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Management's discussion and analysis

(All dollar amounts in tables are presented in thousands, except rental rates, unit or 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 years ended December 31, 2007, and December 31, 2006.

This management's discussion and analysis has been dated as at January 31, 2008, 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 B Units, Series 1
- "Units", meaning REIT Units, Series A; REIT Units, Series B; and, Special Trust Units, collectively

Certain market information has been obtained from the CB Richard Ellis Market View, 4th Quarter 2007, 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 with an estimated market value of approximately $1.5 billion. As a result of this Transaction, Dundee REIT has transformed into a more growth-oriented, opportunistic real estate investment trust. Dundee REIT continues to own the property manager that manages the assets of the REIT. The cash proceeds received on closing were used to redeem approximately 29.9 million outstanding units for $47.50 per unit (the "Redemption"). In addition, GE purchased approximately 3.5 million outstanding units at a purchase price of $47.50 per unit (the "Transfer").

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. Certain assumptions made in preparing forward-looking information and our objectives include the assumption that the Canadian economy will remain stable in 2008 and that inflation will remain relatively low. We have also assumed that interest rates will remain stable in 2008, that conditions within the real estate market, including competition for acquisitions and estimated market rental rates, will be consistent with the current climate, that the Canadian capital markets will continue to provide us with access to equity and/or debt at reasonable rates and that the specified investment flow-through trust ("SIFT") Rules and the Normal Growth Guidelines are not applicable to us.

All forward-looking information speaks as of January 31, 2008, 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 activities 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 increasing distributions over time, allowing investors to benefit from the growth in its real estate operations; 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 (see a description of Our Equity on page 20).

In connection with the Transaction, the DRIP was suspended in June 2007 and Dundee REIT has since paid all distributions in cash rather than allowing unitholders to reinvest distributions in additional units of Dundee REIT. Starting with the January 2008 distribution payable on February 15, 2008, the DRIP has been reinstated. All terms and conditions of the DRIP remain the same.

2007	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	$39.95	$40.68	$39.70	$40.10	$39.64	$46.00	$43.35	$37.23	$38.73	$36.75	$36.43	$33.72

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. Consistent with our strategy in the past, management intends to increase cash flow by adding value to existing properties, pursuing accretive acquisitions and identifying new trends and opportunities in the real estate market. In addition, our strategy will continue to include working within the capital markets to enhance value through the efficient use of capital and utilizing private and public debt and public equity to provide unitholders with the highest possible returns.

Our track record includes issuing equity at increasing prices to finance rapid growth, increasing and decreasing our level of debt based on the relative cost of debt and equity, selling major portions of our portfolio when the value was high, increasing the growth potential of our remaining operations and returning capital to our unitholders when we had excess capital.

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 Realty Corporation ("DRC"), 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. We will continue to identify strengths and weaknesses of individual properties and our portfolio as a whole, which allows us to quickly reposition assets when desirable.

We actively manage our debt levels and interest rates in order to minimize financing and interest rate risk while maximizing overall performance. Dundee REIT manages its debt maturities in order to mitigate interest rate exposure and to ensure that there are no significant maturities in any given year. Lease maturities are similarly managed to maintain continuity of income and to avoid significant lease turnovers and their associated leasing costs in any given year.

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, portfolios and entities with a view to maximizing performance and achieving the best value and growth potential.

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 meeting and anticipating 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.

Owned gross leasable area (sq. ft.)[1]

December 31				2007		2006
	Office	**Industrial**	**Total**	**%**	Total	%
British Columbia	**449,939**	**—**	**449,939**	**7**	213,632	1
Alberta	**2,746,241**	**1,847,661**	**4,593,902**	**73**	3,952,545	21
Saskatchewan & NWT	**848,857**	**—**	**848,857**	**14**	844,955	5
Ontario	**406,304**	**—**	**406,304**	**6**	406,631	2
Sold properties	**—**	**—**	**—**	**—**	13,015,703	71
Total as at December 31, 2007	**4,451,341**	**1,847,661**	**6,299,002**	**100**	18,433,466	100
Percentage	**71%**	**29%**	**100%**			
Total as at December 31, 2006	10,121,765	8,311,701	18,433,466			
Percentage	55%	45%	100%			

[1] Excludes redevelopment properties.

Office rental properties

Dundee REIT owns 40 office properties (42 buildings) comprising approximately 4.5 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. At December 31, 2007, the average occupancy rate across our office portfolio was 96.7%. Our occupancy rates include lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized. The national industry average occupancy rate was 93.3% (CB Richard Ellis, Canadian Office Market View, 4th Quarter 2007).

Industrial rental properties

Our industrial portfolio consists of 36 prime suburban industrial properties (40 buildings) comprising approximately 1.8 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, 2007, the average occupancy rate across our industrial portfolio was 96.7%. The market vacancy rate in both Calgary and Edmonton as at December 31, 2007, was 2.2% and 2.5%, respectively (CB Richard Ellis, Canadian Industrial Market View, 4th Quarter 2007).

Development and redevelopment properties

We were partners in two joint ventures to develop office and prestige industrial properties in major Canadian markets. Effective November 1, 2007, we completed the sale of our interest in Barker Business Park (Phase II) in Richmond Hill, Ontario, and Tullamore Business Park in Caledon, Ontario, for proceeds of approximately $16.8 million. In connection with the sale of our interest in the Barker Business Park (Phase II), we provided subordinate mortgage financing to our former joint venture partner in the amount of approximately $11.7 million at an interest rate of 11% to finance the construction of certain improvements on those lands. These mortgages were subsequently repaid in February 2008. In addition, we agreed to acquire, on completion and subject to the satisfaction of certain conditions, a 63,000 square foot office building situated on 5.7 acres, which is subject to a long-term lease with a multi-national tenant for a purchase price of approximately $20.8 million.

Two of our properties are currently classified as redevelopment properties. Properties are generally classified as redevelopment until the project is completed and produces positive cash flow after servicing specific debt.

OUR EQUITY

				Unitholders' equity
December 31		**2007**		2006
	Number of units	**Amount**	Number of units	Amount
REIT Units, Series A	**17,072,154**	**$ 300,216**	34,854,553	$ 745,348
REIT Units, Series B	**476,316**	**14,376**	—	—
LP Class B Units, Series 1	**3,315,349**	**99,791**	8,565,095	147,879
Cumulative foreign currency translation adjustment	**—**	**(6,243)**	—	(5,116)
Total	**20,863,819**	**$ 408,140**	43,419,648	$ 888,111

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, related parties to Dundee REIT, and the REIT B Units are held by GE. Both the REIT A Units and Special Trust Units entitle the holder to one vote for each unit held 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.

Effective May 1, 2006, the terms of the LP B Units were amended to provide that they may not be transferred to a third party, other than subsidiaries of Dundee Corporation and Dundee Realty Corporation. As a result, if Dundee Corporation and Dundee Realty Corporation wish to transfer the LP B Units to a third party, they must first convert the LP B Units into REIT B Units. This amendment allows us to treat the outstanding LP B Units as equity for financial statement purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). As a result, effective May 1, 2006, all LP B Units are presented as equity. Prior to this date, the LP B Units were presented as non-controlling interest.

Amendments to Declaration of Trust and other governing documents

Together with the Transaction, we made certain amendments to our Declaration of Trust and to other governing documents of the Trust and its subsidiaries. In general, the Trust and its subsidiaries cannot take any action that would prevent it from qualifying as a "real estate investment trust" (as defined in the *Income Tax Act*) and the Trust could not take any action that at any time prior to January 1, 2008, would cause it to exceed "normal growth" as determined by the Normal Growth Guidelines pertaining to specified investment flow-through trusts or partnerships ("SIFTs"), or to be subject to tax under paragraph 122(1) (b) of the *Income Tax Act*, which specifies taxes payable by a SIFT entity. Also, amendments were made to provide for the surrender, exchange for purchase or cancellation, or transfer of LP Class A Units, Series 1, and LP Class B Units, Series 2, in connection with the Redemption and Transfer.

Amendments made to the Declaration of Trust included:

- providing Dundee Corporation the right to appoint up to a majority of trustees less one provided it owns at least an aggregate of two million REIT A Units, REIT B Units and/or LP B Units;
- granting pre-emptive rights on the issuance of REIT A Units or any securities convertible into or exchangeable for REIT A Units to both Dundee Corporation and GE to maintain their same proportionate interest in the Trust; and
- permitting our investment committee to delegate investment decisions to our senior management (including those acting on our behalf pursuant to the asset management agreement).

Amendments made to the Partnership Agreement of Dundee Properties Limited Partnership ("DPLP") included:

- the business of DPLP must be located exclusively in Canada;
- DPLP may only invest in equity interests in office and industrial revenue-producing properties;
- DPLP may invest in up to 25% of equity of non-qualifying investments subject to meeting the general REIT qualifications discussed above;
- certain restrictions regarding acquisitions, investments in joint ventures, holding securities, investments in operating businesses, investments in partnerships, and investments in mortgages or mortgage bonds were removed;
- DPLP is permitted to undertake construction and development activities for the maintenance of real property or enhancing the revenue stream from real property provided it is not on a brownfield site;
- removal of limitations on the maximum amount of total debt as a percentage of the Trust's gross book value, the maximum amount of floating rate debt as a percentage of total debt and the limitation of the maximum amount of new debt as a percentage of the market value of a specific property; and
- DPLP will maintain an interest coverage ratio of no less than 1.4 times.

KEY PERFORMANCE INDICATORS

Performance is measured by these and other key indicators:

	Three months ended December 31		Years ended December 31	
	2007	2006	**2007**	2006
Operations				
Occupancy rate (period-end)[1]	**96.7%**	96.4%		
In-place rent per square foot (office and industrial)[1]	**$ 13.49**	$ 10.00		
Operating results				
Rental properties revenue	**$ 42,921**	$ 32,242	**$ 155,161**	$ 102,389
Net operating income[2] ("NOI")	**26,456**	19,106	**97,679**	60,216
Funds from operations[3] ("FFO")	**16,127**	29,167	**114,539**	97,269
Adjusted funds from operations[4] ("AFFO")	**11,054**	22,954	**87,484**	75,402
Distributions				
Distributable income[5]	**$ 12,320**	$ 26,654	**$ 99,305**	$ 89,002
Reinvestment to distribution ratio[6]	**n/a**	26.4%	**14.9%**	30.6%
Cash distribution ratio[7]	**100%**	73.6%	**85.1%**	69.4%
Financing				
Weighted average interest rate (period-end)	**5.76%**	5.95%		
Interest coverage ratio	**2.51 times**	2.46 times		
Per unit amounts				
Basic:				
FFO	**$ 0.76**	$ 0.74	**$ 3.00**	$ 2.82
Distributable income	**0.58**	0.67	**2.60**	2.58
Distribution rate	**0.55**	0.55	**2.20**	2.20
Total distributions as a % of distributable income	**92.9%**	83.9%	**80.6%**	87.0%
AFFO	**0.52**	0.58	**2.29**	2.19
Diluted:[8]				
FFO	**$ 0.76**	$ 0.71	**$ 2.95**	$ 2.69
Distributable income	**0.58**	0.65	**2.57**	2.48

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

[1] Excludes redevelopment properties.

[2] 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 45.

[3] FFO — the reconciliation of FFO to net income can be found on page 33.

[4] AFFO — the reconciliation of AFFO to distributable income can be found on page 36.

[5] The reconciliation of distributable income to cash generated from operating activities can be found on page 34.

[6] These percentages do not include the additional 4% distributions available under the DRIP.

[7] Cash distribution ratio represents the amount of distribution paid in cash and not reinvested through the DRIP. The ratio calculation can be found on page 35.

[8] Diluted amounts assume the conversion of the 6.5% and 5.7% Debentures.

FINANCIAL OVERVIEW

Overall occupancy remains very strong at 96.7%, with lease rollover activity allowing us to take advantage of generally higher market rental rates, especially in our Calgary office portfolio. Our average office portfolio occupancy rate remains well above the national industry average. Details of our leasing profile are provided on page 26.

During the second quarter, we made the strategic decision to sell our portfolio of assets located primarily in Ontario, Québec and Newfoundland and to re-align our portfolio with a focus on Western Canada. This transaction was completed in the third quarter. Our continuing operations demonstrate strong financial results as evidenced by NOI growth of $7.3 million or 38% compared to the same period in 2006. For the year, NOI increased $37.5 million or 62% compared to the same period in 2006. The office portfolio now generates nearly 88% of our NOI. Details of our NOI begin on page 45.

For the quarter, distributable income decreased 54% to $12.3 million, on which we declared distributions of $11.5 million. For the year, distributable income increased 12% to $99.3 million, on which we declared distributions of $79.5 million. As a result of the participation in our DRIP, our year-to-date cash payout ratio is 85.1% of declared distributions. Details of our distributions and distributable income begin on page 34.

For the quarter, AFFO decreased $11.9 million or $0.06 per unit, largely reflecting the impact of the Transaction. For the year, AFFO increased $12.1 million or $0.10 per unit, a 16% increase over the prior year period. The improvement reflects our commitment to grow our AFFO through acquisitions and effectively manage our leasing and capital costs. Details of our AFFO are provided on page 36.

OUTLOOK

The past year was monumental for Dundee REIT and its unitholders. We completed another year of record-breaking acquisitions, adding $665.5 million of high-quality properties to our portfolio, and completed the sale of approximately two-thirds of our portfolio for $2.3 billion. In connection with the strategic sale of our Eastern Portfolio, we returned approximately $1.6 billion to unitholders, and realigned our portfolio with a focus on Western Canada.

The changes made to our organizational structure in August 2007 provide us with greater control over how we manage our enterprise and greater flexibility in our pursuit of growth. We felt confident making these changes with the knowledge and certainty that we will always be governed by the *Income Tax Act* and the requirements of maintaining our mutual fund trust status. And, with the completion of our reorganization in December 2007, Dundee REIT now qualifies as a REIT under the SIFT Rules. This positions us uniquely amongst our peers as Dundee REIT is the first to qualify. Qualifying as a REIT provides investors with certainty regarding the taxation of distributions and allows us to raise equity and grow beyond the Normal Growth Guidelines.

Alberta remains the strongest market in the country. Over 70% of our assets are concentrated in this province and our portfolio continues to produce solid growth. The second half of 2007 brought some softening in demand for space in Calgary; however, growth is expected to continue at a slightly slower, more sustainable pace. Regardless, with the average market rent well above our expiring rents, our lease maturity profile positions us to capture significant rental uplifts as leases mature or are terminated.

There is a degree of economic uncertainty in the Canadian marketplace as a result of the sub-prime issues and the related fears of a recession in the U.S. The impact in Canada has been volatility in both stock market and the credit markets, producing a higher cost of capital. In the fourth quarter we completed a significant amount of refinancing at lower rates on debt coming due in 2008. Early in 2008, we completed a $125.0 million convertible debenture offering. In addition, we have a $50.0 million demand revolving credit facility that is presently undrawn. We are confident that with the strength of our balance sheet we are well-positioned to pursue accretive acquisition opportunities as they arise.

In 2008, our existing portfolio offers tremendous organic growth potential on its own. We will, however, continue to pursue opportunities to grow our portfolio and create value. While our portfolio is currently focused on Western Canada, Dundee REIT is not committed to any single market nor are we committed to any single strategy in seeking the appropriate acquisitions. As in the past, we will pursue strategic acquisitions opportunistically. This may include acquiring individual assets or portfolio acquisitions, either on our own or with partners — whatever makes the best sense given the then current market conditions.

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SECTION II — EXECUTING THE STRATEGY

OUR RESOURCES AND FINANCIAL CONDITION

Rental properties

During the fourth quarter, we acquired two office properties comprising 149,000 square feet for approximately $52.5 million. Throughout 2007, we completed $665.5 million of acquisitions comprising 3.7 million square feet of office and industrial properties.

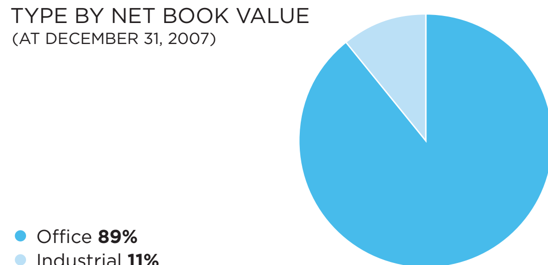
During the third quarter, we sold our Eastern Portfolio to GE for a total purchase price of approximately $2.3 billion, including the assumption of liabilities by GE relating to the Eastern Portfolio. Our operating portfolio now comprises office and industrial properties located primarily in Western Canada. Further detail on the Transaction is provided on page 42.

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

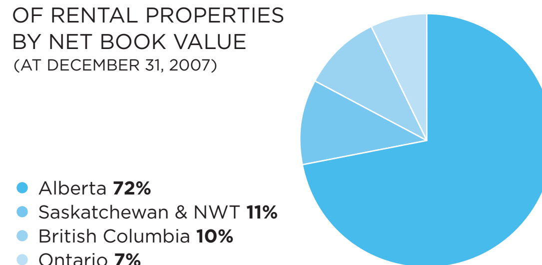
December 31			2007[1]		2006[1]	
	Office	Industrial	Total	%	Total	%
British Columbia	$ 94,072	$ —	$ 94,072	10	$ 51,594	3
Alberta	606,782	105,134	711,916	72	501,772	28
Saskatchewan & NWT	111,813	—	111,813	11	112,910	6
Ontario	66,551	—	66,551	7	66,799	4
Sold properties	—	—	—	—	1,052,116	59
Total as at December 31, 2007	**$ 879,218**	**$ 105,134**	**$ 984,352**	**100**	$ 1,785,191	100
Percentage	**89%**	**11%**	**100%**			
Total as at December 31, 2006	$ 1,381,034	$ 404,157	$ 1,785,191			
Percentage	77%	23%	100%			

[1] Excludes $19.0 million related to Greenbriar Mall and $0.9 million related to other redevelopment properties totalling $19.9 million (December 31, 2006 — $31.6 million).

PORTFOLIO ASSET TYPE BY NET BOOK VALUE
(AT DECEMBER 31, 2007)



GEOGRAPHIC DISTRIBUTION OF RENTAL PROPERTIES BY NET BOOK VALUE
(AT DECEMBER 31, 2007)



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, 4th Quarter 2007. Market information for Saskatchewan and the Northwest Territories is based on local estimates.

The majority of our assets are concentrated in Western Canada, with over 70% located in the province of Alberta alone. The properties are leased to a wide range of high-quality office and industrial tenants. The ever-rising global demand for oil has had a significant impact on Alberta's real estate market. While Alberta is expected to remain the driving force of Canada's economy, we believe that provinces surrounding Alberta will also benefit from the buoyant economy.

British Columbia

The Greater Vancouver office market remained strong in the fourth quarter and vacancy rates continued to drop. At year-end, the overall vacancy rate for the Vancouver region was 6.3%. With nearly one million square feet of absorption throughout 2007, Vancouver continues to be a popular place to do business.

Overall, vacancy rates have declined in the suburbs as well. However, a number of large vacancies in the Surrey and New Westminster submarkets have kept the vacancy rates in these markets abnormally high.

Alberta

Calgary has become Canada's most expensive office market and 2007 was another strong year. High labour costs, low unemployment and high construction costs, however, have also created challenges. While demand for space has softened somewhat during the second half of 2007, growth is expected to continue at a slightly slower, more sustainable pace.

The Calgary downtown office market showed an increase in overall vacancy to 3.4% from a historical low of 0.5% at the end of 2006. Given that approximately 1.5 million square feet of new product, comprising four buildings, was added to this market in 2007, this remains a very healthy marketplace. The Calgary suburban market showed a slight increase in overall vacancy in the fourth quarter to 3.8% due to the completion of new construction projects; however, overall absorption remained positive with large downtown tenants opting to relocate to the suburbs.

The Calgary industrial market remained extremely tight in the fourth quarter. The year-end overall vacancy rate decreased to an all-time low of 0.9%. New construction added an additional 3.7 million square feet of industrial inventory in 2007.

Edmonton's industrial market enjoyed continuous growth in 2007, driven by the demand for logistic and warehouse space resulting from investments in the oil sands infrastructure. The market finished the year strong with year-to-date absorption of 4.6 million square feet, the highest level of industrial absorption on record, and with vacancy remaining flat year-over-year. Industrial lease rates have shown remarkable increases in 2007 with demand outpacing supply for most of the year. Average rental rates range between $6.50—$14.00 per square foot. It's not anticipated that the vacancy rate will climb significantly in 2008, as space is absorbed from across the 2.9 million square feet of new developments that are currently under construction.

Saskatchewan and Northwest Territories

The natural resources sector continues to fuel not only the Alberta economy but also that of the surrounding provinces. The Saskatchewan market demonstrated exceptional growth in 2007 and this trend is expected to continue. Strong demand kept vacancy rates low with Regina recording the second lowest vacancy rate in the country after Calgary. Saskatoon was Canada's hottest housing market and benefited from major projects such as the PotashCorp mine expansion.

Saskatoon's downtown office market remains active as the vacancy rate continues to decline to an estimated 4.8% at the end of 2007. There are limited options available within the downtown core for any tenancies, in particular those with space requirements over 10,000 square feet. Over the last quarter, the lack of space has translated into moderately higher rental rates in quality downtown buildings.

The office market in Regina remained strong in 2007 with the reported vacancy rate of 2.1% at year-end. In connection with increased demand from both public and private sector tenants, rates are steadily increasing. Rental rates for all classes are averaging $12.00—$23.00 per square foot. With the lack of available space and the demand for office space expected to remain strong, tenants are forced to contemplate new construction in order to accommodate their requirements.

Oil and gas exploration and production, diamond and gold mining, government administration and tourism largely drive the economy in Yellowknife. The office market in Yellowknife continues to be stable. There has been a minor increase in both federal and territorial activity; however, it seems that many groups and agencies are waiting for announcements regarding the Mackenzie Pipeline and Canada's northern defense initiative. Both are expected to have a major impact on employment and office requirements in this city. The vacancy rate at the end of the fourth quarter was approximately 4.0%.

Ontario

Toronto's office market remained upbeat in 2007 despite growing concerns in the manufacturing sector due to the rise of the Canadian dollar and signs of recession in the United States. Job losses in the manufacturing sector, however, were offset by jobs created in the construction and services industry, particularly with respect to the condominium boom.

The Greater Toronto Area ("GTA") office market posted its lowest ever vacancy rate of 7.2%. As a direct consequence, the overall quoted asking net rental rate increased to $15.92 per square foot. The downtown Toronto vacancy rate followed this trend also achieving an historic low vacancy rate of 5.5% in the fourth quarter. The North Toronto market vacancy rate increased slightly to 5.4%, but the overall quoted asking net rental rate in this market increased to $15.16 per square foot in the fourth quarter.

Leasing profile

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

Performance indicators at December 31[1]	2007	2006
Operating activities (office and industrial average)		
Occupancy level	**96.7%**	96.4%
Tenant maturity profile — average term to maturity (years)	**3.9 years**	4.6 years
In-place rental rates	**$ 13.49**	$ 10.00

[1] Excludes redevelopment properties.

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

(Percentage)	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Office	**96.7**	**98.3**	**96.5**	**97.0**	97.0	96.4	96.1	96.1
Industrial	**96.7**	**94.0**	**95.8**	**97.0**	95.6	95.9	95.7	95.2
Overall	**96.7**	**97.0**	**96.2**	**97.0**	96.4	96.2	95.9	95.6

Excludes redevelopment properties.

The overall percentage of occupied and committed space across our rental properties portfolio was 96.7% at quarter-end. Our average office portfolio occupancy rate declined slightly to 96.7%; however, remains well ahead of the national industry average of 93.3%. The average occupancy rate across our industrial portfolio increased to 96.7%. The market availability rates for industrial space in Calgary and Edmonton were 2.2% and 2.5%, respectively (CB Richard Ellis, Canadian Office and Industrial Market Views, 4th Quarter 2007). The Dundee REIT occupancy rates discussed in this report include occupied and committed space at December 31, 2007, and exclude space to which the rent supplement is applied.

	Total portfolio		Comparative properties	
(Percentage) December 31	**2007**	2006	**2007**	2006
Office				
British Columbia	**96.8**	99.6	**99.9**	99.6
Alberta	**97.7**	99.4	**98.1**	99.4
Saskatchewan & NWT	**95.8**	95.5	**95.8**	95.5
Ontario	**91.6**	97.4	**91.6**	97.4
Sold properties	**—**	96.4	**—**	—
Total office	**96.7**	97.0	**96.9**	98.2
Industrial				
Alberta	**96.7**	99.6	**96.7**	99.6
Sold properties	**—**	94.3	**—**	—
Total industrial	**96.7**	95.6	**96.7**	99.6
Overall	**96.7**	96.4	**96.8**	98.7

Excludes redevelopment properties.

The percentage of occupied and committed space across our portfolio remains strong. While rates across a large part of our western Canadian portfolio represent virtually full economic occupancy, we currently have a vacancy in a downtown Toronto property due to a lease expiry.

The following tables provide a summary of leasing activity in our continuing portfolio to December 31, 2007.

	For the three months ended December 31, 2007		
(in square feet)	Office	Industrial	Total
Vacant space available — October 1, 2007	71,056	117,856	188,912
Remeasurements	804	1,325	2,129
Acquisitions	2,909	—	2,909
Leases terminated/expiring	168,368	142,801	311,169
Total space available for lease	243,137	261,982	505,119
New tenants	41,192	164,605	205,797
Renewals	55,577	37,121	92,698
Total space leased	96,769	201,726	298,495
Total space available for lease — December 31, 2007	146,368	60,256	206,624
Net (increase) decrease in vacant space	(75,312)	57,600	(17,712)

	For the year ended December 31, 2007		
(in square feet)	Office	Industrial	Total
Vacant space available — January 1, 2007	301,707	367,202	668,909
Net impact of sale of Eastern Portfolio	(240,726)	(360,106)	(600,832)
	60,981	7,096	68,077
Remeasurements	7,340	(45)	7,295
Acquisitions	29,268	—	29,268
Leases terminated/expiring	454,415	494,357	948,772
Total space available for lease	552,004	501,408	1,053,412
New tenants	192,218	232,009	424,227
Renewals	213,418	209,143	422,561
Total space leased	405,636	441,152	846,788
Total space available for lease — December 31, 2007	146,368	60,256	206,624
Net increase in vacant space	(85,387)	(53,160)	(138,547)

During the fourth quarter, approximately 311,000 square feet of leases expired or were terminated, and we completed approximately 298,000 square feet of renewals and new leasing, resulting in an 18,000 square foot increase in vacant space.

Throughout the year, approximately 949,000 square feet of leases expired or were terminated, 29,000 square feet of vacant space was acquired, and we completed 847,000 square feet of renewals and new leasing, resulting in a 139,000 square foot increase in vacant space.

Lease maturity profile as at December 31, 2007, by asset type and geographic segment:

(in square feet)	Current vacancy	Current monthly tenancies	2008	2009	2010	2011	2012 and thereafter	Total
Office	146,368	64,376	555,076	607,857	642,825	567,038	1,867,801	4,451,341
Industrial	60,256	60,150	249,365	291,593	237,742	316,166	632,389	1,847,661
Total	206,624	124,526	804,441	899,450	880,567	883,204	2,500,190	6,299,002
Percentage	3.3%	2.0%	12.7%	14.3%	14.0%	14.0%	39.7%	100.0%

Excludes redevelopment properties.

(in square feet)	Current vacancy	Current monthly tenancies	2008	2009	2010	2011	2012 and thereafter	Total
British Columbia	14,186	7,287	39,168	127,298	28,403	74,652	158,945	449,939
Alberta	122,904	116,941	476,301	548,827	751,254	743,942	1,833,733	4,593,902
Saskatchewan & NWT	35,600	—	266,519	75,386	85,914	61,223	324,215	848,857
Ontario	33,934	298	22,453	147,939	14,996	3,387	183,297	406,304
Total	206,624	124,526	804,441	899,450	880,567	883,204	2,500,190	6,299,002
Percentage	3.3%	2.0%	12.7%	14.3%	14.0%	14.0%	39.7%	100.0%

Excludes redevelopment properties.

We have a long and successful track record in managing our lease rollovers. In 2008, approximately 13% of our leases will be up for renewal. 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 the market conditions. As a result, we anticipate generating substantially higher cash flow as space is re-leased.

The following table provides expiring rents across our portfolio as well as an estimate of average market rents as at December 31, 2007:

	Current monthly tenancies	2008	2009	2010	2011	2012 and thereafter
Expiring rents						
Office	$ 11.03	$ 12.89	$ 15.44	$ 14.96	$ 18.95	$ 19.45
Industrial	5.62	5.90	5.57	8.60	7.26	7.46
Portfolio average	8.41	10.72	12.24	13.25	14.77	16.42
Market rents[1]						
Office	$ 27.89	$ 21.01	$ 21.85	$ 26.49	$ 26.71	$ 26.56
Industrial	6.13	8.18	7.17	10.33	9.33	7.68
Market rent average	17.38	17.04	17.09	22.13	20.49	21.78

[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	2008	2009	2010	2011	2012 and thereafter
Expiring rents						
British Columbia	$ 13.74	$ 14.23	$ 19.95	$ 15.35	$ 14.20	$ 15.43
Alberta	8.10	8.69	8.79	12.71	14.26	15.64
Saskatchewan & NWT	—	13.64	19.57	17.98	21.87	17.70
Ontario	—	13.06	14.69	8.87	10.04	22.83
Portfolio average	8.41	10.72	12.24	13.25	14.77	16.42
Market rents[1]						
British Columbia	$ 14.51	$ 14.43	$ 20.71	$ 18.80	$ 15.77	$ 19.00
Alberta	17.57	18.18	15.97	22.65	20.85	22.44
Saskatchewan & NWT	—	15.76	22.40	20.28	22.32	18.37
Ontario	—	12.50	15.43	12.50	12.50	23.68
Market rent average	17.38	17.04	17.09	22.13	20.49	21.78

[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 average 2008 market rental rate is approximately 59% higher than our 2008 expiring rental rate. 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 the amount of space rolling into the higher net rental rates.

Average remaining lease term and other portfolio information is as follows:

December 31			2007			2006
	Average remaining lease term (years)	**Average tenant size (sq. ft.)**	**Average in-place net rent (per sq. ft.)**[1]	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent (per sq. ft.)[1]
Office	**4.08**	**9,121**	**$ 16.30**	4.72	8,554	$ 13.67
Industrial	**3.50**	**7,909**	**$ 6.71**	4.36	13,024	$ 5.47
Portfolio average	**3.91**	**8,728**	**$ 13.49**	4.56	10,105	$ 10.00

All amounts exclude redevelopment properties.

[1] Average in-place rents include straight-line rent adjustments.

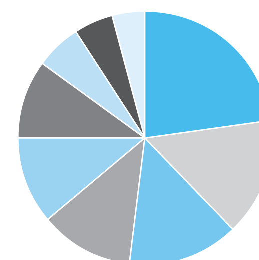
The sale of the Eastern Portfolio and the change in the composition of our portfolio had a significant impact on our average in-place rents and also impacted the average tenant size and average remaining lease term. We view our lease maturity profile as an opportunity to capture an uplift on below market rents as the leases roll over.

Our tenant base includes a wide range of high-quality tenants, including government, large international corporations and small entrepreneurial businesses across the country. With 698 tenants, our risk exposure to any single large lease or tenant is low. The average sizes of our office and industrial tenants are approximately 9,100 and 7,900 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.

The following graph 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, 2007)

- Other **23%**
- Professional, scientific and technical services **15%**
- Information and cultural industries **14%**
- Public administration **12%**
- Mining and oil and gas extraction **11%**
- Finance and insurance **10%**
- Transportation and warehousing **6%**
- Manufacturing **5%**
- Wholesale trade **4%**



The stability and quality of our cash flow is further enhanced by government and government agencies contributing 18% to our total gross rental revenue. Our ten largest tenants feature both federal and provincial governments as well as other nationally and internationally recognizable businesses. The table below highlights the quality of these tenancies and outlines their contribution to our cash flow.

Tenant	Owned area in sq. ft.	% of owned area	% of gross rental revenue	Expiry
TELUS Communications	311,479	4.9%	6.9%	2013—2016
Government of Canada	281,216	4.5%	5.8%	2008—2016
Government of British Columbia	168,365	2.7%	3.5%	2008—2014
Government of Northwest Territories	109,937	1.7%	3.0%	2008—2012
Government of Ontario	123,872	2.0%	2.9%	2009
State Street Trust Company	93,589	1.5%	2.8%	2012
SNC Lavalin	87,382	1.4%	2.1%	2012
International Financial Data Services	67,262	1.1%	1.9%	2013
Government of Saskatchewan	139,529	2.2%	1.8%	2008
Hatch Optima Ltd.	68,691	1.1%	1.5%	2011—2016
Total	1,451,322	23.1%	32.2%	

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, mezzanine loans 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, new equity or debt issues.

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

	For the three months ended December 31		For the year ended December 31	
	2007	2006	**2007**	2006
Cash generated from operating activities	**$ 9,952**	$ 24,003	**$ 83,967**	$ 87,862
Cash generated (utilized) in investing activities	**(30,045)**	(93,260)	**925,746**	(470,595)
Cash generated (utilized) from financing activities	**49,857**	127,141	**(1,042,983)**	437,214
Increase (decrease) in cash and cash equivalents	**$ 29,764**	$ 57,884	**$ (33,270)**	$ 54,481

At December 31, 2007, cash and cash equivalents were $37.7 million, an increase of $29.8 million compared to the third quarter, and a decrease of $33.3 million compared to December 31, 2006. The decrease was a result of the cash flows indicated above, including the impact of acquisitions, new financing activity, equity issues and the impact of the Transaction. We have a total of $50.0 million in revolving credit facilities, of which approximately $49.8 million is available to provide further funding for working capital or as a bridge facility to fund acquisitions.

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	
	2007	2006	**2007**	2006
Net income	**$ 29,224**	$ 7,952	**$ 762,302**	$ 11,218
Non-cash items:				
Amortization of market rent adjustments on acquired leases	**(3,393)**	(1,622)	**(11,833)**	(4,124)
All other depreciation and amortization	**13,287**	20,590	**83,053**	70,591
Provision for (reversal of) impairment in value of rental properties	**(6,298)**	—	**1,352**	—
Internalization of property manager	**—**	615	**1,230**	13,678
(Gain) loss on disposal of rental properties and land	**(4,968)**	4	**(733,816)**	(3,009)
Deferred unit compensation expense	**—**	354	**1,177**	1,170
Future income taxes	**(15,539)**	(111)	**(823)**	2,314
Straight-line rent adjustment	**(200)**	(767)	**(2,946)**	(3,164)
Non-controlling interest	**—**	—	**—**	1,876
	12,113	27,015	**99,696**	90,550
Deferred leasing costs incurred	**(690)**	(2,352)	**(5,628)**	(6,097)
Change in non-cash working capital	**(1,471)**	(660)	**(10,101)**	3,409
Cash generated from operating activities	**$ 9,952**	$ 24,003	**$ 83,967**	$ 87,862

Cash generated from operations for the year decreased as a result of the loss of contribution from the Eastern Portfolio, partially offset by the contribution of acquisitions completed in Western Canada.

The gain on disposal of rental properties and land is primarily due to the sale of our Eastern Portfolio, which resulted in a gain on sale of $721.9 million.

The amortization of market rent adjustments on acquired leases represents the impact of leases with below market rents, mainly related to certain properties acquired in Alberta during 2006 and 2007. Below market leases are recorded as intangible liabilities and are amortized to rental property revenue over the terms of the related leases.

As of June 12, 2007, amendments were made to the *Income Tax Act*, modifying the tax treatment of certain publicly traded trusts and partnerships that are SIFTs, such that certain distributions 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. Certain real estate investment trusts that satisfy specified conditions are excluded from the SIFT definition and therefore will not be subject to the SIFT Rules (the “REIT Exception”). 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 12, 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 statement of net income and comprehensive income for the quarter 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 and recorded as a component of discontinued operations. During the quarter ended December 31, 2007, as a result of modifying the organizational structure of Dundee REIT, the Trust now meets the REIT Exception as at December 31, 2007, and accordingly the remaining $15.0 million of the future income tax liability was reversed and recorded as a recovery through the consolidated statement of net income and comprehensive income.

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 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 sheet and consolidated statement 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.

In the second quarter of 2006, we fully internalized our property management function through the purchase of the remaining 50% interest of Dundee Management Limited Partnership ("DMLP"). On closing, 92,000 LP B Units were issued, placed in trust and enrolled in the DRIP to satisfy the maximum number of units that DRC could be entitled to receive on June 30, 2007, as a result of completing qualifying property acquisitions. The cost of these units was expensed and added to cumulative capital as qualifying properties were acquired. As of June 30, 2007, DRC received the maximum 100,000 LP B Units that it was entitled to receive.

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 for the year ended December 31, 2007, decreased 13% to $5.1 million, while leasing activity increased 35% and resulted in 847,000 square feet of leasing commitments. While both the office and industrial portfolios experienced increased leasing activity, a reduction in leasing costs in the office portfolio resulting from very strong markets was slightly offset by increased industrial leasing costs. The higher industrial leasing costs mainly relate to a new lease at a mixed-use building in Edmonton. These expenditures related to the office component of the building and resulted in a significant increase in NOI compared to the previous tenant.

Performance indicators	Office[1]	Industrial	Total
Operating activities (continuing portfolio)			
Portfolio size (sq. ft.)	4,451,341	1,847,661	6,299,002
Occupied and committed	96.7%	96.7%	96.7%
Square footage leased and occupied in 2007	408,549	507,131	915,680
Leasing costs	$ 1,442	$ 645	$ 2,087
Tenant improvements	$ 930	$ 2,037	$ 2,967

[1] Excludes redevelopment properties.

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, 2007, and assume that market conditions remain consistent with our current experience.

	Office	Industrial
Estimated average annual leasing activity (sq. ft.)	616,000	335,000
Average leasing costs (per sq. ft.)	$ 8.75	$ 2.00
Expected average annual leasing costs	$ 5,386	$ 670

Other assets and liabilities

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

Year-to-date deferred costs declined $42.0 million. This change includes an approximate $47.7 million decrease related to dispositions, a $15.9 million increase in deferred charges related to acquisitions and a $12.7 million increase in additional deferred expenditures, less $16.5 million in amortization and $7.0 million of deferred financing costs that was transferred to the related debt upon adopting new accounting policies for financial instruments in the first quarter of 2007. Complete details of deferred costs are provided in Note 5 of the 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 9 of the financial statements. During the year, net intangible liabilities increased by $3.5 million, mainly comprising a $13.5 million reduction related to dispositions and $12.8 million of amortization, offset by $29.8 million related to acquisitions. Net intangible assets decreased $34.0 million during the year, comprising approximately $71.3 million related to dispositions and $27.2 million in amortization expense, offset by $64.5 million in acquisitions.

Effective November 1, 2007, the Trust sold its 60% interest in two joint venture projects. As part of the transaction, all mezzanine loans were repaid and the related agreements were terminated.

Deposits of $2.6 million 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, 2007, the balance is down $1.4 million from December 31, 2006, mainly due to the sale of properties.

Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages. As of December 31, 2007, the balance is $4.2 million, down $1.4 million from December 31, 2006.

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 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 financial statements.

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

Year ending December 31	Operating lease payments	Capital lease payments
2008	$ 1,046	$ 142
2009	843	142
2010	738	142
2011	722	106
2012	682	—
2013 and thereafter	615	—
Total	$ 4,646	$ 532

Funds from operations

Management believes FFO is an important measure of our operating performance. This measurement is generally accepted as one of the most meaningful and useful measures of performance of real estate operations; however, it does not represent cash flow from operating activities as defined by GAAP and is not necessarily indicative of cash available to fund Dundee REIT's needs.

In 2005, the Real Property Association of Canada ("REALpac") provided guidelines on the definition of FFO to help promote more consistent disclosure. Until such time as all income trusts adopt this policy as we have, our computation of FFO may not be comparable to other REITs or income trusts.

	For the three months ended December 31		For the year ended December 31	
	2007	2006	**2007**	2006
Net income	**$ 29,224**	$ 7,952	**$ 762,302**	$ 11,218
Add (deduct):				
Depreciation of rental properties	**6,193**	11,259	**42,984**	39,908
Amortization of deferred leasing costs, tenant improvements and intangibles	**7,286**	9,384	**40,942**	30,643
Imputed amortization of leasing costs related to the rent supplement	**6**	81	**234**	694
Internalization of property manager	**—**	615	**1,230**	13,678
(Gain) loss on disposal of rental property and land	**(4,968)**	4	**(733,816)**	(3,009)
Provision for (reversal of) impairment in value of rental property	**(6,298)**	—	**1,352**	—
Future income tax	**(15,539)**	(111)	**(823)**	2,314
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(77)**	(17)	**(166)**	(53)
Income tax expense incurred as a result of the Transaction	**300**	—	**300**	—
Non-controlling interest	**—**	—	**—**	1,876
FFO	**$ 16,127**	$ 29,167	**$ 114,539**	$ 97,269
FFO per unit — basic	**$ 0.76**	$ 0.74	**$ 3.00**	$ 2.82
FFO per unit — diluted	**$ 0.76**	$ 0.71	**$ 2.95**	$ 2.69

The 6.0% increase in FFO per unit for the twelve-month period is primarily due to revenue generated by acquisitions as well as rising rental rates. Below market rents, which result in a non-cash amortization to our operating results, positively impacted FFO by $3.4 million and $11.8 million for the three- and twelve-month periods, respectively.

Diluted FFO per unit amounts assume the conversion of the 6.5% and 5.7% Debentures. The weighted average number of Units outstanding for basic and diluted FFO calculations for the quarter are 21,107,542 and 21,566,798, respectively. Diluted FFO includes interest and amortization adjustments of $0.2 million. Year-to-date, the weighted average number of Units outstanding for basic and diluted FFO calculations are 38,218,427 and 39,790,023, respectively. Diluted FFO includes interest and amortization adjustments of $2.8 million. The basic and diluted weighted average number of units outstanding include 263,905 and 147,565 vested deferred trust units for the three- and twelve-month periods, respectively.

Distributions and distributable income

Our Declaration of Trust requires us to make monthly cash distributions to our unitholders equal to at least 80% of distributable income ("DI") on an annual basis. Amounts retained in excess of the distributions are used to fund leasing costs and capital expenditure requirements. Given that working capital tends to fluctuate with 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.

For the year ended December 31, 2007, distributable income per unit was $2.60 and declared distributions were $2.20, representing an 85% payout ratio on a per unit basis. In the prior year comparative period, distributable income per unit was $2.58 and declared distributions were $2.20, also representing an 85% payout ratio on a per unit basis.

Distributable income

	For the three months ended December 31		For the year ended December 31	
	2007	2006	**2007**	2006
Cash generated from operating activities	**$ 9,952**	$ 24,003	**$ 83,967**	$ 87,862
Add (deduct):				
Deferred leasing costs incurred	**690**	2,352	**5,628**	6,097
Amortization of deferred financing costs incurred prior to June 30, 2003	**20**	65	**269**	335
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	**(4)**	16	**31**	73
Amortization of tenant inducement	**25**	20	**113**	19
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(77)**	(17)	**(166)**	(53)
Amortization of deferred financing costs	**(57)**	(445)	**(938)**	(1,922)
Change in non-cash working capital	**1,471**	660	**10,101**	(3,409)
Income tax expense incurred as a result of the Transaction	**300**	—	**300**	—
Distributable income	**$ 12,320**	$ 26,654	**$ 99,305**	$ 89,002
Distributable income per unit — basic	**$ 0.58**	$ 0.67	**$ 2.60**	$ 2.58
Distributable income per unit — diluted	**$ 0.58**	$ 0.65	**$ 2.57**	$ 2.48
Distributions	**$ 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.

Distributable income exceeds distributions paid and payable by $0.9 million and $19.3 million for the quarter and year-to-date, respectively. 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 $66.2 million relating to REIT A Units, $0.5 million relating to REIT B Units and $13.3 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. As of June 28, 2007, the DRIP was temporarily suspended in connection with the sale of the Eastern Portfolio. As a result, all distributions paid on and after July 15, 2007, were paid in cash. The DRIP was reinstated in January 2008.

	Declared distributions	4% additional distributions	Total
2007 distributions			
Paid in cash or reinvested in units	$ 75,716	$ 474	$ 76,190
Payable at December 31, 2007	3,818	—	3,818
Total distributions	$ 79,534	$ 474	$ 80,008
2007 reinvestment			
Reinvested to December 31, 2007	$ 11,844	$ 474	$ 12,318
Reinvested on January 15, 2008	—	—	—
Total distributions reinvested	$ 11,844	$ 474	$ 12,318
Distributions paid in cash	$ 67,690		
Reinvestment to distribution ratio	14.9%		
Cash distribution payout ratio	85.1%		

Distributions declared in the year ended December 31, 2007, totalled $79.5 million, an increase of $3.0 million over the comparative period. Of this amount, $11.8 million or 14.9% was reinvested in additional units. As a result of the temporary suspension of the DRIP, our cash payout ratio for our distributions rose to 85.1% (2006 — 69.4%). The increase in declared distributions is the result of an incremental increase in Units generated through the DRIP, REIT A Units issued as part of public offerings completed in 2006 and 2007, as well as REIT A Units issued on the conversion of debentures, offset by the impact of the Redemption that occurred prior to the record date of the August distribution.

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	
	2007	2006	**2007**	2006
Net income	**$ 29,224**	$ 7,952	**$ 762,302**	$ 11,218
Cash flow from operating activities	**$ 9,952**	$ 24,003	**$ 83,967**	$ 87,862
Distributions paid and payable	**$ 11,450**	$ 22,373	**$ 80,008**	$ 77,449
Excess/(shortfall) of cash flow from operating activities over cash distributions	**$ (1,498)**	$ 1,630	**$ 3,959**	$ 10,413
Excess/(shortfall) of net income over cash distributions	**$ 17,774**	$ (14,421)	**$ 682,294**	$ (66,231)

For the twelve-month period, cash flow from operating activities exceeded distributions paid and payable by $4.0 million, reflecting our ability to fund distributions from cash from operating activities. During the quarter, distributions paid and payable exceeded cash flow from operating activities by $1.5 million mainly due to the decrease in accounts payable since September 30, 2007. This shortfall was funded by our cash and cash equivalents. 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. In 2007, net income exceeded distributions paid and payable by $17.8 million and $682.3 million for the three and twelve months, respectively. This excess was mainly a result of non-cash depreciation, amortization expense, gains on sale and future income taxes, 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	
	2007	2006	**2007**	2006
Distributable income	**$ 12,320**	$ 26,654	**$ 99,305**	$ 89,002
Adjusted for:				
Normalized leasing costs and tenant improvements	**(1,149)**	(3,350)	**(10,732)**	(12,200)
Normalized non-recoverable recurring capital expenditures	**(117)**	(350)	**(1,089)**	(1,400)
AFFO	**$ 11,054**	$ 22,954	**$ 87,484**	$ 75,402
AFFO per unit — basic	**$ 0.52**	$ 0.58	**$ 2.29**	$ 2.19

Management believes that AFFO is an important measure of our economic performance and is indicative of our ability to pay distributions. This measurement is generally accepted as one of the most appropriate measures 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 34, 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.

The decline in AFFO was largely as a result of the sale of the Eastern Portfolio. The continuing portfolio comprises growth-oriented assets where the narrowing between market and in-place rents will translate into future AFFO growth.

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	
	2007	2006	**2007**	2006
Investment in rental properties	**$ (1,647)**	$ (2,659)	**$ (11,295)**	$ (9,173)
Investment in tenant improvements	**(656)**	(3,662)	**(6,424)**	(7,667)
Investment in land development	**(138)**	(1,047)	**(3,111)**	(2,103)
Acquisition of rental properties and land	**(43,004)**	(98,140)	**(560,324)**	(484,667)
Acquisition deposit on rental properties	**(1,700)**	(3,600)	**(2,600)**	(3,600)
Receipt of mezzanine loan	**3,918**	13,142	**3,450**	9,487
Investment in promissory note	**(11,747)**	—	**(11,747)**	—
Vendor take-back mortgage repayment	**—**	3,450	**—**	3,450
Net proceeds from disposal of rental properties and land	**24,740**	(78)	**1,516,385**	24,922
Change in restricted cash, net	**189**	(666)	**1,412**	(1,244)
Cash generated from (utilized) in investing activities	**$ (30,045)**	$ (93,260)	**$ 925,746**	$ (470,595)

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

Performance indicators	For the three months ended December 31 **2007**	2006	For the year ended December 31 **2007**	2006
Investing activities				
Acquisition of rental properties and land	**$ 52,461**	$ 103,259	**$ 665,478**	$ 598,489
Building improvements	**$ 1,615**	$ 3,444	**$ 10,575**	$ 9,028

Acquisitions and dispositions

During the fourth quarter, we completed two acquisitions for $52.5 million, adding approximately 149,000 square feet to our portfolio. Throughout 2007, we completed acquisitions totalling $665.5 million.

During the third quarter, we sold our Eastern Portfolio to GE for a total purchase price of approximately $2.3 billion, including the assumption of liabilities by GE relating to the Eastern Portfolio. Our operating portfolio now comprises office and industrial properties located primarily in Western Canada. Further detail on the Transaction is provided on page 42.

During the third quarter, we sold a 174,000 square foot industrial property located in Montréal, Québec, for proceeds of $8.0 million. During the fourth quarter we sold a 109,000 square foot industrial property in Calgary, Alberta, for $8.2 million and disposed of our interest in two joint-venture projects, Barker Business Park (Phase II) in Richmond Hill, Ontario, and Tullamore Business Park in Caledon, Ontario, for proceeds of approximately $16.8 million.

For the year ended December 31, 2007	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
30 and 55 St. Clair Avenue West, Toronto[1]	office	100	426,000	96	$ 110,798	$ —	January 9, 2007
625 Agnes Street, New Westminster	office	100	83,000	88	14,587	—	January 24, 2007
Aspen Portfolio, Calgary	office	100	543,000	99	172,130	29,225	March 13, 2007
HCI Portfolio, Vaughan, Burlington and Mississauga[1]	industrial	100	2,100,000	98	237,721	56,528	May 1, 2007
501 Applewood Crescent, Vaughan[1]	industrial	100	76,000	100	6,787	—	May 1, 2007
154 University Avenue, Toronto[1]	office	100	67,000	100	13,784	5,487	May 10, 2007
4400 Dominion Street, Burnaby	office	100	91,000	93	18,637	—	June 27, 2007
Airport Corporate Centre, Calgary	office	100	148,000	100	38,207	—	July 6, 2007
Development property, Yellowknife	office	100	—	—	366	—	August 30, 2007
435-4th Avenue, Calgary	office	100	89,000	100	35,735	9,457	October 9, 2007
960 Quayside Drive, New Westminster	office	100	60,000	95	16,726	—	November 29, 2007
Total			3,683,000	98	$ 665,478	$ 100,697	

[1] Disposed of as a part of the Eastern Portfolio.

Acquisitions and dispositions subsequent to year-end

On January 31, 2008, we completed the purchase of the AIR MILES Tower, a 322,000 square foot office building located at 438 University Avenue in downtown Toronto, for a purchase price of approximately $92.4 million.

Building improvements

	For the three months ended December 31		For the year ended December 31	
	2007	2006	**2007**	2006
Building improvements:				
Recurring recoverable	**$ 404**	$ 2,306	**$ 4,236**	$ 5,066
Recurring non-recoverable	**2**	440	**1,562**	637
Non-recurring	**1,209**	698	**4,777**	3,325
Total	**$ 1,615**	$ 3,444	**$ 10,575**	$ 9,028

For the three-month period, capital expenditures or expenditures accrued for rental property building improvements and equipment were $1.6 million (December 31, 2006 — $3.4 million). The $0.4 million recurring recoverable costs incurred in the quarter included $0.1 million for elevator repair, $0.1 million for boiler work, and $0.2 million for general building maintenance required throughout the portfolio. Non-recurring expenditures of $1.2 million in the quarter included $0.7 million to re-clad an office property in the continuing portfolio.

For the year, expenditures on building improvements totalled $10.6 million (December 31, 2006 — $9.0 million). Recurring recoverable costs totalled $4.2 million, of which $2.2 million relates to the continuing portfolio, comprising $0.7 million for air conditioning work, $0.4 million for various roof replacements, and $1.1 million for general building maintenance. Year-to-date, $1.6 million in recurring non-recoverable costs were incurred, of which only $0.1 million relates to the continuing portfolio. Non-recurring expenditures of $4.8 million for the year include approximately $1.6 million that relates to the continuing portfolio, comprising approximately $1.4 million to re-clad an office property and $0.2 million for general maintenance and construction costs.

As part of our acquisition due diligence, we endeavour to identify any near-term capital expenditure requirements and factor those costs into our investment analysis and purchase price negotiations. Such potential expenditures are approved in the acquisition process and will be identified as incurred. Anticipated non-recoverable capital expenditures associated with both the current quarter and year-to-date acquisitions are expected to be approximately $1.7 million and will be incurred over the next two to three years. These expenditures were factored into the purchase price paid for our acquisitions.

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.

As part of the Transaction, the cash proceeds received on the sale of our Eastern Portfolio were used to redeem 29,915,284 outstanding Units for $47.50 per unit. In addition, GE purchased 3,473,687 outstanding units at a purchase price of $47.50 per unit.

The following table details our cash generated from financing activities:

	For the three months ended December 31		For the year ended December 31	
	2007	2006	**2007**	2006
Mortgages placed, net of costs	**$ 155,093**	$ 48,323	**$ 391,266**	$ 294,985
Mortgage principal repayments	**(2,784)**	(6,917)	**(24,896)**	(25,380)
Mortgage lump sum repayments	**(47,205)**	(32,429)	**(68,983)**	(79,486)
Term debt principal repayments	**21**	(66)	**(65)**	(364)
Term debt lump sum repayments	**(6,921)**	—	**(6,921)**	(14,957)
Term debt placed, net of costs	**6**	44	**84**	6,139
Demand revolving credit facility	**(36,901)**	(10,362)	**—**	—
Distributions paid on REIT Units	**(11,442)**	(15,138)	**(70,534)**	(50,074)
Redemption of units	**—**	—	**(1,420,980)**	—
Deferred trust and income deferred units cancelled	**—**	—	**(5,492)**	—
Units issued, net of costs	**(10)**	143,686	**163,538**	306,351
Cash generated from (utilized in) financing activities	**$ 49,857**	$ 127,141	**$(1,042,983)**	$ 437,214

Debt

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

December 31	**2007**	2006
Financing activities		
Average interest rate	**5.76%**	5.95%
Level of debt (debt-to-enterprise value)	**50.6%**	41.8%
Interest coverage ratio	**2.51 times**	2.46 times
Proportion of total debt due within one year	**4.8%**	4.7%
Debt — average term to maturity (years)	**6.1**	5.8
Variable rate debt as percentage of total debt	**2.4%**	2.2%

Our amended Declaration of Trust requires that we maintain an interest coverage ratio of no less than 1.4 times. This ratio is calculated by dividing NOI from continuing operations plus interest and fee income, less general and administrative expenses by interest expense from continuing operations. The interest coverage ratio replaces the limit on our overall debt-to-gross book value in our Declaration of Trust as a key metric in evaluating the management of our debt. The interest coverage ratio is 2.51 times as at December 31, 2007, and reflects our ability to cover interest expense requirements. The slight decline in the interest coverage ratio from the 2.59 times achieved in the third quarter reflects the impact of the sale of the Eastern Portfolio as well as having undeployed cash during the quarter.

Our average interest rate as at December 31, 2007, was 5.76%, an improvement over both the prior quarter and the prior year (Q3 — 5.87%, 2006 — 5.95%). The improvement is mainly due to mortgage financing activity, the proceeds of which were partially used to repay credit facilities at higher interest rates.

Variable rate debt as a percentage of total debt decreased during the quarter as a result of repaying revolving credit facilities, but is slightly higher than in 2006, mainly as a result of the sale of the Eastern Portfolio.

December 31			**2007**			2006
	Fixed	**Variable**	**Total**	Fixed	Variable	Total
Mortgages	**$ 651,844**	**$ 16,344**	**$ 668,188**	$ 1,036,909	$ 19,402	$ 1,056,311
Term debt	**451**	**—**	**451**	2,238	5,526	7,764
6.5% Debentures	**3,857**	**—**	**3,857**	24,438	—	24,438
5.7% Debentures	**7,983**	**—**	**7,983**	65,281	—	65,281
Total	**$ 664,135**	**$ 16,344**	**$ 680,479**	$ 1,128,866	$ 24,928	$ 1,153,794
Percentage	**97.6%**	**2.4%**	**100%**	97.8%	2.2%	100%

Mortgages payable include a $4.8 million fair value adjustment (December 31, 2006 — $9.6 million) reflecting the fair value of mortgages assumed in connection with acquisitions. During the year, $78.1 million of debentures were converted into 2,739,923 REIT A Units. Amounts recorded as at December 31, 2007, for the 6.5% and 5.7% Debentures are net of the $0.1 million premiums allocated to their conversion features. The fair value adjustment and premium are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method. Further details on the conversions are provided on page 41.

Debt financing activity

During the year we secured approximately $393.1 million in new mortgage financing of which $218.7 million related to the continuing portfolio. The new financings relating to the continuing portfolio were completed with an average term to maturity of 6.9 years and an average interest rate of 5.6%. As a result, our overall average interest rate decreased to 5.76% and our average term to maturity was extended to 6.1 years.

A demand revolving credit facility is available up to a formula-based maximum of $50.0 million, bearing interest generally at the bank prime rate (6.0% as at December 31, 2007) plus 0.375% or bankers' acceptance rates. The expiration of the facility was extended to April 30, 2008, and is secured by a first-ranking collateral mortgage on four of the Trust's properties and a second-ranking collateral mortgage on one property. As at December 31, 2007, $nil was drawn.

Changes in debt levels are as follows:

	For the three months ended December 31, 2007				
	Mortgages	Term debt	Revolving credit facilities[1]	Convertible debentures	Total
Debt as at September 30, 2007	$ 553,859	$ 7,756	$ 36,901	$ 13,068	$ 611,584
New debt assumed on rental property acquisitions	9,457	—	—	—	9,457
New debt placed	155,599	293	—	—	155,892
Scheduled repayments	(2,784)	—	—	—	(2,784)
Lump sum repayments	(47,205)	(7,619)	(36,901)	—	(91,725)
Conversion to unit equity	—	—	—	(1,284)	(1,284)
Amortization and other adjustments	(738)	21	—	56	(661)
Debt as at December 31, 2007	**$ 668,188**	**$ 451**	**$ —**	**$ 11,840**	**$ 680,479**

	For the year ended December 31, 2007				
	Mortgages	Term debt	Revolving credit facilities[1]	Convertible debentures	Total
Debt as at December 31, 2006	$ 1,056,311	$ 7,764	$ —	$ 89,719	$ 1,153,794
Adjustment on adoption of new financial instrument accounting standard	(3,596)	—	—	(3,746)	(7,342)
New debt assumed on rental property acquisitions	97,457	—	—	—	97,457
New debt placed	393,099	371	237,562	—	631,032
Scheduled repayments	(24,896)	(65)	—	—	(24,961)
Lump sum repayments	(68,983)	(7,619)	(237,562)	—	(314,164)
Assumed by purchaser on property dispositions	(774,735)	—	—	—	(774,735)
Conversion to unit equity	—	—	—	(78,105)	(78,105)
Amortization and other adjustments	(6,469)	—	—	3,972	(2,497)
Debt as at December 31, 2007	**$ 668,188**	**$ 451**	**$ —**	**$ 11,840**	**$ 680,479**

[1] Our credit facilities have not exceeded the maximum amounts available at any time during the year.

Effective January 1, 2007, we adopted new accounting standards for recognizing and measuring financial assets and liabilities on our balance sheet. This standard is applied prospectively and does not permit the restatement of prior periods. As a result of adopting the standard, deferred financing costs of $3.6 million and $3.7 million have been deducted from mortgages and convertible debentures, respectively.

In connection with the sale of the Eastern Portfolio, $774.7 million in mortgages were repaid or assumed by GE. During the fourth quarter, we assumed a $9.5 million mortgage related to a property acquired in Calgary.

December 31	Debt maturities	Scheduled principal repayments on non-matured debt	Amount	%	Weighted average interest rate on balance due at maturity %
2008	$ 19,304	$ 13,447	$ 32,751	4.8	7.43
2009	51,766	13,661	65,427	9.6	6.22
2010	5,867	14,359	20,226	3.0	5.24
2011	70,348	14,231	84,579	12.5	6.03
2012	99,997	12,085	112,082	16.5	5.57
2013 and thereafter	334,601	28,929	363,530	53.6	5.64
Total	$ 581,883	$ 96,712	678,595	100.0	5.78
Fair value adjustments			4,716		
Deferred financing costs			(2,832)		
Total			$ 680,479		

Convertible debentures

During the year we issued 2,739,923 REIT A Units upon the conversion of $78.1 million of the principal amount of 6.5% and 5.7% Debentures.

With respect to the 6.5% Debentures, we issued 818,880 REIT A Units upon the conversion of $20.5 million of the principal amount. Subsequent to year-end, we issued an additional 3,480 REIT A Units upon the conversion of $0.1 million of the principal amount. The total principal amount outstanding at January 31, 2008, was $4.0 million, and is convertible into 160,960 REIT A Units.

With respect to the 5.7% Debentures, we issued 1,921,043 REIT Units upon the conversion of $57.6 million of the principal amount. Subsequent to year-end, we issued an additional 3,698 REIT A Units upon the conversion of $0.1 million of the principal amount. The total principal amount outstanding at January 31, 2008, was $8.2 million, and is convertible into approximately 272,900 REIT A Units.

Effective January 14, 2008, the Trust completed a public offering of $125.0 million principal amount of convertible unsecured subordinated debentures with a coupon rate of 6% per annum payable semi-annually on June 30 and December 31, commencing on June 30, 2008, and due on December 31, 2014. A portion of the principal relating to the conversion feature will be classified as a component of unitholders' equity.

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, 2006	34,854,553	—	8,565,095	43,419,648
Units issued pursuant to public offerings	4,195,000	—	—	4,195,000
Units issued pursuant to internalization of property manager	—	—	44,674	44,674
Units issued pursuant to DRIP	335,159	—	13,259	348,418
Unit Purchase Plan	1,170	—	—	1,170
Units issued pursuant to Deferred Unit Incentive Plan	30,370	—	—	30,370
Unit redemption	(25,813,362)	(4,102,022)	—	(29,915,384)
Conversion of 6.5% Debentures	818,880	—	—	818,880
Conversion of 5.7% Debentures	1,921,043	—	—	1,921,043
Exchange of units	729,341	4,578,338	(5,307,679)	—
Total units outstanding on December 31, 2007	17,072,154	476,316	3,315,349	20,863,819
Percentage of all units	81.8%	2.3%	15.9%	100%
Units issued pursuant Deferred Unit Incentive Plan	9,758	—	—	9,758
Conversion of 6.5% Debentures	3,480	—	—	3,480
Conversion of 5.7% Debentures	3,698	—	—	3,698
Total units outstanding on January 31, 2008	17,089,090	476,316	3,315,349	20,880,755
Percentage of all units	81.8%	2.3%	15.9%	100%

Normal course issuer bid

On August 30, 2007, we filed with the Toronto Stock Exchange ("TSX") a Notice of Intention to make a normal course issuer bid. Under the bid, Dundee REIT will have the ability to purchase for cancellation up to a maximum of 1,359,844 of its 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. The bid commenced on September 5, 2007, and will remain in effect until the earlier of September 4, 2008, or the date on which the REIT has purchased the maximum number of units permitted under the bid. The Trust's average daily trading volume for the then most recently completed six months was 360,465 REIT A Units. As of December 31, 2007, the number of issued and outstanding REIT A Units is 17,072,154. Based on the December 31, 2007, closing price of the REIT A Units, the Trust may purchase up to $45.9 million worth of REIT A Units. To date the Trust has not made any acquisition pursuant to this bid.

SALE OF THE EASTERN PORTFOLIO TO GE REAL ESTATE

On August 24, 2007, we completed the sale of the Eastern Portfolio to GE for a total purchase price of $2.3 billion, including the assumption of liabilities by GE relating to this portfolio (the "Transaction"). Dundee REIT continues to own a portfolio of office and industrial properties located primarily in Western Canada, with an estimated market value of approximately $1.5 billion, and a subsidiary of Dundee REIT continues to perform the property management function.

On closing, Dundee REIT received cash of approximately $1.5 billion. The cash consideration received was approximately $100 million less than the anticipated $1.6 billion as a result of certain properties that we were not able to transfer to GE on closing due to the purchase rights of our co-owners or certain tenants ("Holdback Properties"). The cash proceeds received on closing were used to redeem approximately 29.9 million outstanding units for $47.50 per unit (the "Redemption"). In addition, GE purchased approximately 3.5 million outstanding units at a purchase price of $47.50 per unit (the "Transfer"), which gave GE an approximate 16% equity interest in the Trust. Dundee REIT incurred transaction costs of approximately $18.5 million in relation to the Transaction. These costs include $4.3 million related to accelerated vesting of deferred trust units and income deferred trust units, $2.1 million relating to the purchase and cancellation of deferred trust units and income trust units from trustees, senior officers and transferring employees who had elected such purchases, and $3.9 million related to the special award of deferred trust units in connection with the Transaction.

On closing, Dundee REIT entered into an asset management agreement with DRC (the "Asset Management Agreement") pursuant to which DRC provides asset management services to Dundee REIT with respect to the Western Portfolio. The Asset Management Agreement is for an initial term of five years and is renewable for further five-year terms in accordance with the Termination and Term provisions of the agreement. Also on closing, DRC and GE entered into an asset management agreement pursuant to which DRC provides asset management services to GE with respect to the Eastern Portfolio.

On closing, GE also entered into an administrative services agreement with Dundee REIT, pursuant to which DMLP will, for up to a two-year term, provide certain general office support services, including information systems support, human resources and payroll services, regulatory compliance services, accounting services and such other services as GE may reasonably request from time to time.

The Transaction was approved by more than 99% of the votes cast by unitholders, including over 99% of the votes cast by minority unitholders, at a special unitholder meeting held on August 15, 2007. Unitholders also approved various amendments to the governing documents of Dundee REIT and its subsidiaries in respect of the governance and operation of the Trust, including the modification of Dundee Corporation's existing board appointment rights and changes to the investment guidelines and operating policies of Dundee REIT's operating subsidiary, DPLP.

Subsequent to August 24, 2007, we sold one property to its tenant for proceeds of $8.0 million. We have retained our interest in the remaining Holdback Properties located in Toronto and Atlanta.

OUR RESULTS OF OPERATIONS

	For the three months ended December 31		For the year ended December 31	
	2007	2006	**2007**	2006
Revenues				
Rental properties revenue	**$ 42,921**	$ 32,242	**$ 155,161**	$ 102,389
Interest and fee income	**1,023**	1,252	**2,941**	3,631
	43,944	33,494	**158,102**	106,020
Expenses				
Rental properties operating expenses	**16,035**	12,364	**55,603**	38,978
Interest	**10,154**	9,295	**37,822**	34,032
Depreciation of rental properties	**6,180**	5,087	**23,361**	16,567
Amortization of deferred leasing costs, tenant improvements and intangibles	**7,282**	3,650	**23,346**	12,397
General and administrative	**1,534**	1,861	**7,600**	6,812
	41,185	32,257	**147,732**	108,786
Income (loss) before the undernoted item	**2,759**	1,237	**10,370**	(2,766)
Internalization of property manager	**—**	(615)	**(1,230)**	(13,678)
Gain on disposal of rental property and land	**—**	9	**2,328**	(220)
Reversal of (provision for) impairment of rental property previously recorded as held for sale	**6,298**	—	**(1,352)**	—
Income (loss) before income taxes	**9,057**	631	**10,116**	(16,664)
Income taxes				
Current income	**8**	22	**30**	62
Future income taxes	**(15,539)**	(111)	**(823)**	2,314
	(15,531)	(89)	**(793)**	2,376
Income (loss) before non-controlling interest and discontinued operations	**24,588**	720	**10,909**	(19,040)
Income attributable to non-controlling interest	**—**	—	**—**	(1,003)
Income (loss) before discontinued operations	**24,588**	720	**10,909**	(20,043)
Discontinued operations	**4,636**	7,232	**751,393**	31,261
Net income	**$ 29,224**	$ 7,952	**$ 762,302**	$ 11,218

Rental properties revenue

Revenues include net rental or basic income from rental properties as well as the recovery of operating costs, property taxes, parking revenues and other miscellaneous revenues from tenants. The $52.8 million or 52% increase in rental property revenue is primarily a result of additional revenues generated by acquisitions.

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. Reduced interest on smaller bank balances and mezzanine loans resulted in a $0.7 million decline in interest.

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, repairs and maintenance. Expenses for the twelve months increased $16.6 million or 43%, mainly reflecting the additional costs associated with acquired properties; however, this is offset by 52% growth in rental properties revenue.

Interest expense

Interest expense for the twelve-month period increased $3.8 million reflecting debt assumed on acquisitions and financing activity completed during the year. The interest coverage ratio, which reflects our ability to cover our interest expense requirements, is 2.51 times as at December 31, 2007.

Depreciation of rental properties

Depreciation increased by $6.8 million or 41% compared with the same year in 2006 mainly as a result of acquisitions.

Amortization of deferred leasing costs, tenant improvements and intangibles

Amortization for the year was $23.3 million, an increase of $11 million or 88% over the comparative year. The increase is largely due to the allocation of a portion of the purchase price to intangibles on new acquisitions since 2006.

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 year were $7.6 million, an increase of $0.8 million or 12% over the comparative year resulting from increased management expenses including executive compensation, listing fees, and audit and consulting expenses.

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 balance sheet and income statement.

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 12, 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 statement of net income and comprehensive income for the quarter 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 and recorded as a component of discontinued operations. As a result of modifying our organizational structure in December 2007, the Trust has met the REIT Exception as at December 31, 2007, and accordingly the remaining $15.0 million of the future income tax liability was reversed and recorded as a recovery through the consolidated statement 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 income statement. Discontinued operations primarily refers to the Eastern Portfolio and includes the net gain recorded on the 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 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 20 to the financial statements. Prior to May 1, 2006, Dundee REIT, DPLP (an indirect subsidiary of Dundee REIT), DMLP (an indirect subsidiary of Dundee REIT), and DRC were parties to a property management agreement and an administrative services agreement (the "Management Agreement" and the "Services Agreement"). In addition, DMLP and DRC are parties to a separate administrative services agreement. Effective May 1, 2006, the Trust acquired DRC's 50% interest in DMLP. As a result, DRC is no longer party to the Management Agreement, other than to its rent supplement obligation, and the Services Agreement. DMLP and DRC have extended the term of the DRC Services Agreement until June 30, 2013.

During the year, we received $0.4 million in fees related to the rent supplement and $1.9 million related to the DRC Services Agreement and paid $2.1 million related to the Asset Management Agreement.

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	
	2007	2006	**2007**	2006
Net income	**$ 29,224**	$ 7,952	**$ 762,302**	$ 11,218
Add (deduct):				
Interest expense	**10,154**	10,262	**37,822**	34,032
Depreciation of rental properties	**6,180**	5,849	**23,361**	16,567
Amortization of deferred leasing costs, tenant improvements and intangibles	**7,282**	3,852	**23,346**	12,397
General and administrative expenses	**1,534**	1,861	**7,600**	6,812
Gain on disposal of rental property and land	**—**	220	**(2,328)**	220
Provision for (reversal of) impairment in value of rental property	**(6,298)**	—	**1,352**	—
Internalization of property manager	**—**	615	**1,230**	13,678
Interest and fee income	**(1,023)**	(1,252)	**(2,941)**	(3,631)
Income taxes	**(15,531)**	1,967	**(793)**	2,376
Non-controlling interest	**—**	393	**—**	1,003
Depreciation, amortization, interest, provision for impairment, future income taxes, gain or loss on disposition, and non-controlling interest included in discontinued operations	**(4,682)**	15,317	**(669,055)**	71,234
NOI including redevelopment and discontinued operations	**$ 26,840**	$ 47,036	**$ 181,896**	$ 165,906

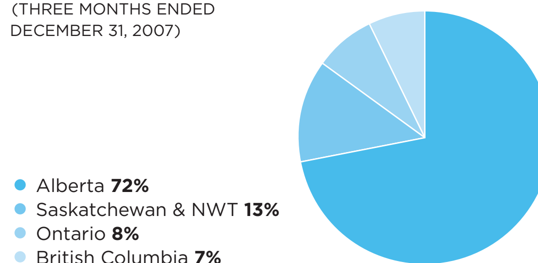
We define NOI as the total of rental property revenues less rental property operating expenses. NOI, before redevelopment and discontinued operations, for the quarter increased 38% over the comparative period, primarily due to income generated by properties acquired in 2006 and 2007. NOI generated by our comparative portfolio increased $0.7 million or 7% for the quarter and $3.6 million or 9% for the year, largely driven by increased occupancy and higher rental rates achieved on renewals and new leasing. Discontinued operations mainly reflects the results of the Eastern Portfolio.

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2007	2006	Amount	%	**2007**	2006	Amount	%
Office	**$ 23,468**	$ 16,307	$ 7,161	44	**$ 85,595**	$ 49,699	$ 35,896	72
Industrial	**2,988**	2,799	189	7	**12,084**	10,517	1,567	15
NOI	**26,456**	19,106	7,350	38	**97,679**	60,216	37,463	62
Redevelopment	**430**	772	(342)		**1,879**	3,195	(1,316)	
Discontinued operations	**(46)**	27,158	(27,204)		**82,338**	102,495	(20,157)	
NOI including redevelopment and discontinued operations	**$ 26,840**	$ 47,036	$ (20,196)	(43)	**$ 181,896**	$ 165,906	$ 15,990	10

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2007	2006	Amount	%	**2007**	2006	Amount	%
British Columbia	**$ 1,929**	$ 1,172	$ 757	65	**$ 6,702**	$ 4,696	$ 2,006	43
Alberta	**18,997**	12,615	6,382	51	**68,746**	39,095	29,651	76
Saskatchewan & NWT	**3,546**	3,423	123	4	**14,242**	8,728	5,514	63
Ontario	**1,984**	1,896	88	5	**7,989**	7,697	292	4
NOI	**26,456**	19,106	7,350	38	**97,679**	60,216	37,463	62
Redevelopment	**430**	772	(342)		**1,879**	3,195	(1,316)	
Discontinued operations	**(46)**	27,158	(27,204)		**82,338**	102,495	(20,157)	
NOI including redevelopment and discontinued operations	**$ 26,840**	$ 47,036	$ (20,196)	(43)	**$ 181,896**	$ 165,906	$ 15,990	10

NOI BY SEGMENT
(THREE MONTHS ENDED DECEMBER 31, 2007)

NOI BY REGION
(THREE MONTHS ENDED DECEMBER 31, 2007)



NOI comparative portfolio

NOI shown below highlights comparative and non-comparative items to assist in understanding the impact each component has on NOI. The Eastern Portfolio is classified as discontinued operations. The discontinued operations that contributed to NOI are shown separately to conform to the required income statement presentation. The following review of operations focuses on our continuing 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 years ended December 31			
			Growth				Growth	
	2007	2006	Amount	%	**2007**	2006	Amount	%
Office	**$ 7,915**	$ 7,437	$ 478	6	**$ 31,435**	$ 29,014	$ 2,421	8
Industrial	**2,704**	2,497	207	8	**10,808**	9,596	1,212	13
Comparative properties	**10,619**	9,934	685	7	**42,243**	38,610	3,633	9
Acquisitions	**12,262**	7,363	4,899		**43,426**	16,777	26,649	
Rent supplement	**22**	23	(1)		**86**	43	43	
GAAP adjustments	**3,553**	1,786	1,767		**11,924**	4,786	7,138	
NOI	**26,456**	19,106	7,350	38	**97,679**	60,216	37,463	62
Redevelopment	**430**	772	(342)		**1,879**	3,195	(1,316)	
Discontinued operations	**(46)**	27,158	(27,204)		**82,338**	102,495	(20,157)	
NOI including redevelopment and discontinued operations	**$ 26,840**	$ 47,036	$ (20,196)	(43)	**$ 181,896**	$ 165,906	$ 15,990	10

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2007	2006	Amount	%	**2007**	2006	Amount	%
Alberta	**$ 7,340**	$ 6,733	$ 607	9	**$ 28,729**	$ 25,796	$ 2,933	11
British Columbia	**1,120**	1,155	(35)	(3)	**4,822**	4,646	176	4
Saskatchewan & NWT	**185**	208	(23)	(11)	**812**	768	44	6
Ontario	**1,974**	1,838	136	7	**7,880**	7,400	480	6
Comparative properties	**10,619**	9,934	685	7	**42,243**	38,610	3,633	9
Acquisitions	**12,262**	7,363	4,899		**43,426**	16,777	26,649	
Rent supplement	**22**	23	(1)		**86**	43	43	
GAAP adjustments	**3,553**	1,786	1,767		**11,924**	4,786	7,138	
NOI	**26,456**	19,106	7,350	38	**97,679**	60,216	37,463	62
Redevelopment	**430**	772	(342)		**1,879**	3,195	(1,316)	
Discontinued operations	**(46)**	27,158	(27,204)		**82,338**	102,495	(20,157)	
NOI including redevelopment and discontinued operations	**$ 26,840**	$ 47,036	$ (20,196)	(43)	**$ 181,896**	$ 165,906	$ 15,990	10

Comparative NOI growth was driven by rising rental rates across our office and industrial portfolios nationally.

Comparative office portfolio

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2007	2006	Amount	%	**2007**	2006	Amount	%
British Columbia	**$ 1,120**	$ 1,155	$ (35)	(3)	**$ 4,822**	$ 4,646	$ 176	4
Alberta	**4,636**	4,236	400	9	**17,921**	16,200	1,721	11
Saskatchewan & NWT	**185**	208	(23)	(11)	**812**	768	44	6
Ontario	**1,974**	1,838	136	7	**7,880**	7,400	480	6
Comparative properties	**7,915**	7,437	478	6	**31,435**	29,014	2,421	8
Acquisitions	**12,034**	7,125	4,909		**42,437**	16,121	26,316	
Rent supplement	**22**	23	(1)		**86**	90	(4)	
GAAP adjustments	**3,497**	1,722	1,775		**11,637**	4,474	7,163	
Office NOI	**$ 23,468**	$ 16,307	$ 7,161	44	**$ 85,595**	$ 49,699	$ 35,896	72

Our comparative office portfolio remains well occupied with most Western markets boasting virtually full economic occupancy. Strong comparative NOI growth in the office portfolio is largely a result of higher rental rates achieved on renewals and new leasing. The Alberta office portfolio leads our growth, benefiting from leasing activity and rising rental rates. Occupancy in the comparative Alberta office portfolio is at 98.0% at period-end compared to 99.4% in the prior year comparative period.

Comparative industrial portfolio

	For the three months ended December 31				For the years ended December 31			
			Growth				Growth	
	2007	2006	Amount	%	**2007**	2006	Amount	%
Alberta	**$ 2,704**	$ 2,497	$ 207	8	**$ 10,808**	$ 9,596	$ 1,212	13
Comparative properties	**2,704**	2,497	207	8	**10,808**	9,596	1,212	13
Acquisitions	**228**	238	(10)		**989**	656	333	
Rent supplement	**—**	—	—		**—**	(47)	47	
GAAP adjustments	**56**	64	(8)		**287**	312	(25)	
Industrial NOI	**$ 2,988**	$ 2,799	$ 189	7	**$ 12,084**	$ 10,517	$ 1,567	15

Our comparative industrial portfolio contributed strong results in the three- and twelve-month periods due to the impact of higher rental rates achieved on leasing.

NOI prior quarter comparison

The comparative properties disclosed in the following table are based on properties that were acquired prior to July 1, 2007.

Overall, comparative properties are maintaining a high level of occupancy, achieving incremental improvements in rental rates and producing modest growth in NOI. Comparative property NOI was up $0.3 million in the quarter primarily due to rental rate increases in Alberta. The increase in NOI was offset by reduced economies of scale in operating our property management platform as a result of the sale of our Eastern Portfolio. The incremental cost of adding more properties will be minimal as our platform has the capability of managing a much larger portfolio so the costs per square foot of managing our portfolio will be reduced with each new property acquired.

	For the three months ended			
			Growth	
	December 31, 2007	September 30, 2007	Amount	%
Office	**$ 18,760**	$ 18,852	$ (92)	—
Industrial	**2,932**	3,022	(90)	(3)
Comparative properties	**21,692**	21,874	(182)	(1)
Acquisitions	**1,189**	605	584	
Rent supplement	**22**	17	5	
GAAP adjustments	**3,553**	3,162	391	
NOI	**26,456**	25,658	798	3
Redevelopment	**430**	426	4	
Discontinued operations	**(46)**	20,487	(20,533)	
NOI including redevelopment and discontinued operations	**$ 26,840**	$ 46,571	$ (19,731)	(42)

	For the three months ended			
			Growth	
	December 31, 2007	September 30, 2007	Amount	%
Alberta	**$ 14,396**	$ 14,454	$ (58)	—
British Columbia	**1,798**	1,798	—	—
Saskatchewan & NWT	**3,495**	3,624	(129)	(4)
Ontario	**2,003**	1,998	5	—
Comparative properties	**21,692**	21,874	(182)	(1)
Acquisitions	**1,189**	605	584	
Rent supplement	**22**	17	5	
GAAP adjustments	**3,553**	3,162	391	
NOI	**26,456**	25,658	798	3
Redevelopment	**430**	426	4	
Discontinued operations	**(46)**	20,487	(20,533)	
NOI including redevelopment and discontinued operations	**$ 26,840**	$ 46,571	$ (19,731)	(42)

NOI from the office portfolio decreased $0.1 million mainly as a result of higher seasonal operating costs. NOI from the industrial portfolio decreased mainly as a result of a vacancy at an industrial property in Edmonton that has since been re-leased with the lease scheduled to commence in March 2008.

SELECTED ANNUAL INFORMATION

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

December 31	**2007**	2006	2005
Revenues	**$ 158,102**	$ 291,440	$ 222,759
Income before discontinued operations	**10,909**	7,848	6,566
Net income	**762,302**	11,218	4,309
Total assets	**1,156,441**	2,127,920	1,507,713
Debt	**680,479**	1,153,794	943,621
Distributions declared	**79,534**	76,511	56,072
Per unit amounts:			
Basic income from continuing operations	**$ 0.29**	$ 0.25	$ 0.38
Basic net income	**19.95**	0.35	0.25
Diluted income from continuing operations	**0.29**	0.25	0.29
Diluted net income	**19.94**	0.35	0.16

QUARTERLY INFORMATION

The following tables show quarterly information since December 31, 2005.

	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Revenues								
Rental properties revenue	**$ 42,921**	$ 40,464	$ 38,334	$ 33,442	$ 32,242	$ 30,431	$ 21,388	$ 18,328
Interest and fee income	**1,023**	574	680	664	1,252	1,032	849	498
	43,944	41,038	39,014	34,106	33,494	31,463	22,237	18,826
Expenses								
Rental properties operating expenses	**16,035**	14,379	13,139	12,050	12,364	11,174	7,997	7,443
Interest	**10,154**	9,794	9,168	8,706	9,295	9,968	7,780	6,989
Depreciation of rental properties	**6,180**	6,135	5,823	5,223	5,087	4,996	3,549	2,935
Amortization of deferred leasing costs, tenant improvements and intangibles	**7,282**	5,862	6,004	4,198	3,650	4,507	2,384	1,856
General and administrative	**1,534**	1,887	1,977	2,202	1,861	1,687	1,756	1,508
	41,185	38,057	36,111	32,379	32,257	32,332	23,466	20,731
Income before the undernoted items	**2,759**	2,981	2,903	1,727	1,237	(869)	(1,229)	(1,905)
Internalization of property manager	**—**	—	—	(1,230)	(615)	27	(13,090)	—
Gain (loss) on disposal of rental property and land held for sale	**—**	854	1,474	—	9	(445)	216	—
Reversal of (provision for) impairment of rental property previously held for sale	**6,298**	(7,650)	—	—	—	—	—	—
Income (loss) before income and large corporations taxes	**9,057**	(3,815)	4,377	497	631	(1,287)	(14,103)	(1,905)
Income taxes								
Current income and large corporations taxes	**8**	7	10	5	22	(82)	77	45
Future income taxes (recovery)	**(15,539)**	(25,198)	40,031	(117)	(111)	(202)	2,453	174
Income tax expense (recovery)	**(15,531)**	(25,191)	40,041	(112)	(89)	(284)	2,530	219
Income (loss) before non-controlling interest and discontinued operations	**24,588**	21,376	(35,664)	609	720	(1,003)	(16,633)	(2,124)
Loss (income) attributable to non-controlling interest	**—**	—	—	—	—	—	(1,342)	339
Income (loss) before discontinued operations	**24,588**	21,376	(35,664)	609	720	(1,003)	(17,975)	(1,785)
Discontinued operations	**4,636**	731,074	7,874	7,809	7,232	7,826	11,229	4,974
Net income (loss)	**$ 29,224**	$ 752,450	$ (27,790)	$ 8,418	$ 7,952	$ 6,823	$ (6,746)	$ 3,189
Net income (loss) per unit								
Basic	**$ 1.38**	$ 19.82	$ (0.57)	$ 0.19	$ 0.24	$ 0.19	$ (0.23)	$ 0.15
Diluted[1]	**$ 1.38**	$ 19.81	$ (0.57)	$ 0.19	$ 0.24	$ 0.19	$ (0.23)	$ 0.15

[1] Excludes impact of 6.5% and 5.7% Debentures, which are currently not dilutive to net income.

Calculation of funds from operations and distributable income

	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net income (loss)	**$ 29,224**	**$ 752,450**	**$ (27,790)**	**$ 8,418**	**$ 7,952**	**$ 6,823**	**$ (6,746)**	**$ 3,189**
Add (deduct):								
Depreciation of rental properties	6,193	10,960	13,495	12,336	11,259	10,824	9,255	8,570
Amortization of deferred leasing costs, tenant improvements and intangibles	7,286	10,825	12,988	9,843	9,384	9,007	6,527	5,725
Future income tax	(15,539)	(25,198)	40,031	(117)	(111)	(202)	2,453	174
Imputed amortization of leasing costs related to the rent supplement	6	61	88	79	81	68	289	256
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(77)	(42)	(29)	(18)	(17)	(18)	(13)	(5)
(Gain) loss on disposal of rental properties and land held for sale	(4,968)	(727,374)	(1,474)	—	4	415	(3,453)	24
Provision for (reversal of) impairment in value of rental property	(6,298)	7,650	—	—	—	—	—	—
Internalization of property manager	—	—	—	1,230	615	(27)	13,090	—
Income tax expense incurred as a result of the Transaction	300	—	—	—	—	—	—	—
Non-controlling interest	—	—	—	—	—	—	527	1,349
Funds from operations	**$ 16,127**	**$ 29,332**	**$ 37,309**	**$ 31,771**	**$ 29,167**	**$ 26,890**	**$ 21,929**	**$ 19,282**
Funds from operations per unit								
Basic[1]	$ 0.76	$ 0.77	$ 0.76	$ 0.71	$ 0.74	$ 0.74	$ 0.67	$ 0.67
Diluted	$ 0.76	$ 0.76	$ 0.75	$ 0.69	$ 0.71	$ 0.70	$ 0.64	$ 0.63
Cash generated from operating activities	**$ 9,952**	**$ 6,794**	**$ 35,150**	**$ 32,071**	**$ 24,003**	**$ 22,058**	**$ 24,634**	**$ 17,167**
Add (deduct):								
Deferred leasing costs incurred	690	2,026	1,554	1,358	2,352	972	1,739	1,034
Amortization of deferred financing costs incurred prior to June 30, 2003	20	67	94	87	65	81	94	94
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	(4)	5	13	16	16	17	19	21
Amortization of tenant inducements	25	31	33	26	20	—	—	—
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(77)	(42)	(29)	(18)	(17)	(18)	(13)	(5)
Loss (gain) on disposal of rental property	—	—	—	—	—	—	(25)	24
Amortization of deferred financing costs	(57)	(259)	(316)	(306)	(445)	(619)	(425)	(433)
Income tax expense incurred as a result of the Transaction	300	—	—	—	—	—	—	—
Change in non-cash working capital	1,471	16,412	(3,517)	(4,265)	660	1,378	(5,524)	78
Distributable income	**$ 12,320**	**$ 25,034**	**$ 32,982**	**$ 28,969**	**$ 26,654**	**$ 23,869**	**$ 20,499**	**$ 17,980**
Distributable income per unit								
Basic[1]	$ 0.58	$ 0.66	$ 0.67	$ 0.64	$ 0.67	$ 0.66	$ 0.63	$ 0.62
Diluted	$ 0.58	$ 0.65	$ 0.66	$ 0.63	$ 0.65	$ 0.63	$ 0.60	$ 0.59
Weighted average units outstanding for FFO and DI								
Basic	21,107,542	37,961,439	49,115,213	44,954,392	39,588,295	36,350,417	32,727,091	28,968,219
Diluted	21,566,798	39,020,277	51,306,940	47,732,198	43,447,393	42,292,776	38,953,240	35,281,362

[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

As of December 31, 2007, the Chief Executive Officer and the Chief Financial Officer, 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. They have concluded that the disclosure controls and procedures were adequate and effective to provide reasonable assurance that information required to be disclosed by Dundee REIT in its annual filings, interim filings or other reports filed or submitted by it under applicable Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by such laws.

In addition, as of December 31, 2007, the Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the design of the Dundee REIT's internal controls over financial reporting as defined in Multilateral Instrument 52-109. The internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. They have concluded that the internal controls over financial reporting were appropriately designed. There were no changes made to the internal controls in 2007 that have materially affected, or are reasonably likely to materially affect, our 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 leaseable 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 staggered over several years, with limited exposure in any given year. In 2008, our exposure is limited to $19.3 million rolling at a 7.43% 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 24.

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.

TAXATION RISK

On June 12, 2007, amendments to the *Income Tax Act* were substantively enacted and subsequently received Royal Assent on June 22, 2007, which modify the tax treatment of certain publicly traded trusts and partnerships that are SIFTs. See our discussion on income taxes under Critical Accounting Policies for details of SIFT Rules.

Under the SIFT Rules, a publicly traded REIT will be considered a SIFT unless it qualifies for the REIT Exception described under Critical Accounting Estimates. As a result of the reorganization completed on December 31, 2007, Dundee REIT has met the REIT Exception therefore the SIFT Rules and the Normal Growth Guidelines should not apply to Dundee REIT after 2007; however, no assurances can be made in this regard. If Dundee REIT does not qualify continuously for the REIT Exception, the SIFT Rules and the Normal Growth Guidelines may have an adverse impact on Dundee REIT and the holders of Units, on the value of the Units and the ability of Dundee REIT to undertake financings and acquisitions, and if the SIFT Rules were to apply, distributable cash of Dundee REIT may be materially reduced. The effect of the recently enacted SIFT Rules on the market for the Units is uncertain.

Since the SIFT Rules have only recently been enacted, the Canada Revenue Agency's administrative policies regarding the interpretation of the SIFT Rules and their application to the trusts and partnerships in which a publicly traded income fund holds a direct or indirect interest are still under review. As such, there may be a possible interpretation of the legislation under which the Trusts' subsidiary partnerships ("Partnerships") would be viewed as SIFTs. Management does not believe this to be the intent of the legislation and believes there to be valid technical arguments supporting the fact the Partnerships are not SIFTs.

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 ASSETS

Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. Dundee REIT's long-lived assets consist of rental properties 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.

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;
- prior to January 1, 2007, deferred financing costs, which included debt issue fees and expenses that were 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.

In the prior year, as a result of implementing the provisions of Emerging Issues Committee Abstract No. 156, "Accounting by a Vendor for Consideration Given to a Customer" ("EIC-156"), we have reclassified tenant improvements, which were previously included in deferred leasing costs, and presented tenant improvements as an investing activity on the statement of cash flows. The adoption of EIC-156 had the effect during the year ended December 31, 2006, of reducing deferred leasing costs incurred, increasing cash generated from operating activities and increasing cash utilized in investing activities by $7.7 million.

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 statement 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 and recorded as a component of discontinued operations. 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.

CHANGES IN ACCOUNTING POLICIES

Financial Instruments

On January 1, 2007, the Trust adopted Canadian Institute of Chartered Accountants ("CICA") accounting standards comprising CICA Handbook Section 3855, "Financial Instruments — Recognition and Measurement", and Section 1530, "Comprehensive Income".

Section 3855, "Financial Instruments — Recognition and Measurements" prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet, and at what amount. The standards require that all financial assets be classified as held for trading, available for sale, held to maturity or loans and receivables. In addition, the standards require that all financial assets be measured at fair value, with the exception of loans, receivables and investments intended to be, and classified as, held to maturity, which are required to be measured at amortized cost. Any adjustment to the Trust's financial statements as a result of adopting Section 3855 was recognized by restating the balance of opening unitholders' equity. Comparative periods are not permitted to be restated. The Trust was impacted as follows:

- Deferred financing costs have been reclassified to reduce the outstanding debt balances to which they relate with interest recognized based on the new effective interest rate derived from the resulting balance. Deferred financing costs of $7.0 million that were outstanding at the end of 2006 have been reclassified by reducing mortgages and convertible debentures by $3.6 million and $3.7 million, respectively, and by increasing prepaid expenses by $0.1 million. Unitholders' equity was increased by $0.4 million to adjust for the additional interest expense that was recognized in prior periods by amortizing deferred financing costs using the straight-line method compared to the interest expense that would have been recognized using the effective interest rate method.
- Guarantees provided by the Trust were not assigned any value, as it was determined that the likelihood that the guarantee would be called was minimal.
- The Trust completed a review of its significant lease, debt and energy contracts and has determined that no material embedded derivatives exist.

In conjunction with Section 3855, the Trust also adopted CICA Handbook Section 1530, "Comprehensive Income", which requires the Trust to disclose Other Comprehensive Income ("OCI") in its financial statements. The Trust has included this disclosure on its statement of net income. Foreign currency translation losses of $1.1 million related to the net investment in Greenbriar Mall are disclosed as OCI. Previously these amounts were disclosed as a component of unitholders' equity. Any change as a result of a reduction in the net investment will be disclosed as comprehensive income. The comparative financial statements were restated by reclassifying the opening cumulative foreign currency translation adjustment of $5.1 million to accumulated other comprehensive income on the statement of unitholders' equity, with 2006 being restated to conform with the new presentation.

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