the REIT A Units as there were no REIT B Units outstanding, and all of the LP B Units were enrolled in the DRIP.

	Declared distributions	4% additional distributions	Total
2008 distributions			
Paid in cash or reinvested in units	\$ 42,019	\$ 334	\$ 42,353
Payable at December 31, 2008	3,737	12	3,749
Total distributions	\$ 45,756	\$ 346	\$ 46,102
2008 reinvestment			
Reinvested to December 31, 2008	\$ 8,337	\$ 334	\$ 8,671
Reinvested on January 15, 2009	307	12	319
Total distributions reinvested	\$ 8,644	\$ 346	\$ 8,990
Distributions paid in cash	\$ 37,112		
Reinvestment to distribution ratio	18.9%		
Cash distribution payout ratio	81.1%		

Distributions declared during the year totalled \$45.8 million, down \$33.8 million over the comparative period mainly as a result of the redemption of outstanding units in connection with the sale of the Eastern Portfolio. Of this amount, \$8.6 million, or 19%, was reinvested in additional units and our cash payout ratio for distributions was 81%.

Effective July 6, 2007, the Canadian Securities Administrators announced amendments to National Policy 41-201, "Income Trusts and Other Indirect Offerings", providing additional guidance with respect to disclosure around distributable cash. 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.

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Net income	\$ 3,566	\$ 29,224	\$ 10,460	\$ 762,302
Cash flow from operating activities	7,266	9,952	41,126	83,967
Distributions paid and payable	11,225	11,450	46,102	80,008
Excess (shortfall) of cash flow from operating activities over cash distributions	(3,959)	(1,498)	(4,976)	3,959

For the year, distributions paid and payable exceed cash from operations as a result of changes in non-cash working capital balances and leasing costs incurred. In establishing distribution payments, we do not take fluctuations in working capital into consideration and use a normalized amount as a proxy for leasing costs. We do not expect cash distributions to exceed cash flow from operating activities in the future, other than for changes in non-cash working capital balances.

Distributions paid and payable exceeded net income by \$7.7 million and \$35.6 million for the quarter and year, respectively. This excess was mainly a result of non-cash depreciation and amortization expense, which are not considered in determining our cash distribution policy.

Adjusted funds from operations

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Distributable income	\$ 13,459	\$ 12,320	\$ 50,711	\$ 99,305
Adjusted for:				
Normalized leasing costs and tenant improvements	(1,514)	(1,149)	(6,056)	(10,732)
Normalized non-recoverable recurring capital expenditures	(200)	(117)	(800)	(1,089)
AFFO	\$ 11,745	\$ 11,054	\$ 43,855	\$ 87,484
AFFO per unit — basic	\$ 0.57	\$ 0.52	\$ 2.08	\$ 2.29

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. Please see our description of distributable income on page 24, which reconciles distributable income to cash flow from operating activities.

Our calculation of AFFO starts with our distributable income and then deducts an estimate of normalized non-recoverable maintenance capital expenditures, leasing costs and tenant improvements that we expect to incur based on our current portfolio and expected average leasing activity. Our estimates of normalized leasing costs and tenant improvements 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 2007, adjusted for properties that have been sold. Our estimates of normalized non-recoverable capital expenditures are based on our expected average expenditures for our current property portfolio. This estimate will differ from actual experience due to the timing of expenditures and any growth in our business resulting from property acquisitions.

AFFO per unit was \$0.57 for the quarter, representing an increase of 10% compared to the same period in 2007, due to strong performance from our properties as well as our property management function. For the year, AFFO per unit decreased 9%, mainly due to the loss of contribution from properties that were disposed of as part of the Transaction in 2007.

Investing activities

The following table details our cash utilized in investing activities.

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Investment in rental properties	\$ (2,897)	\$ (1,647)	\$ (5,843)	\$ (11,295)
Investment in tenant improvements	(889)	(656)	(2,731)	(6,424)
Investment in land development	—	(138)	—	(3,111)
Acquisition of rental properties	—	(43,004)	(155,348)	(560,324)
Acquisition deposit on rental properties	—	(1,700)	—	(2,600)
Investment in mezzanine loan	—	(102)	—	(570)
Receipt of mezzanine loan	—	4,020	—	4,020
Repayment (issuance) of promissory note	—	(11,747)	12,116	(11,747)
Net proceeds from disposal of rental properties and land held for sale	—	24,740	—	1,516,385
Change in restricted cash, net	(156)	189	941	1,412
Cash generated from (utilized in) investing activities	\$ (3,942)	\$ (30,045)	\$ (150,865)	\$ 925,746

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

Performance indicators	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Investing activities				
Acquisition of rental properties	\$ —	\$ 52,461	\$ 160,772	\$ 665,478
Building improvements	2,973	1,615	5,784	10,575

Acquisitions

During the year, we acquired a 100% interest in two office properties, comprising 386,500 square feet and a 33% interest in an office property of which our share comprised 118,800 square feet.

Repayment of promissory note

During the year, we received \$12.1 million as repayment of mortgages related to the sale of our interests in two joint venture projects in 2007.

Building improvements

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Building improvements:				
Recurring recoverable	\$ 2,381	\$ 404	\$ 4,315	\$ 4,236
Recurring non-recoverable	20	2	179	1,562
Non-recurring	572	1,209	1,290	4,777
Total	\$ 2,973	\$ 1,615	\$ 5,784	\$ 10,575

Building improvements represent investments in our rental properties and ensure our buildings are operating at an optimal level. For the three-month period, capital expenditures or expenditures accrued for rental property building improvements and equipment were \$3.0 million (December 31, 2007 — \$1.6 million). Non-recurring expenditures were \$0.6 million in the quarter. For the twelve-month period, capital expenditures or expenditures accrued for rental property building improvements and equipment were \$5.8 million (December 31, 2007 — \$10.6 million) and included non-recurring expenditures of \$1.3 million (December 31, 2007 — \$4.8 million). Anticipated non-recoverable capital expenditures associated with acquisitions completed during the year are expected to be approximately \$0.8 million and will be incurred over the next two to three years. These expenditures were factored into the acquisition purchase prices.

Purchase obligations

The Trust is party to a co-ownership agreement that includes typical rights of the co-owners for dispute resolution and a one-time put option exercisable by its co-owner. The put requires us to purchase the remaining 50% of the building, effective April 1, 2009, at the price paid by the Trust for its initial 50% interest in the property. On January 23, 2009, the put was exercised and the Trust will purchase its partner's interest in the building, located in Toronto, for \$25.4 million and assume debt of approximately \$20.6 million.

The Trust has entered into an agreement to purchase, from a former joint venture partner, an office building, currently under construction, at a future date for \$20.8 million with maximum adjustments to the closing price of \$0.5 million. The closing date will be determined when the vendor notifies the Trust that the building is substantially complete, at which time the Trust is permitted 20 days for due diligence.

Financing activities

We finance the ownership of our assets using equity as well as conventional mortgage financing, term debt, floating rate credit facilities and convertible debentures. Our debt strategy includes managing our maturity schedule to help mitigate interest rate risk and limit exposure in any given year as well as fixing the rates and extending loan terms as long as possible when interest rates are favourable. We are actively monitoring our debt maturities coming due in 2009. Based on our current portfolio and the put right exercised by one of our partners, we have \$94.9 million of mortgages coming due in 2009, of which \$32.3 million mature in the second quarter of 2009 with the remaining \$62.6 million maturing in the third quarter. We have commenced assessing market values of the underlying properties to determine whether the implied loan-to-value ratios will expose us to significant repayment obligations. We presently do not anticipate any liquidity issues related to our debt maturities.

The following table details our cash generated from financing activities.

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Deferred trust and income units cancelled	\$ —	\$ —	\$ —	\$ (5,492)
Mortgages placed, net of costs	—	155,093	95,312	391,266
Mortgage principal repayments	(3,758)	(2,784)	(13,934)	(24,896)
Mortgage lump sum repayments	—	(47,205)	(508)	(68,983)
Term debt principal repayments	(18)	21	(106)	(65)
Term debt lump sum repayments	—	(6,921)	—	(6,921)
Term debt placed, net of costs	—	6	—	84
Convertible debentures issued, net of costs	—	—	119,200	—
Demand revolving credit facility, net	—	(36,901)	—	—
Distributions paid on units	(10,358)	(11,442)	(37,501)	(70,534)
Purchase of REIT A Units under normal course issuer bid	(16,428)	—	(21,798)	—
Redemption of units	—	—	—	(1,420,980)
Units issued, net of costs	12	(10)	614	163,538
Cash generated from (utilized in) financing activities	\$ (30,550)	\$ 49,857	\$ 141,279	\$ (1,042,983)

Debt

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

December 31	2008	2007
Financing activities		
Average interest rate	5.83%	5.76%
Interest coverage ratio ⁽¹⁾	2.3 times	2.5 times
Proportion of total debt due in one year	10.2%	4.8%
Debt — average term to maturity (years)	5.5	6.1
Variable rate debt as percentage of total debt	5.9%	2.4%

⁽¹⁾ Interest coverage ratio is calculated as NOI from continuing operations plus interest and fee income, less general and administrative expense from continuing operations, divided by interest expense.

We currently use cash flow performance indicators including the interest coverage ratio to assess our ability to meet our financing obligations. Previously, we also evaluated our level of debt as a percentage of enterprise value but no longer believe this indicator to be meaningful as the market value of our units are currently not reflective of the underlying value of our properties.

Our Declaration of Trust requires that we maintain an interest coverage ratio of no less than 1.4 times. Our current interest coverage ratio is 2.3 times, and reflects our ability to cover interest expense requirements. The slight decline in the ratio from December 31, 2007, reflects the 6.0% Debentures issued in January 2008, new financings completed during the year, as well as the impact of undeployed cash. Our average interest rate as at December 31, 2008, was 5.83%, an increase over the start of the year, again mainly reflecting the impact of the 6.0% Debentures, which have an effective rate of 7.08%.

Variable rate debt as a percentage of total debt increased to 5.9%, largely as a result of the \$31.3 million financing placed on the acquisition of IBM Corporate Park in the second quarter.

December 31	2008			2007		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 692,028	\$ 51,039	\$ 743,067	\$ 651,844	\$ 16,344	\$ 668,188
Term debt	345	—	345	451	—	451
6.5% Debentures	3,277	—	3,277	3,857	—	3,857
5.7% Debentures	7,703	—	7,703	7,983	—	7,983
6.0% Debentures	117,922	—	117,922	—	—	—
Total	\$ 821,275	\$ 51,039	\$ 872,314	\$ 664,135	\$ 16,344	\$ 680,479
Percentage	94.1%	5.9%	100%	97.6%	2.4%	100%

Mortgages payable include \$3.8 million of fair value adjustments on mortgages assumed in connection with acquisitions (December 31, 2007 — \$4.8 million). Amounts recorded as at December 31, 2008, for the 6.5%, 5.7% and 6.0% Debentures are net of \$2.0 million of premiums allocated to their conversion features. The fair value adjustments and premiums are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

Debt financing activity

During the year, we placed \$95.7 million of new mortgages with an average term to maturity of 7.8 years and a weighted average interest rate of 5.22%, and assumed a mortgage of approximately \$2.1 million in connection with an acquisition, with a term to maturity of 2.5 years and an interest rate of 5.11%. Effective January 14, 2008, we completed the public offering of \$125.0 million principal amount of convertible unsecured subordinated debentures with a coupon rate of 6.0% per annum, payable semi-annually on June 30 and December 31 and due on December 31, 2014 (the “6.0% Debentures”). The \$2.2 million of principal relating to the conversion feature was classified as a component of unitholders’ equity. In addition, there were \$5.8 million of financing costs that, along with the equity component, are deferred and amortized using the effective interest rate method over the term of the debt, resulting in an effective interest rate of 7.08%. As a result of these financing activities, our overall average interest rate increased to 5.8%.

On June 30, 2008, we renewed our demand revolving credit facility. The facility is available up to a formula-based maximum of \$55.0 million, of which \$55.0 million was available at December 31, 2008, bearing interest generally at the bank prime rate (3.50% as at December 31, 2008) plus 0.5%, or bankers’ acceptance rates plus 1.875%. The facility, which expires on April 30, 2009, is secured by a first-ranking collateral mortgage on four properties and a second-ranking collateral mortgage on one property. As at December 31, 2008, the facility was undrawn.

For the upcoming year, we anticipate the current uncertainty in the credit markets will have an impact on interest rates and the level of debt that can be placed on a property. The risk remains that we may be unable to refinance our mortgage debt at the same amounts and interest rates as were in place at maturity, however, we currently have over \$69 million of cash and up to \$55 million available from our revolving line of credit that, along with cash generated from operations, gives us the flexibility to deal with any unforeseen situations related to mortgage refinancing.

Changes in debt levels are as follows:

For the three months ended December 31, 2008				
	Mortgages	Term debt	Convertible debentures	Total
Debt as at September 30, 2008	\$ 755,696	\$ 363	\$ 128,512	\$ 884,571
Transferred to liabilities held for sale	(11,381)	—	—	(11,381)
Scheduled repayments	(3,759)	(18)	—	(3,777)
Conversion to unit equity	—	—	(25)	(25)
Amortization and other adjustments	2,511	—	415	2,926
Debt as at December 31, 2008	\$ 743,067	\$ 345	\$ 128,902	\$ 872,314

For the year ended December 31, 2008				
	Mortgages	Term debt	Convertible debentures	Total
Debt as at December 31, 2007	\$ 668,188	\$ 451	\$ 11,840	\$ 680,479
Transferred to liabilities held for sale	(11,381)	—	—	(11,381)
New debt assumed on rental property acquisition	2,111	—	—	2,111
New debt placed	95,733	—	125,000	220,733
Scheduled repayments	(13,935)	(106)	—	(14,041)
Lump sum repayments	(508)	—	—	(508)
Conversion to unit equity	—	—	(1,115)	(1,115)
Amortization and other adjustments	2,859	—	(6,823)	(3,964)
Debt as at December 31, 2008	\$ 743,067	\$ 345	\$ 128,902	\$ 872,314

	Debt maturities	Scheduled principal repayments on non-matured debt	Amount	%	Weighted average interest rate on balance due at maturity %	Weighted average face rate on balance due at maturity %
2009	\$ 74,264	\$ 14,917	\$ 89,181	10.2	5.90	5.95
2010	5,867	15,555	21,422	2.4	5.24	5.24
2011	71,987	15,312	87,299	9.9	6.01	6.79
2012	89,903	13,241	103,144	11.8	5.58	5.47
2013	102,480	10,118	112,598	12.8	5.48	5.86
2014 and thereafter	435,789	28,781	464,570	52.9	5.99	5.66
Total	\$ 780,290	\$ 97,924	878,214	100.0		5.79
Fair value adjustments			1,747			
Deferred financing costs			(7,647)			
Total			\$ 872,314			

Convertible debentures

In the twelve-month period, we issued 41,312 REIT A Units upon the conversion of \$1.1 million of the principal amount of 6.5% and 5.7% Debentures.

With respect to the 6.5% Debentures, we issued 24,920 REIT A Units upon the conversion of \$0.6 million of the principal amount. The total principal outstanding at January 31, 2009, was \$3.5 million, and is convertible into 139,520 REIT A Units. With respect to the 5.7% Debentures, we issued 16,392 REIT A Units upon the conversion of \$0.5 million of the principal amount. The total principal outstanding at January 31, 2009, was \$7.8 million, and is convertible into approximately 260,200 REIT A Units. There were no conversions during the year related to the 6.0% Debentures. The total principal outstanding at January 31, 2009, was \$136.3 million and is convertible into approximately 3,419,043 REIT A Units.

Exercise of put option

As discussed under "Investing activities" on page 27, we will be required to assume approximately \$20.6 million of mortgage debt on the purchase of a 50% interest in an office property located in Toronto. The debt carries an effective interest rate of 7.0% and matures on September 1, 2009. The effective date for the transaction is expected to be April 1, 2009.

Equity

The following table summarizes the changes in our outstanding equity:

	REIT Units, Series A	REIT Units, Series B	LP Class B Units, Series 1	Total
Units issued and outstanding on December 31, 2007	17,072,154	476,316	3,315,349	20,863,819
Units issued pursuant to DRIP	166,960	—	138,839	305,799
Unit Purchase Plan	23,222	—	—	23,222
Units issued pursuant to Deferred Unit Incentive Plan	10,492	—	—	10,492
Conversion of 6.5% Debentures	24,920	—	—	24,920
Conversion of 5.7% Debentures	16,392	—	—	16,392
Purchase of units under normal course issuer bid	(826,900)	—	—	(826,900)
Purchase of REIT B Units and subsequent conversion to REIT A Units by DRC	460,000	(460,000)	—	—
Total units outstanding on December 31, 2008	16,947,240	16,316	3,454,188	20,417,744
Percentage of all units	83.0%	0.1%	16.9%	100.0%
Units issued pursuant to DRIP on January 15, 2008	27,218	—	—	27,218
Unit Purchase Plan	85	—	—	85
Units issued pursuant to Deferred Unit Incentive Plan	233,293	—	—	233,293
Total units outstanding on January 31, 2009	17,207,836	16,316	3,454,188	20,678,340
Percentage of all units	83.2%	0.1%	16.7%	100.0%

Normal course issuer bid

For the period September 5, 2007, to September 4, 2008, Dundee REIT had the ability to purchase for cancellation up to a maximum of 1,359,844 REIT A Units (representing 10% of the REIT's public float of 13,598,446 REIT A Units on August 30, 2007) through the facilities of the TSX. Under this bid, 174,000 REIT A Units were purchased for consideration of \$5.4 million, including 171,000 units acquired during the third quarter.

Pursuant to the September 23, 2008 renewal of its normal course issuer bid, the Trust purchased 652,900 units for consideration of \$16,428. Under the bid, Dundee REIT has the ability to purchase for cancellation up to a maximum of 1,326,762 REIT A Units (representing 10% of the REIT's public float of 13,267,620 REIT A Units on September 23, 2008) through the facilities of the TSX. The bid commenced on September 26, 2008, and will remain in effect until the earlier of September 25, 2009, or the date on which the Trust has purchased the maximum number of units permitted under the bid. As of December 31, 2008, the maximum number of REIT A Units remaining for purchase under the bid is 673,862. Based on the closing price of the REIT A Units on December 31, 2008, the Trust may purchase up to \$8,491 worth of REIT A Units.

OUR RESULTS OF OPERATIONS

	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Revenues				
Rental properties revenue	\$ 50,419	\$ 42,697	\$ 187,461	\$ 154,213
Interest and fee income	788	1,023	3,702	2,941
	51,207	43,720	191,163	157,154
Expenses				
Rental properties operating expenses	19,118	15,888	69,742	55,163
Interest	12,869	9,963	49,103	37,394
Depreciation of rental properties	6,935	6,128	26,873	23,155
Amortization of deferred leasing costs, tenant improvements and intangibles	6,619	7,280	27,102	23,323
General and administrative	1,876	1,534	6,740	7,600
	47,417	40,793	179,560	146,635
Income before the undernoted items	3,790	2,927	11,603	10,519
Internalization of property manager	—	—	—	(1,230)
Gain on disposal of rental property	—	—	—	2,328
Reversal of (provision for) impairment in value of rental property	—	6,298	—	(1,352)
Income before income taxes	3,790	9,225	11,603	10,265
Income taxes				
Current income taxes	9	8	13	30
Future income taxes	221	(15,539)	327	(823)
	230	(15,531)	340	(793)
Income before discontinued operations	3,560	24,756	11,263	11,058
Discontinued operations	6	4,468	(803)	751,244
Net income	\$ 3,566	\$ 29,224	\$ 10,460	\$ 762,302

Income statement results

Rental properties revenue

Revenues include net rental or basic income from rental properties as well as the recovery of operating costs and property taxes from tenants. Additional revenue generated by acquisitions completed in 2007 and 2008 drove a \$7.7 million, or 18%, increase in rental property revenue over the comparative quarter.

Interest and fee income

Interest and fee income represents amounts for items such as fees earned from third-party property management including management, construction and leasing fees, and interest on bank accounts and related fees. These revenues and expenses are not necessarily of a recurring nature and the amounts will vary from quarter to quarter. The \$0.2 million decrease over the comparative quarter is mainly a result of investing undeployed cash in bankers' acceptances and Government of Canada treasury bills.

Rental properties operating expenses

Operating expenses mainly comprise occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing. Operating expenses fluctuate with occupancy levels, weather, utility costs, taxes, and repairs and maintenance. Expenses for the quarter increased \$3.2 million, or 20%, mainly reflecting the additional costs associated with acquired properties.

Interest expense

Interest expense for the quarter increased \$2.9 million over the comparative quarter, reflecting new mortgage debt placed in the second and third quarters and the 6.0% Debentures issued during the first quarter. The interest coverage ratio, which reflects our ability to cover our interest expense requirements, remains strong at 2.3 times for the twelve-month period.

Depreciation of rental properties

Acquisitions completed over the past year have led to a \$0.8 million, or 13%, increase in depreciation over the comparative period.

Amortization of deferred leasing costs, tenant improvements and intangibles

Amortization decreased \$0.7 million, or 9%, over the comparative quarter, which is mainly dependent on the timing of lease expiries.

General and administrative expenses

General and administrative expenses primarily comprise the expenses related to corporate management, trustees' fees and expenses, and investor relations. Expenses for the quarter were \$1.9 million, an increase of \$0.3 million or 22% over the comparative period, mainly resulting from consulting fees relating to reorganization planning of our 50% interest in the partnership that owns TELUS Tower in Calgary, as well as increases in the asset management fee on properties acquired during the year.

Income tax expense

Dundee REIT distributes or designates all taxable earnings to unitholders and as such, under current legislation, the obligation to pay tax rests with each unitholder and no tax provision is currently required on the majority of Dundee REIT's income. Certain of our Canadian and U.S. subsidiaries are taxable and any tax-related costs are reflected in the consolidated balance sheets and consolidated statements of net income.

For the period ended June 30, 2007, the Trust did not meet the technical REIT exception. Consequently, a future income tax liability in the amount of \$40.0 million was recorded as at June 30, 2007, based on the temporary differences that were expected to reverse on or after January 1, 2011. The future income tax liability was recorded as a charge to the consolidated statements of net income and comprehensive income for the period ended June 30, 2007. During the quarter ended September 30, 2007, a future income tax liability in the amount of \$25.0 million relating to assets sold during the quarter was reversed.

In December 2007, we modified our organizational structure in order to qualify as a "real estate investment trust" and meet the REIT exception pursuant to the June 12, 2007 amendments to the *Income Tax Act* which changed the tax treatment of certain publicly traded trusts, specified investment flow-through trusts or partnerships. As a result, the Trust met the REIT exception as at December 31, 2007, and accordingly, all the future tax liability previously recorded was reversed as a recovery through the consolidated statements of net income and comprehensive income.

Discontinued operations

Discontinued operations include assets that have been categorized as held for sale or sold and meet specific criteria as discontinued assets in accordance with GAAP. These operations are disclosed separately on the consolidated statements of net income. Discontinued operations for the quarter primarily reflect net gains on the revision of our prior year cost estimates associated with properties that were part of the sale of the Eastern Portfolio as well as the results of an industrial property classified as held for sale.

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. Effective August 24, 2007, Dundee REIT entered into 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 as disclosed in Note 19 to the consolidated financial statements. Dundee Management Limited Partnership ("DMLP") and DRC have extended the term of the DRC Services Agreement until June 30, 2013. During the quarter, we received \$1.9 million related to the DRC Services Agreement and paid \$6.2 million related to the Asset Management Agreement.

In the second quarter of 2006, we purchased the remaining 50% interest of DMLP in exchange for 100,000 LP B Units and fully internalized our property management function. The cost of these units was expensed and added to cumulative capital in 2006 and 2007.

Net operating income

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

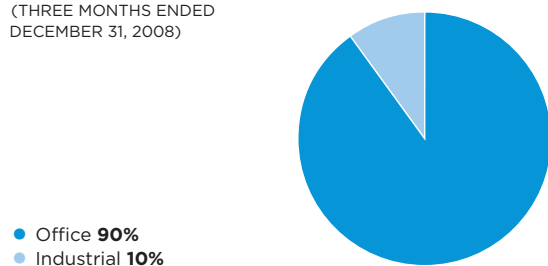
	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Net income	\$ 3,566	\$ 29,224	\$ 10,460	\$ 762,302
Add (deduct):				
Interest expense	12,869	9,963	49,103	37,394
Depreciation of rental properties	6,935	6,128	26,873	23,155
Amortization of deferred leasing costs, tenant improvements and intangibles	6,619	7,280	27,102	23,323
General and administrative expenses	1,876	1,534	6,740	7,600
Net gain on disposal of rental property, land held for sale and impairment reversal	—	(6,298)	—	(976)
Internalization of property manager	—	—	—	1,230
Interest and fee income	(788)	(1,023)	(3,702)	(2,941)
Income taxes	230	(15,531)	340	(793)
Depreciation, amortization, interest and loss on disposal, included in discontinued operations	(126)	(4,437)	773	(668,398)
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 26,840	\$ 117,689	\$ 181,896

We define NOI as the total of rental property revenues, including property management income, less rental property operating expenses. NOI, before redevelopment and discontinued operations, increased 17% and 19% for the quarter and the year, respectively, over the comparative period. The increase is attributable to strong comparable property growth and income generated by properties acquired in 2007 and 2008. Discontinued operations mainly reflects the contribution of the Eastern Portfolio in 2007 and the classification of an industrial property as held for sale in the current quarter.

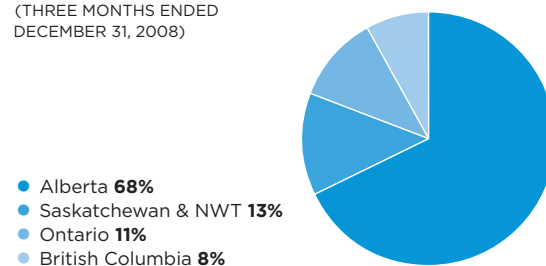
	For the three months ended December 31				For the year ended December 31			
	2008	2007	Growth		2008	2007	Growth	
			Amount	%			Amount	%
Office	\$ 27,712	\$ 23,468	\$ 4,244	18	\$ 103,867	\$ 85,595	\$ 18,272	21
Industrial	3,044	2,910	134	5	11,962	11,576	386	3
NOI	30,756	26,378	4,378	17	115,829	97,171	18,658	19
Redevelopment	545	431	114		1,890	1,879	11	
Discontinued operations	(120)	31	(151)		(30)	82,846	(82,876)	
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 26,840	\$ 4,341	16	\$ 117,689	\$ 181,896	\$(64,207)	(35)

	For the three months ended December 31				For the year ended December 31			
	2008	2007	Growth		2008	2007	Growth	
			Amount	%			Amount	%
British Columbia	\$ 2,411	\$ 1,929	\$ 482	25	\$ 9,200	\$ 6,702	\$ 2,498	37
Alberta	20,871	18,919	1,952	10	78,792	68,238	10,554	15
Saskatchewan & NWT	4,211	3,546	665	19	15,266	14,242	1,024	7
Ontario	3,263	1,984	1,279	64	12,571	7,989	4,582	57
NOI	30,756	26,378	4,378	17	115,829	97,171	18,658	19
Redevelopment	545	431	114		1,890	1,879	11	
Discontinued operations	(120)	31	(151)		(30)	82,846	(82,876)	
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 26,840	\$ 4,341	16	\$ 117,689	\$ 181,896	\$(64,207)	(35)

NOI BY SEGMENT
(THREE MONTHS ENDED
DECEMBER 31, 2008)



NOI BY REGION
(THREE MONTHS ENDED
DECEMBER 31, 2008)



NOI comparative portfolio

NOI shown below details comparative and non-comparative items to assist in understanding the impact each component has on NOI. The comparative properties disclosed in the following tables are properties acquired prior to January 1, 2007. Discontinued operations contributing to NOI in comparative periods are shown separately to conform to the required income statement presentation. Discontinued operations in 2007 primarily comprise the Eastern Portfolio. Comparative NOI and acquisitions exclude GAAP adjustments that relate to straight-line rents and amortization of market rent adjustments on acquired leases.

	For the three months ended December 31				For the year ended December 31			
	2008	2007	Growth		2008	2007	Growth	
			Amount	%			Amount	%
Office	\$ 16,848	\$ 15,743	\$ 1,105	7	\$ 64,163	\$ 62,807	\$ 1,356	2
Industrial	3,036	2,850	186	7	11,826	11,271	555	5
Comparative properties	19,884	18,593	1,291	7	75,989	74,078	1,911	3
Acquisitions	7,384	4,206	3,178		26,264	11,065	15,199	
Rent supplement	—	22	(22)		34	86	(52)	
GAAP adjustments	3,488	3,557	(69)		13,542	11,942	1,600	
NOI	30,756	26,378	4,378	17	115,829	97,171	18,658	19
Redevelopment	545	431	114		1,890	1,879	11	
Discontinued operations	(120)	31	(151)		(30)	82,846	(82,876)	
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 26,840	\$ 4,341	16	\$ 117,689	\$ 181,896	\$(64,207)	(35)

	For the three months ended December 31				For the year ended December 31			
	2008	2007	Growth		2008	2007	Growth	
			Amount	%			Amount	%
British Columbia	\$ 1,246	\$ 1,134	\$ 112	10	\$ 4,980	\$ 4,901	\$ 79	2
Alberta	12,849	11,962	887	7	49,135	47,144	1,991	4
Saskatchewan & NWT	4,129	3,495	634	18	14,955	13,993	962	7
Ontario	1,660	2,002	(342)	(17)	6,919	8,040	(1,121)	(14)
Comparative properties	19,884	18,593	1,291	7	75,989	74,078	1,911	3
Acquisitions	7,384	4,206	3,178		26,264	11,065	15,199	
Rent supplement	—	22	(22)		34	86	(52)	
GAAP adjustments	3,488	3,557	(69)		13,542	11,942	1,600	
NOI	30,756	26,378	4,378	17	115,829	97,171	18,658	19
Redevelopment	545	431	114		1,890	1,879	11	
Discontinued operations	(120)	31	(151)		(30)	82,846	(82,876)	
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 26,840	\$ 4,341	16	\$ 117,689	\$ 181,896	\$(64,207)	(35)

Comparative office NOI increased \$1.1 million or 7%, and \$1.4 million or 2% for the quarter and the year, respectively, reflecting increases in rental rates on renewals, contractual rent increases as well as occupancy increases in all markets in Western Canada. Comparative industrial NOI increased \$0.2 million or 7% and \$0.6 million or 5% for the quarter and year, respectively, compared to 2007, mainly as a result of increased rental rates. The decrease in Ontario reflects vacant space that has been leased and partially occupied in the fourth quarter of 2008.

Comparative office portfolio

	For the three months ended December 31				For the year ended December 31			
	2008	2007	Growth		2008	2007	Growth	
			Amount	%			Amount	%
British Columbia	\$ 1,246	\$ 1,134	\$ 112	10	\$ 4,980	\$ 4,901	\$ 79	2
Alberta	9,813	9,112	701	8	37,309	35,873	1,436	4
Saskatchewan & NWT	4,129	3,495	634	18	14,955	13,993	962	7
Ontario	1,660	2,002	(342)	(17)	6,919	8,040	(1,121)	(14)
Comparative properties	16,848	15,743	1,105	7	64,163	62,807	1,356	2
Acquisitions	7,384	4,206	3,178		26,264	11,065	15,199	
Rent supplement	—	22	(22)		34	86	(52)	
GAAP adjustments	3,480	3,497	(17)		13,406	11,637	1,769	
Office NOI	\$ 27,712	\$ 23,468	\$ 4,244	18	\$ 103,867	\$ 85,595	\$ 18,272	21

Our comparative office portfolio remains well occupied, with all markets reporting committed occupancy in excess of 95%. NOI for the quarter and year increased 7% and 2%, respectively. This improvement is a result of occupancy increases in Alberta, Saskatchewan and the Northwest Territories and higher base rents on renewals and contractual rent steps. The decrease in Ontario reflects a vacancy as a result of a tenant leaving in addition to a vacancy that has been leased, with the tenant partially occupying the space in December, and the remainder to be occupied in the first quarter of 2009.

Comparative industrial portfolio

	For the three months ended December 31				For the year ended December 31			
	2008	2007	Growth		2008	2007	Growth	
			Amount	%			Amount	%
Alberta	\$ 3,036	\$ 2,850	\$ 186	7	\$ 11,826	\$ 11,271	\$ 555	5
Comparative properties	3,036	2,850	186	7	11,826	11,271	555	5
GAAP adjustments	8	60	(52)		136	305	(169)	
Industrial NOI	\$ 3,044	\$ 2,910	\$ 134	5	\$ 11,962	\$ 11,576	\$ 386	3

The increase in comparative industrial NOI is attributable to rate increases on renewals and new leasing.

NOI quarter-over-quarter comparison

The comparative properties disclosed in the following tables are based on properties that were acquired prior to October 1, 2007. NOI growth was \$1.8 million, reflecting the rental growth of properties in Alberta, Saskatchewan and the Northwest Territories as well as higher recoveries of expenses from our property management platform. The decrease in Ontario mainly reflects vacant space at State Street Financial Centre in Toronto that has subsequently been leased, and a recovery at 110 Sheppard Avenue as a result of a tenant vacating space at the end of the third quarter.

For the three months ended December 31

	2008	2007	Growth	
			Amount	%
Office	\$ 20,921	\$ 19,354	\$ 1,567	8
Industrial	3,036	2,851	185	6
Comparative properties	23,957	22,205	1,752	8
Acquisitions	3,311	594	2,717	
Rent supplement	—	22	(22)	
GAAP adjustments	3,488	3,557	(69)	
NOI	30,756	26,378	4,378	17
Redevelopment	545	431	114	
Discontinued operations	(120)	31	(151)	
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 26,840	\$ 4,341	16

For the three months ended December 31

	2008	2007	Growth	
			Amount	%
British Columbia	\$ 1,772	\$ 1,798	\$ (26)	(1)
Alberta	16,396	14,911	1,485	10
Saskatchewan & NWT	4,129	3,493	636	18
Ontario	1,660	2,003	(343)	(17)
Comparative properties	23,957	22,205	1,752	8
Acquisitions	3,311	594	2,717	
Rent supplement	—	22	(22)	
GAAP adjustments	3,488	3,557	(69)	
NOI	30,756	26,378	4,378	17
Redevelopment	545	431	114	
Discontinued operations	(120)	31	(151)	
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 26,840	\$ 4,341	16

NOI prior quarter comparison

The comparative property performance disclosed in the following tables is based on properties that were acquired prior to July 1, 2008. Overall, comparative properties are maintaining a high level of occupancy, with the office portfolio reporting occupancy in excess of 96%. Comparative property NOI improved by 5%, with increased occupancy and higher lease rates across our portfolio. Also contributing to the increase are higher base rents and recoveries in Saskatchewan and the Northwest Territories. The decline in NOI from British Columbia is a result of a lease expiry at a building in Burnaby. In our Ontario portfolio, we have leased a significant vacancy at State Street Financial Centre, with occupancy having partially commenced in the current quarter, which, along with modest growth at Air Miles Tower, offset the loss of a tenant at 110 Sheppard Avenue.

	For the three months ended			
	December 31, 2008	September 30, 2008	Growth	
			Amount	%
Office	\$ 23,995	\$ 22,936	\$ 1,059	5
Industrial	3,036	2,912	124	4
Comparative properties	27,031	25,848	1,183	5
Acquisitions	237	187	50	
GAAP adjustments	3,488	3,407	81	
NOI	30,756	29,442	1,314	4
Redevelopment	545	365	180	
Discontinued operation	(120)	(31)	(89)	
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 29,776	\$ 1,405	5

	For the three months ended			
	December 31, 2008	September 30, 2008	Growth	
			Amount	%
British Columbia	\$ 2,028	\$ 2,181	\$ (153)	(7)
Alberta	17,839	16,912	927	5
Saskatchewan & NWT	4,129	3,754	375	10
Ontario	3,035	3,001	34	1
Comparative properties	27,031	25,848	1,183	5
Acquisitions	237	187	50	
GAAP adjustments	3,488	3,407	81	
NOI	30,756	29,442	1,314	4
Redevelopment	545	365	180	
Discontinued operations	(120)	(31)	(89)	
NOI including redevelopment and discontinued operations	\$ 31,181	\$ 29,776	\$ 1,405	5

SELECTED ANNUAL INFORMATION

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

December 31	2008	2007	2006
Revenues	\$ 191,163	\$ 157,154	\$ 291,440
Income before discontinued operations	11,263	11,058	7,848
Net income	10,460	762,302	11,218
Total assets	1,316,170	1,156,441	2,127,920
Debt	872,314	680,479	1,153,794
Distributions declared	45,756	79,534	76,511
Per unit amounts:			
Basic income from continuing operations	\$ 0.53	\$ 0.29	\$ 0.25
Basic net income	0.50	19.95	0.35
Diluted income from continuing operations	0.53	0.29	0.25
Diluted net income	0.50	19.94	0.35

QUARTERLY INFORMATION

The following tables show quarterly information since December 31, 2006.

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenues								
Rental properties revenue	\$ 50,419	\$ 47,748	\$ 45,250	\$ 44,044	\$ 42,697	\$ 40,312	\$ 38,087	\$ 33,117
Interest and fee income	788	973	771	1,170	1,023	574	680	664
	51,207	48,721	46,021	45,214	43,720	40,886	38,767	33,781
Expenses								
Rental properties operating expenses	19,118	17,940	16,136	16,548	15,888	14,280	13,051	11,944
Interest	12,869	12,889	11,919	11,426	9,963	9,717	9,088	8,626
Depreciation of rental properties	6,935	6,933	6,696	6,309	6,128	6,083	5,773	5,171
Amortization of deferred leasing costs, tenant improvements and intangibles	6,619	6,985	6,847	6,651	7,280	5,858	5,997	4,188
General and administrative	1,876	1,750	1,693	1,421	1,534	1,887	1,975	2,204
	47,417	46,497	43,291	42,355	40,793	37,825	35,884	32,133
Income before the undernoted items								
	3,790	2,224	2,730	2,859	2,927	3,061	2,883	1,648
Internalization of property manager	—	—	—	—	—	—	—	(1,230)
Gain on disposal of rental property and land held for sale	—	—	—	—	—	854	1,474	—
Reversal of (provision for) impairment of rental property previously held for sale	—	—	—	—	6,298	(7,650)	—	—
Income (loss) before income and large corporations taxes								
	3,790	2,224	2,730	2,859	9,225	(3,735)	4,357	418
Income taxes (recovery)								
Current income and large corporations taxes	9	63	(4)	(55)	8	7	10	5
Future income taxes	221	(38)	76	68	(15,539)	(25,198)	40,031	(117)
Income tax expense (recovery)	230	25	72	13	(15,531)	(25,191)	40,041	(112)
Income (loss) before discontinued operations								
	3,560	2,199	2,658	2,846	24,756	21,456	(35,664)	530
Discontinued operations	6	(74)	(551)	(184)	4,468	730,994	7,874	7,888
Net income (loss)	\$ 3,566	\$ 2,125	\$ 2,107	\$ 2,662	\$ 29,224	\$ 752,450	\$ (27,790)	\$ 8,418
Net income (loss) per unit								
Basic	\$ 0.17	\$ 0.10	\$ 0.10	\$ 0.13	\$ 1.38	\$ 19.82	\$ (0.57)	\$ 0.19
Diluted ⁽¹⁾	\$ 0.17	\$ 0.10	\$ 0.10	\$ 0.13	\$ 1.38	\$ 19.81	\$ (0.57)	\$ 0.19

⁽¹⁾ Excludes impact of 6.5%, 5.7% and 6.0% Debentures, which are currently not dilutive to net income.

Calculation of funds from operations and distributable income

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net income (loss)	\$ 3,566	\$ 2,125	\$ 2,107	\$ 2,662	\$ 29,224	\$ 752,450	\$ (27,790)	\$ 8,418
Add (deduct):								
Depreciation of rental properties	6,993	6,990	6,763	6,360	6,193	10,960	13,495	12,336
Amortization of deferred leasing costs, tenant improvements and intangibles	6,621	6,985	6,850	6,653	7,286	10,825	12,988	9,843
Future income tax	221	(38)	76	68	(15,539)	(25,198)	40,031	(117)
Imputed amortization of leasing costs related to the rent supplement	—	—	8	10	6	61	88	79
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(80)	(66)	(87)	(56)	(77)	(42)	(29)	(18)
(Gain) loss on disposal of rental properties and land held for sale	(336)	(169)	426	—	(4,968)	(727,374)	(1,474)	—
Provision for (reversal of) impairment in value of rental property	—	—	—	—	(6,298)	7,650	—	—
Internalization of property manager	—	—	—	—	—	—	—	1,230
Income tax expense incurred as a result of the Transaction	—	—	—	—	300	—	—	—
Funds from operations	\$ 16,985	\$ 15,827	\$ 16,143	\$ 15,697	\$ 16,127	\$ 29,332	\$ 37,309	\$ 31,771
Funds from operations per unit								
Basic ⁽¹⁾	\$ 0.82	\$ 0.75	\$ 0.76	\$ 0.74	\$ 0.76	\$ 0.77	\$ 0.76	\$ 0.71
Diluted	\$ 0.80	\$ 0.75	\$ 0.74	\$ 0.72	\$ 0.76	\$ 0.76	\$ 0.75	\$ 0.69
Cash generated from operating activities	\$ 7,266	\$ 12,631	\$ 9,644	\$ 11,585	\$ 9,952	\$ 6,794	\$ 35,150	\$ 32,071
Add (deduct):								
Deferred leasing costs incurred	1,465	1,788	980	760	690	2,026	1,554	1,358
Amortization of deferred financing costs incurred prior to June 30, 2003	21	17	18	11	20	67	94	87
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	(7)	—	—	—	(4)	5	13	16
Amortization of tenant inducements	68	43	41	37	25	31	33	26
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(80)	(66)	(87)	(56)	(77)	(42)	(29)	(18)
Amortization of deferred financing costs	(309)	(302)	(332)	(313)	(57)	(259)	(316)	(306)
Income tax expense incurred as a result of the Transaction	—	—	—	—	300	—	—	—
Change in non-cash working capital	5,035	(1,681)	2,199	325	1,471	16,412	(3,517)	(4,265)
Distributable income ("DI")	\$ 13,459	\$ 12,430	\$ 12,463	\$ 12,349	\$ 12,320	\$ 25,034	\$ 32,982	\$ 28,969
Distributable income per unit								
Basic ⁽¹⁾	\$ 0.65	\$ 0.59	\$ 0.59	\$ 0.58	\$ 0.58	\$ 0.66	\$ 0.67	\$ 0.64
Diluted	\$ 0.65	\$ 0.59	\$ 0.59	\$ 0.58	\$ 0.58	\$ 0.65	\$ 0.66	\$ 0.63
Weighted average units outstanding for FFO and DI								
Basic	20,720,901	21,248,773	21,300,089	21,179,939	21,107,542	37,961,439	49,115,213	44,954,392
Diluted	24,144,476	24,676,672	24,719,316	24,609,778	21,566,798	39,020,277	51,306,940	47,732,198

⁽¹⁾ The LP Class B Units, Series 1, are included in the calculation of basic FFO per unit and basic DI per unit.

SECTION III – DISCLOSURE CONTROLS AND PROCEDURES

For the financial year-end December 31, 2008, 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 Multilateral 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 Canadian Generally Accepted Accounting Principles. 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, 2008.

There were no changes in the internal controls over financial reporting during the financial year-end December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the REIT’s internal controls over financial reporting.

SECTION IV – RISKS AND OUR STRATEGY TO MANAGE

Dundee REIT is exposed to various risks and uncertainties. Risks and uncertainties inherent in an investment in our units include but are not limited to the following:

REAL ESTATE OWNERSHIP

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

Our portfolio of properties generates income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced for a number of reasons. Furthermore, the terms of any subsequent lease may be less favourable than the existing lease. Our financial position would be adversely affected if a number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the properties were not able to be leased on economically favourable lease terms. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting our investment may be incurred. 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 such tenant and, thereby, cause a reduction in the cash flow available to us.

Our properties are located primarily in Western Canada, with a significant majority of our properties, measured by gross leasable area, located in the province of Alberta. As a result, our properties are impacted by factors specifically affecting the real estate markets in Alberta, British Columbia, Saskatchewan and the Northwest Territories. These factors may differ from those affecting the real estate markets in other regions of Canada. If real estate conditions in Western Canada were to decline relative to real estate conditions in other regions, this could more adversely impact our revenues and results of operations than those of other more diversified REITs in Canada. Our ability to manage risk through geographical diversification is currently limited.

ILLIQUIDITY OF REAL ESTATE INVESTMENTS

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 for operations and making distributions. We manage our portfolio actively and are attentive to market conditions and property values. We review our properties on an ongoing basis to identify strengths and weaknesses of individual properties and our portfolio as a whole, allowing us to quickly reposition assets when warranted or identify non-core or underperforming assets for disposition.

COMPETITION IN THE OFFICE, INDUSTRIAL AND RETAIL REAL ESTATE MARKET

We compete with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Some of the commercial office, industrial and retail properties of our competitors are newer, better located or better capitalized than our properties. Certain of these competitors have greater financial and other resources and greater operating flexibility than us. The existence of competing managers and owners could have a material adverse effect on our ability to lease space in our properties and on the rents we are able to charge, and could adversely affect our revenues and our ability to meet our obligations. We strive to deliver a level of service that meets or exceeds tenant expectations. We believe that providing a consistent, high level of service puts us in a better position to re-lease space to existing tenants and helps to attract new tenants to lease vacant space quickly and cost-effectively.

ENVIRONMENTAL RISK

As an owner of real property, we are subject to various federal, provincial, state 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.

FINANCING RISK

Upon the expiry of the term of the financing or refinancing of any particular property or operating or acquisition debt facilities, refinancing may not be available in the amounts required or may be available only on terms less favourable to us than existing financing. We may require additional financing in order to grow and expand our operations. It is possible that such financing will not be available or, if it is available, will not be available on favourable terms. Future financing may take many forms, including debt or equity financing, which could alter the current debt-to-equity ratio or which could be dilutive to our unitholders. It is our intent to reduce the interest rate risk associated with refinancing by ensuring that debt maturities are scheduled over several years, with limited exposure in any given year. In 2009, including the impact of the exercise of the put right, our exposure is \$94.9 million rolling at a 6.99% weighted average interest rate, which in the context of our business is not significant. For further information, please see the Our Resources and Financial Condition discussion beginning on page 12.

INSURANCE

We carry general liability, umbrella liability and excess liability insurance with a total limit of \$80.0 million. For the property risks we carry "All Risks" property insurance including but not limited to flood, earthquake and loss of rental income insurance (with a 24-month indemnity period). We also carry Boiler and Machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) that are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure at this time. We currently self-insure against terrorism risk for the entire Canadian 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 the properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. Additionally, we generally have owners' title insurance policies with respect to our properties located in the United States. However, the amount of coverage under such policies may be less than the full value of such 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.

JOINT VENTURE, PARTNERSHIP AND CO-OWNERSHIP AGREEMENTS

We are a participant in joint ventures and partnerships with third parties in respect of four of the properties. A joint venture or partnership involves certain additional risks, including:

- (i) the possibility that such co-venturers/partners 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 co-venturers/partners 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 co-venturers'/partners' 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 venture or partnership decisions;
- (iii) the risk that such co-venturers/partners may, through their activities on behalf of or in the name of the ventures or partnerships, expose or subject us to liability; and
- (iv) the need to obtain co-venturers'/partners' 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 ventures and partnerships 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 venture/partnership within the time frame or otherwise on the basis we desire.

Our investment in properties through joint venture and partnership agreements is subject to the investment guidelines set out in our Declaration of Trust.

SECTION V – CRITICAL ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES

Management of Dundee REIT believes the policies outlined below are those most subject to estimation and management's judgment.

Impairment of long-lived assets

Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been impaired. Dundee REIT's long-lived assets consist of rental properties, intangible assets and liabilities, and deferred costs relating to those properties. The fair value of rental properties and their associated deferred costs is dependent upon anticipated future cash flows from operations over the anticipated holding period.

The review of anticipated cash flows involves subjective assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors that may affect the ultimate value of the property. These assumptions are subjective and may not ultimately be achieved.

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment loss would be recognized.

Impairment of amounts receivable

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

Purchase price allocations

For acquisitions initiated on or after September 12, 2003, the purchase price of a rental property is allocated based on estimated fair market values to land, building, deferred leasing costs acquired, lease origination costs associated with in-place leases, the value of above- and below-market leases and other intangible lease assets. Other intangible lease assets include the value of in-place leases and the value of tenant relationships, if any. For acquisitions initiated prior to September 12, 2003, the purchase price was allocated to land and building based on their respective fair market values.

Intangible assets and liabilities

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

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

Depreciation

The Trust uses the straight-line method of depreciation for rental properties, initial leasing costs and major expansions and renovations. The estimated useful life of the properties continues to be between 30 and 40 years. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based upon management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

Deferred costs

Deferred costs may include:

- deferred leasing costs, which include leasing fees and costs, except for initial leasing costs that are included in rental properties, and deferred leasing costs acquired. Deferred leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- tenant inducements, which are payments for which the tenant has no obligation to make leasehold improvements to the leased space and which are amortized against rental properties revenue on a straight-line basis over the term of the applicable lease;
- tenant improvements, which include costs incurred to make leasehold improvements to tenants' space and which are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- deferred recoverable operating expenses, which are amortized to operating expenses over the period during which they are recoverable from tenants;
- deferred financing costs relating to revolving credit facilities, which includes debt issue fees and expenses that are amortized to interest expense on a straight-line basis over the term of the debt; and
- direct acquisition fees and costs, which exclude general and administrative costs, and which are deferred until the acquisition is completed and the costs are capitalized to the acquisition or the acquisition is abandoned and the costs are written off.

Income taxes

On June 12, 2007, amendments to the *Income Tax Act* (Canada) were substantively enacted, which modify the tax treatment of certain publicly traded trusts and partnerships that are SIFTs.

Dundee REIT is taxed as a mutual fund trust for Canadian income tax purposes. The Trust is required by its Declaration of Trust to distribute all of its taxable income to its unitholders, which currently enables the Trust to deduct such distributions for income tax purposes. Canadian and U.S.-based incorporated subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. Accordingly, prior to June 12, 2007, the only provision for income taxes recorded in the consolidated financial statements was to reflect the future tax obligations of these incorporated subsidiaries and comprise the amounts resulting from the differences in tax and book values relating to the underlying rental properties.

Under the SIFT Rules, certain distributions by a SIFT entity relating to income from a business carried on in Canada by the SIFT and income, other than taxable dividends, or capital gains from non-portfolio properties (as defined in the *Income Tax Act*) will not be deductible for tax purposes and will accordingly will be taxed in the SIFT entity at a rate that is generally comparable to the combined provincial/federal corporate income tax rate for ordinary business income. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be treated as a taxable dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. For Canadian resident beneficiaries or partners, such dividend will be taxed as an eligible dividend and will be subject to the applicable gross-up and dividend tax credit rules.

Pursuant to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the “Normal Growth Guidelines”), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006, if the “SIFT trust” and “SIFT partnership” definitions in the *Income Tax Act* had been in force as of that date.

Certain real estate investment trusts that satisfy certain specified conditions (the “REIT exception”) are excluded from the SIFT definition and therefore will not be subject to the SIFT Rules. In order to qualify for the REIT exception in respect of a taxation year, the REIT (i) must not, at any time in that taxation year, hold non-portfolio property other than “qualified REIT properties” (as defined in the *Income Tax Act*); (ii) must derive at least 95% of the REIT’s revenues for that taxation year from rent generated by real or immovable properties, interest, capital gains from dispositions of real or immovable properties, dividends and royalties; (iii) must derive at least 75% of the REIT’s revenues for that taxation year from rent, interest, mortgages or hypothecs on, and capital gains from the disposition of, real or immovable properties situated in Canada; and (iv) must, throughout the taxation year, hold real or immovable properties situated in Canada, cash and certain government-guaranteed debt with a total fair market value that is not less than 75% of the REIT’s equity value.

As the Trust did not meet the technical REIT exception as at June 12, 2007, a future income tax liability in the amount of \$40.0 million was recorded as at June 30, 2007, based on the temporary differences that were expected to reverse on or after January 1, 2011. The future income tax liability was recorded as a charge to the consolidated statements of net income and comprehensive income, for the period ended June 30, 2007. During the third quarter, a future income tax liability in the amount of \$25.0 million relating to the assets sold during the quarter was reversed. During the quarter ended December 31, 2007, as a result of modifying the organizational structure of Dundee REIT, the Trust has met the REIT exception as at December 31, 2007, and accordingly, the remaining \$15.0 million was reversed and recorded as a recovery. The Trust continued to meet the REIT exception throughout 2008.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Trust adopted The Canadian Institute of Chartered Accountants (“CICA”) accounting standards comprising CICA Handbook Section 1535, “Capital Disclosures”, Section 3862, “Financial Instruments — Disclosures”, and Section 3863, “Financial Instruments — Presentation”.

CICA Handbook Section 1535, “Capital Disclosures”, requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacts the Trust’s disclosures but does not affect its consolidated financial position, results of operations or cash flows.

CICA Handbook Section 3862, “Financial Instruments — Disclosures” and Section 3863, “Financial Instruments — Presentation” replace Section 3861, “Financial Instruments — Disclosure and Presentation”, revise and enhance its disclosure requirements and carry forward its presentation requirements unchanged. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks. These standards impact the Trust’s disclosure but do not affect its consolidated financial position, results of operations or cash flows.

Future changes in accounting policies

Deferred recoverable costs

Amendments to CICA Handbook Section 1000, "Financial Statement Concepts" and new CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replace CICA Handbook Section 3062, "Goodwill and Other Intangible Assets", have been issued and apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The objectives of these amendments and new section are to:

- reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and
- clarify the application of the concept of matching revenues and expenses, such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated.

Under the amendments to CICA Handbook Section 1000, "Financial Statement Concepts", effective January 1, 2009, the deferral and matching of operating expenses over future revenues is no longer appropriate. The impact of these amendments will increase revenue properties by \$2.0 million, decrease deferred costs by \$2.1 million and decrease unitholders' equity by approximately \$0.1 million.

Business combinations

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

CICA Handbook Section 1582 establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Trust is currently evaluating the impact of the adoption of these sections.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (“ASB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with IFRS for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. As the Trust continues to evaluate the impact of adoption on its processes and accounting policies it will provide updated disclosure where appropriate. While the adoption of IFRS will not have a material impact on the reported cash flows of the Trust, it will have a material impact on the Trust’s consolidated balance sheets and consolidated statements of income. The Trust has performed an initial assessment of the impact of IFRS and has identified significant accounting policy changes pertaining to investment property, joint ventures, lease incentives and the classification of REIT Units, that will be required or are currently expected to be applied by the Trust on its adoption of IFRS that will be significantly different than its Canadian GAAP accounting policies.

The major Canadian GAAP/IFRS accounting differences identified in Phase 1 are discussed in the following paragraphs.

Investment property

Investment property includes land and buildings held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or administrative purposes or for sale in the ordinary course of business. Generally, all of the Trust’s properties will be considered investment property under IFRS. Like Canadian GAAP, investment property is initially measured at cost under IAS 40, “Investment Property” (“IAS 40”). However, subsequent to initial recognition, IAS 40 requires that an entity choose either the cost or fair value model to account for its investment property. The fair value model requires the Trust to record a gain or loss in income arising from a change in the fair value of investment property in the period of change. The cost model is generally consistent with Canadian GAAP; however, fair values would need to be disclosed. The determination of fair value model is based upon, amongst other things, rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions less future cash outflows in respect of leases and the investment property. No depreciation related to investment property is recognized under the fair value model.

Joint ventures

The IASB is currently considering Exposure Draft 9, “Joint Arrangements” (“ED 9”), that is intended to modify IAS 31, “Interests in Joint Ventures” (“IAS 31”). The IASB has indicated that it expects to issue a new standard to replace IAS 31 in early 2009. Currently, under Canadian GAAP, the Trust proportionately accounts for interests in joint ventures. ED 9 proposes to eliminate the option to proportionately consolidate such interests and require an entity to recognize its interest in a joint venture, using the equity method. It is important to note that jointly owned assets would effectively continue to be proportionately consolidated.

Lease incentives

Lease incentives are governed by Standing Interpretations Committee Interpretation 15, “Operating Leases — Incentives” (“SIC-15”). The definition of a lease incentive under IFRS is broader than what would generally be considered a lease incentive under Canadian GAAP. Incentives may include an upfront payment of cash to the lessee or the reimbursement or assumption of lessee costs such as relocation costs, leasehold improvements or costs associated with a pre-existing lease commitment as well as free or reduced rent periods. The Trust will account for incentives as a reduction to rental income and NOI over the lease term on a straight-line basis. This differs from current Canadian GAAP in that tenant improvements are capitalized as a deferred cost and amortized through amortization expense, thereby not impacting NOI.

Classification of REIT Units

Dundee REIT’s Declaration of Trust requires that all taxable income be distributed to its unitholders each year. Under IFRS this requirement could potentially have the REIT Units meet the definition of a liability with associated distributions classified as interest expense. In order to avoid this interpretation, it may be necessary to amend the distribution provisions in the Declaration of Trust.

First-time adoption of International Financial Reporting Standards

Dundee REIT’s adoption of IFRS will require the application of IFRS 1, “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”), which provides guidance for an entity’s initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 has certain exceptions and limited optional exemptions in specified areas of certain standards. The Trust expects to apply the following optional exemption available under IFRS 1 in preparing its first financial statements under IFRS:

Cumulative translation differences

IAS 21, “The Effects of Changes in Foreign Exchange Rates”, requires a company to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from prior to the date of transition to IFRS. Dundee REIT expects to reset all cumulative translation differences to zero on transition to IFRS.

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