

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis has been dated as at March 15, 2004

Dundee Real Estate Investment Trust ("Dundee REIT" or the "Trust") is an unincorporated, open-ended real estate investment trust engaged in the ownership and management of commercial rental properties. We provide high quality affordable business premises through 144 strategically located office, suburban industrial and retail properties comprising approximately 11.7 million square feet as at December 31, 2003. These properties are located in our target markets, the major Canadian metropolitan centres of Montréal, Ottawa, Toronto, Calgary and Edmonton. Through our 50% interest in Dundee Realty Management Corp., we have approximately 13.8 million square feet of revenue properties under management, including 11.2 million square feet of owned assets.

### 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 both 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 December 31, 2003, approximately 16% of REIT Units, Series A outstanding were enrolled in the DRIP.

2003	July	August	September	October	November	December
Cash Distribution	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183
Month End Closing Price	\$ 20.90	\$ 21.88	\$ 20.51	\$ 22.00	\$ 23.20	\$ 23.40

### Our Strategy

Our strategy is to become Canada's leading provider of affordable business premises. In order to meet our strategy and objectives we will:

- Effectively Manage Our Business

We work to increase the value of our portfolio through continuous and active analysis of how our properties can achieve optimal performance. We identify strengths and weaknesses of individual properties and our portfolio as a whole, which allows us to quickly re-position assets when warranted. Through ongoing incremental improvements throughout our portfolio, we minimize the requirement for large capital expenditures.

We stagger our debt maturities in order to mitigate interest rate exposure and to ensure that there are no significant maturities in any given year. Lease maturities are similarly staggered to maintain continuity of income and to avoid significant lease turnovers and their associated leasing costs in any given year.

- Build and Maintain a Diversified Portfolio

Diversifying our real estate portfolio decreases the overall risk of our business. Our portfolio is well diversified by asset type, geographic location and tenant mix. With over 1,300 tenants, renewals are frequent and the exposure to the loss of any single large tenant is minimized.

- Meet the Needs of Our Tenants

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

- Continue External Growth Strategy

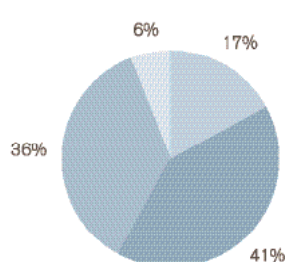
We will not sacrifice the predictability of our distributions for the sake of growth. When acquisitions are made they represent an opportunity to improve the overall quality of our portfolio and enhance the sustainability of distributions. Our growth strategy is to acquire office and industrial properties in our five key markets – Montréal, Ottawa, Toronto, Calgary and Edmonton – and reposition existing properties where opportunities exist. This allows us to capitalize on operational efficiencies and further increase our presence and critical mass in our target markets.

## Our Assets

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

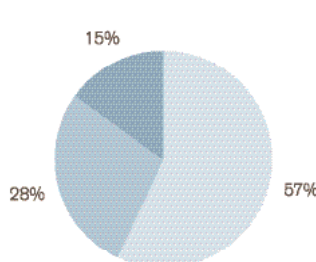
The book value of segmented rental properties is diversified geographically and by asset type.

(\$000's)	as at December 31, 2003					as at December 31, 2002	
	Office	Industrial	Retail	Total	%	Total	%
Québec	\$ 50,402	\$ 102,629	\$ 1,711	\$ 154,742	17	\$ 155,576	19
Ontario	306,263	53,981	13,915	374,159	41	335,803	41
Western Canada	168,695	95,911	64,121	328,727	36	260,932	32
Total Canada	525,360	252,521	79,747	857,628	94	752,311	92
United States	–	–	57,422	57,422	6	70,104	8
<b>Total at December 31, 2003</b>	<b>\$ 525,360</b>	<b>\$ 252,521</b>	<b>\$ 137,169</b>	<b>\$ 915,050</b>	<b>100</b>	<b>\$ 822,415</b>	<b>100</b>
Percentage	57%	28%	15%	100%			
<b>Total at December 31, 2002</b>	<b>\$ 417,829</b>	<b>\$ 254,504</b>	<b>\$ 150,082</b>	<b>\$ 822,415</b>			
Percentage	51%	31%	18%	100%			



Geographic Distribution of Rental Properties by Book Value at December 31, 2003

- Québec
- Ontario
- Western Canada
- United States



Portfolio Asset Type by Book Value at December 31, 2003

- Office
- Industrial
- Retail

Owned Gross Leasable Area (in square feet)

	as at December 31, 2003					as at December 31, 2002	
	Office	Industrial	Retail	Total	%	Total	%
Québec	753,985	2,818,212	–	3,572,197	31	3,574,014	32
Ontario	2,444,967	1,333,109	217,209	3,995,285	34	3,761,513	34
Western Canada	1,008,447	1,925,457	377,677	3,311,581	28	2,947,761	27
Total Canada	4,207,399	6,076,778	594,886	10,879,063	93	10,283,288	93
United States	–	–	795,390	795,390	7	796,187	7
<b>Total at December 31, 2003</b>	<b>4,207,399</b>	<b>6,076,778</b>	<b>1,390,276</b>	<b>11,674,453</b>	<b>100</b>	<b>11,079,475</b>	<b>100</b>
Percentage	36%	52%	12%	100%			
<b>Total at December 31, 2002</b>	<b>3,615,270</b>	<b>6,077,433</b>	<b>1,386,772</b>	<b>11,079,475</b>			
Percentage	33%	55%	12%	100%			

### Office Rental Properties

Dundee REIT owns 43 office properties (56 buildings) comprising approximately 4.2 million square feet located in Montréal, Ottawa, Toronto, Calgary, Edmonton and Vancouver.

Vacancy rates in the national office market have continued to increase in 2003, although to a lesser degree than in 2002. With the exception of Ottawa, metropolitan centres across Canada have been struggling with higher vacancies and sublet space. Fortunately, there was hardly any new office construction in 2003 and demand for office space should improve in 2004. The occupancy rate in our office portfolio has remained relatively high at 92.4%, well ahead of the national industry average of about 88.4% (Royal LePage Commercial Inc. National Market Intelligence Report Fourth Quarter 2003).

Our team of experienced leasing and property management specialists works to ensure that our buildings are well leased, and that we maintain good relationships in the brokerage and tenant communities to meet and exceed the needs of our clients.

### Industrial Rental Properties

We own 96 prime suburban industrial and flex space properties (110 buildings) comprising approximately 6.1 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 to 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 December 31, 2003, the average occupancy rate across our stabilized industrial portfolio was 93.1%, below the national industry average of about 95.5% (Royal LePage Commercial Inc. National Market Intelligence Report Fourth Quarter 2003). Canada's industrial market has performed very well with occupancy rates above 93% for the last several years. There is sufficient demand to justify new construction in 2004.

With the acquisition of the Pauls Portfolio subsequent to year end, we have added state-of-the-art facilities to our industrial portfolio. The majority of these properties are flex space properties located in high end business parks in Toronto and Calgary.

### Retail Rental Properties

Our major retail assets are Northgate Mall in Regina and Greenbriar Mall in Atlanta. These assets comprise 1.1 million square feet of our total retail portfolio of approximately 1.4 million square feet. As of December 31, 2003, the portfolio had an occupancy rate of 92.5%.

### 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, senior management, and a joint interest in its property management business, were transferred to Dundee REIT.

The Reorganization was the culmination of a process initiated by management of Dundee Realty to explore potential transactions that would create value for Dundee Realty's shareholders. Management of Dundee Realty believed that our new structure would result in more favourable equity valuations as compared to the common shares of Dundee Realty. It would also provide enhanced access to the capital required to grow the business.

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 six months ended December 31, 2003 and the combined financial statements of the commercial real estate division of DRC ("the Division") for the six months ended June 30, 2003 and for the year ended December 31, 2002. This discussion should be read in conjunction with these financial statements. Additional information relating to the Trust, including our annual information form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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.

### Pro Forma Information

The transfer of the assets and liabilities from the Division to Dundee REIT on June 30, 2003 has been measured under the continuity of interests accounting method at DRC's historical carrying amounts. As a result, the financial position, results of operations and cash flows of the Division have been presented as comparative information for Dundee REIT.

As the results of the Division do not reflect changes to the organizational or cost structure, comparability to the actual results of Dundee REIT are limited.

The following table combines the funds from operations ("FFO") of Dundee REIT for the six months ended December 31, 2003 and the Division for the period January 1, 2003 to June 30, 2003, subject to certain pro forma adjustments. The pro forma FFO presents the results of the Division as if the Reorganization had occurred on January 1, 2003. This provides an indication of the annual results for 2003 as if the Reorganization had occurred at the start of the year.

(\$000's except per unit amounts)	Dundee REIT Consolidated July 1 to December 31, 2003 (Actual) <sup>(1)</sup>	Division of DRC Combined January 1 to June 30, 2003 (Pro Forma) <sup>(2)</sup>	Year Ended December 31, 2003 (Annual Pro Forma)
Funds from operations	\$ 21,150	\$ 20,269	\$ 41,419
Funds from operations per unit	\$ 1.22	\$ 1.25	\$ 2.47
Weighted average number of units outstanding	17,267,237	16,279,437	16,776,143

(1) The reconciliation of FFO to net income can be found on page 26.

(2) As disclosed on page 21 in the Dundee REIT prospectus dated October 29, 2003.

## 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:

	2003			2002
	Dundee REIT Consolidated July 1 to December 31	Division of DRC Combined January 1 to June 30	Year Ended December 31 (Total)	Division of DRC Combined Year Ended December 31
(\$000's except rental rates and per unit amounts)				
<b>Operating results</b>				
Revenues	\$ 78,162	\$ 74,540	\$ 152,702	\$ 146,682
Net operating income <sup>(1)</sup> ("NOI")	40,786	36,047	76,833	73,074
Net income	12,173	4,113	16,286	12,883
Funds from operations <sup>(2)</sup>	21,150	13,124	34,274	29,971
<b>Distributions</b>				
Distributable income <sup>(3)</sup>	21,310			
Distribution payout ratio <sup>(4)</sup>	89%			
Reinvested distributions <sup>(5)</sup>	9,257			
Reinvestment to distribution ratio <sup>(4)(5)</sup>	49%			
<b>Per unit amounts</b>				
Distributable income	1.23			
Distribution rate (monthly)	0.183			
Net income	0.71			
Funds from operations	1.22			
Occupancy rate (period end)	92.7%	93.5%		93.1%
In-place rent per square foot	8.43	7.88		7.89
Book value of rental properties	915,050	811,339		822,415
Total assets	997,177	863,204		869,211
Debt	582,492	505,592		504,159
Weighted average interest rate (period end)	6.93%	7.19%		7.24%
Interest expense	18,858	18,275		35,602
Interest coverage ratio <sup>(6)</sup>	2.09 times	1.83 times		1.93 times
Debt-to-gross book value	56.2%	56.3%		56.0%
<b>Units outstanding at December 31</b>				
REIT Units, Series A	12,094,217			
LP Class B Units, Series 1	7,211,431			
<b>Total units outstanding at December 31</b>	<b>19,305,648</b>			

(1) NOI – revenues less operating expenses. The reconciliation of NOI to net income can be found on page 27.

(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 26.

(3) The reconciliation of distributable income to net income can be found on page 26.

(4) These percentages do not include the additional 4% distribution available under the DRIP.

(5) Includes January 15, 2004 reinvestment of distributions declared in December 2003.

(6) Interest coverage is calculated using interest expense as the denominator and the numerator is calculated as net income adding back all income taxes, loss on disposal of land, 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

Cash and short-term deposits were \$4.0 million at December 31, 2003, an increase of \$2.4 million from June 30, 2003. The increase was a result of the following cash flows:

(\$000's)	Dundee REIT Consolidated July 1 to December 31, 2003
Cash generated from operating activities	\$ 20,245
Cash utilized in investing activities	(59,361)
Cash generated from financing activities	41,510
<b>Increase in cash and cash equivalents</b>	<b>\$ 2,394</b>

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

Management expects to be able to meet all of Dundee REIT's ongoing obligations and growth through cash flows from operations, new equity issues and conventional short-term and mortgage financing.

#### Cash Generated from Operating Activities

(\$000's)	2003		2002
	Dundee REIT Consolidated July 1 to December 31	Division of DRC Combined January 1 to June 30	Division of DRC Combined Year Ended December 31
Net income	\$ 12,173	\$ 4,113	\$ 12,883
Non-cash items:			
Depreciation of rental properties	4,854	4,439	8,311
Amortization of deferred leasing costs	3,095	2,897	4,701
Loss on disposal of land	289	-	-
Future income taxes	32	1,675	4,076
	<b>20,443</b>	<b>13,124</b>	29,971
Deferred leasing costs incurred	(5,450)	(2,921)	(10,361)
Change in working capital	5,252	(621)	(2,098)
<b>Cash generated from operating activities</b>	<b>\$ 20,245</b>	<b>\$ 9,582</b>	<b>\$ 17,512</b>

The cash generated from operating activities is influenced by certain of the key performance drivers previously identified:

- 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 27. With regard to debt management, our weighted average interest rate declined to 6.93% at December 31, 2003 from 7.19% at June 30, 2003 and 7.24% at December 31, 2002.

Our strategy is to fix the rates on as high a proportion of our debt as possible to protect against interest rate volatility. At December 31, 2003, 5.7% of our debt was at floating interest rates, an increase from 3.9% at June 30, 2003, yet still at a level we consider low and consistent with our strategy.

For the six-month period ended December 31, 2003, leasing costs incurred to attract or retain tenants in the properties were \$5.5 million (twelve months ended December 31, 2003 - \$8.4 million; 2002 - \$10.4 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.

Leasing costs in 2003 were higher than the normalized levels of prior years as a result of the mix of space being leased and a tighter office leasing market. We anticipate leasing costs in 2004 to exceed normalized costs by approximately \$1.5 million as a result of our commitment to the repositioning of two key retail tenants. In 2002, leasing costs included \$4.3 million to secure a major tenancy at Northgate Mall.

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 the 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 for recovery in future years was \$9.4 million at December 31, 2003 (\$9.1 million at June 30, 2003; \$7.3 million at December 31, 2002).

#### Cash Utilized in Investing Activities

(\$000's)	2003		2002
	Dundee REIT Consolidated July 1 to December 31	Division of DRC Combined January 1 to June 30	Division of DRC Combined Year Ended December 31
Investment in rental properties – building improvements	\$ (2,856)	\$ (3,628)	\$ (5,585)
Investment in rental properties – development	–	(681)	(9,064)
Acquisition of rental properties	(32,991)	(861)	(915)
Acquisition deposit on rental properties	(14,300)	–	–
Proceeds from disposal of land	367	–	–
Change in restricted cash, net	(9,581)	(106)	(15)
Cash utilized in investing activities	\$ (59,361)	\$ (5,276)	\$ (15,579)

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

- Capital Management:
  - Investment in rental properties

During the six months ended December 31, 2003, \$473 million was invested in the acquisition of rental properties. This amount is not comparable with any recent period for the Division of DRC as the conversion to a Trust positioned us to once again be competitive in the property acquisition market. The particulars of these acquisitions are discussed on page 32.

(\$000's)	Dundee REIT Consolidated July 1 to December 31, 2003				Year Ended December 31	
	Office	Industrial	Retail	Total	2003 Total	2002 Total
Acquisitions	\$ 107,751	\$ –	\$ –	\$ 107,751	\$ 108,612	\$ 915
Debt assumed on acquisitions	(74,760)	–	–	(74,760)	(74,760)	–
Net investment	\$ 32,991	\$ –	\$ –	\$ 32,991	\$ 33,852	\$ 915

Capital expenditures for rental property building improvements and equipment were \$2.9 million for the six months ended December 31, 2003 (twelve months ended December 31, 2003 - \$6.5 million; 2002 - \$5.6 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.

(\$000's)	Dundee REIT Consolidated July 1 to December 31, 2003			Year Ended December 31	
	Total Investment	Non-cash Working Capital Adjustment	Net Cash Investment	Net Cash Investment	Net Cash Investment
Building improvements:					
Recurring	\$ 2,346	\$ (580)	\$ 1,766	\$ 3,317	\$ 2,777
Non-recurring	837	253	1,090	3,167	2,808
Total	\$ 3,183	\$ (327)	\$ 2,856	\$ 6,484	\$ 5,585

Non-recurring improvements during the six-month period reflect the costs of building exterior work on a Toronto office building as well as concrete slab replacement in a Calgary industrial building.

For the twelve months ended December 31, 2003, non-recurring expenses include the costs of a major exterior renovation for a Toronto office property and concrete floor replacements in an industrial property in Calgary and one in Montréal. Non-recurring expenditures in 2002 include \$0.9 million for the construction of a new entranceway at Northgate Mall in conjunction with the Zellers lease and the repositioning of an industrial building. We have identified certain properties in our portfolio for repositioning that we anticipate will require approximately \$4.0 million in non-recurring redevelopment costs in 2004.

A number of recurring property improvements, such as roof replacement and parking lot structural repair, were completed in each of 2002 and 2003. Based upon our historic spending patterns, we believe that normalized recurring capital expenditures for the existing portfolio are expected to be approximately \$2.0 million per year. A major roof replacement program is ongoing at Greenbriar Mall in Atlanta that is anticipated to increase recurring expenditures in 2004 and 2005 by approximately \$1.7 million over the two years.

The restricted cash balance increased during the period primarily as a result of providing cash collateral as temporary security for the demand non-revolving credit facility.

#### Cash Generated from Financing Activities

(\$000's)	2003		2002
	Dundee REIT Consolidated July 1 to December 31	Division of DRC Combined January 1 to June 30	Division of DRC Combined Year Ended December 31
Mortgage principal repayments	\$ (5,397)	\$ (7,094)	\$ (11,045)
Mortgage debt placed	–	50,918	106,931
Mortgage lump sum repayments	(12,439)	(32,411)	(80,467)
Term debt principal repayments	(460)	(1,071)	(1,572)
New term debt placed	–	–	6,341
Demand revolving credit facility, net	7,026	–	–
Demand non-revolving credit facility	6,619	–	–
Distributions paid	(7,952)	–	–
Units issued net of costs	54,113	–	–
Net funds transferred from the Division	–	(15,717)	(21,091)
<b>Cash generated from (utilized in) financing activities</b>	<b>\$ 41,510</b>	<b>\$ (5,375)</b>	<b>\$ (903)</b>

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

#### Debt Management:

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

(\$000's)	as at December 31, 2003			as at June 30, 2003		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 483,667	\$ –	\$ 483,667	\$ 420,468	\$ –	\$ 420,468
Term debt	65,886	19,294	85,180	65,570	19,554	85,124
Demand revolving credit facility	–	7,026	7,026	–	–	–
Demand non-revolving credit facility	–	6,619	6,619	–	–	–
<b>Total</b>	<b>\$ 549,553</b>	<b>\$ 32,939</b>	<b>\$ 582,492</b>	<b>\$ 486,038</b>	<b>\$ 19,554</b>	<b>\$ 505,592</b>
Percentage	94%	6%	100%	96%	4%	100%

(\$000's)	as at December 31, 2003	as at June 30, 2003
Total assets	\$ 997,177	\$ 863,510
Accumulated depreciation	39,360	34,645
<b>Gross book value</b>	<b>\$ 1,036,537</b>	<b>\$ 898,155</b>
<b>Total outstanding debt</b>	<b>\$ 582,492</b>	<b>\$ 505,592</b>
Debt-to-gross book value	56.2%	56.3%

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 56.2% and our target level of debt is between 55% and 60%.

Changes in debt levels since June 30, 2003 resulting from:

(\$000's)	Mortgages	Term Debt	Demand Revolving Credit Facility	Demand Non-revolving Credit Facility	Total
Debt as at June 30, 2003	\$ 420,468	\$ 85,124	\$ —	\$ —	\$ 505,592
New debt placed	—	—	7,026	6,619	13,645
New debt assumed on rental property acquisitions	74,760	—	—	—	74,760
Scheduled repayments	(5,397)	(460)	—	—	(5,857)
Lump sum repayments	(12,439)	—	—	—	(12,439)
Accrued interest	2,807	516	—	—	3,323
Marked-to-market adjustments	4,967	—	—	—	4,967
Foreign exchange adjustment	(1,499)	—	—	—	(1,499)
<b>Debt as at December 31, 2003</b>	<b>\$ 483,667</b>	<b>\$ 85,180</b>	<b>\$ 7,026</b>	<b>\$ 6,619</b>	<b>\$ 582,492</b>

In the six-month period, overall debt increased \$76.9 million or 15.2%, primarily due to the assumption of new debt related to acquisitions in December 2003. During the period, two mortgages matured totalling \$12.4 million. Of this amount, \$5.8 million was paid with cash from operations and the remainder refinanced with a demand non-revolving credit facility. This facility was used as a short-term measure and will be replaced with a long-term fixed rate mortgage.

(\$000's)	Debt Maturities		Scheduled Principal Repayments on Non-matured Debt		Weighted Average Interest Rate at Time of Maturity
	Amount	%	Amount	Total	
Year ending December 31, 2004	\$ 140,259	29	\$ 17,570	\$ 157,829	6.57
2005	8,917	2	14,218	23,135	6.72
2006	37,268	8	14,005	51,273	7.11
2007	35,835	7	12,287	48,122	7.61
2008	74,532	15	11,387	85,919	6.45
2009 and thereafter	191,523	39	24,691	216,214	7.04
<b>Total</b>	<b>\$ 488,334</b>	<b>100</b>	<b>\$ 94,158</b>	<b>\$ 582,492</b>	

Dundee REIT is committed to lowering its debt service costs and will continue to take advantage of lower interest rates by renegotiating whenever possible. We have \$126.6 million of our mortgage and term debt maturing in 2004, most in the first quarter. We are in the process of finalizing negotiations to refinance these loans for longer terms and at lower interest rates.

At year-end, we had a demand revolving credit facility in the amount of \$15.6 million, of which \$2.9 million was drawn in support of Letters of Credit and \$7.0 million by way of cash advances. We have renegotiated this facility and are adding unencumbered assets, in order to increase the facility to approximately \$50 million.

#### *Contractual Obligations*

The following table provides a summary of the payments due for contractual obligations beginning January 1, 2004 over the next five years and thereafter.

(\$000's)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Capital lease obligations	\$ 510	\$ 209	\$ 301	\$ —	\$ —
Operating leases	4,932	767	1,382	1,192	1,591
Ground leases	8,320	1,011	2,223	2,224	2,862
Purchase obligations	3,262	3,262	—	—	—
<b>Total</b>	<b>\$ 17,024</b>	<b>\$ 5,249</b>	<b>\$ 3,906</b>	<b>\$ 3,416</b>	<b>\$ 4,453</b>

Capital lease obligations are in respect of office equipment and furniture and some minor computer lease obligations. Operating leases are mainly in respect of office space of the property managers and other operating equipment.

Dundee REIT has four ground leases on three Toronto properties. The terms of the first two leases extend to 2083 and 2076; the last two extend to 2060 including renewals. They are at fixed rates for the entire terms with respect to the first and third lease, until September 30, 2006 for the second lease and until June 30, 2010 for the fourth. The renewal terms for the second and fourth leases beyond these dates are defined as variable percentages of the market value of these properties at the date of the renewal, and as such no dollar amounts are shown in the table above. Market rates may be higher or lower than those currently negotiated, however management believes that these rates will be competitive in the then current business environment.

In the normal course of business the Trust enters into contracts for cleaning, snow removal, elevator and other equipment maintenance, security services and other such contracts to effectively manage its properties. These contracts are entered into to provide cost effective and reliable quality services to the tenants. The cost of these contracts are recoverable from the tenants and can vary with occupancy, and are cancelable with minimal or no penalty; therefore these amounts are not reported as obligations of the Trust.

The Trust has entered into a contract for the provision of electricity at a fixed rate to certain Ontario properties. This contract requires the purchase of approximately 90% of the normal historical consumption of electricity at these properties at a fixed cost. Electricity not consumed by the buildings is re-sold on the open market at market rates. The contract is in effect until October 31, 2004 and amounts to \$2.7 million of the purchase obligation. The remaining obligation of \$0.5 million relates to a gas purchase contract on certain Ontario properties for 90% of their normal historical consumption of gas at these properties. This obligation matures on November 24, 2004. These costs are recoverable from tenants. The amount disclosed under purchase obligations represents the Trust's commitment and, as this cost is recoverable from the tenants and any excess is saleable, management believes there is minimal risk to the Trust.

#### 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 June 30, 2003	9,370,192	6,909,245	16,279,437
Units issued pursuant to DRIP	124,025	302,186	426,211
Equity issue November 5, 2003	2,600,000	–	2,600,000
Total units outstanding on December 31, 2003	12,094,217	7,211,431	19,305,648
Percentage of all units	62.6%	37.4%	
Redemption	(100)	–	(100)
Equity issue February 19, 2004	4,537,000	–	4,537,000
Units issued pursuant to DRIP up to March 15, 2004	46,235	166,100	212,335
Total units outstanding on March 15, 2004	16,677,352	7,377,531	24,054,883
Percentage of all units	69.3%	30.7%	

#### Equity Issue

In the fourth quarter, we completed a public offering of 2.6 million REIT Units, Series A at \$21.70 per unit for gross proceeds of \$56.4 million less costs of \$5.2 million. The proceeds of this offering were used primarily for the acquisition of the Palladium Office Campus and the Telus Tower as well as the repayment of certain mortgages on our properties.

Subsequent to year end, we announced the completion of a public offering of 4.5 million REIT Units, Series A at \$24.25 per unit for gross proceeds of \$110.0 million less estimated costs of \$5.7 million.

## Funds from Operations

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

(\$000's except per unit amounts)	Dundee REIT Consolidated July 1 to December 31, 2003	Division of DRC Combined January 1 to June 30, 2003
Net income	\$ 12,173	\$ 4,113
Add (deduct):		
Depreciation of rental properties	4,854	4,439
Amortization of deferred leasing costs	3,095	2,897
Imputed amortization of leasing costs related to the rent supplement	707	-
Loss on disposal of land	289	-
Future income tax expense	32	1,675
<b>FFO</b>	<b>\$ 21,150</b>	<b>\$ 13,124</b>
<b>FFO per unit</b>	<b>\$ 1.22</b>	

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. It should not be considered the only measure of liquidity.

## 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. In addition, on September 11, 2003 the Board of Trustees determined to make an adjustment to the definition of distributable income to permit the add-back with respect to the impact of imputed amortization of leasing costs related to the rent supplement. The imputed amortization represents the amortization of leasing costs that would have been incurred had the space been leased on the terms contained in the rent supplement agreement.

The following table outlines the distributable income of Dundee REIT.

(\$000's except per unit amount)	Dundee REIT Consolidated July 1 to December 31, 2003
Net income	\$ 12,173
Add (deduct):	
Depreciation of rental properties	4,854
Amortization of deferred leasing costs	3,095
Future income tax expense	32
Imputed amortization of leasing costs related to the rent supplement	707
Amortization of fair value debt adjustments, included in interest expense	(181)
Compensation expense, deferred unit incentive plan	113
Loss on disposal of land	289
Adjust for:	
Amortization of deferred costs incurred prior to June 30, 2003	690
Amortization of deferred costs incurred subsequent to June 30, 2003	(462)
<b>Distributable income</b>	<b>\$ 21,310</b>
<b>Distributable income per unit</b>	<b>\$ 1.23</b>

## 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 year amounted to \$19.1 million or 89% of distributable income. Of this amount, \$9.3 million or 49% was reinvested in additional units of Dundee REIT.

(\$000's)	Declared Distributions	Additional Distributions	Total
<b>2003 Distributions</b>			
Paid in cash or reinvestment in units	\$ 15,529	\$ 253	\$ 15,782
Payable at December 31, 2003	3,533	67	3,600
<b>Total distributions paid</b>	<b>\$ 19,062</b>	<b>\$ 320</b>	<b>\$ 19,382</b>
<b>2003 Reinvestment</b>			
Reinvested in 2003	\$ 7,577	\$ 253	\$ 7,830
Reinvested on January 15, 2004	1,680	67	1,747
<b>Total distributions reinvested</b>	<b>\$ 9,257</b>	<b>\$ 320</b>	<b>\$ 9,577</b>
Distributable income	\$ 21,310		
Distribution payout ratio	89%		
Reinvestment to distribution ratio	49%		

## Our Results of Operations

(\$000's)	2003			2002
	Dundee REIT Consolidated July 1 to December 31	Division of DRC Combined January 1 to June 30	Year Ended December 31 (Total)	Division of DRC Combined Year Ended December 31
<b>Rental properties</b>				
Revenues	\$ 78,162	\$ 74,540	\$ 152,702	\$ 146,682
Operating expenses	37,376	38,493	75,869	73,608
<b>Net operating income</b>	<b>40,786</b>	<b>36,047</b>	<b>76,833</b>	<b>73,074</b>
<b>Other expenses</b>				
Interest	18,858	18,275	37,133	35,602
Depreciation of rental properties	4,854	4,439	9,293	8,311
Amortization of deferred leasing costs	3,095	2,897	5,992	4,701
General and administrative	2,109	3,339	5,448	5,613
	<b>28,916</b>	<b>28,950</b>	<b>57,866</b>	<b>54,227</b>
<b>Other income</b>				
Interest and fee income, net	674	656	1,330	1,424
<b>Income before loss on disposal of land</b>	<b>12,544</b>	<b>7,753</b>	<b>20,297</b>	<b>20,271</b>
Loss on disposal of land	(289)	-	(289)	-
<b>Income before income and large corporations taxes</b>	<b>12,255</b>	<b>7,753</b>	<b>20,008</b>	<b>20,271</b>
<b>Income taxes</b>				
Current income and large corporations taxes	50	1,965	2,015	3,312
Future income taxes	32	1,675	1,707	4,076
	<b>82</b>	<b>3,640</b>	<b>3,722</b>	<b>7,388</b>
<b>Net income</b>	<b>\$ 12,173</b>	<b>\$ 4,113</b>	<b>\$ 16,286</b>	<b>\$ 12,883</b>

### 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 revenue increase in 2003 was mainly a result of leasing activity and higher rental rates in the Ontario office portfolio, the rent supplement described on page 29, as well as the acquisition of the Palladium Office Campus and the Telus Tower, which contributed \$1.6 million to revenue. Leasing impacts revenue and increased occupancy allows us to recover more operating costs from the buildings.

### 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. These 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 2003 was driven by general increases in costs, property acquisitions and an increase in property taxes in some Montréal municipalities as a result of business taxes formerly levied directly on tenants being included in property taxes.

#### Interest Expense

Interest expense for the twelve months ended December 31, 2003 increased by \$1.5 million or 4.3% over the prior year, mainly as a result of increased debt levels from refinancings in 2002 and 2003 and acquisitions in 2003. Increases in debt in 2002 included the permanent financing of the State Street Financial Centre at rates higher than the original construction loan.

#### Depreciation of Rental Properties

Depreciation increased \$1.0 million or 11.8% for the twelve-month period. Buildings are depreciated on a sinking fund basis and, as a result, depreciation experiences a scheduled 5% increase each year. Also included in these amounts is the impact of building improvements undertaken in 2002 and 2003.

#### 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 Dundee REIT and its subsidiaries. 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.

#### Loss on Disposal of Land

A parcel of vacant land adjacent to a retail property was sold at a loss to book value of \$0.3 million. Proceeds on the sale were \$0.4 million.

#### Income Tax Expense

Dundee REIT distributes or designates all taxable earnings to unitholders and as such the obligation for tax rests with each unitholder and no tax expense is 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. Net operating income is defined as the total of rental property revenues less operating expenses.

To provide twelve-month results for comparison purposes, the six-month results for Dundee REIT have been grouped with the six-month results of the Division from January 1, 2003 to June 30, 2003. In addition, we have taken the actual six-month results of Dundee REIT in 2003 and compared them to the six-month results of the Division in 2002.

(\$000's)	Six Months Ended December 31				Year Ended December 31			
	2003	2002	Growth		2003	2002	Growth	
			Amount	%			Amount	%
Office	\$ 20,189	\$ 18,398	\$ 1,791	10	\$ 39,083	\$ 37,199	\$ 1,884	5
Industrial	11,818	12,112	(294)	(2)	23,234	23,511	(277)	(1)
Retail	5,678	5,972	(294)	(5)	11,065	11,219	(154)	(1)
Comparative properties	37,685	36,482	1,203	3	73,382	71,929	1,453	2
Rent supplement	2,180	–	2,180		2,180	–	2,180	
Acquisitions	818	(8)	826		859	–	859	
Under development	13	(40)	53		55	(135)	190	
Lease surrenders	90	142	(52)		329	1,762	(1,433)	
Other	–	(544)	544		28	(482)	510	
<b>NOI</b>	<b>\$ 40,786</b>	<b>\$ 36,032</b>	<b>\$ 4,754</b>	<b>13</b>	<b>\$ 76,833</b>	<b>\$ 73,074</b>	<b>\$ 3,759</b>	<b>5</b>

(\$000's)	Six Months Ended December 31				Year Ended December 31			
	2003	2002	Growth		2003	2002	Growth	
			Amount	%			Amount	%
Québec	\$ 8,080	\$ 8,285	\$ (205)	(2)	\$ 15,494	\$ 16,456	\$ (962)	(6)
Ontario	16,731	15,092	1,639	11	32,373	29,855	2,518	8
Western Canada	10,404	9,900	504	5	20,696	19,703	993	5
Total Canada	35,215	33,277	1,938	6	68,563	66,014	2,549	4
United States	2,470	3,205	(735)	(23)	4,819	5,915	(1,096)	(19)
Comparative properties	37,685	36,482	1,203	3	73,382	71,929	1,453	2
Rent supplement	2,180	–	2,180		2,180	–	2,180	
Acquisitions	818	(8)	826		859	–	859	
Under development	13	(40)	53		55	(135)	190	
Lease surrenders	90	142	(52)		329	1,762	(1,433)	
Other	–	(544)	544		28	(482)	510	
NOI	\$ 40,786	\$ 36,032	\$ 4,754	13	\$ 76,833	\$ 73,074	\$ 3,759	5

On a comparative basis, NOI increased 3% for the six months ended December 31, 2003 and 2% for the twelve months ended December 31, 2003. These increases are mainly as a result of leasing activity in the Ontario office portfolio, the Western Canada industrial portfolio and at Northgate Mall. The increase in total NOI for the twelve-month period reflects internal growth of \$1.4 million or 2% from comparable properties as well as the impact of acquisitions completed in late 2003, offsetting a \$1.4 million decrease in lease surrender payments.

The rent supplement of \$2.2 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 is effective for five years for office and retail space and three years for industrial space commencing July 1, 2003. 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 year ended December 31, 2003, NOI for the comparative office portfolio increased 5% as a result of strong leasing in Ontario. The lease surrender payments in 2002 reflect amounts received in the Toronto office portfolio.

(\$000's)	Six Months Ended December 31				Year Ended December 31			
	2003	2002	Growth		2003	2002	Growth	
			Amount	%			Amount	%
Québec	\$ 3,036	\$ 2,773	\$ 263	9	\$ 5,632	\$ 5,698	\$ (66)	(1)
Ontario	13,020	11,434	1,586	14	25,057	23,050	2,007	9
Western Canada	4,133	4,191	(58)	(1)	8,394	8,451	(57)	(1)
Comparative properties	20,189	18,398	1,791	10	39,083	37,199	1,884	5
Rent supplement	1,222	–	1,222		1,222	–	1,222	
Acquisitions	859	–	859		859	–	859	
Lease surrenders	89	137	(48)		261	1,746	(1,485)	
Other	(20)	(297)	277		5	(235)	240	
Office NOI	\$ 22,339	\$ 18,238	\$ 4,101	22	\$ 41,430	\$ 38,710	\$ 2,720	7

### Comparative Industrial Portfolio

For the year ended December 31, 2003, NOI from the comparative industrial portfolio remained steady with a small decrease of 1%. The Ontario and Western Canada portfolios increased 5% over the prior year as a result of increased occupancy and rental rates. In Montréal, occupancy and rental rates remained steady with the exception of one single tenant property that became vacant in late 2002. This property is included in the space covered by the rent supplement. Leasing in the industrial portfolio has been steady; however, the market is softer than in prior years and management anticipates the same for 2004.

(\$000's)	Six Months Ended December 31				Year Ended December 31			
	2003	2002	Growth		2003	2002	Growth	
			Amount	%			Amount	%
Québec	\$ 4,837	\$ 5,343	\$ (506)	(9)	\$ 9,494	\$ 10,404	\$ (910)	(9)
Ontario	3,026	3,027	(1)	0	5,945	5,678	267	5
Western Canada	3,955	3,742	213	6	7,795	7,429	366	5
Comparative properties	11,818	12,112	(294)	(2)	23,234	23,511	(277)	(1)
Rent supplement	958	–	958		958	–	958	
Acquisitions	(40)	–	(40)		–	–	–	
Under development	13	(40)	53		55	(134)	189	
Lease surrenders	–	5	(5)		–	14	(14)	
Other	–	(162)	162		2	(162)	164	
<b>Industrial NOI</b>	<b>\$ 12,749</b>	<b>\$ 11,915</b>	<b>\$ 834</b>	<b>7</b>	<b>\$ 24,249</b>	<b>\$ 23,229</b>	<b>\$ 1,020</b>	<b>4</b>

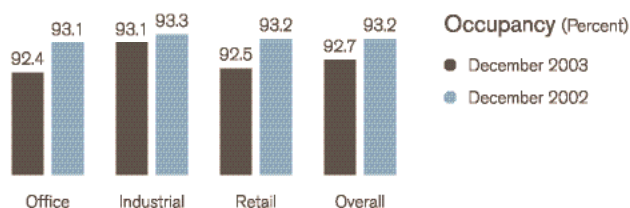
### Comparative Retail Portfolio

Retail NOI remained steady in 2003. Favourable results from leasing activity in Ontario and the late 2002 occupancy of Zellers at Northgate Mall were offset by a decrease from Greenbriar Mall largely as a result of fluctuations in the U.S. exchange rate.

(\$000's)	Six Months Ended December 31				Year Ended December 31			
	2003	2002	Growth		2003	2002	Growth	
			Amount	%			Amount	%
Québec	\$ 208	\$ 170	\$ 38	22	\$ 368	\$ 355	\$ 13	4
Ontario	685	632	53	8	1,371	1,128	243	22
Western Canada	2,315	1,967	348	18	4,507	3,823	684	18
Total Canada	3,208	2,769	439	16	6,246	5,306	940	18
United States	2,470	3,203	(733)	(23)	4,819	5,913	(1,094)	(19)
Comparative properties	5,678	5,972	(294)	(5)	11,065	11,219	(154)	(1)
Acquisitions	–	(8)	8		–	(1)	1	
Lease surrenders	–	–	–		68	2	66	
Other	20	(85)	105		21	(85)	106	
<b>Retail NOI</b>	<b>\$ 5,698</b>	<b>\$ 5,879</b>	<b>\$ (181)</b>	<b>(3)</b>	<b>\$ 11,154</b>	<b>\$ 11,135</b>	<b>\$ 19</b>	<b>–</b>

### Leasing Profile

The overall percentage of occupied and committed space across our stabilized rental properties portfolio remains strong at 92.7%. Occupancy rates include actual and committed space at December 31, 2003 and exclude space to which the rent supplement is applied.



Summary of leasing activity to December 31, 2003:

(square feet)	Office	Industrial	Retail	Total
Vacant space available – July 1, 2003	223,560	360,482	96,938	680,980
Remeasurements	420	(133)	981	1,268
Leases expiring or terminated	345,341	503,151	76,884	925,376
Transferred to redevelopment	–	(33,835)	–	(33,835)
Available space in acquired assets	248	–	–	248
Total space available for lease	569,569	829,665	174,803	1,574,037
New tenants	84,714	140,075	18,615	243,404
Renewals	163,416	284,311	51,997	499,724
Total space leased	248,130	424,386	70,612	743,128
Total space available for lease – January 1, 2004	321,439	405,279	104,191	830,909
Net increase in vacant space	97,879	44,797	7,253	149,929

On June 30, 2003, our portfolio occupancy was 93.8%. During the six months ended December 31, 2003, 925,376 square feet of leases expired and new leasing or renewals totaled 743,128 square feet. Our year-end occupancy rate was 92.7%, representing a decrease of just under 150,000 square feet. In 2004, approximately 1.5 million square feet will mature.

Lease maturity profile as at December 31, 2003 by asset type:

(square feet)	Current Vacancy	Current Monthly Tenancies	2004	2005	2006	2007	2008 and thereafter	Total
Office	321,439	98,688	426,912	505,793	455,353	349,485	2,049,729	4,207,399
Industrial	405,279	111,013	1,010,983	1,117,628	921,301	728,176	1,563,243	5,857,623
Retail	104,191	27,491	93,511	89,062	53,379	154,992	867,652	1,390,276
Total	830,909	237,192	1,531,406	1,712,482	1,430,033	1,232,653	4,480,623	11,455,298
Percentage	7.3	2.1	13.4	14.9	12.5	10.8	39.1	100.0
Properties under redevelopment <sup>(1)</sup>								219,155
Total								11,674,453

(1) Includes 15303-128th Avenue, Edmonton and 11 Place du Commerce, Montréal.

Annualized Contract Rent at Expiry (psf):

	Current Monthly Tenancies	2004	2005	2006	2007	2008 and thereafter	Overall Weighted Average
Office	\$ 5.57	\$ 11.95	\$ 12.28	\$ 13.36	\$ 13.41	\$ 15.98	\$ 14.26
Industrial	4.64	4.46	4.95	4.93	5.06	5.05	4.89
Retail	9.13	16.09	17.92	7.49	10.33	9.58	10.63
Weighted Average	5.54	7.26	7.79	7.71	8.09	10.93	9.01

Based on available industry statistics, most markets are experiencing a positive change in occupied space ("absorption"). The Calgary office market has experienced increased occupancy, while other markets remain relatively flat. The national industrial market has also experienced positive absorption but the absorption is being matched with new supply. In our portfolio, occupancy has increased in the Calgary and Ottawa office portfolios while the balance of the portfolio has experienced slightly increased vacancy. Leasing activity subsequent to year-end will have a positive impact on 2004 results.

The leasing process continues to be long. Management believes that increased leasing inquiries are indicative that we will likely experience some occupancy growth in 2004. However, we do not anticipate rental increases across all of our markets in 2004.

Average remaining lease term as at December 31, 2003 and other portfolio information:

	Average Remaining Lease Term (years)	Average Tenant Size (sq. ft.)	Average In-place Contract Rent (per sq. ft.)	Estimated Current Market Rent (per sq. ft.)	Premium of Estimated Current Market Rent Over Average In-place Contract Rent
Office	5.09	7,714	\$ 13.11	\$ 13.63	4.0%
Industrial	3.05	12,875	4.71	4.83	2.5%
Retail	6.87	5,567	10.10	11.01	9.0%
Overall	4.26	9,150	8.43	8.80	4.4%

Dundee REIT has a broad tenant base with the average tenant occupying approximately 9,000 square feet. The result is a large and diverse tenant base. With over 1,300 tenants, lease renewals are frequent and our exposure to any large single lease is relatively low.

Tenants requiring smaller spaces typically do not have the planning time horizons associated with larger tenants. As a result, our larger tenants will often commit to leases with a 10- to 15-year term, while smaller tenants will commit to leases with an average term of one to three years. This is reflected in our average remaining lease term of just over four years and our lease maturity profile. 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.

A trend amongst our tenants is that they are beginning to make longer-term commitments. However, this has not yet turned into increased demand for space. Business growth appears to be fueled by increasing productivity. We anticipate that as the economic recovery continues, there will be increased demand for space but as of yet we have not experienced it.

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, Telus Communications and the Government of Canada, comprise 5.5% and 4.8%, respectively, of our gross rental revenue. This table sets out the percentage contribution to gross rental revenue (annualized at December 31, 2003) of our ten largest tenants:

Tenant	Owned Area (sq. ft.)	% of Owned Area	% of Gross Rental Revenue	Expiry
Telus Communications	329,695	2.8	5.5	2016
Government of Canada	274,170	2.3	4.8	2004–2011
Government of Ontario	188,716	1.6	2.6	2004–2008
Bell Canada	183,306	1.6	2.3	2004–2009
State Street Trust Company	93,586	0.8	2.3	2012
International Financial Data Services	96,015	0.8	2.3	2013
Government of British Columbia	91,748	0.8	2.0	2006–2009
IBM Canada	112,105	1.0	1.8	2005–2011
Spirent Communications	80,550	0.7	1.6	2011
Epcor Utilities	169,614	1.5	1.4	2011
<b>Total</b>	<b>1,619,505</b>	<b>13.9</b>	<b>26.7</b>	

### Acquisitions

During the six months ended December 31, 2003, Dundee REIT completed the acquisition of two properties resulting in an increase of our total assets to \$997.2 million.

On November 27, 2003, we acquired the Palladium Office Campus in suburban Ottawa for approximately \$37.2 million. Completed in 2001, this complex is comprised of three buildings totalling 229,000 square feet and is currently leased to three tenants – IBM, DRS Technologies and Spirent Communications.

On December 3, 2003, we purchased a 50% interest in the Telus Tower in downtown Calgary for approximately \$68.0 million. Our strategic partner for this acquisition, H&R Real Estate Investment Trust, acquired the remaining 50% and also manages the building. The Telus Tower is a 705,000 square foot 28-storey Class A building that was constructed in 1981. Telus Communications leases approximately 93% of the building until 2016 and the remaining space is leased to the Government of Alberta and other local tenants.

### Subsequent to Year-End

On February 20, 2004, we completed the purchase of 1.5 million square feet of newly constructed office, industrial and flex space in the Calgary and Toronto markets for approximately \$155.0 million from The Pauls Corporation (the "Pauls Portfolio"). The portfolio consists of nine flex industrial properties and three office properties in Calgary totalling approximately 596,000 square feet and three flex industrial properties, four industrial warehouse properties and one office property in Toronto totalling approximately 928,000 square feet.

The buildings are all state-of-the-art facilities and are clustered in high-end business parks. There are currently 66 high-quality and diverse tenants in the portfolio, many with internationally recognizable names, such as Siemens, UPS, Bell Canada, Royal Bank and Pfizer.

The acquisition was financed by assuming \$65.7 million of existing debt at an average interest rate of 6.21% and the balance was financed from the proceeds of the equity issue completed in February 2004. We have since signed a commitment letter for \$25.0 million in new first mortgages on five unencumbered buildings at 5.51% for seven years.

On March 8, 2004, we acquired a newly completed 73,000 square foot flex industrial property from The Pauls Corporation for \$9.7 million, representing a capitalization rate of 8.6%. The major tenant of this property is Schawk Communications and has a lease extending to December 2014. A first mortgage will be arranged.

We have an option to acquire additional buildings constructed by The Pauls Corporation on 28 acres of land in the Airport Corporate Centre West in Toronto as they are completed and leased. The acquisition price will be based on a formula that provides a discount to the then current market price. We have provided \$9.8 million in the form of a mezzanine loan on the vacant land.

These properties are all of extremely high quality and have low normalized leasing and maintenance capital expenditure requirements. The acquisitions will lengthen our average lease term and increase our average net rent.

(\$000's)	Property Type	Sq. Ft.	Date Acquired	Purchase Price	% Ownership
Palladium Office Campus, Ottawa	Office	229,157	November 27, 2003	\$ 37,200	100%
Telus Tower, Calgary	Office	705,120	December 3, 2003	\$ 68,000	50%
Pauls Portfolio					
Toronto	Office	30,091			
Toronto	Flex/Industrial	476,469			
Toronto	Industrial	421,820			
Calgary	Office	98,252			
Calgary	Flex/Industrial	498,048			
Total Pauls Portfolio		<u>1,524,680</u>	February 20, 2004	\$ 155,000	100%
1620 Tech Avenue, Toronto	Flex/Industrial	<u>73,347</u>	March 8, 2004	\$ 9,700	100%
Total		<u>2,532,304</u>			

## Quarterly Information

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

(\$000's)	Three Months Ended December 31, 2003	Three Months Ended September 30, 2003
<b>Rental properties</b>		
Revenues	\$ 40,996	\$ 37,166
Operating expenses	20,163	17,213
<b>Net operating income</b>	<b>20,833</b>	<b>19,953</b>
<b>Other expenses</b>		
Interest	9,631	9,227
Depreciation of rental properties	2,588	2,266
Amortization of deferred leasing costs	1,703	1,392
General and administrative expense	1,115	994
	<b>15,037</b>	<b>13,879</b>
<b>Other income</b>		
Interest and fee income, net	484	190
<b>Income before loss on disposal of land</b>	<b>6,280</b>	<b>6,264</b>
Loss on disposal of land	289	-
<b>Income before income and large corporations taxes</b>	<b>5,991</b>	<b>6,264</b>
<b>Income taxes</b>		
Current income and large corporations taxes	35	15
Future income taxes	65	(33)
	<b>100</b>	<b>(18)</b>
<b>Net income</b>	<b>5,891</b>	<b>6,282</b>
Add (deduct):		
Depreciation of rental properties	\$ 2,588	\$ 2,266
Amortization of deferred leasing costs	1,703	1,392
Future income tax	65	(33)
Imputed amortization of leasing costs due to rent supplement	375	332
Loss on disposal of land	289	-
<b>Funds from operations</b>	<b>10,911</b>	<b>10,239</b>
Add (deduct):		
Amortization of fair value debt adjustments, included in interest expense	\$ (106)	\$ (75)
Compensation expense related to deferred unit incentive plan	104	9
Amortization of deferred costs incurred prior to June 30, 2003	361	329
Amortization of deferred costs incurred subsequent to June 30, 2003	(419)	(43)
<b>Distributable income</b>	<b>\$ 10,851</b>	<b>\$ 10,459</b>
<b>Net income per unit, basic and diluted</b>	<b>\$ 0.32</b>	<b>\$ 0.38</b>
<b>Funds from operations per unit</b>	<b>\$ 0.59</b>	<b>\$ 0.63</b>
<b>Distributable income per unit</b>	<b>\$ 0.59</b>	<b>\$ 0.64</b>
<b>Weighted average number of units outstanding</b>	<b>18,203,105</b>	<b>16,331,369</b>

## Risks and Our Strategy to Manage

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

### Real Estate Ownership

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

Our portfolio of properties generates income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may also be less favourable than the existing lease. Our financial position would be adversely affected if a number of tenants were to become unable to meet their current or future obligations under their leases or if a significant amount of available space in the properties could not be leased on economically favourable lease terms.

Diversity mitigates risk. The diversity of our portfolio by asset type and geographic location helps to minimize our exposure to any single market or asset class. We also attempt to stagger lease maturities to protect against large vacancies in any given year or market. Further, Dundee REIT has a broad tenant base with the largest tenant occupying less than 3% of gross leaseable area and comprising 5.5% of our gross rental revenue. For further information, please see "Leasing Profile" discussion on page 30.

### **Illiquidity of Real Estate Investments**

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and during an economic recession we may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for us to dispose of properties at lower prices in order to generate sufficient cash for operations and making distributions. We manage our portfolio actively and are attentive to market conditions and property values. We review our properties on an on-going basis to identify strengths and weaknesses of individual properties and our portfolio as a whole, allowing us to quickly reposition assets when warranted or identify non-core or under-performing assets for disposition.

### **Competition in the Office, Industrial and Retail Real Estate Market**

We compete with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Competition could have a material adverse effect on our ability to lease space in our properties and on the rents we are able to charge. This could adversely affect our revenues and our ability to meet our obligations. We strive to deliver a level of service that meets or exceeds tenant expectations. We believe that providing a consistent, high level of service puts us into a better position to re-lease space to existing tenants and helps to attract new tenants to lease vacant space quickly and cost effectively.

### **Environmental Risk**

As an owner of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect our ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against us.

We have formal policies and procedures to review and monitor environmental exposure. These policies include the requirement to obtain a Phase I Environmental Site Assessment, conducted by an independent and qualified environmental consultant, before acquiring any real property or any interest therein.

### **Financing Risk**

Upon the expiry of the term of the financing or refinancing of any particular property or operating or acquisition debt facilities, refinancing may not be available in the amounts required or may be available only on terms less favourable to us than existing financing. We may require additional financing in order to grow and expand our operations. It is possible that such financing will not be available or available on unfavourable terms. Future financing may take many forms, including debt or equity financing, which could alter the current debt-to-equity ratio and dilute our unitholders interest. It is our intent to reduce the interest rate risk associated with refinancing by ensuring that debt maturities are staggered over several years, with limited exposure in any given year. For further information, please see "Our Resources and Financial Condition" discussion on page 21.

### **Insurance**

We carry general liability, umbrella liability and excess liability insurance with a total limit of \$61.0 million. For the property risks we carry "All Risks" property insurance including but not limited to, flood, earthquake and loss of rental income insurance (with a 24-month indemnity period). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident), which are uninsurable under any insurance policy. Furthermore there are other risks that are not economically viable to insure at this time. We currently self-insure against terrorism risk for the entire Canadian portfolio. Additionally, we generally have owners' title insurance policies with respect to our properties located in the United States.

### **Joint Venture, Partnership and Co-ownership Agreements**

We are a participant in joint ventures and partnerships with third parties in respect of 10 of our properties. A joint venture or partnership involves certain additional risks, including:

- (i) the possibility that such co-ventures/partners may at any time have economic or business interests or goals that will be inconsistent with ours. They may also take actions that are contrary to our instructions, requests, policies and objectives with respect to our real estate investments;
- (ii) the risk that such co-ventures/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands on Dundee REIT to maintain and operate such properties or repay the co-ventures/partners' share of property debt guaranteed by us. We could be liable for expenses, delays and other problems associated with obtaining court approval of joint venture or partnership decisions;
- (iii) the risk that such co-ventures/partners may, through their activities on behalf of or in the name of, the ventures or partnerships, expose or subject us to liability; and
- (iv) the need to obtain co-ventures/partners' consents with respect to certain major decisions.

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

### **Unitholder Liability**

Because of uncertainties in the law relating to investment trusts, there is a remote possibility that a unitholder could be held personally liable for our obligations (to the extent that claims are not satisfied by Dundee REIT) in respect of contracts which we enter into and for certain liabilities arising other than out of contract including claims in tort, claims for taxes and possibly certain other statutory liabilities.

### **Critical Accounting Estimates**

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

#### **Impairment of Assets**

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

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

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment loss would be recognized. There were no impairment losses recorded for 2003.

#### **Depreciation**

Depreciation is recorded on buildings using a 5%, 40-year sinking fund basis. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based upon management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

#### **Income Taxes**

Preparation of the Trust's consolidated financial statements requires that we estimate our income tax expense and liabilities related to our corporate subsidiaries as well as the reported amount by which the carrying value of our net assets exceed their corresponding tax cost. We used our judgment to determine these amounts, and ultimate liabilities for income taxes could be different from the amounts presented.

## 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, 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. The Trust is presently assessing the impact of this new guidance on its acquisitions completed subsequent to year-end.

### Generally Accepted Accounting Principles

Section 1000 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. This new section will have the following impact on Dundee REIT:

#### Depreciation of Rental Properties

The sinking fund method of depreciating rental properties will be discontinued and, effective January 1, 2004, we will depreciate our rental properties on a straight-line basis over their remaining estimated useful life. This change will be adopted on a prospective basis and we estimate that depreciation expense for the 2004 fiscal year will increase by approximately \$12 million, based upon the portfolio of properties at December 31, 2003.

#### Revenue Recognition

At present, revenues from leases that include contractual increases in basic rents are only accounted for on a straight-line basis where such increases exceed expected increases in the projected Consumer Price Index. Under the new policy to be adopted by the Trust, the total amount of revenue to be received from such leases will be accounted for on a straight-line basis over the term of the respective lease. In conjunction with the recognition of revenue, a receivable from tenants will be recorded to reflect the difference between the amount recognized for accounting and the amount contractually due. This change will be adopted on a prospective basis commencing on January 1, 2004. For 2004, we estimate an increase in revenues from rental properties of approximately \$2.6 million as a result of this policy change, based upon leases in place at December 31, 2003.

#### Impairment of Long-lived Assets

This new standard is 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.

## Conclusion and Outlook

The Canadian economy performed better than expected given the severe challenges in 2003 including the outbreak of SARS, Mad Cow disease and the Ontario blackout. Although these challenges appear to be behind us, the economy is still adjusting to the impact of a fundamental change in the Canadian dollar against the U.S. dollar. The appreciation of our dollar will cause significant adjustments to our economy over the next year or longer as businesses and individuals adjust their buying habits to take into account the shift in values.

Over the past few years, the Canadian economy has outperformed that of the U.S. That trend appears to be changing as the U.S. economy is showing signs of a strong recovery. If the U.S. enters a period of sustained recovery, our economy should benefit as well.

In the property markets across Canada there is a general belief that the markets have bottomed out and are on the upswing. Absorption rates have turned neutral or positive for both office and industrial properties in most markets. Higher vacancy rates have resulted in strong tenants' markets across Canada and rental rates remain significantly lower than they were two years ago. Landlords, including us, are providing incentives for tenants in order to keep face rates at acceptable levels in their portfolio.

Leasing in our portfolio throughout 2003, and in particular that achieved late in the year, will enhance our performance in 2004. The acquisitions completed in 2003 and subsequent to year-end are high quality, newly constructed properties that will contribute to the overall value of our business. They increase the average rent and lease term across our portfolio, reduce our overall average interest cost and increase the average term to maturity of our debt.

The initiatives undertaken in 2003 and 2004 enhance our business and provide further stability to our cash flow. Dundee REIT began with a good portfolio and one that we continue to make even better. We are optimistic that further opportunities lie ahead through which we will add even greater value to our REIT.