

## CONSOLIDATED FINANCIAL STATEMENTS

### Dundee Real Estate Investment Trust Balance Sheets

(unaudited) (in thousands of dollars)	Note	March 31, 2004	December 31, 2003
<b>Assets</b>			
Rental properties	4	<b>\$ 1,061,395</b>	\$ 915,050
Deferred costs	5	<b>42,285</b>	38,177
Amounts receivable	6	<b>7,842</b>	7,268
Prepaid expenses and other assets	7	<b>45,777</b>	32,706
Cash and short-term deposits		<b>6,652</b>	3,976
		<b>\$ 1,163,951</b>	\$ 997,177
<b>Liabilities</b>			
Debt	8	<b>\$ 639,196</b>	\$ 582,492
Amounts payable and accrued liabilities	9	<b>23,563</b>	17,393
Distributions payable	10	<b>4,470</b>	3,600
Future income tax liability		<b>7,787</b>	7,737
		<b>675,016</b>	611,222
<b>Equity</b>			
Unitholders' equity	11	<b>488,935</b>	385,955
		<b>\$ 1,163,951</b>	\$ 997,177

See accompanying notes to the consolidated financial statements

**Dundee Real Estate Investment Trust**  
**Statements of Net Income**

(unaudited) (in thousands of dollars, except per unit amounts)	Note	Dundee REIT Consolidated	Division of DRC Combined
		For the Three Months Ended March 31, 2004	For the Three Months Ended March 31, 2003
<b>Rental properties</b>			
Revenues		\$ 45,084	\$ 37,203
Operating expenses		21,110	19,319
<b>Net operating income</b>		<b>23,974</b>	<b>17,884</b>
<b>Other expenses</b>			
Interest	12	10,291	9,147
Depreciation of rental properties		6,284	2,210
Amortization of deferred leasing costs and other assets		1,903	1,233
General and administrative		952	1,773
		19,430	14,363
<b>Other income</b>			
Interest and fee income, net		583	326
Income before gain on asset disposal		5,127	3,847
Gain on disposal of rental property		177	–
Income before income and large corporations taxes		5,304	3,847
<b>Income taxes</b>			
Current income and large corporations taxes		20	979
Future income taxes		(41)	832
		(21)	1,811
<b>Net income</b>		<b>\$ 5,325</b>	<b>\$ 2,036</b>
<b>Net income per unit</b>			
Basic and diluted	13	\$ 0.25	

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 income		-	5,325		-	5,325
Distributions paid	10	-	-	(8,070)	-	(8,070)
Distributions payable	10	-	-	(4,470)	-	(4,470)
Public Offering of Units	11	110,022	-	-	-	110,022
Distribution Reinvestment Plan	11	5,256	-	-	-	5,256
Unit Purchase Plan	11	48	-	-	-	48
Deferred Unit Incentive Plan	11	105	-	-	-	105
Redemption of Units		(2)	-	-	-	(2)
Issue costs	11	(5,664)	-	-	-	(5,664)
Change in foreign currency translation adjustment		-	-	-	430	430
Unitholders' equity, March 31, 2004		\$ 505,926	\$ 17,498	\$ (31,922)	\$ (2,567)	\$ 488,935

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

(unaudited) (in thousands of dollars)	For the Three Months Ended March 31, 2003
Divisional equity, January 1, 2003	\$ 290,594
Net income	2,036
Change in foreign currency translation adjustment	(1,145)
Net funds transferred to Dundee Realty Corporation	1,446
Divisional equity, March 31, 2003	\$ 292,931

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**

(unaudited) (in thousands of dollars)	Note	Dundee REIT Consolidated	Division of DRC Combined
		For the Three Months Ended March 31, 2004	For the Three Months Ended March 31, 2003
<b>Generated from (utilized in) operating activities</b>			
Net income		\$ 5,325	\$ 2,036
Non-cash items:			
Depreciation of rental properties		6,284	2,210
Amortization of deferred leasing costs and other assets		1,903	1,233
Gain on disposal of rental property		(177)	-
Future income taxes		(41)	832
Straight-line rent		(949)	-
		12,345	6,311
Deferred leasing costs incurred		(1,866)	(1,594)
Change in working capital		3,883	(2,481)
		14,362	2,236
<b>Generated from (utilized in) investing activities</b>			
Investment in rental properties	4	(1,480)	(1,643)
Acquisition of rental properties	3	(77,923)	(3)
Investment in mezzanine loan	7	(10,068)	-
Proceeds from disposal of rental property		2,193	-
Change in restricted cash, net		(392)	254
		(87,670)	(1,392)
<b>Generated from (utilized in) financing activities</b>			
Mortgage principal repayments		(3,727)	(3,074)
Mortgages placed	3	-	6,500
Mortgage lump sum repayments		(10,963)	(4,656)
Term debt principal repayments		(240)	(284)
Term debt lump sum repayments		-	(509)
Demand revolving credit facility, net		(7,026)	-
Distributions paid	10	(6,414)	-
Units issued net of costs		104,354	-
Net funds transferred to the Division		-	1,446
		75,984	(577)
Increase in cash and cash equivalents		2,676	267
Cash and short-term deposits, beginning of period		3,976	2,651
Cash and short-term deposits, end of period		\$ 6,652	\$ 2,918

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 and 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 March 31, 2004 and December 31, 2003 and the results of its operations and its cash flows for the three months ended March 31, 2004 and results of operations and cash flows of the Division for the three months ended March 31, 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 disclosures in these interim financial statements do not conform in all respects with the requirements of Canadian generally accepted accounting principles ("GAAP") for annual financial statements and 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, however, in conformity in all material respects 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 into 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 March 31, 2004 by \$949.

### 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 lives of the properties continue to be between 30 to 40 years.

This change in accounting policy has been applied prospectively and had the effect of increasing depreciation of rental properties and reducing net earnings for the three months ended March 31, 2004 by approximately \$3,400.

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 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 property rental revenue 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, the 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 adopted prospectively 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 or during the current reporting period.

## 3. Acquisitions

On February 19, 2004, the Trust completed the purchase of the Pauls Portfolio for a purchase price of \$169,204. On March 1, 2004, 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 these acquisitions are included in the statement of net income from the date of acquisition.

The assets acquired in these transactions were as follows:

Rental properties	
Land	\$ 40,869
Buildings	115,257
	156,126
Deferred leasing costs	
Deferred leasing costs acquired	3,865
Prepays and other assets	
Value of in-place leases	7,286
Lease origination costs	2,522
Value of above market rent leases	1,957
Value of tenant relationships	5,988
	17,753
Accounts payable and accrued liabilities	
Value of below market rent leases	(2,525)
<b>Total purchase price</b>	<b>\$ 175,219</b>

The consideration paid consists of:

Cash		
Paid in period		\$ 77,923
Deposit (Note 7)		14,300
		<u>92,223</u>
Assumed mortgages		82,266
Assumed accounts payable and accrued liabilities		730
		<u>\$ 175,219</u>

The scheduled principal repayments and debt maturities of the assumed mortgages are as follows:

Year ending December 31, 2004 (remainder of year)	\$ 13,806
2005	4,515
2006	61,917
2007	76
2008	82
2009 and thereafter	1,870
	<u>\$ 82,266</u>

As at March 31, 2004, the allocation of the purchase price to fair values of assets acquired and liabilities assumed has not been finalized and may be subject to adjustment.

#### 4. Rental Properties

	Dundee REIT Consolidated	
	March 31, 2004	December 31, 2003
Land	\$ 199,921	\$ 159,940
Buildings and building improvements	901,135	788,746
Equipment	5,314	5,724
	<u>1,106,370</u>	954,410
Accumulated depreciation	(44,975)	(39,360)
<b>Total</b>	<b>\$ 1,061,395</b>	<b>\$ 915,050</b>

During the three months ended March 31, 2004, non-cash changes in working capital items related to investment in rental properties amounted to \$734 (three months ended March 31, 2003 – \$(347)).

#### 5. Deferred Costs

	Dundee REIT Consolidated	
	March 31, 2004	December 31, 2003
Deferred leasing costs	\$ 30,177	\$ 25,605
Deferred recoverable costs	8,945	9,431
Deferred financing costs	2,130	2,010
Other deferred costs	1,033	1,131
<b>Total</b>	<b>\$ 42,285</b>	<b>\$ 38,177</b>

Deferred leasing costs are net of accumulated amortization of \$413,364 at March 31, 2004 (December 31, 2003 – \$12,153).

#### 6. Amounts Receivable

Amounts receivable are net of credit adjustments of \$2,255 at March 31, 2004 (December 31, 2003 – \$1,546). Total U.S. dollar denominated amounts receivable relating to self-sustaining foreign operations are US\$417 as at March 31, 2004 (December 31, 2003 – US\$995).

Amounts receivable includes straight-line rents and deferred free rents receivable of \$3,086 as at March 31, 2004 (December 31, 2003 – \$2,134).

## 7. Prepaid Expenses and Other Assets

	Dundee REIT Consolidated	
	March 31, 2004	December 31, 2003
Prepaid expenses	\$ 5,185	\$ 5,711
Mezzanine loan	10,068	–
Value of above market lease	1,957	–
Other intangible lease assets	15,480	–
Deposits	15	14,315
Restricted cash	13,072	12,680
<b>Total</b>	<b>\$ 45,777</b>	<b>\$ 32,706</b>

On February 19, 2004, the Trust entered into a mezzanine loan agreement 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. The loan is subordinate to all third party debt of the borrower.

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

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

## 8. Debt

	Dundee REIT Consolidated	
	March 31, 2004	December 31, 2003
Mortgages	\$ 551,651	\$ 483,667
Term debt	81,026	85,180
Demand revolving credit facility	–	7,026
Demand non-revolving credit facility	6,519	6,619
<b>Total</b>	<b>\$ 639,196</b>	<b>\$ 582,492</b>

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.

A demand revolving credit facility is available up to a formula-based maximum not to exceed \$20,000, bearing interest generally at the bank prime rate (4% as at March 31, 2004) plus 1% or bankers' acceptance rates. The facility is secured by a first ranking collateral mortgage on two of the Trust's properties and a second ranking collateral mortgage on a third property. As at March 31, 2004, \$3,133 (December 31, 2003 – \$2,925) was utilized under the facility in the form of letters of guarantee. As at March 31, 2004, the amount still available on this facility was \$12,688.

The demand non-revolving credit facility is secured by a Canadian dollar deposit and amounts to US\$4,971 at March 31, 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, but no later than May 31, 2004.

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

	Weighted Average Interest Rates			Debt Amount	
	March 31, 2004	December 31, 2003	Maturity Dates	March 31, 2004	December 31, 2003
<b>Fixed rate</b>					
Mortgages	6.54%	6.93%	2004 to 2014	\$ 551,651	\$ 483,667
Term debt	7.64%	7.70%	2004 to 2006	410	65,886
<b>Total fixed rate</b>	<b>6.54%</b>	<b>7.02%</b>		<b>552,061</b>	<b>549,553</b>
<b>Variable rate</b>					
Term debt	5.05%	5.51%	2004	80,616	19,294
Demand revolving credit facility	–	5.50%	2004	–	7,026
Demand non-revolving credit facility	4.75%	4.75%	2004	6,519	6,619
<b>Total variable rate</b>	<b>5.03%</b>	<b>5.35%</b>		<b>87,135</b>	<b>32,939</b>
<b>Total debt</b>	<b>6.34%</b>	<b>6.93%</b>		<b>\$ 639,196</b>	<b>\$ 582,492</b>



Total variable rate term debt outstanding at March 31, 2004 bears interest generally at the rate of bankers' acceptance plus 2.75% (December 31, 2003 – plus 2.75%). At March 31, 2004, the rate of bankers' acceptance was 2.3% (December 31, 2003 – 2.76%).

Mortgages include US\$20,500 at March 31, 2004 (December 31, 2003 – US\$20,617) of debt secured by assets located in the United States relating to self-sustaining foreign operations.

## 9. Amounts Payable and Accrued Liabilities

	Dundee REIT Consolidated	
	March 31, 2004	December 31, 2003
Trade payables	\$ 2,232	\$ 1,450
Accrued liabilities and other payables	12,838	10,682
Value of below market leases	2,525	-
Deposits	4,724	3,565
Deferred revenue	1,244	1,696
<b>Total</b>	<b>\$ 23,563</b>	<b>\$ 17,393</b>

Total U.S. dollar denominated amounts payable and accrued liabilities relating to self-sustaining foreign operations are US\$525 at March 31, 2004 (December 31, 2003 – US\$975).

## 10. Distributions

The following table sets out Dundee REIT's distributions for the three months ended March 31, 2004.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	\$ 6,414	\$ -	\$ 6,414
Paid by way of reinvestment in units	1,107	4,149	5,256
Less: Payable at December 31, 2003	(2,227)	(1,373)	(3,600)
Plus: Payable at March 31, 2004	3,066	1,404	4,470
<b>Total</b>	<b>\$ 8,360</b>	<b>\$ 4,180</b>	<b>\$ 12,540</b>

The amount payable at March 31, 2004 was satisfied on April 15, 2004 by way of \$2,684 in cash and \$1,786 by way of 16,145 REIT Units, Series A and 59,268 LP Class B Units, Series 1.

Included in the total distributions is the 4% additional distribution in the amount of \$203 (December 31, 2003 – \$253) that forms part of the distribution reinvestment plan.

## 11. 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 income	-	3,524	-	1,801	-	-	5,325
Distributions paid	-	(5,294)	-	(2,776)	-	-	(8,070)
Distributions payable	-	(3,066)	-	(1,404)	-	-	(4,470)
Public Offering of Units Distribution	4,537,000	110,022	-	-	-	4,537,000	110,022
Reinvestment Plan	44,331	1,107	166,100	4,149	-	210,431	5,256
Unit Purchase Plan	1,904	48	-	-	-	1,904	48
Deferred Unit Incentive Plan	-	105	-	-	-	-	105
Redemption of Units	(100)	(2)	-	-	-	(100)	(2)
Issue costs	-	(5,664)	-	-	-	-	(5,664)
Change in foreign currency translation adjustment	-	-	-	-	430	-	430
<b>Unitholders' equity, March 31, 2004</b>	<b>16,677,352</b>	<b>\$ 343,739</b>	<b>7,377,531</b>	<b>\$ 147,763</b>	<b>\$ (2,567)</b>	<b>24,054,883</b>	<b>\$ 488,935</b>

### Distribution Reinvestment Plan

For the three months ended March 31, 2004, 44,331 REIT Units Series A and 166,100 LP Class B Units, Series 1 were issued under the Distribution Reinvestment Plan for \$1,107 and \$4,149, respectively.

### Unit Purchase Plan

For the three months ended March 31, 2004, 1,904 REIT Units, Series A were issued under the Unit Purchase Plan for \$48.

### Deferred Unit Incentive Plan

At March 31, 2004, 88,200 Deferred Trust Units had been granted with a grant-date value of \$21.35 per unit. During the three months ended March 31, 2004, \$105 of compensation expense was recorded and is included in general and administrative expenses. During the three months ended March 31, 2004, 1,970 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 \$5,664 and were charged directly to Unitholders' equity of which \$1,300 was included in amounts payable and accrued liabilities at March 31, 2004 (December 31, 2004 – \$1,350).

## 12. Interest

Interest incurred, capitalized and charged to earnings is recorded as follows:

	Dundee REIT Consolidated	Division of DRC Combined
	For the Three Months Ended March 31, 2004	For the Three Months Ended March 31, 2003
Interest expense incurred, at stated rate of debt	\$ 10,408	\$ 9,012
Amortization of deferred financing costs	207	215
Marked-to-market adjustment to rate	(324)	(80)
Interest expense	\$ 10,291	\$ 9,147

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 three months ended March 31, 2004 is \$10,146 (three months ended March 31, 2003 – \$8,848).

## 13. Net Income per Unit

For the three months ended March 31, 2004, the weighted average number of units outstanding was as follows:

	Weighted Average Number of Units Outstanding
REIT Units, Series A	14,211,810
LP Class B Units, Series 1	7,296,943
Total weighted average number of units outstanding	21,508,753

For the three months ended March 31, 2004, Deferred Trust Units and Income Deferred Trust Units resulted in approximately 21,490 and 2,660 incremental units for diluted per unit amount calculations, respectively.

## 14. 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 March 31, 2004	Office	Industrial	Retail	Total
<b>Operations</b>				
Revenues	\$ 27,355	\$ 12,279	\$ 5,450	\$ 45,084
Operating expenses	(13,800)	(4,435)	(2,875)	(21,110)
Net operating income	13,555	7,844	2,575	23,974
Depreciation of rental properties	(3,451)	(1,952)	(881)	(6,284)
Amortization of deferred leasing costs and other assets	(889)	(757)	(257)	(1,903)
<b>Segment income</b>	<b>\$ 9,215</b>	<b>\$ 5,135</b>	<b>\$ 1,437</b>	<b>15,787</b>
Interest expense				(10,291)
General and administrative expenses				(952)
Interest and fee income, net				583
Gain on disposal of revenue property				177
Income taxes				21
<b>Net income</b>				<b>\$ 5,325</b>
<b>Segment rental properties</b>	<b>\$ 552,262</b>	<b>\$ 377,048</b>	<b>\$ 132,085</b>	<b>\$ 1,061,395</b>
<b>Capital expenditures</b>				
Investment in rental properties	\$ (310)	\$ (546)	\$ (624)	\$ (1,480)
Acquisition of rental properties	(17,309)	(60,614)	-	(77,923)
Deferred leasing costs	(999)	(606)	(261)	(1,866)
<b>Total capital expenditures</b>	<b>\$ (18,618)</b>	<b>\$ (61,766)</b>	<b>\$ (885)</b>	<b>\$ (81,269)</b>

Division of DRC For the Three Months Ended March 31, 2003	Office	Industrial	Retail	Total
<b>Operations</b>				
Revenues	\$ 21,543	\$ 9,755	\$ 5,905	\$ 37,203
Operating expenses	(12,068)	(4,150)	(3,101)	(19,319)
Net operating income	9,475	5,605	2,804	17,884
Depreciation of rental properties	(1,222)	(609)	(379)	(2,210)
Amortization of deferred leasing costs	(659)	(347)	(227)	(1,233)
<b>Segment income</b>	<b>\$ 7,594</b>	<b>\$ 4,649</b>	<b>\$ 2,198</b>	<b>14,441</b>
Interest expense				(9,147)
General and administrative expenses				(1,773)
Interest and fee income, net				326
Income taxes				(1,811)
<b>Net income</b>				<b>\$ 2,036</b>
<b>Capital expenditures</b>				
Investment in rental properties	\$ (696)	\$ (873)	\$ (74)	\$ (1,643)
Acquisition of rental properties	-	(3)	-	(3)
Deferred leasing costs	(703)	(639)	(252)	(1,594)
<b>Total capital expenditures</b>	<b>\$ (1,399)</b>	<b>\$ (1,515)</b>	<b>\$ (326)</b>	<b>\$ (3,240)</b>

## B. By Country

Dundee REIT For the Three Months Ended March 31, 2004		Canada	U.S.	Total
<b>Operations</b>				
Revenues		\$ 42,500	\$ 2,584	\$ 45,084
Operating expenses		(19,703)	(1,407)	(21,110)
Net operating income		22,797	1,177	23,974
Depreciation of rental properties		(5,872)	(412)	(6,284)
Amortization of deferred leasing costs and other assets		(1,842)	(61)	(1,903)
<b>Segment income</b>		<b>\$ 15,083</b>	<b>\$ 704</b>	<b>\$ 15,787</b>
<b>Segment rental properties</b>		<b>\$ 1,003,543</b>	<b>\$ 57,852</b>	<b>\$ 1,061,395</b>
<b>Capital expenditures</b>				
Investment in rental properties		\$ (912)	\$ (568)	\$ (1,480)
Acquisition of rental properties		(77,923)	-	(77,923)
Deferred leasing costs		(1,788)	(78)	(1,866)
<b>Total capital expenditures</b>		<b>\$ (80,623)</b>	<b>\$ (646)</b>	<b>\$ (81,269)</b>

Division of DRC For the Three Months Ended March 31, 2003		Canada	U.S.	Total
<b>Operations</b>				
Revenues		\$ 34,385	\$ 2,818	\$ 37,203
Operating expenses		(17,871)	(1,448)	(19,319)
Net operating income		16,514	1,370	17,884
Depreciation of rental properties		(2,013)	(197)	(2,210)
Amortization of deferred leasing costs		(1,183)	(50)	(1,233)
<b>Segment income</b>		<b>\$ 13,318</b>	<b>\$ 1,123</b>	<b>\$ 14,441</b>
<b>Capital expenditures</b>				
Investment in rental properties		\$ (1,616)	\$ (27)	\$ (1,643)
Acquisition of rental property		(3)	-	(3)
Deferred leasing costs		(1,567)	(27)	(1,594)
<b>Total capital expenditures</b>		<b>\$ (3,186)</b>	<b>\$ (54)</b>	<b>\$ (3,240)</b>

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

For the three months ended March 31, 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)		\$	951
Fees received by Dundee REIT under the DRC Services Agreement Services fees, netted against rental properties operating expenses		\$	113
<b>Fees Paid</b>			
Fees paid by Dundee REIT under the Management Agreement Management fees, included in rental properties operating expenses		\$	738
Construction fees, capitalized to the related assets		\$	50
Lease administration fees, included in deferred leasing costs		\$	251
Fees paid by Dundee REIT under the Services Agreement Acquisition and financing fees, capitalized to the related assets		\$	123

Included in amounts receivable at March 31, 2004 is \$394 (December 31, 2003 – \$177) relating to the above agreements.

Included in accrued liabilities and other payables at March 31, 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.

## **16. 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.