



DUNDEE REAL ESTATE INVESTMENT TRUST

**FINANCIAL STATEMENTS
DECEMBER 31, 2004**

February 10, 2005

AUDITORS' REPORT

To The Trustees Of Dundee Real Estate Investment Trust

We have audited the consolidated balance sheets of Dundee Real Estate Investment Trust as at December 31, 2004 and 2003 and the consolidated statements of net income, unitholders' equity and cash flows for the year ended December 31, 2004 and the six months ended December 31, 2003. These financial statements are the responsibility of Dundee Real Estate Investment 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 Dundee Real Estate Investment Trust as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the year ended December 31, 2004 and the six months ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario

**DUNDEE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS**

(in thousands of dollars)	Note	December 31, 2004	December 31, 2003 (Restated, see Note 2)
ASSETS			
Rental properties	4	\$ 1,057,231	\$ 915,050
Deferred costs	5	50,346	38,177
Amounts receivable	6	9,276	7,268
Prepaid expenses and other assets	7	32,927	32,706
Cash and cash equivalents		17,331	3,976
Intangible assets	8	30,297	-
Discontinued operations' assets	21	2,384	-
		\$ 1,199,792	\$ 997,177
LIABILITIES			
Debt	9	\$ 693,155	\$ 579,168
Amounts payable and accrued liabilities	10	24,628	20,717
Distributions payable	11	4,597	3,600
Future income tax liability	15	5,359	7,737
Intangible liabilities	8	3,239	-
Discontinued operations' liabilities	21	2,013	-
		732,991	611,222
NON-CONTROLLING INTEREST	12	148,256	144,874
EQUITY			
Unitholders' Equity	12	318,545	241,081
		\$ 1,199,792	\$ 997,177

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

(Signed) Ned Goodman
Trustee

(Signed) Michael J. Cooper
Trustee

See accompanying notes to the consolidated and combined financial statements

**DUNDEE REAL ESTATE INVESTMENT TRUST
AND COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION
STATEMENTS OF NET INCOME**

(in thousands of dollars, except per unit amounts)	Note	2004	2003	
		Dundee REIT Consolidated	Dundee REIT Consolidated	Division of DRC Combined
		For the Year Ended December 31	July 1 to December 31	January 1 to June 30
			Restated, see Note 2	
RENTAL PROPERTIES				
Revenues		\$ 187,180	\$ 73,447	\$ 69,788
Operating expenses		85,307	35,102	36,080
NET OPERATING INCOME		101,873	38,345	33,708
OTHER EXPENSES				
Interest	14	43,267	17,317	16,689
Depreciation of rental properties		25,546	4,535	4,142
Amortization of deferred leasing costs and intangibles		12,562	2,803	2,535
General and administrative		5,201	2,109	3,339
		86,576	26,764	26,705
OTHER INCOME				
Interest and fee income, net		2,232	676	659
INCOME BEFORE GAIN (LOSS) ON DISPOSAL OF RENTAL PROPERTIES AND DILUTION GAIN				
		17,529	12,257	7,662
Gain (loss) on disposal of rental properties		155	(289)	-
Dilution gain	12	1,731	-	-
INCOME BEFORE INCOME AND LARGE CORPORATIONS TAXES		19,415	11,968	7,662
INCOME TAXES				
Current income and large corporations taxes	15	113	50	1,885
Future income taxes		(2,013)	32	1,675
		(1,900)	82	3,560
INCOME BEFORE NON-CONTROLLING INTEREST AND DISCONTINUED OPERATIONS		21,315	11,886	4,102
INCOME ATTRIBUTABLE TO NON- CONTROLLING INTEREST		6,337	4,873	-
INCOME BEFORE DISCONTINUED OPERATIONS		14,978	7,013	4,102
DISCONTINUED OPERATIONS	21	(10,625)	169	11
NET INCOME		\$ 4,353	\$ 7,182	\$ 4,113
BASIC INCOME (LOSS) PER UNIT				
Continuing operations	16	\$ 0.93	\$ 0.69	
Discontinued operations		(0.66)	0.02	
NET INCOME		\$ 0.27	\$ 0.71	
DILUTED INCOME (LOSS) PER UNIT				
Continuing operations	16	\$ 0.83	\$ 0.69	
Discontinued operations		(0.65)	0.02	
NET INCOME		\$ 0.18	\$ 0.71	

See accompanying notes to the consolidated and combined financial statements

**DUNDEE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY**

(in thousands of dollars) (Restated, see Note 2)	Number of Units	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Cumulative Foreign Currency Translation Adjustment	Total
UNITHOLDERS' EQUITY, JULY 1, 2003	9,370,192	\$ 193,081	\$ -	\$ -	\$ (995)	\$ 192,086
Net income	-	-	7,182	-	-	7,182
Distributions paid	-	-	-	(9,142)	-	(9,142)
Distributions payable	-	-	-	(2,228)	-	(2,228)
Public offering of units	12 2,600,000	56,420	-	-	-	56,420
Distribution Reinvestment Plan	12 53,661	1,190	-	-	-	1,190
Unit Purchase Plan	12 70,364	1,536	-	-	-	1,536
Deferred Unit Incentive Plan	12 -	113	-	-	-	113
Issue costs	12 -	(5,193)	-	-	-	(5,193)
Change in foreign currency translation adjustment	-	-	-	-	(883)	(883)
UNITHOLDERS' EQUITY, DECEMBER 31, 2003	12,094,217	247,147	7,182	(11,370)	(1,878)	241,081
Net income	-	-	4,353	-	-	4,353
Distributions paid	11 -	-	-	(32,990)	-	(32,990)
Distributions payable	11 -	-	-	(3,089)	-	(3,089)
Public offering of units	12 4,537,000	110,022	-	-	-	110,022
Distribution Reinvestment Plan	12 175,009	4,214	-	-	-	4,214
Unit Purchase Plan	12 7,027	169	-	-	-	169
Deferred Unit Incentive Plan	12 8,189	886	-	-	-	886
Redemption of Units	(1,479)	(30)	-	-	-	(30)
Issue costs	12 -	(5,423)	-	-	-	(5,423)
Equity component of convertible debenture	9 -	600	-	-	-	600
Change in foreign currency translation adjustment	-	-	-	-	(1,248)	(1,248)
UNITHOLDERS' EQUITY, DECEMBER 31, 2004	16,819,963	\$ 357,585	\$ 11,535	\$ (47,449)	\$ (3,126)	\$ 318,545

**COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION
COMBINED STATEMENT OF DIVISIONAL EQUITY**

(in thousands of dollars)	For the Six Months Ended June 30, 2003
DIVISIONAL EQUITY, JANUARY 1, 2003	\$ 290,594
Net income	4,113
Change in foreign currency translation adjustment	(2,471)
Net funds transferred to Dundee Realty Corporation	(15,717)
DIVISIONAL EQUITY, JUNE 30, 2003	\$ 276,519

See accompanying notes to the consolidated and combined financial statements

**DUNDEE REAL ESTATE INVESTMENT TRUST
AND COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION
STATEMENTS OF CASH FLOWS**

(in thousands of dollars)	Note	2004	2003	Division of
		Dundee REIT Consolidated	Dundee REIT Consolidated	DRC Combined
		For the Year Ended December 31	July 1 to December 31	January 1 to June 30
			(Restated, see Note 2)	
GENERATED FROM (UTILIZED IN) OPERATING ACTIVITIES				
Net income		\$ 4,353	\$ 7,182	\$ 4,113
Non-cash items:				
Depreciation of rental properties		26,364	4,854	4,439
Amortization of deferred leasing costs and intangibles		12,833	3,095	2,897
Amortization of deferred financing costs		1,055	618	465
Amortization of marked-to-market adjustment on acquired debt		(1,438)	(181)	(155)
Net loss on disposal of rental properties, net		16,426	289	-
Deferred unit compensation expense	12	886	113	-
Future income taxes		(2,013)	32	1,675
Amortization of market rent adjustments on acquired leases		(130)	-	-
Straight-line rent adjustment		(4,264)	-	-
Dilution gain		(1,731)	-	-
Non-controlling interest		1,556	4,991	-
		53,897	20,993	13,434
Deferred leasing costs incurred		(14,347)	(5,509)	(4,280)
Change in non-cash working capital	23	3,770	4,761	428
		43,320	20,245	9,582
GENERATED FROM (UTILIZED IN) INVESTING ACTIVITIES				
Investment in rental properties		(7,063)	(2,856)	(4,309)
Acquisition of rental properties	3	(168,525)	(32,991)	(861)
Acquisition deposit on rental properties		14,300	(14,300)	-
Investment in mezzanine loan	7	(10,476)	-	-
Net proceeds from disposal of rental properties		52,647	367	-
Change in restricted cash, net		(351)	(9,581)	(106)
		(119,468)	(59,361)	(5,276)
GENERATED FROM (UTILIZED IN) FINANCING ACTIVITIES				
Mortgages placed	3	84,412	-	50,918
Mortgage principal repayments		(15,150)	(5,397)	(7,094)
Mortgage lump sum repayments		(56,538)	(12,439)	(32,411)
Term debt placed		60,770	-	-
Term debt principal repayments		(956)	(460)	(1,071)
Term debt lump sum repayments		(121,153)	-	-
Convertible debentures issued net of costs		71,410	-	-
Demand revolving credit facility, net		(7,026)	7,026	-
Demand non-revolving credit facility		-	6,619	-
Distributions paid on REIT Units, Series A	11	(31,003)	(7,952)	-
Units issued net of costs		104,737	54,113	-
Net funds transferred from the Division		-	-	(15,717)
		89,503	41,510	(5,375)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		13,355	2,394	(1,069)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		3,976	1,582	2,651
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 17,331	\$ 3,976	\$ 1,582

See accompanying notes to the consolidated and combined financial statements

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

These financial statements present the financial position of Dundee REIT at December 31, 2004 and December 31, 2003 and the results of its operations and cash flows for the year ended December 31, 2004, six months ended December 31, 2003 and the results of operations and cash flows of the Commercial Real Estate Division of Dundee Realty Corporation (the "Division") for the six months ended June 30, 2003. References herein to the "Trust" refer collectively to Dundee REIT as at, and for any period after June 30, 2003, and to the Division for periods prior to and including June 30, 2003.

These financial statements have been prepared in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants ("CICA"). Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

Dundee REIT

Dundee REIT is an open-ended investment trust created pursuant to a Declaration of Trust under the laws of the Province of Ontario dated May 9, 2003 as amended and restated (the "Declaration of Trust").

The consolidated balance sheet of Dundee REIT includes the accounts of Dundee REIT and its subsidiaries, together with Dundee REIT's proportionate share of the assets and liabilities of joint ventures in which it participates. Included in these accounts are the assets and liabilities acquired by Dundee Properties Limited Partnership ("DPLP") from Dundee Realty Corporation ("DRC") on June 30, 2003 (the "Transfer") comprising:

- a portfolio of office, industrial and retail rental properties together with their related assets and liabilities; and
- a 50% interest in a joint venture comprising the property management operations of DRC relating to revenue properties (Dundee Management Limited Partnership, or "DMLP").

As a result of completing the Arrangement noted below, DPLP is an indirect subsidiary of Dundee REIT.

As consideration for the Transfer of the Division, and pursuant to completion of the Plan of Arrangement of Dundee Realty Corporation dated June 30, 2003 (the "Arrangement"), a series of transactions ultimately resulted in Dundee REIT issuing REIT Units, Series A to certain public shareholders of DRC, and DPLP issuing LP Class B Units, Series 1 that are held directly and indirectly by DRC. As partial consideration for the Transfer, DPLP issued LP Notes, Series 1, LP Notes, Series 2, and LP Notes, Series 3 (collectively the "LP Notes"). Pursuant to the completion of the Arrangement, the LP Notes were transferred to Dundee REIT in consideration for the issuance by Dundee REIT of REIT Units, Series A. These LP Notes were then transferred to Dundee Properties Operating Trust A ("OTA"), whose sole unitholder is Dundee REIT, in consideration for OTA notes and additional OTA units, and OTA then transferred the LP Notes to DPLP in consideration for LP Class A Units. These transactions, combined, had no net effect on the consolidated balance sheet of Dundee REIT. The LP Class B Units, Series 1 are generally exchangeable on a one-for-one basis for REIT Units, Series B at the option of the holder. The LP Class B Units, Series 1 generally have economic and voting rights equivalent in all material respects to REIT Units, Series A. The REIT Units, Series A and REIT Units, Series B generally have economic and voting rights equivalent in all material respects to each other. In accordance with EIC-151 issued on January 19, 2005, the LP Class B Units, Series 1 are classified as non-controlling interest in the consolidated balance sheet of Dundee REIT. See Note 2 for discussion of non-controlling interest.

The assets and liabilities of the Division acquired in the Transfer have been measured under the continuity of interests accounting method at DRC's historical carrying amounts at June 30, 2003 as there was no substantive change in the ultimate ownership interests in the Division. As a result, the Divisional equity of the Division at June 30, 2003 became the opening Unitholders' equity of Dundee REIT subject to certain adjustments noted below. Because the continuity of interests method of accounting was used, the financial position, results of operations and cash flows of the Division have been presented as comparative information for Dundee REIT.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

The differences between the consolidated balance sheet of Dundee REIT at its commencement on June 30, 2003 and the combined balance sheet of the Division at June 30, 2003 comprised:

- The elimination of a majority of the future tax liability of the Division as at June 30, 2003.
- The future tax liability of Dundee REIT of \$8,000 at June 30, 2003 was with respect to Dundee REIT's corporate subsidiaries that remain taxable; and
- The issuance pursuant to the Arrangement of 15,000 REIT Units, Series A to DRC, in exchange for a demand promissory note of \$306 included in amounts receivable at June 30, 2003, and subsequently collected.

The following table reconciles the Divisional equity of the Division at June 30, 2003 to the opening Unitholders' equity of Dundee REIT on June 30, 2003:

	Divisional equity	Unitholders' equity	Cumulative foreign currency translation adjustment	Total
Divisional equity – June 30, 2003	\$ 277,084	\$ -	\$ (565)	\$ 276,519
Elimination of majority of the future income tax liability of the Division	58,065	-	(1,163)	56,902
Reclassification of Divisional equity to Non-controlling interest	(142,374)	-	733	(141,641)
Reclassification of Divisional equity to Unitholders' equity	(192,775)	192,775	-	-
Issuance of 15,000 REIT Units, Series A	-	306	-	306
Unitholders' equity – June 30, 2003	\$ -	\$ 193,081	\$ (995)	\$ 192,086

Commercial Real Estate Division

The Division is not a legal entity. It represents a combination of the portfolio of office, industrial and retail rental properties previously owned by DRC and 50% of the property management operations of DRC relating to rental properties, together with their related assets and liabilities, prior to the Transfer.

The combined financial statements of the Division present the financial position, results of operations and cash flows of the Division, had the Division been accounted for on a stand-alone basis, and include the Division's proportionate share of the assets, liabilities, revenues and expenses of joint ventures in which it participates.

The combined financial statements of the Division have been prepared in accordance with the accounting recommendations of the CICA. Management has extracted the information used to prepare these combined financial statements from the financial records of DRC and as such assets and liabilities have been measured using the historical carrying amounts of DRC. Divisional equity represents the excess of the Division's assets over the Division's liabilities.

All balances except for income tax, capital and large corporations taxes and general and administrative expenses were derived from records specific to the properties and entities that were subject to the Transfer. Capital and large corporations taxes were allocated to the Division based on the net book value of the properties acquired that are subject to such taxes relative to the total net book value of the properties of DRC that are subject to such taxes. Other income taxes were determined based on the operation of, and taxable temporary differences related to the net assets of the Division, as if it were a taxable entity. General and administrative expenses were allocated to the Division based on the net book value of the assets acquired relative to the total net book value of the assets of DRC.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of 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 financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

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 total of the cash rents received for the initial term of the lease for free rent tenant inducements are recorded on a straight-line basis over this period. Recoveries from tenants are recognized as revenues in the period in which the applicable costs are incurred. Percentage participation rents are recognized on an accrual basis once tenant sales revenues exceed contractual thresholds. The Trust provides an allowance for doubtful accounts against that portion of amounts receivable, which is estimated to be uncollectible. Such allowances are reviewed periodically based on the recovery experience of the Trust.

Effective January 1, 2004, the Trust adopted the straight-line method of rental revenue recognition whereby any contractual rent increases over the initial term of a lease are recognized in income evenly over that term. Previously, rental revenue was only recognized on a straight-line basis when contractual rent increases exceeded expected increases in the Consumer Price Index; otherwise, basic rents were accounted for as they became due. The difference between the amount recorded as revenue under the straight-line method and cash rents received is included in amounts receivable. This change in accounting policy has been applied prospectively and had the effect of increasing net income by \$4,264 for the year ended December 31, 2004.

Rental Properties

Rental properties are stated at historic cost less accumulated depreciation and impairment changes, if any. Rental properties under development include 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 revenue earned prior to the project being declared operational.

Effective January 1, 2004, the Trust adopted the straight-line method of depreciation for rental properties, initial leasing costs and major expansions and renovations. Previously, these assets were depreciated using the sinking fund method. Under this method, an amount, which increased at 5% per annum, was charged to income so as to fully depreciate these assets over their estimated useful lives. The estimated useful life of the properties continues to be between 30 and 40 years. This change in accounting policy has been applied prospectively and had the effect of increasing depreciation of these assets and reducing net income for the year ended December 31, 2004 by approximately \$12,000. Building improvements are depreciated on a straight-line basis over the life of the improvement. 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.

Purchase Price Allocation

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

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 the 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 tenant relationships is amortized on a straight-line basis over the expected term of the relationship, which includes an estimated probability of the lease renewal and the estimated 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 leased space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be expensed.

Impairment of Long-lived Assets

Effective January 1, 2004, Dundee REIT prospectively adopted the recommendations of CICA Handbook Section 3063, "Impairment of Long-lived Assets." This new standard requires a two-step process for determining when an impairment of rental properties and other long-lived assets should be recognized in the financial statements. If events or circumstances indicate that the carrying value of a completed rental property or a rental property under development may be impaired, a recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from property operations and its projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized. Prior to January 1, 2004, rental properties were stated at the lower of historic cost less accumulated depreciation and net recoverable amount. This change in accounting policy had no impact on adoption or in the current year.

Deferred Costs

Deferred costs may include:

- Deferred leasing costs, which include leasing fees and costs, leasehold improvements and tenant inducements, other than initial leasing costs and deferred leasing costs acquired. Deferred leasing costs are depreciated on a straight-line basis over the term of the applicable lease;
- Deferred recoverable operating expenses, which are amortized to operating expenses over the period during which they are recoverable from tenants;
- Deferred financing costs, which include debt issue fees and expenses that are 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.

Discontinued Operations

On May 1, 2003, the Trust prospectively adopted the requirements of new CICA Handbook Section 3475, "Disposal of Long-lived Assets and Discontinued Operations." This new standard requires the Trust to reclassify properties initiated as held for sale subsequent to May 1, 2003 and separately disclose any net income/loss and gain/loss on disposal for current and prior periods as discontinued operations. Properties held for disposition are carried at the lower of their carrying values or estimated fair values less costs to sell. In addition, assets held for sale are no longer depreciated. The impact of this new standard is described in Note 21.

This standard does not apply to dispositions where the commencement of the sale process was initiated prior to May 1, 2003 and, as such, did not apply to the February 2004 disposition of Centennial Mall.

Convertible Debentures

Upon issuance, convertible debentures are separated into debt and equity components. These components are measured based on their respective estimated fair values at the date of issuance. The fair value of the debt component was estimated based on the present value of future interest and principal payments due under the terms

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

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 units. The difference between the fair value of the debt and the face value is recognized as interest expense over the term to maturity of the debentures with corresponding accretion to the principal of the debt.

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 has been a realized reduction in the underlying investment.

Effective April 1, 2004, the Trust designated the U.S. dollar loan drawn under the demand non-revolving credit facility as a hedge of a portion of its net investment in foreign self-sustaining operations. Gains and losses on translation of the loan are deferred as a separate component of unitholders' equity offsetting translation gains and losses on the hedged portion of the net investment. Gains and losses are deferred until there has been a realized reduction in the net investment.

The Trust formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for applying hedge accounting. The Trust formally assesses the hedge relationship; both at the hedge's inception and on an ongoing basis to ensure the hedge is highly effective.

Foreign Currency Transactions

Monetary assets and liabilities to be settled in foreign currencies, which are not held in foreign self-sustaining operations, are translated into Canadian dollars using the period-end rate of exchange. Non-monetary assets, liabilities, revenues and expenses are translated at the rate in effect on the date of the transaction. Gains and losses are included in the statements of net income. No such gains or losses were recorded in either the year ended December 31, 2004, the six months ended December 31, 2003 or the six months ended June 30, 2003.

Income Taxes

Dundee REIT uses the liability method of accounting for future income taxes of its incorporated subsidiaries. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of these incorporated subsidiaries' 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, that 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.

The Division used 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 carrying amount of the Division's assets and liabilities and their carrying amounts for tax purposes. The provision for current income and large corporations taxes did not result in current taxes payable or receivable in the combined financial statements of the Division as such items were the obligation of, or the right of, legal entities not included in the Division. The benefits of tax losses were not reflected as a reduction of the future income tax liability recognized in the combined financial statements of the Division because they were the right of those legal entities not included in the Division. As such, current taxes payable or receivable and the benefit of losses, were included in Divisional equity as a component of the amount of funds transferred to or from DRC. Future income taxes were measured at the tax rates expected to apply in the future as temporary differences reverse. Changes to future income taxes related to changes in tax rates were recognized in income in the period when the tax rate change was substantively enacted.

Unit-based Compensation Plan

Dundee REIT has a Deferred Unit Incentive Plan, as described in Note 12, 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. 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 units on the date of grant. Deferred Trust Units that have vested but for which the corresponding REIT units have not been issued, and where the ultimate issuance of such REIT units is simply a matter of the passage of time, are considered to be outstanding units 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.

Non-controlling Interest

On January 19, 2005, the Emerging Issues Committee of the CICA issued an Abstract of Issues Discussed titled "Exchangeable Securities Issued by Subsidiaries of Income Trusts" ("EIC-151") 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 Class B Units, Series 1 are economically equivalent to distributions on the REIT Units, Series A. However, because the LP Class B Units, Series 1 contain no conditions requiring either the conversion to REIT Units or restricting their transferability to third parties, the LP Class B Units, Series 1 are presented as non-controlling interest in the financial statements. Previously, the LP Class B Units, Series 1 were reported as a component of unitholders' equity.

EIC-151 applies to all financial statements issued after January 19, 2005 and is required to be applied on a retroactive basis. As a result, the Trust has accounted for the investment of the net proceeds that it received from equity offerings in DPLP using the purchase method. In addition, the issuance of LP Class B Units, Series 1 under the Distribution Reinvestment Plan has resulted in a dilution of the Trust's ownership of DPLP. Adoption of EIC-151 had the effect in 2004 of recognizing non-controlling interest in the balance sheet of \$148,256, increasing rental properties by a net amount of \$3,854, increasing depreciation of rental properties by \$191, recognizing a dilution gain of \$1,731, income attributable to non-controlling interest in continuing operations of \$6,337 net of a loss of \$4,781 in discontinued operations. In 2003, the adoption resulted in recognizing non-controlling interest of \$144,874, and income attributable to non-controlling interest in continuing operations of \$4,873 and in discontinued operations of \$118 with no other significant effect on the balance sheet and statement of net income.

Future Change in Accounting Policies

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), which is effective for fiscal year 2005 and provides guidance for applying the principles in Section 1590, "Subsidiaries," to those entities defined as Variable Interest Entities ("VIEs"), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, 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. The Trust has evaluated its interests in joint ventures and co-ownerships and has determined that the Airport Corporate Centre West Joint Venture ("ACCW") is a VIE. However, the Trust has determined that it is not the Primary Beneficiary at December 31, 2004. The Trust will re-evaluate this determination as financing and business activities related to ACCW change. The Trust currently uses the proportionate consolidation method to account for its interest in ACCW.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

3. PROPERTY ACQUISITIONS

Year ended December 31, 2004

The Trust completed the following acquisitions, which contributed to operating results effective from the acquisition date unless otherwise noted:

- On February 19, 2004, the Trust completed the purchase of the Pauls Portfolio for a purchase price of \$169,470. This portfolio consists of approximately 1.5 million square feet of newly constructed office, industrial and flex space properties located in Toronto and Calgary.
- On January 1 and March 1, 2004, the Trust acquired the remaining 11.4% and 5% interests in 222-230 Queen Street, Ottawa, for a total purchase price of \$6,059, increasing its ownership percentage in the building to 100%.
- On May 5, 2004, the Trust completed the acquisition of a 50% interest in 720 Bay Street, Toronto, for a purchase price of \$26,043. The net cash outlay for this transaction was \$5,540. This property's operating results are included in these financial statements from April 1, 2004.
- On May 12, 2004, the Trust acquired the Geo-X Building in Calgary for a purchase price of \$6,561, paid entirely in cash.
- On June 21, 2004, the Trust acquired a 13-building portfolio of office properties in Montréal for a purchase price of \$64,550, paid entirely in cash.

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

	For the Year Ended December 31, 2004	For the Year Ended December 31, 2003
Rental properties		
Land	\$ 49,078	\$ 21,556
Buildings	183,621	86,226
	232,699	107,782
Deferred leasing costs		
Deferred leasing costs acquired	9,100	-
Intangible assets		
Value of in-place leases	13,060	-
Lease origination costs	4,311	-
Value of above market rent leases	3,358	-
Value of tenant relationships	14,346	-
	276,874	107,782
Intangible liabilities		
Value of below market rent leases	(3,877)	-
Other	(314)	-
Total purchase price	\$ 272,683	\$ 107,782
The consideration paid consists of:		
Cash		
Paid in period	\$ 154,225	\$ 32,991
Deposit (Note 7)	14,300	-
	168,525	32,991
Assumed mortgages at fair value	102,866	74,760
Assumed accounts payable and accrued liabilities	1,292	31
Total consideration	\$ 272,683	\$ 107,782

As at December 31, 2004, the allocations of the purchase prices to fair values of assets acquired and liabilities assumed have been finalized.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

Year ended December 31, 2003

- On November 27, 2003, the Trust completed the purchase of Palladium Campus for a purchase price of \$39,557. An existing first mortgage having a principal amount of \$31,231 was assumed on the acquisition.
- On December 3, 2003, the Trust completed the purchase of a 50% interest in Telus Tower for a purchase price of \$68,225. An existing first mortgage having a principal amount of \$43,529 was assumed on the acquisition.

4. RENTAL PROPERTIES

	December 31, 2004			December 31, 2003		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 195,693	\$ -	\$ 195,693	\$ 159,940	\$ -	\$ 159,940
Buildings and improvements	916,737	(56,279)	860,458	788,746	(35,316)	753,430
Equipment	5,264	(4,184)	1,080	5,724	(4,044)	1,680
TOTAL	\$1,117,694	\$ (60,463)	\$ 1,057,231	\$ 954,410	\$ (39,360)	\$ 915,050

5. DEFERRED COSTS

	December 31, 2004			December 31, 2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred leasing costs	\$ 52,032	\$ (16,835)	\$ 35,197	\$ 37,758	\$ (12,153)	\$ 25,605
Deferred recoverable costs	13,513	(5,426)	8,087	14,469	(5,038)	9,431
Deferred financing costs	8,779	(2,575)	6,204	4,002	(1,992)	2,010
Other deferred costs	1,579	(721)	858	1,836	(705)	1,131
TOTAL	\$ 75,903	\$ (25,557)	\$ 50,346	\$ 58,065	\$ (19,888)	\$ 38,177

Amortization of deferred recoverable costs included in operating expenses was \$1,969 (six months ended December 31, 2003 - \$1,186, six months ended June 30, 2003 - \$627).

6. AMOUNTS RECEIVABLE

Amounts receivable are net of credit adjustments of \$2,627 at December 31, 2004 (December 31, 2003 - \$1,546). Total U.S. dollar denominated amounts receivable and other assets relating to self-sustaining foreign operations as at December 31, 2004 are US\$430 (December 31, 2003 - US\$995). Amounts receivable include straight-line rents and deferred free rents receivable of \$6,248 as at December 31, 2004 (December 31, 2003 - \$2,134 relating only to deferred free rents receivable).

7. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2004	December 31, 2003
Prepaid expenses	\$ 4,961	\$ 5,711
Mezzanine loan	11,052	-
Vendor loan	3,465	-
Deposits	458	14,315
Restricted cash	12,991	12,680
TOTAL	\$ 32,927	\$ 32,706

During the year, the Trust provided a mezzanine loan in the amount of \$10,476 to the ACCW joint venture to finance certain development projects. The loan bears interest at 11% annually and is to be repaid on the earlier of February 19, 2014 or the date the development projects are sold. Interest is accrued monthly and payment is contingent on the cash flows generated by the development. To date, no interest has been received. The loan is subordinate to all third-party debt of the borrower.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

On December 13, 2004, the Trust disposed of its interest in Northgate Mall in Regina, Saskatchewan. A vendor loan in the amount of \$3,465 bearing interest at 9.5%, formed a portion of the proceeds and is to be repaid by December 14, 2006. Deposits at December 31, 2003 included a \$14,300 payment with respect to an agreement to acquire certain rental properties as described in Note 3. Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages and bank loans drawn on a line of credit.

8. INTANGIBLES

INTANGIBLE ASSETS	December 31, 2004			December 31, 2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Value of above market rent leases	\$ 3,358	\$ (508)	\$ 2,850	\$ -
Value of in-place leases	13,060	(2,609)	10,451	-
Lease origination costs	4,312	(550)	3,762	-
Value of tenant relationships	14,348	(1,114)	13,234	-
TOTAL	\$ 35,078	\$ (4,781)	\$ 30,297	\$ -

INTANGIBLE LIABILITIES	December 31, 2004			December 31, 2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Value of below market rent leases	\$ 3,877	\$ (638)	\$ 3,239	\$ -

9. DEBT

	December 31, 2004	December 31, 2003
Mortgages	\$ 591,304	\$ 480,858
Convertible debentures	74,430	-
Term debt	21,437	84,665
Demand revolving credit facility	-	7,026
Demand non-revolving credit facility	5,984	6,619
TOTAL	\$ 693,155	\$ 579,168

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

On June 21, 2004, the Trust issued \$75,000 of convertible unsecured subordinated debentures (the "Debentures"). The Debentures bear interest at 6.5% per annum, payable semi-annually and mature on June 30, 2014. Each Debenture is convertible at any time by the holder into 40 REIT Units, Series A per one thousand dollars of face value, representing a conversion price of \$25.00 per unit. The debentures may not be redeemed prior to June 30, 2008. On or after June 30, 2008, but prior to June 30, 2010, the Debentures may be redeemed in whole or in part at a price equal to the principal amount plus accrued and unpaid interest provided that the weighted average closing price of a REIT Unit, Series A on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth day preceding the date on which the notice of redemption is given, is not less than \$31.25. On or after June 30, 2010, the debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with recent amendments to Section 3860 of the CICA Handbook, which the Trust adopted early, the Debentures have been recorded on the balance sheet as debt of \$74,400 and equity of \$600. The discount and issue costs related to the offering are amortized to interest expense over ten years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

A demand revolving credit facility is available up to a formula-based maximum not to exceed \$55,000, bearing interest generally at the bank prime rate (4.25% as at December 31, 2004) plus 0.75% or bankers' acceptance rates. The facility is secured by a first ranking collateral mortgage on five of the Trust's properties and a second ranking collateral mortgage on two properties. As at December 31, 2004, the maximum amount available under such facility was \$54,651, of which \$2,076 (December 31, 2003 - \$2,925) was utilized in the form of letters of guarantee. As at December 31, 2004, the amount still available under this facility was \$52,575.

The demand non-revolving credit facility, a U.S. dollar term loan credit facility, is secured by a Canadian dollar deposit and amounts to US\$4,971 at December 31, 2004 (December 31, 2003 – US\$4,971). The facility bears interest at the bank's U.S. base rate plus 0.25% per annum, and is due on December 31, 2005 unless otherwise renewed or extended.

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

	Weighted Average Interest Rates as at			Debt Amount	
	December 31, 2004	December 31, 2003	Maturity Dates	December 31, 2004	December 31, 2003
FIXED RATE					
Mortgages	6.70%	6.93%	2005 to 2014	\$ 591,304	\$ 480,858
Term debt	6.59%	7.70%	2008	432	65,461
Convertible debenture	6.63%	-	2014	74,430	-
Total fixed rate	6.69%	7.02%		666,166	546,319
VARIABLE RATE					
Term debt	4.74%	5.51%	2007	21,005	19,204
Demand revolving credit facility	-	5.50%	-	-	7,026
Demand non-revolving credit facility	6.00%	4.75%	2005	5,984	6,619
Total variable rate	5.02%	5.35%		26,989	32,849
Total debt	6.62%	6.93%		\$ 693,155	\$ 579,168

Total variable rate term debt outstanding at December 31, 2004 bears interest generally at the rate of one month bankers' acceptance plus 2.15% (December 31, 2003 – plus 2.75%). At December 31, 2004, the rate of one month bankers' acceptance was 2.59% (December 31, 2003 – 2.76%).

The scheduled principal repayments and debt maturities are as follows:

Years ending December 31,	Mortgages	Term Debt	Convertible Debenture	Demand Non-revolving Credit Facility	Total
2005	\$ 26,105	\$ 475	\$ -	\$ 5,984	\$ 32,564
2006	65,247	490	-	-	65,737
2007	48,123	20,410	-	-	68,533
2008	89,534	62	-	-	89,596
2009	112,653	-	-	-	112,653
2010 and thereafter	249,642	-	74,430	-	324,072
	\$ 591,304	\$ 21,437	\$ 74,430	\$ 5,984	\$ 693,155

Mortgages payable includes a \$7,190 marked-to-market adjustment (December 31, 2003 - \$6,042) to reflect the fair value of the mortgage at the time the related property was acquired. The Debentures are net of a \$570 premium allocated to its conversion feature. The marked-to-market and premium are amortized to interest expense over the term to maturity of the related debt.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

The estimated fair value of debt is as follows:

	December 31, 2004	December 31, 2003
Mortgages	\$ 633,081	\$ 501,173
Convertible debentures	78,525	-
Term debt	21,481	85,894
Demand revolving credit facility	-	7,026
Demand non-revolving credit facility	5,984	6,619
TOTAL	\$ 739,071	\$ 600,712

Mortgages at December 31, 2004 include US\$19,988 (December 31, 2003 – US\$20,472) of debt secured by assets located in the United States relating to self-sustaining foreign operations.

10. AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2004	December 31, 2003
Trade payables	\$ 1,094	\$ 1,450
Accrued liabilities and other payables	13,583	10,682
Accrued interest	3,183	3,324
Deposits	4,908	3,565
Rent received in advance	1,860	1,696
TOTAL	\$ 24,628	\$ 20,717

Total U.S. dollar denominated amounts payable and accrued liabilities relating to self-sustaining foreign operations at December 31, 2004 are US\$598 (December 31, 2003 – US\$1,120).

11. DISTRIBUTIONS

The following table sets out distributions for the year ended December 31, 2004.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	\$ 31,003	\$ -	\$ 31,003
Paid by way of reinvestment in units	4,214	17,206	21,420
Less: Payable at December 31, 2003	(2,227)	(1,373)	(3,600)
Plus: Payable at December 31, 2004	3,089	1,508	4,597
TOTAL	\$ 36,079	\$ 17,341	\$ 53,420

The amount payable at December 31, 2004 was satisfied on January 15, 2005 by way of \$2,779 in cash and \$1,818 by way of 12,034 REIT Units, Series A and 58,407 LP Class B Units, Series 1. Included in the total distributions is the 4% bonus distribution in the amount of \$823 (December 31, 2003 - \$253) that forms part of the Distribution Reinvestment Plan.

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTEREST

	December 31, 2004		December 31, 2003	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	16,819,963	\$ 318,545	12,094,217	\$ 241,081
LP Class B Units, Series 1	7,924,084	148,256	7,211,431	144,874
TOTAL	24,744,047	\$ 466,801	19,305,648	\$ 385,955

Dundee REIT was originally established on May 9, 2003 when one initial REIT unit was issued for ten dollars. As part of completion of the Arrangement, this unit was redeemed.

Immediately prior to completion of the Arrangement, there were 16,264,437 common shares of DRC issued and outstanding. As a result of the Transfer and completion of the Arrangement as described in Note 1, certain public shareholders of DRC who formerly held 9,355,192 common shares of DRC received 9,355,192 REIT Units, Series A and DRC received, directly and indirectly, 6,909,245 LP Class B Units, Series 1. In addition, 15,000 REIT Units, Series A were issued to DRC in exchange for a demand promissory note of \$306.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

Divisional equity at June 30, 2003, excluding the cumulative foreign currency translation adjustment loss of \$1,728, was allocated between these REIT Units, Series A and LP Class B Units, Series 1 on a pro rata basis with resulting book values of \$192,775 and \$142,374, respectively. Included in Divisional equity at June 30, 2003 was a cumulative foreign currency translation adjustment loss of \$565. The LP Class B Units, Series 1 have been reclassified as non-controlling interest.

Dundee REIT Units

Dundee REIT is authorized to issue an unlimited number of REIT Units and an unlimited number of Special REIT Units. The REIT Units were initially divided into and issued 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 OTA or OTB.

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.

Special REIT Units are issued in conjunction with LP Class B Units, Series 1 of DPLP. The Special REIT Units are not transferable separately from the LP Class B Units, Series 1 to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such LP Class B Units, Series 1. Each Special REIT Unit entitles the holder to the number of votes at any meeting of Unitholders which is equal to the number of REIT Units, Series B, which may be obtained upon the surrender or exchange of the LP Class B Units, Series 1 to which they relate. At December 31, 2004, 7,924,084 Special REIT Units are issued and outstanding (December 31, 2003 - 7,211,431 issued and outstanding). These Special REIT Units are recorded at nominal value.

Dundee REIT's Declaration of Trust provides Dundee Corporation with a pre-emptive right pursuant to which Dundee REIT will not issue any REIT Units, or any securities convertible into REIT Units, to any person without first making an offer to Dundee Corporation to issue that number of REIT Units or securities or a comparable number of LP Class B Units, Series 1 necessary to maintain the percentage of the outstanding voting interest in Dundee REIT held by Dundee Corporation and its affiliates at the date of offer.

DPLP Units and Non-Controlling Interest

DPLP is authorized to issue two initial units, 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 REIT 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. The LP Class B Units, Series 1 have been 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

At December 31, 2004, 16,819,963 LP Class A Units (December 31, 2003 – 12,094,217), 7,924,084 LP Class B Units, Series 1 (December 31, 2003 - 7,211,431) and one LP Class B Unit, Series 2 (December 31, 2003 – one) are issued and outstanding. As at December 31, 2004 and December 31, 2003, all issued and outstanding LP Class A Units and the outstanding LP Class B Unit, Series 2 of DPLP were owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

	LP Class B Units, Series 1		Cumulative Foreign Currency Translation Adjustment	Total
	Number of Units	Amount		
NON-CONTROLLING INTEREST, JUNE 30, 2003	6,909,245	\$ 142,374	\$ (733)	\$ 141,641
Income from continuing operations	-	4,873	-	4,872
Income from discontinued operations	-	118	-	118
Distributions paid	-	(6,640)	-	(6,640)
Distributions payable	-	(1,372)	-	(1,372)
Distribution Reinvestment Plan	302,186	6,640	-	6,640
Change in foreign currency translation adjustment	-	-	(386)	(386)
NON-CONTROLLING INTEREST, DECEMBER 31, 2003	7,211,431	145,993	(1,119)	144,874
Income from continuing operations	-	6,337	-	6,337
Loss from discontinued operations	-	(4,781)	-	(4,781)
Distributions paid	-	(15,833)	-	(15,833)
Distributions payable	-	(1,508)	-	(1,508)
Distribution Reinvestment Plan	712,653	17,206	-	17,206
Impact of dilution	-	2,314	-	2,314
Change in foreign currency translation adjustment	-	-	(353)	(353)
NON-CONTROLLING INTEREST, DECEMBER 31, 2004	7,924,084	\$ 149,728	\$ (1,472)	\$ 148,256

Public Offering of Units

On February 19, 2004, Dundee REIT completed a public offering for gross cash proceeds of \$110,022 through the issuance of 4,537,000 REIT Units, Series A at a price of \$24.25 per unit. Costs relating to the offering totalled \$5,423 and were charged directly to unitholders' equity. On November 5, 2003, Dundee REIT completed a public offering for gross cash proceeds of \$56,420 through the issuance of 2,600,000 REIT Units, Series A at a price of \$21.70 per Unit. Costs relating to the offering totalled \$5,193 and were charged directly to Unitholders' equity. The net proceeds from these two offerings were invested in DPLP. As a result of adopting EIC-151, the Trust used the purchase method to account for these investments and recorded a purchase adjustment relating to the fair value of rental properties acquired of \$4,045.

Distribution Reinvestment and Unit Purchase Plan

In August 2003, Dundee REIT established a Distribution Reinvestment and Unit Purchase Plan (“DRIP”) for holders of REIT Units, Series A and REIT Units, Series B.

The DRIP allows unitholders, 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 REIT Units, Series A. Unitholders, who so elect, receive an additional distribution of REIT Units, Series A equal to 4% of each cash distribution that was reinvested. A similar distribution reinvestment arrangement exists for holders of LP Class B Units, Series 1. For the year ended December 31, 2004, 175,009 REIT Units Series A and 712,653 LP Class B Units, Series 1 were issued under the DRIP for \$4,214 and \$17,206, respectively. The price per Unit is calculated by reference to a five-day weighted average closing price of the Units on the TSX preceding the relevant distribution date, which typically is on or about the 15th day of the month following the declaration.

As a result of full participation of the holders of LP Class B Units, Series 1 in the Distribution Reinvestment Plan, the Trust’s effective ownership in DPLP has been diluted. Accordingly, the Trust recognized a dilution gain of \$1,731 during the year ended December 31, 2004 (December 31, 2003 - \$nil)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

Unit Purchase Plan

The Unit Purchase Plan feature of the DRIP allows existing unitholders to purchase additional REIT Units, Series A of Dundee REIT. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT Units, Series A that may be acquired. The price per Unit is calculated in a similar manner to the Distribution Reinvestment Plan. No commission, service charges or brokerage fees are payable by participants in connection with either the Distribution Reinvestment Plan or Unit Purchase Plan. For the year ended December 31, 2004, 7,027 REIT Units, Series A were issued under the Unit Purchase Plan for \$169.

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. Deferred Trust Units are granted at the discretion of the trustees while Income Deferred Trust Units are granted to Deferred Trust Unit holders based on distributions paid on the REIT Units, Series A. Once vested, each Deferred Trust Unit and Income Deferred Trust Unit will entitle the holder to receive a REIT Unit, Series A at no cost. Deferred Trust Units vest 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 Units, Series A, such units will be issued immediately after vesting. Up to a maximum of 500,000 Deferred Trust Units are issuable under the Deferred Unit Incentive Plan. Compensation expense is recorded based on the fair market value of a REIT Unit, Series A at the date of grant and amortized as earned over the vesting period or the remaining service period of the participant, whichever period is less. During the year ended December 31, 2004, \$886 (six months ended December 31, 2003 - \$113) of compensation expense was recorded and is included in general and administrative expenses. Income Deferred Trust Units are accounted as a distribution and an issuance of REIT Units, Series A 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 July 1, 2003	\$ -	-	-	-
Granted during the six months ended December 31, 2003	21.35	88,200	2,858	91,058
Outstanding at January 1, 2004	21.35	88,200	2,858	91,058
Granted during the year	24.25	71,700	10,500	82,200
Cancelled	21.35	(1,300)	(84)	(1,384)
Issuance of REIT Units, Series A on vesting	21.35	(7,466)	(723)	(8,189)
Outstanding at December 31, 2004	\$ 22.70	151,134	12,551	163,685
Vested and not issued at December 31, 2004	\$ 21.35	12,900	1,267	14,167

13. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

	Total	
	December 31, 2004	December 31, 2003
Assets	\$ 338,654	\$ 352,369
Liabilities	227,304	200,565

	Proportionate Share	
	December 31, 2004	December 31, 2003
Assets	\$ 177,865	\$ 186,908
Liabilities	113,841	104,559

	Proportionate Share		
	2004	2003	
	Dundee REIT Consolidated	Dundee REIT Consolidated	Division of DRC Combined
	For the Year ended December 31	July 1 to December 31	January 1 to June 30
Revenues	\$ 32,096	\$ 12,063	\$ 11,869
Expenses	25,965	9,094	9,159
	\$ 6,131	\$ 2,969	\$ 2,710

Revenues and expenses above are from continuing operations. Joint venture revenues related to discontinued operations amounted to \$589 (six months ended December 31, 2003 - \$376; six months ended June 30, 2003 - \$378). Joint venture expenses related to discontinued operations amounted to \$(175) (six months ended December 31, 2003 - \$294; six months ended June 30, 2003 - \$306).

	Proportionate Share		
	2004	2003	
	Dundee REIT Consolidated	Dundee REIT Consolidated	Division of DRC Combined
	For the Year ended December 31	July 1 to December 31	January 1 to June 30
Cash flow generated from (utilized in):			
Operating activities	\$ 9,099	\$ 5,315	\$ 2,806
Financing activities	(16,732)	(878)	(3,491)
Investing activities	9,101	(2,809)	(884)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 1,468	\$ 1,628	\$ (1,569)

The Trust is contingently liable for the obligations of the other owners of the unincorporated joint ventures at December 31, 2004 in the aggregate amount of \$110,648 (December 31, 2003 - \$84,960). In each case, however, the co-owner's share of assets is available to satisfy these obligations.

At December 31, 2004, Dundee REIT's proportionate share of the assets and liabilities of DMLP are as follows:

	December 31, 2004	December 31, 2003
Assets	\$ 3,882	\$ 2,675
Liabilities	\$ 1,323	\$ 1,200

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

14. INTEREST

Interest incurred and charged to earnings is recorded as follows:

	2004	2003	
	Dundee REIT Consolidated	Dundee REIT Consolidated	Division of DRC Combined
	For the Year Ended December 31	July 1 to December 31	January 1 to June 30
Interest expense incurred, at stated rate of debt	\$ 43,795	\$ 16,965	\$ 16,437
Amortization of deferred financing costs	910	533	407
Marked-to-market rate adjustment	(1,438)	(181)	(155)
INTEREST EXPENSE	\$ 43,267	\$ 17,317	\$ 16,689

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

15. INCOME AND LARGE CORPORATIONS TAXES

Dundee REIT

Dundee REIT is taxed as a mutual fund trust for income tax purposes. Pursuant to the Declaration of Trust, the Trustees of Dundee REIT will make distributions of, or will designate, all taxable income earned by Dundee REIT, including the taxable portion of net realized capital gains, to Unitholders and will deduct such distributions and designations for income tax purposes. As the income tax obligations relating to the distributions are those of the unitholders, no provision for income taxes is required on such amounts.

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, 2004 of \$5,359 (December 31, 2003 - \$7,737) 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, 2004, exceeds the corresponding tax cost by approximately \$184,000 (December 31, 2003 - \$214,000). During the year, the Trust recorded a \$1,900 future income tax recovery to adjust its estimate of the tax basis in its U.S. properties to amounts reported in recently filed tax returns.

Commercial Real Estate Division

	Division of DRC Combined January 1 to June 30, 2003
Income tax provision based on Canadian statutory tax rate of 38.3%	\$ 2,752
Increase (decrease) in provision resulting from:	
Large corporations and corporate minimum taxes	1,134
Benefit from decrease in expected future income tax rates	(275)
Other items	29
TOTAL INCOME TAX PROVISION	\$ 3,640

The provision for current income and large corporations taxes comprises the following:

	Division of DRC Combined January 1 to June 30, 2003
Current income taxes related to operations	\$ 831
Large corporations and corporate minimum taxes	1,134
	\$ 1,965

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

No cash taxes were paid or received by the Division because the payment is the obligation of, and the receipt is the right of, legal entities not included in the Division. During the periods presented, DRC did not pay any current income taxes because of the availability of tax losses and deductions not related to, and therefore not allocated to, the Division, nor were any current income taxes received as a result of the utilization of losses generated by the Division against taxable income not attributable to the Division. For the period ended June 30, 2003, the future income tax liability was increased by \$4,500 due to differences between the provision for current income taxes and the actual tax filings, with a corresponding amount included in funds transferred to DRC.

16. INCOME PER UNIT

The weighted average number of units outstanding was as follows:

	For the Year Ended December 31, 2004	For the Six Months Ended December 31, 2003
REIT Units, Series A	16,120,272	10,229,815
Vested Deferred Trust Units	4,480	-
Total weighted-average number of units outstanding for basic income (loss) per unit amounts	16,124,752	10,229,815
Add incremental units:		
LP Class B Units, Series 1	7,567,000	7,037,422
Deferred Trust Units	31,821	7,138
Income Deferred Trust Units	6,120	2,182
Total weighted average number of units outstanding for diluted income (loss) per unit amounts	23,729,693	17,276,557

A reconciliation of income before discontinued operations for basic and diluted per unit amount computations is as follows:

	For the Year Ended December 31, 2004	For the Six Months Ended December 31, 2003
Income before discontinued operations for basic income per unit amounts	\$ 14,978	\$ 7,013
Add: Income attributable to non-controlling interest	6,337	4,873
Depreciation expense	191	-
Deduct: Dilution gain	(1,731)	-
Income before discontinued operations for diluted per unit amounts	\$ 19,775	\$ 11,886

The 1,590,164 incremental units of an assumed conversion of Debentures for the year ended December 31, 2004 have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

17. EMPLOYEE FUTURE BENEFITS

The Trust has a 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., prior to January 1, 2004, DRC was the sponsor of the plan. Total cost recognized and cash payments for employee future benefits for 2004, consisting of cash contributed to the defined contribution plan was \$120.

18. SEGMENTED INFORMATION

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

A. By Activity

Dundee REIT For the Year Ended December 31, 2004	Office	Industrial	Retail	Total
OPERATIONS				
Revenues	\$ 116,380	\$ 58,174	\$ 12,626	\$ 187,180
Operating expenses	(57,696)	(20,847)	(6,764)	(85,307)
Net operating income	58,684	37,327	5,862	101,873
Depreciation of rental properties	(14,804)	(8,690)	(2,052)	(25,546)
Amortization of deferred leasing costs and intangibles	(5,655)	(6,208)	(699)	(12,562)
SEGMENT INCOME	\$ 38,225	\$ 22,429	\$ 3,111	\$ 63,765
Interest expense				(43,267)
General and administrative expenses				(5,201)
Interest and fee income, net				2,232
Gain on disposal of rental properties				155
Dilution gain				1,731
Income taxes				1,900
INCOME BEFORE DISCONTINUED OPERATIONS AND NON-CONTROLLING INTEREST				\$ 21,315
SEGMENT RENTAL PROPERTIES	\$ 597,970	\$ 393,075	\$ 66,186	\$ 1,057,231
CAPITAL EXPENDITURES				
Investment in rental properties	\$ (953)	\$ (4,569)	\$ (1,541)	\$ (7,063)
Acquisition of rental properties	(74,933)	(93,592)	-	(168,525)
Deferred leasing costs	(8,584)	(4,003)	(1,760)	(14,347)
TOTAL CAPITAL EXPENDITURES	\$ (84,470)	\$ (102,164)	\$ (3,301)	\$ (189,935)

Dundee REIT For the Six Months Ended December 31, 2003	Office	Industrial	Retail	Total
OPERATIONS				
Revenues	\$ 46,323	\$ 19,900	\$ 7,224	\$ 73,447
Operating expenses	(23,777)	(7,549)	(3,776)	(35,102)
Net operating income	22,546	12,351	3,448	38,345
Depreciation of rental properties	(2,547)	(1,473)	(515)	(4,535)
Amortization of deferred leasing costs and intangibles	(1,678)	(880)	(245)	(2,803)
SEGMENT INCOME	\$ 18,321	\$ 9,998	\$ 2,688	\$ 31,007
Interest expense				(17,317)
General and administrative expenses				(2,109)
Interest and fee income, net				676
Loss on disposal of rental property				(289)
Income taxes				(82)
INCOME BEFORE DISCONTINUED OPERATIONS AND NON-CONTROLLING INTEREST				\$ 11,886
SEGMENT RENTAL PROPERTIES	\$ 525,360	\$ 252,521	\$ 137,169	\$ 915,050
CAPITAL EXPENDITURES				
Investment in rental properties	\$ (1,411)	\$ (740)	\$ (705)	\$ (2,856)
Acquisition of rental properties	(32,991)	-	-	(32,991)
Deferred leasing costs	(3,051)	(1,345)	(1,113)	(5,509)
TOTAL CAPITAL EXPENDITURES	\$ (37,453)	\$ (2,085)	\$ (1,818)	\$ (41,356)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

Division of DRC

For the Six Months Ended June 30, 2003

	Office	Industrial	Retail	Total
OPERATIONS				
Revenues	\$ 43,254	\$ 19,239	\$ 7,295	\$ 69,788
Operating expenses	(24,003)	(8,129)	(3,948)	(36,080)
Net operating income	19,251	11,110	3,347	33,708
Depreciation of rental properties	(2,442)	(1,228)	(472)	(4,142)
Amortization of deferred leasing costs	(1,562)	(771)	(202)	(2,535)
SEGMENT INCOME	\$ 15,247	\$ 9,111	\$ 2,673	\$ 27,031
Interest expense				(16,689)
General and administrative expenses				(3,339)
Interest and fee income, net				659
Income taxes				(3,560)
INCOME BEFORE DISCONTINUED OPERATIONS AND NON-CONTROLLING INTEREST				\$ 4,102
SEGMENT RENTAL PROPERTIES	\$ 417,222	\$ 253,456	\$ 140,661	\$ 811,339
CAPITAL EXPENDITURES				
Investment in rental properties	\$ (2,086)	\$ (1,688)	\$ (535)	\$ (4,309)
Acquisition of rental properties	-	(3)	(858)	(861)
Deferred leasing costs	(2,616)	(1,050)	(614)	(4,280)
TOTAL CAPITAL EXPENDITURES	\$ (4,702)	\$ (2,741)	\$ (2,007)	\$ (9,450)

B. By Country

Dundee REIT

For the Year Ended December 31, 2004

	Canada	U.S.	Total
OPERATIONS			
Revenues	\$ 177,361	\$ 9,819	\$ 187,180
Operating expenses	(79,943)	(5,364)	(85,307)
Net operating income	97,418	4,455	101,873
Depreciation of rental properties	(23,844)	(1,702)	(25,546)
Amortization of deferred leasing costs and intangibles	(12,303)	(259)	(12,562)
SEGMENT INCOME	\$ 61,271	\$ 2,494	\$ 63,765
SEGMENT RENTAL PROPERTIES	\$ 1,004,560	\$ 52,671	\$ 1,057,231
CAPITAL EXPENDITURES			
Investment in rental properties	\$ (5,542)	\$ (1,521)	\$ (7,063)
Acquisition of rental properties	(168,525)	-	(168,525)
Deferred leasing costs	(14,007)	(340)	(14,347)
TOTAL CAPITAL EXPENDITURES	\$ (188,074)	\$ (1,861)	\$ (189,935)

Dundee REIT

For the Six Months Ended December 31, 2003

	Canada	U.S.	Total
OPERATIONS			
Revenues	\$ 68,090	\$ 5,357	\$ 73,447
Operating expenses	(32,216)	(2,886)	(35,102)
Net operating income	35,874	2,471	38,345
Depreciation of rental properties	(4,134)	(401)	(4,535)
Amortization of deferred leasing costs and intangibles	(2,689)	(114)	(2,803)
SEGMENT INCOME	\$ 29,051	\$ 1,956	\$ 31,007
SEGMENT RENTAL PROPERTIES	\$ 857,628	\$ 57,422	\$ 915,050
CAPITAL EXPENDITURES			
Investment in rental properties	\$ (2,397)	\$ (459)	\$ (2,856)
Acquisition of rental properties	(32,991)	-	(32,991)
Deferred leasing costs	(5,336)	(173)	(5,509)
TOTAL CAPITAL EXPENDITURES	\$ (40,724)	\$ (632)	\$ (41,356)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

Division of DRC

For the Six Months Ended June 30, 2003

	Canada	U.S.	Total
OPERATIONS			
Revenues	\$ 64,363	\$ 5,425	\$ 69,788
Operating expenses	(33,068)	(3,012)	(36,080)
Net operating income	31,295	2,413	33,708
Depreciation of rental properties	(3,763)	(379)	(4,142)
Amortization of deferred leasing costs and intangibles	(2,430)	(105)	(2,535)
SEGMENT INCOME	\$ 25,102	\$ 1,929	\$ 27,031
SEGMENT RENTAL PROPERTIES	\$ 751,221	\$ 60,118	\$ 811,339
CAPITAL EXPENDITURES			
Investment in rental properties	\$ (3,987)	\$ (322)	\$ (4,309)
Acquisition of rental property	(861)	-	(861)
Deferred leasing costs	(4,110)	(170)	(4,280)
TOTAL CAPITAL EXPENDITURES	\$ (8,958)	\$ (492)	\$ (9,450)

19. RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

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

Master Property Management Agreement

DPLP has entered into a property management agreement ("Management Agreement") with DMLP to provide customary property management services to DPLP. The Management Agreement also authorizes DMLP, subject to certain restrictions, to contract on behalf of DPLP with third parties for the provision of certain services as provided for in DMLP's annual operating plan. DMLP is entitled to be reimbursed by DPLP for its reasonable costs for such services. The Management Agreement provides for a base management fee of 3.5% of gross revenues generated from the managed properties, as well as construction fees, and leasing administration fees for services provided. The initial term of the Management Agreement is five years. With the consent of DMLP, the Management Agreement will be automatically extended for a further five-year period. Upon expiry of the first extension term and with the mutual consent of DMLP and DPLP, the Management Agreement will be automatically extended for further five-year periods until terminated by the parties.

This Management Agreement also provides that DRC will pay a rent supplement to DPLP for a five-year period in the case of certain specified office and retail premises and a three-year period in the case of certain specified industrial premises. DRC will pay an amount equal to the difference between: (i) the amount that is the total net rent less amortized leasing costs with respect to the specified premises plus the additional rents that would be payable with respect to such premises if such premises were leased pursuant to the applicable standard lease for each premises, and (ii) the amount that is the actual base rent and additional rent received by DPLP for such premises, after deduction for amortization of leasing costs including, but not limited to, tenant inducements, landlord's work, free rent and leasing commissions paid by DPLP to lease any such premises.

If at any time any of the premises to which the rent supplement applies is either sold by DPLP or ceases to be managed by DMLP, the amount of the rent supplement will be reduced by the amount attributed to such premises. If DPLP enters into a lease with a tenant for any of the premises to which the rent supplement applies, which extends beyond the terms of the supplement for such premises and the tenant meets credit quality thresholds, has occupied the premises and has commenced full rental payment under the lease, the amount of the supplement will be permanently reduced by the actual base rent and additional rent received by DPLP for such premises after deducting amortization of leasing costs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

Administrative Services Agreement

Dundee REIT and certain subsidiaries have entered into an administrative services agreement ("Services Agreement") with DMLP whereby DMLP will provide certain administrative services to Dundee REIT and its subsidiaries. The Services Agreement provides for a broad range of management and general administrative services, certain asset management services and certain administrative and support services. The agreement provides for a fee sufficient to reimburse DMLP for the actual costs incurred and is not intended to have a profit component. In addition, DMLP will provide, for a fee, services related to property acquisition, property financing or refinancing and equity financing. This agreement is for an initial five-year period commencing July 1, 2003 and will terminate on termination of the Management Agreement. DMLP has also entered into a similar administration and support services agreement with DRC to provide certain administration services to DRC and its subsidiaries ("DRC Services Agreement").

The portion of fees received from or paid to related parties under the above arrangements were as follows:

Fees Received	For the Year Ended December 31, 2004	For the Six Months Ended December 31, 2003
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties revenue)	\$ 3,393	\$ 2,180
Fees and rental income received by Dundee REIT under the DRC Services Agreement (included in operating expenses)	\$ 622	\$ 225
Fees Paid		
Fees paid by Dundee REIT under the Management Agreement		
Management fees, included in rental properties' operating expenses	\$ 3,143	\$ 1,338
Construction fees, capitalized to the related assets	\$ 410	\$ 342
Lease administration fees, included in deferred leasing costs	\$ 888	\$ 370
Fees paid by Dundee REIT under the Services Agreement		
Acquisition and financing fees, capitalized to the related assets	\$ 498	\$ 218

Included in amounts receivable at December 31, 2004 is \$117 related to the property management and administrative services agreements and DRC Services Agreement. Included in accrued liabilities and other payables at December 31, 2004 is \$221 related to the property management and administrative services agreements. Substantially all of Dundee REIT's services are to be provided by DMLP and accordingly, Dundee REIT relies on DMLP to continue to provide such services.

Included in amounts receivable at December 31, 2003 is \$177 relating to the above agreements and \$181, which resulted from a certain cash deficit balance transferred on June 30, 2003, which was subsequently repaid on January 6, 2004. Amounts receivable at June 30, 2003 included a demand promissory note from DRC for \$306 issued in exchange for 15,000 REIT Units, Series A. The demand promissory note was interest bearing at 5.05% and was repaid on August 29, 2003. Included in accrued liabilities and other payables at December 31, 2003 is \$444 relating to the above agreements. At June 30, 2003, there was a non-interest bearing note payable to DRC in the amount of \$1,760. This obligation was the result of certain cash balances included as part of the Transfer on June 30, 2003 and was repaid on November 6, 2003.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For certain of the Trust's financial instruments, including cash and short-term deposits, amounts receivable, amounts payable and accrued liabilities, and distributions payable, carrying amounts approximate fair values due to their immediate or short-term maturity. The fair value of debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates that represent management's best estimate of borrowing rates presently available to the Trust for loans with similar terms and maturities. Specific fair values are disclosed in the related notes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

The Trust has exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt at December 31, 2004 was 3.89% of the Trust's total debt (December 31, 2003 - 5.66%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, stagger maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The Trust is exposed to foreign exchange risk as it relates to its self-sustaining U.S. operations due to fluctuations in the exchange rate between the Canadian and U.S. dollars. Changes in the exchange rate may result in a reduction or an increase in net income. The impact of foreign exchange fluctuations is deferred as a separate component of equity until an investment has been liquidated. The Trust has designated the U.S. dollar loan drawn under the demand non-revolving credit facility as a hedge of a portion of its net investment in its U.S. self-sustaining operation. Gains and losses on translation of the loan are deferred as a separate component of unit holders' equity offsetting translation gains and losses on the net investment.

The Trust's assets consist of office, industrial and retail 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.

21. HELD FOR SALE AND DISCONTINUED OPERATIONS

The 2003 and 2004 operating results of the following properties have been reclassified as discontinued operations to comply with the disclosure requirements of the CICA Handbook Section 3475.

- On June 30, 2004, the Trust disposed of 6500 Kitimat Road in Mississauga, Ontario for net proceeds after selling costs of \$4,941. The purchaser assumed \$1,905 of existing debt. A gain of \$2,397 was recognized on the disposition.
- On July 22, 2004 the Trust disposed of its 20% interest in 2000 Rue Halpern, a single tenant industrial building in Montréal, for \$3,283. The proceeds were used to retire \$2,530 of debt and a gain of \$453 was recognized on the disposition.
- On December 13, 2004, the Trust disposed of Northgate Mall in Regina, Saskatchewan for net proceeds of \$43,985. The proceeds were used to retire \$34,723 of debt. A loss of \$19,431 was recognized on the disposition.
- Effective January 14, 2005, the Trust completed the sale of its 25% interest in 2301 and 2311 Royal Windsor Drive, two industrial buildings totalling 204,136 square feet located in Mississauga, Ontario. The Trust received its share of the net proceeds after selling costs of approximately \$2,300, which will be used to retire outstanding debt related to the properties. The Trust will recognize a gain of approximately \$275 on the sale.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF
DUNDEE REAL ESTATE INVESTMENT TRUST AND THE COMBINED FINANCIAL STATEMENTS
OF THE COMMERCIAL REAL ESTATE DIVISION OF DUNDEE REALTY CORPORATION**
(All dollar amounts in thousands, except unit or per unit amounts)

	For the Year Ended December 31		
	2004	2003	
	Dundee REIT Consolidated	Dundee REIT Consolidated July 1 to December 31	Division of DRC Combined January 1 to June 30
Revenues	\$ 8,153	\$ 4,715	\$ 4,752
Operating expenses	(3,873)	(2,274)	(2,413)
Net operating income	4,280	2,441	2,339
Interest	(2,111)	(1,541)	(1,586)
Depreciation of rental properties	(818)	(319)	(297)
Amortization of deferred leasing costs	(271)	(292)	(362)
Interest and other income, net	95	(2)	(3)
Current income and large corporations taxes	-	-	(80)
Income from discontinued operations	1,175	287	11
Loss on sale of rental properties, net	(16,581)	-	-
Income (loss) from discontinued operations before non-controlling interest	(15,406)	287	11
Income (loss) attributable to non-controlling interest	(4,781)	118	-
Income (loss) from discontinued operations	\$ (10,625)	\$ 169	\$ 11

The following are the assets and liabilities of the property held for sale at December 31, 2004:

	December 31, 2004
ASSETS	
Rental properties	\$ 2,013
Deferred costs	23
Accounts receivable	303
Prepaid expenses and other assets	45
	\$ 2,384
LIABILITIES	
Debt	\$ 1,889
Amounts payable and accrued liabilities	124
	\$ 2,013

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, capital and ground leases are as follows:

	Operating Lease Payments	Capital Lease Payments	Ground Lease Payments
Year ending December 31, 2005	\$ 784	\$ 178	\$ 1,081
2006	746	169	1,142
2007	737	64	1,112
2008	591	59	1,112
2009	322	-	1,112
2010 and thereafter	1,258	-	637
TOTAL	\$ 4,438	\$ 470	\$ 6,196

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Dundee REIT has four ground leases on three properties. The terms of the first two leases extend to 2083 and 2076; the last two extend to 2060 including renewals. The leases are at fixed rates for the entire term with respect to the first and the third lease, until September 30, 2006 for the second lease and until June 30, 2010 for the fourth. The renewal terms beyond these dates for the second and fourth leases are defined as variable percentages of the market value of these properties at the date of the renewal, and as such, no dollar amounts are shown in the table above.

Purchase Obligations

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

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.

23. SUPPLEMENTARY CASH FLOW INFORMATION

(in thousands of dollars)	For the Year Ended December 31		
	2004		2003
	Dundee REIT Consolidated	Dundee REIT Consolidated July 1 to December 31	Division of DRC Combined January 1 to June 30
Decrease (increase) in accounts receivable	\$ 2,054	\$ (2,483)	\$ (282)
Increase in deferred costs (other than leasing costs)	(450)	(1,358)	(2,382)
Decrease (increase) in prepaid expenses and other assets (excluding restricted cash and mezzanine loan)	80	806	(2,582)
Increase (decrease) in accounts payable and accrued liabilities (excluding building improvements and leasing costs)	(1,006)	7,409	5,902
Increase (decrease) in accounts payable relating to building improvements	513	327	(1,587)
Increase in accounts payable relating to leasing costs	2,579	60	1,359
Change in non-cash working capital	\$ 3,770	\$ 4,761	\$ 428
The following amounts were paid on account of interest and income taxes:			
Interest	\$ 43,556	\$ 15,099	\$ 20,929
Income and large corporation taxes	\$ 156	\$ 7	\$ 8

24. SUBSEQUENT EVENTS

Effective January 13, 2005, the Trust completed the purchase of 2599 Speakman Drive in Mississauga, Ontario for a purchase price of \$9,250. The property consists of a 114,000 square foot two storey building, which is 100% leased to two tenants.

Effective January 14, 2005, the Trust completed the sale of its 25% interest in 2301 and 2311 Royal Windsor Drive, two industrial buildings totalling 204,136 square feet located in Mississauga, Ontario. The Trust received its share of the proceeds of approximately \$2,300, which will be used to retire outstanding debt related to the properties. The Trust recognized a gain of approximately \$275 on the sale.

Effective January 31, 2005, the Trust completed the purchase of 1219 Corporate Drive in Burlington, Ontario for a purchase price of \$6,500. The property consists of a 103,000 square foot single tenant industrial building.