

Management's responsibility for financial statements

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

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

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

MICHAEL J. COOPER (signed)
Vice Chairman and Chief Executive Officer

MARIO BARRAFATO (signed)
Senior Vice President and Chief Financial Officer

Toronto, Ontario, February 22, 2007

Auditors' report

To the unitholders of Dundee Real Estate Investment Trust

We have audited the consolidated balance sheets of Dundee Real Estate Investment Trust as at December 31, 2006 and 2005 and the consolidated statements of net income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Dundee Real Estate Investment Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dundee Real Estate Investment Trust as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS (signed)

Toronto, Ontario, February 22, 2007

Consolidated balance sheets

(In thousands of dollars) December 31	Note	2006	2005
Assets			
Rental properties	4	\$ 1,816,811	\$ 1,328,395
Deferred costs	5	73,455	65,285
Land	6	41,395	-
Amounts receivable	7	18,606	13,378
Prepaid expenses and other assets	8	20,240	27,175
Cash and cash equivalents		70,997	16,516
Intangible assets	9	86,416	56,964
		\$ 2,127,920	\$ 1,507,713
Liabilities			
Debt	10	\$ 1,153,794	\$ 943,621
Amounts payable and accrued liabilities	11	40,701	32,260
Distributions payable	12	8,013	5,356
Future income tax liability	16	3,950	1,577
Intangible liabilities	9	33,351	6,181
		1,239,809	988,995
Non-controlling interest	13	-	146,976
Unitholders' equity	13	888,111	371,742
		\$ 2,127,920	\$ 1,507,713

See accompanying notes to the consolidated financial statements

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

NED GOODMAN (signed)
Trustee

MICHAEL J. COOPER (signed)
Trustee

Consolidated statements of net income

(In thousands of dollars, except per unit amounts) For the years ended December 31	Note	2006	2005
Revenues			
Rental properties revenue		\$ 287,794	\$ 220,615
Interest and fee income		3,646	2,144
		291,440	222,759
Expenses			
Rental properties operating expenses		122,150	99,176
Interest	15	66,052	53,960
Depreciation of rental properties		39,850	29,459
Amortization of deferred leasing costs, tenant improvements and intangibles		30,614	19,508
General and administrative		6,812	5,408
		265,478	207,511
Income before the undernoted items		25,962	15,248
Internalization of property manager	25	(13,678)	-
Loss on disposal of rental property	26	(220)	-
Provision for impairment in value of rental property	26	-	(11,533)
Dilution gain	13	-	1,890
Income before income and large corporations taxes		12,064	5,605
Income taxes			
Current income and large corporations taxes		62	181
Future income taxes	16	2,314	(3,653)
		2,376	(3,472)
Income before non-controlling interest and discontinued operations		9,688	9,077
Income attributable to non-controlling interest		(1,840)	(2,511)
Income before discontinued operations		7,848	6,566
Discontinued operations	22	3,370	(2,257)
Net income		\$ 11,218	\$ 4,309
Basic income (loss) per unit			
Continuing operations	17	\$ 0.25	\$ 0.38
Discontinued operations		0.10	(0.13)
Net income		\$ 0.35	\$ 0.25
Diluted income (loss) per unit			
Continuing operations	17	\$ 0.25	\$ 0.29
Discontinued operations		0.10	(0.13)
Net income		\$ 0.35	\$ 0.16

See accompanying notes to the consolidated financial statements

Consolidated statements of unitholders' equity

(In thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Cumulative foreign currency translation adjustment	Total
Unitholders' equity, January 1, 2006		20,449,209	\$ 446,678	\$ 15,844	\$ (85,680)	\$ (5,100)	\$ 371,742
Net income		–	–	11,218	–	–	11,218
Distributions paid	12	–	–	–	(63,089)	–	(63,089)
Distributions payable	12	–	–	–	(8,013)	–	(8,013)
Public offering of REIT Units	13	10,190,000	319,981	–	–	–	319,981
Distribution Reinvestment Plan	13	830,516	24,717	–	–	–	24,717
Unit Purchase Plan	13	13,087	359	–	–	–	359
Conversion of 6.5% Debentures	13	1,935,640	48,391	–	–	–	48,391
Conversion of 5.7% Debentures	13	1,135,617	34,069	–	–	–	34,069
Issue of units on internalization of property manager	25	505,326	13,917	–	–	–	13,917
Deferred Unit Incentive Plan	13	22,888	1,170	–	–	–	1,170
Issue costs		–	(18,041)	–	–	–	(18,041)
Release of cumulative foreign currency translation adjustment on disposition of revenue property	26	–	–	–	–	3,686	3,686
Change in foreign currency translation adjustment		–	–	–	–	(1,329)	(1,329)
Reclassification of LP Class B Units, Series 1	13	8,337,365	195,884	6,326	(50,504)	(2,373)	149,333
Unitholders' equity, December 31, 2006		43,419,648	\$ 1,067,125	\$ 33,388	\$ (207,286)	\$ (5,116)	\$ 888,111

(In thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Cumulative foreign currency translation adjustment	Total
Unitholders' equity, January 1, 2005		16,819,963	\$ 357,585	\$ 11,535	\$ (47,449)	\$ (3,126)	\$ 318,545
Net income		–	–	4,309	–	–	4,309
Distributions paid		–	–	–	(34,462)	–	(34,462)
Distributions payable		–	–	–	(3,769)	–	(3,769)
Public offering of REIT Units	13	2,990,000	74,750	–	–	–	74,750
Distribution Reinvestment Plan	13	532,817	13,785	–	–	–	13,785
Unit Purchase Plan	13	8,725	232	–	–	–	232
Conversion of 6.5% Debentures	13	81,040	2,026	–	–	–	2,026
Redemption of REIT Units		(100)	(2)	–	–	–	(2)
Deferred Unit Incentive Plan	13	16,764	830	–	–	–	830
Issue costs		–	(3,728)	–	–	–	(3,728)
Equity component of 5.7% Debentures	10	–	1,200	–	–	–	1,200
Change in foreign currency translation adjustment		–	–	–	–	(1,974)	(1,974)
Unitholders' equity, December 31, 2005		20,449,209	\$ 446,678	\$ 15,844	\$ (85,680)	\$ (5,100)	\$ 371,742

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows

(In thousands of dollars) For the years ended December 31	Note	2006	2005
Generated from (utilized in) operating activities			(restated, see Note 2)
Net income		\$ 11,218	\$ 4,309
Non-cash items:			
Depreciation of rental properties		39,908	29,743
Amortization of deferred leasing costs, tenant improvements and intangibles		30,643	19,985
Amortization of deferred financing costs		1,922	1,551
Amortization of marked-to-market adjustment on acquired debt		(1,882)	(2,012)
Provision for impairment in value of rental properties		-	11,533
Internalization of property manager		13,678	-
Loss (gain) on disposal of rental properties		(3,009)	3,620
Deferred unit compensation expense		1,170	830
Future income taxes		2,314	(3,653)
Amortization of market rent adjustments on acquired leases		(4,124)	(331)
Straight-line rent adjustment		(3,164)	(3,688)
Dilution gain		-	(1,890)
Non-controlling interest		1,876	1,523
		90,550	61,520
Deferred leasing costs incurred		(6,097)	(4,440)
Change in non-cash working capital	24	3,409	5,912
		87,862	62,992
Generated from (utilized in) investing activities			
Investment in rental properties		(9,173)	(7,833)
Investment in tenant improvements	2	(7,667)	(9,033)
Investment in land development		(2,103)	-
Acquisition of rental properties and land	3	(484,667)	(275,024)
Acquisition deposit on rental properties		(3,600)	(880)
Investment in mezzanine loan		(3,680)	(750)
Receipt of mezzanine loan		13,167	-
Vendor take-back mortgage repayment		3,450	-
Net proceeds from disposal of rental properties		24,922	8,118
Change in restricted cash, net		(1,244)	8,677
		(470,595)	(276,725)
Generated from (utilized in) financing activities			
Mortgages placed, net of costs		294,985	155,621
Mortgage principal repayments		(25,380)	(17,957)
Mortgage lump sum repayments		(79,486)	(46,076)
Term debt principal repayments		(364)	(501)
Term debt lump sum repayments		(14,957)	(7,492)
Term debt placed, net of costs		6,139	-
Convertible debentures issued, net of costs		-	95,443
Demand non-revolving credit facility		-	(6,107)
Distributions paid on REIT Units	12	(50,074)	(31,700)
Units issued for cash, net of costs		306,351	71,687
		437,214	212,918
Increase (decrease) in cash and cash equivalents		54,481	(815)
Cash and cash equivalents, beginning of year		16,516	17,331
Cash and cash equivalents, end of year		\$ 70,997	\$ 16,516

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

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

1.

Organization

Dundee Real Estate Investment Trust (“Dundee REIT” or the “Trust”) is an open-ended investment trust created pursuant to a Declaration of Trust, as amended and restated, under the laws of the Province of Ontario.

The consolidated financial statements of Dundee REIT include the accounts of Dundee REIT and its subsidiaries, together with Dundee REIT’s proportionate share of the assets and liabilities, and revenues and expenses of joint ventures in which it participates. Included in these accounts are the assets and liabilities acquired by Dundee Properties Limited Partnership (“DPLP”), an indirect subsidiary of Dundee REIT, from Dundee Realty Corporation (“DRC”) on June 30, 2003, comprising:

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

On May 12, 2006, the Trust acquired the remaining 50% interest in DMLP as discussed in Note 25.

At December 31, 2006, Dundee Corporation, the majority shareholder of DRC, indirectly held 127,955 REIT Units, Series A (“REIT Units”) and 8,565,095 LP Class B Units, Series 1 (“LP B Units”), which includes 55,326 LP B Units it is entitled to receive but that are held in trust (2005 – 317,403, 8,337,365 and nil units, respectively).

2.

Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with the accounting recommendations of The Canadian Institute of Chartered Accountants (“CICA”). The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue recognition

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

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

Rental properties

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

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

Land

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

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

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

Purchase price allocations

For acquisitions initiated on or after September 12, 2003, the purchase price of a rental property is allocated based on estimated fair 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 buildings based on their respective fair market values.

Intangible assets and liabilities

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

The values of above and below market leases are amortized on a straight-line basis to rental property revenues over the remaining term of the associated lease. The value associated with in-place leases is amortized on a straight-line basis over the remaining term of the lease. The value of tenant relationships is amortized on a straight-line basis over the remaining term of the lease plus an estimated renewal term. Lease origination costs are amortized on a straight-line basis over the term of the applicable lease. In the event a tenant vacates its leased space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be expensed.

Impairment of long-lived assets

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

Deferred costs

Deferred costs may include:

- Deferred leasing costs, which include leasing fees and costs, except for initial leasing costs that are included in rental properties, and deferred leasing costs acquired. Deferred leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- Tenant inducements, which are payments for which the tenant has no obligation to make leasehold improvements to the leased space and which are amortized against rental properties revenue on a straight-line basis over the term of the applicable lease;
- Tenant improvements, which include costs incurred to make leasehold improvements to tenants' space and which are amortized on a straight-line basis over the term of the applicable lease to amortization expense. During the year, as a result of implementing the provisions of Emerging Issues Committee Abstract No. 156, "Accounting by a Vendor for Consideration Given to a Customer" ("EIC-156"), the Trust has reclassified tenant improvements, which were previously included in deferred leasing costs, and presented tenant improvements as an investing activity on the statement of cash flows. The Trust has reclassified comparative figures to conform to the current period's presentation. The adoption of EIC-156 had the effect during the year ended December 31, 2006, of reducing deferred leasing costs incurred, increasing cash generated from operating activities and increasing cash utilized in investing activities by \$7,667 (December 31, 2005 – \$9,033);
- Deferred recoverable operating expenses, which are amortized to operating expenses over the period during which they are recoverable from tenants;
- Deferred financing costs, which include debt issue fees and expenses that are amortized to interest expense on a straight-line basis over the term of the debt; and
- Direct acquisition fees and costs, which exclude general and administrative costs, and which are deferred until the acquisition is completed and the costs are capitalized to the acquisition, or the acquisition is abandoned and the costs are written off.

Impairment of loans receivable

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

Discontinued operations

The Trust classifies properties that meet certain criteria as held for sale and separately discloses any net income/loss and gain/loss on disposal for current and prior periods as discontinued operations. A property is classified as held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the property and is actively locating a buyer for the property at a sales price that is reasonable in relation to the current estimated fair value of the property, and the sale is expected to be completed within a one-year period. Properties held for sale are carried at the lower of their carrying values and estimated fair values less costs to sell. In addition, assets held for sale are no longer depreciated.

Convertible debentures

Upon issuance, convertible debentures are separated into debt and equity components. These components are measured based on their respective estimated fair values at the date of issuance. The fair value of the debt component is estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the estimated fair value ascribed to the holders' option to convert the debentures into REIT Units. The difference between the fair value of the debt and the face value is recognized as interest expense on a straight-line basis over the term to maturity of the debentures with corresponding accretion to the principal of the debt.

Foreign currency translation

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

Income taxes

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

Unit-based compensation plan

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

Cash and cash equivalents

For the purposes of the statements of cash flows, the Trust considers all short-term investments with an original maturity of three months or less to be cash equivalents, and excludes cash subject to restrictions that prevent its use for current purposes. As at December 31, 2006, cash and cash equivalents includes the Trust's proportionate share of cash balances of joint ventures of \$2,688 (December 31, 2005 – \$4,509). Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits as required by various lending agreements.

Non-controlling interest

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

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 either voting control, or an obligation to absorb expected losses or the right to receive expected residual returns. AcG-15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns. The adoption of AcG-15 did not have an impact on the Trust.

Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's financial statement presentation.

3.

Property acquisitions

The Trust completed the following acquisitions during the year ended December 31, 2006 and 2005, which have contributed to operating results from the date of acquisition:

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

Year ended December 31, 2005	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	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	99	\$ 350,621	\$ 74,478	

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

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

For the years ended December 31	2006	2005
Rental properties		
Land	\$ 70,585	\$ 38,673
Buildings	458,119	261,449
Fixed assets and equipment	403	-
Properties under development	301	6,189
	529,408	306,311
Land		
Under development	29,925	-
Held for development	1,015	-
Held for sale	8,352	-
Third-party management contracts	195	-
Tenant improvements acquired	14,567	12,056
Tenant loan receivables	-	177
Intangible assets		
Value of in-place leases	25,149	16,662
Lease origination costs	5,512	4,214
Value of above market rent leases	2,020	1,788
Value of tenant relationships	14,574	13,467
	630,717	354,675
Intangible liabilities		
Value of below market rent leases	(32,228)	(4,054)
Total purchase price	\$ 598,489	\$ 350,621
The consideration paid consists of:		
Cash		
Paid during the period	\$ 484,667	\$ 275,024
Deposit	710	450
	485,377	275,474
Assumed mortgages at fair value	103,030	74,478
Vendor loan	6,750	-
Assumed accounts payable and accrued liabilities	3,332	669
Total consideration	\$ 598,489	\$ 350,621

4. Rental properties

December 31	2006			2005		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 300,553	\$ -	\$ 300,553	\$ 233,502	\$ -	\$ 233,502
Buildings and improvements	1,627,185	(119,580)	1,507,605	1,170,111	(84,412)	1,085,699
Fixed assets and equipment	2,040	(773)	1,267	2,661	(1,927)	734
Rental properties under development	7,386	-	7,386	8,460	-	8,460
Total	\$ 1,937,164	\$ (120,353)	\$ 1,816,811	\$ 1,414,734	\$ (86,339)	\$ 1,328,395

5. Deferred costs

December 31	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Deferred leasing costs	\$ 20,903	\$ (7,490)	\$ 13,413	\$ 16,347	\$ (5,457)	\$ 10,890
Tenant improvements	72,690	(26,733)	45,957	54,786	(18,592)	36,194
Deferred recoverable costs	13,816	(7,409)	6,407	13,462	(5,970)	7,492
Deferred financing costs	11,705	(4,739)	6,966	13,819	(3,881)	9,938
Other deferred costs	1,847	(1,135)	712	1,617	(846)	771
Total	\$ 120,961	\$ (47,506)	\$ 73,455	\$ 100,031	\$ (34,746)	\$ 65,285

Amortization of deferred recoverable costs included in operating expenses for the twelve months ended December 31, 2006 is \$1,872 (December 31, 2005 – \$1,751).

6. Land

December 31	2006		2005
Land under development	\$ 31,991	\$	–
Land held for development	1,021		–
Land held for sale	8,383		–
Total	\$ 41,395	\$	–

7. Amounts receivable

Amounts receivable include straight-line rents receivable of \$12,874 (December 31, 2005 – \$9,944) and is net of credit adjustments of \$6,659 (December 31, 2005 – \$3,718).

8. Prepaid expenses and other assets

December 31	2006		2005
Prepaid expenses	\$ 6,729	\$	5,576
Mezzanine loans	3,893		12,513
Vendor loan	–		3,450
Deposits	4,020		1,282
Restricted cash	5,598		4,354
Total	\$ 20,240	\$	27,175

The Trust had provided an \$11,226 mezzanine loan to the Airport Corporate Centre West (“ACCW”) joint venture to finance certain development projects. The loan and all accrued interest was repaid in full in November 2006.

On May 26, 2006, the Trust entered into a joint venture agreement with a development partner to jointly own and develop prestige industrial and office properties in its target markets. The Trust has a 60% ownership interest in the joint venture. As part of the agreement, the Trust is required to provide mezzanine financing equal to 90% of any funding requirement, up to a maximum of \$45,000, not otherwise provided by third-party lenders. The Trust is also required to guarantee, when necessary, 90% of financing obtained from third parties. As at December 31, 2006, the Trust had advanced \$9,201 of the funding requirement for the purchase of approximately 60 acres of serviced land in suburban Toronto. The amount invested is accounted for and comprises a mezzanine loan of \$3,893 and land under development of \$13,384, net of term debt of \$7,534 and accrued liabilities of \$542. The Trust has also provided an \$8,289 guarantee on the financing provided by a third-party lender of which \$5,526 is included in term debt.

The Trust has the right to purchase the completed properties, other than any build-to-suit properties that will be sold to third parties. The mezzanine loan to the joint venture bears interest at a rate of 11%, for which no payment has been received to date. As at December 31, 2006, the mezzanine loan comprises principal of \$3,681 and interest of \$212, which is receivable by June 7, 2011, unless extended under the terms of the mezzanine loan agreement. The estimated fair value of the loan is \$4,346.

A vendor loan in the principal amount of \$3,450 formed a portion of the proceeds from the sale of Northgate Mall in December 2004. The loan was repaid in full on December 14, 2006.

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

9. Intangible assets and liabilities

December 31	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Intangible assets						
Value of above market rent leases	\$ 7,134	\$ (2,190)	\$ 4,944	\$ 5,113	\$ (1,256)	\$ 3,857
Value of in-place leases	53,558	(16,343)	37,215	28,614	(6,413)	22,201
Lease origination costs	13,974	(3,768)	10,206	8,465	(1,683)	6,782
Value of tenant relationships	42,168	(8,117)	34,051	27,418	(3,294)	24,124
Total	\$ 116,834	\$ (30,418)	\$ 86,416	\$ 69,610	\$ (12,646)	\$ 56,964
Intangible liabilities						
Value of below market rent leases	\$ 40,049	\$ (6,698)	\$ 33,351	\$ 7,843	\$ (1,662)	\$ 6,181

10. Debt

December 31	2006		2005	
Mortgages	\$ 1,056,311		\$ 756,920	
Convertible debentures	89,719		171,368	
Demand revolving credit facility		-		-
Term debt		7,764		15,333
Total	\$ 1,153,794		\$ 943,621	

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

On May 26, 2006, the Trust entered into a joint venture agreement to jointly own and develop industrial and office properties. The Trust's share of term debt of the joint venture as at December 31, 2006, is \$7,534, of which \$5,526 relates to a demand loan bearing interest at the prime rate plus 1% and is due no later than May 30, 2009. The balance of \$2,008 is made up of the Trust's share of mezzanine financing provided to the joint venture by the co-owner and a vendor loan.

On April 1, 2005, the Trust issued \$100,000 principal amount convertible unsecured subordinated debentures (the "5.7% Debentures"). The 5.7% Debentures bear interest at 5.7% per annum, payable semi-annually on March 31 and September 30 each year, and mature on March 31, 2015. Each 5.7% Debenture is convertible at any time by the debenture holder into 33.33 REIT Units per one thousand dollars of face value, representing a conversion price of \$30.00 per unit. The 5.7% Debentures may not be redeemed prior to March 31, 2009. On or after March 31, 2009, but prior to March 31, 2011, the 5.7% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided that the market price for the Trust's units is not less than \$37.50. On or after March 31, 2011, the 5.7% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3860 of the CICA Handbook, the 5.7% Debentures were initially recorded on the consolidated balance sheet as debt of \$98,800 and equity of \$1,200. Issue costs of \$4,707 and the discount related to the offering are amortized to interest expense over ten years.

On June 21, 2004, the Trust issued \$75,000 principal amount convertible unsecured subordinated debentures (the "6.5% Debentures"). The 6.5% Debentures bear interest at 6.5% per annum, payable semi-annually on June 30 and December 31 each year, and mature on June 30, 2014. Each 6.5% Debenture is convertible at any time by the debenture holder into 40 REIT Units per one thousand dollars of face value, representing a conversion price of \$25.00 per unit. The 6.5% Debentures may not be redeemed prior to June 30, 2008. On or after June 30, 2008, but prior to June 30, 2010, the 6.5% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided the market price for the Trust's units is not less than \$31.25. On or after June 30, 2010, the 6.5% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3860 of the CICA Handbook, the 6.5% Debentures were initially recorded on the consolidated balance sheet as debt of \$74,400 and equity of \$600. Issue costs of \$3,605 and the discount related to the offering are amortized to interest expense over ten years.

In 2006, conversions of the 5.7% Debentures resulted in the transfer of \$34,069 to equity (2005 – nil). The resulting carrying value at December 31, 2006, net of amortized marked-to-market adjustments, was \$65,281 (December 31, 2005 – \$98,890). Conversions of the 6.5% Debentures resulted in the transfer of \$48,391 to equity (2005 – \$2,026). The resulting carrying value at December 31, 2006, net of amortized marked-to-market adjustments, was \$24,438 (December 31, 2005 – \$72,478).

A demand revolving credit facility is available up to a formula-based maximum not to exceed \$80,000, bearing interest generally at the bank prime rate (6.00% as at December 31, 2006) plus 0.375% or bankers' acceptance rates. The facility expires on June 19, 2007, and is secured by a first ranking collateral mortgage on nine of the Trust's properties and a second ranking collateral mortgage on one property. As at December 31, 2006, the maximum amount available under this facility was \$80,000, of which \$733 was utilized in the form of letters of guarantee (December 31, 2005 – \$59). As at December 31, 2006, the amount still available under this facility was \$79,267.

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

December 31	Weighted average interest rates			Debt amount	
	2006	2005	Maturity dates	2006	2005
Fixed rate					
Mortgages	5.89%	6.17%	2007–2019	\$ 1,036,909	\$ 756,920
Convertible debentures	6.08%	6.19%	2014–2015	89,719	171,368
Term debt	7.17%	6.70%	2008–2011	2,238	271
Total fixed rate debt	5.90%	6.17%		1,128,866	928,559
Variable rate					
Mortgages	8.40%	–	2008	19,402	–
Term debt	7.00%	5.65%	2007	5,526	15,062
Demand revolving credit facility	–	–	–	–	–
Total variable rate debt	8.09%	5.65%		24,928	15,062
Total debt	5.95%	6.16%		\$ 1,153,794	\$ 943,621

The variable rate mortgage debt outstanding at December 31, 2006, bears interest generally at the rate of LIBOR plus 3.05% up to a maximum of 8.75%. At December 31, 2006, the LIBOR rate was 5.35%. The variable rate term debt outstanding at December 31, 2006, bears interest at prime plus 1%. At December 31, 2006, the prime rate was 6%.

The scheduled principal repayments and debt maturities are as follows:

For the years ending December 31	Mortgages	Term debt	Convertible debentures	Total
2007	\$ 52,676	\$ 1,511	\$ –	\$ 54,187
2008	140,463	113	–	140,576
2009	143,997	5,526	–	149,523
2010	62,448	–	–	62,448
2011	179,641	614	–	180,255
2012 and thereafter	477,086	–	89,719	566,805
	\$ 1,056,311	\$ 7,764	\$ 89,719	\$ 1,153,794

Included in mortgages are \$9,567 in marked-to-market adjustments (December 31, 2005 – \$8,488) reflecting the fair value of mortgages assumed as part of acquisitions. The 6.5% and 5.7% Debentures are net of a \$794 premium allocated to their conversion features. The marked-to-market adjustment and discount are amortized to interest expense over the term to maturity of the related debt.

The estimated fair value of debt is as follows:

December 31	2006	2005
Mortgages	\$ 1,081,535	\$ 788,995
Convertible debentures	121,881	170,771
Term debt	7,733	15,354
Total	\$ 1,211,149	\$ 975,120

11. Amounts payable and accrued liabilities

December 31	2006	2005
Trade payables	\$ 1,664	\$ 2,074
Accrued liabilities and other payables	20,104	15,787
Accrued interest	6,072	5,428
Deposits	9,863	6,646
Rent received in advance	2,998	2,325
Total	\$ 40,701	\$ 32,260

12. Distributions

The following table sets out distribution payments for the year ended December 31, 2006.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	\$ 50,074	\$ –	\$ 50,074
Paid by way of reinvestment in REIT Units	5,093	19,013	24,106
Paid by way of reinvestment in LP B Units	–	612	612
Less: Payable at December 31, 2005	(3,769)	(1,587)	(5,356)
Plus: Payable at December 31, 2006	6,393	1,620	8,013
Total	\$ 57,791	\$ 19,658	\$ 77,449

The amount payable at December 31, 2006, was satisfied on January 15, 2006, by way of \$6,024 in cash and \$369 by way of 9,530 REIT Units, and \$1,620 by way of 41,837 LP B Units. Included in the total distributions is \$951 representing the 4% bonus distribution that forms part of the Distribution Reinvestment Plan. As of August 15, 2005, the holders of LP B Units elected to receive their distributions in the form of REIT Units. Holders of LP B Units issued on the internalization of the property manager elected to receive their distributions in the form of LP B Units.

13. Unitholders' equity

December 31	2006		2005 ¹	
	Number of units	Amount	Number of units	Amount
REIT Units, Series A	34,854,553	\$ 745,348	20,449,209	\$ 376,842
LP Class B Units, Series 1	8,565,095	147,879	8,337,365	149,056
Cumulative foreign currency translation adjustment	—	(5,116)	—	(7,180)
Total	43,419,648	\$ 888,111	28,786,574	\$ 518,718

¹ In 2005, the 149,056 LP B Units and \$2,080 of the cumulative foreign currency translation adjustment, for a total of \$146,976, were presented as non-controlling interest.

Dundee REIT Units

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

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

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, the Trust was obligated to list the REIT Units, Series B separately on the Toronto Stock Exchange. During the year, 296,851 LP B Units were exchanged indirectly by Dundee Corporation for 296,851 REIT Units, Series B, which were then exchanged for 296,851 REIT Units, Series A. The exchanges were measured at a pro rata carrying amount of the LP B Units.

On May 12, 2006, the terms of the LP B Units were amended to restrict the transfer of such units except to a subsidiary of the holder. As a result, if an existing holder of LP B Units wants to transfer the LP B Units to a third party, they must first be converted into REIT Units, Series B. This amendment permits the Trust to classify the outstanding LP B Units as equity for financial statement purposes in accordance with Canadian GAAP. As a result, effective May 1, 2006, the LP B Units are presented as unitholders' equity. Prior to this date, the LP B Units were presented as non-controlling interest.

Special Trust Units are issued in conjunction with LP B Units. The Special Trust Units are not transferable separately from the LP B Units to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such LP B Units. Each Special Trust Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT Units, Series B that may be obtained upon the surrender or exchange of the LP B Units to which they relate. At December 31, 2006, 8,565,095 Special Trust Units were issued and outstanding (December 31, 2005 – 8,337,365 issued and outstanding). At December 31, 2006, 92,000 Special Trust Units were held in trust pursuant to the internalization of DMLP (see Note 25), 55,326 of which are included in the outstanding Special Trust Units at December 31, 2006. DRC is currently entitled to receive the Special Trust Units held in trust on June 30, 2007. These Special Trust Units are recorded at a nominal value.

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

DPLP units

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

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

The LP Class A Units and LP Class B Units, Series 2 are entitled to vote at meetings of the limited partners of DPLP and each unit entitles the holder to a distribution equal to distributions on the LP Class B Units, Series 1. At December 31, 2006, 34,557,702 LP Class A Units (December 31, 2005 – 20,449,209), 8,565,095 LP Class B Units, Series 1 (December 31, 2005 – 8,337,365) and 296,852 LP Class B Units, Series 2 (December 31, 2005 – 1) were issued and outstanding. At December 31, 2006, 92,000 LP Class B Units, Series 1 were held in trust pursuant to the internalization of DMLP, 55,326 of which are included in the outstanding LP Class B Units, Series 1 at December 31, 2006. DRC is currently entitled to receive the units held in trust on June 30, 2007 (see Note 25). As at December 31, 2006, and December 31, 2005, all issued and outstanding LP Class A Units and LP Class B Units, Series 2 of DPLP are owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

	REIT Units, Series A		LP Class B Units, Series 1		Cumulative foreign currency translation adjustment	Total	
	Number of units	Amount	Number of units	Amount		Number of units	Amount
Unitholders' equity, January 1, 2006	20,449,209	\$ 376,842	–	\$ –	\$ (5,100)	20,449,209	\$ 371,742
Net income	–	9,961	–	1,257	–	–	11,218
Distributions paid	–	(51,399)	–	(11,690)	–	–	(63,089)
Distributions payable	–	(6,393)	–	(1,620)	–	–	(8,013)
Public offering of REIT Units	10,190,000	319,981	–	–	–	10,190,000	319,981
Distribution Reinvestment Plan	811,261	24,106	19,255	611	–	830,516	24,717
Unit Purchase Plan	13,087	359	–	–	–	13,087	359
Deferred Unit Incentive Plan	22,888	1,170	–	–	–	22,888	1,170
Issue costs	–	(18,041)	–	–	–	–	(18,041)
Reclassification of LP B Units	–	–	8,337,365	151,706	(2,373)	8,337,365	149,333
Conversion of 6.5% Debentures	1,935,640	48,391	–	–	–	1,935,640	48,391
Conversion of 5.7% Debentures	1,135,617	34,069	–	–	–	1,135,617	34,069
Issue of units on internalization of property manager	–	–	505,326	13,917	–	505,326	13,917
Exchange of LP B Units	296,851	6,302	(296,851)	(6,302)	–	–	–
Release of cumulative foreign currency translation adjustment on disposition of revenue property (Note 26)	–	–	–	–	3,686	–	3,686
Change in foreign currency translation adjustment	–	–	–	–	(1,329)	–	(1,329)
Unitholders' equity, December 31, 2006	34,854,553	\$ 745,348	8,565,095	\$ 147,879	\$ (5,116)	43,419,648	\$ 888,111

LP Class B Units, Series 1 and non-controlling interest

	LP Class B Units, Series 1		Cumulative	Total
	Number of units	Amount	foreign currency translation adjustment	
Non-controlling interest, January 1, 2006	8,337,365	\$ 149,056	\$ (2,080)	\$ 146,976
Income from continuing and discontinued operations	–	1,876	–	1,876
Distributions paid	–	(6,347)	–	(6,347)
Impact of dilution	–	7,121	–	7,121
Change in foreign currency translation adjustment	–	–	(293)	(293)
Reclassification to unitholders' equity	(8,337,365)	(151,706)	2,373	(149,333)
Non-controlling interest, December 31, 2006	–	\$ –	\$ –	\$ –

Public offering of REIT Units

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

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

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

On December 14, 2005, Dundee REIT completed a public offering for gross cash proceeds of \$65,000 through the issuance of 2,600,000 REIT Units at a price of \$25.00 per unit. On December 22, 2005, Dundee REIT issued an additional 390,000 REIT Units for gross proceeds of \$9,750 pursuant to the exercise of the over-allotment option. The exercise of the over-allotment option increased the total gross proceeds of the offering to \$74,750. Costs relating to the offering totalled \$3,440 and were charged directly to unitholders' equity. The Trust used the purchase method to account for the investment of the net proceeds in DPLP and recorded a purchase adjustment relating to the fair value increment of rental properties acquired of \$5,412.

Distribution Reinvestment and Unit Purchase Plan

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

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

For the year ended December 31, 2006, 811,261 REIT Units and 19,255 LP B Units were issued under the DRIP for \$24,717 (December 31, 2005 – 532,817 REIT Units and 413,281 LP B Units for \$24,576).

Prior to August 15, 2005, holders of LP B Units had their units enrolled in the LP B Unit DRIP. This was dilutive to the Trust's effective ownership in DPLP and accordingly the Trust recognized a \$1,890 dilution gain in 2005. Since that time, holders of LP B Units have elected to receive their distributions in the form of REIT Units, which are not dilutive to the Trust. In addition, no further dilution gains will be reported as a result of reclassifying the LP B Units as equity.

Unit Purchase Plan

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

For the year ended December 31, 2006, 13,087 REIT Units were issued under the Unit Purchase Plan for \$359 (December 31, 2005 – 8,725 REIT Units for \$232).

Conversion of debentures

During the year ended December 31, 2006, the Trust issued 1,935,640 REIT Units upon conversion of \$48,391 principal amount of the 6.5% Debentures (December 31, 2005 – issued 81,040 REIT Units upon conversion of \$2,026 principal amount) and 1,135,617 REIT Units upon conversion of \$34,069 principal amount of the 5.7% Debentures (December 31, 2005 – nil).

Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan provides for the grant of Deferred Trust Units and Income Deferred Trust Units to trustees, officers and employees, and affiliates and their service providers. Deferred Trust Units are granted at the discretion of the trustees while Income Deferred Trust Units are credited to holders of Deferred Trust Units based on distributions paid on the REIT Units. Once vested, each Deferred Trust Unit and Income Deferred Trust Unit entitles the holder to receive a REIT Unit at no cost. Deferred Trust Units vest evenly over a three- or five-year period on the anniversary date of the grant, while Income Deferred Trust Units vest on the same date as the associated Deferred Trust Unit. Subject to an election for certain participants to postpone receipt of REIT Units, such units will be issued immediately upon vesting. Up to a maximum of 500,000 Deferred Trust Units are issuable under the Deferred Unit Incentive Plan. Compensation expense is recorded based on the fair market value of a REIT Unit at the date of grant and amortized as earned over the vesting period or the remaining service period of the participant, whichever period is less. During the year ended December 31, 2006, \$1,170 (December 31, 2005 – \$830) of compensation expense was recorded and is included in general and administrative expenses. Income Deferred Trust Units are accounted as a distribution and an issuance of REIT Units when the related Deferred Trust Units vest. No amount in relation to Income Deferred Trust Units is recognized in net income.

	Weighted average grant date value	Deferred Trust Units	Income Deferred Trust Units	Total units
Outstanding at January 1, 2005	\$ 22.70	151,143	12,542	163,685
Granted during the period	25.67	65,300	14,753	80,053
Cancelled	23.60	(1,600)	(146)	(1,746)
Issuance of REIT Units on vesting	22.70	(14,665)	(2,099)	(16,764)
Fractional units paid in cash	–	(11)	(9)	(20)
Outstanding at December 31, 2005	23.60	200,167	25,041	225,208
Granted during the period	36.37	88,300	16,919	105,219
Cancelled	23.60	(3,000)	(237)	(3,237)
Issuance of REIT Units on vesting	23.67	(19,265)	(3,623)	(22,888)
Fractional units paid in cash	–	(2)	(24)	(26)
Outstanding and payable at December 31, 2006	\$ 27.87	266,200	38,076	304,276
Vested but not issued at December 31, 2006	\$ 22.76	72,267	18,459	90,726

14.

Joint ventures and co-ownerships

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

December 31	Total		Proportionate share	
	2006	2005	2006	2005
Assets	\$ 350,555	\$ 302,028	\$ 185,230	\$ 151,831
Liabilities	255,571	213,300	130,257	106,789
<hr/>				
For the years ended December 31			Proportionate share	
			2006	2005
Revenues			\$ 29,927	\$ 27,603
Expenses			25,880	22,225
			\$ 4,047	\$ 5,378
<hr/>				
Cash flow generated from (utilized in):				
Operating activities			\$ 7,944	\$ 9,375
Financing activities			5,466	(10,492)
Investing activities			(15,231)	1,376
(Decrease) increase in cash and cash equivalents			\$ (1,821)	\$ 259

The Trust is contingently liable for the obligations of the other owners of the unincorporated joint ventures at December 31, 2006, in the aggregate amount of \$122,001 (December 31, 2005 – \$101,944). In each case, however, the co-owners’ share of assets is available to satisfy these obligations.

15.

Interest

Interest incurred and charged to earnings is recorded as follows:

For the years ended December 31	2006	2005
Interest expense incurred, at stated rate of debt	\$ 67,487	\$ 54,703
Amortization of deferred financing costs	1,922	1,523
Marked-to-market rate adjustment	(1,882)	(2,012)
Interest capitalized	(1,475)	(254)
Interest expense	\$ 66,052	\$ 53,960

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

16.

Income and large corporations taxes

Dundee REIT

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

Canadian and U.S. based incorporated subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. A future income tax liability as at December 31, 2006, of \$3,950 (December 31, 2005 – \$1,577) has been recorded to reflect the future tax obligations of these subsidiaries and comprises amounts resulting from the differences in tax and book values relating to the underlying rental properties. The reported carrying amount of Dundee REIT's net assets, excluding those in incorporated subsidiaries at December 31, 2006, exceeds the corresponding tax cost by approximately \$154,000 (December 31, 2005 – \$164,000). During the current year, the Trust recognized a \$2,378 future income tax expense related to the sale of a 50% interest in Greenbriar Mall. During the prior year, the Trust recorded a \$4,514 future tax recovery as a result of a provision for impairment in value of rental property recognized on its U.S. retail property.

17.

Income per unit

The weighted average number of units outstanding was as follows:

For the years ended December 31	2006	2005
REIT Units	25,764,527	17,162,997
LP B Units	5,864,880	–
Vested Deferred Trust Units	53,185	22,352
Total weighted average number of units outstanding for basic income per unit amounts	31,682,592	17,185,349
Add incremental units:		
LP B Units	–	8,218,753
Unvested Deferred Trust Units	26,896	31,632
Income Deferred Trust Units	26,243	15,496
Total weighted average number of units outstanding for diluted income per unit amounts	31,735,731	25,451,230

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

For the years ended December 31	2006	2005
Income before discontinued operations for basic income per unit amounts	\$ 7,848	\$ 6,566
Add: Income attributable to non-controlling interest	–	2,511
Depreciation expense	–	111
Deduct: Dilution gain	–	(1,890)
Income before discontinued operations for diluted per unit amounts	\$ 7,848	\$ 7,298

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

The 5,505,054 incremental units of an assumed conversion of both debenture issues for the year ended December 31, 2006 (December 31, 2005 – 5,478,393 incremental units) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

18.

Employee future benefits

The Trust has a defined contribution pension plan available to all full-time employees who have been employed by the Trust for one year. The pension plan covers employees of the Trust, Dundee Realty Management Corp. and any other entity as appointed by the sponsor of the plan. The plan is sponsored by Dundee Realty Management Corp., a wholly owned subsidiary of DMLP. For 2006, the total cost recognized and cash payments for employee future benefits, consisting of cash contributed to the defined contribution plan, was \$191 (2005 – \$108).

19.

Segmented information

The Trust's rental properties have been segmented into office and industrial components. The accounting policies of the segments are as described in the summary of significant accounting policies. Certain of the prior year's figures have been reclassified to conform with the current year's presentation as a result of reclassifying 19 flex properties from the industrial segment to the office segment because they possess characteristics closer to office properties. The Trust does not allocate interest expense to these segments, since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, income taxes and general and administrative expenses are not allocated to the segment expenses. Discontinued operations are not allocated to individual segments.

In June 2006, the Trust disposed of Kameyosek Shopping Centre in Edmonton and a 50% interest in Greenbriar Mall in Atlanta. As a result, the Trust no longer actively operates in the retail segment and has reclassified the remaining operations as "Other" in comparative figures to conform to the current period's presentation. Also, because the Trust's remaining interest in Greenbriar Mall is not significant, the Trust no longer discloses segments by country as virtually all of its operations are conducted in Canada. The category titled "Other" represents the results of operations of the Trust's interest in redevelopment properties prior to designation for redevelopment.

For the year ended December 31, 2006	Office	Industrial	Segment total	Other	Total
Operations					
Revenues	\$ 217,199	\$ 64,092	\$ 281,291	\$ 6,503	\$ 287,794
Operating expenses	95,852	22,998	118,850	3,300	122,150
Net operating income	121,347	41,094	162,441	3,203	165,644
Depreciation of rental properties	29,017	9,773	38,790	1,060	39,850
Amortization of deferred leasing costs, tenant improvements and intangibles	24,691	5,663	30,354	260	30,614
Segment income	\$ 67,639	\$ 25,658	\$ 93,297	\$ 1,883	95,180
Interest expense					(66,052)
General and administrative					(6,812)
Internalization of property manager					(13,678)
Loss on disposal of rental property					(220)
Interest and fee income					3,646
Income taxes					(2,376)
Income attributable to non-controlling interest					(1,840)
Discontinued operations					3,370
Net income					\$ 11,218
Segment rental properties	\$ 1,381,034	\$ 404,157	\$ 1,785,191	\$ 31,620	\$ 1,816,811
Capital expenditures					
Investment in rental properties	\$ (5,128)	\$ (3,968)	\$ (9,096)	\$ (77)	\$ (9,173)
Investment in tenant improvements	(5,552)	(1,833)	(7,385)	(282)	(7,667)
Investment in land development	-	-	-	(2,103)	(2,103)
Acquisition of rental properties and land	(408,878)	(37,892)	(446,770)	(37,897)	(484,667)
Deferred leasing costs	(4,396)	(1,683)	(6,079)	(18)	(6,097)
Total capital expenditures	\$ (423,954)	\$ (45,376)	\$ (469,330)	\$ (40,377)	\$ (509,707)

For the year ended December 31, 2005	Office	Industrial	Segment total	Other	Total
Operations					
Revenues	\$ 158,105	\$ 53,532	\$ 211,637	\$ 8,978	\$ 220,615
Operating expenses	74,312	20,068	94,380	4,796	99,176
Net operating income	83,793	33,464	117,257	4,182	121,439
Depreciation of rental properties	19,675	8,172	27,847	1,612	29,459
Amortization of deferred leasing costs, tenant improvements and intangibles	14,668	4,526	19,194	314	19,508
Segment income	\$ 49,450	\$ 20,766	\$ 70,216	\$ 2,256	72,472
Interest expense					(53,960)
General and administrative					(5,408)
Dilution gain					1,890
Provision for impairment in value of rental property					(11,533)
Interest and fee income					2,144
Income taxes					3,472
Income attributable to non-controlling interest					(2,511)
Discontinued operations					(2,257)
Net income					\$ 4,309
Segment rental properties	\$ 913,866	\$ 365,128	\$ 1,278,994	\$ 49,401	\$ 1,328,395
Capital expenditures					
Investment in rental properties	\$ (3,609)	\$ (3,722)	\$ (7,331)	\$ (502)	\$ (7,833)
Investment in tenant improvements	(5,599)	(2,805)	(8,404)	(629)	(9,033)
Acquisition of rental properties and land	(195,970)	(79,054)	(275,024)	–	(275,024)
Deferred leasing costs	(2,391)	(1,659)	(4,050)	(390)	(4,440)
Total capital expenditures	\$ (207,569)	\$ (87,240)	\$ (294,809)	\$ (1,521)	\$ (296,330)

20.

Related-party transactions and arrangements

From time to time Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Prior to May 1, 2006, Dundee REIT, DPLP, DMLP and DRC were parties to a property management agreement and an administrative services agreement (the “Management Agreement” and the “Services Agreement”). In addition, DMLP and DRC are parties to a separate administrative services agreement. Effective May 1, 2006, the Trust acquired DRC’s 50% interest in DMLP (see Note 25). As a result, DRC is no longer party to the Management Agreement, other than its rent supplement obligation and the Services Agreement.

Master property management agreement

DPLP has entered into a Management Agreement with DMLP to provide customary property management services to DPLP. The Management Agreement also authorizes DMLP, subject to certain restrictions, to contract on behalf of DPLP with third parties for the provision of certain services as provided for in DMLP’s annual operating plan. DMLP is entitled to be reimbursed by DPLP for its reasonable costs for such services. The Management Agreement provides for a base management fee of 3.5% of gross revenues generated from the managed properties, as well as construction fees, and leasing administration fees for services provided. The initial term of the Management Agreement, which commenced on July 1, 2003, is five years. With the consent of DMLP, the Management Agreement will be automatically extended for a further five-year period. Upon expiry of the first extension term and with the mutual consent of DMLP and DPLP, the Management Agreement will be automatically extended for further five-year periods until terminated by the parties.

This Management Agreement also provides that DRC will pay a rent supplement to DPLP for a five-year period ending June 30, 2008, in the case of certain specified office and retail premises and a three-year period ended June 30, 2006, in the case of certain specified industrial premises. DRC will pay an amount equal to the difference between: (i) the amount that is the total net rent less amortized leasing costs with respect to the specified premises plus the additional rents that would be payable with respect to such premises if such premises were leased pursuant to the applicable standard lease for each premises; and (ii) the amount that is the actual base rent and additional rent received by DPLP for such premises, after deduction for amortization of leasing costs including, but not limited to, tenant inducements, landlord's work, free rent and leasing commissions paid by DPLP to lease any such premises.

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

Administrative services agreement

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

DMLP has also entered into a similar administration and support services agreement with DRC to provide certain administration services to DRC and its subsidiaries ("DRC Services Agreement"), the term of which has been extended until June 30, 2013.

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

For the years ended December 31	2006	2005
Fees received		
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties revenue)	\$ 1,336	\$ 2,272
Fees, cost recovery and rental income received by Dundee REIT under the DRC Services Agreement (included as a reduction of operating expenses)	1,431	534
Fees paid		
Fees paid by Dundee REIT under the Management Agreement prior to May 1, 2006		
Management fees, included in rental properties' operating expenses	1,346	3,634
Construction fees, capitalized to the related assets	98	485
Lease administration fees, included in deferred leasing costs	251	839
Fees paid by Dundee REIT under the Services Agreement prior to May 1, 2006		
Acquisition and financing fees, capitalized to the related assets	217	588

Included in amounts receivable at December 31, 2006, is \$231 related to the DRC Services Agreement (December 31, 2005 – \$215), as well as \$136 related to additional services provided to DRC. Included in accrued liabilities and other payables at December 31, 2006, is nil related to the Management and Services Agreements (December 31, 2005 – \$251). Accrued liabilities and other payables at December 31, 2006, also include \$316 for amounts collected on behalf of DRC (December 31, 2005 – nil). Included in interest and fee income is \$224 related to management services provided to Dundee Corporation, of which the full amount is included in amounts receivable at December 31, 2006.

21.

Financial instruments and risk management

For certain of the Trust's financial instruments, including cash and short-term deposits, amounts receivable, vendor loan, amounts payable and accrued liabilities, and distributions payable, carrying amounts approximate fair values due to their immediate or short-term maturity. The fair values of the mezzanine loans, mortgages and term debt are determined by discounting the future contractual cash flows under current financing arrangements at discount rates that represent management's best estimate of borrowing rates presently available to the Trust for loans with similar terms and maturities. Specific fair values are disclosed in the related notes. The fair value of convertible debentures is based on the market value of the debentures on December 31, 2006.

The Trust has some exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt at December 31, 2006, was 2.2% of the Trust's total debt (December 31, 2005 – 1.6%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, stagger maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The Trust is exposed to foreign exchange risk as it relates to its self-sustaining U.S. operations due to fluctuations in the exchange rate between the Canadian and U.S. dollars. The impact of foreign exchange fluctuations is deferred as a separate component of equity until there is a realized reduction in the net investment in the foreign operation. Effective from April 1, 2004 to May 31, 2005, the Trust had designated the U.S. dollar loan drawn under the demand non-revolving credit facility as a hedge of a portion of its net investment in its U.S. self-sustaining operation. Gains and losses on translation of the loan have been deferred as a separate component of unitholders' equity, offsetting translation gains and losses on the net investment in the foreign operation, until there is a realized reduction in the net investment in the foreign operation.

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

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

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

22.

Discontinued operations

The fulfillment of obligations and realization of assets of properties noted below that were sold in prior periods have been reclassified as discontinued operations to comply with the disclosure requirements of the CICA Handbook Section 3475.

- On January 14, 2005, the Trust completed the sale of its 25% interest in 2301 and 2311 Royal Windsor Drive, two industrial buildings located in Mississauga, Ontario. A \$217 gain was recognized in 2005 on the sale.
- On November 15, 2005, the Trust completed the sale of Simcoe Town Centre, a 128,000 square foot retail property. A \$3,837 loss was recognized in 2005 on the sale.
- On June 29, 2006, the Trust completed the sale of Kameyosek Shopping Centre, a 46,143 square foot retail property. The Trust received proceeds of \$8,375 and recognized a gain on sale of \$3,274.

For the years ended December 31	2006		2005
Revenues			
Rental properties revenue	\$	177	\$ 2,285
Expenses			
Rental properties operating expenses		(87)	898
Interest		-	251
Depreciation of rental properties		58	284
Amortization of deferred leasing costs		29	477
		-	1,910
Income before the undernoted item		177	375
Gain (loss) on sale of rental properties, net		3,229	(3,620)
Income (loss) from discontinued operations before non-controlling interest		3,406	(3,245)
(Income) loss attributable to non-controlling interest		(36)	988
Income (loss) from discontinued operations	\$	3,370	\$ (2,257)

23.

Commitments and contingencies

Dundee REIT and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the financial statements of Dundee REIT.

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

Years ending December 31	Operating lease payments	Capital lease payments	Ground lease payments
2007	\$ 1,315	\$ 128	\$ 1,141
2008	1,154	117	1,113
2009	962	-	1,112
2010	668	-	573
2011	660	-	32
2012 and thereafter	1,300	-	33
Total	\$ 6,059	\$ 245	\$ 4,004

Dundee REIT has four ground leases on three properties. The terms of the first two leases extend to 2083 and 2076; the last two extend to 2060, including renewals. The leases are at fixed rates for the entire term with respect to the first and the third lease, until September 30, 2007, for the second lease and until June 30, 2010, for the fourth. The renewal terms beyond these dates for the second and fourth leases are defined as variable percentages of the market value of these properties at the date of the renewal.

Purchase and other obligations

As part of an acquisition in 2004, the Trust acquired leases relating to three buildings in Montréal that allow the tenants, subject to various conditions, to purchase the building they occupy from the Trust. Proceeds from these sales will be at amounts that approximate fair market value. In addition, through acquisitions completed in 2004 and 2005, the Trust has acquired leases that provide, in certain circumstances, for some tenants to require the Trust to expand their existing premises through building construction on certain existing and certain adjacent lands. The terms of these leases include various provisions including renewal obligations on the tenants' existing premises and agreement on the terms of the new space. Furthermore, certain of these leases include provisions that would allow the Trust to charge rates to recover a reasonable return on its investment.

The Trust has entered into lease agreements that require tenant improvement costs of \$2,088. The amounts are expected to be paid in 2007.

The Trust has entered into a co-ownership agreement that includes typical rights of the co-owners for dispute resolution and a one-time put option exercisable by its co-owner. The put, if exercised, would require Dundee REIT to purchase the remaining 50% of the building, effective April 1, 2009, at the price paid by the Trust for its initial 50% interest in the property.

The Trust has entered into conditional contracts to acquire an additional \$424,309 of rental properties.

24. Supplementary cash flow information

For the years ended December 31	2006	2005
Decrease (increase) in accounts receivable	\$ (2,511)	\$ 306
Decrease in deferred costs (other than leasing costs)	1,249	560
Increase in prepaid expenses and other assets (excluding restricted cash and mezzanine loans)	(2,052)	(1,723)
Increase in accounts payable and accrued liabilities (excluding leasing costs)	7,769	5,867
Increase (decrease) in accounts payable relating to leasing costs	(1,046)	902
Change in non-cash working capital	\$ 3,409	\$ 5,912

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

For the years ended December 31	2006	2005
Interest	\$ 66,855	\$ 52,446
Income and large corporations taxes	175	186

25. Internalization of property manager

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

- a) 450,000 LP B Units that were delivered on closing; and
- b) up to a formula-based maximum of 100,000 LP B Units held in trust, which may include a maximum of 8,000 REIT Units, to be delivered on June 30, 2007. The number of units to be released is based on the aggregate purchase price of properties acquired by DPLP between April 1, 2006, and June 30, 2007 (other than properties that were subject to existing purchase commitments) as follows:
 - i if the aggregate purchase price is less than \$315,000, DRC will receive that number of LP B Units equal to 50,000 multiplied by a fraction, the numerator of which is the aggregate purchase price and the denominator of which is \$315,000; and
 - ii if the aggregate purchase price is equal to or more than \$315,000, DRC will receive 50,000 LP B Units plus that number of additional LP B Units (not exceeding 50,000) equal to 50,000 multiplied by a fraction, the numerator of which is the aggregate purchase price minus \$315,000 and the denominator of which is \$240,000.

In conjunction with the transaction, DMLP and DRC agreed to extend the term of the DRC Services Agreement under which DMLP provides administrative and advisory services to DRC for an additional five years to June 30, 2013 (see Note 20). Also, the terms of the LP B Units were amended to provide that they may not be transferred to a third party other than a subsidiary of the holder (see Note 13).

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

Also on closing, 92,000 LP B Units were issued, placed in trust and enrolled in the DRIP to satisfy the maximum number of units that DRC may be entitled to receive on June 30, 2007. The cost of these units will be expensed and added to cumulative capital as qualifying properties are acquired. Any units that are not ultimately issued to DRC as additional consideration will be returned to DMLP for cancellation. During the year ended December 31, 2006, DPLP acquired \$340,568 of qualifying properties and accordingly \$1,524 was expensed and added to cumulative capital representing the cost of the additional 55,326 LP B Units DRC will be entitled to receive on June 30, 2007.

26.

Disposition of revenue property

On June 2, 2006, the Trust completed the sale of a 50% interest in Greenbriar Mall located in Atlanta for net proceeds of \$16,681 and recorded a \$220 loss on the sale. As a result of the disposition, the Trust released a \$3,686 cumulative foreign currency loss from its foreign currency translation adjustment, which was recognized as part of the loss on disposal. In the year ended December 31, 2005, the Trust recorded an impairment loss of \$11,533 relating to Greenbriar Mall. The disposition of Greenbriar Mall has not been presented as a discontinued operation as the Trust still has a significant continuing involvement in its operations.

27.

Subsequent events

Effective January 9, 2007, the Trust completed the purchase of 30 and 55 St. Clair Avenue West in Toronto, Ontario, for a purchase price of \$110,752. The properties consist of two office buildings totalling 426,000 square feet.

Effective January 24, 2007, the Trust completed the purchase of 625 Agnes Street, New Westminster, B.C., for a purchase price of \$14,598. The property consists of a 83,000 square foot multi-tenant office building.

On February 12, 2007, the Trust announced that it had entered into an agreement to issue 3,700,000 REIT Units at a price of \$40.75 per unit for gross proceeds of \$150,775. Costs relating to the offering are estimated to be \$6,605 and will be charged directly to unitholders' equity. In addition, the Trust has granted the underwriters an over-allotment option up to an additional 555,000 REIT Units, which, if exercised, would increase the gross proceeds to \$173,391.