

## Management's responsibility for financial statements

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dundee Real Estate Investment Trust. These financial statements have been prepared in accordance with Canadian GAAP, using management's best estimates and judgments when appropriate.

The Board of Trustees is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The audit committee, which is comprised of trustees, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial responsibilities and to review its consolidated financial statements and the report of the auditors. The audit committee reports its findings to the Board of Trustees, which approves the consolidated financial statements.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee, with or without management present.



**MICHAEL J. COOPER**  
Vice Chairman and  
Chief Executive Officer



**MARIO BARRAFATO**  
Senior Vice President and  
Chief Financial Officer

Toronto, Ontario, February 21, 2008

## Auditors' report

To the Unitholders of Dundee Real Estate Investment Trust

We have audited the consolidated balance sheets of Dundee Real Estate Investment Trust (the "Trust") as at December 31, 2007 and 2006 and the consolidated statements of net income and comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**CHARTERED ACCOUNTANTS,  
LICENSED PUBLIC ACCOUNTANTS**

Toronto, Ontario, February 21, 2008

## Consolidated balance sheets

(in thousands of dollars) December 31	Note	2007	2006
<b>Assets</b>			
Rental properties	4	\$ 1,004,198	\$ 1,816,811
Deferred costs	5	31,433	73,455
Land	6	—	41,395
Amounts receivable	7	9,761	18,606
Prepaid expenses and other assets	8	20,928	20,240
Cash and cash equivalents		37,727	70,997
Intangible assets	9	52,394	86,416
		<b>\$ 1,156,441</b>	<b>\$ 2,127,920</b>
<b>Liabilities</b>			
Debt	10	\$ 680,479	\$ 1,153,794
Amounts payable and accrued liabilities	11	24,389	40,701
Distributions payable	12	3,818	8,013
Future income tax liability	16	2,746	3,950
Intangible liabilities	9	36,869	33,351
		<b>748,301</b>	<b>1,239,809</b>
<b>Unitholders' equity</b>	13	<b>408,140</b>	<b>888,111</b>
		<b>\$ 1,156,441</b>	<b>\$ 2,127,920</b>

See accompanying notes to the consolidated financial statements

On behalf of the Board of Trustees of Dundee Real Estate Investment Trust:



**NED GOODMAN**  
Trustee



**MICHAEL J. COOPER**  
Trustee

## Consolidated statements of net income and comprehensive income

(in thousands of dollars, except per unit amounts) For the years ended December 31	Note	2007	2006
<b>Revenues</b>			
Rental properties revenue		\$ 155,161	\$ 102,389
Interest and fee income		2,941	3,631
		<b>158,102</b>	<b>106,020</b>
<b>Expenses</b>			
Rental properties operating expenses		55,603	38,978
Interest	15	37,822	34,032
Depreciation of rental properties		23,361	16,567
Amortization of deferred leasing costs, tenant improvements and intangibles		23,346	12,397
General and administrative		7,600	6,812
		<b>147,732</b>	<b>108,786</b>
<b>Income (loss) before the undernoted items</b>			
Internalization of property manager	24	(1,230)	(13,678)
Gain on disposition of land		2,328	—
Loss on disposition of rental property	26	—	(220)
Provision for impairment of rental property previously recorded as held for sale	21	(1,352)	—
		<b>10,116</b>	<b>(16,664)</b>
<b>Income (loss) before income taxes</b>			
<b>Provision for (recovery of) income taxes</b>			
Current income taxes	16	30	62
Future income taxes		(823)	2,314
		<b>(793)</b>	<b>2,376</b>
<b>Income (loss) before non-controlling interest and discontinued operations</b>			
<b>Income attributable to non-controlling interest</b>	13	—	(1,003)
<b>Income (loss) before discontinued operations</b>			
<b>Discontinued operations</b>	21	751,393	31,261
<b>Net income</b>		<b>\$ 762,302</b>	<b>\$ 11,218</b>
<b>Basic income (loss) per unit</b>			
Continuing operations	17	\$ 0.29	\$ (0.63)
Discontinued operations		19.66	0.98
<b>Net income</b>		<b>\$ 19.95</b>	<b>\$ 0.35</b>
<b>Diluted income (loss) per unit</b>			
Continuing operations	17	\$ 0.29	\$ (0.63)
Discontinued operations		19.65	0.98
<b>Net income</b>		<b>\$ 19.94</b>	<b>\$ 0.35</b>
<b>Net income</b>			
<b>Other comprehensive loss</b>			
Change in foreign currency translation adjustment		(1,127)	(16)
<b>Comprehensive income</b>		<b>\$ 761,175</b>	<b>\$ 11,202</b>

See accompanying notes to the consolidated financial statements

## Consolidated statements of unitholders' equity

(in thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Accumulated other comprehensive loss	Total
<b>Unitholders' equity, January 1, 2007</b>		<b>43,419,648</b>	<b>\$ 1,067,125</b>	<b>\$ 33,388</b>	<b>\$ (207,286)</b>	<b>\$ (5,116)</b>	<b>\$ 888,111</b>
Adjustment to opening unitholders' equity to comply with new accounting standard	2	—	—	448	—	—	448
<b>Unitholders' equity, January 1, 2007 (restated)</b>		<b>43,419,648</b>	<b>1,067,125</b>	<b>33,836</b>	<b>(207,286)</b>	<b>(5,116)</b>	<b>888,559</b>
Net income		—	—	762,302	—	—	762,302
Distributions paid	12	—	—	—	(76,190)	—	(76,190)
Distributions payable	12	—	—	—	(3,818)	—	(3,818)
Public offering of REIT A Units	13	4,195,000	170,946	—	—	—	170,946
Distribution Reinvestment Plan	13	348,418	14,304	—	—	—	14,304
Unit Purchase Plan	13	1,170	51	—	—	—	51
Deferred Unit Incentive Plan	13	30,370	6,031	—	—	—	6,031
Conversion of 6.5% Debentures	13	818,880	20,472	—	—	—	20,472
Conversion of 5.7% Debentures	13	1,921,043	57,631	—	—	—	57,631
Units issued on internalization of property manager	24	44,674	1,230	—	—	—	1,230
Issue costs		—	(11,271)	—	—	—	(11,271)
Unit redemptions	13	(29,915,384)	(781,669)	—	(639,311)	—	(1,420,980)
Change in foreign currency translation adjustment		—	—	—	—	(1,127)	(1,127)
<b>Unitholders' equity, December 31, 2007</b>		<b>20,863,819</b>	<b>\$ 544,850</b>	<b>\$ 796,138</b>	<b>\$ (926,605)</b>	<b>\$ (6,243)</b>	<b>\$ 408,140</b>

(in thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Accumulated other comprehensive loss	Total
<b>Unitholders' equity, January 1, 2006</b>		<b>20,449,209</b>	<b>\$ 446,678</b>	<b>\$ 15,844</b>	<b>\$ (85,680)</b>	<b>\$ (5,100)</b>	<b>\$ 371,742</b>
Net income		—	—	11,218	—	—	11,218
Distributions paid		—	—	—	(63,089)	—	(63,089)
Distributions payable		—	—	—	(8,013)	—	(8,013)
Public offering of REIT A Units	13	10,190,000	319,981	—	—	—	319,981
Distribution Reinvestment Plan	13	830,516	24,717	—	—	—	24,717
Unit Purchase Plan	13	13,087	359	—	—	—	359
Conversion of 6.5% Debentures	13	1,935,640	48,391	—	—	—	48,391
Conversion of 5.7% Debentures	13	1,135,617	34,069	—	—	—	34,069
Issue of units on internalization of property manager	24	505,326	13,917	—	—	—	13,917
Deferred Unit Incentive Plan	13	22,888	1,170	—	—	—	1,170
Issue costs		—	(18,041)	—	—	—	(18,041)
Release of cumulative foreign currency translation adjustment on disposition of revenue property	26	—	—	—	—	3,686	3,686
Change in foreign currency translation adjustment		—	—	—	—	(1,329)	(1,329)
Reclassification of LP B Units	13	8,337,365	195,884	6,326	(50,504)	(2,373)	149,333
<b>Unitholders' equity, December 31, 2006</b>		<b>43,419,648</b>	<b>\$ 1,067,125</b>	<b>\$ 33,388</b>	<b>\$ (207,286)</b>	<b>\$ (5,116)</b>	<b>\$ 888,111</b>

See accompanying notes to the consolidated financial statements

## Consolidated statements of cash flows

(in thousands of dollars) For the years ended December 31	Note	2007	2006
<b>Generated from (utilized in) operating activities</b>			
Net income		\$ 762,302	\$ 11,218
Non-cash items:			
Depreciation of rental properties		42,984	39,908
Amortization of deferred leasing costs, tenant improvements and intangibles		40,942	30,643
Amortization of deferred financing costs		938	1,922
Amortization of fair value adjustment on acquired debt		(1,811)	(1,882)
Internalization of property manager		1,230	13,678
Gain on disposition of rental properties		(731,488)	(3,009)
Gain on disposition of land		(2,328)	—
Provision for impairment in value of rental property previously held for sale		1,352	—
Deferred unit compensation expense		1,177	1,170
Future income taxes		(823)	2,314
Amortization of market rent adjustments on acquired leases		(11,833)	(4,124)
Straight-line rent adjustment		(2,946)	(3,164)
Non-controlling interest		—	1,876
		99,696	90,550
Deferred leasing costs incurred		(5,628)	(6,097)
Change in non-cash working capital	23	(10,101)	3,409
		83,967	87,862
<b>Generated from (utilized in) investing activities</b>			
Investment in rental properties		(11,295)	(9,173)
Investment in tenant improvements		(6,424)	(7,667)
Investment in land development		(3,111)	(2,103)
Acquisition of rental properties and land	3	(560,324)	(484,667)
Acquisition deposit on rental properties		(2,600)	(3,600)
Investment in mezzanine loan		(570)	(3,680)
Receipt of mezzanine loan		4,020	13,167
Issuance of promissory note		(11,747)	—
Vendor take-back mortgage repayment		—	3,450
Net proceeds from disposition of rental properties	21	1,496,351	24,922
Net proceeds from disposition of land		20,034	—
Change in restricted cash, net		1,412	(1,244)
		925,746	(470,595)
<b>Generated from (utilized in) financing activities</b>			
Mortgages placed, net of costs		391,266	294,985
Mortgage principal repayments		(24,896)	(25,380)
Mortgage lump sum repayments		(68,983)	(79,486)
Term debt principal repayments		(65)	(364)
Term debt lump sum repayments		(6,921)	(14,957)
Term debt placed, net of costs		84	6,139
Distributions paid on Units	12	(70,534)	(50,074)
Redemption of Units	13	(1,420,980)	—
Deferred trust units and income deferred trust units purchased and cancelled	21	(5,492)	—
Units issued for cash, net of costs		163,538	306,351
		(1,042,983)	437,214
<b>Increase (decrease) in cash and cash equivalents</b>		<b>(33,270)</b>	<b>54,481</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>70,997</b>	<b>16,516</b>
<b>Cash and cash equivalents, end of year</b>		<b>\$ 37,727</b>	<b>\$ 70,997</b>

See accompanying notes to the consolidated financial statements

## Notes to the consolidated financial statements

(All dollar amounts in thousands, except unit or per unit amounts)

### Note 1

#### ORGANIZATION

Dundee Real Estate Investment Trust (“Dundee REIT” or the “Trust”) is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario. The consolidated financial statements of Dundee REIT include the accounts of Dundee REIT and its subsidiaries, together with Dundee REIT’s proportionate share of the assets and liabilities, and revenues and expenses of joint ventures in which it participates.

Our equity is fully described in Note 13; however, for simplicity, throughout the Notes we may make reference to the following:

- “REIT A Units”, meaning the REIT Units, Series A
- “REIT B Units”, meaning the REIT Units, Series B
- “REIT Units”, meaning the REIT Units, Series A and REIT Units, Series B, collectively
- “LP B Units”, meaning the LP B Units, Series 1
- “Units”, meaning REIT Units, Series A; REIT Units, Series B; and, Special Trust Units, collectively

On December 12, 2007, the Trust announced that its unitholders approved, at a special meeting of unitholders, a special resolution relating to the modification of the organizational structure of Dundee REIT (the “Reorganization”). The Reorganization was proposed in order to provide greater certainty that Dundee REIT would be able to qualify as a “real estate investment trust” by January 1, 2008, for the purposes of the amendments to the *Income Tax Act* that modify the tax treatment of publicly traded specified investment flow-through trusts or partnerships (“SIFTs”) that were implemented by the Canadian federal government on June 22, 2007. A trust that satisfies the definition of “real estate investment trust” throughout its taxation year is exempt from the taxes and the restricted growth that would otherwise apply under the SIFT rules.

The Reorganization was completed on December 31, 2007, the effect of which eliminated the trusts through which Dundee REIT holds its interest in Dundee Properties Limited Partnership (“DPLP”), the entity that holds the commercial revenue-producing properties, and replaced it with two limited partnerships. As a result of modifying the organizational structure, Dundee REIT qualifies as a real estate investment trust.

On August 24, 2007, the Trust completed the sale of its portfolio of real estate assets located principally in Ontario, Québec and Newfoundland (the “Eastern Portfolio”) to GE Real Estate (“GE”) including the assumption of liabilities by GE relating to the Eastern Portfolio (the “Transaction”). Dundee REIT’s portfolio now comprises office and industrial properties located primarily in Western Canada, and a subsidiary of Dundee REIT continues to perform the property management function. The cash proceeds received on closing were used to redeem approximately 29.9 million outstanding Units for \$47.50 per unit (the “Redemption”). In addition, GE purchased approximately 3.5 million outstanding Units at a purchase price of \$47.50 per unit (the “Transfer”), which gave GE an approximate 16% equity interest in the Trust.

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

Amendments made to the Declaration of Trust included:

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

Amendments made to the Partnership Agreement of DPLP included:

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

On May 12, 2006, the Trust acquired the remaining 50% interest in Dundee Management Limited Partnership ("DMLP"), a joint venture with Dundee Realty Corporation ("DRC"), comprising property management operations relating to revenue properties. As discussed in Note 24 — "Internalization of property manager", this transaction increased the Trust's ownership of DMLP to 100%.

At December 31, 2007, Dundee Corporation, the majority shareholder of DRC, directly and indirectly through its subsidiaries held 333,520 REIT A Units and 3,315,349 LP B Units (December 31, 2006 — 127,955 and 8,565,095 units, respectively, including 55,326 units it was entitled to receive on June 30, 2007). Dundee Corporation purchased REIT A Units in the market through the year to satisfy its obligations with respect to its exchangeable debentures. At December 31, 2007, GE held 2,997,371 REIT A Units and 476,316 REIT B Units.

## Note 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants ("CICA"). The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles ("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 consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

On January 1, 2007, the Trust adopted CICA Handbook Section 1506 "Accounting Changes", which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. This standard did not affect the Trust's consolidated financial position, results of operations or cash flows.

CICA Handbook Section 1535, "Capital Disclosures", requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008, for the Trust. This standard will impact the Trust's disclosures but will not affect its consolidated financial position, results of operations or cash flows.

CICA Handbook Section 3862, "Financial Instruments — Disclosures" and Section 3863, "Financial Instruments — Presentation" replace Section 3861, "Financial Instruments — Disclosure and Presentation", revising and enhancing its disclosure requirements and carrying forward its presentation requirements unchanged. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Trust manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008, for the Trust. This standard will impact the Trust's disclosure but will not affect its consolidated financial position, results of operations or cash flows.

Amendments to CICA Handbook Section 1000, “Financial Statement Concepts” and new CICA Handbook Section 3064, “Goodwill and Intangible Assets”, which replaces CICA Handbook Section 3062, “Goodwill and Other Intangible Assets”, have been issued and apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The objectives of these amendments and new section are to:

- reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and
- clarify the application of the concept of matching revenues and expenses, such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated. The Trust is currently evaluating the impact of this standard on its consolidated financial statements.

### Revenue recognition

Properties are considered operational at the earlier of the achievement of a predetermined level of occupancy or at the expiry of a reasonable period following substantial completion. The Trust has retained substantially all of the benefits and risks of ownership of its rental properties and therefore accounts for leases as operating leases.

Revenues from rental properties include base rents, recoveries of operating expenses including property taxes, percentage participation rents, lease cancellation fees, parking income and incidental income. The Trust uses the straight-line method of rental revenue recognition, whereby the total of cash rents due over the initial term of a lease are recognized in income evenly over that term. The difference between the amount recorded as revenue under the straight-line method and cash rents received is included in amounts receivable. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred. Percentage participation rents are recognized on an accrual basis once tenant sales revenues exceed contractual thresholds. Other revenues are recorded as earned. The Trust provides an allowance for doubtful accounts against that portion of amounts receivable that is estimated to be uncollectible. Such allowances are reviewed periodically based on the recovery experience of the Trust and the creditworthiness of the debtor.

### Rental properties

Rental properties are stated at historical cost less accumulated depreciation and impairment charges, if any. Rental properties under development includes interest on project-specific and general debt, property taxes, carrying charges and applicable general and administrative expenses incurred in the pre-development and construction periods, and initial leasing costs, less incidental revenues and expenses earned prior to the project being declared operational.

The Trust uses the straight-line method of depreciation for rental properties, building improvements, initial leasing costs and major expansions and renovations. The estimated useful life of the properties is between 30 and 40 years. Vehicles, office premises improvements, furniture and computer equipment are depreciated on a declining balance basis over their estimated useful lives ranging from 8% to 30% per annum. Building improvements are depreciated over their estimated useful lives, which range from 10 to 20 years depending on the type of improvement.

### Land

Land under development includes all related development costs, interest on property-specific and general debt, property taxes and applicable general and administrative expenses incurred during construction, less miscellaneous revenue earned during the construction period.

Land held for development includes acquisition costs, pre-development costs, interest on specific debt and property taxes, less miscellaneous revenue earned. Interest on general debt and general and administrative expenses are not capitalized to land held for development.

Land held for sale includes acquisition costs, pre-development costs, interest on specific debt and property taxes, less miscellaneous revenue earned. Interest on general debt and general and administrative expenses are not capitalized to land held for sale.

### Purchase price allocations

For acquisitions initiated on or after September 12, 2003, the purchase price of a rental property is allocated based on estimated fair values to land, building, deferred leasing costs acquired, lease origination costs associated with in-place leases, the value of above and below market leases and other intangible lease assets. Other intangible lease assets include the value of in-place leases and the value of tenant relationships, if any. The fair value of buildings is determined using the depreciated replacement cost approach. For acquisitions initiated prior to September 12, 2003, the purchase price was allocated to land and buildings based on their respective fair market values.

### Intangible assets and liabilities

Intangible assets and liabilities include the value of above and below market leases, in-place leases, lease origination costs and tenant relationships. Intangible assets and liabilities are stated at historic cost less accumulated amortization and impairment charges, if any.

The values of above and below market leases are amortized on a straight-line basis to rental property revenues over the remaining term of the associated lease. The value associated with in-place leases is amortized on a straight-line basis over the remaining term of the lease. The value of tenant relationships is amortized on a straight-line basis over the remaining term of the lease plus an estimated renewal term. Lease origination costs are amortized on a straight-line basis over the term of the applicable lease. In the event a tenant vacates its 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 is expensed.

### Impairment of long-lived assets

The Trust uses a two-step process for determining when an impairment of rental properties, land under development, land held for development and intangible assets should be recognized in the consolidated financial statements. If events or circumstances indicate that the carrying value of a property may be impaired, a recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from property operations and the property's projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to its estimated fair value and an impairment loss is recognized. Land held for sale is carried at the lower of capitalized cost and net realizable value.

### Deferred costs

Deferred costs may include:

- deferred leasing costs, which include leasing fees and costs, except for initial leasing costs that are included in rental properties, and deferred leasing costs acquired. Deferred leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- tenant inducements, which are payments for which the tenant has no obligation to make leasehold improvements to the leased space and which are amortized against rental properties revenue on a straight-line basis over the term of the applicable lease;
- tenant improvements, which include costs incurred to make leasehold improvements to tenants' space and which are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- deferred recoverable operating expenses, which are amortized to operating expenses over the period during which they are recoverable from tenants;
- prior to January 1, 2007, deferred financing costs, which included debt issue fees and expenses that were amortized to interest expense on a straight-line basis over the term of the debt; and
- direct acquisition fees and costs, which exclude general and administrative costs, and which are deferred until the acquisition is completed and the costs are capitalized to the acquisition or the acquisition is abandoned and the costs are written off.

### Impairment of amounts receivable

Trade receivables are recognized initially at fair value with provisions for impairments. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. The carrying amount of the asset is reduced through an allowance account, and the amount of the loss is recognized in the income statement within operating expenses. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

### Impairment of loans receivable

Loans receivable are classified as impaired when, in the opinion of management, there is a reasonable doubt as to the timely collection of principal, interest and the underlying security of the loan. The carrying amount of a loan receivable classified as impaired is reduced to its estimated fair value.

### Foreign currency translation

The Trust's foreign operations are considered financially self-sustaining and operationally independent. Accordingly, assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period. Translation gains and losses are deferred as a separate component of unitholders' equity until there is a realized reduction in the net investment in the foreign operation.

### Income taxes

Dundee REIT uses the liability method of accounting for future income taxes. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the reported carrying amount of assets and liabilities and their carrying amounts for tax purposes. In addition, the benefit of tax losses available to be carried forward to future years for tax purposes, which are more likely than not to be realized, are recognized as a reduction of the income tax liability. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse and tax losses are utilized. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the tax rate change is substantively enacted.

### Unit-based compensation plan

Dundee REIT has a Deferred Unit Incentive Plan, as described in Note 13, that provides for the grant of deferred trust units and income deferred trust units to trustees, officers and employees, and affiliates and their service providers (including the asset manager). The Trust recognizes compensation expense on a straight-line basis over the period that the deferred units vest, based on the market price of REIT A Units on the date of grant. Deferred trust units that have vested but for which the corresponding REIT A Units have not been issued, and where the ultimate issuance of such REIT A Units is simply a matter of the passage of time, are considered to be outstanding from the date of vesting for basic income per unit calculations.

### Cash and cash equivalents

For the purposes of the statements of cash flows, the Trust considers all short-term investments with an original maturity of three months or less to be cash equivalents, and excludes cash subject to restrictions that prevent its use for current purposes. As at December 31, 2007, cash and cash equivalents includes the Trust's proportionate share of cash balances of joint ventures of \$2,116 (December 31, 2006 — \$2,688). Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits as required by various lending agreements.

### Non-controlling interest

On January 19, 2005, the Emerging Issues Committee of the CICA issued EIC-151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts", which requires income trusts with exchangeable securities issued by their subsidiaries to evaluate whether the exchangeable securities should be presented as unitholders' equity or non-controlling interest on the consolidated balance sheet. In order to be presented as unitholders' equity, the exchangeable securities must have distributions that are economically equivalent to distributions on units issued directly by the income trust and must also ultimately be exchanged for units of the income trust. The distributions on the LP B Units are economically equivalent to distributions on the REIT A Units. On May 12, 2006, the terms of the LP B Units were amended to restrict the transfer of such units except to a subsidiary of the holder. As a result, if an existing holder of LP B Units wants to transfer the LP B Units to a third party, they must first be converted to REIT B Units. This amendment permits the Trust to classify the outstanding LP B Units as equity for financial statement purposes in accordance with Canadian GAAP. Prior to the effective date of the amendment on May 1, 2006, because the LP B Units contained no conditions requiring either the conversion to REIT B Units or restricting their transferability to third parties, the LP B Units were presented as non-controlling interest in the consolidated financial statements. As a result, the Trust had accounted for the investment of the net proceeds from equity offerings in DPLP using the purchase method. In addition, the issuance of LP B Units under the Distribution Reinvestment Plan had resulted in a dilution of the Trust's ownership of DPLP.

## Financial instruments

On January 1, 2007, the Trust adopted new CICA accounting standards comprising Section 3855, "Financial Instruments — Recognition and Measurement", Section 1530, "Comprehensive Income", and Section 3251, "Equity".

The standards require that all financial assets be classified as held for trading, available for sale, held to maturity or loans and receivables. In addition, the standards require that all financial assets be measured at fair value, with the exception of loans, receivables and investments intended to be, and classified as, held to maturity, which are required to be measured at amortized cost. Financial liabilities are classified either as held for trading, which are measured at fair value, or other liabilities, which are measured at amortized cost. Any adjustment to the Trust's financial statements as a result of adopting Section 3855 is recognized by restating the balance of opening unitholders' equity. Comparative periods are not permitted to be restated.

Accumulated other comprehensive income is included as a separate component of unitholders' equity and comprises only accumulated foreign currency gains and losses related to the Trust's net investment in Greenbriar Mall in Atlanta, Georgia. In accordance with Section 1530, the comparative financial statements have been restated by reclassifying the cumulative foreign currency translation adjustment to accumulated other comprehensive income.

All loans and receivables and all financial liabilities are recorded at amortized cost. Upon initial recognition, these instruments are recorded at fair value less any related transaction costs. As a result, effective January 1, 2007, financial liabilities were reduced by related deferred financing costs that were previously disclosed as a component of deferred costs (see Note 5). Deferred financing costs of \$6,966 that related to outstanding debt at January 1, 2007, have been reclassified by reducing mortgages and convertible debentures by \$3,596 and \$3,746, respectively, and in the case of deferred financing costs related to revolving lines of credit, increasing prepaid expenses by \$72. As required by the accounting standards, prior year comparative figures have not been restated.

Interest expense related to financial liabilities, including deferred financing costs, is recognized using the effective interest rate method. Prior to January 1, 2007, the deferred financing costs and the premium allocated to the conversion feature of the convertible debentures were amortized to interest expense on a straight-line basis over the life of the instrument to which the costs related. This had the effect of increasing interest expense by \$448 (comprising \$361 from the change in amortization of deferred financing costs and \$87 from the change in amortization of the premium allocated to the conversion feature of the convertible debentures), compared to the interest expense that would have been recognized under the effective interest rate method. With the adoption of this new policy, these amounts have been recorded as a \$448 increase in unitholders' equity as at January 1, 2007. As required by the accounting standards, prior year comparative figures have not been restated.

The fair values of the mezzanine loans, mortgages and term debt are determined by discounting the future contractual cash flows under current financing arrangements. The discount rates represent management's best estimate of borrowing rates presently available to the Trust for loans with similar terms and maturities. The fair value of the convertible debentures is based on the market value of the debentures.

For certain of the Trust's financial instruments, including cash and cash equivalents and short-term deposits, amounts receivable, amounts payable and accrued liabilities, and distributions payable, the carrying amounts approximate fair values due to their immediate or short-term maturity.

## Convertible debentures

Upon issuance, convertible debentures are separated into debt and equity components and recorded at amortized cost. These components are measured based on their respective estimated fair values at the date of issuance, less any related transaction costs. The fair value of the debt component is estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the estimated fair value ascribed to the holders' option to convert the debentures into REIT A Units. In accordance with CICA Handbook Section 3855, effective January 1, 2007, the difference between the fair value of the debt and the face value is recognized as interest expense on an effective interest rate basis over the term to maturity of the debentures with corresponding accretion to the principal of the debt. Prior to January 1, 2007, this difference was recognized as interest expense on a straight-line basis.

### Discontinued operations

The Trust classifies properties that meet certain criteria as held for sale and separately discloses any net income/loss and gain/loss on disposal for current and prior periods as discontinued operations. A property is classified as held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the property and is actively locating a buyer for the property at a sales price that is reasonable in relation to the current estimated fair value of the property, and the sale is expected to be completed within a one-year period. Properties held for sale are carried at the lower of their carrying values and estimated fair values less costs to sell. In addition, assets held for sale are no longer depreciated. A property that is subsequently reclassified as held and in use is measured at the lower of: (a) its carrying amount before it was classified as held for sale, adjusted for any amortization expense that would have been recognized had it been continuously classified as held and in use; and (b) its estimated fair value at the date of the subsequent decision not to sell.

### Variable interest entities

The Trust follows the requirements of CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), which provides guidance for applying the principles in CICA Handbook Section 1590, "Subsidiaries", to those entities defined as Variable Interest Entities ("VIEs"). This standard considers a VIE to be an entity in which either the equity at risk is not sufficient to permit it to finance its activities without additional subordinated financial support from other parties or equity investors lack either voting control, or an obligation to absorb expected losses, or the right to receive expected residual returns. AcG-15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns.

### Note 3

#### PROPERTY ACQUISITIONS

The Trust completed the following acquisitions during the twelve months ended December 31, 2007 and 2006, which have contributed to operating results from the date of acquisition:

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

<sup>1</sup> Disposed of as a part of the Eastern Portfolio.

For the year ended December 31, 2006	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
Park 19, Edmonton	industrial	100	48,000	100	\$ 2,726	\$ —	January 10, 2006
70 Disco Road, Toronto <sup>1</sup>	industrial	100	99,000	100	7,577	3,117	January 12, 2006
SEC Portfolio, Québec <sup>1</sup>	office/ industrial	100	265,000	99	21,306	6,199	January 27, 2006
2440 Scanlan Street, London <sup>1</sup>	industrial	100	85,000	100	6,266	3,477	April 20, 2006
Sherwood Place, Regina	office	100	182,000	99	33,206	14,442	April 21, 2006
1400 boul. de la Rive Sud, Québec City <sup>1</sup>	office	100	77,000	100	12,062	—	May 1, 2006
4255 14th Avenue, Markham <sup>1</sup>	industrial	100	57,000	100	5,914	—	May 1, 2006
Princeton Portfolio, Western Canada	office/ industrial/land	100	530,000	94	96,818	43,835	May 17, 2006
10089 Jasper Avenue, Edmonton <sup>1</sup>	land	100	86,000	—	4,160	—	May 29, 2006
Barker Business Park (Phase II), Toronto	land	60	—	—	8,994	—	June 7, 2006
Calgary Office Portfolio, Calgary	office	100	822,000	98	218,257	23,339	June 15, 2006
Tullamore Business Park, Brampton	land	60	—	—	3,224	—	July 14, 2006
Victoria Tower, Regina	office	100	144,000	100	17,815	8,621	July 21, 2006
100 Legacy Road, Ottawa <sup>1</sup>	industrial	100	103,000	100	8,906	—	August 1, 2006
10079 Jasper Avenue, Edmonton <sup>1</sup>	land	10	—	—	310	—	August 4, 2006
Aviva Corporate Centre, Toronto <sup>1</sup>	office/ industrial	100	438,000	100	43,961	—	September 13, 2006
Station Tower Lands, Surrey <sup>1</sup>	land	100	—	—	3,728	—	September 21, 2006
2121 Argentia Road, Mississauga <sup>1</sup>	office	100	61,000	96	11,270	—	November 16, 2006
Airport Corporate Centre West, Mississauga <sup>1</sup>	office	100	357,000	86	66,253	—	November 28, 2006
2891 Sunridge Way NE, Calgary	office	100	88,000	100	25,736	—	December 20, 2006
<b>Total</b>			<b>3,442,000</b>	<b>98</b>	<b>\$ 598,489</b>	<b>\$ 103,030</b>	

<sup>1</sup> Disposed of as a part of the Eastern Portfolio.

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

For the years ended December 31	2007	2006
Rental properties		
Land	\$ 180,693	\$ 70,585
Buildings	434,290	458,119
Equipment	—	403
Properties under development	—	301
	<b>614,983</b>	<b>529,408</b>
Land		
Under development	—	29,925
Held for development	—	1,015
Held for sale	—	8,352
Third-party management contracts	—	195
Tenant improvements acquired	15,851	14,567
Intangible assets		
Value of in-place leases	31,609	25,149
Lease origination costs	5,313	5,512
Value of above-market rent leases	1,460	2,020
Value of tenant relationships	26,096	14,574
	<b>695,312</b>	<b>630,717</b>
Intangible liabilities		
Value of below-market rent leases	(29,834)	(32,228)
<b>Total purchase price</b>	<b>\$ 665,478</b>	<b>\$ 598,489</b>

The consideration paid consists of:

For the years ended December 31	2007	2006
Cash		
Paid during the period	\$ 560,324	\$ 484,667
Deposit	3,600	710
	<b>563,924</b>	<b>485,377</b>
Assumed mortgages at fair value	100,697	103,030
Vendor loan	—	6,750
Assumed accounts payable and accrued liabilities	857	3,332
<b>Total consideration</b>	<b>\$ 665,478</b>	<b>\$ 598,489</b>

#### Note 4

##### RENTAL PROPERTIES

December 31	2007			2006		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 191,935	\$ —	\$ 191,935	\$ 300,553	\$ —	\$ 300,553
Buildings and improvements	875,619	(65,690)	809,929	1,627,185	(119,580)	1,507,605
Fixed assets and equipment	1,985	(502)	1,483	2,040	(773)	1,267
Rental properties under development	851	—	851	7,386	—	7,386
<b>Total</b>	<b>\$ 1,070,390</b>	<b>\$ (66,192)</b>	<b>\$ 1,004,198</b>	<b>\$ 1,937,164</b>	<b>\$ (120,353)</b>	<b>\$ 1,816,811</b>

#### Note 5

##### DEFERRED COSTS

December 31	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Deferred leasing costs	\$ 7,639	\$ (4,710)	\$ 2,929	\$ 20,903	\$ (7,490)	\$ 13,413
Tenant improvements	36,115	(10,352)	25,763	72,690	(26,733)	45,957
Deferred recoverable costs	4,746	(2,007)	2,739	13,816	(7,409)	6,407
Deferred financing costs	—	—	—	11,705	(4,739)	6,966
Other deferred costs	507	(505)	2	1,847	(1,135)	712
<b>Total</b>	<b>\$ 49,007</b>	<b>\$ (17,574)</b>	<b>\$ 31,433</b>	<b>\$ 120,961</b>	<b>\$ (47,506)</b>	<b>\$ 73,455</b>

Amortization of deferred recoverable costs included in operating expenses for the year ended December 31, 2007, was \$1,578 (December 31, 2006 — \$1,872). Effective January 1, 2007, deferred financing costs are deducted from the specific debt carrying values to which they relate (see Notes 2 and 10).

#### Note 6

##### LAND

December 31	2007	2006
Land under development	\$ —	\$ 18,607
Land held for development	—	1,021
Land held for sale	—	21,767
<b>Total</b>	<b>\$ —</b>	<b>\$ 41,395</b>

## Note 7

**AMOUNTS RECEIVABLE**

Amounts receivable are net of credit adjustments of \$2,871 (December 31, 2006 — \$6,659).

December 31	2007	2006
Trade receivables	\$ 1,867	\$ 3,660
Straight-line rents receivables	5,857	12,874
Other accounts receivables	2,037	2,072
	<b>\$ 9,761</b>	<b>\$ 18,606</b>

December 31	2007	2006
Trade receivables	\$ 2,280	\$ 5,093
Less: provision for impairment of trade receivables	(413)	(1,433)
<b>Trade receivable, net</b>	<b>\$ 1,867</b>	<b>\$ 3,660</b>

The movement in the provision for impairment of trade receivables during the year ended December 31, 2007, is as follows:

As at January 1, 2007	\$ 1,433
Provision for impairment of trade receivables	133
Receivables written off during the year as uncollectible	(12)
Reduction due to sale of discontinued operations	(1,117)
Translation adjustment	(24)
<b>As at December 31, 2007</b>	<b>\$ 413</b>

## Note 8

**PREPAID EXPENSES AND OTHER ASSETS**

December 31	2007	2006
Prepaid expenses	\$ 2,170	\$ 6,729
Mezzanine loans	—	3,893
Promissory notes	11,963	—
Deposits	2,609	4,020
Restricted cash	4,186	5,598
<b>Total</b>	<b>\$ 20,928</b>	<b>\$ 20,240</b>

Effective November 1, 2007, the Trust sold its 60% interest in two joint venture projects (see Note 21). As part of the transaction, all mezzanine loans were repaid and related agreements terminated. Consideration for the sale included second and third mortgages totalling \$11,747 bearing interest at 11.0% secured by the lands owned by the purchaser. On November 2, 2007, the Trust assigned the mortgages to DRC for a purchase price equal to the mortgage amounts. As consideration, the Trust received two promissory notes from DRC that bear interest at 10.9% compounded monthly.

Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages.

## Note 9

## INTANGIBLE ASSETS AND LIABILITIES

December 31	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
<b>Intangible assets</b>						
Value of above market rent leases	\$ 2,481	\$ (735)	\$ 1,746	\$ 7,134	\$ (2,190)	\$ 4,944
Value of in-place leases	36,469	(13,947)	22,522	53,558	(16,343)	37,215
Lease origination costs	6,680	(2,129)	4,551	13,974	(3,768)	10,206
Value of tenant relationships	29,818	(6,243)	23,575	42,168	(8,117)	34,051
<b>Total</b>	<b>\$ 75,448</b>	<b>\$ (23,054)</b>	<b>\$ 52,394</b>	<b>\$ 116,834</b>	<b>\$ (30,418)</b>	<b>\$ 86,416</b>
<b>Intangible liabilities</b>						
Value of below market rent leases	\$ 53,786	\$ (16,917)	\$ 36,869	\$ 40,049	\$ (6,698)	\$ 33,351

## Note 10

## DEBT

December 31	2007	2006
Mortgages	\$ 668,188	\$ 1,056,311
Convertible debentures	11,840	89,719
Term debt	451	7,764
<b>Total</b>	<b>\$ 680,479</b>	<b>\$ 1,153,794</b>

Mortgages are secured by charges on specific rental properties. Term debt is secured by charges on specific development lands and rental properties with certain flexibility to repay floating rate debt without incurring a penalty.

On April 1, 2005, the Trust issued \$100,000 principal amount convertible unsecured subordinated debentures (the "5.7% Debentures"). The 5.7% Debentures bear interest at 5.7% per annum, payable semi-annually on March 31 and September 30 each year, and mature on March 31, 2015. Each 5.7% Debenture is convertible at any time by the debenture holder into 33.33 REIT Units, per one thousand dollars of face value, representing a conversion price of \$30.00 per unit. The 5.7% Debentures may not be redeemed prior to March 31, 2009. On or after March 31, 2009, but prior to March 31, 2011, the 5.7% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided that the market price for the Trust's units is not less than \$37.50. On or after March 31, 2011, the 5.7% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3860 of the CICA Handbook, the 5.7% Debentures were initially recorded on the consolidated balance sheet as debt of \$98,800 and equity of \$1,200.

On June 21, 2004, the Trust issued \$75,000 principal amount convertible unsecured subordinated debentures (the "6.5% Debentures"). The 6.5% Debentures bear interest at 6.5% per annum, payable semi-annually on June 30 and December 31 each year, and mature on June 30, 2014. Each 6.5% Debenture is convertible at any time by the debenture holder into 40 REIT Units, per one thousand dollars of face value, representing a conversion price of \$25.00 per unit. The 6.5% Debentures may not be redeemed prior to June 30, 2008. On or after June 30, 2008, but prior to June 30, 2010, the 6.5% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided the market price for the Trust's units is not less than \$31.25. On or after June 30, 2010, the 6.5% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3860 of the CICA Handbook, the 6.5% Debentures were initially recorded on the consolidated balance sheet as debt of \$74,400 and equity of \$600.

Convertible debentures comprise \$7,983 of the 5.7% Debentures and \$3,857 of the 6.5% Debentures.

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 (6.0% as at December 31, 2007) plus 0.375% or bankers' acceptance rates. The facility expires on April 30, 2008, and is secured by a first ranking collateral mortgage on four of the Trust's properties and a second ranking collateral mortgage on one property. As at December 31, 2007, the formula-based amount available under this facility was \$49,779, of which \$nil was drawn and \$nil was utilized in the form of letters of guarantee (December 31, 2006 — \$nil and \$733, respectively).

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

December 31	Weighted average interest rates			Debt amount	
	2007	2006	Maturity dates	2007	2006
<b>Fixed rate</b>					
Mortgages	5.70%	5.89%	2008-2019	\$ 651,844	\$ 1,036,909
Convertible debentures	6.59%	6.08%	2014-2015	11,840	89,719
Term debt	9.03%	7.17%	2008-2011	451	2,238
<b>Total fixed rate debt</b>	<b>5.71%</b>	<b>5.90%</b>		<b>664,135</b>	<b>1,128,866</b>
<b>Variable rate</b>					
Mortgages	7.70%	8.40%	2008	16,344	19,402
Term debt	—	7.00%	2007	—	5,526
<b>Total variable rate debt</b>	<b>7.70%</b>	<b>8.09%</b>		<b>16,344</b>	<b>24,928</b>
<b>Total debt</b>	<b>5.76%</b>	<b>5.95%</b>		<b>\$ 680,479</b>	<b>\$ 1,153,794</b>

The scheduled principal repayments and debt maturities are as follows:

For the years ending December 31	Mortgages	Term debt	Convertible debentures	Total
2008	\$ 32,645	\$ 106	\$ —	\$ 32,751
2009	65,311	116	—	65,427
2010	20,099	127	—	20,226
2011	84,477	102	—	84,579
2012	112,082	—	—	112,082
2013 and thereafter	351,121	—	12,409	363,530
	665,735	451	12,409	678,595
Deferred financing cost and fair value adjustments	2,453	—	(569)	1,884
	\$ 668,188	\$ 451	\$ 11,840	\$ 680,479

Effective January 1, 2007, mortgages and convertible debentures were reduced by \$7,342 in deferred financing costs comprising \$6,894 that was outstanding at December 31, 2006, plus an adjustment of \$448 to restate the balance to that which would have resulted using the effective interest rate method. As of December 31, 2007, \$2,832 of deferred financing costs are included in mortgages and convertible debentures. As a result of this accounting policy change, interest is now recognized using the effective interest rate method.

Included in mortgages are \$4,827 in fair value adjustments (December 31, 2006 — \$9,567), which reflect the fair value adjustments for mortgages assumed as part of acquisitions. The convertible debentures are net of a \$111 premium allocated to their conversion features and \$458 of unamortized deferred financing costs. The fair value adjustment, discount and deferred financing costs are amortized to interest expense over the term to maturity of the related debt using the effective interest rate method.

The estimated fair value of debt is as follows:

December 31	2007	2006
Mortgages	\$ 681,896	\$ 1,081,535
Convertible debentures	15,365	121,881
Term debt	443	7,733
<b>Total</b>	<b>\$ 697,704</b>	<b>\$ 1,211,149</b>

## Note 11

**AMOUNTS PAYABLE AND ACCRUED LIABILITIES**

December 31	2007	2006
Trade payables	\$ 270	\$ 1,664
Accrued liabilities and other payables	14,762	20,104
Accrued interest	3,068	6,072
Deposits	4,422	9,863
Rent received in advance	1,867	2,998
<b>Total</b>	<b>\$ 24,389</b>	<b>\$ 40,701</b>

## Note 12

**DISTRIBUTIONS**

The following table sets out distribution payments for the year ended December 31, 2007:

	REIT Units, Series A	REIT Units, Series B	LP Class B Units, Series 1	Total
Paid in cash	\$ 64,870	\$ 472	\$ 5,192	\$ 70,534
Reimbursement from GE	(548)	(87)	—	(635)
Paid by way of reinvestment in REIT A Units	5,185	—	8,577	13,762
Paid by way of reinvestment in LP B Units	—	—	542	542
Less: payable at December 31, 2006	(6,393)	—	(1,620)	(8,013)
Plus: payable at December 31, 2007	3,124	87	607	3,818
<b>Total</b>	<b>\$ 66,238</b>	<b>\$ 472</b>	<b>\$ 13,298</b>	<b>\$ 80,008</b>

The amount payable at December 31, 2007, was satisfied on January 15, 2007, by way of \$3,818 in cash. Included in the total distributions is \$474 representing the 4% bonus distribution that forms part of the Distribution Reinvestment Plan ("DRIP"). In connection with the Transaction, effective June 28, 2007, the DRIP was temporarily suspended. Prior to suspension of the DRIP, the holders of LP B Units elected to receive their distribution reinvestment in the form of REIT A Units, except for those units issued to DRC on the internalization of the property manager, which DRC elected to receive in the form of LP B Units. The DRIP was reinstated for the January 2008 distribution, which was payable February 15, 2008.

GE was entitled to distributions of \$635 for the month of August; however, pursuant to the Transaction Purchase Agreement, GE agreed to reimburse the Trust for the August distributions payment.

Our Declaration of Trust requires monthly cash distributions to unitholders of at least 80% of distributable income on an annual basis. The Trust may reduce the percentage of distributable income if the trustees determine it would be in the best interest of the Trust. Distributions may be adjusted for amounts paid in prior periods if the actual distributable income for those prior periods is greater or less than the estimates used for those prior periods. In addition, the trustees may declare distributions out of the income, net realized capital gains, net recapture income and capital of the Trust to the extent that such amounts have not already been paid, allocated or distributed. 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 to unitholders. The Trust declares distributions of \$0.183 per unit per month, or \$0.549 per quarter.

## Note 13

## UNITHOLDERS' EQUITY

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

## Dundee REIT Units

Dundee REIT is authorized to issue an unlimited number of REIT Units and an unlimited number of Special Trust Units. The REIT Units are divided into and issuable in two series: REIT Units, Series A and REIT Units, Series B. REIT Units are redeemable at the option of the holder, generally at any time, subject to certain restrictions, at a redemption price per REIT Unit equal to the lesser of 90% of a 20-day weighted average closing price prior to the redemption date and 100% of the closing market price on the redemption date. The total amount payable by Dundee REIT in any calendar month shall not exceed \$50 unless waived by Dundee REIT's trustees at their sole discretion. Any dollar amount in excess of this monthly dollar maximum, unless waived, will be paid by notes of one of Dundee REIT's subsidiaries.

REIT Units, Series A and REIT Units, Series B, represent an undivided beneficial interest in Dundee REIT and in distributions made by Dundee REIT. No REIT Unit, Series A or REIT Unit, Series B, has preference or priority over any other. Each REIT Unit, Series A and REIT Unit, Series B, entitles the holder to one vote held at all meetings of unitholders.

On May 12, 2006, the terms of the LP B Units were amended to restrict the transfer of such units except to a subsidiary of the holder. As a result, if an existing holder of LP B Units wants to transfer the LP B Units to a third party, they must first be converted into REIT B Units. This amendment permits the Trust to classify the outstanding LP B Units as equity for financial statement purposes in accordance with GAAP. As a result, effective May 1, 2006, the LP B Units are presented as unitholders' equity. Prior to this date, the LP B Units were presented as non-controlling interest. For the year ended December 31, 2006, net income of \$1,003 was attributable to the non-controlling interest in the consolidated statement of net income, and \$873 was attributable to non-controlling interest in discontinued operations.

During the year ended December 31, 2007, 729,341 LP B Units were exchanged indirectly by Dundee Corporation for 729,341 REIT B Units which were then exchanged for 729,341 REIT A Units. The exchanges were valued at a pro rata carrying amount of the LP B Units.

On August 24, 2007, the Trust completed the Redemption and cancellation of 29,915,284 units for \$47.50 per unit. These included 25,813,262 REIT A Units and 4,102,022 REIT B Units. The REIT B Units were initially exchanged from LP B Units and were valued at a pro rata carrying amount of the LP B Units.

In addition, GE purchased 3,473,687 outstanding units at a purchase price of \$47.50 per unit. These include 2,997,371 REIT A Units and 476,316 REIT B Units. The REIT B Units were initially exchanged from LP B Units and were valued at a pro rata carrying amount of the LP B Units.

Special Trust Units are issued in connection with LP B Units. The Special Trust Units are not transferable separately from the LP B Units to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such LP B Units. Each Special Trust Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT B Units that may be obtained upon the surrender or exchange of the LP B Units to which they relate. At December 31, 2007, 3,315,349 Special Trust Units were issued and outstanding (December 31, 2006 — 8,565,095 issued and outstanding). At December 31, 2006, 92,000 Special Trust Units were held in trust pursuant to the internalization of DMLP (see Note 24), 55,326 of which are included in the outstanding Special Trust Units at December 31, 2006. On June 30, 2006, DRC received the 100,000 Special Trust Units held in trust. All Special Trust Units are recorded at a nominal value.

Dundee REIT's Declaration of Trust provides Dundee Corporation and GE with a pre-emptive right pursuant to which Dundee REIT will not issue any REIT A Units, or any securities convertible into or exchangeable for REIT A Units, to any person without first making an offer to Dundee Corporation and GE to issue that number of REIT A Units, securities or a comparable number of LP B Units necessary to maintain the percentage of the outstanding voting interest in Dundee REIT held by Dundee Corporation and its affiliates or GE at the date of offer.

## DPLP Units

DPLP is authorized to issue an unlimited number of LP Class A and an unlimited number of LP Class B limited partnership units and such other classes as the general partner of DPLP, a wholly owned subsidiary of Dundee REIT, may decide. The LP Class B Units have been issued in two series: LP Class B Units, Series 1, and LP Class B Units, Series 2.

The LP Class B Units, Series 1, together with the accompanying Special Trust Units, have economic and voting rights equivalent in all material respects to the REIT Units, Series A and REIT Units, Series B. Generally, each LP Class B Unit, Series 1, entitles the holder to a distribution equal to distributions declared on REIT Units, Series B, or if no such distribution is declared, on REIT Units, Series A. LP Class B Units, Series 1, may be surrendered or indirectly exchanged on a one-for-one basis at the option of the holder, generally at any time, subject to certain restrictions, for REIT Units, Series B. The LP Class B Units, Series 1, are not entitled to vote at any meeting of the limited partners of DPLP. Prior to May 1, 2006, the LP Class B Units, Series 1, were classified as non-controlling interest in accordance with EIC-151.

The LP Class A Units and LP Class B Units, Series 2, are entitled to vote at meetings of the limited partners of DPLP and each unit entitles the holder to a distribution equal to distributions on the LP Class B Units, Series 1. At December 31, 2007, 17,072,154 LP Class A Units (December 31, 2006 — 34,557,702), 3,315,349 LP Class B Units, Series 1 (December 31, 2006 — 8,565,095), and nil LP Class B Units, Series 2 (December 31, 2006 — 296,852), were issued and outstanding. At December 31, 2006, 92,000 LP Class B Units, Series 1, were held in trust pursuant to the internalization of DMLP, 55,326 of which are included in the outstanding LP Class B Units, Series 1, at December 31, 2006. On June 30, 2007, 100,000 LP B Units were released from in trust and issued to DRC (see Note 24). As at December 31, 2007, and December 31, 2006, all issued and outstanding LP Class A Units and LP Class B Units, Series 2, are owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

	REIT Units, Series A		REIT Units, Series B		LP Class B Units, Series 1		Accumulated other comprehensive loss	Total	
	Number of units	Amount	Number of units	Amount	Number of units	Amount		Number of units	Amount
<b>Unitholders' equity,</b>									
<b>January 1, 2007</b>	34,854,553	\$ 745,348	—	\$ —	8,565,095	\$ 147,879	\$ (5,116)	43,419,648	\$ 888,111
Adjustment to opening unitholders' equity to comply with new accounting standard (Note 2)	—	360	—	—	—	88	—	—	448
<b>Unitholders' equity,</b>									
<b>January 1, 2007</b> (restated)	34,854,553	745,708	—	—	8,565,095	147,967	(5,116)	43,419,648	888,559
Net income	—	641,622	—	10,839	—	109,841	—	—	762,302
Distributions paid	—	(63,114)	—	(385)	—	(12,691)	—	—	(76,190)
Distributions payable	—	(3,124)	—	(87)	—	(607)	—	—	(3,818)
Public offering of REIT A Units	4,195,000	170,946	—	—	—	—	—	4,195,000	170,946
Distribution Reinvestment Plan	335,159	13,762	—	—	13,259	542	—	348,418	14,304
Unit Purchase Plan	1,170	51	—	—	—	—	—	1,170	51
Deferred Unit Incentive Plan	30,370	6,031	—	—	—	—	—	30,370	6,031
Conversion of 6.5% Debentures	818,880	20,472	—	—	—	—	—	818,880	20,472
Conversion of 5.7% Debentures	1,921,043	57,631	—	—	—	—	—	1,921,043	57,631
Units issued on internalization of property manager (Note 24)	—	—	—	—	44,674	1,230	—	44,674	1,230
Issue costs	—	(11,271)	—	—	—	—	—	—	(11,271)
Exchange of Units	729,341	11,536	4,578,338	134,955	(5,307,679)	(146,491)	—	—	—
Unit redemptions	(25,813,362)	(1,290,034)	(4,102,022)	(130,946)	—	—	—	(29,915,384)	(1,420,980)
Change in foreign currency translation adjustment	—	—	—	—	—	—	(1,127)	—	(1,127)
<b>Unitholders' equity,</b>									
<b>December 31, 2007</b>	17,072,154	\$ 300,216	476,316	\$ 14,376	3,315,349	\$ 99,791	\$ (6,243)	20,863,819	\$ 408,140

### Public offering of REIT A Units

On March 12, 2007, the Trust completed a public offering of 3,700,000 REIT A Units at a price of \$40.75 per unit for gross cash proceeds of \$150,775. On March 29, 2007, the Trust issued an additional 495,000 REIT A Units pursuant to the exercise of the over-allotment option granted to the underwriters for gross proceeds of approximately \$20,171. The exercise of the over-allotment option increased the total gross proceeds of the offering to approximately \$170,946. Costs relating to the offering of \$7,413 were charged directly to unitholders' equity.

On December 12, 2006, the Trust completed a public offering of 4,110,000 REIT A Units at a price of \$36.50 per unit for gross proceeds of \$150,015. Costs relating to the offering of \$6,531 were charged to unitholders' equity.

On June 8, 2006, the Trust completed a public offering of 3,560,000 REIT A Units for gross cash proceeds of \$100,036 at a price of \$28.10 per unit. Costs relating to the offering of \$4,426 were charged directly to unitholders' equity. As a result of classifying the LP B Units as equity effective May 1, 2006, no further purchase price adjustments resulted from investing the net proceeds in DPLP.

On April 7, 2006, the Trust completed a public offering of 2,200,000 REIT A Units for gross cash proceeds of \$61,050 at a price of \$27.75 per unit. On April 28, 2006, the Trust issued an additional 320,000 REIT A Units for gross proceeds of approximately \$8,880 pursuant to the exercise of the over-allotment option granted to the underwriters. The exercise of the over-allotment option increased the total gross proceeds of the offering to approximately \$69,930. Costs relating to the offering of \$3,247 were charged directly to unitholders' equity. Prior to May 1, 2006, the Trust used the purchase method to account for the investment of the net proceeds in DPLP and recorded a purchase adjustment relating to the fair value increment of rental properties acquired of \$5,898.

### Distribution Reinvestment and Unit Purchase Plan

In August 2003, Dundee REIT established a Distribution Reinvestment and Unit Purchase Plan for holders of REIT A Units and LP B Units. On June 28, 2007, the DRIP was temporarily suspended in connection with the sale of the Eastern Portfolio to GE. The DRIP was reinstated for the January 2008 distribution payable on February 15, 2008.

The DRIP allows holders of REIT A Units or LP B Units, other than unitholders who are resident of or present in the United States, to elect to have all cash distributions from Dundee REIT reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 4% of each cash distribution that was reinvested. The price per unit is calculated by reference to a five-day weighted average closing price of the REIT A Units on the Toronto Stock Exchange preceding the relevant distribution date, which typically is on or about the 15th day of the month following the declaration.

For the year ended December 31, 2007, 335,158 REIT A Units and 13,259 LP B Units were issued under the DRIP for \$14,304 (December 31, 2006 — 811,261 REIT A Units and 19,255 LP B Units for \$24,717).

#### *Unit Purchase Plan*

The Unit Purchase Plan feature of the DRIP allows existing unitholders to purchase additional REIT A Units. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT A Units that may be acquired. The price per unit is calculated in a similar manner to the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase feature of the DRIP.

For the year ended December 31, 2007, 1,170 REIT A Units were issued under the Unit Purchase Plan for \$51 (December 31, 2006 — 13,087 REIT A Units for \$359).

### Conversion of debentures

During the year ended December 31, 2007, the Trust issued 818,880 REIT A Units upon conversion of \$20,472 principal amount of the 6.5% Debentures (December 31, 2006 — issued 1,935,640 REIT A Units upon conversion of \$48,391 principal amount) and 1,921,043 REIT A Units upon conversion of \$57,631 principal amount of the 5.7% Debentures (December 31, 2006 — issued 1,135,617 REIT A Units upon conversion of \$34,069 principal amount).

### Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan provides for the grant of deferred trust units and income deferred trust units to trustees, officers and employees, and affiliates and their service providers (including the asset manager). Deferred trust units are granted at the discretion of the trustees while income deferred trust units are credited to holders of deferred trust units based on distributions paid on Units. Once vested, each deferred trust unit vests evenly over a three- or five-year period on the anniversary date of the grant, while income deferred trust units vest on the same date as the associated deferred trust unit. Subject to an election for certain participants to postpone receipt of REIT A Units, such units will be issued immediately upon vesting. Up to a maximum of one million deferred trust units are issuable under the Deferred Unit Incentive Plan. Compensation expense is recorded based on the fair market value of a REIT A Unit at the date of grant and amortized as earned over the vesting period or the remaining service period of the participant, whichever is less.

During the year ended December 31, 2007, \$1,177 of compensation expense was recorded (December 31, 2006 — \$1,170) and is included in general and administrative expenses. An additional \$4,280 was recognized as a transaction cost related to the sale of the Eastern Portfolio as a result of the accelerated vesting of the deferred trust units. Income deferred trust units are accounted for as a distribution and an issuance of REIT A Units when the related deferred trust units vest. No amount in relation to income deferred trust units is recognized in net income.

	Weighted average grant date value	Deferred trust units	Income deferred trust units	Total units
Outstanding at December 31, 2005	\$ 23.60	200,167	25,041	225,208
Granted during the period	36.37	88,300	16,919	105,219
Cancelled	23.60	(3,000)	(237)	(3,237)
REIT A Units issued on vesting	23.67	(19,265)	(3,623)	(22,888)
Fractional units paid in cash	—	(2)	(24)	(26)
Outstanding at December 31, 2006	27.87	266,200	38,076	304,276
Granted during the period (see Note 21)	42.69	94,200	16,136	110,336
REIT A Units issued on vesting	31.80	(27,715)	(2,655)	(30,370)
Vested deferred units cancelled by management (see Note 21)	29.56	(99,156)	(16,468)	(115,624)
Fractional units paid in cash	—	(18)	(3)	(21)
<b>Outstanding and payable at December 31, 2007</b>	<b>\$ 32.66</b>	<b>233,511</b>	<b>35,086</b>	<b>268,597</b>
<b>Vested but not issued at December 31, 2007</b>	<b>\$ 32.66</b>	<b>233,511</b>	<b>35,086</b>	<b>268,597</b>

### Normal course issuer bid

On August 30, 2007, the Trust filed with the Toronto Stock Exchange (“TSX”) a Notice of Intention to make a normal course issuer bid. Under the bid, Dundee REIT will have the ability to purchase for cancellation up to a maximum of 1,359,844 REIT A Units (representing 10% of the REIT’s public float of 13,598,446 REIT A Units on August 30, 2007) through the facilities of the TSX. The bid commenced on September 5, 2007, and will remain in effect until the earlier of September 4, 2008, or the date on which the Trust has purchased the maximum number of units permitted under the bid. The Trust’s average daily trading volume for the then most recently completed six months was 360,465 REIT A Units. As of December 31, 2007, the number of issued and outstanding REIT A Units is 17,072,154. Based on the closing price of the REIT A Units on December 31, 2007, the Trust may purchase up to \$45,854 worth of REIT A Units. To date the Trust has not made any purchases pursuant to this bid.

## Note 14

**JOINT VENTURES AND CO-OWNERSHIPS**

The Trust participates in incorporated and unincorporated joint ventures, partnerships and co-ownerships (the “joint ventures”) with other parties and accounts for its interests using the proportionate consolidation method. The following amounts represent the total assets and liabilities of rental property joint ventures in which the Trust participates and its proportionate share of the assets, liabilities, revenues, expenses and cash flows therein.

December 31	Total		Proportionate share	
	2007	2006	2007	2006
Assets	\$ 319,291	\$ 350,555	\$ 160,252	\$ 185,230
Liabilities	233,596	255,571	116,954	130,257
<hr/>				
			Proportionate share	
For the years ended December 31			2007	2006
Revenues			\$ 31,816	\$ 29,927
Expenses			29,522	25,880
			\$ 2,294	\$ 4,047
<hr/>				
For the years ended December 31			2007	2006
Cash flow generated from (utilized in):				
Operating activities			\$ 4,422	\$ 7,944
Financing activities			16,014	5,466
Investing activities			(21,007)	(15,231)
<b>Decrease in cash and cash equivalents</b>			\$ (571)	\$ (1,821)

The Trust is contingently liable for the obligations of the other owners of the unincorporated joint ventures at December 31, 2007, in the aggregate amount of \$113,092 (December 31, 2006 — \$122,001). In each case, however, the co-owners’ share of assets is available to satisfy these obligations.

## Note 15

**INTEREST**

Interest incurred and charged to earnings is recorded as follows:

For the years ended December 31	2007	2006
Interest expense incurred, at stated rate of debt	\$ 38,120	\$ 33,313
Amortization of deferred financing costs	693	1,450
Amortization of fair value adjustments on acquired debt	(968)	(643)
Interest capitalized	(23)	(88)
<b>Interest expense</b>	\$ 37,822	\$ 34,032

Certain debt assumed in connection with acquisitions has been adjusted to fair value using the estimated market interest rate at the time of the acquisition (“fair value adjustment”). This fair value adjustment is amortized to interest expense over the remaining life of the debt using the effective interest rate method. Interest capitalized includes interest on specified and general debt attributed to a recently acquired property considered to be under redevelopment and land under development.

## Note 16

### INCOME TAXES

Dundee REIT is taxed as a mutual fund trust for Canadian income tax purposes. The Trust is required by its Declaration of Trust to distribute all of its taxable income to its unitholders, which currently enables the Trust to deduct such distributions for income tax purposes. Canadian and U.S.-based incorporated subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. Accordingly, prior to June 12, 2007, the only provision for income taxes recorded in the consolidated financial statements was to reflect the future tax obligations of these incorporated subsidiaries and comprise the amounts resulting from the differences in tax and book values relating to the underlying rental properties.

On June 12, 2007, amendments to the *Income Tax Act* were substantively enacted and subsequently received Royal Assent on June 22, 2007, which modify the tax treatment of certain publicly traded trusts and partnerships that are SIFTs. Under the SIFT Rules, certain distributions by a SIFT entity relating to income from a business carried on in Canada by the SIFT and income, other than taxable dividends, or capital gains from non-portfolio properties (as defined in the *Income Tax Act*) will not be deductible for tax purposes and accordingly will be taxed in the SIFT entity at a rate that is generally comparable to the combined provincial/federal corporate income tax rate for ordinary business income. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be treated as a taxable dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. For Canadian resident beneficiaries or partners, such dividend will be taxed as an eligible dividend and will be subject to the applicable gross-up and dividend tax credit rules. Pursuant to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006, if the "SIFT trust" and "SIFT partnership" definitions in the *Income Tax Act* had been in force as of that date.

Certain real estate investment trusts that satisfy certain specified conditions (the "REIT Exception") are excluded from the SIFT definition and therefore will not be subject to the SIFT Rules. In order to qualify for the REIT Exception in respect of a taxation year, the REIT (i) must not at any time in that taxation year hold non-portfolio property other than "qualified REIT properties" (as defined in the *Income Tax Act*); (ii) must derive at least 95% of the REIT's revenues for that taxation year from rent generated by real or immovable properties, interest, capital gains from dispositions of real or immovable properties, dividends and royalties; (iii) must derive at least 75% of the REIT's revenues for that taxation year from rent, interest, mortgages or hypothecs on, and capital gains from the disposition of, real or immovable properties situated in Canada; and (iv) must, throughout the taxation year, hold real or immovable properties situated in Canada, cash and certain government-guaranteed debt with a total fair market value that is not less than 75% of the REIT's equity value.

As the Trust did not meet the technical REIT Exception as at June 12, 2007, a future income tax liability in the amount of \$40,000 was recorded as at June 30, 2007, based on the temporary differences that were expected to reverse on or after January 1, 2011. The future income tax liability was recorded as a charge to the consolidated statement of net income and comprehensive income for the period ended June 30, 2007. During the quarter ended September 30, 2007, a future income tax liability in the amount of \$25,000 relating to assets sold during the quarter was reversed and recorded as a component of discontinued operations. During the quarter ended December 31, 2007, as a result of modifying the organizational structure of Dundee REIT, the Trust has met the REIT Exception as at December 31, 2007, and anticipates that it will continue to meet the REIT Exception in the future, and accordingly the remaining \$15,000 of the future income tax liability was reversed and recorded as a recovery through the consolidated statement of net income and comprehensive income.

As the Trust has met the REIT Exception, and the Trust is not currently taxable, no current income taxes, other than those related to Canadian and U.S. subsidiaries, have been recorded for the year ended December 31, 2007.

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

Canadian and U.S.-based incorporated subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. A future income tax liability as at December 31, 2007, of \$2,746 (December 31, 2006 — \$3,950) has been recorded to reflect the future tax obligations of these subsidiaries and comprises amounts resulting from the differences in tax and book values relating to the underlying rental properties. The reported carrying amount of Dundee REIT's net assets, excluding those in incorporated subsidiaries at December 31, 2007, exceeds the corresponding tax cost by approximately \$24,000 (December 31, 2006 — \$154,000).

A reconciliation of income tax expense for the period:

For the years ended December 31	2007	2006
Income (loss) before income taxes	\$ 10,116	\$ (16,664)
Income before income taxes from discontinued operations	751,693	31,261
	<b>761,809</b>	<b>14,597</b>
Less: income allocable to unitholders	(760,500)	(13,141)
Income subject to Canadian tax in consolidated entity	1,309	1,456
Tax thereon at 31.62% current statutory rate (2006 — 32.50%)	414	473
Foreign current and future tax expense (recovery) in respect of foreign entities	(923)	2,104
Other	16	(201)
	<b>(493)</b>	<b>2,376</b>
Less: total income tax expense from discontinued operations	300	—
<b>Total income tax provision (recovery) from continuing operations</b>	<b>\$ (793)</b>	<b>\$ 2,376</b>

## Note 17

### INCOME (LOSS) PER UNIT

The weighted average number of units outstanding was as follows:

For the years ended December 31	2007	2006
REIT A Units and REIT B Units	31,794,371	25,764,527
LP B Units	6,276,491	5,864,880
Vested deferred trust units	147,565	53,185
Total weighted average number of units outstanding for basic income per unit amounts	<b>38,218,427</b>	<b>31,682,592</b>
Add incremental units:		
Unvested deferred trust units	—	26,896
Income deferred trust units	17,366	26,243
<b>Total weighted average number of units outstanding for diluted income per unit amounts</b>	<b>38,235,793</b>	<b>31,735,731</b>

The 2,763,894 incremental LP B Units for the period January 1, 2006, to April 30, 2006, have been excluded from the calculation of diluted net income per unit as they were anti-dilutive.

The 1,554,745 incremental REIT A Units to be issued upon an assumed conversion of both debenture issues at December 31, 2007 (December 31, 2006 — 5,505,054 incremental REIT A Units) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

## Note 18

### EMPLOYEE FUTURE BENEFITS

The Trust has an optional defined contribution pension plan available to all full-time employees who have been employed by the Trust for one year. The pension plan covers employees of the Trust, Dundee Realty Management Corp., DRC and any other entity as appointed by the sponsor of the plan. The plan is sponsored by Dundee Realty Management Corp., a wholly owned subsidiary of DMLP. For 2007, the total cost recognized and cash payments for employee future benefits, consisting of cash contributed to the defined contribution plan, was \$175 (2006 — \$191).

## Note 19

**SEGMENTED INFORMATION**

The Trust's rental properties have been segmented into office and industrial components. 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.

In June 2006, the Trust sold Kameyosek Shopping Centre in Edmonton and a 50% interest in Greenbriar Mall in Atlanta. As a result, the Trust no longer actively operates in the retail segment and has classified these operations as "Other". Also, because the Trust's remaining interest in Greenbriar Mall is not significant, the Trust does not disclose segments by country as virtually all of its operations are conducted in Canada. Discontinued operations are not allocated to individual segments.

For the year ended December 31, 2007	Office	Industrial	Segment total	Other	Total
<b>Operations</b>					
Revenues	\$ 134,081	\$ 16,968	\$ 151,049	\$ 4,112	\$ 155,161
Operating expenses	48,486	4,884	53,370	2,233	55,603
Net operating income	85,595	12,084	97,679	1,879	99,558
Depreciation of rental properties	19,846	2,977	22,823	538	23,361
Amortization of deferred leasing costs, tenant improvements and intangibles	21,283	1,898	23,181	165	23,346
<b>Segment income</b>	<b>\$ 44,466</b>	<b>\$ 7,209</b>	<b>\$ 51,675</b>	<b>\$ 1,176</b>	<b>52,851</b>
Interest expense					(37,822)
General and administrative expenses					(7,600)
Internalization of property manager					(1,230)
Gain on disposition of land					2,328
Provision for impairment of rental property previously recorded as held for sale					(1,352)
Interest and fee income					2,941
Income taxes					793
Discontinued operations					751,393
<b>Net income</b>					<b>\$ 762,302</b>
<b>Segment rental properties</b>	<b>\$ 879,218</b>	<b>\$ 105,125</b>	<b>\$ 984,343</b>	<b>\$ 19,855</b>	<b>\$ 1,004,198</b>
<b>Capital expenditures</b>					
Investment in rental properties	\$ (7,284)	\$ (2,152)	\$ (9,436)	\$ (1,859)	\$ (11,295)
Investment in tenant improvements	(3,500)	(2,751)	(6,251)	(173)	(6,424)
Investment in land development	—	—	—	(3,111)	(3,111)
Acquisition of rental properties and land	(377,664)	(182,294)	(559,958)	(366)	(560,324)
Deferred leasing costs	(3,222)	(1,484)	(4,706)	(922)	(5,628)
<b>Total capital expenditures</b>	<b>\$ (391,670)</b>	<b>\$ (188,681)</b>	<b>\$ (580,351)</b>	<b>\$ (6,431)</b>	<b>\$ (586,782)</b>

For the year ended December 31, 2006	Office	Industrial	Segment total	Other	Total
<b>Operations</b>					
Revenues	\$ 80,099	\$ 15,788	\$ 95,887	\$ 6,502	\$ 102,389
Operating expenses	30,400	5,271	35,671	3,307	38,978
Net operating income	49,699	10,517	60,216	3,195	63,411
Depreciation of rental properties	12,673	2,834	15,507	1,060	16,567
Amortization of deferred leasing costs, tenant improvements and intangibles	10,097	2,041	12,138	259	12,397
<b>Segment income</b>	<b>\$ 26,929</b>	<b>\$ 5,642</b>	<b>\$ 32,571</b>	<b>\$ 1,876</b>	<b>34,447</b>
Interest expense					(34,032)
General and administrative expenses					(6,812)
Internalization of property manager					(13,678)
Loss on disposition of rental property					(220)
Interest and fee income					3,631
Income taxes					(2,376)
Income attributable to non-controlling interest					(1,003)
Discontinued operations					31,261
<b>Net income</b>					<b>\$ 11,218</b>
<b>Segment rental properties</b>	<b>\$ 1,381,034</b>	<b>\$ 404,157</b>	<b>\$ 1,785,191</b>	<b>\$ 31,620</b>	<b>\$ 1,816,811</b>
<b>Capital expenditures</b>					
Investment in rental properties	\$ (5,128)	\$ (3,968)	\$ (9,096)	\$ (77)	\$ (9,173)
Investment in tenant improvements	(5,552)	(1,833)	(7,385)	(282)	(7,667)
Investment in land development	—	—	—	(2,103)	(2,103)
Acquisition of rental properties and land	(408,878)	(37,892)	(446,770)	(37,897)	(484,667)
Deferred leasing costs	(4,396)	(1,683)	(6,079)	(18)	(6,097)
<b>Total capital expenditures</b>	<b>\$ (423,954)</b>	<b>\$ (45,376)</b>	<b>\$ (469,330)</b>	<b>\$ (40,377)</b>	<b>\$ (509,707)</b>

## Note 20

### 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 May 1, 2006, Dundee REIT, DPLP, DMLP and DRC were parties to a property management agreement and an administrative services agreement (the "Management Agreement" and the "Services Agreement"). In addition, DMLP and DRC are parties to a separate administrative services agreement. Effective May 1, 2006, the Trust acquired DRC's 50% interest in DMLP (see Note 24). As a result, DRC is no longer party to the Management Agreement, other than its rent supplement obligation, and the Services Agreement.

### Asset Management Agreement

Effective August 24, 2007, Dundee REIT entered into an asset management agreement with DRC pursuant to which DRC provides certain asset management services to Dundee REIT and its subsidiaries (the "Asset Management Agreement"). The Asset Management Agreement provides for a broad range of asset management services for the following fees:

- base annual management fee calculated and payable on a monthly basis, equal to 0.25% of the gross asset value of properties.
- incentive fee equal to 15% of Dundee REIT's adjusted funds from operations per unit in excess of \$2.65 per unit.
- capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of \$1,000, excluding work done on behalf of tenants or any maintenance capital expenditures.
- acquisition fee equal to: (i) 1.0% of the purchase price of a property, on the first \$100,000 of properties in each fiscal year; (ii) 0.75% of the purchase price of a property on the next \$100,000 of properties acquired in each fiscal year; and (iii) 0.50% of the purchase price on properties in excess of \$200,000 in each fiscal year.
- financing fee equal to 0.25% of the debt and equity of all financing transactions completed on behalf of Dundee REIT to a maximum of actual expenses incurred by DRC in supplying services relating to financing transactions.

The Trust received total fees of \$2,279 from DRC for the year ended December 31, 2007. These fees relate to the rent supplement received under the Management Agreement and fees under the Services Agreement. In the prior year, the Trust received total fees from DRC of \$2,767 for the year. These fees relate to the rent supplement received under the Management Agreement and rental income and cost recoveries under the Services Agreement.

Pursuant to the Asset Management Agreement, the Trust paid to DRC total fees of \$2,122 for the year ended December 31, 2007. In the prior year, the Trust paid to DRC total fees of \$1,912 representing fees payable under the Management Agreement and Services Agreement prior to May 1, 2006, when the Trust purchased the remaining 50% of DMLP it did not already own.

Included in amounts receivable at December 31, 2007, is \$15 related to the DRC Services Agreement (December 31, 2006 — \$231). Accrued liabilities and other payables at December 31, 2007, include \$363 for amounts related to the Asset Management Agreement (December 31, 2006 — \$nil) and \$751 for other amounts collected on behalf of DRC (December 31, 2006 — \$316).

Included in prepaid expenses and other assets, the Trust has two promissory notes from DRC totalling \$11,963, including \$0.2 million of accrued interest, that bears interest at 10.9% compounded monthly. The principal outstanding may be repaid at any time in whole or in part without penalty or bonus. DRC has assigned second and third mortgages (see Note 8) to the Trust as security for the promissory notes.

## Note 21

### DISCONTINUED OPERATIONS

The fulfillment of obligations and realization of assets related to the properties noted below have been reclassified as discontinued operations to comply with the disclosure requirements of the CICA Handbook Section 3475. The results of operations of any property that has been sold and identified as discontinued operations are reported separately and comparative amounts are also reclassified as discontinued operations. Properties that are classified as held for sale are recorded at the lower of carrying amount or fair value less estimated costs to sell and are not depreciated while classified as held for sale. The results of these operations are identified separately as discontinued operations and comparative amounts are also reclassified.

On August 24, 2007, the Trust completed the sale of the Eastern Portfolio to GE for gross proceeds of \$2,256,700 less estimated working capital adjustments net of capital expenditure adjustments of \$3,288. Net proceeds include cash consideration of \$1,483,622, which includes \$9,468 of adjustments relating to the sale, and the assumption of liabilities of \$771,116 by GE relating to this portfolio. The total disposition includes \$1,550,017 of assets and \$808,070 of liabilities. The Trust recognized a gain on sale of \$721,867 that includes transaction costs of \$18,481. Included in transaction costs is \$4,280 relating to the accelerated vesting of 194,933 deferred trust units and 28,047 income deferred trust units; \$2,135 relating to the purchase and cancellation by the Trust of 99,156 deferred trust units and 16,468 income deferred trust units from trustees, senior officers and employees transferred to DRC who had elected such purchases, the value of which represents the difference between \$47.50 per unit and the grant date unit values; and \$ 3,931 related to the special award of 92,000 deferred trust units in connection with the Transaction.

The Transaction was undertaken to provide unitholders an attractive redemption price, based on the proceeds of the disposition of the Eastern Portfolio, while keeping a portfolio of office and industrial properties located primarily in Western Canada. The new structure will allow the Trust to be a more growth-oriented and opportunistic real estate investment trust.

The assets comprising the Eastern Portfolio were previously included in the office and industrial segments in the segmented information. The following table presents the assets and liabilities sold pursuant to the Transaction.

<b>Assets</b>	
Rental properties	\$ 1,383,546
Deferred costs	47,032
Land	27,561
Amounts receivable	12,289
Prepaid expenses and other assets	8,291
Cash and cash equivalents	5
Intangible assets	71,293
	\$ 1,550,017
<b>Liabilities</b>	
Debt	\$ 775,145
Amounts payable and accrued liabilities	19,454
Intangible liabilities	13,471
	\$ 808,070

Related to the Transaction, on August 31, 2007, the Trust completed the sale of 3901 rue Jarry, Montréal, to its tenant, which exercised its first right to purchase the property. The Trust completed the sale for proceeds of \$8,000 and recognized a gain of \$4,653.

During the third quarter, the Trust had classified its remaining 50% interest in Greenbriar Mall located in Atlanta as held for sale as the finalization of its sale to GE was only pending consent of the property's mortgage lender, which the Trust expected to receive in the fourth quarter of 2007. The Trust had recorded the property at the lower of carrying value and fair value, less the estimated cost to sell and recognized an impairment loss of \$1,352. The Trust had also decreased the carrying value of the property by an additional \$6,298 relating to the cumulative foreign currency translation loss that was expected to be realized on the anticipated sale and realized reduction in the net investment in the foreign operation. As of December 31, 2007, it was determined that the sale of Greenbriar Mall to GE would not be completed as management did not believe that the required consent of the property's mortgage lender would be obtained. The extension period to complete the sale expired as of January 15, 2008. As the property is not being actively marketed, it has been reclassified as held and in use. As a result, the \$6,298 write-down relating to the cumulative foreign currency translation has been reversed.

Effective November 1, 2007, the Trust sold its 60% interest in two joint venture projects to its former joint venture partner for total consideration of \$16,770, in which all outstanding mezzanine loans were repaid and related agreements terminated. The Trust recognized a gain on sale of \$2,553. Consideration for the sale included second and third mortgages totalling \$11,747 secured by the lands owned by the purchaser.

On October 31, 2007, the Trust completed the sale of 2705-2737 57th Ave SE, a 20,711 square foot industrial property in Calgary, Alberta. The Trust received proceeds of \$8,200 and recognized a gain on sale of \$2,423.

On June 29, 2006, the Trust completed the sale of Kameyosek Shopping Centre, a 46,143 square foot retail property. The Trust received proceeds of \$8,375 and recognized a gain on sale of \$3,274.

The following table summarizes the income from discontinued operations:

For the years ended December 31	2007	2006
<b>Revenues</b>		
Rental properties revenue	\$ 147,578	\$ 185,581
Interest and fee income	3	15
	<b>147,581</b>	<b>185,596</b>
<b>Expenses</b>		
Rental properties operating expenses	65,240	83,086
Interest	24,917	32,020
Depreciation of rental properties	19,623	23,341
Amortization of deferred leasing costs, tenant improvements and intangibles	17,596	18,244
	<b>127,376</b>	<b>156,691</b>
Income before the undernoted items	20,205	28,905
Gain on disposition of rental properties, net	731,488	3,229
Current income taxes expense	300	—
Income from discontinued operations before non-controlling interest	751,393	32,134
Income attributable to non-controlling interest	—	(873)
<b>Income from discontinued operations</b>	<b>\$ 751,393</b>	<b>\$ 31,261</b>

## Note 22

### 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.

Dundee REIT's future minimum commitments under operating and capital leases are as follows:

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

### Purchase and other obligations

The Trust has entered into lease agreements that require tenant improvement costs of \$878.

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.

The Trust has entered a fixed price utility contract with respect to four office properties in Calgary. The contract is for a period of two years and locks the Trust in for total minimum payments of \$1,635.

The Trust has entered into an agreement to purchase from a former joint venture partner an office building, currently under construction, at a future date for \$20,788, with maximum adjustments to the closing price of \$500. The closing date will be determined when the vendor notifies the Trust that the building is substantially complete, at which time, the Trust is permitted 20 days for due diligence.

## Note 23

## SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31	2007	2006
Increase in accounts receivable	\$ (689)	\$ (2,511)
Decrease in deferred costs (other than leasing costs)	224	1,249
Increase in prepaid expenses and other assets (excluding restricted cash and mezzanine loans)	(3,764)	(2,052)
Increase (decrease) in accounts payable and accrued liabilities (excluding leasing costs)	(5,902)	7,769
Increase (decrease) in accounts payable relating to leasing costs	30	(1,046)
<b>Change in non-cash working capital</b>	<b>\$ (10,101)</b>	<b>\$ 3,409</b>

The following amounts were paid on account of interest and income taxes:

For the years ended December 31	2007	2006
Interest	\$ 38,265	\$ 32,957
Income taxes	38	175

## Note 24

## INTERNALIZATION OF PROPERTY MANAGER

On May 12, 2006, through DPLP, the Trust acquired DRC's 50% interest in DMLP, the entity that provides property management and real estate advisory services to the Trust. The transaction was effective May 1, 2006, and increased the Trust's ownership of DMLP to 100%.

On closing, 450,000 LP B Units were issued for total consideration of \$12,393, of which \$417 was allocated to the net tangible assets acquired of DMLP and \$12,154, including \$178 of transaction costs, was expensed. The \$27.54 issue price per LP B Unit was estimated based on a five-day weighted average trading price of the REIT A Units on the Toronto Stock Exchange with the midpoint being May 4, 2006, the date the substantive terms of the internalization were publicly announced, net of an implied discount for issuance costs.

Also on closing, 92,000 LP B Units were issued, placed in trust and enrolled in the DRIP to satisfy the maximum number of units that DRC would be entitled to receive on June 30, 2007. The cost of these units was expensed and added to cumulative capital as qualifying properties were acquired. In the first quarter of 2007, DPLP acquired \$214,432 (year ended December 31, 2006 — \$340,568) of qualifying properties and accordingly \$1,230 (year ended December 31, 2006 — \$1,524) was expensed and added to cumulative capital representing the cost of the additional 44,674 LP B Units (year ended December 31, 2006 — 55,326 LP B Units) that DRC was entitled to receive on June 30, 2007. As of March 31, 2007, DRC had earned the maximum cumulative additional 100,000 LP B Units that it was entitled to receive, and subsequently these units were released from trust on June 30, 2007, to DRC.

## Note 25

### RISK MANAGEMENT

The Trust has some exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt at December 31, 2007, was 2.4% of the Trust's total debt (December 31, 2006 — 2.2%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, manage maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

Due to fluctuations in the exchange rate between the Canadian and U.S. dollars, the Trust is exposed to foreign exchange risk relating to its self-sustaining U.S. operations. The impact of foreign exchange fluctuations is deferred as a separate component of equity until there is a realized reduction in the net investment in the foreign operation.

The Trust currently does not employ hedging activities to manage its financial risks.

The Trust's assets consist of office and industrial rental properties. Credit risk arises from the possibility that tenants in rental properties may not fulfill their lease or contractual obligations. Further risks arise in the event that borrowers default on the repayment of their loans to the Trust. The Trust mitigates its credit risks by attracting tenants of sound financial standing, diversifying its mix of tenants and ensuring that adequate security has been provided in support of loans.

As an owner of real property, the Trust is 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 the Trust's 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 the Trust.

## Note 26

### DISPOSITION OF REVENUE PROPERTY

On June 2, 2006, the Trust completed the sale of a 50% interest in Greenbriar Mall located in Atlanta for net proceeds of \$16,681 and recorded a \$220 loss on the sale. As a result of the disposition, the Trust released a \$3,686 cumulative foreign currency loss from its foreign currency translation adjustment, which was recognized as part of the loss on disposal. The disposition of Greenbriar Mall has not been presented as a discontinued operation as the Trust still has a significant continuing involvement in its operations.

## Note 27

### SUBSEQUENT EVENTS

Effective January 31, 2008, the Trust completed the purchase of the AIR MILES Tower, a 322,450 square foot office building located at 438 University Avenue in downtown Toronto, for a purchase price of approximately \$92,362.

Effective January 14, 2008, the Trust completed a public offering of \$125,000 principal amount of convertible unsecured subordinated debentures with a coupon rate of 6% per annum payable semi-annually on June 30 and December 31, commencing on June 30, 2008, and due on December 31, 2014. A portion of the principal relating to the conversion feature will be classified as a component of unitholders' equity.