MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial position and results of operations of Dundee REIT is based on the consolidated financial statements of Dundee REIT for the years ended December 31, 2005 and December 31, 2004. This discussion should be read in conjunction with those financial statements and related notes.

This Management's Discussion and Analysis has been dated as at February 22, 2006. All dollar amounts in our tables are presented in thousands with the exception of unit and per unit amounts. Certain market information has been obtained from CB Richard Ellis Market View, 4th Quarter 2005, a publication prepared by a commercial firm that provides information relating to the real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

The following discussion and analysis of our financial results and operations should be read in conjunction with the audited financial statements for the years ended December 31, 2005 and 2004. Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Dundee REIT's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward looking information. These risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; our ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest and currency rate functions.

Although the forward-looking statements contained in this document are based upon what Dundee REIT believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain assumptions made in preparing forward looking information and our objectives include the assumption that the Canadian economy will remain stable in 2006 and that inflation will remain relatively low. We have also assumed that interest rates will remain stable in 2006, that conditions within the real estate market, including competition for acquisitions, will be consistent with the current climate and that the Canadian capital markets will continue to provide Dundee REIT with access to equity and/or debt at reasonable rates.

All forward looking information in this Management's Discussion and Analysis speaks as of February 22, 2006. Dundee REIT does not undertake to update any such forward looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators, including the latest annual information form of Dundee REIT. These filings are also available on our website at www.dundeereit.com.

OUR OBJECTIVES

We are committed to:

- Providing predictable and sustainable cash distributions to unitholders;
- Improving the overall value of our enterprise through effective management of our business and through acquisitions; and
- Prudently increasing distributions as the performance of our underlying business warrants.

Distributions

We currently pay monthly distributions to unitholders of $0.183 per unit or $2.20 on an annual basis. We also have a Distribution Reinvestment and Unit Purchase Plan ("DRIP"), which allows unitholders to have their distributions automatically reinvested into additional units of the Trust. Unitholders who enrol in the DRIP receive a bonus distribution of 4% with each reinvestment. At December 31, 2005, approximately 43% of our total units were enrolled in the DRIP or the equivalent plan for limited partnership units, including 19% of REIT Units, Series A and 100% of LP Class B Units, Series 1 (please see a description of our equity on page 39).

	Jan.	*Feb.*	*March*	*April*	*May*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*
Distribution Rate	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183
Month End Closing Price	$ 26.25	$ 26.60	$ 25.56	$ 25.35	$ 26.40	$ 26.74	$ 28.05	$ 26.76	$ 26.49	$ 24.85	$ 25.01	$ 25.70

OUR STRATEGY

Our strategy is to become Canada's leading provider of affordable business premises. Our methodology to meet our strategy and objectives includes:

Effectively Managing Our Business

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

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

Building and Maintaining a Diversified Portfolio

Diversifying our real estate portfolio decreases the overall risk of our business. Our portfolio is well diversified by asset type, geographic location and tenant mix. With over 1,500 tenants, renewals are frequent and the exposure to the loss of any single large tenant is minimized.

Meeting the Needs of Our Tenants

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

Pursuing External Growth Strategy

We make acquisitions that represent an opportunity to improve the overall quality of our portfolio and enhance the sustainability of distributions. Our growth strategy is to acquire office and industrial properties mainly in five key markets – Montréal, Ottawa, Toronto, Calgary and Edmonton – and reposition existing properties where opportunities exist. This allows us to capitalize on operational efficiencies and further increase our presence and critical mass in these key markets. Due to an increasingly competitive acquisition market and changing economic conditions we have also started to look beyond these markets for accretive investments.

OUR ASSETS

We provide high-quality, affordable business premises with a focus on mid-sized urban and suburban office, industrial and flex space properties. The majority of our assets are concentrated in our target markets: Montréal, Ottawa, Toronto, Calgary and Edmonton. These markets are attractive to us as they represent most of Canada's largest metropolitan areas, they have relatively diverse and sound economies and good real estate liquidity. Acquisition activity will generally be concentrated in these areas, as it enables us to take advantage of our established presence and management expertise in these markets, build upon our current critical mass and achieve even greater operational efficiencies. However, due to an increasingly competitive acquisition market and changing economic conditions, we have also begun to look for best-in-class assets in locations beyond our existing markets.

Dundee REIT has an established presence of office and/or industrial properties in each of our target markets that gives us the critical mass to operate efficiently and effectively. We believe that diversifying our portfolio, balancing by asset type, geographic location and tenant mix, decreases our overall risk profile. Industrial properties generally have lower rental rates and lower operating costs than office properties and, as a result, are attractive as they offer greater stability and less downside during times of increased vacancy. Office properties, although more expensive to carry than industrial properties during weak markets, are attractive as they generate more revenue and offer greater potential for capital appreciation. Having both asset types in our portfolio helps us to realize our objective of providing predictable and sustainable distributions to our unitholders.

During the year, we completed approximately $350.6 million of acquisitions, comprising 3.0 million square feet. Although the bulk of the properties acquired are in our key target markets – Montréal, Ottawa, Toronto and Calgary – we completed accretive acquisitions in other markets that also complement our portfolio. Acquisitions in new markets included a Class A office building in St. John's, Newfoundland, two single tenant industrial buildings in London, Ontario and one single tenant industrial property in Guelph, Ontario. All of the acquisitions completed in 2005 are high-quality properties with occupancy rates above 95%.

We regularly assess the way in which we present our portfolio and financial information in order to ensure that we provide the most fair and accurate information possible and that it is presented in a manner consistent with how we manage our business. With the growth our portfolio has experienced over the past two years, we thought it appropriate to revisit the presentation of our portfolio on a geographic basis.

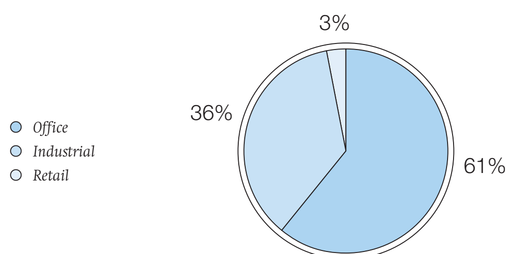
The Ontario office portfolio is now presented as two naturally distinct markets – the Toronto Region and the National Capital Region ("NCR"), which includes Ottawa and the immediate outlying areas. It is important to note that NCR includes one property in Gatineau, Québec that is managed by our Ottawa office and more naturally fits within the NCR than the Québec portfolio, and one property in St. John's, Newfoundland that is also managed by our Ottawa office. The Toronto Region segment encompasses office properties located within the greater Toronto area ("GTA") and, for the industrial portfolio, also includes properties in Southwestern Ontario. The Alberta portfolio encompasses properties in Calgary and Edmonton, while Western Canada encompasses all other markets west of Ontario.

The net book value of segmented rental properties by geography and asset type is set out below.

	December 31, 2005					December 31, 2004	
($000's)	*Office[1]*	*Industrial*	*Retail*	*Total*	*%*	*Total*	*%*
Québec	**$ 147,865**	**$ 148,090**	**$ –**	**$ 295,955**	**22**	$ 202,935	19
National Capital Region	**232,775**	**–**	**–**	**232,775**	**18**	138,439	13
Toronto Region	**244,718**	**172,278**	**–**	**416,996**	**31**	338,249	32
Alberta	**120,944**	**160,058**	**4,807**	**285,809**	**22**	265,224	25
Western Canada	**58,424**	**–**	**–**	**58,424**	**4**	59,713	6
Total Canada	**804,726**	**480,426**	**4,807**	**1,289,959**	**97**	1,004,560	95
United States	**–**	**–**	**38,436**	**38,436**	**3**	52,671	5
Total at December 31, 2005	**$ 804,726**	**$ 480,426**	**$ 43,243**	**$ 1,328,395**	**100**	$ 1,057,231	100
Percentage	**61%**	**36%**	**3%**	**100%**		100%	
Total at December 31, 2004	$ 597,970	$ 393,075	$ 66,186	$ 1,057,231			
Percentage	57%	37%	6%	100%			

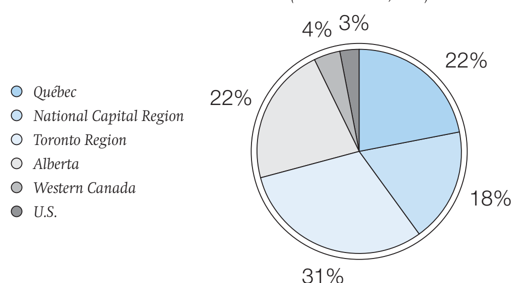
Portfolio Asset Type by Net Book Value

(at December 31, 2005)



Geographic Distribution of Rental Properties by Net Book Value

(at December 31, 2005)



	Owned Gross Leasable Area (square feet)						
	December 31, 2005					December 31, 2004	
($000's)	*Office[1]*	*Industrial*	*Retail*	*Total*	*%*	*Total*	*%*
Québec	**1,384,157**	**3,437,895**	**–**	**4,822,052**	**30**	3,789,504	29
National Capital Region	**1,600,446**	**–**	**–**	**1,600,446**	**10**	945,129	7
Toronto Region [2]	**2,176,396**	**2,689,134**	**–**	**4,865,530**	**31**	4,006,440	31
Alberta	**856,481**	**2,625,283**	**46,143**	**3,527,907**	**22**	3,338,027	25
Western Canada	**275,047**	**–**	**–**	**275,047**	**2**	274,758	2
Total Canada	**6,292,527**	**8,752,312**	**46,143**	**15,090,982**	**95**	12,353,858	94
United States	**–**	**–**	**795,390**	**795,390**	**5**	795,390	6
Total at December 31, 2005	**6,292,527**	**8,752,312**	**841,533**	**15,886,372**	**100**	13,149,248	100
Percentage	**40%**	**55%**	**5%**	**100%**			
Total at December 31, 2004	4,713,790	7,465,561	969,897	13,149,248			
Percentage	36%	57%	7%	100%			

(1) Excludes 2280 boul. Alfred-Nobel, Montréal under redevelopment
(2) Represents office and industrial properties in the Greater Toronto Area as well as two industrial properties in Guelph and London, Ontario

Office Rental Properties

Dundee REIT owns 70 office properties (89 buildings) comprising approximately 6.4 million square feet located in Montréal, Ottawa, Toronto, Calgary, Edmonton, Vancouver and St. John's. Our office properties can generally be categorized as high-quality, yet affordable downtown and suburban buildings. Acquisitions completed in 2005 have added 1.7 million square feet of office properties to our portfolio. These properties are generally located in our key target markets, are of high quality and have low maintenance capital expenditure requirements.

The Canadian national office market continued on a positive trend with occupancy levels increasing for the eighth consecutive quarter. The occupancy rate in our office portfolio has increased to 95.8% from 93.6% at December 31, 2004, ahead of the national industry average of 90.8% (CB Richard Ellis, Canadian Office Market View, 4th Quarter 2005). Our occupancy rate includes lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized. The average in-place net rental rate across our portfolio is $14.14, compared with the national industry average asking Class A net rental rate of $16.53.

Industrial Rental Properties

We own 127 prime suburban industrial and flex-space properties (144 buildings) comprising approximately 8.8 million square feet, concentrated in Montréal, Toronto, Calgary and Edmonton. Our strategy is to own clusters of properties, allowing us to respond quickly and efficiently to tenants' needs during times of change in their operations or size of their workforce. The acquisitions completed in 2005 have added 1.3 million square feet of fully occupied high quality industrial properties to our portfolio.

At December 31, 2005, the average occupancy rate across our industrial portfolio increased to 96.5% from 95.2% at December 31, 2004, also ahead of the national industry average of 95.0% (CB Richard Ellis, Canadian Industrial Market View, 4th Quarter 2005). The average in-place net rental rate across our portfolio is $5.94, compared with the national industry average asking net rental rate of $5.30.

Retail Rental Properties

Our retail assets total approximately 0.8 million square feet. As of December 31, 2005, the portfolio had an occupancy rate of 94.8% compared with 93.3% at December 31, 2004. The remaining retail assets include Greenbriar Mall, a 795,000 square foot regional mall in Atlanta, and one smaller centre in Alberta. We are currently negotiating the sale of a 50% interest in Greenbriar Mall.

Market Information

In an effort to give additional context for our portfolio, we provide below some general information with respect to each of our key markets. The source for all market information referenced is CB Richard Ellis Market View, 4th Quarter 2005. It is important to note that occupancy rates for the office market inventory are based on Class A net rental rates. Occupancy rates for the industrial market inventory were derived from CB Richard Ellis' availability rates.

Montréal

	Office			*Industrial*		
	(000's) (sq. ft.)	*Average Net Rent*	*Occupancy*	*(000's) (sq. ft.)*	*Average Net Rent*	*Occupancy*
Market Inventory	62,833	$ 16.44	87.4%	327,000	$ 5.11	92.5%
Dundee REIT	1,384	$ 13.74	90.2%	3,438	$ 5.13	94.7%

Our industrial properties, although older and with slightly lower clear ceiling heights, have the advantage of being better located, with convenient highway access, than newer properties. As anticipated, the markets remained relatively soft throughout 2005. However, the overall vacancy rates in the office market decreased in 2005 and the year finished on a high note with positive absorption. Vacancy rates increased slightly in the industrial markets, but despite the relative strength of the Canadian dollar, the manufacturing sector proved its resilience in 2005.

Portfolio Diversification

A great deal has happened since we first became a REIT. While our portfolio remains diversified by asset class and geographic location, we have significantly reduced the retail component and expanded our acquisition focus beyond our five traditional locations to include other economically strong markets. The Scotia Centre is the premier office building in St. John's, Newfoundland and is leased to such international businesses as Scotiabank, Husky Oil and Petro Canada.

Ottawa

	Office		
	(000's) (sq. ft.)	Average Net Rent	Occupancy
Market Inventory	50,600	$ 14.51	93.1%
Dundee REIT	1,410	$ 15.71	99.0%

Our office properties in Ottawa have the advantage of being occupied by financially strong tenants as well as government-related operations with less than a quarter of our leases up for renewal over the next four years. The Ottawa office market is generally considered Canada's most stable with overall vacancy rates in the central business district below 4%. The Kanata market, where we bought a 229,000 square foot office portfolio at the end of 2003, posted a vacancy rate of 11.8% at the end of 2005, down from 16.5% a year earlier, and it is anticipated that vacancies could drop below 10% in this market sometime in 2006.

Toronto

	Office			Industrial		
	(000's) (sq. ft.)	Average Net Rent	Occupancy	(000's) (sq. ft.)	Average Net Rent	Occupancy
Market Inventory	141,520	$ 17.56	89.9%	702,300	$ 5.19	95.5%
Dundee REIT	2,176	$ 13.28	95.3%	2,689	$ 6.72	97.2%

The office market generally improved across the GTA in 2005. However, there has not yet been any significant upward trend in asking rents. Demand for industrial space remained strong in 2005 and the overall vacancy rate was steady at less than 5%, but with the continued strength of the Canadian dollar, the GTA industrial market will likely experience some softening as demand from the United States decreases.

Calgary

	Office			Industrial		
	(000's) (sq. ft.)	Average Net Rent	Occupancy	(000's) (sq. ft.)	Average Net Rent	Occupancy
Market Inventory	45,148	$ 18.54	96.2%	102,300	$ 7.39	95.1%
Dundee REIT	664	$ 15.97	99.3%	1,785	$ 7.18	98.3%

With the strong oil and gas industry continuing to fuel the Calgary economy, overall vacancy rates in the downtown office market dropped to just over 2% at the end of 2005 with much of the space being taken up by tenant expansions. With little new product available, the suburban office market is also benefiting from this hot economy and has finally recovered from the downfall in the technology sector in 2001. The overall vacancy rates in the industrial market dropped to 2.3% at the end of the year and the office and industrial markets recorded increased rental rates.

Edmonton

	Office			Industrial		
	(000's) (sq. ft.)	Average Net Rent	Occupancy	(000's) (sq. ft.)	Average Net Rent	Occupancy
Market Inventory	20,052	$ 10.96	92.5%	83,000	$ 5.00	93.4%
Dundee REIT	192	$ 6.08	98.8%	840	$ 4.03	98.0%

Both the downtown and suburban office markets improved in 2005 with a significant upward trend in lease rates in the downtown market. The industrial market continues to mirror the general Alberta economy with vacancy rates of 3.2% and increasing rental rates.

Key Performance Indicators

While many factors contribute to the operation of our business, our key performance indicators are segregated by business activity as follows:

Operations:

- Occupancy
- Tenant retention
- New leasing activity
- Tenant maturity profile
- In-place rental rates
- Operating costs
- Leasing costs

Investment:

- Acquisition activity
- Building improvements

Financing:

- Average interest rate
- Level of debt (debt-to-gross book value)
- Debt maturity profile/ average term to maturity

Performance Indicators

Performance is measured by these and other key indicators:

($000's except rental rates, unit and per unit amounts)	*Three Months Ended December 31* 2005	2004	*Year Ended December 31* 2005	2004
Operations				
Occupancy rate (period end)	**96.2%**[8]	94.5%		
In-place rent per square foot (office and industrial)	**$ 9.36**[8]	$ 9.06		
Leasing costs	**4,724**	3,367	**$ 12,427**	$ 14,347
Net operating income as a % of rental property revenue	**55.0%**	52.5%	**55.1%**	54.6%
Investment				
Acquisition activity	**$ 71,555**	$ –	**$ 350,621**	$ 272,683
Building improvements	**4,555**	1,424	**8,529**	6,550
Financing				
Weighted average interest rate (period end)	**6.16%**	6.62%		
Interest coverage ratio [1]	**2.19 times**	2.14 times	**2.21 times**	2.28 times
Debt-to-gross book value	**59.3%**	55.2%		
Average term to maturity (years)	**5.9 years**	5.4 years		
Operating Results				
Rental properties revenue	**$ 60,630**	$ 49,643	**$ 221,576**	$ 185,483
Net operating income [2] ("NOI")	**33,351**	26,080	**122,035**	101,183
Funds from operations [3] ("FFO")	**17,839**	14,202	**66,330**	59,141
Distributions				
Distributable income [4]	**$ 16,546**	$ 13,291	**$ 60,428**	$ 53,431
Reinvestment to distribution ratio [5] [6]	**42.8%**	38.5%	**43.0%**	39.3%
Cash distribution ratio	**57.2%**	61.5%	**57.0%**	60.7%
Per unit amounts				
Basic:				
FFO	**$ 0.68**	$ 0.58	**$ 2.61**	$ 2.50
Distributable income	**0.63**	0.54	**2.38**	2.26
Distribution rate (monthly)	**0.183**	0.183	**0.183**	0.183
Diluted: [7]				
FFO	**$ 0.64**	$ 0.56	**$ 2.47**	$ 2.44
Distributable income	**0.60**	0.53	**2.28**	2.22
Units outstanding (period end)				
REIT Units, Series A	**20,449,209**	16,819,963		
LP Class B Units, Series 1	**8,337,365**	7,924,084		
Total units outstanding	**28,786,574**	24,744,047		

(1) Interest coverage is calculated using total interest expense as the denominator and the numerator is calculated as net income (loss) adding back income attributable to non-controlling interest, income taxes, dilution gain, gain (loss) on disposal of rental property, provision for impairment in value of rental property, depreciation, amortization and interest expense.
(2) NOI – rental property revenues less operating expenses.
(3) FFO – The reconciliation of FFO to net income can be found on page 40.
(4) The reconciliation of distributable income to net income can be found on page 41.
(5) These percentages do not include the additional 4% distributions available under the DRIP.
(6) Includes January 15, 2006 reinvestment of distributions declared in December 2005.
(7) Diluted amounts assume the conversion of the 6.5% and 5.7% Debentures.
(8) Excludes 2280 boul. Alfred-Nobel, Montréal, under redevelopment.

NOI, FFO and distributable income are key measures of performance used by real estate operating companies; however, they are not defined by generally accepted accounting principles ("GAAP"), do not have standard meanings and may not be comparable with other industries or income trusts.

Our Resources and Financial Condition

Liquidity and Capital Resources

	Three Months Ended December 31		Year Ended December 31	
($000's)	2005	2004	2005	2004
Cash generated from operating activities	**$ 10,696**	$ 8,039	**$ 53,959**	$ 45,006
Cash utilized in investing activities	**(53,983)**	39,252	**(267,692)**	(119,468)
Cash generated from financing activities	**53,845**	(41,603)	**212,918**	87,817
Increase (decrease) in cash and cash equivalents	**$ 10,558**	$ 5,688	**$ (815)**	$ 13,355

In broad terms, Dundee REIT's primary sources of capital are cash generated from operating activities, credit facilities, mortgage financing and refinancing, and equity and debt issues. Our primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt principal repayments and property acquisitions. We expect to meet all of our ongoing obligations through current cash and cash equivalents, cash flows from operations, conventional mortgage refinancings and, as growth requires, through new equity or debt issues.

At December 31, 2005, cash and cash equivalents were $16.5 million, down from $17.3 million at December 31, 2004. We have an $80.0 million revolving credit facility, of which approximately $79.5 million is available to provide further funding for working capital or as a bridge facility to fund acquisitions.

Cash Generated from Operating Activities

	Three Months Ended December 31		Year Ended December 31	
($000's)	2005	2004	2005	2004
Net income	**$ (5,015)**	$ 3,027	**$ 4,309**	$ 4,353
Non-cash items:				
Depreciation of rental properties	**8,117**	6,785	**29,743**	26,364
Amortization of deferred leasing costs and intangibles	**5,918**	3,672	**19,985**	12,833
Amortization of deferred financing costs	**414**	390	**1,551**	1,055
Amortization of marked-to-market adjustment on acquired debt	**(417)**	(315)	**(2,012)**	(1,438)
Provision for impairment in value of rental property	**11,533**	–	**11,533**	–
Loss (gain) on disposal of rental properties	**3,837**	(287)	**3,620**	16,426
Deferred unit compensation expense	**243**	568	**830**	886
Future income taxes	**(4,287)**	(25)	**(3,653)**	(2,013)
Amortization of market rent adjustments on acquired leases	**(81)**	(56)	**(331)**	(130)
Straight-line rent adjustment	**(839)**	(889)	**(3,688)**	(4,264)
Dilution gain	**(296)**	(548)	**(1,890)**	(1,731)
Non-controlling interest	**(2,281)**	1,245	**1,523**	1,556
	16,846	13,567	**61,520**	53,897
Deferred leasing costs incurred	**(4,724)**	(3,367)	**(12,427)**	(14,347)
Change in non-cash working capital	**(1,426)**	(2,161)	**4,866**	5,456
Cash generated from operating activities	**$ 10,696**	$ 8,039	**$ 53,959**	$ 45,006

Cash generated from operations during the three-month period increased 33% over the comparative period primarily due to the contribution from acquisitions offset slightly by an increase in leasing costs. Year-to-date results also reflect the impact of acquisitions and lower leasing costs. The $0.7 million increase in the change in non-cash working capital in the quarter is mainly a result of a decrease in accounts payable related to leasing costs.

As part of operating expenses, there are certain property repair and maintenance costs that are recoverable from tenants. These costs are recovered in the year of expenditure or, in the case of a major expenditure, are deferred and amortized to recoverable expense over a period of years. At December 31, 2005, the deferred amount remaining for recovery in future periods was $7.5 million (December 31, 2004 – $8.1 million).

Certain of the key performance indicators previously identified influence the cash generated from operating activities:

Performance Indicators	December 31, 2005[2]	December 31, 2004
Operating Activities		
Occupancy level [1]	**96.2%**	94.5%
Tenant maturity profile – average term to maturity (years)		
Office	**4.8 years**	5.2 years
Industrial	**4.4 years**	3.5 years
In-place rental rates (office and industrial average)	**$ 9.36**	$ 9.06
NOI as a percentage of rental property revenue	**55.1%**	54.6%

(1) Includes occupied and committed space
(2) Excludes 2280 boul. Alfred-Nobel, Montréal, under redevelopment

Our tenant maturity profile has remained consistent over a long period of time. The decrease in the average term to maturity in the office portfolio reflects the impact of month-to-month tenancies as well as the time elapsed since the previous year, partially offset by new leasing activity. The industrial portfolio generally attracts tenants for shorter lease terms. However, year-to-date leasing activity, combined with the longer lease terms of acquired properties, has lengthened the average term to maturity compared with 2004.

Our current average in-place office and industrial rental rates are approximately 16% higher than our 2006 expiring rental rates. Although this is a positive indicator, the marketplace remains competitive and in-place rent will vary with location and incentive packages, including free rent and market conditions. We do anticipate continued pressure on rents as some leases are expiring at rates that are close to or over current market rates.

Leasing

Occupancy levels and rental rates are discussed under our results of operations beginning on page 50. Leasing costs for the year decreased 13% to $12.4 million (December 31, 2004 – $14.3 million). The decrease in leasing costs reflects a 20% decline in the average leasing cost per square foot. This decline was partially offset by increases in industrial leasing activity compared to 2004. Included in total leasing costs is approximately $1.0 million that was spent to increase our occupancy compared with 2004. We also incurred approximately $0.8 million of leasing costs related to retail properties that were sold or under contract for sale during the year. There are two major types of spending associated with leasing: expenditures to improve the space, and commissions paid to brokers or leasing representatives. We endeavour to structure our lease deals such that the majority of the leasing cost outlay is invested in improving the tenants' space, as this benefits the overall building and adds value for the next renewal or new lease. The amount of tenant inducements will vary across the portfolio and from year to year depending on the maturity and termination of leases, existing vacancies, market requirements and the nature and mix of the leasing activity. For example, short-term leases generally have lower costs than long-term leases, and leasing costs associated with office space are generally higher than costs associated with industrial space.

During the year, a tenant in one of our co-owned office properties surrendered approximately 100,000 square feet of space with an in-place rent of $18.00 per square foot. We received a $1.0 million payment in connection with this surrender. During the fourth quarter we re-leased approximately 75,000 square feet of this space at an average net rent of $21.50 per square foot. We incurred $0.4 million in leasing costs in relation to these leases with a further commitment to pay approximately $1.3 million once the tenants complete the required work and request reimbursement.

Performance Indicators	Office [1]	Industrial	Retail	Total
Operating Activities				
Portfolio size (sq. ft.)	6,292,527	8,752,312	841,533	15,886,372
Occupied and committed	95.8%	96.5%	94.8%	96.2%
Square footage leased and occupied in 2005	704,968	1,795,189	107,813	2,607,970
Leasing costs to increase occupancy ($000's)	$ 630	$ 415	$ 13	$ 1, 058
Leasing costs to maintain occupancy ($000's)	$ 6,133	$ 4,307	$ 929	$ 11,369
Leasing costs to maintain occupancy (per sq. ft.)	$ 9.39	$ 2.56	$ 8.67	$ 4.66

(1) Excludes 2280 boul. Alfred-Nobel, Montréal under redevelopment

At the beginning of the year, we estimated our normalized leasing activity for office and industrial properties to be $5.7 million and $3.4 million, respectively. In 2005, we incurred $6.1 million related to office leasing. The difference from our estimate is attributable to greater leasing activity than the normalized average. With respect to our industrial portfolio, we incurred $4.3 million in leasing costs, exceeding our normalized estimated by $0.9 million, again, largely reflecting greater leasing activity.

The table below provides our estimates of expected leasing activity and leasing costs for 2006 based on average leasing activity for the next three years and provided that market conditions remain consistent with the current market.

	Office	*Industrial*
Average leasing activity (sq. ft.)	700,000	1,750,000
Average leasing costs (per sq. ft.)	$ 9.50	$ 2.50
Expected average annual leasing cost ($000's)	$ 6,600	$ 4,400

Cash Utilized in Investing Activities

($000's)	*Three Months Ended December 31* 2005	2004	*Year Ended December 31* 2005	2004
Investment in rental properties	**$ (3,709)**	$ (1,312)	**$ (7,833)**	$ (7,063)
Acquisition of rental properties	**(54,521)**	(235)	**(275,024)**	(154,225)
Acquisition deposit on rental properties	**(705)**	–	**(880)**	–
Investment in mezzanine loan	–	–	**(750)**	(10,476)
Net proceeds from disposal of rental properties	**5,864**	40,513	**8,118**	52,647
Change in restricted cash, net	**(912)**	286	**8,677**	(351)
Cash generated from (utilized in) investing activities	**$ (53,983)**	$ 39,252	**$ (267,692)**	$ (119,468)

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

Performance Indicators *($000's)*	*Three Months Ended December 31* 2005	2004	*Year Ended December 31* 2005	2004
Investing Activities				
Acquisition of rental properties	**$ 71,555**	$ –	**$ 350,621**	$ 272,683
Building improvements	**$ 4,555**	$ 1,424	**$ 8,529**	$ 6,550

During the quarter, we acquired $71.6 million of rental properties and related intangible assets and assumed $17.0 million of mortgages. In total, we have assumed $74.5 million in mortgages in connection with certain acquisitions completed in 2005. A summary of these acquisitions is provided on page 53. Acquisitions completed during the year have increased net operating income by approximately $6.0 million and $14.4 million for the quarter and year, respectively.

Building Improvements

($000's)	*Three Months Ended December 31* 2005	2004	*Year Ended December 31* 2005	2004
Building improvements:				
Recurring recoverable	**$ 1,855**	$ 350	**$ 2,569**	$ 356
Recurring non-recoverable	**348**	413	**1,169**	1,335
Non-recurring	**2,352**	661	**4,791**	4,859
Total	**$ 4,555**	$ 1,424	**$ 8,529**	$ 6,550

For the three-month period, capital expenditures for rental property building improvements and equipment were $4.6 million (December 31, 2004 – $1.4 million) on an accrual basis. Recurring recoverable costs included $1.3 million incurred in the quarter for various roof and electrical mechanical repairs. Recurring non-recoverable costs of $0.4 million included an elevator upgrade, which

was not recoverable under the terms of the leases. Non-recurring costs in the quarter included $1.9 million of construction costs for a design/build we are completing for a tenant as well as the capitalization of carrying costs for a property under redevelopment. The design/build is located in suburban Edmonton, will comprise 29,000 square feet and is scheduled for completion in the second half of 2006. The estimated construction cost is $2.6 million.

As part of our acquisition due diligence, we endeavour to identify any near-term capital expenditure requirements and factor those costs into our investment analysis and purchase price negotiations. Such potential expenditures are approved in the acquisition process and will be identified as incurred. Anticipated non-recoverable capital expenditure costs associated with current acquisitions are less than $0.5 million and will be incurred over the next two years.

Mezzanine Loan

Our mezzanine loan investment remains at $11.2 million plus accrued interest of $1.3 million. This loan is to assist in the development and leasing of 345,000 square feet of flex properties adjacent to existing properties in Mississauga, Ontario. Our current intention is to exercise our option to acquire these properties once they meet the 85% occupancy requirement. The option allows us to purchase the property at a discount to market value at the time of the sale. Construction of the flex properties is now complete. Leasing is progressing well and the average committed occupancy is approximately 55%. We anticipate acquiring these properties in the second half of 2006.

Cash Generated from Financing Activities

	Three Months Ended December 31		Year Ended December 31	
($000's)	2005	2004	2005	2004
Mortgages placed	**$ 28,821**	$ 11,501	**$ 155,621**	$ 83,413
Mortgage principal repayments	**(5,204)**	(3,864)	**(17,957)**	(15,150)
Mortgage lump sum repayments	**(6,378)**	(6,736)	**(46,076)**	(56,538)
Term debt placed	**–**	–	**–**	60,083
Term debt principal repayments	**(121)**	(277)	**(501)**	(956)
Term debt lump sum repayments	**(5,417)**	(35,267)	**(7,492)**	(121,153)
Convertible debentures issued, net of costs	**(9)**	(22)	**95,443**	71,410
Revolving credit facility, net	**(21,577)**	–	**–**	(7,026)
Demand non-revolving credit facility	**–**	–	**(6,107)**	–
Distributions paid on REIT Units, Series A	**(7,909)**	(8,293)	**(31,700)**	(31,003)
Units issued, net of costs	**71,639**	1,355	**71,687**	104,737
Cash generated from (utilized in) financing activities	**$ 53,845**	$ (41,603)	**$ 212,918**	$ 87,817

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

December 31	2005	2004
Financing Activities		
Average interest rate	**6.16%**	6.62%
Level of debt (debt-to-gross book value)	**59.3%**	55.2%
Proportion of total debt due within one year	**7.2%**	4.7%
Debt – average term to maturity (years)	**5.9**	5.4
Variable rate debt as percentage of total debt	**1.6%**	3.9%

Our debt strategy includes fixing the rates on our debt and extending loan terms as long as possible to protect against interest rate volatility. As a result of repaying our demand non-revolving credit-facility, our variable interest rate debt as a percentage of total debt has decreased compared with 2004. Mortgage financing and the issuance of our 5.7% Debentures completed in the year has also decreased our average interest rate and increased the average term to maturity of our debt compared with the prior year.

	December 31, 2005			December 31, 2004		
($000's)	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	**$ 756,920**	**$ –**	**$ 756,920**	$ 591,304	$ –	$ 591,304
Term debt	**271**	**15,062**	**15,333**	432	21,005	21,437
Convertible debenture – 6.5%	**72,478**	**–**	**72,478**	74,430	–	74,430
Convertible debenture – 5.7%	**98,890**	**–**	**98,890**	–	–	–
Demand non-revolving credit facility	**–**	**–**	**–**	–	5,984	5,984
Total	**$ 928,559**	**$ 15,062**	**$ 943,621**	$ 666,166	$ 26,989	$ 693,155
Percentage	**98.4%**	**1.6%**	**100%**	96.1%	3.9%	100%

Mortgages payable include an $8.5 million marked-to-market adjustment (December 31, 2004 – $7.2 million) to reflect the fair value of various mortgages at the time the related properties were acquired. Amounts recorded for the 6.5% and 5.7% Debentures are net of the premiums allocated to their conversion features of $1.6 million at December 31, 2005. The marked-to-market adjustment and discount are amortized to interest expense over the term to maturity of the related debt.

($000's) December 31	2005	2004
Total assets	**$ 1,507,713**	$ 1,199,792
Accumulated depreciation	**86,339**	60,463
Discontinued operations	**–**	(2,384)
Gross book value	**$ 1,594,052**	$ 1,257,871
Outstanding debt	**$ 943,621**	$ 693,155
Unamortized discount component of convertible debentures	**1,606**	570
Total debt	**$ 945,227**	$ 693,725
Debt-to-gross book value	**59.3%**	55.2%

Due to the high level of convertible debt in our current debt structure, we have made a conscious decision to increase our target debt range from between 55% and 60% to between 57% and 63%. At December 31, 2005, our ratio increased to 59.3% (December 31, 2004 – 55.2%) mainly as a result of using a higher proportion of debt to fund acquisitions compared with 2004. We consider our convertible debentures to be debt and treat them as such when computing our debt ratios. The conversion of all the 6.5% and 5.7% Debentures would decrease our debt-to-gross book value to 48.4%.

Financing Activity

We continued to take advantage of the favourable interest rate environment during the fourth quarter and secured approximately $29.5 million in new mortgage financing for an average term of 8.4 years at an average interest rate of 5.1%. A portion of the proceeds were used to fund acquisitions and the remainder to pay down the amounts drawn on our revolving credit facility. As a result, our overall average interest rate decreased and our average term to maturity increased. During the year, we had drawn $57.3 million from our revolving credit facility which was fully repaid as at December 31, 2005.

Debt Management and Optimal Capital Structure

By optimizing our use of capital, we maximize returns for our investors. The use of long-term, low interest rate debt and convertible debentures provides flexibility, high debt coverage and lots of firepower for unitholders. In the past ten quarters we have reduced our average interest rate by over 100 basis points and lengthened the average term to maturity of our debt by more than 30% to almost six years.

6.16%

WEIGHTED AVERAGE INTEREST RATE

Changes in debt levels since December 31, 2004 result from:

($000's)	Mortgages	Term Debt	Revolving Credit Facility [2]	Demand Non-revolving Credit Facility	Convertible Debentures	Total
Debt as at December 31, 2004	$ 591,304	$ 23,326[1]	$ –	$ 5,984	$ 74,430	$ 695,044
New debt assumed on rental property acquisitions	71,041	–	–	–	–	71,041
New debt placed	156,300	–	57,273	–	100,000	313,573
Equity component of convertible debenture	–	–	–	–	(1,200)	(1,200)
Scheduled repayments	(17,957)	(501)	–	–	–	(18,458)
Lump sum repayments	(46,076)	–	(57,273)	(6,107)	–	(109,456)
Lump sum repayment on property disposition	–	(7,492)	–	–	–	(7,492)
Conversion to unit equity	–	–	–	–	(2,026)	(2,026)
Marked-to-market adjustments	1,275	–	–	–	164	1,439
Foreign exchange adjustment	1,033	–	–	123	–	1,156
Debt as at December 31, 2005	$ 756,920	$ 15,333	$ –	$ –	$ 171,368	$ 943,621

(1) Includes discontinued operations
(2) The revolving credit facility matures June 19, 2006

($000's)	December 31, 2005 Debt Maturities	December 31, 2005 Scheduled Principal Repayments on Non-matured Debt	December 31, 2005 Amount	December 31, 2005 %	December 31, 2004
2006	**$ 44,420**	**$ 23,381**	**$ 67,801**	**7**	$ 32,564
2007	**31,214**	**22,368**	**53,582**	**6**	65,737
2008	**89,604**	**21,582**	**111,186**	**12**	68,533
2009	**113,659**	**17,695**	**131,354**	**14**	89,596
2010	**38,629**	**14,887**	**53,516**	**6**	112,653
2011 and thereafter	**496,057**	**30,125**	**526,182**	**55**	324,072
Total	**$ 813,583**	**$ 130,038**	**$ 943,621**	**100**	$ 693,155

Convertible Debentures

As at December 31, 2005, Dundee REIT had outstanding approximately $73.0 million aggregate principal amount of 6.5% convertible unsecured subordinated debentures due June 30, 2014 ("6.5% Debentures"), and $100.0 million aggregate principal amount of Series 2005-1 5.7% convertible unsecured subordinated debentures due March 31, 2015 ("5.7% Debentures"). The 6.5% Debentures are convertible into a total of 2,918,960 REIT Units, Series A, and the 5.7% Debentures are convertible into a total of 3,333,333 REIT Units, Series A. During the year, $2.0 million of the principal amount of 6.5% Debentures were converted into 81,040 REIT Units, Series A.

Public Offering of Units

On December 14, 2005, we completed a public offering for gross cash proceeds of $65.0 million through the issuance of 2,600,000 REIT Units, Series A at a price of $25.00 per unit. On December 22, 2005, we issued an additional 390,000 REIT Units, Series A for gross proceeds of approximately $9.8 million pursuant to the exercise of the over-allotment option granted to the underwriters. The exercise of the over-allotment option increased the total gross proceeds of the offering to approximately $74.8 million. Costs relating to the offering totalled $3.4 million and were charged directly to Unitholders' equity. The purchase method was used to account for the investment of the net proceeds in Dundee Properties L.P. and a purchase adjustment of $5.4 million relating to the fair value increment of acquired properties was recorded.

Equity and Non-controlling Interest

	Equity	*Non-controlling Interest*	
	REIT Units, Series A	*LP Class B Units, Series 1*	*Total*
Units issued and outstanding on December 31, 2004	16,819,963	7,924,084	24,744,047
Units issued pursuant to DRIP	532,817	413,281	946,098
Units issued pursuant to unit purchase plan	8,725	–	8,725
Units issued pursuant to deferred unit incentive plan	16,764	–	16,764
Public offering of units	2,990,000	–	2,990,000
Conversion of 6.5% Debenture	81,040	–	81,040
Redemption of units	(100)	–	(100)
Total units outstanding on December 31, 2005	20,449,209	8,337,365	28,786,574
Percentage of all units	71%	29%	100.00%
Units issued pursuant to DRIP on January 15, 2006	87,694	–	87,694
Units issued pursuant to unit purchase plan	6,817	–	6,817
Total units outstanding on January 15, 2006	20,543,720	8,337,365	28,881,085
Percentage of all units	71%	29%	

Our Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: REIT Units and Special Trust Units. The Special Trust Units may only be issued to holders of LP Class B Units, Series 1, are not transferable separately from these units, and are used to provide voting rights with respect to Dundee REIT to persons holding LP Class B Units, Series 1. The LP Class B Units, Series 1 are held by a related party of Dundee REIT. Both the REIT Units and Special Trust Units entitle the holder to one vote for each unit held at all meetings of the unitholders. 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, which can then be converted into REIT Units, Series A. The LP Class B Units, Series 1 and corresponding Special Trust Units together 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. At Dundee REIT's annual and special meeting held on May 5, 2005, unitholders approved an amendment to the Declaration of Trust authorizing REIT Units, Series B to be convertible at any time at the option of the holder into REIT Units, Series A on a one-for-one basis. Previously, we were obligated to list the REIT Units, Series B separately on the Toronto Stock Exchange. To date, no REIT Units, Series B have been issued.

The LP Class B Units, Series 1 do not meet the specific conditions contained in EIC-151 (see page 60) for classification as equity and are therefore classified as non-controlling interest in our consolidated balance sheet. However, the LP Class B Units, Series 1 have substantially the same rights as the REIT Units and are considered equity for the purposes of this discussion and analysis.

Funds from Operations

($000's except per unit amounts)	Three Months Ended December 31 2005	Three Months Ended December 31 2004 Restated [1]	Year Ended December 31 2005	Year Ended December 31 2004 Restated [1]
Net Income	**$ (5,015)**	$ 3,027	**$ 4,309**	$ 4,353
Add (deduct):				
Depreciation of rental properties	**8,117**	6,785	**29,743**	26,364
Amortization of deferred leasing costs and intangibles	**5,918**	3,672	**19,985**	12,833
Imputed amortization of leasing costs related to the rent supplement	**318**	336	**1,176**	1,364
Loss (gain) on disposal of rental properties	**3,837**	(287)	**3,620**	16,426
Provision for impairment in value of rental property	**11,533**	–	**11,533**	–
Future income tax recovery	**(4,286)**	(25)	**(3,653)**	(2,013)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(6)**	(3)	**(16)**	(11)
Dilution gain	**(296)**	(548)	**(1,890)**	(1,731)
Non-controlling interest	**(2,281)**	1,245	**1,523**	1,556
FFO	**$ 17,839**	$ 14,202	**$ 66,330**	$ 59,141
FFO per unit – basic	**$ 0.68**	$ 0.58	**$ 2.61**	$ 2.50
FFO per unit – diluted	**$ 0.64**	$ 0.56	**$ 2.47**	$ 2.44

(1) Restated to comply with REALpac guidelines and items specific to the organization of the REIT.

The increase in FFO per unit for both the three- and twelve-month periods is primarily due to the impact of acquisitions and increased occupancy in our portfolio. A reduction in our weighted average interest rate also had a positive impact on FFO. Diluted FFO per unit amounts assume the conversion of the 6.5% Debentures and 5.7% Debentures. Year-to-date, the weighted-average units outstanding for basic and diluted FFO per unit calculations are 25,404,102 and 30,929,623, respectively.

Management believes that FFO is an important measure of the Trust's operating performance and is indicative of its cash-generating activities. This measurement is generally accepted as one of the most meaningful and useful measures of performance of real estate operations; however, it does not represent cash flow from operating activities as defined by Canadian Generally Accepted Accounting Principles ("GAAP") and is not necessarily indicative of cash available to fund Dundee REIT's needs. In 2005, the Real Property Association of Canada ("REALpac") provided guidelines on the definition of FFO to help promote more consistent disclosure. The impact of the REALpac guidelines on our calculation of FFO was not significant, with the only change being the deduction of amortization of costs that are not uniquely significant to the real estate industry. These costs include software, office equipment and building improvement costs incurred after the formation of Dundee REIT. We adopted these guidelines and restated all prior comparative periods. Until such time as all income trusts adopt this policy, our computation of FFO may not be comparable with other REITs, industries or income trusts.

Distributable Income

($000's except per unit amounts)	*Three Months Ended December 31* 2005	2004	*Year Ended December 31* 2005	2004
		Restated [1]		*Restated* [1]
Net Income	**$ (5,015)**	$ 3,027	**$ 4,309**	$ 4,353
Add (deduct):				
Depreciation of rental properties	**8,117**	6,785	**29,743**	26,364
Amortization of deferred leasing costs and intangibles	**5,918**	3,672	**19,985**	12,833
Future income tax recovery	**(4,286)**	(25)	**(3,653)**	(2,013)
Amortization of marked-to-market adjustment on acquired debt	**(417)**	(315)	**(2,012)**	(1,438)
Compensation expense, deferred unit incentive plan	**243**	568	**830**	886
Loss (gain) on disposal of rental property	**3,837**	(287)	**3,620**	16,426
Provision for impairment in value of rental property	**11,533**	–	**11,533**	–
Straight-line rent	**(838)**	(889)	**(3,688)**	(4,264)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(6)**	(3)	**(16)**	(11)
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	**25**	14	**108**	132
Amortization of deferred financing costs incurred prior to June 30, 2003	**94**	103	**367**	468
Amortization of market rent adjustments on acquired leases	**(82)**	(56)	**(331)**	(130)
Dilution gain	**(296)**	(548)	**(1,890)**	(1,731)
Non-controlling interest	**(2,281)**	1,245	**1,523**	1,556
Distributable income	**$ 16,546**	$ 13,291	**$ 60,428**	$ 53,431
Distributable income per unit – basic	**$ 0.63**	$ 0.54	**$ 2.38**	$ 2.26
Distributable income per unit – diluted	**$ 0.60**	$ 0.53	**$ 2.28**	$ 2.22

(1) Restated as a result of amendments to our definition of DI and for comparability, previously reported as $12,542. Restated amount deducts amortization of costs not specific to real estate operations, no longer deducts the amortization of deferred leasing costs and no longer includes imputed amortization of leasing costs related to the rent supplement.
(2) Restated as a result of amendments to our definition of DI and for comparability, previously reported as $52,072.

Distributable income is not a measure defined by Canadian GAAP and therefore may not be comparable to similar measures presented by other real estate investment trusts. Distributable income is defined in our Declaration of Trust to facilitate the determination of distributions to our unitholders.

In response to recent changes in Canadian GAAP, effective January 1, 2005, we amended our definition of distributable income to more accurately describe cash available for distribution to unitholders. The most significant change relates to the exclusion of the amortization of leasing costs, which does not impact our capacity to pay distributions in the short term. The change also incorporates the deduction of amortization of costs not specific to real estate operations as discussed under funds from operations above.

Distributions

The distributions presented in the table below are comprised of $38.2 million relating to REIT Units, Series A and $18.8 million relating to LP Class B Units, Series 1. Cash distributions were only paid to holders of REIT Units, Series A as all of the LP Class B Units, Series 1 are enrolled in the DRIP.

($000's)		*Declared Distributions*		*4% Additional Distributions*		*Total*
2005 Distributions						
Paid in cash or reinvestment in units	$	50,804	$	875	$	51,679
Payable at December 31, 2005		5,268		88		5,356
Total distributions	$	56,072	$	963	$	57,035
2005 Reinvestment						
Reinvested to December 31, 2005	$	21,883	$	875	$	22,758
Reinvested on January 15, 2006		2,240		88		2,328
Total distributions reinvested	$	24,123	$	963	$	25,086
Distributions paid in cash	$	31,949				
Reinvestment to distribution ratio		43.0%				
Cash distribution payout ratio		57.0%				

Our distribution policy requires us to make cash distributions to our unitholders, payable monthly, equal to at least 80% of distributable income on an annual basis. Distributions declared in the year totalled $56.1 million or 93% of distributable income, an increase of $3.5 million over the previous year. Of this amount, $24.1 million or 43% was reinvested in additional units. The increase in declared distributions stems from an incremental increase in units generated through the DRIP as well as the public offering of REIT units, Series A completed in December 2005 and February 2004. As a result of the high level of participation in the DRIP, our cash payout ratio for our distributions is 57%.

Effective August 15, 2005 the holders of LP Class B Units, Series 1 elected to invest their distributions in REIT Units, Series A. $9.5 million in distributions on LP Class B Units, Series I were paid or declared up to December 31, 2005 and satisfied by the issuance of REIT Units, Series A.

Taxation of Distributions

For taxable Canadian resident unitholders, distributions declared in 2005 are treated in the following manner for tax purposes:

	2005	2004	2003
Other income	**32.1%**	49.4%	42.4%
Taxable capital gains	**2.1%**	2.2%	–
Return of capital	**65.8%**	48.4%	57.6%

$24.1 M

REINVESTED IN 2005

High Enrolment in Distribution Reinvestment and Unit Purchase Plan

At the end of 2005, 43% of the total units outstanding were enrolled in the DRIP, including 19% of REIT Units, Series A and 100% of LP Class B Units, Series 1. Not only does this high enrolment allow Dundee REIT to further grow its business, but it also highlights the confidence our unitholders have in Dundee REIT and its management.

Our Results of Operations

($000's)	Three Months Ended December 31 2005	2004	Year Ended December 31 2005	2004
Revenues				
Rental properties revenue	**$ 60,630**	$ 49,643	**$ 221,576**	$ 185,483
Interest and fee income	**397**	635	**2,144**	2,232
	61,027	50,278	**223,720**	187,715
Expenses				
Rental properties operating expenses	**27,279**	23,563	**99,541**	84,300
Interest	**14,701**	11,600	**53,960**	43,031
Depreciation of rental properties	**8,117**	6,726	**29,575**	25,335
Amortization of deferred leasing costs and intangibles	**5,918**	3,563	**19,643**	12,220
General and administrative	**1,640**	1,899	**5,408**	5,201
	57,655	47,351	**208,127**	170,087
Income Before the Undernoted Items	**3,372**	2,927	**15,593**	17,628
Provision for impairment in rental property	**(11,533)**	–	**(11,533)**	–
Gain (loss) on disposal of rental property	**–**	(11)	**–**	155
Dilution gain	**296**	548	**1,890**	1,731
Income (loss) before income and large corporations taxes	**(7,865)**	3,464	**5,950**	19,514
Income Taxes				
Current income and large corporations taxes	**49**	46	**181**	113
Future income taxes	**(4,286)**	(25)	**(3,653)**	(2,013)
	(4,237)	21	**(3,472)**	(1,900)
Income (loss) before non-controlling interest and discontinued operations	**(3,628)**	3,443	**9,422**	21,414
(Income) loss attributable to non-controlling interest	**1,158**	(981)	**(2,622)**	(6,374)
Income (loss) before discontinued operations	**(2,470)**	2,462	**6,800**	15,040
Discontinued operations	**(2,545)**	565	**(2,491)**	(10,687)
Net income (loss)	**$ (5,015)**	$ 3,027	**$ 4,309**	$ 4,353

Rental Properties Revenue

Revenues include net rental or basic income from rental properties as well as the recovery of operating costs, property taxes, parking revenues and other miscellaneous revenues from tenants. The increase in revenue for both the three- and twelve-month periods is primarily a result of revenues from properties acquired in 2004 and 2005, which contributed $10.4 million and $24.9 million to the respective periods.

Interest and Fee Income

Interest and fee income represents amounts for items such as fees earned from managing properties owned by others, including management, construction and leasing fees, and interest on bank accounts and related fees. These revenues and expenses are not necessarily of a recurring nature and the amounts will vary from year to year.

Rental Properties Operating Expenses

Operating expenses are mainly comprised of occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing. Operating expenses fluctuate with occupancy levels, weather, utility costs, taxes, repairs and maintenance. The $3.7 million and $15.2 million increase in operating expenses for the three- and twelve-month periods, respectively, is mainly a result of acquisitions completed in 2004 and 2005.

Interest Expense

The increase in interest expense for both the three- and twelve-month periods was mainly driven by additional debt incurred in connection with acquisitions. Although the overall dollar amount of our debt increased, the impact on interest expense was mitigated to some extent by the reduction in our weighted average interest rate to 6.2% compared with 6.6% in 2004.

Depreciation of Rental Properties

Depreciation increased by $1.4 million and $4.2 million for the three- and twelve-month periods, respectively, compared with the same periods in 2004 mainly as a result of acquisitions.

Amortization of Deferred Leasing Costs and Intangibles

Amortization increased by $2.4 million and $7.4 million for the three- and twelve-month periods, respectively, compared with the same periods in 2004, largely due to the allocation of a portion of the purchase price on new acquisitions to intangibles.

General and Administrative

General and administrative expenses are primarily comprised of the expenses related to corporate management, trustees' fees and expenses, and investor relations for the Trust and its subsidiaries. Expenses for the quarter were $1.6 million, down $0.3 million from the comparative period in 2004, which included a one-time charge relating to the deferred unit and other incentive plans. For the year, general and administrative expenses increased by $0.2 million or 4%, mainly reflecting additional overhead costs driven by the growth of our business.

Dilution Gain

A dilution gain of $0.3 million and $1.9 million for the three- and twelve-month periods (December 31, 2004 – $0.5 million and $1.7 million, respectively) was recognized as a result of the application of EIC-151 (see page 60). The dilution gain stems from the additional LP Class B Units, Series 1 issued pursuant to the DRIP, resulting in a dilution of our ownership of Dundee Properties L.P.

Income Tax Expense

Dundee REIT distributes or designates all taxable earnings to unitholders and as such, under current legislation, the obligation for tax rests with each unitholder and no tax provision is currently required on the majority of Dundee REIT's income. Certain Canadian and U.S. subsidiaries of Dundee REIT are taxable and any tax related costs are reflected in the income statement and balance sheet. The increase in the future income tax recovery for the year compared with 2004 reflects the tax impact of recording an impairment provision on 50% of our U.S. retail property.

Income Attributable to Non-Controlling Interest

Income (loss) attributable to non-controlling interest of $(1.2) million and $2.6 million for the three- and twelve-month periods excludes losses from discontinued operations of $(1.1) in each of the respective periods. These amounts represent the income (loss) from continuing and discontinued operations allocated to the holders of LP Class B Units, Series 1, which comprises the non-controlling interest.

Discontinued Operations

Discontinued operations includes assets that have been categorized as held for sale or sold and meet specific criteria as discontinued assets in accordance with Canadian GAAP. These assets and operations are disclosed separately on the balance sheet and income statement. We did not own any properties as at December 31, 2005 that were identified as held for sale. On November 15, 2005, we completed the sale of Simcoe Town Centre, on which we realized a loss of $3.8 million. The amounts included in the financial statements also include the fulfilment of obligations and realization of assets for properties that were sold in prior periods.

Provision for Impairment in Value of Rental Property

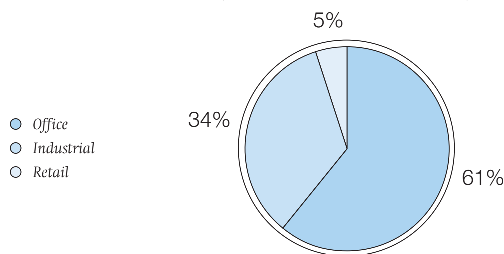
On December 21, 2005, we entered into a commitment to sell a 50% interest in a retail rental property located in the United States. The carrying amount of the 50% interest exceeds the expected net proceeds of $17.7 million from the sale; the difference of $11.5 million was recognized as an impairment loss by reducing the carrying amount of the rental property. Given that we will retain a significant continuing involvement and interest in the property after the sale of the 50% interest, it has not been classified as held for sale or as a discontinued operation. We expect to close the sale during the first quarter of 2006.

Net Operating Income ("NOI")

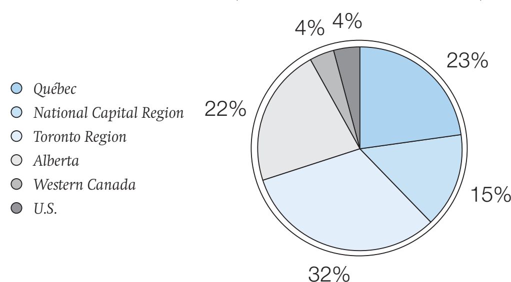
($000's)	Three Months Ended December 31				Year Ended December 31			
			Growth				Growth	
	2005	2004	Amount	%	2005	2004	Amount	%
Office	**$ 20,532**	$ 14,871	$ 5,661	38	**$ 73,598**	$ 58,684	$ 14,914	25
Industrial	**11,488**	9,892	1,596	16	**43,734**	37,327	6,407	17
Retail	**1,331**	1,317	14	1	**4,703**	5,172	(469)	(9)
NOI	**33,351**	26,080	7,271	28	**122,035**	101,183	20,852	21
Discontinued operations	**207**	1,073	(866)		**790**	4,970	(4,180)	
NOI including discontinued operations	**$ 33,558**	$ 27,153	$ 6,405	24	**$ 122,825**	$ 106,153	$ 16,672	16

($000's)	Three Months Ended December 31				Year Ended December 31			
			Growth				Growth	
	2005	2004	Amount	%	2005	2004	Amount	%
Québec	**$ 7,654**	$ 5,411	$ 2,243	41	**$ 27,522**	$ 20,012	$ 7,510	38
National Capital Region	**5,121**	3,614	1,507	42	**17,012**	14,391	2,621	18
Toronto Region	**10,852**	7,907	2,945	37	**40,085**	32,098	7,987	25
Alberta	**7,217**	6,652	565	8	**28,054**	25,301	2,753	11
Western Canada	**1,326**	1,358	(32)	(2)	**5,221**	4,926	295	6
Total Canada	**32,170**	24,942	7,228	29	**117,894**	96,728	21,166	22
United States	**1,181**	1,138	43	4	**4,141**	4,455	(314)	(7)
NOI	**33,351**	26,080	7,271	28	**122,035**	101,183	20,852	21
Discontinued operations	**207**	1,073	(866)		**790**	4,970	(4,180)	
NOI including discontinued operations	**$ 33,558**	$ 27,153	$ 6,405	24	**$ 122,825**	$ 106,153	$ 16,672	16

NOI by Segment
(Three months ended December 31, 2005)



NOI by Region
(Three months ended December 31, 2005)



Net operating income is an important measure used by management to evaluate the operating performance of the properties. We define NOI as the total of rental property revenues less rental property operating expenses. NOI for the quarter increased 28% over the comparative period, primarily due to income from properties acquired in 2004 and 2005.

NOI Comparative Portfolio

($000's)	Three Months Ended December 31 2005	2004	Growth Amount	%	Year Ended December 31 2005	2004	Growth Amount	%
Office	**$ 13,015**	$ 11,621	$ 1,394	12	**$ 50,431**	$ 48,829	$ 1,602	3
Industrial	**6,169**	5,972	197	3	**24,319**	23,074	1,245	5
Retail	**1,321**	1,309	12	1	**4,685**	4,987	(302)	(6)
Comparative properties	**20,505**	18,902	1,603	8	**79,435**	76,890	2,545	3
Acquisitions	**11,550**	5,611	5,939		**36,630**	16,712	19,918	
Rent supplement	**458**	703	(245)		**2,272**	3,393	(1,121)	
Dispositions	**–**	(4)	4		**21**	62	(41)	
Straight-line rent	**838**	868	(30)		**3,677**	4,126	(449)	
NOI	**33,351**	26,080	7,271	28	**122,035**	101,183	20,852	21
Discontinued operations	**207**	1,073	(866)		**790**	4,970	(4,180)	
NOI including discontinued operations	**$ 33,558**	$ 27,153	$ 6,405	24	**$ 122,825**	$ 106,153	$ 16,672	16

($000's)	Three Months Ended December 31 2005	2004	Growth Amount	%	Year Ended December 31 2005	2004	Growth Amount	%
Québec	**$ 3,706**	$ 3,662	$ 44	1	**$ 14,407**	$ 15,289	$ (882)	(6)
National Capital Region	**3,299**	3,134	165	5	**13,311**	13,599	(288)	(2)
Toronto Region	**5,939**	4,967	972	20	**22,481**	21,032	1,449	7
Alberta	**5,045**	4,709	336	7	**19,922**	17,852	2,070	12
Western Canada	**1,345**	1,312	33	3	**5,237**	4,773	464	10
	19,334	17,784	1,550	9	**75,358**	72,545	2,813	4
United States	**1,171**	1,118	53	5	**4,077**	4,345	(268)	(6)
Comparative properties	**20,505**	18,902	1,603	8	**79,435**	76,890	2,545	3
Acquisitions	**11,550**	5,611	5,939		**36,630**	16,712	19,918	
Rent supplement	**458**	703	(245)		**2,272**	3,393	(1,121)	
Dispositions	**–**	(4)	4		**21**	62	(41)	
Straight-line rent	**838**	868	(30)		**3,677**	4,126	(449)	
NOI	**33,351**	26,080	7,271	28	**122,035**	101,183	20,852	21
Discontinued operations	**207**	1,073	(866)		**790**	4,970	(4,180)	
NOI including discontinued operations	**$ 33,558**	$ 27,153	$ 6,405	24	**$ 122,825**	$ 106,153	$ 16,672	16

NOI shown above highlights comparative and non-comparative items to assist in understanding the impact each component has on NOI. The discontinued operations that contributed to NOI are shown separately to conform with the required income statement presentation. Comparative NOI and acquisitions exclude straight-line rents. Straight-line rent will fluctuate based on the lease agreements entered into by the Trust. Generally, when leases contain contractual rent increases, also known as step rents, straight-line rent will increase revenue at the beginning of the lease term and decrease revenue in the latter periods as compared with accounting for rents as they become due. Management anticipates the impact of straight-line rent to decrease over time.

Property NOI generally varies from period-to-period as a result of changing occupancy levels and the timing of revenues and expenses that do not fluctuate directly with occupancy, such as parking revenue, bad debt provisions and extra tenant services. The increase in comparative NOI for both periods is primarily a reflection of increased occupancy in the National Capital Region, Toronto Region and Alberta office portfolios and the Alberta industrial portfolio. The increase in overall NOI in the quarter and in the year reflects the impact of acquisitions completed in 2004 and 2005. The rent supplement from DRC described below contributed $0.5 million and $2.3 million for the quarter and year, respectively.

The rent supplement represents amounts funded by DRC based on specific vacancies as previously agreed to upon the formation of Dundee REIT and as included in the property management agreement. This rent supplement will fluctuate as leasing of supplemented space occurs. The supplement commenced July 1, 2003 and is effective for five years for office and retail space and three years for industrial space. If at any time any of the spaces to which the supplement applies is either leased, sold or ceases to be managed by Dundee Realty Management Corp., the amount of the rent supplement will be permanently reduced by the amount attributed to that space. The rent supplement decreased in the quarter and year-to-date as a result of leasing activity in supplemented office and industrial space.

Comparative Office Portfolio

	Three Months Ended December 31				*Year Ended December 31*			
			Growth				*Growth*	
($000's)	2005	2004	*Amount*	*%*	2005	2004	*Amount*	*%*
Québec	**$ 1,166**	$ 1,191	$ (25)	(2)	**$ 4,386**	$ 5,462	$ (1,076)	(20)
National Capital Region	**3,299**	3,134	165	5	**13,311**	13,599	(288)	(2)
Toronto Region	**4,540**	3,631	909	25	**16,729**	15,493	1,236	8
Alberta	**2,665**	2,353	312	13	**10,768**	9,502	1,266	13
Western Canada	**1,345**	1,312	33	3	**5,237**	4,773	464	10
	13,015	11,621	1,394	12	**50,431**	48,829	1,602	3
Acquisitions	**6,429**	2,069	4,360		**18,708**	4,932	13,776	
Rent supplement	**379**	407	(28)		**1,563**	1,888	(325)	
Straight-line rent	**709**	774	(65)		**2,896**	3,035	(139)	
Office NOI	**$ 20,532**	$ 14,871	$ 5,661	38	**$ 73,598**	$ 58,684	$ 14,914	25

Growth in comparative NOI from the office portfolio for both periods is largely a result of improved occupancy, particularly in the North York and Markham submarkets of the Toronto Region. In 2004, the three- and twelve-month results included $0.3 million in one-time prior year recovery adjustments. Results from the National Capital Region for the three-month period reflect increased occupancy, while the decline in the twelve-month period is attributable to a lease surrender payment received and recorded in the prior year. Our Alberta office portfolio remains nearly fully leased. Increased NOI in the three-month period primarily reflects increasing rental rates while results for the twelve-month period include an amount related to the re-leasing of space at increased rental rates for which we have also recorded a surrender payment. NOI from Western Canada increased for the twelve-month period as a result of higher occupancy.

Leasing remains a challenge in the Anjou and Décarie sub-markets in Montréal, and although the current comparative occupancy level is encouraging, it partially reflects tenants who are on short-term leases or are leasing on a month-to-month basis. Our goal is to secure longer-term commitments from these tenants and improve occupancy levels. There were no lease expiries in the fourth quarter in these sub-markets. The continued decrease in NOI in the fourth quarter as compared with the prior year reflects the general conditions of this market.

Calgary Market

"With the oil and gas industry driving vacancy rates in Calgary toward an all-time low, and with average lease rates rising fast, office space in Calgary is quickly becoming the most expensive in Canada."

Tang Liu Director, Corporate Analysis

Comparative Industrial Portfolio

($000's)	Three Months Ended December 31 2005	2004	Growth Amount	%	Year Ended December 31 2005	2004	Growth Amount	%
Québec	**$ 2,540**	$ 2,471	$ 69	3	**$ 10,021**	$ 9,827	$ 194	2
Toronto Region	**1,399**	1,336	63	5	**5,750**	5,539	211	4
Alberta	**2,230**	2,165	65	3	**8,548**	7,708	840	11
	6,169	5,972	197	3	**24,319**	23,074	1,245	5
Acquisitions	**5,121**	3,542	1,579		**17,922**	11,780	6,142	
Rent supplement	**83**	302	(219)		**768**	1,520	(752)	
Straight-line rent	**115**	76	39		**725**	953	(228)	
Industrial NOI	**11,488**	9,892	1,596	16	**43,734**	37,327	6,407	17
Discontinued operations	**–**	68	(68)		**–**	550	(550)	
Industrial NOI including discontinued operations	**$ 11,488**	$ 9,960	$ 1,528	15	**$ 43,734**	$ 37,877	$ 5,857	15

Comparative industrial NOI is up 3% and 5% over the respective periods in 2004, driven largely by occupancy growth throughout the portfolio. We anticipate demand for industrial space to remain strong in Alberta and we are confident that our occupancy rate will remain at the current level. Demand for space in Toronto has also been steady; however, there was some softening in our occupancy rate in the fourth quarter as a result of a tenant leaving the portfolio for a build-to-suit property. In Québec, the large majority of the leases expected to expire in the fourth quarter were renewed or re-leased.

Comparative Retail Portfolio

($000's)	Three Months Ended December 31 2005	2004	Growth Amount	%	Year Ended December 31 2005	2004	Growth Amount	%
Alberta	**$ 150**	$ 191	$ (41)	(21)	**$ 608**	$ 642	$ (34)	(5)
United States (US$)	**982**	911	71	8	**3,316**	3,290	26	1
Foreign exchange	**189**	207	(18)	(9)	**761**	1,055	(294)	(28)
Comparative properties	**1,321**	1,309	12	1	**4,685**	4,987	(302)	(6)
Rent supplement	**(4)**	(6)	2		**(59)**	(15)	(44)	
Dispositions	**–**	(4)	4		**21**	62	(41)	
Straight-line rent	**14**	18	(4)		**56**	138	(82)	
Retail NOI	**1,331**	1,317	14	1	**4,703**	5,172	(469)	(9)
Discontinued operations	**207**	1,005	(798)		**790**	4,420	(3,630)	
Retail NOI including discontinued operations	**$ 1,538**	$ 2,322	$ (784)	(34)	**$ 5,493**	$ 9,592	$ (4,099)	(43)

Comparative retail NOI remained largely unchanged for the three- and twelve-month periods compared with the prior year. The decline for the twelve months represents the impact of the appreciation of the Canadian dollar and its impact when converting the results of our property located in the United States. The decline in NOI including discontinued operations reflects the sale of Northgate Mall, which contributed $0.8 million and $3.7 million for the respective three- and twelve-month periods in 2004.

NOI Prior Quarter Comparison

Overall, the comparative properties are maintaining a high level of occupancy and producing consistent NOI. Total NOI growth of 3% quarter-over-quarter largely reflects the impact of acquisitions completed in 2005, as well as improved occupancy rates throughout the portfolio. The decrease in industrial NOI is due to lower occupancy levels in the Toronto Region. The retail segment improved as a result of increases in occupancy and percentage rent from our U.S. asset. Comparative NOI changes for the Toronto Region and Alberta reflect the impact of one-time items incurred during the third quarter.

	Three Months Ended			
			Growth	
($000's)	*December 31, 2005*	*September 30, 2005*	*Amount*	*%*
Office	**$ 13,015**	$ 12,924	$ 91	1
Industrial	**6,169**	6,308	(139)	(2)
Retail	**1,321**	1,087	234	22
Comparative properties	**20,505**	20,319	186	1
Acquisitions	**11,550**	10,583	967	
Rent supplement	**458**	486	(28)	
Disposition	**–**	22	(22)	
Straight-line rent	**838**	898	(60)	
NOI	**33,351**	32,308	1,043	3
Discontinued operations	**207**	153	54	
NOI including discontinued operations	**$ 33,558**	$ 32,461	$ 1,097	3

	Three Months Ended			
			Growth	
($000's)	*December 31, 2005*	*September 30, 2005*	*Amount*	*%*
Québec	**$ 3,706**	$ 3,693	$ 13	–
National Capital Region	**3,299**	3,377	(78)	(2)
Toronto Region	**5,939**	5,459	480	9
Alberta	**5,045**	5,556	(511)	(9)
Western Canada	**1,345**	1,296	49	4
	19,334	19,381	(47)	–
United States	**1,171**	938	233	25
Comparative properties	**20,505**	20,319	186	1
Acquisitions	**11,550**	10,583	967	
Rent supplement	**458**	486	(28)	
Disposition	**–**	22	(22)	
Straight-line rent	**838**	898	(60)	
NOI	**33,351**	32,308	1,043	3
Discontinued operations	**207**	153	54	
NOI including discontinued operations	**$ 33,558**	$ 32,461	$ 1,097	3

Leasing Profile

The overall percentage of occupied and committed space across our rental properties portfolio increased to 96.2% at year end. Both our average office and industrial portfolio occupancy rates are currently above the national industry averages of 90.8% and 95.0%, respectively (CB Richard Ellis, Canadian Office and Industrial Market Views, 4th Quarter, 2005). Occupancy rates discussed in this report include occupied and committed space at December 31, 2005 and exclude space to which the rent supplement is applied.

	Total Portfolio		*Comparative Properties*	
	December 31, 2005 [2]	*December 31, 2004* [1]	*December 31, 2005* [2]	*December 31, 2004* [1]
Office				
Québec	**90.2%**	89.2%	**88.4%**	89.2%
National Capital Region	**99.1%**	96.9%	**98.4%**	96.9%
Toronto Region	**95.3%**	91.1%	**93.9%**	91.1%
Alberta	**99.2%**	99.3%	**99.3%**	99.3%
Western Canada	**99.1%**	99.4%	**99.1%**	99.4%
Total office	**95.8%**	93.6%	**94.7%**	93.6%
Industrial [1]				
Québec	**94.7%**	91.4%	**93.5%**	91.4%
Ontario	**97.2%**	98.1%	**96.7%**	98.1%
Alberta	**98.2%**	96.9%	**98.2%**	96.9%
Total industrial	**96.5%**	95.2%	**96.0%**	95.2%
Retail				
Ontario [3]	**–**	91.0%	**–**	–
Alberta	**100.0%**	100.0%	**100.0%**	100.0%
United States	**94.5%**	93.2%	**94.5%**	93.2%
Total retail	**94.8%**	93.3%	**94.8%**	93.3%
Overall	**96.2%**	94.5%	**95.5%**	94.5%

(1) Excludes 2301 and 2311 Royal Windsor Drive, Mississauga
(2) Excludes 2280 boul. Alfred-Nobel, Montréal under redevelopment
(3) On November 15, 2005 we completed the sale of Simcoe Town Centre

The overall occupancy in our portfolio has increased to 96.2%, the eighth consecutive quarterly increase. Based on our current experience, we anticipate stable occupancy throughout 2006. We do caution, however, that while our experience to date has been positive, there is the potential for greater downtime between tenancies when leasing larger spaces, particularly for those properties that may require improvements or changes prior to a new tenant taking occupancy.

Summary of leasing activity to December 31, 2005:

(square feet)	*Office*	*Industrial*	*Retail*	*Total*
Vacant space available – January 1, 2005	301,579	355,465	65,445	722,489
Remeasurements	24	804	–	828
Acquisitions	19,772	10,576	–	30,348
Dispositions	–	–	(18,367)	(18,367)
Leases terminated/expiring	698,470	1,830,915	125,904	2,655,289
Total space available for lease	1,019,845	2,197,760	172,982	3,390,587
New tenants	312,046	672,864	26,243	1,011,153
Renewals	445,396	1,220,428	102,837	1,768,661
Total space leased	757,442	1,893,292	129,080	2,779,814
Total space available for lease – December 31, 2005	262,403	304,468	43,902	610,773
Net decrease in vacant space	39,176	50,997	21,543	111,716

The above table shows a net decrease in vacant space of 111,716 square feet at December 31, 2005. The overall increase in occupied and committed space is a result of leasing activity and the acquisition of well leased properties. During the year ended December 31, 2005, occupancy improved with 2,655,289 million square feet of leases expiring, offset by 2,779,814 million square feet of new leases and renewals. The volume of leasing in the office and industrial portfolios is consistent with expected levels discussed previously.

Lease maturity profile as at December 31, 2005 by asset type:

(square feet)	*Current Vacancy*	*Current Monthly Tenancies*	*2006*	*2007*	*2008*	*2009*	*2010 and thereafter*	*Total*
Office	262,403	49,562	480,825	777,116	499,800	1,002,449	3,220,372	6,292,527
Industrial	304,468	187,357	1,273,588	1,236,357	1,268,466	1,259,023	3,223,053	8,752,312
Retail	43,902	12,265	51,805	48,737	107,062	42,727	535,035	841,533
Total	610,773	249,184	1,806,218	2,062,210	1,875,328	2,304,199	6,978,460	15,886,372
Percentage	3.8%	1.6%	11.4%	13.0%	11.8%	14.5%	43.9%	100.0%

(1) Excludes 2280 boul. Alfred-Nobel, Montréal under redevelopment.

Average Expiring Rents as at December 31, 2005:

	Current Monthly Tenancies	*2006*	*2007*	*2008*	*2009*	*2010 and thereafter*
Office	$ 12.21	$ 15.28	$ 11.92	$ 12.22	$ 12.69	$ 15.28
Industrial	4.55	5.32	4.97	5.09	6.14	6.92
Average	**6.15**	**8.05**	**7.65**	**7.10**	**9.05**	**11.10**
Retail	13.17	12.69	13.36	11.62	13.16	7.13
Portfolio Average	**$ 6.49**	**$ 8.18**	**$ 7.79**	**$ 7.36**	**$ 9.12**	**$ 10.80**

New acquisitions have allowed us more flexibility in our space offerings to existing and prospective tenants. Where necessary, we will continue to work with tenants and offer alternative space solutions. We also make every effort to accommodate the need for growth, but with virtually fully leased industrial portfolios in the Toronto Region and Alberta and office portfolio in Alberta, this could prove to be challenging.

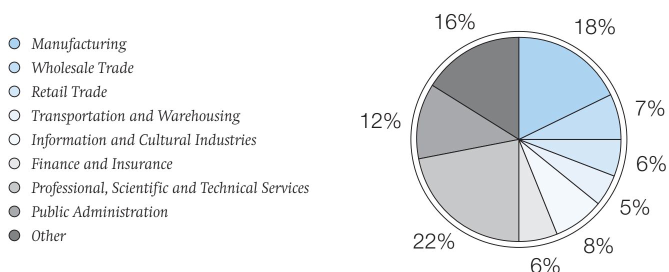
Average remaining lease term as at December 31 and other portfolio information:

	December 31, 2005 (1)			*December 31, 2004 (3)*		
	Average Remaining Lease Term (years)	*Average Tenant Size (sq. ft.)*	*Average In-Place Net Rent (per sq. ft.)(2)*	*Average Remaining Lease Term (years)*	*Average Tenant Size (sq. ft.)*	*Average In-Place Net Rent (per sq. ft.)(2)*
Office	4.79	8,730	$ 14.14	5.24	8,270	$ 14.35
Industrial	4.38	13,241	$ 5.94	3.48	13,091	$ 5.78
Average	**4.55**	**10,765**	**$ 9.36**	**3.99**	**10,491**	**$ 9.06**
Retail	5.36	6,876	$ 8.89	5.57	5,990	$ 9.10
Portfolio average	**4.60**	**10,470**	**$ 9.33**	**4.25**	**9,980**	**$ 9.06**

(1) Excludes 2280 boul. Alfred-Nobel, Montréal under redevelopment
(2) Average in-place rents include straight-lined rent
(3) Excludes 2301 and 2311 Royal Windsor Drive, Mississauga

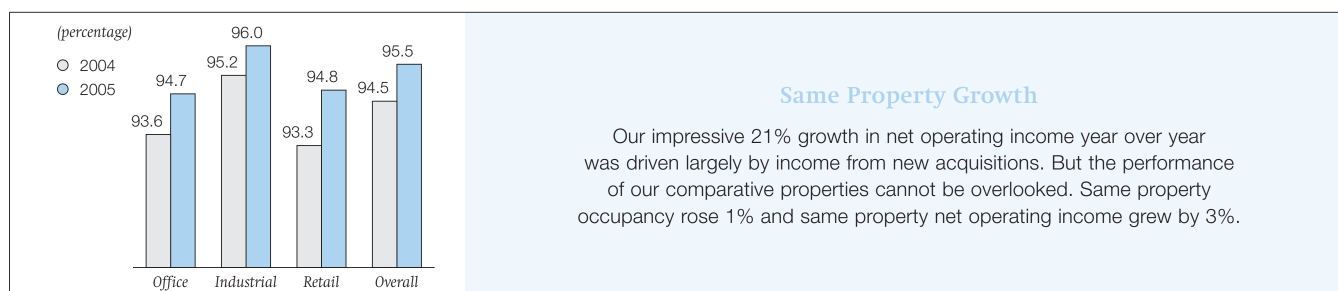
Dundee REIT has a broad tenant base with the average tenant occupying approximately 10,500 square feet. The result is a large and diverse tenant base. With approximately 1,500 tenants, lease renewals are frequent and our risk exposure with any single large lease or tenant is relatively low. Our success in managing our lease expiries is evident in our track record, where the lease maturity profile of our properties has been consistent and our occupancy levels have fluctuated only within a very narrow range.

The following chart illustrates the diversity of our tenant base broken down by the percentage contribution to total contract rent. Tenants have been classified according to their North American Industry Classification System ("NAICS") codes, which is one system used for classifying the industry in which tenants operate.



Our three largest tenants, the Government of Canada, the Government of Ontario and Telus Communications, comprise approximately 6.3%, 5.5% and 3.6% of our gross rental revenue, respectively. The stability and quality of our cash flow is enhanced with approximately 12% of the Trust's gross rental revenue coming from government agencies. The table below sets out the percentage contribution to gross rental revenue of our ten largest tenants:

Tenant	*Owned Area in sq. ft.*	*% of Owned Area*	*% of Gross Rental Revenue*	*Expiry*
Government of Canada	687,000	4.3%	6.3%	2006–2015
Government of Ontario	515,000	3.2%	5.5%	2007–2015
Telus Communications	291,000	1.8%	3.6%	2016
Bell Canada	271,000	1.7%	2.2%	2009–2010
Entrust	146,000	0.9%	1.7%	2015
State Street Trust Company	94,000	0.6%	1.6%	2012
International Financial Data Services	96,000	0.6%	1.6%	2007–2013
Government of British Columbia	102,000	0.6%	1.5%	2009
Epcor Utilities	188,000	1.2%	1.3%	2011
IBM Canada	112,000	0.7%	1.3%	2008–2011
Total	2,502,000	15.6%	26.6%	



Same Property Growth

Our impressive 21% growth in net operating income year over year was driven largely by income from new acquisitions. But the performance of our comparative properties cannot be overlooked. Same property occupancy rose 1% and same property net operating income grew by 3%.

Acquisitions Completed During the Year

A component of our growth strategy is to acquire office and industrial properties in our key markets, allowing us to capitalize on operational efficiencies, further increase our presence and critical mass in our target markets and improve the overall quality and rental income stability of our portfolio. Acquisitions completed during the year are outlined below.

For the Year Ended December 31, 2005	*Property Type*	*Interest Acquired*	*Acquired GLA (sq. ft.)*	*Occupancy on Acquisition*	*Purchase Price ($000's)*	*Fair Value of Mortgage Assumed ($000's)*	*Date Acquired*
2599 Speakman Drive, Mississauga	office	100%	114,000	100%	$ 9,617	$ 4,655	January 13, 2005
1219 Corporate Drive, Burlington	industrial	100%	103,000	100%	6,640	–	January 31, 2005
204 King Street East, Toronto	office	100%	135,000	100%	20,475	–	February 25, 2005
2580 avenue Dollard, Montréal	industrial	100%	90,000	100%	4,700	2,600	March 2, 2005
Epcor Centre, Edmonton	office	10% [1]	19,000	100%	1,334	–	March 4, 2005
2465 St. Laurent Blvd., Ottawa	office	100%	62,000	100%	8,612	3,222	March 8, 2005
56 Wellesley Street West, Toronto	office	50% [1]	108,000	100%	14,150	4,364	April 1, 2005
120 Valleywood Drive, Markham	industrial	50% [1]	30,000	100%	1,670	828	April 1, 2005
2280 boul. Alfred-Nobel, Montréal	under development	100%	86,000	–	5,472	–	April 8, 2005
1000 boul. Saint-Jean, Montréal	office	100%	112,000	98%	16,133	6,762	April 14, 2005
22000 Trans-Canada Hwy. and 115 boul. Hymus, Montréal	industrial	100%	371,000	100%	24,548	–	April 18, 2005
1415-1511 rue Berlier, Laval	industrial	100%	64,000	100%	4,430	–	May 5, 2005
375-425 Britannia Road, Mississauga	industrial	100%	121,000	99%	10,485	3,269	May 30, 2005
Joffre Place, Calgary	office	100%	111,000	96%	18,310	9,680	June 2, 2005
975 boul. Saint-Joseph, Gatineau	office	100%	194,000	99%	25,945	14,483	June 17, 2005
400-480 boul. Armand Frappier, Laval	office	100%	198,000	94%	35,526	–	June 20, 2005
2285 Speakman Drive, Mississauga	office	100%	131,000	100%	13,161	–	June 27, 2005
199 Traders Blvd. East, Mississauga	industrial	100%	77,000	100%	7,246	–	August 9, 2005
Scotia Centre, St. John's	office	100%	190,000	100%	33,370	–	August 18, 2005
9975-9995 boul. de Catania, Brossard	industrial	100%	124,000	95%	15,984	7,616	August 30, 2005
1523-1531 rue Berlier, Laval	industrial	100%	6,000	100%	540	–	August 30, 2005
3913-3917 81st Avenue, Leduc	under development	100%	–	–	718	–	September 23, 2005
ACC Centre, Calgary	industrial	100%	65,000	95%	6,884	3,248	November 8, 2005
35 Fitzgerald Road, Ottawa	office	100%	63,000	100%	11,927	7,348	November 9, 2005
2695 avenue Dollard, Montréal	industrial	100%	71,000	100%	4,601	–	November 17, 2005
Palladium Phase III Land, Ottawa	held for development	100%	–	–	833	–	December 16, 2005
3820 Commerce Road, London and 147 Massey Road, Guelph	industrial	100%	81,000	100%	8,134	4,415	December 20, 2005
3915 Commerce Road, London	industrial	100%	83,000	100%	6,586	1,988	December 23, 2005
Entrust Tower, Ottawa	office	100%	146,000	100%	32,590	–	December 23, 2005
Total			2,955,000		$ 350,621	$ 74,478	

(1) As a result of this acquisition, the Trust now owns 100% of this property.

Our acquisition focus remains on individual office and industrial properties in our existing locations; however, due to an increasingly competitive acquisition market, we have also begun to look in new markets. The acquisition of Scotia Centre in St. John's, Newfoundland in the third quarter marked our entrance into Atlantic Canada.

Acquisitions in the fourth quarter totalled $71.6 million and added 0.5 million square feet of well leased properties to our portfolio. Included in this amount is a parcel of land that we acquired adjacent to existing assets in Kanata, Ontario. The land is being held for future development when warranted by market demand but in the interim is leased by a neighbouring property and is being used for parking.

Subsequent to year end, we have acquired an additional 412,000 square feet of properties for approximately $31.4 million. In addition, we have approximately $158.2 million of properties under contract, subject to a variety of conditions, comprising 1.0 million square feet.

QUARTERLY INFORMATION

The following tables show quarterly information since December 31, 2003.

($000's)	*Q4 2005*	*Q3 2005*	*Q2 2005*	*Q1 2005*	*Q4 2004*	*Q3 2004*	*Q2 2004*	*Q1 2004*
Revenues								
Rental properties revenue	**$ 60,630**	$ 57,619	$ 52,973	$ 50,354	$ 49,643	$ 47,562	$ 45,811	$ 42,467
Interest fee income	**397**	410	619	718	635	585	428	584
	61,027	58,029	53,592	51,072	50,278	48,147	46,239	43,051
Expenses								
Rental properties operating expense	**27,279**	25,309	23,532	23,421	23,563	20,758	20,192	19,787
Interest	**14,701**	14,378	13,215	11,666	11,600	11,683	10,250	9,498
Depreciation of rental properties	**8,117**	7,997	6,829	6,632	6,726	6,539	6,238	5,832
Amortization of deferred leasing costs and intangibles	**5,918**	5,659	4,421	3,645	3,563	3,611	3,313	1,733
General and administrative	**1,640**	1,362	1,245	1,161	1,899	1,145	1,205	952
	57,655	54,705	49,242	46,525	47,351	43,736	41,198	37,802
Income before the undernoted items	**3,372**	3,324	4,350	4,547	2,927	4,411	5,041	5,249
Provision for impairment in value of rental property	**(11,533)**	–	–	–	–	–	–	–
Gain (loss) on disposal of rental property	**–**	–	–	–	(11)	–	(11)	177
Dilution gain	**296**	269	652	673	548	365	185	633
Income (loss) before income and large corporations taxes	**(7,865)**	3,593	5,002	5,220	3,464	4,776	5,215	6,059
Income Taxes								
Current income and large corporations taxes	**49**	44	41	47	46	29	18	20
Future income taxes	**(4,286)**	258	183	192	(25)	(1,946)	(1)	(41)
Income tax expense (recovery)	**(4,237)**	302	224	239	21	(1,917)	17	(21)
Income (loss) before non-controlling interest and discontinued operations	**(3,628)**	3,291	4,778	4,981	3,443	6,693	5,198	6,080
Loss (Income) attributable to non-controlling interest	**1,158**	(1,013)	(1,365)	(1,402)	(981)	(1,986)	(1,560)	(1,847)
Income (loss) before discontinued operations	**(2,470)**	2,278	3,413	3,579	2,462	4,707	3,638	4,233
Discontinued operations	**(2,545)**	(55)	7	102	565	668	(11,844)	(76)
Net income (loss)	**$ (5,015)**	$ 2,223	$ 3,420	$ 3,681	$ 3,027	$ 5,375	$ (8,206)	$ 4,157
Net income (loss) per unit								
Basic	**$ (0.28)**	$ 0.13	$ 0.20	$ 0.22	$ 0.18	$ 0.32	$ (0.49)	$ 0.29
Diluted [1]	**$ (0.29)**	$ 0.12	$ 0.17	$ 0.18	$ 0.16	$ 0.30	$ (0.50)	$ 0.25

(1) Excludes impact of 6.5% Debentures and 5.7% Debentures, which are currently not dilutive to net income.

Calculation of Funds From Operations and Distributable Income

($000's)	*Q4 2005*	*Q3 2005*	*Q2 2005*	*Q1 2005*	*Q4 2004* [2]	*Q3 2004* [2]	*Q2 2004* [2]	*Q1 2004* [2]
Net income (loss)	**$ (5,015)**	$ 2,223	$ 3,420	$ 3,681	$ 3,027	$ 5,375	$ (8,206)	$ 4,157
Add (deduct):								
Depreciation of rental properties	**8,117**	8,053	6,884	6,688	6,785	6,605	6,690	6,284
Amortization of deferred leasing costs and intangibles	**5,918**	5,765	4,524	3,778	3,672	3,764	3,494	1,903
Future income tax	**(4,286)**	259	183	192	(25)	(1,946)	(1)	(41)
Imputed amortization of leasing costs related to the rent supplement	**318**	168	204	487	336	286	362	380
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(6)**	(4)	(3)	(4)	(4)	(3)	(3)	(2)
Dilution gain	**(296)**	(269)	(652)	(673)	(548)	(365)	(185)	(633)
(Gain) loss on disposal of rental properties	**3,837**	–	25	(242)	(287)	(443)	(2,396)	(177)
Provision for impairment in value of rental property	**11,533**	–	–	–	–	–	19,729	–
Non-controlling interest	**(2,281)**	986	1,367	1,451	1,245	2,292	(3,782)	1,801
Funds from operations	**17,839**	17,181	15,952	15,358	14,201	15,565	15,702	13,672
Add (deduct):								
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**–**	–	–	–	4	3	3	2
Imputed amortization of leasing costs related to the rent supplement	**(318)**	(168)	(204)	(487)	–	–	–	–
Amortization of marked-to-market adjustment on acquired debt	**(417)**	(426)	(819)	(350)	(315)	(315)	(484)	(324)
Compensation expense related to deferred unit incentive plan	**243**	240	172	175	568	107	106	105
Straight-line rent	**(838)**	(904)	(874)	(1,070)	(889)	(1,140)	(1,286)	(949)
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	**25**	78	3	4	14	32	33	53
Amortization of deferred financing costs incurred prior to June 30, 2003	**94**	98	87	87	104	86	74	203
Amortization of deferred leasing costs incurred subsequent to June 30, 2003	**–**	–	–	–	(1,089)	(796)	(544)	(304)
Amortization of market adjustment on acquired leases	**(82)**	(109)	(108)	(33)	(56)	(83)	8	–
Distributable income	**$ 16,546**	$ 15,990	$ 14,209	$ 13,684	$ 12,542	$ 13,459	$ 13,612	$ 12,458
Funds from operations per unit								
Basic [1]	**$ 0.68**	$ 0.68	$ 0.64	$ 0.62	$ 0.58	$ 0.64	$ 0.65	$ 0.64
Diluted	**$ 0.64**	$ 0.63	$ 0.60	$ 0.60	$ 0.56	$ 0.62	$ 0.65	$ 0.64
Distributable income per unit								
Basic [1]	**$ 0.63**	$ 0.63	$ 0.57	$ 0.55	$ 0.51	$ 0.55	$ 0.56	$ 0.58
Diluted	**$ 0.60**	$ 0.59	$ 0.54	$ 0.54	$ 0.50	$ 0.54	$ 0.56	$ 0.58
Weighted average units outstanding for FFO and DI								
Basic	**26,266,118**	25,387,969	25,081,201	24,865,912	24,651,828	24,411,074	24,175,288	21,508,753
Diluted	**32,562,042**	31,712,785	31,480,407	27,924,777	27,694,849	27,446,183	24,530,461	21,532,903

(1) The LP Class B Units, Series 1 are included in the calculation of Basic FFO per unit and Basic DI per unit.
(2) Restated to reflect change to FFO definition as described on page 40.

Period end occupied and committed space:

	December 31, 2005	*September 30, 2005*	*June 30, 2005*	*March 31, 2005*	*December 31, 2004*	*September 30, 2004*	*June 30, 2004*	*March 31, 2004*
Office	**95.8%**	95.0%	95.1%	94.0%	93.6%	94.3%	94.6%	93.3%
Industrial	**96.5%**	97.2%	96.6%	96.3%	95.2%	94.4%	94.1%	94.1%
Retail	**94.8%**	93.0%	93.0%	92.4%	93.3%	92.9%	92.8%	92.1%
Overall	**96.2%**	96.1%	95.8%	95.2%	94.5%	94.3%	94.2%	93.6%

Excludes properties under redevelopment and properties held for sale.

OUTLOOK

We are steadfast in the execution of our strategy and are very pleased to see the benefits reflected in our results. With the acquisitions we've completed over the past couple of years, the quality of our portfolio has been enhanced and our cash flow improved. Our occupancy rates are at an all-time high, having increased for the eighth consecutive quarter. Rental rates are steady or improving across the portfolio, and leasing costs on a per square foot basis have gone down. In 2005, net operating income from our comparative portfolio has grown by $2.5 million or 3%, and total NOI has grown by 16%.

We continued to refinance debt throughout the year; further reducing our average interest rate and lengthening our average term to maturity. Interest rates have increased by about 20 basis points so far in 2006, but we are still able to borrow for a ten-year term at about 5.2%.

Generally speaking, the real estate market is in good shape. The big industry news is the increased demand for office space, rising rental rates and declining tenant inducement costs in most markets. Canada's economy remains strong. Alberta is booming from natural resources, with the east coast and northern territories positioned to following their lead. And, while the economies of Québec and Ontario are performing well, the outlook for the two largest provinces is not as promising as for many other parts of the country. As a result, we are looking to increase our portfolio outside of central Canada.

Notwithstanding our successes of 2005, our share price performance did not match our operating performance. Dundee REIT offers one of the best per unit growth rates in the industry, yet our stock performance was among the poorest in 2005. Having said that, our stock price in 2006 is gaining strength.

Looking ahead, our focus will remain on effectively managing the business and growing our funds from operations. For the most part we anticipate our comparative portfolio will produce consistent results in the year ahead and our portfolio as a whole will remain well occupied. Our current acquisition strategy is focused on individual office and industrial properties that complement our existing portfolio and that are accretive. We will continue to pursue best-in-class acquisitions in our key markets but will also look to take advantage of opportunities in other markets where the economic conditions are strong. We anticipate that the volume of acquisitions in 2006 will match that of the past year.

We are confident that the many incremental improvements that we have made to the business over the last few years have provided us with an elevated platform from which we will continue our growth. Our properties are performing well and, between the performance of our existing properties and the benefits derived from new acquisitions, we are generating healthy growth. We are optimistic that 2006 will be another good year for Dundee REIT.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer, together with other management, have evaluated, as of December 31, 2005, the effectiveness of Dundee REIT's disclosure controls and procedures, as defined in Multilateral Instrument 52-109. They have concluded that Dundee REIT's disclosure controls and procedures were adequate and effective to provide reasonable assurance that material information relating to Dundee REIT and its consolidated subsidiary entities for the year ended December 31, 2005 would have been made known to them.

RISKS AND OUR STRATEGY TO MANAGE

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

Real Estate Ownership

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

Our portfolio of properties generates income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced for a number of reasons. Furthermore, the terms of any subsequent lease may be less favourable than the existing lease. Our financial position would be adversely affected if a number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the Properties were not able to be leased on economically favourable lease terms. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting our investment may be incurred. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of such tenant and, thereby, cause a reduction in the cash flow available to us.

Diversity mitigates risk. The diversity of our portfolio by asset type and geographic location helps to minimize our exposure to any single market or asset class. We also attempt to stagger lease maturities to protect against large vacancies in any given year or market. Further, Dundee REIT has a broad tenant base with the largest tenant occupying less than 5% of gross leasable area and comprising 6.3% of our gross rental revenue. For further information, please see “Leasing Profile” discussion on page 50.

Illiquidity of Real Estate Investments

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

Competition in the Office, Industrial and Retail Real Estate Market

We compete with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Some of the commercial office, industrial and retail properties of our competitors are newer, better located or better capitalized than our Properties. Certain of these competitors have greater financial and other resources and greater operating flexibility than us. The existence of competing managers and owners could have a material adverse effect on our ability to lease space in our Properties and on the rents we are able to charge, and could adversely affect our revenues and our ability to meet our obligations. We strive to deliver a level of service that meets or exceeds tenant expectations. We believe that providing a consistent, high level of service puts us in a better position to re-lease space to existing tenants and helps to attract new tenants to lease vacant space quickly and cost effectively.

Environmental Risk

As an owner of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect our ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against us. In order to obtain financing for the purchase of a new property through traditional channels, we may be requested to arrange for an environmental audit to be conducted. Although such an audit provides us and our lenders with some assurance, we may become subject to liability for undetected pollution or other environmental hazards on our properties against which we cannot insure, or against which we may elect not to insure where premium costs are disproportionate to our perception of relative risk.

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

Financing Risk

Upon the expiry of the term of the financing or refinancing of any particular property or operating or acquisition debt facilities, refinancing may not be available in the amounts required or may be available only on terms less favourable to us than existing financing. We may require additional financing in order to grow and expand our operations. It is possible that such financing will not be available or, if it is available, will not be available on favourable terms. Future financing may take many forms, including debt or equity financing which could alter the current debt-to-equity ratio or which could be dilutive to our unitholders. It is our intent to reduce the interest rate risk associated with refinancing by ensuring that debt maturities are staggered over several years, with limited exposure in any given year. For further information, please see “Our Resources and Financial Condition” discussion on page 33.

Insurance

We carry general liability, umbrella liability and excess liability insurance with a total limit of $61,000,000. For the property risks we carry “All Risks” property insurance including but not limited to, flood, earthquake and loss of rental income insurance (with a 24-month indemnity period). We also carry Boiler and Machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) which are uninsurable under any insurance policy. Furthermore there are other risks that are not economically viable to insure at this time. We currently self-insure against terrorism risk for the entire Canadian portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of the Properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. Additionally, we generally have owners’ title insurance policies with respect to our properties located in the United States. However, the amount of coverage under such policies may be less than the full value of such properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

Joint Venture, Partnership and Co-ownership Agreements

We are a participant in joint ventures and partnerships with third parties in respect of four of the Properties. A joint venture or partnership involves certain additional risks, including,

(i) the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with ours or take actions contrary to our instructions or requests or to our policies or objectives with respect to our real estate investments,

(ii) the risk that such co-venturers/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands on us to maintain and operate such properties or repay the co-venturers’/partners’ share of property debt guaranteed by us or for which we will be liable and/or result in our suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions,

(iii) the risk that such co-venturers/partners may, through their activities on behalf of or in the name of, the ventures or partnerships, expose or subject us to liability, and

(iv) the need to obtain co-venturers’/partners’ consents with respect to certain major decisions, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to rights of first refusal or first offer and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when we may not desire to sell but may be forced to do so because we do not have the cash to purchase the other party’s interests. Such rights may also inhibit our ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis we desire.

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

CRITICAL ACCOUNTING ESTIMATES

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

Impairment of Assets

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

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

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment loss would be recognized.

On December 21, 2005, the Trust entered into a commitment to sell a 50% interest in a retail rental property located in the United States. The carrying amount of the 50% interest exceeds the expected proceeds from the sale, the difference of which was recognized as an impairment loss by reducing the carrying amount of the rental property.

Purchase Price Allocations

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

Intangible Assets and Liabilities

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

The values of 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 in-place leases and 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.

Depreciation

The Trust uses the straight-line method of depreciation for rental properties, initial leasing costs and major expansions and renovations. The estimated useful life of the properties continues to be between 30 and 40 years. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based upon management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

Income Taxes

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

CHANGES IN ACCOUNTING POLICIES

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 consolidated financial statements. As a result, the Trust has accounted for the investment of the net proceeds 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.

Variable Interest Entities

On January 1, 2005, the Trust adopted the requirements of CICA Accounting Guideline 15, Consolidation of Variable Interest Entities ("AcG-15"), which provides guidance for applying the principles in Section 1590, Subsidiaries, to those entities defined as Variable Interest Entities ("VIEs"). This standard considers a VIE to be an entity in which either the equity at risk is not sufficient to permit it to finance its activities without additional subordinated financial support from other parties, or equity investors lack 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 adoption of AcG-15 did not have an impact on the Trust.

FUTURE CHANGES IN ACCOUNTING POLICIES

Financial Instruments

CICA Handbook Section 3855 ("CICA 3855") "Financial Instruments – Recognition and Measurements" prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and at what amount – sometimes using fair value; other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented. CICA 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. An entity adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt CICA 3865 "Hedges" and CICA 1530 "Comprehensive Income."

The Trust is currently evaluating the impact of adoption of CICA 3855 and has not yet determined the effect of adoption on its results of operations and balance sheet, if any.

Additional information relating to Dundee REIT, including the latest annual information form of Dundee REIT, is available on SEDAR at www.sedar.com.