DUNDEE REIT

2004 Second Quarter Report

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LETTER TO UNITHOLDERS

Dundee REIT celebrated its first anniversary on June 30, 2004. In our first twelve months we completed a number of significant acquisitions which increased our asset base by approximately $400 million. We also increased our equity base by nearly 50% through two public offerings and completed a public offering of convertible debentures. Throughout this same period we also redesigned the internal processes of the business. Managing the REIT is completely different from managing a corporation. Fundamentally, all aspects of the business need to be operated and measured with much finer precision. Our first goal is to ensure we meet investors' expectations of consistent distributions and transparent financial reporting and then to exceed those expectations.

We posted strong financial results for the second quarter. Results from comparative properties were consistent with the same quarter last year, while acquisitions increased our net operating income by over 42% to $25.8 million. Rental revenues for the three months increased by 32% to $46.2 million. Funds from operations (excluding straight-line rent) were $14.4 million or $0.60 per unit and distributable income was $13.6 million or $0.56 per unit. At quarter-end the Trust had 56.4% debt-to-gross book value, which is about the same level of debt as at year-end. As well, occupied and committed space increased to 94.2% at the end of the second quarter from 93.6% at the end of the first quarter and 92.7% at the beginning of the year.

We have refinanced a significant amount of existing and acquisition debt at lower rates. Since year-end, our average interest rate has declined to 6.6% from 6.9% and, at the same time, we have extended our average term to maturity to 5.8 years from 4.5 years. Our acquisitions and the issuance of unsecured convertible debentures have enabled us to make changes to our capital structure resulting in a debt structure which is much more suitable to conducting business as a REIT.

Three acquisitions comprising approximately 484,000 square feet were completed during the quarter. These assets, as well as the others acquired in the past nine months, are among the best in our portfolio. They have helped to reposition our portfolio as a more consistent, higher quality office and industrial portfolio in five of Canada's major markets. They have also contributed to an improvement in our occupancy rates and rental rates, and lengthened our overall average lease terms. We currently have approximately $100 million of acquisition capacity available for future growth without exceeding our target debt level of about 60% debt-to-gross book value. We will continue with our current strategy of seeking high quality properties at reasonable prices in our core markets.

Our strategy also includes the continuous and active analysis of the performance of our properties – identifying strengths and weaknesses of individual properties and our portfolio in aggregate; identifying properties to undergo capital improvements or properties for disposition that no longer fit with our investment strategy.

During the quarter we were presented with the opportunity of selling an industrial property in Mississauga to the existing sub-tenant and recorded a $2.4 million gain. Subsequent to quarter-end, we sold our interest in a Montréal industrial building and will record a gain of approximately $0.5 million in the third quarter. During the quarter we also entered into an agreement to sell Northgate Mall in Regina, which is anticipated to close in the third quarter. New accounting rules require us to include the operating results of this asset in our financial reporting as a discontinued operation. Consequently, shown in our results is a $19 million write-down on this asset and a loss in net income for the year to date. With the increasing desirability of retail properties, the cap rate is lower than we could have achieved in prior years. To the extent that the sale has any negative impact, it will only be as a result of the delay in reinvesting the $9 million cash received on the sale. The sale of Northgate is a positive step for Dundee REIT as we opportunistically sell our non-core assets and continue to approach our long-term goal of being a high quality pure play office and industrial REIT.

Our REIT is well positioned for an improvement in the overall real estate market. Fortunately, we are beginning to see improvements in occupancy in most of our markets and are hopeful that rental rates will follow. Because we have between 10% and 15% of our portfolio expiring each year, as the market improves, we are likely to show growth in our funds from operations earlier than some of our competitors. By actively managing our portfolio, we hope to outperform the market both in good and bad markets.

Michael J. Cooper
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis has been dated as at July 30, 2004

This management's discussion and analysis ("MD&A") of results of operations and financial condition should be read in conjunction with the MD&A and financial statements for the year ended December 31, 2003 and the three months ended March 31, 2004. Historical results, including trends which may appear, should not be taken as indicative of future operations or results. Additional information relating to the Trust, including our annual information form, can be found on SEDAR at www.sedar.com.

Certain information in this MD&A contains or incorporates comments that constitute forward-looking statements. Reliance should not be placed on forward-looking statements because they involve risks and uncertainties, which may cause actual performance and results to differ materially from the performance implied in such forward-looking statements. Dundee REIT has identified certain factors, which may cause the actual results to be materially different from those expressed or implied by such forward-looking statements. Such factors 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; and interest and currency rate functions, all as set forth in the MD&A of the Trust's 2003 Annual Report, as well as in the Trust's Annual Information Form for the year ended December 31, 2003.

These forward-looking statements are made as of July 30, 2004, and Dundee REIT assumes no obligation to update or revise them to reflect new events or circumstances.

Our Objectives

We are committed to:

- Providing predictable and sustainable cash distributions to unitholders;
- Prudently increasing distributions as the performance of our underlying business warrants; and
- Improving the overall value of our enterprise through effective management of our business and through acquisitions.

Distributions

We currently pay monthly distributions to unitholders of $0.183 per unit or $2.20 on an annual basis. In August 2003, we introduced our Distribution Reinvestment and Unit Purchase Plan ("DRIP"). Unitholders who take advantage of the distribution reinvestment feature of the plan receive a bonus distribution of 4% with each reinvestment. At June 30, 2004, approximately 12.4% of REIT Units, Series A outstanding were enrolled in the DRIP.

	December 2003	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004
Cash Distribution	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183
Month End Closing Price	$ 23.40	$ 24.50	$ 25.25	$ 25.05	$ 23.09	$ 23.45	$ 23.35

Our Strategy

Our strategy is to become Canada's leading provider of affordable business premises. Our methodology to meet our strategy and objectives remains unchanged from the first quarter and year-end and includes:

- Effectively managing our business;
- Building and maintaining a diversified portfolio;
- Meeting the needs of our tenants; and
- Pursuing external growth

Our Assets

We provide high quality, affordable business premises with a focus on mid-sized urban and suburban office, industrial and flex space properties. The majority of our assets are concentrated in our target markets: Montréal, Ottawa, Toronto, Calgary and Edmonton.

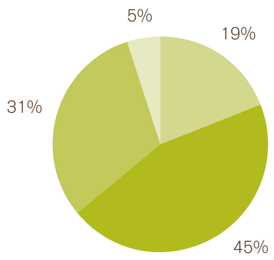
During the first six months of this year, a number of key acquisitions were completed in three of our target markets. These acquisitions encompass approximately 2.1 million square feet, including 0.5 million square feet in the second quarter, of high quality, fully leased space with long-term commitments and have added $276 million of assets to the portfolio.

During the quarter, our Toronto office portfolio grew by 124,000 square feet with the acquisition of a 50% interest in 720 Bay Street and our Calgary industrial portfolio grew by 36,000 with the acquisition of the Geo-X Building. In late June, our Montréal office portfolio grew by 323,000 square feet with the acquisition of a 13-building portfolio with solid technology and pharmaceutical tenants. We also completed the acquisition of the Pauls Portfolio in February 2004, adding approximately 1.6 million square feet of state-of-the-art facilities to our industrial portfolios in both Calgary and Toronto.

The net book value of segmented rental properties is diversified geographically and by asset type.

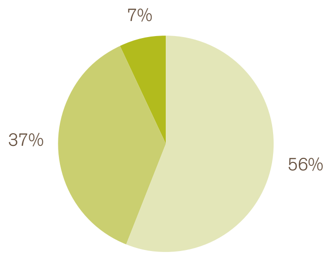
	as at June 30, 2004					as at December 31, 2003	
($000's)	Office	Industrial[1]	Retail[1]	Total	%	Total	%
Québec	$ 102,573	$ 100,954	$ –	$ 203,527	19	$ 154,742	17
Ontario	330,649	140,870	8,688	480,207	45	374,159	41
Western Canada	166,876	156,047	4,987	327,910	31	328,727	36
Total Canada	600,098	397,871	13,675	1,011,644	95	857,628	94
United States	–	–	59,568	59,568	5	57,422	6
Total at June 30, 2004	$ 600,098	$ 397,871	$ 73,243	$1,071,212	100	$ 915,050	100
Percentage	56%	37%	7%	100%			
Total at December 31, 2003	$ 527,072	$ 252,521	$ 135,457	$ 915,050			
Percentage	58%	27%	15%	100%			

(1) Excludes discontinued operations: Northgate Mall, Regina and 2000 Rue Halpern, Montréal, under contract for sale.



Geographic Distribution of Rental Properties by Net Book Value at June 30, 2004

- Québec
- Ontario
- Western Canada
- United States



Portfolio Asset Type by Book Value at June 30, 2004

- Office
- Industrial
- Retail

Owned Gross Leasable Area (in square feet)

	as at June 30, 2004					as at December 31, 2003	
	Office	Industrial[1]	Retail[1]	Total	%	Total	%
Québec	1,077,331	2,712,853	–	3,790,184	29	3,572,197	31
Ontario	2,634,313	2,245,169	128,367	5,007,849	38	3,995,285	34
Western Canada	1,006,540	2,558,353	46,140	3,611,033	27	3,311,581	28
Total Canada	4,718,184	7,516,375	174,507	12,409,066	94	10,879,063	93
United States	–	–	795,390	795,390	6	795,390	7
Total at June 30, 2004	4,718,184	7,516,375	969,897	13,204,456	100	11,674,453	100
Percentage	36%	57%	7%	100%			
Total at December 31, 2003	4,207,399	6,076,778	1,390,276	11,674,453			
Percentage	36%	52%	12%	100%			

(1) Excludes discontinued operations: Northgate Mall, Regina and 2000 Rue Halpern, Montréal, under contract for sale.

Office Rental Properties

Dundee REIT owns 58 office properties (71 buildings) comprising approximately 4.7 million square feet located in Montréal, Ottawa, Toronto, Calgary, Edmonton and Vancouver.

The Canadian national office market continued on a positive trend with vacancy levels decreasing for the third consecutive quarter. The occupancy rate in our office portfolio has increased to 94.6% (December 31, 2003 – 92.4%), well ahead of the most recently available national industry average of about 88.6% (Royal LePage Commercial Inc. National Market Intelligence Report First Quarter 2004). This percentage includes leases for space that is currently being readied for occupancy but for which rent is not yet being received. In addition, the occupancy reflects the impact of the acquisition of 720 Bay Street, Toronto and the 13 flex/office buildings in Montréal. The impact of this leasing activity and the acquisitions will be more fully reflected in the third and fourth quarters of 2004.

Industrial Rental Properties

We own 117 prime suburban industrial and flex space properties (131 buildings) comprising approximately 7.5 million square feet, concentrated in Montréal, Toronto, Calgary and Edmonton. Flex space properties are industrial properties with an office component that is greater than the 10-15% that is normally used in industrial properties. Some of the advantages of flex space are flexible work environments, ample parking and significantly lower costs for tenants. Our strategy of owning clusters of properties allows us to respond quickly and efficiently to tenants' needs during times of change in their operations or size of their workforce.

At June 30, 2004, the average occupancy rate across our stabilized industrial portfolio increased to 94.1% (December 31, 2003 – 93.1%), however, remains below the most recently available national industry average of about 95.5% (Royal LePage Commercial Inc. National Market Intelligence Report First Quarter 2004). Canada's industrial market has performed very well with occupancy rates above 94% for the last several years. It is expected that absorption rates in 2004 will be down from previous years but a reduction in new building activity will keep supply and demand in balance.

The acquisitions completed in the first quarter have brought newly built industrial flex-space to our portfolio that, combined with the existing assets, allow us to offer more choices to tenants including the choice to be a tenant in more than one type of industrial building with the same landlord as suits their business requirements. Subsequent to quarter end the Trust completed the sale of an industrial asset in Montréal, which has been excluded from gross leasable area and occupancy rates.

Retail Rental Properties

Our retail assets total 1.0 million square feet. As of June 30, 2004, the portfolio had an occupancy rate of 92.8%. During the quarter we committed to the sale of Northgate Mall in Regina, which has been excluded from gross leasable area and occupancy rates. The decision to dispose of this asset is in keeping with our longer term goals. The remaining retail assets include Greenbriar Mall, a 795,390 square foot regional mall in Atlanta, and two smaller malls in Ontario and Alberta.

Our Background

Dundee REIT was formed in connection with the reorganization (the "Reorganization") of the business of Dundee Realty Corporation ("Dundee Realty" or "DRC") on June 30, 2003. Following the Reorganization the majority of Dundee Realty's commercial real estate division, including senior management, and a joint interest in its property management business, were transferred to Dundee REIT.

Our discussion and analysis of the financial position and results of operations of Dundee REIT is based primarily on the consolidated financial statements of Dundee REIT for the three months and six months ended June 30, 2004 and the combined financial statements of the commercial real estate division of DRC ("the Division") for the three months and six months ended June 30, 2003. This discussion should be read in conjunction with these financial statements.

The Division is not a legal entity and is used only as a method of presenting historical financial information. The combined financial statements of the Division are not necessarily indicative of the results that would have been attained had the Division been operated as a separate legal entity during the periods presented. Therefore, these results are not necessarily indicative of future operating results. No adjustments have been made to the Divisional financial statements to reflect possible incremental changes to the cost structure as a result of the Reorganization.

All dollar amounts in our tables are presented in thousands with the exception of unit and per unit amounts.

Prime Numbers We Watch

Key Performance Drivers

While many factors contribute to the operation of our business, our key performance drivers include:

- Occupancy Level:
  - Tenant retention
  - Attracting new tenants
  - Tenant maturity profile and average term to maturity
- Rental Rates:
  - In-place rental rates
  - Increasing rental rates as conditions permit
  - Reducing operating costs
- Debt Management:
  - Average interest rate
  - Level of debt
  - Debt maturity profile and average term to maturity
- Capital Management:
  - Tenant inducement costs
  - Building maintenance
  - Investment in rental properties

Performance Indicators

Performance as measured by these and other key indicators:

($000's except rental rates and per unit amounts)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Operating Results				
Revenues	$ 46,282	$ 35,052	$ 89,282	$ 69,967
Net operating income (1) ("NOI")	25,833	17,050	48,749	33,833
Net income before discontinued operations	5,039	2,124	10,529	4,146
Net income (loss)	(12,173)	2,077	(6,848)	4,113
Funds from operations (2) ("FFO")	15,705	6,813	29,379	13,124
FFO excluding straight-line rent	14,419		27,144	
Occupancy rate (period end)	94.2%	93.8%		
In-place rent per square foot	9.21	7.88		
Weighted average interest rate (period end)	6.63%	7.19%		
Interest expense	10,321	8,382	19,910	16,748
Interest coverage ratio (6)	2.42 times	1.85 times	2.36 times	1.83 times
Debt-to-gross book value	56.4%	56.3%		
Distributions				
FFO payout ratio	84.6%		87.2%	
Distributable income (3)	13,612		26,070	
Reinvested distributions (5)	5,241		10,333	
Reinvestment to distribution ratio (4)(5)	39.4%		40.3%	
Per unit amounts (basic and diluted)				
Net income (loss)	$ (0.50)		$ (0.30)	
FFO	0.65		1.28	
FFO excluding straight-line rent	0.60		1.19	
Distributable income	0.56		1.14	
Distribution rate (monthly)	0.183		0.183	
Units outstanding (period end)				
REIT Units, Series A	16,727,655			
LP Class B Units, Series 1	7,564,418			
Total units outstanding	24,292,073			

(1) NOI – rental property revenues less operating expenses (excluding discontinued operations). The reconciliation of NOI to net income can be found on page 13.
(2) FFO – net income, adjusted for future income tax, depreciation and amortization, and gain (loss) on sale and provision for diminution in value of assets. The reconciliation of FFO to net income can be found on page 12.
(3) The reconciliation of distributable income to net income can be found on page 12.
(4) These percentages do not include the additional 4% distributions available under the DRIP.
(5) Includes July 15, 2004 reinvestment of distributions declared in June 2004.
(6) Interest coverage is calculated using all interest expense as the denominator and the numerator is calculated as net income (loss) adding back all discontinued operations, income taxes, gain (loss) on disposal of rental property, depreciation, amortization and interest expense.

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

Executing the Strategy

Our Resources and Financial Condition

Liquidity and Capital Resources

In broad terms, Dundee REIT's primary sources of capital are cash generated from operating activities, credit facilities, mortgage financing and refinancing, equity issues and proceeds of asset dispositions. Our primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt principal repayments and property acquisitions.

($000's)	**Dundee REIT Consolidated Three Months Ended June 30, 2004**	Division of DRC Combined Three Months Ended June 30, 2003	**Dundee REIT Consolidated Six Months Ended June 30, 2004**	Division of DRC Combined Six Months Ended June 30, 2003
Cash generated from operating activities	**$ 11,758**	$ 7,346	**$ 26,120**	$ 9,582
Cash utilized in investing activities	**(76,836)**	(3,884)	**(164,506)**	(5,276)
Cash generated from (utilized in) financing activities	**72,370**	(4,798)	**148,354**	(5,375)
Increase (decrease) in cash and cash equivalents	**$ 7,292**	$ (1,336)	**$ 9,968**	$ (1,069)

At June 30, 2004, cash and short-term deposits were $13.9 million, a $10.0 million increase over year end. The increase was a result of the cash flows indicated above including the residual proceeds from various financing activities and asset dispositions that have not yet been reinvested. In addition to these balances, Dundee REIT also has a $55.0 million credit facility of which approximately $52.9 million is available to provide funding for working capital or as a bridge facility to fund acquisitions.

Management expects to be able to meet all of Dundee REIT's ongoing obligations through current cash and cash equivalents, cash flows from operations, conventional mortgage refinancings and, as growth requires, through new equity or debt issues.

Cash Generated from Operating Activities

($000's)	**Dundee REIT Consolidated Three Months Ended June 30, 2004**	Division of DRC Combined Three Months Ended June 30, 2003	**Dundee REIT Consolidated Six Months Ended June 30, 2004**	Division of DRC Combined Six Months Ended June 30, 2003
Net income (loss)	**$ (12,173)**	$ 2,077	**$ (6,848)**	$ 4,113
Non-cash items:				
Depreciation of rental properties	**6,690**	2,229	**12,974**	4,439
Amortization of deferred leasing costs and intangibles	**3,494**	1,664	**5,397**	2,897
Gain on disposal of rental properties	**(2,396)**	–	**(2,573)**	–
Provision for impairment in value of rental property	**19,729**	–	**19,729**	–
Future income taxes	**(1)**	843	**(42)**	1,675
Straight-line rent	**(1,286)**	–	**(2,235)**	–
	14,057	6,813	**26,402**	13,124
Deferred leasing costs incurred	**(2,389)**	(1,327)	**(4,255)**	(2,921)
Change in non-cash working capital	**90**	1,860	**3,973**	(621)
Cash generated from operating activities	**$ 11,758**	$ 7,346	**$ 26,120**	$ 9,582

Certain of the key performance drivers previously identified influence the cash generated from operating activities:

- Occupancy Level:
  - Tenant retention
  - Attracting new tenants
  - Tenant maturity profile and average term to maturity
- Debt Management:
  - Average interest rate
- Rental Rates:
  - In-place rental rates
  - Increasing rental rates as conditions permit
  - Reducing operating costs
- Capital Management:
  - Tenant inducement costs
  - Building maintenance

Occupancy levels and rental rates are discussed under our results of operations on page 18. Debt management is discussed later in this section on page 9.

Leasing costs incurred during the quarter to attract or retain tenants were $2.4 million (June 30, 2003 – $1.3 million). These costs are capitalized and amortized over the life of the lease. The amount of inducements varies across the portfolio and from year to year depending on the maturity and termination of leases, existing vacancies and market requirements.

Our recent acquisitions have helped to decrease the average age of our portfolio and lengthen the average lease term. As a result, we anticipate that the costs per square foot required to maintain our buildings and attract and retain tenants will decrease.

As part of operating expenses, there are certain property repair and maintenance costs that are recoverable from tenants. These costs are recovered in the year of expenditure or, in the case of a major expenditure, are deferred and amortized to recoverable expense over a period of years. The amount deferred remaining at the end of the quarter for recovery in future periods was $8.5 million (December 31, 2003 – $9.4 million).

Cash Utilized in Investing Activities

($000's)	**Dundee REIT Consolidated Three Months Ended June 30, 2004**	Division of DRC Combined Three Months Ended June 30, 2003	**Dundee REIT Consolidated Six Months Ended June 30, 2004**	Division of DRC Combined Six Months Ended June 30, 2003
Investment in rental properties – building improvements	**$ (3,171)**	$ (2,278)	**$ (4,651)**	$ (3,628)
Investment in rental properties – development	**–**	(388)	**–**	(681)
Acquisition of rental properties	**(75,765)**	(858)	**(153,688)**	(861)
Investment in mezzanine loan	**(408)**	–	**(10,476)**	–
Proceeds from disposal of rental properties	**2,837**	–	**5,030**	–
Change in restricted cash, net	**(329)**	(360)	**(721)**	(106)
Cash utilized in investing activities	**$ (76,836)**	$ (3,884)	**$ (164,506)**	$ (5,276)

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

- Capital Management:
    - Investment in rental properties

During the three months ended June 30, 2004, Dundee REIT completed purchases totalling $97.4 million. Of this amount, $75.8 million was paid in cash with the remainder paid by way of assumption of existing mortgages. Acquisitions in the second quarter include 720 Bay Street, Toronto, Geo-X Systems Building, Calgary and the 13-building portfolio in Montréal's Technoparc Saint-Laurent. During the first quarter, the Trust completed the purchase of the Pauls Portfolio for $169.0 million and the remaining 16.4% interest in Capitol Square, Ottawa for $6.0 million.

	Dundee REIT Consolidated Three Months Ended June 30, 2004		
($000's)	**Office**	**Industrial**	**Total**
Acquisitions	**$ 68,928**	**$ 6,837**	**$ 75,765**
Debt assumed on acquisitions	**20,600**	**–**	**20,600**
Accounts payable and accrued liabilities assumed on acquisition	**1,000**	**49**	**1,049**
Net investment	**$ 90,528**	**$ 6,886**	**$ 97,414**

Capital expenditures for rental property building improvements and equipment were $3.2 million for the three month period (June 30, 2003 – $2.3 million). These expenditures include both recurring items as well as non-recurring one-time projects. Recurring items are capital expenditures that are expected to occur on a regular basis and are part of the ongoing maintenance and upgrading of the rental property portfolio. Non-recurring items are capital expenditures that are incurred for major renovations and do not regularly occur in the normal operation of our rental properties.

	Dundee REIT Consolidated Three Months Ended June 30, 2004			Division of DRC Combined Three Months Ended June 30, 2003
($000's)	Total Investment	Non-cash Working Capital Adjustment	Net Cash Investment	Net Cash Investment
Building improvements:				
Recurring	**$ 568**	**$ 166**	**$ 734**	$ 1,148
Non-recurring	**2,428**	**9**	**2,437**	1,130
Total	**$ 2,996**	**$ 175**	**$ 3,171**	$ 2,278

	Dundee REIT Consolidated Six Months Ended June 30, 2004			Division of DRC Combined Six Months Ended June 30, 2003
($000's)	Total Investment	Non-cash Working Capital Adjustment	Net Cash Investment	Net Cash Investment
Building improvements:				
Recurring	**$ 790**	**$ 936**	**$ 1,726**	$ 1,551
Non-recurring	**2,952**	**(27)**	**2,925**	2,077
Total	**$ 3,742**	**$ 909**	**$ 4,651**	$ 3,628

Non-recurring improvements during the quarter reflect the costs of the ongoing repositioning of industrial buildings in Edmonton and Montréal. The repositioning of the Edmonton property was extensive and included the reconfiguration of the building to allow for access by larger transportation vehicles. This property is now virtually 100% leased. During the quarter, $1.8 million was spent completing the building improvements on the Montréal property. The work completed was quite extensive and essentially transformed the existing building into a new building, which has been 60% leased to a government tenant commencing in the third quarter. The remaining space is being well received in the market.

Non-recurring costs for the same quarter in 2003 also include some of the costs of a major exterior renovation for a Toronto office property and repositioning of an industrial property in Edmonton.

A number of recurring property improvements, such as roof replacement and parking lot structural repair, are generally completed each year. A major roof replacement program is ongoing at Greenbriar Mall in Atlanta for which $1.4 million was spent during the current six month period, including $0.9 million spent in the quarter.

Cash Generated from (Utilized in) Financing Activities

($000's)	**Dundee REIT Consolidated Three Months Ended June 30, 2004**	Division of DRC Combined Three Months Ended June 30, 2003	**Dundee REIT Consolidated Six Months Ended June 30, 2004**	Division of DRC Combined Six Months Ended June 30, 2003
Mortgage principal repayments	**$ (3,901)**	$ (4,020)	**$ (7,628)**	$ (7,094)
Mortgages placed	**71,912**	44,418	**71,912**	50,918
Mortgage lump sum repayments	**(38,839)**	(27,755)	**(49,802)**	(32,411)
Term debt placed	**60,553**	–	**60,553**	–
Term debt principal repayments	**(237)**	(787)	**(477)**	(1,071)
Term debt lump sum repayment	**(79,994)**	509	**(79,994)**	–
Convertible debentures issued, net of costs	**71,949**	–	**71,949**	–
Demand revolving credit facility, net	**–**	–	**(7,026)**	–
Distributions paid	**(8,054)**	–	**(14,468)**	–
Units issued net of costs	**(1,019)**	–	**103,335**	–
Net funds transferred to the Division	**–**	(17,163)	**–**	(15,717)
Cash generated from (utilized in) financing activities	**$ 72,370**	$ (4,798)	**$ 148,354**	$ (5,375)

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

Debt Management:

- Level of debt
- Debt maturity profile and average term to maturity
- Average interest rate

Dundee REIT's debt profile improved significantly in the quarter due to the refinancing of maturing debt for longer terms and at lower interest rates. Our weighted average interest rate has been reduced to 6.63% (December 31, 2003 – 6.93%, June 30, 2003 – 7.19%) and our average term to maturity has been extended to 5.8 years (December 31, 2003 – 4.5 years, June 30, 2003 – 4.5 years). Our debt strategy includes fixing the rates on as high a proportion of our debt as possible to protect against interest rate volatility. As a result of the refinancing activity, variable interest rate debt as a percentage of total debt has decreased to 4.2% from 5.7% at December 31, 2003.

	as at June 30, 2004			as at December 31, 2003		
($000's)	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	**$ 599,740**	**$ –**	**$ 599,740**	$ 483,667	$ –	$ 483,667
Term debt	**362**	**23,253**	**23,615**	65,886	19,294	85,180
Convertible debenture	**74,400**	**–**	**74,400**	–	–	–
Demand revolving credit facility	**–**	**–**	**–**	–	7,026	7,026
Demand non-revolving credit facility	**–**	**6,678**	**6,678**	–	6,619	6,619
Total	**$ 674,502**	**$ 29,931**	**$ 704,433**	$ 549,553	$ 32,939	$ 582,492
Percentage	**96%**	**4%**	**100%**	94%	6%	100%

We have historically maintained a very conservative debt ratio. Although our Declaration of Trust allows for 65% debt-to-gross book value, our current ratio is 56.4%, relatively flat compared to 56.2% at December 31, 2003.

($000's)	as at June 30, 2004	as at December 31, 2003
Total assets	$1,247,668	$ 997,177
Accumulated depreciation	48,036	39,360
Discontinued operations	(46,746)	–
Gross book value	$1,248,958	$1,036,537
Total outstanding debt	$ 704,433	$ 582,492
Debt-to-gross book value	56.4%[1]	56.2%

(1) Continuing operations

Our target level of debt is between 55% and 60%. This debt level provides us with the flexibility to acquire more properties without the need for additional equity. Given our target debt level of 60%, we have the capacity to acquire in excess of $100 million of properties. As we acquire further properties without issuing new equity, we believe that we will be able to increase our funds from operations.

Changes in debt levels since December 31, 2003 resulting from:

($000's)	Mortgages	Term Debt	Demand Revolving Credit Facility	Demand Non-revolving Credit Facility	Convertible Debentures	Total
Debt as at December 31, 2003	$483,667	$ 85,180	$ 7,026	$ 6,619	$ –	$ 582,492
New debt assumed on rental property acquisitions	100,210	–	–	–	–	100,210
New debt placed	71,912	60,553	–	–	75,000	207,465
Scheduled repayments	(7,628)	(477)	(7,026)	–	–	(15,131)
Lump sum repayments	(49,802)	(79,994)	–	–	–	(129,796)
Lump sum repayment on property disposition	(1,905)	(3,832)	–	–	–	(5,737)
Accrued interest	396	(515)	–	–	–	(119)
Marked-to-market adjustments	1,848	–	–	–	(600)	1,248
Foreign exchange adjustment	1,042	–	–	59	–	1,101
Discontinued operations	–	(37,300)	–	–	–	(37,300)
Debt as at June 30, 2004	$ 599,740	$ 23,615	$ –	$ 6,678	$ 74,400	$ 704,433

In the current three-month period, overall debt increased $65.2 million or 10.2%. This increase is primarily due to the convertible debenture issue, the proceeds of which were used mainly to fund acquisitions.

The refinancings completed during the quarter resulted in the reduction of debt maturing to the end of 2008 to 40% of total debt outstanding at June 30, 2004, compared to 63% at December 31, 2003. Additionally, the refinancing increased interest rate stability through lower fixed rates and longer terms.

($000's)	Debt Maturities Amount	Debt Maturities %	Scheduled Principal Repayments on Non-matured Debt Amount	June 30, 2004 Total	Dec. 31, 2003 Total
Remainder of 2004	$ 15,634	3	$ 11,591	$ 27,225	$ 157,829
2005	6,539	1	17,762	24,301	23,135
2006	47,801	8	17,727	65,528	51,273
2007	57,237	10	15,573	72,810	48,122
2008	74,531	13	14,708	89,239	85,919
2009 and thereafter	389,372	65	35,958	425,330	216,214
Total	$ 591,114	100	$ 113,319	$ 704,433	$ 582,492

Convertible Debentures

At June 30, 2004, the Trust had $75.0 million principal amount of convertible unsecured debentures (the "Debentures") outstanding. The Debentures bear interest at 6.5% per annum, payable semi-annually on June 30th and December 31st each year, and mature on June 30, 2014. Each debenture is convertible into 40 REIT Units, Series A per one thousand dollars of face value, representing a conversion price of $25.00 per unit. On or after June 30, 2008, but prior to June 30, 2010, the Debentures may be redeemed at par plus accrued and unpaid interest, provided that the market price for the Trust's units is not less than $31.25.

In accordance with recent amendments to Section 3860 of the CICA Handbook, the convertible debentures have been recorded on the balance sheets as debt of $74.4 million and equity of $0.6 million. Issue costs related to the offering are amortized to interest expense over ten years.

Contractual Obligations

The Trust entered into a contract, effective April 1, 2004, with Ontario Power Generation ("OPG") for the provision of electricity at a fixed rate to certain Ontario office properties and a retail property. This contract replaces an earlier OPG contract and includes some buildings purchased subsequent to the execution of the former contract. The contract is based on 90% of the normal historical consumption of electricity at these properties, is at a fixed cost per megawatt hour, and expires on October 31, 2004. Our commitment under the contract as of July 1, 2004 was $1.3 million. These costs are recoverable from tenants as operating expenses.

Purchase Obligation

With the acquisition of the 13-building portfolio in Montréal, the Trust has acquired leases that provide, in certain circumstances, for some tenants to require the Trust to expand their existing premises through building construction on certain adjacent lands. The terms of these leases include various provisions including renewal obligations of the tenants' existing premises and agreement on the terms of the new space. Furthermore, certain of the leases include provisions that would allow us to charge rents to recover a reasonable return on our investment. The Trust has negotiated purchase options from the owner of the subject lands to allow these obligations to be met. In addition, three buildings in the portfolio have leases that allow the tenant, subject to various conditions, to purchase the building they occupy from the Trust. Proceeds from these sales will, at a minimum, be at or exceed our cost.

The Trust has entered into a co-ownership agreement that includes typical rights of the co-owners for dispute resolution and a one time put option exercisable by our co-owner. The put, if exercised, would require Dundee REIT to purchase the remaining 50% of the building, effective April 1, 2009, at the price paid by the Trust for its initial 50% interest in the property. The put option has been valued in the cost of the building based upon management's expectation of the likelihood of the option being exercised.

Equity

The Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: REIT Units and Special REIT Units. The Special REIT Units may only be issued to holders of LP Class B Units, Series 1, are not transferable separately from these units, and are used to provide voting rights with respect to Dundee REIT to persons holding LP Class B Units, Series 1. The LP Class B Units, Series 1 are held by a related party of Dundee REIT.

Both the REIT Units and Special REIT Units entitle the holder to one vote for each unit held at all meetings of the unitholders.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Units issued and outstanding on March 31, 2004	16,677,352	7,377,531	24,054,883
Units issued pursuant to DRIP	51,682	186,887	238,569
Redemption of units	(1,379)	–	(1,379)
Total units outstanding on June 30, 2004	16,727,655	7,564,418	24,292,073
Percentage of all units	68.9%	31.1%	
Units issued pursuant to DRIP on July 15, 2004	20,028	61,287	81,315
Total units outstanding on July 15, 2004	16,747,683	7,625,705	24,373,388
Percentage of all units	68.7%	31.3%	

Funds from Operations

Management believes that FFO is an important measure of the Trust's operating performance and is indicative of its cash generating activities. 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.

The following table outlines the computation of funds from operations of Dundee REIT:

($000's except per unit amounts)	**Dundee REIT Consolidated Three Months Ended June 30, 2004**	Division of DRC Combined Three Months Ended June 30, 2003	**Dundee REIT Consolidated Six Months Ended June 30, 2004**	Division of DRC Combined Six Months Ended June 30, 2003
Net income (loss)	**$ (12,173)**	$ 2,077	**$ (6,848)**	$ 4,113
Add (deduct):				
Depreciation of rental properties	**6,690**	2,229	**12,974**	4,439
Amortization of deferred leasing costs and intangibles	**3,494**	1,664	**5,397**	2,897
Imputed amortization of leasing costs related to the rent supplement	**362**	–	**742**	–
Gain on disposal of rental properties	**(2,396)**	–	**(2,573)**	–
Provision for impairment in value of rental property	**19,729**	–	**19,729**	–
Future income tax expense (recovery)	**(1)**	843	**(42)**	$ 1,675
FFO	**$ 15,705**	$ 6,813	**$ 29,379**	$ 13,124
FFO per unit – basic and fully diluted	**$ 0.65**		**$ 1.28**	

For 2004, FFO includes rental revenue recognized on a straight-line basis. For the three months ended June 30, 2004, FFO excluding straight-line rent is $14.4 million or $0.60 per unit. For the six month period this amount is $27.1 million or $1.19 per unit.

Distributable Income

Distributable income is not a measure defined by GAAP and therefore may not be comparable to similar measures presented by other real estate investment trusts. Distributable income is defined in our Declaration of Trust to facilitate the determination of distributions.

As discussed in more detail on page 14, the Trust has adopted the straight-line method of rental revenue recognition. As this revenue is not yet billed, this amount, net of existing free rent amortization, has been deducted from the computation of distributable income.

The following table outlines the distributable income of Dundee REIT.

($000's except per unit amounts)	**Three Months Ended June 30, 2004**	**Six Months Ended June 30, 2004**
Net income (loss)	**$ (12,173)**	**$ (6,848)**
Adjust for:		
Depreciation of rental properties	**6,690**	**12,974**
Amortization of deferred leasing costs and intangibles	**3,494**	**5,397**
Future income tax recovery	**(1)**	**(42)**
Imputed amortization of leasing costs related to the rent supplement	**362**	**742**
Amortization of fair value debt adjustments included in interest expense	**(484)**	**(808)**
Compensation expense, deferred unit incentive plan	**106**	**211**
Gain on disposal of rental property	**(2,396)**	**(2,573)**
Provision for impairment in value of rental property	**19,729**	**19,729**
Straight-line rent	**(1,286)**	**(2,235)**
Amortization of deferred costs incurred prior to June 30, 2003	**222**	**482**
Amortization of deferred costs incurred subsequent to June 30, 2003	**(659)**	**(967)**
Other amortization	**8**	**8**
Distributable income	**13,612**	**26,070**
Distributable income per unit – basic and fully diluted	**$ 0.56**	**$ 1.14**

Distributions

Our distribution policy requires us to make cash distributions to our unitholders, payable monthly, equal to at least 80% of distributable income on an annual basis. We also have a distribution reinvestment and unit purchase plan that entitles unitholders to reinvest all cash distributions made by us in additional units. Unitholders who choose to do so, receive an additional distribution of 4% of each cash distribution that is reinvested.

Cash distributions declared in the quarter amounted to $13.3 million, an increase of $1.0 million over the previous three month period, reflecting the greater number of units outstanding as a consequence of the equity issue in February 2004. Of this amount, $5.2 million or 39% was reinvested in additional units of Dundee REIT.

The following table summarizes the distributions paid and reinvested for the six months ended June 30, 2004:

($000's)	Declared Distributions	Additional Distributions	Total
2004 Distributions			
Paid in cash or reinvestment in units	$ 21,184	$ 343	$ 21,527
Payable at June 30, 2004	4,445	70	4,515
Total distributions paid	$ 25,629	$ 413	$ 26,042
2004 Reinvestment			
Reinvested in 2004	$ 8,569	$ 343	$ 8,912
Reinvested on July 15, 2004	1,764	70	1,835
Total distributions reinvested	$ 10,333	$ 413	$ 10,747
Distributable income	$ 26,070		
Distribution payout ratio	98.3%		
Reinvestment to distribution ratio	40.3%		

Our Results of Operations

($000's)	**Dundee REIT Consolidated Three Months Ended June 30, 2004**	Division of DRC Combined Three Months Ended June 30, 2003	**Dundee REIT Consolidated Six Months Ended June 30, 2004**	Division of DRC Combined Six Months Ended June 30, 2003
Rental properties				
Revenues	**$ 46,282**	$ 35,052	**$ 89,282**	$ 69,967
Operating expenses	**20,449**	18,002	**40,533**	36,134
Net operating income	**25,833**	17,050	**48,749**	33,833
Other expenses				
Interest	**10,321**	8,382	**19,910**	16,748
Depreciation of rental properties	**6,303**	2,085	**12,199**	4,152
Amortization of deferred leasing costs and intangibles	**3,366**	1,433	**5,136**	2,542
General and administrative	**1,205**	1,566	**2,157**	3,339
	21,195	13,466	**39,402**	26,781
Other income				
Interest and fee income, net	**429**	330	**1,012**	656
Income before gain on asset disposal	**5,067**	3,914	**10,359**	7,708
Gain (loss) on disposal of rental property	**(11)**	–	**166**	–
Income before income and large corporations taxes	**5,056**	3,914	**10,525**	7,708
Income taxes				
Current income and large corporations taxes	**18**	947	**38**	1,887
Future income taxes	**(1)**	843	**(42)**	1,675
	17	1,790	**(4)**	3,562
Income before discontinued operations	**5,039**	2,124	**10,529**	4,146
Discontinued operations	**(17,212)**	(47)	**(17,377)**	(33)
Net income (loss)	**$ (12,173)**	$ 2,077	**$ (6,848)**	$ 4,113

Revenues

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 $11.2 million increase in revenue on the three-month basis over the prior year is primarily a result of acquisitions completed in 2003 and 2004. Of the 2004 acquisitions, those completed in the second quarter account for approximately $1.2 million of the growth. The impact of the Montréal portfolio acquisition on our revenue will be greater in the third quarter as the acquisition was completed on June 21, 2004.

The revenue increase for the six month period was mainly a result of acquisitions in late 2003 and in 2004, which contributed $17.7 million, and the rent supplement as described on page 16.

Effective January 1, 2004, the Trust adopted the accounting policy with respect to straight-line revenue recognition. This policy requires that contractual rent increases be recognized evenly or averaged over the term of the lease. Accordingly, a receivable from tenants is recorded for the current difference between the straight-line rent and the rent that is contractually due from the tenant. Prior to January 1, 2004, the Trust recorded only free rental periods on a straight-line basis.

Included in revenues for the six month period is $1.3 million resulting from the recognition of contractual rent increases on a straight-line basis over the term of the applicable leases on our comparative properties. In addition, the year-to-date revenue from acquisitions includes $0.8 million of straight-lined rents.

Operating Expenses

Operating expenses are mainly comprised of occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing of the properties. Operating expenses fluctuate with occupancy levels, weather, utility costs, taxes, repairs and maintenance. We attempt to reduce these costs where possible to lessen the burden on tenants and increase the probability of higher occupancies and net rental income. We actively monitor property taxes and appeal such taxes where appropriate to ensure the most favourable rates are attained.

The increase of operating expenses in 2004 for both the three month and six month periods was mainly a result of the property acquisitions in 2003 and 2004.

Interest Expense

Interest expense for the quarter increased by $1.9 million or 23.1% over the prior year, mainly as a result of increased debt levels from acquisitions completed in 2003 and 2004. On a comparative debt basis, interest expense declined by $0.6 (six months ended June 30, 2004 – $0.8) million as a result of refinancing at lower rates.

Depreciation of Rental Properties

Depreciation increased $4.2 million for the quarter. Effective January 1, 2004, the Trust adopted the straight-line method of depreciation resulting in an increase of approximately $3.9 million (six months ended June 30, 2004 – $7.3 million).

Amortization of Deferred Leasing Costs and Intangibles

Amortization increased $1.9 million and $2.6 million respectively over the three month and six month periods in 2003 largely as a result of allocating a portion of the purchase price on new acquisitions to intangibles as discussed in changes in accounting policies on page 24. As a result of adopting this new policy, amortization increased $1.6 million and $2.0 million respectively for the three months and six months ended June 30, 2004.

General and Administrative

General and administrative costs are primarily comprised of the expenses related to corporate management, trustees' fees and expenses, and investor relations for the Trust and its subsidiaries. The costs for the three-month period were $1.2 million and for the six-month period were $2.2 million. These costs are not comparable year-over-year as the costs for the Division are an allocation of costs and are not representative of costs under the existing structure.

Interest and Fee Income, Net

Interest and fee income represents amounts for items such as fees earned from managing properties owned by others, 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 year-over-year.

Gain on Sale of Rental Property

On February 11, 2004, the Trust and its partners sold Centennial Mall, a 178,000 square foot enclosed community shopping centre located in Brampton, Ontario. Dundee REIT received net cash proceeds of $2.2 million for its 50% interest in the property and recorded a net gain of approximately $0.2 million.

Discontinued Operations

Discontinued operations include assets that have been identified and meet specific criteria as discontinued assets in accordance with Canadian GAAP. These assets and operations are disclosed separately on the balance sheet and income statement. The intention of the disclosure is to assist the reader in determining the impact of the change in asset status. Discontinued operations of the Trust include an industrial building that was sold during the quarter, our share of an industrial building that was sold subsequent to quarter end and Northgate Mall which is scheduled to close in the third quarter. These assets contributed to the results of the Trust. The Trust will continue to have discontinued assets to the extent that resources are redeployed through asset sales.

The Trust reviews asset disposal opportunities in view of its strategy and key drivers including asset class, future capital and potential tenant inducement costs.

During the quarter, the discontinued operations included $0.1 million of income from operations, a $19.7 million provision for impairment in value for a property not yet sold and a $2.4 million gain on the sale of a rental property. The six-month period included a loss from operations of $0.06 million.

Income Tax Expense

Dundee REIT distributes or designates all taxable earnings to unitholders and as such, under current legislation, the obligation for tax rests with each unitholder and no tax expense is currently required on the majority of Dundee REIT's income. Certain Canadian and U.S. subsidiaries of Dundee REIT attract a tax cost, which is reflected in the income statement and balance sheet.

Net Operating Income ("NOI") – Comparative Portfolio

Net operating income is an important measure used by management to evaluate the operating performance of the properties. We define net operating income as the total of rental property revenues less operating expenses.

NOI shown below highlights comparative and non-comparative items to assist in understanding the impact each piece has on NOI. The discontinued operations that contributed to NOI are shown separately to conform to the required income statement presentation.

	Three Months Ended June 30				Six Months Ended June 30			
			Growth				Growth	
($000's)	**2004**	2003	**Amount**	%	**2004**	2003	**Amount**	%
Office	**$ 9,456**	$ 9,510	**$ (54)**	**(1)**	**$ 19,087**	$ 18,985	**$ 102**	**1**
Industrial	**5,678**	5,702	**(24)**	**–**	**11,403**	11,133	**270**	**2**
Retail	**1,409**	1,329	**80**	**6**	**2,858**	2,950	**(92)**	**(3)**
Comparative properties	**16,543**	16,541	**2**	**–**	**33,348**	33,068	**280**	**1**
Acquisitions	**7,065**	–	**7,065**		**11,620**	–	**11,620**	
Rent supplement	**925**	–	**925**		**1,876**	–	**1,876**	
Straight-line rent	**813**	88	**725**		**1,309**	211	**1,098**	
Under development	**105**	22	**83**		**75**	28	**47**	
Lease surrenders	**388**	230	**158**		**475**	237	**238**	
Dispositions	**(6)**	169	**(175)**		**46**	289	**(243)**	
NOI before discontinued operations	**25,833**	17,050	**8,783**	**52**	**48,749**	33,833	**14,916**	**44**
Discontinued operations	**1,162**	1,114	**48**		**2,220**	2,214	**6**	
NOI	**$ 26,995**	$ 18,164	**$ 8,831**	**49**	**$ 50,969**	$ 36,047	**$ 14,922**	**41**

($000's)	Three Months Ended June 30 2004	2003	Growth Amount	%	Six Months Ended June 30 2004	2003	Growth Amount	%
Québec	$ 3,858	$ 3,644	$ 214	6	$ 7,639	$ 7,210	$ 429	6
Ontario	7,734	7,809	(75)	(1)	15,645	15,271	374	2
Western Canada	3,850	4,134	(284)	(7)	7,823	8,291	(468)	(6)
Total Canada	15,442	15,587	(145)	(1)	31,107	30,772	335	1
United States	1,101	954	147	15	2,241	2,296	(55)	(2)
Comparative properties	16,543	16,541	2	–	33,348	33,068	280	1
Acquisitions	7,065	–	7,065		11,620	–	11,620	
Rent supplement	925	–	925		1,876	–	1,876	
Straight-line rent	813	88	725		1,309	211	1,098	
Under development	105	22	83		75	28	47	
Lease surrenders	388	230	158		475	237	238	
Dispositions	(6)	169	(175)		46	289	(243)	
NOI before discontinued operations	25,833	17,050	8,783	52	48,749	33,833	14,916	44
Discontinued operations	1,162	1,114	48		2,220	2,214	6	
NOI	$ 26,995	$ 18,164	$ 8,831	49	$ 50,969	$ 36,047	$ 14,922	41

On a same-store basis, NOI remained consistent for the comparative three-month periods. Property NOI generally varies period-to-period as a result of the timing of revenues and expenses that do not fluctuate directly with occupancy. Overall NOI for the three-month period mainly reflects the impact of acquisitions completed in late 2003 and to date in 2004. The properties acquired in Montréal increased NOI by $0.15 million since the transaction was completed on June 21, 2004. The rent supplement from DRC described below and the impact of straight-line recognition of rent contributed $0.9 million and $0.8 million respectively.

The $0.9 million rent supplement (six months ended June 30, 2004 – $1.9 million) represents amounts funded by DRC based on specific vacancies as previously agreed to upon the formation of Dundee REIT and as included in the property management agreement. This rent supplement will fluctuate as leasing of supplemented space occurs. The supplement commenced July 1, 2003 and is effective for five years on office and retail space and three years for industrial space. If at any time any of the spaces to which the supplement applies is either leased, sold or ceases to be managed by Dundee Realty Management Corp., the amount of the rent supplement will be permanently reduced by the amount attributed to that space.

Comparative Office Portfolio

For the six months, NOI for the comparative office portfolio improved 1% reflecting increased rates on new leases in Ontario, offset by a small decline in average occupancy for the comparative office portfolio. The decrease in western Canada resulted from vacancy in a Calgary and a Vancouver office building. Both spaces have been leased for occupancy later in 2004.

($000's)	Three Months Ended June 30 2004	2003	Growth Amount	%	Six Months Ended June 30 2004	2003	Growth Amount	%
Québec	$ 1,412	$ 1,276	$ 136	11	$ 2,810	$ 2,723	$ 87	3
Ontario	6,134	6,176	(42)	(1)	12,356	12,101	255	2
Western Canada	1,910	2,058	(148)	(7)	3,921	4,161	(240)	(6)
Comparative properties	9,456	9,510	(54)	(1)	19,087	18,985	102	1
Acquisitions	3,726	–	3,726		6,692	–	6,692	
Rent supplement	525	–	525		1,022	–	1,022	
Straight-line rent	646	31	615		946	105	841	
Lease surrenders	328	165	163		397	167	230	
Office NOI	$ 14,681	$ 9,706	$ 4,975	51	$ 28,144	$ 19,257	$ 8,887	46

Acquisitions contributing to our results include the Telus Tower and the Palladium Office Campus acquired in 2003 as well as 720 Bay Street acquired at the beginning of the quarter. The impact of the Montréal portfolio will be better reflected in the third quarter, as the effective date for this transaction was late in June.

Comparative Industrial Portfolio

NOI from the comparative industrial portfolio for the three months was flat. In Québec, rental rate increases and year-over-year variances in the timing of non-recoverable items led to a 3% increase in NOI quarter-over-quarter and 8% for the comparative six-month period. The Ontario portfolio experienced rental rate increases both quarter-over-quarter and for the six-month period resulting in a 5% and 8% increase in NOI for the respective periods. These strong results were offset by those of Western Canada which experienced a slight decrease in occupancy due to two unplanned vacancies. These spaces have been partially re-leased.

	Three Months Ended June 30				Six Months Ended June 30			
			Growth				Growth	
($000's)	2004	2003	Amount	%	2004	2003	Amount	%
Québec	$ 2,446	$ 2,368	$ 78	3	$ 4,829	$ 4,487	$ 342	8
Ontario	1,454	1,379	75	5	2,981	2,767	214	8
Western Canada	1,778	1,955	(177)	(9)	3,593	3,879	(286)	(7)
Comparative properties	5,678	5,702	(24)	–	11,403	11,133	270	2
Acquisitions	3,339	–	3,339		4,928	–	4,928	
Rent supplement	404	–	404		861	–	861	
Straight-line rent	115	32	83		257	61	196	
Under development	105	22	83		75	28	47	
Lease surrenders	60	–	60		78	5	73	
Industrial NOI before discontinued operations	9,701	5,756	3,945	69	17,602	11,227	6,375	57
Discontinued operations	137	132	5		282	266	16	
Industrial NOI	$ 9,838	$ 5,888	$ 3,950	67	$ 17,884	$ 11,493	$ 6,391	56

Acquisitions in the industrial portfolio include the Pauls Portfolio acquired in mid-February 2004 and the Geo-X Building acquired in May 2004.

Comparative Retail Portfolio

Retail NOI increased by 6% quarter-over-quarter.

	Three Months Ended June 30				Six Months Ended June 30			
			Growth				Growth	
($000's)	2004	2003	Amount	%	2004	2003	Amount	%
Ontario	$ 146	$ 254	$ (108)	(43)	$ 308	$ 403	$ (95)	(24)
Western Canada	162	121	41	34	309	251	58	23
Total Canada	308	375	(67)	(18)	617	654	(37)	(6)
United States	1,101	954	147	15	2,241	2,296	(55)	(2)
Comparative properties	1,409	1,329	80	6	2,858	2,950	(92)	(3)
Rent supplement	(4)	–	(4)		(7)	–	(7)	
Straight-line rent	52	25	27		106	45	61	
Lease surrenders	–	65	(65)		–	65	(65)	
Dispositions	(6)	169	(175)		46	289	(243)	
Retail NOI before discontinued operations	1,451	1,588	(137)	(9)	3,003	3,349	(346)	(10)
Discontinued operations	1,025	982	43		1,938	1,948	(10)	
Retail NOI	$ 2,476	$ 2,570	$ (94)	(4)	$ 4,941	$ 5,297	$ (356)	(7)

Our remaining retail asset in western Canada has undergone significant leasing over the past two quarters; however, this mall only represents leasable area of 46,140 square feet and therefore has a relatively small impact on overall NOI. The decline in NOI from our mall in Ontario is due to a slight decrease in occupancy coupled with a net increase in non-recoverable items both quarters. NOI from our U.S. asset increased 15% for the quarter, largely as a result of an increase in net recoverable amounts due to the timing of occupancy costs. Occupancy costs and the ability to recover them are dependent on a number of factors including the nature and timing of the costs and tenant lease agreements. The six month results for the U.S. mall were comparable to 2003.

Leasing Profile

The overall percentage of occupied and committed space across our stabilized rental properties portfolio remains strong at 94.2%. Occupancy rates discussed in this report include actual and committed space at June 30, 2004 and exclude space to which the rent supplement is applied.

	June 30, 2004 (1)(3)	December 31, 2003 (1)(2)	June 30, 2003 (2)
Office			
Québec	**92.2%**	87.9%	90.2%
Ontario	**93.8%**	92.7%	95.1%
Western Canada	**99.6%**	94.8%	93.8%
	94.6%	92.4%	93.8%
Industrial (1)(2)(3)			
Québec	**90.1%**	89.5%	89.5%
Ontario	**98.2%**	99.7%	98.3%
Western Canada	**94.8%**	93.7%	97.5%
	94.1%	93.1%	93.9%
Retail (3)			
Ontario	**88.6%**	92.9%	94.3%
Western Canada	**100.0%**	90.7%	89.6%
US	**93.0%**	93.3%	94.3%
	92.8%	92.5%	93.0%
Overall	**94.2%**	92.7%	93.8%

Excludes:
(1) 11 Place du Commerce, Longueuil, under redevelopment
(2) 15303-128th Avenue, Edmonton, under redevelopment
(3) Northgate Mall, Regina and 2000 Rue Halpern, Montréal, under contract for sale

Of significant note is the increase of occupied and committed space in the Montréal office sector. This growth reflects the impact of the portfolio acquired at the end of the quarter that was 100% leased. Commitments in Western Canada include approximately 35,000 square feet recently leased to a large provincial government agency. This lease commences in the third quarter.

Each of the past three quarters has experienced significant acquisition activity of fully leased buildings. These acquisitions have contributed to the overall increase in our portfolio occupancy.

Summary of leasing activity to June 30, 2004:

(square feet)	Office	Industrial(1)	Retail	Total
Vacant space available – April 1, 2004	295,950	439,344	103,232	838,526
Transfer of opening balance between property types	(5,385)	5,385	–	–
Remeasurements	(621)	341	–	(280)
Leases expiring or terminated	203,316	692,223	27,966	923,505
Transferred to discontinued operations(2)	–	–	(36,214)	(36,214)
Total space available for lease	493,260	1,137,293	94,984	1,725,537
New tenants	121,603	188,251	6,917	316,771
Renewals	116,034	513,231	17,996	647,261
Total space leased	237,637	701,482	24,913	964,032
Total space available for lease – June 30, 2004	255,623	435,811	70,071	761,505
Net decrease in vacant space	40,327	3,533	33,161	77,021

(1) Excludes 11 Place du Commerce, Longueuil, under redevelopment
(2) Vacant space at Northgate Mall, under contract for sale

An important component of our growth strategy is to acquire assets that present an opportunity to improve the overall quality of our portfolio. In the previous three quarters we have acquired approximately 2.9 million square feet of high quality properties, with high occupancy rates and which lengthen our average lease term. The above table shows a net decrease in vacant space of 77,021 square feet at quarter-end. The overall percentage of occupied and committed space has improved 1.5% since year-end as a result of leasing activity as well as the acquisition of 100% leased properties at quarter-end.

On March 31, 2004, our portfolio occupancy was 93.6%. During the three months, 923,505 square feet of leases expired and new leasing or renewals totalled 964,032 square feet. Our quarter-end occupancy rate was 94.2%. During the remainder of 2004, leases totalling approximately 0.7 million square feet will mature.

Lease maturity profile as at June 30, 2004 by asset type:

(square feet)	Current Vacancy	Current Monthly Tenancies	2004	2005	2006	2007	2008 and thereafter	Total
Office	252,940	45,766	238,976	481,977	480,432	371,715	2,846,378	4,718,184
Industrial(2)	438,494	174,570	422,068	1,360,713	1,177,315	912,327	2,989,733	7,475,220
Retail(2)	70,071	24,207	34,367	74,398	46,089	86,988	633,777	969,897
Total	761,505	244,543	695,411	1,917,088	1,703,836	1,371,030	6,469,888	13,163,301
Percentage	5.8%	1.9%	5.3%	14.6%	12.9%	10.4%	49.1%	
Properties under redevelopment								41,155
Total								13,204,456

(1) Excludes 11 Place du Commerce, Longueuil under redevelopment
(2) Excludes Northgate Mall, Regina and 2000 Rue Halpern, Montréal under contract for sale

Annualized Contract Rent at Expiry (psf):

	Current Monthly Tenancies	2004	2005	2006	2007	2008 and thereafter	Overall Weighted Average
Office	$ 12.59	$ 11.72	$ 12.83	$ 15.60	$ 13.51	$ 14.87	$ 13.65
Industrial(1)(2)	4.94	4.55	5.36	5.10	5.10	6.61	5.42
Retail(2)	21.26	15.07	17.89	12.88	12.72	8.25	9.58
Weighted Average	7.99	7.53	7.72	8.27	7.87	10.40	8.67

(1) Excludes 11 Place du Commerce, Longueuil, under redevelopment
(2) Excludes Northgate Mall, Regina and 2000 Rue Halpern, Montréal under contract for sale

The leasing process continues to be long. Management believes that increased leasing inquiries and the increase in committed space in the first two quarters indicate that we will likely experience some occupancy growth in the latter half of 2004. However, we do not anticipate significant rental increases across any of our markets in 2004.

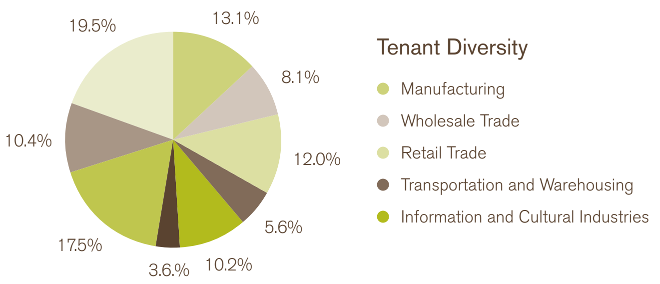
Average remaining lease term as at June 30, 2004 and other portfolio information:

	Average Remaining Lease Term (years)	Average Tenant Size (sq. ft.)	Average In-place Net Rent (per sq. ft.)
Office	5.30	8,305	$ 14.42
Industrial	3.47	13,009	5.75
Retail	5.98	5,959	10.32
Overall	4.31	9,974	9.21

Dundee REIT has a broad tenant base with the average tenant occupying approximately 10,000 square feet. The result is a large and diverse tenant base. With approximately 1,300 tenants, lease renewals are frequent and our exposure to any large single lease or tenant is relatively low.

We have extensive experience in managing our lease renewals, as many of the same tenants renew annually and have been doing so for a number of years. Our success is evident in our track record. Despite vacancy rates rising in many markets across Canada, the lease maturity profile of our properties has been consistent and our occupancy levels have fluctuated only within a very narrow range.

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



Our two largest tenants, the Government of Ontario and Telus Communications, each comprise 4.5% of our gross rental revenue. This table sets out the percentage contribution to gross rental revenue (annualized at June 30, 2004) of our ten largest tenants:

Tenant	Owned Area (sq. ft.)	% of Owned Area	% of Gross Rental Revenue	Expiry
Government of Ontario	329,652	2.4%	4.5%	2004–2013
Telus Communications	329,695	2.4%	4.5%	2016
Government of Canada	299,683	2.2%	4.4%	2005–2011
Bell Canada	267,950	2.0%	2.5%	2009
State Street Trust Company	93,587	0.7%	2.0%	2012
International Financial Data Services	96,015	0.7%	1.9%	2013
Government of BC	102,055	0.7%	1.7%	2006–2009
IBM Canada	112,105	0.8%	1.6%	2005–2011
Spirent Communications	80,550	0.6%	1.3%	2011
Epcor Utilities	169,614	1.2%	1.3%	2011
Total	1,880,906	13.8%	25.8%	

Acquisitions during the Quarter

A component of our growth strategy is to acquire office and industrial properties in our key markets allowing us to capitalize on operational efficiencies, further increase our presence and critical mass in our target markets and to improve the overall quality and rental income stability of our portfolio.

During the quarter Dundee REIT completed three acquisitions:

- On May 5, 2004, we completed the acquisition of a 50% interest in 720 Bay Street, an 11 storey Class A office building located in downtown Toronto, for approximately $26.0 million, including assumed debt of $20.6 million. The building is fully leased until 2009 and contains a total leasable area of approximately 247,743 square feet.
- On May 12, 2004, we completed the acquisition of the Geo-X Building, a 36,428 square foot flex industrial building located adjacent to the Calgary airport for approximately $6.6 million. The building is fully leased to Geo-X until 2010.
- On June 21, 2004, we completed the acquisition of a 13-building portfolio totalling 323,373 square feet of office, laboratory and flex space in Technoparc Saint-Laurent adjacent to the Dorval Airport in Montréal for approximately $64.5 million. The portfolio is fully occupied on long-term leases by 17 high-quality tenants, including AstraZeneca, Theratechnologies, MethylGene and Thales Avionics, all of who have made significant investments in their state-of-the-art premises. The average age of the buildings in the portfolio is about four years and the average remaining lease term is about seven years.

All of the properties acquired complement Dundee REIT's existing portfolio and align with our strategy of owning and managing office and industrial properties in Montréal, Ottawa, Toronto, Calgary and Edmonton. As with the other acquisitions completed over the past year, the properties add to our current holdings in our key markets, improve the overall quality of our portfolio, lengthen the average lease term, increase the overall occupancy and average net rent, and build upon its existing management platform.

Q2 2004 Acquisitions

	Property Type	Square Feet	Purchase Price (millions)	% Ownership	Year Built/Avg.	Average Contract Rent	Average Lease Term Remaining (yrs)	Occupancy
720 Bay St., Toronto	Office	247,743	$ 26.0	50%	1989	$ 14.48	5.00	100.0%
Geo-X Building, Calgary	Flex Industrial	36,428	$ 6.6	100%	2000	$ 16.81	6.17	100.0%
Montréal Portfolio	Office	323,373	$ 64.5	100%	1997–2002	$ 18.62	6.88	100.0%
Total Acquisitions		607,544	$ 97.1		1997	$ 17.42	6.35	100.0%

The impact of our acquisitions is evident when certain comparisons are made to our portfolio in the first quarter. For example, in Q1 the average lease term for our office portfolio was 5.28 years; the average lease term for acquisitions completed in Q2 is 6.36 years, improving our overall average term to 5.30 years.

Similarly, average in-place net rent per square foot in Q1 for office space was $14.09; the average in-place net rent per square foot for the acquisitions is $17.47, improving our overall average office rent to $14.42.

Dispositions during the Quarter

Another important component of our strategy includes the continuous and active analysis of the performance of our properties – identifying strengths and weaknesses of individual properties and our portfolio as a whole; identifying properties for capital improvements or properties for disposal that no longer fit with our investment strategy.

During the quarter, the Trust was presented with the opportunity to sell 6500 Kitimat Road, a 59,600 square foot single tenant industrial warehouse in Mississauga, Ontario to the existing sub-tenant at a favourable price. The transaction was completed on June 30, 2004 and, after repayment of debt, the Trust received net proceeds of $3.0 million and recorded a net gain of approximately $2.4 million.

On July 22, 2004, subsequent to quarter end, we sold our 20% interest in 2000 rue Halpern, a 527,000 single tenant industrial building in Montréal, Québec for approximately $3.4 million. The proceeds will be used to retire approximately $2.3 million of debt and the Trust will record a net gain of approximately $0.5 million in the third quarter. The sale was consistent with our long-term asset strategy.

We have also agreed to sell Northgate Mall, a 331,241square foot regional mall in Regina, Saskatchewan. The sale of this asset is consistent with our business strategy to focus on mid-sized urban and suburban office and industrial properties in our Canadian target markets. The Trust will receive proceeds of approximately $44.8 million and will use approximately $35.0 million to retire outstanding debt. An impairment provision of $19.7 million was recorded in the period to reflect the expected loss on disposition of the asset.

Quarterly Information

The following table shows quarterly information since the inception of Dundee REIT at June 30, 2003.

($000's)	**Three Months Ended June 30, 2004**	Three Months Ended March 31, 2004	Three Months Ended December 31, 2003	Three Months Ended September 30, 2003
Rental properties				
Revenues	**$ 46,282**	$ 43,000	$ 33,638	$ 34,986
Operating expenses	**20,449**	20,084	18,987	16,165
Net operating income	**25,833**	22,916	19,651	18,821
Other expenses				
Interest	**10,321**	9,589	8,895	8,481
Depreciation of rental properties	**6,303**	5,896	2,434	2,111
Amortization of deferred leasing costs and intangibles	**3,366**	1,770	1,542	1,267
General and administrative expense	**1,205**	952	1,115	994
	21,195	18,207	13,986	12,853
Other income				
Interest and fee income, net	**429**	583	484	190
Income before gain (loss) on disposal of asset	**5,067**	5,292	6,149	6,158
Gain (loss) on disposal of rental properties	**(11)**	177	(289)	–
Income before income and large corporations taxes	**5,056**	5,469	5,860	6,158
Income taxes				
Current income and large corporations taxes	**18**	20	35	15
Future income taxes	**(1)**	(41)	65	(33)
	17	(21)	100	(18)
Income before discontinued operations	**5,039**	5,490	5,760	6,176
Discontinued operations	**(17,212)**	(165)	131	106
Net income (loss)	**(12,173)**	5,325	5,891	6,282
Add (deduct):				
Depreciation of rental properties	**6,690**	6,284	2,588	2,266
Amortization of deferred leasing costs and intangibles	**3,494**	1,903	1,703	1,392
Future income tax	**(1)**	(41)	65	(33)
Imputed amortization of leasing costs related to the rent supplement	**362**	380	375	332
(Gain) loss on disposal of rental properties	**(2,396)**	(177)	289	–
Provision for impairment in value of rental property	**19,729**	–	–	–
Funds from operations	**15,705**	13,674	10,911	10,239
Add (deduct):				
Amortization of fair value debt adjustments included in interest expense	**(484)**	(324)	(106)	(75)
Compensation expense related to deferred unit incentive plan	**106**	105	104	9
Amortization of deferred costs incurred prior to June 30, 2003	**222**	260	361	329
Amortization of deferred costs incurred subsequent to June 30, 2003	**(659)**	(308)	(419)	(43)
Other amortization	**8**	–	–	–
Straight-line rent	**(1,286)**	(949)	–	–
Distributable income	**$ 13,612**	$ 12,458	$ 10,851	$ 10,459
Net income (loss) per unit				
Basic and diluted	**$ (0.50)**	$ 0.25	$ 0.32	$ 0.38
Funds from operations per unit				
Basic and diluted	**0.65**	0.64	0.59	0.63
Distributable income per unit				
Basic and diluted	**0.56**	0.58	0.59	0.64
Weighted average number of units outstanding				
Basic and diluted	**24,175,288**	21,508,753	18,203,105	16,331,369

Net Operating Income

($000's)	Three Months Ended June 30, 2004	March 31, 2004	Growth Amount	%
Office	$ 9,456	$ 9,631	$ (175)	(2)
Industrial	5,678	5,725	(47)	(1)
Retail	1,409	1,449	(40)	(3)
Comparative properties	16,543	16,805	(262)	(2)
Acquisitions	7,065	4,555	2,510	
Rent supplement	925	951	(26)	
Straight-line rent	813	496	317	
Under development	105	(30)	135	
Lease surrenders	388	87	301	
Dispositions	(6)	52	(58)	
NOI before discontinued operations	25,833	22,916	2,917	
Discontinued operations	1,162	1,058	104	
NOI	$ 26,995	$ 23,974	$ 3,021	13

Comparative NOI for the three months was slightly below the prior quarter, with very small decreases in most regions and all segments. Contributing to this change was a slight decrease in average quarterly occupancy, and a corresponding decrease in revenues. Fluctuations in non-recurring revenues and expenses also impacted the results, however, such fluctuations will occur quarter to quarter and are not necessarily indicative of a trend in revenues or costs.

Growth in total NOI was driven largely by the acquisition activity in both the first and second quarters. The Pauls Portfolio acquired in February contributed a full quarter of NOI in the second quarter, as did 720 Bay Street. The third quarter will reflect the impact of the Montréal acquisition completed at the end of June. Income from lease surrender payments increased by $0.3 million, however, this amount will be offset in the third quarter by related vacancies in the Ontario office portfolio.

Quarterly Occupied and Committed Space:

	June 30, 2004 (1)(4)	March 31, 2004 (1)	December 31, 2003 (2)	September 30, 2003 (2)	June 30, 2003 (3)
Office	94.6%	93.3%	92.4%	92.9%	93.8%
Industrial (1)(2)(3)(4)	94.1%	94.1%	93.1%	94.2%	93.9%
Retail (4)	92.8%	92.1%	92.5%	93.0%	93.0%
Overall	94.2%	93.6%	92.7%	93.6%	93.8%

Excludes:
(1) 11 Place du Commerce, Longueuil, under redevelopment
(2) 15303-128th Avenue, Edmonton and 11 Place du Commerce, Longueuil, under redevelopment
(3) 15303-128th Avenue, Edmonton, under redevelopment
(4) Northgate Mall, Regina and 2000 Rue Halpern, Montréal, under contract for sale

Outlook

Leasing activity and the level of occupied and committed space improved during the quarter and we expect this trend to continue into the third quarter in most of our markets. We also anticipate full quarter contributions from the acquisitions completed during the second quarter as well as the new leasing to fuel further financial growth going forward.

The acquisitions completed in the last three quarters were consistent with our growth strategy of acquiring office and industrial properties in our key markets that contribute to the overall quality of our portfolio and enhance the sustainability of our distributions. We will continue to pursue other such acquisition opportunities but remain focused on achieving optimal performance from our existing assets.

Significant accomplishments have been made in the management of our debt. Our refinancings have reduced our overall future interest costs and limited our exposure to increases in interest rates. We also have financial flexibility with our unused credit facility of approximately $55.0 million and over $60.0 million of unencumbered assets.

It has now been four quarters since Dundee REIT began its operations and opportunities have been better than we anticipated. Every aspect of our enterprise – from operations to the quality of our portfolio – continues to improve with each quarter that passes. Although the operating environment and stock market conditions are not optimal, we continue to see the results of our efforts to maintain and increase our occupancy level and cash flow. We hope that there will be ongoing improvements in the business environment, but we are running our business on the basis that the current environment will continue.

Risks and Our Strategy to Manage

Dundee REIT is exposed to various risks and uncertainties. For a list and explanation of these risks and uncertainties, please refer to our 2003 annual report or our Annual Information Form for the year ended December 31, 2003 filed on SEDAR (www.sedar.com).

Critical Accounting Estimates

Management of Dundee REIT believes that certain policies may be subject to estimation and management's judgment. For a list and explanation of these policies, please refer to Note 2 of the interim financial statements and to our 2003 annual report.

Changes in Accounting Policies

Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination

The Canadian Institute of Chartered Accountants ("CICA") has issued new guidance related to the accounting for rental property acquisitions initiated after September 12, 2003 that significantly changes the methodology for allocating the purchase price of all future acquisitions. The Trust must determine the fair value of a number of different components that previously were not considered in the purchase price allocation such as tenant inducements, lease origination costs, above and below market leases, in-place leases and tenant relationships. This guidance will result in a smaller portion of the purchase price being allocated to buildings and effectively accelerate some of the depreciation or amortization of the acquired assets. This new guidance has impacted the allocation of the purchase price of current period acquisitions. The total purchase price of acquisitions has been allocated to land, buildings, and intangible assets. A detailed breakdown of the allocation is included in the consolidated financial statements of the Trust for the six months ended June 30, 2004.

Generally Accepted Accounting Principles

Section 1100 of the CICA Handbook clarifies the hierarchy of GAAP in Canada. This new section codifies the sources of Canadian GAAP and establishes the authority of sources of GAAP outside the CICA Handbook. The most significant impact is to remove industry precedent as an appropriate source of GAAP. Dundee REIT has adopted the following changes in accounting policies:

Depreciation of Rental Properties
The sinking fund method of depreciating rental properties was discontinued and, effective January 1, 2004, we commenced depreciating our rental properties on a straight-line basis over their remaining estimated useful life. As required, this change was adopted on a prospective basis.

Revenue Recognition
Revenues from leases that include contractual increases in basic rents are accounted for on a straight-line basis. Previously, rents were generally recognized as they became due. In conjunction with the recognition of revenue, a receivable from tenants is recorded to reflect the difference between the straight-line rent recognized for accounting and the amount contractually due. This change was adopted on a prospective basis commencing on January 1, 2004.

Impairment of Long-Lived Assets

This new standard was effective January 1, 2004 and requires a two-step process for determining when an impairment of long-lived assets should be recognized in the financial statements. When impairment is determined to exist, the impaired asset is written down to fair value as opposed to net recoverable amount.

Discontinued Operations

Effective May 1, 2003, the Trust adopted the newly issued accounting pronouncement whereby assets initiated as held for sale are reclassified on the balance sheet and any income/loss or gain/loss on disposal are separately reported as discontinued operations.

CONSOLIDATED FINANCIAL STATEMENTS

Dundee Real Estate Investment Trust
Consolidated Balance Sheets

(unaudited) (in thousands of dollars)	Note	June 30, 2004	December 31, 2003
Assets			
Rental properties	3,4	**$1,071,212**	$ 915,050
Deferred costs	3,5	**45,783**	38,177
Amounts receivable	6	**6,827**	7,268
Prepaid expenses and other assets	7	**29,590**	32,706
Cash and short-term deposits		**13,944**	3,976
Intangible assets	3,8	**33,566**	–
Discontinued operations assets	17	**46,746**	–
		$1,247,668	$ 997,177
Liabilities			
Debt	9	**$ 704,433**	$ 582,492
Amounts payable and accrued liabilities	10	**20,166**	17,393
Distributions payable	11	**4,515**	3,600
Future income tax liability		**7,961**	7,737
Intangible liabilities	3,8	**3,130**	–
Discontinued operations liabilities	17	**37,576**	–
		777,781	611,222
Equity			
Unitholders' equity	12	**469,887**	385,955
		$1,247,668	$ 997,177

See accompanying notes to the consolidated financial statements

Dundee Real Estate Investment Trust
and Commercial Real Estate Division of Dundee Realty Corporation
Statements of Net Income

(unaudited) (in thousands of dollars, except per unit amounts)	Note	For the Three Months Ended June 30 2004 **Dundee REIT Consolidated**	For the Three Months Ended June 30 2003 Division of DRC Combined	For the Six Months Ended June 30 2004 **Dundee REIT Consolidated**	For the Six Months Ended June 30 2003 Division of DRC Combined
Rental properties					
Revenues		**$ 46,282**	$ 35,052	**$ 89,282**	$ 69,967
Operating expenses		**20,449**	18,002	**40,533**	36,134
Net operating income		**25,833**	17,050	**48,749**	33,833
Other expenses					
Interest	13	**10,321**	8,382	**19,910**	16,748
Depreciation of rental properties	2	**6,303**	2,085	**12,199**	4,152
Amortization of deferred leasing costs and intangibles		**3,366**	1,433	**5,136**	2,542
General and administrative		**1,205**	1,566	**2,157**	3,339
		21,195	13,466	**39,402**	26,781
Other income					
Interest and fee income, net		**429**	330	**1,012**	656
Income before gain (loss) on asset disposal		**5,067**	3,914	**10,359**	7,708
Gain (loss) on disposal of rental property	2	**(11)**	–	**166**	–
Income before income and large corporations taxes		**5,056**	3,914	**10,525**	7,708
Income taxes					
Current income and large corporations taxes		**18**	947	**38**	1,887
Future income taxes		**(1)**	843	**(42)**	1,675
		17	1,790	**(4)**	3,562
Income before discontinued operations		**5,039**	2,124	**10,529**	4,146
Discontinued operations	17	**(17,212)**	(47)	**(17,377)**	(33)
Net income (loss)		**$ (12,173)**	$ 2,077	**$ (6,848)**	$ 4,113
Income (loss) per unit (basic and diluted)	14				
Continuing operations		**$ 0.21**		**$ 0.46**	
Discontinued operations		**(0.71)**		**(0.76)**	
Net loss		**$ (0.50)**		**$ (0.30)**	

See accompanying notes to the consolidated and combined financial statements

Dundee Real Estate Investment Trust
Consolidated Statement of Unitholders' Equity

(unaudited) (in thousands of dollars)	Note	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Cumulative Foreign Currency Translation Adjustment	Total
Unitholders' equity, January 1, 2004		$ 396,161	$ 12,173	$ (19,382)	$ (2,997)	$ 385,955
Net loss		–	(6,848)		–	(6,848)
Distributions paid	11	–	–	(21,527)	–	(21,527)
Distributions payable	11	–	–	(4,515)	–	(4,515)
Public offering of units	12	110,022	–	–	–	110,022
Distribution Reinvestment Plan		10,659	–	–	–	10,659
Unit Purchase Plan		66	–	–	–	66
Deferred Unit Incentive Plan		211	–	–	–	211
Redemption of Units		(30)	–	–	–	(30)
Issue costs	12	(5,677)	–	–	–	(5,677)
Equity component of convertible debenture	9	600				600
Change in foreign currency translation adjustment		–	–	–	971	971
Unitholders' equity, June 30, 2004		$ 512,012	$ 5,325	$ (45,424)	$ (2,026)	$ 469,887

Commercial Real Estate Division of Dundee Realty Corporation
Combined Statement of Divisional Equity

(unaudited) (in thousands of dollars)	For the Six Months Ended June 30, 2003
Divisional equity, January 1, 2003	$ 290,594
Net income	4,113
Change in foreign currency translation adjustment	(2,471)
Net funds transferred from Dundee Realty Corporation	(15,717)
Divisional equity, June 30, 2003	$ 276,519

See accompanying notes to the consolidated and combined financial statements

Dundee Real Estate Investment Trust
and Commercial Real Estate Division of Dundee Realty Corporation
Statements of Cash Flows

	Note	For the Three Months Ended June 30 2004 Dundee REIT Consolidated	For the Three Months Ended June 30 2003 Division of DRC Combined	For the Six Months Ended June 30 2004 Dundee REIT Consolidated	For the Six Months Ended June 30 2003 Division of DRC Combined
Generated from (utilized in) operating activities					
Net income (loss)		$ (12,173)	$ 2,077	$ (6,848)	$ 4,113
Non-cash items:					
Depreciation of rental properties		6,690	2,229	12,974	4,439
Amortization of deferred leasing costs and intangibles		3,494	1,664	5,397	2,897
Provision for impairment in value of rental property		19,729	–	19,729	–
Gain on disposal of rental properties		(2,396)	–	(2,573)	–
Future income taxes		(1)	843	(42)	1,675
Straight-line rent adjustment		(1,286)	–	(2,235)	–
		14,057	6,813	26,402	13,124
Deferred leasing costs incurred		(2,389)	(1,327)	(4,255)	(2,921)
Change in non-cash working capital		90	1,860	3,973	(621)
		11,758	7,346	26,120	9,582
Generated from (utilized in) investing activities					
Investment in rental properties	4	(3,171)	(2,666)	(4,651)	(4,309)
Acquisition of rental properties	3	(75,765)	(858)	(153,688)	(861)
Investment in mezzanine loan	7	(408)	–	(10,476)	–
Proceeds from disposal of rental property		2,837	–	5,030	–
Change in restricted cash, net		(329)	(360)	(721)	(106)
		(76,836)	(3,884)	(164,506)	(5,276)
Generated from (utilized in) financing activities					
Mortgage principal repayments		(3,901)	(4,020)	(7,628)	(7,094)
Mortgages placed		71,912	44,418	71,912	50,918
Mortgage lump sum repayments		(38,839)	(27,755)	(49,802)	(32,411)
Term debt placed		60,553	–	60,553	–
Term debt principal repayments		(237)	(787)	(477)	(1,071)
Term debt lump sum repayments		(79,994)	509	(79,994)	–
Convertible debentures issued net of costs		71,949	–	71,949	–
Demand revolving credit facility, net		–	–	(7,026)	–
Distributions paid	11	(8,054)	–	(14,468)	–
Units issued net of costs		(1,019)	–	103,335	–
Net funds transferred to the Division		–	(17,163)	–	(15,717)
		72,370	(4,798)	148,354	(5,375)
Increase (decrease) in cash and cash equivalents		7,292	(1,336)	9,968	(1,069)
Cash and short-term deposits, beginning of period		6,652	2,918	3,976	2,651
Cash and short-term deposits, end of period		$ 13,944	$ 1,582	$ 13,944	$ 1,582

See accompanying notes to the consolidated and combined financial statements

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (in thousands of dollars, except unit or per unit amounts)

1. Basis of Financial Statement Presentation

Dundee Real Estate Investment Trust ("Dundee REIT") is an open-ended investment trust created pursuant to an amended and restated Declaration of Trust under the laws of the Province of Ontario.

Dundee REIT was formed in connection with the reorganization of the business of Dundee Realty Corporation ("DRC") on June 30, 2003 pursuant to which substantially all of the commercial real estate division of DRC (the "Division") and a 50% joint interest in its property management business were transferred to Dundee REIT (the "Transfer").

These financial statements present the financial position of Dundee REIT at June 30, 2004 and December 31, 2003 and the results of its operations and its cash flows for the six months ended June 30, 2004 and results of operations and cash flows of the Division for the six months ended June 30, 2003.

The assets and liabilities of the Division acquired in the Transfer have been measured by Dundee REIT under the continuity of interests accounting method at DRC's historical carrying amounts at June 30, 2003 as there was no substantive change in the ultimate ownership interests in the Division. Because the continuity of interests method of accounting has been used, results of operations and cash flows of the Division have been presented as comparative information for Dundee REIT.

The combined financial statements of the Division present the results of operations and cash flows of the Division, had the Division been accounted for on a stand-alone basis, and include the Division's proportionate share of the revenues and expenses of joint ventures in which it participates. The Division was not a legal entity. With respect to the Division, management derived all balances except for general and administrative expenses, income taxes and capital and large corporations taxes from the financial records of DRC specific to the properties and entities acquired. Capital, large corporations taxes and general and administrative expenses were allocated to the Division based on the net book value of the properties acquired by Dundee REIT relative to the total net book value of the properties of DRC. Income taxes were determined based on the operation of the Division, as if it were a taxable entity.

The combined financial statements of the Division are not necessarily indicative of the results that would have been attained if the Division had been operated as a separate legal entity during the periods presented and therefore are not necessarily indicative of future operating results. No adjustments were made to the Divisional financial statements to reflect incremental changes to the cost structure as a result of the Transfer.

References herein to the "Trust" refer collectively to Dundee REIT subsequent to June 30, 2003 and to the Division for periods prior to and including June 30, 2003.

2. Summary of Significant Accounting Policies

The disclosure requirements for these interim financial statements do not conform in all respects with the requirements of Canadian generally accepted accounting principles ("GAAP") for annual financial statements. These interim financial statements should be read in conjunction with the financial statements of Dundee REIT as at, and for the six months ended December 31, 2003 and of the Division as at, and for the six months ended June 30, 2003. These statements are in conformity with the requirements of GAAP for interim financial statements as recommended in the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, "Interim Financial Statements".

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

These financial statements follow the same accounting policies and the methods of their application as used in the December 31, 2003 audited consolidated financial statements except as discussed below:

Revenue Recognition

Effective January 1, 2004, the Trust adopted the straight-line method of rental revenue recognition whereby any contractual rent increases over the term of a lease are recognized in income evenly over that term.

Previously, rental revenue was recognized as rents became due. The difference between the amount recorded as revenue under the straight-line method and cash rents received is included in amounts receivable.

This change in accounting policy has been applied prospectively and had the effect of increasing revenues and net earnings for the three months ended June 30, 2004 by $1,300 and the six months ended June 30, 2004 by $2,200.

Rental Properties

Effective January 1, 2004, the Trust adopted the straight-line method of depreciation for rental properties. Previously, rental properties were depreciated using the sinking fund method. The estimated useful life of the properties continues to be between 30 and 40 years. This change in accounting policy has been applied prospectively and had the effect of increasing depreciation of rental properties and reducing net income for the three months ended June 30, 2004 by approximately $3,900 and for the six months ended June 30, 2004 by approximately $7,300.

In accordance with the CICA Emerging Issues Committee Abstracts No. 137 and No. 140 effective for property acquisitions initiated after September 12, 2003, the purchase price of a rental property is allocated to land, building, deferred leasing costs acquired including tenant improvements and lease origination costs associated with in-place leases, the value of above and below market leases and other intangible lease assets. Other intangible lease assets include the value of in-place leases and the value of tenant relationships, if any.

The values of the above and below market leases are amortized to rental property revenues over the remaining term of the associated lease. The value associated with tenant relationships is amortized over the expected term of the relationship, which includes an estimated probability of the lease renewal and the estimated term. 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. The tenant improvements, value of in-place leases and lease origination costs associated with in-place leases are amortized as an expense over the remaining term of the lease or expensed in full in the event the lease is terminated prior to its contractual expiration date.

Impairment of Long-lived Assets

Effective January 1, 2004, Dundee REIT prospectively adopted the recommendations of CICA Handbook Section 3063, "Impairment of Long-lived Assets".

This new standard requires a two-step process for determining when an impairment of rental properties and other long-lived assets should be recognized in the financial statements. When impairment is determined to exist, the impaired asset is written down to fair value. Prior to January 1, 2004, rental properties were stated at the lower of historic cost less accumulated depreciation and net recoverable amount. This change in accounting policy had no impact on adoption.

Discontinued Operations

On May 1, 2003, the Trust adopted the requirements of new CICA Handbook Section 3475, "Disposal of Long-lived Assets and Discontinued Operations". This new standard requires the trust to reclassify assets initiated as held for sale subsequent to May 1, 2003 and separate any net income/loss and gain/loss on disposal as discontinued operations. The impact of this new standard is described in Note 17.

This standard does not apply to dispositions where the commencement of the sale process was initiated prior to May 1, 2003. This was the case with the March 2004 disposition of Centennial Mall.

Convertible Debentures

Convertible debentures are separated into debt and equity components. These components have been measured at their respective estimated fair values at the date of issuance. The debt component has been estimated as the present value of future interest and principal payments due under the terms of the debenture. The value assigned to the equity component is the estimated fair value ascribed to the holders' option to convert the debentures into units.

3. Acquisitions

On February 19, 2004, the Trust completed the purchase of the Pauls Portfolio for a purchase price of $169,525. This portfolio consists of approximately 1.5 million square feet of newly constructed office, industrial and flex space properties located in Toronto and Calgary. Earnings from the date of acquisition are included in the statement of net income.

The Trust acquired the remaining 16.4% interest in 222-230 Queen Street in Ottawa, increasing its ownership percentage in the building to 100%. The purchase price for this interest was $6,015. Earnings from March 1, 2004 are included in the statement of net income.

The Trust completed the acquisition of a 50% interest in 720 Bay Street for a purchase price of $26,043. The net cash outlay for this transaction was $5,540. This property's operating results are included in these financial statements from April 1, 2004.

The Trust acquired the Geo-X Building in Calgary for a purchase price of $6,565 paid entirely in cash. This property's operating results are included in these financial statements from May 12, 2004.

The Trust acquired a 13-building portfolio of office properties in Montréal for a purchase price of $64,485 paid entirely in cash. This property's operating results are included in these financial statements from June 21, 2004.

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

	For the Six Months Ended June 30, 2004
Rental properties	
Land	$ 48,816
Buildings	183,076
	231,892
Deferred leasing costs	
Deferred leasing costs acquired	8,965
Intangible assets	
Value of in-place leases	13,255
Lease origination costs	4,399
Value of above market rent leases	3,438
Value of tenant relationships	14,277
	276,226
Intangible liabilities	
Value of below market rent leases	(3,279)
Accounts payable and accrued liabilities	(314)
Total purchase price	$ 272,633
The consideration paid consists of:	
Cash	
Paid in period	$ 153,688
Deposit (Note 7)	14,300
	167,988
Assumed mortgages	102,866
Assumed accounts payable and accrued liabilities	1,779
Total consideration	$ 272,633

As at June 30, 2004, the allocation of the purchase price to fair values of certain assets acquired and liabilities assumed has not been finalized and may be subject to adjustment.

4. Rental Properties

	Dundee REIT Consolidated	
	June 30, 2004	December 31, 2003
Land	$ 196,163	$ 159,940
Buildings and building improvements	917,774	788,746
Equipment	5,311	5,724
	1,119,248	954,410
Accumulated depreciation	(48,036)	(39,360)
Total	$1,071,212	$ 915,050

During the six months ended June 30, 2004, non-cash changes in working capital items related to investment in rental properties amounted to $908 (six months ended June 30, 2003 – $1,587).

5. Deferred Costs

	Dundee REIT Consolidated	
	June 30, 2004	December 31, 2003
Deferred leasing costs	$ 30,381	$ 25,605
Deferred recoverable costs	8,521	9,431
Deferred financing costs	5,900	2,010
Other deferred costs	981	1,131
Total	$ 45,783	$ 38,177

Deferred leasing costs are net of accumulated amortization of $13,836 at June 30, 2004 (December 31, 2003 – $12,153).

6. Amounts Receivable

Amounts receivable are net of credit adjustments of $3,180 at June 30, 2004 (December 31, 2003 – $1,546). Total U.S. dollar denominated amounts receivable relating to self-sustaining foreign operations are US$294 as at June 30, 2004 (December 31, 2003 – US$995).

Amounts receivable includes straight-line rents and deferred free rents receivable of $4,302 as at June 30, 2004 (December 31, 2003 – $2,134).

7. Prepaid Expenses and Other Assets

	Dundee REIT Consolidated	
	June 30, 2004	December 31, 2003
Prepaid expenses	**$ 5,233**	$ 5,711
Mezzanine loan	**10,711**	–
Deposits	**278**	14,315
Restricted cash	**13,368**	12,680
Total	**$ 29,590**	$ 32,706

On February 19, 2004, the Trust provided a mezzanine loan to a third party to finance certain development projects. The loan bears interest at 11% and is to be repaid on the earlier of February 19, 2014 or the date the development projects are sold. Payment of interest is monthly and contingent on the cash flows generated by the development. To date, no interest has been received. The loan is subordinate to all third party debt of the borrower.

Deposits at December 31, 2003 included a $14,300 payment with respect to an agreement to acquire certain rental properties as described in Note 3.

Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages and bank loans drawn on a line of credit.

8. Intangibles

	Dundee REIT Consolidated	
Intangible assets	**June 30, 2004**	December 31, 2003
Value of above market rent leases	**$ 3,281**	$ –
Value of in-place leases	**12,091**	–
Lease origination costs	**4,217**	–
Value of tenant relationships	**13,977**	–
Total	**$ 33,566**	$ –

Intangible assets are net of accumulated amortization of $1,803 at June 30, 2004 (December 31, 2003 – $nil).

	Dundee REIT Consolidated	
Intangible liabilities	**June 30, 2004**	December 31, 2003
Value of below market rent leases	**$ 3,130**	$ –

Intangible liabilities are net of accumulated amortization of $149 at June 30, 2004 (December 31, 2003 – $nil).

9. Debt

	Dundee REIT Consolidated	
	June 30, 2004	December 31, 2003
Mortgages	**$ 599,740**	$ 483,667
Term debt	**23,615**	85,180
Convertible debentures	**74,400**	–
Demand revolving credit facility	**–**	7,026
Demand non-revolving credit facility	**6,678**	6,619
Total	**$ 704,433**	$ 582,492

Mortgages and term debt are secured by charges on specific rental properties. DRC continues to be contingently liable for certain debt obligations of Dundee REIT. Term debt is secured by charges on specific rental properties with certain flexibility to repay floating rate debt without incurring penalty.

On June 21, 2004, the Trust issued $75,000 of convertible unsecured subordinated debentures. The debentures bear interest at 6.5% per annum, payable semi-annually and mature on June 30, 2014. Each debenture is convertible at any time by the holder into 40 REIT Units, Series A per one thousand dollars of face value, representing a conversion price of $25.00 per unit. The debentures may not be redeemed prior to June 30, 2008. On or after June 30, 2008 but prior to June 30, 2010, the debentures may be redeemed in whole or in part at a price equal to the principal amount plus accrued and unpaid interest provided that the weighted average closing price of a REIT Unit, Series A on the Toronto Stock Exchange for the 20 consecutive days ending five trading days preceding the date on which the notice of redemption is given, is not less than $31.25. On or after June 30, 2010, the debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest.

In accordance with recent amendments to Section 3860 of the CICA Handbook, the convertible debentures have been recorded on the balance sheet as debt of $74,400 and equity of $600. Issue costs related to the offering are amortized to interest expense over ten years.

A demand revolving credit facility is available up to a formula-based maximum not to exceed $50,000, bearing interest generally at the bank prime rate (3.75% as at June 30, 2004) plus 0.75% or bankers' acceptance rates. The facility is secured by a first ranking collateral mortgage on five of the Trust's properties and a second ranking collateral mortgage on two properties. As at June 30, 2004, $2,076 (December 31, 2003 – $2,925) was utilized under the facility in the form of letters of guarantee. As at June 30, 2004, the amount still available on this facility was $47,924. Subsequent to June 30, 2004, the facility was increased to $55,000.

The demand non-revolving credit facility is secured by a Canadian dollar deposit and amounts to US$4,971 at June 30, 2004 (December 31, 2003 – US$4,971). The facility bears interest at the bank's U.S. base rate plus 0.25%, and is due on demand.

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

	Weighted Average Interest Rates			Debt Amount	
	June 30, 2004	December 31, 2003	Maturity Dates	**June 30, 2004**	December 31, 2003
Fixed rate					
Mortgages	**6.74%**	6.93%	2004 to 2014	$ 599,740	$ 483,667
Term debt	**7.52%**	7.70%	2004 to 2007	362	65,886
Convertible debenture	**6.63%**		2014	74,400	–
Total fixed rate	**6.73%**	7.02%		674,502	549,553
Variable rate					
Term debt	**4.20%**	5.51%	2007	23,253	19,294
Demand revolving credit facility	**–**	5.50%	2004	–	7,026
Demand non-revolving credit facility	**4.75%**	4.75%	2004	6,678	6,619
Total variable rate	**4.32%**	5.35%		29,931	32,939
Total debt	**6.63%**	6.93%		$ 704,433	$ 582,492

Total variable rate term debt outstanding at June 30, 2004 bears interest generally at the rate of bankers' acceptance plus 2.15% (December 31, 2003 – plus 2.75%). At June 30, 2004, the rate of bankers' acceptance was 2.05% (December 31, 2003 – 2.76%).

Mortgages include US$20,380 at June 30, 2004 (December 31, 2003 – US$20,617) of debt secured by assets located in the United States relating to self-sustaining foreign operations.

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Term Debt	Convertible Debenture	Demand Non-Revolving Credit Facility	**June 30, 2004 Total**
Remainder of 2004	$ 20,284	$ 263	$ –	$ 6,678	**$ 27,225**
2005	23,764	537	–	–	**24,301**
2006	65,050	478	–	–	**65,528**
2007	50,473	22,337	–	–	**72,810**
2008	89,239	–	–	–	**89,239**
2009 and thereafter	350,930	–	74,400	–	**425,330**
Total	$ 599,740	$ 23,615	$ 74,400	$ 6,678	**$ 704,433**

10. Amounts Payable and Accrued Liabilities

	Dundee REIT Consolidated	
	June 30, 2004	December 31, 2003
Trade payables	**$ 2,142**	$ 1,450
Accrued liabilities and other payables	**11,933**	10,682
Deposits	**4,930**	3,565
Deferred revenue	**1,161**	1,696
Total	**$ 20,166**	$ 17,393

Total U.S. dollar denominated amounts payable and accrued liabilities relating to self-sustaining foreign operations are US$528 at June 30, 2004 (December 31, 2003 – US$975).

11. Distributions

The following table sets out Dundee REIT's distributions for the six months ended June 30, 2004.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	$ 14,468	$ –	$ 14,468
Paid by way of reinvestment in units	2,263	8,396	10,659
Less: Payable at December 31, 2003	(2,227)	(1,373)	(3,600)
Plus: Payable at June 30, 2004	3,075	1,440	4,515
Total	$ 17,579	$ 8,463	$ 26,042

The amount payable at June 30, 2004 was satisfied on July 15, 2004 by way of $2,680 in cash and $1,835 by way of 16,846 REIT Units, Series A and 61,287 LP Class B Units, Series 1.

Included in the total distributions is the 4% additional distribution in the amount of $413 (December 31, 2003 – $253) that forms part of the distribution reinvestment plan.

12. Unitholders' Equity

	REIT Units, Series A		LP Class B Units, Series 1		Cumulative Foreign Currency Translation Adjustment	Total	
	Number of Units	Amount	Number of Units	Amount		Number of Units	Amount
Unitholders' equity, January 1, 2004	12,094,217	$ 242,959	7,211,431	$ 145,993	$ (2,997)	19,305,648	$ 385,955
Net loss	–	(4,867)	–	(1,981)	–	–	(6,848)
Distributions paid	–	(14,503)	–	(7,024)	–	–	(21,527)
Distributions payable	–	(3,076)	–	(1,439)	–	–	(4,515)
Public offering of units	4,537,000	110,022	–	–	–	4,537,000	110,022
Distribution Reinvestment Plan	95,190	2,263	352,987	8,396	–	448,177	10,659
Unit Purchase Plan	2,727	66	–	–	–	2,727	66
Deferred Unit Incentive Plan	–	211	–	–	–	–	211
Redemption of units	(1,479)	(30)	–	–	–	(1,479)	(30)
Issue costs	–	(5,677)	–	–	–	–	(5,677)
Equity component of convertible debenture	–	600	–	–	–	–	600
Change in foreign currency translation adjustment	–	–	–	–	971	–	971
Unitholders' equity, June 30, 2004	16,727,655	$ 327,968	7,564,418	$ 143,945	$ (2,026)	24,292,073	$ 469,887

Distribution Reinvestment Plan

For the six months ended June 30, 2004, 95,190 REIT Units Series A and 352,987 LP Class B Units, Series 1 were issued under the Distribution Reinvestment Plan for $2,263 and $8,396, respectively.

Unit Purchase Plan

For the six months ended June 30, 2004, 2,727 REIT Units, Series A were issued under the Unit Purchase Plan for $66.

Deferred Unit Incentive Plan

At June 30, 2004, 88,200 Deferred Trust Units had been granted with a grant-date value of $21.35 per unit. During the six months ended June 30, 2004, $211 of compensation expense was recorded and is included in general and administrative expenses. During the six months ended June 30, 2004, 4,228 Income Deferred Trust Units were granted. As no Deferred Trust Units have vested, no REIT Units, Series A have been issued to date under the plan.

Public Offering of Units

On February 19, 2004, Dundee REIT completed a public offering for gross cash proceeds of $110,022 through the issuance of 4,537,000 REIT Units, Series A at a price of $24.25 per unit. Costs relating to the offering totalled $5,648 and were charged directly to unitholders' equity of which $304 was included in amounts payable and accrued liabilities at June 30, 2004.

13. Interest

Interest incurred and charged to earnings is recorded as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2004	2003	**2004**	2003
	Dundee REIT Consolidated	Division of DRC Combined	Dundee REIT Consolidated	Division of DRC Combined
Interest expense incurred, at stated rate of debt	**$ 10,623**	$ 8,235	**$ 20,359**	$ 16,499
Amortization of deferred financing costs	**182**	222	**359**	404
Marked-to-market adjustment to rate	**(484)**	(75)	**(808)**	(155)
Interest expense	**$ 10,321**	$ 8,382	**$ 19,910**	$ 16,748

Certain debt assumed on acquisitions completed in current and prior years has been adjusted to fair value using the market interest rate at the time of the acquisition ("marked-to-market"). This marked-to-market adjustment is amortized to interest expense and principal repayments over the remaining life of the debt.

Cash interest paid in the six months ended June 30, 2004 is $20,346 (six months ended June 30, 2003 – $19,279).

14. Net Income per Unit

For the three and six months ended June 30, 2004, the weighted average number of units outstanding was as follows:

	Dundee REIT Consolidated	
	For the Three Months Ended June 30	For the Six Months Ended June 30
	Weighted Average Number of Units Outstanding	Weighted Average Number of Units Outstanding
REIT Units, Series A	16,703,223	15,457,516
LP Class B Units, Series 1	7,472,065	7,384,504
Total weighted average number of units outstanding	24,175,288	22,842,020

For the six months ended June 30, 2004, Deferred Trust Units and Income Deferred Trust Units resulted in approximately 24,020 and 3,731 incremental units for diluted per unit amount calculations, respectively.

The incremental units of an assumed conversion of convertible debentures for the six months ended June 30, 2004 (164,835 incremental units) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

15. Segmented Information

The Trust's rental properties have been segmented into office, industrial and retail components because of the marketing, leasing and operating strategies unique to each.

The accounting policies of the segments are as described in the summary of significant accounting policies. The Trust does not allocate interest expense to these segments, since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, income taxes, and general and administrative expenses are not allocated to the segment expenses. All inter-segment revenues have been eliminated from the financial statements and the following tables.

A. By Activity

Dundee REIT
For the Three Months Ended June 30, 2004

	Office	Industrial	Retail	Total
Operations				
Revenues	$ 28,225	$ 14,935	$ 3,122	$ 46,282
Operating expenses	(13,544)	(5,234)	(1,671)	(20,449)
Net operating income	14,681	9,701	1,451	25,833
Depreciation of rental properties	(3,662)	(2,106)	(535)	(6,303)
Amortization of deferred leasing costs and intangibles	(1,273)	(1,929)	(164)	(3,366)
Segment income	$ 9,746	$ 5,666	$ 752	16,164
Interest expense				(10,321)
General and administrative expenses				(1,205)
Interest and fee income, net				429
Loss on disposal of revenue property				(11)
Income taxes				(17)
Income before discontinued operations				$ 5,039
Segment rental properties	$ 600,098	$ 397,871	$ 73,243	$1,071,212
Capital expenditures				
Investment in rental properties	$ (135)	$ (2,241)	$ (795)	$ (3,171)
Acquisition of rental properties	(53,645)	(22,120)	–	(75,765)
Deferred leasing costs	(847)	(872)	(670)	(2,389)
Total capital expenditures	$ (54,627)	$ (25,233)	$ (1,465)	$ (81,325)

Division of DRC
For the Three Months Ended June 30, 2003

	Office	Industrial	Retail	Total
Operations				
Revenues	$ 21,575	$ 9,834	$ 3,643	$ 35,052
Operating expenses	(11,869)	(4,078)	(2,055)	(18,002)
Net operating income	9,706	5,756	1,588	17,050
Depreciation of rental properties	(1,216)	(640)	(229)	(2,085)
Amortization of deferred leasing costs	(891)	(430)	(112)	(1,433)
Segment income	$ 7,599	$ 4,686	$ 1,247	13,532
Interest expense				(8,382)
General and administrative expenses				(1,566)
Interest and fee income, net				330
Income taxes				(1,790)
Income before discontinued operations				$ 2,124
Capital expenditures				
Investment in rental properties	$ (1,390)	$ (815)	$ (461)	$ (2,666)
Acquisition of rental properties	–	–	(858)	(858)
Deferred leasing costs	(611)	(307)	(409)	(1,327)
Total capital expenditures	$ (2,001)	$ (1,122)	$ (1,728)	$ (4,851)

Dundee REIT
For the Six Months Ended June 30, 2004

	Office	Industrial	Retail	Total
Operations				
Revenues	$ 55,497	$ 27,272	$ 6,513	$ 89,282
Operating expenses	(27,353)	(9,670)	(3,510)	(40,533)
Net operating income	28,144	17,602	3,003	48,749
Depreciation of rental properties	(7,069)	(4,086)	(1,044)	(12,199)
Amortization of deferred leasing costs and intangibles	(2,114)	(2,742)	(280)	(5,136)
Segment income	$ 18,961	$ 10,774	$ 1,679	31,414
Interest expense				(19,910)
General and administrative expenses				(2,157)
Interest and fee income, net				1,012
Gain on disposal of revenue property				166
Income taxes				4
Income before discontinued operations				$ 10,529
Segment rental properties	$ 600,098	$ 397,871	$ 73,243	$1,071, 212
Capital expenditures				
Investment in rental properties	$ (445)	$ (2,787)	$ (1,419)	$ (4,651)
Acquisition of rental properties	(70,954)	(82,734)	–	(153,688)
Deferred leasing costs	(1,846)	(1,478)	(931)	(4,255)
Total capital expenditures	$ (73,245)	$ (86,999)	$ (2,350)	$ (162,594)

Division of DRC
For the Six Months Ended June 30, 2003

	Office	Industrial	Retail	Total
Operations				
Revenues	$ 43,254	$ 19,416	$ 7,297	$ 69,967
Operating expenses	(23,997)	(8,189)	(3,948)	(36,134)
Net operating income	19,257	11,227	3,349	33,833
Depreciation of rental properties	(2,442)	(1,238)	(472)	(4,152)
Amortization of deferred leasing costs	(1,562)	(777)	(203)	(2,542)
Segment income	$ 15,253	$ 9,212	$ 2,674	27,139
Interest expense				(16,748)
General and administrative expenses				(3,339)
Interest and fee income, net				656
Income taxes				(3,562)
Income before discontinued operations				$ 4,146
Capital expenditures				
Investment in rental properties	$ (2,086)	$ (1,688)	$ (535)	$ (4,309)
Acquisition of rental properties	–	(3)	(858)	(861)
Deferred leasing costs	(1,314)	(946)	(661)	(2,921)
Total capital expenditures	$ (3,400)	$ (2,637)	$ (2,054)	$ (8,091)

B. By Country

Dundee REIT **For the Three Months Ended June 30, 2004**	**Canada**	**U.S.**	**Total**
Operations			
Revenues	$ 43,783	$ 2,499	$ 46,282
Operating expenses	(19,086)	(1,363)	(20,449)
Net operating income	24,697	1,136	25,833
Depreciation of rental properties	(5,850)	(453)	(6,303)
Amortization of deferred leasing costs and intangibles	(3,265)	(101)	(3,366)
Segment income	$ 15,582	$ 582	$ 16,164
Segment rental properties	$ 1,011,644	$ 59,568	$ 1,071,212
Capital expenditures			
Investment in rental properties	$ (2,327)	$ (844)	$ (3,171)
Acquisition of rental properties	(75,765)	–	(75,765)
Deferred leasing costs	(2,395)	6	(2,389)
Total capital expenditures	$ (80,487)	$ (838)	$ (81,325)

Division of DRC For the Three Months Ended June 30, 2003	Canada	U.S.	Total
Operations			
Revenues	$ 32,445	$ 2,607	$ 35,052
Operating expenses	(16,436)	(1,566)	(18,002)
Net operating income	16,009	1,041	17,050
Depreciation of rental properties	(1,903)	(182)	(2,085)
Amortization of deferred leasing costs	(1,378)	(55)	(1,433)
Segment income	$ 12,728	$ 804	$ 13,532
Capital expenditures			
Investment in rental properties	$ (2,371)	$ (295)	$ (2,666)
Acquisition of rental property	(858)	–	(858)
Deferred leasing costs	(1,184)	(143)	(1,327)
Total capital expenditures	$ (4,413)	$ (438)	$ (4,851)

Dundee REIT **For the Six Months Ended June 30, 2004**	**Canada**	**U.S.**	**Total**
Operations			
Revenues	$ 84,199	$ 5,083	$ 89,282
Operating expenses	(37,763)	(2,770)	(40,533)
Net operating income	46,436	2,313	48,749
Depreciation of rental properties	(11,333)	(866)	(12,199)
Amortization of deferred leasing costs and intangibles	(4,975)	(161)	(5,136)
Segment income	$ 30,128	$ 1,286	$ 31,414
Segment rental properties	$ 1,011,644	$ 59,568	$ 1,071,212
Capital expenditures			
Investment in rental properties	$ (3,239)	$ (1,412)	$ (4,651)
Acquisition of rental properties	(153,688)	–	(153,688)
Deferred leasing costs	(4,183)	(72)	(4,255)
Total capital expenditures	$ (161,110)	$ (1,484)	$ (162,594)

Division of DRC For the Six Months Ended June 30, 2003	Canada	U.S.	Total
Operations			
Revenues	$ 64,542	$ 5,425	$ 69,967
Operating expenses	(33,122)	(3,012)	(36,134)
Net operating income	31,420	2,413	33,833
Depreciation of rental properties	(3,773)	(379)	(4,152)
Amortization of deferred leasing costs	(2,437)	(105)	(2,542)
Segment income	$ 25,210	$ 1,929	$ 27,139
Capital expenditures			
Investment in rental properties	$ (3,987)	$ (322)	$ (4,309)
Acquisition of rental property	(861)	–	(861)
Deferred leasing costs	(2,751)	(170)	(2,921)
Total capital expenditures	$ (7,599)	$ (492)	$ (8,091)

16. Related Party Transactions and Arrangements

From time to time Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Prior to June 30, 2003, transactions entered into by the Division were not significant to these financial statements.

Effective June 30, 2003, Dundee REIT, Dundee Properties Limited Partnerships ("DPLP") and Dundee Management Limited Partnership ("DMLP") entered into a property management agreement and an administrative services agreement (the "Management Agreement" and the "Services Agreement"). Effective June 30, 2003, DMLP and DRC entered into an administrative services agreement (the "DRC Services Agreement").

For the six months ended June 30, 2004, the portion of fees received from or paid to related parties under the arrangements were as follows:

Fees Received	
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties revenue)	$ 1,876
Fees and rental income received by Dundee REIT under the DRC Services Agreement	$ 225

Fees Paid	
Fees paid by Dundee REIT under the Management Agreement	
Management fees, included in rental properties operating expenses	$ 1,518
Construction fees, capitalized to the related assets	$ 179
Lease administration fees, included in deferred leasing costs	$ 369
Fees paid by Dundee REIT under the Services Agreement	
Acquisition and financing fees, capitalized to the related assets	$ 301

Included in amounts receivable at June 30, 2004 is $17 (December 31, 2003 – $177) relating to the above agreements.

Included in accrued liabilities and other payables at June 30, 2004 is $131 (December 31, 2003 – $444) relating to the above agreements.

Substantially all of Dundee REIT's services are to be provided by DMLP and, accordingly, Dundee REIT relies on DMLP to continue to provide such services.

17. Held for Sale and Discontinued Operations

On June 30, 2004, the Trust disposed of its interest in 6500 Kitimat Road in Mississauga, Ontario for gross proceeds of $4,941 after selling costs, resulting in a gain on sale of $2,407. $1,905 of the proceeds was used to retire outstanding debt.

The Trust has entered into an agreement to sell Northgate Mall in Regina, Saskatchewan for proceeds of approximately $44,800. A portion of the proceeds will be used to retire approximately $35,000 of debt. An impairment provision of $19,729 was recorded in the period to reflect the expected loss on disposition. The sale is expected to close in the third quarter.

The Trust has entered into an agreement to sell its interest in 2000 Rue Halpern, a single tenant industrial building in Montréal, for approximately $3,400. The proceeds will be used to retire approximately $2,300 of debt and it is expected that a book gain of approximately $500 will be realized on the sale. The transaction closed on July 22, 2004.

The operating results of these properties for 2003 and 2004 have been reclassified as discontinued operations to comply with the disclosure requirements of the new accounting standard.

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2004	2003	**2004**	2003
	Dundee REIT Consolidated	Division of DRC Combined	Dundee REIT Consolidated	Division of DRC Combined
Revenues	**$ 2,055**	$ 2,286	**$ 4,139**	$ 4,573
Expenses	**(893)**	(1,172)	**(1,919)**	(2,359)
Net operating income	**1,162**	1,114	**2,220**	2,214
Interest	**(537)**	(747)	**(1,239)**	(1,527)
Depreciation of rental properties	**(387)**	(144)	**(775)**	(287)
Amortization of deferred leasing costs	**(128)**	(231)	**(261)**	(355)
Current income and large corporations taxes	**–**	(39)	**–**	(78)
Income (loss) from discontinued operations	**110**	(47)	**(55)**	(33)
Provision for impairment in value of rental property	**(19,729)**	–	**(19,729)**	–
Gain on sale of rental property	**2,407**	–	**2,407**	–
Net loss from discontinued operations	**$ (17,212)**	$ (47)	**$ (17,377)**	$ (33)

The following are the assets and liabilities of the properties held for sale at June 30, 2004:

	Dundee REIT Consolidated
	June 30, 2004
Assets	
Rental properties	**$ 41,459**
Deferred costs	**5,132**
Prepaid expenses and other assets	**155**
	$ 46,746
Liabilities	
Debt	**$ 37,300**
Amounts payable and accrued liabilities	**276**
	$ 37,576

18. Commitments and Contingencies

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

Purchase Obligation

Through the acquisition of the 13-building portfolio in Montréal, the Trust has acquired leases that provide, in certain circumstances, for some tenants to require the Trust to expand their existing premises through building construction on certain adjacent lands. The terms of these leases include various provisions including renewal obligations of the tenants' existing premises and agreement on the terms of the new space. Furthermore, certain of the leases include provisions that would allow us to charge rates to recover a reasonable return on our investment. The Trust has negotiated purchase options from the owner of the lands to allow these obligations to be met. In addition, three buildings in the portfolio have leases that allow the tenant, subject to various conditions, to purchase the building they occupy from the Trust. Proceeds from these sales will, at a minimum, be at or exceed our costs.

The Trust has entered into a co-ownership agreement that includes typical rights of the co-owners for dispute resolution and a one time put option exercisable by its co-owner. The put, if exercised, would require Dundee REIT to purchase the remaining 50% of the building, effective April 1, 2009, at the price paid by the Trust for its initial 50% interest in the property.

19. Comparative Figures

The comparative figures have been reclassified to conform to the current period's financial statement presentation.

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