

## CONSOLIDATED FINANCIAL STATEMENTS

### Dundee Real Estate Investment Trust Consolidated Balance Sheets

(unaudited) (in thousands of dollars)	Note	June 30, 2004	December 31, 2003
<b>Assets</b>			
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	-
		<b>\$ 1,247,668</b>	<b>\$ 997,177</b>
<b>Liabilities</b>			
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	-
		<b>777,781</b>	<b>611,222</b>
<b>Equity</b>			
Unitholders' equity	12	469,887	385,955
		<b>\$ 1,247,668</b>	<b>\$ 997,177</b>

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		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
<b>Rental properties</b>					
Revenues		\$ 46,282	\$ 35,052	\$ 89,282	\$ 69,967
Operating expenses		20,449	18,002	40,533	36,134
<b>Net operating income</b>		<b>25,833</b>	17,050	<b>48,749</b>	33,833
<b>Other expenses</b>					
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
<b>Other income</b>					
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	–
<b>Income before income and large corporations taxes</b>		<b>5,056</b>	3,914	<b>10,525</b>	7,708
<b>Income taxes</b>					
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
<b>Income before discontinued operations</b>		<b>5,039</b>	2,124	<b>10,529</b>	4,146
Discontinued operations	17	(17,212)	(47)	(17,377)	(33)
<b>Net income (loss)</b>		<b>\$ (12,173)</b>	\$ 2,077	<b>\$ (6,848)</b>	\$ 4,113
<b>Income (loss) per unit (basic and diluted)</b>					
Continuing operations		\$ 0.21		\$ 0.46	
Discontinued operations		(0.71)		(0.76)	
<b>Net loss</b>		<b>\$ (0.50)</b>		<b>\$ (0.30)</b>	

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
<b>Unitholders' equity, June 30, 2004</b>		<b>\$ 512,012</b>	<b>\$ 5,325</b>	<b>\$ (45,424)</b>	<b>\$ (2,026)</b>	<b>\$ 469,887</b>

**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)
<b>Divisional equity, June 30, 2003</b>	<b>\$ 276,519</b>

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		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
<b>Generated from (utilized in) operating activities</b>					
Net income (loss)		\$ (12,173)	\$ 2,077	\$ (6,848)	\$ 4,113
<b>Non-cash items:</b>					
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
<b>Generated from (utilized in) investing activities</b>					
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)
<b>Generated from (utilized in) financing activities</b>					
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	<b>\$ 48,816</b>
Buildings	<b>183,076</b>
	<b>231,892</b>
Deferred leasing costs	
Deferred leasing costs acquired	<b>8,965</b>
Intangible assets	
Value of in-place leases	<b>13,255</b>
Lease origination costs	<b>4,399</b>
Value of above market rent leases	<b>3,438</b>
Value of tenant relationships	<b>14,277</b>
	<b>276,226</b>
Intangible liabilities	
Value of below market rent leases	<b>(3,279)</b>
Accounts payable and accrued liabilities	<b>(314)</b>
<b>Total purchase price</b>	<b>\$ 272,633</b>
The consideration paid consists of:	
Cash	
Paid in period	<b>\$ 153,688</b>
Deposit (Note 7)	<b>14,300</b>
	<b>167,988</b>
Assumed mortgages	<b>102,866</b>
Assumed accounts payable and accrued liabilities	<b>1,779</b>
<b>Total consideration</b>	<b>\$ 272,633</b>

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	<b>\$ 196,163</b>	\$ 159,940
Buildings and building improvements	<b>917,774</b>	788,746
Equipment	<b>5,311</b>	5,724
	<b>1,119,248</b>	954,410
Accumulated depreciation	<b>(48,036)</b>	(39,360)
<b>Total</b>	<b>\$1,071,212</b>	\$ 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	<b>\$ 30,381</b>	\$ 25,605
Deferred recoverable costs	<b>8,521</b>	9,431
Deferred financing costs	<b>5,900</b>	2,010
Other deferred costs	<b>981</b>	1,131
<b>Total</b>	<b>\$ 45,783</b>	\$ 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
<b>Total</b>	<b>\$ 29,590</b>	<b>\$ 32,706</b>

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	
	June 30, 2004	December 31, 2003
<b>Intangible assets</b>		
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	–
<b>Total</b>	<b>\$ 33,566</b>	<b>\$ –</b>

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

	Dundee REIT Consolidated	
	June 30, 2004	December 31, 2003
<b>Intangible liabilities</b>		
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
<b>Total</b>	<b>\$ 704,433</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. 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
<b>Fixed rate</b>					
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	–
<b>Total fixed rate</b>	<b>6.73%</b>	<b>7.02%</b>		<b>674,502</b>	<b>549,553</b>
<b>Variable rate</b>					
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
<b>Total variable rate</b>	<b>4.32%</b>	<b>5.35%</b>		<b>29,931</b>	<b>32,939</b>
<b>Total debt</b>	<b>6.63%</b>	<b>6.93%</b>		<b>\$ 704,433</b>	<b>\$ 582,492</b>

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
<b>Total</b>	<b>\$ 599,740</b>	<b>\$ 23,615</b>	<b>\$ 74,400</b>	<b>\$ 6,678</b>	<b>\$ 704,433</b>

## 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
<b>Total</b>	<b>\$ 20,166</b>	<b>\$ 17,393</b>

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
<b>Total</b>	<b>\$ 17,579</b>	<b>\$ 8,463</b>	<b>\$ 26,042</b>

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
<b>Operations</b>				
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)
<b>Segment income</b>	<b>\$ 9,746</b>	<b>\$ 5,666</b>	<b>\$ 752</b>	<b>16,164</b>
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)
<b>Income before discontinued operations</b>				<b>\$ 5,039</b>
<b>Segment rental properties</b>	<b>\$ 600,098</b>	<b>\$ 397,871</b>	<b>\$ 73,243</b>	<b>\$1,071,212</b>
<b>Capital expenditures</b>				
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)
<b>Total capital expenditures</b>	<b>\$ (54,627)</b>	<b>\$ (25,233)</b>	<b>\$ (1,465)</b>	<b>\$ (81,325)</b>

Division of DRC For the Three Months Ended June 30, 2003	Office	Industrial	Retail	Total
<b>Operations</b>				
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)
<b>Segment income</b>	<b>\$ 7,599</b>	<b>\$ 4,686</b>	<b>\$ 1,247</b>	<b>13,532</b>
Interest expense				(8,382)
General and administrative expenses				(1,566)
Interest and fee income, net				330
Income taxes				(1,790)
<b>Income before discontinued operations</b>				<b>\$ 2,124</b>
<b>Capital expenditures</b>				
Investment in rental properties	\$ (1,390)	\$ (815)	\$ (461)	\$ (2,666)
Acquisition of rental properties	-	-	(858)	(858)
Deferred leasing costs	(611)	(307)	(409)	(1,327)
<b>Total capital expenditures</b>	<b>\$ (2,001)</b>	<b>\$ (1,122)</b>	<b>\$ (1,728)</b>	<b>\$ (4,851)</b>

<b>Dundee REIT</b> <b>For the Six Months Ended June 30, 2004</b>	Office	Industrial	Retail	Total
<b>Operations</b>				
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
<b>Capital expenditures</b>				
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)

<b>Division of DRC</b> <b>For the Six Months Ended June 30, 2003</b>	Office	Industrial	Retail	Total
<b>Operations</b>				
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
<b>Capital expenditures</b>				
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

<b>Dundee REIT</b> For the Three Months Ended June 30, 2004		Canada	U.S.	Total
<b>Operations</b>				
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
<b>Capital expenditures</b>				
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)

<b>Division of DRC</b> For the Three Months Ended June 30, 2003		Canada	U.S.	Total
<b>Operations</b>				
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
<b>Capital expenditures</b>				
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)

<b>Dundee REIT</b> For the Six Months Ended June 30, 2004		Canada	U.S.	Total
<b>Operations</b>				
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
<b>Capital expenditures</b>				
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
<b>Operations</b>			
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)
<b>Segment income</b>	<b>\$ 25,210</b>	<b>\$ 1,929</b>	<b>\$ 27,139</b>
<b>Capital expenditures</b>			
Investment in rental properties	\$ (3,987)	\$ (322)	\$ (4,309)
Acquisition of rental property	(861)	-	(861)
Deferred leasing costs	(2,751)	(170)	(2,921)
<b>Total capital expenditures</b>	<b>\$ (7,599)</b>	<b>\$ (492)</b>	<b>\$ (8,091)</b>

## 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
<b>Assets</b>	
Rental properties	\$ 41,459
Deferred costs	5,132
Prepaid expenses and other assets	155
	\$ 46,746
<b>Liabilities</b>	
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.